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*The Foreign Office,
Commerce and British
Foreign Policy in the
Twentieth Century*

*Edited by JOHN FISHER,
EFFIE G. H. PEDALIU and
RICHARD SMITH*



The Foreign Office, Commerce and British Foreign Policy in the Twentieth Century

John Fisher • Effie G.H. Pedaliu • Richard Smith
Editors

The Foreign Office, Commerce and British Foreign Policy in the Twentieth Century

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History of Franco-German Relations in Europe. From 'Hereditary Enemies' to Partners, edited by Carine Germond and Hening Türk (2008) and *Communauté Européenne, Communauté Atlantique?*, edited by Gérard Bossuat, Valérie Aubourg and Giles Scott-Smith (2008). He has published articles on the history of European integration and the transatlantic relationship.

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ABBREVIATIONS¹

ARCHIVES/LIBRARIES

| | |
|-------|--|
| BL | British Library, London |
| Bodl. | Bodleian Library, Oxford |
| BoE | Bank of England Archive, London |
| CACC | Churchill Archives Centre, Cambridge |
| CUL | The University Library, Cambridge |
| HSBCA | HSBC Archive, London |
| LA | Lancashire Archives, Preston |
| LBA | Lloyds Bank Archive, London |
| LMA | London Metropolitan Archive |
| LRO | Liverpool Record Office |
| MRC | Modern Records Centre, Warwick |
| NARA | National Archives and Records Administration, Washington, DC |
| NAS | National Archives of Scotland, Edinburgh |
| NATO | (in references) International Staff, NATO Archives, Brussels |
| OIOC | Oriental and India Office Collections, British Library |
| RBS | Royal Bank of Scotland Archives, Edinburgh |
| TNA | The National Archives, Kew, London |
| ULL | University of London Library |
| UNIPA | United National Independence Archive, Lusaka |

GOVERNMENT DEPARTMENTS/THEIR PAPERS, OFFICIAL POSITIONS, NON-GOVERNMENTAL BODIES, OFFICIAL INITIATIVES

| | |
|-----|--|
| AB | United Kingdom Atomic Energy Authority Papers, TNA |
| AFT | Aid for Trade |

| | |
|-------|---|
| AGIP | Azienda Generale Italiana Petroli |
| AIOC | Anglo-Iranian Oil Company |
| AIR | Ministry of Air Papers, TNA |
| ANIC | Azienda Nazionale Idrogenazione Combustibili |
| APAG | Atlantic Policy Advisory Group |
| APOC | Anglo-Persian Oil Company |
| Aski | Ausländer Sonderkonten für Inlandszahlungen |
| ATPs | Antarctic Treaty Parties |
| ATS | Antarctic Treaty System |
| AUS | Assistant Under-Secretary (Foreign Office) |
| BAS | British Antarctic Survey |
| BAT | British Antarctic Territory |
| BDOHP | British Diplomatic Oral History Project |
| BIS | Department for Business, Innovation and Skills |
| BL | British Leyland |
| BOT | British Overseas Territory |
| BOTB | British Overseas Trade Board |
| BP | British Petroleum |
| BSC | British Steel Corporation |
| BT | Board of Trade Papers, TNA |
| BTDO | British Trade Development Office |
| CAB | Cabinet Office Papers, TNA |
| CBI | Confederation of British Industry |
| CCP | Common Commercial Policy |
| CDS | Commercial Diplomatic Service |
| CGT | Confédération Général du Travail |
| CMEA | Council for Mutual Economic Assistance |
| CO | Colonial Office Papers, TNA |
| CoCom | Coordinating Committee for Multilateral Export Controls |
| CPRS | Central Policy Review Staff |
| CRE | Commercial Relations and Exports Division (of the Board of Trade) |
| CSCE | Conference on Security and Cooperation in Europe |
| DEFE | Records of the Ministry of Defence, TNA |
| DESA | Department of Economic and Social Affairs (of the UN) |
| DO | Dominions Office records, TNA |
| DOI | Department of Industry |
| DoT | Department of Overseas Trade |
| D&RD | Development and Research Division, DoT |
| DSO | Defence Sales Organisation, Ministry of Defence |
| DT | Department of Trade |
| DTI | Department of Trade and Industry |

| | |
|-------|---|
| ECA | Economic Cooperation Administration |
| ECGD | Export Credits Guarantee Department |
| ECLA | Economic Commission for Latin America (of the UN) |
| EEC | European Economic Community |
| EESD | Eastern European and Soviet Department (of the FCO) |
| EG | Department of Energy Papers, TNA |
| EPC | European Political Cooperation |
| ERP | European Recovery Programme |
| FBI | Federation of British Industries |
| FCO | Foreign and Commonwealth Office (records, TNA) |
| FID | Falkland Islands Dependencies |
| FO | Foreign Office (records, TNA) |
| FTD | Foreign Trade Department (of the Foreign Office) |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |
| HCFAC | House of Commons Foreign Affairs Committee |
| HSBC | Hong Kong and Shanghai Bank |
| IAATO | International Association of Antarctica Tour Operators |
| IAEA | International Atomic Energy Agency |
| IMF | International Monetary Fund |
| ITO | International Trade Organization |
| LCC | London Chamber of Commerce |
| MED | Middle East Department (of the Foreign Office) |
| MPLA | Movimento Popular de Libertação de Angola |
| MUN | Papers of the Ministry of Munitions, TNA |
| NAC | North Atlantic Council |
| NEP | New Economic Policy |
| NPT | Non Proliferation Treaty |
| OAU | Organization of African Unity |
| OD | Oil Department (of the FCO) |
| OECD | Organisation for Economic Co-operation and Development |
| OEEC | Organisation for European Economic Co-operation |
| ONC | Overseas Negotiations Committee |
| OPD | Overseas Policy and Defence Committee (of the British Cabinet) |
| OPEC | Organization of the Petroleum Exporting Countries |
| OPIC | Organization of Petroleum Importing Countries |
| PCI | Partito Comunista Italiano (Italian communist party) |
| PJ | Records of Department of Trade and Department of Trade and Industry, TNA |
| POWE | Records created or inherited by the Ministry of Power and of related bodies |
| PPD | Personnel Policy Department (of the FCO) |

| | |
|--------|--|
| PREM | Records of the Prime Minister's Office, TNA |
| PSIUP | Partito Socialista Italiano di Unità Proletaria (Italian Socialist party of Proletarian Unity) |
| PUS | Permanent Under-Secretary |
| RDA | Regional Development Authorities |
| REPC | Reactor Export Policy Committee |
| RPP | Republican People's Party (Turkey) |
| T | Records of the Treasury, TNA |
| TPC | Turkish Petroleum Company |
| TRED | Trade Relations and Exports Department (of the Foreign Office) |
| TUC | Trades Union Congress |
| UKAHT | United Kingdom Antarctic Heritage Trust |
| UKTI | United Kingdom Trade & Investment |
| UNCLOS | United Nations Convention on the Law of the Sea |
| UNCTAD | United Nations Conference on Trade and Development |
| VSTOL | Vertical/Short Take-Off and Landing fighter |
| WFTU | World Federation of Trade Unions |
| WWF | World Wildlife Fund |

JOURNALS/COLLECTIONS OF DOCUMENTS/PUBLICATIONS

| | |
|-------|---|
| AAPD | <i>Akten zur Auswärtigen Politik der Bundesrepublik Deutschland</i> |
| AHR | <i>American Historical Review</i> |
| AJIL | <i>American Journal of International Law</i> |
| AJPH | <i>Australian Journal of Politics and History</i> |
| ASJ | <i>Asian Studies Journal</i> |
| BHR | <i>Business History Review</i> |
| BIHR | <i>Bulletin of the Institute of Historical Research</i> |
| BSB | <i>Boundary and Security Briefing</i> |
| CEH | <i>Central European History</i> |
| CHJ | <i>Cambridge Historical Journal</i> |
| CJH | <i>Canadian Journal of History</i> |
| CoEH | <i>Contemporary European History</i> |
| CQ | <i>China Quarterly</i> |
| CWH | <i>Cold War History</i> |
| D&S | <i>Diplomacy & Statecraft</i> |
| DBFP | <i>Documents on British Foreign Policy</i> |
| DBPO | <i>Documents on British Policy Overseas</i> |
| DH | <i>Diplomatic History</i> |
| EcHR | <i>Economic History Review</i> |
| Econ. | <i>The Economist</i> |
| EHQ | <i>European History Quarterly</i> |

| | |
|-------|--|
| FRUS | <i>Foreign Relations of the United States</i> |
| HJ | <i>Historical Journal</i> |
| HS | <i>Historical Studies</i> |
| HSR | <i>Historical Social Research</i> |
| HT | <i>History Today</i> |
| IA | <i>International Affairs</i> |
| IHR | <i>International History Review</i> |
| IO | <i>International Organization</i> |
| IR | <i>Imperial Review</i> |
| JAfH | <i>Journal of African History</i> |
| JAH | <i>Journal of American History</i> |
| JBS | <i>Journal of British Studies</i> |
| JCH | <i>Journal of Contemporary History</i> |
| JCWS | <i>Journal of Cold War Studies</i> |
| JEH | <i>Journal of Economic History</i> |
| JEIH | <i>Journal of European Integration History</i> |
| JICH | <i>Journal of Imperial and Commonwealth History</i> |
| JMIS | <i>Journal of Modern Italian Studies</i> |
| JPA | <i>Journal of Public Administration</i> |
| JSS | <i>Journal of Strategic Studies</i> |
| JTS | <i>Journal of Transatlantic Studies</i> |
| KS | <i>Kokusai Seiji</i> |
| MAS | <i>Modern Asian Studies</i> |
| MEES | <i>Middle East Economic Survey</i> |
| MES | <i>Middle Eastern Studies</i> |
| MI | <i>Modern Italy</i> |
| PIW | <i>Petroleum Intelligence Weekly</i> |
| P&P | <i>Past and Present</i> |
| PR | <i>Polar Record</i> |
| RIS | <i>Review of International Studies</i> |
| TCBH | <i>Twentieth Century British History</i> |
| TJSF | <i>The Journal of Social Forces</i> |
| TRHS | <i>Transactions of the Royal Historical Society</i> |
| TRINA | <i>Transactions of the Royal Institution of Naval Architects</i> |
| TS | <i>Turkish Studies</i> |

NOTE

1. Unless otherwise noted, all books are published in London.

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Introduction

John Fisher, Effie Pedaliu, and Richard Smith

On the eve of his departure from office in July 2016, Prime Minister David Cameron declared that the Foreign and Commonwealth Office (FCO) was now much more commercially minded than it was when he came to power.¹ ‘Six years ago’, he said, ‘I gave some very clear instructions to the Foreign and Commonwealth Office. To our diplomats and our staff overseas I said: you are also our trade envoys. To our embassies and high commissions I said: you are the shop windows for Britain.’² Back in 2010 the British Government declared that it intended to lead the country out of recession through an export led recovery, with British foreign policy becoming more commercially focused and British diplomats playing a role in facilitating this export drive.³ One of the FCO’s three foreign policy priorities, along with safeguarding the UK’s national security and supporting British nationals abroad, was to build the UK’s prosperity by increasing exports and investment, opening markets, ensuring access

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to resources and promoting sustainable global growth.⁴ Many diplomats would say that it was ever thus; that every government invents commercial work when it comes into office. Diplomats have always had an important role in creating markets, both by removing barriers to trade and developing the international rules-based economic system, and also by supporting UK firms through the provision of commercial intelligence. But the target to effectively double the value of the UK's exports by 2020—to £1 trillion—revealed a scale of ambition not seen since the 1960s and 1970s when worsening balance of payment figures made exports a political priority and a number of high-profile inquiries—Plowden, Duncan and Berrill—pushed trade promotion up the Foreign Office agenda. The trade agenda has been elevated even further with the UK's decision, in a referendum of 23 June 2016, to leave the European Union (EU). Brexit will bring new opportunities for British trade but also huge challenges, with new trade agreements needed with other countries to replace those lost when the UK eventually leaves the EU, and an even greater emphasis is likely to be placed on government support.

This fresh emphasis on commercial objectives once again brings into focus the relationship between the Foreign Office and commerce. This volume looks at aspects of this question as it considers the interface of British foreign policy and commerce in the twentieth century. The century saw a change in the attitude of Foreign Secretaries and their staff, at home and overseas, towards commercial interests; sometimes willingly, often reluctantly. It saw institutional and structural changes in how economic and commercial work was handled both within the Foreign Office and embassies, and within Whitehall more generally. It saw Britain having to come to terms with a century of industrial and economic decline, relative or otherwise. The century also saw trade and commerce becoming an inseparable element of foreign and security policies, whether dealing with Germany and Japan during the 1930s or the Soviet bloc during the Cold War.

* * *

Governments have always acknowledged the importance of trade and commerce to Britain. 'British policy is British trade' declared Pitt the Younger.⁵ In a Commons debate on the consular establishment in 1842 Disraeli argued that any distinction between political and commercial interests 'was fanciful and arbitrary; incapable of definition, and defying analysis'.⁶ But the exact limits and nature of assistance rendered by government to British commercial interests overseas are more problematical.

For much of the nineteenth century the Foreign Office took a narrow view of its responsibilities towards British trade and investment. It believed that its primary function was to secure equal opportunities for British trade in the markets of the world rather than assisting individual merchants.⁷ This reluctance to intervene came partly from the prevailing orthodoxy of the day: the policy of free trade and economic *laissez-faire*, which deemed that British merchants should be left to prosper by their own skill and initiative. It also stemmed from the fact that the aristocratic diplomatic class had come to consider commercial activity as something beneath their status. This stigma continued even as recruitment opened up to the professional middle classes. Postings where the work was seen as being predominantly commercial in character, rather than political, such as in Latin America, were viewed less as a stepping-stone in a career path than a tombstone.⁸ A Commercial Department was established in the Foreign Office in 1865 but was underpowered in terms of resources and support and relied heavily on the Board of Trade, the department responsible for commercial policy, for advice.⁹ In addition, British consuls also had a principal duty to protect and promote British trading interests overseas by ‘fair and proper means’, but the consular service was underpaid and understaffed and its performance varied in different parts of the world. Furthermore, the range of functions consuls were expected to perform grew steadily during the nineteenth century to cover notarial, shipping and state duties.¹⁰

The issue of state support became of increasing concern from the 1870s when Britain’s early industrial lead began to wane and manufacturers and traders faced increased competition from other countries. The UK share of world export of manufactures peaked during that decade at around 46 per cent but this fell to 28 per cent by 1913.¹¹ Periodic inquiries saw the diplomatic and consular service face calls for better support to be made available to the commercial community. The Foreign Office began appointing commercial attachés in 1880 and by 1914 there were eight of them, based in Paris, Constantinople, Tokyo, Peking, Frankfurt-on-Main and three in London (covering Austria-Hungary, Italy and Greece, Russia, and Spain and Portugal).¹² But their duties were broad and their remits were wide, and they still did not include direct assistance to individual traders.¹³ A Royal Commission on the Civil Service reported in 1914 and recommended reforming the consular service and making better use of commercial attachés, but these changes were delayed due to the outbreak of the First World War.¹⁴

During the war the Foreign Office became intimately involved with economic issues through the blockade of the Central Powers, first through the Contraband Department and later the Ministry of Blockade, which was nominally under the control of the Foreign Office and staffed by its personnel.¹⁵ Its administrative head was the indefatigable Sir Eyre Crowe, whose father, Sir Joseph Crowe, had been the first commercial attaché. The dislocation of British export trade during the war, increased competition from the USA and fears of a post-war German trade revival meant that the recovery of trade was a matter of urgency. The issue of commercial intelligence, both its collection abroad and its dissemination at home, became of paramount importance too. It was obvious to Crowe, and others, that commercial affairs could no longer be separated from normal diplomatic work as had been the case before the war.¹⁶ However, the Foreign Office and the Board of Trade clashed over whether the promotion of commercial interests overseas was part of foreign or commercial policy. The Board of Trade suggested that the consular service and the commercial functions of embassies and legations should be transferred to them, prompting the Foreign Secretary to write to the President of the Board of Trade that the Foreign Office should not be abolished without a hearing.¹⁷ Businessmen feared that commercial issues would be too isolated from political concerns if the work was concentrated in the Board of Trade and thought the Foreign Office was best suited to dealing with commercial questions in foreign countries, if the commercial side of the Foreign Office could be developed along more efficient lines.¹⁸

In 1917 a committee was appointed to investigate the problem, but the committee split over the question of collating and distributing commercial intelligence. Some of its members wanted the function to be transferred to the Foreign Office on the basis that it was in the national interest that those in charge of foreign affairs were kept in close and constant touch with commercial requirements. Others argued for the status quo, believing that closer co-operation between both departments could overcome the problems of dual control.¹⁹ Yet it was this dual system that the business community saw as the worst feature of the old system and the underlying cause of nearly all the inefficiency and the lack of energy they complained of.²⁰ A compromise solution was adopted with the creation of a Department for Overseas Trade (DoT), jointly controlled by the Foreign Office and the Board of Trade, with the remit to improve the promotion of British trade abroad and the dissemination of commercial information at home.²¹ The Department had an Overseas and a UK Division. The former was subdivided geographically and responsible for administering overseas

services and collating economic and commercial information received; whilst the latter analysed reports from abroad from the point of view of benefiting industries at home. However, instead of unifying and simplifying commercial procedure all three departments simply overlapped.²²

Due to the unsettled state of affairs a committee was appointed in 1919, headed by Lord Cave, to determine the future of the system. The committee heard evidence from Sir Auckland Geddes, the President of the Board of Trade, who advocated the creation of a new ‘Ministry of Commerce’ combining both the DoT and the Consular Department with the Board of Trade. Sir Eyre Crowe, who returned from the Peace Conference in Paris specially to give evidence, recommended that the DoT be transferred to the Foreign Office, thus combining foreign trade with foreign policy. Representatives from the Chambers of Commerce and the Federation of British Industries (FBI) expressed the view that separating commercial from political work would be disastrous. Due to its prestige abroad the best policy would be for the Foreign Office to be ‘commercialized’ and to take control of foreign commercial policy. However, the Cave Committee merely confirmed the status quo and recommended that the present system of dual control continue but that a standing committee should be established to facilitate discussion between all three departments. The consular and commercial departments of the Foreign Office should be transferred to the DoT along with the commercial diplomatic service (created in 1918 to replace the commercial attaché service).²³

Despite the best of intentions, the post-war reforms served to increase the separation between trade and foreign policy. The Foreign Office became increasingly estranged from commercial work. The DoT now oversaw the commercial diplomatic service (CDS), which operated in foreign countries, and the trade commission service (which had operated in Dominion countries from 1908) although their instructions were issued in the name of the Foreign Secretary and the President of the Board of Trade respectively. Officers in the CDS were recruited from the consular service or business and were attached to British missions. Officers held titles corresponding to those in the Diplomatic Service—commercial counsellors and secretaries—but were described as being ‘of’ rather than ‘in’ the Diplomatic Service,²⁴ reinforcing the impression that trade was on a separate, lower level to political issues. The CDS took responsibility for commercial matters from their colleagues in the Diplomatic Service. To a number of officials in the newly amalgamated Foreign Office and Diplomatic Service this was unfortunate. Years of dealing with blockade issues had seen the Foreign Office work in a ‘sympathetic cooperation

with the responsible managers of overseas trade' and economic work had proved a 'satisfying field of activity and a more tangible touch with realities and personalities' than the old diplomacy.²⁵ Some diplomats jumped ship to continue in this type of work. The first director of the FBI was Roland Nugent, who had worked in the Foreign Trade Department of the Foreign Office. The Overseas department of the FBI was headed by Guy Locock, a career diplomat whose last post had been at the DoT. But there were many others to whom it came as a relief and who were content to return to the conduct of 'old' diplomacy. As diplomat Harold Nicolson put it, the new commercial service allowed diplomats to rid themselves 'of an embarrassing, and sometimes uncongenial, task to which they knew themselves unfitted'.²⁶

Having lost out to the Board of Trade/DoT over commercial diplomacy the Foreign Office also faced competition from an assertive Treasury in the field of financial diplomacy.²⁷ When the Foreign Office tried to show an interest they were rebuffed. In 1929 the Foreign Secretary submitted a paper to Cabinet on the subject of foreign trade and finance which questioned the City of London's policy of making foreign loans without regard to the interests of foreign trade. However, circulation of the memorandum was stopped, at the insistence of the Treasury, who clearly felt this was an encroachment by amateurs on their policy area.²⁸ This sentiment went both ways and in the Far East it led to an uncomfortable scenario where attempts by the Foreign Office to maintain equidistance between Japan and China were undermined by the Treasury, which was convinced of the need and practicability of securing a rapprochement with Japan. In 1934 the formation of an economic relations section within the Foreign Office reflected its growing need for a firmer grasp on economic issues after having been sidelined from dealing with issues such as war debts, reparations and the gold standard. Victor Wellesley had first called for the establishment of a politico-economic intelligence department in 1931 so that the Foreign Office might better appreciate economic developments on the conduct of foreign affairs. Despite resistance from the Treasury, as previously noted, an economic relations section was established and heads of missions were instructed to increase liaison between their commercial and political staffs and to make renewed efforts to mix with business and financial circles. The resulting intelligence was to be written up in periodic 'E' dispatches and processed by political departments.²⁹

By 1936, a process of amalgamating the General, Levant and Far Eastern branches of the Consular Service had been completed. But the

Foreign Office remained resistant to amalgamating consular with diplomatic services, and it rejected calls for more regular promotion from the Consular to the Diplomatic Service. Austen Chamberlain commented in 1925 ‘that the functions of the two services are in many respects quite dissimilar’.³⁰ A general indifference to consular services remained in the Foreign Office and underlying snobberies died hard.³¹ However, the Second World War spurred changes which saw the end of the DoT and the reuniting of commercial and diplomatic work. A White Paper of 1943 saw the commercial diplomatic service and the consular and diplomatic services amalgamate into one Foreign Service. All future entrants would receive training in economic and commercial affairs as well as languages and history. Every officer would serve in consular, commercial, and diplomatic posts, as well as the Foreign Office, and would have the opportunity to rise to the highest grades.³² In a statement in the Commons, Foreign Office Minister Richard Law noted that: ‘The day has quite clearly gone forever when the diplomat can concern himself solely with those fascinating questions of high policy and leave the bread and butter questions of economics to more vulgar minds.’³³ The Board of Trade absorbed the rump of the DoT in 1946 and retained responsibility for the trade commission service operating in Commonwealth countries. This state of affairs continued until 1965 when a new diplomatic service was formed comprising the Foreign Service, the Commonwealth Service and the Trade Commissioner Service.

By the mid-1950s it was estimated that a third of Foreign Office work was preponderantly economic, commercial or financial in character. The Foreign Service was described as ‘the front line of the Board of Trade in foreign lands’ for the purposes of both ‘economic study on the spot and active negotiation’.³⁴ In London an Economic Relations Department in the Foreign Office dealt with general economic questions. Foreign Service officers were told that the help they were being called upon to give to economic and commercial interests abroad was ‘a vital national service’. On the economic side they were expected to report on trade and economic trends, cultivate contacts with foreign government officials, and engage in inter-governmental negotiations on financial, economic and commercial matters. On the trade side they had to give prompt, practical and efficient service to British exporters—namely by putting importers in touch with British exporters; by assisting exporters to assess market possibilities, to find reliable agents and to comply with local regulations; and to protect them against discrimination and bureaucratic delays.

By the 1960s greater competition in traditional markets and declining competitiveness, coupled with the decline in 'invisible' income (due the loss of international investments during the Second World War), brought recurrent balance of payment problems. When the Plowden Committee looked into British representation services overseas in the early 1960s, they were clear that trade work required the greatest emphasis. 'Economic and commercial work has now assumed a position of fundamental importance,' the report stated: 'It must be regarded as a first charge on the resources of the overseas Services.'³⁵ Commercial work, they thought, should attract 'the brightest and the best' and all future ambassadors and high commissioners should have served in a commercial capacity and have first-hand knowledge of export promotion and what it entailed.³⁶

The Plowden Committee made an explicit link between an independent foreign policy and a strong economy, and the FCO paid renewed attention to international economic and industrial questions. Members of the Diplomatic Service were seconded to industry, the City, the Treasury and the Bank of England. The Foreign Office was also represented, along with the Board of Trade, on the British National Export Council set up in 1964.³⁷ George Brown, one of the more economically minded Foreign Secretaries (1966–8), complained that the Foreign Office needed an economic department which could stand up to and argue with other economic departments of government on equal terms.³⁸ A number of functional departments were established dealing with trade relations, export promotion, oil, finance, energy and technology to build expertise in these areas. The FCO also acquired a team of economists following the merger with the Commonwealth Office.³⁹ At the end of the 1960s, the Duncan Committee restated Plowden's message that Britain's present economic situation meant commercial work was 'the most urgent task of our overseas representatives'.⁴⁰ It was suggested that after the maintenance of peace and security the FCO should give precedence to commercial objectives in the day-to-day conduct of relations with other countries. Other aims could not be pursued satisfactorily if the balance of payments problem was not rectified. The Committee recognized that the leading role naturally lay with industry, but stressed that official services had a part to play in increasing Britain's earnings abroad—'the urgency of the task is beyond question'.⁴¹

In the wake of Plowden and Duncan, state support for British exporters flourished. By the time the Central Policy Review Staff (CPRS) reviewed

Britain's overseas representation in 1977, economic work and export promotion across government (which they considered priority functions) accounted for 31 per cent of total net expenditure, against 10 per cent for foreign and defence work.⁴² Within the FCO the same functions accounted for 30 per cent of the 1975–6 FCO budget.⁴³ The CPRS Report identified as many as 14 government departments with a hand in commercial policy. The Board of Trade and successors retained general responsibility for commerce, industry and overseas trade and in particular commercial relations with other countries; imports and exports; tariffs; industrial development and statistics of trade and industry at home and abroad. The department was subject to many changes in the 1970s but its Commercial Relations and Exports Division (CRE), established in 1949, provided continuity.⁴⁴ CRE Division 1 dealt with overall commercial policy and its management within international organizations. It worked with the FCO Trade Policy Department on questions of multilateral commercial policy, tariffs and non-tariff barriers. CRE Divisions 2–5 were organized on a geographical basis, managing bilateral negotiations and relations. FCO geographical desks were in regular contact with the relevant CRE divisions, receiving copies of the same telegrams and consulting on replies. Diplomatic staff effectively operated on behalf of CRE overseas in commercial matters.⁴⁵ Responsibility for export promotion abroad fell to diplomats but at home promotion work was performed by the Export Development and Services Division of the DTI, which acted as the link between industry and FCO posts. It had close contact with the FCO Export Promotion Department.⁴⁶ Another important player was the Export Credits Guarantee Department (now UK Export Finance), established in 1919 to help re-establish international trade after the First World War by granting credit insurance for British exports. By the early 1970s it was providing credit for around 35 per cent of British exports.⁴⁷

Plowden's wish that all future senior members of the Diplomatic Service would have first-hand experience of commercial work was realized in the 1970s when it became part of the career structure for fast-streamers, who consequently went into commercial jobs in increasing numbers.⁴⁸ Commercial work was no longer seen as a hindrance to career progression. In the mid-1970s, the ambassador in Tehran reckoned that he was spending as much as 80 per cent of his time on commercial work.⁴⁹ At the top level diplomats were helping large manufacturing companies to secure deals. After decades of protracted negotiations a deal in which the Indian Government agreed to purchase Hawk jets from Britain was finally

concluded by the British High Commissioner in New Delhi in a three-way conversation with the British Aerospace representative and the chief Indian negotiator.⁵⁰ But good firms did not necessarily need commercial advice or help from an embassy, preferring instead to know what was happening on the political scene or who the key government figures were in a country of interest.⁵¹ This often left an embassy dealing with firms who were insufficiently prepared for foreign markets or, if successful, were overwhelmed by the demand.⁵² Consulates also devoted large amounts of time to export work. In 1970 in the USA, the UK's biggest export market, export promotion work was transferred from Washington to a British Trade Development Office in New York. By 1972 it controlled 57 commercial officers in 16 subordinate posts, along with local staff.⁵³

There were still accusations from businessmen of amateurism and varying levels of service from post to post.⁵⁴ But officials were also often sceptical of business and its reluctance or inability to respond to the opportunities now being opened up by diplomats. Commercial secretaries would receive regular complaints about the way in which British companies failed to answer letters, failed to respond on set questions or were slow in supplying products.⁵⁵ The CPRS noted that one justification for the relatively high level of expenditure in the UK on export promotion was that 'contrary to the popular image of Britain as a trading nation, exporters are often surprisingly ignorant of what is required'.⁵⁶ By the early 1980s the balance between political and commercial work was under question, not least from an internal FCO report looking at reasons why the FCO failed to predict the revolution in Iran.⁵⁷ One official felt that Plowden, Duncan and Berrill had 'brainwashed' the FCO into believing that trade promotion was the most important element of the professional diplomat.⁵⁸ The arrival of North Sea oil in large quantities temporarily removed the balance of payments problem from domestic and also foreign policy. But the demand for assistance was still there: enquiries to embassies about market opportunities increased from 84,500 in 1982 to 120,500 in 1990.⁵⁹

At the end of the century things had turned full circle with the establishment of a joint non-ministerial government department—UK Trade & Investment (UKTI)—which had the lead responsibility within government for trade and investment services. It brought together the work of, and was responsible to, the FCO and the Department for Business, Innovation and Skills (BIS), and drew upon staff and support from both parent departments. It worked closely with the Regional Development Agencies and with the trade promotion and inward investment organizations of the devolved administrations. UKTI provided business with a network of trade

and investment advisers in the English regions and an international network of specialist, business-focused help based in embassies, high commissions and consulates around the world.⁶⁰ UKTI perhaps brought together the work of the FCO and BIS in a way that the DoT was originally meant to.⁶¹

* * *

This volume provides a range of case studies looking at the attitude and attention paid to commerce and its promotion within the Foreign Office and among its representatives overseas; it also examines the role that commerce played in Britain's foreign relations across the century, including bilateral relations and multinational frameworks. Through many chapters run the threads of Britain's relative decline during the twentieth century, the search for markets during the economic nationalism of the 1930s, Britain's economic travails post-1945, and its relationship with the USA.

A prominent theme is the role played by the Foreign Office in supporting British trade. In the opening chapter Thomas Otte probes into the ideological precepts that shaped and constrained pre-1914 commercial diplomacy and examines the institutional framework within which it was conducted. Otte finds that British commercial diplomacy towards the end of the long nineteenth century was not insignificant or ineffective, but efforts in support of commerce overseas were not as effective as they might have been. In its achievements and its limitations British commercial diplomacy mirrored the nature of the contemporary British state. The prevailing fiscal orthodoxy, with its *laissez-faire* bias, constrained the manner in which commercial diplomacy was conceptualized and executed, whilst Gladstonian fiscal orthodoxy, with its preference for the small state, meant that lack of resources hampered the efforts of the Foreign Office and Diplomatic Service. Bureaucratic turf wars and the internal dynamics of the Office further complicated the picture.

Diplomats were reluctant to intervene on behalf of individuals but this was difficult to avoid with such an important commodity as oil, and impossible after the British Government became a shareholder in the Anglo-Persian Oil Company. As the chapter by Fiona Venn shows, the Foreign Office was crucial to oil companies operating overseas but the commercial and political dimensions of the oil industry also shaped British foreign policy. The opening up of new areas of the Middle East to oil production meant the ability of the Foreign Office to exercise influence, and provide protection for, British oil companies operating in the region was significant. But the interests of oil companies were not always

uppermost in Foreign Office considerations; oil was increasingly made to serve the interests of diplomacy, especially the pursuit of good Anglo-American relations, rather than the reverse.

The DoT has been called many things, from 'a mongrel product' to an 'unwanted step-child'. In his chapter, Miklos Lojko looks at the rocky path trodden by the DoT and British traders during the inter-war period. Specifically, he considers attempts to break into the Bulgarian market, 1919–30, the 1929 trade mission to the Soviet Union, and trade with Germany, 1936–9. He finds that, in spite of initial fears of rivalry and uncertainty around chains of inter-departmental command, the DoT evolved into an efficient and reliable organization. Yet the international tensions that began to spread from the late 1920s interfered with the normal channels of trade, creating an environment in which the government and the DoT were forced to respond with a reluctant but inexorable retreat from the principles governing free trade. In all three cases examined, the DoT found itself stymied by restrictive market practices.

In the post-1945 years one area of growing commercial importance was the Middle East. The Gulf States, while small in size, were of increasing economic and financial significance to the British economy. The expansion in oil revenues in states such as Kuwait, Qatar, Abu Dhabi and Oman provided British business with significant opportunities. The ways in which the Foreign Office actively sought to support British firms in exploiting these opportunities is examined in Simon Smith's chapter. He finds that whilst diplomats wanted to help win contracts for British business they did not want to be associated with the more dubious activities of British commerce which might risk British prestige and reputation.

As Simon Smith notes, one of the drivers behind the success of the Foreign Office in promoting British commerce in the region, often in the face of stiff competition from economic rivals such as Japan, France, and Germany, was proactive ambassadors. This was also the case in Iran in the 1970s, the focus of the chapter by Richard Smith. Spurred on by gloomy analysis of Britain's economic position, the FCO was fully committed to the policy of export promotion. This, it identified, was crucial to relieving the balance of payments deficit, which in turn not only had economic benefits for the UK but also bolstered its wider role on the world stage. This policy reached a climax in Iran where the need to export to aid the UK economy, the opportunity to export as a result of Iranian petrodollars and the desire to push exports by an active Ambassador all coincided. But the single-minded effort came at a cost in terms of prioritization, and after

failing to foresee the downfall of the Shah the FCO was left wondering whether its priorities were right.

Foreign Office commercial expertise was particularly valued in countries such as China where information was limited and the culture unfamiliar. Ed Hampshire explores the British Government's attempts to promote British industry in the People's Republic following the opening of trade relations with the West in the late 1970s. The state-controlled nature of Chinese business and industry meant that governments played a much greater role than would normally be expected. For the FCO, attempts to break into the Chinese market involved a fraught and complex set of negotiations not only with the Chinese communist regime but also with the rest of Whitehall. The ambassador's role in supporting negotiations at crucial deal-breaking moments demonstrated the effectiveness of the FCO's role. In this period the commercial section held centre stage in British efforts to rebuild relations with China.

Several chapters look at the role of commerce in the context of decolonization, both in relation to the Gulf States and the emergence of Zimbabwe. Simon Smith finds that the end of formal empire in the Gulf, with the military withdrawal in 1971, did not equate with an abandonment of British economic interests in the region. Despite the recognizably post-imperial environment in which British firms were operating in the 1970s the legacies of empire still served to assist British commerce. In his chapter on Britain, Nigeria and the Rhodesian crisis, William Bishop examines how economic concerns influenced Prime Minister Margaret Thatcher's Rhodesian policy during the critical year of 1979. One important factor in Thatcher's decision to reverse her position and invite Robert Mugabe and Joshua Nkomo to participate in an all-party conference at Lancaster House was the economic pressure applied by the Nigerian Government of Olusegun Obasanjo. British officials had long been concerned about the Nigerians' perception of their Rhodesian policies, and, flush with petrodollars and confidence, Nigerian officials threatened economic reprisal against Britain if Mrs Thatcher tried to sideline Mugabe and Nkomo. The threat was substantial as Nigeria was Britain's most important trading partner outside Western Europe and North America, and one of the few countries with which Britain maintained a favourable balance of trade. At a moment when the British economy was in dire straits, this pressure was extremely effective.

Another theme examined in the book is the role of networks, including businessmen, financiers and government personnel, in overseas trade.

Antony Best looks at the influence commercial pressure groups (such as the China Association and the FBI) and private companies had on the formulation of policy in the Far East in the crucial years 1937–9. Initially the China lobby was split, with financial institutions linked to the City of London supporting the Treasury position that Britain could not risk alienating Japan. Trading companies, however, tended to support the Foreign Office position, which was more sympathetic towards China. Without a consensus Whitehall had no clear policy. However, in November 1938 the announcement of the ‘New Order in East Asia’ confirmed that Japan saw no major future role for British commerce and the City began to take a tougher line towards Japan. This united the China lobby and allowed the government to move decisively towards backing China.

The chapter by Thomas C. Mills explores how the Foreign Office sought the views of British business leaders and organizations over economic negotiations with the USA during the Second World War, and how they responded to these views. Economic diplomacy was a major facet of the Anglo-American alliance during the war. Lend-Lease aid was crucial to the British war effort at a time of financial crisis for Britain, but it was also tied to negotiations between the two countries concerning the nature of the post-war global economy. Economic internationalists in the USA were determined to use the opportunities provided by the war to dismantle Britain’s closed trading system, embodied in imperial preference and the sterling zone. British industrial groups engaged consistently with Whitehall, and often appeared ahead of the government, in responding to economic initiatives emanating from Washington, and there were similarities between their views and the policies eventually adopted by the Foreign Office.

As the international climate became more difficult for British commercial interests throughout the twentieth century the government had to weigh up often conflicting national priorities concerning security and prosperity. Britain needed to resurrect export markets, wherever they might be, and this led the government to take a pragmatic approach to whatever obstacles lay in the path to greater exports. This theme is explored in a number of chapters.

In the 1930s, the question of what direction commercial policy towards Nazi Germany should take presented the Foreign Office with a major challenge, and is the focus of a chapter by Neil Forbes. There were those who argued that Britain’s trade with Germany served only to bolster

Hitler's rearmament drive and make a future war more likely. However, given the state of the world economy after 1931 and the need to nurture Britain's fragile recovery, the government was reluctant to add to the burden of constraints already imposed on business and international trade. In addition, Britain's own war preparations benefitted from this relationship. British firms provided a vital role as channels of information and intelligence concerning industrial developments in the Third Reich. Technology was transferred out of, as well as into, Germany. High-value German machinery and expertise, needed for rearmament purposes, was exported to Britain. Consequently, the multi-faceted nature of Britain's trade with Germany required the Foreign Office to weigh up whether, on balance, the national interest was advanced or undermined by maintaining relations up to the outbreak of war.

Víctor Gavín looks at commercial relations between Britain and Spain from 1946 to 1950. In 1946 the United Nations adopted a Resolution condemning the Franco regime as the only fascist national government left in Europe. But despite moves by the United Nations to ostracize Spain, the British Government had no intention of bearing the economic cost of any sanctions imposed in order to precipitate the regime's downfall. Spanish trade was not a competitive threat to Britain and supplied cheap, vitally needed, food and raw materials. Consequently, the government was keen to avoid having to mix political affairs with commercial issues.

As Ed Hampshire suggests, in his chapter examining defence sales to China in the 1970s, at times this pragmatic approach was in danger of going too far. It was lucky that, despite many attempts to ensure otherwise, Britain did not sign more defence deals with the Chinese, at best a wary and arm's-length ally, but was nevertheless able to build relations through discussions of such putative deals.

Alan Dobson examines the tension between trade and security in the context of the Cold War strategic embargo against the Soviet Union. From the late 1940s the USA pressed for continuing restrictions on exports to the USSR on a multilateral scale. The British Government tended to give a lower priority to the strategic embargo than the USA because, as Prime Minister Harold Macmillan noted, Britain lived by exports. As a result, there was an ongoing tension for Britain between the imperatives of expanding its trade and commerce, of waging the Cold War robustly, and keeping on close terms with its key ally the USA.

The issue of trade and security is explored further, in relation to the Eastern bloc during the Cold War, in chapters by Evanthis Hatzivassiliou

and Angela Romano. Hatzivassiliou looks at how, in the 1960s, Britain took the lead in arguing for an expansion of trade with the Soviet world, including the granting of long-term credits. This sparked a tense intra-NATO discussion on the possible use of trade as a tool for 'opening up' Eastern Europe. Other NATO members thought this action would merely aid communist regimes or endanger NATO unity by leading to competition for Soviet bloc markets between NATO members. But Britain insisted that détente required more flexible Western policies. The debate also revealed the significant British influence in NATO civilian administration: the NATO expert committees (such as the Political Advisers and the Economic Advisers) were closer to the British position, rather than to the more reserved attitudes of the USA and the other member states.

In her chapter Angela Romano takes the story into the 1970s and beyond when there was a broad consensus that trade with Council for Mutual Economic Assistance (CMEA) countries should be promoted as a key part of the broader policy of détente. No British government, not even Margaret Thatcher's, considered using trade to force change in Eastern European regimes or in Soviet foreign or domestic policy. British commerce gained from this commitment to détente. It did not have to suffer the consequences of a policy of restraint and embargo towards Socialist countries and benefited from stable government engagement towards promoting East–West economic contacts. Although the DTI was the main actor preoccupied with protecting, assisting, and backing British firms, the FCO had key responsibilities, especially since trade in CMEA countries was completely in the hands of state corporations.

Both world wars dealt a blow to British exporting industries as a result of wartime restrictions on British manufacturing, shipping and finance. Several chapters focus on developments in British commerce during the two world wars, including British concerns about America's post-war ambitions. John Fisher examines the mission despatched to South America in the spring of 1918 under the British diplomat, Sir Maurice de Bunsen. Britain's position in South America before and during the war rested substantially upon commerce. The mission had aims to support British commercial objectives, not only in closing down German trade but also to bolster British interests against US commercial expansion in the region. The backdrop to the mission was debate over reforming commercial diplomatic services, concerns about commercial intelligence, efforts to rally expatriate Britons worldwide, and debates about the role of chambers of commerce. The mission, in pointing to the significant commercial potential for Britain in

South America, suggested that far greater coordination was required in order to realize this.

Aysegul Sever looks at commerce as an important element in relations between Britain and Turkey during the Second World War. At the outbreak of war Germany was Turkey's biggest trading partner but Britain was keen to reduce Turkish dependence on Germany and limit supplies of chrome. The Allies could only do this by replacing the Germans as Turkey's main suppliers and consumers. By 1941 Britain had managed to supplant Germany, but this could not be sustained due to Britain's inability to supply goods due to the war effort and because Britain could buy Turkey's main exports—largely agricultural products—more cheaply from colonial markets. Ultimately Britain had to introduce the USA to Turkish economic and political relations as a complimentary supportive force against German competition.

Effie Pedaliu examines the efforts of Britain and Italy to normalize their political and economic relations after the Second World War against the backdrop of austerity, a new economic post-war order and the onset of the Cold War. Labour Foreign Secretary, Ernest Bevin, sought to improve Anglo-Italian relations at every level but was also determined to bring all aspects of British interaction with the world, including trade, under the oversight of the Foreign Office. This led to friction in Whitehall, with other departments taking a different view of Britain's foreign and commercial imperatives. As a result, Britain lost the opportunity to create a level playing field for British business before the Marshall Plan nudged further the existing Italian tendency towards trade with America.

Several chapters explore the role of the Foreign Office in British economic diplomacy. Gaynor Johnson looks at the impact of the Reparation (Recovery) Act of 1921 on British commercial policy with a detailed focus on the involvement of Sir Ronald Lindsay during his time as ambassador in Berlin, 1926–8. She finds that with a poorly defined relationship between the Foreign Office and the Treasury, and reluctance on the part of the Foreign Office to take a lead in negotiations or formulate instructions, there was considerable scope for a proactive Lindsay to take matters into his own hands to drive the issue forward.

Francine McKenzie's chapter looks at trade, the Commonwealth and foreign policy in the 1930s, a time of drastic economic downturn and acute international tensions. In particular she looks at negotiations at the Ottawa Imperial Economic Conference of 1932 where proposals for preferential tariffs had the potential to address economic and geopolitical

challenges that threatened British security, economic well-being and international standing. But an expansion of Commonwealth trade could only serve Britain's geopolitical interests if there was a reversal of Britain's long-standing commitment to free trade, if the Commonwealth moved towards decentralization and autonomy, and if the Foreign Office changed its traditional detachment towards trade.

The chapter by Edward Johnson looks at preparations by the Foreign Office for the first United Nations Conference on Trade and Development in 1964. At first the Foreign Office was cautious, not wanting a rival to General Agreement on Tariffs and Trade or to create a forum in which the Soviet Union might attempt to politicize trade affairs. They wanted a conference free from polemics, where practical questions of development could be raised, and an action programme for the liberalization of international trade could be agreed upon—one where the developed world would open its markets to the developing world.

There were still areas where British technology led the world, such as civil nuclear power; and Britain constructed the world's first nuclear power station—Calder Hall—in 1956. In his chapter Stephen Twigg focuses on the role played by the Foreign Office in the promotion and regulation of civil nuclear technology, from the creation of the International Atomic Energy Agency in 1957, through to the foundation of URENCO in 1971. It was hoped that a valuable export trade could be built up in civil nuclear power and related technology and the Foreign Office was in the vanguard of the effort to generate overseas interest.

Francesco Petrini examines relations between the FCO and the major oil companies, particularly British Petroleum (BP), during the early 1970s when the balance of power was beginning to shift from the oil majors to producer countries. BP had an interest in appeasing the desire from producer countries for higher prices, in order to defend their investment overseas. But they also had to satisfy the desire of consumer governments to keep the price as low as possible. This complex set of problems was made even more complicated by the fact that BP was half-owned by the British Government but had traditionally enjoyed a large degree of independence. The question now for the British Government was whether the national interest could still best be served by attempting to manage oil policy through the major oil companies.

Peter Beck looks at commerce, as a factor leading to a more expansive foreign policy: with reference to policy towards Antarctica. In 1919–20 the British Government decided that it was desirable that the whole of the Antarctic should be included within the British Empire. Despite

conceding that Antarctica itself was as yet of little economic importance and still largely unknown, Leo Amery, at the Colonial Office, was not only imbued with a strong sense of empire but also believed that all territory was potentially valuable, and recognized the immense potential value of Antarctica's fisheries and mineral resources. There seemed a positive advantage in securing British control, however uncertain the economic prospects were, before another government moved in. British governments were confronted by a series of problems regarding the form and timescale of annexations, the changing legal criteria for polar sovereignty, and the role of the dominions and international reactions. Nor did the economic return meet initial expectations, thereby prompting a continuing reappraisal of both the rationale of British policy and the area claimed.

In the final chapter of the book former diplomat Sir Roger Carrick reflects on his experiences during a career which saw postings as Consul-General in Chicago, Assistant Under-Secretary of State (Economic) at the FCO, Ambassador to Indonesia (1990–4) and High Commissioner to Australia (1994–7). Despite his first head of mission in 1962 actually declaring, 'a gentleman does not soil his hands with trade', Sir Roger spent his diplomatic life attempting to rectify this point of view. In his overview, from a practitioner's perspective, of the last 35 years of the century he concludes that British governments have done more (by a narrow margin) for British commerce than vice versa: as he believes it should be.

* * *

In presenting these contributions as an edited collection, the editors' intention is to bring together a wide range of perspectives on issues relating to commerce and British foreign policy in the twentieth century. Many of the themes running through the chapters outlined above touch on issues that are still relevant today. For instance, where in government should responsibility for British economic and commercial work lie? The recent creation of a new Department for International Trade, with responsibility for developing trade policy, negotiating trade deals and providing operational support for exports,⁶² would seem to signal a return to the 1970s when the FCO worked alongside separate departments for Trade and Industry in support of British business. Should those engaged in commercial work be specialists with a high degree of training and distinct career paths in this type of work? Or do they benefit from being as closely aligned as possible to the mainstream diplomatic service? Who drives commercial policy in Whitehall? Until recently the Treasury's forward policy towards China has led commentators to conclude that 'economics **trumps everything else**, be that old

alliances or any notion of a universalist, ethical foreign policy'.⁶³ Where does the balance between political and economic work lie? The FCO Permanent Under-Secretary admitted in September 2015 to a parliamentary committee that the government's prosperity agenda had a higher priority over human rights, a comment that raised eyebrows amongst parliamentarians and human rights campaigners alike.⁶⁴ And is Britain still prepared to take a pragmatic approach towards security in pursuit of economic benefit? The 2015 decision to become the first major Western country to join the \$50 billion Chinese-led Asian Infrastructure Investment Bank opened the way for other European countries to join but led to a public rebuke from the USA, which was concerned about the UK's accommodation of Chinese interests.⁶⁵ In considering the issues raised in this collection, the editors hope to highlight the importance of commercial matters to the study of diplomacy and stimulate further investigation by other scholars.

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NOTES

1. The Foreign Office amalgamated with the Commonwealth Office in 1968 to become the Foreign & Commonwealth Office. However the term Foreign Office and FCO are often used interchangeably in this volume as descriptors beyond 1968.
2. <https://www.gov.uk/government/speeches/prime-ministers-speech-at-farnborough-air-show> (accessed 3 August 2016).
3. 'PM wants Foreign Office to make export drive priority', *Financial Times*, 22 July 2010.
4. <https://www.gov.uk/government/organisations/foreign-commonwealth-office/about> (accessed 9 February 2016).
5. D. C. M. Platt, *Finance, Trade and Politics in British Foreign Policy 1815–1914* (Oxford: Clarendon Press, 1968), p. xiii.
6. Hansard, *HC Debs*, Vol. 61, 8 March 1842, col. 220.
7. J. Tilley and S. Gaselee, *The Foreign Office* (G. P. Putnam's Sons, 1933), pp. 227–8.
8. Robert Vansittart quoted in Platt, *Finance, Trade and Politics*, p. xxi.
9. See R. Jones, *The Nineteenth Century Foreign Office: An Administrative History* (Weidenfeld and Nicolson, 1971), pp. 84–94. Also Tilley and Gaselee, *Foreign Office*, pp. 227–51.
10. Platt, 'The Role of the British Consular Service in Overseas Trade, 1925–1914', *EcHR*, 15 (1962–3): 494–5. See also J. Dickie, *The*

British Consul: Heir to a Great Tradition (Hurst & Company, 2007), pp. 29–32. Until the 1930s the Consular Service was a patchwork of individual entities. The Levant Consular Service was inherited by the British Government in 1825, a legacy from the Levant Company. It became part of the General Service but was reconstituted in 1877. The Far Eastern Consular Service (covering China, Japan, Siam and Korea) was inherited in 1834 when the East India Company's monopoly on trade with China expired. The General Consular Service covered other regions.

11. B. R. Mitchell, *British Historical Statistics* (Cambridge: Cambridge University Press, 1988), p. 524.
12. *The Foreign Office List* (1913). The attaché in Frankfurt covered Germany, Denmark, Holland, Norway and Sweden. The headquarters of the commercial attachés in Europe, except Paris and Constantinople, were transferred to London in 1907 so they could be in closer touch with mercantile and manufacturing communities in Britain.
13. Their extensive duties included: monitoring and preparing reports on commercial matters, concessions, labour and sanitary questions, trademarks and patents, transport routes, technical education, improvements in industrial equipment and the state of agriculture; and to give advice and assistance to British consuls on commercial matters, along with British Chambers of Commerce, merchants, manufacturers and shippers. Platt, *Finance, Trade and Politics*, p. 388.
14. *Fifth Report of the Royal Commission on the Civil Service*, Cd. 7748 (HMSO, 1914).
15. For an overview of the Foreign Office and blockage issues during the First World War see A. Marsden, 'The Blockade' in F. H. Hinsley (ed.), *British Foreign Policy under Sir Edward Grey* (Cambridge: Cambridge University Press, 1977). For the Second World War see W. N. Medlicott, *The Economic Blockade* (HMSO, 1952–1959).
16. In 1916 a Foreign Office committee, chaired by Crowe, concluded that: 'Trade and finance can no longer be things apart, outside the sphere of normal diplomatic work'. GD 193/113/5: Report of the Crowe Committee, 10 August 1916, Arthur Steel-Maitland Papers (ASM), NAS.
17. Sir Edward Grey to Walter Runciman, 31 August 1916, WR 300, Runciman MSS, Newcastle University.

18. Meeting of 14 November 1916, FBI MSS 200/F/1/1/62, MRC.
19. *Memorandum by the Board of Trade and the Foreign Office with respect to the Future Organisation of Commercial Intelligence*, Cd. 8715 (HMSO, 1917), p. 8.
20. Nugent (FO) to Algernon Firth (President of the Association of Chambers of Commerce), 23 January 1917, FBI MSS 200/F/3/D1/2, MRC.
21. For the background to this event see: E. Maisel, 'The Formation of the Department of Overseas Trade, 1919–26' in *JCH*, 24/1 (1989): 169–90.
22. 'Notes on the Present Position,' 25 May 1919, ASM MSS GD 193/115/3/11-13, NAS.
23. *Report of the Committee to Examine the Question of Government Machinery for Dealing with Trade and Commerce*, Cmd 319 (HMSO, 1919).
24. W. J. Glenny, 'The Trade Commissioner and Commercial Diplomatic Services', *JPA*, II (1924): 284–5.
25. E. Percy, *Some Memories* (Eyre & Spottiswoode, 1958), p. 147. One consul in Brazil was unhappy at having to transfer allegiance from the Foreign Office to the DoT which he described as a 'convenient dumping ground for misfits'. E. Hambloch, *Here and There: A Medley of Memories* (Johnson, 1968), p. 172.
26. H. Nicolson, *Diplomacy* (Thornton Butterworth, 1939), pp. 165–6. Nicolson considered this a positive step that would allow British commercial interests to be better served.
27. V. Cromwell and Z. Steiner, 'Reform and Retrenchment: The Foreign Office between the Wars' in *The Foreign Office, 1782–1982* (Maryland: University Publications of America, 1984), p. 88.
28. *DBPF 1919–1939*, Series 1A, Vol. VI, Nos. 74 and 99.
29. D. G. Boadle, 'The formation of the Foreign Office Economic Relations Section, 1930–1937', *HJ*, 20/4 (1977). See also V. Wellesley, *Diplomacy in Fetters* (Hutchinson, 1944), p. 194.
30. Hansard, *HC Debs*, Vol. 182, 8 April 1925, col. 2192.
31. As one diplomat put it: 'Though we should be far from suggesting that personality, 'address' and savoir faire are not of great importance in the Consular Service, it is in the Diplomatic Service that these rather intangible qualities are most essential.' Sir H. Knatchbull-Hugessen to Sir A. Cadogan, 20 January 1939 quoted in Platt, *The Cinderella Service: British Consuls since 1825* (Longman, 1971), p. 241.

32. *Proposals for the Reform of the Foreign Service*, Cmd. 6420 (HMSO, 1943).
33. Hansard, *HC Debs*, Vol. 387, 18 March 1943, col. 1362.
34. Lord Strang, *The Foreign Office* (George Allen & Unwin, 1955), p. 39.
35. Report of the *Committee on Representation Services Overseas 1962–3*, Cmd 2276 (HMSO, 1964), pp. 8, 124.
36. Plowden, pp. 53–6.
37. Run by businessmen but funded by government it had 12 area committees which divided up the trading world to better coordinate exporting efforts. It was replaced in 1971 by the British Overseas Trade Board under more direct government control.
38. G. Brown, *In My Way* (Victor Gollancz, 1971), p. 160.
39. W. Wallace, ‘The Management of Foreign Economic Policy in Britain’ *IA*, 50/2 (1974): 181, 257–8.
40. *Report of the Review Committee on Overseas Representation 1968–1969*, Cmd 4107 (HMSO, 1969), p. 88.
41. As above, p. 68.
42. *Review of Overseas Representation*. Report by the Central Policy Review Staff (HMSO, 1977), p. xi.
43. Table 4.1. ‘Expenditure on Overseas Representation, 1975–76’ in above. £21.8 million and £24.2 million respectively.
44. The Board of Trade became the Department for Trade and Industry in 1970 before being split into separate departments for Energy, Trade, Industry and Prices & Consumer Protection between 1974 and 1983.
45. W. Wallace, *The Foreign Policy Process in Britain* (RUSI, 1975), p. 179.
46. P. Byrd, ‘Trade and Commerce in External Relations’ in R. Boardman and A. J. R. Groom (eds), *The Management of Britain’s External Relations* (Macmillan, 1973), pp. 175–181.
47. Byrd, ‘Trade and Commerce’, p. 181.
48. R. D. Edwards, *True Brits: Inside the Foreign Office* (BBC Books, 1994), pp. 198–9. For accounts of careers engaging with economic and commercial diplomacy see Sir N. Bayne, *Economic Diplomat* (Durham: The Memoir Club, 2010) and Sir R. Carrick’s chapter in this book.
49. ‘Report on British Embassy, Tehran’ by P. H. Laurence, November 1974, FCO 69/547.

50. Witness Seminar: The Role and Functions of the British High Commission in New Delhi (2011), p. 44, <https://issuu.com/fcohistorians/>
51. Witness Seminar: The History, Role and Functions of the British Embassy in Paris (2014), p. 44, <https://issuu.com/fcohistorians/>
52. See Roger Beetham, Second Secretary (Commercial) Washington, 1965–8 in British Diplomatic Oral History Project (DOHP) 63, p. 63.
53. Wallace, *Foreign Policy Process*, pp. 179–80.
54. S. Jenkins and A. Sloman, *With Respect, Ambassador: An Inquiry into the Foreign Office* (BBC, 1985), pp. 53–8.
55. See for instance Andrew Bache, First Secretary (Commercial) Vienna, 1978–81 in DOHP 41, p. 14.
56. CPRS Report, 81.
57. Edwards, *True Brits*, p. 199.
58. I. Lucas, *A Road to Damascus: Mainly Diplomatic Memoirs from the Middle East* (The Radcliffe Press, 1997), pp. 131, 182.
59. Dickie, *Inside the Foreign Office* (Chapmans, 1992), p. 46.
60. UK Trade & Investment Departmental Report, 2006; Cm 6825: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/272284/6825.pdf (accessed: 3 January 2016). In May 1999 British Trade International was formed comprising two parts: Trade Partners UK (for export) and Invest UK (for inward investment). In October 2003, they merged to become UK Trade & Investment.
61. In July 2016 UKTI was placed under the responsibility of a new Department for International Trade.
62. <https://www.gov.uk/government/organisations/department-for-international-trade/about> (accessed 3 August 2016).
63. M. Mardell, ‘For Osborne, foreign policy is strictly business’, 1 October 2015, <http://www.bbc.co.uk/news/uk-politics-34389056> (accessed 9 February 2016). See also: ‘The Osborne Doctrine’, *The Economist*, 26 September 2015.
64. ‘The FCO and the 2015 Spending Review’ HC 467, [Evidence given on 15 September 2015](#), Q 10 and 11. ‘Human rights a lower priority than trade, says Foreign Office chief’, *The Independent*, 3 October 2015.
65. ‘US anger at Britain joining Chinese-led investment bank AIIB’, *The Guardian*, 13 March 2015.

“A Kind of Black Hole”?: Commercial Diplomacy Before 1914

T.G. Otte

Commercial diplomacy is the Cinderella branch of international history. To varying degrees, it remains neglected, ignored or ill-used. Treated by most diplomatic historians with a sort of disdain, which the many critics of the nineteenth-century Foreign Office imagined to be the department's natural attitude towards 'trade' and those in it, it has not fared any better in the hands of economic historians, who usually see little cause to dirty their hands with past political machinations, let alone to plumb the depths of international politics.

Despite D.C.M. Platt's magisterial and groundbreaking study of the subject, few historians have taken up the cudgels since.¹ The various controversies surrounding the economic dimension of European imperial expansion have generated a considerable body of literature,² as have attempts to apply concepts of grand strategy to Britain's external relations by placing them in a wider context of fluctuating economic and trade cycles.³ Similarly, the gospel of free trade, in its political and ideological aspects, and the creation

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and subsequent unravelling of the mid-Victorian free trading network have attracted the attention of scholars.⁴ The intricate and complex relationship, however, between commerce, finance and foreign policy—and the role of the Foreign Office in it—have remained the subject of more or less benign neglect. The present chapter can do no more than to limn that relationship. To do so, it will probe into the ideological precepts that shaped and, it will be argued here, constrained commercial diplomacy, before examining the institutional framework within which it was conducted.

* * *

It has become something of a cliché to portray the Foreign Office in the long nineteenth century as a hidebound institution, conservative in its habits, limited in its vision, and riddled with social prejudice. The Office, in J.S. Phillimore's trenchant phrase, was 'the last preserve of administration practised as a sport'.⁵

First brought into circulation by the department's domestic critics, especially amongst the mid-Victorian Radicals and then propagated by their ideological descendants, this view has since acquired the patina of ancient wisdom. In Platt's judgement, the 'Foreign Office before the First World War was a curious compound of snobberies and professional priorities'.⁶ And, indeed, there is no shortage of instances of a degree of social prejudice on the part of senior Whitehall officials or diplomats abroad in respect of matters connected with trade. When, in the late 1870s, Lord Odo Russell, the Ambassador at Berlin mooted the idea of appointing a commercial attaché to each of Britain's six embassies, T.V. (later Sir Thomas) Lister, the Assistant Under-Secretary (AUS) superintending commercial affairs, recoiled in 'amazement, suspicion and horror'. More especially the notion of according these commercial experts the same standing as the armed forces attachés attracted his ire. Their 'whole education and way of thought', the AUS opined, 'would have been directed to the pursuit of gain and, if one may judge by what one daily sees and hears of commercial men, he must have been brought up in a school of morals far lower than would be tolerated in the Army, Navy or Civil Service'. He would be nothing but 'a Diplomatic bagman, exposed to every temptation of jobbery and corruption'.⁷

No doubt, as the then Foreign Secretary, Lord Salisbury, observed wryly, Lister was 'severely orthodox and rather look[ed] upon all traders as an old maid looks upon all men —as being in conspiracy to surprise him into some illicit favour'.⁸ Lister's case may have been an egregious one, but

it was by no means an isolated one. The Office and the then still separate diplomatic service, noted Sir James Fergusson, Salisbury’s Parliamentary Under-Secretary, required men with ‘the social habits of the upper classes or the active habits of country gentlemen.... [M]ore saddle and *savoir faire* would serve the State better.’⁹ Not infrequently, commercial attachés encountered a degree of jealousy as ‘new-comers who have not qualified for it [i.e. the diplomatic service] in the usual way’, observed E.F. (later Sir Edward) Law, appointed, in 1887, as the second commercial attaché with a roving commission for Eastern Europe: ‘Thus, it sometimes happened that he [Law] encountered amongst English Diplomats a certain contempt for commercial matters.’¹⁰ Given the greater importance accorded to questions of *la haute politique*, and with a calculated view to furthering their own professional careers, middle-ranking diplomats therefore were tempted to turn down offers of advancement if it meant accepting a post at which commercial matters took up a significant proportion of the work of the man on the spot. Horace Rumbold, for instance, refused the offer of promotion from embassy counsellor at Tokyo to envoy to the Central American republics in the summer of 1913 for that reason: ‘So somebody [else] can take on the job of screwing money out of shady Dagoes, which seems to be the main occupation of the Minister at Guatemala.’¹¹

Prejudice, whilst real, was by no means central to official attitudes towards commerce. The Foreign Office and its political masters were deeply appreciative of the wider strategic significance of trade and finance. They could hardly not be. Any Victorian schoolboy knew Sir Walter Raleigh’s *dictum*—and E.F. Law was wont of reminding his colleagues of it—that ‘whosoever commands the trade commands the riches of the world, and consequently the world itself’.¹² Commercial considerations, indeed, had been the bedrock upon which much of British foreign policy was founded during the eighteenth century. ‘When trade is at stake’, the older Pitt intoned when inveighing against the Convention of Prado with Spain, ‘it is your last entrenchment, you must defend it, or perish’.¹³

By the end of the century, to many of the Chathamites, trade had become more important as a guarantee of security than notions of sovereignty. One of their leading lights, the Earl of Shelburne, for instance, envisaged a new and more stable world order based on a series of commercial agreements with America and France. Such ideas ran counter to the prejudices of the commercial class at the time, but they were to become ‘as cardinal to Victorian Britain as was mercantilism to any eighteenth-century statesman’.¹⁴

The belief in the beneficent effects of untrammelled trade was, indeed, hardwired into the collective mind of the Victorian and Edwardian political elite. Politicians of all stripes subscribed to it. Britain, observed Earl Granville in his 1852 memorandum on foreign policy, would never sacrifice ‘all considerations of a higher character to ... pushing our manufactures by any means into every possible corner of the globe’. Yet, ‘considering the great natural advantages of Foreign Commerce, and the powerful means of civilization it affords, one of the first duties of a British Government must always be to obtain for our Foreign Trade that security which is essential to its success’.¹⁵ In a similar vein, the Conservative Earl of Malmesbury argued that the surest guarantee of international peace and stability was to be found in ‘the maintenance and extension of commercial and social intercourse between nations’. The British Government, therefore, sought ‘no commercial advantages in any quarter which they would not be prepared to share with every nation in the world’.¹⁶

A firm free trade commitment was the central plank of the mid-Victorian political consensus. Its corollary was an expectation that the British Government would strive to liberalize international commerce. It was a gospel peculiarly commensurate to the world’s first industrial nation. If, as Voltaire claimed, man creates his god(s) in his own image, then so Victorian Britain’s belief in the beneficence of free trade bore the imprint of the most advanced economic power. It has been tempting to infer from this an element of hypocrisy and a degree of insincerity on Britain’s part. Advocating equality of trade opportunities was a luxury the pre-eminent industrial nation, shored up by its global networks of commercial and financial agencies, could easily afford. No doubt, as Britain’s pre-eminence began to crumble, so the attractions of free trade began to pall. It still took a world war and a global economic depression, however, before the country turned its back on the *laissez-faire* doctrines of the Victorian settlement. Suggestions of insincerity are nonetheless wide of the mark. Britain’s leading politicians tended to prescribe to other nations what had seemingly stood Britain in such good stead. An observation by Gladstone to A.J. (later Sir Arthur) Otway, the Earl of Clarendon’s Parliamentary Under-Secretary, during the commercial talks with France in 1868–9, testifies to this:

[O]ur own general experience has established that great as is the advantage of substituting duties for prohibitions, & moderate duties for high ones, the last stage, that of sweeping away duty altogether is by far the most beneficial

both to the particular trade wh[ich] is relieved, & to the general trading purse of the country: & finally through this latter medium to its faculty of consuming dutiable commodities, & thus to the revenue itself, wh[ich] at first sight appeared to suffer.¹⁷

London’s preferred instrument was the commercial treaty ‘to liberate trade from all protective charges, and to impose duties equally on native and foreign goods alike for fiscal purposes only’.¹⁸ This was the alpha and omega of British commercial diplomacy, with the most-favoured-nation clause its preferred tool. Prising open overseas markets with the tip of a bayonet was generally considered unacceptable. Indeed, it was the exception, even if the Anglo-Chinese wars of 1842 and 1859–60 were significant exceptions. Once a treaty had been concluded, and a legal framework for commercial activity was thus established, it was left to British enterprise to take advantage of the opportunities of the foreign market. Thereafter, British diplomatic agents would busy themselves only in case of some infraction of the treaty itself. It was an ambassador’s ‘principal duty ... to further the commercial interests of his country’, the Permanent Under-Secretary of the Foreign Office, Sir Philip Currie, confirmed to the 1890 Royal Commission on the civil service. Currie, who hailed from a prominent City family himself, qualified this statement by suggesting that it was not the envoy’s business to secure contracts for individual companies, ‘but generally to support the interests of all British subjects’.¹⁹ Procuring the best terms for British trade abroad without providing ‘assistance for the individual trader to sell his goods, or obtain contracts’ had been the right policy, reflected Sir John Tilley, the Foreign Office’s chief clerk between 1913 and 1918, ‘at least so long as British trade was in the ascendant’.²⁰ There were, of course, also practical considerations. Not infrequently, financiers, pushing for commercial projects abroad, swiftly revealed themselves to be latter-day Melmottes.²¹ Lister’s suspicions of the low morals of some of the species were, then, not at all unfounded. Equally, there was always the danger of an overly energetic envoy displaying greater zeal for commercial concessions than financiers and traders themselves. A particularly egregious example was the Minister at Peking, Sir Claude MacDonald, who during the frenzied scramble for Chinese concessions in the late 1890s helped to secure more concessions than British businessmen could hope to realize.²²

The clamour for more energetic official efforts to push for trade became more voluble as the international commercial climate became harsher

from the 1870s onwards. A feverish bout of bond speculation, fuelled by the unprecedented French war indemnity after the recent Franco-German conflict, led to a short-lived boom—‘a convulsion of prosperity’ in Disraeli’s memorable phrase.²³ With investors soon overexposed to bonds of dubious value and often secured against flimsy collaterals, the Vienna bourse crashed in May 1873, taking others with it and so plunging the industrial nations into prolonged instability.²⁴ Rash stock exchange speculation triggered the crash, but underlying it, and exacerbating its consequences, was a rising imbalance between supply and consumption of primary goods, brought on by the rapid growth in the production of agricultural produce such as wheat but also of industrial raw materials in the United States. A slump in export revenues, low nominal rates, and diminished dividends combined to depress economic prospects. Economic historians have debated the nature, extent and depth of the nearly quarter-of-a-century long ‘Great Depression’ after 1873. Although their estimates of annual percentage growth rates call into question the descriptive accuracy of that term, there can be no doubt about the decline in the rate of increase. Between the recovery from the sharp recession in the immediate aftermath of the Napoleonic wars and 1855 Britain’s annual rate of growth was between 3 and 4 per cent, declining to between 2 and 3 per cent in the period up to 1876, and then falling further to below 2 per cent by 1896 and from then on flatlining at around 1.6 per cent per annum until 1913.²⁵

What in the cold light of day appears to be a deceleration of growth, a not untypical pattern in a rapidly maturing industrial economy,²⁶ nevertheless was to contemporary opinion the ‘Great Depression’.²⁷ There was no denying, moreover, the steady decline of Britain’s share of global markets, largely the result of other industrialising countries catching up with her. By 1900, German and US iron and coal production had overtaken that of Britain, and within a decade she was left behind also in the annual value of her total manufacturing.²⁸ The British economy did not stagnate. Indeed, there was a more than twofold increase in its output between 1870 and 1913. World manufacturing, however, quadrupled in that same period; and while the British manufacturing sector accounted for about a third of global output in 1870, by 1900, its share had decreased to about a fifth, dropping yet further to around a seventh on the eve of the First World War.²⁹ There was a similar pattern in Britain’s overseas trade. Her share of global commerce fell from just under a fifth in 1876–80 to a seventh (14.15 per cent) in 1911–13, caused in large measure by

a serious deceleration in the growth of exports during the period of the ‘Great Depression’, though there was a healthy enough recovery between 1900–2 and 1911–13.³⁰ Even so, Britain, in mid-century still the ‘workshop of the world’, was gradually turning into a *rentier* economy. She was more dependent now on capital investments in oversea to compensate for a growing trade deficit.³¹

The underlying downward trend in Britain’s economic development mattered not least because it affected the country’s trade balance and with it its ability to maintain its vast industrial complex. This nexus was clearly appreciated in Whitehall. As C.M. (later Sir Charles) Kennedy, the senior clerk of the Foreign Office’s Commercial Department, observed in a lengthy memorandum in September 1875: ‘Now less than ever can England afford to disregard the commercial policies of other countries. Her greatness, if not her existence, depends upon foreign trade.’³² But it was this perception of a profound economic malaise after 1873 and a heightened sense of a more competitive international economic environment from the later 1890s onwards which gave greater traction to contemporary criticism of the Foreign Office’s seemingly lackadaisical efforts on behalf of British enterprise abroad.

There were further problems. While metropolitan politicians and the business community clung to the notion of commercial treaties as a universal remedy for all international trade problems, in practice, such agreements were anything but that. This was more especially so in the aftermath of the 1873 recession as other nations turned their backs on the notion of free trade. All too often, the commercial treaties did not secure their avowed principal object, equality of commercial opportunity for all traders. Prior to the 1860 Cobden-Chevalier treaty, as Kennedy noted in his analysis of international trade, a ‘system of differential treatment, mischievous and irritating’, had hampered commercial relations between Britain and her continental neighbours. This had been replaced by a moderate system of duties, mostly, but not exclusively, on alcoholic beverages. International competition, however, was keener now than in 1860, and it was ‘important to place that trade policy upon sound foundations as it is to ward off the injury that would be sustained from hostile commercial policy of foreign countries’. Following the crash of 1873 the tendency, Kennedy noted, was to raise duties. The potential consequences were dire: ‘The whole advantages obtained by British commerce under the existing Treaty of Commerce system are in danger.’ The notion of the most-favoured-nation clause as the creative core of the commercial treaty

network was convincing enough in the abstract. But the clause could easily be subverted by the introduction of a complex system of subdivisions, as Kennedy anticipated in 1875: ‘extensive changes of classification of goods, a point even more important than rates of duty, are contemplated, and ... the new Tariffs will be adverse rather than favourable to British commercial interests’.³³

Kennedy’s prognostication was prescient enough. As tariffs became more subtly differentiating, protection returned by the backdoor—and the ability of British diplomacy to keep it shut appeared limited. ‘The prospect everywhere seems dark to the free traders who fear that protection will show strongly at Vienna & in Paris’, warned J.A. (later Sir Joseph) Crowe, then consul-general at Düsseldorf.³⁴ The current was indeed running against a liberal trade regime. Six years later, Crowe, by now commercial attaché residing at Paris, was certain that the French Government intended ‘to get all treaties refused by the Chamber so that ... a tariff may be applied which w[oul]d be the tarif général démajoré. I am not sure that the demajorization will not have a thorn specially directed ag[ain]st us’.³⁵

British diplomats were by no means oblivious to the inherent political and intellectual flaws of the country’s commercial diplomacy. R.B.D. (afterwards Sir Robert) Morier uttered an early warning in the mid-1860s. He had spent much of that decade as a roving second secretary at a variety of legations in Germany and was something of an apostle of German liberal nationalism. But he had also assisted Sir Louis Mallet, Britain’s commissioner during the negotiations for the 1865 Anglo-Austrian commercial treaty.³⁶ Equipped with a formidable and fertile brain, though given to somewhat baroque prolixity, he reflected on official attitudes towards free trade at the end of 1867. He singled out for especial opprobrium

the blight of the economic fallacy that Free Trade implies having *no* commercial policy or rather the purely *negative* policy of letting things be until Providence and common sense (neither of which have yet shewn much inclination to stir in the matter) will be pleased to interfere and bring other nations besides ourselves to acknowledge the saving truth of the Gospel according to Free Trade.

A negative commercial policy was the economic twin of an isolationist foreign policy; it was also, however, based on what Morier termed a ‘scientific misconception of the nature of international exchange’. The unilateral removal of protectionist tariffs did little to stimulate international

commerce, he argued: ‘To the astonishment of A & B who have not read Adam Smith and are friends of [J.R.] McCulloch [the political economist] exchanges remain just as impossible as before.’ To be effective free trade diplomacy required an interventionist foreign policy:

[I]t is in the interest of the british [sic] consumer ... that every effort should be made by the british [sic] Gov[ernmen]t to break down the protectionist tariffs of the world. So little are these elementary principles of political economy present to the minds of men ... that Gladstone himself said to me à propos of our Austrian treaty, that he did not see what particular good England would derive from a treaty with Austria analogous to the treaty with France—quite forgetting that invaluable products of Austria were just as much excluded from the british [sic] market by her tariff, as if the protectionist barricades were erected along our shores. [...] International exchanges are just as impossible by a mere onesided adoption of Free Trade as the circulation of the blood would be impossible by a system of veins alone or of arteries alone.

As proof of this Morier adduced the impact of the Cobden–Chevalier treaty. Following Britain’s conversion to free trade in 1847, her trade with France had remained static: ‘The increase of our imports from France consequent on the partial breaking up of the french [sic] protectionist system *effected by Cobden in the teeth and amidst the expectations of the Do nothings*, is represented by an imported value of 37 millions in 1866 as compared with 16 millions in 1859.’ Morier by no means advocated renouncing free trade. Rather he demanded its more vigorous pursuit. ‘The essential characteristic of the modern treaty of commerce’, he observed, ‘is to remove restrictions on trade *for the benefit of all*, and by the most favoured nation clause which is the keystone of the modern treaty to cut through the vital nerve of commercial monopoly’. With the Anglo-French treaty, and those with other continental countries that followed it, ‘the differential system has received its death blow in Europe, & wherever ... a breach is effected in the remaining ramparts of protection[,] the beautiful sight is presented of the whole world having free entrance through that breach’. The Cobdenite commercial treaty, Morier concluded, belonged to the same category of enlightened international agreements as the anti-slavery or the free riverine navigation treaties, and ‘constitute[d] one of the few landmarks in the progress of an international as distinct from a mere national or parochial civilisation which the age has to show’.³⁷

Morier's Guy Fawkes epistle did not set light to a powder keg underneath the edifice of free trade. But it cast a shaft of light on some of its structural flaws, whilst at the same time reasserting its essential correctness in guiding external economic policy. Narrow orthodoxy was one problem, another resulted from the Foreign Office–Board of Trade dualism. Opposition to commercial treaties, for fiscal reason, came from the Revenue Board and the Treasury, 'acting in combination with the Chancellor of the Exchequer, & I suspect with some strange aberration on the part of Mr. Gladstone himself', noted Sir Louis Mallet, Morier's superior during the Anglo-Austrian commercial treaty negotiations: 'worldly wise officials take their cue accordingly'.³⁸

Morier's hopes of a dawn of a new international civilization, based on world trade, meanwhile, were short-lived. As already seen, protective tariffs returned in the following decade, and there was some pressure in Whitehall for recalibrating commercial diplomacy. Sir Charles Dilke, a leading light amongst the Radicals, was an advocate of such a move. As Parliamentary Under-Secretary at the Foreign Office during the early part of the second Gladstone administration, he had been one of the British commissioners appointed to renegotiate the commercial treaty with France.³⁹ The Gladstone Government hoped to recover most-favoured-nation treatment and to secure further tariff concessions for British exports, using wine-duty reforms as a bargaining chip to obtain countervailing concessions, which could then be rolled out to trade relations with other countries.⁴⁰ It was an attempt to re-run the events of 1860. The talks, first with Pierre-Emmanuel Tirard and then Léon Gambetta, the strongman of the new republic himself, produced much hectic activity but yielded no practical results, and were eventually broken off. The French side insisted on some form of protection for French producers against cheaper British imports—the familiar 'dumping' argument of continental politicians—and to rectify France's trade balance with Germany which had turned negative since the recent war.⁴¹

The Prime Minister was much relieved at the abrogation of the talks, and put his best sophisticated gloss on it. Tariff treaties, he impressed upon the House of Commons, had proved to be 'doubtful and entangling instruments ... [which] imparted something of at least apparent disparagement to the principle of Free Trade'. In breaking off the talks, Britain had 'escap[ed] from the meshes of the Tariff Treaty' and had now 'emerged from a murky into a clear atmosphere, and ... those principles of Free Trade on which we stand in our fiscal legislation are no longer disparaged'.⁴²

Gladstone, in fact, had been in two minds about new commercial treaties. Initially reluctant to push for the further removal of trade barriers, he acquiesced in the French talks in view of the depressed state of the economy in 1880–1. As Dilke’s negotiations teetered on the brink of collapse, he reverted to his original free trade unilateralism. The 1860 treaty, he now intimated to the Radical baronet, had always been ‘exceptional and not ... the beginning of a new system of Tariff Treaties. This being so, if we fail with France, ... it will require careful consideration whether we should attempt a Tariff Treaty with ... anybody else’.⁴³

Dilke was not persuaded. Unlike Gladstone, from the outset he had taken a more pessimistic view of his chances ‘to conclude the impossible Treaty with France’.⁴⁴ But this had not made him a unilateralist. As Morier in 1867, so Dilke in the early 1880s pressed for an active external economic policy, with the difference, however, that since commercial treaties had failed to break down tariff barriers, a new instrument had to be employed to obtain the same object—retaliation. Reflecting on the matter in the aftermath of the breakdown of the Paris talks, he concluded that

[if], in view of the increasingly protective policy of Foreign Countries some measures of self-defence are ever found necessary, none seem fairer or more natural than a British Zollverein, raising discriminating duties on Foreign produce as against that of the British Empire—but into which any foreign country willing to make suitable concessions would be welcomed.

Such a customs union, Dilke conceded, would not be in strict accordance with the spirit of the free trade doctrine. But it would ‘secure to this country the free market competition of produce from almost every kind of climate—and yet preserve practical command of the trade in manufactured goods’.⁴⁵

There was some support for a retaliatory trade policy in the country. In its manifesto, published the previous summer, the biggest of the fair trade lobbying groups set out ‘to agitate for such fiscal re-adjustments as shall prevent the products of foreign states which refuse to deal with Great Britain in fair trade from unduly competing with the products of home labour’.⁴⁶ Dilke’s fellow-Radical, the President of the Board of Trade, Joseph Chamberlain, was also not unsympathetic to the idea. Before the Paris talks commenced, he had warned Dilke ‘that “one-sided Free-Trade” ... is consistent with great loss and suffering to large classes’; and they could easily be organized ‘not unlikely to outweigh as a political force

the ... national interests which would be prejudiced by any reversal of our Free Trade policy'—thus ironically outlining his own eventual political destination.⁴⁷

Any such deviation from the established policy was anathema to the senior members of the Gladstone administration, however. Already earlier in the year, Granville had reiterated the government's commitment to the status quo: 'The give-and-take principle is very good, but economy is one of the principles of the liberal party.'⁴⁸ A unilateral free trade policy, whatever disadvantages it entailed for certain sections of British commerce, was thus preferable for more economical for the Exchequer. To that extent Gladstonian fiscal orthodoxy trumped all other considerations. While Gladstone and his Chancellor of the Exchequer, Hugh Childers, saved candle-ends, no aggressive pursuit of the aims of free trade by other means was possible.

But it did not stop another attempt to use commercial treaty revision as a means of breaking down protective barriers, this time in negotiations with Spain. Even Gladstone, his unilateralist instincts notwithstanding, was not 'averse to encouraging or meeting Spain on the path of liberal legislation by mending the wine duties, if our finance which is fair but not brilliant, will permit'.⁴⁹ It was a typical instance of Gladstonian reasoning: two countries, guided independently by the same insight into the beneficial effects of lower tariffs, would join forces in a commercial treaty.

For his part, Dilke was determined to press ahead in the matter, resolutely aided by Britain's new minister at Madrid, Robert Morier. The envoy, in fact, had been constantly alert, throughout his career, to any openings to promote British commercial interests.⁵⁰ In the case of the Spanish treaty negotiations, however, Morier's proselytising zeal was also one reason for their ultimate failure.⁵¹ On several occasions, he exceeded his instructions by committing his government to positions, which it did not wish to adopt. At the same time he sought to browbeat Spanish ministers into accepting proposals for which there was no majority in either the cabinet or the Cortes, largely because the conservative government at Madrid sought to increase duties against British imports even further.⁵²

Morier's talks broke down in 1882, and divisions gradually emerged in the Gladstone administration. The Prime Minister, supported by Granville, toyed with the idea of a public declaration abjuring commercial treaties altogether. Dilke, promoted to Cabinet rank as President of the Local Government Board in December 1882, opposed such 'a general or abstract declaration' in favour of unilateralism: 'My opinion was backed

by Childers. No-one else said anything. The proposed declaration was a gratuitous piece of folly, for we are not called on to say anything.’⁵³

In the hiatus that followed, Dilke’s successor at the Foreign Office, Lord Edmond Fitzmaurice, took the initiative. At his request, Kennedy prepared a lengthy memorandum on Britain’s foreign trade, which had been damaged, the senior clerk argued, by the collapse of the commercial treaty system in the second half of the 1870s, a development in which the British Government had mistakenly acquiesced. The various tariffs, and more particularly specific—as opposed to *ad valorem*—duties, introduced since were meant to protect ‘the manufacturers and trade of continental nations’ against ‘the heavy and cheap goods manufactured in England in a manner which becomes, in fact, a differential charge against them’. In response, Kennedy suggested that London increase wine duties by some considerable margin in order to secure new commercial treaties with most-favoured-nation guarantees.⁵⁴ Granville was not for turning. For all the clarity of Kennedy’s argument, ‘the conclusions go much further in favour of negotiating tariff treaties than I am inclined to admit. The negotiations in/60 were justifiable on account of the exceptional circumstances and opportunities.’⁵⁵ Neither Gladstone nor he, the Ambassador at Paris was told, ‘wish[ed] for negotiations of tariff treaties’.⁵⁶

Negotiations there nevertheless were. A liberal Spanish government, committed to free trade, came into office in the autumn of 1883; and Morier’s talks resumed, though the precise readjustment of wine duties caused some headache in London ‘from a fiscal point of view’.⁵⁷ The envoy found himself bound by what he mistakenly considered the chancellor’s insistence on inserting ‘the details of the alcoholic scale arrangement’ in one of his notes addressed to the Spanish Government.⁵⁸ Fiscal considerations, in fact, meant that the talks would ultimately stall. At Madrid a broadly protectionist, conservative administration returned to power in the spring of 1884, and the treaty talks fell into abeyance. The Spanish ministers eventually offered a protocol, which would grant most-favoured-nation status to Britain in return for raising the 1s duty for fortified wines from 26 to 30 degrees. This fell well short of expectations—large parts of the Spanish colonial empire were exempt from the arrangement and there was further scope for Spain to re-introduce differential treatment—but the British Government agreed to it, and the protocol was signed on 21 December 1884.⁵⁹

For his part, Morier now pressed his government to go further by extending the lower 1s duty to 32 degrees, and he intimated to Spanish

ministers that his superiors in London were minded to consider such a move. The effect was explosive. In Whitehall, Morier had become a byword for long-windedness. But he was also something of a Balliol bruiser, ‘troublesome’ and with the habit of launching ill-tempered attacks on officials, such as Kennedy and Fitzmaurice, as the latter, usually sympathetic towards Morier, observed at the beginning of the latest round of talks.⁶⁰ His move in the question of the alcoholic scale now ran into the full-blown opposition of the chancellor and the Treasury. ‘Morier is really unpayable’, Childers complained: ‘What with his variety, his long-winded letters, and, what is worse, his blunders, he will get us ... into great trouble’, not least because of the significant loss of revenue to the Exchequer entailed in Morier’s suggestion of changes to the wine duty.⁶¹ Childers was determined ‘that we shall not be the Gov[ernmen]t which will break into all the trade principles of the last 40 years. Differential duties & restrictive Navigation Laws may return, but not I hope with our sanction’.⁶²

To complicate matters yet further, in April 1885, the Spaniards decided that they would not adhere to the December protocol after all unless London conceded further wine duty reductions. This was a considerable embarrassment to the Gladstone administration, both with a view to its public standing and public finances. These were strained already, with a possible military expedition to check the Russian incursion into Afghanistan at Penjdeh making considerable additional demands on Childers.⁶³ As he and Gladstone sought to finalize the budget, the premier was casting about for a way out of the treaty imbroglio. If wine duties were lowered, given the political strength of the brewing interest, it would be impossible for the government to raise taxes on beer and spirits. ‘[V]ery grave and formidable restraints’ would be placed on the fiscal capacity of the British state by the Spanish protocol: ‘All I can say is that if there is ever a power of retreat, nothing will be done to compromise it.’⁶⁴

Quite a different compromise emerged in the end, that of doing nothing. Childers was anxious to raise revenue, so much so that he threatened to resign from the government, even though the spectre of war with Russia had receded and with it the likelihood of additional demands on the Exchequer.⁶⁵ Other ministers objected to such a course on account of the depressed state of the economy. Thus, the duties were neither raised nor lowered, but the Spanish talks atrophied once more. It would take the better part of another year, and two changes of government in both countries, before an Anglo-Spanish trade convention was signed on 26 April 1886, almost a decade after Madrid had imposed import duties on certain

British goods. London secured most-favoured-nation treatment, due to expire on 30 June 1892, and no more.⁶⁶

The fraught history of the Spanish commercial treaty negotiations underscored Britain's limited power to secure comprehensive free trading arrangements with foreign powers. What Joseph Crowe called ‘the current of protectionism’ carried France and most other continental countries in the opposite direction.⁶⁷ Even countries in the lower flight of international politics, such as Mexico, proved difficult, progress in commercial talks there depending on the Mexican Government being ‘made to understand that without an arrangement with us, there is no probability of raising a loan’.⁶⁸ But the Spanish talks, and the internal debate they triggered in London, also underlined the undiminished strength of Gladstonian fiscal orthodoxy. Short-term revenue calculations thus prevailed, and the unilateral commitment to free trade remained in place.

It is true, shortly before leaving office in 1892, the Conservative Prime Minister Lord Salisbury flew a kite for retaliation unless reciprocal trading arrangements were agreed with foreign governments.⁶⁹ But it was a half-hearted exercise, and neither his Liberal successors nor he himself, on his return to office in 1895, ventured down that road. By then, the commercial leadership of Europe had passed to Germany, who under Bismarck's successor, Leo von Caprivi, had moved away from a protectionist tariff regime. This in itself, as Peter Marsh has argued, ‘only confirmed the British in their aversion to anything redolent of protectionism’.⁷⁰

Joseph Chamberlain's protectionist crusade did not fundamentally alter this fact. If anything it was a symptom of the deeper malaise of Edwardian conservatism; it did not change the ideological parameters within which the Foreign Office operated. Some senior officials were Tariff Reformers, most notably Sir Henry Bergne, Kennedy's successor as senior clerk of the Commercial Department (1895–1902), who was ‘an ardent protectionist’.⁷¹

Official policy remained wedded to the free trade consensus. Indeed, at the Foreign Office it was generally accepted that a liberal commercial regime had beneficial political consequences. In one of the less noted passages of his famous 1 January 1907 memorandum on the principles underpinning British foreign policy, Eyre Crowe, son of Joseph, the former commercial attaché at Berlin and Paris, touched on this aspect:

[N]ations have always cherished the right of free intercourse and trade in the world's markets, and in proportion as England champions the principles

of the largest measure of general freedom of commerce, she undoubtedly strengthens her hold on the international friendship of other nations, at least to the extent of making them feel less apprehensive of naval supremacy in the hands of a free trade England than they would in the face of a predominant protectionist Power. This is the aspect of the free trade question which is apt to be overlooked.⁷²

On the eve of the First World, Sir Edward Grey, reaffirmed the department's adherence to free trade principles. One of the aims of British foreign policy, he observed in a speech at Manchester, the old Cobdenite capital, in May 1914, was 'to keep the open door and to keep the markets open'. The principal object, however, was to 'keep the country in peace ... because we are penetrated by a sense of the waste of war and that to trade ... war in the world at all, whether we are engaged in it or not, must be a serious disadvantage'. Britain was 'a business country' and so abjured anything that might endanger peace and 'sink the ship of European prosperity and civilization'.⁷³

* * *

The same ideological parameters also shaped the institutional framework of British commercial diplomacy, which was centred on the Commercial Department of the Foreign Office. Throughout the period under examination here, the department's organizational form, the remit of its operations, and its strength of personnel were found to be wanting; and this made the Foreign Office as a whole the subject of much public criticism. Indeed, the department was the grit in the Foreign Office machinery. It had been established, in 1864 (with effect of 1 January 1865), following parliamentary pressure and in the teeth of robust opposition by its Permanent Under-Secretary (PUS), Edmund Hammond. He was more especially incensed by the 'useless and objectionable' ideas of Cobden to establish a 'Free Trade department', analogous with the existing Slave Trade Department, the largest on the Foreign Office establishment. The PUS wished to retain the existing powers of conducting commercial negotiations abroad, largely in the expectation that otherwise a Cobdenite Trojan horse would be pulled up inside the Office's walls.⁷⁴ Creating a new department, moreover, would 'weaken and impair the efficiency of the political divisions', he warned.⁷⁵

Hammond's fears were not at all baseless, given the Foreign Office's never entirely sufficient staffing levels and the Treasury's well-known reluctance to provide the necessary funds for additional personnel. His opposition, however, was to no avail. Earl Russell, the Foreign Secretary, bowed to the demands of parliamentarians by concentrating the commercial functions of the Foreign Office in a separate, specialist department, principally to ward off attempts to enlarge the powers of the Board of Trade.⁷⁶ The new department was responsible for all correspondence on commercial matters with British missions abroad and with foreign representatives in Britain, with the Board of Trade and other Whitehall departments, and with commercial associations and individual businessmen. Excluded from its remit were the commercial relations with East Asia, which were left in the care of the Far Eastern Department, one of the political divisions of the Office, until 1918. At the Foreign Office the new trade division was widely viewed as 'a kind of black hole', while Cobdenite reformers thought Russell's new creation wholly insufficient.⁷⁷ There could be no doubt, however, that trade matters had moved up the political agenda. Junior diplomats posted abroad, Granville emphasized in a departmental minute a few years later, had to cultivate contacts among 'the political, commercial, scientific or literary classes' at their post abroad. If they did not, they would be of no use to their chiefs nor were they 'fit ... for the higher posts of [their] profession'.⁷⁸

The new arrangements were, nevertheless, not entirely satisfactory, and so subject to repeated reconfigurations. Already in 1866, the department was merged with the Consular Department, a decision reversed again in 1872, when the Commercial Department was re-established as a separate division. It was now responsible for all matters connected with commercial treaties and tariffs, industrial questions and manufactures, railways and telegraphs, navigation and shipping questions, commercial laws and trade marks, as well as industrial exhibitions and inventions.⁷⁹ In 1882, it acquired additional responsibilities for sanitary affairs, primarily problems connected with cattle plague, quarantine regulations and the pilgrim traffic in the East, a constant source of epidemics. In 1894, responsibility for industrial property protection and copyright matters was transferred to it from the Treaty Department as part of a rearrangement of work between these two divisions and the Librarian's Department.⁸⁰ On the eve of the First World War, the Commercial Department's business covered 20 different areas of responsibility. An internal memorandum listed these in order of priority:

1. All commercial treaty negotiations, excepting those with China, Japan and Siam.
2. 'Defence and support of British commercial interests'.
3. Data collection on finances, trade and industries of foreign countries (– this included information on labour disputes).
4. Foreign tariffs in relation to British trade.
5. Editing diplomatic and consular reports for inclusion in the *Board of Trade Journal* and the *Labour Gazette*.
6. Supervision of commercial attachés and the commercial work of consuls.
7. International sanitary and quarantine questions.
8. International exhibitions and conferences on non-political subjects.
9. Telegraphs (cables and wireless), postal questions.
10. Emigration and immigration abroad.
11. Copyright, trade-marks, and protection of industrial property.
12. National insurance questions in foreign countries.
13. International fisheries questions.
14. Shipping and pilotage questions.
15. Aerial navigation questions.
16. International sugar legislation.
17. Correspondence relating to the Suez Canal.
18. The River Danube Commission.
19. International circulation of motor vehicles.
20. International protection of wild birds 'and their plumage'.⁸¹

The department's range of responsibilities, W.A.C. (later Sir Algernon) Law, its senior clerk, reminded the 1914 Royal Commission on the civil service, thus, 'cover[ed] practically the whole field of what is not political, or the work of the Consular Department, or the Treaty Department'.⁸²

The commercial division thus steadily expanded, both with regard to its departmental remit as well as its physical presence in the Foreign Office building.⁸³ And yet, there remained a central flaw in the organizational structure of commercial diplomacy: the separation of authority, located in the Foreign Office, from expertise, which was situated in the Board of Trade. While the former was responsible for all external relations connected with trade, specialists in matters related to commerce were employed by the latter, which had no direct influence on decision-making in commercial diplomacy. The Foreign Office usually took the initiative

in commercial treaty negotiations, but then consulted ‘the experts in this country, the chambers of commerce, and other people concerned’, Kennedy testified in 1890: ‘We prepare the draft of the treaty and then refer it to the Board of Trade, and ask for any observations which they may have to offer’.⁸⁴ In commercial matters, Sir Edward Grey’s Private Secretary, Sir William Tyrrell, reflected in 1914 ‘roughly speaking, we are to a large extent ... a post office; it is the Board of Trade who decide, and it is we who negotiate’.⁸⁵

Already in 1867, Morier had bemoaned that ‘no international commercial step can be taken otherwise than through the Foreign Office *and* the Board of Trade. Thus there is permanently established a *dualism* which [...] [is] absolutely fatal both to a fruit-bringing initiative and to an efficient executive.’ To remedy this structural fault, Morier’s ever fertile brain devised the scheme of a merger of Board of Trade and Foreign Office functions ‘in one strong Commercial Department *in the Foreign Office*, the body and soul now separate uniting ... in one intelligent and conscious being, and the Foreign Minister becoming in fact ... responsible ... for the commercial policy of the Empire’.⁸⁶

Morier was too junior for such ambitious schemes to have any chance of success. But the need for what he had called ‘an organic body in which the commercial soul of the country & its conscience should reside’ inside the Foreign Office was not lost on others. Odo Russell, who during a brief spell as AUS in 1870–1 had supervised the work of the Commercial Department, was anxious to strengthen that side of the Foreign Office. He took ‘a very broad and very optimistic view of the future of our Consular service which I believe to be a more powerful engine for international cooperation and wealth, than Armies and Armstrongs. Diplomacy, political & consular, is to my mind as much in its infancy as ordnance & Ironclads were in the days of Wellington & Nelson’. Properly established and financed, a consular service might become an engine of international commercial diplomacy: ‘we might appoint first-rate capacities who would propagate [our] own ideas, experiences, customs and wisdom all over the world and we should reap thousands of gold benefits in return’.⁸⁷

Treasury parsimony, however, remained a hindrance to developing a broader strategy that encompassed Britain’s international commercial interests. There was a half-hearted attempt, initiated by Chamberlain in 1881, and supported by Dilke and Fitzmaurice, to create a separate ministry of commerce. The scheme had implications for the Foreign Office, too, as Dilke outlined at the end of 1882. Although the merits of such

a move were finely balanced, he suggested that the existing Commercial Department should be transferred ‘some day to the Board of Trade.... I fancy the Tories will do it, if we don’t’.⁸⁸ The existing Board of Trade would then be abolished by an Act of Parliament, to be replaced by a new board, ‘making the [head?] of the Commercial Department of the Foreign Office & the [Parliamentary] Under Secretary of State or Assistant Under Secretary for the time being the Commercial dipl[omatic] member of the Board’.⁸⁹ Fitzmaurice pursued the matter further, and touted Kennedy as the permanent head of the new ministry.⁹⁰

Ultimately, bureaucratic inertia and the Gladstone Government’s diverse domestic difficulties conspired against the project; nor did, *pace* Dilke, the Conservatives take it up later. The dualist status quo persisted, and with it the potential for inter-departmental friction. In 1897, for instance, a minor Whitehall turf-war erupted over Board of Trade plans to despatch commissioners abroad to investigate the causes of Britain’s declining share of overseas markets. It required the intervention of Lord Salisbury, in his dual role as Prime Minister and Foreign Secretary, to settle the dispute between his Parliamentary Under-Secretary, George Nathaniel Curzon, and the President of the Board of Trade, C.T. (later Sir Charles) Ritchie. Although the matter should have remained in the hands of the Foreign Office ‘according to precedent’, Salisbury decided otherwise, ‘especially as the Commercial Department have only existed some thirty years’.⁹¹

The separation of authority and expertise, thus, remained entrenched. There was periodic parliamentary pressure to strengthen the Commercial Department so ‘as to hasten its procedure, to give it control without any avoidable circumlocution of proceedings ... and to put it at least on a par with the up to date commercial departments ... of the Ministries of Foreign Affairs in Paris, Berlin and St. Petersburg’.⁹² It was the growth of foreign competition that gave an added impetus to such demands in the last two decades before 1914. Britain’s commercial diplomacy required ‘better central organisation’, averred the Radical MP Sir James Yoxall (Nottingham W., 1895–1918): ‘Why is there a “commercial and sanitary department” in the Foreign Office? It is like the connection between shipping and divorce in the Law Courts. *Why cannot we have a “Department of Foreign Commerce” at the Board of Trade, responsible for our Consular commercial efforts abroad?*’⁹³

Such representations were to no avail, however, and the Victorian arrangement lasted until the First World War. If its organizational frame-

work hampered commercial diplomacy, then so did the small size of the contemporary British state. In evidence to the 1890 Royal Commission, Sir Philip Currie, the PUS, described the Commercial Department as ‘a large department, but it is rather a mixed department; it has some clerks on the diplomatic establishment, it has one on what we call the supplementary establishment, and it has two lower division clerks’.⁹⁴

This ‘large department’, in fact, consisted of one senior and six junior clerks, superintended by the Parliamentary Under-Secretary; and after 1906 it usually had only five clerks.⁹⁵ There were never enough staff for the department to function efficiently. In 1882, for instance, the Exchequer refused to sanction the employment of a permanent registrar in the Commercial Department. The business of this division, the PUS informed the Permanent Secretary of the Treasury was ‘to a great extent technical and for its efficient discharge requires accurate knowledge of the subjects and ready access to papers bearing upon them’. The Treasury did not budge,⁹⁶ and in 1890, Kennedy informed the somewhat nonplussed Royal Commissioners that one of his clerks, Willoughby Maycock, had undertaken the task of indexing departmental correspondence voluntarily and out of office hours as the size of the arrears was such that they could not be dealt with during normal business hours. ‘That is a fault of organisation’, Kennedy emphasized.⁹⁷

That such faults could not be remedied was also rooted in the Commercial Department’s lack of standing and authority in the Foreign Office’s internal hierarchy. As previously noted, its work was supervised by the Parliamentary Under-Secretary, whose political role had been usurped by the PUS over time until he had been completely extruded from all serious political business.⁹⁸ In general, the parliamentary under-secretaries of this period were mediocre creatures. For most, their heart was in domestic politics, and they accepted the post only reluctantly, though perhaps most did so a little more enthusiastically than F.D. (later Sir Francis) Acland, Grey’s last peace-time under-secretary: ‘Damn, damn & ten thousand damns’.⁹⁹ Only two, Curzon and Sir Edward Grey, would later become Foreign Secretary themselves. Dilke might have reached greater heights, had his complicated private life not ruined what had until then been a promising career; ideological divisions in Liberal ranks wrecked that of the polymath A.H. (afterwards Sir Henry) Layard; Fitzmaurice was too isolated and gauche a figure to attain more than a sinecure under Asquith, while the career of Earl Percy, whose deep knowledge of Eastern affairs stood Lansdowne in good stead between 1903 and 1905,¹⁰⁰ was cut short by his

premature death in 1909. Some—the intellectually brilliant James (later Viscount) Bryce and St. John Brodrick (afterwards Earl of Midleton)—attained senior Cabinet rank. But for the most part the appointees to the parliamentary under-secretaryship were to be found amongst the Tapers and Tadpoles of the two parties rather than their likely future leaders.

While Dilke, Fitzmaurice, Curzon and, to some extent, Bryce took an active interest in this side of diplomacy, most other Parliamentary Under-Secretaries did not. The Hon. Robert Bourke (later Lord Connemara), a practising QC who had two spells as Salisbury's understudy in the Commons, was 'so hopeless', Morier fulminated, 'that he refuses to entertain commerce as a matter wh[ich] concerned him & !!! he wouldn't recover from his astonishment when I told him that I was H.M. Ambassador at Petersburg'.¹⁰¹ Fergusson, of 'saddle and *savoir faire*' fame, regarded his position as running the sort of post office of which Grey's private secretary spoke in 1914. Perhaps appropriately, Fergusson, whom a contemporary wit lampooned as 'not quite Bismarck', soon reached the apogee of his career as Postmaster-General.¹⁰² Nor was his successor, the Hon. James Lowther (later Viscount Ullswater), much of an improvement. When, for instance, a Birmingham bicycle-maker enquired about French import duties, he referred the matter to an interdepartmental committee and told the Midlands manufacturer that there was a strong feeling in favour of protectionism in France.¹⁰³ It is true, Grey's choice of successor to Fitzmaurice in 1909 fell on Thomas McKinnon Wood, a mildly prosperous London-Scottish, Radical businessman, not least to ward off complaints of official policy 'for its lethargy to the commercial interests of the country' and to demonstrate that the Foreign Office was 'not neglectful of [its] duty to British trade'.¹⁰⁴ Even so, Wood's two-year spell at the Foreign Office did not mark a new departure in official policy.

Understaffing and a heavy parliamentary workload made it difficult for political under-secretaries to provide meaningful leadership to commercial diplomacy. When offered the post in 1898 in succession to Curzon, St. John Brodrick was reluctant to accept it. The work involved, he noted, had 'really outgrown the power of a single man to cope with [it]'. Of his two immediate predecessors, Grey had been 'at snapping point in 1895', and 'Curzon has completely broken down for the moment'. Supervising the Commercial Department had 'pressed on him [Curzon] severely'. To lighten the burden, Brodrick suggested the appointment of 'a second M.P. [as] Commercial Sec[retary]'.¹⁰⁵ Such innovation was a step too far for Salisbury:

The commercial work [of the Foreign Office] has nothing in it of diplomacy and very little of policy; for our principles of fiscal and commercial policy are laid down for us and will endure no alteration in most cases. The commercial work, therefore, becomes more detail; if the word may be used without offence, in a considerable number of cases, it is drudgery.¹⁰⁶

Brodrick’s predecessor gave pertinent advice on how to discharge his official duties at the Foreign Office. Apart from seeking to establish good terms with the PUS and the two AUSs—and from being ‘on guard v[ersus the] Treasury’ –, in so far as his commercial duties were concerned, he identified three key aspects:

1. Bergne [senior clerk of the Commercial Department]
2. Friends with Roths[chilts] & Chambers of C[ommerce]
3. Dine & visit.¹⁰⁷

Curzon’s advice was sound. For, certainly, tensions with the permanent officials had the potential of further complicating departmental business. Dilke, for instance, threw himself with gusto into ‘the ordinary commercial work. [Sir Thomas] Villiers Lister [the AUS] very angry’.¹⁰⁸ Of the heads of the Commercial Department, its longest serving senior clerk, C.M. Kennedy, was intellectually the most impressive and administratively the most experienced. Indeed, he owed his promotion to the senior clerkship to his having ‘devoted particular attention to political economy for which he obtained distinction at University’.¹⁰⁹ During his brief spell as AUS, Odo Russell, found his advice invaluable: ‘Kennedy is teaching me my new duties in the kindest manner—and without him I sh[oul]d have broken down 20 times a day for my experiences are all foreign’.¹¹⁰ The senior clerk had cut his diplomatic teeth in the commercial treaty negotiations at Paris in 1872, and ‘one could not have a better man than Kennedy’, the ambassador there observed.¹¹¹

Yet whilst his comprehensive knowledge of commercial matters was widely acknowledged, he was not universally admired. His memoranda, noted his immediate superior T.V. Lister, were ‘written “ad majorem Kennedei gloriam”, and contain[ed] ... many words and few practical ideas’. Indeed, his September 1875 memorandum on commercial treaties generated ‘rather a brisk corresp[onden]ce ... between K[ennedy] & Tenterden’, the PUS, ‘in wh[ich] the latter has expressed himself with more than usual plainness of speech’.¹¹² He won himself few friends by

pushing for a ‘more marked’ recognition of his official position.¹¹³ This counted against him when, in 1882, a successor was sought for Tenterden. Kennedy, noted the Foreign Secretary, ‘is a very clever man, but he has a bad manner, & I believe no great authority over subordinates. He has become something of a specialist’; and in consequence an ordinary knighthood was bestowed on him, the notion of an at least terminological elevation to ‘Superintendent’ or ‘Director’ of the Commercial Department having been discarded on account of anticipated Treasury opposition.¹¹⁴ Fitzmaurice even sought to persuade a Liberal-leaning newspaper editor to ‘say something complimentary about Kennedy, ... one of the numerous and honourable class of Civil Servants whose labours seldom obtain adequate recognition’.¹¹⁵ This was, perhaps, a little more than Kennedy deserved, as Fitzmaurice himself noted: ‘Jealousy is indeed Kennedy’s great failing, notwithstanding his many excellent qualities. He has made himself innumerable enemies through it.’¹¹⁶

The two senior clerks who followed Kennedy before 1914 lacked their predecessor’s intellectual lustre, but had none of his personal failings. Both, Sir Henry Bergne and Sir Algernon Law were ‘most capable and efficient official[s]’ of ‘marked ability’ (Bergne) and ‘very capable and efficient ... —urbane and courteous, a model of the best kind of public official’ (Law).¹¹⁷ Even so, the intellectual quality below the rank of senior clerk was unimpressive, much to Fitzmaurice’s chagrin during his first spell at the Foreign Office: ‘the second in command of the Commercial Department—Owen—is a perfect “crétin”’.¹¹⁸ Certainly, the prospects of advancement were better in the mainstream, political departments. In 1889, for instance, Joseph William Warburton, an old commercial hand, sought promotion to the vacant senior clerkship of the Eastern Department, only to lose out to the young Francis Bertie.¹¹⁹

An important role in commercial diplomacy, outside the Foreign Office, was played by the commercial attachés. As seen earlier, the first appointment to this position, that of Joseph Crowe, had met with fierce internal opposition. Indeed, until the appointment of E.F. Law (no relation of Algernon Law), Crowe was the only commercial attaché in the service, residing alternately in Paris and Berlin but with a remit that covered all of Europe. Law was employed in 1887 because ‘there were a great many commercial questions arising [in Russia, Persia and Turkey] where special knowledge was required’.¹²⁰ Thereafter Crowe and Law effectively divided Europe between them. The 1890 Royal Commission still judged the arrangement to be ‘amply justified’,¹²¹ but by 1914 the

number of commercial attachés had proliferated to eight. Five of them resided abroad at Constantinople (Ernest Weakley), Frankfurt (Sir Francis Oppenheimer), Paris (Sir Austin Lee), Peking (William Pollock Ker) and Tokyo (Edward T.F. Crowe—no relation to the other two Crowes), and three were headquartered in London but had roving commissions for Austria, Italy and Greece (Andrew Percy Bennett), Spain, Portugal and Morocco (Lord Herbert Hervey), and Russia (Henry Arthur Cooke). Indeed, the Foreign Office acted on the assumption that it was ‘unnecessary to define rigidly the districts to be covered by each Commercial Attaché who might be directed to travel in any country with whose language he was acquainted’.¹²² In general, it was expected that the attachés were also ‘available for visiting places to collect local commercial information, or to inquire into complaints or trade disputes’.¹²³

Of the pre-1914 commercial attachés, Crowe, Law and Oppenheimer were by far the most impressive and significant. More importantly, their work extended beyond strictly commercial matters. At St Petersburg, Law kept a weather eye on railway projects in the Ottoman Empire, whose strategic, if not commercial, importance he understood.¹²⁴ He also used his extensive contacts in the City of London to secure, with the concurrence of the Foreign Office, for the Russian Government depositing facilities with the Bank of England which formed the principal means for St Petersburg of remitting abroad.¹²⁵ It helped to stabilize Russian state finances, and also smoothed Anglo-Russian relations.

Sir Joseph Crowe, as Philip Currie testified to the 1890 Royal Commission, was ‘a man of very high attainments’.¹²⁶ Something of a Renaissance man, who had turned his hand to art history and war reporting with equal success, he had served as consul at Leipzig and Düsseldorf before being appointed commercial attaché at Berlin in 1880 and then Paris in 1882. Well connected in German liberal circles, he won the confidence of his seniors at the Foreign Office as a recognized authority on commercial matters. He was, Dilke minuted, ‘a great man in his way who was never given his proper place—because of his German wife’.¹²⁷ Even so, senior diplomats acknowledged him as a ‘most able public servant—extremely intelligent’.¹²⁸ ‘You can’, observed Odo Russell, ‘accept his statements as correct and founded on reliable sources.’¹²⁹ What made Crowe’s information all the more useful was his ability to connect commercial intelligence to political developments. He was, for instance, the only diplomat to warn of the imminent dismissal of Bismarck’s successor, Caprivi.¹³⁰

The commercial reporting of the British-born but German-educated Oppenheimer was of a similar kind to Crowe's. As an unsalaried consul at Frankfurt, 'his brilliant reports' attracted the attention of Eyre Crowe and Algernon Law, and eventually he was promoted to commercial attaché.¹³¹ Indeed, his despatches and memoranda on pre-war German commerce and finance were crammed with statistical data; they were also 'by far the most intelligent reports' on the subject.¹³² The concluding paragraph of Oppenheimer's 1912 memorandum on German war finance had an almost prophetic quality:

[A] war well prepared and suddenly begun is half won. It is essential that the British Government be equally well prepared for that purpose it must be assisted by a financial ... board appointed to devise its financial mobilization; such financial mobilization must afterwards be kept similarly up to date and in readiness for any emergency; if it is needed at all it will be suddenly needed.¹³³

Oppenheimer's warning went unheeded, but his memoranda, and those of Joseph Crowe and other commercial attachés, underlined the potential strategic value of commercial reporting for British foreign policy.¹³⁴ That their effect all too often fell short of that potential was a reflection more of the bureaucratic dynamics in and short-term priorities of Whitehall than of their intrinsic value. H.A. (afterwards Sir Austin) Lee, who succeeded Joseph Crowe at Paris in 1896, had emphasized 'the necessity of giving the Commercial Attaché a strong position here, if he is to have any authority & be able to protect efficiently British commercial interests'.¹³⁵ What mattered far more, however, was the attachés' standing in Whitehall and the appreciation of the value of their work by senior officials.

'[T]rade matters are neither very interesting nor easy to be understood', noted Edmund Hammond, the PUS, in 1872.¹³⁶ His comment reflected not so much a snobbish disdain for the grubbier aspects of modern international relations than the Office's professional priorities. Commercial questions mattered if they related to broader concerns of diplomatic and military strategy. This was a point also made by Kennedy before the 1890 Royal Commission: 'It is really necessary that men who have to initiate and to conduct the business of the commercial department should have had what might be called a broad education. Many of the questions with which we have to deal are ... quite as important as political questions, and you must have men who can form an opinion as to the general bearing and effect of anything that may be done.'¹³⁷

Their ‘general bearing’ on broader issues, the Foreign Office’s principal priorities, that gave commercial questions their significance. This was more especially the case in the imperial periphery. In Persia, given the country’s geographical proximity to India and Britain’s principal imperial rival Russia, British policy had to be guided by political and financial considerations, as Curzon, by now elevated to the Indian viceroyalty, noted in 1899.¹³⁸ To an extent this explains the significance accorded to railway projects in Turkey, Persia or China. Two considerations came together here. On the one hand there were commercial considerations. As the British economy became more dependent on investments abroad, so overseas railway schemes were shunted into the foreground. By 1913, some 41 per cent of all overseas investments were in foreign and colonial railways.¹³⁹ But in the age of increasingly fast locomotion, railways had also acquired a strategic significance. In East Asia, following the Sino-Japanese War of 1894–5, there was the danger of a “race to China”, as a senior Government of India official noted as French and Russian capitalists lined up to build railway lines to and in China.¹⁴⁰ Indeed, here and elsewhere, such as in Persia, observed Viscount Cranborne, Salisbury’s son and heir and Parliamentary Under-Secretary from 1900 to 1903, considerations of imperial defence were paramount: ‘Issues of trade and prestige are not essential’.¹⁴¹

This did not mean that commercial aspects could be ignored, as the protracted history of the Euphrates Valley (or Baghdad) Railway demonstrated. First mooted in the 1850s, after several false starts it gradually gathered steam. Initially, this entailed warding off Russian attempts to spread Russian influence in Turkey-in-Asia along Russian-built railway tracks, possibly in conjunction with German bankers since London-based finance houses had lost interest in railways in Asia Minor.¹⁴² Later, as German policy became more assertive in the region and Anglo-German relations deteriorated British railway diplomacy had a poise against Germany until the two sides settled their differences in the matter on the eve of the war.¹⁴³ But whatever the disruptions and diversions along the route to the final settlement, caused by disputes over differential rates or planned branch lines, a number of considerations guided British policy throughout. The first of these was the pragmatic acceptance that, whilst a railway opening up the Euphrates Valley to international commerce with an onward connection to the Persian Gulf was not to Britain’s advantage, such a line would one day be built. To contain the spread of ‘rival interests in Mesopotamia’, it was vital to protect British strategic interests in the

region 'by a firm policy on both shores of the Persian Gulf, by a proper police of its waters, and by allowing no other Power to obtain an outlet in that sea'.¹⁴⁴ Foreign policy, and perhaps commercial diplomacy especially, required 'act[ing] upon probabilities and indeed upon possibilities', as Cranborne observed. Keeping aloof from this railway project risked 'seeing British Trade shut out from Asia Minor and the Euphrates across to the Persian Gulf escaping through a port not under our control'.¹⁴⁵ Grey underscored the twin, strategic-commercial objectives of British policy in 1911. The railway and its branches had to be built 'as arteries of trade, ... just as open to Britain as to any other country'; and secondly, there could not be 'in the hands of another Power a fortified position on the Persian Gulf which might be used on the flank of our communications with India'.¹⁴⁶

This form of selective intervention also characterized official attitudes towards foreign loans. Earlier in the nineteenth century, there had been a series of government-guaranteed loans. The most notable was that to the Ottoman Empire during the Crimean War and those issued to Greece, which meant that Britain became part of the international financial control regime established to supervise Greek debt repayments out of revenues hypothecated for that purpose.¹⁴⁷ But these were cases in which a genuine, strategic national interest existed. As a general rule, as Tenterden observed in 1876, 'it ha[d] always been the policy of the British Government to avoid any official interference in Foreign Loans and Financial arrangements'.¹⁴⁸ London, Earl Percy affirmed in 1904, had 'deliberately adopted an attitude of *laissez-faire*', and declined to offer government credit in support of financial or commercial undertakings abroad.¹⁴⁹

All too often such official abstention meant that foreign loans, more especially loans tied to specific commercial projects, were issued by powers with deeper pockets or a less developed sense of *laissez-faire*. The Russian Government was particularly well placed to take advantage of this situation in Central and East Asia. Here, '[t]ime is on their side. The surrounding states are ripening; and it would give the bear indigestion if he was to shake the tree.' Loans, issued by Russian banks and backed by St Petersburg, was thus a means of preventing the spread of non-Russian influence and of reformist ideas until the rotten fruits fell into the bear's lap.¹⁵⁰ At the same time, official aloofness from financial enterprise in overseas was never absolute. There was considerable scope for the

‘men on the spot’ to act in support of British commercial interests. With a view to preventing Chinese railway lines from falling into the hands of Franco-Russian financiers, for instance, Sir Claude MacDonald, pressed the Hong Kong and Shanghai Banking Corporation swiftly to conclude a loan requested by the Chinese Government. In London, Salisbury made supportive noises in the knowledge that ‘reliable syndicate[s]’ of ‘patriotic capitalists’ were a useful tool for furthering and protecting British interests in the Chinese empire.¹⁵¹

British commercial diplomacy towards the end of the long nineteenth century was significant, varied and not at all ineffective. However much Radicals might have suggested otherwise, the Foreign Office did not regard ‘commerce much as the Homeric heroes or the Samurai of Japan used to regard it’.¹⁵² Even so, it cannot be argued that efforts in support of commerce overseas were as effective as they might have been. The prevailing fiscal orthodoxy, with its laissez-faire bias, meant that the concept of a more interventionist approach never materialized anywhere other than along the fringes of contemporary political discourse. To that extent, the ideological precepts of the high-Victorian and Edwardian periods shaped and constrained the manner in which commercial diplomacy was conceptualized and executed. Finally, Gladstonian fiscal orthodoxy, with its preference for the small state, also meant that lack of personnel further hampered the efforts of the Foreign Office and Diplomatic Service. Bureaucratic turf wars and the internal dynamics of the Office further complicated commercial diplomacy.

These limitations reflected also the established, general principles of British foreign policy, which prescribed limited, diplomatic interventions abroad and the eschewing of binding commitments to other countries. They thus reinforced the Foreign Office’s established professional priorities. Commercial diplomacy was the younger sibling of foreign policy, appreciated but a little neglected; trade mattered if it was seen to have a ‘general bearing’ on broader issues. Here, as in so much else, the convulsions caused by the First World War were to bring change. In its achievements and its limitations alike, then, British commercial diplomacy reflected the nature of the contemporary British state.

NOTES

1. D. C. M. Platt, *Finance, Trade, and Politics in British Foreign Policy, 1815–1914* (Oxford: Clarendon, 1968). For an earlier case see V. J. Puryear, *International Economics and Diplomacy in the Near East: A Study of British Commercial Policy in the Levant, 1834–1853* (Stanford, CA: Stanford University Press, 1935); for later works see J. W. T. Gaston, ‘Policy Making and Free-Trade Diplomacy: Britain’s Commercial Relations with Western Europe, 1869–1886’ (Ph.D. thesis, University of Saskatchewan, 1975) and E. W. Edwards, *British Diplomacy and Finance in China, 1895–1914* (Oxford: Clarendon, 1987).
2. J. Gallagher and R. Robinson, ‘The Imperialism of Free Trade’, *EcHR*, 2nd ser. 6/1 (1953–4): 1–15; J. Stengers, ‘L’imperialisme colonial de la fin du XIX^e siècle: Mythe ou réalité?’, *JAfH*, 3/3 (1962): 469–91; E. Stokes, ‘Late Nineteenth-Century Colonial Expansion and the Attack on the Theory of Economic Imperialism: A Case of Mistaken Identity’, *HJ*, 12/2 (1969): 285–301; Platt, ‘The National Economy and British Imperial Expansion before 1914’, *JICH*, 2/1 (1973): 3–14; D. McLean, ‘Finance and “Informal Empire” before the First World War’, *EcHR*, 2nd ser. 29/2 (1976): 291–305; A. N. Porter, “‘Gentlemanly Capitalism’ and Empire: The British Experience since 1750’, *JICH*, 18/2 (1990): 265–94; A. Offer, ‘The British Empire, 1870–1914: A Waste of Money?’, *EcHR*, 2nd ser. 46/2 (1993): 215–38.
3. Exemplary P. M. Kennedy, *The Realities behind Diplomacy: Background Influences on British External Policy, 1865–1980* (Allen & Unwin, 1981).
4. A. C. Howe, *Free Trade and Liberal England, 1846–1946* (Oxford: Oxford University Press, 1997); Gaston, ‘The Free Trade Diplomacy Debate and the Victorian Common Market Initiative’, *CJH*, 13/1 (1979): 59–82; P. T. Marsh, *Bargaining on Europe: Britain and the First Common Market, 1860–1892* (New Haven, CT: Yale University Press, 1999), and, though from an international relations perspective, R. Pahre, *Politics and Trade Cooperation in the Nineteenth Century: The “Agreeable Customs” of 1815–1914* (Cambridge: Cambridge University Press, 2008).
5. As quoted by F. W. Hirst, editor of *The Economist*, in his evidence to the 1914 Royal Commission, *Royal Commission on the Civil Service:*

Appendix to the Fifth Report of the Commissioners, Minutes of Evidence, 29th April 1914 – 16th July 1914 (Cd. 7749) (1914), Q. 40579.

6. Platt, *Foreign Policy*, xx.
7. Lister to Russell (private), 14 April 1879, FO 918/49, Amptthill MSS; for the proposal see Russell to Salisbury (private), 2 March 1879, 3M/A/9/36, Salisbury MSS, Hatfield House. Lister and Russell were distant relatives, the former a nephew of Lord Clarendon, the former Foreign Secretary, the latter his son-in-law; for further details on the eventual appointment of J. A. Crowe, see Gaston, ‘Trade and the Late Victorian Foreign Office’, *IHR*, 4/3 (1982): 332–5.
8. Salisbury to Russell, ? September 1879, as quoted in Lady G. Cecil, *Life of Robert, Marquis of Salisbury* (4 vols, Hodder and Stoughton, 1921–32), vol. 3, p. 216.
9. Min. Fergusson, 31 May 1890, on White to Salisbury (no. 40, confidential), 26 May 1890, FO 78/4281; see also T. G. Otte, *The Foreign Office Mind: The Making of British Foreign Policy, 1865–1914* (Cambridge: Cambridge University Press, 2011), pp. 7–8.
10. Sir T. Morison and G. T. Hutchinson, *The Life of Sir Edward FitzGerald Law, KCSI, KCMG* (Edinburgh: Blackwood, 1911), p. 165.
11. Rumbold to father, 14 August 1913, Ms. Rumbold dep. 16, Rumbold MSS, Bodl. His official reason for declining the offer was concern for the health of his wife and children. For a more nuanced view, see Platt, *Latin America and British Trade, 1806–1914* (Adam and Charles Black, 1972), pp. 115–8 and 272–3.
12. Morison and Hutchinson, *Life of Law*, p. 104. For an instructive case study see A. N. Porter, ‘Lord Salisbury, Foreign Policy and Domestic Finance, 1860–1900’, in R. Blake and H. Cecil (eds), *Salisbury: The Man and His Policies* (Macmillan, 1987), pp. 148–84.
13. Pitt speech, House of Commons, 6 March 1739, anon., *The Speeches of the Right Honourable the Earl of Chatham in the Houses of Lords and Commons: With a Biographical Memoir and Introduction and Explanatory Notes to the Speeches* (new ed. 1848), p. 6; for the background see H. W. V. Temperley, ‘The Causes of the War of Jenkins’ Ear’, *TRHS*, 3rd ser iii (1909): 197–236.
14. P. Brown, *The Chathamites: A Study in the Relationship between Personalities and Ideas in the Second Half of the Eighteenth Century* (Macmillan, 1969), pp. 90–4 and 106; Lord [E.] Fitzmaurice, *Life*

- of William, Earl of Shelburne, afterwards First Marquess of Lansdowne (2 vols, Macmillan, 1912), vol. 2, p. 14. Instructive also A. N. Ryan, 'The Defence of British Trade in the Baltic, 1808–1813', *EcHR*, 2nd ser. 12/3 (1959): 443–66.
15. Memo. Granville, 12 January 1852, H. Temperley and L. M. Penson (eds), *Foundations of British Foreign Policy, 1792–1902* (Cambridge: Cambridge University Press, 1938), no. 47; H. Temperley, 'Lord Granville's Memorandum on Foreign Affairs, 1852', *CHJ*, 2/2 (1928): 298–301.
 16. W. G. Beasley, 'Lord Malmesbury's Foreign Office Circular of 8 March 1858', *BIHR*, 23/2 (1950): 227.
 17. Gladstone to Otway, 16 January 1869, Add. MSS. 44418, Gladstone MSS, BL. In his inimitable style, Gladstone extrapolated from inconclusive data for there was no clear trend in the terms of trade until the onset of the 'Great Depression' in 1873–4, for details see A. H. Imlah, 'The Terms of Trade of the United Kingdom, 1798–1913', *JEH*, 10/2 (1950): 183.
 18. Memo. Kennedy, 'Treaties of Commerce with, and between, European Powers, with special reference to the Trade of the United Kingdom' (confidential), 17 September 1875, 920DER 16/2/10, Derby MSS, LRO (also in FO 881/2670).
 19. *Fourth Report of the Royal Commission Appointed to Inquire into the Civil Establishments of the Different Offices of State at Home and Abroad (1890)* (Cd. 6172) (1890), qq. 26982–3; for Currie's familial connections see K. Neilson and Otte, *The Permanent Under-secretary for Foreign Affairs, 1854–1946* (Routledge, 2009), pp. 78–9; on Glyn, Mills, Currie & Co., see R. Fulford, *Glyn's, 1753–1953: Six Generations in Lombard Street* (Macmillan, 1953).
 20. Sir J. Tilley and S. Gaselee, *The Foreign Office* (G. P. Putnam's, 1933), pp. 227–8; for further thoughts see Platt, *Foreign Policy*, pp. 85–7.
 21. See, for instance, the case of Augustus William Meyer who sought government backing for various railways projects in Turkey, O'Connor to Salisbury (no. 585), 8 November 1898, and min. Ardagh, 5 January 1899, FO 78/5102. Meyer was a convicted confidence trickster and fraudster, J. White, *London in the Nineteenth Century: "A Human Awful Wonder to God"* (New York: Cape, 2011), pp. 316–7.

22. Balfour to Salisbury, 30 August 1898, Add. MSS. 49691, Balfour MSS, BL; M. H. Wilgus, *Sir Claude MacDonald, the Open Door, and British Informal Empire in China, 1895–1900* (New York: Garland, 1987), pp. 92–4.
23. As quoted in W. O. Henderson, *The Rise of German Industrial Power, 1834–1914* (Temple Smith, 1975), p. 161.
24. The classic account remains H. Rosenberg, ‘The Social and Political Consequences of the Great Depression, 1873–96, in Central Europe’, *EcHR*, 2nd ser. xiii, 1/2 (1943): 58–73.
25. For some data see A. E. Musson, ‘British Industrial Growth during the “Great Depression” (1873–96): Some Comments’, *EcHR*, 2nd ser. 15/3 (1963): 529–33, but note that these estimations are based on raw material consumption and heavy industries and do not take into account ‘service’ trades; see also P. Deane and W. A. Cole, *British Economic Growth, 1688–1959: Trends and Structure* (Aldershot, repr. 1992), pp. 278–85. For further aspects of the debate see H. L. Beales, ‘The “Great Depression” in Industry and Trade’, in E. M. Carus-Wilson (ed.), *Essays on Economic History* (2 vols, repr. 1966), pp. 406–16 [1st published in 1934]; E. H. Phelps-Brown and S. J. Hadfield-Jones, ‘The Climacteric of the 1890s: A Study in the Expanding Economy’, *Oxford Economic Papers*, 4/3 (1952): 266–307; A. E. Musson, ‘The Great Depression in Britain, 1873–1896: A Reappraisal’, *JEH*, 19/22 (1959): 199–228; R. A. Church, *The Great Victorian Boom, 1850–1873* (Macmillan, 1975), pp. 71–5.
26. See S. B. Saul’s trenchant comment that ‘[t]he sooner the “Great Depression” is banished from the literature, the better’, id., *The Myth of the Great Depression* (Macmillan, 1969), p. 55; the classic exposition is W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge, 1960), pp. 9–10 and 59–72; for a useful synthesis see also P. Mathias, *The First Industrial Nation: An Economic History of Britain, 1700–1914* (Routledge, 2nd ed. repr. 1997), pp. 361–8.
27. See also *Final Report of the Royal Commission appointed to inquire into the Depression of Trade and Industry* (Cd. 4893) (1886).
28. A. J. Taylor, ‘The Coal Industry’, in D. H. Aldcroft (ed.), *The Development of British Industry and Foreign Competition, 1875–1914* (Allen & Unwin, 1968), pp. 43–7; P. L. Payne, ‘Iron

- and Steel Manufactures', in Aldcroft, pp. 71–5; D. S. Landes, *The Unbound Prometheus* (Cambridge, 1972), pp. 234–5.
29. W. Ashworth, *An Economic History of England, 1870–1939* (Methuen, 1960), pp. 34–5. To some extent this was off-set by the decline in import prices, see Imlah, 'Terms of Trade': 183.
 30. B. R. Mitchell and P. Deane, *Abstract of British Historical Statistics* (Cambridge, 1962), pp. 283–4; Imlah, *Economic Elements in the Pax Britannica: Studies in British Foreign Trade in the Nineteenth Century* (Cambridge, MA: Harvard University Press, 1958), p. 164; for the recovery see F. Crouzet, *The Victorian Economy* (Methuen, 1990), pp. 118–19.
 31. Imlah, *Pax Britannica*, p. 176. None of this affected the security of sterling or its position as the world's trading currency, however; for further thoughts on the growing importance of overseas investments for British financial houses, see P. L. Cottrell, *Industrial Finance, 1830–1914: The Finance and Organization of English Manufacturing Industry* (Methuen, 1980), pp. 240–4.
 32. Memo. Kennedy, 'Treaties of Commerce with, and between, European Powers, with special reference to the Trade of the United Kingdom' (confidential), 17 September 1875, 920DER 16/2/10, Derby MSS.
 33. Kennedy, 'Treaties of Commerce'; for the background see Marsh, *Bargaining on Europe*, pp. 89–103; and for the French and German cases see M. S. Smith, *Tariff Reform in France, 1860–1900: The Politics of Economic Interest* (Ithaca, NY: Cornell University Press, 1980), pp. 44–5, and I. Lambi, *Free Trade and Protection in Germany, 1864–1879* (Wiesbaden: Franz Steiner Verlag, 1963), pp. 63–70; H. Böhme, *Deutschlands Weg zur Grossmacht: Studien zum Verhältnis von Wirtschaft und Staat, 1848–1881* (Cologne: Kiepenheuer & Witsch, 1966).
 34. J. A. Crowe to Russell (private), 27 November 1876, FO 918/25, Ampthill MSS.
 35. J. A. Crowe to Dilke, 18 February 1882, Add. MSS. 43912, Dilke MSS, BL; for Crowe's negotiations at Paris, see Gaston, 'Free Trade Diplomacy', pp. 255–67. Parliamentary exigencies remained a constant constraint on the French Government, see Kennedy to Fergusson, 20 December 1886, FO 800/28, Fergusson MSS.
 36. Layard to Morier (private), 17 January 1866, box 33/5, Morier MSS, Balliol College, Oxford; for the Austrian treaty see Marsh,

- Bargaining*, pp. 49–52; see also S. W. Murray, ‘In Pursuit of a Mirage: Robert Morier’s Views of Liberal Nationalism and German Unification, 1853–1876’, *IHR*, 20/1 (1998): 33–67.
37. Morier to Lady Salisbury (private and confidential), ‘Guy Fawkes Day’ [5 November] 1867, box 33/6, Morier MSS (original emphasis); for McCulloch and international trade, see D. P. O’Brien, *The Classical Economists* (Oxford, 1975), pp. 171–2 and 191–205; for Morier’s role in the Austrian negotiations see [V.] Rosslyn Wemyss, *Memoirs and Letters of the Rt. Hon. Sir Robert Morier, GCB, 1826–1876* (2 vols, Edward Arnold, 1911), vol. 2, pp. 1–8; Murray, *Liberal Diplomacy and German Unification: The Early Career of Robert Morier* (Westport, CT: Praeger, 2000), pp. 167–98.
 38. Mallet to Russell (private), 20 August 1871, FO 918/54, Ampthill MSS.
 39. Foreign Office circular, 25 May 1881, Add. MSS. 43882, Dilke MSS; for the negotiations see Marsh, *Bargaining*, pp. 129–47.
 40. A. Ramm, *Sir Robert Morier: Envoy and Ambassador in the Age of Imperialism, 1876–1893* (Oxford: Clarendon, 1973), p. 169.
 41. Dilke to Granville, 16 October 1880 (copy), Add. MSS. 43878, Dilke MSS; for the trade balance with Germany see A. Mitchell, *The German Influence in France after 1870: The Formation of the French Republic* (Chapel Hill, NC: University of North Carolina Press, 1979), pp. 186–8; for some of the domestic political pressures see F. Goguel, *La politique des partis sous la III^e République* (Paris: Éditions du Seuil, 1946), pp. 55–60.
 42. Hansard, Third Series, *HC Debs*, Vol. 267 (24 March 1882), col. 1911; Marsh, *Bargaining*, pp. 146–7.
 43. Gladstone to Dilke, 4 January 1882, Add. MSS. 44545, Gladstone MSS. For Gladstone’s views on commercial treaties, see Gaston, ‘Free-Trade Diplomacy’, pp. 49–53. The depression in trade undoubtedly played a role in the Liberal election victory in 1880, see T. Lloyd, *The General Election of 1880* (Oxford: Oxford University Press, 1968), pp. 2 and 58.
 44. Dilke diary, 20 May 1881, Add. MSS. 43924, Dilke MSS; S. Gwynn and G. M. Tuckwell, *The Life of Sir Charles W. Dilke, Bart., MP* (2 vols, John Murray, 1917), vol. 1, pp. 348–56.
 45. Memorandum, Dilke, n.d. [c. 20 April 1882], Add. MSS. 43882, Dilke MSS; R. Jenkins, *Sir Charles Dilke: A Victorian Tragedy* (Collins, 1968 (pb.)), pp. 140–1.

46. 'Manifesto of the National Fair Trade League', 2 August 1881, as quoted in B. H. Brown, *The Tariff Reform Movement in Great Britain, 1881-1895* (New York: Columbia University Press, 1943), p. 27. Lord Salisbury, Foreign Secretary in the previous Tory administration, had hinted at protectionist measures in the run-up to the 1880 election, but his Manchester speech of October 1879 fell flat, see Lloyd, *General Election of 1880*, p. 49.
47. Chamberlain to Dilke, 23 April 1881, as quoted in Gaston, 'Free-Trade Diplomacy', p. 250; J. L. Garvin, *The Life of Joseph Chamberlain* (5 vols, Macmillan, 1932-51), vol. I, pp. 409-13.
48. Min. Granville, n.d. [16 January 1882], Add. MSS. 43880, Dilke MSS.
49. Gladstone to Dilke, 4 January 1882, Add. MSS. 44545, Gladstone MSS.
50. For instance, concerning Central African trade, while minister at Lisbon, Morier to Wylde (private), 12 September 1876, WYL/46/17, Wylde MSS, Special Collections, Durham University Library; see also Ramm, *Morier*, pp. 168-94.
51. For detailed discussions of the Madrid talks, see Gaston, 'Free-Trade Diplomacy', pp. 298-322, and Marsh, *Bargaining*, pp. 153-63.
52. Morier to Fitzmaurice (private), 23 July 1883, box 15/1, Morier MSS; see also Ramm, *Morier*, pp. 192-3.
53. Dilke diary, 5 March 1883, Add. MSS. 43925, Dilke MSS.
54. Memo. Kennedy, 'Treaties of Commerce with and between European Powers with especial reference to the trade of the United Kingdom', 30 March 1883, FO 881/4779; also Gaston, 'Free-Trade Diplomacy', p. 308.
55. Min. Granville, n.d. [c. 31 March 1883], EFm 19, Fitzmaurice MSS, Bowood House.
56. Granville to Lyons, 6 April 1883, PRO 30/29/203, Granville MSS.
57. Fitzmaurice to Morier, 23 September 1883, box 15/1, Morier MSS.
58. Fitzmaurice to Granville, 24 December 1883, EFm 19, Fitzmaurice MSS; also to Morier, 13 December 1883, box 15/1, Morier MSS.
59. For details see Gaston, 'Free-Trade Diplomacy', pp. 309-10.
60. Fitzmaurice to Granville, 1 January 1884, PRO 30/29/195, Granville MSS.

61. Childers to Fitzmaurice, 17 December 1884, EFm 10, Fitzmaurice MSS. The chancellor frequently complained of Morier’s ‘verbose & pompous despatches’ on the subject, same to same, 8 January 1885, EFm 10, Fitzmaurice MSS.
62. Childers to Fitzmaurice, 10 January 1885, EFm 10, Fitzmaurice MSS.
63. Granville took the threat of war seriously, see to Lyons (private), 7 April 1885, Lyons 183, Lyons MSS, West Sussex Record Office, Chichester.
64. Gladstone to Granville, 7 May 1885, A. Ramm (ed.), *The Political Correspondence of Mr. Gladstone and Lord Granville, 1876–1886* (2 vols, Oxford, 1962), vol. 2, no. 1649; Carlingford diary, 16 May 1885, A. B. Cooke and J. R. Vincent (eds), *Lord Carlingford’s Journal: Reflections of a Cabinet Minister* (Oxford: Clarendon Press, 1971), pp. 103–4.
65. Childers to Fitzmaurice (immediate and secret), 16 May 1885, EFm 10, Fitzmaurice MSS; A. B. Cooke and J. R. Vincent, *The Governing Passion: Cabinet Government and Party Politics in Britain, 1885–86* (Brighton: Harvester, 1974), pp. 235–7.
66. See Gaston, ‘Free-Trade Diplomacy’, p. 322; for the post-1892 sequel see Marsh, *Bargaining*, pp. 195–206.
67. J. A. Crowe to Fitzmaurice (private), 10 October 1884, EFm 1a, Fitzmaurice MSS.
68. St. John to Fitzmaurice, 28 January 1884, EFm 1c, Fitzmaurice MSS; A. J. Marrison, ‘Great Britain and Her Rivals in the Latin American Cotton Piece Goods Market, 1880–1914’, in B. M. Ratcliffe (ed.), *Great Britain and Her World, 1750–1914: Essays in Honour of W.O. Henderson* (Manchester: Manchester University Press, 1975), pp. 313–4.
69. Salisbury speech at Hastings, *The Times*, 18 May 1892.
70. Marsh, *Bargaining*, p. 173. This aversion was well-founded; for the paradoxical benefits see F. Crouzet, ‘Trade and Empire: The British Experience from the Establishment of Free Trade to the First World War’, in Ratcliffe (ed.), *Britain and Her World*, pp. 226–7; for the German commercial treaties see R. Weitowitz, *Deutsche Politik und Handelspolitik unter Reichskanzler Leo von Caprivi, 1890–1894* (Düsseldorf: Droste, 1978), pp. 65–147 and 204–299.
71. A. L. Mumm, *The Alpine Club Register, 1864–1876* (E. Arnold, 1925), p. 23. An expert on fisheries disputes, Bergne had accom-

- panied Chamberlain on his North American mission in 1887–8, see W. Maycock, *With Mr. Chamberlain in the United States and Canada, 1887–8* (Chatto & Windus, 1914), p. 5.
72. Memo. Crowe, 1 January 1907, G. P. Gooch and H. Temperley (eds), *British Documents on the Origins of the War, 1898–1914* (11 vols, HMSO, 1926–38), vol. 3, app. III, p. 403.
 73. Grey speech at Manchester, 3 May 1914, P. Knaplund (ed.), *Sir Edward Grey: Speeches on Foreign Affairs, 1904–1914* (Allen and Unwin, 1931), pp. 227, 228, and 233.
 74. Hammond to Layard, 10 and 15 July 1864, Add. MSS. 38952, Layard MSS, BL; *Report from the Select Committee on Trade with Foreign Nations with Minutes of Evidence 1864* (Cd. 493) VII (1864), qq. 1844 and 1897; Neilson and Otte, *Permanent Under-secretary*, pp. 12–13.
 75. Hammond to Russell, 29 July 1864, PRO 30/33/28, Russell MSS, TNA; for some further thoughts on the background see Platt, *Foreign Policy*, pp. 373–4.
 76. Min. Russell, 29 October 1864, FO 366/675.
 77. Layard to Hammond, 1 November 1864, Add. MSS. 38959, Layard MSS; Z. S. Steiner, *The Foreign Office and Foreign Policy, 1898–1914* (Cambridge: Cambridge University Press, 1969), pp. 6–7.
 78. Min. Granville, n.d. [July 1871], FO 83/362.
 79. Granville circular, 16 February 1872, FO 146/1611; *Report from the Select Committee on the Diplomatic and Consular Services 1872* (Cd. 314) VII (1872), qq. 2–5 and 2199.
 80. Min. Granville, 21 December 1882, FO 366/678; memo., ‘Establishment of the Foreign Office’, 10 May 1889, FO 97/505; *Fourth Report, 1890*, qq. 26690–2; min. Rosebery, 23 February 1894, FO 366/760.
 81. Memo., ‘Work of the Commercial Department’, 1 January 1914, FO 371/2127/27359.
 82. *Fifth Report, 1914: Minutes*, q. 37339.
 83. Min. Tilley, 10 October 1913, FO 366/761/46800, abolishing the African Department and redistributing its rooms.
 84. *Fourth Report, 1890*, q. 26829.
 85. *Fifth Report, 1914: Minutes*, q. 40893.
 86. Morier to Lady Salisbury (private and confidential), 5 November 1867, box 33/6, Morier MSS (original emphasis); see also the comments by Gaston, ‘Trade’: 321–2.

87. Russell to Wylde (private), 30 March 1872, WYL/36/1, Wylde MSS.
88. Dilke to Granville, 2 October 1882, Add. MSS. 43881, Dilke MSS.
89. Min. Dilke, 23 November 1882, Add. MSS. 44149, Gladstone MSS; for Chamberlain’s original suggestion see memo., Chamberlain, Minister of Agriculture and Commerce, 3 June 1881, CAB 37/5/12.
90. Fitzmaurice to Granville, 3 November 1883, PRO 30/29/195, Granville MSS.
91. Salisbury to Ritchie, 26 November 1897 (copy), FO 800/148, Curzon MSS. Tellingly, Salisbury argued that it would be useful to establish whether the decline was ‘due to causes over which we have no control: or whether it arises from the error of default of our own manufacturers and merchants’.
92. Parliamentary Question John Lowles (Con., Shoreditch, Haggerston), Hansard, Fourth Series, *HC Debs*, Vol. 64 (5 August 1898), col. 285.
93. Sir J. H. Yoxall, ‘Consular Reform’, *Daily News Yearbook 1910 (Formerly ‘The Reformers’ Yearbook’)* (s.a. 1909), pp. 50–1 (original emphasis). The suggestion to transfer responsibility for commercial consular activities chimed in with the anti-Foreign Office tendencies amongst Edwardian Radicals; see also anon., ‘Changes in the Organisation of the Foreign and Diplomatic Service’, *British Yearbook of International Law* i (1920–1), pp. 97–108.
94. *Fourth Report, 1890*, q. 26229; for the employment of second-division clerks see also Foreign Office min., 21 July 1886, FO 97/499.
95. See the annual editions of the *The Foreign Office List* for the period.
96. Tenterden to Lingens, 17 March 1882, and min. Lingens, 22 May 1882, T1/13229/5227.
97. *Fourth Report, 1890*, qq. 26700–2. Dealing with the arrears in indexing was a perennial problem for the Foreign Office, see memo. Villiers, ‘Registration and Indexing of MSS. in the Foreign Office’ (confidential), 10 November 1883, FO 881/5452.
98. See Neilson and Otte, *Permanent Under-secretary*, pp. 11–12, 37–8 and 68.
99. Acland to wife, n.d. [October 1911], G. Tregidga (ed.), *Killerton, Camborne and Westminster: The Political Correspondence of Sir Francis and Lady Acland, 1910–1929* (Exeter: Devon and Cornwall Record Society, 2006), p. 57.

100. Min. Percy, n.d. [c. 1903], EPP box 2/2, Percy MSS, Alnwick Castle.
101. Morier to de Bunsen, 30 August 1889, box 14, De Bunsen MSS, Bod.
102. Thus Sir Henry Lucy, parliamentary sketch for *Punch*, id., *A Diary of the Salisbury Parliament, 1886–1892* (Cassell, 1892), p. 152.
103. Lowther to Pinst, 7 October 1891, FO 800/28, Lowther MSS. Lowther was later to become the Speaker of the House of Commons, 1905–21.
104. Quotes from T. P. O'Connor, 'Mr T. McKinnon Wood: A Personal Memoir', *Daily Telegraph*, 28 March 1924, and Wood obituary, *Manchester Guardian*, 28 March 1924, copies in Ms.Eng.hist.d.312, Wood MSS, Bod.; see also T. M. Wood, *British Commerce and the Declaration of London: A Speech Delivered ... Merchants' Hall, Baltic Exchange* (Liberal Publication Department, 1911).
105. Brodrick to Balfour (confidential), 26 September 1898, Add. MSS. 49720, Balfour MSS.
106. Salisbury to Brodrick (private), 4 October 1898, PRO 30/67/4, Middleton MSS.
107. Min. Curzon, n.d., encl. in Curzon to Brodrick, 4 October 1898, Add. MSS. 50073, Brodrick MSS, BL.
108. Dilke diary, 6 May 1880, Add. MSS. 43924, Dilke MSS.
109. Memo. Tenterden, 29 November 1872, PRO 30/29/106, Granville MSS. Kennedy had indeed won a Double First at Cambridge, and won the Halsey Essay Prize in 1854, id., *The Influence of Christianity upon International Law* (Cambridge, 1856); his father had briefly been Radical MP for Tiverton (1832–5); for his background see also R. A. Jones, *The Nineteenth-Century Foreign Office: An Administrative History* (Weidenfeld and Nicolson, 1971), p. 88.
110. Russell to Wyld (private), 18 August 1870, WYL/33/9, Wyld MSS.
111. Lyons to Lytton (private), 18 September 1874, D/Ek.O30/33/2, Lytton MSS, Hertfordshire Record Office, Hertford.
112. Min. Lister, n.d. [September 1875], 920DER 16/2/10, Derby MSS; for the memorandum *vide supra*, n. 18. Tenterden, in fact, concluded that, for all of Kennedy's statistical wizardry, 'the sub-

- ject ... [was] incapable of being treated generally for any practical purpose as there is no longer any real question of policy before H.M. Gov[ernment]’, memo. Tenterden, ‘Commercial Treaties’, 20 September 1875, 920DER 16/2/10.
113. Min. Granville, n.d. [c. 23 February 1882], Add. MSS. 43880, Dilke MSS.
 114. Granville to Dilke, 24 October 1882, and vice versa, 4 November 1882, Add. MSS. 43881, Dilke MSS. It was in this context that Dilke had suggested transferring the Commercial Department to the Board of Trade, making Kennedy PUS there, Dilke to Granville, 2 October 1882, Add. MSS. 43881.
 115. Fitzmaurice to Stead, 10 December 1883, STED 1/26, Stead MSS, CACC.
 116. Fitzmaurice to Morier, 7 December 1883, box 15/1, Morier MSS. Kennedy did not improve. Following a complaint by Joseph Crowe, the commercial attaché at Paris, he had to admit ‘that he was not in the habit of sending the confidential Commercial Print regularly to Mr. Crowe’, min. Fitzmaurice, 9 July 1884, EFM 19, Fitzmaurice MSS. Relations between Crowe and Kennedy were strained since Kennedy had opposed the former’s appointment as commercial attaché, Crowe to Russell, 29 April 1880, FO 918/25, Amptill MSS.
 117. Quotes from Maycock, *With Mr. Chamberlain*, p. 5; W. E. Davidson, ‘In Memoriam: Sir Henry Bergne’, *Alpine Journal* 24/184 (May 1909): 500; Sir H. Beaumont, *Diplomatic Butterfly* (unpubl. memoirs), PP/MCR/113, fo. 307, Imperial War Museum. Davidson, the legal adviser to the Foreign Office, and Bergne were fellow-mountaineers.
 118. Fitzmaurice to Morier, 7 December 1883, box 15/1, Morier MSS. William Owen was in the Commercial Department for much of his career, except for the year 1881–2, until his death in 1886.
 119. Currie to Warburton, 3 April 1889, FO 366/1136. The other applicant was William Acland Cockerell of the American Department, ‘an agreeably kind-hearted man of the world’, A. M. Brookfield, *Annals of a Chequered Life* (John Murray, 1930), p. 292. Warburton fetched up as consul-general at Valparaiso, 1894–5, and San Francisco, 1895–8; Cockerell ended up as head of the Chief Clerk’s department, 1896–1906.

120. *Fourth Report, 1890: Minutes*, q. 27015.
121. *Fourth Report, 1890*, para 54, 13.
122. Min. Sherwood, 7 January 1908, FO 366/1144/275.
123. *Fourth Report, 1890: Minutes*, q. 27015.
124. Law to Currie, 29 October 1895, FO 78/5186.
125. For the details see Morison and Hutchinson, *Life of Law*, pp. 126–8.
126. *Fourth Report, 1890: Minutes*, q. 26989.
127. Min. Dilke, n.d., on J. A. Crowe to Dilke, 16 April 1884, Add. MSS. 43912, Dilke MSS.
128. Dufferin to Kimberley (private), 26 April 1894, Ms.Eng.c.4401, Kimberley MSS, Bod.
129. Russell to Granville (private), 12 July 1880, PRO 30/29/177, Granville MSS; see also Crowe’s analysis of Liberal opinion in Germany, to Russell, 7 March 1881, PRO 30/29/177.
130. Kimberley to Dufferin (private), 28 October 1894, Ms.Eng.c.4403, Kimberley MSS; see also his suggestion that Switzerland was following Germany’s lead in her commercial and political orientation, Crowe to Fergusson, 15 November 1889, FO 800/26, Fergusson MSS.
131. *Fifth Report, 1914: Minutes*, q. 37477; also Law to Oppenheimer (private), 7 and 10 October 1910, box 18, Oppenheimer MSS, Bod.; for surveys of Oppenheimer’s career see J. McDermott, ‘Sir Francis Oppenheimer: “Stranger Within” the Foreign Office’, *History* 66/2 (1981): 199–207, and Otte, ‘“Alien Diplomatist”: Antisemitism and Anti-Germanism in the Diplomatic Career of Sir Francis Oppenheimer’, *History*, 79/2 (2004): 233–55.
132. Kennedy, ‘Great Britain before 1914’, in E. R. May (ed.), *Knowing One’s Enemies: Intelligence Assessment before the Two World Wars* (Princeton, NJ: Princeton University Press, 1984), pp. 180–1.
133. Memo. Oppenheimer, ‘War Finance in Germany’, 5 July 1912, FO 371/1377/30052; the report was included in ‘Report and Proceedings of the Standing Sub-Committee of the Committee of Imperial Defence on Trading with the Enemy’ (1912), CAB 16/18A, app. 33.
134. See R. Roberts, *Saving the City: The Great Financial Crisis of 1914* (Oxford: Oxford University Press, 2013), pp. 22–72.

135. Lee to Curzon, 29 April 1896, FO 800/147, Curzon MSS.
136. Hammond to Russell (private), 2 December 1872, FO 918/38, Ampthill MSS.
137. *Fourth Report, 1890: Minutes*, q. 26748.
138. Curzon to Hamilton (no. 175), 21 September 1899 (copy), EPP box 6/6, Percy MSS; McLean, *Britain and Her Buffer State: The Collapse of the Persian Empire, 1890–1914* (Royal Historical Society, 1979).
139. Imlah, ‘British Balance of Payments and Export of Capital, 1816–1913’, *EcHR* 5/2 (1952): 232.
140. Memo. Lee-Warner, ‘Schemes of Railways Extension into China’, 11 November 1895, L/P&S/18/B72, OIOC.
141. Memo. Cranborne, ‘Our Position in Persia’, 23 February 1903, Add. MSS. 49757, Balfour MSS.
142. De Bunsen to Salisbury (no. 435, confidential), 3 August 1898, FO 78/5102, and to Sanderson, 12 December 1900, FO 78/5186. See W. P. Andrews, *The Euphrates Valley Railway: Letters addressed to Her Majesty’s Secretaries of State for Foreign Affairs and for India* (Wm H. Allen, 1871), copy in BUL 1/319/5, Bulwer MSS, Norfolk Record Office, Norwich; *Report from the Select Committee on Euphrates Valley Railway with the Proceedings of the Committee, 1871* (Cd. 386) (1871); see also R. L. Greaves, *Persia and the Defence of India, 1884–1892* (Athlone Press, 1959), pp. 144–6.
143. ‘German-British Convention’, 15 June 1914, *BD* x/2, no. 249; G. Schöllgen, *Imperialismus und Gleichgewicht: Deutschland, England und die orientalische Frage, 1871–1914* (Munich, 1992), pp. 404–9.
144. Min. Curzon, 8 October 1898, on de Bunsen to Salisbury (no. 426, confidential), 1 August 1898, FO 78/5102.
145. Cranborne to Sanders, 17 May 1903, Add. MSS. 49757, Balfour MSS.
146. Hansard, Fifth Series, *HC Debs*, Vol. 23 (23 March 1911), col. 648.
147. H. Feis, *Europe: The World’s Banker, 1870–1914* (New Haven, CT: Yale University Press, 1930); see also Morison and Hutchinson, *Life of Law*, pp. 141–2.
148. Memo. Tenterden, ‘Egyptian Finance’, n.d. [February or March 1876], 920DER 16/2/10, Derby MSS.

149. Hansard, Fourth Series, *HC Debs*, Vol. 129 (8 February 1904), col. 616; also Platt, *Foreign Policy*, pp. 12–13.
150. Spring-Rice to O’Conor, 26 February 1896, OCON 6/1/11, O’Conor MSS, CACC.
151. Quotes from Curzon to Salisbury, 11 April 1898, 3M/E/1/118, Salisbury MSS, and *vice versa*, 30 May 1898, MSS.Eur.F112/1B, Curzon MSS, OIOC; for MacDonald’s efforts see tel. MacDonald to Salisbury (no. 137), 25 April 1898, FO 17/1340; E. Z. Sun, *Chinese Railways and British Interests, 1898–1911* (New York: Kings Crown Press, 1954), pp. 37–8.
152. F. W. Hirst’s suggestion, *Fifth Report, 1914: Minutes*, q. 40658.

In Pursuit of National Security: The Foreign Office and Middle Eastern Oil, 1908–39

Fiona Venn

From the beginning of the twentieth century the oil industry had significant implications for foreign policy. Many of the leading oil companies were large multinational operations: since, in the majority of producing countries, the sub-soil mineral rights were owned by the state, these companies had to deal directly with the host governments. Hence, the use of political influence over the host governments became an important aspect of obtaining and retaining concessions; conversely, the companies offered the parent governments a mechanism to exercise influence over the host governments in countries where they operated. In addition, oil was an unusually significant resource, for both commercial and strategic reasons. Even before the First World War demonstrated the critical importance of petroleum to modern technological warfare, for the British Government the proposed transfer of the Royal Navy from coal to oil highlighted the crucial necessity of ensuring adequate supplies of oil, which, by virtue of the lack of known domestic supplies, essentially meant foreign oil. Thus, an important element in Government policy became the security of access to foreign oil supplies. Increasingly British foreign oil policy focused on

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the Middle East, a region of great significance to Great Britain even before the discovery of oil in Persia in 1908.¹

Therefore, the oil industry was an early area of commercial activity for the Foreign Office because of the crucial necessity of the resource itself, and also the direct participation of host governments. As production opened up in the Middle East from 1908 onwards, the ability of the Foreign Office to exercise influence, and provide protection, for British oil companies operating in the region was highly significant. After 1918, the political geography of the Middle East was subject to radical change, and in shaping British foreign policy towards the region, oil was one factor. There is considerable historical debate as to how significant a factor it was, and Foreign Office officials, and even the Foreign Secretary himself on occasion, were prone to deny its importance publicly, whilst acknowledging its significance in private minutes.² The leading British oil companies, including the British section of the Royal Dutch Shell Group, and the Anglo-Persian Oil Company (later BP) often sought to influence British foreign policy, and to lobby the Foreign Office. In addition, the Foreign Office had to contend with the political influence of large American companies, which did not hesitate to elicit the support of the United States Government. The formation of Foreign Office policy was further complicated by the need to negotiate with other interested Whitehall departments, such as the Admiralty, the Colonial Office, the India Office and the Board of Trade. For all these reasons, not only was the Foreign Office crucial to British oil companies seeking to operate overseas, but also the commercial and political dimensions of the oil industry played a part in shaping British foreign policy.

The period covered in this chapter, 1900–39, was one in which many of the key oil concessions in the Middle East were awarded. It was also a time in which the Foreign Office found that its responsibilities in relation to economic foreign policy were increasing, a situation with which its officials were not always entirely comfortable.³ Although oil diplomacy involved many different areas in the period under consideration in this chapter, including Central America and Mexico, Albania, Romania and Russia, the most significant region was the Middle East. This was of critical strategic importance to the British even before the discovery of oil reserves there, due to its proximity to the land and sea routes between the British Isles and India. Britain followed a determined policy of building up its political influence in the region, even if for the most part it was prepared to operate this influence indirectly, and leave rulers such as the Ottoman Sultan,

the Shah of Persia and the Emirs of the Persian Gulf sheikhdoms in official control of the territories concerned. In the exercise of such British influence, commercial and financial interests also had a part to play. As Marian Kent argues in her book, aptly entitled *Moguls and Mandarins*, ‘contacts between the two groups [big business interests and government representatives] both moulded and gave effect to official policy’.⁴

I

Although the first two decades of the twentieth century demonstrated the crucial importance of petroleum for modern warfare, and hence for the governments of the major powers, the early interventions of the Foreign Office in the Middle Eastern oil industry owed more to the nationality of the companies rather than the industry within which they operated. The first instance of Foreign Office involvement came in Persia, where the determined efforts of one individual, William Knox D’Arcy, ultimately led to the Persian Government’s award in 1901 of an oil concession over South Persia to what became the Anglo-Persian Oil Company (APOC). Legation officials gave support to the company, for political reasons in the first instance: to strengthen British influence over the Persian Court, and prevent any other nationality from obtaining the concession.⁵ However, once the British-registered APOC was granted a concession in Persia, it became a matter of concern to the Foreign Office that the concession should not fail because of company weakness.⁶ The discovery of oil in May 1908 introduced another factor to the equation: the oil itself became important to the Admiralty which was just beginning the transition to fuel oil. This was ultimately to lead to the purchase in 1914 by the British Government of a majority shareholding in the APOC, in the hope of guaranteeing long-term cheap supplies of oil.⁷ This provided its own diplomatic challenges. However, the Company historian maintains that this agreement was ‘commercial in scope rather than strategic in intent’, stressing that this did not mean that the British Government thereafter pursued an oil policy centred around the interests of the Company.⁸ Indeed, as will be seen below, if anything, at times the relationship proved rather a negative one, as the Government did not hesitate to exercise influence over the Company to act in its own political interests.

Even before the Government purchase, the Foreign Office also supported the D’Arcy Group/APOC⁹ in its pre-war negotiations for the contract over the Mesopotamian possessions of the Ottoman Empire,

which became part of the battle for diplomatic influence between Britain and Germany.¹⁰ It is striking that, as the negotiations for this concession became more complex, involving the German and Ottoman Governments, the British Government was more than happy to take a firm line with all interested companies. When APOC sought to maximize diplomatic support by raising the spectre of its absorption by Royal Dutch Shell, the Foreign Office made it very clear that the support that the company had been offered in its pursuit of the Mesopotamian concession would not continue if it lost its all-British status.¹¹ No longer did diplomacy serve the interests of oil companies; instead, increasingly, petroleum was made to serve the interests of diplomacy, and the obduracy of even a favoured oil company would not be tolerated. The German and British Governments decided that a single consortium of interested companies, the Turkish Petroleum Company (TPC) should be awarded any concession: suitable shareholdings in the TPC would be 50 per cent for D'Arcy/APOC, 25 per cent for Deutsche Bank (the German interest) and the same for Anglo-Saxon, the designated Royal Dutch Shell subsidiary. With that agreed at the government level, the British Government forced the APOC directors into line by suggesting that, if they would not accept the terms, the British Government would look elsewhere for a British company that would. This resulted in the Foreign Office Agreement of 19 March 1914, which was signed by representatives of the British and German Governments as well as the companies involved, a clear sign that this was regarded as more than just a commercial enterprise.¹² However, the involvement of the Foreign Office in the inter-company rivalry and bickering did not sit well with the Foreign Office: small wonder that Sir Eyre Crowe, then Assistant Under-Secretary of State, commented that 'I shall feel relieved when the Foreign Office ceases to be mixed up with these oil negotiations altogether.'¹³

The period before 1914 may have demonstrated the importance of oil in diplomacy, but it was in the interwar period that the Foreign Office found itself drawn ever more into the complex and volatile world of oil diplomacy, which brought it into frequent conflict with the United States. Although Lord Curzon's famous statement that 'The Allies floated to victory on a wave of oil' may be somewhat exaggerated,¹⁴ there can be no doubt that the graphic demonstration during the First World War of the critical value of oil to modern warfare had a dramatic and long-lasting effect upon the oil industry. At the same time, the map of large sections of the world was re-drawn: the Middle East was especially subject to major political change. On the face of it, this should have strengthened British

oil ambitions in the region (as large parts of it were under informal British imperial rule, either as mandates or protectorates); it should also have lessened the responsibility of the Foreign Office as, theoretically, relations between Britain and the various countries and rulers of the Middle East were largely the responsibility of the Colonial, and to a lesser extent the India Offices, with the exception of Persia (modern-day Iran). However, this was not in fact the case. As the significance of oil became more acute, and acknowledged, and as the British Government expanded its ambitions for political control in the Middle East,¹⁵ encapsulated for example in the Sykes-Picot Agreement, but also the 1919 Anglo-Persian Agreement, there was considerable pressure upon the Foreign Office to support British oil interests in the Middle East.

There has been considerable debate about the extent to which British policy in the Middle East was affected by considerations of oil, and it is not intended to rehearse those arguments here. Similarly, the role of the British Government in the granting of oil concessions for many parts of the Middle East is well known.¹⁶ A sign of increased Foreign Office involvement in oil matters was the appointment of a designated petroleum expert, Ernest Weakley, who was commercial attaché at Constantinople during the earlier Mesopotamian negotiations. However, whatever the desire to see British companies in control of significant deposits of oil, the Foreign Office was not prepared to prioritize this against wider considerations of foreign policy, particularly when it came to the pursuit of good Anglo-American relations. In particular, British companies (notably the part-Government owned APOC) were expected, if required, to subordinate their commercial interests to the wider national security. The Foreign Office was also anxious to avoid any accusations that its policy in the Middle East was, even in part, motivated by thoughts of oil. Following the Lausanne Conference of 1922–3, Foreign Secretary Lord Curzon went as far as to write to *The Times*, stating that ‘oil had not had the remotest connection with my outlook, or with that of His Majesty’s Government’.¹⁷

This anxiety reflected a deep wariness of the oil business on the part of the British Government. This was well summed up, albeit by the Minister in charge of the Petroleum Department rather than the Foreign Office per se, in a memorandum to the Cabinet in 1920, in which it was stated that ‘the oil business is peculiarly unsuited for governments to engage in; it is speculative, very technical, and requires audacity in an exceptional degree’.¹⁸ Relations between the Foreign Office and the APOC were not always harmonious, and similarly, the Foreign Office’s attitude towards

the Royal Dutch Shell Group, which since 1907 had had a majority Dutch shareholding, was equivocal.¹⁹ When Sir Marcus Samuel, Chairman of Shell, had requested Foreign Office support in July 1909 during earlier negotiations for the Mesopotamian oil concession, the Office not only replied that it was currently offering assistance to the D'Arcy Group, which therefore had a prior claim, but stated that it would not support any company that was not predominantly British.²⁰ Representatives of the Shell part of the Group sought to emphasize its British heritage, but it held only a minority (40 per cent) shareholding in the Group as a whole, and there were concerns that the 60 per cent Dutch interest made the Group vulnerable to German influence. Even the British leaders of the Group were not free from suspicion: during the First World War, one Foreign Office official referred to Robert Waley Cohen, a senior manager, as 'utterly unscrupulous', and indeed at one point in the War he was banned from even entering the Foreign Office, although the company redeemed its reputation by the support that it gave during the war, particularly in respect of supplies of toluolol.²¹ Relations remained uneasy, however, as negotiations for the concession in Mesopotamia/Iraq continued.

Yet distrust of Royal Dutch Shell paled in significance compared with the Foreign Office attitude towards what was often referred to as 'Standard Oil', despite the fact that that massive company had been split into a number of smaller companies following the 1911 Anti-trust case.²² Lord Curzon, for example, reacted badly to a suggestion in 1920 that American oil interests in the shape of the Standard Oil of New Jersey (which he referred to as 'an omnivorous organization') might become involved in Persia.²³ In another context, that of Iraq, the Foreign Office regarded Standard Oil New Jersey, and especially its Managing Director, Alfred C. Bedford, with deep suspicion: 'I don't think we need be afraid to let Mr. Bedford come to the F.O. [*sic*] provided we don't forget that who sups with the devil needs the devil of a long spoon.'²⁴ As one Foreign Office official commented of the Company, 'They are as powerful and far more efficient than the U.S. Govt. [*sic*]'.²⁵ At best, the Office feared that the Company might take any opportunity, however slight, to obtain rights which it could then later insist should be upheld²⁶; at worst, the Foreign Office was alarmed by the growing volume of reports that Standard Oil geologists stationed in Baghdad were giving financial aid to the nationalists.²⁷ Both the Colonial and Foreign Offices were convinced by military intelligence reports that the Standard Oil Company was financing Bolshevik and anti-British activities in Iraq, and, following the success

of the Nationalists in Turkey, Turkish aspirations to regain control of Mosul.²⁸ Whether or not such reports were accurate, a point that is impossible to verify, in the circumstances it seemed far preferable to see a British company, or even a partially British company such as Royal Dutch Shell, gain any available concessions.

However, the American companies involved in the Middle East, including not only a number of Standard Oil companies but also Sinclair and Gulf Oil, had a powerful weapon on their side, in the shape of the United States Government. In the immediate aftermath of the First World War, Britain was engaged in what has been described as an 'oil war' with the United States.²⁹ The matter of oil exacerbated Anglo-American tension in the period from 1919 to 1921, obstructed the exploitation of Iraqi oil, and also delayed the ratification by the League of Nations of the mandates for Iraq and Palestine. This came at a time of strained Anglo-American relations on a number of issues, including competitive naval-building, the pending renewal of the Anglo-Japanese Alliance, and the repayment of British war debts to the United States Government. Although disputes over Mesopotamia/Iraq have been widely discussed by historians, less has been written about concurrent discussions concerning North Persia. With the Russian Revolution apparently removing Russia from the equation, Britain was keen to consolidate and extend its influence over Persia, epitomized by the Anglo-Persian Agreement of 1919. This led the Foreign Office to support APOC claims to a pre-existing concession in North Persia, despite the reiterated Persian insistence that the claims were not valid.³⁰ This prompted initial British hostility to the possibility of an American oil company, such as Jersey Standard or Sinclair, obtaining oil rights in the country. Lord Curzon warned the Persian Foreign Minister that the British Government would oppose any attempt by an American company to 'secure a foothold on Persian soil'.³¹

In time, fast-moving developments in both Anglo-Persian and Anglo-American relations began to undermine Foreign Office obstinacy on this matter. Worsening Anglo-American relations, combined with fears that the new Bolshevik Government in Russia might seek to exercise influence over North Persia, prompted Curzon to state 'Better Americans than Bolsheviks'.³² Yet there was a deep reluctance on the part of the Foreign Office to reverse its previously stated position. Instead, in a pattern that was to be seen elsewhere, officials decided that it would be preferable for an apparently commercial solution to be found to which it could lend its support. Foreign Office official George P. Churchill, who was to become

a consistent advocate of company cooperation, first suggested the possibility of a joint American and APOC operation to exploit the North Persia concessions, on the grounds that ‘This course would avoid any conflict between ourselves and the Americans as to oil in Northern Persia and give good political results, despite APOC resistance.’³³ In order to achieve this, the APOC was left in no doubt that it could not count on unconditional British Government support.³⁴ When, unsurprisingly, the APOC itself arrived at the idea of a commercial compromise, possibly in the light of clear Foreign Office unwillingness to take a firm line against American interests, it was told, with the concurrence of Lord Curzon, to proceed. Thereafter, the Foreign Office continued to take a keen interest in, and attempted to promote, the commercial negotiations, which were now seen as serving national political considerations, both in terms of fostering good Anglo-American relations and in thwarting potential Soviet ambitions in Persia.³⁵

II

The same willingness to cooperate with American interests, even though it meant a dilution of the British nature of strategically important Middle Eastern oil concessions, as well as taking a firm line with British oil companies, is also apparent in the case of Iraq.³⁶ Initially the Foreign Office, and the British Government more generally, took the view that the Arab Government in Iraq was legally bound to grant a concession to the Turkish Petroleum Company (TPC), although it was left free to negotiate the actual conditions. However, gradually, the Foreign Office came round to the possibility of American involvement in Iraq as well as North Persia, as part of a broader rapprochement with the United States. It was generally felt that the Republican victory in the November 1920 elections would strengthen the hand of what was still referred to as ‘the Standard Oil Company’.³⁷ Ambassador Sir Auckland Geddes also undoubtedly urged his government to adopt a more conciliatory approach towards the oil question, whilst the prevailing atmosphere of compromise engendered by the Washington Conference of 1921–2 also had an effect. However, in addition, the Foreign Office recognized that the United States possessed considerable ‘nuisance value’ in its determined efforts to hold up the confirmation of the Iraq mandate by the League of Nations until its economic interests were safeguarded, not least because of growing concerns about the legal validity of the TPC case.³⁸

Despite the undoubted frustration of the Foreign Office at American claims and tactics, in November 1921 the British Government decided in principle to admit American companies into Iraq, with the hope that this would satisfy the demands of the United States for the 'open door'.³⁹ In order to accommodate American demands whilst also preserving British *amour-propre*, Whitehall decided to encourage a purely commercial arrangement between the TPC and interested American companies (known collectively as the American Group), by which the latter would be admitted as a participant in the multinational company.⁴⁰ Wherever possible, the Foreign Office preferred not to be seen as actively promoting the position of British oil companies, particularly when it came to competition with American corporations. Thus, once a decision had been taken to admit American interests into the TPC, and also to encourage an Anglo-American venture in North Persia, the Foreign Office was keen to present it as essentially a commercial interaction between the companies involved. Sir John Cadman made what was presented as a private visit to the United States in 1921, in his capacity as Technical Adviser of APOC, and appeared to be establishing friendly relations with Standard Oil of New Jersey. The Foreign Office was kept apprised of his visit,⁴¹ and he was able to arrange a meeting between Alfred Bedford of the Jersey Standard Oil Company and Geddes, which up until that time Bedford had avoided.⁴² The Foreign Office concurred in the terms of the eventual Jersey Standard/APOC agreement.⁴³ Once again, however, the Foreign Office preferred to see any compromise taking the form of a commercial agreement,⁴⁴ rather than explicitly withdrawing from the position taken by the British Government during the long and acrimonious correspondence between the British and US Governments on oil.

Approving a commercial settlement in principle, however, was not the same as arriving at a definite conclusion. The commercial negotiations proved both complex and lengthy, and were still unresolved almost a year later. They were therefore still in a state of flux when the resurgent Turkey forced a renegotiation of the Treaty of Sèvres at the Conference at Lausanne. Oil, and in particular the future of Iraqi oil and the TPC concession, played a very important part in the deliberations at Lausanne, as I have demonstrated elsewhere.⁴⁵ The British, whose relationships with France were strained at the time, hoped for US support at the Conference,⁴⁶ but it became clear that the Americans were wary at the possibility that the British might be intent upon ensuring that the revised Treaty served

their own interests, including with respect to oil.⁴⁷ One way forward was to ensure that the ongoing commercial discussions reached a speedy conclusion. The TPC was already a multinational company that had admitted both French and (potentially) American interests in response to diplomatic pressure. It is noticeable that Lord Curzon expected the Company to accommodate political desiderata since, he argued, its position was completely dependent upon diplomatic and political support from the British Government.⁴⁸

Despite Foreign Office frustration at American influence at Lausanne, nonetheless it continued to work towards commercial cooperation between the companies, in the fond hope that, once American interests were admitted into the TPC, the State Department would cease to oppose it.⁴⁹ In keeping with this line, the various departments in Whitehall pressed the two participants in the TPC over which they had some leverage, APOC and Royal Dutch Shell, to be flexible in order to admit American interests. This involved a change in strategy on the part of the British Government, which had hitherto kept a close watching brief over negotiations, but essentially left the Company to re-structure itself; now, however, a more interventionist approach was adopted. In particular, the Foreign Office became directly involved in negotiations with the companies, with the concurrence of Curzon, despite the fact that he found the whole matter 'intensely sordid and distasteful'.⁵⁰ The Foreign and Colonial Offices brought heavy pressure to bear upon the TPC members to give the American companies the conditions that they requested.⁵¹ Royal Dutch Shell in particular was informed of the 'absolute necessity of a settlement on the question of the admission of the Americans into the T.P.C. [*sic*]'; the Government stated that the Americans should be let in on a 20 per cent basis. If necessary, Sir Eyre Crowe of the Foreign Office would arbitrate as to how that 20 per cent was to be contributed. As Royal Dutch Shell and the TPC had benefited from diplomatic assistance, then they had to be prepared to make sacrifices for diplomatic and political ends.⁵² Ultimately, a solution was found, although it required APOC to make the main sacrifice, by agreeing to reduce its shareholding from 50 per cent to 23.75 per cent.⁵³ The Foreign Office, therefore had succeeded in prioritizing its main goal of improved Anglo-American relations, and had done so, where necessary, by encouraging or even compelling APOC (and to a lesser extent Royal Dutch-Shell) to reach a compromise agreement with their American counterparts.

III

The negotiations for oil concessions in the Arabian Peninsula took place in the ten years after 1927, against a background of strained Anglo-American relations. Tension over the failure of disarmament talks, then the issue of neutral and belligerent rights at sea, and finally, from 1931, the very real fear on the part of the British Government that they would have to default upon the agreed schedule of repayment of war debts incurred during the First World War, ensured that for the Foreign Office the improvement of good Anglo-American relations was a high priority. During the oil negotiations, Whitehall officials were influenced by the strong view held by the APOC, that the Arabian Peninsula had little to offer in terms of likely oil resources, and as a consequence the importance of securing control over any Arabian oil for the British was less of an issue. Yet, in many ways, the British were in a better position legally to withstand American pressure on behalf of their oil companies than they had been in the case of Iraq. The British Government had the right to veto the grant of oil concessions in both Kuwait and Bahrain; their influence over the nascent Kingdom of Saudi Arabia was considerable. The Americans, on the other hand, had no diplomatic or consular representation in the area. It was the strong belief of a number of Whitehall Departments, including the India Office, Colonial Office, Petroleum Department and the Admiralty, that it was both legitimate and necessary for any oil deposits in the region to be secured for British interests, more specifically the APOC. However, as in the early 1920s, the Foreign Office prioritized what it saw as the wider and more important objective of improved Anglo-American relations. That the Foreign Office was not so dedicated to its interests was undoubtedly clear to the APOC, which, along with other companies involved in the region, preferred to deal with the Colonial Office.⁵⁴ Ultimately, however, the Foreign Office view of what constituted national security prevailed. The subordination of oil interests to matters of wider foreign policy was even more striking in the late 1920s and early 1930s, than it had been in the years immediately after the First World War.

Initially the Foreign Office was not involved in negotiations for the Persian Gulf oil rights, as it appeared that all the interested contenders were British. It certainly did not expect, or indeed want, to be informed of the intricacies of oil negotiations in countries such as Bahrain, particularly when it was not yet apparent that American interests might be involved.⁵⁵ Left to its own devices, the Colonial Office in particular was prepared to

favour British companies, even following the first signs of US company interest. As John Hall, an assistant principal in the Colonial Office, commented with regard to Bahrain, in words which would equally apply to the other Persian Gulf sheikhdoms, 'I do not see that the "open door" principle can be held to apply to Bahrein [*sic*]. Providentially there is no mandate for Bahrein, and we are no more committed to that inconvenient principle in Bahrein than in (say) Persia or for that matter Trinidad.'⁵⁶ However, once American interests did become involved, the Foreign Office was more concerned about avoiding any problems with the Americans than safeguarding the interests of British companies; in an interdepartmental meeting on 7 May 1929, the Foreign Office insisted that unreasonable obstacles should not be put in the way of the American company involved in Bahrain, the Standard Oil Company of California.⁵⁷ Foreign Office vigilance was one reason why shortly afterwards the Bahrain concession was awarded to a Canadian subsidiary of the American company.

The later negotiations for the Kuwait concession came at a time of particularly strained Anglo-American tensions.⁵⁸ Initially negotiations were comparatively low key, involving a little-known British company, the Eastern and General Syndicate. At first, the APOC took little interest in Kuwait: whilst the Company had expressed a vague interest in concessions in the Persian Gulf as early as 1919⁵⁹; and indeed asked for Foreign Office assistance in acquiring exploratory licences in 1921, it justified this request on political grounds, to keep out foreign oil companies in a region of such importance to the British Government, rather than commercial ones.⁶⁰ This early initiative came to nothing, however, and by the time that negotiations for Kuwait were in full swing, the APOC had apparently come to the conclusion that there was little prospect of finding oil in Kuwait.⁶¹ Nonetheless, faced with another potential competitor in a region which it regarded as its back yard, it began, half-heartedly, to express an interest, much to the relief of the departments then most involved in the day-to-day negotiations, the Colonial Office and India Office, both of which hoped to exclude the American interests with which the Eastern and General Syndicate was dealing. The Foreign Office initially took a rather remote stance, stating 'we are not very directly interested, so long as nothing is done which is likely seriously to arouse the resentment of the Americans'.⁶² It soon became clear, however, that it was indeed likely that the United States Government would be resentful if American interests were excluded for no good reason. Thus the Foreign Office continued to insist that no action should be taken that might be seen as detrimental to any American

company, despite the renewed interest of the APOC. This considerably angered Sir John Cadman, by then Chairman of the Company, who wrote to a colleague in April 1933 that he feared that American competitors were to be given a clear field, whilst the APOC, he suggested, would be given no diplomatic support at all.⁶³

It is, indeed, clearly apparent in examining the documents, that the decisions which permitted American involvement in the oil riches of the Persian Gulf were taken solely at the instigation of the Foreign Office, and with only the interests of British diplomacy in mind; notably, the overriding importance of maintaining and improving good Anglo-American relations. To the Foreign Office, so significant was this aspect of international relations that it was even prepared to override what the India Office regarded as the vital necessity of retaining British hegemony over the Persian Gulf, and the Admiralty's determination to control strategically placed sources of crude oil. Although the Foreign Office's American Department, particularly Robert C. Craigie, was to the fore in pressing for such an order of priority, the belief that in dealing with the Persian Gulf concessions all possible steps should be taken to avoid Anglo-American controversy was shared by other senior permanent officials. In the context of much broader considerations, the granting of an oil concession in Kuwait appeared relatively minor, not least because, as Sir Lancelot Oliphant, the Under-Secretary of State, pointed out, 'nobody had any idea at present whether there was any oil at all in Koweit [*sic*], much less a big and important field'.⁶⁴

However, there still remained the potential for showing some preference for the APOC. Both the Eastern and General Syndicate, by now clearly acting for the American Gulf Oil Company, and the APOC were invited to submit separate draft concessions for the consideration of the Sheikh, who had refused to consider the APOC draft until informed that it had the British Government's approval.⁶⁵ Since there was no local expertise to judge the technical merits of the respective drafts, the Petroleum Department within the Board of Trade was asked to produce a comparison of their terms.⁶⁶ The Foreign Office, with one eye on the worsening state of affairs in the Far East and the financial controversies surrounding the war debts and wider international economic matters, continued to urge that the principle must be one of 'a fair field and no favour'.⁶⁷ Whilst the other departments involved assumed that preference should be given to the APOC if at all possible, the Foreign Office believed strongly that if the British Government were to support that company's draft, it would

have to be considerably better,⁶⁸ as the Americans would not accept the granting of a concession to the APOC on anything other than the soundest of commercial grounds.⁶⁹ As deadlock ensued, much to the relief of all concerned, the companies involved decided to cooperate rather than compete, and ultimately a concession was granted to a joint Anglo-American consortium in December 1934.

CONCLUSION

In many respects the Foreign Office might have been expected to place a high priority on offering support to British oil companies operating within the Middle East. After all, one important player in the Middle Eastern oil business, the APOC, was part-owned by the British Government as well as being the only all-British company operating in the region. As the British sought to expand and strengthen their control over the Middle East, it seemed appropriate to exclude foreign companies, particularly the infamous Standard Oil companies. In the Persian Gulf, the India and Colonial Offices wished to avoid any activities which might encourage contact between the host governments and foreign interests. Moreover, as the Admiralty in particular emphasized, oil was a crucial commodity for national security. But the Foreign Office record was mixed. It was determined not to allow its role to be publicly acknowledged, and indeed the oil companies often preferred to deal with other Whitehall government departments where possible. Whilst the Foreign Office gave support in particular circumstances to British companies, it clearly felt uneasy about doing so openly. If it came to a choice between the commercial well-being of British companies and what was perceived as the wider national interest, the Foreign Office had no compunction about choosing the latter.

NOTES

1. For a discussion of the significance of oil diplomacy, see F. Venn, *Oil Diplomacy in the Twentieth Century* (Basingstoke: Macmillan Press, 1986) and D. Yergin, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Simon and Schuster, 1991).
2. See for example G. Jones, *The State and the Emergence of the British Oil Industry* (Basingstoke: Macmillan Press, 1981); M. Kent, *Oil and Empire: British Policy and Mesopotamian Oil 1900–1920* (Basingstoke: Macmillan Press, 1976); H. Mejcher, *Imperial Quest*

- for Oil: Iraq 1910–1928* (Ithaca Press, 1976), and W. Stivers, *Supremacy and Oil: Iraq, Turkey, and the Anglo-American World Order, 1918–1930* (New York: Cornell University Press, 1982).
3. R. Boyce, ‘Economics and the crisis of British foreign policy management 1914–45’, pp. 9–41, in D. Richardson and G. Stone (eds), *Decisions and Diplomacy: Essays in Twentieth-Century International History* (Routledge, 1995). The quotation is from p. 10.
 4. Kent, *Moguls and Mandarins: Oil, Imperialism and the Middle East in British Foreign Policy, 1900–1940* (Frank Cass, 1993), p. 1.
 5. R. W. Ferrier, *The History of the British Petroleum Company*, vol. 1: *The Developing Years 1901–1932* (Cambridge: Cambridge University Press, 1982) pp. 15–47.
 6. R. Howard, *The Oil Hunters: Exploration and Espionage in the Middle East* (Hambledon Continuum, 2008), pp. 26–64
 7. M. Jack, ‘The Purchase of the British Government’s Shares in the British Petroleum Company, 1912–1914’, *P&P*, 39 (1968): 139–68.
 8. Ferrier, *History of the British Petroleum Company*, pp. 10–11.
 9. There was a legal distinction between the D’Arcy Group and the APOC, and the Government shareholding initially applied only to the latter, although this distinction was later blurred.
 10. Kent, *Oil and Empire*, pp. 36–7. The name Mesopotamia was used prior to the First World War, followed by a period of transition in which both Mesopotamia and Iraq were used, before the universal use of Iraq. In this chapter, Mesopotamia is used for the period before the First World War, and Iraq thereafter.
 11. Sir Louis Mallet to Sir Charles Greenway, 31 December 1912, FO 371/1486, no 55479.
 12. The text of the Foreign Office Agreement is in J. C. Hurewitz, *Diplomacy in the Near and Middle East: A Documentary Record* (2 vols, New York: Van Nostrand, 1956), vol I, pp. 276–8. For a discussion of the negotiations leading to the Agreement, see Kent, *Oil and Empire*, pp. 33–95; and Jones, *Emergence of the British Oil Industry*, pp. 164–5.
 13. Foreign Office minutes on FO 371/2120, no. 11273, quoted in Kent, *Oil and Empire*, p. 90.
 14. Ferrier, *History of the British Petroleum Company*, p. 11.

15. There is a considerable literature on British policies and ambitions in the Middle East after the First World War. See, for example, J. Darwin, *Britain, Egypt and the Middle East: Imperial Policy in the Aftermath of War 1918–1922* (Basingstoke: Macmillan Press, 1981); and J. Fisher, *Curzon and British Imperialism in the Middle East 1916–1919* (Frank Cass, 1999).
16. See, for example, Mejcher, *Imperial Quest for Oil*, pp. 131–56; and Stivers, *Supremacy and Oil*, pp. 178–91.
17. Lord Curzon, letter to *The Times*, 2 August 1924. That this was not entirely accurate is demonstrated in my article. F. Venn, ‘Oleaginous Diplomacy: Oil, Anglo-American Relations and the Lausanne Conference, 1922–23’, *D&S*, 20/3 (2009): 414–33.
18. Memorandum by the Minister in charge of the Petroleum Department, ‘Mesopotamian Oilfields’, 22 April 1920, CAB 1/29/16.
19. Relations between the British Government and both Shell and APOC are discussed in some detail in Jones, *The State and the Emergence of the Oil Industry*.
20. Kent, *Oil and Empire*, pp. 24–5.
21. J. Jonker, J. K. van Zanden, S. Howarth and K. E. Sluyterman, *A History of Royal Dutch Shell* (4 vols, Oxford: Oxford University Press, 2007), vol. 1, pp. 153–62. The quotation is from page 153.
22. Despite the fact that the original Standard Oil Company had been forced to split into a number of different companies in 1911, several of which retained ‘Standard Oil’ within their names, many British officials did not seem to comprehend the new commercial reality.
23. Lord Curzon to Sir Percy Cox, 10 April 1920, in R. Butler, J. P. T. Bury and M. E. Lambert (eds), *DBFP*, 1st Series, Vol. XIII (HMSO, 1963), pp. 466–8.
24. Minute by Ronald C. Lindsay, 24 March 1921, FO 371/7815 E3183/7/34.
25. Minute by G. Osborne, 18 May 1920, FO 371/5107 E4892/56/44.
26. Minute by Weakley, 13 November 1919, FO 371/4209/44/19165/148099.
27. The reports began in June 1920. See India Office to Foreign Office, 23 June 1920, FO 371/5064 E7127/20/44; and periodic correspondence on the 20/44 file, FO 371/5084-6.

28. See various papers on CO 730/9/10195 and 21021; and CO 730/12/12523. The Foreign Office also shared his opinion. See correspondence and minutes at FO 371/6360 2276/382/93.
29. Venn, 'Anglo-American Relations and Middle East Oil, 1918–1934', *DC&S*, 1 (1990): 165–84; and W. Engdahl, *A Century of War: Anglo-American Oil Politics and the New World Order* (revised edition) (Pluto Press, 2004).
30. Minutes and correspondence on FO 371/3879/34/3921/206179; and FO 371/4919 C1346/C3160/C5808/C8266/910/34.
31. Lord Curzon to Sir Percy Cox, 10 April 1920, *DBFP*, 1st Series, Vol. XIII, pp. 466–8.
32. Minutes by Lindsay and Curzon, 23 November 1921, at FO 371/6418 E13568/76/34.
33. Minutes by George P. Churchill, 3 June 1921, and Sir Lancelot Oliphant, 4 June 1921, FO 371/6418 E13568/76/34.
34. Greenway to Oliphant, 2 June 1921, FO 371/6414 E636/76/34.
35. Greenway to Oliphant, 9 November 1921; Oliphant to Greenway, 11 November 1921; and Foreign Office minutes, all on FO 371/6417 E12436/76/34.
36. Kent, *Oil and Empire*, Mejcher, *Imperial Quest for Oil*; and C. Davis, 'British Oil Policy in the Middle East, 1919–1932', unpublished PhD thesis, University of Edinburgh, 1973.
37. Minute by Sir William Tyrrell, 3 November 1920, FO 371/4920 C9883/1234/34.
38. Minute by Weakley, 5 February 1923, FO 371/8994 E1399/91/65.
39. Venn, 'Anglo-American Relations and Middle East Oil'.
40. Foreign Office to Colonial Office, 20 December 1921, FO 371/6364 E12708/576/93.
41. Greenway to Oliphant, enclosing various telegrams from Cadman, 6 December 1921, FO 371/6418 E13490/76/34.
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The De Bunsen Mission to South America, 1918

John Fisher

On 21 April 1918, a special mission left Devonport on board HMS *Arlanza*, bound for South America. Its aims were threefold. First, it would offer thanks to countries which had either actively sided with the Allies in the First World War or otherwise shown sympathy towards them. It would seek to retain that support by reiterating the reasons for Britain's continuing belligerency. Second, it would discuss with those countries 'delicate economic questions' raised by the war, which correspondence could not easily resolve. Third, the mission aimed to encourage a clear understanding of British policy among Britain's diplomatic and consular representatives, many of whom had long been absent from the United Kingdom.¹

For some time, Foreign Office officials and their colleagues posted to South America believed that Britain should consider post-war commercial interests there. Concerns were not limited to the persistence of German influence and commercial interests, although, in the first years of the war, many believed that efforts to circumscribe them were deficient.² The possibility of American inroads especially and encroachments by other countries also were concerning. The powerful blow dealt to South America's trade with the outbreak of war provided America with an opportunity to extend

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pre-war gains there.³ At stake were substantial British investments which, according to one official account, amounted to well over £610 million by 1917.⁴ There was also the matter of those nations' wartime alignments. Argentina remained neutral, while only Brazil and Cuba actively joined the Allies.⁵ Concerning Argentina, its political leaders might abandon neutrality and prevent further trans-shipment of goods to the Central Powers. Peru, Bolivia and Paraguay had severed diplomatic relations with Germany, but abstained from the fight. Uruguay had abandoned neutrality and severed relations with Germany, without going to war. In each case, the mission hoped to engage them further in the conflict or to thank them for their efforts.

The implementation of the Black List and Statutory List policies had restricted trade and was unpopular in those countries, among native traders as well as expatriates. The Statutory List forbade Britons 'from conducting commercial and financial transactions with designated "enemies" in neutral countries'.⁶ Extinguishing German trade would create openings for Britain.⁷ Foreign Office officials felt that some British diplomats and consuls had neither explained nor implemented those policies effectively. This might permit supplies to reach the enemy. Also, it might impact upon post-war British interests. Thus, the mission encompassed wartime as well as post-war policies. Further, it aimed to reinforce patriotism among expatriate Britons. British communities had given generously to the war effort concerning men, materiel and moral support. Besides official engagements, the mission would liaise with leading expatriates, not least to discuss the support of future British commerce. However, appreciation of their efforts coexisted with concern about the possibly greater cohesion and patriotism of German expatriate communities.⁸ A further, and closely related, matter was the perceived appropriateness of British diplomatic and consular representation.

On the suggestion of Lord Hardinge of Penshurst, the Foreign Office's Permanent Under-Secretary (PUS), Sir Maurice de Bunsen, formerly ambassador at Vienna and, at the date of appointment, an Assistant Under-Secretary (AUS) at the Foreign Office, led the mission. His 'diplomatic' secretary was the Foreign Office's Thomas Lyons.⁹ William Barclay of the Federation of British Industries (FBI), who had travelled and worked extensively in South and North America, was the mission's Assistant Secretary. James Grant, a Unionist MP, nominally represented the Ministry of Information, and the British Houses of Parliament, and Follett Holt, the Department of Overseas Trade (DoT). Holt had exten-

sive experience of South America: he joined the Buenos Ayres and Rosario Railway in 1889, and was general manager and chief engineer of the Great Western Railway of Brazil and Entre Rios Railway. He also developed Brazil's train ferry system.¹⁰ Allen Kerr, formerly chargé in Santiago, represented the Foreign Office's Foreign Trade Department (FTD), created in January 1916. The mission's military attaché was Major-General Sir Charles Barter, and its naval attaché, Rear-Admiral James Ley.

Of the departments represented, the FTD's main objective was wartime policy, the restriction of enemy trade, and its replacement by British concerns.¹¹ The DoT's preoccupation was post-war policy. In order to limit the mission's size, the Foreign Office's Contraband Department was not represented, and its News Department declined involvement. Several other departments, including the Treasury, Admiralty, Board of Trade, and Ministries of Labour and of Shipping, were consulted and invited to submit memoranda and literature for the mission's edification. According to the Foreign Office's Colum Crichton-Stuart, it must be plentiful, optimistic, regarding the outcome of the war and post-war prospects, and must pre-empt enemy propaganda. For example, he suggested that the Treasury might provide evidence to rebut unattributed claims that Britain would be incapable of continuing to finance South American governments, funding development work hitherto undertaken by British companies, and supplying banking services. More generally, Stuart suggested that assumptions about American peacetime commercial preponderance in South America must be challenged: not least concerning the possibility of the dollar exchange replacing sterling exchange.¹² The expansion of American commerce in Latin America as a result of wartime restrictions on British exports, shipping and finance had caused concern.¹³ The wartime expansion of American banking operations there, as well as merchant shipping and cable and wireless communications, helped to sustain it.¹⁴ In 1913, America had 13 branch banks in Latin America. By the end of 1919, the figure exceeded 120.¹⁵ American businessmen resented Britain's Black Lists, which appeared to discriminate against their interests.¹⁶ Differences that prevented the creation of a joint list were not overcome until August 1918.

The mission journeyed on a succession of His Majesty's Ships: prestige was paramount. Following a daily meeting at 10 am, its members undertook relevant reading and indulged in games and amusements.¹⁷ Concerning his staff, de Bunsen regarded Barter as 'boring & prosy'.¹⁸ Before the mission departed Holt's blindness to the American threat, was

noted.¹⁹ De Bunsen also felt that he overlooked British commercial potentialities in South America.²⁰ Initially, he considered Barclay, who had much experience of the region, as ‘the real brains of the party’.²¹

Shortly before the mission left, de Bunsen recorded that he had no special instructions, but was glad to have latitude, as he was familiar with the mission’s objectives. He stated, ‘I shall pay special attention to the commercial objects, which come next to the political.’²² De Bunsen could discuss and conclude treaties but would not routinely undertake diplomatic negotiations.²³ Rather, on specific, urgent, issues, he might intervene on behalf of Britain’s men on the spot. As he suggested to Foreign Secretary, Arthur Balfour, in early May, as the party approached Rio de Janeiro, the mission was intended ‘primarily as a sign of our intention to maintain and even largely develop, both politically and economically, our pre-war position in the South American continent’.²⁴ De Bunsen was also apprised of specific issues, which the mission must studiously avoid, in case they offended their hosts. Concerning Cuba, whose sugar supplies Britain needed, the death during the 1917 Cuban revolution, of British East Indian subjects, must not be mentioned.²⁵

BRAZIL

The mission spent a hectic fortnight in Brazil. There, British investments exceeded £250 million, second only to Argentina, with significant investments in industry, trams, and public works, as well as in state and municipal loans. The latter, at over £121 million, was easily the greatest among Latin American countries.²⁶ De Bunsen commented privately on the ‘very great strain’ of the visit. Sir Arthur Peel, Minister at Rio, reported to Balfour that the Brazilian authorities’ unrestrained welcome prevented the mission from accomplishing all of its objectives. Banquets, luncheons, receptions, theatrical performances, garden parties and teas abounded.²⁷ The mission also visited São Paulo, where its members inspected commercial concerns, including the Coffee Exchange and Municipal Buildings, and held meetings with the recently founded British Chamber of Commerce. It also met with the expatriate community more generally. Peel regarded this part of the mission as successful: the press and the populace were ‘entirely pro-Ally’ and pro-British.²⁸

Prior to the mission’s departure, Peel had recommended its postponement until the autumn, pending a new president of the republic and a new cabinet.²⁹ Concerning Brazil, the mission was primarily a means of

thanking its government, the Brazilian people, and expatriate Britons, for their loyalty. As to the government and the general population, de Bunsen accomplished this in several public addresses and in private discussion with the president and the foreign minister. The intended elevation, to ambassadorial level, of diplomatic representation between Britain and Brazil was also discussed. The War Cabinet had approved this suggestion of Arthur Balfour's, as a recognition of Brazil's wartime support, on 22 April 1918.³⁰ Balfour anticipated the appointment of a German ambassador directly after the war, reflecting its commercial ambitions in South America. Brazil, though 'behind' Argentina in wealth and commerce, had superior resources and potential.³¹ This intended change concerned Colum Crichton-Stuart because representation to Argentina and Chile, neither of which had sided with the Allies, was also to be elevated. After discussion, it was decided to raise the status of the mission to Brazil, but to delay the others.³² Discussion also occurred with leading members of the *Liga Brasileira pelos Aliados*. Its president, Professor Sà Vianna, spoke of the 'great economic war' which would follow the conclusion of hostilities. Their enemies were engaged 'in a state of amazing latent activity' to gain economic ascendancy.³³

Various functions were arranged for the expatriate community. On 10 May, de Bunsen, Grant, Kerr, Holt, and Peel visited the British Chamber of Commerce, and listened as de Bunsen read a message from the King. The message was repeated, to great effect, later on the same day, to the entire British community, at the Guanabara Palace, where the mission resided. It enjoined British subjects to 'Stand By! For your country needs you now and always.'³⁴ Substantive discussion occurred with President of the Republic, Dr Wenceslao Braz, selected members of the Brazilian *Associação Commercial*, and the Foreign Minister, Dr Nilo Peçanha. At Balfour's request, British consuls posted to Brazil attended these receptions and Kerr, Barclay and Holt met with them.³⁵ Before leaving Brazil, in an interview with *Estado de São Paulo*, published on 21 May, de Bunsen predicted a new era 'of the Atlantic' in which Britain and Brazil would play a key role, the latter as a consumer of British goods and a supplier of its needs.³⁶ In fact, while British shipping dominated transportation of Brazil's foreign trade during and immediately after the war, in 1916 America eclipsed Britain as the main supplier of its imports, a situation that persisted thereafter, excepting 1922-3.³⁷ Here, as Eugenio Garcia suggests, Britain, and British commercial diplomacy, sought primarily to protect existing investments, something which conflicted with Brazilian

interests.³⁸ The war presented challenges to Britain's economic predominance which it did not overcome. The shrinkage of European imports, investment and capital created opportunities for American businessmen. Before America's entry into the war, its exports were sold through British and German outlets. The extensive nature of German interests provoked Anglo-Brazilian conflict over the Statutory List. Disagreements, from early 1917, concerning the importation of Brazilian coffee, exacerbated them.³⁹ Efforts to resolve these differences and to provide private credits to Brazil were ineffective by the autumn of 1917. Ironically, the sense of a loss of prestige in Brazil that affected British officials, also affected their American counterparts. This led to Anglo-American competition in Brazil during 1918, particularly in the naval and economic spheres. According to Emily Rosenberg, ascendancy in the former area might afford political and commercial benefits. Brazil's intrinsic military power was less important.⁴⁰

When de Bunsen visited Brazil, he hoped to bolster British interests against growing America influence. The FTD and Foreign Office had devised a plan to finance Brazil's coffee trade with American subventions: Germany dominated its export by 1914.⁴¹ The quid pro quo was the destruction of German firms in Brazil. The War Cabinet's Economic Offensive Committee had not formally approved the idea and de Bunsen merely alluded to it during his visit. However, this stymied a similar American initiative and was sufficiently alarming to American diplomats in Latin America and their superiors in Washington that an American commercial mission was mooted.⁴² The State Department also sought to quash de Bunsen's influence by asking the European Allied powers to cease independent negotiations with Brazil, and to act through an inter-Allied committee based in Washington.⁴³ The Foreign Office agreed, partly to avoid outright American domination of Brazil's coffee trade, but the committee was a foil.⁴⁴ The US Treasury and State Department also acted to block Britain's plan to finance the coffee trade. Briefly, neither Britain nor America realized its aims in Brazil during the war.⁴⁵ The conduct of the economic war remained divisive between Britain and Brazil, notwithstanding de Bunsen's efforts, and those of Kerr, to address it. The tightening of the Allied blockade from 1916, as well as restrictions placed upon imports of coffee in Britain and America, together with cocoa in the case of Britain, inflicted a serious blow on the Brazilian economy.⁴⁶ The economic war also fostered ill-feeling between Britain and America, and between Britain and France, which had accepted America's claims to lead Allied negotiations with Brazil.⁴⁷

URUGUAY

From São Paulo the mission travelled, via Rio, to Montevideo: the section from the Uruguayan frontier, on board a train provided by the British Central Uruguayan Company. It was a lynchpin in British investments in Uruguay, which in 1917 exceeded £45 million, making it the fourth largest recipient of British investment in South America.⁴⁸ When reflecting upon the mission's success to date, de Bunsen noted that the existence of a special mission, conducted at the height of war, which reached out to the Latin American countries, and which pointed to a resumption of commerce upon its conclusion, must be beneficial.⁴⁹ He also explained the mission's *modus operandi*. When meeting with a chamber of commerce, he would deliver an address, and Holt would then explain the DoT's aims. As Holt explained to expatriate businessmen in Rio, expert local input was needed.⁵⁰ He advised local chambers to elect advisory councils of businessmen, experienced in local commerce. Those chambers would annually elect 'Commercial Councillors' to the embassy or legation and would become the core of each British 'colony'. Where Britons were not eligible for membership they must join the Overseas Club. Holt advised that the war had 'stimulated and widened British enterprise'. New manufactures had emerged and established industries had reformed and grown. He enjoined British banks in South America to support enterprise and anticipated the recovery of shipping, to pre-war rates, within eighteen months of the war's end. Holt advised that greater clarity was required in the respective roles of commercial attachés and consuls. The DoT would oversee their activities. Typically, Grant would reinforce Holt's remarks and Kerr would explain the Statutory List. Besides participating in official functions, each member of the mission also conducted separate investigations in their own areas.⁵¹

Of Uruguay, which revoked its neutrality after America entered the war, de Bunsen noted the warmth of the reception afforded to the mission. He visited educational and scientific institutions and was impressed by Montevideo's modern aspect. Dr Baltasar Brum, the Foreign Minister, ascribed these developments partly to the support of British Minister, Alfred Mitchell Innes, whose stock was high in Uruguay, if not at the Foreign Office.⁵² This, in turn, had helped the Allied cause.⁵³ However, there were shadows in the picture. Lieutenant Buckland Cooper, a prominent merchant in Montevideo, and assistant naval attaché, Buenos Aires, from March 1918, noted America's 'strenuous bid' to attain predomi-

nance there: its intention having been clear before the war. Commercially and strategically important, Uruguay must not succumb to the ‘Yankee Push’. Strong representation of British interests must be established immediately.⁵⁴ According to Philip Dehne, the British Government neglected Uruguay—even in thwarting German interests—notwithstanding substantial British investment there. This encouraged the Uruguayan Government to resent British economic interference.⁵⁵

ARGENTINA

The mission then travelled to Buenos Aires where, met by an estimated 100,000 people, it resembled a ‘royal progress’. The mission struggled with the city’s excesses and encountered pressing and sensitive issues that had contributed to its despatch. This was true not least because of the scale of British interests and investments in Argentina which, in 1917, totalled almost £395 million.⁵⁶ Expatriate Britons, born in Britain, in Argentina numbered roughly 30,000. Britain’s share of seaborne trade, railways, river steamers, telephones and gas works was commanding. Its banking interests were significant. As previously noted the Argentine Government was neutral though de Bunsen later described it as a ‘very benevolent neutral’. By continuing to supply food to Britain, and permitting Royal Naval vessels unlimited berthing, it risked war with Germany.⁵⁷ But, in other respects, it leant towards Berlin. Would the mission visit Argentina? Its president, Hipolito Irigoyen, had been ill, and his reception of the mission in person was doubted.⁵⁸ Allied restrictions imposed on Argentina’s beleaguered import trade from July 1916 had caused resentment: customs charges on imports constituted its chief source of revenue.⁵⁹ The Argentine Government sought loans from America. Britain’s Black List policy was also deeply unpopular. Buenos Aires swarmed with German agents. A German chamber of commerce was established in Buenos Aires in 1916. These developments raised concerns not only about wartime policy but also about possible post-war German competition. Britain needed to sustain food supplies from Argentina.⁶⁰ From early 1916, efforts were made to ring-fence Argentina’s export market for the Allied cause. The Wheat Commission, from its establishment in October 1916, bought very substantial quantities of Argentine wheat.⁶¹ These developments encouraged businessmen in England and leading expatriates to demand the elevation of diplomatic representation to ambassadorial level. The British Society in Argentina petitioned de Bunsen to this effect in June 1918.⁶²

This demand was symptomatic of a perceived broader failing concerning British diplomatic and consular representation in Latin America.

In Buenos Aires, the Minister, Sir Reginald Tower, and his staff, lived in a hotel because their salaries were inadequate. Tower could not reciprocate hospitality appropriately, and was allegedly disinclined to socialize.⁶³ Given the need to recognize Brazil's support for the Allies, de Bunsen did not discuss the issue of ambassadorial status with his Argentine hosts, but business circles were unhappy about it. This also linked to a wider sense that, unlike their American counterparts in particular, British diplomats in South America lacked knowledge of the continent. Indeed, they were allegedly second rate.⁶⁴

Diplomatic postings to South America were often disliked, not least because commercial work preponderated. The notion of South America as the 'graveyard' of diplomatic careers is a recurring theme. Whitehall was deemed to have neglected it as well as diplomats posted there. According to de Bunsen, legations were regarded as 'agencies for the presentation of protests and often impossible demands...[rather] than channels of profitable intercourse and serious discussion between respective governments'.⁶⁵ Specifically, this referred to claims made by British companies pursuant to breaches of contract by governments, state authorities or municipalities. These companies distrusted local courts and sought redress via diplomatic channels. The Foreign Office's Rowland Sperling felt that such recourse affected other British enterprises. He counselled the appointment of a knowledgeable agent and obtaining expert native legal opinion prior to completion of contracts.⁶⁶ More generally, Sperling supported the reform of Britain's diplomatic representation. He claimed that of the 17 ambassadorial appointments in the years 1908–18, only one had held substantive rank as minister in South America. Only five of the others had ever served there. 'The inference is that the best men in the Service have not been sent to South America.'⁶⁷ Conversely, some argued that America's governmental infrastructure, and Germany's also, *was* being applied to promote commercial interests there.⁶⁸

Wartime strains had also affected the service. De Bunsen noted that Sir Reginald Tower and also Stephen Leech, Minister at Havana, were exhausted: Leech had been there, perhaps the most expensive Latin American post, for nine years.⁶⁹ The 'dignity' of British diplomats was an issue. In September 1918, de Bunsen acknowledged that reform of housing, personnel and allowances of diplomatic and consular staff was required, but concluded that Britain's representation in Latin America sur-

passed that of any other country.⁷⁰ A special correspondent of *The Times* questioned the extent to which those officials should actively intervene to support commercial interests.⁷¹ Phillip Dehne suggests that inroads made by German businesses in pre-war Latin America, at the expense of British interests, were not occasioned by proactive official German intervention. Rather, German traders' adaptability, knowledge and training were responsible.⁷² However, in view of anticipated post-war economic growth in South America, *The Times'* special correspondent believed that the number and efficiency of British diplomatic personnel must increase: they must be positioned 'to make a systematic study of the economic, as well as the political, conditions of the countries to which they are accredited'.

The de Bunsen Mission coincided with important developments in the evolution of Britain's commercial diplomatic service. The nature and extent of official diplomatic and consular support for British overseas commerce had long been debated. By August 1914, eight commercial attachés had been appointed. Two further appointments were made in 1916, in Brazil and Argentina. In the spring of 1918, the commercial attaché service was overhauled and expanded. A related development was the creation, in 1917–18, of the DoT, under the Board of Trade and the Foreign Office. There were indications that British diplomats in Latin America did not grasp or take sufficient interest in future commercial interests, unlike their American counterparts. Also, as previously suggested, allegedly they did not understand the Statutory List, overseen by the FTD, and no clear distinction was made between it and the investigation and promotion of future commercial interests, which should be the commercial attachés' focus.⁷³ In Argentina, business interests complained that the existing system was poor. The flow of information between the Board of Trade's Commercial Intelligence Department, consuls, the commercial attaché and the chamber of commerce, was deficient.⁷⁴ One possible solution was the appointment of a trade adviser, with local knowledge and language expertise, who might sit in the DoT, as a conduit between London and Argentina.⁷⁵

Such a development might also stymie American post-war prospects. Wartime restrictions affected Britain's, as well as Germany's, trade, and America capitalized on this. In November 1916, Harold Chalkley, Commercial Secretary in Buenos Aires, commented on a campaign, involving the press and commercial bodies, aimed at promoting American trade in Latin America.⁷⁶ During the war, two American banks opened branches in Buenos Aires.⁷⁷ In 1917, its proportion of Argentine exports marginally

exceeded Britain's, though the position was substantially reversed during 1918–20.⁷⁸ However, this did not assuage concerns about increased industrial activity in America boosting demand for Argentine products. This trade was supported, among other things, by an exchange agreement between Washington and Buenos Aires, of which the DoT learnt, not from Chalkley, but from the local press.⁷⁹ As previously noted, the Cabinet had approved the elevation of Britain's legation in Buenos Aires to embassy status but America had already done so.

Quite what de Bunsen might have achieved in view of these challenges is open to question. The DoT's E. J. Bray, writing to de Bunsen just prior to his departure, recorded his view that the mission should simply record its impressions, 'rather than devote itself to specific commercial questions'.⁸⁰ It thanked expatriates effusively for their contributions to the war effort and was lauded in return. However, while de Bunsen commended Tower's ability, he could not hope to resolve the commerce-related challenges. Tower had previously confessed his inability to deal with these matters, pointing to inadequate staffing. Peel in Rio agreed, as did Godfrey Haggard at La Paz.⁸¹ To Jack Garnett, Tower's deputy, de Bunsen's mission was not the 'unqualified success' described by Tower, in paving the way for improved relations. To Garnett, the mission had failed in Argentina concerning commerce. Its members misjudged the British merchants' knowledge and underestimated their dissatisfaction on a range of issues bearing upon commercial interests as well as their effective representation by diplomatic and consular staff.⁸² It did not assuage concerns about the lack of coordination between the Statutory and Black Lists. However, the mission's effusive reception was remarkable. In July 1918, Tower reported that President Irigoyen, when recalling his meeting with de Bunsen, had 'never before expressed...such outspoken sympathy with Great Britain'.⁸³

CHILE

The mission anticipated a mixed reception in Chile due to German influence there, not least the German community in the south of the country. The blacklisting of German firms involved in Chile's nitrate industry had caused a degree of ill-feeling: the British firm Gibbs & Co., acting as agents for the British Government, had also quickly subsumed much of the German-operated trade.⁸⁴ In fact, these issues did not impinge unduly on de Bunsen's visit. The announcement, just before the mission's arrival, of

the gift from the British Government of six submarines and 50 aeroplanes, as well as an awareness of historical ties, rendered any related concerns groundless. Opportunity was taken to meet with British expatriates and consular staff, and with President Juan Sanfuentes, his subordinates, and with officers of the Chilean Navy, for which Britain provided training. The pressing issue in Santiago was a division among British merchants between 'super patriots', as de Bunsen described them, who refused to deal with firms which had *any* German employees, and others, who, like de Bunsen, felt that this could alienate Chileans from the Allied cause, without materially affecting the enemy, and also damage Britain's post-war prospects. Sanfuentes argued that the Statutory List would harm those prospects. De Bunsen was dismayed to see German vessels in Valparaiso harbour, without any restrictions on their ability to trade.⁸⁵ He later considered Chile the 'danger spot' in South America: 'grasping, efficient and Prussian', its continued wrongful possession of the Peruvian provinces of Tacna and Arica, was a real bone of contention.⁸⁶ More significant, perhaps, for Britain's long-term interests, was increasing American ascendancy concerning trade and banking, as well as a more general sense of the war having enabled America to challenge Britain's commercial ascendancy.⁸⁷

BOLIVIA, PERU AND BEYOND

Hostile publicity in the Bolivian and Peruvian press concerning the gift of aeroplanes and submarines, briefly questioned the advisability of the mission visiting those countries.⁸⁸ The transaction had aggravated existing territorial grievances and its wisdom was questioned in view of Chile's 'obstinate neutrality' and as both Bolivia and Peru had broken with Germany.⁸⁹ German shipping in Peru had been confiscated but, according to de Bunsen, it remained militarily weak. Its aspirations for territorial restitution relative to Chile were, he felt, bound up with the principles which might underpin a league of nations. De Bunsen ascribed its hesitancy, and that of other Latin American countries, which had broken with Germany but not entered the war, to concerns about the persistence of German influence in the region.⁹⁰ British investments there exceeded £29 million in 1917, and were greatest in Peru's industry, trams and public works.⁹¹ By 1914, however, America was its main trading partner and the war accentuated this.⁹² Britain's stake in Bolivia was considerably smaller, amounting to little over £2 million. As with his Chilean counterpart, its president, Sr. Gutierrez Guerra, opposed the Statutory List policy. Allen

Kerr sought, with some success, to assuage the concerns of Bolivia's foreign minister, as well as British merchants, on this point.⁹³

From Bolivia the mission travelled to Peru and then to Quito, where it was also well received, notwithstanding German agents' efforts to thwart it. In fact, Ecuador severed diplomatic relations with Germany in late 1917. Ecuador's economy had suffered due to wartime economic disruption. Payments on railway bonds held in America and Britain had stalled. From Ecuador the mission visited Panama and then Colombia, where its reception was enthusiastic: unlimited governmental credit had been granted for entertainment. According to Percy Wyndham, British Minister at Bogotá, the mission accomplished 'a great deal of solid work'. De Bunsen discussed political and financial issues with the new president, Don Marco Fidel Suárez, and also met with the pro-British, Foreign Minister, Dr Jorge Holquin. The main topic of discussion with Suárez was Colombia's disagreement with America concerning the Panamanian Isthmus: the president asked de Bunsen to make representations in Washington about it. Suárez had requested a British financial adviser and hoped for the establishment in Colombia of a British bank. Thus, Britain might stymie American influence, in commercial and political terms, especially given the hostility towards America. It might also develop its existing investments, which in 1917 exceeded £11 million. However, de Bunsen noted that hostility towards America was the chief impediment to Colombia openly siding with the Allies. It had previously passed a resolution supporting them.⁹⁴ Other members of the mission were assiduous in discussing with Britons, the means by which they might assist.⁹⁵

Venezuela, which remained neutral throughout the war, was next on the mission's itinerary, and then Cuba, which, de Bunsen reported, had sided with the Allies due to 'a sense of a binding obligation' to America, but which otherwise did not convey the impression of a nation engaged in a deadly struggle.⁹⁶ In 1913, though differing in nature, British and America's investments in Cuba were roughly equal but considerations of realpolitik obliged London to acknowledge Washington's preponderance there.⁹⁷ As Christopher Hull has suggested, the war completely reversed the balance of trade between Britain and Cuba in the latter's favour. This was not something that de Bunsen and his staff, or their superiors in London, could reverse.⁹⁸

In Washington, de Bunsen met each of the South American representatives, and noted the sense of official disgruntlement, that while Britain

enjoined America to commit to the war, the DoT was busily pegging out post-war commercial interests.

At a certain level the mission was successful. As a 'good-will' mission its impact was striking. De Bunsen's sincerity and courtesy, and his ability to speak Spanish were praised. Some diplomats noted his assistance in executing their duties.⁹⁹ This encouragement ameliorated a sense of isolation for those distant from home and from the seat of the war. Moreover, commercial success required confidence and the mission succeeded in this sense. As de Bunsen noted, concerning the war's outcome, and the achievement of war aims, his speeches were unflinching. He had emphasized increasing imperial solidarity, the unity of the British people, and growing cooperation among government departments. Concerning the future, he had noted Britain's readiness to convert industrial plant, currently employed for war purposes, to peace-time purposes. He anticipated that the development of shipbuilding yards would support increased commerce with South America. Pockets of German influence persisted but America had subsumed many of its interests. Yet America's business methods had failed to impress. British prospects were good. One concern, regarding maintaining peaceful trading conditions, was the border dispute between Chile and Peru especially. De Bunsen had been authorized to propose treaties with leading South American countries to create peace commissions, to discuss such disputes. The signature of an arbitration treaty on the day of his departure from Lima had reinforced the mission's value there.¹⁰⁰ However, pressure of business had prevented him from signing relevant treaties in Rio, Buenos Aires and Santiago.¹⁰¹

As for expatriates, de Bunsen bolstered their confidence, not least by reading the King's address, which acknowledged their wartime contributions and their vital role in the outer empire. He conveyed a desire, on the government's part, to revive communications with them, through chambers of commerce, commercial attachés and consuls.¹⁰² In December 1919, the Foreign Office Committee on British Communities Abroad was established to build upon patriotic wartime spirit and instil such sentiments where deficient. Both de Bunsen and Holt were members and Kerr and Mitchell Innes, among others, provided evidence to it about South America.¹⁰³

AFTERMATH AND CONCLUSIONS

Following de Bunsen's mission, reciprocal missions were despatched to England.¹⁰⁴ In June 1919, a Brazilian commercial mission arrived at the FBI's invitation. Escorted by Barclay, it visited manufacturing centres and conferred with British industrialists.¹⁰⁵ It sought to establish an Anglo-Brazilian Chamber of Commerce in London, which would permanently display Brazilian raw materials. This would mirror the FBI's display of British goods in Rio.¹⁰⁶ Brazil hoped to boost British imports of key Brazilian products, including meat, cotton and rubber, an ambition which Barclay endorsed.¹⁰⁷ The extension of tariff concessions granted to America to Britain was contingent on this.¹⁰⁸ However, the mission's accomplishments were 'meagre'. The key impediment was apparently a lack of commitment at the Foreign Office to resolving outstanding issues.¹⁰⁹

Chile and Uruguay despatched similar trade missions in late 1919: the latter, under its Foreign Minister, Dr Juan Buero. He suggested that shared ideas of commercial integrity, honesty, and morality would nurture Anglo-Uruguayan trade.¹¹⁰ Both of these missions were criticized for their lack of commercial content.¹¹¹ Senor Tornquist, who undertook a similar mission on Argentina's behalf early in 1920, noted that while exchange rate problems persisted, Britain's esteem persisted: 'the English word is synonymous with truth and straightforwardness'. A further substantial loan to Britain was posited.¹¹² An 'abortive' commercial mission from Cuba followed in 1921.¹¹³ As Robert Howes suggests, retrenchment obliged the FBI, which had supported those missions, to redirect its funds.¹¹⁴

Less clear, perhaps, was official agreement on the scale of the American challenge and how to resist it. In September 1918, de Bunsen had looked to Anglo-American cooperation to exclude German commerce from Latin America.¹¹⁵ Suspicion of America ran deep. In December 1918, Captain Edward Boyle, Britain's naval attaché in Buenos Aires, had condemned American businessmen's underhand methods in Latin America. In Buenos Aires, Boyle noted the 'greatest opposition' from the American consul-general [*sic*], from the war's commencement. American goods and methods were not popular, but customers might continue to use them by default, especially if offered on advantageous terms. To Boyle, British diplomats must 'be men of strong character, broadminded, able to look at things from all points of view, and imbued with the notion that a Nation lives by its Commerce'. He continued:

How often in the past has trade been lost to British Merchants from want of support from their Diplomatic representative? British Diplomatic representatives should in fact be considered as the principal Commercial Agents for all products of the British Empire that affect the countries to which they are accredited and they should not deem it derogatory to their dignity to be considered as such.

Boyle argued that, concerning rank, accommodation and official entertainments, British diplomats must equal their American counterparts. Technical experts should support diplomats, and leading members of chambers of commerce should visit London to apprise government of their needs, and to develop a line of action. Banks should be primed to support British trade.

There was consensus that resources for the commercial attaché service in Latin America should increase.¹¹⁶ At a conference comprising representatives from the Foreign Office, DoT and FTD, the view was expressed that inter-Allied bodies formed to stymie German commercial prospects would probably disband in peace time. Disagreement arose concerning the future role of official support for commerce. More assertive support might complicate Anglo-American relations. Sir Francis Elliot, the FTD's Deputy Controller, argued that one lesson to be learnt from Germany was the benefits of manifest support and coordination under official auspices.¹¹⁷ When distilled into policy, in the form of a telegram drafted by John Tilley, Acting AUS, the ascendancy of political relations was clear. In January 1919, he anticipated severe Anglo-American competition. As British policy must avoid commercial rivalry embittering political relations, diplomats and consuls must discourage British traders from using 'devious or unnecessarily vexatious methods', in competing with American or other foreign interests.¹¹⁸

The structure of official support was also contentious. During the mission, Holt had reprised the idea of a specialized and unified diplomatic and consular service, encompassing South and Central America, as well as Spain and Portugal.¹¹⁹ The idea generated a flurry of concerned or hostile minutes at the Foreign Office.¹²⁰ On his return Holt wrote a report including this idea, which the DoT proposed to publish.¹²¹ Holt deemed commercial intelligence deficient. He proposed that each republic should be presided over by a controller in the DoT, who would become expert in its affairs. Businessmen returned from South America would constitute councils which would work with and advise each controller. Members of

British chambers were also to be elected annually to advise British legations. He further suggested the appointment of commercial attachés to Chile, Bolivia, Peru and Cuba but recommended that their title should change because, as it stood, it implied inferior status. Holt caused deep offence when he labelled British ministers in South America ‘incompetent figureheads’. He implied that ‘men of affairs’ might have swayed the wartime loyalties of South American nations.

The Foreign Office’s response to Holt was revealing. At Curzon’s request, de Bunsen led the charge. After all, Holt had been deputed to his mission, under the Foreign Office; he had claimed expenses though his status was unofficial. The first concern was that, if implemented, Holt’s ideas would place legations largely under the DoT.¹²² Second, Holt had allegedly broached ‘two quite separate subjects’: business prospects and opportunities and questions of organization and administration affecting both the Foreign Office and DoT and Diplomatic and Consular services. The DoT must only publish the strictly business-related matters broached by Holt.¹²³ Speed was essential. Holt had broadcast the imminent publication of his pamphlet, and was openly critical of delay.¹²⁴

De Bunsen suggested its publication with a covering note.¹²⁵ The latter (eventually did), record that the Royal Commission of 1914 had discussed the reform of the foreign services; that its recommendations were now partly in force: the remainder were under discussion with the Treasury. In practice, de Bunsen continued, British communities in South America were already in touch with industrial circles in the UK through machinery afforded by commercial attachés abroad and the DoT at home. A special consular form had been developed for this purpose, with excellent results. British representatives in South America would naturally consult and liaise with the local British chambers of commerce without the need for external advice. Similarly, the DoT consulted competent people in the City as necessary. The appointment of committees of experts to advise the DoT through controllers was ‘superfluous and cumbersome’. De Bunsen noted that, while Holt was an experienced railway man, he was unversed in trade or commerce. He was unpopular in Argentina: ‘a well-meaning, public spirited man, who forms hasty judgements, and starts from the assumption that the Diplomatic and Consular Services should be scrapped as they stand, and reformed with a purely business personnel’.¹²⁶

The anticipated American competition fructified. Indeed, Rosenberg suggests that de Bunsen’s mission stimulated it. In May 1918, the State Department asked all American consuls to report on key wartime

economic changes in their districts, and to report opportunities.¹²⁷ Soon a committee comprising officials and businessmen was formed to improve cooperation concerning propaganda and trade in Latin America.¹²⁸

The mission's contribution to the so-called 'constructive war' there could only be limited when it is considered that it also sought to reinforce the curtailment of enemy commerce, something which alienated many traders and caused suspicion and resentment among their governments: not least because it was felt that such controls had the additional aim of consolidating Britain's post-war position.¹²⁹ In this aim also, the mission, and British policy more generally, appeared to fail: German resources 'were too large and too diversified'.¹³⁰ Wartime administrative machinery designed to remove German influence rapidly dissolved in peacetime. British officials, who had been important in this context, were replaced and German commerce resumed.¹³¹

Roger Grivil notes the perceived abandonment of South America by Britain in the late 1920s.¹³² In all but three of the twelve years after 1918, Argentina's imports of American goods exceeded those of British goods. Then, Britain's lead was marginal, whereas, when America led it often did so comfortably.¹³³ Rosenberg suggests this was partly a structural issue. Wartime changes in Latin American economies stimulated demand for commodities which America especially, and Germany, not Britain, could meet.¹³⁴

By 1929, Britain had only three commercial attachés and one assistant commercial attaché in Latin America.¹³⁵ Then, preponderating American trade with Brazil was ascribed by Stanley Irving, British Commercial Secretary at Rio, to the fact that his American counterpart had three times as many staff.¹³⁶ The FBI's efforts, from 1919, to facilitate British commerce in South America, chiefly by appointing commissioners, apparently did not compensate for shortcomings in official staffing. Grivil suggests that greater flexibility on the part of American industry, including its distribution methods, and greater vigour in its efforts to control capital assets, was more important in explaining the loss of ground to America.¹³⁷ Either way, by the late 1920s, renewed calls were made for greater focus on trade among British diplomats in South America and beyond.¹³⁸ A further British commercial mission, this time under Edgar, Viscount D'Abernon, was despatched to Argentina, Brazil and Uruguay, and duly issued a damning verdict on Britain's export trade in South America.¹³⁹

NOTES

1. Mr. Balfour to His Majesty's Representatives in South America, 4 April 1918, in Correspondence Respecting the British Mission to South America, 1918, no. 1, Cmd. 12, 1919 (Hereafter Cmd. 12, 1919).
2. P. Dehne, *On the Far Western Front: Britain's First World War in South America* (Manchester/New York: Manchester University Press, 2009), Ch. 1, and pp. 56–7. These efforts included blocking ciphered messages, by virtue of ownership of transatlantic cables: R. Miller, *Britain and Latin America in the Nineteenth and Twentieth Centuries* (New York: Longman, 1993), p. 180.
3. B. Albert, *South America and the First World War: the Impact of the War on Brazil, Argentina, Peru and Chile* (Cambridge: Cambridge University Press, 1988), pp. 60–1.
4. 'The Protection of British Interests in Latin America', R(owland) S(perling), n.d., FO 371/3485/61352.
5. It did so in October 1917.
6. Dehne, 'From "Business as Usual" to a More Global War: The British Decision to Attack Germans in South America during the First World War', *JBS*, 44/3 (2005): 516, 534–5.
7. Dehne, *Far Western Front*, p. 58.
8. Dehne, *Far Western Front*, pp. 22–9.
9. Lyons replaced Colum Crichton-Stuart, who conceived of the mission, at the eleventh hour.
10. 'Sir Follett Holt: South American Railways', *The Times*, 21 March 1944.
11. Dehne, *Far Western Front*, pp. 70–1.
12. Crichton-Stuart minute, 19 March 1918, FO 371/3484/40686/52246.
13. R. Howes, 'Changing attitudes towards economic development and democracy in Brazil: Roberto Simensen, Ernest Hambloch and the Brazilian Commercial Mission to the UK in 1919', *JTS* 11/4 (2013): 369. E. S. Rosenberg, *World War I and the Growth of United States Predominance in Latin America* (Garland: 1987), p. 44.
14. E. V. Garcia, 'Anglo-American Rivalry in Brazil: the Case of the 1920s', University of Oxford Centre for Brazilian Studies, Working Paper Series, CBS-14-00 (P): 13. Rosenberg, *World War I*, pp. 42–7.

15. Rosenberg, *World War I*, p. 42.
16. Rosenberg, *World War I*, pp. 53–4.
17. Among them, table tennis, piano music, badminton, boxing, bridge, rifle shooting, a horse simulator, a rowing machine and piggy-back wrestling: journal letter, 25 April 1918, 10/RR, De Bunsen Papers, Bodl.
18. Journal letter, 2 May 1918, 10/RR, De Bunsen Papers.
19. Stuart minute for De Bunsen, n.d., FO 371/3484/40686/63273.
20. Journal letter, 30 June 1918, 10/RR, De Bunsen Papers. Holt was ‘violent, tactless & unreasonable – no use at all, & has to be humoured; a really good man in his place would have been so valuable.’
21. Journal letter, 5 May, 10/RR, De Bunsen Papers.
22. De Bunsen note, 19 April 1918, FO 371/3484/40686/69911.
23. Sir Louis Mallet, AUS, Foreign Office, to de Bunsen, 23 April 1918, copy, FO 372/1201/72039.
24. De Bunsen to Balfour, 5 May 1918, no. 2, Cmd. 12, 1919.
25. After much pressure, the officers responsible were court-martialled, but acquitted. Stuart minute, 7 May 1918, FO 371/3484/40686/80517.
26. Sperling, ‘Protection of British Interests’. Britain also financed Brazil’s foreign trade. By contrast, US investments in Brazil totalled \$50 million in 1913: Garcia, ‘Anglo-American Rivalries’, p. 9.
27. Peel was instructed to request a modest reception, to set an appropriate precedent: Balfour to Peel, 18 March 1918, FO 371/3484/40686.
28. Peel to Balfour, 27 May 1918, no. 6, Cmd. 12, 1919.
29. Peel to Balfour, 20 March 1918, FO 371/3484/51400. In fact, de Bunsen met the President elect, Dr Rodrigues Alves.
30. War Cabinet 396, 22 April 1918, CAB 23/6.
31. Peel to Balfour, 27 May 1918, no. 6, Cmd. 12, 1919.
32. Minutes by Crichton-Stuart and Rowland Sperling, 26 April 1918, and Theo Russell, 29 April 1918, FO 371/3484/40686/67258. Stuart advised an announcement of the change concerning Brazil before the mission left that country: minute of 13 May 1918, 40686/83748.
33. Address by Professor Sá Vianna on behalf of the Brazilian Pro-Allies League, in Peel to Balfour, 15 May 1918, no. 3, Cmd. 12, 1919.

34. 'Message from the King to his subjects in Latin America', encl. no. 5, in de Bunsen to Balfour, 13 May 1918, no. 5, Cmd. 12, 1919; published in *The Times*, 13 May 1918.
35. Peel to Balfour, 15 May 1918, no. 3, Cmd. 12, 1919.
36. Encl. in Peel to Balfour, 27 May 1918, FO 371/3484/117124.
37. Garcia, 'Anglo-American Rivalries', pp. 9–10. Albert, *South America*, pp. 93–4.
38. Garcia, 'Anglo-American Rivalries', pp. 17–18.
39. Rosenberg, *World War I*, pp. 80–1.
40. Rosenberg, *World War I*, p. 88.
41. Dehne, *Far Western Front*, p. 16.
42. Rosenberg, *World War I*, pp. 90–5.
43. Rosenberg, *World War I*, p. 96.
44. Rosenberg, *World War I*, pp. 96–8.
45. Rosenberg, *World War I*, pp. 100–1.
46. Albert, *South America*, p. 80.
47. Dehne, *Far Western Front*, p. 179.
48. Sperling, 'Protection of British Interests'.
49. De Bunsen to Balfour, 29 May 1918, no. 7, Cmd. 12, 1919; also at FO 371/3168/125735. Unless otherwise stated, the remainder of the paragraph derives from this communication.
50. The remainder of this paragraph derives from Holt's address, delivered 10 May 1918, in de Bunsen to Balfour, 13 May 1918, no. 3, FO 371/3484/40686/112571.
51. Thus, Rear-Admiral Ley undertook investigations of naval matters: e.g., de Bunsen to Balfour, 30 June 1918, no. 25, Cmd. 12, 1919.
52. De Bunsen deemed him 'weird & eccentric, but clever, & sympathetic with the rather idealist aspirations of the people & Govt': de Bunsen to Lady de Bunsen, 28 May 1918, 10/RR, De Bunsen Papers.
53. De Bunsen to Balfour, 30 May 1918, no. 8, Cmd. 12, 1919.
54. Memorandum by Buckland Cooper, RNVR, 18 November 1918, in Edward Boyle to Naval Intelligence Department, 19 November 1918, in Director of Naval Intelligence to Foreign Office, 21 December 1918, FO 371/3485/61352/212438.
55. Dehne, *Far western Front*, pp. 183–8.
56. Sperling, 'Protection of British Interests'.
57. *The Times*, 27 March 1919.

58. Illness or mixed loyalties were adduced: Tower to Balfour, 27 May 1918, FO 371/3484/40686/122387. Hardinge minute, n.d., FO 371/3485/40686/152999; de Bunsen to Lady de Bunsen, 26 May 1918, 10/RR, De Bunsen Papers.
59. 'Brief Retrospect on Argentine Politics and Argentina's Attitude During the War', MS813/2, Tower Papers, ULL. D. Rock, *Argentina 1516–1987: From Spanish Colonization to the Falklands War and Alfonsín* (I.B. Tauris, 1986), pp. 193–5.
60. 'Status of His Majesty's Representatives in Brazil, the Argentine and Chile', A. J. Balfour, 16 April 1918, GT 4253, CAB 24/48.
61. Dehne, *Far Western Front*, pp. 152–3.
62. Dated 3 June 1918, 11/e, De Bunsen Papers.
63. William (Jack) Garnett, First Secretary, Buenos Aires, to mother, 13 July 1918, DDQ 9/48/10, Quernmore Papers, LA, and Garnett to Theo Russell, Foreign Secretary's Diplomatic Secretary, 9 September 1918, FO 800/200/59.
64. Tower to Grey, 27 January 1915, FO 368/1203/22267. Concerning staff in Brazil, see 'Report on Brazil', n.d., by unidentified British merchant, in Eustace Percy to Victor Wellesley, 1 August 1918, FO 368/1889/134819. Conversely, some consuls felt that traders ignored their commercial advice: Dehne, *Far Western Front*, p. 13.
65. De Bunsen minute, 9 April 1918, FO 371/3485/61352.
66. Sperling, 'Protection of British Interests'.
67. William (Jack) Garnett, First Secretary, Buenos Aires, to mother, 13 July 1918.
68. Rosenberg, *World War I*, pp. 39–40, 187. The Inquiry, America's peace conference information-gathering exercise, focused disproportionately on Latin America: Rosenberg, p. 40. On the pre-war systematisation of US commercial diplomatic representation in South America, see B. I. Kaufman, 'United States Trade and Latin America: The Wilson Years', in *JAH*, 58/2 (1971): 350–1, and Miller, *Latin America*, p. 184. On Germany, Dehne, *Far Western Front*, p. 25.
69. On Tower, journal letter, 11 June 1918, 10/RR, De Bunsen Papers. On Havana, C. Hull, *British Diplomacy and US Hegemony in Cuba, 1898–1964* (Basingstoke: Palgrave Macmillan, 2013), pp. 62–3. Ernest Shackleton, whose propaganda mission to South

- America preceded de Bunsen's mission, said the same of Tower: R. Huntford, *Shackleton* (Abacus, 1999), p. 660.
70. De Bunsen to Balfour, 18 September 1918, FO 371/3485/40686/161622.
 71. 'The Mission to Latin America: Fields for British Enterprise: A New Embassy', *The Times*, 5 June 1918. The remainder of the paragraph derives from this article.
 72. On this, see Dehne, *Far Western Front*, p. 11.
 73. Dehne, *Far Western Front*, pp. 80–83, suggests that Tower was proactive in its implementation.
 74. Consuls and commercial attachés allegedly duplicated each other's work. From 1914 consuls reported on issues of commercial intelligence directly to the BoT. This information by-passed the Foreign Office's political departments, leaving them ignorant of Argentine affairs.
 75. Secretary, Chamber of Commerce, Buenos Aires, to de Bunsen, 11 June 1918, 11/e, De Bunsen Papers.
 76. 'United States Trade with South America', Chalkley, 8 November 1918, in Tower to Grey, 9 November 1918, FO 368/1479/80321/247561.
 77. Grivil, 'Anglo-U.S. Trade Rivalry in Argentina and the D'Abernon Mission of 1929', in Rock (ed.), *Argentina in the Twentieth Century* (Duckworth, 1975), p. 43.
 78. On growing wartime American inroads, Albert, *South America*, pp. 75–6.
 79. Undated minute by Bray in Richard Nosworthy (Steel-Maitland's Private Secretary) to Sperling, FO 371/3485/46704. Formerly European manager of the Mexican Railways, Bray was soon lured into the City despite Steel-Maitland's efforts to retain him.
 80. Bray to de Bunsen, 4 April 1918, 15/k, De Bunsen Papers.
 81. Tower to Balfour, 16 April 1918, FO 371/3484/40686/67961; Peel, 10 April 1918, 14/e, De Bunsen Papers; Haggard, 24 November 1918, vol. 15k, idem.
 82. Garnett to mother, 15 June 1918, DDQ 9/48/8, Quernmore Papers. J. Fisher, *British Diplomacy and the Descent into Chaos: The Career of Jack Garnett, 1902–19* (Basingstoke: Palgrave, 2012), pp. 179, 183–4.
 83. Tower to Balfour, 20 July 1918, FO 371/3485/40686/152999.
 84. Albert, *South America*, p. 98.

85. De Bunsen to Balfour, 30 June 1918, no. 15, Cmd. 12, 1919.
86. De Bunsen to Balfour, 27 July 1918, 11/c, De Bunsen Papers. On the mission in Chile, Dehne, *Far Western Front*, p. 147.
87. Albert, *South America*, pp. 103–5.
88. On reactions in Lima, see e.g., Rennie to Foreign Office, 12 June 1918, FO 371/3489/16259/105823.
89. De Bunsen to Balfour, 27 June 1918, FO 371/3489/16259/141969.
90. De Bunsen to Balfour, 17 July 1918, FO 371/3485/40686/151413.
91. Sperling, ‘Protection of British Interests’.
92. Albert, *South America*, pp. 60, 116.
93. De Bunsen to Balfour, 27 June 1918.
94. De Bunsen to Balfour, 18 August 1918, FO 371/3485/40686/161959; Rosenberg, *World War I*, p. 27.
95. Wyndham to Balfour, 14 August 1918, FO 371/3485/40686/162374.
96. De Bunsen to Balfour, 18 September 1918, FO 371/3485/40686/161622.
97. Hull, *British Diplomacy*, pp. 53–4.
98. Hull, *British Diplomacy*, pp. 58–9.
99. See, e.g., Wyndham to Balfour, 14 August 1918, n. 20, Cmd. 12, 1919.
100. Ernest Rennie to Balfour, 22 July, 1918, no. 16, Cmd. 12, 1919.
101. De Bunsen to Balfour, 17 July 1918, no. 18, Cmd. 12, 1919.
102. De Bunsen to Balfour, 18 September 1918, FO 371/3485/40686/161622. Also at no. 25, Cmd. 12, 1919. Dehne, *Far Western Front*, p. 146.
103. Fisher, ‘“A call to action”: The Committee on British Communities Abroad, 1919–20’, *CJH*, 44/2 (2009): 261–86.
104. The Committee for the Reception of Foreign Missions discussed the arrangements. Sir John Tilley presided. De Bunsen and Holt were members: FO 371/4334/93019/132807.
105. ‘The Brazilian Commercial Mission: An Eight Week Programme’, *The Times*, 21 June 1919.
106. ‘Anglo-Brazilian Trade: Arrival of a Special Mission’, *The Times*, 25 June 1919.
107. Howes, ‘Brazilian Mission’, pp. 370–2.
108. Howes, ‘Brazilian Mission’, p. 372.

109. Howes, 'Brazilian Mission', pp. 372–4. Several subsequent Brazilian commercial missions were received. The Brazilian Chamber of Commerce in Great Britain was established in 1942.
110. 'Trade with Uruguay', *The Times*, 2 December 1919.
111. Memorandum communicated by Colonel Galloway, n.d., but December 1919, FO 371/4334/A694.
112. 'British Capital for Argentina', *The Times*, 16 March 1920.
113. Hull, *British Diplomacy*, p. 57. Members of the mission did not find favour with their hosts, Hull, *British Diplomacy*, p. 60.
114. Howes, 'Brazilian Mission', p. 373.
115. 'Pro-Ally South America', *The Times*, 10 September 1918.
116. Minute by unknown official, 30 December 1918, FO 371/3485/61352/212438.
117. Elliot minute, 18 October 1918, FO 371/3485/61352/213663.
118. Draft telegram, 1 January 1919, FO 371/3485/213663.
119. De Bunsen minute, 24 May 1918, FO 369/1052/93532.
120. Minutes by Arthur Steel-Maitland, who nominated Holt for the mission, 31 May 1918; Sir Eyre Crowe, Wellesley, Percy, 3 June 1918; Hardinge, n.d., Percy, 6 June, 1918, FO 369/1052/93532.
121. 'British Diplomatic and Commercial Mission to South America', 11 November 1918, in DoT to Foreign Office, 26 February 1919, FO 371/4334/32871. The remainder of this paragraph draws upon this report.
122. Sperling minute, 4 March 1919, FO 371/4334/32871.
123. Wellesley minute, n.d., but c12 March 1919, FO 371/4334/32871.
124. Steel-Maitland minute, 25 March 1919, on Reginald Milne (DoT), same date, FO 371/4334/32871.
125. De Bunsen note, 22 March 1919, FO 371/4334/32871. This paragraph derives from this document.
126. De Bunsen previously described him as 'clever, but regarded as a bouncer': de Bunsen to Lady de Bunsen, 19 May 1918, 10/RR, De Bunsen Papers.
127. Rosenberg, *World War I*, pp. 60–1.
128. Rosenberg, *World War I*, p. 61.
129. Dehne, *Far Western Front*, pp. 145–6, 170. Albert, *South America*, p. 119.
130. Dehne, *Far Western Front*, pp. 157–8.
131. Dehne, *Far Western Front*, pp. 193–5, 201–7.

132. Grivil, 'Trade Rivalry', p. 41.
133. Grivil, 'Trade Rivalry', p. 43; Garcia, 'Anglo-American Rivalry', p. 6; Rock, *Argentina 1516-1987*, pp. 197-8.
134. Rosenberg, *World War I*, pp. 66-7. Miller, *Latin America*, p. 191.
135. Grivil, 'Trade Rivalry', p. 44. They were posted to Argentina, Brazil, Chile and Peru: *Foreign Office List* (1929).
136. Garcia, 'Anglo-American Rivalry', p. 48.
137. Grivil, 'Trade Rivalry', pp. 46-8.
138. 'An Important Embassy', *The Times*, 4 July 1929.
139. Miller, *Latin America*, p. 191.

The Age of Illusion? The Department of Overseas Trade Between the Two World Wars: Three Case Studies

Miklos Lojko

The exigencies of the First World War accelerated the breakdown of traditional barriers between politics and trade all over the world, a process to which the United Kingdom had perhaps the most extensive exposure. Although commercial relations had been closely connected with foreign relations in the imperial age of mercantilism, ‘in the century following the birth of liberalism, they were viewed, at the Foreign Office and in business circles, as an internal affair of the commercial community [...] which were to be divorced as much as possible from politics’.¹ However, towards the end of the Great War it had become evident that the early restoration of Britain’s export trade would be a matter of vital importance to the country. A far greater measure of official assistance for UK exporters would be required.

Even before peace planning, war-time requirements called for the creation of a number of new government departments that focused on commercial intelligence. Thus, the Contraband Department of the Foreign Office, the Foreign Trade Department (FTD), the War Trade

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Intelligence Department, and the Finance Section under the Minister of Blockade (Lord Robert Cecil), broadly overseen by the War Trade Advisory Committee, pursued various aspects of similar tasks. It was understood that these departments would be wound up after the war but also that some of their expertise, merged with the economic and commercial intelligence activities of the Board of Trade and the Foreign Office, should be preserved and utilized in peacetime. In 1917, the Committee of Commercial Intelligence in Foreign Countries was set up. Besides experts from the Foreign Office, Board of Trade and UK chambers of commerce, the Federation of British Industries (FBI) was also represented through its founding chairman, Frank Dudley Docker.² It was as the outcome of these consultations and as an institutional descendant of the Commercial Intelligence Branch of the Board of Trade, renamed in 1916 as Department of Commercial Intelligence, that the Department of Overseas Trade (DoT) was first conceived.

A prominent Conservative social reformer, Sir Arthur Steel-Maitland was appointed semi-officially (until the passing of necessary legislation in March 1918) to head the new Department of Commercial Intelligence, as it was initially styled. Tasked to devise the new department's structure and recruit its members,³ Steel-Maitland set up an advisory committee on staffing.⁴ From August 1917 to January 1918, he sounded out senior civil servants in the trade intelligence community at the Board of Trade, the Foreign Office and the war trade departments with a view to recruit to the new interdepartmental organization. During the transitional period, in Lord Robert Cecil's words to Steel-Maitland: 'The Commercial Intelligence branch of the Board of Trade, the Consular and Commercial Departments of the Foreign Office, the Foreign Trade Department, the War Trade Intelligence Department and the War Trade Statistical Department will ... in all questions of commercial intelligence and cognate subjects ... take their orders from you. [In all] other matters, they would continue to be subject to the Heads to whom they are at present responsible.'⁵ The consular service, the trade intelligence services set up before and during the war and the commercial commissioner service of the Foreign Office provided the backbone of the new DoT.

Those, however, who hoped that the new department would become involved in wider economic intelligence would be disappointed. Arguing that 'at the present time all policy is to a large extent economic policy',⁶ and that by developing a relationship of 'very close and intimate nature'

with an envisaged ‘Central Bureau for Economic Intelligence’, the DoT should assume broader responsibilities, Sir T. Henry Penson, chairman of the War Trade Intelligence Department, advocated at least a quasi-political role for the DoT.⁷ However, economic intelligence and commercial intelligence would be firmly separated in the post-war structures wherein the DoT would remain a catalyst and promoter of trade only, not an economic intelligence organization.

In the above context, the concept of the ‘politics of trade’ may need some elucidation. For half a century before the First World War, in many overseas territories, the general ‘mercantile view’ of British trade and the diplomatic approach differed considerably. A good example was China where ‘[t]he British Government, ever sceptical of the potentials of the China market as depicted in mercantile “trade promotion”, pursued a policy of [political] conciliation [and] only the menace of international rivalry [...] led to a partial espousal of the mercantile line’.⁸ The underlying premise of a difference in political cultures between the developing new diplomacy and the old colonial commercial ethos would only become stronger. It was in this context that the significance of a government department amalgamating the diplomatic and the commercial method, approach and interest needs to be weighed.

At the same time, there is no evidence that the DoT, like the Bank of England during the interwar period in terms of international finance, propagated a political agenda by fostering trading relations with any particular country. Good housekeeping may have been ‘thrown to the winds’ because of the war, but now it was time to restore natural priorities. Politics would now be subordinated to, on occasion even governed by, the commercial interest, sometimes blurring the boundaries between the two. The occasional clashes between commerce and political interest would be resolved between the DoT and its parent departments. The duality of the DoT’s remit was reflected in staff ratios. Experts from the Commercial Section of the Foreign Office and the consular service and Board of Trade officials with a commercial intelligence background were present in about equal measure.

Among the key organizers on establishment were Guy Harold Locock from the Commercial Section of the Foreign Office, war-time Private Secretary to Lord Robert Cecil as Minister of Blockade (seconded, since 1916, to the staff of the new FBI) appointed assistant director of the Foreign Section of the DoT;⁹ Sir William Henry Clark, former Comptroller-General of the Commercial Intelligence Department of

Board of Trade, transferred to become Comptroller-General (permanent head) of the DoT 1917–1928; and William J. Glenny, staff clerk in the Commercial Intelligence Branch of the Board of Trade as early as 1899, founding recruit at the DoT as director of UK services, soon Inspector General of Overseas Services, emerging as an *éminence grise* of the new organization.¹⁰

The DoT, formally inaugurated on 21 March 1918 was,¹¹ therefore, a compromise between the Foreign Office and the Board of Trade on questions of control over overseas commercial representatives and the production of materials in aid of the formulation of commercial policy. Under the Overseas Trade Department (Secretary) Act 1918, the department was charged with collating and disseminating overseas commercial intelligence and administering commercial services abroad. The Secretary for Overseas Trade was responsible to the Board's Commercial Intelligence Department (until the end of the war, to the Ministry of Blockade's FTD) and to the Commercial Section of the Foreign Office. As the department acquired its institutional autonomy, its staff and structure began to expand. With Treasury approval, the DoT's Trade and Market Officers, Staff Officers, Staff Clerks and Finance Officers were to be considered as part of the DoT proper and not in either the Board of Trade or the Foreign Office.¹² By 1927, expert territorial sections had been created under the Foreign Division, counterpart of the Empire, Trades and Economic Division. The Department became the effective headquarters of British overseas commercial services. Yet the commercial diplomatic and consular services remained under Foreign Office control while the trade commissioners were appointed by, and their services administered in the name of, the Board of Trade. Nor did the Department take over all commercial functions: the Foreign Office continued to be responsible for political aspects of commercial policy and the Board of Trade for the protection of British commercial interests abroad.¹³ Perhaps the most succinct description of the functions of the DoT and its officers was given by William J. Glenny, Inspector General of Overseas Services of the DoT,¹⁴ in his review of the department and its influence abroad in 1926. 'The service as at present exists in Europe,' wrote Glenny,

was organised rapidly in 1918–1919; it has no long traditions behind it and no formal code of rules like the Consular Service, and the nature of the work undertaken by officers has been largely influenced by their individual train-

ing and predilections as well as by the demands made of them in different centres.¹⁵

Yet, according to Glenny, this flexibility gave no decisive edge to the DoT's home-based services over the existing arrangements: 'The help which a Commercial Secretary, in virtue of his diplomatic position ...render[s] to British business men', the Inspector General argued, 'is regarded by the latter as of the highest value, and makes a much greater impression than the assistance which the department gives at home..¹⁶ What Glenny could have added was that the DoT, manned by former Board of Trade commercial intelligence and Foreign Office diplomatic and consular service personnel, had no authority to formulate or adjust the aims of their operations or to measure their own overall effectiveness. There was an attempt by the Foreign Office in 1931 to claw back even some of the operational remit ceded to the DoT with the creation of the Economic Relations Section of the Foreign Office, but this body fizzled out without leaving a significant mark on commercial or political relations.¹⁷ By and large, politicians were reluctant to interfere in something they regarded as a technical matter.

The delicate relationship between economic policy and practical commerce during the interwar years is amply illustrated by a series of notes exchanged from June to December 1931, in search of 'the best mode of collaboration ... for the promotion of export trade', between the deputy director of the FBI, Guy Locock and the DoT's Comptroller-General, Sir Edward Crowe. The two co-drafted a protocol proposing that 'closer co-operation than has proved possible in the past is desirable and should be the aim of both organisations', including shared intelligence 'reports [between the FBI and the DoT] upon credit conditions in certain overseas countries'.¹⁸ Overseas Trade Circular 30907/32, as the memorandum became known, touched a raw nerve in Ramsay MacDonald's second national government which was buffeted by widespread criticism of its economic policy. In a rare instance of interdepartmental friction concerning the DoT, fearing that a formal agreement would give credence to the 'political allegation that the Government "is in the hands of the FBI"', Walter Runciman, the President of the Board of Trade, informed the head of the DoT in rather stern language: 'he [Runciman] would be glad if Mr [John] Colville would bear [this] in mind' and requested him 'to ensure that nothing is done to lend colour to the allegation' and that therefore

any such agreement should not go ‘beyond ordinary co-operation in practical details’.¹⁹

* * *

The National Archives at Kew has preserved a chronologically and territorially uneven collection of documents generated by the DoT, catalogued both as Board of Trade and Foreign Office files. Yet there is a pattern among these holdings which gives some idea of the priorities in the DoT’s work during the first decades of its existence. The 1920s witnessed much interest and resources invested into commercial relations with Central European and Balkan countries. British financiers, Treasury officials, manufacturers and exporters as well as the Foreign Office identified the countries of Central and South Eastern Europe, now mostly successor states of the Habsburg and Ottoman empires which had just crumbled—as a potential partial remedy for Britain’s economic ills. This area was also the scene of a commercial and financial turf war among British, French, and Italian (though not, at this time, German) diplomats and businessmen which concentrated the British effort even further. In spite of the changes from 1917, Russia had been a more traditional territory for British commercial undertakings that never disappeared in spite of the revolution. Lenin’s New Economic Policy (NEP), launched in 1921 (only abandoned by Stalin in 1928) operating in tandem with the Anglo-Soviet Trade Agreement of March 1921, allocated important trading concessions to UK traders in raw materials and manufactured goods. With the Russian markets fading fast from the late 1920s, the balance of focus in British trade shifted towards Germany.

These three regions had dissimilar geographic, political and cultural connotations for the British. Samples from the history of British trade links with each, reflecting the emphases in surviving DoT papers, indicate the types of problem that faced British commerce during the interwar years as seen through the eyes of the DoT and whether the DoT offered a successful contribution to solving them.

BULGARIA 1919–1930

Echoing the long-standing pre-war British commitment to the cause of Bulgarian national independence and welfare (that went into abeyance when Bulgaria joined the Central Powers) and the pre-war perceptions

of Bulgaria as part of the wider Eastern Mediterranean region, the DoT became part of the effort to resume good relations with that country in the form of enhanced commercial activity. In late 1919, the Foreign Office appointed Captain William B. Heard British Commercial Commissioner in Sofia.²⁰ Full commercial commissioners were only allocated to a few selected countries at the end of the war, mostly ex-enemies understood to be open to influences in new commercial orientations. These were also the countries where the British were expecting French and Italian competition, especially as the two former Entente allies saw economic relations in Central and South Eastern Europe as levers for political influence.²¹

The Bulgarian story tells of resourceful and ambitious British initiatives where, as elsewhere in the region, most cards were stacked against the DoT's and its parent departments' endeavours. Captain Heard must have felt let down by his appointment since he complained in a private letter to Sir Frederick Butler, Director of the Overseas Division (soon to be Comptroller-General) of the DoT, that 'I came rather high up in the Levant Service List²²...after just 20 years [*sic*] service, whereas my present appointment...will...be only a 3rd grade one. [E]veryone here will [...] evidently think I have come down in the world.'²³ Heard who had first been appointed to Sofia back in 1902 as acting vice-consul and proceeded to pre-war stations in the East Mediterranean region in an age when the politics and culture of the area still retained something of their shared Ottoman past, faced an uphill task. In an early missive, he voiced his concern that there were 'practically no British subjects and few British interests in the country'. Having arrived at his post on 3 December 1919, he 'found it exceedingly difficult to get anything in the shape of an office or local staff'. Moreover, 'one can get no assistance whatever from British firms or business men in Bulgaria because at present none exist. One, accordingly has to create one's own sources of information—a long and gradual business.'²⁴ While beginning to refer to Heard's posting as a 'temporary service',²⁵ London insisted that they 'would very much like [him] to make Bulgaria known'. That, for instance, instead of employing Russian engineers in the coal mines, the Bulgarians should be encouraged to 'employ...British technical experts in their various Departments'.²⁶

In his daily correspondence with the DoT (consuls and commercial commissioners were required to copy telegrams and letters to the DoT), Heard dealt with (mainly Bulgarian) offers of trade in bulk commodities, services, intelligence on Bulgarian state finances and the stock exchange; the promotion of trade journals; commerce in glass, earthenware, household

items, wool, strings and ribbons, fashion products, Caoutchouc (natural rubber), timber and other construction materials, agricultural and fishing products, processed food (including a cold storage concession), sugar, chemicals, dyes, oil and grease products, as well as products of the fledgling British cinematograph industry and the equipment to view them.²⁷ The list is long. Heard also compiled periodic reports on the political situation in Bulgaria. If only in sketchy detail, he criticized, sometimes fiercely, the politics of the Agrarian League, who had a majority in the Bulgarian parliament but whose objectives threatened foreign investment and the stabilization of the currency.²⁸

The absence of sound finances in Bulgaria in the early 1920s began to tell. As a defeated country, Bulgaria had to pay reparations which were fixed in the Treaty of Neuilly at 2.25 billion gold francs, soon to be reduced substantially through negotiations to 550 million at a low rate of interest.²⁹ Bulgarian statistics showed a record trade deficit for 1919.³⁰ As 1920 progressed, Captain Heard sounded the alarm bells. 'All that remains to hope for is a fine harvest and for the banknotes which the State will be forced to print.'³¹ In spite of ambitious loan scheme proposals, the economic situation of Bulgaria at the end of the year remained 'in a bad condition...The lack of raw materials hampers the exploitation of many enterprises, as well as the lack of capital and credit', which was only exacerbated by 'the lack of system and tact in the government's activities...kill[ing] initiative and discourage[ing] industrialists'.³² Yet, whatever his private misgivings, Heard remained publicly confident that, taking the 'longer view', Bulgaria 'is fundamentally sound, that force of circumstances will compel it to increase greatly its agricultural production and that the people, being industrious and economical, all point to a gradual, if tardy, return to financial equilibrium'.³³

Like other British commercial commissioners and secretaries in Central and South Eastern Europe, in particular, Czechoslovakia, Poland, Hungary, Yugoslavia and Romania, Heard had to deal with the forthright challenges posed by the French, Italians as well as, in a few instances, Germans who often used quasi state agencies to advance their aims. Interests differed significantly among the former Entente powers. The Italians and the French expected to maximize their receipts from reparations, while the British looked towards stability and the resumption of trade, 'ready to see reparations greatly reduced'.³⁴ Echoing the commercial rivalry between the two Entente allies in Hungary and Czechoslovakia during the same period,³⁵ the French accused the British of aiming to

establish a stranglehold ('la main-mise définitive de l'Angleterre sur les finances de la Bulgarie'³⁶). Heard not infrequently reported, in a vexed tone, details of contracts concluded by Bulgarian firms with French, Italian and German counterparts.³⁷ He requested 'a little commercial propaganda be undertaken to wake people up to the fact that there is such a place as Bulgaria and that there is money to be made there if they take the trouble to go into things?'³⁸ Yet this modest request received short shrift from the DoT, reflecting the organization's budgetary constraints. Frederick Butler, the Deputy Comptroller-General, was 'very doubtful as to the wisdom of trying to work up a boom in Bulgarian trade' through the press. 'The Treasury', Butler continued, 'hold very strong views about our pushing trade with countries where the exchange is very much in our favour. I think, therefore, that we must...confine ourselves to open official action.'³⁹ Yet 'open official action' seemed insufficient to move significantly beyond last resort barter deals and massive difficulties in obtaining export guarantees in relation to transactions with Bulgarian firms. Trade deals had been offered 'to some 650 [British] firms...some of whom may be very interested in Bulgaria but loath to export their wares—which they can readily dispose of elsewhere for cash'.⁴⁰ Those who did take the plunge often recoiled from the bureaucratic barriers. Negotiations in 1930 for the establishment of a cold storage facility in Varna for British export pork products fell through because of 'dirty...intrigue and procrastination'.⁴¹

A decreasing number of DoT officials, such as William Hough, Acting Senior Market Officer, still opined that it was the harshness of 'the peace terms with Bulgaria' that made 'people...hold...off in doubt as to the future soundness of the country' and remained adamant that '[i]t is a great pity and we are missing a golden opportunity'.⁴² Some ambitious and imaginative schemes of barter did indeed go ahead. In one instance, Colebrook Hurt Ltd., Export and General Merchants proposed in late February 1920 a barter deal in which British representatives were to act as go-betweens and guarantors. Hough, who put the DoT's full weight behind the idea, explained to Heard that Colebrook Hurt Ltd. were 'acting on this Department's suggestion' while 'depart[ing] from the usual manner of conducting trade with European States in order to cater for the Bulgarian market on somewhat ancient methods'.⁴³ In return for the shipment of ploughs, sulphate of copper, boots, black Singapore pepper corns, sewing cotton, rubber hoses, galvanized iron sheets, ready-made suits, enamelware and tools to the approximate market value of £39,000, the British Commercial Commissioner would 'arrange with ... some ...

reliable banking house to guarantee 3000 tons of wheat to be ready in exchange for the outward cargo ... and to produce the irrevocable authority of the Bulgarian Government to ship the same without restrictions of any sort whatever.' Colebrook Hurt Ltd. 'guarantee[d] to buy on the best possible terms'.⁴⁴

One strong local advocate of kick-starting Anglo-Bulgarian trade on a serious scale was Sir Herbert Dering, British High Commissioner in Sofia during 1920.⁴⁵ Stressing that the 'the depreciation of the leva or the local franc' was 'propitious' for British investment, Dering urged the creation of a British bank in Sofia which would be the best means of fostering business, where 'for some reason or other the Bulgarian business man is fed up with the French and Italian methods and more than ready to turn to us, failing whom they will again fall under the influence of German and Austrian financiers who had such a hold on Bulgarian banking and commerce before the war'.⁴⁶ Prompted by Dering, William G. Bruzaud, a member of the DoT's Development and Intelligence Branch, reckoned that British

merchants could arrange to purchase produce such as wheat (500,000 tons will be available for export this year) tobacco, hides, otto of roses etc. & place the purchase money to the credit of the British manufacturers who had received orders for goods.⁴⁷

In spite of the serious investments into fostering Anglo-Bulgarian trade in 1919–1920, while the DoT's home organization improved throughout the decade, the diplomatic post of Commercial Commissioner was abolished (throughout the diplomatic service) and no commercial secretary was appointed to Sofia after Heard's departure at the end of 1920. Notwithstanding the stabilization of the *leva* in November 1928, Bulgaria remained in the doldrums economically throughout the 1920s.⁴⁸ A sobering light was cast in November 1929 on the difficulties facing Anglo-Bulgarian trade, when the British Minister in Sofia, Sydney Waterlow, appealed to London for a grant of a mere £60 to help keep the fledgling British-Bulgarian Chamber of Commerce afloat.⁴⁹ DoT officials argued that the Chamber was 'not constituted on the lines agreed in 1920',⁵⁰ and that 'it is a bad time to urge anybody to do anything for Bulgaria, as her financial position is growing steadily worse'.⁵¹ According to Cecil Farrer, head of the Eastern and Baltic and Balkans Section of the DoT, '[t]he Chamber has had a long history of tears and is unlikely to pay'.⁵²

Apart from setting up the service in difficult conditions, the performance of the DoT in Bulgaria should ultimately be judged by whether it was successful in facilitating trade between the two countries. In 1928, Britain exported goods to Bulgaria to the value of £1.5 million.⁵³ This figure (a mere 0.2 per cent of the total for British exports in 1928), was in the same league with British exports to Hungary during the 1920s, but significantly less than those for Czechoslovakia (averaging around £4 million in the 1920s) or Poland (£4–6 million).⁵⁴ Perhaps the main characteristic feature of these trade statistics is the fact that, at a time of diminishing political attention devoted by the Foreign Office to the Central and South East European region, they show a year on year increase in the Central European and Balkan countries where most British traders had to break new ground. Seen in this perspective, the DoT's work in this part of the world produced some definite, if modest, results.

SOVIET RUSSIA 1929

One prominent episode among the tortuous chapters of Anglo-Soviet trade during the interwar years sheds light on the limitations of the facilitating function of the DoT in a country where the political connections were often vexatious. On 25 March 1929, a delegation of 85 British businessmen travelled to Moscow on a special mission lasting 18 days to explore the possibilities of expanding Anglo-Soviet trade. The visit was overshadowed by the rupture of diplomatic relations between the UK and Soviet Russia in May 1927 in the aftermath of the so-called Arcos Affair in which MI5 raided the premises of the All-Russian Co-operative Society, Ltd., recovering documents proving that Arcos had been engaging in espionage against targets in the United Kingdom. Thanks no doubt to the by then evanescent benefits of the NEP arrangements, British exports to Soviet Russia before the break in relations had been worth around £15 million per annum, a cause for cautious optimism at the time.⁵⁵

While neither the Soviet nor the British political leadership was prepared to take steps to end the diplomatic freeze, British industrialists and exporters took matters into their own hands. In their view, while 'considerable financial liabilities' still existed, 'export trade could be safely carried on with Soviet Russia under extended terms of payment.'⁵⁶ The Anglo-Russian Committee, organized under the energetic leadership of Ernest Remnant, a well-connected land dealer and editor of the literary magazine *English Review*, was intended as a catalyst to revive Anglo-Russian trade

at an unpropitious political juncture. Remnant was not highly regarded among the British establishment ('[does not] bear the highest reputation'⁵⁷) and the idea of the mission had, from its inception, been regarded with a degree of derision by Whitehall.⁵⁸ Some official esteem was lent to the project by the inclusion of Sir Joseph Isherwood, a prominent ship-builder and designer, Chairman of the Anglo-Russian Committee, who would head the British delegation at the protocol functions organized in Moscow.

There was a stir of interest among the industrial community in Britain before the mission's departure. The director of The Society of Motor Manufacturers and Traders Ltd, Lieutenant-Colonel Alfred Hacking, inquired 'whether the Department of Overseas Trade have any views upon the wisdom of the Motor Industry being officially represented on the Delegation' as they have been 'pressed from various directions to join'.⁵⁹ While the balance of DoT opinion urged caution: 'The main idea would seem to be political' and, in any case, 'the market for motorcars is very restricted in Russia owing to (a) lack of roads (b) lack of purchasing power of population',⁶⁰ the Comptroller-General, Sir Edward Crowe 'personally rather welcome[d] his going as it would be useful to have a man of his wide experience on the mission'.⁶¹ The DoT's suspicions were not unfounded. Members of the Anglo-Russian trade delegation were told by Remnant that they 'were pioneers not only in the industrial, but also in the political field...and...it was for the Delegation to bridge ... an...abyss of misunderstanding' between 'the Soviet and British Governments ... and render possible a rapprochement between the two countries'.⁶² Such statements by an industrial representative could not have impressed the DoT and its parent departments. When Maurice Whitlow, a correspondent of the *Yorkshire Post*, requested the full list of the members of the British delegation intending to go to Russia—'under the impression that the arrangements were being made by the Department'—he had to be disabused: '[the DoT] were not in any way connected officially with the delegation', was the answer.⁶³ The FBI, with close links to the DoT, was not involved either. In spite of the protestations of disinterest, however, two prominent members of the Baltic and Balkans Section of the DoT, 'attended the departure of the 2 o'clock train from Victoria on March 25th and noticed that about 85 persons of the delegation left for the Soviet Union'.⁶⁴

The visit by such a large group of British businessmen, 'representing over 1500 British firms with capital resources exceeding £700,000,000',⁶⁵

was an extraordinary event at a time when the two countries had no diplomatic relations. According to press reports, the Soviet Foreign Minister, Maxim Litvinov himself had been scheduled to meet the businessmen at the Soviet frontier, the arrangements only changed shortly before their arrival.⁶⁶ While attending a series of well-choreographed events in Russia, members of the delegation and Soviet officials traded promises: loans and long credit facilities would be forthcoming from Britain in return for Soviet recognition of their debt obligations and an undertaking to end hostile propaganda in and against the United Kingdom. On 11 April 1929, at the last meeting of the British trade delegation, a resolution was adopted that ‘extensive trade with Russia is impossible without diplomatic recognition’. This resolution was opposed by a group of delegates ‘on the ground that they had failed to realize that the delegation ever intended to commit itself to any such declaration’.⁶⁷

Some returned with rose-tinted views: Barrington Hooper (representing 36 British firms from the heavy and light industries)⁶⁸ declared that the Russian ‘railways are in an excellent condition. I have never seen better equipped trains’, and ‘all the buses running in the Moscow streets’ were made by British Leyland. Hooper was even more impressed by ‘the buying capacity of the people’ which ‘was far in excess of the supply of goods’. No wonder that Cecil Farrer of the DoT pencilled ‘Oh, dear!’ and ‘Dear me!’ on the margins of the departmental copy of the newscutting.⁶⁹

A more guarded assessment was given by Douglas Hamilton, President of the Bedford Chamber of Commerce, who explained that it was ‘one of the axioms of this Chamber that politics should be outside our topics of discussion’. However, in the case of Russia, ‘politics are so inextricably intertwined with every branch of social life that to discuss Russia and Russian business without politics would be quite impossible’. The president of the chamber insisted that the Soviets did not treat members of the delegation ‘like a party of children’, that they had the opportunity to get a glimpse of the nooks and crannies of the Soviet system that ran the various branches of industry. ‘The strong wine of Bolshevism [may have been] watered [under the NEP]’, yet, in Hamilton’s assessment, lack of prosperity, adverse trade balance, and bad harvests meant that ‘the time was not yet opportune’ for ‘the peaceful commercial penetration of Russia’.⁷⁰ Unsurprisingly, no such reservations were harboured by the organizer, Ernest Remnant, who vowed on his return: ‘the mission proved that Russia offered the “largest single market to British goods”’.⁷¹

The mission was criticized by politicians and the press for offering themselves as pawns in a political game. The Foreign Secretary, Austen Chamberlain ‘[did] not care to receive the organiser’ before departure,⁷² and Andreas Urbye, the Norwegian Minister in Moscow in charge of British interests, had ‘received no information from London about [the mission]’.⁷³ It was generally seen as politically risky even to comment on the event in Whitehall. When Vernon Davies, Conservative MP for Royton, raised the issue with Cecil Farrer of the DoT of questions in Parliament about the outcome of the British trade mission, the answer came from the top: ‘I think it will be wiser to say *nothing* about the results of this Mission ... any advertisement we will give it will not help us politically’.⁷⁴ Crowe insisted that ‘Officially we know nothing of the mission, neither as to its inception, nor as to its results.’⁷⁵ While this did not strictly correspond to reality since the DoT had generated plenty of correspondence relating to the mission, it is certainly true that they had consistently kept themselves at arm’s length from the organizational side. Nevertheless, in the light of the evidence, Foreign Secretary Austen Chamberlain missed the point when he had called the British businessmen’s endeavour ‘purely an affair of traders [that] has no political meaning or interest’.⁷⁶ Trade links—official and unofficial—played a significant part in paving the way for the restoration of diplomatic relations between the UK and the USSR under the newly elected Labour Government in October–November 1929.⁷⁷ *The Sunday Times* made this abundantly clear during the last days of the British trade delegation’s sojourn in Moscow by declaring: ‘with the general election two months distant, it is impossible to resist the reflection that the [Soviet demands for the restoration of full diplomatic relations as a precondition of normal trading relations] are framed to furnish an election cry for British Socialists’.⁷⁸

GERMANY 1936–1939

This case study is based on a major inquiry, entitled ‘Survey of German Competition in World Export Trade’, conducted by the DoT in the summer of 1936, at a time when Germany was on the cusp of fateful political change: the slide to total Nazi dictatorship. The debates on political appeasement aside, the question arises how this background interacted with the purely commercial brief of the DoT.

The immediate reason for the inquiry ordered in mid-1936 into the state of Anglo-German trade was the apparent ‘impossibility of [British]

exporters meeting prices which have been quoted by German competitors', the result of drastic German export subsidy.⁷⁹ The situation arose despite, in many ways because of, the significant and painful devaluation of sterling back in 1931. The Development and Research Division of the DoT was asked to investigate and offer advice. David Hume Lyal (D & RD) was appointed to collect evidence and draft a memorandum. Preliminary interviews by Arthur Mullins, Deputy Comptroller-General of the DoT, showed that the inquiry would have to look at practices beyond German export subsidies and examine the various clearing arrangements that had been concluded with Germany up to that point as well as the 'manipulation of the mark'. Experts in the Foreign, Empire, Industries, D & RD, commercial and financial officers attached to the British Embassy in Berlin,⁸⁰ Sir Robert Vansittart, Sir Horace Hamilton (Permanent Under-Secretary at the Foreign Office and the Board of Trade respectively) and Sir Sigismund (Sigi) David Waley (Principal Assistant Secretary in Overseas Finance at the Treasury) were also involved in drafting the memorandum.

In the background lay the politically delicate economic circumstance that Germany did not have the raw materials for an in-depth armaments drive, and it did not have sufficient foreign exchange for oil, rubber and non-ferrous metals essential for aircraft and other motorized warfare. While clearly in Britain's economic interest, would bilateral trade with Germany also help the Nazis' armaments programme? The DoT investigation did not ask this question: it was stressed at all stages of the preparation of the paper that it should not dwell on the political motives behind Germany's recent moves in commerce.

The historical introduction of the inquiry report mentions the devaluation of the pound in 1931 and its effect on foreign trade. Whilst forced devaluation (effectively 24 per cent) 'hasten[ed] sterling's loss of international currency status', it gave a definite impetus to British export trade.⁸¹ Germany, in turn, made determined efforts to meet the British competition—with the result that the two countries had embarked on a price-cutting campaign which was damaging to their economies, but especially to the British economy. Germany's problem was similar to that of Britain. It had to export manufactured goods to provide employment and to obtain essential raw materials. Any denial of this outlet would impose economic and social strain. The German Government's orders for rearmament provided a great deal of work. If these orders had been reduced, the DoT memorandum observed, the necessity for export would become even

more urgent. Germany still required considerable quantities of raw materials from abroad and Germany's exports had to produce enough foreign exchange to pay for these imports. The methods adopted by Germany for the assistance of exports fell into four categories: (a) redemption of debts; (b) clearing or compensation agreements, including so-called Aski accounts; (c) subsidy from levy on industry; and (d) private barter.

Use of the 'Aski marks' was one of the central concerns of the inquiry. Hjalmar Schacht, President of the German Reichsbank, had invented this highly unorthodox financial instrument which became a formidable barrier for countries other than Germany to trade with East-Central and South-East European nations. The scheme was designed to remove currency exchange at the official rates from international trade. Instead, from 1933, the German foreign exchange authority permitted imports of goods in pre-determined quantities and categories provided that the foreign sellers accepted payment in the form of mark credits to special accounts kept in German banks. These were the so-called 'Aski' accounts (short for *Ausländer Sonderkonten für Inlandszahlungen*). The marks in such an account could be used to purchase German goods only for export to the country of the owner of the account, often at a considerable (up to 45 per cent) discount. They could not be converted into any foreign currency. Aski accounts held by foreign banks in many cases covered the whole trade transacted between Germany and the foreign country concerned.

Analysis of trade figures with Hungary, Romania, Greece, Bulgaria, Yugoslavia, Turkey, Estonia, Latvia and Spain from 1931 to the first quarter of 1936 suggested that significant advance in trade with Germany had been achieved, reaching a point where the target countries were no longer able to curb their exports to Germany. There was little free exchange available in Germany for making purchases in other markets, particularly if the exchange conditions with the other country, for example, the United Kingdom, were unfavourable.

D. Hume Lyal et al. made it clear that the German export subsidy 'can be used with devastating effect in procuring any *particular* contract', especially as the extent of the use of the subsidy was an unknown factor. To meet that unknown factor, British exporters 'had to cut their prices to ribbons' with the result that, even when orders were obtained by British producers, the prices rendered the transaction unprofitable. What is more, the same applied to cases where the mere fear of German subsidies had the same effect on prices. 'Obviously, when large and important contracts are lost,' the authors argued, 'or an industry loses orders in many of its major

markets, the fear must necessarily be entertained that German competition is so severe that our exporters cannot reasonably be expected to compete, and the impression is thus created that we are “losing our way”.⁸²

An important section of the paper argued that the Anglo-German Payments Agreement of 1934⁸³ (which increased the proportion of exchange devoted to German purchases from the United Kingdom) could not strictly be classed with the other clearing agreements, since the United Kingdom was virtually the only country which allowed Germany a clear surplus of exchange over and above its obligations, including interest on its debts. But the Anglo-German Payments agreement also embodied a limitation of United Kingdom exports to Germany. The conclusion of the study underlined that the matter was of global significance: the UK and Germany shared about 20 per cent of the world’s export markets, the price-cutting campaign damaged both countries and, therefore, the two national industries should come to an understanding ‘possibly acting under the impetus of Governments’.

One of the co-authors, Arthur Mullins (Deputy Comptroller-General) found it hard to reach a conclusion from the inquiry. On the one hand, he declared that the German subsidies, clearing arrangements and Aski accounts had a ‘devastating effect’ on British trade, yet opined elsewhere that ‘on the evidence before us, there are no grounds for feeling that Germany’s competition is such as to give rise to very serious apprehension.’⁸⁴ Edward Crowe, Comptroller-General of the DoT, sought clarification from Walter Runciman, the President of the Board of Trade: ‘Mr Mullins’ minute of 21 May is ... confusing as it shows that the German menace tho’ very serious in several markets has not displaced us from our position in world trade... The questions raised are so important that I ... forward the memo to the President.’⁸⁵ While these ambiguities could not be resolved in 1936, Lyal suggested that the DoT issue reviews of the inquiry report at quarterly intervals.

Assessing the lessons of the report, Euan Wallace, Secretary for Overseas Trade, warned against the emulation of the kind of ‘drastic action taken by the United States in imposing ... duties on ... German goods’ which had an all-round negative effect on bilateral trade. ‘As far as we ourselves are concerned,’ Wallace noted, ‘there remains the possibility of “doing a deal” with a nation which shares with us such a large proportion of the export trade of the world.’ Wallace’s proposal for a series of agreements with German industries along the lines of the British entry in the summer of 1935 into the International Steel Cartel (created in 1933)

was not included in the final draft. Instead, a more pragmatic position was taken: practical arrangements would have to be concluded by individual British and German industries. At the same time, the memorandum made it clear that the German Government had such direct control of all German trade that no agreements could be reached without their prior consent. If, therefore, it was felt desirable to encourage British industries to embark on discussions with their opposite numbers in Germany, the British side (via the DoT) should first obtain the cooperation of the appropriate German Government departments. As Wallace wrote, should the German Government grant their approval, the way would be open for certain industries to enter into these exchanges: ‘This is the only concrete suggestion that I can produce and the practicability even of this no doubt depends upon overriding political considerations which are outside the scope of the memorandum.’⁸⁶

In the autumn of 1936 an interdepartmental meeting of civil servants discussed the memorandum and came to the conclusion that little could be done on the British side unless, as Sir Frederick Leith Ross and Frank Ashton-Gwatkin—the two leading economic advisors of the government—recommended, cartel agreements were engineered between British industrialists (spearheaded by the FBI) and their German counterparts. While Robert Vansittart and Laurence Collier, two consistent opponents of any form of appeasement of Nazi Germany, vociferously opposed the idea, the economic argument, based on the DoT inquiry, prevailed.⁸⁷

Less than a year later, on account of a visit to Berlin by a delegation of the FBI planned for March 1937, the DoT was asked to explore possible ways to improve the British trade balance with Germany. In particular, to see the way out of a conundrum: that while ‘in a totalitarian state such as Germany the control exercised by the state was the vital factor’, yet a ‘direct approach by H.M. Government is not practicable’. D. Hume Lyal, who also drafted this report, added that even if such a direct approach were possible, ‘at present political opinions in Germany in regard to the United Kingdom cannot be regarded as favourable’. Lyal suggested that the British Commercial Counsellor in Berlin (John Magowan) should now acquire an enhanced role in the furtherance of bilateral trade.⁸⁸

However, the negotiations that took place in March 1937 proved that even the Commercial Counsellor’s intervention was no longer welcome in Berlin. This led to changes in basic approach: instead of seeking German government approval, ‘it is now proposed to build on the aptitude and inclination of the German manufacturers for international arrangements

on business principles'.⁸⁹ It was in this vein that the DoT proceeded from spring 1937 to oversee trade with Germany. But matters came to a head two years later.

Sir Oliver Stanley, the President of the Board of Trade, and Robert Hudson, Secretary for Overseas Trade, were scheduled to visit Germany in March 1939 to head off a looming trade war between Germany and the UK. It was emphasized that no political questions, even those of German debt, would be discussed. The visit was scheduled for 15 March, the day on which Hitler invaded the rump Czechoslovakia. At the same time, a delegation from the FBI was to visit Berlin to negotiate a marketing agreement with competitive German firms. This was the first time that, 'the wary contact between the Reichsgruppe Industrie and the Federation of British Industries was', as desired by the Foreign Office and the DoT, 'brought into the open [and] received UK governmental cognisance'.⁹⁰

In anticipation of the visit, John Magowan, 'the knowledgeable commercial counsellor in Berlin',⁹¹ who—referring to 'pirate-flag Nazi economists, subsidisers à outrance'⁹²—had criticized the Anglo-German payments agreement the year before as Germany's means of being 'practically at war with Britain',⁹³ prepared a memorandum for the ambassador, Nevile Henderson, on United Kingdom trade with Germany. Magowan pointed out that while German exports to the UK fell by about £6 million between 1937 and 1938, UK exports to Germany only fell by about £1 million (from £7.3 to £6.2 million).⁹⁴ Therefore, the fall of UK exports to Germany affected re-exports much more heavily than exports which were the produce of British manufacturers. Magowan judged that this was 'a very good showing for the operation of the Anglo-German Payments Agreement' since 'a more favourable position was given to goods of a high degree of manufacture for consumption within Germany'. The payments agreement put the UK in a better position than the 'clearing' countries, which had to liquidate their balances due from Germany by the purchase of German goods. In 1938, Germany was the best foreign customer for British products after the United States, importing £20.6 million worth of goods, even though most of these remained raw materials. At the same time, Magowan suggested that Britain should

try to pin German purchases to the 1932/33 pattern, i.e. restrict the margin of Germany's ability to purchase strategic war materials by obliging her to devote more of the exchange accruing from her exports to the United

Kingdom to the previous “peace time” pattern of trade: coal, herrings, textiles, technical products and other goods of a consumption nature for which there is undoubtedly a commercial demand in Germany.⁹⁵

This was a rare expression of political views by a commercial expert. At the end of 1938, Magowan went even further when he confided to Cecil Farrer of the DoT that ‘I cannot now bring myself to have any faith in the economic path to appeasement *so long as the present German political régime subsists*’.⁹⁶ But had Arthur Mullins of the DoT been right in 1936? Were Germany’s currency manipulations and other market-altering operations less harmful to British trade than previously thought? Possibly so. While the Germans seemed to be calling the shots, the British also benefited from this managed form of bilateral trade.

In the event, the German invasion of the rump Czechoslovakia prompted the last-minute cancellation of the government’s trade visit to Berlin, while the conference between the Reichsgruppe Industrie and the FBI went ahead in Düsseldorf on 15 March and reportedly made some progress on the day. Meanwhile, DoT Secretary Hudson’s planned visit to Berlin was diverted to Moscow as originally suggested by Sir Robert Vansittart, then Chief Diplomatic Adviser to the government, who held the view that Moscow had been neglected for too long in Whitehall.⁹⁷ The DoT stepped in where diplomats would have found it hard to tread. Politics, finance and trade had become critically intertwined in the last months of peace.

CONCLUDING REMARKS

The DoT was never intended to be an independent government agency. The commercial aspects of the economic strategies that it helped to implement were always set out by its parent departments: the Board of Trade and the Foreign Office. In spite of initial fears of rivalry and uncertain chains of interdepartmental command, the DoT evolved into an efficient and reliable organization during the interwar years while its dedicated cohort of diplomats of commerce remained, as civil servants do, more or less hidden from public view.

The Allied Economic Conference held in Paris in June 1916 had set out to limit (effectively abolish) free trade by envisaging wide scale government subsidization and the organized parcelling out of the world markets among the victors, excluding the Central Powers from all future arrange-

ments.⁹⁸ The Wilsonian principles governing the post-Versailles order ensured that this plan never came into effect. Therefore, the maintenance of Free Trade was one of Britain's general commercial policy aims during the interwar years. Yet, internecine and international conflicts and tensions that began to spread from the late 1920s interfered with the normal channels of trade, creating an environment in which the government and thus the DoT were forced to respond with a reluctant but inexorable retreat from the principles governing free trade. In all three cases examined here, the DoT found itself stymied by restrictive market practices.

Comparing the case studies shows that the DoT was most useful and in its element in territories where the peace treaties ending the First World War had created a somewhat artificial opening for British trade and where politics or military activity did not stand in the way of trade. Aided by traditional diplomacy and the Consular Service, the department's facilitating role thus paid palpable dividends against considerable odds in Central and South Eastern Europe during the 1920s. However, there was simply not enough trade there for the British to stay the course through the Depression and Germany's bid to monopolize commerce in what it regarded as its back yard succeeded.

During the 1930s, in a series of moves that became known as 'economic appeasement', the DoT mobilized its resources to tackle German competition. However, these countermeasures, while producing temporary results, proved insufficient to preserve peaceful coexistence with Germany. As we have seen, Soviet Russia was even more of a case of pure politics, not something the DoT was either prepared or permitted to take on board. Once Stalin had opted for an adversarial approach to the West, bringing an end to the NEP and making trade an aspect of an ideologically driven government, the methods of commercial partnership envisaged at the inception of the DoT were no longer applicable. The Metropolitan-Vickers show trial (the Engineers' Trial) in 1933 illustrates the political difficulties that British trade faced in Russia even after the economic crisis had come to an end.

Shortly after the end of the Second World War, in 1946, the DoT was dissolved: its functions and some of its functionaries were integrated into the Board of Trade. The region where the DoT's interwar activities proved most effective: Central and South Eastern Europe had come under yet another dispensation, without, however, offering enticing benefits for the British. The age of illusion was over—international trade would be subordinated to realpolitik for a generation.

NOTES

1. E. Maisel, 'The Formation of the Department of Overseas Trade, 1919–26', *JCH*, 24/1 (January, 1989): 169.
2. Board of Trade Memorandum, August 1917, BT 61/32/5.
3. E.g.: Steel-Maitland to Sir William Clark (first Comptroller General, permanent head, of the DoT 1918–28) 11 September 1917, BT 61/32/5; Steel-Maitland to Guy H. Locock (Private Secretary to Lord Robert Cecil as Minister of Blockade, future Deputy Director and Director of the FBI), 15 September 1917, BT 61/32/5.
4. BT 60/1/1.
5. Cecil to Steel-Maitland, 12 September 1917, BT 61/32/5.
6. Penson's memorandum, 19 July 1919, BT 61/12/7.
7. Steel-Maitland to F. M. Box, 10 December 1917, BT 60/1/1.
8. N. A. Pelcovits, *Old China Hands and the Foreign Office* (New York: King's Crown Press, 1948), pp. 3–6.
9. M. Dupree (ed.), *Lancashire and Whitehall: The Diary of Sir Raymond Streat* (2 vols, Manchester: Manchester University Press, 1987), vol. 2: 1939–57, p. 72.
10. In later years, prominent figures included Sir Edward Crowe, Commercial Counsellor in Tokyo until 1925 when seconded to the DoT as Director of the Foreign Division, 1925–8, Comptroller-General 1928–37; Sir John Picton Bagge, Commercial Secretary in Russia, Berne and Brussels before heading the Foreign Division of the DoT 1929–37; and Arthur Mullins, who started his career at the Ministry of Munitions during the war, then rose through the ranks of the DoT to become the last Comptroller-General, 1940–6.
11. No act of parliament would have been necessary for the creation of the department itself, but the creation of a new government post had to be covered by legislation.
12. Memorandum on behalf of Steel-Maitland, 19 September 1918, BT 61/2/14.
13. 'Origin and Functions of the Department of Overseas Trade', n.d., D.C. 535, BT 59/22.
14. Glenny was Inspector General from 1925–9 when the post was abolished.
15. Glenny's Report, 1 December 1926, BT 61/27/8.

16. Glenny's Report.
17. K. Neilson, *Britain, Soviet Russia and the Collapse of the Versailles Order, 1919–1939* (Cambridge: Cambridge University Press, 2006), p. 17.
18. Correspondence from 22 September to 9 December 1931, BT 61/49, nos. 6–13.
19. William Barrowclough Brown, Private Secretary to the President of the Board of Trade to E. L. Mercier, Private Secretary to John Colville, Parliamentary Secretary of the DoT 29 April 1932, BT 61/49, no. 14.
20. T 1/12407/48070 (D.O.T. 75796/19/FA).
21. M. Lojko, *Meddling in Middle Europe: Britain and the 'Lands Between' 1919–1925* (Budapest and New York: CEU Press, 2005), p. 25.
22. Unlike the Consular Service, the Levant Service did not provide training in commerce.
23. Heard to Butler, 15 December 1919, FO 388/13, 4.
24. Heard to Butler, 12 December 1919, FO 388/13, 1.
25. Roderick Sinclair Meiklejohn (Deputy Controller of Establishments at the Treasury) to Butler, 3 February 1920, T 1/12407/48070.
26. William G. Bruzaud, DoT to Heard, 26 March 1920, FO 388/13, 71.
27. Gleaned from correspondence in FO 388/13, 31 and BT 60/18/4.
28. E.g.: Heard to Curzon and DoT, 10 July 1920, FO 388/13, 190.
29. A. Orde, *British Policy and European Reconstruction after the First World War* (Cambridge: Cambridge University Press, 1990), pp. 288–9.
30. Heard to DoT, 29 November 1920, FO 388/13, 353.
31. Heard to Curzon and DoT, 10 July 1920, FO 388/13, 190.
32. Heard to Curzon and DoT, 26 November 1920, FO 388/13, 347.
33. Heard to Hough (DoT), 8 January 1920, FO 388/13, No. 17.
34. Orde, *British Policy*, p. 289.
35. Lojko, *Meddling*, pp. 24–34.
36. Orde, *British Policy*, p. 289, quoting É. Moreau, *Souvenir d'un Gouverneur de la Banque de France: Histoire de la Stabilisation du Franc (1926–1928)* (Paris: Éditions M.-Th. Génin, Librairie de Médicis, 1954).
37. E.g.: Heard to DoT, 2 October 1920, FO 388/13, 286.

38. Heard to DoT, 21 February 1920, BT 60/18/1.
39. Butler's minute, 19 February 1920, BT 60/18/1.
40. DoT to Heard, 19 March 1920, BT 60/18/1, 18569/F/20.
41. Stanley Harrison, Acting Consul, Sofia to British Minister, Sofia, 19 September 1930, BT 60/18/1.
42. Hough's minute, n.d. [1920].
43. Hough to Heard, 2 March 1920, FO 388/13, 46 (25075/F/20).
44. 'Proposed Scheme for Trading with Bulgaria', 1 March 1920, FO 388/13, 46.
45. 'High Commissioner' was something of an anomaly for Bulgaria in the British diplomatic nomenclature. The title for Sofia was discontinued after December 1920, when Dering was appointed Minister in Bucharest.
46. Dering to Butler, 20 January 1920, BT 60/18/1, 18569.
47. Minute by Bruzaud, 13 February 1920, BT 60/18/1.
48. Harrison's memorandum, 19 December 1929, BT 60/18/1.
49. Waterlow to Crowe, 22 November 1929, BT 60/18/1.
50. DoT minute, 20 July 1928, BT 60/18/1.
51. DoT minute, 6 December 1929, BT 60/18/1.
52. Farrer's minute, 5 December 1929, BT 60/18/1.
53. Harrison's Memorandum, 19 December 1929, BT 60/18/1.
54. Foreign Office Annual Reports 1920–5 for Hungary (FO 371.../6140/C12707/12707/21; 7632/C3299/3299/21; 8872/C6810/6810/21; 9914/C8423/8423/21; 10778/C4508/4508/21; 11373/C4728/4728/21), Czechoslovakia (.../5830/C1461/1461/12; 7392/C4106/4106/12; 8584/C5951/5951/12; 9678/C4053/4053/12; 10679/C2285/2285/12; 11232/C3321/3321/12) and Poland (/8143/N2900/2900/55; 9312/N30/30/55; 9330/N8023/8023/55; 19461/N5630/5630/55; 11005/N5966/5437/55; 11774/N4788/4788/55).
55. Hansard, *HC Debs*, Vol. 202, 14 February 1927, cc. 558–9.
56. 'Report of the Anglo-Russian Committee on the British Trade Delegation to Russia, March-April 1929', BT 60/22/1, 1b.
57. DoT minute, 5 March 1929, BT 60/22/1, 14a.
58. M. Jabara Carley, *Silent Conflict: A Hidden History of the Early Soviet-Western Relations* (Lanham, MD: Rowman & Littlefield, 2014), p. 356.
59. Hacking to Sir Edward Crowe, 4 March 1929, BT 60/22/1 14b.
60. DoT minute, 5 March 1929, BT 60/22/1 14b.

61. Crowe's minute, 7 March 1929, BT 60/22/1 14b.
62. Simon Harcourt-Smith (Northern Department, Foreign Office) to DoT, 7 March 1929, BT 60/22/1, 14.
63. L. N. Barker's memorandum (Baltic and Balkans Section), 13 March 1929, BT 60/22/1, 17.
64. Minute by Cecil Farrer, 26 March 1929, BT 60/22/1, 20.
65. 'Report of the Anglo-Russian Committee', BT 60/22/1, 1b.
66. The delegation was met on the frontier by Rabinovitch representing the All-Russian Western Chamber of Commerce, BT 60/22/1.
67. *The Daily Express*, 12 April 1929.
68. 'Report of the Anglo-Russian Committee', BT 60/22/1, 1b.
69. 'Trade Delegate's Faith', *The Daily News*, 12 April 1929.
70. 'The Mission to Russia: The President's Report', *Bradford Chamber of Commerce Journal*, May 1929, p. 327.
71. *The Spectator*, 31 May 1929, p. 3.
72. Godfrey Locker-Lampson (Parliamentary Under-Secretary) to Guy Kindersley (Conservative MP for Hitchin), 12 March 1929, FO 371/14029/N1483/18/38.
73. Urbye to Sir Francis Lindley (Minister in Oslo), 3 April 1929, BT 60/22/1.
74. Douglas H. Hacking (Secretary for Overseas Trade) to Davies, 1 May 1929, BT 60/22/1.
75. Minute, 30 April 1929, BT 60/22/1.
76. Locker-Lampson to Kindersley, 12 March 1929, FO 371/14029/N1483/18/38.
77. Carley, *Silent Conflict*, pp. 353–67.
78. *The Sunday Times*, 7 April 1929.
79. D. Hume Lyal et al., 'Survey of German Competition in World Export Trade', June 1936, BT 59/22, D.C. 540. Unless otherwise noted, remaining references on the following pages are from this report.
80. Evelyn Rawlins, former head of division at the DoT, Commercial Counsellor at Berlin, and Gerald Pinsent, Assistant Secretary at the Treasury, loaned for service as Financial Adviser to the British Ambassador in Berlin.
81. B. Eichengreen and O. Jeanne, 'Currency Status and Unemployment: Sterling in 1931' in P. Krugman (ed.), *Currency Crises* (Chicago: Chicago University Press, 2007), p. 23.

82. Lyal et al., 'Survey of German Competition in World Export Trade', June 1936.
83. Renegotiated in July 1938.
84. Minute by Mullins, 21 May 1936, BT 59/22, D.C. 540.
85. Minute by Crowe, 23 August 1936, BT 59/22, D.C. 540.
86. Wallace to Runciman, 22 September 1936, BT 59/22, D.C. 540.
87. D. E. Kaiser, *Economic Diplomacy and the Origins of the Second World War: Germany, Britain, France and Eastern Europe, 1930–1939* (Princeton: Princeton University Press, 2015), pp. 187–8.
88. BT 59/22, sections 1–37.
89. Lyal's memorandum, n.d., BT 59/22, D.C. 540.
90. 'Anglo-German Industrialist Discussions', enclosure in Magowan to Cecil Farrer, 8 March 1939, BT 59/22, D.C. 540A, No. 73.
91. Z. Steiner, *The Triumph of the Dark: European International History 1933–1939* (Oxford: Oxford University Press, 2011), p. 704.
92. Magowan, 'Anglo-German Industrialist Discussions'.
93. Steiner, *The Triumph of the Dark*, p. 704.
94. Magowan to Farrer, 7 March 1939, BT 59/22, D.C. 540A, No. 73.
95. 'United Kingdom Trade to [*sic*] Germany. The Present Position', enclosure in Magowan to Farrer, 7 March 1939, BT 59/22, D.C. 540A, No. 73.
96. Magowan (Berlin) to Farrer (Confidential), 7 December 1938, BT 59/22, D.C. 540A, No. 73. Emphasis in the original.
97. Vansittart's minute, 20 January 1939, FO 371/23677/N57/57/38.
98. J. Brown Scott, 'Economic Conference of the Allied Powers', *AJIL*, 10/4 (October, 1916): 846–7.

Sir Ronald Lindsay, the British Government and the Reparation (Recovery) Act, 1927–8

Gaynor Johnson

That the German Government was made to make financial recompense to the victorious powers is one of the most widely discussed aspects of the peacemaking process at the end of the First World War.¹ Such was the importance and technical complexity of the reparation question that the Allied and Associated powers decided to postpone the setting of the final total and means of payment until 1921. Indeed, the subject dominated the diplomatic landscape of relations between Britain, France and Germany for much of the 1920s, along with discussions about security and disarmament.² Together they did much to expose the fault lines in the relations between these countries.³ Yet, despite wide recognition of the importance of the economic and commercial aspects of the peacemaking process, in recent years, analyses of these issues has increasingly become the preserve of specialist books and journals, with little aimed at a wider academic audience.⁴ The exceptions are few and are now quite dated.⁵ Yet we overlook this important aspect of diplomacy at our peril. It was commercial questions that underpinned relations between the states of Europe during the interwar period with a consistency that was unmatched by any other factor. It was this aspect of the peace treaties that had to be made to work if both the victors as well as the vanquished were to emerge from the

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First World War in a stable condition. Despite their importance, nowadays most references to the commercial relations between states occur only fleetingly in the now extensive literature on the Paris Peace Conference.⁶ We have to move forward to 1923, to the beginning of the Ruhr crisis for more detailed comment.⁷ The present author has only touched on this subject.⁸ Yet the commercial and financial aspects of British foreign policy in this period offer rich pickings for historians.⁹ Comparative studies of how the British Treasury and Foreign Office handled foreign policy issues in these areas could sit alongside prosopographical and institutional studies of their work. Beyond these there are gaps in our knowledge of related international bodies such as the Conference of Ambassadors and, more importantly, the Reparation Commission and its personnel.

It would be absurd to claim that this chapter will address all these issues. It does, however, set out to examine the impact of one crucial piece of legislation, the Reparation (Recovery) Act of 1921, on British commercial foreign policy with a detailed focus on the involvement of Sir Ronald Lindsay in its development during his brief embassy in Berlin, 1926–8.¹⁰ The study of this timeframe is important because conventionally it is assumed that this period marked a time when the European reparation question was finally under control and that the strategic focus had shifted more towards security policy. The implementation of the Act and changes proposed to it suggests that the British Government's policy of reconciliation towards Germany after the First World War was a diplomatic veneer to a much harder-line fiscal policy. There were periods when the Act fell into abeyance, during the Ruhr crisis of 1923, for example. But the willingness of the Baldwin Government to reconsider its role in British commercial relations with Germany against the backdrop of the Locarno negotiations that were intended to cement a closer rapprochement between Britain, France and Germany suggests that even when we study this period, we must draw a distinction between the commercial and security diplomacy of these three powers. At the same time, this chapter does not provide a comprehensive history of the operation of the Reparation (Recovery) Act; not because one exists elsewhere, but because space does not allow such an endeavour.

In the early 1920s, countries that had reparation claims against Germany met in a series of short-lived conferences to discuss the establishment of a final total. The British Prime Minister, David Lloyd George, was determined that a fixed total of debt should be established and that Germany's international credit should not be restored until such a figure

had been reached. It was important that the German Government should be given sufficient time to service the debt so that the payments would not cause a domestic financial crisis. He favoured the adoption of a plan formulated by the Belgian Foreign Minister, Henri Jaspar, to establish a connection between the rate of reparation repayment and the relative strength of the German economy. His suggestion was the creation of a levy of 12 per cent on German imports into Allied countries, a sum that would be payable until 1963.¹¹ When these proposals were put to the German delegation, it prompted an acrimonious response, which resulted in a hardening of Lloyd George's attitude. This culminated in an ultimatum to the German Government that these terms must be accepted by 7 March 1921. Rejection would bring the risk of Allied military and economic sanctions. However, a German compromise proposal accepting the Belgian plan for a five-year period was rejected, leading to the announcement that economic sanctions would now be applied to Germany.¹²

It was against this backdrop that the British Government devised the Reparation (Recovery) Act, on 24 March 1921.¹³ Importers of German goods into Britain would yield 50 per cent of the purchase price in duty with the remainder of the money being paid to the German seller. The expectation was that the German Government would reimburse the merchant for the shortfall.¹⁴ Lloyd George's hard-line approach was only abandoned in May at a conference in London, when the French agreed to consider introducing a similar piece of legislation to the Reparation (Recovery) Act.¹⁵ The communiqué that became known as the London Schedule of Payments also made it clear that the British and French Acts were to be viewed not as sanctions, but designed to yield variable annuities. Most significantly, the import tariff was almost halved to 26 per cent. But these concessions did not represent a genuine softening of British policy. When Louis Loucheur and Walther Rathenau, respectively the French and German ministers for reconstruction, met in Wiesbaden in June 1921 to find a way of ameliorating the effect of the Reparation (Recovery) Act on Germany, the British response was hostile.¹⁶

As it was, a financial crisis of another kind led to the shelving of this debate; the collapse of the German mark in 1921–2. Even with Lord D'Abernon, an international financier who had been appointed British Ambassador to Berlin in July 1920 to guide them, officials at the Foreign Office were fully stretched keeping pace with the complexity of unfolding events. But few in Whitehall anticipated that the French and Belgian Governments would take direct action in January 1923, by invading and occupying the

Ruhr region, to reclaim their reparation indemnities. Matters were further complicated by independent negotiations that began in the autumn of that year between the German Government and a consortium of French and Belgian mine owners aimed at ensuring the continued flow of at least some reparation payments.¹⁷ Their talks did not include consideration of British reparation indemnity. To make matters worse, in November 1923, D'Abernon, reported that the German Government felt unable to honour the requirements of the Franco-Belgian scheme unless it abandoned its obligations under the Reparation (Recovery) Act.¹⁸ The impasse was only broken in the spring of 1924 when, during the deliberations of the Dawes Committee, permanent officials in London began to explore ways of linking a revised version of the Act to a wider-ranging Anglo-German commercial agreement.¹⁹ In order to sweeten the pill in Berlin, Ramsay MacDonald's administration initially recommended the replacement of the 26 per cent levy with one of a mere 5 per cent. However, this was overturned during the London Conference in July 1924, on the grounds that as the German Government was now in receipt of American financial aid, the higher levy should be charged.²⁰

Against the backdrop of what became the Locarno security negotiations, the British Government announced the resurrection of the Reparation (Recovery) Act in April 1925. The tariff was set at 26 per cent, while the possibility of raising it to 50 per cent was not ruled out.²¹ Within the Foreign Office and the Treasury, the emphasis shifted away from consideration of the letter of the Act to a wider evaluation of its place within Anglo-German relations. D'Abernon emphasized Germany's 'moral debt' to Britain, for offering protection from the wilder post-war demands that had emanated from the French.²² Yet he had misread the runes.²³ The Marx Government had been hoping that the Act would be incorporated into the Anglo-German commercial agreement, the negotiation of which was almost complete. Failure to bring this to pass was interpreted in Berlin as an act of British bad faith.²⁴

The dynamics of D'Abernon's relationship with the British Government concerning the development of the Act and its connection to the Anglo-German commercial agreement that was concluded in the early weeks of 1925 have been discussed elsewhere.²⁵ Lindsay, D'Abernon's successor, entered the debate in February 1927, four months after his arrival in Berlin. The installation of Germany as a permanent member of the League of Nations Council and the preparations for a major international conference in Geneva on naval disarmament created a natural hiatus in the

European security debate that provided the British Government with the opportunity to revisit the key strands of its commercial diplomacy. Lindsay was instructed to solicit German views about Treasury plans to raise the repayment levy from 26 to 40 per cent in the light of the more robust state of the German economy.²⁶ This was a sensitive issue. Not only was it the first significant commercial test of the relationship between Britain, France and Germany since the signature of the Treaty of Locarno. It was also a reminder that, despite the rhetoric about peace and reconciliation, Britain and France still required Germany to pay for the war, and now at a higher level of duty.

Lindsay shared none of D'Abernon's expertise in international finance. He held particular store in the counsel of the American Agent General on the Reparation Commission, Seymour Parker Gilbert.²⁷ Lindsay respected the distance Parker Gilbert seemed able to achieve from the internecine squabbling within the Reparation Commission.²⁸ They possessed similar personalities. Parker Gilbert was a 'cat who walks by himself'.²⁹ Lindsay was also swayed by the American's view that the most recent German budget was 'thoroughly bad'.³⁰ This included a rise in public expenditure from seven milliard Reichsmarks total set in 1925 to a projected 8.6 milliard Reichsmarks the following year. Unless there were drastic reductions in the 'wild spending' of the military, an increase in reparation levy to 40 per cent would place so onerous a burden on German taxpayers that it could result in a political and financial crisis.³¹

Lindsay's analysis resonated well with the Foreign Office. John Troutbeck of the Central European Department noted that: 'Everything seems to point to there being difficulties in the future.'³² While his boss, Orme Sargent, believed that the Germans' tactics might be a ruse to persuade the British Government to 'abandon the full Dawes payments'.³³ The Foreign Secretary, Austen Chamberlain, expressed himself 'deeply impressed' by the quality of the information the Foreign Office was now receiving from Berlin. He ordered a full review of British policy on securing reparation payments from Germany.³⁴ However, the results did not vindicate the Foreign Office, Lindsay or Parker Gilbert. The influential Treasury official, Frederick Leith-Ross, wrote that the 'various dangerous tendencies' of the German Government and the Reichsbank outlined by Lindsay and Parker Gilbert were probably not a deliberate attempt to undermine the Dawes scheme. The struggle to contain affordable levels of public spending was typical of that faced by most countries since the end of the First World War. Leith-Ross recommended that Lindsay and

the Foreign Office abandon their line of argument, because anything to the contrary might 'arouse in an acute form a controversy as to the right of the Allied Governments to interfere in such questions—[in which] the German government would be manifestly in the right, and from which the most embarrassing results might ensue.'³⁵ While the situation required 'to be watched with constant attention' Lindsay should avoid conveying 'any suspicion that [the Germans were] conniving at a budgetary breakdown of the Dawes plan'.³⁶

Leith-Ross' analysis was communicated to Lindsay at the end of August 1927.³⁷ In the months that followed, however, accounts of German financial strategy despatched to the Foreign Office concerning the implementation of the Dawes Plan and the Reparation (Recovery) Act made it clear that the embassy staff in Berlin had not been persuaded by the Leith-Ross argument. In October, in a long, technical analysis of the operation of the German economy, Horace Finlayson, the Commercial Attaché at the embassy in Berlin, told the Treasury that: 'The present policy, if continued, is bound to lead to catastrophe, for recent history shows that, as the revenues increase, so does public expenditure'.³⁸ Lindsay prefaced the arrival of this report with a précis for the Foreign Office that even the most novice permanent official would have understood. 'Broadly speaking', it was a 'simple old tale', the German Government had 'forgotten the habits incurred in inflation days, and are now "splurging" money again in a dangerous fashion'.³⁹

Lindsay was not confident that the Germans would be willing to heed advice from the British or French Governments. Any approach by Britain was likely to be viewed as a desire to 'draw the last drop of blood out of their suffering body'.⁴⁰ While he believed that the Germans might reject overtures made by Parker Gilbert as the 'dictation of a foreigner', Lindsay anticipated that the American's chance of achieving a breakthrough in Berlin were probably stronger.⁴¹ However, he was not optimistic that Parker Gilbert would be ready in the near future to offer such counsel. In the build up to the American presidential election, it was unlikely that the administration in Washington would wish to court controversy by announcing further financial assistance to Germany so soon after the Dawes Plan.⁴²

In the Foreign Office, some merit was seen in Lindsay's suggestion to wait until after the American elections before resuming the negotiations.⁴³ That said, John Perowne, an official in the Central Department of the Foreign Office, hoped that during the resulting hiatus Lindsay would

apply discreet pressure on the German Government to see the error of its ways, and thus avert a full-blown confrontation with Britain, France and the United States over the reparation question.⁴⁴ Robust support for Lindsay's assessment of the German Government's willingness to honour its responsibilities under the Reparation (Recovery) Act also came from Sargent. The ambassador's caution was 'wise'. To Sargent, it was 'asking too much' that he abandon his initial approach because 'there is nothing to show that the views of the Treasury, as far as they have any, coincide with the views of the other interested governments'.⁴⁵

Yet, by the end of November 1927, Lindsay believed that too much store was being placed in his ability to influence the German Government: 'Now amid all this turmoil it seems to me that my own possible field of usefulness is a narrow one.'⁴⁶ He also suspected that he carried little personal influence with Parker Gilbert.⁴⁷ Furthermore, Lindsay felt he had good reason to think that the Germans placed more store in the American's advice than in his own.⁴⁸ He was in complete agreement with Parker Gilbert's assessment of the current state of the German economy. In particular, that if the 'easy flow of American loans and the extravagance of German public bodies' remained unchecked, it would 'cause a true crisis in Germany within a few months'.⁴⁹ This would not be difficult to avert because German officials in the Ministry of Finance were 'weak, incompetent ... and anxious to please everyone'.⁵⁰

Sir William Tyrrell, now Foreign Office Permanent Under-Secretary (PUS), was immediately willing to accommodate Lindsay.⁵¹ He sent a memorandum to the Treasury arguing that while Lindsay had been 'perfectly right' in his assessment of the German situation, it would be misguided to assume that he could influence the advice Parker Gilbert intended to give to politicians in Berlin.⁵² At the same time, Tyrrell was keen to emphasize that the Foreign Office valued Lindsay's advice and that he intended to keep him 'fully primed' of any discussions in Whitehall concerning the implementation of the Dawes Plan and the Reparation (Recovery) Act.⁵³ Reassured, Lindsay continued to record his 'informal' conversations with Parker Gilbert in his despatches.⁵⁴ In the main, they re-rehearsed the arguments of their earlier encounters. However, he also resolved to solicit French support to bolster Parker Gilbert's efforts to influence the German Government. This was now possible because 'the risk of renewing past dangers' had passed because the French President, Raymond Poincaré, was a 'very changed man' and was 'really quite reasonable'.⁵⁵ But Lindsay believed that the time was not yet right for such

a step. He urged Parker Gilbert to adhere to their original plan to postpone a decision about future strategy until after the American presidential election.

The rapprochement between Lindsay and the Foreign Office in December 1927 coincided with the publication of a report by Parker Gilbert recommending revision of the Dawes Plan and that German liabilities be put on a definite basis without any transfer safeguards. These conclusions 'fluttered the dovecote' of the Reparation Commission to such an extent that Parker Gilbert was instructed to return to Paris to attend a special conference to evaluate the ability of the German Government to meet its reparation obligations.⁵⁶ Leith-Ross requested that Lindsay be recalled to London in the first week of January 1928 to brief the head of the British delegation, Lord Blanesburgh, about the state of the German economy. In so doing, he made it clear that he believed the Dawes Plan, as it was presently configured, to be sound, and thus in little need of modification.⁵⁷ Lindsay, however, did not agree, observing that the scheme would 'break down within a couple of years', and that consequently, the British Government should monitor the financial situation in Germany 'with the eyes of a lynx'.⁵⁸

This level of watchfulness was necessary because, by the end of February 1928, the British Government had decided to apply the Reparation (Recovery) Act to all German imports into the British Empire. Lindsay warned that, in addition to dealing with the inevitable protests from Berlin, the Foreign Office and the Treasury might have to placate Parker Gilbert.⁵⁹ Lindsay recommended that plans to extend the Act be discussed with the American on a visit to London that he was due to make in early March; that he would 'express considerable distaste' at the idea but would not rule it out altogether.⁶⁰ The much greater challenge was to persuade the German Government of the merits of the change at a time when the future of the Marx Cabinet looked uncertain ahead of the forthcoming General Election.⁶¹ Despite these considerations, Lindsay was in favour of 'having a shot at it' because there was a good commercial case for extending the Act. He believed that the British Government had for some time shown the German Treasury goodwill over the reparation payments and that, as a result, 'they owe us something'. Furthermore, if attempt to broker an agreement failed, it was unlikely to have a detrimental effect on Britain's longer-term dealings with the Germans over reparation payments, so there was little to lose. Lindsay advocated a two-stage approach: that the proposal be raised with the German Government in March or

early April on the basis that it could be discussed by both the outgoing and incoming cabinets, while the 'real' negotiations would begin in June or July after the General Election.⁶²

As it was, Parker Gilbert decided to cancel his visit to London at the last minute.⁶³ Sargent believed that this was of little consequence because enough was already known about Parker Gilbert's views on possible changes to the Reparation (Recovery) Act to enable the British Government to proceed.⁶⁴ Lindsay reported that Parker Gilbert was satisfied that because there was no need for new legislation to amend the Act, the endorsement of the Transfer Committee of the Reparation Commission of the amended Act would be little more than a formality.⁶⁵ He nevertheless warned that to keep the American on side, it was crucial that the British Government did not introduce new legislation to enforce the Act because such a step would not be consistent with the terms of the Dawes Plan.⁶⁶

Lindsay's note of caution had a sobering effect within the Foreign Office. Sargent, Perowne and Michael Huxley, a recent recruit to the Central European Department, preferred to place the onus on the Treasury to push the negotiations forward.⁶⁷ When no initiative was forthcoming, they debated how best to apply pressure on the Treasury. Tyrrell was asked to write to Sir Richard Hopkins, the Chairman of the Board of the Inland Revenue.⁶⁸ Huxley focussed on the contents of correspondence between Ernest Rowe-Dutton and David Waley of the Treasury. This had begun at the end of February and had taken on more significance because of the contents of a letter written by Rowe-Dutton on 7 March. It had concurred with the line taken by Lindsay and Parker Gilbert on the need to avoid fresh legislation. While there was broad agreement within Whitehall that the levy on the Reparation (Recovery) Act should not be raised above 26 per cent, current legislation actually made provision of a tariff as high as 50 per cent.⁶⁹ Huxley was sceptical about an argument made by Waley that a figure in excess of 26 per cent should not be considered because Parker Gilbert and the Reparation Commission might reject it. If the British Government was going to the expense of extending provision of the Act to the entire empire, it was worth risking the displeasure of the Agent General to set the levy at a level above 26 per cent. Huxley recommended that the Treasury and the Foreign Office should thrash out revised terms for the application of the Act and that these should then be despatched to Berlin for comment. Only when they had met with the approval of the British and German Governments should they be shown to Parker Gilbert.⁷⁰

The opportunity for Foreign Office and Treasury officials to do just that came unexpectedly in the final week of March 1928, when Parker Gilbert visited London to meet Lord Blanesburgh.⁷¹ During a planning meeting at the Treasury on 22 March, Blanesburgh proposed that the British Government should include dyes and chemicals as reparation deliveries in kind because their import would not compete with British production. To maximize the financial benefit, he proposed an arrangement with Parker Gilbert by which the 26 per cent levy would cover German exports to the whole of the British Empire. If this plan were adopted, it would need the approval of the Board of Trade and the Dominions Office. Blanesburgh's initiative stemmed from the view that Parker Gilbert was favourably disposed towards the extensions to reparations in kind because they took direct pressure off the German economy to raise cash sums.

Meanwhile, Lindsay, who was still awaiting a reply to his letter of 27 February, was told that he would now have to wait until after Parker Gilbert's departure for his instructions.⁷² His frustration began to colour his exchanges with German ministers. These conversations reveal a far from harmonious relationship between the British and German Governments over commercial affairs, even if it did often take the form of petty bickering. In one conversation, he argued that British commitment to keep the level of import tariffs to a minimum was in marked contrast to the German policy, where the majority of goods imported from Britain were subject to high levels of duty. While the British Government had undertaken to review the policy, there was no sign that the German Government entertained a similar possibility. During one such exchange, a German official told Lindsay that 'the English mouse ... was always nibbling at German bread' to which Lindsay replied 'the English mouse might sometimes find a German crumb, but the German hippopotamus was devouring whole loaves all the time'.⁷³

By mid-April, still with no steer from the Treasury or from the Foreign Office, Lindsay decided to formulate his own timetable to break the impasse. He asked Sargent's permission to begin negotiations with the German Government in the final week of the month, ahead of the forthcoming German general election on 20 May.⁷⁴ Lindsay was aware that the election was likely to return a more left of centre administration. If the negotiations began only after the new cabinet had taken office, it could convey the impression that the British Government had deliberately waited until this eventuality because of a lack of trust in the outgoing regime. Lindsay was aware that such was the nature of Weimar politics

that members of the old government were likely to be numbered in the ranks of the new. Perowne was happy to concur with Lindsay's proposal because it reflected the current thinking of the Treasury and Foreign Office Permanent Under-Secretaries.⁷⁵ There was good reason to believe that the British Government would be able to absorb its full share of the Dawes annuity, even without making adjustments to the 26 per cent tariff. But as a contingency, in order to maximize receipts under the Reparation (Recovery) Act, its provisions should be extended to benefit the whole of the British Empire. Perowne recommended that Hopkins be asked for the earliest date when the Foreign Office would receive instructions when Lindsay could begin the negotiations.⁷⁶ In the meantime, Lindsay urged Sargent to take a firm stance with the Treasury: 'If they don't much care [for the proposal to extend the Act], for God's sake let them drop it ... But if they do want it, then for God's sake don't allow them to go cramping our diplomatic style by creating unnecessary delay.'⁷⁷

The six days that followed, however, did not produce any further movement from the Treasury. On 18 April, Lindsay penned another firmly worded letter to Sargent.⁷⁸ Referring to the recent new dialogue between the Treasury and the Dominions Office concerning the extension of the Reparation (Recovery) Act, Lindsay hoped that he might 'be excused some feeling of resentment at finding that after seven weeks the first preliminaries towards action by the Treasury are only just being taken'.⁷⁹ He also hoped that he would be given leave to proceed while these negotiations were taking place.

Lindsay's second reason for writing to Sargent was to express dismay about intelligence received in Berlin that the Board of Trade was trying to convince the Treasury to oppose the plan to treat German imports of dye-stuffs into Britain as deliveries in kind. Lindsay recommended that in 'any inter-ministerial battle that may take place on this question the Foreign Office should be on the side of the Treasury and against the Board of Trade'.⁸⁰ The most significant Foreign Office comment on Lindsay's letter of 18 April came from Charles Howard Smith.⁸¹ Huxley's suggestion that the Foreign Office should find out how far the negotiations between the Treasury and the Dominions Office had progressed elicited an oddly cautious response: 'I do not think that we had better address the Dominions Office unless the Treasury wish as after all it is their business, and although we should support Sir R Lindsay as far as we can, there is not point in giving offence by butting in if we are not wanted.'⁸² Tyrrell, however, was keen to offer more robust support for his 'very cogent' arguments for expediting

the negotiations. He agreed to write to the Dominions Office ‘and press for an early decision on diplomatic grounds.’⁸³ Yet even Tyrrell’s intervention did not satisfy Lindsay, who decided to write directly to Chamberlain to express his dismay at the hiatus.⁸⁴ The PUS urged the Foreign Secretary to hold fast until a response had been received from the Treasury.⁸⁵

On 26 April 1928, Treasury negotiations finally began with the Dominions Office. Tyrrell received a full briefing from Hopkins.⁸⁶ The meeting concluded that the opinions of the Dominions should be sought about the possible extension of the Reparation (Recovery) Act to the whole empire. This would then be communicated to the High Commissioners at a specially convened meeting at the Treasury four days later. Hopkins was sympathetic to Lindsay’s desire to press on with the negotiations with the German Government. His letter to Tyrrell stipulated that the ambassador’s discussion with the German Foreign Minister, Gustav Stresemann, should begin no later than 13 May, allowing a week’s leeway before the General Election that Lindsay had requested; and that, in the interim, the Treasury would ensure that the Dominions were on side by that date. Hopkins asked that Lindsay prepare the ground for his meeting with key members of the German Cabinet.⁸⁷ At the same time, he was keen to ensure that Lindsay should be mindful that approval from the Dominions was still pending.⁸⁸

The cautious overtones in Treasury and Foreign Office communications had another origin. While both departments were confident that Parker Gilbert would raise no objections, neither knew this for certain. Hopkins suggested that Lindsay be given the job of finding out, because ‘he might be hurt if it comes to his knowledge that we were proceeding upon these lines without telling him’.⁸⁹ Hopkins’ letter also criticized Lindsay for not making his argument about the timing of the negotiations prior to the German election with sufficient vigour.⁹⁰ He told Tyrrell that he trusted that ‘we are recovering from the results of our misapprehension’.⁹¹ Anxious to avert a spat between Hopkins and Lindsay, Huxley recommended a careful redrafting of the ambassador’s instructions that made it clear that ‘the hint has been conveyed’ to the Treasury.⁹²

The news that Howard Smith also conveyed to Lindsay—that the Dominions had raised no objections to plans to extend the remit of the Reparation (Recovery) Act—at last freed the ambassador to prepare the negotiations with the German Government.⁹³ Huxley was asked to liaise between the Treasury and the Dominions Office over Lindsay’s instructions. He worked closely with Waley, whom he came to hold in

high regard. It was largely as a result of their collaboration that Lindsay received his instructions in the second week of May.⁹⁴ These took the form of responses to the four most likely objections Huxley and Waley thought that the Germans might raise to the proposed changes to the Act. The first was if the Germans insisted on a complete abandonment of the Act and the introduction of a system of cash transfers. This should be ruled out because the British economy was now geared up to the receipt of reparation payments in kind through the Act and a significant move away from that system would destabilize the entire British economy. The second contingency was that because the constituent parts of the British Empire had not passed legislation similar to the Reparation (Recovery) Act, there was not justification for an alteration of the British Act. The rebuttal to that was that the Dominions had raised no objection to being included within the remit of the British Act. A third possibility was that Lindsay might be confronted with a general series of complaints about the British tariff system. In such an eventuality, the Board of Trade had agreed to supply the embassy in Berlin with data to refute that. The fourth, more contentious point concerned the status of mandate territories in relation to the Act. Lindsay's steer was that if the issue were raised, then the British Government would not press the matter.⁹⁵ Sargent was keen that Lindsay was aware how much work had been accomplished in a short time to enable the negotiations to begin: 'It has been something of a tour de force to send you instructions about the Reparation Recovery Act negotiations by this bag.'⁹⁶

It rapidly became clear to Lindsay that he would need to perform a similar feat of bravura to bring the negotiations to a satisfactory conclusion. The enormity of the challenge facing Lindsay was also not lost on the Foreign Office. Huxley minuted that: 'Sir R. Lindsay is going to have no easy task', even Chamberlain observed that Lindsay was 'very much on the spot'.⁹⁷ Their comments stemmed from a report by the ambassador detailing a conversation with officials from the German Government on 16 May, at which he had been handed a *démenti* protesting at the proposed reform of the Act. 'To suggest an extension' it argued 'was to ignore all that has passed in the meanwhile', specifically the Dawes and Locarno agreements and the entry of Germany into the League. Any changes to the terms of the Act would be a 'terrible setback' to relations between the two countries.⁹⁸ The document made it clear that the German Government felt left out of the negotiation of the alteration and that they were simply being presented with a *fait accompli*. The attitude of the British Government

on this matter was likely to bring about the displeasure of the Reparation Commission and of Parker Gilbert. Lindsay was 'surprised' at the extent of the Germans' hostility, but concluded that because it was so 'completely misconceived', he should address the substance of the *démenti* without waiting for further instructions.⁹⁹

However, the German objections fell on much stonier ground in the Foreign Office. Describing them as 'rather silly', Huxley believed that the 'real' German concern was that the British Government intended to use changes to the Act to broaden the discussion of the way that delivery in kind payments would be taxed.¹⁰⁰ His reason for thinking this stemmed from correspondence from Rowe Dutton some days earlier, recording conversations with Ritter that pre-empted the start of Lindsay's long-delayed negotiations with Tyrrell's opposite number in the German Foreign Ministry, Carl von Schubert. Rowe-Dutton anticipated that von Schubert was unlikely to give the ambassador a sympathetic hearing because changes to the Act would set a 'precedent' that other countries would want to follow; that it would yield little benefit to the British Government and that it would undermine commercial goodwill between Britain and Germany.¹⁰¹

Little record has survived of the next stage of the negotiations with the German Government, although the resumption of the documentation in the final week of June 1928 suggests that, despite such an unpromising start, agreement was finally reached over the extension of the Reparation (Recovery) Act to the empire.¹⁰² However, its conclusion did not alleviate Lindsay's views about its likely long-term relevance and impact on Anglo-German commercial relations. On 27 June, he communicated a commercial report from the embassy in Berlin in which he was at pains to emphasize his agreement that 'British safeguarding policy has made [the] Germans apprehensive and ... in [a] constant state of fear.'¹⁰³

Lindsay played a pivotal role in persuading the German Government to accept the proposed British revisions to the terms of the Act, although his actions took place against the backdrop of preparation for his departure from Berlin. By the end of June 1928, Chamberlain had concluded that Lindsay's work in the German capital was reaching a natural denouement. Plans were now afoot for him to replace Tyrrell as Foreign Office PUS. This worked to Lindsay's advantage because his new role made him privy to a much broader range of documentation on British foreign policy. This enabled him to give more nuanced advice to the final conclusions of the negotiations in the first week of August 1928. He encouraged von Schubert to place the negotiations concerning the Act in their wider

context, suggesting that any tensions between Britain and Germany over reparations had come about through simple misunderstandings that had easily been resolved.¹⁰⁴

The backdrop to the conversations between Lindsay and von Schubert was provided by the much-delayed start of the Anglo-German dialogue concerning the extension of the Reparation (Recovery) Act to the remainder of the British Empire. These discussions began on 29 June. In addition to Lindsay, the British Government was represented by the Foreign Office official, Harold Nicolson, and by Rowe-Dutton; the German delegation was led by von Schubert.¹⁰⁵ The first meeting consisted of a re-rehearsal of the German objections that had been put to Lindsay some weeks earlier. If the extension of the British tariff was allowed, might not Germany's other creditor nations demand likewise? The German delegation was concerned that German public opinion would be outraged by such a development. Lindsay did not think that there was any evidence to this effect. He was also keen to distance himself from the technical aspects of the negotiations, suggesting that the task be delegated to Rowe-Dutton.¹⁰⁶ In this Lindsay was largely successful, with Nicolson replacing Rowe-Dutton as the principal point of German contact by July 1928. The main sticking point remained setting a precedent that other countries might follow, an argument with which Huxley had almost lost patience by the end of the month.¹⁰⁷ Nevertheless, there was little that the Foreign Office could do to address this issue because it became clear that Parker Gilbert, with whose views the British Government had been in such close agreement until this point, had now changed his mind. He was prepared to concede that the German Government might, indeed, have a point.¹⁰⁸ Keen to avoid yet another delay to the negotiations, Lindsay suggested that the Treasury be asked to intervene.¹⁰⁹ In the meantime, Rowe-Dutton took on Parker Gilbert directly, but with little result, reporting that 'it is fairly obvious that we cannot hope for more than neutrality' from him.¹¹⁰

Lindsay's parting shot was to refer the entire question of the extension of the Reparation (Recovery) Act to Leith-Ross in early August 1928.¹¹¹ Huxley was pleased and attempted to orchestrate a meeting at the Foreign Office that would also be attended by Dixon of the Dominions Office.¹¹² Huxley was not optimistic about success. He warned that the British Government would have to make a 'considerable effort to induce the Germans to meet us', a view shared by Lindsay.¹¹³ Both men recommended the adoption of a conciliatory tone while making sure that the principal German objection 'was of real importance.'¹¹⁴ Lindsay's recent

departure from Berlin also made him freer to express his views on the wider significance of the negotiations with the German Government. He was also aware that Stresemann and other senior members of the German Cabinet had begun discussions with the Americans about an additional loan scheme that would supplement those received under the Dawes Plan. During the negotiations of what became the Young Plan, Lindsay continued to believe that a good relationship with the Germans on the reparation question was vital in order for them to view Britain as an ally if they required assistance in dealing with the American financiers.

The Reparation (Recovery) Act remained central to British commercial relations with Germany for the remainder of the decade. Defining that role exactly was the most significant issue and the one that dominated Lindsay's Berlin embassy. This period reveals a number of important points about the nature of Anglo-German relations in the immediate post-Locarno era. Despite Chamberlain's hopes that the 'spirit of Locarno' would permeate all aspects of relations between Britain, France and Germany, Lindsay's negotiations in Berlin suggest that on matters relating to commerce and finance, the Germans continued to view British reparations strategy with suspicion. This discussion also reveals much about the practicalities of how Britain's policy towards Germany worked. Lindsay's dealings with the Treasury and the Foreign Office suggest that ten years after the end of the First World War the overlap in the remit between the two departments remained poorly defined. Reluctance to take the lead in the negotiations internally or in formulating instructions for Lindsay seemed to be motivated by a desire to avoid controversy or responsibility. Lindsay's response to this is also significant. His willingness to take matters into his own hands on these occasions suggests not so much a maverick ambassador but one frustrated by the glacial pace and fog of Treasury and Foreign Office interrelations. It is also notable how relieved and happy the Foreign Office was when Lindsay acted on his own initiative. This suggests a Central European Department, far from buoyed by the Locarno success, as one that had oddly lost its nerve in dealing with the 'German Question'. This can, in part, be explained, by a change of personnel; by the end of 1926, many of those who had been in post during the Locarno negotiations had moved on. But it is notable that the stumbling, commercial dialogues described here took place against a number of initiatives intended to reinforce the diplomatic *esprit de corps* of the Locarno conference, most notably, the negotiations of what became the Kellogg-Briand Pact in the spring of 1928. These points suggest that not only was Jon Jacobson correct in claiming that the main failing of the Treaty of Locarno was that it did not

lead to the creation of a wider successful network of pacts and treaties that would prevent another European war.¹¹⁵ But they also suggest that the rapprochement concerning security questions between Britain, France and Germany in 1925 extended no further than the bounds of the treaty; that it changed little. Furthermore, they might indicate that it was the permanent officials at the Treasury and at the Foreign Office, and not their political masters, who set the true and consistent tone of British foreign policy, aided by the diplomats who served them.

NOTES

1. See, inter alia, A. Sharp, *The Versailles Settlement: Peacemaking, 1919* (Basingstoke: Palgrave Macmillan, 2001); pp. 78–84; A. Lentin, *Lloyd George and the Lost Peace: From Versailles to Hitler, 1919–1940* (Basingstoke: Palgrave, 2001), pp. 226–32; M. MacMillan, *The Peacemakers* (John Murray, 2003).
2. Lord Riddell, *Lord Riddell's Intimate Diary of the Peace Conference and After, 1918–1923* (Gollancz, 1933), p. 3.
3. Z. Steiner, *The Lights that Failed. European International History 1918–1933* (Oxford: Oxford University Press, 2005), pp. 193–7, 203–4, 220–1, 613–14.
4. F. Costigliola, *Awkward Dominion: American Political, Economic and Cultural Relations with Europe, 1919–1933* (Ithaca, NY: Cornell University Press, 1976); S. Marks, 'Reparations Reconsidered: A Rejoinder', *CEH*, 2/2 (1969): 356–65, by the same author, 'Reparations Reconsidered: A Rejoinder', *CEH*, 5/2 (1972): 358–61.
5. B. Kent, *The Spoils of War: The Politics, Economics and Diplomacy of Reparations 1918–1932* (Oxford: Clarendon, 1989).
6. See note 1.
7. E. Y. O'Riordan, *Britain and the Ruhr Crisis* (Basingstoke: Palgrave, 2001); L. Gomes, *German Reparations, 1919–1932. A Historical Survey* (Basingstoke: Palgrave, 2010), pp. 117–8.
8. G. Johnson, *The Berlin Embassy of Lord D'Abernon, 1920–1926* (Basingstoke: Palgrave Macmillan, 2002).
9. Johnson, *Berlin Embassy*, pp. 66–67, 93; Gomes, *German Reparations*, pp. 80–81. Lindsay to Chamberlain, 16 February 1927, FO 371/12140/C1518/857/18. See also 'Memorandum by Mr Huxley, 6 September 1927', FO 371/12135/C7455/374/18, detailing the history of the Act.

10. See Johnson, 'Sir Ronald Lindsay and Anglo-German Relations, 1926–1928', *D&S*, 25/1 (2014): 77–93.
11. Most recently, L. Zuckerman, *The Rape of Belgium* (New York: New York University Press, 2004).
12. Gomes, *German Reparations*, pp. 102–3.
13. Kent, *Spoils of War*, p. 129; C. Bergmann, *The History of Reparations* (Ernest Benn, 1927), pp. 130–8; Steiner, *The Lights that Failed*, p. 214.
14. Gomes, *German Reparations*, p. 61.
15. The French Act came into effect on 1 October 1924.
16. S. D. Carls, *Louis Loucheur and the Shaping of Modern France, 1916–1931* (Baton Rouge: Louisiana State University Press, 1993), p. 231; Kent, *Spoils of War*, p. 149.
17. Steiner, *The Lights that Failed*, p. 230.
18. D'Abernon to Curzon, 15 November 1923, FO 371/8749/C2015/313/18.
19. Gomes, *German Reparations*, pp. 147–50.
20. O'Riordan, *Britain and the Ruhr Crisis*, p. 25; Johnson, *Berlin Embassy*, p. 93.
21. Gomes, *German Reparations*, p. 159.
22. D'Abernon to MacDonald, 8 September 1924, FO 371/9790/C14404/30/18.
23. D'Abernon to MacDonald, 8 September 1924.
24. Lampson to D'Abernon, 27 January 1925, FO 371/10720/C777/124/18.
25. Johnson, *Berlin Embassy*, pp. 87–107.
26. Lindsay to Chamberlain, 29 December 1926, FO 371/11282/C13685/234/18.
27. Gilbert occupied the role 1924–30.
28. W. C. McNeil, *American Money and the Weimar Republic: Economics and Politics on the Eve of the Great Depression* (New York: Columbia University Press, 1986), p. 79.
29. Lindsay to Chamberlain, 22 February 1928, FO 371/12886/C1583/133/18.
30. Lindsay to Chamberlain, 16 February 1927, FO 371/12140/C1518/857/18.
31. Lindsay to Chamberlain, 16 February 1927.
32. Minute by Troutbeck, 22 February 1927 on Lindsay to Chamberlain, 17 February 1927, FO 371/12140/C1576/857/18.

33. Minute by Sargent, 28 July 1927 on Addison to Chamberlain, 22 June 1927, FO 371/12140/C5528/857/18.
34. Contained within Howard Smith to the Treasury, 4 August 1927, FO 371/12140/C5528/857/18.
35. Leith-Ross to Foreign Office, 15 August 1927, FO 371/12141/C6896/857/18.
36. Leith-Ross to Foreign Office, 15 August 1927.
37. Chamberlain to Lindsay, 30 August 1927, FO 371/12141/C6896/857/18.
38. Memorandum by Finlayson, 28 October 1927, communicated in Lindsay to Chamberlain, 28 October 1927, FO 371/12141/C8707/857/18.
39. Lindsay to Chamberlain, 24 October 1927, FO 371/12141/C8708/857/18.
40. Lindsay to Chamberlain, 24 October 1927.
41. Lindsay to Chamberlain, 24 October 1927.
42. Lindsay to Chamberlain, 24 October 1927.
43. Minute by Clifford Norton, 1 November 1927, FO 371/12141/C8884/857/18.
44. Minute by Perowne, 14 November 1927 on Lindsay to Chamberlain, 9 November 1927, FO 371/12141/C9074/857/18; Minute by Perowne, 30 November 1927 on Lindsay to Chamberlain, 23 November 1927, FO 371/12142/C9554/857/18.
45. Minute by Sargent, 1 December 1927 on Lindsay to Chamberlain, 23 November 1927, FO 371/12142/C9554/857/18.
46. Lindsay to Tyrrell, 23 November 1927, FO 371/12142/C9554/857/18.
47. Lindsay to Tyrrell, 23 November 1927.
48. Lindsay to Tyrrell, 23 November 1927.
49. Lindsay to Tyrrell, 23 November 1927.
50. Lindsay to Tyrrell, 23 November 1927.
51. The two men were close friends. In 1908, Lindsay had become Tyrrell's deputy when the latter was Private Secretary to the Foreign Secretary, Sir Edward Grey.
52. Tyrrell to Hopkins, 5 December 1927, FO 371/12142/C9554/857/18.
53. Tyrrell to Hopkins, 5 December 1927.

54. For example, 'Record of a Conversation between Sir R. Lindsay and Parker Gilbert', 7 December 1927, transmitted in Lindsay to Tyrrell, 9 December 1927, FO 371/12142/C10145/857/18.
55. Lindsay to Tyrrell, 9 December 1927, FO 371/12142/C10145/857/18.
56. Leith Ross to Lindsay, 23 December 1927, FO 371/12142/C10424/857/18.
57. Leith Ross to Lindsay, 23 December 1927.
58. Lindsay to Crawford, 11 December 1927, ACC9769 97/10, Crawford Mss, Bodl. The records of the conversations between the Foreign Office, the Treasury and Lindsay during the period of the 'conference' have not survived.
59. Lindsay to Sargent, 27 February 1928, FO 371/12891/C1709/307/18.
60. Lindsay to Sargent, 27 February 1928.
61. The election took place in June 1928 and resulted in the creation of a cabinet led by Hans Müller.
62. Lindsay to Sargent, 27 February 1928.
63. Minute by Sargent, 16 March 1928 on Waley to Howard Smith, 6 March 1928, FO 371/12891/C1854/307/18.
64. Minute by Sargent, 16 March 1928.
65. Lindsay to David Waley (Treasury), 5 March 1928, FO 371/12891/C2163/307/18.
66. Lindsay to Waley, 5 March 1928.
67. See also Minute by Huxley, 2 March 1928, on Lindsay to Chamberlain, 27 February 1928, FO 371/12891/C1709/307/18.
68. Tyrrell to Hopkins, 7 March 1928, FO 371/12891/C1709/307/18. See also minute by Perowne, 3 March 1928, on Lindsay to Chamberlain, 27 February 1928, FO 371/12891/C1709/307/18; minute by Sargent, 6 March 1928, on same.
69. Minute by Huxley, 13 March 1928, on Waley to Howard Smith, 6 March 1928, FO 371/12891/C1854/307/18.
70. See preceding note and also Goodchild to Waley, 5 March 1928, FO 371/12891/C1854/307/18.
71. Minute by Sargent, 21 March 1928 on Hopkins to Tyrrell, 19 March 1928, FO 371/12891/C2238/207/18.
72. See preceding note and also Lindsay to Sargent, 19 March 1928, FO 371/12891/C2238/207/18.

73. Lindsay to Chamberlain, 24 March 1928, FO 371/12899/C2442/617/18.
74. Lindsay to Sargent, 12 April 1928, FO 371/12891/C2968/307/18.
75. Minute by Perowne, 16 April 1928, on Lindsay to Sargent, 12 April 1928, FO 371/12891/C2968/307/18. In the same file, Hopkins to Tyrrell, 11 April 1928.
76. Minute by Perowne, 16 April 1928.
77. Lindsay to Sargent, 12 April 1928, FO 371/12891/C2968/307/18.
78. Lindsay to Sargent, 18 April 1928, FO 371/12891/C3054/307/18.
79. Lindsay to Sargent, 18 April 1928.
80. Lindsay to Sargent, 18 April 1928.
81. Minute by Howard Smith, 20 April 1928, on Lindsay to Sargent, 18 April 1928, FO 371/12891/C3054/307/18.
82. Minute by Huxley, 19 April 1928 on Lindsay to Sargent, 18 April 1928, FO 371/12891/C3054/307/18.
83. Tyrrell to Hopkins, 20 April 1928, FO 371/12891/C3054/307/18.
84. Lindsay to Chamberlain, 23 April 1928, FO 371/12891/C3151/307/18.
85. Minute by Tyrrell, 24 April 1928 on Lindsay to Chamberlain, 23 April 1928, FO 371/12891/C3151/307/18.
86. Hopkins to Tyrrell, 26 April 1928, FO 371/12891/C3228/307/18.
87. Hopkins to Tyrrell, 26 April 1928.
88. Foreign Office to Lindsay, 27 April 1928, FO 371/12891/C3228/307/18.
89. Hopkins to Tyrrell, 26 April 1928, FO 371/12891/C3228/307/18.
90. Hopkins to Tyrrell, 26 April 1928.
91. Hopkins to Tyrrell, 26 April 1928.
92. Minute by Huxley, 30 April 1928, on Hopkins to Tyrrell, 26 April 1928, FO 371/12891/C3228/307/18.
93. Howard Smith to Lindsay, 30 April 1928, FO 371/12891/C3228/307/18.
94. The document is undated. FO 371/12891/C3582/307/18.

95. See also Chamberlain to Lindsay, 11 May 1928, FO 371/12891/C3582/307/18.
96. Sargent to Lindsay, 11 May 1928, FO 371/12891/C3582/307/18.
97. Minute by Huxley, 21 May 1928, on Lindsay to Chamberlain, 18 May 1928, FO 371/12891/C3846/307/18; minute by Austen Chamberlain, 23 May 1928, on Lindsay to Chamberlain, 18 May 1928, FO 371/12891/C3846/307/18.
98. Lindsay to Chamberlain, 18 May 1928.
99. Lindsay to Chamberlain, 18 May 1928.
100. Minute by Huxley, 20 June 1928, on 'Memorandum by Mr Pinsent (Treasury), 20 June 1928', FO 371/12891/C4788/307/18.
101. Rowe Dutton to Pinsent, 14 June 1928, FO 371/12891/C4788/307/18.
102. Minute by Huxley, 27 June 1928 on Dominions Office to Foreign Office, 25 June 1928, FO 371/C4957/307/18. The revised basis for the Reparation (Recovery) Act can be found in FO 371/C4957/307/18.
103. Lindsay to Chamberlain, 27 June 1928, FO 371/12899/C5064/617/18.
104. Lindsay to Chamberlain, 30 June 1928, FO 371/12892/C5162/307/18.
105. 'Note of Meeting with German Government, June 29 1928' in Lindsay to Chamberlain, 30 June 1928, FO 371/12892/C5162/307/18.
106. 'Note of Meeting with German Government, June 29 1928'.
107. Minute by Huxley, 19 July 1928, on Nicolson to Foreign Office, 15 July 1928, FO 371/12892/C5542/307/18; Minute by Huxley, 3 August 1928, on Bewley to the Foreign Office, 27 July 1928, FO 371/12892/C5886/307/18.
108. Bewley to the Foreign Office, 27 July 1928.
109. Minute by Lindsay, 4 August 1928, on Bewley to the Foreign Office, 27 July 1928.
110. Rowe-Dutton to Pinsent, 27 July 1928, in FO 371/12892/C5886/307/18.
111. Lindsay to Leith-Ross, 9 August 1928, FO 371/12892/C6094/307/18.

112. Minute by Huxley, 10 August 1928 on Lindsay to Leith-Ross, 9 August 1928, FO 371/12892/C6094/307/18.
113. Minute by Huxley, 10 August 1928.
114. Lindsay to Leith Ross, 9 August 1928.
115. J. Jacobson, *Locarno Diplomacy. Germany and the West 1925–1929* (Princeton, NJ: Princeton University Press, 1972).

Imperial Solutions to International Crises: Alliances, Trade and the Ottawa Imperial Economic Conference of 1932

Francine McKenzie

At the 1930 imperial conference, Canada's Prime Minister, Richard B. Bennett, proposed that dominion and British governments should expand intra-Commonwealth trade through preferential tariffs. 'I offer to the Mother Country and to all other parts of the Empire, a preference in the Canadian market in exchange for a like preference in theirs.'¹ Bennett's proposal to exchange preferential tariff treatment came out of left field and it was welcomed by some, disliked by others. But it had traction and became the centre-piece for the Imperial Economic Conference of 1932, held in Ottawa at the height of the Great Depression. Although Bennett's proposal centred on trade and the Commonwealth, it had the potential to address economic and geopolitical challenges that threatened British security, economic well-being and international standing. Increased intra-Commonwealth trade could open markets to British exports, which in turn might help reverse the staggering level of unemployment in Britain. It could help to revitalize the Commonwealth as an alliance led by Britain.

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Commonwealth trade might be an answer to the economic and diplomatic crises of the early 1930s. The expansion of Commonwealth trade to serve British diplomatic interests and to fortify its international standing could only happen if there were reversals in Britain's long-standing commitment to free trade, the constitutional evolution of the Commonwealth towards decentralization and autonomy, as well as the Foreign Office's traditional detachment from trade and the Commonwealth. Although Britain shifted towards trade protection and imperial preference, thereby making one policy reversal, the principal participants in the conference conceived of trade primarily in economic terms and to serve their respective national well-being. Neither the Commonwealth nor trade served the interests of British foreign policy even though both were clearly implicated in Britain's ability to respond to growing threats, to pursue and promote its global interests and to reinforce its standing as a leader in the international community.

BACKSTORIES AND REVERSALS: TRADE, THE COMMONWEALTH AND FOREIGN POLICY

British officials did not want to discuss Bennett's suggestion to extend preferential tariffs to one another by raising foreign tariff rates by 10 per cent. It went against the commitment to free trade and might lead to higher food prices, a highly divisive issue in Britain. But rebuffing Bennett's suggestion might make them appear to be anti-imperial.² This was the criticism levelled at Jimmy Thomas, the Secretary of State for Dominion Affairs, when he described the Canadian proposal as 'humbug'. While he later regretted his choice of words in the cut and thrust of parliamentary debate, Thomas insisted afterwards that 'it was a fair description of the Canadian offer, so far as it was likely to benefit the trade of this country'.³

Increasing Commonwealth trade was a British goal in the interwar years. Following the First World War, there was considerable enthusiasm for the British Empire and Commonwealth and there were several attempts to reinforce the practical and tangible ties that bound members together, including expanding trade. They set up an Empire Marketing Board to promote Commonwealth trade. They held an Empire Shopping Week in Canada in 1928 but it was not a huge success as Canadian shoppers were partial to Canadian products.⁴ Two outspoken advocates of greater imperial and Commonwealth trade were Leo Amery, formerly Secretary of State for

Dominion Affairs, and Lord Beaverbrook, a Canadian business magnate who resided in Britain. They believed that greater economic cooperation would benefit all and revitalize the Commonwealth. As Amery explained in relation to Bennett's proposals, 'Never before had public opinion in the Commonwealth been so ready to welcome far-reaching proposals for constructive economic co-operation.'⁵ Beaverbrook was more forceful in lobbying for Commonwealth trade. In 1930 he established the United Empire Party which pushed for Empire Free Trade.⁶ The advocates of imperial trade and the supporters of protection made common cause. But political parties were not yet ready to repudiate free trade.

The problem with Empire Free Trade was that it would probably be brought about by introducing preferential tariff rates which could also serve protectionist purposes. A protectionist trade policy was highly controversial in Britain. It took the Depression to increase support for protectionism. The Depression struck Britain hard, exacerbated by long-standing difficulties such as declining competitiveness, high labour costs and an overvalued pound.⁷ Britain, as a result of its endorsement of free trade from the mid-nineteenth century, was highly dependent on foreign sources of natural resources, imported food and access to foreign markets for industrial and manufactured production. Production for export was in turn an engine of employment. At the worst of the slump, the unemployment rate was 25 per cent. Between 1931 and 1933, Britain imported almost twice as much by value as it exported, leading to massive trade imbalances. The turn to protection and imperial markets was a defensive response to long-term decline as well as the immediate circumstances of the 1930s.⁸ As Cain and Hopkins put it, Britain's willingness to pursue Empire Free Trade was an 'escape hatch down which they hoped to disappear'.⁹

It also took pressure from the dominions, especially Canada and Australia, to push Britain into a serious consideration of the expansion of Commonwealth trade through preferential tariffs. The dominions relied heavily on a handful of agricultural goods or natural resources as exports (see Fig. 7.1). In the Depression, they were doubly hard hit by the precipitous drop in prices for agricultural goods such as wheat, meat, butter and wool, and closing markets. Canada and Australia were especially interested in preferential tariffs. Australia had gone off the Gold Standard, devalued, and reduced government expenditures, but Australian financial troubles continued.¹⁰ Improving their presence in the British market might help to end economic hardship.

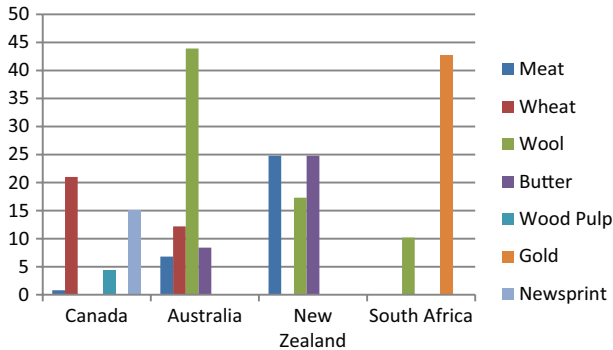


Fig. 7.1 Main exports of the dominions in the 1930 (% of total exports) (Canada Yearbook, 1943–44. Official Yearbook of the Commonwealth of Australia, 1932; New Zealand Official yearbook 1933; B. R. Mitchell, *International Historical Statistics: Africa, Asia & Oceania 1750–1993* (3rd edition, New York/Basingstoke: Palgrave Macmillan, 1998))

Bennett's proposal seemed at odds with a decentralizing trend of Commonwealth affairs that increased the administrative capacity of the dominion governments. This trend accelerated in the 1920s when the dominions became more recognizable as distinct international actors. For example, they joined the League of Nations individually and Canada appointed its own Minister to Washington. At the 1923 imperial conference, the dominions became responsible for their own foreign policies (although ambiguity remained) and in 1926 the Balfour report affirmed that the dominions were equal and autonomous, bound together through 'a common allegiance to the Crown'. In 1931, the Statute of Westminster affirmed their equality and the voluntary nature of their association within the Commonwealth. The dominions were not equally enthusiastic about diplomatic independence and the decentralization of the Commonwealth—New Zealand being the most eager to maintain a close association with Britain—but the direction of change seemed irreversible.

The constitutional and diplomatic decentralization of the Commonwealth was mirrored by a shift to regional and global trade networks (see Figs. 7.2 and 7.3).¹¹ Even though Britain remained their most important trading partner, the 1920s 'were a decade of growing economic independence from Britain'.¹² For example, Australian exports sold in the United States and Japan. New Zealand-Australian trade grew in the

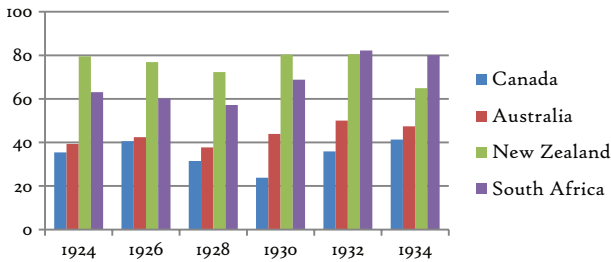


Fig. 7.2 Dominion exports to Britain (% of total) (B. R. Mitchell, *International Historical Statistics: The Americas 1750–1993* (4th edition, Basingstoke: Palgrave Macmillan, 1998); Mitchell, *International Historical Statistics: Africa, Asia and Oceania 1750–1993*)

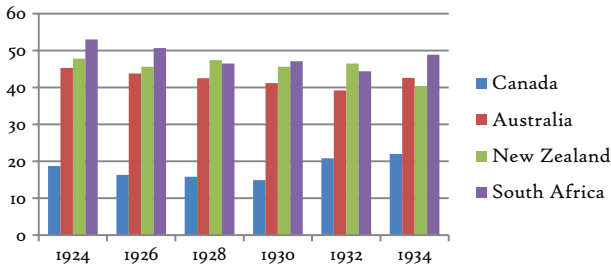


Fig. 7.3 Dominion imports from Britain (% of total)

1920s, although expansion was limited because their agricultural exports had to compete against domestic suppliers. The proximity of the American market facilitated Canadian-American trade, as did their complementary exports. In the 1920s, Britain and the USA traded the top spot as the destination of Canadian exports.¹³ South African exports were overwhelmingly sent to Britain throughout the interwar years, but new markets were slowly developing including Germany and Japan. The dominions were also beginning to industrialize, which weakened the complementarity of their agricultural and natural resource exports with Britain's manufactured exports. The flipside to this was that British exporters found that their market share in the dominions was slowly falling. Even though trade patterns remained strongly oriented around Britain, in the policy realm dominion governments were motivated by national considerations above

all. Ongoing trade with Britain should not be misread as a sign of subordination to Britain or willingness to follow British leadership.¹⁴

Although Bennett wanted to consider several aspects of Commonwealth economic relations, including monetary policy, the Ottawa Conference focused on imperial preference. The first imperial preferences had been introduced, unilaterally, by the Canadian Government in 1897. The British Government at the time had not welcomed a preferential tariff. Although it could not stop Ottawa from bestowing preferences, it did not reciprocate. The decision to grant a preferential tariff to British products demonstrated the autonomy of the dominion government, but the symbolism of the gesture stimulated the imaginations of imperial enthusiasts. Kipling commemorated the tariff in a poem that celebrated the reconciliation of dominion authority and enduring attachment to Britain in 'Our Lady of the Snows': 'The gates are mine to open/As the gates are mine to close/And I abide in my mother's house/Said our Lady of the Snows.'¹⁵ Joseph Chamberlain, Colonial Secretary (1895–1902), hoped to build up preferential tariff treatment, but this idea was scuttled because free trade and low food prices were cardinal principles in British political culture.¹⁶ In the 1920s, there was more support for a protected imperial trading system but once again the opposition to expensive food blocked it.¹⁷ In contrast to British resistance to preferential tariffs, the other dominions quickly followed Canada's example: New Zealand introduced preferential tariffs in 1903, South Africa in 1904 and Australia in 1907.¹⁸ In bits and pieces, and as unilateral and unreciprocated initiatives, the network of preferential concessions across the empire and Commonwealth continued to grow, for the most part. New Zealand expanded preferential rates in 1928 by raising the general rate of duty (meaning the rate on foreign goods) by 5 per cent on 125 items and 10 per cent on another 60 items. By this time, British officials were happy to receive preferential benefits, believing that it should 'result in a marked increase in the United Kingdom share of the import trade of New Zealand'.¹⁹ In South Africa, the National Government had removed many preferential tariffs because South Africans thought of them as a form of tribute to Britain. In 1928, South Africa effectively ended Britain's preferential treatment when it negotiated most favoured nation status with Germany.²⁰ Even though nationalist ideals permeated foreign economic policy there were limits to how far this could be taken. Britain was too important as a market and source of capital for South Africa to contemplate jeopardizing economic relations with Britain.²¹ In the 30 years leading to the Ottawa Conference,

dominion governments had introduced imperial preferences to serve their own interests, on their own schedules and often against British wishes. Similarly they could revoke preferential tariffs, as South Africa had done. This was proof of the dominions' autonomy in tariff policy. But imperial preference also tapped into ideas of the Commonwealth as a unified, collective and exceptional organization of states. Individual economic motivations and symbolic gestures of solidarity created tension when it came to negotiating their expansion at Ottawa.

The Ottawa Imperial Economic conference occurred early in the low, dishonest, decade of the 1930s when there was a turn away from internationalism and cooperation. Whether or not there had been progress toward peace in the 1920s, with the onset of the Great Depression, narrow nationalistic outlooks and zero-sum reckoning returned. They were evident in the common response to plummeting prices and rising unemployment which was to close markets, exacerbating the underlying conditions of the collapse and delaying recovery. The American Smoot-Hawley tariff of 1930 was symptomatic of the protectionist trend in economic policy and the isolationism and unilateralism of the 1930s.²²

The rejection of openness, integration and internationalism in the economic sphere both sparked and reinforced a similar trend in the diplomatic realm. Nations turned inward to combat worsening domestic economic conditions. Stopping the economic slide was the top priority, evident in the rising electoral fortunes of the National Socialist party in Germany as well as the formation of a coalition government in Britain led by Ramsay MacDonald. The close connection between economic conditions—the need for resources and markets—and foreign policy was revealed in the expansionist policy of Japan and the Manchurian crisis of 1931 as well as the isolationist policy of the United States. In Britain, foreign policy was restrained by domestic economic conditions.²³ Above all, British officials were instructed to maintain 'really cordial relations with Japan' whereas cooperating with the efforts of the League of Nations to defuse the crisis was 'a secondary function'.²⁴ While this was understandable it was also potentially dangerous. Other countries, such as Germany, were spending on armaments as a way to get people back to work. Whether a country turned in defensively or turned out aggressively, the result was the same: international cooperation was supplanted by narrower national interests.²⁵

Bennett's proposal held out the possibility that the Commonwealth could support Britain in an increasingly nationalistic, volatile and aggressive world. But that meant coming to grips with an evolving Commonwealth in

which the dominions were more independent and self-interested. Malcolm MacDonald, son of the Prime Minister and future High Commissioner to Canada and Secretary of State for Dominion Affairs, explained how difficult it was to reconcile the individual interests of the dominions and persistent British expectations that the Commonwealth should benefit Britain.²⁶ Adjustments would also have to be made in the way in which foreign policy was defined. The Foreign Office was not willing to do so. Their reaction to the 'diplomatic aspirations' of the dominions combined 'astonishment and resentment'. The Foreign Office did not know how in principle there could be a separate set of foreign relations for the dominions from that of Britain.²⁷ The Foreign Office's resistance to a new model of diplomatic cooperation was not simply the result of anachronistic thinking. Adapting to new realities involved overcoming entrenched understandings of Britain as the centre of the British Empire and a great power. As Christopher Hill has pointed out, it is essential to remember 'the immense power of traditions of thought about policy, and the difficulty of escaping from the intellectual and emotional constraints of the time in which one lives'.²⁸ Nonetheless, the state of Commonwealth relations was unquestionably relevant to Britain's international standing. Robert Vansittart, Permanent Under-Secretary at the Foreign Office, observed in 1932 that many associated Britain's decline with the 'dissolution of the Empire'. Therefore Commonwealth relations would have to be managed in order to uphold 'the greatest possible measure of unity among the Commonwealth representatives...it is impossible to separate ourselves from, or to go against, the Dominions at this crisis'.²⁹ The results of the Ottawa Imperial Economic Conference would have a direct bearing on Britain's standing in the world and its options with respect to both foreign policies and foreign relations.

To make Commonwealth trade work for British global interests, both trade and the Commonwealth had to be conceived of as instruments of foreign policy. But divisions between the Board of Trade, the Foreign Office and the Dominions Office (which had earlier been a department within the Colonial Office) kept these areas of policy separate. Overlap was unavoidable but the division of responsibilities was reinforced by prevailing attitudes and ideas. For example, the Foreign Office resisted attempts by the Dominions Office to perform diplomatic functions or to develop policies.³⁰ The long-standing belief that trade was a matter of low policy, along with the aristocratic backgrounds of most Foreign Office officials, meant that there was little interest in and expertise on matters commercial and so the Board of Trade faced little interference from

these departments.³¹ Relations between Britain and the dominions did not seem to fit the mould of truly foreign relations. William Hague's 2012 description of Canada and Britain as first cousins (which could therefore share consular services in select countries) reveals the persistent belief that Commonwealth relations were more familial than foreign. As a result, the Foreign Office both steered clear of and was shut out of matters concerning the dominions and trade.

The approach of the Ottawa Imperial Economic conference highlighted tensions in key areas of policy: free trade and protection; imperial visionaries and Commonwealth decentralization; overlap and autonomy of the jurisdictions of the Board of Trade, Dominions Office and Foreign Office; and political and economic conceptions of trade. How these tensions were resolved would determine what the Ottawa Conference could achieve and how its results would be judged. Was the goal to lower tariffs or expand imperial preferences? Did they want to find more markets or to strengthen the Commonwealth as an ally?

BRITISH PREPARATIONS FOR THE OTTAWA CONFERENCE

After the 1930 imperial conference, a coalition government came into office in Britain, led by Ramsay MacDonald, with a mandate to bring about economic recovery. This influenced preparations for the Ottawa Conference. The British wanted solutions which would alleviate the hardship of the Depression. But they were not agreed on the best way to do this. Debate about free trade and protection divided members of the Coalition Government. The Labour wing was 'riveted to Free Trade' whereas Conservative members were more supportive of protection.³² The problem that advocates of free trade had with Empire Free Trade was that it was a fig leaf for protection. It would raise costs for consumers and might not in fact improve Britain's competitive position in dominion markets. Nonetheless, in the months before the conference the government included a provision in the 1932 Import Duties Act which raised tariffs on imports but excluded dominion primary products, in so doing extending a preference to them.³³ This was Britain's first real application of preferences.

The unilateral extension of preferences before the conference weakened Britain's bargaining position. As Thomas confessed, 'the government here had thrown all its cards on the table'.³⁴ To offset this, the measure was introduced provisionally. Unless the dominions made more conces-

sions at Ottawa, they could not expect their new duty free status in the British market to continue after November 1932.³⁵ But British officials were not optimistic as they believed that dominion authorities expected Britain to grant additional preferences as belated compensation for their earlier implementation of preferential tariffs. As Thomas explained to the Cabinet, although preferences had been granted voluntarily, now concessions from Britain were regarded as ‘a debt of economic gratitude owed by us to the rest of the Empire’.³⁶ British politicians, in contrast, believed that the dominions should offer concessions to British trade, but like all aspects of Commonwealth relations, dominion governments were under no obligation to do so. As William Graham, President of the Board of Trade, advised the Cabinet: ‘preferences are a free gift, and. . . each part of the British Empire is entirely at liberty to give them or not, as it pleases. There is no right to demand them, and no ground of complaint if they are withheld.’³⁷ British officials also felt at a disadvantage because they did not want to negotiate an agreement with one colony or dominion that might adversely affect another. As Thomas explained, rightly or wrongly, British officials saw themselves as the centre of the empire and therefore could not isolate one set of tariff negotiations from another.³⁸

Despite the evident and urgent connection between Commonwealth trade and British economic and political security, the Foreign Office was marginalized in preparations for the Ottawa conference. It was not immediately included in the preparatory committee. Even once it was added as a member, representatives did not always attend meetings. Instead it was the Board of Trade and Dominions Office which took the lead, alongside the Treasury, Admiralty and Agriculture and Fisheries.³⁹ Sir John Simon, the Foreign Secretary in the National Government, was displeased at the exclusion of the Foreign Office. If the Ottawa Conference was to serve Britain’s geopolitical interests, then trade had to be thought of as an instrument to bring about political coordination, in this case to find allies who would reinforce Britain’s international policies. Simon cautioned against thinking narrowly about foreign economic relations. He warned: ‘It would be a very dangerous view that world relations in the economic field have little to do with the Foreign Office.’⁴⁰

Simon’s own views on trade were pragmatic. He accepted that protectionism might be necessary for practical reasons, but he favoured free trade. As Leo Amery recorded in his diary after meeting with Simon to discuss a preferential trade policy towards several European countries, ‘I don’t think Simon has got far towards grasping the new trend which is for economic

grouping based on political association.⁴¹ Practical thinking also involved consideration of the impact that widening imperial preference would have on ‘foreign’ competitors with whom Britain had long-standing and well-developed trade. A preference to an imperial or Commonwealth producer was a barrier to a foreign producer. The Foreign Office warned that trade relations with Argentina and Denmark as well as the Baltic States would be adversely affected.⁴²

British preparations were hampered by Ottawa’s failure to finalize an agenda until two weeks before the conference opened. Even so, by the time the British delegation set sail for Ottawa, there was no clear decision about what to do either with respect to specific items (such as wheat and meat) or the best ways to promote Commonwealth trade.⁴³ The delegation however was impressive. It was officially led by Stanley Baldwin, former Prime Minister and then Lord President. Neville Chamberlain, Chancellor of the Exchequer, was effectively head. Jimmy Thomas did not inspire widespread confidence because he viewed the dominions less sympathetically and insightfully than many believed was necessary to bring the negotiations to a successful conclusion.⁴⁴ In addition to Baldwin, Chamberlain and Thomas, the delegation included four more Cabinet Ministers, but not Simon. Although the delegation was without clear instructions, they understood that failure would be a ‘fatal blow to Imperial interests’.⁴⁵

OTTAWA IMPERIAL ECONOMIC CONFERENCE, 21 JULY–20 AUGUST 1932

Hugh Keenleyside, a Canadian diplomat, was delighted and relieved that the Ottawa conference opened with a splendour and gravitas that impressed British officials ‘who do such things superlatively themselves’.⁴⁶ Coming together to try to work collectively to end the hardship of the Depression was held up as a demonstration of their special association in which they opted for cooperation and multilateralism at a time when most states were committed to autarchy and unilateralism. As Joseph Coates, a senior Cabinet Minister from New Zealand stated on the opening day, ‘It is instinctive in our people that, in adversity, we should seek not merely our own preservation but also the preservation and advancement of other members of the family of British nations.’⁴⁷

But as soon as the ceremonies and public proclamations were done, British and dominion delegates settled into hard-headed negotiations

that exposed clashing goals and competing economic priorities. The most important difference was that British officials wanted lower tariffs on British products, as opposed to giving them an advantage by raising duties against foreign products. In Baldwin's opening speech, he described two ways in which tariffs could be used to stimulate trade: by lowering tariffs generally or by raising tariffs on foreign goods—the difference was called the margin of preference. He preferred lower tariffs. 'For, however great our resources, we cannot isolate ourselves from the world. No nation or group of nations, however wealthy and populous, can maintain prosperity in a world where depression and impoverishment reign.'⁴⁸ But the dominion governments were determined to maintain protection to encourage industrial development. If they reduced tariffs, their protective barrier would also be removed and fledgling industries would have to face the full force of international competition.

Their divergent methods and aims clashed in negotiations over particular commodities. No commodity generated more controversy than meat. The Australians, led by former Prime Minister Stanley Bruce, pushed for concessions on meat even though it was not their most important export to Britain. But given the vast overproduction of wheat and wool worldwide, displacing foreign competitors from the British market would simply put pressure on Australian exports elsewhere. So Bruce focused on concessions for meat that would give Australian exports an advantage over foreign suppliers such as Argentina.⁴⁹ Bruce threatened to quit the conference, as did Coates of New Zealand, if there was no meat concession. Several Cabinet Ministers threatened to resign if there was a concession. Chamberlain said he would resign if the meat controversy was allowed to ruin the conference.⁵⁰ Sir Geoffrey Whiskard, an Under-Secretary from the Dominions Office who oversaw the economic negotiations, was deeply uncertain about the outcome: 'Everything is in the melting pot. God knows how it will end. We officials are all in despair.' But they were able to work out a compromise.⁵¹ The British offered to apply quantitative restrictions to reduce foreign meat supplies by 35 per cent and continue to extend duty free treatment to Australian meat. Quantitative restrictions increased the dominions' market share while dodging the issue of raising tariffs which would adversely affect British meat-eaters. Thomas supported the compromise for political reasons associated with 'the maintenance of imperial unity'.⁵² Foreign suppliers were displeased and the dominions subsequently fought amongst themselves for the largest piece of the new quota pie.⁵³

Negotiations with Canada were also strained, alternating between 'extreme pessimism and violent depression'.⁵⁴ Although Bennett was the president of the entire conference, and therefore expected to be above the fray of negotiations, he was the principal negotiator for Canada. His priorities were wheat and timber. Bennett wanted free entry for Canadian timber and to exclude Soviet timber from the British market. The British balked. Chamberlain thought Bennett was most aggressive when he accused some members of the British delegation of favouring trade with Russia.⁵⁵ Whiskard described Bennett as a bully and British Ministers were afraid to stand up to him.⁵⁶ The Anglo-Canadian negotiations alternated between 'periods of extreme optimism and violent depression'.⁵⁷ In the end, British concessions were forthcoming. To make Canadian timber competitive against Russian sources would require a very large preference so instead they accepted a provision to guard against Russian dumping in the British market.⁵⁸ Britain also granted Canada free entry for flour.⁵⁹

By contrast, negotiations with New Zealand and South Africa were neither as acrimonious nor as central to the conference. In fact, neither dominion had been that keen on Bennett's idea in the first place.⁶⁰ Trade between New Zealand and Britain was already so well developed that there was little room to expand. As James Belich observed, their economic relationship did not need to be 'artificially induced by legislation'.⁶¹ In Ottawa, New Zealand and Britain focused on retaining the already large margin of preference that British products enjoyed. Britain also raised the duty on foreign butter and cheese. In South Africa, trade policy was infused with nationalist purpose. But the British market remained far too important to be spurned or easily replaced. As a result, there was interest in improving conditions of trade but not in expanding preferential tariffs.⁶²

While the dominions made concessions to Britain by lowering tariffs as well as creating margins of preference, Britain's main hope to expand its market share rested on the domestic competitor clause whereby the dominion governments would treat British manufactured goods as though they had been produced domestically. Australia, Canada and New Zealand agreed to this clause; South Africa refused to do so. This concession was more aspirational than actual and was a source of considerable disagreement afterwards. While Australia, Canada and New Zealand set up tariff boards to determine where tariffs could be lowered to give British producers 'fair opportunity of reasonable competition', this was interpreted in a way that left intact the protection they extended to domestic producers.⁶³ British complaints about this interpretation prompted Australia's Minister of

Trade and Customs to rewrite the history of Ottawa such that Australia had ‘definitely rejected the “domestic competition” principle’ at Ottawa.⁶⁴

Delegates also considered the implications of the Ottawa agreements for their commercial relations with foreign countries. Thomas advised that they adopt a common front. His suggestion was in line with the conception of the Commonwealth as a unit in world affairs. Instead the dominions decided that they would act individually to ensure that they could honour their commitment to preferential tariff rates. Nicholaas Havenga, South Africa’s Minister of Finance, suggested that if a foreign country challenged the preferences, South Africa would break off its commercial relations with them.⁶⁵ This was somewhat surprising. More revealing was the implicit recognition that intra-Commonwealth trade was not sufficient for any of them and that they all needed to develop commercial opportunities beyond Britain and the Commonwealth.

REACTION

The conference ended with public pronouncements about the significance of what had been achieved at Ottawa. But there was criticism too. *The Economist*, long the clarion of free trade, dismissed the ‘nauseating symphony of Imperial wood-instruments’ in praise of the agreements.⁶⁶ In private there were accusations and bad feeling. Nixon and Yeabsley likened the conference to ‘the kind of family squabble that might result from an intestate death’.⁶⁷ British officials were bitter that the dominions ‘ask for everything and concede nothing’.⁶⁸ Appeals to a common cause based on their exceptional association had been unequivocally rebuffed by Havenga when he declared of Britain: ‘She’s no Mother Country of mine.’⁶⁹ Havenga, although not moved by imperial sentiment, wanted a fair deal with the British. The British could not say the same about the Australians and Canadians. As Whiskard wrote: ‘Both Bruce and Bennett demanded further concessions—brutally and as if they were dictating terms to a beaten enemy, as indeed they were—and all were at once conceded.’⁷⁰ Winston Churchill, whose enthusiasm for the empire and Commonwealth was beyond doubt, referred to it as ‘Rottawa’.⁷¹ The trouble did not end with ill-will in Commonwealth relations. Three free traders in the coalition Cabinet resigned in protest.⁷²

Neville Chamberlain, from May 1937 Prime Minister and the author of Britain’s policy of appeasement towards Germany, came away from the conference beaten down and despondent, realizing how the Commonwealth

worked in practice. He had been insulted by Bruce and Bennett 'as he never would have imagined it possible'.⁷³ Despite his disappointment, he had been determined to see a successful agreement reached in order to realize 'the policy which his father had initiated'. At the end of the conference he recorded some satisfaction that the Commonwealth drift had been stopped: 'we have been in time to stop the rot'.⁷⁴ But there was little reason for optimism that the Commonwealth would revert to an earlier, British-led and centred model.

After the conference, intra-Commonwealth trade did increase slightly but not permanently. According to Drummond, this probably had more to do with exchange rates than raising tariffs on foreign goods.⁷⁵ The upswing did not resolve the growing competitiveness amongst Commonwealth exporters. The Ottawa Conference brought home the limits on Commonwealth trade and debunked the myths of a common purpose and exceptional form of association.⁷⁶ As *The Economist* noted with satisfaction, the conference had 'exploded finally the futile delusions of the Empire Free Trade campaign'.⁷⁷ Before long, Britain, Canada and Australia all turned to the USA in the hopes of negotiating new trade agreements. While Australia was rebuffed, both Canadian and British negotiators found a new value in preferences which was by negotiating them away for concessions in the expansive American market.⁷⁸

Imperial preference was a source of ongoing conflict within the Commonwealth.⁷⁹ Preferential tariffs had worked well in the past because they had been offered voluntarily. They were perfectly compatible with the devolution of authority to dominion capitals. But after Ottawa, preferential rates were bound, meaning governments could not change them without the consent of the beneficiary. This was a reversal of Commonwealth practice. William Lyon Mackenzie King, former Prime Minister and leader of the Liberal Party during the conference, objected to imperial preference because it infringed on the fiscal sovereignty of dominion governments. In the 1935 election, he campaigned to remove preferential tariffs.⁸⁰

While the Foreign Office had been absent from Ottawa, it was concerned that imperial preference could expose the true nature of the Commonwealth. Shortly after the Ottawa Conference, the British considered extending preferences to Palestine. The USA objected. British officials considered explaining to their American counterparts that imperial preference was a domestic matter, and as a result not a violation of the most favoured nation treatment that applied to Anglo-American trade relations. The Foreign Office advised against the expansion of preferences

and the proposed explanation. If the USA challenged imperial preference they might also challenge preferences with the dominions. Britain's ability to defend the practice would be 'seriously hampered' by the fact that 'the Dominions would strongly object to many of the reasons on which His Majesty's Government would desire to base their case'.⁸¹

The Foreign Office understood the tenuousness of the appearance of a united Commonwealth with the reality of its decentralized and voluntary nature. Opening up imperial preference to legal scrutiny would reveal for all that the Commonwealth was not an extension of Britain or subject to British leadership or direction. A few years later, Anthony Eden also discouraged the expansion of preferences to Nigeria because it would interfere with foreign relations, none more so than with the USA. Doing so would 'embarrass our relations with the United States of America'.⁸²

Eden was right to be worried that imperial preference was an irritant in Anglo-American relations. Imperial preference was loathed in the USA. Its association with imperial forms of international order offended American beliefs in independence as the basis for international organization. As soon as the American Government had the chance, it pressed for its dismantling. In negotiations with Britain and Canada later in the 1930s, the Americans asked for individual preferences to be removed as well as guarantees that existing preferences would not be widened and no new preferences would be implemented.⁸³ Concessions were made but imperial preference remained largely intact.

CONCLUSIONS

Trade and the empire–Commonwealth are usually marginal elements in histories of British foreign policy. While there are understandable reasons for this, both commerce and the empire–Commonwealth have long been implicated in Britain's pursuit of power, marshalling resources to discharge its global responsibilities, defending British interests, particularly in times of war, and sustaining Britain's identity as a great power and its standing atop the international hierarchy of nations. Trade, the Commonwealth and foreign policy all came together in the 1930s, a time of drastic economic downturn and acute international tensions. But the plausibility of the Commonwealth option in support of British foreign policy depended not on proclamations of solidarity but in providing tangible benefits, in this case finding adequate markets for their exports.⁸⁴ There were, however, limits to the scope of Commonwealth trade. Ottawa revealed the

dominions' commitment to their own national economic welfare and the implications that flowed from this. They would not defer to Britain's lead. Their interests were not subsumed within those of Britain. Although Britain's Commonwealth instinct was heightened in times of international crisis and when the country's position was weak or vulnerable, international conditions did not change the dominions' focus on national interests and a decentralized Commonwealth dynamic. British officials had to manage relations with dominion governments with care and could not presume that they would support British foreign policy, morally or materially. Relations amongst Commonwealth members were more typical, certainly less familial, than British officials had believed. The result was that the Commonwealth gave Britain less immediate economic and diplomatic support than it had expected, at the League of Nations, for instance, over the Italian invasion of Ethiopia, and when Britain turned to rearmament in response to increasingly intolerable German expansion. This was a rude awakening for many British officials and politicians. And yet dousing Commonwealth ideals in a bucket of realistic cold water did not mean the connection to Britain was no longer valued or that Commonwealth countries' world outlooks were incompatible, as the Commonwealth's collective effort in the Second World War confirmed.

Imperial preference would continue to complicate Britain's foreign relations and foreign policy until it entered the European Economic Community in 1973. It also remained an irritant in Anglo-American relations. Having failed to dismantle imperial preferences before the Second World War, American officials resumed their efforts in relation to designing a new liberal global trading order, what would become the General Agreement on Tariffs and Trade.⁸⁵ Americans insisted on the abolition of imperial preference. Imperial preference was still associated with Britain's standing and independence in world affairs. As a result, an imperial tariff was instrumental to British foreign policy and British officials once again looked to the Commonwealth to bolster Britain's standing atop the international hierarchy. As Sir Basil Newton of the Foreign Office observed of geopolitical rankings after the war, 'individually the UK would be a second class power and the Dominions only third class'.⁸⁶ Facing new rivals, uncertain international conditions and financial ruin, the Commonwealth and the recovery of British trade remained essential ingredients in the recipe of British greatness.

NOTES

1. Quoted in I. M. Drummond, *Imperial Economic Policy 1917–1939: Studies in Expansion and Protection* (George Allen & Unwin, 1974), p. 154.
2. R. F. Holland, *Britain and Commonwealth Alliance 1918–1939* (Macmillan, 1981), pp. 120–1.
3. J. H. Thomas, *My Story* (Hutchinson, 1937), p. 209.
4. Board of Trade and Foreign Office: Advisory Committee to the Department of Overseas Trade (Development and Intelligence): Minutes and papers: Papers, BT 90/25.
5. L. S. Amery, *My Political Life*, vol. 3: *The Unforgiving Years, 1929–1940* (Hutchinson, 1995), p. 16.
6. T. Rooth, *British Protectionism and the international economy: overseas commercial policy in the 1930s* (Cambridge: Cambridge University Press, 1992), p. 56.
7. D. Rothermund, *The Global Impact of the Great Depression 1929–1939* (New York: Routledge, 1996), pp. 60–1.
8. Rooth, *British Protectionism*, p. 34
9. P. J. Cain and A. Hopkins, *British Imperialism: Crisis and Reconstruction 1914–1990* (Longman, 1993), p. 73.
10. D. Lee, *Stanley Melbourne Bruce: Australian Nationalism* (Continuum, 2010), pp. 94–5, 98.
11. W. K. Hancock *Survey of British Commonwealth Affairs Volume II: Problems of Economic Policy 1918–1939, Part I* (Oxford University Press, 1964), p. 291; Holland, *Britain and the Commonwealth Alliance*, pp. 159–74; N. Mansergh (ed.), *Documents and Speeches on British Commonwealth Affairs 1931–1952*, vol. I (Oxford University Press, 1953), pp. 245–6; Rooth, *British Protectionism*, p. 34; Rooth said calls for empire free trade had ‘a ring of fantasy about them’, p. 81.
12. Rooth, *British Protectionism*, p. 34
13. For example, in 1922: 42.4 per cent of exports went to Britain, 41.3 per cent to the USA but one year later only 35.4 per cent of goods went to Britain whereas 42.4 per cent went to the USA.
14. I have tried to make this point about how to read trade policies and trade patterns in ‘Trade, Dominance, Dependence and the End of the Settlement Era in Canada, Australia, New Zealand and South Africa, 1920–1973’, in C. Lloyd, J. Metzger and R. Sutch (eds),

- Settler Economies in World History* (Leiden: Brill, 2013), pp. 463–89.
15. R. Kipling, *Rudyard Kipling's Verse, Inclusive edition, 1885–1918* (4th edn, Toronto: The Copp Clark Co, 1919), p. 210.
 16. J. D. B. Miller, *Britain and the Old Dominions* (Chatto and Windus, 1966), p. 24.
 17. Holland, *Britain and the Commonwealth Alliance*, pp. 17–19.
 18. 'Imperial Preference', by L. S. Amery, CAB 66/47/38, 1 March 1944.
 19. Board of Trade and Foreign Office: Advisory Committee to the Department of Overseas Trade (Development and Intelligence): Minutes and Papers: Papers, n.d., BT 90/23.
 20. F. McKenzie, *Redefining the Bonds of Commonwealth 1939–1948: The Politics of Preference* (Basingstoke: Palgrave, 2002), p. 84.
 21. R. Hyam and P. Henshaw, *The Lion and the Springbok: Britain and South Africa since the Boer War* (Cambridge: Cambridge University Press, 2003), p. 124.
 22. Irwin has called it 'among the most infamous pieces of congressional legislation of the twentieth century' but in fact its impact on trade is not clear. D. Irwin, *Peddling Protectionism: Smoot-Hawley and the Great Depression* (Princeton, NJ: Princeton University Press, 2011), p. 3.
 23. D. Dutton, *Simon: A Political Biography of Sir John Simon* (Arum, 1992), pp. 118–120; P. M. Kennedy, *The Realities Behind Diplomacy: Background Influences on British External Policy 1865–1980* (Fontana Press, 1985), pp. 226–36. As Sally Marks observed more generally, 'The Depression loomed over every crisis of the 1930s, affecting all diplomacy and, along with disarmament, dictating the weak responses and reluctance to act so apparent as Japan conquered Manchuria.' *The Ebbing of European Ascendancy: An International History of the World 1914–1945* (Arnold, 2002), p. 318.
 24. Memorandum by Sir Victor Wellesley (Foreign Office), 22 December 1931, *DBFP*, Second series, vol. IX: *The Far Eastern Crisis 1931–1932* (HMSO, 1965), p. 31.
 25. For a helpful discussion of the impact of the Depression on international affairs see P. Clavin, *The Great Depression in Europe, 1929–1939* (New York: St. Martin's Press, 2000), chapter 6.

26. J. Garner, *The Commonwealth Office, 1925–1968* (Heinemann, 1978), pp. xii.
27. Holland, *Britain and the Commonwealth Alliance*, pp. 74, 76–7.
28. C. Hill, ‘The Historical Background: Past and Present in British Foreign Policy’ in M. Smith, S. Smith, B. White (eds), *British Foreign Policy: Tradition, Change and Transformation* (Unwin Hyman, 2000), p. 26.
29. Quoted in Rooth, *British Protectionism*, p. 71.
30. Garner, *Commonwealth Office*, pp. 99, 139–140.
31. Kennedy, *Realities Behind Diplomacy*, pp. 61, 253–4. The aristocratic nature of the Foreign Office persisted throughout the inter-war years according to Kennedy, *Realities*, pp. 253–4; D. C. M. Platt has explained how trade infused much of British foreign policy before 1914, something he claims governments understood but did little to promote because of ‘their aristocratic tastes and prejudices and the laissez-faire, free trade traditions of classical political economy.’ D. C. M. Platt, *Finance, Trade and Politics in British Foreign Policy 1815–1914* (Oxford: Clarendon Press, 1968), pp. xxxix–xl.
32. Thomas, *My Story*, p. 205.
33. For a view partial to imperial preference see ‘Imperial Preference’, by L. S. Amery, 1 March 1944, CAB 66/47/38; for a more factual narrative see Imperial Preference. History and Results of Existing Preferences in the British Tariff, Board of Customs and Excise, December 1928, CAB 24/199/61.
34. Quoted in J. B. O’Brien, ‘Empire v National Interests in Australian-British Relations During the 1930s’, *HS*, 22/89 (1987): 576.
35. J. Barnes and D. Nicholson, *The Empire at Bay: The Leo Amery Diaries 1929–1945* (Hutchinson, 1988), p. 233.
36. Memorandum, Committee on the Proposed Imperial Economic Conference at Ottawa, report by J. H. Thomas, 23 November 1931, CAB 24/224/23.
37. Imperial Trade Policy and Imperial Economic Machinery, by William Graham, 11 September 1930, CP 304 (30), CAB 24/215/4.
38. Report by J. H. Thomas, 23 November 1931, CAB 24/224/23.
39. Memorandum, Committee on the Proposed Imperial Economic Conference at Ottawa; Memorandum, Committee on the Proposed

- Imperial Economic Conference at Ottawa. Second report. J. H. Thomas, 2 May 1931, CAB 24/224/23.
40. Quoted in Dutton, *Simon*, p. 120.
 41. Barnes and Nicholson, *Empire at Bay*, p. 239.
 42. Rooth, *British Protectionism*, p. 84.
 43. Garner, *Commonwealth Office*, pp. 106–7.
 44. Rooth, *British Protectionism*, p. 86, Garner, *Commonwealth Office*, p. 103
 45. Report by J. H. Thomas, 23 November 1931, CAB 24/224/23.
 46. H. L. Keenleyside, *Memoirs of Hugh L. Keenleyside Vol. 1: Hammer the Golden Day* (Toronto: McClelland and Stewart, 1981), p. 411.
 47. Mansergh, *Documents and Speeches*, p. 128.
 48. Mansergh, *Documents and Speeches*, p. 123.
 49. Lee, *Bruce*, pp. 100–101.
 50. Rooth, *British Protectionism*, p. 91–3.
 51. Garner, *Commonwealth Office*, p. 106.
 52. Quoted in Rooth, *British Protectionism*, p. 97.
 53. Drummond, *Imperial Economic Policy*, p. 308. Nixon and Yeabsley agreed that there was a ‘vicious competition among the Dominions for British markets’. C. Nixon and J. Yeabsley, *New Zealand’s Trade Policy Odyssey, Ottawa via Marrakesh and On* (Wellington: NZIER, 2002), p. 91. South Africa also wanted to export more chilled and frozen meat to the UK. Drummond, p. 245.
 54. Garner, *Commonwealth Office*, p. 105.
 55. K. Feiling, *The Life of Neville Chamberlain* (Macmillan, 1974), p. 213.
 56. Semi-official correspondence of Whiskard, Asst Under-scty of state, DO at Ottawa to Sir Edward Harding, Permanent under-scty giving inside accounts of proceedings of the conference, 6 August 1932, DO 121/61.
 57. Semi-official correspondence of Whiskard to Harding, 13 August 1932.
 58. Drummond, *Imperial Economic Policy*, p. 279; Rooth, *British Protectionism*, pp. 89–90.
 59. Barnes and Nicholson, *Empire at Bay*, pp. 233, 236.
 60. Rooth, *British Protectionism*, p. 34.
 61. J. Belich, *Paradise Reforged: a history of New Zealanders from the 1880s to the year 2000* (Honolulu: University of Hawai’i Press, 2001), p. 247.

62. Drummond, *Imperial Economic Policy*, pp. 246, 263.
63. Drummond, *Imperial Economic Policy*, pp. 389–93. For example, the Australian Tariff Board defined reasonable duty to take into account higher production costs in Australia and to give indigenous producers a “margin advantage”.
64. Drummond, *Imperial Economic Policy*, pp. 395–6.
65. Imperial Economic Conference, 1932: Committee on Commercial Relations with Foreign Countries, enclosure 1: in Suggested Extension of Imperial Preference to Palestine, 20 October 1932, CP 363 (32), CAB 24/234/13.
66. *The Economist*, 27 August 1932, p. 379.
67. Nixon and Yeabsley, *New Zealand's Trade Policy*, p. 92.
68. Garner, *Commonwealth Office*, p. 106
69. Barnes and Nicholson, *Empire at Bay*, p. 247.
70. Garner, *Commonwealth Office*, p. 106.
71. R. Toye, *Churchill's Empire: the world that made him and the world he made* (New York: Henry Holt and Co., 2010), p. 180.
72. Lord Snowden, Lord Privy Seal; Sir Herbert Samuel, Home Secretary; Sir Archibald Sinclair, Secretary for Scotland.
73. Garner, *Commonwealth Office*, p. 106.
74. Feiling, *Chamberlain*, p. 215.
75. Drummond, *Imperial Economic Policy*, p. 288.
76. Holland, *Britain and the Commonwealth Alliance*, p. 151.
77. *The Economist*, 27 August 1932, p. 379.
78. I. M. Drummond and N. Hillmer, *Negotiating Freer Trade: the United Kingdom, United States, Canada and the Trade Agreements of 1938* (Waterloo, Ont: Wilfrid Laurier University Press, 1989).
79. Holland, *Britain and the Commonwealth Alliance*, p. 144; Garner, *Commonwealth Office*, p. 107.
80. Drummond, *Imperial Economic Policy*, p. 379.
81. Suggested Extension of Imperial Preference to Palestine, 20 October 1932, CP 363 (32), CAB 24/234/13.
82. Proposed Introduction of the System of Imperial Preference in Nigeria, Anthony Eden, 8 March 1937, CP 89/37, CAB 24/268/39.
83. Drummond and Hillmer, *Negotiating Freer Trade*, pp. 105–6.
84. Holland, *Britain and the Commonwealth Alliance*, ch. 5. J. Darwin, ‘Imperialism in Decline?: Tendencies in British Imperial Policy between the Wars’, *HJ*, 23/3 (1980): 662.

85. McKenzie, *Redefining the Bonds of Commonwealth*, pp. 199–220.
86. Minute by Basil Newton on UK relations with Dominions, 20 April 1944, FO 371/35362. Newton was employed in the Foreign Office as ambassador *en disponibilité* from February 1942.

The Foreign Office, Foreign Policy and Commerce: Anglo-German Relations in the 1930s

Neil Forbes

With the foreign policies pursued by states in the twentieth century becoming increasingly entangled with commercial considerations, the potential existed for a complexity of geopolitical interactions to cloud judgements over how best to ensure national security. For Britain, nothing was more important than ensuring the defence of the home nation and the empire from attack by its enemies. The First World War had demonstrated unequivocally that only those states with assured access to supplies of vital raw materials, large-scale manufacturing capacity and advanced technological know-how could hope to endure in a global conflict. These challenges were brought into sharp relief during the international crisis of the 1930s. The attempts to re-organize the national economy to take such strategic considerations into account became a defining characteristic of Britain's

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rearmament efforts as preparations to fight a war, particularly a war against Germany, intensified from 1936. The range of state actors involved in foreign policy-making and of non-state actors engaged in commerce was wide. This served only to complicate rather than clarify the way to achieve a coherent and integrated economic policy response to the threat posed by the Third Reich. Not only could national interests be regarded as heterogeneous they were, in some cases, sufficiently diverse to conflict one with another. Maintaining commercial relations with Germany in some form of alignment with foreign policy objectives depended, therefore, on finding a way to reconcile different, but potentially equally important, national interests.

Yet, as the Third Reich rearmed, and the prospect of another conflict in Europe came ever closer, those objectives were themselves continuously contested. There were those who argued that, in these circumstances, Britain's commerce with Germany served only to bolster Hitler's rearmament drive and make war more rather than less likely. This was the view held by Sir Robert Vansittart, Permanent Under-Secretary (PUS) at the Foreign Office. In responding, in late 1935, to those among his Foreign Office colleagues who supported the idea of a strong Germany, Vansittart wanted first to see a change in the regime's methods and mentality; but he had seen no sign of it.¹ Vansittart was replaced in 1938, not long after Neville Chamberlain had become Prime Minister. For Chamberlain, acknowledging Germany's supposed grievances over economic issues was a key part of the policy of attempting to appease Germany—a policy that was highly contentious at the time and which continues to divide opinion.²

In general, commerce was regarded as the lifeblood of the nation: not only did it generate wealth and a supply of vital resources of one kind or another, it also facilitated international contacts and provided a channel, frequently covert, by which valuable information was passed to government. This kind of intelligence was difficult, if not impossible, to obtain by other means. As a consequence, in the years leading up to the outbreak of war, Britain was confronted with a strategic dilemma: whether, on balance, national security would be strengthened or diminished by continuing to engage commercially with Germany. The intention in this chapter is to analyse a particular aspect of this dilemma: the dynamics at play in the relationship between big business and foreign policy as Britain sought to respond to the ideological challenge of National Socialist Germany and the threat of war.

The political and economic conditions bequeathed to Britain by the First World War dictated the limits to what foreign policy might hope to achieve. As a consequence of the conflict the trading patterns and commercial networks that had developed since the late nineteenth century were badly disrupted.³ An even more damaging legacy of the war was the ensnaring of the world economic system in a web of reparations and war debts. Few were able to predict the extent to which these intractable issues would dominate post-war international relations and render the processes of financing reconstruction in war-ravaged Europe so problematic. It is for this reason that Zara Steiner, for example, gives prominence to the primacy of economics in analysing the search for European stabilization in the early 1920s.⁴

With financial questions playing such an important role in foreign affairs, the UK Treasury assumed the right among government departments to be the final arbiter of policy where international finance was concerned. Yet, in the period following the Paris Peace Treaties, little attention was given at the inter-governmental level to the questions of how to bring about stabilization and reconstruction in Europe. Instead, a number of 'sub-state actors', such as financial experts who acted under the auspices of the League of Nations, tended to fill the space left absent by official policy-makers. In this respect, Montagu Norman, Governor of the Bank of England, was a key figure in the conduct of financial diplomacy throughout the interwar years.⁵

The apparatus of government in Britain did not adapt easily to the requirements of the new world that emerged after 1918. This is not to suggest that the state was moribund: the setting up of the Committee of Imperial Defence at the beginning of the century and the planning that it undertook throughout the interwar years is a powerful example of how Britain retained a capacity for innovative and successful administrative reform. However, it proved to be very difficult to devise an institutional architecture which would enable external, economic policy to be co-ordinated with foreign policy. The competences of relevant branches of government overlapped with the result that responsibility was fragmented and inter-departmental disputes were left unresolved. This was particularly evident in the tensions that arose between the Foreign Office and the Board of Trade in overseeing the promotion of overseas commerce. The Department of Overseas Trade was therefore created for the purpose of providing a link between the established departments; in practice, the new department developed an autonomous existence which, if

anything, contributed to the failure to set up an univocal approach to policy.⁶ The attempts from 1931 to rectify the deficiencies by setting up an Economic Relations Section inside the Foreign Office produced bitter inter-departmental rivalry. The new section finally received official recognition in 1933. But, in seeking to establish a degree of independence for itself in determining overseas commercial policy, the Foreign Office ensured that the initiative would receive an hostile reception from other branches of government and, consequently, achieve little.⁷

Furthermore, although the Foreign Office was keenly aware of how the benefits arising from successful diplomacy and revitalized European markets would be mutually reinforcing, Britain's pre-eminent position in the global economy had been sacrificed. With the government attempting to ward off domestic crisis and to rebuild economic strength, the scope for action in foreign policy was severely constrained. By the end of the 1920s, Stanley Baldwin's government had made few serious attempts to set out British aims in a common, security framework for achieving the stabilization of Europe.⁸ Clearly, as international economic issues assumed ever greater significance, the changes in Britain's institutional arrangements rendered the Foreign Office less, rather than more, capable of directing unhindered the course of foreign policy in the following decade.

However, disorder of an entirely different magnitude and significance struck an unsuspecting world in 1929: the destabilizing effects of the Great Depression which began in that year brought not only chaos and misery in its wake but also fundamental changes in Britain's economic relations with the rest of the world. Two initiatives taken under Ramsay MacDonald's Government from 1929 indicate that the fundamental importance of economic issues in the formulation of both domestic and foreign policy was starting to be recognized: the revival of a Committee of Economic Enquiry (which in 1930 became the Economic Advisory Council), and the suggestion by Arthur Henderson, the Foreign Secretary, to set up in the Foreign Office a politico-economic intelligence section.⁹ However, if policy in commercial and foreign affairs seemed inchoate following the First World War, the onset of the Depression and ensuing global financial crisis massively reduced the chances of finding a way to harmonize the wide and disparate range of political, geo-strategic and business interests represented in Britain's relations with Germany.

The international credits which had been flowing into Germany, largely from the United States, came to an abrupt end in 1929 and, with the progressive collapse of world trade, German banks had begun to close their

doors by the early summer of 1931. In such market conditions, there was little or no appetite amongst London banks for arranging any new bond issues on behalf of foreign governments or other authorities. The bankers took their lead from Montagu Norman: as much as he might wish circumstances were otherwise, Norman would not countenance financial assistance to prop up the economies of Central and Eastern Europe. His support was limited to supplying some credit, under the auspices of the Bank for International Settlements, to the central banks of those countries most affected by the crisis. Similarly, the Foreign Office was not unsympathetic to the plight of European countries facing financial and economic collapse. The official position was that the British Government would have welcomed any action which the Bank of England might have found possible to take to relieve the situation. At the same time, it was pointed out that decisions over action rested solely with the Bank: intervention by the government would have been impossible.¹⁰ Yet, in turn, as the global economic crisis evolved, Norman recognized that however much London's financial authorities might wish to take a lead, the paramount need was for co-ordinated action at the level of international politics.

In a masterly survey of global capitalism, Jeffrey Frieden is unequivocal when describing the collapse of the international order in the years between 1931 and 1945.¹¹ In his view, the economic, political, social and cultural components that had defined the world before 1914 disappeared completely. Certainly, if that pre-1914 order is defined largely in terms of a set of shared principles or even assumptions about how the global economy should operate, the force of Frieden's argument is undeniable: the values that were almost universally held before the First World War were obliterated by the economic nationalism that developed after 1931. The delicate and self-regulating machinery of the international economy was rapidly jettisoned by one state after another in favour of a variety of bilateral and multilateral trade and payments agreements. The radicalization of political conditions meant that governments intervened more and more in markets by limiting the transfer of capital, imposing trade embargos and, in the case of fascist regimes, by expropriating private assets.

With London becoming the focus of the crisis of confidence amongst international investors over the course of the summer of 1931, capital took flight and Britain was forced to suspend the Gold Standard. The sudden requirement to manage the currency had largely unforeseen consequences: a new equilibrium was established that provided a basis for domestic, economic recovery. As Steiner has written, the events of 1931

plunged Europe into an unprecedented structural crisis which fundamentally altered the financial and economic landscape for the rest of the decade. In turning to empire and retreating from trading with Europe, British prosperity no longer depended on European recovery. Steiner argues that the sterling bloc and imperial preference provided satisfactory, alternative routes for recovery of the domestic economy and thereby allowed the extent of any commitment to Europe to be limited—even if this disassociation, and the reduction in Britain's influence in continental affairs which it would entail, was of concern to the Foreign Office.¹² In the course of 1936, for example, the Foreign Office was represented in an expert group which discussed the need to restore some part of the international trading system, and the possibility of the UK admitting more German imports. But when Anthony Eden, the Foreign Secretary, suggested to Walter Runciman, President of the Board of Trade, that the question of tariff reductions might be looked at as a basis for discussions with Germany, Runciman opined that such an initiative would 'only create trouble for us at home without securing any real advantage abroad'.¹³

Yet, if trading with the British Empire was viewed as a satisfactory alternative to trading with Europe, the recuperative economic effects of the change of direction were not immediately apparent. Rather, in the circumstances of the early 1930s, no one in British business, governmental or academic circles could confidently predict when or how prosperity would return or, indeed, whether any kind of recovery would take place at all. Although historians continue to debate the nature of Britain's recovery from the slump, the evidence is clear that by early 1934 an economic upturn was in progress.¹⁴ By way of contrast, cultural change is much more difficult to evaluate and, perhaps for that reason, receives less attention. One of the most significant cultural effects of the Great Depression was a fundamental shift in how threats to economic stability, and therefore to the maintenance of peace in international relations, were perceived and assessed in the liberal democracies. The primary fear was that capitalism itself might collapse; this coalesced with fears that the economic system that would replace it would be Bolshevism. Taken together, such fears created a climate of extreme anxiety that undermined confidence in the viability of the capitalist system and acted to dull the moral senses for the rest of the decade.¹⁵

However gratifying it may have been to some in political life to see trade and payments finally focused on the English-speaking world, there was no concomitant caesura in commercial relations with Europe. In the

case of Germany, Britain retained well-developed commercial ties not only in the immediate aftermath of the crisis of 1931 but also beyond the coming of the Third Reich. Protection was needed for British merchants and others who looked to recover the debts owed to them from Nazi Germany; from 1934, imports and exports were channelled through the framework that was devised to regulate the trade—the Anglo-German Payments Agreement. In spite of all the difficulties involved in trading with the Third Reich, Germany was the UK's best customer after India, taking exports to the value of £20.6 million in 1938—slightly in excess of exports to the USA.¹⁶ With the world economy in such a fragile condition, and the political environment increasingly unstable, the National Government that came to power in August 1931 had little desire to add to the burden of constraints already imposed on the business community and international trade. In the years ahead, regulatory or legislative intervention on the part of the government was rare.¹⁷

This was certainly the case with the range of financial settlements, such as the Standstill Agreements, that Britain—usually as the leading partner of an international consortium—made with Germany and periodically renewed throughout most of the decade. Although the UK Treasury was kept informed at every stage of the various negotiations that took place, it was mostly bankers from the City of London, not civil servants or government ministers, who conducted the meetings with the German representatives and signed the agreements. For this reason, and because of his attempts to use the newly established Bank for International Settlements in Basle to promote central bank cooperation, Montagu Norman continued to act as the key intermediary between the British Government and a range of banks and other institutions with financial interests in Germany. One recent account has pointed to a decline in Norman's influence after the 1931 crisis.¹⁸ But, even if he became less influential in the domestic policy sphere, he maintained a commanding position in foreign financial affairs for the rest of the decade.

Norman's views on how financial relations with Germany should be conducted had the effect of marginalising the Foreign Office: officials had little scope to exercise any influence over this aspect of commercial policy. With the Treasury affording the Governor and senior Bank of England officials the freedom of manoeuvre to carry out financial diplomacy largely unhindered and in secret, Vansittart—conscious of his powerlessness—was left feeling angry and frustrated.¹⁹ Sentiment in the City was largely pro-German. Nigel Law, based in the City but formerly a First

Secretary in the Diplomatic Service, suggested that only with Germany's re-militarization of the Rhineland in 1936 were opinions slowly beginning to change. Vansittart asked for Law to be thanked for providing such valuable accounts, and added, 'Whenever I am tempted toward optimism in regard to human wisdom, a little synopsis of City opinion has a markedly stabilising effect.'²⁰

As the world's banker, the City of London had always enjoyed a pre-eminent and, according to some commentators, a privileged and protected position in the British economy. With the City's international standing significantly reduced in the 1930s, the British Government seemed intent on supporting whatever the City argued was in its best interests. The various ways in which business and politics interactions evolved in the modern era were partly a reflection of the particular societal structures, institutional arrangements and culturally-specific factors that existed in different states.²¹ But the development of commercial life, particularly from the late nineteenth century onwards, included one organizational form that cut across the particularism of individual states: the emergence of multinational enterprise involved, by definition, the conduct of business across national borders. In turn, multinational enterprise itself acted as an influence upon the way ideological perspectives and national culture help to shape each other.²²

There was a convergence of British and American business interests in the 1930s, formed partly on the basis of scientific and technological collaboration between multinational enterprises. The very large British and American companies regarded themselves as standard bearers in the defence of capitalism—or at least their version of capitalism in which large organizations exercised a dominant influence through market-sharing arrangements. Safeguarding this for the future depended on Anglo-American leadership. But herein business leaders faced a dilemma. They were acutely aware that, to a considerable extent, the world's problems were attributable to the vacuum in global power that had developed. Yet, there was a natural and strong inclination on the part of business to avoid, as far as possible, becoming entangled in questions of international politics. American and European business elites were not predisposed to focus on the implications of new ideological challenges—even when the politicization of business life under National Socialism became obvious. The rising tide of economic nationalism retarded but did not stop the advance of multinational enterprise or bring to an end foreign direct investment. Although economic nationalism was expressed in its most extreme form

under communist and fascist regimes, a range of non-state actors continued to operate across national borders throughout the 1930s.²³

In these circumstances, it is not difficult to see how corporate decision-making could be dominated by the need to ensure the immediate survival of an enterprise in the desperate hope that better things would come in the future. A factor of paramount importance was that, however extreme the National Socialists sounded in declaiming their political creed, no immediate measures to take full control of the economy were imposed by the new German Government when Hitler became Chancellor in 1933. Indeed, recent research suggests that enterprise—whether foreign-owned multinationals or German industry falling under the regulatory requirements of autarky policy—was able to maintain a degree of entrepreneurial agency. Fears that industry would be nationalized, or that some form of socialism would strip away capital and other assets from private holders, could be put to one side for the moment, unless the owner was Jewish. Many foreign firms operating in Germany seemed to find it unexceptional to try to placate the new government.²⁴

In considering the reasons why, beyond commercial factors related to market share, British-based companies looked to maintain a presence in the Third Reich, surprisingly little attention has been paid to the phenomenon of technology transfer between the democracies and dictatorships in the 1930s. At first sight, it could be argued that the level of scientific and technical attainment in Germany was at least equal to that of Britain and not far behind that achieved in the USA. Indeed, among those firms supplying machinery to the Soviet Union—especially power engineering equipment for large construction projects—was Siemens, the German multinational.²⁵ Yet the significance of technology transfer between even industrially advanced states should not be overlooked. Products and processes directly related to rearmament were, naturally enough, closely guarded secrets on grounds of national security. But there were areas of technology, such as hydrogenation processes, that were held, in both Britain and Germany, to be of considerable military importance because of their strategic significance; questions involving the transfer of the technology brought industrialists into contact with governmental circles in both countries.

Several oil and chemical corporations had experimented, from the 1920s, with hydrogenation processes—the chemical addition of hydrogen to act as a catalyst—and three important products had been manufactured: margarine, ammonia and synthetic motor fuel. There was a great

interest in how the development of these processes might open up new and cheaper ways to produce synthetic, or ersatz, versions of existing products or possibly even entirely new products. The hydrogenation of coal, for example, seemed to offer the potential not just for the production of fuels but also for by-products of use to the chemical industry.²⁶ Germany led the world in the development of the two catalytic processes employed: hydrogenation involving very high temperatures and pressure and, subsequently, the so-called Fischer–Tropsch process that used carbon monoxide. In the history of research and development, as David Edgerton has written, coal hydrogenation should occupy a very important place: it was the biggest single project of the world's greatest chemical firms in the interwar years—IG Farbenindustrie and ICI.²⁷

In many cases, multinational companies collaborated over investigating the technical and scientific processes involved, and in sharing the development costs, which were the first and necessary steps before the potential for commercial exploitation could be explored. But, although technical advances were made, the commercial results proved to be very disappointing. By the 1930s—a decade when commodity prices were depressed—the costs of producing synthetic materials were considerably higher than the costs involved in using raw materials in conventional processes. Yet, once Hitler came to power in Germany, such basic economic factors counted for nothing in comparison to geo-strategic considerations. Many of the great technological developments of the twentieth century thus became key tools of militarism and autarky. For the production of oil from coal, and also the manufacture of synthetic rubber and fibres, would not have survived commercially if required to be competitive in a global free market. It is a curious irony, therefore, that this drive for autarky embraced an international dimension. As Edgerton has suggested, practical technological nationalism in the twentieth century had a contradictory effect: it encouraged the movement of technologies across political boundaries.²⁸

The National Socialist elite regarded the industrial holdings of foreign-owned firms as potentially playing a part in the pursuit of autarkic objectives. Multinational enterprise, in particular, had considerable technical expertise at its disposal and, in some cases, foreign firms had considerable manufacturing capacity inside Germany. Firms could be cajoled, therefore, into contributing to Germany's industrial reorganization. Wilhelm Keppler, Hitler's economic adviser based in the Reich Chancellery, was given the responsibility (before Göring took over) for organizing the development of substitutes for imported raw materials. The highest pri-

ority was given to the manufacture of synthetic petrol. Initially, this was deemed to be a secret and a matter of national security. The Wehrmacht wanted to limit all future transfers of intelligence and technical knowledge. However, IG Farben successfully resisted this, at least until 1937, by arguing that technical knowledge coming from competitors was equally valuable; the German firm entered into arrangements with Standard Oil of New Jersey, for example, that required the conveyance of several patents to two jointly-owned companies.²⁹

If information flowed into Germany through commercial channels, it could also flow in the opposite direction—a point not lost on British officials, particularly Foreign Office and Secret Intelligence Service officials. Another multinational—the Anglo-Iranian Oil Company (AIOC)—was also involved in the synthetic petrol question. AIOC counted the British state as its majority shareholder and government appointees sat on its board of directors. Indeed, through Olex, its subsidiary in Germany, the company acted as a kind of proxy for the intelligence services. A connection had been formed in 1931 between the Anglo-Persian Oil Company (AIOC's predecessor company) and Major Desmond Morton, who in that year helped to establish the Industrial Intelligence Centre within the Secret Intelligence Service, where it remained until 1934 when it was moved to the Department of Trade (DT).³⁰ In his study of MI6, Keith Jeffery shows how Morton was able to demonstrate the value of the new Centre's work in analysing the industrial capacity of states to make war, as it focussed more and more on the Soviet Union and Germany in the course of the decade.³¹ In addition to AIOC and Standard Oil, the other oil major that was heavily involved in supplying the German market was Royal Dutch Shell. It was clearly not in the interests of these companies to see Germany turn aside completely from importing mineral oil and, consequently, they considered it diplomatic to cooperate to varying degrees with projects to develop synthetic products.³²

In March 1936, Sir John Cadman, AIOC's chairman, wrote to Sir Frank Smith at the Department of Scientific and Industrial Research. Cadman provided Smith with information and a sample of synthetic oil for the Department's Special Lubricating Oil Committee to analyse. In reminding Smith that the source of the information should be kept secret, the AIOC chairman commented, perhaps unnecessarily but nonetheless revealingly, 'it is possible sometimes for information to be secured from commercial sources which are not open to Governmental Departments'. A few days later, Cadman backed this up by telling Sir Horace Wilson, Chief

Industrial Adviser and one of the most influential figures in Whitehall, that he thought it safe to say that ‘a definite scientific advance has been made which may lead to very important results’.³³

The advance in question seems to have related to the Fischer–Tropsch process. At this stage, the Anglo-Iranian believed that the technology was likely to become more important than the hydrogenation process because the production costs were likely to be lower—or lower, at least, than the costs of manufacturing at ICI’s plant at Billingham in the UK. AIOC noted that production based on the Fischer–Tropsch process was being expanded in Germany, that the technology was being operated under licence in France, and that there was considerable activity among colliery owners and other parties in the UK. Those included, the Anglo-Iranian observed, certain government departments which were likely to be interested in seeing something done, not only to assist the coal industry, but also to give a measure of protection from the point of view of ‘national safety’.³⁴

By August 1936, Wilson was able to inform Cadman that ICI had not been antagonistic when news of the developments had been reported to them. Rather, they agreed that both processes should be tried out, the one being complementary to the other.³⁵ In the light of this, William H. Cadman, the chairman’s brother and one of the company’s leading research chemists, was despatched to Germany accompanied by Miles Reid, of Powell Duffryn Associated Collieries Ltd. The purpose was to undertake a fact-finding visit to Ruhrchemie AG—a firm in which Krupps, Mannesmann and Gutehoffnungshütte were all major shareholders. However, the British visitors were not allowed a close inspection of the synthesis plant, and the general lack of data meant that AIOC did not feel that it could reach a decision on the viability of purchasing a licence.

The company’s views, thereafter, became much firmer. The sub-committee of the Committee of Imperial Defence that was concerned with synthetic processes produced a secret memorandum written by William Cadman. The document recorded AIOC’s conclusion: there was no good case for the establishment of Fischer–Tropsch plants in the UK. However, any decision on whether the establishment of such an uneconomic industry in Britain was justified depended, it was pointed out, on political and defence considerations; these could not be ignored in view of what was, rather euphemistically, referred to as ‘the present emergency’.³⁶

The Department of Scientific and Industrial Research was one of the more *recherché* parts of the governmental machine. However, notwith-

standing the obscurity, the work that this Department engaged in is just one example of how, from 1936 onwards, consideration was given to the kind of administrative infrastructure that would be necessary to wage economic warfare when required to do so. The following year, plans for the Ministry of Economic Warfare were devised. However, as Gill Bennett points out, Desmond Morton was one of the few officials who sought to challenge the conclusion reached by the Committee of Imperial Defence in 1934 that it was not possible to exercise economic pressure during peacetime. With the rapid expansion of the Luftwaffe, Morton had argued in favour of trying to take control over the trade in vital raw materials in order to restrict supplies to Germany and ensure an adequate supply to Britain.³⁷

With the heightened risk of war at the time of the Czechoslovakian crisis in 1938, the Board of Trade, with the cooperation of the Foreign Office, succeeded in a limited number of cases in persuading British merchants to hold back supplies of vital raw materials. But it was recognized that continuing with such prohibitions in peacetime would have diplomatic consequences and create other difficulties.³⁸ The problem with using economic weapons had remained largely unchanged since the Nazis first came to power. John Maynard Keynes had famously criticized the harsh peace imposed on Germany in his book *The Economic Consequences of the Peace*, published in 1919. Yet, though he abhorred Nazism, he pointed to an hideous dilemma: either allow the Third Reich to rearm or resist Germany's international 'brigandage' by imposing sanctions and being prepared to face the horror of preventative war.³⁹

Nevertheless, one advantage afforded by British democracy was the way civilian and technical experts could readily be enlisted in the rearmament effort, and in planning and preparing for conflict. This allowed Britain to mobilize speedily and effectively with the coming of war in 1939.⁴⁰ Harnessing, in one way or another, the expertise of scientific and technical elites in the service of the state also facilitated the development of innovative intelligence-gathering technology and techniques such as radar and code-breaking—highly secret scientific advances that are now widely acknowledged for their respective contributions in helping to save Britain from invasion and in shortening the war. However, historians have focused much less on how the rearmament effort also depended, in a very public rather than covert way, on the support of industrialists. This was particularly so in the case where the aviation sector was induced to cooperate with vehicle manufacturers to set up shadow factory schemes for the

production of fighter and bomber aircraft. This involved British engineering experts using their connections in Germany to make visits to see at first-hand what lessons could be learnt from how German industry had geared up to produce aircraft for the Luftwaffe.⁴¹

The preservation of basic capitalist principles allowed multinationals, therefore, to continue to plan commercial strategy on the basis that Germany would remain an important market, even though democracy had been dismantled and replaced by dictatorship. This was the case in the chemical sector, where IG Farbenindustrie and ICI joined with Du Pont—the other giant of the industry—and together operated as a multinational triumvirate. Close personal relationships developed in the 1920s and were sustained throughout the 1930s. There was also a considerable amount of technical collaboration (particularly between Du Pont and ICI), although each of the three companies constantly feared that it might have more to lose than gain and that it was being denied access to the results of research and development generated by one of the others.⁴²

But because, by definition, the interests of multinational enterprise did not necessarily coincide with the priorities of national defence, or rather the defence of the home nation, the contribution to war preparations by Britain's multinationals tended to be concealed. In the case of ICI—a company whose products were of key, strategic importance—there was a public and a private face to how the growing ideological challenges of the 1930s was dealt with: publicly, ICI was keen to avoid accusations that it was involved in the arms trade in any way, whilst privately, it participated fully in Britain's rearmament effort. In 1935, the Air Ministry, in one of its regular 'Progress' meetings on the expansion measures being taken by the RAF, reviewed the position of bomb production and noted that the full capacity of both ICI and Vickers as bomb-filling factories had been taken up.⁴³ In the mid-1930s, Britain had no domestic sources of supply for magnesium—necessary for producing certain types of munitions—whereas IG produced a large volume in Germany. When one firm, F.A. Hughes & Co., looked to build a magnesium plant in Britain, a company representative visited Germany to study the facilities in detail. As H. J. Mitchell, about to become President of ICI, told Lord Weir, the industrialist brought into government to advise the Air Ministry, the man from Hughes was 'unquestionably fully in the confidence of our German friends'.⁴⁴ The friends in question were IG; Hughes & Co was encouraged to carry on with plans to erect a plant capable of manufacturing magnesium on the scale of some 30 tons per week.⁴⁵

Although Britain was able to mobilize resources from 1939 at a level that gave some hope of sustaining a long, drawn-out conflict, unquestionably the rearmament drive from the mid-1930s achieved only just enough to allow defeat to be staved off in 1940. Britain's survival in wartime depended on being able to import a range of vital raw materials from around the world. But, it is one of the ironies of the age that the rearmament industries also depended on imported machinery and the transfer of technology from the Third Reich. Nitric acid was another chemical product in short supply in Britain. Once again, ICI was able to exploit its international reach to help build up production in Britain. The company reported to government in 1937 on progress in constructing two plants: one was a 'Bamag' plant, and ICI engineers were continuing to inspect existing facilities in Germany; the other was a Du Pont plant which was installing, on ICI's recommendation, German stoneware centrifugal pumps.⁴⁶ Anglo-German technical collaboration was maintained right until the eve of the Second World War. Representatives from ICI, for example, went to Germany in July 1939 to meet with Dr Fritz ter Meer, a director in charge of IG's technical committee; the British and German companies were cooperating closely over a joint dyestuffs venture in Trafford that was almost ready to go into production. But, with the outbreak of war, all agreements were cancelled.⁴⁷

The developments commented on in this chapter illustrate some of the dilemmas faced by the Foreign Office and those who engaged in business, particularly multinational enterprise, with Hitler's Germany. Officials tried to weigh up whether, on balance, the national interest was advanced or undermined by maintaining commercial relations as Germany rearmed and the threat of war grew ever larger. As soon as Hitler came to power, Vansittart and many of his colleagues formed the view that limitations needed to be placed on the extent and nature of Britain's commerce with the Third Reich. As a result, partly, of divisions in the policy-making process, surprisingly few constraints were imposed by the government on Britain's multi-faceted business activity with the Third Reich—a situation that the worsening climate in international affairs did little to change.

The Foreign Office's voice was but one among many competing and conflicting departmental voices: the Treasury, in particular, began to regard the formulation of policy towards Germany as falling within its areas of competence. As Chancellor of the Exchequer, Neville Chamberlain exercised the greatest influence in determining the character of Britain's international political economy. His strategy was to advocate the impor-

tance of maintaining, as far as possible, a positive trade balance in order to maximize foreign exchange earning upon which the purchase of vital raw materials depended.⁴⁸ Chamberlain listened to Treasury advice not only on how much could be spent on rearmament but also on the political dividends that were, supposedly, to be gained through a policy of economic appeasement. That Hitler might be won over by such means was also the view held by Sir Horace Wilson, who was at the height of his influence during Chamberlain's premiership. In entertaining hopes that Hitler was someone Britain could do business with, Wilson both reflected and reinforced Chamberlain's policy towards Germany.⁴⁹

It is clear that throughout the 1930s commercial networks of one kind or another comprised an important element of the international economy, just as they had always done. The structure of the global economic order might have collapsed but established networks of those who participated in the international economy remained largely intact. In many areas information on scientific and technological developments was widely exchanged: big business, cartels, and a range of non-state actors continued to operate across national borders and under diverse political conditions throughout the 1930s. But, in this respect, there were opportunities for Britain to exploit in its unbroken commercial relationship with Germany. Britain's defence industries and war preparations were able to benefit from bilateral flows of technology—technology that was transferred out of Germany.⁵⁰ High-value German machinery was exported to Britain, accompanied by the engineers responsible for installing it. This was expertise and equipment that Britain depended on for rearmament purposes.

British commercial interests could not avoid being caught up in the development of industrial processes, trade agreements and financial arrangements that contributed, albeit in a minor way, to German rearmament and, ultimately, facilitated Hitler's nihilistic goals. It is possible to question why, among business elites, issues related to moral standards in carrying out corporate strategy seemed to have been poorly defined, left undetermined or even ignored completely. In part, an answer would seem to lie in moral confusion caused by the profound shock of the Depression and the fear that capitalism was in danger of collapsing. In these circumstances, it is not surprising if corporate culture reflected the values of contemporary society: the business of international politics was left to politicians to deal with, while businessmen concentrated on trying to ensure the survival of enterprise. But, in so doing, there was a tendency for enterprise to neglect the very values that defined democracy. Herein, per-

haps, lay a moral hazard of the age. This is not to say that the individuals involved suffered from an outlook that was purely self-interested or politically naive. The picture that emerges from the contacts between British and American multinational enterprises suggests that leading executives were deeply worried over the threat war posed to western civilization. But they regarded themselves, first and foremost, as passive bystanders at political events taking place on the international stage over which they had little or no control.

NOTES

1. 'Papers on a settlement with Germany', Annex to Appendix, I(c), 'Comment by Sir R. Vansittart, December 1935, *DBFP*, Series II, Vol. XV (HMSO, 1976), Appendix I, p. 735.'
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3. Y. Cassis, *Capitals of Capitalism: A History of International Financial Centres, 1780–2005* (Cambridge: Cambridge University Press, 2006); D. H. Aldcroft, *Studies in the Interwar European Economy* (Aldershot: Ashgate, 1997).
4. Z. Steiner, *The Lights that Failed: European International History 1919–1933* (Oxford: Oxford University Press, 2007), p. 182f.
5. See, P. L. Cottrell (ed.), *Rebuilding the Financial System in Central and Eastern Europe, 1918–1994* (Ashgate: Aldershot, 1997), p. 62; P. Clavin, 'Defining Transnationalism', *CoEH*, 14/4 (2005): 412–39; C. Natmeßnig, 'The establishment of the Anglo-Czechoslovak Bank: conflicting interests', in A. Teichova, T. Gourvish and A. Pogány (eds), *Universal Banking in the Twentieth Century* (Aldershot: Edward Elgar, 1994); A. Orde, 'Baring Brothers, the Bank of England, the British Government and the Czechoslovakian State Loan of 1922', *EHR*, 106/418 (1991): 27–40.
6. E. Maisel, 'The Formation of the Department of Overseas Trade, 1919–26', *JCH*, 24/1 (1989): 169–90.
7. D. G. Boadle, 'The Formation of the Foreign Office Economic Relations Section, 1930–1937', *HJ*, 20/4 (1977): 919–36.

8. P. O. Cohrs, *The Unfinished Peace after World War I: America, Britain and the Stabilisation of Europe 1919–1932* (Cambridge: Cambridge University Press, 2008), pp. 328–41.
9. G. Bennett, *Churchill's Man of Mystery: Desmond Morton and the World of Intelligence* (Abingdon: Routledge, 2007), p. 135.
10. Note by Harry Arthur Siepmann, 10 July 1931; letters, Norman to Vansittart, 22 July, and reply 25 July 1931, G1/306, Bank of England Archive, London; copy letter, Sir Orme Sargent to Ladislav de Bárdossy, 18 July 1931.
11. J. A. Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century* (New York: W. W. Norton & Co., 2006), p. xvi.
12. Steiner, *The Lights that Failed*, pp. 668, 814.
13. Eden to Runciman, 17 July 1936, *DBFP*, Vol. XVI, No. 463, p. 615, and No. 478, Runciman to Eden, 23 July 1936, p. 644.
14. J. Stevenson & C. Cook, *The Slump: Britain in the Great Depression* (Harlow: Longman, 2010), p. 16ff.
15. See the remarks by J. Frieden & R. Rogowski, 'Modern Capitalism: enthusiasts, opponents, and reformers' in *The Cambridge History of Capitalism*, Vol. II: *The Spread of Capitalism: From 1848 to the Present* (Cambridge: Cambridge University Press, 2014), pp. 385–425.
16. N. Forbes, *Doing Business with the Nazis: Britain's Economic and Financial Relations with Germany 1931–1939* (Frank Cass, 2000), p. 124.
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‘The Jackal’s Share’: Whitehall, the City of London and British Policy Towards the Sino-Japanese War, 1937–9

Antony Best

Ever since the 1970s, when the first studies appeared of British policy towards East Asia in the 1930s, it has been accepted that this decade was marked by the existence of a ‘dual diplomacy’ within Whitehall. What is meant by this is that during much of the 1930s the Foreign Office was unable to exercise its usual monopoly over foreign policy because of the assertiveness of the Treasury during Neville Chamberlain’s tenure as chancellor of the exchequer. This led to an uncomfortable scenario wherein the Foreign Office’s efforts to maintain equidistance between Japan and China was undermined by the amateur diplomacy of the Treasury, which was convinced of the need and practicability of securing a rapprochement with Japan.¹ In other words, British policy was far from monolithic and any understanding of its actions in East Asia must take this into account.

Further complicating the situation, Stephen Endicott, in his 1975 book *Diplomacy and Enterprize: British China Policy, 1933–1937*, argued that the debate within Whitehall was also influenced by commercial pressure

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groups, such as the Federation of British Industries (FBI) and the China Association (CA), and private companies, including John Swire and Sons.² The lead that Endicott provided was not, however, seized upon by many other scholars and subsequent histories that appeared on the late 1930s and early 1940s tended towards an orthodox focus on Whitehall as the fount of all policy.³ The recent availability of a range of new archives, such as those of the Bank of England (hereafter the Bank), the Hong Kong and Shanghai Bank (HSBC) and Jardine Matheson & Co., means, though, that it is now possible to reinvestigate the interaction between commerce and government and assess the degree to which Endicott's thesis can add to our understanding of the forces that shaped British policy in the first years of the Sino-Japanese War.

* * *

As Endicott and others have demonstrated, in the years immediately prior to the Sino-Japanese War the position of British commerce in China underwent profound change. After a short spell in 1933–4 in which some British firms were gripped by a sense of pessimism and had struggled to visualize their future in the China market, from 1935 there was a shift towards renewed optimism. In large part this was due to the fact that, after intense pressure from the China lobby, the National Government sent its chief economic adviser, Sir Frederick Leith-Ross, to Shanghai in the autumn of 1935 to report on the prospects for British industry and examine how Whitehall could assist British firms.⁴ Leith-Ross's recommendations, which were made in autumn 1936, promised a greater level of official government backing for commerce than hitherto. This included support for British loans to China, the provision of export credits, the appointment of a financial adviser to the Chinese Government, and the overhauling of the Consular Service. In addition, Leith-Ross stimulated commercial interest by delivering a number of speeches on the potential of the China market. Consequently, in late 1936 the FBI established a special committee on British trade with China in order to encourage British companies to combine their resources to bid for capital goods projects, such as the construction of new railways, power stations and other public utilities, and appointed a local businessman, Robert Calder-Marshall of Arnhold & Co., to act as its representative in Shanghai.⁵

The sense that events were moving in a new direction was reinforced in the first half of 1937. In one important development, talks began on

dismantling the old China Consortium, the international banking group that traditionally oversaw foreign lending to the Chinese Government but which had in practice come to be an obstacle to investment. In addition, the Cabinet reopened, after a break of six years, the debate about the future of British extraterritorial rights. Also, and most significantly, Leith-Ross used the presence of the Chinese finance minister, H. H. Kung, as his government's representative to King George VI's coronation, to begin serious talks about a British Government currency loan to China.⁶

The optimism about the China market was not, however, universal. Some firms in China, and particularly HSBC, were sceptical about the idea that Britain could benefit from cooperation with China as their long experience in the market meant they held jaundiced views of Chinese capabilities and honesty. One forthright observation came from the chief manager of HSBC, Sir Vandeleur Grayburn, who noted during the currency loan negotiations in the spring of 1937 his hope that the difficulties the Chinese Government were creating would make Leith-Ross 'realise what sort of scum we are up against out here'.⁷ In addition, they were more cautious because they feared that any British support for Chinese modernization would lead to problems with Japan. Here again, Grayburn spoke for many: 'Japan is of course the "nigger in the wood pile" out here and I imagine is getting more & more scared of China's industrialisation scheme'.⁸

The division within the China lobby was not arbitrary, for the different stances that the individual firms adopted were linked to the nature of their engagement with China. Broadly speaking, the trading companies, such as Swire's and Jardine Matheson, whose future in all probability relied on ever closer cooperation with the Chinese, were supportive of the British Government's forward policy. The banks, with their long history of frustration at China's failure to pay dividends and interests on loans, were more sceptical. Moreover, the latter were more conservative in their social interactions with China. As one observer noted of Grayburn, he was completely rooted in the expatriate community with very few Chinese contacts and was experienced only in the exchange banking side of business.⁹

Meanwhile within Whitehall, the Foreign Office also believed that the situation in East Asia required delicate handling. In a memorandum completed in June 1937 for submission to the Cabinet, its 'Far Eastern' experts argued that the problem with a forward policy was that Britain still lacked a satisfactory naval presence.¹⁰ In other words, Britain's ambitions were in danger of outreaching its capabilities. The Bank of England also

had concerns. In June 1937 its decision-making body, the Committee of Treasury, recorded its unease in regard to the China loan talks, noting that Leith-Ross was showing too little concern for the Japanese or the state of the market.¹¹

* * *

The degree to which British hopes were unrealistic was dramatically revealed in July 1937 when an incident at Lukouchiao to the south-west of Peking developed by stages into a full-scale Sino-Japanese war. This conflict vastly complicated the debate about the future of British commercial interests in China for the issues at stake were now intertwined with new factors such as the relation of the fighting to the rising strategic threat in Europe and the moral condemnation of Japan that spread within Britain in the autumn of 1937. The latter, it should be emphasized was not confined to the left. In October 1937 no less an Establishment figure than the Archbishop of Canterbury, Cosmo Lang, agreed to chair a pro-Chinese rally at the Royal Albert Hall.¹² Moreover, in June 1938 it was a Conservative MP, Adrian Moreing, who, following recent air raids on Canton, called for a public expression of the ‘detestation felt by His Majesty’s Government at such wholesale attacks on civilisation’.¹³

The fundamental question for British commerce was what policy was most likely both to protect its existing stake and place it in a position to profit from future Chinese reconstruction. Could Britain retain its interests if it remained strictly neutral, or would it need to favour one side over the other? Was it realistic to expect a Chinese victory or was this mere sentiment? If Japan won, would it establish a commercial monopoly over China or tolerate the continuing presence of the Western powers? In the first two years of the war these difficult questions were endlessly discussed in London, Shanghai and Hong Kong in a process that involved both the public and private sectors. Within both spheres there were profound disagreements about the best way to proceed. Some actors took a consistently pro-Japanese line, others were more pro-Chinese, while some vacillated between these two poles. At the policy-making level the result was that the two most important government ministries, the Treasury and the Foreign Office, were able to draw on the private sector to defend their respective positions. In other words, the ‘dual diplomacy’ dynamic

continued to operate and was, in turn, influenced by the various arguments raised by the divided British China lobby.

In regard to the world of commerce, the position of the key players was broadly as follows. On the pro-Japanese side were those institutions most closely connected to the world of finance, the Treasury, the Bank and, usually, HSBC. Also within Whitehall a quiescent Board of Trade usually followed the Treasury's lead. It is clear that for the Treasury the broader British strategic position was uppermost in its mind. It believed that, with the prospect of war looming in Europe, Britain could not take the risk of alienating Japan and thus the path of least resistance was preferable. In addition, the sense existed at the Treasury, the Bank and HSBC, that the Japanese were a known force and that they had been trusted partners in international finance for decades. This contrasted with the Chinese who were perceived as unreliable and conceited parvenus. Furthermore, another idea that drew these three parties together was a shared reading of Japan's capabilities. They believed that Japan was likely to defeat China, but that it lacked the necessary capital to be able to exploit its victory. In other words, once Japan won it would have no choice but to come to the City and Wall Street to raise the funds necessary to develop China. Thus, the City, if it played its cards right, could not lose.

The Foreign Office, having wrestled with Japanese ambitions since 1931 and with its daily access to decrypts of the Japanese diplomatic traffic, had a less sympathetic view of Britain's former ally. Broadly speaking the Far Eastern Department, and the two Foreign Secretaries in this period, Anthony Eden and Lord Halifax, supported the policy adopted by the League of Nations, which was that member states should do what they could to assist the Chinese cause. This policy, though, was to be followed within strict parameters; Britain should do nothing that might provoke a violent Japanese reaction. The Foreign Office line was also adopted by another key Whitehall player, Leith-Ross, who was the only Treasury mandarin to favour support for China. This pro-Chinese position also had adherents in the private sector in the shape of the trading companies and their lobbying groups. Most notably, John Swire and Sons used its influence to push the CA to support this line. The CA was not, however, united, for Jardine Matheson tended to fluctuate between despair and optimism and acted accordingly.

The result of these divisions, quite naturally, was that Britain ended up with a fractured and largely reactive policy. Neither the Treasury nor the Foreign Office was able to trump the other by stating that it had the

unequivocal support of the China lobby. Moreover, with no consensus existing in Whitehall, the government was unable to persuade the private sector to adopt a forward policy. Division thus led to drift.

* * *

The City's war began in August 1937 when the Sino-Japanese fighting spread from north China to the focus of international investment and trade, Shanghai. This led to a sudden run on the banks stationed in the International Settlement and problems in gaining access to property that was affected by the spreading conflict. Faced with this situation, the initial action of the China lobby was to appeal to the government for protection. Accordingly, on 29 September a joint meeting of the FBI and the CA was held to coordinate and publicize policy about compensation and other such issues.¹⁴ The optimism of the recent past was thus quickly forgotten and the China loan talks went into abeyance.

In public, at least, the City adopted a position in step with popular sentiment by showing concern for the innocent victims of the war. Following a long-running precedent, the Lord Mayor of London on 21 October 1937 issued a letter to the press announcing that he was establishing a relief fund for China (a previous fund had been launched to help the victims of the Yokohama earthquake in Japan in 1923). Behind the scenes, though, the inside story of the appeal was telling. In the original draft of 5 October, the Lord Mayor had noted that 'The entire City is deeply stirred by the terrible picture of this tragedy and all are anxious and ready to do something to relieve the desperate situation.'¹⁵ This wording, had, however, caused concern among the denizens of the Square Mile. The reason was that the clearing banks and other city institutions, such as the stock exchange and Lloyd's of London, were loath to support a fund that they saw as implicitly anti-Japanese.¹⁶ Accordingly, the City of London Corporation was forced to revise its call for funds to suggest that its priority was relieving the suffering of British nationals in Shanghai. On this basis alone were the City's leading firms willing to provide 500 guineas each.¹⁷

In line with the banks' attitude towards a general appeal, some members of the China lobby engaged in private criticism of the British press's denunciations of Japan. For example, Donald Bernard, the London manager of Jardine Matheson, cynically referred to calls in the media for the boycotting of Japanese goods as 'vain talk' which acted 'as a safety valve

for the feelings of those who indulged in it'.¹⁸ As might be expected, Grayburn, from his redoubt in Hong Kong, also aired his contempt. In November he observed to the HSBC manager in London in November that, 'It seems to me ... that people at home would do well to keep their mouths shut & stop this silly & dangerous anti-Japanese propaganda which can do no possible good & may do untold harm.'¹⁹

This attitude was, of course, heavily influenced by the expectation that any war between Japan and China was likely to be a short-lived affair that would inevitably end with a Japanese victory. It was therefore both naive and dangerous to engage in futile provocations. However, by the end of 1937, when even the fall of Nanjing had failed to precipitate a Chinese collapse, it became clear that there would be no easy Japanese victory. Accordingly, both the City and the government now had to shift their focus from a reactive response to specific localized issues to a general consideration of what policy Britain should follow towards the conflict.

For the commercial companies a number of issues arose. One serious concern was that the Foreign Office, having had its ambassador to Nanking wounded in a Japanese airplane attack in August, lacked adequate representation in China. Accordingly, in December, Jardine Matheson pressed for a new strong-minded ambassador to be despatched as soon as possible and for a Cabinet minister to be sent as a special envoy, thus mirroring the recent mission of Lord Halifax to Germany.²⁰ This initiative spurred the Foreign Office into an early announcement that Sir Archibald Clark Kerr would be the new ambassador to China, although it was not forthcoming about a special envoy. Clark Kerr subsequently held a meeting with the CA in which the latter stated that its members preferred to deal with China in all of its natural chaos rather than seeing it turn into a new Manchukuo. In other words, they feared that a victory for Japan would mean the establishment of a Japanese monopoly and the likelihood that British firms would then slowly be squeezed out of business.²¹

Another important matter, which was raised by the British committee of the Corporation of Foreign Bondholders, a body that among other things represented China's creditors in Britain, was the fate of the Customs receipts that were being collected in Japanese-occupied territory.²² These receipts were vital for the servicing of China's foreign loans and any short-fall risked sparking a series of defaults with the attendant problems that this would cause to financial institutions and individual investors across the Western world. Understanding the seriousness of this issue, Whitehall duly engaged in talks to persuade the Japanese to allow the customs fees

from the occupied areas to service Chinese debts. An agreement to this purpose was subsequently signed in Tokyo in May 1938.²³

Meanwhile, the Foreign Office began its own investigations into how to uphold British interests. One possibility was bringing pressure to bear on Japan by limiting its credit facilities in the City of London. This idea was first raised by the British Ambassador to Japan, Sir Robert Craigie who proposed in December 1937 that the City should refuse any exceptional Japanese requests for credit.²⁴ In addition, support for such action was received from individual bankers. For example, the chairman of the Westminster Bank, Rupert Beckett, suggested to Eden over the Christmas period that if the City refused to take Japanese bills of goods this would have a highly deleterious effect on the latter's ability to trade.²⁵

The Foreign Office duly put these proposals to the Treasury. However, the latter was not convinced that such action was necessary. It argued that, as far as it could tell, Japan already had only limited access to the City and this was soon confirmed by information received from the Westminster Bank that Japanese borrowing and deposits were largely restricted to the Big Five clearing banks.²⁶ This drying up of business with Japan was not, of course, a matter of sentiment, but simply reflected the fact that the British banks believed that the Japanese economy was coming under such serious strain that it was turning into a credit risk. Indeed, the Treasury noted that so poor was Japan's standing that a number of Swiss banks had recently turned down a loan without even seeking their own government's opinion.²⁷ Thus, in January 1938 Leith-Ross was able to affirm to the Foreign Office that, 'the City is doing all that is practicable to keep Japan short and...if they went further it would do more harm to us than the Japanese'.²⁸ Moreover, he gave an assurance that the Bank was watching the situation carefully and would dissuade any firms that might be tempted.

Leith-Ross's faith in the Bank was not entirely deserved, for the Governor, Sir Montagu Norman, was if anything determined to maintain contact with Japan. In both January and March 1938 he suggested the Bank should send a representative to Tokyo to consult with his opposite numbers at the Bank of Japan. On both occasions Leith-Ross shot down the proposal, noting on the latter occasion that 'the visit would certainly be misrepresented by critics of the Government as giving encouragement to the aggressor'.²⁹ Moreover, a visit by the Treasury to the Bank to discuss Japanese credit facilities in March 1938, further revealed the latter's doubts about the efficacy of any tough action. At this meeting John Lenox

Fisher, the assistant chief of the Bank's Overseas Division, observed that, while it was true that short-term credits had largely dried up, Japan could still sell its gilt-edged securities if it wished to raise funds and in any case no action taken in London would have any effect on the Japanese army.³⁰

However, whilst the Bank of England itself was reluctant to act, the clearing banks continued during 1938 to cut their exposure to Japan. For example, the Westminster Bank, which did the most business with Japan, informed the Yokohama Specie Bank (YSB) in March that it wished to cut the latter's discount fund from £1 million to £500,000.³¹ It followed this move in September by cancelling Mitsui & Co.'s credits to cover exports to Japan.³² Meanwhile, later in the year Lloyd's Bank informed two Japanese banks that no bills bearing the names of Japanese acceptors could be taken up without the express approval of its head office.³³ Thus, despite the Bank of England's reticence, it is clear that Japan's access to credit in the City was being steadily curtailed.

* * *

The other issue that emerged at the start of 1938 was speculation about what could be done in the financial field to assist China. In early January 1938 the Bank's representative in China, Cyril Rogers, warned that if Britain wished to avoid the breakdown of the former's currency, the *fapi*, some kind of action was urgently needed.³⁴ This communication stirred the Foreign Office into action. Very quickly the adviser to the Far Eastern Department, Sir John Pratt, produced a memorandum stating that any Japanese victory was bound to lead to the extinction of the British stake in China. Accordingly, it was in Britain's own interests to give assistance to China that would lead either to the latter's victory or at the least a stalemate that might force Japan to make peace.³⁵

Armed with this view, in early February the Foreign Office was represented at an inter-departmental meeting in Whitehall and pushed, with support from Leith-Ross, for an approach to be made to HSBC suggesting that the latter should buy silver from the Chinese government, which would be less contentious than the government itself taking action to support the *fapi*.³⁶ Neither the Foreign Office nor Leith-Ross were under any delusions that this would be easy, as clearly the most important person to persuade was Grayburn who, it was suspected, had decided that HSBC should throw in its lot with the Japanese.³⁷ Grayburn, in fact, denied that this was true, and demonstrated in March that he had not given up on

the Chinese Government by providing it with a temporary £2 million advance until it was able to sell some of its silver on the New York market.³⁸ However, he did aver that it was not realistic to expect HSBC to provide a larger long-term loan to China in the present circumstances.³⁹ This, though, was not the only obstacle, for the Bank of England itself was opposed to any loan linked to silver. It argued, with reason, that there was no market for silver in the City. This meant that, if the Chinese could not meet their sterling obligations and had to resort to providing silver, these ingots could not be easily sold in London, with the result that in all likelihood they would have to be sold off at a discount. This would, in turn, depreciate the price of silver and lead to unwelcome resentment in both India and the United States, which held substantial reserves of the metal.⁴⁰

With HSBC unresponsive to the idea of a large silver loan, Whitehall's attention turned from early April to another scheme that had been raised by the Chinese Government, namely that a credit could be tied to control of the wolfram and antimony produced in south-west China. These two metals were vital in the production of munitions and, although the British Empire had enough supplies for its own needs, this proposal did raise the possibility of whether control over these materials would at least deny them to Germany.⁴¹ Moreover, even if purchase by the government was not warranted, there was still the prospect that British firms could buy the metals themselves and sell them on the London market or loan China money on the basis of future sales.

The Foreign Office was keen to see action on this proposal and on 1 June raised the prospect of either government or private action at a meeting of the Cabinet's Foreign Policy Committee. By this point, though, it was clear that Britain itself did not need to purchase the wolfram, which raised the question of whether HSBC could be persuaded to act.⁴² All too predictably, the answer was not encouraging. At a meeting in Whitehall on the next day Grayburn, who was on home leave, made it clear that he had no interest in a loan linked to wolfram, for there was no certainty under present conditions that the metal could be exported. The only option he was prepared to entertain was a wolfram loan of £5–6 million backed by a full and firm British Government guarantee.⁴³ Nor was HSBC the only institution to have doubts. In early May some senior figures in Morgan Grenfell and Barings Bank considered the plan, but felt that it cut across their interests in Japanese government business and the China Consortium.⁴⁴ Meanwhile Dawnay, Day & Co, which had been

approached directly by the Chinese Government, argued that it too could not go forward with organizing a £5 million loan.⁴⁵

With the idea of a City loan based on wolfram having reached an impasse, yet another initiative came into play. This time the proposal, which came from the Chinese authorities through Rogers, was that the British Government itself should offer a £20 million loan for the express purpose of supporting the *fāpi*.⁴⁶ In late June an informal gathering of interested ministers and officials agreed that this scheme should go before the next Cabinet meeting where the Foreign Office and the Treasury could set out their respective positions.⁴⁷

At this point, with the onus now on the government rather than the private sector, the CA sought to make its voice heard. The chief figure pushing it into action was Warren Swire, the chairman of John Swire and Sons. Swire had just returned from an inspection trip to East Asia, where he had attempted to assess the course of the war and the prospects for the company. His conclusion was that Britain could not expect any favours from the Japanese. Indeed, he predicted in one letter home that 'the greater degree of success the Japanese militarists are able to achieve, the more objectionable they will become'.⁴⁸ However, he was also doubtful whether Japan would actually be able to achieve an outright victory, as he had been unimpressed by what he heard about its army's efficiency.⁴⁹ With Swire leading the way, at the end of June the CA accordingly drafted a letter to the Foreign Office, which stated that the time for passivity in the face of Japanese provocation was over and that Britain should proceed with a currency loan and the granting of export credit guarantees.⁵⁰

This initiative did not win unanimous approval from the CA's members. Predictably HSBC refused to associate itself with the letter and it was joined in its dissent by the Asiatic Petroleum Company.⁵¹ Indeed, when a CA delegation met with the Foreign Secretary, Lord Halifax, on 5 July the representatives of these latter two firms made it clear that they disapproved. O. J. Barnes, the senior manager of HSBC's London office, even went as far as to assert that, 'if the Loan was granted there was no doubt that Japs would regard it as an unfriendly and possibly even un-neutral act'.⁵² Others signed up to the letter without enthusiasm. For example, even though Jardine Matheson affixed its signature, its manager in Hong Kong, John Paterson, criticized the idea of a loan as being entirely sentimental and argued that Swire had let his anger affect his judgement.⁵³

One crucial difference that separated HSBC and Jardine Matheson from Swire's was that they were by no means as certain that a Japanese

victory would be disastrous for British business. When John Keswick of Jardine Matheson had visited Tokyo in June he had come away with an entirely different impression from Swire's. He wrote to Bernard, 'If I may prophesy, Japan will win the war and thereafter proceed to lose the peace. I think there is a good future for us ...'⁵⁴ HSBC thought similarly; indeed, if anything in the summer of 1938 it was not only convinced that Japan was going to win, but was also actively seeking to keep in with the Japanese.⁵⁵ For example, in early July it sent out a letter to a number of branches ordering them to maintain good contacts with Mitsui Bussan Kaisha, one of Japan's major trading companies, and soon began exploring the possibility of a short-term loan to the Japanese through the YSB.⁵⁶

The upshot of this was that when Halifax attended the Cabinet in July to make the case for a loan he could not point to unanimity among the China lobby as one of the weapons in his arsenal. Subsequently, in the Cabinet meeting of 6 July the arguments made by the Foreign Office and the Treasury in support of their respective viewpoints closely mirrored those that had divided the China lobby. In its memorandum for the Cabinet, the Foreign Office boldly affirmed that, 'If Japan wins this war there can be little doubt that British influence will be excluded, British financial interests largely lost, and British trade with China will within a short period be reduced to negligible proportions.'⁵⁷ Meanwhile, the Treasury, drawing on a recent telegram from Craigie, predicted that Japan would never forgive any attempt to assist the Chinese and accordingly argued that a loan 'would set the seal upon our losses in China'.⁵⁸

The argument therefore was neatly poised and centred on the issue of whether Britain was in a position to indulge in a risk.⁵⁹ The result was that the Cabinet delayed its decision for a week in order to gather more information. In the ensuing interval the City redoubled its efforts to kill the loan. First of all, the doyen of China financiers, HSBC's Sir Charles Addis, weighed in with his prediction that even £20 million would be insufficient to save the *fapi*, and then the Bank, in forwarding the above to the Treasury, made clear its belief that in the likely case of a Japanese victory, 'Japan cannot hope adequately to finance the trade and development of China unaided.'⁶⁰ As if this were not enough, the contemporary setting in Europe made any rash decisions impossible; Britain simply could not afford to alienate Japan just as the Czech crisis was coming to a boil. The eventual decision on 13 July was thus inevitably to turn down the Foreign Office plan.⁶¹ One keen observer of events, the journalist Peter Fleming,

voiced the Sinophile perspective on this development; noting that after 'a year of dignified and perhaps obligatory futility' Britain now appeared 'to be drifting towards an acceptance from Japan of the jackal's share'.⁶²

* * *

The reaction of the majority within the CA to the demise of the loan scheme was to redouble its lobbying activities. On the same day as the decisive Cabinet meeting a CA delegation went to the Board of Trade to push for a more dynamic policy, fearing that otherwise, as Swire and Valentine Killery of ICI put it, Britain may well end up alienating both parties to the conflict.⁶³ Support for the CA's stance also came from a new quarter, for on 11 July the London Chamber of Commerce (LCC) had decided to establish its own China section under the dynamic leadership of J.W. Nicolson of MacKenzie & Co. Nicolson quickly concluded that the China lobby was not doing enough to bring the travails of British firms to the public's attention and that it should do more 'to bring Chinese affairs much more prominently to the fore'.⁶⁴ One result was that the China lobby's supporters in Parliament began to make their voices heard. Up until this point, Conservative MPs and peers had largely been content to focus on specific cases of Japanese discrimination against British interests, but in July they too began to press for a more active policy of assistance, including a loan.⁶⁵

This campaign continued into the autumn when it was stimulated by a significant new development, namely the announcement by the Japanese prime minister, Fumimaro Konoe, on 3 November of the establishment of the 'New Order in East Asia', which envisaged the creation of a closed regional trading bloc. In other words, the fear expressed by Swire and others of victory leading to a Japanese monopoly was becoming a reality.⁶⁶ Embarrassingly for the British Government this declaration came just two days after the prime minister, Neville Chamberlain, had naively declared that a victorious Japan could not develop China without recourse to British capital.⁶⁷ Konoe's pronouncement convinced the China lobby to redouble its efforts. Accordingly, on 18 November the LCC sent a deputation to the Foreign Office to protest at this 'new and very dangerous development', while the CA arranged a meeting with Lord Runciman, the Lord President of the Council.⁶⁸ In addition, a further barrage of questions was unleashed in the House of Commons where Conservative MPs joined their Liberal and Labour colleagues in asking how the government

would respond to Japan's formal challenge to the Nine Power Treaty of 1922 and the principle of the 'open door'.⁶⁹

The Japanese action also led to doubts among the ranks of those who had previously believed that Japan would inevitably need their help in the future. For example, both the head of Jardine Matheson's Shanghai office, Tony Keswick, and Bernard in London now began to fear for the future.⁷⁰ Indeed, on 24 November Keswick wrote a long letter to Norman setting out his belief that Japan had essentially won its war against China, that its enemy was now Britain and that it intended to eliminate all British interests from the region. Accordingly, he reported, 'I have become increasingly convinced that the only policy to adopt is one of reprisals.'⁷¹ Within the Bank this letter struck a nerve with Fisher, who observed that he also hoped that the government might be able to act before it was too late.⁷² Nor were these the most unexpected changes, for even Grayburn was having second thoughts. Faced with growing discrimination against HSBC interests in Manchukuo, in November 1938 he dismissed the idea put forward by the bank's Kobe branch of a £500,000 short-term loan to Japan, noting sardonically:

One of the baits held out is that if they do succeed we should be in their good books when the time comes, which does not impress me. I think there is little doubt they would push us aside the moment it suited them to do so.⁷³

Indeed, he now reversed his stance so completely as to propose in early November that a joint HSBC–British Government loan should be offered to the Chinese.⁷⁴

This pressure from the newly reunited China lobby came at a judicious moment, for in November China's leader, Chiang Kai-shek, himself returned to the idea of a loan, implying to Clark Kerr that the only other alternatives open to him were either surrendering to Japan or turning to the Soviet Union.⁷⁵ The renewed activism of the CA and its associates meant that when Halifax brought Chiang's proposal before his Cabinet colleagues, he could now point to the growing consensus that something had to be done. The result was that although the Cabinet decided in late November, in the light of the still fragile situation in Europe, to delay a decision, this was only a temporary postponement that was designed to see how the United States planned to address the situation.⁷⁶ Moreover, in December the Cabinet did approve another less controversial means

of assisting China by agreeing to provide funds from the Export Credit Guarantees Department.⁷⁷

The stage was thus now set for Britain finally to take a dramatic step in favour of one side over the other. In March 1939, with the Americans having given a firm lead in December by offering a loan of \$20 million to China, the Foreign Office was finally able to overcome the Treasury's prevarication and get the Cabinet's agreement to provide British support for the *fapi* in the shape of £5 million for a currency stabilization fund.⁷⁸ Of course, this decision was taken for a variety of strategic, political and economic reasons, but it is noticeable, in contrast to the summer of 1938, that in these final months of deliberation the China lobby was united and thus the Treasury was unable to draw on the City as a source of support. 'Dual diplomacy' had finally come to an end.

* * *

The thoughts and actions of the China lobby in the first 18 months of the Sino-Japanese War provide considerable insight into the factors that shaped British policy in this period. At one level, it is apparent that the firms were important sources of information. For example, the key actors played a vital role in providing Whitehall with knowledge of Japan's position in the City and in relaying market sentiment to policy-makers. More significantly, however, it is evident that, just as Whitehall was divided about how to respond to Japanese aggression, the commercial community was deeply split with the trading companies and the banks seeing matters very differently. The splits that existed within the private sector and the arguments in which they engaged are undoubtedly important for understanding the issues that were at stake. Moreover, the existence of the divide between the banks and the traders is significant because the protagonists within Whitehall were naturally keen to reinforce the logic of their respective arguments by mobilizing outside opinion.

A situation therefore developed where the Treasury, the Bank of England and the commercial banks allied in taking a conservative line that betrayed a lingering distrust in the Chinese and a chronic misreading of Japan. Meanwhile, on the other side of the argument, the Foreign Office cooperated with the CA, the FBI and the trading firms and exporters that made up the majority of their members, in clinging to the hope that the only way of exploiting the China market was through future cooperation with the Chinese. The key difference, of course, was that the former group

was concerned with capital and the latter with goods, and the divide continued only for as long as it was believed that Japan would follow market logic and look to the City for the funds to develop China. In the autumn of 1938 that chimera finally vanished from view, for the Konoe declaration made it abundantly clear that Japan had no intention of turning to London for investment. With that pronouncement the caution and naivety that had paralysed policy-making since the start of the conflict were pushed to one side and Britain, both in its public and private sector, turned decisively towards backing China. Despite its continuing doubts the Treasury was no longer able to stem this tide, for it now stood isolated and without allies.

NOTES

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British Industry and US–UK Economic Diplomacy During the Second World War

Thomas C. Mills

Economic diplomacy was a central feature of the relationship between the United States and Great Britain that developed throughout the Second World War. Underpinning this diplomacy were negotiations concerning the aid provided by the US to support the British war effort. Commonly known as Lend-Lease, this financial support developed from its beginnings in March 1941 to entail a vast bureaucracy and an aid package totalling \$27 billion by the end of the war.¹ From the very outset of the conflict, the American and British Governments were also concerned with the nature of the global economy that would take shape following the cessation of hostilities. Economic internationalists in the USA, led by Secretary of State Cordell Hull, were determined to use opportunities provided by the war to dismantle Britain's closed trading system, embodied in imperial preference and the sterling zone. In its place Hull and his allies advocated a multilateral economic system, based on equality of access to the world's markets and resources and a financial system of fixed exchange rates and free convertibility of currency. Most in the British Government were amenable to such a system. However, major misgivings on Britain's part emerged concerning how and when a multilateral system would be brought into being. The reluctance of the US Government to take suf-

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ficient heed of these concerns led many in Britain to fear that multilateralism was less a means to greater worldwide prosperity and peace—as its supporters claimed it to be—and more a method of promoting US economic self-interest.²

Economic diplomacy took place throughout the war at a variety of intergovernmental levels. The topic arose occasionally in the meetings and correspondence between President Franklin Roosevelt and Prime Minister Winston Churchill.³ Economic diplomacy was also conducted by a number of special envoys, such as Harry Hopkins for the United States and John Maynard Keynes for Great Britain.⁴ Several British Government departments maintained an interest in economic diplomacy with the USA. These included the Treasury and the Board of Trade, and to a lesser degree, the Ministry of Economic Warfare and the Ministry of Information. It was the role of the Foreign Office to coordinate the various perspectives of these different Whitehall departments and to negotiate directly with the USA through its embassy in Washington, as well as its missions throughout the world where British and US economic interests were deemed important.

The centrality of economic diplomacy to the US–UK relationship during the Second World War has resulted in a reasonably sizable body of literature on this subject. Richard Gardner, Alan Dobson and Randall B. Woods have provided valuable overviews of these negotiations.⁵ Various scholars have also produced works exploring particular aspects of the economic diplomacy between the USA and the UK in more depth. One strand of this has been to detail economic rivalry between the two powers in specific regions during the war. For example, John DeNovo and Robert Vitalis depicted economic competition between the USA and Britain in the Middle East.⁶ The author's own recent work has explored how this process unfolded in South America.⁷ Another track has been for studies to explore diplomacy between the American and British Governments concerning specific industries, particularly those deemed to have a strategic or political significance. Alan Dobson and Jeffrey Engel provided valuable insights concerning the civil aviation industry.⁸ Similarly, Fiona Venn and Mark Seddon have explored US–UK negotiations over the oil industry during the war.⁹

One element lacking in the historiography of US–UK economic diplomacy during the Second World War is any sustained consideration of the role played by private enterprise in this process. Explorations of diplomacy concerning particular industries, such as those cited above, obviously do consider the part played by the major corporations in these sectors. And

private business does merit an occasional mention in other more general or regional studies of economic diplomacy between the USA and Britain.¹⁰ However, there remains a lack of any in-depth study of the role played by business interests in the USA and Britain in the economic diplomacy conducted by their governments. This omission seems strange, given that it was of course the actions and interests of private enterprise that were the primary topic of discussion in the economic diplomacy conducted between the British and American Governments during the war.¹¹

This chapter redresses this shortcoming in the current literature by exploring the role played by British industry in US-UK economic diplomacy during the Second World War. In particular, it pays special attention to the views and actions of the major industrial groupings in the UK at that time, the Association of Chambers of Commerce and Federation of British Industries (FBI) (the latter being the precursor to the contemporary Confederation of British Industry). With a strong emphasis on overseas trade these bodies had a keen interest in the economic diplomacy conducted between the British Government and its American counterpart. At the outbreak of the Second World War Britain remained a major trading nation, dependent for its prosperity to a great extent on international commerce.¹² From the very outset questions of international trade were central to discussions of both Lend-Lease and the diplomacy on the structure of the post-war global economy. US-UK economic diplomacy during the war was therefore of great concern to leading British industrial groups.¹³

In considering the role played by these groups this chapter argues that British industry had an important impact on economic diplomacy between the USA and the UK in the Second World War. British industrial groups actively engaged with and lobbied government on matters pertaining to Lend-Lease. They also conducted extensive studies of the proposals for the post-war global economy that emanated from US-UK governmental diplomacy. The findings of such studies allowed British industry to influence the approach taken by the British Government towards these negotiations. Finally, as the war progressed, British industrial groups engaged in direct diplomacy with their counterparts in the United States and elsewhere, in seeking to lay the basis of the post-war global economy.

Wartime economic diplomacy between the USA and Britain began in earnest in March 1941 when President Roosevelt secured passage of the Lend-Lease bill through Congress. This legislation ensured that the USA was able to fund the British war effort beyond the Cash and Carry sys-

tem of the previous four years without incurring war debts of the type that proved so troublesome in the aftermath of the Great War.¹⁴ Lend-Lease aid began arriving in Britain at a time when the country was in dire need of funds and supplies to maintain the fight against Nazi Germany. It was on this basis that Churchill famously described it as ‘the most unsordid act in the history of any nation’.¹⁵ Reactions from British industrial interests were couched in similar terms. In April 1941 the FBI circular *British Industries* argued that the passing of Lend-Lease represented for the United States a broader ‘break with the tradition of isolationism in favour of active collaboration with the democracies now and in the time of reconstruction after the war’.¹⁶

However, the initial joy with which British industry greeted the passing of Lend-Lease proved to be short-lived as the complexities of the aid programme soon caused antagonisms with the United States. In particular, British businessmen were greatly dismayed when their US counterparts began accusing them of exploiting the aid provided to fight the war in order to enhance their own profits. These complaints came in particular from South America, where US businessmen reported that they were losing out in export markets to their British competitors who were re-exporting materials received under Lend-Lease that they themselves were forbidden from supplying by the wartime authorities in Washington.¹⁷ These accusations caused a minor political storm in the USA, culminating in Congressman James Francis O’Connor publically denouncing ‘such double dealing and chicanery’ on the part of British businessmen. In response to these accusations, the British embassy in Washington released a statement seeking to reassure Americans that, following the passage of Lend-Lease, Britain most certainly was not exporting ‘just for the sake of doing so’. On the contrary, Britain had ‘cut her own exports to the bone, only maintaining the minimum provision which is necessary for essential purposes’.¹⁸

In truth, British industry was in a state of great uncertainty as to what the country’s export policy in fact was in the new context created by Lend-Lease. Whereas previously Britain had needed to export to markets such as those in South America to earn the exchange needed to fund the war effort, statements such as that issued by the Washington embassy suggested this was no longer the case. The frustration felt by British industry over the lack of clarity on the country’s export policy was expressed vigorously by Geoffrey Marchand, a representative of the British glass industry, in a letter to the Director of the FBI. Marchand stated that ‘British

exporters badly need far stronger and clearer guidance from the British Government than has so far been forthcoming'. In particular, British industry needed to be told by government 'the extent to which—if at all—we are to continue to export, what we may export, where to, and under what conditions'.¹⁹ Lord Dudley Gordon, President of the FBI, agreed. 'Industry was strong enough to face up to any situation', stated Gordon. 'But it could not continue to operate in the present condition of uncertainty.'²⁰

It was in part in response to this state of uncertainty that the FBI convened a meeting of representatives of trade associations and export groups in August 1941.²¹ At this meeting there was certainly concern expressed by British industrialists over the accusations of misuse of Lend-Lease emanating from the USA and the response these had elicited from British officials. Essentially, the fear was that the accusations of Lend-Lease abuse being voiced in the USA were merely a pretext to try to remove British traders from markets such as those in South America. As the representative of the paint export group expressed this, Lend-Lease 'might be used unfairly to oust the British manufacturer from a number of export fields'. Speaking with some degree of hyperbole the representative of the British Engineers' Association went further, arguing that should Britain acquiesce in the efforts of Americans the country would be forced 'to pay a price ... which would merely result in the substitution of another form of ruin for that which would have been accomplished by a German victory'.

Notwithstanding these fears, there was widespread optimism expressed at the meeting that some accommodation on export competition could be reached with the United States if only practically minded industrialists from both sides of the Atlantic could get together to flesh out the issues. As envisaged by Roy Glenday, Chief Economic Director of the FBI, one way to confront the present difficulties arising from Lend-Lease was for British industrialists 'to have a cards-on-the-table conversation with American business men' which might result in the establishment of 'working arrangements and mutually agreed delimitations of markets which would not only remove all immediate sources of friction but establish a basis for continued collaboration after the war'.²² This proposal was greeted with enthusiasm. As one delegate at the meeting expressed it, American businessmen, in his experience, 'were hard nuts to crack, but he had never found them unwilling, after hearing his point of view, to find some basis of agreement'. On these grounds he predicted that American

industrialists, once fully aware of the facts of the situation, would not be unwilling to reach an accommodation with their British counterparts.²³

When British export policy was finally clarified the hopes of British businessmen for such a collaborative arrangement seemed hopelessly naive. On the contrary, the Export White Paper of 10 September 1941 was a unilateral statement on Britain's part committing the country to limit its export trade to the 'irreducible minimum necessary to supply or obtain materials essential to the war effort'. Moreover, Britain pledged not to use material received under Lend-Lease 'in such a way as to enable their exporters to enter new markets or to extend their export trade at the expense of the United States'.²⁴ The Export White Paper thus laid down severe restrictions on Britain's export trade. As the Board of Trade acknowledged in a circular to the chairmen of export groups immediately following the issuance of the White Paper, 'the undertaking will add further to the many difficulties under which the export trade already labours'. But such a move was unavoidable, the Board of Trade argued, in order to dispel 'any belief in the United States that the assistance that we are receiving under [Lend-Lease] is being abused'.²⁵

Notwithstanding the obvious damage the restrictions imposed by the Export White Paper were likely to inflict on Britain's export trade, British industrialists were not impervious to the broader political issues at play regarding Lend-Lease. The legislation was subject to annual renewal by Congress in the United States and there were many congressmen who remained suspicious of Britain and represented a potential threat to the aid programme. Thus when the FBI convened a further meeting in October 1941 the conclusion reached was not to contest the policy articulated in the Export White Paper in deference to the importance of the political issues at stake.²⁶ Others throughout British industry were less charitable in their response. The trade journal *Imperial Review* spoke for many when it criticized the terms of the Export White Paper and argued that no effort should be spared in seeking to preserve British export markets.²⁷ Similarly, *The Economist* rallied against the seemingly one-sided nature of the export situation created by the White Paper, arguing that 'Americans no more than Britons must gain an advantage' from Lend-Lease.²⁸

Criticisms of the terms of export competition established by the Export White Paper intensified when the USA entered the war in December 1941, following the attacks on Pearl Harbor. For many in British industrial circles the restrictions placed upon Britain's export trade by the Export White Paper seemed wholly unsuited to the joint belligerent status of the

two countries following the entry of the USA into the conflict. Kenneth C. Robinson, Governing Director of the exporting firm Thomas Bell & Co., made this argument explicitly in a letter to the Treasury. Following the US entry into the war, noted Robinson, 'we are now, or ought to be, frank and avowed allies in the one war effort and there is, therefore, no longer any necessity to truckle or cajole Washington as though we were uncertain of their aid'. The logical conclusion of the altered status in the US-UK relationship, according to Robinson, was that 'if it is unpatriotic for us to export goods, then it is equally unpatriotic for the United States to do so'.²⁹

Figures within the British Government were not unsympathetic to this line of thinking. Rodney Gallop of the South American department of the Foreign Office believed that Britain's export policy, as defined by the White Paper, was 'dictated by motives of political [expediency] rather than of logic or justice'.³⁰ On this basis the Foreign Office and other government departments attempted throughout 1942 to replace the Export White Paper with a system of joint programming, whereby the USA and Britain would collaborate in supplying goods to export markets from a common pool.³¹ When these efforts failed the Foreign Office sought to loosen the restrictions imposed by the Export White Paper in order to try to maintain Britain's export trade to as great an extent as shipping and manpower shortages allowed.³² But these efforts too met only with limited success.³³

British dissatisfaction with the terms imposed on its export trade by the White Paper increased further still with the advent of so-called 'reverse Lend-Lease'. Through this process Britain supplied goods to the United States to carry out its war campaign. These were fairly small in number compared with the traffic in the other direction but were important in particular theatres such as North Africa, as well as taking the form of repairs to shipping and the supplying of scientific equipment in important fields.³⁴ For British industrialists the onset of 'reverse Lend-Lease' increased their sense that the war effort was now a common venture and in this context the one-sided nature of the Export White Paper seemed wholly unfair.³⁵ But such claims were not appreciated in the USA and the White Paper remained in force until the end of the war.

By this time British concerns were focused on the termination of Lend-Lease—which eventually occurred somewhat abruptly on 20 August 1945—and the impact this would have on British reserves.³⁶ The principal concern on Britain's part was that the sudden cessation of this form of

liquidity would seriously hamper Britain's ability to trade in the post-war era.³⁷ Indeed, throughout the discussions of Lend-Lease and the limitations impressed upon Britain's overseas trade by the Export White Paper, both industry and government were united in the common concern that the effect of the wartime policies would be to severely hinder Britain's export trade in the years that followed the conflict.

As the war progressed, questions over Lend-Lease became increasingly embroiled with broader negotiations over the nature of the global economy that would emerge following the end of the conflict. This subject was in fact discussed even prior to the entry of the United States into the war. The Atlantic Charter—the statement of war aims issued by Roosevelt and Churchill in August 1941—included a commitment to the kind of multilateral trading system advocated by Cordell Hull in pledging the USA and Britain to promote equal access, for all countries, 'to trade and to the raw materials of the world which are needed for their economic prosperity'. This commitment was made by the two countries, however, 'with due respect for their existing obligations'—a reference widely understood to refer to Britain's system of imperial preference.³⁸ Established in the early 1930s, this system provided preferential terms of trade to empire countries and therefore discriminated against others, such as the United States.³⁹ Multilateralists in the Roosevelt administration made a further effort to dismantle imperial preference as part of the 'consideration' to be paid by Britain in return for Lend-Lease. The Master Agreement of the aid package agreed in February 1942 stated that the USA and Britain would work towards 'the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other barriers to trade'.⁴⁰

In the most general terms British industry welcomed the attempts to liberalize world trade that were pursued by the United States. As the Association of British Chambers of Commerce stated in a report on post-war reconstruction in May 1942, 'the Association welcomes the Atlantic Charter as providing a basis for a long-term economic policy'.⁴¹ Similarly, the FBI espoused the establishment of conditions 'essential to an expansion in world trade'.⁴² But British industry had significant concerns over precisely how a multilateral system would be brought into being and how it would operate in the post-war world.

One of the major points that British Government officials sought to impress on their US counterparts throughout economic negotiations was the anticipated need for a transitional period after the war for the British

economy to adjust to peacetime conditions. In particular, the British Government was concerned to establish a healthy balance of payments that would be a prerequisite to the country participating in a multilateral system.⁴³ British industry shared this concern and argued in favour of the continuance of government controls following the war that would facilitate this goal. On this basis, industry groups reacted with caution to the stated aim of the Master Lend-Lease agreement to eliminate discriminatory tariffs and other 'barriers to trade'. In a report on international trade policy published in February 1944 the FBI argued for 'the continuance of certain Government controls after the War', and stated that with specific regard to imperial preference, the system should only be dismantled following consultation and agreement among empire countries.⁴⁴

Beyond concerns over the timing of dismantling the protective trading systems of the interwar period, British industrial groups were willing to argue more stridently in defence of some of these systems. As a report on the post-war economy by the London Chamber of Commerce (LCC) put it, the protective trading systems created by nations in the lead up to the war 'were not the result of stupidity' on the part of governments, but rather 'attempts by nations to protect themselves against very real and pressing dangers'. In this sense, the report went on, 'trade barriers are not themselves the disease but merely the symptoms of the disease'.⁴⁵ Foremost among the kinds of dangers alluded to by the LCC, among others, was the competitive advantage provided by cheap labour in underdeveloped countries.

One potential response to this threat was simply to argue for the retention of protective tariffs by advanced countries. This was certainly the stance adopted by some in the British Government.⁴⁶ A far more progressive response to this problem was to advocate for effective measures to raise the standard of living in underdeveloped countries and in this way create a more balanced global economy that would nullify the need for protective measures such as tariffs. Notably, this latter course was the position widely adopted by British industrial groups throughout the war. As the LCC argued, if the economic belligerency of the interwar period were to be avoided in the future, the imperative was 'to change the system as to ensure that international trade shall raise the standard of living of the backward nations to that of the advanced nations'. This would result in a sufficiently balanced world system so that, rather than posing a threat to the living standards of any country, international trade would act as 'a means of mutual aid and advantage to those participating in it.'⁴⁷

Arguing in similar terms, the FBI stated that the goal of economic diplomacy throughout the war should be to engender 'the maximum degree of prosperity for all countries'.⁴⁸ In this sense British industrial groups aligned themselves with the lesser-known of the economic ambitions set out in the Atlantic Charter, that aimed at securing 'improved labor standards, economic advancement and social security' for all.⁴⁹

Fundamental to British industry's objections to the economic plans being laid for the post-war world was what was viewed as the naive assumption on the part of American multilateralists that simply removing barriers to trade would result in a mutually beneficial expansion of international commerce. As the FBI rather mockingly characterized this view, it was based on 'a school of thought which attributes all the difficulties of the years between 1918 and 1939 to the existence of trade barriers'. 'If only such barriers ... were swept away' this line of thinking held, 'world trade would automatically return to the state of prosperity and expansion which characterised so many periods of the first half of the 19th century and the opening years of the 20th'. The FBI dismissed such an analysis as 'a fallacy'.⁵⁰

Rather, British industrial groups believed that a degree of both national and international governmental planning was vital to ensure stability and increased prosperity on a global scale. As the FBI viewed the options facing those planning the post-war global economy, 'the choice seems to be between returning to the jungle law of unregulated competition or to adopt the more modern and realistic view ... that this jungle law should be replaced by planning designed to raise world prosperity by orderly methods'.⁵¹ It was wholeheartedly in favour of the latter of these options that the FBI advocated. As articulated by the trade body, 'a certain measure of guidance on the broad objectives of policy both national and international' was necessary if an expansion of international trade was to be achieved to the benefit of all. The Association of British Chambers of Commerce argued along similar lines stating explicitly that 'in order to ensure the flow of trade ... through channels to ensure ... maximum employment, Government direction is inevitable'.⁵²

The belief that governmental intervention was needed to ensure the successful establishment of a multilateral trading system in the post-war world was reflected to a certain extent in the policies advocated by the British Government in its diplomacy with the USA. By the summer of 1943 London was greatly concerned that the country was in danger of permanently losing traditional export markets as a result of US companies

and government agencies taking advantage of wartime conditions to promote their own commercial interests. Beyond the concerns of short-term profit, the Foreign Office argued that the curtailment of Britain's export trade in the post-war era would essentially prohibit the country from participating in the kind of multilateral system being advocated by internationalists in the United States.⁵³

Subsequently, Lord Halifax, the British Ambassador in Washington, approached Cordell Hull to express British concerns. Pointing to 'an impression, however false, that there may be some desire on the American side to supplant British traders in [their] established and traditional markets, not only for the war period, but permanently thereafter', Halifax explained that this trend would severely limit Britain's ability to participate effectively in a multilateral trade system. In order to redress this problem Halifax requested that the British and American Governments agree to the principle that 'no advantage in the overseas markets shall be accounted to either country at the expense of the other by reason of sacrifices made in the interest of the effective prosecution of the war'.⁵⁴ Thus, governmental intervention on the part of the USA and Britain—in the form of what the Foreign Office liked to call 'a self-denying ordinance' preventing private enterprise from profiting from the war—would be employed to increase the likelihood of a multilateral economic system coming into being in the post-war era.⁵⁵

In response to Halifax's suggestion Hull denied that there was any attempt on the part of the USA to take advantage of the war to displace British commercial interests and pledged American agreement to the principle.⁵⁶ However, in practice the American Government proved incapable and in some cases unwilling to ensure adherence to it.⁵⁷ This was due in part to the general tendency in the USA to understand multilateralism more as the absence of governmental restrictions to trade, rather than something that required active governmental intervention.

Notwithstanding this tendency, the American Government did work throughout the war towards the creation of an intergovernmental architecture to facilitate multilateral trade in the post-war era. Chief among these efforts was the hosting of the United Nations Monetary and Financial Conference, held at Bretton Woods in New Hampshire in July 1944. The agreement produced by this conference envisaged a global financial system that would stabilize international currency exchanges and promote interconvertibility of currencies.⁵⁸ Such principles would replace the kind of restrictive arrangements embodied in structures like Britain's sterling

zone, which pegged the currencies of empire countries to the pound and tied up their export earnings in loans lodged in London.⁵⁹

As with their more general support for trade liberalization, British industry welcomed the general financial aims of the Bretton Woods agreement.⁶⁰ However, British industrialists were unconvinced that the specific proposals set out at Bretton Woods were sufficient to achieve the broader goals articulated. British industry saw some merit in the plans for regulating international finance developed by the British economist John Maynard Keynes, which envisaged the creation of an international clearing union that would alter the balance of world trade flows to avoid both excessive trade deficits and surpluses from accumulating.⁶¹ However, these more radical elements of the 'Keynes plan' were lost following input from the US delegate to Bretton Woods, Harry Dexter White.⁶² The subsequent lack of powers on the part of the new International Monetary Fund to redress imbalances in international trade flows led British industrialists to argue that the financial proposals envisaged in the final agreement were unlikely to materialize.⁶³

The various reports and more informal comment offered by British industrialists on post-war economic plans were generally received with sympathy by the government. While the Foreign Office was always alert to political difficulties likely to arise with Washington in the wake of critical comment from British business interests, it did not generally differ with the fundamentals of the analysis offered by industry on these issues.⁶⁴ There were, however, limits to the cooperation between industry and government in Britain in this domain. This was made clear in exchanges between the President of the FBI, Lord Gordon, and the President of the Board of Trade, Hugh Dalton, in early 1943. Following unsatisfactory attempts by Gordon to gain clarifications from Dalton as to the precise economic implications of agreements such as the Atlantic Charter and the Master Lend-Lease agreement, the FBI sought to establish the exact terms of its influence on British negotiations with the USA.⁶⁵ Specifically, Gordon requested that British industry be 'consulted before decisions were taken, and given an opportunity of expressing its views on proposals under consideration ... in order that they might be considered by the Government before a decision was made'.⁶⁶ Citing the need to maintain secrecy in negotiations with the USA, Dalton rejected this request and was keen to assert the broader principle that while advice offered by industry 'would be made use of in framing policy' it was important to preserve the 'unfettered right' of Government to make the final decision.⁶⁷

British industrial groups were granted their own opportunity to engage directly in international planning for the post-war global economy when business groups in the United States issued an invitation to attend an international business conference in Rye, New York State in November 1944. The conference was convened with the objective of enhancing cooperation between international businessmen in what was seen as an increasingly interdependent world.⁶⁸

The British Government had previously expressed misgivings about such contacts between British and American business groups. Initially this was due to practical concerns over the country's ability to excuse prominent businessmen from wartime duties.⁶⁹ As the war progressed, however, there was also a belief that the Roosevelt administration would object to such contacts in the context of mounting hostility towards the administration on the part of American industry.⁷⁰ The Foreign Office, however, while not wishing to provide explicit briefings to delegates attending the conference, approved of British participation at the Rye meeting in the hope that it might promote more general cooperation between the USA and Britain on economic matters in the post-war years.⁷¹ Following some initial tussling among British industrial groups over the leadership of the British delegation, national representatives were eventually sent to the conference along with those from fifty other countries.⁷²

The conference addressed all the major issues confronting those seeking to reconstruct the global economy in the aftermath of the Second World War, including access to raw materials, currency relations among nations, commercial policy and the role of cartels. With the exception of that focused on cartels, the conclusions of the various working groups addressing these issues came out largely in favour of American efforts aimed at trade liberalization.⁷³ For example, both the raw materials and the commercial policy sections largely endorsed the American vision of multilateral trade. As recorded in the recommendations on the latter, all nations should sign a 'multilateral trade convention' committing them to the 'lowering of tariffs' and 'the abandonment of discriminatory trade practices'.⁷⁴ Given the location of the conference and the dominance of US business groups to the enterprise, it is unsurprising that its conclusions mirrored closely those of the US Government.

In this sense British delegates to the international business conference, like the British Government, were forced to face the reality that the economic preponderance of the United States by the end of the Second World War meant that it was that country above all others that would be at

the forefront of shaping the post-war global economy. This fact was made abundantly clear to the incoming Labour Government in Britain when it was obliged to endorse a commitment to multilateralism as a condition for the \$3.8 billion loan granted by the USA in 1946 to meet Britain's post-war liquidity crisis.⁷⁵ With this in mind it is tempting to say that British industry's experience of US–UK economic diplomacy during the war simply mirrored that of the British Government.

British industry in fact played a far more significant role than this. British industrial groups consistently engaged with government concerning the economic negotiations with the United States being conducted by the Foreign Office throughout the war. While it is difficult to judge precisely the influence that British industry had on government in this domain, it is clear that industry often appeared to be ahead of the Foreign Office in responding to economic initiatives and policies emanating from Washington. This was reflected in the fact that a common complaint throughout the war from British industry concerned the lack of clear statements and proactive policy on economic issues from the British Government.⁷⁶ Given the similarities between the views expressed by industry and the policies that were eventually adopted by the Foreign Office in economic negotiations with the USA it seems clear that the government was influenced to some degree by British industry.⁷⁷ By engaging in economic diplomacy with the United States—both in the form of lobbying the British government and through more direct forums such as the Rye conference—British industry played an important role in shaping the global economy that emerged at the war's end.

NOTES

1. A. P. Dobson, *US Wartime Aid to Britain, 1940–1946* (Croom Helm, 1986), pp. 1, 24–31.
2. R. B. Woods, *A Changing of the Guard* (Chapel Hill, NC: University of North Carolina Press, 1990), pp. 9–61; Dobson, *The Politics of the Anglo-American Economic Special Relationship, 1940–1987* (Brighton: Wheatsheaf, 1988), pp. 20–5.
3. See, for example, correspondence between the two concerning Lend-Lease in W. F. Kimball (ed.), *Churchill and Roosevelt: The Complete Correspondence* (3 vols, Princeton, NJ: Princeton University Press, 1984), vol. 1, p. 108 and concerning competition

- for Middle East oil in *FRUS*, vol. 4, 1944 (Washington, DC: United States Government Printing Office, 1966), pp. 100–3.
4. Woods, *A Changing of the Guard*, pp. 10–11, 24–30.
 5. R. Gardner, *Sterling-Dollar Diplomacy: Anglo-American Collaboration in the Reconstruction of Multilateral Trade* (Oxford: Clarendon Press, 1956); Dobson, *US Wartime Aid to Britain*; Woods, *A Changing of the Guard*.
 6. J. A. DeNovo, ‘The Culbertson Economic Mission and Anglo-American Tensions in the Middle East, 1944–1945’, *JAH*, 63/4 (1977): 913–36; R. Vitalis, ‘The “New Deal” in Egypt: The Rise of Anglo-American Commercial Competition in World War II and the Fall of Neocolonialism’, *DH*, 20/2 (1996): 211–39.
 7. T. C. Mills, *Post-War Planning on the Periphery: Anglo-American Economic Diplomacy in South America, 1939–1945* (Edinburgh: Edinburgh University Press, 2012).
 8. Dobson, ‘The Other Air Battle: The American Pursuit of Post-War Civil Aviation Rights’, *HJ*, 28/2 (1985): 429–31; J. A. Engel, *Cold War at 30,000 Feet: The Anglo-American Fight for Aviation Supremacy* (Boston, MA: Harvard University Press, 2007).
 9. F. Venn, ‘The Wartime “Special Relationship”? From Oil War to Anglo-American Oil Agreement, 1939–1945’, *JTS*, 10/2 (2012): 119–33; M. Seddon, ‘Incorporating Corporations: Anglo-US Oil Diplomacy and Conflict Over Venezuela, 1941–1943’, *JTS*, 10/2 (2012): 134–49.
 10. See, for example, discussion of the National Association of Manufacturers’ attitude towards Lend-Lease in Woods, *A Changing of the Guard*, pp. 159, 164.
 11. This omission may be explained to some extent by the more general tendency, until recently, to exclude non-governmental actors in studies of international diplomacy. See T. Risse-Kappen (ed.), *Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions* (Cambridge: Cambridge University Press, 1995), pp. 3–33; R. Langhorne, ‘The Diplomacy of Non-State Actors’, *D&S*, 16/2 (2005): 331–9.
 12. R. J. Overy, ‘Great Britain: Cyclops’, in D. Reynolds, W. F. Kimball, A. O. Chubarian (eds), *Allies at War: The Soviet, American, and British Experience, 1939–1945* (Basingstoke: Macmillan, 1994), p. 113.

13. For more on the FBI and international trade see R. F. Holland, 'The Federation of British Industries and the International Economy, 1929–39', *EcHR*, 32/2 (1981): 287–300.
14. Dobson, *US Wartime Aid to Britain*, pp. 24–31; M. H. Folly, *The United States and World War II: The Awakening Giant* (Edinburgh: Edinburgh University Press, 2002), p. 8.
15. Folly, *The United States and World War II*, pp. 17–18.
16. 'The United States Acts', *British Industries*, April 1941, MSS.200/F/4/24/27, FBI Papers, MRC. All remaining references to this collection are from this repository.
17. Grigsby to Campbell, 26 May 1941, FO 371/25989/A4507; 'Exporters Charge British Re-sales', *New York Times*, 6 July 1941, pp. 1, 2; 'Charges British Sell Goods Given Them to Carry on War', *Chicago Tribune*, 1 July 1941, p. 1. See also R. S. Sayers, *Financial Policy, 1939–1945* (HMSO, 1956), p. 400; Dobson, *US Wartime Aid to Britain*, p. 130; Mills, *Post-War Planning on the Periphery*, pp. 71–5.
18. 'British Export Policy', 14 July 1941, Folder 5, Box 50, Jacob Viner Papers, Seeley G. Mudd Manuscript Library, Princeton University, New Jersey; 'Keynes Denies Leased Goods are Resold', *Washington Post*, 15 July 1941, p. 6; Sayers, *Financial Policy*, p. 400.
19. Marchand to Locock, 21 August 1941, MSS.200/F/3/52/15/37, FBI Papers.
20. 'Report of the meeting of trade associations and export groups', 19 August 1941, MSS.200/F/3/52/15/37, FBI Papers.
21. These groups were established by the FBI in early 1940 to try to promote the export trade during the war. See 'Aims and Plan of Work of the Export Council', March 1940, MSS.200/F/3/E1/13/18, FBI Papers.
22. Such a forum of British and American business groups was also suggested by John Maynard Keynes, when representing the British government on matters pertaining to Lend-Lease in the US. See 'British Restrict Trade Competition with Our Products', *New York Times*, 15 July 1941, pp. 1, 10.
23. 'Report of the meeting of trade associations and export groups', 19 August 1941, MSS.200/F/3/52/15/37, FBI Papers.
24. 'Correspondence Respecting the Policy of His Majesty's Government in Connexion with the Use of Materials Received

- Under the Lend-Lease Act', Cmd. 6331, 10 September 1941, *Parliamentary Papers 1940-41, vol. 3: United States No. 2* (HMSO, 1941). For more on the Export White Paper see Dobson, 'The Export White Paper, 10 September, 1941', *EcHR*, 39/1 (1986): 59-76.
25. 'Circular Letter to Chairmen of Export Groups', 10 September 1941, MSS.200/F/3/52/15/37, FBI Papers.
 26. 'Notes', 8 October 1941, MSS.200/F/3/52/15/37, FBI Papers.
 27. 'Preserving Export Markets', *IR*, 31 October 1941, p. 269.
 28. 'Trade Under Lease and Lend', 13 September 1941, *Econ.*, pp. 319-20.
 29. Robinson to Keynes, 2 April 1942, FO 371/30503/A3423.
 30. Gallop minute, 14 April 1942, Mather-Jackson minute, 14 April 1942, FO 371/30503/A3423.
 31. Washington to Foreign Office, 14 January 1942, Board of Trade, Commercial Relations and Exports, BT 11/1735; Sayers, *Financial Policy*, p. 404; Dobson, *The Creation of the Economic Special Relationship*, pp. 36-7.
 32. Washington to Foreign Office, 7 May 1942, BT 11/1735.
 33. Dobson, *The Creation of the Economic Special Relationship*, pp. 38-9.
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 35. 'Lend-Lease and Exports', *Econ.*, 25 March 1944, p. 394; 'Reverse Lend-Lease', *Econ.*, 20 November 1943, p. 687; 'Comments on article in *N.A.M.* [National Association of Manufacturers] *News* on Extension of Lend-Lease', 20 September 1944, MSS.200/F/3/E1/15/24, FBI Papers.
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 37. 'The End of Lend-Lease?', *Econ.*, 18 August 1945, p. 224; 'Lend-Lease Guillotine', *Econ.*, 25 August, p. 225.
 38. *FRUS*, 1941, vol. 1 (Washington, DC: United States Government Printing Office, 1958), pp. 367-9.
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40. Department of State Bulletin, 28 February 1942 (Washington, DC: United States Government Printing Office, 1942).
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42. 'The Federation of British Industries, International Trade Policy, February 1944', FO 371/40590/U1557.
43. Gardner, *Sterling-Dollar Diplomacy*, pp. 37–8.
44. 'The Federation of British Industries, International Trade Policy, February 1944', FO 371/40590/U1557.
45. 'Report of the London Chamber of Commerce on General Principles of a Post-War Economy, 12 May, 1942', FO 371/32428/W8072. For a similar line of argument, see 'Memorandum on Commercial Policy', 17 February 1943, MSS.200/F/3/S2/21/1, FBI Papers.
46. Woods, *A Changing of the Guard*, pp. 34–40.
47. 'Report of the London Chamber of Commerce on General Principles of a Post-War Economy, 12 May, 1942', FO 371/32428/W8072.
48. 'Memorandum on Commercial Policy', 17 February 1943, MSS.200/F/3/S2/21/1, FBI Papers. See also 'Report of the Special Committee on Post-War Industrial Reconstruction, Adopted by the Executive Council of the Association, May 6th, 1942', FO 371/32426/W6934.
49. 'The Federation of British Industries, International Trade Policy, February 1944', FO 371/40590/U1557; *FRUS*, 1941, vol. 1 (Washington, DC: United States Government Printing Office, 1958), pp. 367–9.
50. 'Memorandum on Commercial Policy', 17 February 1943, MSS.200/F/3/S2/21/1, FBI Papers.
51. 'The Federation of British Industries, International Trade Policy, February 1944', FO 371/40590/U1557.
52. 'Report of the Special Committee on Post-War Industrial Reconstruction, Adopted by the Executive Council of the Association, May 6th, 1942', FO 371/32426/W6934.
53. 'Commercial Policy in Regard to Latin America', undated [May 1943], FO 371/33908/A4370; Washington to Foreign Office, 12 July 1943, FO 371/33909/A6635; Washington to Foreign Office, 7 May 1943, FO 371/33908/A4273.

54. Washington to Foreign Office, 12 July 1943, FO 371/33909/A6635.
55. Foreign Office to Rio, 1 January 1944, FO 371/33648/A11270.
56. Washington to Foreign Office, 11 July 1943, FO 371/33909/A6498. See also Mills, *Post-War Planning on the Periphery*, pp. 150–60.
57. Mills, *Post-War Planning on the Periphery*, pp. 160–78.
58. ‘Articles of Agreement of the International Monetary Fund’, available at: <https://www.imf.org/external/pubs/ft/aa/> (accessed 15 October 2014).
59. Woods, *A Changing of the Guard*, p. 18.
60. ‘Report of the Special Committee on Post-War Industrial Reconstruction, Adopted by the Executive Council of the Association, May 6th, 1942’, FO 371/32426/W6934; ‘The National General Export Merchant’s Group Report on Post War Trade Policy’, 29 March 1943, FO 371/35339/U1414; ‘FBI and Bretton Woods’, *Econ.*, 2 December 1944, p. 730.
61. ‘The National General Export Merchant’s Group Report on Post War Trade Policy’, 29 March 1943, FO 371/35339/U1414; ‘The Federation of British Industries, International Trade Policy, February 1944’, FO 371/40590/U1557.
62. Woods, *A Changing of the Guard*, pp. 62–86. See also B. Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton, NJ: Princeton University Press, 2014).
63. ‘Report of the London Chamber of Commerce on the Final Act of the United Nations’ Monetary and Financial Conference held at Bretton Woods, USA, December 1944’, MSS.200/F/3/S1/14/15, FBI Papers; ‘Draft of Reply to Committee of the Members of the National Foreign Trade Council on the Monetary Sections of Report of FBI’s International Trade Policy Committee’, 25 August 1944, MSS.200/F/3/E1/13/18, FBI Papers; ‘Planned Expansion’, *Econ.*, 29 January 1944, pp. 136–7; ‘Bretton Woods’, *Econ.*, 29 July 1944, p. 138.
64. See, for example, the generally positive minutes of ministers from various government departments in response to reports on post-war economic planning by British industrial groups in FO 371/32426/W6934 and FO 371/35339/U1414. For Foreign Office concerns over the political implications of these studies, see Butler to Wallace, 22 August 1944, FO 371/40950/U890.

65. Gordon to Dalton, 27 January 1943, MSS.200/F/3/S2/21/1, FBI Papers; Dalton to Gordon, 11 February 1943, MSS.200/F/3/S2/21/1, FBI Papers.
66. Gordon to Dalton, 4 March 1943, MSS.200/F/3/S2/21/1, FBI Papers.
67. 'Notes of Conversation with the President of the Board of Trade on 1st April, 1943', MSS.200/F/3/S2/21/1, FBI Papers.
68. 'International Business Conference', undated, FO 371/40950/UE144.
69. Nigel Ronald to Sir Harold Chalkley, 29 May 1941, FO 371/26192/A4330. See also 'Notes of Conversation with the President of the Board of Trade on 1st April, 1943', MSS.200/F/3/S2/21/1, FBI Papers.
70. 'Notes of a Conversation with the President of the Board of Trade on 1st April, 1943', MSS.200/F/3/S2/21/1, FBI Papers.
71. Coulson to Shackle, 14 July 1944, FO 371/40950/UE144; Butler to Guinness, 27 July 1944, FO 371/40950/UE371.
72. Liesching to Magowan, 2 Oct 1944, Liesching minute 29 September, FO 371/40950/UE1584.
73. The cartel section largely endorsed the continuation of these bodies as a result of the leading British industrialist Clive Baillieu having acted as chairman. See Jopson to Shackle, 17 November 1944, FO 371/40950/UE2408; 'Note on Visit to Rye International Business Conference', 18 November 1944, FO 371/40950/UE2446.
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75. 'Financial Agreement Between the Governments of the United States and the United Kingdom', Department of State Publication 2439 (Washington, DC: United States Government Printing Office, 1946).
76. 'Memo by FBI', 16 September 1941, MSS.200/F/3/52/15/37, FBI Papers; Locock to Mullins, 18 November 1942, MSS.200/F/3/52/15/37, FBI Papers; 'The Federation of British Industries, International Trade Policy, February 1944', FO 371/40590/U1557.
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Power Relations: The Foreign Office, the Board of Trade and the Development of Civil Nuclear Power, 1945–70

Stephen Twigge

In the aftermath of the Second World War, the race to harness and exploit the military potential of atomic energy became a significant factor in international affairs. Initially, Britain sought to maintain the close collaboration on nuclear policy that had existed with the United States during the war. The passage of the McMahon Act in 1946, however, which prohibited the sharing of American nuclear secrets with other states, thwarted this ambition. Britain, not to be denied, embarked on an independent nuclear weapons programme. In tandem with the work on the military application of atomic energy, research was also conducted into the commercial development of civil nuclear power. The priority and resources afforded to the civil nuclear programme were always subordinate to the primary objective of developing a viable nuclear weapon. The primacy of the weapons project is reflected in the secondary literature devoted to Britain's nuclear history which is dominated by accounts of the bomb project with the civil programme given a supporting role. This chapter seeks to redress this imbalance by focusing on the development of civil nuclear power within

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the United Kingdom and the role played by Whitehall departments, particularly the Foreign Office and Board of Trade, in shaping the domestic market for civil nuclear power and promoting the sales of nuclear technology overseas.

The chapter is divided into three related sections. Attention is first focused on President Eisenhower's Atoms for Peace speech delivered to the United Nations in December 1953 and its implications for the development of civil nuclear power. Throughout the negotiations, Britain sought to maintain and safeguard the ability to develop nuclear reactors and separation plants on a national basis. Proposals to create an international agency under American domination were resisted. The priority within the Foreign Office was to maintain Britain's freedom of action and ensure that British industry was not disadvantaged in its ability to market commercial nuclear technology and expertise abroad. The chapter then explores the development of Britain's own indigenous civil nuclear programme and shows that export sales fell short of business expectations. This was due to two main factors: the structure of the market in which domestic power generators were given priority over exports and cultural factors whereby US missions abroad were more dynamic in promoting American industry than their British counterparts in the Foreign Office. The final section of the chapter examines development of the gas centrifuge and its central role in the formation of URENCO, a tripartite organization established by the United Kingdom, Holland and West Germany, to enrich uranium to supply a growing European market. The policy objectives pursued by the Foreign Office and the interplay of commercial, technological and political factors are explored and highlight the often divergent themes characterizing Britain's relationship with Europe prior to the country joining the Common Market in 1973.

ATOMS FOR PEACE AND CIVIL NUCLEAR POWER

In October 1952, following the success of Britain's first atomic weapons test at Monte Bello in Australia, the UK Government sought once again to re-establish the close nuclear relationship with America that had characterized the wartime nuclear programme.¹ Although this cooperation had been brought to an abrupt end by the passage of the McMahon Act in 1946, Britain continually sought to restore the transatlantic atomic alliance with limited success.² One of the first opportunities to look again at the dynamics of the Anglo-American nuclear relationship, following

the Monte Bello test, occurred in December 1953 at the Bermuda summit convened to discuss East–West relations following the death of the Soviet leader Joseph Stalin. At Bermuda, President Eisenhower informed Winston Churchill, the British Prime Minister, of his determination to encourage the peaceful uses of atomic energy including the goal of establishing an international agency to promote and regulate the non-military uses of atomic energy.³ Known as ‘Atoms for Peace’, the proposal formed the centrepiece of Eisenhower’s speech to the UN General assembly on 8 December 1953.⁴ The public reaction to Eisenhower’s initiative was largely positive. *The Economist* described the speech as an ‘astonishingly bold gesture’ which restored an element of sanity to a dangerously emotional world.⁵ *The Times* praised the President’s ‘deep sincerity’ with Gladwyn Jebb, Britain’s Ambassador to the UN, calling it a ‘noble and moving statement’ which went far to restore the reputation of the United States.⁶ Addressing Parliament on 17 December, Churchill described the speech ‘as one of the most important events in world history since the end of the war...which might prove to be a turning point in our destiny’.⁷

The belief that civil nuclear power would play a major role in the reconstruction of the post-war world was a view widely shared. Ernest Bevin, Britain’s first post-war Foreign Secretary, had been a strong advocate of nuclear power for industrial purposes. In his final years in office, however, prior to his death in April 1951, he became increasingly apprehensive that an international agency, such as that envisaged by Eisenhower, would inevitably come under US control and hamper Britain’s own development of civil nuclear power. Bevin was particularly concerned that Britain did not repeat the mistakes of the wartime atomic weapons programme and become increasingly reliant on the supply of American technology and goodwill.⁸ Another proponent of civil nuclear power was Lord Cherwell, Churchill’s principal scientific adviser on nuclear matters, who firmly believed that Britain’s achievements in the Victorian era had been reliant on the use of steam power for industrial purposes and that, by analogy, the country’s future prosperity ‘would depend on learning to exploit the energy latent in uranium’.⁹ The Foreign Office was determined to preserve Britain’s autonomy in the field of civil nuclear power and had no desire to surrender national control over the industrial uses of atomic energy to an international agency in which America would play a dominant role. After the betrayal of the McMahon Act, the Foreign Office was suspicious of US intentions towards Britain’s atomic energy programme. Specifically, while restoring the nuclear partnership was central to British

policy, the government was equally determined to ensure that 'we are not committing ourselves to the principle of international ownership of all atomic energy plants'.¹⁰ International control had its limits.

Exploring the implications of Eisenhower's initiative for British policy, Foreign Office planners were faced with two distinct options. On the one hand, the proposal held out the potential of large scale development of civil nuclear power. On the other, it was a more modest proposal involving the creation of an international research organization where scientists from around the world could meet to exchange views on the industrial uses of atomic energy.¹¹ The ambivalence of the US position was summarized in a telegram to Sir Roger Makins, the British Ambassador to Washington:

We are by no means clear what the Americans are aiming at in the President's atom plan ... Either it is seriously intended to reduce the war potential of the world by creating an Agency to act as a bank for fissile material or it is a more modest proposal to create an international research organization where scientists would meet on neutral ground to exchange views on the industrial uses of atomic energy...Lord Cherwell gathered from Strauss at Bermuda that the second proposal was in his mind ... on the other hand, the President in conversation with the Prime Minister left the impression that the first interpretation was in American minds.¹²

A major concern for the British was that the proposal could be seen as a second McMahon Act that offered the USA the opportunity to gain global dominance in the development of atomic energy for industrial purposes and to deprive Britain of the means of building up an export industry in atomic energy.¹³ The consequences of the McMahon Act, which curtailed a joint nuclear programme with the United States, had first been conveyed to Britain by Donald Maclean, the Soviet spy, who was responsible for nuclear matters at the British Embassy in Washington. In a letter to his superiors in London, Maclean reported that the State Department was strongly opposed to the McMahon Act as it was 'politically objectionable' and would lend colour to communist propaganda that the Marshall Plan was 'an instrument of American "atomic" domination of Western Europe'.¹⁴ A further worry for the Foreign Office was that the international agency would cut across the policy of nuclear collaboration with Commonwealth countries which had been sanctioned by the Cabinet in April 1953.¹⁵ Central to the British response was the

Soviet attitude to Eisenhower's plan. If Moscow sought to oppose the initiative, there was concern that the agency would inevitably become dominated by Washington and become an 'Atomic Marshall Plan' for the free world.¹⁶ Both outcomes were to be avoided. Churchill was forthright in his opinion informing the Foreign Secretary, Anthony Eden, that 'there is not the slightest use in taking trouble about the matter unless the Russians are in'.¹⁷ British objectives were conveyed to Washington in forthright terms:

No doubt, in the interest of getting the Russians round a table, we shall be willing to pay whatever reasonable price is involved. But if that objective fails, we do not see any reason to sacrifice our own policies in what will be a purely American venture; in fact in helping the 'Almighty Atom' to replace the 'Almighty Dollar'.¹⁸

The Soviets eventually responded to Eisenhower's proposal making it clear that Moscow's participation was dependent on prior international agreement banning the use of atomic weapons.¹⁹ The Soviet rejection of the Eisenhower plan strained relations between Washington and London with the Foreign Office expressing concern that further delay could jeopardize supplies of uranium required for the British civil programme.²⁰ It was suggested that in the event of a US invitation to join the international agency, Britain should not refuse outright but reserve its position as to the full extent of its commitment. The Foreign Secretary strongly disagreed:

This scheme is not in our interest. It has no international value without the Russians. Therefore if they refuse to enter into it we should make it clear that we will not do so. The timing of this last attitude will have to be considered. It may be thought useful to put this to Cabinet. But I am not prepared to disadvantage Britain for a scheme that has become useless merely to please the Americans.²¹

The Cabinet met on 22 June to formulate its response. Lord Salisbury, the Minister responsible for civil nuclear power, sought to discourage the US administration from going forward but stated that, if it was determined to continue, the government should not withdraw British support. Eden was firmly against this position and argued that until Russia became a member of the international agency, Britain should retain its

freedom of action and that in present circumstances there seemed little point in joining such a scheme. Eden was convinced that the scheme was not in the UK interest and 'neither the Treasury, the Department of Atomic Energy nor the Commonwealth Relations Office has shown any enthusiasm at the official level for the scheme from the start'.²² Eden's views prevailed: the Cabinet agreed that it would not be in British interests to participate in the Atoms for Peace plan unless Moscow was involved.²³

Following the Cabinet meeting, Churchill and Eden flew to Washington to discuss a wide range of international issues with Eisenhower and his foreign policy advisors. It soon became apparent that the President was determined to press ahead with his proposal even without Soviet participation. In an apparent concession to British sensibilities, Eisenhower conceded that the US administration was not looking for a significant British contribution 'but wanted our moral support in the enterprise'.²⁴ Eden immediately informed London and suggested that since there appeared to be no way of stopping the administration 'it might be better to try to retain some control over the development of their ideas by joining them in working out the plan' rather than abrogating all responsibility to the Americans.²⁵ The British position was also tempered by the desire not to jeopardize the supply of US atomic weapons to the Royal Air Force, which had been one of the main objectives of the Washington talks.²⁶ It was nevertheless hoped that the international agency would remain as modest as possible.

In early July, the Cabinet was briefed on the discussions which had been held in Washington on atomic issues. The most significant aspect for Britain was American willingness to cooperate more fully with the UK over the whole field of atomic energy. This included information on the effects of US hydrogen bombs and the external dimensions of US nuclear weapons, enabling them to be fitted to British bombers. The British policy of restoring the Anglo-American nuclear relationship, pursued by successive governments, had been realized. This outcome had important implications for the future International Atomic Energy Agency (IAEA). Specifically, given that the USA was now prepared to assist the UK in the development of its atomic programme, it was considered inopportune to oppose the President's plans. 'We had therefore agreed that international discussions might go forward, but some time was likely to elapse before an effective international agreement was concluded.'²⁷

CIVIL NUCLEAR POWER AND OVERSEAS SALES

The discussions concerning the size and composition of the IAEA focussed attention onto the potential lucrative export market that existed for nuclear materials and services. The opportunities available to British industry were first announced in the government White Paper of February 1955, *A Programme of Nuclear Power*.²⁸ Described as 'uniquely entrepreneurial', the paper laid out a programme for the construction of civil power reactors by commercial companies and drew attention to the potential importance of the export market for all types of nuclear equipment including nuclear power stations.²⁹ The Cabinet strongly endorsed the view that 'Britain must look forward to the time when a valuable export trade can be built up' and that the experience gained by British industry in designing and building nuclear power would 'lay the foundations for a rapid expansion at home and abroad'.³⁰ This optimism was shared by the Organisation for European Economic Cooperation (OEEC) which, in a 1956 review, concluded that the future market for nuclear reactors was substantial and that restrictions and customs duties on the import and export of nuclear materials should be eliminated wherever possible. *The Economist* believed that the impact of peaceful atomic energy would be 'enormous' but cautioned that Britain's approach to foreign countries lacked the 'bold decisiveness' which characterized atomic developments at home and that customers overseas could not be blamed if they turned to the US for technical assistance.³¹ British policy, as articulated by the Foreign Office, reflected the belief that procurement policy should be based on purely commercial considerations with the proviso that security measures would need to take precedence over the liberalization of trade.³² The prospect of international sales brought to the fore the concerns of the Foreign Office in reconciling the need to promote British industry overseas without being seen as a cheerleader for the nuclear sector. The American State Department held no such compunctions and, in contrast to the British, 'were active in the interests of US industry'.³³ This ambivalence was apparent in the guidance issued to British missions abroad which cautioned that while every opportunity should be used to put forward the advantages of British industry, posts 'should not seek to "sell" the British type of power reactor'.³⁴ It was nevertheless agreed that competition in the export market for atomic energy would grow more intense in the coming years and that British industry should be given 'every possible assistance to prepare itself for what may become an export trade vital to this country'.³⁵

In May 1957, following the Suez crisis, the government announced plans to further expand Britain's nuclear capacity to 6000 Megawatts by 1965, a quarter of the UK's generating needs. It was made clear that the domestic programme would take priority and there could be no subsidizing of exports.³⁶ This position reflected advice from Sir Edwin Plowden, Chairman of the Atomic Energy Authority, that 'it would be wrong to jeopardise our home programme for the sake of scrambling for exports'.³⁷ Following the announcement, overseas posts were issued with further guidance, in the form of a Trade Memorandum, designed to promote sales in nuclear and allied equipment. The guidance took a bullish tone stressing that the opening of Calder Hall, in October 1956, the world's first commercial nuclear reactor, had created worldwide interest and 'has been of inestimable prestige value to this country'.³⁸ It was stressed that this success should be consolidated and that 'potential customers abroad should be reminded at every opportunity that Britain occupies the leading position in the application of nuclear power to industrial uses'. Overseas officers were expected to create a 'favourable climate of opinion' concerning UK nuclear exports and to adopt an attitude of 'encouragement tempered with discretion'.³⁹ There was concern expressed that the United States was using the Atoms for Peace programme to subsidize its own civil nuclear programme and that American exporters were able to obtain more favourable conditions for financing their export business. To counter this trend and to ensure that the UK remained at the forefront of nuclear technology, embassy staff were urged to ensure that the greatest possible use was made of publicity materials which could play a considerable part in stimulating interest in UK achievements. The way in which this was achieved, would 'be a matter for their discretion in light of the circumstances of their respective territories'.⁴⁰

In 1960, a government White Paper scaled back the nuclear programme to 3000 Megawatts acknowledging that coal generation was 25 per cent cheaper than nuclear energy. The potential export market was immediately placed at a disadvantage against US companies. The primary reason was that overseas sales of US reactors was greatly assisted by an assured 30-year supply of enriched fuel underwritten by the US Atomic Energy Commission.⁴¹ Given that the enrichment plant at Capenhurst was already running at full capacity to supply UK domestic needs, Britain was not in a position to underwrite a 30-year supply contract for enriched fuel with a foreign purchaser. This immediately placed the British reactor industry at a commercial disadvantage as it was dependent on its clients obtaining supplies directly from the USA who had no obligation to assist its commercial competitors. The

realization that the market was rigged in favour of American companies was not lost on British industry. This disparity between the two countries was lamented by Sir Claude Gibb, Managing Director of Babcocks, a large engineering firm based in the north-east and a key player in the nuclear industry:

Whereas the UK Atomic Energy Agency are contemplating some royalty on export reactors, and this I certainly would regard as being reasonable and natural, the US Atomic Energy Commission are financing industry in both research and development and are offering enriched fuel at prices which are to be fixed for ten years. In other words, the US Atomic Energy Commission appears to be financing industry to secure orders.⁴²

The weak position of UK industry was reflected in the order books with only two nuclear reactors sold overseas. These difficulties were compounded by design flaws. The first reactor, in Japan, ran into serious technical difficulties during construction and produced little or no profit for the UK, whereas the second, in Italy, encountered corrosion problems and was closed down prematurely.

The Foreign Office took the view that the structure of the UK industry was a major obstacle:

The structure of our industry is based on an immensely powerful utility, the CEGB [Central Electricity Generating Board] which discusses its requirements with a slightly less powerful Atomic Energy Authority [AEA]. Industry picked up the odd contract but was very much a junior partner to these giants. Exporting was incidental. It produced useful, but not strictly necessary profits to the AEA. As far as industry was concerned, exporting AEA developed technology was a risky business. With a regular flow of massive home orders, there was little incentive to look abroad.⁴³

To allay these criticisms, a new industry structure was announced by Tony Benn, the Minister of Technology, in July 1968. Designed to bolster the export market, the re-organization established two nuclear design and construction consortia: The Nuclear Power Group Ltd, consisting of McAlpines and Clarke Chapman, and British Design and Construction Ltd, comprising Taylor Woodrow and Babcocks. To assist both consortia and coordinate policy across Whitehall, the Reactor Export Policy Committee (REPC) was established with representatives from the Ministry of Technology, the Board of Trade, the Export Credits Guarantee Department (ECGD), the Foreign and Commonwealth Office and the two consortia. The FCO representative

was Ronald Arculus, Head of the Science and Technology Department, which had responsibility for relations with the IAEA and promoting nuclear exports. One of its first functions was to issue advice to those posts where there was prospect of selling a British nuclear power reactor.

A post may be involved in a certain amount of political work. Partly because of the sheer size of the order, the decision to buy a foreign nuclear reactor must inevitably be a major political decision for any country. The post may become involved in high-level lobbying. There could be a public relations job, to explain to local residents that British reactors never blow up, and draw the distinction between civil and military application of nuclear energy. The post will also be involved in negotiating arrangements for the safeguards under which nuclear material is exported. There is, therefore, a real job of work for embassies abroad in this field. At the same time we must remember that it is for the consortium itself to take the lead.⁴⁴

The responsibilities of the various Whitehall departments involved in the export of nuclear materials were also delineated. The Ministry of Technology was responsible for sponsoring the British nuclear industry overseas and for determining the overall policy and the structure of the industry. The Board of Trade, through its Export Services Division, was tasked with drawing the attention of UK industry to new export opportunities abroad and circulating relevant reports generated by overseas posts. Foreign Office interest was handled by the Science and Technology Department which had a direct interest in the negotiation of intergovernmental agreements and a promotional role towards nuclear exports 'to the extent that our political relations with certain countries are involved [and] whose atomic programmes are at an early stage of development'.⁴⁵ It was made clear that while overseas posts were 'always happy to receive business visitors they would be reluctant to encourage hard selling trade missions'.⁴⁶

The restructuring of the industry did little to promote exports with *The Times* stating that Britain would have to be content with a diminished role in the world nuclear power field and should concentrate on developing parts for other countries systems if it was to have any share in nuclear exports.⁴⁷ In 1970, in a belated attempt to revive export sales, the government entered into negotiations with Greece for the sale of a Steam Generating Heavy Water nuclear reactor. In a departure from normal practice, the terms of the deal included the purchase of a substantial quantity of Greek tobacco as part of the overall financial package. The export of the

reactor was also politically sensitive as it potentially provided international legitimacy for the Greek junta that had seized power in a military coup in April 1967. In considering the implications the Defence and Overseas Policy Committee concluded that ‘the fact that we disapprove of a regime was not of itself sufficient reason for not encouraging trade. If we failed to give our support and lost the contract, we could equally well be criticised for losing exports on political grounds’.⁴⁸ In an attempt to firm up the British negotiating position, Sir Edwin McAlpine, a leading industrialist, wrote to the Prime Minister, Harold Wilson, suggesting that a private letter to Colonel Georgios Papadopoulos, leader of the Greek junta, ‘would have a marked effect on the success of our efforts’.⁴⁹ Wilson declined on the grounds that ‘quite apart from the issue of substance as to whether HMG would be prepared to offer a significant public gesture of political approval to the Greek junta it would be wrong to introduce into a commercial negotiation political considerations of this nature’.⁵⁰ The Foreign Office shared these concerns and expressed serious doubts about the present structure of the industry and even greater doubts about the wisdom of officials forging links with foreigners ‘without a clear statement of HMG’s objectives in the nuclear power field, including nuclear exports, and a clear understanding of the objectives of private enterprise in this field’.⁵¹ A further reason for the decline in export sales was the government’s adoption of the Advanced Gas Reactor which proved overly complex and difficult to construct on site. The lead station, Dungeness B, although ordered in 1965 only began generating electricity in 1983—13 years late. A further factor was the stranglehold over fuel supplies enjoyed by the US. To counter this, the UK explored various techniques which allowed uranium to be enriched more cheaply than the existing gaseous diffusion method. The development of the gas centrifuge was one such option.

THE GAS CENTRIFUGE, URANIUM ENRICHMENT AND EUROPEAN INTEGRATION

The concept of separating uranium using a gas centrifuge had been first suggested in the 1940s but little tangible progress had been made on developing a working prototype. In the early 1960s, research undertaken by the UK Atomic Energy Authority confirmed the validity of the concept and left ‘little doubt that the gas centrifuge could be used for the manufacture of highly enriched uranium for weapons purposes and ...will permit enriched uranium for civil purposes to be produced more cheaply

than by diffusion plant'.⁵² The consequences were profound: if centrifuge technology was successfully developed any medium-sized country would be able to manufacture nuclear weapons virtually undetected, without the need for largescale industrial infrastructure.

In addition to the UK, work on gas centrifuge technology was under way in both Holland and West Germany. These developments presented the British Government with a stark choice; either to continue to conceal its own progress and work in isolation or to share information with the Dutch and West Germans within a European partnership. The Prime Minister was briefed on developments and the possible consequences for British policy:

There is a real possibility that the Dutch and the Germans, who already appear to be in close consultation, may decide to go in for a centrifuge partnership...If we were left out we should have nothing to gain in Europe from our own advanced work on centrifuges, and the [centrifuge] secret, which we have kept so successfully, would have lost its bargaining value.⁵³

Sir Solly Zuckerman, the government's Chief Scientific Adviser, was clear in his preferred course of action: 'the Dutch government should be told confidentially, and without delay, of our progress in centrifuge development and discussions should be initiated with them on how to proceed.'⁵⁴ The Dutch Prime Minister, Joseph Luns, welcomed the proposal and supported the creation of an Anglo-Dutch consortium to meet Europe's future uranium needs. He also revealed that confidential talks on centrifuge technology were already under way with West Germany to develop a plant in Holland near the German border to serve the needs of both countries.⁵⁵

Plans to expand Anglo-Dutch collaboration to include West Germany were first explored in May 1968 in informal discussions between the British Foreign Secretary, George Brown, and his West German counterpart, Willy Brandt. Central to Brandt's thinking was whether the project strengthened European integration. He therefore welcomed the proposal on the proviso that collaboration was political as well as technological.⁵⁶ To examine the practicalities of establishing a tripartite venture, British and West German officials met in Bonn on 9 July 1968. The meeting was successful in establishing the basis for future tripartite centrifuge development. Each country's research programmes would be combined with development coordinated by a single authority jointly controlled by

the three governments. The West German delegation was delighted with progress and confided that the British offer was more comprehensive than expected.⁵⁷ The Germans also reacted positively to British assessment of the economic prospects of the centrifuge technology. Germany's desire for full and effective collaboration in all phases of centrifuge development, including the production of enriched uranium, was soon to be realized.⁵⁸

In the Federal Republic, the political ramifications overshadowed economic concerns. For the Germans, the British proposal raised fundamental questions concerning European integration. The most important was whether collaboration could be reconciled with the original plan of constructing a European gaseous diffusion plant within the EURATOM framework.⁵⁹ If this was ruled out, a decision would soon be required on whether nuclear collaboration with Britain or France was in West Germany's long-term strategic interest. The process was further complicated as to when the French should be informed of the secret British offer and which other European countries might be involved in the venture.⁶⁰

In an attempt to coordinate Britain's European policy with its industrial policy the government established the Committee on European Technological Co-operation under Lord Chalfont, Minister of State at the Foreign Office. The decision was strongly resisted by Tony Benn who considered the move a crude attempt by the Foreign Office to reduce the influence of industry in the formulation of centrifuge policy.⁶¹ A primary concern for the Foreign Office was whether access to centrifuge technology was consistent with the principles of the Non Proliferation Treaty (NPT). The Treaty, which had been ratified by Britain, America and the Soviet Union in 1968, obliged those states that possessed nuclear weapons not to assist non-nuclear states to produce nuclear weapons. The West German Government had yet to sign the NPT, and in 1968 it was unclear whether the Germans would do so in the near future.⁶² There was concern that allowing Bonn to secure a source of enriched uranium would be seen as tantamount to granting Germany access to nuclear weapons.

The Cabinet expected a critical reaction, especially from those elements of British society who still harboured anti-German sentiment.⁶³ The difficulty was compounded as, under the terms of the NPT, Britain was committed to assisting non-nuclear weapons states in the development of their civil nuclear programmes. The gas centrifuge exemplified this duality. In its favour, it was clearly a technology that could assist Europe in developing a cost-effective civil nuclear power programme. Against this, as the

gas centrifuge increased the opportunity for clandestine enrichment of uranium for weapons use, it brought into question the effectiveness of the NPT.⁶⁴ British authorities were so concerned over this latter point that they sought to keep progress on the gas centrifuge hidden until the NPT came into force.⁶⁵

The extent of Britain's obligations under the terms of the NPT was referred to Sir Elwyn Jones, the Attorney General, who concluded that the NPT did not prevent Britain from working with non-nuclear states in the development of the gas centrifuge. To address the issue of proliferation he advised that non-nuclear weapons states that were not party to the NPT should provide an assurance that material and information derived from the joint project would not be used for military purposes.⁶⁶ In this context, it was argued that, rather than assisting West Germany to develop nuclear weapons, collaboration would enable the Germans to accept the NPT. An equal partnership with Britain and Holland to develop centrifuge technology would lessen the perception of second-class status fostered by the non-proliferation treaty. In December, a progress report was circulated to the British Cabinet. The question of Germany and non-proliferation was addressed as follows:

Any theoretical risk to non-proliferation in relation to Germany will be much reduced, however, if there are collaborative arrangements of such a nature that we are in a position to keep a close check on what is being done in Germany. Moreover, we may be able to make use of the special relationship we shall be establishing with the Germans to put gentle and discreet pressure on them to sign the Treaty sooner rather than later. From the non-proliferation angle, therefore, there is positive advantage in collaborating with European countries, particularly Germany...If we are to wean the Germans away from their excessive preoccupation with their relations to France, and establish a stronger claim to their support we will have to show ourselves more understanding of their aspirations than are the French.⁶⁷

The Cabinet agreed that further collaboration with West Germany and the Netherlands on centrifuge technology should not be made conditional on Bonn's signature of the NPT.⁶⁸ This position echoed the advice given by Zuckerman that Germany would be far less likely to engage in the production of weapons grade uranium 'if their activities were under surveillance' in a joint enterprise.⁶⁹ It was further argued that a collaborative venture would generate greater resources, be more competitive and offer greater

marketing and sales potential.⁷⁰ The decision, however, owed more to political than technological rationale: joint collaboration would support British entry into Europe and break the American monopoly on the supply of enriched uranium.

Close cooperation with Germany and Holland also provided the opportunity for Britain to extend collaboration to other European countries. Michael Stewart, the new Foreign Secretary, was aware of the possibilities and sought to use the project to support wider political goals. A drawback was the secrecy surrounding the project and the concern that if it became known that the government was limiting discussions of uranium enrichment to the Dutch and Germans 'it would come as a great disappointment to our other European friends and could result in a substantial loss of goodwill'.⁷¹ The position was summarized by Sir John Killick, Under Secretary of State at the Foreign Office.

The political implications of the centrifuge are for the immediate future somewhat of an embarrassment. We must get ahead with the centrifuge on a tripartite basis in order to see it soundly launched from the economic, financial and industrial point of view. This approach is already causing us political difficulty with the Italians and contains the seeds of difficulty with the French and Euratom. Naturally one is hopeful that the political embarrassments will be overcome, but meanwhile I think it is inevitable that we should concentrate on the economic arguments.⁷²

It was recognized that increasing the number of participants would extend the time required to form a joint venture. The political and commercial considerations would also be more involved if a large number of countries were to take part. For these reasons, it was agreed that the participants in the joint venture would be limited initially to the UK, West Germany and Holland.⁷³

The operating framework for the joint venture, including the key issues of safeguards, declassification and management structure were drawn up by officials. At their first meeting in December 1968, it became clear that there were major differences between the three countries concerning the organization, timing and scope of the joint venture.⁷⁴ Britain and Germany favoured the creation of two discrete organizations: a 'prime contractor' responsible for the design and manufacture of the centrifuge machines, and an enrichment company responsible for operation and management of the plants. The Dutch, concerned about the financial implications, ini-

tially refused to provide money for both the 'prime contractor' and enrichment company. To allay these worries, it was proposed that the cost of the full-scale commercial plant should be provided primarily by the UK with the Dutch and Germans holding a minority interest.⁷⁵

The timetable for the project caused further disagreement. For Britain, commercial viability was the primary objective which required the construction of two enrichment plants: the first, a small prototype plant, located in the Netherlands and operational by 1971; the second, a large-scale commercial plant capable of handling 300 tonnes of uranium a year, to be built in the UK and operational by 1973. The Germans and Dutch favoured a more incremental approach. This entailed a small scale prototype project to be followed by the subsidized operation of the full-scale enrichment plant leading eventually to commercial viability.⁷⁶

Further progress between the three countries was made at a ministerial meeting on 11 March 1969 with West Germany and the Netherlands prepared to give assurances similar to those contained in the NPT. Differences remained over whether Britain would be allowed to use the uranium and associated technology for military purposes and the location for the headquarters of the enrichment organization. The Dutch Government favoured a site in the Netherlands and faced concerted pressure in parliament to achieve this. The British were equally adamant that the headquarters should be in the UK.⁷⁷ The British position proved successful. In return for building a larger plant in Holland, the Dutch agreed to locate the headquarters of the organization in Britain and abandon opposition to the UK using centrifuge technology for military purposes. Britain eventually agreed to a scheme that allowed the use of centrifuge technology to enrich uranium for nuclear weapons but only in a separate military plant.⁷⁸

In November 1969, final agreement on the terms of the treaty was reached in tripartite talks held in London. The agreement approved the construction of two enrichment plants at Capenhurst and Almelo with the headquarters of the prime contractor located in West Germany. The treaty confirming the terms of collaboration in the development and exploitation of the gas centrifuge processes for producing enriched uranium, was formally signed at the Dutch town of Almelo on 4 March 1970.⁷⁹ To implement the treaty and manage the overall operation two parallel commercial enterprises were established, URENCO Ltd and CENTEC GmbH. All three countries had equal shares in the joint venture with economic forecasts predicting a profit of £160 million by 1980.⁸⁰

CONCLUSION

The post-war development of civil nuclear power in the United Kingdom presented both the British Government and the Foreign Office with a number of geo-strategic choices on which the future viability of the emerging nuclear industry would depend. The first priority for the British was to re-establish the close nuclear relationship that had existed with the United States during the Second World War. Discussion between the two countries focussed primarily on the military application of atomic energy. The prospects of developing a civil nuclear programme capable of generating electricity were also explored. Stung by the 'betrayal' of the McMahon Act, Foreign Office planners were unwilling to become too reliant on US technology and goodwill. The Foreign Office also feared that the long-term American objective was to dominate the global market in civil nuclear power. To guard against this outcome and to act as insurance in an area that was regarded as vital to British interests, the Foreign Office supported the development of an indigenous civil nuclear capability. This position helps to explain Eden's initial lack of support for Eisenhower's Atoms for Peace initiative which was increasingly regarded as an 'Atomic Marshall Plan' for the free world that would consolidate US dominance. Britain's support was only forthcoming after it had received assurances from Washington on the future supply of nuclear weapons and the development of civil nuclear power.

The commercial development of nuclear power overseas proved more problematic than first envisaged. The structure of the industry, with domestic concerns taking precedence, gave British industry little incentive to look abroad for new markets. The Foreign Office was also reticent in providing active support to British industry. It was believed that commerce and diplomacy were not compatible and that it was not the role of the Embassy to advocate on behalf of British industry or to seek new markets for high technology goods. This view was not shared by the US State Department, who actively sought out new markets abroad and developed a policy of 'corporate diplomacy' that placed the interests of US industry at the heart of its foreign policy agenda. A further difficulty for Britain was that although at least one-quarter of the Diplomatic Service's resources were devoted to export promotion work abroad there was no single straightforward channel of communication with UK industry. A singular irritant was the British National Export Council, whose overlapping responsibilities with the Department of Trade and Industry had bedevilled the lives of so many diplomatic staff abroad.⁸¹

The need to secure a stable source of enrichment of uranium raised challenging issues for the Foreign Office. The development of the gas centrifuge offered a technological solution. It also presented a political dilemma in that the project was the first collaborative venture in atomic energy that Britain had undertaken without the active assistance of the United States. It also paved the way for Britain's subsequent entry into the European Union. The complex negotiations with West Germany and Holland highlighted the growing interdependence of political, technological and economic factors and alerted policy-makers within the Foreign Office to the growing realization that British commercial concerns lay in Europe rather than America. Foreign Office officials strongly believed that the proposal to form a European consortium 'was of critical national importance'⁸² and that if Britain was forced to withdraw due to US pressure, the UK's European policy 'would be dealt a very serious blow' which the Foreign Office was not prepared to contemplate. The eventual success of the centrifuge project further vindicated those pro-Europeans who believed Britain's future lay in the councils of Europe rather than Washington.

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‘Keeping Her Powder Dry’: Turkey’s Commercial Ties with Britain in the 1940s

Aysegul Sever

The chapter aims to illuminate Anglo-Turkish commercial relations in the Second World War in the context of Turkey’s ‘active neutrality’ policy and their short-term implications for Turkey’s standing in post-world politics.¹ As in the context of political relations, Turkey’s commercial ties with Britain also displayed the country’s desire not to commit to either side during the war. In the meantime, the patterns of foreign trade throughout the war pointed to difficulties that Turkey would face in terms of its relations with the Allied powers following the war. The Republican People’s Party (RPP), being the only political party in Turkey, dominated the political scene and thus the conduct of foreign policy in the country throughout the 1940s. In this single-party system, the RPP and the government merged into one and President İsmet İnönü exercised the role of executive during the war years and thereafter until 1950.²

There are several studies which deal with Turkish diplomacy in the Second World War, especially its decision to remain non-belligerent. This chapter does not focus on war-time diplomacy. Instead, it aims to emphasize how Turkey’s commercial relations were generally conducted in line with political initiatives. Commercial relations clearly displayed how well Turkey manoeuvred in maintaining its trade relations with both sides

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without facing serious protests, boycotts or sanctions regardless of whoever was ascendant in the war. When German fortunes were on the rise, it was able to maintain relations with the Allied Powers and was even able to favour them in the chrome trade. However, when it was understood that Germany was destined to be defeated Turkey managed to continue its commercial relations with Berlin until as late as August 1944.

Anglo-Turkish commercial relations did not pose a dramatic challenge to Turkey's active neutrality policy in the war even though Turkish chrome, one of the most important war commodities, was at the centre of fierce competition between the warring parties.³ Given chrome's strategic importance 'to the construction of armour plating and high-grade steel', for the overall war campaign, and the fact that Turkey was the producer of 17 per cent of the world's chrome output, it became an important element in Anglo-Turkish relations more generally. Despite the occasional tension arising from the supply of chrome, Turkey's foreign trade largely followed the general pattern of volatility in political/military relations, causing no long-term damage to relations with Britain. Britain's Turkish policy had hitherto been largely based upon military considerations.⁴ Commercial matters never constrained relations unduly and the parties mostly preferred to find a middle way to ease any tensions.⁵ While Britain and Germany were trying to draw Turkey to their side, Ankara mostly pursued a give-and-take approach in its commercial relations. On the one hand, Ankara generally chose to satisfy Britain in regard to the chrome issue by prioritizing its interest in the purchase of Turkish chrome, despite pressure from Germany. On the other hand, Turkey did not hesitate to tilt the balance towards Germany in trading other goods and commodities when the need arose.

Ankara's commercial relations were closely watched by the belligerents in order to detect the country's intentions. Turkey's failure to actively join the war led to strained relations with Britain, but no trade issue, other than the sale of chrome, became critical in this respect. The British preferred to overlook Turkey's commercial manoeuvres mostly for the sake of avoiding its ultimate fall into the German sphere of influence. In view of this, regardless of occasional fluctuations, as previously noted, German-Turkish commercial relations continued until 1944. In its criticism of Turkish commercial rapprochement with Germany, Britain even sometimes lagged behind the Americans. Efforts to coordinate Anglo-American commercial moves towards Turkey in the war suggested that British interests would inevitably become more closely aligned with those of the USA and that,

more specifically, like it or not, the USA would largely supplant British influence in the Near East. The Turkish Government was aware of this growing need for USA support during the war and did not seem particularly uneasy about the possible replacement of Britain by the USA in the field of commerce or in other respects.

WHO IS THE BEST TRADING PARTNER TO BE?

On the eve of the Second World War, Turkey was still an extremely underdeveloped and economically weak country with 70 per cent of the population engaged in agriculture. Despite governmental interventions after 1930 in the economy, this underdevelopment continued and economic self-sufficiency proved unattainable. A situation of overwhelming dependency on Germany had developed in the 1930s. During the period 1933–7, Germany became Turkey's key export market.⁶ In the same decade Germany adopted a new plan that aimed to barter its manufactured goods for raw materials from south-east Europe, and in this way Germany achieved economic dominance not only in Turkey but in the Balkans too. German companies such as Krupp, Otto Wolff and Ferrostahl had leading business interests in Turkey.⁷ Germany also became the major supplier of raw materials for the armament factories built in the course of the second Turkish five-year plan of 1937, and thus Turkish producers depended upon German markets.⁸ By the mid-1930s, the Turkish leadership became aware that economic dependence on Germany was not consistent with their foreign policy orientation and efforts had to be made to diversify foreign trade. Turkey's leaders therefore took actions to counter-attack the dangerous German economic monopoly. For example, Turkey approved the awarding of a contract worth £3 million to the British Brasserie firm (instead of Krupp) to found a new iron and steel works at Karabük.⁹ The combined need to deter Italy's growing aggression in the Mediterranean and to secure Britain's backing of Turkey's sovereign rights at the Straits via the 1936 Montreux Straits Convention, led to improvements in Anglo-Turkish relations. Several reciprocal official visits also reaffirmed this rapprochement. King Edward VIII visited Istanbul on 4–5 September 1936 and President İnönü attended the coronation of George VI on 9–10 May 1937.¹⁰ However, there was no progress in terms of reversing Germany's significant pre-war influence over trade relations.

German trade continued to be far too significant for Ankara to consider any serious break with Berlin in the 1930s. Moreover, the British

Treasury was unable to reduce Germany's dependence on Turkey. The Treasury insisted that Britain's limited economic resources had to be spent on other projects of higher priority 'before much could be done for Turkey'.¹¹ In the light of this, even at a time when firm British protection in the Mediterranean was essential in the face of growing Italian expansionism in the 1930s, Turkey expected that commercial exchanges with Germany would continue as before. However, its fears of Italian strategic intentions in the Balkans, especially with its invasion of Albania in April 1939, eventually pushed Turkey into closer cooperation with Britain and France.¹² On 12 May 1939 Turkey and Britain signed a declaration of mutual cooperation and assistance, a move which paved the way for the subsequent Anglo-Turkish Alliance. Then, Britain decided to make available £10,000,000 worth of credit, but this fell short in terms of providing sufficient guarantees for Turkey's further trade security.

On the day the war began, while Ankara found itself closer to Britain in political terms, in commercial terms it leaned towards Germany. This pointed to difficult decisions for Turkey, as at the time more than 50 per cent of its trade was with Germany. Two trade agreements had been signed between Berlin and Ankara, on 30 August 1937 and on 26 July 1938, so that by 1939 Turkish imports from Germany reached 50.86 per cent and Turkey's exports to Germany comprised 37.29 per cent of its total exports.¹³ There were no problems regarding exporting goods other than transport as there were demands for Turkish agricultural goods as well as natural sources. Because of the currency problems Turkey favoured barter trade.¹⁴ By the outbreak of the war, the loss of the German market was very costly since Germany was paying above the market price for Turkish goods and also had pursued barter trade. In the autumn of 1939, the Alliance countries were in no position to fill the place of Germany in the short term. Before Turkey could side with Britain against Germany, it would have to replace the Germans as both suppliers and consumers. The difficulty lay in the fact that nearly all of Turkey's exports were agricultural raw materials (with the important exception of chrome) which Britain and France could purchase on more advantageous terms from their colonies and other trading partners. Moreover, wartime conditions made the transport of British goods to Turkey problematic.

Regardless of all these concerns, the Turks refused to renew the 1938 Turkish-German trade treaty, due to expire in August 1939, as a form of protest against the Nazi-Soviet Pact. As soon as the war erupted on 1 September 1939, Turkey stopped commercial relations with Germany

and on 19 October 1939, signed the Treaty of Mutual Assistance with Britain and France (the Tripartite Alliance). By virtue of this treaty, Britain and France promised to give 'all aids and assistance' to Turkey if it was attacked by a European power. In return, Turkey undertook reciprocal obligations 'in the event of an aggression by a European power leading to a war in the Mediterranean area in which France and Britain were involved', or if France and Britain were involved in war as a result of their guarantees to Greece and Romania.¹⁵ Furthermore, a secret agreement was concluded, awarding Turkey a credit of £25 million to purchase war materials, and an additional loan of £15 million in gold.¹⁶ Ankara also started to negotiate with Britain and France in order to find alternative markets for its products, of which chrome was the major item.¹⁷ In regard to Turkey's overdependence on Germany following the Tripartite Alliance treaty with Britain and France, Prime Minister Şükrü Saraçoğlu stated that 'a country may have an independent national policy, the greater part of its foreign trade must not be directed towards a single country... When national policy, having the aim of independence, and national trade, and the object of profit, can no longer go side by side, national trade must make a sacrifice.'¹⁸

In compliance with the desire to pursue an independent trade policy, Turkey tried to follow a balanced course even after agreement to the Tripartite Alliance, thereby preserving its economic relations with Germany while maintaining distance in political terms.¹⁹ Until German aggression left it with no choice, this was Turkey's best option. The closeness with the Allies which the Tripartite Alliance wrought would never go as far as committing Turkish military support to the war against Germany, even though Ankara was in fact asked to join the war when the Axis powers attacked Greece and France.

Following the decision to break off relations with Germany in September 1939, trade relations with Britain seemed to overtake Turkish trade with Germany. Thus, Germany became uneasy with growing Anglo-Turkish trade relations and accelerated their activities towards Turkey, especially after the entry of the UK Commercial Corporation into the Turkish market on a large scale. For example, Germany offered to supply 6–7000 tons of steel to some firms in Istanbul.²⁰ In view of these circumstances, Britain started to strengthen commercial ties with Turkey for both purchases and supplies against the German campaign against the German trade offers. The British Ambassador, Sir Hughe Knatchbull-Hugessen, conveyed a report covering the 12 months ending 31 December 1940. It

indicated that British purchases of Turkish produce (e.g. tobacco, dried fruit, chrome) had increased from £T.1.789.000 to £T.11.550.00. In the meantime, sales to Germany diminished from 37.29 per cent to 8.69 per cent of Turkey's exports, the respective values being £T.47.504.000 to £T.9.687.000.²¹ Britain's share of Turkey's trade increased from 6.35 per cent in 1939 to 14.02 per cent in 1940, thus showing a marked improvement compared with Germany. Germany's share diminished from 50.86 per cent in 1939 to only 11.73 per cent in 1940.²²

The British Ambassador explained the reasons behind these improvements in Anglo-Turkish trade relations in 1940 stating that 'the chief reason for Germany's loss of trade was a failure to implement the ad hoc Turco-German Agreement that was concluded on 12 June 1940 for the reciprocal exchange of goods, worth £T.21.000.000'.²³ He also added that the abolition of import quotas in Britain's exports to Turkey, 'coupled with the bulk purchases of Turkish products made by the UK Commercial Corporation, greatly facilitated the increase of commercial exchange between these two countries'.²⁴ After the Anglo-Turkish financial agreement and the entry of the UK Commercial Corporation into the Turkish market, Anglo-Turkish trade surpassed German-Turkish trade and the Germans became very active in preserving their economic influence. Thus, the British Ambassador to Ankara, Knatchbull-Hugessen, warned the Foreign Office that 'our commercial policy towards this country should be strengthened regarding both purchases and supplies'.²⁵ The Ambassador warned his government about the issue, stating that the Turks 'need is urgent and our failure to supply them is creating an unfortunate impression which the Germans are exploiting to the full'.²⁶ In June 1941 Hugessen reported that 'we now head the list as Turkey's chief customer and chief supplier' but added that 'whether we will be able to maintain this position is extremely doubtful'.²⁷ This observation was largely valid. In August 1940 he reported to Viscount Halifax, the Foreign Secretary, that 'the increasing shortage of certain classes of goods and the inability of the UK to meet the Turkish demands, particularly in machinery, chemicals, Rolling stock, drugs etc. has forced the Turkish authorities to conclude large scale commercial exchange deals with Romania, Italy, and Germany'.²⁸

Until June 1941 Turkish-German trade remained at a low level compared with what it had been in the 1930s and thus Berlin observed its gradual displacement by Britain. However, Britain's advantageous position in relation to Turkish trade did not last long. After the limited barter

treaty between Germany and Turkey on 25 July 1940, both states were willing to increase their trade ties, with Turkey willing to buy weaponry from Germany in view of inefficient British support. However, this first attempt remained futile since the difficulties of delivery seriously affected commercial exchanges between the two countries. (During the 12 months ending 31 December 1940, Germany delivered to Turkey only 10.324 tons of goods valued at £T.8.083.286.²⁹)

The increase in German-Turkish trade accompanied Germany's growing ascendancy in Europe and the Balkans in 1941. In the aftermath of the 1939 trade agreement with Britain and France, the Allies wished to supplant Germany's place in Turkish trade, but it soon became clear that this would be difficult to realize, especially when France fell to German control and the Allies could not meet Turkish needs. Ankara had to deal with its economic problems by internal loans and printing money, actions that would gradually raise inflation. Besides, the war forced Turkey to keep a large army mobilized, with the consequence of increasing military expenditure.³⁰

When the Germans entered Romania and moved towards Bulgaria in early 1941, the Turkish leaders wondered whether Turkey was to be next or not. In the spring of 1941, the Germans were on the move and approaching the Turkish border. Bulgaria's decision to join the German-Italian Axis alarmed Turkey even further. A pro-German *coup d'état* in neighbouring Iraq in April 1941 also raised worries as the Germans asked the Turkish authorities for permission to use Turkish routes into Iraq to assist the pro-Nazi government there. Fortunately for Ankara, German pressure did not last long since Berlin decided to attack the Soviets before winter.

In the context of these pressing military-strategic developments, commercial issues receded in Turkish-German relations. When Germany decided to attack the Soviet Union and turned to the north, Turkey heaved a sigh of relief. On one occasion the US Ambassador suggested that 'it is [Turkey's] fervent hope that the two gangsters will exhaust themselves in a long struggle'.³¹ With this in mind, Germany and Turkey signed a Friendship and Non-aggression pact on 18 June 1941. Not only did the two states 'undertake to respect mutually the inviolability and integrity of their territories and to refrain from any direct or indirect actions against one another',³² but they also pledged to improve their economic relations. Accordingly, a new trade agreement was concluded on 9 October 1941.³³ This immediately caused displeasure among the Allies: yet the British reac-

tion was muted due to the limited assistance they had offered and Britain's limited level of trade with Turkey. However, as soon as the treaty was signed, the USA, a strong supporter of Britain, also displayed its displeasure by suspending Lend-Lease aid to Turkey even though it was not yet at war with the Axis.³⁴ Thus Turkey came to rely increasingly on Germany for her markets and capital products. As we have seen, Britain's rising position in Turkey's foreign trade in 1940 was challenged by Germany and the 1941 trade agreement with Germany defined the volume of trade that would be reached between the two countries until 31 March 1943. Both sides undertook to export goods to the value of 200 million German marks. This agreement was a clear sign of Germany's revival vis-à-vis Britain, to become the leading trading partner for Turkey between mid-1941 and August 1944. Consequently, the German share in Turkish trade rose from 8.6 per cent in 1940 to 21.8 per cent in 1943.³⁵ Germany was to sell military equipment, steel, iron and machinery in return for natural and agricultural goods. The Germans were able to secure a very considerable influence on Turkish industry such as contracts for a sulphur plant, a sulphuric acid factory, long-distance telephone installations and so forth. Technical experts were sent to Turkey in connection with these projects.³⁶ On the day the trade agreement was signed, the two countries also decided the conditions under which the sale of Turkish chrome to Germany would proceed. However, Germany's affirmed supremacy was not to be repeated in the chrome trade.

Apart from the chrome issue, the overwhelming German military ascendancy left Ankara no alternative but to increase its trade with Germany from 1941 onwards. During the time of German ascendancy, Britain failed to replace Germany as the major market and was unable to supply capital products.³⁷ Therefore, Britain's reaction to continuing closer German-Turkish trade ties remained restrained. This reaction seemed justifiable in Ambassador Huggessen's reports to London. He presented Turkey's desire to increase trade with Germany as 'a decision of necessity'.³⁸ On one occasion he had stated that 'if we supplied Turkey essential requirements and purchased her exportable surpluses, she would cease all trade with the enemy'. He regretted 'the necessity of this trade but contended that it increased Turkish Powers of resistance considerably while Turkish goods exported in exchange represented but an infinitesimal proportion of the German needs'.³⁹ He later added that it was against Allied interests to see Turkey impoverished through its allies' failure to supply her requirements or to purchase her exportable surpluses.⁴⁰ As suggested, Turkey 'acted in

conformity with the policy established at the time of the Turco-German Treaty of 1941', namely to appease Germany by means of minor concessions but to yield nothing of major importance. This resulted in Germany taking the lead in Turkish trade in 1941, a position it was able to maintain until August 1944. This trend did not exactly reflect Germany's military performance. With the passage of time, the Allies were more assertive and successful against Axis forces, but Turkey's trade with Germany remained in full swing. Consequently, trade relations with Germany were subjected to closer scrutiny by the Allies.

In the light of this, Britain had to express clearly its concern about growing German-Turkish trade and sought ways to reduce it. Obtaining reliable figures for Turkish import and export trade proved to be difficult.⁴¹ In 1943, figures obtained from secret sources revealed that 'the trend is towards a rapid and progressive increase in Turkey's contribution to the Axis cause...Turkey is contributing approximately three times as much [this] summer as the last summer ...the increase is about double, if chrome is excluded, and about threefold if chrome is included.'⁴²

As an indication of growing commercial relations, another trade agreement was also signed on 18 April 1943 between Ankara and Berlin. The nature of the goods to be exchanged and the duration of the agreement, to 31 May 1944, were fixed, as was the value of the goods (£T.60 million).⁴³ Germany was to give Turkey industrial articles and Turkey would reciprocate with raw materials, to which Germany attached particular importance.

THE MOST DELICATE TRADE ISSUE: CHROME

British concern about how the Turkish Government would make use of its chrome was the most complex and persistent issue throughout the war. Britain and the USA frequently became seriously alarmed about chrome sales to Germany. Even before the outbreak of the war, there had been serious concern on Britain's part about the level of the Turkish-German chrome trade and this continued after the chrome agreement between France, Britain and Turkey was concluded on 8 January 1940. Prior to this agreement, several departments such as the British Ministry of Supply had already expressed concern over the issue, warning that 'the enormous increase in the 1939 exports of chrome from Turkey to Germany are most disturbing'.⁴⁴ Such concern was not baseless, since 60 per cent of Germany's chrome came from Turkey just before the war,⁴⁵ and was not

entirely swept away with the 1940 chrome agreement,⁴⁶ which stipulated that, in return for Britain purchasing 200,000 tons of chrome over two years, Turkey would halt the sale of chrome to Germany.⁴⁷ The January 1940 agreement also defined the proportion of chrome that would be purchased by Britain and France: namely, eleven-fifteenths and four-fifteenths respectively.⁴⁸ Furthermore, Turkey promised not to sell chrome to any other country without the endorsement of these two states. However, Britain bought only a modest amount—77.849 tons of chrome in 1940—and resold it to the USA.

After Britain's failure to provide Turkey with £5 million worth of weaponry in the year following the 1940 chrome agreement, Turkey turned to Germany once again. Germany was also ready for such a move since it faced the threat of the exhaustion of its chrome supplies. After the signature of the Non-aggression and Friendship Pact, a German delegation led by Karl Clodius came to Ankara to discuss trade issues, including chrome, in September 1941.⁴⁹ The chrome agreement with Germany, the so-called Clodius Agreement, was signed on 9 December 1941. This was an important step forward since it was the same chrome issue that had at least partly prevented the renewal of the 1938 trade agreement with Germany in August 1939. By the December agreement, Turkey would undertake to sell Germany a maximum of 90,000 tons of chrome in 1943 and 45,000 tons in 1944 in return for substantial military equipment. Turkey included an article in the agreement stating that the delivery of chrome would be made after the dispatch of T£18.000.000 worth of military needs. Germany wished to start buying chrome in 1942, but Ankara remained loyal to the deal with the British and gave a further guarantee that Ankara would sell chrome to no power other than Britain until January 1943.⁵⁰ In informing the Allies of the chrome agreement with Germany, the Secretary General of Turkish Ministry of Foreign Affairs, Numan Menemencioglu, pointed out that it involved no political intent whatsoever. Menemencioglu added that he had reminded German Ambassador Von Papen that Turkey remained the ally of Great Britain and would use the war material to resist any aggression. However, the agreement signed with Germany caused resentment in both Allied and pro-Allied circles. The US reaction to the Clodius Agreement was more serious.⁵¹ President Franklin Roosevelt requested of President İnönü that Turkey's sale of chrome to Germany should end. Although the USA was non-belligerent until the attack on Pearl Harbor, it had been helping Britain in the war against Germany.⁵² Accepting Turkey's strategic

importance to Britain's war plans in the Middle East, America was backing Ankara by providing aid under the Lend-Lease programme. During the war, Turkish-American trade ties improved. America intended that this should undermine German economic influence in Turkey. The USA had sold Turkey £T.2,500,000 worth of agricultural machinery in 1940.⁵³ The USA had also expressed an interest in buying 'a very substantial tonnage of Turkish chrome' in 1940.⁵⁴

However, aware of the pressure on Turkey and its immediate military needs, Britain decided to take a softer approach to the Turkish-German chrome agreement. It interpreted the chrome agreement 'as the culminating point of Germany's policy of commercial penetration and the promotion of trouble between ourselves and the Turks'.⁵⁵ On the Turkish side, it may be said to have represented the climax of the policy followed since 1941 of minor concessions to Germany for purposes of appeasement without giving away on major points. The British Ambassador claimed that 'the trouble between ourselves and the Turkish Government arose largely from a difference of view as to the importance of chrome. His Majesty's Government regarded it as a major issue whereas the Turks maintained that it was only of minor importance.'⁵⁶

As a sign of Turkey's ongoing commitment to the Alliance, on 23 December 1941 the chrome contract with the British in 1940 was extended for one more year. The British Government also agreed to raise the price from 140 to 270 shillings per ton to meet the price offered by Germany.⁵⁷ Until that time, of the Great Powers that sought Turkish chrome, Britain had paid the lowest price.⁵⁸ In 1942, both the British and the Americans concentrated first on obtaining all the chrome available from Turkey in order not to leave any chrome for prospective German purchases in 1943 and 1944. Hugessen stated that he was authorized to propose a contract for deliveries in 1943 and 1944, under which the British would purchase the entire output of Turkish chrome, regardless of the existing commitment to Germany under the Clodius Agreement, and at the same price paid by the Germans. Under the chrome agreement of 8 January 1940, the British could not resell Turkish chrome to a third country without Turkey's permission. Yet the USA was exempted from this. On 28 September 1940, the Secretary General of the Foreign Office informed the British Chargé d'Affaires in Ankara that the Turkish Government was pleased to comply with the American request for Turkish chrome and 'granted to the British government the desired permission with regard to the sale of chrome' to the USA.⁵⁹ In 1943, British and

American initiatives in Ankara had sought to block deliveries of chrome to Germany, but legal chrome delivery to Germany started in January 1943, and the Allies had to acknowledge this fact.⁶⁰ In his speech to the War Cabinet on 20 July 1943, Anthony Eden, the Foreign Secretary, confessed that there was nothing that the USA or Britain could do in the face of the Clodius Agreement since neither of them could meet Germany's offer of war material. In 1943, the USA was obliged to back down, aware of Turkey's military vulnerability and important strategic position, and instead commenced direct Lend-Lease aid, which had been administered by Britain from 1941. Nonetheless, Britain's and the USA's reluctant approval of Turkey's sale of chrome to Germany did not have to last long.

On 20 April 1944, just a day after British Ambassador Hugessen and US Ambassador Steinhardt had confronted Menemencioglu with affirmations of protest against the chrome shipments to Germany, the Turkish Foreign Minister announced that all chrome exports to Germany would cease. It was the first time that the Allies 'twisted Turkey's arm on this issue, and the reason was clearly related to the fact that Turkey's export to Germany had increased from 23 per cent to 78 per cent within a single year, 1943–44, and the Allies had noticed that other neutrals seemed to be taking Turkey as a model.'⁶¹ By 1944, the main argument that Turkey had put forward to Britain since the beginning of the war, namely insufficient military assistance in the face of the German threat, lost ground. Given Germany's weakening position in the war, the pressure on Ankara not to continue trading with Berlin gained momentum. From April 1944, the delivery of British and American Lend-Lease was minimal. The Allies halted their sale of food and oil to Turkey. The pressure over Ankara was mounting.

CHANGING THE GUARD IN THE TURKISH TRADE AND ITS POST-WAR IMPLICATIONS

The Turkish Government, upon the request of British Government, supported by the USA, broke off economic and diplomatic relations with Germany on 2 August 1944. As soon as this long-awaited Turkish decision was taken, Britain decided to take necessary precautions in order to undermine the economic disturbances which might result from the break in relations with Germany.⁶² Thus, the USA was immediately asked to share the burden of supplies and purchases. Washington responded in the affirmative.⁶³ In August 1944, London and Washington agreed in principle to make support purchases jointly in Turkey.⁶⁴

Turkey's economic position raised concerns in Whitehall. There was a perceived risk that the elimination of Germany as a leading industrial power on the continent and serious consumer of Turkish raw materials (chrome, tobacco, wool, cotton, mohair, dried fruit, etc.) would leave an economic vacuum; unless this vacuum was filled by Britain and the USA there would be widespread economic distress in Turkey, the political consequences of which could be serious.⁶⁵ As a result, London declared its readiness 'to make available a maximum amount of 5 to 6 million sterling in respect of the British share of support purchases in Turkey for the period to June 30, 1945, subject to satisfactory financial arrangements being worked out with the Turks'.⁶⁶

Despite this, the British admitted that in 'the next year or two the Americans' were going to be in a much better position than themselves to supply goods to Turkey. Britain was ready to keep all its export connections in existence, but in most cases it would 'be only able to spare a very limited quantity of supplies' for Turkey.⁶⁷ Having been concerned that the amount they would provide should remain limited, they thought that Turkey would have to look to the USA as a main source of supply.⁶⁸ The Foreign Office proposed that Washington and London should provide lists of commodities first and that then these lists should be transmitted to Ankara after coordination between London and Washington. It was also decided that close liaison would be maintained between the embassies in Ankara through the committees.⁶⁹ The British Embassy staff in Ankara and other British representatives there would be instructed to maintain close contact with their US colleagues in order to obtain the maximum benefit from the joint objective, to avoid competition between themselves, and 'to prevent Turkey from playing off one of us against the other'. After Ankara's break in relations with Berlin, Americans started to send all sorts of commercial representatives to Turkey and made contacts with the Turkish administration and business circles.⁷⁰

Britain was aware that the acceptance of the USA as the main supplier for Turkey would influence their long-term trade relations with the Turks. However, they had no means of protecting British interests in Turkey on their own. Several reports about America taking Britain's place were issued, with expression of concern, but there was no alternative solution.⁷¹ In the final analysis, 'although the supply of long term capital projects by the USA w[ould] give them the market for replacements and spares, this is inevitable.'⁷² It was thought that Britain would be compensated 'if a more prosperous and stable Turkey emerge[d] as a future market for

[British] goods' and generally secured the necessary coordination for the attainment of Anglo-American joint purposes.⁷³

Prior to the end of the war, US interest in chrome and the Lend-Lease assistance to Ankara had already displayed that there was an increasing US economic influence in Turkey. It was even clear during the war that the USA was destined to replace Britain as the economic guardian of Turkey. Britain reluctantly but gradually came to terms with the reality that it had no means to support the Turkish economy through supplies, purchases or economic assistance in the long run. Therefore, it is possible to argue that America's rising military and economic influence in Turkey by means of the proclamation of the Truman Doctrine and then the Marshall Plan had their roots in the Anglo-American stance towards Turkey during the war. The Lend-Lease Agreement in the war could be regarded as the key platform for the emergence of closer post-war military and economic relations between the USA and Turkey.⁷⁴ The Lend-Lease programme aimed primarily at military support but also included food and health assistance. In 1946, Harry S. Truman extended US military and economic aid, totalling \$45 million, to Turkey. This foreshadowed the much larger economic assistance to Ankara.⁷⁵ Turkey came out of the war with a considerable amount of gold and foreign currency reserves. As a result, it was able to import the goods it needed, thus maintaining its existing industrial base even though it was uncompetitive.⁷⁶ The main burden on the Turkish economy was overspending on armaments and maintaining an army of half a million. Thus Turkey's need for foreign aid following the war did not grow because of desperate economic deficiencies but rather as a result of feelings of insecurity in the face of a rising threat from the Soviet Union. By informing the US Secretary of State, on 27 February 1947, that they would no longer provide post-war assistance either to Turkey or Greece, the British urged the USA to take responsibility for providing these two states with appropriate military and economic aid in the face of growing Soviet demands. Accordingly, Truman announced to Congress that the USA would grant a total of \$400 million in military and economic aid to the two Mediterranean countries. Overall, the Turkish Government's response to the Truman Doctrine was one of delight. With its commitment to the doctrine, Turkey entered into a new era where its ability to manoeuvre between the blocs would be limited in the years to come. For its part, the British Government did not seem to be particularly concerned about losing their influence to the Americans in Turkey since it was, relative to the Suez Canal, for example, of second order in terms of imperial defence.

This chapter has sought to emphasize that Turkey's trade relations with Britain were closely intertwined with the state of military/political relations between the two states during the war period. Having said that, wartime trade relations between Turkey and the belligerents did not invariably corresponded to or follow on from military developments on the ground. As a result, Turkey continued its commercial ties with Germany until the very end of the war despite the existence of the Tripartite Alliance and the commencement of the Allies' superior performance in late 1942. Moreover, it was understood during the war that Anglo-Turkish commercial ties would not be sufficiently lucrative to prevent Turkey from looking for other powerful economic partners. In this regard, Britain itself took the lead in introducing the USA to the Turkish economic and political scene as a complimentary supportive force against prospective competitors: first Germany, during the war, and then the Soviet Union in its aftermath. With British encouragement, the USA assumed the mantle of leading economic and military assistance provider for Turkey, with the proclamations of first the Truman Doctrine and then the Marshall Plan. US economic influence over Turkey gradually increased after the Second World War but this was never turned into a nurturing trade partnership. Other than occasional economic assistance programmes over the years, no substantial commercial exchanges were advanced between the USA and Turkey during the Cold War. In fact, EC/EU countries have prevailed as the most significant commercial partners of Turkey since the Cold War years.

NOTES

1. Among the several definitions (non-belligerent, neutral, non-involved) of Turkey's position in the war, active neutrality was chosen as the most appropriate in order to define Turkey's position. It was first used by S. Deringil in his *Turkish Foreign Policy During the Second World War: an 'active' neutrality* (Cambridge: Cambridge University Press, 1989).
2. Until 1950, first Kemal Atatürk and then İsmet İnönü were not figureheads but had exercised strong executive authority. They had the power to appoint the Prime Minister and the members of the Cabinet. The Prime Minister's role was confined to implementing those policies which had already been formulated by the President. In 1946, the first multi-party election was held in Turkey and the

- Democrat Party emerged as the main opposition party in the Turkish General National Assembly. It was in 1950 that the Democrat Party brought the 27 years of the RPP rule to an end by winning an overall majority in the National Assembly after the second multiparty elections in May 1950.
3. G. İnanç, 'The politics of 'active neutrality' on the eve of a new World order: The case of Turkish chrome sales during the Second World War', *MES*, 42/6 (2006): 908.
 4. Foreign Office to A. E. Welch, Board of Trade, 14 May 1944, BT 11/2384.
 5. Academic works dealing with the Turkish chrome trade in the war have agreed that Turkey was quite good at making the chrome issue a bargaining point, in diplomatic terms, rather than allowing it to cause a total break with either of the warring parties.
 6. M. Önsoy, '1939–1944 İngiliz-Alman İktisadi Harbi: Türk Kromu Üzerine Pazarlıklar', *H.Ü. İktisadi ve İdari Bilimler Dergisi*, Cilt 30, Sayı 1 (2012): 101.
 7. C. Koçak, *Türkiye'de Milli Şef dönemi (1938–1945)*, Cilt 1 (İstanbul: İletişim, 1986), p. 203.
 8. Y. Güçlü, 'Turkish-German Relations on the eve of World War Two', *TS*, 1/2 (2000): 73–94.
 9. Güçlü, 'Turkish-German Relations': 77–8.
 10. S. Shaw, *History of the Ottoman Empire and Modern Turkey 2* (Cambridge: Cambridge University Press, 1977), p. 396.
 11. Güçlü, 'Turkish-German Relations', 86.
 12. B. Millman, 'Turkish Foreign and strategic Policy 1934–1942', *MES*, 31/3 (1995): 487.
 13. N. Karakaş, 'İkinci Dünya Savaşı Yıllarında Türkiye'nin Krom Satışı ve Müttefik Politikaları', *Tarih İncelemeleri Dergisi*, 25/2 (2010): 451.
 14. M. Selçuk Özkan, 'İkinci Dünya Savaşı Yıllarında Türkiye'nin Takas Usulü Ticareti', *Karadeniz Araştırmaları Dergisi*, 34 (2012): 90.
 15. W. Hale, *Turkish Foreign Policy 1774–2000* (Frank Cass, 2002), p. 69.
 16. Hale, *Turkish Foreign Policy*, p. 69.
 17. İnanç, 'The politics of active neutrality': 908.
 18. Güçlü, 'Turkish-German Relations': 85.
 19. Güçlü, 'Turkish-German Relations': 92.
 20. Knatchbull-Hugessen to Foreign Office, 4 February, 1941, FO 837/1024.

21. Knatchull-Hugessen to Eden, 24 April 1941, FO 371/170087.
22. Knatchull-Hugessen to Eden, 24 April 1941.
23. Knatchull-Hugessen to Eden, 24 April 1941.
24. Knatchull-Hugessen to Eden, 24 April 1941.
25. Ankara 4 February 1941, FO 837/1024.
26. Knatchull-Hugessen to Foreign Office, 15 April 1941, FO 371/130087.
27. Knatchull-Hugessen, Ankara to Foreign Office, 3 June 1941, FO 371/115503.
28. Knatchbull-Hugessen, Ankara to Viscount Halifax, 2 August 1940, FO 371/25008.
29. British Embassy, Ankara to Eden, 15 July 1941, FO 837/1024.
30. A. Avcı, 'American propaganda in Turkey as Economic, Military and Cultural Warfare against Germany During the Second World War', MA Thesis, Bilkent University, 2009, p. 57.
31. The Ambassador in Turkey (John MacMurray) to the Secretary of State, 24 June 1941, *FRUS* 1941, Vol. III, p. 872. In the course of the war, Ankara consistently suspected Soviet intentions towards Turkish territory, especially the Turkish Straits.
32. B. Oran, *Turkish Foreign Policy 1919–2006* (Salt Lake City: Utah University Press, 2010), p. 262.
33. Koçak, *Türkiye'de Milli Şef Dönemi*, p. 633. Prior to the 1941 agreement, a Turkish-German trade agreement had been signed but no progress in the volume of trade was recorded.
34. Karakaş, 'Amerikan Ödünç verme ve Kiralama Yardımlarında Türkiye', p. 25.
35. Koçak, *Türkiye'de Milli Şef dönemi*, p. 634.
36. Knatchbull-Hugessen to Eden, 29 January 1943, FO 195/2478.
37. Deringil, *Turkish Foreign Policy*, p. 28.
38. Knatchbull-Hugessen, 2 March 1941, FO 837/1024.
39. Knatchbull-Hugessen, 2 March 1941, FO 837/1024.
40. Knatchbull-Hugessen, 2 March 1941, FO 837/1024.
41. British Embassy in Turkey to Menemencioğlu, 26 August 1943, FO 195/2478.
42. Key Commodity exports to the Axis from Turkey, 1943, FO 195/2475.
43. *Ulus* (Turkish daily), 20 April 1943.
44. Ministry of Supply to D. Davidson, Ministry of Economic Warfare, 26 February 1940, FO 837/1009.

45. Önsoy, '1939–1944 İngiliz-Alman İktisadi Harbi': 98.
46. British-French Meeting at Steel House, London, 28 February 1940, FO 837/1009.
47. Önsoy, '1939–1944 İngiliz-Alman İktisadi Harbi': 101.
48. British-French Meeting at Steel House, London, 28 February 1940, FO 837/1009.
49. Önsoy, '1939–1944 İngiliz-Alman İktisadi Harbi': 105.
50. Önsoy, '1939–1944 İngiliz-Alman İktisadi Harbi': 107.
51. Karakaş, 'İkinci Dünya Savaşı Yıllarında Türkiye'nin Krom Satışı': 475.
52. An important step in terms of helping Britain was the Lend-Lease Act which was signed in March 1941. With this act, the US could dispatch all kinds of aid to the countries whose security was important to it.
53. Avcı, 'American propaganda'.
54. The Acting Secretary of State to the Ambassador in Turkey (MacMurray), 26 July 1940, *FRUS* 1940, Vol. III, p. 949.
55. Knatchbull-Hugessen to Eden, 23 January 1943, FO 195/2478.
56. Knatchbull-Hugessen to Eden, 29 January 1943, FO 195/2478.
57. Knatchbull-Hugessen to Eden, 29 January 1943, FO 195/2478.
58. Knatchbull-Hugessen to Foreign Office, 25 May 1940, FO 837/1009.
59. US Chargé at Ankara (Kelley) to the Secretary of State, 28 September 1940, *FRUS* 1940, Vol. III, p. 955.
60. İnanç, 'The politics of active neutrality': 910–12.
61. İnanç, 'The politics of active neutrality': 913.
62. Foreign Office to A. E. Welch, Board of Trade, 1 August 1944, BT 11/2384.
63. Foreign Office to Welch, 1 August 1944.
64. Washington to Foreign Office, 12 August 1944, BT 11/2384.
65. M. N. Lubin, 18 December 1944, BT 11/2384.
66. John S. Dent, War Trade Department, British Embassy to L. T. Merchant, 31 August 1944, BT 11/2384.
67. 11 September 1944, BT 11/2384.
68. 11 September 1944, BT 11/2384.
69. Dent to Livy, 6 October 1944, BT 11/2384.
70. Lubin to A. E. Welch, 18 December 1944, BT 11/2384.

71. WP(44)242 Economic Policy towards Turkey, 9 May 1944, BT 11/2384.
72. Foreign Office to Ankara, 17 September, 1944, BT 11/2384.
73. Foreign Office to Ankara, 17 September, 1944, BT 11/2384.
74. War Cabinet, 3 August 1944, BT 11/2384.
75. B. Aliriza & B. Aras, US-Turkish Relations, Joint Report of Sam and Centre for Strategic and International Studies, Report, November 2012, pp. 1–2.
76. *ERUS* 1947, Vol. V, pp. 36–7.

The Foreign Office, the Board of Trade and Anglo-Italian Relations in the Aftermath of the Second World War

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The efforts of Britain and Italy to normalize their political and economic relations after the Second World War, especially during the years of Clement Attlee's Labour Government, offer an opportunity to examine reconciliation and reconstruction against the backdrop of austerity, a new economic post-war order and the onset of the Cold War. This chapter presents a snapshot of the problems Britain faced when seeking to maximize its trade with Italy in the immediate post-war period, the persistent efforts of the Labour Foreign Secretary, Ernest Bevin, to improve Anglo-Italian relations at every level be they economic or political, but also his determination to bring under the oversight of the Foreign Office all aspects of British interaction with the world including trade. It offers insights as to how austerity can complicate not only international relations but also breed intra-governmental friction when there is no agreement around the Cabinet table that foreign and commercial policy imperatives coincide.

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Britain emerged from the Second World War victorious and with its diplomatic prestige enhanced. All the same, total war had left the country in a precarious position. British foreign reserves and investments had been liquidated to finance the war effort. Industrial production had been disrupted and converted to serve the needs of a war-time economy. British exports had fallen from £471 million in 1938 to £399 million in 1945. In fact, the figure for 1945 was a distinct improvement upon those of the preceding, war-time, years. Due to deferred purchase payments, debts to India, Canada and Australia had climbed up to £3,567 million. Defence expenditure had risen from £626 million in 1939 to a massive £5,125 million in 1944. Five years of German bombing had caused severe war damage in urban areas. The country faced a deteriorating balance of payments deficit which had reached £875 million, almost a tenfold increase from 1938, and the national debt had tripled from pre-war levels reaching £21,473 million by 1945.¹

Before the new realities of victory had sunk in, the country acquired its first Labour Government with an absolute majority that promised radical domestic reform. The new government's attention to reform would often be overtaken by economic, foreign and defence policy concerns. Britain, still a worldwide imperial power, was more alert than the USA to signs of the gradual and yet accelerating transformation of a war-time ally, the USSR, into a mortal enemy.² The state of the British economy, particularly its unbalanced trade with the USA, made Britain susceptible to the economic pressures arising from a rapidly coalescing bipolar post-war world order that forced it gradually, to rely on an increasingly American dominated Anglo-American alliance. It was under these conditions that Clement Attlee's Government undertook the herculean task of reconciling the conflicting priorities of domestic, economic, foreign and defence policies so as to underpin Britain's global position and yet not compromise on its bold domestic reform programme.³ Its task was to become more onerous and more complicated by the US decision to cut Lend-Lease abruptly at the end of the war. This seriously compromised Britain's ability to pay for the imports necessary for the subsistence of its population and had knock-on effects on economic planning and the ability of the country to maintain its commitments abroad.⁴ The assumption was, however, that this would be a temporary and reversible situation and the Labour Government focused its efforts on overcoming its immediate economic problems⁵ and achieving its reformist aims by adopting a programme of austerity at home and 'an export or die' attitude to trade.⁶

The new government had resolved that Britain needed to remain a global power and it did not see this only in connection to power politics, but also as a means for the British economy to recover and bolster 'the wage packets of the workers in this country'.⁷ In fact, Bevin, a man not prone 'to relinquish voluntarily one ounce of British power',⁸ saw it as Britain's duty to maintain its global role. In a speech to the House of Commons, on 16 May 1946, he put it simply: 'The very fact that we have fought so hard for liberty, and paid such a price, warrants our retaining that position; and, indeed, it places a duty upon us to continue to retain it.'⁹ He also believed that: 'if we [the UK] had the money, there would be no crisis in Europe' and that since Europe represented '25 per cent of all international business, if we could settle Europe's problems, it would help to settle the world'.¹⁰ Thus, for the Labour Government, maintaining a dominant position in the Mediterranean, harnessing the resources of the empire, creating a 'third force' through European cooperation, using American power and implementing austerity at home together with a sustained export drive, were to be the building blocks of a strategy aimed at assisting British economic recovery.¹¹

Within this vision, Italy occupied a distinct place because of its important geo-strategic location on the northern Mediterranean coast. Furthermore, its political system included a strong socialist party which Bevin sought to tame and cultivate.¹² He saw an amelioration of Anglo-Italian relations as necessary since, although the Labour Government was content to allow the burden of Italian economic rehabilitation to be borne by the USA, it still wanted to retain an active involvement in Italian political, military, cultural and even economic and commercial issues.¹³ However, establishing good relations with Italy proved to be a difficult task. Anglo-Italian relations were heavily burdened by Italy's Fascist past and the legacy of how the British war-time Coalition Government had handled the period of 'co-belligerency'. The uneven behaviour of Prime Minister Winston Churchill and Foreign Secretary Anthony Eden's harshness had played into the hands of the first Prime Minister of 'co-belligerent' Italy, Marshal Pietro Badoglio. Badoglio exploited this, alongside the politics of 'tyrannical weakness' and anti-communism, to invite American hegemony over Italy in order to supplant British influence.¹⁴ Both men had alienated key Italian political classes that came to invest in an increasing dependence on the USA, especially since Britain could not compete with the Americans on economic inducements.¹⁵ By early 1945, Churchill had to relinquish to the USA, albeit unofficially, Britain's 'seniority' in the Allied occupation

of Italy in the face of the mounting costs of occupation and the costs of reconstruction which Britain could not afford.¹⁶

In any case, for the British Labour Government ensuring a fresh start in relations with Italy had become a necessity. There was concern that the Soviets would attempt to bring the country into their orbit either by using internal subversion, or utilizing Tito's Yugoslav army or even through the ballot box by exploiting the reconfirmation of the 'Unity of Action Pact' between the Italian Communist Party (PCI) and the Italian Socialist Party (PSIUP) of 25 October 1946.¹⁷ Bevin made every effort to prise the Italian Socialists away from their embrace of the Italian Communists. He considered that the Soviet Union posed a threat to Italy both as a market and as a country whose geographical position was important to the security of the imperial lines of communication and other British interests in the Mediterranean. He wanted to ensure that Italy looked towards Britain. This was reinforced by British concerns that their short-term financial difficulties ought not to present the USA with the unfair advantage of using Italy as a conduit for establishing a foothold in European economies. Anglo-American competition did not end there, and Bevin warned the Italians that 'the US was too apt to attach strings to what they did'.¹⁸ Since Labour hoped to shore up British finances through an export led drive, Britain could hardly afford to cut itself off from any significant market. In October 1946, Bevin sought the views of the economic departments of the British Government on a commercial agreement between Britain and Italy.¹⁹

The post-war Italian governments had decided to adopt an economic model similar to that of Britain. The difference was that the British were following a non-ideological austerity, whereas the Italians, under the tutelage of Luigi Einaudi, first as the Governor of the Bank of Italy and later as Budget minister, had opted for a type of ideological 'liberalism' that by the 1950s became known as 'ordo-liberalism'. Einaudi was one of its main exponents. He believed that the reconstruction of Italy's war-torn economy needed to be based on a model that prioritized exports over domestic consumption. During 1946, Italian industry was showing signs of revival because most of its manufacturing industries in the north had escaped destruction during the war. High unemployment meant the availability of cheap Italian labour while peace unleashed a pent up demand abroad for the type of goods manufactured in Italy, especially textiles. Most of Italian trade with Europe was conducted through bilateral barter agreements because of the lack of a suitable currency. In 1946, Italy signed

clearing agreements with France, Spain, Holland, Belgium, Luxembourg, Denmark, Norway, Poland and Sweden and new trade agreements with Greece, Turkey, Czechoslovakia, Switzerland, Portugal, Uruguay, Bulgaria and Argentina. It had also started earnest discussions for commercial treaties with the USA, Egypt and Yugoslavia.²⁰ Economic statistics for September 1946 showed that manufacturing in Italy had reached 60 per cent of its pre-war peak in 1939. The trouble was, however, that the recovery became caught up in the European fuel and power crisis that would peak in the winter 1946–7. By February 1947, this had knocked Italian production down to 42 per cent of the 1939 figures. The Italian economy was also afflicted by the worldwide shortages in raw materials especially iron, steel and timber.²¹ Italy still needed to find an outlet for its ‘surplus population’ and its overall recovery was fragile due to a combination of other problems consisting of a ‘dollar famine’ (‘dollar gap’), ‘capital insecurity’ and a decline in the purchasing power of its traditional markets. These problems were aggravated by very high inflation that the Italians tried to tackle through severe credit restrictions and by keeping public expenditure down. It also faced increasing deficits in its balance of trade which, for the first six months of 1947, showed that Italy was exporting goods to the sum of 84 million lire but was importing for its absolute needs, 198 million lire worth of goods.²²

Anglo-Italian trade relations were thus becoming increasingly fraught because of the combined impact of the war on their economies and the implementation of austerity programmes. From being complementary their economies had become competitive since both countries were competing directly for raw materials and foodstuffs. In 1946, the main outlets for Italian products were the USA, the UK and Switzerland but the Italians were actively and successfully looking for markets in the Middle East, South America, Sweden, Egypt and South Africa. The result was that by 1946 the balance of Anglo-Italian trade stood in favour of Italy.²³ It was against this background that the Italians attempted to open up negotiations for a commercial treaty with London.

In November 1946, while Bevin was in New York attending negotiations of the Council of Foreign Ministers on the conclusion of the peace treaties with Italy and the ex-enemies, he decided to inform his Cabinet colleagues how the international situation was changing and set down fully his thoughts on the course of commercial relations with Italy. He evaluated how the Americans were using the peace treaty negotiations to the detriment of Britain. He saw that Italy was successfully ‘playing off’

Britain against the USA as far as the peace treaty negotiations were concerned. In New York he was subjected to admonitions from the American State Department to the effect that if the British were not prepared to revise their negative attitudes towards Italy, they would end up pushing it into 'the Communist camp'.²⁴ He was exposed as well to changing Soviet thinking and became worried that Soviet offers of coal, oil and foodstuffs could prove 'an irresistible magnet' to the Italians.²⁵ All this made him anxious to mitigate the impact of the Italian peace terms that were now expected to increase anti-British feelings in Italy. Leaks in late August 1946, about the eventual terms of the peace treaty indicated that 'co-belligerency' had not bought Italy leniency and caused dissatisfaction in Italian public opinion. This coincided with acute food shortages, increases in inflation, high unemployment, a large and hungry wandering refugee population all of which fuelled social unrest. In the second half of 1946, the internal security situation in Italy deteriorated badly.²⁶

In December 1946, Bevin wrote: 'Italy must be encouraged and helped in every way we can to settle down to work. I am also anxious to link up her economy as far as possible with our own even though I realise we may not be able to do much for her yet.'²⁷ His intervention had been prompted too by concerns connected with developments in Italy and his judgement that British inaction at this point would lead to an eclipse of all residual influence in Italian affairs once the peace treaty with Italy was signed. On 1 January 1946, the Allied Military Government regime in Italy was abolished and the whole country, with the exception of the disputed areas of Alto Adige and Venezia Giulia, was restored to Italian jurisdiction. Any influence Britain still retained over the Italian Government had weakened significantly in the face of the overwhelming US commitment to Italian reconstruction.²⁸ Bevin also needed to ensure that British private concerns could pursue financial activities in Italy from February 1946 and that they did not face discrimination. The oil business was one area of growing Anglo-American competition because of Italy's geographical position and its potential for an impressive increase in its oil refining capacity for internal consumption as well as Mediterranean and European markets.²⁹ In May 1946, the British Government tried to ensure that oil companies with British interests would not continue to suffer in the post-war period from Mussolini's policy of discrimination against the British petroleum industry. Britain requested the Italian Government to allocate to firms with British interests not less than 'the average of trade which they enjoyed between the years 1928–34 inclusive'.³⁰

Additionally, in autumn 1946, a window of opportunity seemed to have opened for improving Anglo-Italian relations. In October 1946, Alcide De Gasperi, the founder and leader of the Christian Democrats, vacated Palazzo Chigi to concentrate exclusively on his prime ministerial tasks. The new Italian Foreign Minister was Pietro Nenni, the leader of the PSIUP. Nenni's uppermost priorities were the international rehabilitation of Italy, so he wished to sign a peace treaty as soon as possible to begin immediately on a campaign for its revision and the improvement of the Italian economic situation through bilateral arrangements.³¹ He hoped to secure British support for his plans, and was a strong supporter of Bevin's 'third force' idea. At the same time, however, like many continental politicians he could not fully appreciate the depth of Britain's financial problems.³² In turn, Bevin saw Nenni's stewardship of the Italian foreign ministry as offering a chance for Britain to reverse the anti-British climate in Italy and as an opportunity to prise the PSIUP away from its electoral alliance with the PCI. British economic problems, however, put obstacles in the way of the schemes of the two men. Bevin had a chance to broach these issues with Count Nicolò Carandini, the Italian Ambassador in London, aboard the Cunard liner *Aquitania* on their voyage to New York in late October. Carandini explained that Nenni believed that the two countries ought to sign a commercial agreement and that this could bring both practical and 'psychological benefits', bolster Anglo-Italian relations and stem back rising anti-British feelings in Italy. Furthermore, he went on, Nenni was planning a trip to European capitals and wished to make London his 'first port of call'.³³

Just before he left for the USA, Bevin had indicated in a speech to the House of Commons on 22 October 1946 that better commercial relations between the two countries could be the panacea for Anglo-Italian tensions.³⁴ His sense of urgency increased when Britain had to announce to the Italian Government that due to its own domestic difficulties it would not be able to export to Italy what it needed the most, wheat and coal.³⁵ Indeed, this decision prompted Nenni, to tell Jack (John G.) Ward, the acting counsellor at the British Embassy in Rome and probably the most influential individual at the Embassy until the arrival of Sir Victor Mallet, as ambassador, in mid-1947, that 'Italy was even today and would remain an important factor in the economic and strategic life of the Mediterranean area. It might even be worth some sacrifice [on Britain's part] to gain its friendship and cooperation.'³⁶ Bevin intervened to ensure that this blow to Italy was softened by explaining that the decision was

simply due to the fact that Britain could not spare any wheat. As far as coal was concerned, the Foreign Office secured promises from the Ministry of Fuel and Power that should British production of coal increase in the next six months, additional coal exports to Italy would be reconsidered.³⁷ Steps were also taken to enable Italy to spend some of its sterling balances on raw materials, namely rubber, wool, cotton and petroleum and also on semi-manufactured goods to assist its industrial recovery. This was something that the Italians regarded as a necessity due to the significant amount of sterling they held.³⁸ On the matter of wheat, a full explanation was offered that Britain had none to spare because of low stocks and that any wheat from Canada would be used to avert starvation in Germany while Australian wheat was needed to deal with the continuing food crisis in South East Asia and India.³⁹

Bevin decided that a British charm offensive was long overdue. Therefore, he stepped outside his remit to pressure the Treasury and the Board of Trade to adopt policies that would improve trade between the two countries and do away with the distortions of war.⁴⁰ Such a move was not untypical for Bevin, who had come to believe that there was little to be gained by separating commercial, economic and foreign policy into discreet areas in a rapidly changing world where reconciliation, trade and reconstruction were at the top of the international agenda and when Britain needed to reverse weakness through trade expansion. He was prepared to accept that, if a proper commercial treaty could not yet be signed, Britain ought to offer the prospect of a permanent Anglo-Italian Committee of experts, along the lines of the Anglo-French Economic Committee—something that the Italians had already requested. He also explored whether the two countries could form Anglo-Italian companies for the manufacture and export of low-grade cotton to Africa.⁴¹ Both Carandini and Nenni considered Bevin's ideas to be promising.

Bevin's proposals set off a storm in Whitehall. They met the immediate resistance of the Board of Trade and its president, Sir Stafford Cripps. Many of the initiatives went against Cripps' ideas of 'planned multilateralism' as to how Britain should be conducting its commercial relations.⁴² The Board of Trade's philosophy was hampered by an analytical framework distorted by the soon-to-be stillborn International Trade Organization (ITO), set up at the Bretton Woods Conference to promote and regulate multilateral trade. It was also hampered by the coalescing American policy of containment. During this period, the Board of Trade had come to believe that it should prioritize trade with the empire and raw material producing

countries rather than industrial ones in order to mitigate the 'dollar gap' in the Sterling Area.⁴³ Whilst Bevin focused on the emerging East–West antagonism as the all-pervasive determinant of politics and economics his interventions were interpreted as a 'turf war' by the Board of Trade which was focusing on the fact that Italy was surpassing Britain in exports to many traditional British markets such as Egypt and Brazil.⁴⁴ Therefore, Bevin's suggestion to involve Italy in the export of low-grade cotton to Africa caused particular fury. The African market was popular with British firms that had not yet moved to high-grade cotton production and they were 'unwilling to hand it to Italy'.⁴⁵ Dismissively, Henry J. B. Lintott, Under-Secretary to the Board of Trade, voiced Cripps' views and suggested that Italy should concentrate on the Far East and Middle Eastern markets and keep away from Africa. Cripps was also particularly displeased over the possibility of an Anglo-Italian committee of experts. He disliked the idea because there was already an Anglo-French committee and this raised the danger that other European governments would expect such committees to be set up to promote their own trade interests. The idea of a long-term commercial agreement with Italy was shot down using the reasoning that the Board of Trade did not wish to be tied down by any such agreements until the final form of the ITO had become clear. Clearly, this was a blatant excuse, but it had been decided that Britain needed maximum freedom of action; that this was not the time for the country to be signing long-term commercial agreements with European countries. Rather, it should be conducting its commercial relations through short-term ad hoc arrangements and other limited formats such as payments agreements.⁴⁶ All that Lintott was to concede at this point was that the Board of Trade would be willing to see the removal of obstacles to current trade together with the expression of a wish to promote a better flow of goods between the two countries.⁴⁷

Hugh Dalton's Treasury also seemed to be underwhelmed by Bevin's foray into commercial relations, but it proved more accommodating since its main focus throughout this period was the judicious management of the American loan and the appropriate timing for introducing convertibility of sterling as per the terms of the Anglo-American loan agreement of 1946. The Foreign Office received confirmation from Ernest Rowe-Dutton, Under-Secretary to the Treasury, that the prospect of debt relief could be offered to Italy and also that the Treasury had authorized a reciprocal waiver of financial claims between the two countries.⁴⁸ In the meanwhile, opposition to the signing of any commercial treaty with Italy continued

and came even from Cunard White Star which pointed out the necessity of protecting the interests of all British shipping lines in any future Anglo-Italian commercial agreement.⁴⁹

Bevin's reaction was immediate and he explained his reasoning once again. He wanted the British Government to adopt a constructive policy towards Italy 'to encourage her to look to the West rather than the East, to dispel the resentment the peace treaty clauses are generating towards Britain in a shocked Italian public opinion', to convince the Italians that Britain was 'not impelled by any motives of revenge', to show the Italians that Britain [was] 'prepared to assist Italy's political and economic recovery', and to undermine any prospect of a fusion between the PCI and PSIUP.⁵⁰ He also wrote to Cripps, Dalton, John Wilmot, the Minister of Supply and Hilary Marquand, the Secretary for Overseas Trade, that he 'desired to help Italy and that the Italian Government are likely in the absence of other signs to regard the results of the talks as a measure of the assistance which H.M.G. are in fact prepared to give'.⁵¹ From Rome, Ward also sent Sir Frederick Hoyer-Millar, the Head of the Western Department of the Foreign Office, a pointed telegram saying 'I venture to hope that you will be able to persuade the economic departments to be more forthcoming.'⁵²

In the face of Bevin's insistence, Cripps decided to withdraw his opposition and accepted the establishment of an Anglo-Italian joint standing committee.⁵³ However, the Board of Trade maintained its evasive and obstructive attitude even after Cripps had replaced Dalton at the helm of the Treasury and Harold Wilson had been appointed president of the Board of Trade. The differing attitudes between the Board of Trade and the Foreign Office left a legacy that would cast a shadow over Anglo-Italian relations for the remainder of the Labour Government. The Foreign Office was successful in establishing an Anglo-Italian Economic Committee and closer trade relations with Italy. The Board of Trade's aversion to formal arrangements however, would become a constant source of irritation to the Foreign Office and would result in the signing of a multitude of Agreed Minutes and smaller narrower agreements rather than the overall commercial treaty desired by the Foreign Office and the Italians. The significance the Foreign Office attached to this committee can be gleaned from Bevin's insistence that it would be chaired by men close to him, Sir Edmund Hall-Patch, his economic adviser and Deputy Secretary of State, and later, by Roger Makins, Assistant Under-Secretary of State. Bevin also warded off Wilson's attempts to ensure that the

committee was chaired by the Board of Trade. Uneasy relations between the two government departments produced regular and tense renegotiations that at times backfired against Britain at critical moments in Italian political affairs.

The talks over a commercial rapprochement between Britain and Italy culminated in the signing of the Anglo-Italian Financial Agreement in April 1947.⁵⁴ This was supposed to tidy relations between the two countries until a new commercial accord was signed. The government had decided that the old Treaty of Friendship, Commerce and Navigation of 1883 should not be renewed but be replaced by a new treaty.⁵⁵ In the meanwhile, the simmering tensions from an emergent Cold War in East–West relations, De Gasperi's successful political manoeuvring during his visit to the USA, and the continuing crisis in Italian socialism over relations with the PCI that ended with the Palazzo Barberini schism, saw the collapse of De Gasperi's third government and the end of Nenni's term as Italian foreign minister. Count Carlo Sforza, de Gasperi's new foreign minister, signed the agreement.

Throughout 1947, the Foreign Office tried to convince the Board of Trade to start drafting a commercial treaty with Italy and also to move on a series of issues relating to Italian reconstruction. Frustration with the Board of Trade's foot-dragging since September 1946, on all European matters, was mounting. This was compounded when Bevin asked the Board of Trade to consider the possibility of a customs union with France and later with other European countries.⁵⁶ It became clear that the Board of Trade could not overcome its reluctance either towards moves on European cooperation or on Italy. Just a few days before Sforza visited London in October 1947, the Foreign Office heaped enormous pressure on the Board of Trade to agree that while Sforza was in London there could be an announcement that a new treaty would be negotiated. By this stage, Britain was in an even more difficult economic position and facing the repercussions of the economic and financial 'annus horribilis' of 1947. The economic impact of the winter of 1947 on British industrial production and the impact of the terms of the US loan which would lead to the convertibility crisis in the summer of 1947 affected British trade with Italy from early that summer and led to a further relative weakening of the British position.⁵⁷ Italy now found itself with large sterling balances that were calculated in 1947 to be close to £32 million which it could not spend to buy what it needed the most from the Sterling Area, wheat, coal and steel.⁵⁸ Convertibility may have helped the Italian economy but

it also led to a crisis besieged Britain having to revise its import schedule from Italy.⁵⁹ Britain was the chief outlet for Italian exports of fruit and vegetables, which accounted for 85 per cent of British imports from Italy. The abrupt and late cancellation of this order by Britain had a deleterious effect on the Italian economy as it added to the already high Italian unemployment figures. It provided more foot-soldiers for the ‘wave of strikes’ in the autumn of 1947 and bolstered the impression, in the run up to the critical Italian general election of April 1948, that the PCI was stronger than it was.⁶⁰ All this added to Italy’s economic and financial precariousness and by the end of the year it had to depend on US Interim Aid and the hope that the European Reconstruction Programme, that had been announced in June 1947, would start soon.⁶¹ The cancellation of the British order came on top of a serious contraction in Britain’s overall ability to import from Italy and undermined the latter’s ability to buy from Britain. The vicious circle was highlighted by the Foreign Office in stark terms: any ‘benefits derived from the financial agreements of last April would be largely nullified’.⁶²

After Sforza had left London, the Board of Trade allowed the drafting of the commercial agreement with Italy to assume a low priority. Sforza was not deterred by such delays and wrote to Bevin in January 1948 emphasising that an Anglo-Italian commercial agreement was ‘desired by [his] country’.⁶³ Since this was in the run up to the April elections, the main objective of the British Government was to keep relations with Italy on an even keel and deprive the communists of any propaganda that could be used against the West. Therefore, Britain moved to soften the blow of cancelled orders and soothe hurt Italian feelings over the peace treaty by ensuring that the Sterling Area helped Italy maintain internally stable economic conditions.⁶⁴ However, the lack of a proper agreement and the constant discussions about financial and commercial issues continued to complicate Anglo-Italian relations. The ongoing talks of the Anglo-Italian Economic Committee came close to collapse in late January 1948. This concerned Italy’s insistence on obtaining greater quantities of coal from Britain, its unwillingness to adopt a more favourable cross exchange rate between sterling and the dollar, which the British insisted should be 4.03 dollars per pound, and Italian feelings of anger over events in Mogadishu.⁶⁵ Just few days later, on 2 February 1948, news came that the USA had signed a Treaty of Friendship, Commerce, and Navigation with Italy which was to be the very first comprehensive commercial agreement the USA had signed with a European country since 1934, clearly showing the importance the USA attached to Italy. This far-

reaching agreement was likened by *Pravda* to 'an alliance between a boa-constrictor and a rabbit'.⁶⁶ Concerns over the repercussions of this treaty were not restricted to the Kremlin. A very worried Sir Victor Mallet wrote that when the treaty was ratified and came into force it would affect the way the Italians treated British interests and companies.⁶⁷ At this point, Makins sent a stiff letter to Lintott saying that all the delays were just causing disappointment and frustration in Italy.⁶⁸ Once again the Board of Trade came back with its standard response that Italy had been ascribed a low priority because of pressures of work and staff shortages.⁶⁹ Mallet's worries about possible Italian discrimination against British interests, or what the Italians considered to be British interests, soon materialized.

The alarm was raised by Shell in August 1948. In 1946, Shell had informed the Foreign Office that it wished to supply oil to Italian companies.⁷⁰ The Foreign Office was supportive of this proposal although it was not very optimistic concerning British chances against fierce American and even Russian competition. There was resignation that the Italian Government would prefer to buy oil from US companies because of the more generous credit terms they would be likely to offer and to keep its sterling reserves to buy goods from the Sterling Area that they could not source from the USA.⁷¹ This rather down-to-earth Foreign Office assessment had been preceded by an internal minute, representative of the frustrations within the Office: 'they will get from the US and they [the US] will install themselves in Italy as well as get the kudos for helping the Italian industry'.⁷² After Shell, the Anglo-Iranian Oil Company (AIOC) also showed an interest in the Italian market. It sought to buy a 49 per cent stake in the Italian AGIP (*Azienda Generale Italiana Petroli*) rather than simply supplying it with oil. This followed in the footsteps of Standard Oil's partnership with the other Italian petroleum concern ANIC (*Azienda Nazionale Idrogenazione Combustibili*), a subsidiary of AGIP.⁷³ Despite the fact that AGIP's sterling account could not cover the costs of oil supplies, the Foreign Office was again supportive, but advised the AIOC there was a likelihood that Italy would have to restrict its oil purchases, because of its difficult financial situation and that the contract of the AIOC with AGIP ought to contain a *force majeure* provision should such a restraint be imposed on British suppliers.⁷⁴ The main problem facing the Shell and AIOC deals was to a large degree the result of the restrictions created by controls on currency flows which were regulated by strict Italian credit regulations. The Italian Government did not allow exporters to keep more than 50 per cent of the value of their exports

in foreign currency.⁷⁵ However, its policy of credit restrictions affected Italian industry adversely. According to leading industrialists things were so bad that they could only meet production costs by liquidating stocks and commodities which they needed in order to continue production. Einaudi, who, as we have seen, had become the Minister of Budget in De Gasperi's fourth government, after the exclusion crisis of 1947 that had led the PSIUP and PCI into opposition, did not believe them. He stated that 'this policy must continue until the industrialists are forced to sell their villas and to return from hoarded stocks the liquidity to keep their concerns going'. For Einaudi, the restriction of credit was an essential monetary tool he was not prepared to abandon even when it drove the Italian economy into headlong recession by the end of 1947.⁷⁶ Nevertheless, both Shell and AIOC succeeded in signing contracts with AGIP in 1947, on the basis that 15 per cent of the Italian oil industry was to be divided among smaller firms. In the summer of 1948, the Italian Government intervened and demanded a 20 per cent share for smaller companies. Its decision was to adversely affect both Shell and AIOC.⁷⁷ This was compounded by discrimination against importers who paid in sterling. Thus, the British also found it difficult to import other products from Italy at advantageous prices.⁷⁸

These developments came as Britain was attempting to assess its opportunities with the new De Gasperi Government that emerged victorious from the April 1948 election. At this moment, the FIAT affair reignited tensions in Whitehall. In May 1948, a telegram had arrived at the Foreign Office from Victor Mallet. He reported that he had been approached on behalf of Vittorio Valletta, the president of FIAT, with a suggestion that British companies should consider acquiring a significant stake in the FIAT empire by buying the shares of the Agnelli family for approximately £10 million. Mallet warned that the Soviets and the Americans were already showing interest in buying them.⁷⁹ Initially, discussion in the Foreign Office focused on Valletta's Fascist past and the matter was dealt with at a low level within the Western Department, but the proposal was sent on to all interested ministries. The Ministry of Supply was the first to reply, with a very direct answer. They could see no commercial British interest in the proposal and they had no grounds to recommend that British companies invest in FIAT. The Ministry of Defence stressed that it could not see any strategic implications for Britain. The Board of Trade and the Treasury did not like the idea. For the Treasury, the main problem was that in view of Britain's economic situation, it would

be disadvantageous to export British capital without winning immediate returns. They could see the long-term but not the short-term benefits. Both the Board of Trade and the Treasury stressed that any investment should be not be made by the nation, but should Valletta approach any British private interests they would consider his proposal on its merits. The Colonial Office was worried that any investment in FIAT would be to the disadvantage of investment in the colonies, so they were against it. However, the Economic Relations Department of the Foreign Office had a different opinion. It did not think it would be a good idea to recommend investing in FIAT and so enable it to become a competitor to the British automobile industry: rather, it would be better to integrate it. It also considered using FIAT to boost British exports in exchange for cars, that is, copying the Polish agreement with FIAT. After all, Rolls-Royce had already a 'spare part' agreement with FIAT. Finally, it concluded that if Britain could not buy FIAT then it should support a Swiss bid aimed at preventing the USA from doing so and getting such a strategic foothold in the European market.⁸⁰

All this confused thinking betrayed weakness and disinterest and the matter would have died a natural death had it not been for two developments. The first of these was De Gasperi's speech on 1 June 1948, in which he stated that an influx of foreign capital was one of the best ways to finance Italian enterprises. The second development was Mallet's insistence that the matter be considered seriously. Mallet decided to involve Bevin directly and slanted the issue into one with salient implications for the foreign secretary's 'Western Union' scheme. Bevin's reaction was immediate and he arranged for the matter to be raised at the Overseas Negotiations Committee (ONC). On 3 July 1948, the committee, after a long and detailed discussion, agreed that FIAT ought not to approach the British Government, but rather British industrial and financial concerns directly. Then, consideration would be given to the proposal.⁸¹ But even while these deliberations were taking place in London, Valletta withdrew his offer. Now, London began to think of conspiracy hatched in Detroit. However, the reality was much simpler. Valletta had decided to take a leaf out of De Gasperi's book when in October 1948 the Italian Prime Minister had declared: 'Only by obtaining long term loans shall we be able to organise our industry and consequently reduce our prices.'⁸² FIAT, like many other Italian industrial giants, had now managed to access generous European Recovery Programme (ERP) loans and grants to purchase plant

and machinery to fund its reconstruction as Valletta subsequently, and gleefully, announced to Ward.⁸³

These distractions made the Anglo-Italian Economic Committee's negotiations more complicated and they did not begin to bear fruit until late autumn 1948. On 26 November, the committee produced an Agreed Minute on 'Commercial and Financial Relations'. Britain was able to convince the Italians to close their trade gap with the UK; to keep 'working balances' of about £10–12 million in London; to accept an exchange rate between pound and dollar fixed at 4.03, which was even higher than the French were willing to concede. The British were able to keep these monetary arrangements only until June 1949 because the Italians were not prepared to sign up to the high exchange rate between sterling and dollar beyond the duration of the intra-European payments scheme. In turn, London lifted credit restrictions on Italian banks. Britain would receive more imports from Italy than they had in 1939 and Italy would be included in the Transferable Account Area. This agreement replaced the 1947 Financial Agreement and came into force on 5 February 1949.⁸⁴ Coal deliveries, however, remained an insurmountable problem between the two countries. The acceptance by Italy of these terms showed how much the Italians wished to normalise relations with Britain even though this created negative sentiments among the Italian populace and needed careful political handling.⁸⁵ Cesare Merzagora, the Italian Minister of Trade, took it upon himself to explain to the Italians the agreement with England and to make it work. He called on Italians to 'endure' British coldness 'with dignity and friendliness since they can be sure that the old relationship will in time be restored'.⁸⁶

The Italians were not the only ones who were not impressed. From the British Embassy in Rome, Sir Michael S. Williams summed up feelings there: 'since the departments in London have, we presumed, continued to study the drafts ... the Americans have signed both a commercial treaty and a cultural agreement and thus further confirmation has been provided ... in Italy... that the US government is more interested in Italy and re-establishing normal relations with the Italians than Her Majesty's Government'.⁸⁷ This hit a raw nerve in the Foreign Office in view of its unsuccessful efforts, over two years, to get the Board of Trade to move. Pointed letters were sent from Foreign Office officials, such as Sir Oscar Morland, the head of the Economic Relations Department, as well Makins, pointing out that all this delay could be construed by the Italians as being

'deliberate'. Urgency in the Foreign Office intensified when it became clear that the British devaluation in 1949 had hit Italy hard and the Italian Government had had to devalue. Therefore, The Foreign Office now hoped that a treaty could be ready for when Einaudi's successor, Giuseppe Pella, visited London in late March 1950.⁸⁸

Once again, however, the Board of Trade resisted. The reasons now were getting more elaborate and outlandish. Stephen L. Holmes' letter to Makins resuscitated all the old excuses of staff shortages, even the moribund ITO. The newest problem for the Board was that it had decided to carry out a 'spring-clean' of the 'model drafting' used so far. Holmes noted pessimistically, 'we cannot hope for some little time to come to get down to detailed discussions with the Italians'.⁸⁹ This response was rather surprising if account is taken of how active the Board of Trade was at this time—signing or negotiating treaties with countries behind the 'iron curtain'—in 1949 with Poland and undertaking exploratory talks for a treaty with the USSR. In contrast, commercial relations with Italy rested on the repeated exchange of notes consisting of variations of 'prolonging' the sterling payments agreement of 26 November 1948 on 13 July 1949,⁹⁰ then 'extending' it on 16 December 1949⁹¹ and 'further extending' it on 21 July 1950.⁹² However, relations between the two countries continued despite the damage ensuing from the Board of Trade's studious drafting as the two countries became enmeshed by the economic statecraft and repercussions of the Marshall Plan.

The year of 1948 was an important turning point in Italian post-war history and also in Anglo-Italian relations. The signing of the American-Italian trade agreement made it clear that Britain could not be anything else but a medium-sized commercial partner to Italy. By not signing a commercial agreement with Italy in the period from 1946 to early 1948, when it could have been one of the first, if not the first, to do so, Britain lost the opportunity to promote its foreign and economic interests. It also lost the opportunity to create a hospitable environment in Italy for general British commercial interests and a level playing field for British business before the Marshall Plan nudged further the existing Italian tendency towards trade with America. Amid post-war austerity, the Board of Trade under both Cripps and Wilson could not follow Bevin's vision of the future. For them, the Cold War still appeared to be an abstract concept.

NOTES

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Britain and Antarctica: Keeping the Economic Dimension in Its Place

Peter J. Beck

The British Empire, the vast worldwide empire upon which the sun never set, is no more, or so histories focused upon imperial decline, decolonization and the end of empire encourage us to believe. Nor is the world map dominated still by a mass of British territory coloured pink or red. However, today there remains still a substantial area of the earth's surface upon which the British imperial sun has so far failed to set, that covered by the 14 British Overseas Territories (BOTs). Indeed, we await still the first empire-wide sunset, since reportedly at least one of these—to quote the American Embassy in London—‘far-flung possessions under British sovereignty that hearken to the era when Britannia truly ruled the waves’ is always in the sun.¹

This chapter focuses upon British Antarctic Territory (BAT), the last BOT to be claimed. Covering 1,700,000 square km, BAT is by far the largest BOT accounting for about 99 per cent of the total area occupied by all 14 territories. BAT is also, as former Prime Minister David Cameron has often pointed out, six times the size of the United Kingdom (UK).² Moreover, during 1919–20 the British claim to BAT, announced originally in 1908 and 1917, provided the basis for the adoption of a policy

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intending to annex the whole of Antarctica. This decision has passed virtually unnoticed by most histories in spite of the fact that its implementation would have resulted in a significant transformation in the size and composition of the British Empire, quite apart from raising interesting questions about the consequences for the present-day extent of BOTs in general and BAT in particular.

THE BRITISH OVERSEAS TERRITORIES

However, before looking at BAT's past and present, it is prudent to outline the broader context. Dotted across the world map, the BOTs, 'The Last Pink Bits', prove a highly diverse collection of territories in terms of their geography, history, nature, population, size, utility and wealth.³ Covering a total land area of 1,717,465 square km, they contain *circa* 200,000 people.⁴ Most BOTs are small, often remote, islands dotted across the Atlantic, Pacific and Indian Oceans. Excepting St Helena, the Pitcairn Islands, and Montserrat, BOTs are claimed to be self-sustaining, excluding defence costs, with 'the twin pillars of international finance and tourism', alongside shipping services and the sale of fishing licenses and postage stamps, playing a significant role in their economies.⁵ Although some help defray the costs of their government, BOTs do not make a direct contribution to the British Exchequer as such. BOTs acknowledge the Queen as head of state, but, though placed under British jurisdiction and sovereignty, have distinct constitutions and unique legal relationships with the UK, which guarantees their defence and handles their foreign relations. Within the Foreign and Commonwealth Office (FCO), they are the responsibility of the Overseas Territories Directorate, headed by a Parliamentary Under-Secretary of State for Foreign and Commonwealth Affairs.⁶

Recent decades have witnessed a transformation in the approach of British governments towards BOTs. Building upon the 1999 White Paper *Partnership for Progress and Prosperity*, British governments have sought to move on from traditional perceptions treating overseas territories as burdens possessing peripheral policy interest, yet capable, as highlighted by the recent history of the Falkland Islands, of seriously embarrassing governments and giving rise to unexpected contingent liabilities.⁷ Following a major policy review, the National Security Council approved a new strategy, which was announced in September 2011 by William Hague, the Foreign Secretary (2010–14).⁸ He articulated its basic thrust in a White Paper published in 2012:

It is a strategy of re-engagement...It is also a strategy of re-evaluation. We have not in the past devoted enough attention to the vast and pristine environments in the lands and seas of our Territories. We are stewards of these assets for future generations.⁹

The new approach was complemented by using the 2010 Strategic Defence and Security Review to reaffirm that the security of BOTs was a defence priority.

Introducing the 2012 White Paper Cameron described BOTs in highly positive terms as ‘a valued’ and ‘integral part of Britain’s life and history’, and placed on record his government’s commitment to work with them in the face of future challenges.¹⁰ Pointing to the ‘the scale, spread and importance of our Territories in an age of diminishing resources, climate change and pressure on the environment’, the government indicated its intention to raise public awareness of BOTs, most notably by recognising the manner in which the relationship between the UK and the BOTs rested on ‘mutual benefits and responsibilities’.¹¹ According to the White Paper BOTs provided the UK with the following ‘benefits’:

- ‘a global presence’;
- ‘a set of strategic assets’;
- ‘economic and financial opportunities’;
- ‘natural and environmental resources...of global significance, including fisheries, minerals and hydrocarbons, and biodiversity far exceeding that in the UK’s home territory and waters. The diverse natural environments of the Territories provide UK and international scientists and specialists with unique opportunities for research, including into the evolution of the earth’s climate and plant and animal life’;
- ‘talent and diversity’ of the people.

Inevitably, their diverse nature means that individual BOTs, like BAT, will not tick every box listed above. Nor was the list comprehensive. For example, one commentator argued that the White Paper glossed over the potential impact of the United Nations Convention on the Law of the Sea (UNCLOS). Potentially, BOTs’ rights over their territorial waters gave Britain—to quote Charles Clover—‘sway over the fifth-largest exclusive economic zone in the world’.¹²

UNVEILING ANTARCTICA

Today, Antarctica, albeit attracting occasional global attention, is far from being perceived as a mainstream international issue. The region proved even more peripheral during the period preceding the First World War, when it remained relatively untouched by the outside world, and thus by the imperial process exerting major impacts upon other continents.¹³ According to international law Antarctica proved ‘terra nullius’—a ‘no-man’s land’—where ‘effective occupation’ represented the key criterion to establish sovereignty. However, it was debatable how far this doctrine could be realistically applied to polar regions, where climatic and other factors rendered long-term occupation difficult, if not impossible. Inevitably, alternative principles were advanced for polar regions, including discovery, the formal taking of possession by an explorer when raising the flag, or the introduction of a diluted form of government, such as through the issue of whaling regulations and licences.

Antarctica was also a marginal area in terms of knowledge. Despite occasional expeditions, in 1900 Antarctica remained largely unexplored, virtually unknown, and a blank on world maps. Indeed, in 1895 the International Geographical Congress held in London identified the continent as ‘the greatest piece of geographical exploration still to be undertaken’, an assertion accentuated by the rapid opening up of other parts of the world.¹⁴ The challenge was soon answered. Thus, the late 1890s and 1900s witnessed an intensification of exploratory activities reflecting and prompting enhanced governmental, media and public interest in unveiling Antarctica. For many Britons, the drama associated with the race to the South Pole took centre stage. In January 1912, Robert Falcon Scott reached the pole only to discover that the Norwegian Roald Amundsen had arrived there one month earlier. Even so, his ill-fated expedition gave rise to a significant episode in British history. Out of self-sacrifice ‘for the honour of our country’—this image was fostered by Scott’s journal and letters—emerged the Scott legend.¹⁵ The epic, heroic and patriotic dimension of polar exploration caught and held the imagination of the British people both at the time and ever since, as evidenced in 2002 by the inclusion of Scott and Ernest Shackleton in the list of the 100 Greatest Britons compiled in a nationwide poll for the BBC Two television series ‘Great Britons’. Reporting Scott’s death, *The Times*’ editorial spoke of ‘the tragic story’ of ‘unavailing heroism’ and ‘unconquerable will’ in ‘an age of depressing materialism... That is the temper of men who build empires’.¹⁶

BRITAIN AND THE FIRST ANTARCTIC SOVEREIGNTY CLAIM

After 1904 the development of whaling, initially around sub-Antarctic islands, like South Georgia, and then in the seas further south, introduced politico-legal, economic and environmental issues into the Antarctic equation.¹⁷ The rapid rise of whaling, combined with indications of Norwegian interest in sovereignty questions, acted as a spur for the British government. Thus, on 21 July 1908 Letters Patent announced that sub-Antarctic and Antarctic territories ‘to the south of the 50th parallel of south latitude, and lying between the 20th and the 80th degrees of west longitude, are part of our Dominions’: ‘the said group of islands known as South Georgia, the South Orkneys, the South Shetlands, and the Sandwich Islands, and the said territory of Graham’s Land shall become Dependencies of our said Colony of the Falkland Islands.’¹⁸ Thus, Britain made the first claim to Antarctic territory.

Subsequently British sovereignty over the ‘Falkland Islands Dependencies’ (FID) was both reflected and consolidated by the control of whaling through the issue of regulations and licenses. Whaling proved also a profitable source of revenue yielding £9662 in 1914, that is, 28.6 per cent of the revenue of the Falklands Government.¹⁹ Also by 1913–14 the FID were providing *circa* 60 per cent of the world’s whale oil, a resource utilized in the manufacture of lubricants, margarine and soap. Although the seas around the Sub-Antarctic islands were the prime focus of activity, whalers began to search for new hunting grounds further south, a trend accelerated by Antarctic explorers’ reports of whale sightings and the FID’s imposition of license restrictions for conservation reasons from 1911 onwards. During the First World War whale oil acquired a strategic value, as evidenced by the British Ministry of Munitions’ stress upon the ‘urgent necessity’ of securing ‘the largest possible supplies of glycerine’, a by-product of whale oil’s use in soap manufacture, in order to produce the nitroglycerine required for propellant explosives.²⁰ The consequent anxiety to avoid ‘fatal shortages’ of glycerine, applied not only to the duration of the war but also extended into the post-war period.

Against this background the British Government decided to consolidate its sovereignty over the FID by defining its claim more precisely, while emphasizing its extension to the South Pole. Thus, on 28 March 1917 Letters Patent redefined the FID as including ‘all islands and territories whatsoever between the 20th degree of West longitude and the 50th degree of West longitude which are situated south of the 50th parallel of

South latitude; and all islands and territories whatsoever between the 50th degree of West longitude and the 80th degree of West longitude which are situated south of the 58th parallel of South latitude'.²¹ In addition, the lucrative economic and fiscal return from whaling, in conjunction with the general lack of knowledge about whales, fostered an appreciation of the case for a systematic investigation of the future of whaling and whaling stocks. The fundamental objective was more to preserve and extend the industry's profitability than to conserve the whale *per se*. As a result, in April 1918 an *Interdepartmental Committee on Research and Development in the Dependencies of the Falkland Islands* was commissioned to examine the question. Pointing to the need for more scientific research upon whales, in 1920 the resulting report paved the way for the Discovery Investigations.

BRITAIN'S ANTARCTIC IMPERIALISM

Against this background the Colonial Office pushed by Leo Amery, the Under-Secretary of State, took the initiative in formulating a more proactive approach towards Antarctica. Complaining that 'this Office has no definite policy with regard to the Antarctic', in June 1919 Amery initiated exchanges with the Admiralty and the Foreign Office culminating in acknowledgement of the view that British policy could not be allowed to drift any longer.²² By January 1920 the British Government had decided that:

It is desirable that the whole of the Antarctic should ultimately be included within the British Empire, and that, while the time has not yet arrived that a claim to all the continental territories should be put forward publicly, a definite and consistent policy should be followed of extending and asserting British control with the object of ultimately making it complete.²³

Amery's initial preference was for a once-and-for-all takeover, but the Foreign Office's fears of adverse international reactions resulted in the adoption of a gradualist strategy.

When discussing the rationale underpinning the adoption of a policy of Antarctic imperialism, it is difficult to ignore the force of Amery's sense of empire, particularly his perception of Britain as less a part of Europe but more a link with the wider world. As a man imbued with the vision of a stronger and larger British Empire, Amery was adjudged unlikely 'to exercise colonial restraint' in the face of appropriate opportunities: even at a time when

others were questioning the feasibility of existing overseas obligations.²⁴ For Amery, the imperial case was reinforced by more material factors, given his belief that all real estate was potentially valuable.²⁵ Despite acknowledging that Antarctica itself was ‘as yet of little economic importance’, he pointed to the existing value of the whaling industry and explorers’ reports recording whale sightings and traces of minerals when articulating ‘the immense potential value of its fisheries and its mineral resources’.²⁶ Therefore, there seemed a positive advantage in acquiring British control over the continent, however uncertain the economic prospects were, before another government moved in. Amery mentioned also the ‘universal advantage’ for conservation and scientific reasons of having a single authority, ideally the British Government, in control of Antarctic whaling. Other factors included the intrinsic value of a fuller understanding of Antarctica, most notably its geology and meteorology, with special regard to the weather patterns of British territories in the southern hemisphere. In brief, the new British policy towards Antarctica was founded mainly upon potential rather than upon actual factors as well as upon a combination of both positive—the advantages of British control over the continent—and negative—the risk of Antarctica falling under the sway of other governments—considerations.

Paradoxically, when the policy was first formulated, the British Government had no idea about the size of the territory to be annexed. By the early 1920s exploration had established that Antarctica comprised over one million square km, but it was inferred that the continent might be at least as large as Australia, that is *circa* 7 to 8 million square km. Even in 1939, the British Government still felt unable to state with any accuracy the continent’s area ‘in view of the fact that the Antarctic Continent is constantly under snow and ice, is only partly explored, and it is difficult to say with any exactitude where the land finishes and ice begins.’²⁷ In fact, it is now known that Antarctica covers an area of over 14 million square km, roughly 10 per cent of the world’s land surface. In 1920 the *Colonial Office List* recorded that ‘the Empire now extends over 11 million of square miles’ (roughly 28,500,000 square km); thus, the pursuit of the Antarctic policy to a successful conclusion would have increased the extent of the British Empire by about 50 per cent, but with no increase in population.²⁸

During the next decade or so the newly adopted strategy, reaffirmed at successive Imperial Conferences, framed British moves resulting in 1923 in the announcement of British control, albeit under New Zealand administration, over the Ross Dependency sector. One decade later the

same procedure led to the establishment of Australian Antarctic Territory. By 1933, therefore, the British Empire laid claim to some two-thirds of Antarctica, even if the initial objective to control the whole continent was already in the process of qualification because of an appreciation of international politico-legal realities. France, Norway and the USA emerged as rival claimants. Even worse, during the 1940s Argentina and Chile laid claim to much of the FID, including virtually all the Antarctic territory claimed by Britain.²⁹ Moreover, the Soviet Union and the USA became more active in the region, while reserving their territorial rights and refusing to recognize existing claims. Working with other governments, most notably those of Australia, New Zealand and the USA, the British Government sought to exclude the Soviet Union from Antarctic affairs, particularly given evidence of renewed Soviet interest and activities, including the dispatch of whaling ships to the Southern Ocean in 1946. For Western Governments, Cold War politics and strategy were to the fore, but there was also an economic dimension, as articulated by a 1957 National Security Council memorandum favouring:

Orderly progress toward a peaceful solution of the territorial problem of Antarctica which would improve the basis for the establishment of sovereignty over the area by the United States and interested friendly powers.

Freedom of exploration and authentic scientific investigation throughout the Antarctic and maximum interchange of Antarctic mapping and scientific data... Access by the United States and friendly powers to the natural resources of the Antarctic.³⁰

The repeated reference to 'friendly powers' highlights the anti-Soviet objective of Britain and the other Western powers. In the event, the Soviet Union became so active in the region, especially in the scientific research programmes conducted during International Geophysical Year (1957–8), that it proved impossible to exclude it from the continent's affairs.

Unsurprisingly, during the 1950s the question 'Who owned Antarctica?' proved a central cause of friction prompting occasional incidents, most notably the 1952 Anglo-Argentine clash at Hope Bay, especially as the sovereignty dispute was aggravated by fears about the spread of the Cold War and nuclear weaponry to the region.³¹ In turn, this issue proved a major factor encouraging Britain and 11 other governments active in the region to conclude the 1959 Antarctic Treaty, wherein article IV effec-

tively suspended the sovereignty problem to clear the way for science and international cooperation. Significantly, the treaty, signed during a tense phase in the Cold War due to Berlin, among other issues, included Britain, the Soviet Union and the USA. Subsequently, the Antarctic Treaty parties (ATPs) developed the Antarctic Treaty System (ATS), an internationally agreed regime for the governance of the region south of latitude 60°S, to preserve Antarctica's status as a 'natural reserve, devoted to peace and science' subject to measures, now including a marine living resources regime and a mining ban, for the comprehensive protection of the Antarctic environment.

As a result, Britain's Antarctic policy objective, as adopted during 1919–20, was implemented only partially. What was actually achieved was control over what is now defined as BAT, covering roughly 12 per cent of the continent but mostly claimed also by Argentina and Chile, plus Antarctic territories claimed through New Zealand (450,000 square km) and Australia (5.9 million square km), a total area comprising *circa* 60 per cent of Antarctica.

BRITISH ANTARCTIC TERRITORY

Lying south of two other BOTs, the 'Falkland Islands' and 'South Georgia & the South Sandwich Islands', BAT was claimed originally in 1908 and 1917 as part of the FID, actions depicted today by British governments as responsible for the 'the longest established claim to territory in the Antarctic'.³² During 1943–4 concerns about Argentine and Chilean claims upon the area, in conjunction with a perceived enhancement of the criteria required to establish "effective occupation" in polar regions, led the Cabinet to approve, even at the height of the Second World War, the despatch of 'Operation Tabarin', a secret expedition, to 'reaffirm our sovereignty' through establishing a permanent British science-based presence in Antarctica at Port Lockroy.³³

Following the coming into force of the 1959 Antarctic Treaty, in March 1962 the territory within the FID south of latitude 60°S, the northern limit of the Antarctic Treaty area, was detached to form BAT comprising the South Orkneys, the South Shetlands and Graham Land. Subsequently, in 1985 the FID north of latitude 60°S were renamed 'South Georgia & the South Sandwich Islands'. Like the latter and British Indian Ocean Territory, BAT is represented as one of 'The Uninhabited Overseas Territories', whose populations prove transient rather than per-

manent. Thus, BAT's population is composed principally of scientists and support personnel working for the British Antarctic Survey (BAS)—this evolved out of 'Operation Tabarin' and its civilian successor the Falkland Islands Dependencies Survey—plus staff working for the United Kingdom Antarctic Heritage Trust (UKAHT).

BAT is administered from London by the Polar Regions Department in the FCO's Overseas Territories Directorate, with the key role performed by a High Commissioner appointed by the Foreign Secretary. Objectives and funding priorities, developed in consultation with a range of stakeholders like BAS and the WWF (World Wildlife Fund), are set out in a rolling five-year strategy. Headline objectives for the period 2014–19 are to:

- ensure the long-term security of BAT by supporting Britain's high profile within the ATS, whose governance role is seen as upholding British interests in the region;
- promote British sovereignty of BAT, most notably by increasing awareness of current and historic British interests in the region;
- protect the BAT environment;
- preserve British heritage within BAT;
- provide an effective and proportionate legislative and administrative framework addressing all activities conducted within BAT; and
- manage BAT's finances in accordance with best financial practice.³⁴

Reviewed annually, BAT's strategy is represented as 'a living document' capable of rapid adaptation to changing circumstances and policy requirements.

POLICY PRIORITIES

When discussing BAT, British governments are prone to exploit the country's historic role in Antarctica as a key element underpinning current policy towards the region, most notably when claiming a leadership role therein and reaffirming the basis for sovereignty over BAT. Unsurprisingly, when introducing the 2012 White Paper on BOTs, Cameron linked Britain's present-day position in Antarctica and BAT with recent celebrations of the centenary of Scott's heroic journey to the South Pole.³⁵ The role of Britons, such as Scott and Ernest Shackleton, in exploring Antarctica and providing a foundation for present-day activities was highlighted also in the 2012 White Paper:

The historic leadership and scientific endeavour shown by the UK in early Antarctic exploration, including the meteorological data, rocks, fossils and marine samples collected by Captain Robert Falcon Scott's polar party, laid the early foundations of our scientific understanding of Antarctica. It has underpinned much of the environmental research subsequently conducted, including the study of climate change.³⁶

Working with BAS and the UKAHT, British governments have adopted a heritage strategy promoting the conservation of British historic huts and other artefacts in BAT. In 2011 the FCO awarded the UKAHT £100,000 to support its work, which includes the management of Port Lockroy. Operated as a heritage site since 1996, Port Lockroy contains Bransfield House, the base station used by 'Operation Tabarin', but now housing a museum designed to make BAT's history come to life.³⁷ As one of the most visited tourist destinations in Antarctica—Port Lockroy receives over 20,000 visitors per season—this heritage site, surrounded by a large Gentoo penguin colony, offers a subtle but effective way of reminding visitors about Britain's Antarctic past and present, not excluding its politico-legal dimension.

Notwithstanding an understandable present-day preoccupation with political and legal considerations relating to, say, Britain's ownership of BAT and role within the ATS, high policy priority is attached to environmental and scientific factors. Generally speaking, such issues prove secondary for British foreign policymakers when dealing with other parts of the world, but for British governments policies implementing comprehensive environmental protection, sustainable ecosystem management, and scientific research reflect not only their practical backing for the goals espoused by the ATS but also a good way of demonstrating their responsible and effective governance of BAT. Despite being regularly depicted as pristine, the last unspoilt environment on the globe, Antarctica has suffered already adverse environmental impacts such as from overfishing and the sinking of tourist ships. As WWF warned in a phrase quoted in a recent parliamentary debate on Antarctica, 'Just a few decades ago this region was virtually untouched by human exploitation. Today, it is under sustained attack from land, sea and air, putting many species at risk.'³⁸ The relative accessibility and proximity of BAT's Antarctic Peninsula to South America and the Falkland Islands means that it receives a large proportion of the growing number of tourists visiting Antarctica each year. For the British Government it is adjudged vital to ensure that within BAT tourism is 'carefully managed',

‘well planned and undertaken responsibly’ using tour operators affiliated to the International Association of Antarctica Tour Operators (IAATO), and is ‘safe and environmentally friendly’ so that the coasts, seas and wildlife attractive to tourists are not damaged by human impacts.³⁹

In many respects, the challenge posed by tourism is accentuated by the fact that the Antarctic Peninsula is represented as one of the fastest warming, and therefore most rapidly changing, places on the planet. Here, during the past 50 years, average temperatures have risen by nearly 3° Celsius, 25,000 square km of ice have been lost from floating ice sheets, and 87 per cent of glaciers have retreated. Inevitably such changes are impacting already upon wildlife, marine life and plant growth. Working through BAS and acting in collaboration with other ATPs, the British Government is supporting research to better understand these changes, identify future environmental challenges, and develop appropriate measures to mitigate any impacts. Indeed, during recent decades Antarctica has moved towards centre stage for governments, NGOs and public opinion because of mounting recognition of its crucial influence upon world climates, oceans, and sea levels, and consequent ability to serve as a global environmental early warning system. Pointing to Antarctica’s strategic global significance, the FCO asserted that:

The British Antarctic Territory is also highly significant as a global laboratory. Scientists from the British Antarctic Survey discovered the ozone hole there in 1985, so triggering international concerns about the effects of atmospheric pollution. The Antarctic’s pristine environment is a critical barometer of the world’s climate health. Monitoring change in Antarctica allows us to predict possible changes in global conditions, e.g. if the West Antarctic ice sheet melted, the sea level world-wide would rise six metres, wipe out some countries, including some of the Overseas Territories, and cause major flooding elsewhere in the world.⁴⁰

Thus, the strict environmental protection of Antarctica, alongside the pursuit of policies ensuring that scientific data of global utility remain BAT’s principal export, are perceived as reinforcing the British Government’s credentials as both a leading ATP and the sovereign power over BAT. This aspiration was given substance on 26 March 2013 when the Antarctic Bill, whose objective was to bring into UK domestic law the framework for comprehensive environmental protection provided by the 1991 Protocol on Environmental Protection to the Antarctic Treaty, received the Royal Assent. As Neil Carmichael, the bill’s sponsor, told fellow MPs, the measure highlighted Britain’s role in Antarctic affairs: ‘The real success of the

Bill is the leadership role that it demonstrates. Britain is taking a leadership role and saying to other nation states, “We want you to do the same.”⁴¹ Against this background, BAS, providing Britain’s on-the-spot presence in BAT, makes a major contribution in terms of meeting the government’s objective to place—to quote David Willetts, formerly Minister of State for Universities and Science at the Department for Business, Innovation and Skills—‘the UK at the forefront of environmental science’.⁴²

DOWNPLAYING ECONOMICS

By contrast, when discussing BAT, British governments tend to gloss over economic factors. In practice, they tend to be subordinated to higher profile environmental and scientific objectives, as evidenced by the repeated emphasis upon the need, say, to balance economic development with responsible environmental stewardship or the FCO’s descriptor of BAT’s economy:

The Territory is self-financing; generating revenue primarily from the sale of stamps and coins and income tax from overwintering British Antarctic Survey scientists and others. The majority of British Antarctic Territory revenue is reinvested in projects which support the BAT strategy—focusing on protecting the environment, conserving British heritage and education and outreach.⁴³

For the financial year 2012–13 BAT’s income was £211,461, derived mainly from income tax collected from scientists and other staff based there (£92,472).⁴⁴ Expenditure totalled £147,537, leaving a surplus of £63,924 for reinvestment in educational, environmental and heritage projects. Admittedly, the totals were extremely small, but they do indicate that BAT, though running occasional deficits, is far from being a substantial financial burden on Britain. Moreover, the FCO’s descriptor downplays the fact that for BAT, tourism, an expanding activity as regards Antarctica as a whole with numbers quadrupling between 1992–3 and 2013–14 to 27,735, features prominently.⁴⁵ At Port Lockroy, a gift shop and a post office enable visitors to purchase coins and stamps as well as to send postcards across the world for 65 pence. Reportedly some 60,000–80,000 postcards are posted there each year. For 2012–13 the fiscal return from the sale of coins (2012–13: £1115) and stamps was £1115 and £112,390 respectively.⁴⁶

The dramatic growth of tourism, one of the world's fastest growing industries, seems set to continue in Antarctica as a whole, particularly in BAT. By contrast, British governments prove negative regarding mineral resources. Despite considerable speculation in the past about Antarctica's minerals and hydrocarbon potential, such as by Amery, present-day British governments remain—to quote Mark Simmonds, the Parliamentary Under-Secretary of State at the FCO (2012–14)—‘resolute in our commitment to the indefinite prohibition of commercial exploitation of Antarctic minerals’ imposed by the 1991 Protocol on Environmental Protection.⁴⁷ Like the rest of Antarctica, BAT is treated as ‘a natural reserve, devoted to peace and science’ in which mining is banned and human impacts strictly regulated such as through the designation of Antarctic Specially Protected Areas. Nor has the British Government pressed its rights under UNCLOS for BAT. Thus, in May 2008 the British Government notified the UN Commission for the Limits of the Continental Shelf that it was not making a submission for BAT to define an area of continental shelf beyond 200 nautical miles in accordance with the UNCLOS, but that it reserved the right to do so in the future.⁴⁸

For Britain today, environmentalism and science, activities capable of being conducted visibly on the spot, prove the currency of Antarctic economics, law and politics.⁴⁹ This point was highlighted in April 2014 when George Osborne, then Chancellor of the Exchequer, announced £200 million funding for a new polar science ship represented by the BBC as ‘one of the biggest, most capable polar research vessels in the world’.⁵⁰ Significantly, the announcement was made during the course of a speech delivered at Cambridge about science's role in building a more balanced and resilient economy. Science, research and innovation, Osborne asserted, was vital to the government's long-term economic plan: ‘I get that this [science] is something that Britain is brilliant at, and that it's vitally important to our economic future. So I've made it my personal priority in government to support [scientists in their] endeavour.’⁵¹ Speaking about government *investment* in a new polar ship to be operated by BAS, Osborne pointed to the broader policy perspective at a time when several other governments were also becoming more active in both polar regions:

One of the final frontiers in the world where there is still much discovery to be done are the polar oceans. Britain must continue to have a presence in these parts of the world...So I am delighted that we are investing in a new polar research ship carry [*sic*] cutting edge British technology to put British scientists at the forefront of research in both the Antarctic and the Arctic oceans.

Simmonds, represented by the FCO as the Minister for the Polar Regions, reinforced the project's broader significance by identifying the manner in which boosting scientific infrastructure enhanced the British presence in the wider South Atlantic and Antarctic region, and promised to sustain the UK's front-rank position in Antarctic and Southern Ocean environmental and scientific research.

A new state-of-the-art polar research flagship will extend the UK's capability and reach in polar waters. It also makes explicitly clear our long-term commitment to maintaining our presence and scientific excellence in South Georgia & the South Sandwich Islands and the British Antarctic Territory.⁵²

CONCLUSION

Hague employed the historical dimension to frame his contribution to the 2012 White Paper on BOTs:

No historian can fail to be intrigued by the stories which tell how the United Kingdom's 14 Overseas Territories have been entwined in our national history and how they come to remain linked to Britain in the 21st Century. Each Territory is different. Each history is different. But today most of the people in the Territories are British and our continuing connections bring benefits to the UK and to the Territories.⁵³

Of course, BAT, by far the largest remaining imperial territory, has no permanent population, but its story offers interesting insights into British history, most notably concerning foreign policy, empire and economics. Significantly, at the close of 2012, a year commencing with events marking the centenary of Scott's arrival at the South Pole and witnessing the publication of the White Paper on BOTs, Queen Elizabeth II's visit to the FCO as part of her Diamond Jubilee celebrations was marked by naming a 440,000 square km sector of BAT adjacent to the South Pole in her honour. Hague announced that:

As a mark of this country's gratitude to the Queen for her service, we are naming a part of the British Antarctic Territory in her honour as 'Queen Elizabeth Land'. This is a fitting tribute at the end of Her Majesty's Diamond Jubilee year, and I am very proud to be able to announce it as she visits the Foreign and Commonwealth Office.

The British Antarctic Territory is a unique and important member of the network of fourteen UK Overseas Territories. To be able to recognise the UK's commitment to Antarctica with a permanent association with Her Majesty is a great honour.⁵⁴

Apart from its role in ensuring that at least one of the BOTs dotted around the globe is always in the sun—indeed, during the Antarctic summer the sun is out 24/7—BAT is also the legacy of an abortive British attempt ‘to paint the whole Antarctic red’ as part of the empire upon which the sun never set.⁵⁵ Even so, Britain's pioneering role in unveiling Antarctica and announcing the first territorial claim therein is regularly employed to justify present-day British policy:

The Government of the [British Antarctic] Territory takes pride in ensuring that the historic leadership shown by the UK in early Antarctic exploration and scientific endeavour is matched today by rigorous and effective governance and international engagement across the whole range of Antarctic issues.⁵⁶

During the parliamentary debates held on the Antarctic Bill in 2013, wide support was expressed for Britain to signal its commitment to remain a leading force in Antarctica, most notably through—to quote Neil Carmichael—‘the simple fact of being there’ through BAT and BAS, especially following the serious threat posed to BAS's independence and funding in 2012.⁵⁷ In fact, notwithstanding the British Government's decision in 2011 to re-engage with BOTs, in the case of BAT, as well as the Falkland Islands and South Georgia & the South Sandwich Islands, this transformation took place largely in the wake of the 1982 Falklands War. For BAT, the infamous ‘Falklands factor’ meant, among other things, greater political visibility, enhanced funding for BAS, and a new polar ship to replace HMS *Endurance*.⁵⁸

Although it is tempting to treat separately their impact upon policy-makers, economic, environmental, legal, politico-strategic and scientific factors have always been cut from the same cloth in Antarctica. Thus, during the early twentieth century Antarctic whaling, though valued for its substantial economic and fiscal return, possessed also a strong politico-legal element underpinned by a growing focus upon conservation and science. More recently, the British decision to commission a new polar ship reflected also a complex blend of policy considerations. Indeed, Osborne's

assertion that Antarctica and the new polar ship would play a significant role in Britain's 'economic future' recalled the enduring emphasis, such as articulated by Amery, upon Antarctica's resource potential, even if hitherto the actual economic return has invariably fallen short of expectations. In many respects, Osborne's statement followed the line taken by Margaret Thatcher, whose government transformed Britain's approach to BAT and BAS after the Falklands War. Looking back in 1989 on this switch of strategy, she critiqued those who dismissed Antarctica as an economic wasteland:

I have always been interested in Antarctica. There is some marvellous wild life there. There is a quite a good deal of mineral deposits. And you never quite know what's going on in those fantastic, remarkable icy lands. They are not wastelands ... I did think that it was very very important for Britain. We have lands there. It was a fascinating place. We wanted to know more about the seas there, the wild life, and the mineral deposits.⁵⁹

Amery, Thatcher and Osborne have all represented Antarctica as a region worthy of the British Government's attention and funding for a range of reasons. Economic factors have been ever-present, but during recent decades have rarely been allowed to dominate. Rather they have been forced to work alongside, even to be treated as subordinate to, environmental, scientific and other concerns given the manner in which the continuing reappraisal of British policy towards Antarctica has encouraged the emergence of a more international and a less commercial and geopolitical approach.⁶⁰

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56. FCO, *Overseas Territories*, p. 95.
57. Neil Carmichael, Hansard, *HC Debs*, 18 January 2013, cc.1192–4; Jake Berry, *HC Debs*, 18 January 2013, c.1202, <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130118/debtext/130118-0002.htm>: N. Collins, ‘British Antarctic Survey saved after outcry’, *The Daily Telegraph*, 2 November 2012.
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Anglo-Spanish Commercial Relations, 1946–50

Victor Gavín

Hands off our Seville oranges and cheap wine... I have not tasted a drop of wine or tasted a chicken for six years.¹

This comment offers a perfect example of the role played by Spain in the British economy during the years immediately following the end of the Second World War: supplementing the British diet with cheap foodstuffs. The fear voiced by the woman quoted was that the sanctions imposed on Spain because of the nature of its political regime would affect imports to Britain of Spanish products and, therefore, what she would be able to buy in her local market. What she did not know, in all likelihood, was that her viewpoint was entirely shared by her government and that she had nothing to fear.

The British Government was in complete alignment with British business interests over maintaining commercial exchanges between the United Kingdom and Spain. However objectionable the dictator Francisco Franco was or the political system that he had presided over since 1939 or his de facto alliance with the fascist powers during the Second World War, the British Government's intention was always to avoid mixing political affairs with commercial issues. This was especially so when the Spanish economy

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was not a competitive threat to the British economy and as it supplied cheap, vitally needed foodstuffs and raw materials.²

The complementary role of the Spanish economy vis-à-vis the British economy in the immediate aftermath of the war was established by Winston Churchill at the Potsdam Conference. Churchill rebuffed Stalin's demand made on 3 July 1945 to sever all ties with Spain, saying that 'we [the British] had very important trade relations by which we secured oranges, iron ore and wine and received a market for our manufactures'. This was the same rationale adopted subsequently by Ernest Bevin, the Foreign Secretary under the Labour Government of Clement Attlee, when he told the London Trades Council in October 1945 that breaking off trade relations with Spain 'would harm no one but ourselves'.³ Clearly the government in London, whether Tory or Labour, had no intention of bearing the cost of sanctions against Spain in order to precipitate the downfall of the dictator. In this case, 'bearing the cost' meant closing the Spanish market to British industry, stopping the supply of Spanish raw materials needed by British industry and denying Spanish fruit and vegetables to the British consumer. In fact, Foreign Office minutes from two meetings held in June and July 1945 had already established that 'as regards Spain we are fortunate in that commercial and economic problems present very few difficulties'. Spain had practically paid off its debts to the UK, including a loan of £5 million from 1940. The UK was still viewed as Spain's main market, and 'we shall be buying Spanish goods on quite a substantial scale this year and Spanish products are of a kind that we shall continue to need'.⁴ A few problems were raised, but none were viewed as particularly important. For example, Madrid's traditional use of its surplus sterling to buy US goods needed to be corrected by keeping the surplus in the sterling area or where it suited London: 'it is essential that she [Madrid] should devote a substantial portion of her earnings to UK manufactured goods', something clearly aimed to please British industrialists. There were also British interests in Spain, such as the Rio Tinto mines. The Foreign Office minutes recognized the interest of the Spanish Government in acquiring foreign interests in its territory, the main problem of which was how to repatriate the profit of any sale to the UK without serious issues. The minutes also acknowledged that these mining interests represented one of the few cases in which the British Government was the focus of lobbying 'for reasonable treatment on their behalf specially as regards reasonable tariffs and prices for their services and products'. This was an issue that the authors of the minutes did not hesitate to play down. Lastly, problems arose as a

result of the Spanish Government's desire for self-sufficiency, or the policy of autarky as it is known. In this case, the texts could not be clearer: 'Our position as Spain's best customer should be exploited' as a method to overcome any problem of this nature. Clearly, just as there was no acceptance that the international environment should hamper trade relations between the two countries, there was also no willingness to accept an impracticable policy on the part of a country in need of everything for its recovery.⁵

Thus, it is evident that neither British consumers nor the various British economic interests in relation to Spain needed to lobby their government to forestall the consequences of international economic sanctions that never took place. For example, when the United Nations issued Resolution 39 (I), Relations of Members of the United Nations with Spain, in condemnation of the Franco regime, on 12 December 1946, the recommendations were limited to the following:

Recommends that the Franco Government of Spain be debarred from membership in international agencies established by or brought into relationship with the United Nations, and from participation in conferences or other activities which may be arranged by the United Nations or by these agencies, until a new and acceptable government is formed in Spain.

And

Recommends that all Members of the United Nations immediately recall from Madrid their Ambassadors and Ministers plenipotentiary accredited there.⁶

The content of this text could only be a cause of satisfaction for the government and business interests of the UK, whose commercial exchanges were able to develop undisturbed after embarking on a costly process of rebuilding after the Second World War. The UN Resolution was also attractive to Spain, which was struggling to overcome a long-standing economic backwardness with respect to its neighbours, compounded by the ravages of the Spanish Civil War and now autarky. All of this was playing out, too, within the context of complicated political relations between London and Madrid that included a number of issues, not the least of which was their relationship during the Spanish Civil War and the Second World War and their dispute over Gibraltar.⁷ Amid these political difficulties, trade relations were articulated through a variety of agreements such as the Anglo-Spanish Monetary Treaty (March 1947); the Anglo-Spanish Supplementary Monetary Agreement (June 1947); the visits of

two British trade missions to Spain in April and October–December 1948, and the establishment on the first of these two visits of an Anglo-Spanish Consultative Committee to supervise trading activities.

When there was no longer any doubt that the UN Resolution had failed as a means to topple Franco, a new resolution, Resolution 386 (V), was approved on 4 November 1950, limited solely to repealing the recommendations of its predecessor, and of course it contained no mention at all of economic or trade matters.⁸ Thus, neither UK domestic policy nor the international environment obstructed Anglo-Spanish trade relations at any time during the period under study here.

This state of affairs caused consternation in the Trades Union Congress (TUC). The TUC was caught in an awkward position. Obviously, it had no interest in harming the economic and industrial recovery on which the livelihoods of its members depended or in restricting the diversity of affordable goods in the marketplace. At the same time, the British trade union movement had been deeply involved in the defence of the Republic during the Spanish Civil War, joining the International Brigades for instance, and it did not share in the pragmatism of the Labour Party in its relations with Franco's Spain. It viewed the overthrow of Franco as the culmination of the anti-fascist struggle that, for many trade unionists, had not begun in 1939 with the start of the Second World War but in 1936 with the outbreak of war in Spain.⁹

Thus, the British Government was concerned in early 1946 that the United Nations would recommend the recall of ambassadors throughout the year (as we have seen above, they did so in December) and feared that this action would harm British interests in Spain and even listed the imports that it viewed as critical: 'iron-ore, potash and pyrites, fruit-pulp, sardines and other food-stuffs'.¹⁰ Meanwhile the representatives of British trade unions in continental trade union organizations had to confront complaints from their French counterparts that London was not only being less forceful in its anti-Franco policy but was also exploiting the situation to its own advantage and against French interests. Specifically, in the meeting of the Anglo-French Trade Union Council that took place in Paris on 10 and 11 May, TUC representatives faced the accusation that London was continuing its own exports to Spain. French exports had stopped flowing because of the boycott enforced by the Paris Government in accordance with the CGT (Confédération Général du Travail) on trade relations with Spain, a policy that even included closing the border between the two countries. The response given by the General Secretary

of the TUC, Walter Citrine, to his French counterpart, Leon Jouhaux, is clear in its total opposition to London's use of the situation to its own advantage and at the expense of French interests.¹¹

The main British argument against France, given that the Spanish system required between two to three months to grant import licences, was that exports in March 1946 predated the commencement of the French boycott.¹² In addition, the Secretary General of the TUC had not hesitated to distance himself from the French actions in a letter to Louis Saillant, Secretary General of the World Federation of Trade Unions (WFTU), pointing out that the boycott decreed by the CGT was a decision for which it bore sole responsibility. This is because the agreements reached within the WFTU spoke only of making approaches to the respective governments to break off relations with Spain, a step that the government in London was unwilling to take.¹³ Additionally, it must be recalled that the United Nations sanctions did not compel it to do so.

Although the UK, as a victor in the Second World War, enjoyed greater prestige than Spain, the international pariah, London was paradoxically dependent on Madrid to a significant extent. This is evident from key minutes of the Board of Trade summarizing a discussion in February 1946 at an inter-ministerial meeting at the Foreign Office in which it was specifically stated that 'we could not take the risk of provoking Franco's retaliation'. It was also remarked that if any steps should be taken against Spain, the least severe action for British interests would be to recall ambassadors, precisely the step ultimately recommended by the United Nations, while the most damaging action would be to impose economic sanctions. Spain, the minutes indicated, presented a variety of advantages: it was prepared to make the bilateral relation work in pounds sterling in a world characterized by a scarcity of dollars; the contribution of Spain's fruit and vegetables to the British diet had no easy substitute in terms of quality or price and all evidence seems to point to the great importance given by the British Cabinet to the opinion of British housewives. When the Cabinet discussed the issue of the possible consequences of a rupture of relations with Spain, a representative of the Ministry of Food stated his wish 'to make it clear to the housewife that we could afford to indulge in action against Spain only at the expense of variety in the larder'. Spain was the only available source of raw materials such as pyrites, iron ore, rosin and fertilizers. Even the War Office underscored the collaboration of the Franco Government, which was urgently trying to clean up its image by joining in Allied efforts through the Safehaven Project to take control of

German interests in Spain and ‘we [the British] could not be sure that any government which might take the place of the present regime would be equally cooperative’. In short, the British economy now found itself in a situation of dependence on the Spanish economy in sensitive sectors and no equivalent dependence existed in the opposite direction, an inequality acknowledged by the British authorities.¹⁴

If one looks for an example of a company in need of assistance from the British Embassy in Madrid to deal with the Spanish Government, no better case would be the Rio Tinto mines. The British Chargé d’Affaires, Sir Douglas Howard, was unequivocal in characterizing the mines as ‘the largest reserve of sulphur in Europe’. Operated by a British company, they represented a strategic asset of the highest order for London. The problem faced by the company was twofold: securing import licenses from the Spanish Government to obtain the machinery necessary to maintain and increase the company’s competitiveness against US concerns, and receiving permission to raise prices in the strictly controlled Spanish market. The company was successful in addressing the first problem, but not the second.¹⁵

The strategic importance of British ownership and exploitation of the Rio Tinto mines is also reflected in a memorandum prepared by Ernest Bevin for the British Cabinet regarding the effect that economic sanctions against Spain would have on the UK economy and interests. Bevin’s document once again lists the matters noted above, from the diet of British citizens to the lack of alternatives in terms of quality or price to Spanish products, with a fundamental importance being placed on foodstuffs. The figures are clear-cut: London’s forecast for purchases in Spain in 1947 stood at £20 million, £14 million of which related to Ministry of Food programmes and £6 million related to Raw Materials programmes.¹⁶

It can be argued that since the end of the Second World War the maintenance of trade relations with Spain and the defence of British interests in the Iberian Peninsula raised no doubts for the British Government, irrespective of the nature of the Spanish regime, a regime that, in turn, was held to pose no threat to world peace. Against this background, London duly objected to any form of economic sanctions. There was a recognition that the only important opposition could be raised by the trade unions because of their outright rejection of relations with the Franco regime. However, even the unions eventually accepted the government’s argument to limit political relations with Franco to the bare minimum while not applying economic sanctions that could only do harm to UK interests

(government, the public and industry).¹⁷ To a certain extent, in fact, the pressure was exerted in the opposite direction. The British Government was urging the trade unions to understand and accept the situation.¹⁸ Moreover, London had serious misgivings over the effectiveness of economic sanctions against Franco if they were not carried out at the same time by many other countries, beginning with Argentina, a country keen to assist Franco's Spain and neighbouring Portugal. It was entirely logical to think that the failure to close the Portuguese border, as the French border had been closed, would defeat any programme of sanctions. It is also worth noting that Salazar's Portugal was one of Spain's few allies in the immediate aftermath of the Second World War. Interestingly, London framed the issue within the overarching question of the UK's position in the post-war world and the possibility of its replacement by the United States as a world power, an eventuality that London was not willing to accept lying down. A message sent from the British Embassy in Lisbon to the Foreign Office warned against any policy that might harm Portugal and asserted that a programme of economic sanctions against Spain would do just that, because 'the Portuguese are gradually beginning to realise the change in our position in the world, and to believe that the main role on the Western side in the war between East and West ... will be taken not by us but by the Americans ... In general, the ultimate result might well be to increase American influence in Portugal at the expense of our own.'¹⁹

In 1948, the Marshall Plan was launched and Spain was excluded solely on political grounds. This deserves to be emphasized, because in the context of European economic recovery, which the Plan sought to promote, Spain's exclusion made very little sense, a fact pointed out by Sir Edmund Hall Patch, the British Permanent Representative to the Organisation for European Economic Co-operation (OEEC) to Roger Makins, Under-Secretary at the Foreign Office. If the aim was for Europe to recover by strengthening its capacity for self-sufficiency outside the dollar zone, there could be no economic justification to exclude a European territory plentiful in raw materials and agri-food production, one with considerable potential to increase output and exports in both areas for European markets. As Sir Edmund put it: 'in other words, if the productive capacity of this country of 27 million people could be brought into the scope of the European Recovery Programme, the participating countries would gain much greater advantages than at present, when each of them tries to make without much publicity, a separate bargain on a bilateral basis'.²⁰

Concerning Spain, however, politics trumped economics and the goal of toppling Franco through the country's political exclusion ruled Spanish resources out of the European Recovery Plan. However, this should not be confused, as we have seen, with the bilateral commercial relations of each country with Franco's Spain, relations pursued with a mix of discretion and normality.

In 1949, after three years of political sanctions and with Franco still firmly in power, the Foreign Office reviewed whether policy towards Spain was doing harm to UK interests. Foreign Office officials compiled arguments for the Foreign Secretary showing the damage done to British interests by the policy for him to use in the event of a policy shift regarding Franco and the Spanish regime. The instructions sent to the British Embassy in Madrid leave no room for doubt: 'it seems to me necessary that we should be able to show that British interests are suffering as a result of our present policy towards Spain ... Any information you could give which would show that other countries are profiting where we are losing would be useful.'²¹

The response arrived on 10 May 1949.²² The present policy had in fact strengthened Franco, turning him 'into a sort of national martyr'. Did this have any effect on trade relations? Howard's depiction fits closely with the argument of this chapter: 'British interests are only suffering from present policy in the same way as the interests of other countries and, only inasmuch as British trade with Spain is greater than that of other countries, does the United Kingdom suffer to a greater degree.' The leading trade issue between the two countries stemmed from the widespread poverty and general restrictions of the period and the fact that Spain was isolated and not part of Europe's multilateral aid mechanisms, as well as the overvaluation of the Spanish currency, the peseta. The UK was unable to buy the amount of Spanish goods that Madrid wanted and at the price Madrid wanted. As a result, Madrid lacked the pounds needed to purchase British output and turned instead to other markets for machinery and railway rolling stock, particularly France and Belgium. This was a serious concern for British interests because it might lead to the loss of a market that would be extremely hard to win back in the future. The conclusion of Howard's letter indicated that the most worrying issue was 'the probable long-term effect of this situation'. Although Howard did not offer a detailed account for the Foreign Secretary, the situation that he painted and the future prospects that he laid out were more than sufficient for London to want to resolve the situation once and for all.

The subject of supplying military equipment to Spain showed the limits of joint Western action against Franco. When the policy to topple Franco through diplomatic and political isolation failed, it became hard to dispute that what was occurring was the start, by all parties, of a set of discreet movements to jockey for position in the respective defence industries in the Spanish market. The main problem, but not the only one, was France. In July 1949 the British Foreign Office knew that French industries were concluding agreements with Spanish companies to provide technical assistance for the construction of new destroyers. At the same time, the representative of Rolls-Royce in the French capital informed the British Foreign Service that Paris had given authorization for the sale of aero-engines manufactured by Hispano-Suiza to the Spanish Air Force. This information was especially distressing because Spain had initially tried to purchase Merlin engines from Rolls-Royce, a sale that London had not authorized in keeping with the policy agreed in 1945.²³ London had no intention of unilaterally breaking the Anglo-American embargo on selling weapons or military equipment to Spain, even though the policy carried the prospect of losing ground in the Spanish market. However, this stance began to look quixotic when the British defence industry was losing market share to competitors that included not only French companies but also companies from some of the European states that were most vociferously opposed to the Spanish regime and yet showed no qualms about trading with Franco's Spain. For example, Sweden and the Netherlands tried to gain control over chunks of the Spanish military market as the British Foreign Office deliberated: 'Neither the Dutch nor the Swedes are bound to support our policy of refusing arms to the present Spanish government, and they might well reject any *démarche* from us as unwarranted interference.'²⁴

Beyond the specific question of the arms industry, the broader problem affecting Anglo-Spanish economic and trade relations was twofold. The British Government and British industry had an expectation that Spain would purchase far more manufactured goods than it was doing with pounds obtained from its exports of foodstuffs and raw materials.²⁵ Spain, where poverty and shortages were rife, was investing pounds not in manufactured goods, but in essential commodities from the United Kingdom and other areas of the sterling area, and these purchases accounted for practically all of the import licenses issued by the government. This was compounded by Spain's continued effort to achieve industrial self-sufficiency through autarky, which meant that the aim of some imports was to alleviate the need for further imports. UK exports to Spain

chiefly comprised of coal, iron, steel, wire cable and rope, machinery, chemicals, drugs, dyes and colours and vehicles. Unsurprisingly, therefore, the stance of British manufacturers was that if the situation was not remedied by, for example, requiring a fixed percentage of pound earnings to be spent on manufactured goods,²⁶ then it would make no sense to continue investing in Spain or relying on Spanish purchasing power.²⁷ Even so, the Board of Trade, in a meeting held on 17 April 1950, was in no doubt that 'in view of the fierce competition to be expected in the sale of manufactured goods it seemed vital not to sever irrecoverable connections in the Spanish market'.²⁸ This view was also held by the Federation of British Industries (FBI), which urged further that the problem be solved by exploiting the United Kingdom's position 'as Spain's best customer'.²⁹

When the discontinuation of the failed policy was only a question of time, the British Government pointed out to the trade unions, which always stood in opposition to any softening of the policy, that there were three key issues: first, the United States had already decided to vote in the UN General Assembly in favour of repealing the recommendations of 1946, a stance which had the support of a two-thirds majority and therefore British opposition could have little effect; second, diplomatic relations had never been severed, the ambassador had been recalled, but the embassy had remained open under a *chargé d'affaires*, and lastly, the maintenance of diplomatic relations with a government in no way implied approval for the policies of that government. The only concession was to be the British vote cast in the UN General Assembly. In order to demonstrate an absolute lack of sympathy towards the Franco Government, the UK would abstain although they 'were prepared to abide by the United States decision'.³⁰

On 4 November 1950 the UN General Assembly repealed the recommendations of the 1946 resolution, ending the recall of ambassadors and impediments against Spain's entry into the specialized agencies of the United Nations.³¹ Pragmatism had won out, Franco had not been toppled and nobody was prepared to bear a greater price to achieve that end. It would be necessary to live with Franco's Spain for as long as the Spanish were unwilling to change their form of government. It should be noted here that some overtones of an arguably racist nature did appear, such as in the message sent by Robert Hankey, *Chargé d'Affaires* at the British Embassy in Madrid, in which he said that 'it would probably never be possible to introduce a democracy run on strict Westminster rules in

Spain. The Spanish character is altogether too lacking in common sense, in moderation, and in appreciation of the public interest.³² As regards the subject of trade relations, the repeal of the 1946 resolution had little effect. Ivo Mallet perfectly summarised the matter in an internal memorandum of the Foreign Office, recommending the policy shift:

in the economic sphere the present position is not bad, so far as United Kingdom interests are concerned, owing chiefly to the fact that both the Spaniards and ourselves have striven to keep politics and trade in separate compartments, and owing to good official relationships, which however, are by their nature precarious. We obtain from Spain many essential commodities such as iron ore and mercury and in return supply her with much that she needs.³³

In conclusion, economic relations with Spain were never broken off and they would not be broken off in the future either. In the meeting of the Overseas Trade Policy Committee of the FBI, which was held after the change in UN policy towards Spain, it was established that 'this country would need Spain as a market in the future. Export trade must be continuous and could not be switched on and off at will', a view that gave rise to a recommendation to the government 'to consider whether there were any means of helping Spain to increase her sterling earnings'.³⁴ But British business interests at no time felt the need to exert pressure on the British Government to maintain trade relations with Spain or defend their assets on the Iberian Peninsula, because these were already government objectives. Nor did they need to call for protection from an economy that was, in no way, competitive with the United Kingdom, but rather complemented it. The greatest source of resistance came from the trade union movement, which had stood in fierce opposition to any relations with Franco since the Spanish Civil War. But the government's position, the needs of the British consumer and the need not to subject industry to the consequences of a sanctions policy that it could scarcely afford, meant that trade union opposition was limited to formal condemnation, an offer of their support to fellow Spanish trade unionists, an expectation that political relations would be curtailed to the bare minimum, which was a view that enjoyed full support from the British Government, and lastly, a complete rejection of any sort of economic boycott. In fact, the most severe difficulties stemmed from the economic poverty of Franco's Spain, which impeded the volumes of exchanges desired by British industry, especially Spain's purchases of manufactured goods.

NOTES

1. Mrs M. Alexander on behalf of a group of Torquay housewives, March 1946, in K. Hamilton: 'Non-Intervention Revisited: Great Britain, the United Nations and Franco's Spain in 1946', in FCO Historians: *United Kingdom, United Nations and Divided World 1946*, Occasional Paper No. 10, Foreign and Commonwealth Office, 1995, p. 46.
2. One of the few specific studies to devote a significant portion of its pages to economic relations between the UK and Spain during 1946–50 is: Q. Ahmad: *Britain, Franco's Spain, and the Cold War, 1945–1950* (Garland Publishing, Inc., 1992). Specifically, chapter 6: 'The Economic Considerations: A Flawed Rationale, 1946–1950', pp. 135–162. Among works specifically analysing this subject are: D. Smyth: *Diplomacy and Strategy of Survival: British Policy and Franco's Spain 1940–41* (Cambridge: Cambridge University Press, 1986); R. Wigg: *Churchill and Spain: The Survival of the Franco Regime, 1940–45* (Routledge, 2005); J. Edwards: *Anglo-American Relations and the Franco Question 1945–1955* (Oxford: Oxford University Press, 1999); F. Portero: 'Spain, Britain and the Cold War', in S. Balfour and P. Preston (eds), *Spain and the Great Powers in the Twentieth Century* (Routledge, 1999), pp. 210–28.
3. Ahmad: *Britain, Franco's Spain and the Cold War*, p. 136.
4. FO minutes 18 June and 21 July 1945: UK long-term policy on Spain, FO 185/1756.
5. FO minutes 18 June and 21 July 1945: UK long-term policy on Spain, FO 185/1756. On the Rio Tinto mines, see D. Avery: *Not on Queen Victoria's Birthday: The Story of the Rio Tinto Mines* (Collins, 1974).
6. Relations of Members of the United Nations with Spain [1946] UNGARsn 74; A/RES/39 (I) (12 December 1946) in <http://www.worldlii.org/int/other/UNGARsn/1946/> (web page consulted on 13 October 2014).
7. For example, see: E. Moradiellos: *La perfidia de Albión. El Gobierno británico y la guerra civil española* (Madrid: Siglo Veintiuno de España Editores, S.A., 1996); idem: *Franco frente a Churchill: España y Gran Bretaña en la Segunda Guerra Mundial, 1939–1945* (Barcelona: Ediciones Península, 2005). Also, see the following

- memoirs published by British ambassadors to Spain: S. Hoare: *Ambassador on Special Mission* (Collins, 1946) and J. Balfour: *Not Too Correct an Aureole: The Recollections of a Diplomat* (The Chantry, Michael Russell Publishing Ltd., 1983).
8. Relations of States Members and Specialized Agencies with Spain [1950] UNGARsn 13; A/RES/386 (V) (4 November 1950) at <http://www.worldlii.org/int/other/UNGARsn/1950/13.pdf> (accessed 13 October 2014).
 9. The literature on the Spanish Civil War and the United Kingdom is enormous and impossible to summarize in a footnote. However, two references that place particular emphasis on the relationship between the conflict and British workers are: M. Arthur: *Fighters against Fascism: British Heroes of the Spanish Civil War* (Harper Collins, 2010), and the excellent list of resources provided by the Modern Records Centre (MRC), University Library, University of Warwick: *Trabajadores: the Spanish Civil War through the eyes of organised labour*, <http://www2.warwick.ac.uk/services/library/mrc/explorefurther/digital/scw> (20 October 2014).
 10. Memorandum: Policy towards Spain, 6 March 1946, FO 371/60352.
 11. Record of a meeting of Anglo-French Trade Union Council, Boycott 1946–1948, 27 May 1946, MSS.292/946/45, MRC.
 12. Anglo-French Trade Union Council, Foreign Trade with Spain, 20 May 1946, Boycott: 1946–1948, MSS.292/946/45, MRC.
 13. Letter from Sir Walter Citrine, General Secretary of the TUC to Mr Louis Saillant, General Secretary of the WFTU, 28 March 1946, Boycott 1946–1948, MSS.292/946/45, MRC.
 14. Minutes of a meeting held at the Foreign Office on 28 February to consider the possible consequences of a rupture of relations with Spain, 28 February 1946; Note: Raw Materials Supplies from Spain, 2 March 1946, BT 11/3068.
 15. Letter from Sir Douglas Howard, British Chargé d’Affaires at the British Embassy in Madrid, to Ernest Bevin, Secretary of State for Foreign Affairs, 19 December 1946, FO 371/60383.
 16. Memorandum by the Secretary of State for Foreign Affairs, ‘Economic Sanctions against Spain, 3 January 1947’, FO 371/67897; Foreign Office despatch No.27: Bevin to Howard, Economic relations with Spain, 21 January 1947, BT 11/3068.

17. Letter from Sir Frederick Hoyer Millar, Head of the Western Department of the British Foreign Office, to Howard, 21 January 1947, FO 371/67897.
18. One example is the Wolverhampton Trades Council. See: Wolverhampton Trades Council to TUC, 15 March 1948, MRC; Resolution on the situation of Spain adopted by the General Council of the WFTU in Prague on 13 June 1947, Boycott 1946–1948, MSS.292/946/45, MRC.
19. Letter from British Embassy, Lisbon to Foreign Office, 5 May 1947; Memorandum by the Secretary of State for Foreign Affairs, 'Economic Sanctions against Spain', 3 January 1947, FO 371/67897.
20. Letter from Sir Edmund Hall Patch, British permanent representative to the OEEC to Roger Makins, Deputy Under-Secretary, Foreign Office, 21 October 1948, FO 371/79710.
21. Draft letter to Madrid about future British relations with Spain asking for information about the extent to which British interests in Spain were suffering as the result of present policy, from Foreign Office, 28 April 1949; Foreign Office to British Embassy, Madrid, 29 April 1949, FO 371/79710.
22. Howard, British Embassy, Madrid to Ivo Mallet, Assistant Under-Secretary, Foreign Office, 10 May 1949, FO 371/79710.
23. C. A. Evelyn Shuckburgh, Head of Western Department, Foreign Office, to Henry Ashley Clarke, Minister, Paris, 29 July 1949, FO 371/79763.
24. Shuckburgh, to R. C. Bryant, Board of Trade, 22 November 1949, FO 371/79763.
25. Reports and notes of meetings with Board of Trade May 1950–March 1951, 'United Kingdom Exports to Spain, 1949', MSS.200/F/3/E1/15/20, MRC.
26. Letter from Sir Robert Sinclair, President of the FBI, to Harold Wilson, President, Board of Trade, 1 June 1950, MSS.200/F/3/S1/21/32, MRC.
27. The Economic Situation in Spain. Comments on the enclosed Memorandum by Mr Pelham, Commercial Counsellor, which analyses the present economic situation, 15 March 1950, FO 371/89526; Spain and Anglo-Spanish trade. Reports and notes of meetings with Board of Trade May 1950–March 1951, MSS.200/F/3/E1/15/20, MRC.

28. Record of meeting at the Board of Trade on Monday, 17 April 1950, 2:30 pm; reports and notes of meetings with Board of Trade May 1950–March 1951, MSS.200/F/3/E1/15/20, MRC.
29. Letter from John Gough, Assistant General Secretary, FBI, to Sir Robert Sinclair, 27 May 1950 (Box 2), MSS.200/F/3/P1/1/9, MRC.
30. Letter from Sir Vincent Tewson, General Secretary of the TUC, to Bevin, 22 March 1950; Bevin to Tewson, 30 October 1950; Douglas Walker, General Secretary of the FBI to Mr Jacobus Hendrik Oldenbroek, General Secretary of the International Confederation of Free Trade Unions, 2 November 1950, Spain 1948–1952, MSS.292/946/3, MRC.
31. Relations of States Members and Specialized Agencies with Spain [1950] UNGARsn 13; A/RES/386 (V) (4 November 1950) at <http://www.worldlii.org/int/other/UNGARsn/1950/13.pdf> (accessed 13 October 2014).
32. Minute from Hankey to Bevin, on 15 March 1950, FO 371/89526.
33. Paper prepared for the Secretary of State's consideration against his discussions in New York on policy towards Spain, 2 August 1950, FO 371/89502.
34. Minutes of a Meeting of the Overseas Trade Policy Committee of the Federation of British Industries: Overseas Trade Policy Committee, March 1950–December 1952, 6 December 1950, MSS.200/F/3/S1/21/50, MRC.

When Strategic Foreign Policy Considerations Did Not Trump Economics: British Cold War Policies on East-West Trade

Alan Dobson

In the nineteenth century Britain became the modern trading nation par excellence and dominated the world's industry and commerce for decades. Its championing of free trade had important implications for foreign policy, which was largely directed at keeping open world markets, world trade routes and communications with the empire. But within that dominant foreign policy culture there was an anomaly. When at war Britain used her naval dominance to starve opponents of war supplies: trade then was not free and strategic considerations trumped commercial principles and commercial gain regarding a narrow category of trade with direct war-making potential. Writing in the eighteenth century Thomas Jefferson explained the reasoning underpinning this.

Reason and usage have established that when two nations go to war, those who chuse to live in peace retain their natural right to pursue their agriculture, manufactures, and other ordinary vocations, to carry the produce of their industry, for exchange, to all nations, belligerent or neutral, as usual, to

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go and come freely without injury or molestations, and in short that the war among others shall be for them as if it did not exist. One restriction on their natural rights has been admitted to by nations at peace, that is to say, that of not furnishing to either party implements merely of war for the annoyance of the other, nor any thing whatever to a place blockaded by it's [sic] enemy. What these implements of war are, has been so often agreed, and is so well understood, as to leave little question about them at this day.¹

But by the twentieth century the First Lord of the Admiralty, Winston Churchill, felt obliged to point out that the narrow contraband category identified by Jefferson had hugely expanded. It was by then very difficult to identify anything that was not contraband because: 'The whole conception of conditional contraband was affected by the fact that the distinction between armies and nations had largely passed away.'² There was an inexorable logic at work that brought this state of affairs into being.

Between antiquity and the emergence of the nation state the development in the size of armies was not linear, but any differences and fluctuations pale to insignificance compared with the qualitative change that came with the twentieth century. The Roman army at the height of empire probably comprised around 200,000 to 250,000 men. Interestingly, that dwarfs the size of armies of subsequent ages until the nineteenth century. William fought the Battle of Hastings with possibly 6000 soldiers in 1066, Henry V, Agincourt, with 6–9000 in 1415, Marlborough, Blenheim, with 52,000 in 1704, and Napoleon, Austerlitz, with 70,000 in 1805. In all cases the limiting factors on scope and size of the combat were primarily economic and logistical, but with moral principles and conventions of the day also playing parts. But such limiting boundaries were about to be breached by economic and industrial advancements and the dissipation of moral constraints when confronted with the possibility of total destruction of societies and peoples. In the First World War over 6 million and 8 million soldiers respectively served in the French and British armies. On 1 July 1916, the first day of the Battle of the Somme, the British army suffered over 57,000 casualties, more than the entire force at Marlborough's disposal in 1704. The Battle of Kursk, July–August 1943, involved 6600 tanks and over 2,200,000 Russian and German troops—probably equivalent in number to the entire population of England and Wales at the time of the Battle of Agincourt. The human carnage wrought by total war was devastating. And now, as Churchill had observed in the First World War, *both* armies and civilians were legitimate targets. In the Second World War

Britain and the USA took the policy implications of this development to its logical conclusion. They masterminded a strategy of total economic warfare against the Axis. This included freezing their overseas assets; preemptive buying of raw materials from neutrals; political blackmail and outright threats to try to induce neutrals to restrict or curtail altogether their trade, commercial and monetary relations with the Axis; naval blockade; the bombing and sabotage of industrial plants; and the bombing of the civilian population, some, but not all, of whom were part of the industrial workforce. Economic warfare had gone total and trade was one of the many casualties. No longer was there much scope left for those who chose to be at peace 'to go and come freely without injury or molestations'. And this had important consequences for the relationship between strategic priorities and commercial gain.

With the arrival of total war came total economic warfare, which barely distinguished between the strategic importance of coalminers, ordnance factory workers, farmers and those fighting on the front line because the latter's ability to fight there depended upon coalminers, ordnance factory workers and farmers and everyone else who contributed in whatever way to the efficient running of the state. This was what Churchill had meant when he talked of the passing away of the distinction between armies and nations and why manpower budgets were just as important as the size and potency of the army. And in an age of total war, as repellent as it might be, it was at least understandable to curtail trade in war-time: the dire exigencies of survival dictated that. Even for neutral trade there were harsh restrictions: for the enemy the aim was virtually total stop. But how would this translate into policy for something that fell short of hot war, namely, cold war? Ironically, after developing naval blockades and the right to stop and search at sea for contraband the British had found themselves outbid by their ally in the Second World War. This was truly ironic because of the long-standing tensions between the British and the Americans caused by the Royal Navy's monitoring of trade and seizure of British-defined contraband in the nineteenth and early twentieth centuries. And of course the main causes of the 1812 war had been just these kinds of policy. However, once the USA entered the Second World War the Americans were even more insistent than the British on tightening the blockade on the enemy and in particular in disregarding the rights of neutrals. This partial role-reversal was to have consequences in the Cold War, when the USA consistently argued for a tighter embargo on trade with communist countries than Britain. This was charged with irony. When Britain was the most

prosperous and powerful country it was easy to adopt policies of strategic importance that trumped commercial considerations. However, after the Second World War, when the now most prosperous and powerful country, the USA, pursued the same priorities in policy in the Cold War, Britain bridled at this and refused automatically to adopt the same priority. For Britain, commercial considerations now qualified strategic policies because of its reduced state. There had to be a much more careful balancing of strategic marginal benefit from trade embargoes with their commercial costs.

As peace deteriorated into Cold War in 1946–7, it was the USA that took the lead in grappling with the problem of trade with the Soviet Union, now seen as an imminent threat. With the appearance of the nuclear bomb, technology and its transfer to a potential enemy were of more concern than ever. As a result, in the early summer of 1947, the USA took two major steps along the path of developing a concerted economic response to the perceived threat from the Soviet bloc: the first came in the form of the Truman Doctrine pledging economic help and political support in broad regional terms to Europe to help resist subversion and the dangers of totalitarianism; secondly, in June, Secretary of State George Marshall spoke at Harvard University and made proposals that led to the comprehensive European Recovery Program (ERP), or Marshall Aid as it was more commonly known. In both, Britain played a significant role. However, as East–West relations continued to deteriorate, there was growing American concern about a further economic matter: exports to the Soviet Union and her satellite states. US exports to the Soviet Union and Eastern Europe in 1947 amounted to approximately \$150 million, which was not a great amount, but America's European allies had more trade and looked to expand it and re-establish long-standing trade flows which the Nazis had interrupted in the 1930s. In the context of the emerging Cold War this trade created serious problems for the USA and led to a third major development in its foreign economic policy.

The USA developed a strategic embargo, through which it hoped to deny sophisticated weapon systems and nuclear technology to the Soviets. It also sought to use the embargo to restrict economic growth, in some minds it was hoped to the point of causing an implosion of the Soviet economy. This policy, however, had two important problems. First, the USA could not implement a strategic embargo alone. The very nature of the beast dictated that it had to be multilateral and above all else that meant co-opting British help. The second was that while Britain did not have any reservations about embargoing weapons and weapons

technology, there was a serious difference of opinion over how far the number of items on the embargo should extend. Throughout the Cold War the USA sought a stricter embargo than its allies thought justified. In particular, Britain needed to resurrect its export markets wherever they might be in order to sustain its prosperity and pay for social and economic reforms. In addition the British favoured trading on the assumption that a fat Russian would be a happy Russian and of a kind that might even be seduced into Western ways. These differences caused continuous problems for British foreign policy throughout the Cold War. To understand just how difficult they were for the British, their dependence on exports for economic recovery and future prosperity must be appreciated.

As the war drew to a close John Maynard Keynes assessed Britain's economic position. Monetary reserves stood at \$1.9 billion with prospective balance of trade deficits of \$5 billion and \$2.5–3.5 billion respectively for 1945 and 1946. Sterling debts had risen in the war to over \$12 billion, much of Britain's industrial capital equipment was worn out, housing stock was depleted, and overseas export markets lost to competitors.³ Ironically, given US demands for Britain to curb its exports to the Soviet bloc in 1949–50, part of the weakened export position that the UK found itself in was due to US penetration of its export markets during the war. Writing in early 1947 the Foreign Office's Economic Intelligence Department bemoaned the surge of US economic activity into Canada during the war and went on to comment:

Elsewhere in the Empire American penetration ... was less pronounced, though still very important. The United States not only largely increased its trade with Australia, South Africa, India, the West Indies and other parts of the Empire, while we drastically cut down ours, but engaged also in direct investment in those countries and took our place in providing industrial equipment and technical aid. Her penetration was also marked in the Middle East and South and Central America and was powerfully assisted there as elsewhere by loans and the acquisition of strategic bases, which played a part in building up her predominance in air traffic and telecommunications.⁴

The British Government was in a difficult place with serious economic problems, a costly social and welfare reform agenda and continuing worldwide commitments that were a substantial drain on its now depleted resources. Its difficulties were further compounded by the value it placed on good Anglo-American relations for its own security, economic well-being and sustaining its world influence. As senior government officials observed in 1949:

Since post-war planning began, our policy has been to secure close political, military and economic co-operation with U.S.A. This has been necessary to get economic aid. It will always be decisive for our security.⁵

The priority of good Anglo-American relations was overriding and remained so throughout the Cold War. For example after the closest the Reagan–Thatcher special relationship ever came to a car crash, namely the US invasion of Grenada—a British Commonwealth country—Thatcher while incandescent with anger still insisted that the bottom line was: ‘Britain’s friendship with the United States must on no account be jeopardized.’⁶ And, throughout the Cold War, not jeopardizing friendship with the USA and securing British priorities when they were incompatible with those of the USA proved no easy task.

Understandably then, when the USA called for the extension of their own strategic embargo to a multilateral Western embargo against the Soviet Union in 1949, the British took the lead to stitch an agreement together with the French and other West European countries. This delighted the Americans but, unknown to them, there was an ulterior British motive in this apparent enthusiasm. The British knew that the USA wanted tighter controls than they thought were wise so far as their own export needs were concerned and they hoped to moderate the American position by working with their European counterparts to establish a common front. They would then be in a strong position to bargain with the Americans for a reduction in the number of items to be embargoed in return for helping to deliver a multilateral agreement among the allies. In short, they aimed at an embargo that would be more trade permissive than the Americans favoured.⁷

In Paris and London, meetings of the European allies were held, which made significant progress. By March the British had agreement on a multilateral embargo, but it fell short by 31 of the original 163 items on the main US embargo list. Pressure mounted from various quarters in the USA for further concessions by the allies but the Americans soon hit an important buffer. This type of strategic embargo can only work with the cooperation of allies. Push them too far and it becomes dysfunctional. A multilateral embargo means just that: positive participation by all members. In May, William Foster, the Deputy Administrator in Europe of the Economic Cooperation Administration (ECA),⁸ cautioned that: ‘further pressure directed primarily at British, who for reasons of mutual security have gone far in cooperating, might be misunderstood’.⁹ Foster had iden-

tified the heart of the problem and that explains why a gradual compromise emerged over the following months. The Americans backed down and agreed to a shorter list than they had originally proposed. The multi-lateral embargo was to be managed on a day-to-day basis by a coordinating committee that operated out of an annex of the US Embassy in Paris: it became commonly known as the CoCom.

This agreement was timely because in June 1950 the Korean War broke out. During the war allied differences were muted, and while there were still difficulties, there was a coming together, a closing of the gap and even an adoption by CoCom of a differential, which applied a stricter embargo to China—directly involved in the war—than to the Soviet Union. That immediately caused problems for Britain because of Hong Kong. Hong Kong was militarily not defensible, at least with British resources, and London was always anxious not to antagonize the Chinese Communists to the point at which they would either seize Hong Kong or make life there too difficult. Furthermore, Hong Kong also generated significant resources for the UK. There were thus difficulties with the Americans over British flag trade through Hong Kong. This became a thorny issue and was raised directly by President Truman with Prime Minister Churchill at their Washington summit meeting in 1952. Exchanges were prickly and later in 1952 Truman thought that the British were not cooperating and threatened to write directly to Churchill about matters. Secretary of State Acheson advised him that the trade figures that he had seen were inflated and before asking for a further sharp reduction in British trade with China, ‘We shall need to decide exactly what reply we are to make to inevitable question about how Hong Kong is to exist without appreciable China trade.’¹⁰ Difficulties rumbled on, but no decisive action was taken by the Americans to press Britain further. As the Korean War gradually wound down so did tensions over trade through Hong Kong, but this was by no means the last of the difficulties with this crown colony and its trade.

However, the war also placed added burdens on the British economy and altered priorities. One consequence of the latter was a major revolt within the Labour Government at the introduction of prescription charges into the National Health Service, seen widely as a casualty of expanding defence expenditure. Three ministers, Aneurin Bevan, the Health Secretary, Harold Wilson, the President of the Board of Trade and John Freeman, the Parliamentary Secretary to the Ministry of Supply, all resigned.

British annual spending on defence in £ billion:

| 1949 | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 |
|------|------|------|------|------|------|------|
| 0.8 | 0.8 | 1.5 | 1.8 | 1.9 | 1.8 | 1.7 |

Source: British Government official figures. www.UKpublicspending.co.uk (accessed 15 September 2014)

BRITISH GOVERNMENT OFFICIAL STATISTICS

There was no doubt that defence expenditure was adding further pressures to Britain's struggling economy not to mention the configuration of its party politics. Between 1950 and 1953, British defence expenditure more than doubled and stood at over 10 per cent of gross domestic product (GDP). Understandably then, with the winding down of the war in Korea, the British Government began to scale back on defence expenditure, reinstated the priority of exports and economic growth and the USA once again found itself at loggerheads with its main ally. The British demanded more freedom to export to the Soviet bloc and soon also for the abolition of the China differential. For nearly a decade the USA fought a continuous rearguard action successively adopting what proved to be untenable positions on the Western embargo in the face of onslaughts from Britain demanding liberalization.

The Americans were not totally against changes of any kind, but they did not want to reduce the embargo to the extent or in the manner demanded by Britain. They just could not accept the importance of the priority that the British placed on expanding their exports and they interpreted events in Moscow differently after the death of Stalin. The British made it clear that a 'substantially curtailed list' would be more appropriate for the long-haul strategy and that political and economic reasons made it necessary to explore this route. Furthermore, on the new Soviet trade strategy that emerged after Stalin's death: 'The U.K. does not feel that the recent changes in trading patterns and tactics by the Russians are to be viewed primarily as a tactic in the Cold War, but are rather inclined to view them as primarily reflecting a Soviet desire for trade motivated by internal economic and political factors.'¹¹ The Americans disagreed and were not so willing to embrace trade from the Soviet Union. This divergence in interpretation of Soviet trade policy needs to be seen against the backdrop of America's broader Cold War concerns, which also departed company from Britain's priorities. There was ongoing difficulty with Western

unity, which deeply worried the USA as alliance leader. Plans for European defence and for utilizing German military capabilities, in the form of the European Defence Community, had run into major difficulties and there were to be many recriminations arising because of this. Differences threatened Western unity and made the West vulnerable to Soviet divisive tactics—one of which the USA believed was the temptation of more trade with the Soviet bloc. There were also problems of allied differences of opinion about the Far East, in particular the war in Indochina and the problem of the Nationalist Chinese. It was in these circumstances that Churchill, after returning to power in 1951, proposed a summit meeting with the Soviets to defuse tensions and reduce the dangers of nuclear war, especially for Britain, which was their nuclear bull's eye target. However, President Eisenhower and Secretary of State John Foster Dulles staunchly resisted such a meeting for fear that the Soviets would exploit Western disunity.¹² The Americans held to this even though the death of Stalin on 5 March 1953 seemed to many to present a useful opportunity for an opening to improved relations. They refused to parley until the defence structure for Europe and the problem of German rearmament had been solved otherwise they thought that the West would have just been too vulnerable to a possible Soviet exploitation of their divisions.¹³ These differences largely determined the US perspective on the CoCom embargo and created a serious gulf between Britain and other West European countries and Japan on the one hand and the USA on the other.

On the US side, there was an important exception to the hardline on the embargo, which came from President Eisenhower, who held very strongly to a concern that the USA should not propel itself into bankruptcy through defence spending and thus destroy the very quality of Western life, which he thought was the most potent weapon in combating the appeal of communism. His New Look Strategy reflected those concerns, by reining in defence expenditure through more reliance on nuclear weapons, covert activities and allied conventional forces. From this perspective Eisenhower had some sympathy for British arguments, which also emphasized the need to develop economically and maintain a high standard of living. In 1954 Prime Minister Winston Churchill explained to the President that trade for the British 'was necessary to keep their nose above water'.¹⁴ Churchill was in fact wholly in favour of liberalizing trade with the Soviets. The Americans could not share Churchill's position and, on 19 March 1954, Eisenhower wrote to him in as an accommodating a way as possible under the circumstances, indicating a willingness to move

towards the British position, but not so far or so quickly as they wanted: 'To do so would be, I think, to go beyond what is immediately safe or in the common interest of the free world.'¹⁵ On 24 March, after discussion in Cabinet, Churchill again argued for relaxing the embargo. We have to feed, he told the President, over 50 million people 'on these small islands'. Eisenhower repeated in turn that the British seemed to want to go 'a bit further than seems wise or necessary'.¹⁶ The subsequent talks convened in London to try to solve the impasse, open the deadlock and liberalize the embargo were fraught with difficulties and ill-temper. Eden had bowed out from leading the talks with the American chief negotiator Harold Stassen as he was loath to antagonize the Americans and among other things endanger £20 million of US offshore defence purchases. Eden's health had also suffered badly from a botched gall stone operation in April 1953 that required three later attempts to remedy the situation: it never was fully. Instead of Eden, the much more robust President of the Board of Trade, Peter Thorneycroft, was in charge. He was never much enamoured of the Americans and soon rubbed Stassen up the wrong way by insisting on talking largely in trade terms. The whole episode was difficult and Churchill was described by at least one source as being 'hopping mad' with the Americans over their intransigent position.¹⁷ In fact, the British view prevailed and there was a wholesale scaling back of the embargo. The lists were reduced by about a third. The Americans were not happy, to say the least, but realized that if they wanted to uphold a multilateral embargo then they would have to accommodate with the British. However, this was only the beginning.¹⁸

At the Geneva Conference in 1954 (convened to formalize the truce in Korea but also dealing with Vietnam), although the China trade controls were not discussed in substance, US Secretary of State Dulles did say to his French and British counterparts that he hoped no changes would be made.¹⁹ Just over a year later British Foreign Secretary Harold Macmillan was blunt in telling the Americans that the 'UK felt there should be substantial changes'.²⁰ Shortly after that he wrote to Dulles explaining that, in the light of domestic political and commercial pressures, Britain would be unable to allow the China differential to remain intact much beyond the end of the year. If the two lists—Soviet bloc and China—could not be aligned by the new year then the British Government would announce that it 'can no longer see any strategic justification for banning the additional commodities for China, and that from January 15 we propose a gradual unobtrusive process, and over a period, to bring the United

Kingdom list for China into conformity with the agreed list for the Soviet bloc'.²¹ These developments caused immense consternation in the State Department, but if further evidence were needed of just how significant all this was, then the American military provided it in the form of the Chairman of the Joint Chiefs of Staff, Admiral Radford. In a memorandum of 12 December to Defense Secretary Wilson he stated that: 'At a minimum, both the Communists and our allies would consider, with some validity, that this action [the abandonment of the China Differential] represents a radical change in U.S. policy which clearly facilitates the eventual Communist domination of all Asia.'²² Radford commonly expressed apocalyptic warnings about China and on several occasions recommended the use of the atomic bomb against it.

Notwithstanding such dire warnings, Dulles was willing to make concessions; but all this proved to be too little, too late. For a while it was difficult to make any progress as first Anthony Eden needed to find his feet after finally succeeding Churchill as Prime Minister and then, soon after, came the Suez catastrophe. But just over six months after Suez, on 27 May 1957, the British once again took the lead and gave notice that they would unilaterally abandon the differential. Macmillan, now Prime Minister, wrote to Eisenhower to that effect on 29 May explaining that 'We live by exports—and by exports alone.'²³ The next day the British unilaterally abandoned the China differential. The Americans were furious. As one senior American official put it: 'The battle in Paris on the China Differential is finished, and the United States has had complete defeat.'²⁴ The situation was further aggravated as all other members of the CoCom followed Britain's lead, but there was nothing that the Americans could do. Dulles had identified the problem correctly when he explained to President Eisenhower: 'there is no effective alternative to a voluntary multilateral control system'.²⁵

In the early 1960s the British continued to exploit that interdependence for their own economic interests and engaged in trade with communists, which was repeatedly condemned by the USA, but to little effect. As Sir Patrick Reilly, Deputy Under-Secretary of State, Foreign Office, explained to US officials in March 1961, British economic problems had led to 'very great internal pressures to increase trade with the Soviets'.²⁶ Among the disputes this ignited was the comical affair of the export of 400 double-decker Leyland buses to Cuba: this was something that the USA thought had strategic implications, much to the incredulity of the British. This was only one of many disagreements between the Americans and the British

over trade and embargo policies and it stemmed from two differing perspectives. The first was that the British did not believe that the strategic embargo could have the impact that many in Washington believed that it could. It is important to nuance this because there was an ongoing tussle within the administration of President John Kennedy between those in the Commerce Department and in the Pentagon who wanted to maintain a strict embargo and others, including White House advisers, State Department officials and the President himself, who favoured liberalization. Unfortunately for the would-be liberalizers, the eruption of the Berlin Wall crisis in July 1961 lent support to those who wanted to maintain the embargo's status quo. Partly because of that, the issue was still unresolved or at least substantially unchanged at the time of Kennedy's assassination, even though the President had by then strongly expressed the view that liberalization should be implemented.²⁷ The other issue was the greater importance of trade for Britain than for the USA. These differences led to strong language among senior British officials who described the CoCom regime as 'nonsense'. It was only considerations of the broader alliance with the USA that prevented the British from proposing the abolition of CoCom, its radical reduction in scope, or Britain's unilateral withdrawal. All of these possibilities were considered.²⁸

Even though the British did not adopt any of the radical possibilities enumerated above, by February 1963 it was clear to Thomas Finletter, US Ambassador to NATO, that the different perspective of the British was curbing US policy preferences. He wrote with a mixture of anger and resignation:

Regret to have to say this [possibility of British exchanging ships for Soviet oil] latest in a series of HMG actions which imply UK seeming give priority to its short range commercial interests over basic interests of Atlantic Alliance. Others are large diameter pipe embargo, credits to Sov Bloc, Viscount sales, economic counter measures, Cuban shipping. If Soviet oil deal consummated, UK will have achieved almost perfect score of opposition to us in NATO on all E/W trade issues. I am very disappointed....²⁹

Later on in the 1960s the attention switched once again to the Far East, with a reprise of the arguments about trade through Hong Kong, which had troubled relations during the latter part of Truman's second administration. This time it was war in Vietnam that resurrected the problem. Between 1967 and 1968 the number of free world ships entering North

Vietnamese ports rose from 78 to 149 and the vast majority of these were British flagships out of Hong Kong. The Americans protested to London, but, as the British pointed out, without a formal declaration of war, the British Government had no legal powers to intervene to control such trade.³⁰ The trade caused considerable consternation and disquiet in Washington, but some there at least recognized the dilemma the British faced with Hong Kong, just as Acheson had back in 1952 when he said to President Truman 'We shall need to decide exactly what reply we are to make to inevitable question about how Hong Kong is to exist without appreciable China trade.' In addition there were offsetting benefits, which moderated US anger in the same way that broad strategic calculations had done during the Korean War. Britain was not fighting shoulder to shoulder in Vietnam as it had in Korea, but Hong Kong was an important signals intelligence gathering post for the Americans as well as the British and for this Hong Kong and its status as a Crown Colony were valued by the Americans.³¹ By the late 1960s it was part of an important network of jointly staffed posts including Masirah Island off the coast of Oman, Letrim near Ottawa, Istanbul, Ascension Island in the south Atlantic, Diego Garcia in the Indian Ocean, which had been established in part to compensate for Britain's withdrawal from East of Suez,³² and Menwith Hill in Yorkshire, the largest US intelligence station outside the USA. These considerations diluted the strength of US opposition to British flag trade out of Hong Kong, and so Britain's trade priority once again trumped immediate Cold War strategy.³³

Twenty years later the story was hauntingly similar. After the declaration of martial law in Poland and the crackdown on the Solidarity reform trade union movement, in which the Soviets were directly implicated, the general response of President Reagan's closest European ally, Prime Minister Margaret Thatcher, to American initiatives to punish the Soviets was supportive, but Thatcher was also careful to point out that there might be differences in how the USA and Europe would deal with the situation. Foreign Secretary Lord Carrington cautioned that the European Community would need to consider things very carefully in order to assess whether or not sanctions on the Soviet Union would have any significant effect.³⁴ Soon after, Thatcher began to take a more robust line in trying to curb the extent of US proposals, which led to an uncharacteristically difficult series of exchanges between Thatcher and Reagan. Why the USA took such an aggressive line has puzzled some scholars, but there was

important context to the US position, involving one of the more curious incidents of the extraordinary Cold War years.³⁵

In early summer of 1981 Marcel Chalet, head of the Direction de la Surveillance du Territoire, told Vice President George H. Bush about a new Soviet informant, Vladimir Vetrov, codenamed 'Farewell', who worked in the KGB's scientific and technological division. Later, at the Ottawa Summit, President Mitterrand passed to Reagan and Secretary of State Alexander Haig information from Vetrov about the Line X operation designed to steal Western technology, which since 1970 had been running out of over ten centres in Western Europe, the USA, and Japan. During 1980 'a total of 3617 "acquisition tasks" had been under way, of which, 1085 had been successfully completed in the course of the year, producing over four thousand "samples" and more than twenty-five thousand technical documents. The main S [science] & T [technology] target, as in the case of political and military intelligence collection, had been the United States.' According to Mitterrand, Reagan and Haig thought that 'the Vetrov revelations were "the biggest affair of its kind since the Second World War"'.³⁶

Once the Americans had the information from Vetrov there was something of a problem, as US national security official Gus W. Weiss explained: 'No-one could work out a way to make operational use of this stuff until I read it and it seemed obvious to me, if they want it we'll give it to them but we're going to do a little sabotage.'³⁷ Weiss went to National Security Adviser William Casey with his idea of feeding the Soviets technological disinformation and defective hardware.³⁸ Casey liked it so much he presented it to Reagan without apparently acknowledging Weiss's input. The result was Operation Farewell.³⁹ America's response to martial law in Poland had a lot to do with the paranoia generated by Vetrov's revelations and helps to explain why the USA took such a hard line and one with which Thatcher could not agree entirely.

Two issues in particular galled Thatcher: the first was the demand for Britain and other European allies to break contracts with the Soviets for equipment for the massive Soviet Urengoi gas pipeline, or face extraterritorially applied punitive sanctions themselves from the USA; the second was a proposal to call in Polish debts. When Secretary of State Haig visited Downing Street on 29 January 1982, Thatcher ridiculed the latter proposal because of the chaos that would ensue for Western banking. She also pointed out the asymmetry in the burden the USA was proposing that members of the alliance should shoulder if they were to embargo oil and

gas industry equipment, when there was no talk for example of a US grain embargo. And finally, she bluntly told Haig, and subsequently Reagan by letter, that there was no possibility of West Germany or France (and by implication, Britain) giving up their pipeline contracts with the Soviets.⁴⁰ Six months later, in June 1982, Thatcher, on one of her numerous visits to Washington, continuously harangued the President and his advisers about the extraterritorial application of US sanctions against recalcitrant allies in the pipeline crisis.⁴¹ Thatcher even condemned the attempt to apply extraterritorial sanctions publicly, and Britain along with other allies denounced the action as illegal and took steps to require their national companies to fulfil their legally binding contractual obligations. As the Europeans were refusing to cooperate with such determination, it became clear to most rational people that a policy of effective Western cold economic warfare was simply not going to happen in reality. A year after the extraterritorial sanctions were applied they were lifted.⁴² Even so it was clear that differences abided between the British and the Americans about appropriate measures for the strategic embargo. They had arisen at its inception in the late 1940s and remained as the Cold War began its slide into terminal decline. The President of the Board of Trade, Sir Frederick Erroll, caught the differences nicely in 1958 when he remarked:

A fat Communist is less likely to make war than a thin Communist. The richer men are, the more middle class they are, more independent in thought and less easy to govern. This is the fundamental difference between the American point of view and ours.⁴³

The Cold War strategic embargo was a saga of recurring disputes, often rising to prime ministerial and presidential levels, that highlighted the priority that Britain placed on expanding its exports and the conflicting national USA and UK priorities concerning waging the Cold War and pursuing economic prosperity as a national interest. The Western Alliance as a whole was clearly and usually decisively led by the USA, but it was rarely in a position to dictate policy and there were always grounds for dissent because of divergent national interests. In the British battle for more exports through relaxing the strategic embargo directed at communist states there was considerable consistency with their policy on the embargo against the Axis in the Second World War and their argument often had purchase on American minds. Essentially their argument boiled down to a form of economic and political relative gain or relative marginal

benefit. After several months of combat in the Second World War important figures in Washington such as Vice President Henry Wallace became deeply concerned with Swedish exports to the Nazis. The British were also concerned, but prepared to countenance them because of strategically important exports from Sweden, which helped vitally important aspects of British war production. There were other tricky political considerations to take into account as well, and these were explained to Roosevelt by Secretary of State Hull.

Any change in policy, which imposed further restrictions on Sweden's trade would have important effects and therefore requires most complete consideration of all aspects of question. I presume that any such action would only be considered in the event that careful study showed that it would result in an added detriment to the economic or supply base of the Axis war effort and that such detriment would more than counter-balance any actual political or military considerations. Any marked change in policy towards Sweden would require careful examination not only by the military and political branches of our Government, but also of our Allies.⁴⁴

The differences over the Cold War strategic embargo were always about how stringent it should be and that was determined by calculations of respective marginal benefits to strategic security and economic prosperity. The Americans repeatedly recognized that, while they might be angered by British actions and policies, without positive cooperation from the British and its other allies, who tended to lean towards the position of Britain, there could be no effective embargo. The nature of the beast meant that it had to be multilateral to be effective and that required compromise and accommodation from the USA. And that in turn provided the British with wiggle room to pursue their national priority of expanding exports and allow economics to trump strategic foreign policy priorities.

NOTES

1. Jefferson to Pinkney, 7 September 1793, quoted from C. Savage, *Policy of the United States Toward Maritime Commerce in War*, vol. 1: 1776–1914 (Washington, DC: Department of State, US Printing Office, 1934), p. 167.
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The Business of Decolonization: The Foreign Office, British Business, and the End of Empire in Kuwait and Qatar

Simon C. Smith

The Gulf States, while small in size, were of increasing economic and financial significance to the British economy in the post-war period. While the loss of India in 1947 reduced the strategic importance of the Gulf, this was more than compensated for by the exponential growth in oil production in states such as Kuwait and Qatar, the focus of this chapter. The transfer of responsibility for British relations with the Gulf States from the defunct India Office to the Foreign Office in 1948 left the Foreign Office with the task of managing the challenges and opportunities associated with the advent of oil wealth in the Gulf. Although the British administrative superstructure remained ostensibly unaltered, with a British political resident based in Bahrain at the apex and political agents in each of the individual Gulf Sheikdoms beneath him, the Foreign Office tended to be more interventionist than its Government of India/India Office predecessors had been.¹ In the 1950s, nevertheless, intervention tended to be felt in the administrative sphere, where the Foreign Office endeavoured to foist British advisers on the Gulf Sheikdoms, rather than in the commercial one where the Foreign Office and its officials in the region were notably

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unsympathetic to what they perceived as the dubious business practices of British companies which threatened Britain's wider interests, not least with respect to oil. This was especially so with regard to Kuwait.

I

In an effort to compensate for the loss of oil from Iran following the nationalization of the Anglo-Iranian Oil Company by the Iranian premier, Muhammad Musaddiq, in March 1951,² the Kuwait Oil Company, half-owned by Anglo-Iranian, began to increase production in Kuwait.³ In December 1950, for example, daily oil production in Kuwait stood at less than 500,000 barrels; by October of the following year, this figure had increased to over 700,000, with the prospect of reaching 900,000 barrels per day by the spring of 1952.⁴ By the following year, Kuwait alone was satisfying 58 per cent of Britain's oil needs.⁵ This rise in production, coupled with the 50/50 profit-sharing agreement signed with the Kuwait Oil Company in 1951, witnessed a sudden and dramatic growth in Kuwait revenues from £6 million in 1951 to a projected figure of £50 to £60 million for the following year.⁶

With the encouragement of its British development expert, William F. Hasted, the Government of Kuwait committed itself to an ambitious development plan for the period 1952–7 involving capital expenditure of over £90 million. Commenting upon the scale of this programme, Clive Rose of the Foreign Office's Eastern Department observed: 'Kuwait is undoubtedly determined to become a modern welfare state in the quickest possible time'.⁷ Rose also warned that the British firms operating in Kuwait might be tempted to exploit their favoured position in the Sheikdom to the detriment of British interests as a whole.⁸ His fears were soon borne out.

By the early 1950s, five British firms had come to dominate development in Kuwait. Known locally as the 'big five', the companies in question were: Taylor Woodrow, C. and D. William Press, Richard Costain, Holland, Hannen and Cubbitt, and John Howard.⁹ All development work was distributed among these firms on a 'cost plus 15 per cent' basis. While this system had the effect of precluding competitive tendering, Hasted was of the opinion that it produced the greatest efficiency and celerity in the development sphere.¹⁰ Each of the big five was required to have a Kuwaiti partner who tended simply to provide local labour. The figure for profit gave its name to the so-called '15 per cent parties' which were organized

to facilitate smooth relations between visiting directors and their Kuwaiti partners.¹¹ Despite such sweeteners, local resentment towards the big five began to emerge.¹²

Reflecting on the big five's growing unpopularity, the Political Agent in Kuwait, Cornelius Pelly, urged that

The British contractors' avidity and their tendency to meddle in politics must be kept in bounds. As the Arabs crudely put it, many of them have come here like dogs around a camel's carcass. The harm they can do to our interests generally is not worth their profits.... The Kuwait merchant is the last person who you would think would need protecting against rapacity in business but in dealing with some Britons it is a pity for our sakes that he cannot be given it.¹³

Pelly was especially critical of John Howard and Company which he characterized as having the 'worst reputation for greed and sharp practice of any British firms here'.¹⁴ Referring to the cost plus system, the Foreign Office conceded that 'there is reason to believe that British firms have regarded the present arrangement as an excellent opportunity to make a good thing out of Kuwait'.¹⁵ The Foreign Office fretted that such a situation would not only 'redound to our disadvantage', but also strengthen the position of the Kuwaiti Ruler's half-brother, Sheikh Fahad.¹⁶ This was a cause of particular concern since Fahad, whose administrative empire in Kuwait included the department of public works, had a reputation of being not merely hostile to Britain, but also corrupt. From a wider perspective, Rose was mindful that local criticism of the big five risked undermining the prestige and influence of British officials in the Kuwait Government.¹⁷ His fears were soon realized in relation to Hasted.

In early 1953, Sheikh Fahad engaged a Syrian engineer, Majadin Jabri, to head the Public Works Department.¹⁸ By the end of March, Hasted was compelled to place his executive staff under Jabri's control and restrict himself to giving technical advice only.¹⁹ Unsurprisingly, British firms operating in Kuwait viewed these developments with alarm. For instance, the chairman of Holland, Hannen, and Cubitt, Lord Ashcombe, predicted dire consequences for British interests as a result of Hasted's loss of executive control of development to Jabri.²⁰ Brigadier Guy Burton, a director of John Howard and Company, moreover, warned that Britain's predominant influence in Kuwait would be eclipsed within eighteen months.²¹ Pelly, however, remained unmoved by the misgivings of the big five. For

instance, he referred to Brigadier Burton's representations as 'intentionally misleading', describing the firm of John Howard and Company as 'one of those which has been pilloried (and in its case with some justification) for being here in order, with Hasted's help, to get everything possible out of Kuwait without caring much what they give in return'.²² Furthermore, Pelly informed Ashcombe that it would not be in Britain's interests 'if Kuwait were littered with white elephants ... in a couple of years as a result of the greed of British contractors'.²³ Unsurprisingly, the preferential status enjoyed by the big five came under direct attack.

As early as February 1953, Rose had predicted British firms would be displaced if they continued to exploit their position in Kuwait.²⁴ The accuracy of this prophesy soon became clear. At the beginning of April, the Ruler, Sheikh Abdullah, issued instructions that the two-year contracts held by the big five were not to be renewed, and that subsequent contracts would be open to non-British firms.²⁵ Despite the loss of the big five's privileged position, Pelly opined:

I think that the time has come to impress on the contractors generally that their present policy of snarling with the disappointed rage of tigers in the jungle at the mere possibility of some of the good red joints of Kuwait oil revenues going to somebody else can only do damage to themselves and British interests in general.²⁶

Christopher Ewart-Biggs of the Foreign Office's Eastern Department was equally unsympathetic, noting that the big five had 'already enjoyed a fair period of sheltered lactation'.²⁷

One of the first development projects to be awarded under the new system was that for the construction of a four-berth quay which was sorely needed to manage the heavy traffic passing through Kuwait Port.²⁸ Rather than allocating the work under contracts with the big five on a cost-plus 15 per cent basis, the Government of Kuwait sought tenders from a number of different firms, both British and non-British. In the first instance, a list of 14 was produced, including nine British firms, among them three from the big five. A subsequent list, nevertheless, excluded these three on the grounds that they already had sufficient work in Kuwait. A more plausible reason for their exclusion, however, centred on the desire of Kuwaitis not in partnership with the big five to see the introduction of other firms with whom they could enter into lucrative partnership arrangements. A further blow to the interests of the big five was dealt by the enforced

resignation of Hasted, their greatest champion, in March 1954.²⁹ While admitting that Hasted possessed ‘energy, drive, enthusiasm and industry’, the British Political Resident in the Gulf, Bernard Burrows, also recorded that the development expert’s ‘steamroller tactics, and financial inexperience’, had resulted in, to give but one example, a £4 million technical school which, despite the inducement of scholarships, had only succeeded in attracting eight students.³⁰ Local criticism of British business was not confined to the big five.

Under an exclusive concession granted in 1947 by the then Ruler, Sheikh Ahmad, the telecommunications company, Cable and Wireless, had undertaken to run the telegraph service in Kuwait, as well providing 400 hundred private telephone lines.³¹ While the former was efficient and remunerative, the latter, despite its gross inadequacy in relation to demand, was unprofitable. When the Government of Kuwait requested Cable and Wireless to expand the system to some 2000 lines, the company was only prepared to do so on condition that its charges were increased. The chorus of disapproval which resulted set in train negotiations for a modification of the concession under which Ahmad’s successor, Sheikh Abdullah, offered to purchase the existing system, the Company merely acting as his agent. Sheikh Fahad subsequently told the Political Agent that a similar ‘nationalization’ should be extended to the telegraph system. While the British were concerned that a nationalization of the telegraph service would represent an unwelcome precedent which might have repercussions in the oil industry,³² the behaviour of Cable and Wireless was strongly criticized by the Foreign Office, one official denouncing the company’s conduct as ‘disgraceful’,³³ while another observed that if it failed to extend the telephone system ‘a considerable blow will be dealt to British prestige in Kuwait’.³⁴ Cable and Wireless, however, remained intractable, refusing to agree to any such extension until negotiations over their concession had been completed.³⁵

The example provided by Kuwait during the period of oil expansion in the early 1950s suggests that in no real sense did the Foreign Office work hand in glove with the British businesses operating in the sheikhdom.³⁶ Indeed, the Foreign Office and its representatives in Kuwait were often highly critical of British firms, especially the ‘big five’, whose sharp practice was seen to be threatening Britain’s standing and oil interests. Rather than working towards promoting the big five’s interests, the Foreign Office sought to restrain their perceived avarice and blatant exploitation of the opportunities offered by the dramatic, oil-fuelled expansion of the Kuwaiti

economy. By contrast, the Foreign Office tended to be much more proactive and supportive of British enterprise in Qatar during its own rapid economic expansion in the 1970s. This reflected not only the increased levels of international competition in the Gulf compared with 20 years earlier, but also the perceived need to boost Britain's exports to this potentially lucrative market in the context of its flagging economic performance in the 1970s.

II

'In 1956', recalled the British Political Agent in Qatar, R. H. M. Boyle, 'Doha was an overgrown fishing-village with few modern buildings, little air-conditioning, a damp and stinking waterfront a handful of small-time merchants and a pleasantly informal social life'.³⁷ Nine years later, he recorded that 'Doha has become a sprawling city of concrete buildings, traffic lights, ring roads and soda stalls; air conditioning is the rule; the waterfront has been reclaimed, and much of the filth removed; a large merchant-class has grown up, and social life has become conventional and "big city"'.³⁸ Despite these dramatic changes, Qatar's development was restricted by Sheikh Ahmed's lack of interest in the affairs of state and tendency to hoard oil wealth.³⁹ Against the background of mounting unrest, Ahmed's cousin and Deputy Ruler, Sheikh Khalifah, seized power on 22 February 1972, Doha radio accusing Ahmed of being concerned only with realizing 'personal benefits at the expense of the homeland'.⁴⁰

Sheikh Khalifah's *coup d'état* augured well for British commerce in Qatar. Not only was the new Amir committed to development in Qatar,⁴¹ but also quickly declared his 'devotion' to Britain.⁴² 'The net outcome if we play our cards right should be a considerable increase in commercial profit to the UK from Qatar', enthused the British Ambassador in Doha, Edward Henderson.⁴³ Within a few months of Khalifah's accession, Henderson's confidence seemed to be confirmed. During an interview with the Ambassador, Khalifah set about 'praising HMG and all their works and promising to buy everything he possibly could from "England", provided only that we make it'.⁴⁴ Despite recognising Henderson's role in helping to build up and maintain the large British share of the Qatari market, John Young of the Foreign and Commonwealth Office's Middle East Department warned that 'we cannot regard Qatar as a "chasse gardée" any longer and while many firms have adapted to the new situation, we must expect that some will sink now that the flood gates have been opened'.⁴⁵

Growing encroachment in Qatar, especially with regard to arms sales, gave an early indication of the increased competition which British firms would face. Referring to an impending visit by the Amir to France, Henderson reported that Khalifah was coming under 'strong French pressure' to buy military French hardware.⁴⁶ Henderson also predicted that Khalifah would be susceptible to French offers to participate in industrial projects in Qatar. 'Opportunities for British concerns to take the lead in this field', warned the Ambassador, 'could well be lost if he were to visit France without a compensating visit to Britain. The field is at the moment open and large prizes are to be won.'⁴⁷ The Foreign Secretary, Sir Alec Douglas-Home, readily agreed that a written invitation should be extended to Khalifah⁴⁸ and the Foreign and Commonwealth Office (FCO) subsequently (and successfully) prevailed upon Prime Minister Edward Heath to have a formal meeting with the Amir and provide him with lunch.⁴⁹ In its brief for the Prime Minister, the FCO noted that the Qatari Government were considering re-equipping their armed forces, emphasizing that 'We are naturally anxious to obtain the lion's share of what may amount to a £70 million programme.'⁵⁰

Despite an ostensibly successful encounter in which it was agreed that Anglo-Qatari cooperation was 'very satisfactory' and that both sides were 'keen to improve and add to what was already being done',⁵¹ Henderson at the end of 1973 confessed that he was 'very anxious' about growing French influence in Qatar which he feared would increase a 'great deal more at our expense'.⁵² Ominously, he recorded that the Amir's eyes 'almost sparkle when he mentions them nowadays'.⁵³ Henderson was also critical of the performance of British enterprise.⁵⁴ While anticipating a decline in British influence following the withdrawal of formal British protection in 1971, he considered that the 'only way in which our decline can be hastened internally in Qatar is through the shortcomings of our own firms'. A number of British firms, he observed, seemed to be 'politically deaf and dumb' and were not trying as hard as they could to 'make their faces fit'. Henderson was particularly scathing of firms which entered into contracts involving tens of millions of pounds over extended periods and yet did not engage a single Arab-speaking member on their management staff. He reserved especial criticism of the British firm, Power Gas Incorporated, which, in allowing the contracts it possessed for a £28 million fertilizer plant and a £25 million natural gas liquids plant to overrun significantly, had struck a 'serious blow at British industrial prestige here'. 'Leaving aside problems of late delivery of materials which are common

to British industry as a whole at the moment,' he remarked, 'the Power Gas team have lacked sufficiently competent middle management both on site and in London.' Henderson lugubriously reported that three major contracts had subsequently been lost in power generation and electricity distribution, with a fourth about to go by the wayside because of an inability to supply a sufficiently powerful gas turbine generator. On reading Henderson's sobering account, an FCO mandarin concluded that 'We cannot rely on goodwill to maintain our place in Qatar.'⁵⁵ This was soon demonstrated with respect to the tender for the construction of a steel plant in Qatar.

The British Steel Corporation (BSC) found itself locked in competition with the Japanese concern, Kobe Steel, for the contract. The Amir told Henderson that the Japanese Government was strongly behind the bid and that in fact Tokyo were making it a 'government to government affair'.⁵⁶ Khalifah bluntly told Henderson that he would have to 'think up very good reasons' for giving it to BSC.⁵⁷ The Ambassador confessed that 'I am very worried that unless I can say something very positive and reassuring from ministers we may lose this after all'.⁵⁸ Henderson's prediction proved accurate, the contract ultimately went to the Japanese company. Analysing the reasons for this setback, the Ambassador dwelt on the political aspect of the decision, namely Tokyo's dangling the prospect of the appointment of a Japanese Ambassador to Qatar, coupled with the damage inflicted on Britain's industrial reputation by the Power Gas Incorporated's infamous delays in producing the fertilizer plant.⁵⁹ In his valedictory despatch in September 1974, Henderson warned that 'If our poor performance on delivery cannot be reversed other countries may largely take our place commercially in Qatar.'⁶⁰

The accuracy of this prediction was confirmed by Henderson's successor, David Crawford, who in his annual review for 1974 reported that Britain had lost its position as the leading exporter to Japan which had captured 17 per cent of the Qatari market compared with Britain's 15 per cent.⁶¹ Far from being downcast, however, Crawford underlined Britain's continuing advantages not least the widespread use of English in Qatar and the continuing goodwill towards Britain among the local trading community.⁶² Crawford, nevertheless, exhorted British companies to be more 'aggressive and imaginative' in the Qatari market.⁶³ The new ambassador was also unsympathetic to the tribulations of the British power generating and desalination industries in the Qatari market, pointedly stating that

‘The remedy must surely lie in either HMG or the firms concerned taking the required steps to render these industries internationally competitive.’⁶⁴

The central role of the British Embassy in Doha in promoting British interests was indicated by the testimony of Dr R. Roberts of the Department of Trade who, following his visit to Qatar at the end of March 1975, stressed that ‘I was ably supported by the Commercial Department of the Embassy with the Ambassador himself taking part in the more important meetings.’⁶⁵ Moreover, the Edinburgh-based management and resource development consultants, Scotconsult, contacted the FCO’s Middle East Department to place on record their appreciation of the work done on their behalf by Crawford and the Head of Chancery, Douglas Gordon. The Managing Director, A. A. Denton-Miller, specifically recognized that ‘The Embassy has greatly assisted our attempts to secure and undertake work in Qatar and to gain a foothold in this important market.’⁶⁶

However, the initialling on 1 August 1975 of an Agreement of Cooperation between Qatar and the United Kingdom, which included the proposed formation of a Joint Committee to pursue ‘joint ventures in the industrial and agricultural fields’,⁶⁷ proved no panacea for British commerce in the Amirate. ‘Hardly is the ink dry on the draft of the United Kingdom/Qatari Co-operation Agreement’, wrote Head of Chancery Gordon, ‘than I have to report that Airwork Ltd have received notice that their agreement with Qatar Armed Forces, which expires on 31 October, will not be renewed.’⁶⁸ In his annual review for 1975, moreover, Crawford pointed out that the Amir ‘did not disguise his opinion that British industry had failed to share in the development of his country to the extent he would wish’.⁶⁹ The UK press was also widely read in Qatar and its gloomy prognostications for Britain’s economic future made, as Crawford admitted, ‘this Embassy a lonely optimistic voice’.⁷⁰

Bearing in mind that the Amir took all key decisions, including the award of major government contracts, direct and high-level contacts with him still seemed the best way of promoting British commerce in Qatar. Using this argument, the Head of the FCO’s Middle East Department, Ivor Lucas, made a strong case for a meeting between Khalifah and Prime Minister James Callaghan during the former’s visit to London towards the end of 1977.⁷¹ The Amir, however, used the meeting to detail grievances against British consultants whom he blamed for ‘serious errors’ in working out the specifications for, and supervising the construction of, a water distillation project.⁷²

Despite such setbacks, Colin Brant, who took over from Crawford in the spring of 1978, was upbeat about Britain's commercial performance in Qatar, pointing out that visible sales to the Amirate had increased from just £7.5 million in 1970 to £116 million by 1977.⁷³ He also speculated that invisible exports could rival the visibles. An FCO mandarin, nonetheless, was quick to point out that Britain had lost first place in Qatar's import market to Japan (17 per cent as against 29 per cent).⁷⁴ The cultivation of the Amir, which successive British Ambassadors had advocated, still seemed to pay dividends however. In his annual review for 1979, Brant reported that Khalifah had privately instructed his administration to look to Britain 'first and foremost' for the supply of military equipment and industrial plant and only to go elsewhere if British prices and delivery dates proved 'manifestly unacceptable'.⁷⁵ Heeding Brant's warning that the French were making 'rapid strides',⁷⁶ the Head of the FCO's Middle East Department, David Miers, assured him that 'we shall watch with interest how Giscard⁷⁷ goes down and what he manages to sweep into his enormous carpet bag'.⁷⁸ In the aftermath of the French President's tour of the Gulf in March 1980, Brant bemoaned Britain was 'up against "France Incorporated"', and especially the close Government-Industry coordination orchestrated in support of defence sales'.⁷⁹ Earlier Miers had insisted that, while welcoming European Community interest in the Gulf States, 'we have no intention of allowing our bilateral contacts to become less important'.⁸⁰ An opportunity to underline this was provided by Margaret Thatcher's visit to the Gulf in 1981, the first by a serving British Prime Minister.

Thatcher's original itinerary included visits to just three Gulf States, Saudi Arabia, Oman and the United Arab Emirates. The FCO, however, prevailed upon 10 Downing Street to include Qatar in the Prime Minister's schedule. The principal reason for this was Qatar's impending decision on whether to purchase British Rapier air defence missiles in a deal worth an estimated £270 million. 'A visit by the Prime Minister in April would be an extremely important boost to our effort against determined French competition', the Foreign Secretary's Assistant Private Secretary, Francis Richards, told Thatcher's Assistant Private Secretary, Michael Alexander.⁸¹ David Miers added his voice to the debate, arguing that 'it would be prudent to assume that by April Qatar could be at least as deserving of Prime Ministerial intervention in favour of British interests as the UAE, which she is already committed to visiting'.⁸² Richards subsequently gave Alexander details of contracts in the offing which included the development of Qatar's

North-West Dome Gas Field (worth up to £2 billion), a new power station valued at £300 million plus a further £300 million in associated contracts, as well as Qatar's air defence system. 'These are all the sort of major projects', insisted Richards, 'on which our commercial competitors ... are often able to bring extra-commercial pressures to bear, and where support from the Prime Minister at the right time and after due preparation could tilt the balance.'⁸³

Such arguments proved persuasive, and towards the beginning of February the FCO informed the British Embassy in Doha that the Prime Minister was willing to add Qatar to the list of Gulf States she would be visiting. 'This is because', explained the FCO, 'it is realised that the time may well then be ripe to give high-level political support to British firms bidding for important commercial and defence contracts'.⁸⁴ While taking comfort from the fact that a visit by the Prime Minister to Qatar would ensure that 'everything had been done in support of commercial initiatives which could have been done', Ambassador Brant warned that the intense diplomatic support would not compensate for any shortcomings by British firms, especially with respect to prices and delivery.⁸⁵ He added that unless British firms could be 'kept up to the mark', governmental effort would be 'wasted'.⁸⁶ Brant, however, maintained the pressure for a prime ministerial visit, pointing out that the Qataris were aware of the political support which HMG were building up on British Aerospace's behalf with respect to Rapier.⁸⁷

In its brief for the Prime Minister's visit to Qatar, the British Embassy in Doha stressed that Mrs Thatcher should seek to ensure that British companies—especially British Petroleum—obtained a major share of developing the North-West Dome Gas Field, secured the key consultancy for a major new power station to link in with the gas field, and gained the remaining defence orders left over following a string of French successes. During her talks with Sheikh Khalifah on 25 April, Mrs Thatcher strongly commended British bids for the development of the North-West Dome Gas Field, the consultancy for the proposed 1500 mw power station at Ras Laffan, and the air defence contract.⁸⁸ Brant reported to the Foreign Secretary, Lord Carrington, that 'The Amir was left in no doubt of the strength of the Prime Minister's interest in our bids on all of these fronts—and indeed any project where British experience and competence could make a contribution to Qatar's development.'⁸⁹

The Ambassador was subsequently able to report that the Prime Minister's 'powerful advocacy of British expertise in offshore oil and gas

development has given the United Kingdom a “head start” in the competition for the main consultancy in the North Field gas project’.⁹⁰ Brant was also able to report in June 1981 the Qatari decision to purchase the Rapiere air defence system which he ascribed to ‘teamwork’ involving BAe making their ‘best efforts’ to secure the contract, coupled with ‘massive political support brought to bear on the project since last summer’.⁹¹ The Chairman and Chief Executive of BAe, Admiral Sir Raymond Lygo, paid particular attention to the ‘active support given to us throughout the many years of negotiation by Mr. Colin Brant, HM Ambassador’.⁹² A considerably less constructive example of cooperation between the Embassy in Doha and British enterprise was provided by the car manufacturer, British Leyland (BL).⁹³

At the beginning of 1981, Brant expressed astonishment that BL had pressed ahead with arrangements for the launch of their Landtrain series of heavy goods vehicles in Doha without informing the embassy first, let alone seeking its assistance. The Ambassador went on to characterize the launch of Landtrain as the usual ‘dismal story of BL incompetence, muddle and neglect’, which included failure to coordinate publicity with local agents and an inability to supply essential spare parts. ‘My hearts sinks’, confessed Brant, ‘when I recall that BL are due to launch the Jaguar here at the forthcoming Doha Motor Show’. He contrasted BL’s performance with that of its principal rival, Toyota, and concluded: ‘I have only a small Commercial Staff: we could well devote our time to other ventures, if BL are going to let us down in this way.’ In some respects, Brant’s jaundiced view of BL mirrored earlier Foreign Office criticisms of the activities of the ‘big five’ in 1950s Kuwait, although in the case of the former it was ineptitude, rather than sharp practice, which exercised the Ambassador.

III

John Darwin has argued that, under British policy in the era of decolonization, ‘development was to be encouraged along lines compatible with British interests and in cooperation with British overseas enterprises’.⁹⁴ With respect to Kuwait in the 1950s, however, the first objective frequently clashed with the second. Indeed, rather than cooperating with British enterprises, the Foreign Office sought to distance itself from the ‘big five’ for fear that their modus operandi would impact negatively on wider British interests, not least Kuwait’s growing centrality to the British economy in terms of oil exports. In an era when Britain was still perceived

as a major world power by policy-makers, moreover, there were concerns in the Foreign Office that too close an association with the dubious business practices of the big five would undermine British standing and prestige.

By the 1970s, Britain was firmly moving into the post-imperial era having withdrawn militarily from the Gulf in 1971. Nevertheless, the end of formal empire did not equate with an abandonment of the pursuit of British economic interests in the region. As Permanent Under-Secretary at the FCO, Sir Paul Gore-Booth, remarked shortly after the announcement to withdraw from east of Suez: 'It was clear we could not simply retire into our shell once our troops left the regions in question. We had a general interest in the peace, stability and prosperity of the areas and we had also a substantial economic stake, in the form of investments and export markets, which were important for our future solvency and standard of living.'⁹⁵ Such thinking underpinned the FCO's support for British business in Qatar in the 1970s and beyond. In this endeavour, the British Embassy in Doha, spearheaded by a succession of proactive ambassadors, sought to promote British enterprise, especially in the spheres of development and arms sales. That Britain maintained a significant share of the Qatari market was due in no small part to their efforts. This is not to say that the FCO and its representatives in Qatar were uncritical of the limitations of British enterprise in Qatar. Indeed, some of their misgivings echoed the earlier condemnations of the big five in Kuwait. Nevertheless, the preservation of a strong British presence in the Qatari economy in the 1970s and early 1980s echoes Nicholas White's contention with respect to post-colonial South East Asia that the British experience was 'not necessarily a sad and sorry tale of continuous economic decline'.⁹⁶

Despite the recognizably post-imperial environment in which British firms were operating in 1970s Qatar, not least in terms of international competition, the legacies of empire still served to assist British commerce. In 1978, Ambassador Brant recorded that 'the historical links with Britain have accustomed the older generation of Qataris to doing business with us', adding: 'the combination of history and experience seems to have induced in the Qataris a feeling of affinity with Britain and the British which defies analysis.'⁹⁷ In this sense, John Darwin's observation that the British Empire's 'shadowy afterlife has been strangely persistent' is apposite.⁹⁸ In the face of strong challenges to Britain's former dominance, the FCO still strove to maintain a significant share of the Qatari market. In many ways this culminated in the historic visit of Margaret Thatcher to the

Gulf which at FCO insistence had included Qatar. As Brant recorded, 'It gave a powerful impetus to our attempts to capture a greater share of the business available here than we have hitherto managed to secure.'⁹⁹

NOTES

1. Letter from Sir Rupert Hay to Sir Winston Churchill, No. 56, 25 June 1953, FO 371/104279.
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4. Letter from H. G. Jakins to Sir Rupert Hay, 16 October 1951, FO 371/91260.
5. M. M. Alani, *Operation Vantage: British Military Intervention in Kuwait 1961* (Surbiton: LAAM, 1990), p. 36.
6. Persian Gulf: Annual Review for 1951, FO 371/98323; Telegram from the Commonwealth Relations Office to the UK High Commissioner in India, No. 1876, 4 October 1951, T 236/4286.
7. 'Progress on the recommendations in Sir Roger Makins' report on his visit to the Persian Gulf', Minute by Rose, 20 March 1953, FO 371/104270.

8. Minute by Rose, 20 March 1953.
9. The British firm of Ewbanks also operated in Kuwait, although the Political Agent described the distillation plant which they were constructing as 'a small development scheme on its own' (Letter from Pelly to Hay, No. 95/5/53, 31 March 1953, FO 371/104325).
10. Kuwait: Draft Foreign Office Paper on Her Majesty's Government's position in and policy towards Kuwait, 15 April 1953, FO 371/104272.
11. Letter from Pelly to Hay, No. 95/5/53, 31 March 1953, FO 371/104325.
12. Claude E. Loombe of the Bank of England, who visited Kuwait in early 1953, reported 'murmurs of discontent among Kuwaitis' about the activities of the big five. 'This is not surprising', he expatiated, 'as most contractors are on a cost plus 15 per cent basis and the tales one hears of what is included in "costs" can only reflect badly on British prestige' (Copy of a note by C. E. Loombe given to Pelly, 10 February 1953, FO 371/104325).
13. Letter from Pelly to Hay, No. 95/5/53, 31 March 1953, FO 371/104325.
14. Letter from Pelly to Hay, No. 95/9/53, 8 April 1953, FO 371/104326.
15. Kuwait: Draft Foreign Office paper on Her Majesty's Government's position in and policy towards Kuwait, 15 April 1953, FO 371/104272.
16. Kuwait: Draft Foreign Office paper, 15 April 1953.
17. Minute by Rose, 18 February 1953, FO 371/104340.
18. J. Crystal, *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar* (Cambridge: Cambridge University Press, 1995), p. 69.
19. Telegram from Pelly to the Foreign Office, No. 85, 29 March 1953, FO 371/104272.
20. Telegram from Pelly to the Foreign Office, No. 8, 1 April 1953, FO 371/104325.
21. Letter from Brigadier Guy Burton to Sir Peter MacDonald, 26 March 1953, FO 371/104272.
22. Telegram from Pelly to the Foreign Office, No. 85, 29 March 1953, FO 371/104272.
23. Telegram from Pelly to the Foreign Office, No. 8, 1 April 1953, FO 371/104325.

24. Minute by Rose, 18 February 1953, FO 371/104340.
25. Minute by Rose, 8 April 1953, FO 371/104325.
26. Letter from Pelly to Donald A. Logan (Foreign Office), No. 37/15/53, 9 May 1953, FO 371/104327.
27. Minute by C. T. E. Ewart-Biggs, 30 November 1953, FO 371/104341.
28. The following is based on a minute by Logan, 11 August 1953, FO 371/104329.
29. Telegram from Pelly to the Foreign Office, No. 58, 18 March 1954, FO 371/109863. On the eve of his departure from Kuwait, Hasted opined: 'At the moment, chaos is supreme, with corruption a good second and engineering and ethical standards, except for the work of the British, of the lowest' (Letter from Hasted to Pelly, 3 April 1954, Papers of W. F. Hasted: Letters relating to development in Kuwait, 1952-4, HSTD 2/2, CACC).
30. Letter from B. A. B. Burrows to Harold Macmillan, 15 April 1955, cited in R. Jarman (ed.), *Foreign Office Annual Reports from Arabia, 1930-1960: Volume 4, 1954-1960* (Archive Editions, 1993), p. 54.
31. The following is based on 'Kuwait: Cable and Wireless Limited: Telephone and Undertakings', Foreign Office minute (undated), FO 371/104383.
32. Letter from the Secretary of State to Hay, 21 March 1953; Minute by Greenhill, 28 April 1953, FO 371/104383.
33. Minute by Alexander R. Sinclair, 1 May 1953, FO 371/104383.
34. Minute by P. M. Maxey, 9 December 1953, FO 371/104383.
35. Telegram from Pelly to the Foreign Office, No. 389, 8 December 1953, FO 371/104383.
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37. Letter from Boyle to Sir William Luce, 14 July 1965, cited in A. L. P. Burdett (ed.), *Records of Qatar, 1961-1965: 1965* (Slough: Archive Editions, 1997), pp. 244-5.

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39. A. J. Fromherz, *Qatar: A Modern History* (New York: I.B.Tauris, 2012), p. 76.
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43. Henderson to the Secretary of State for Foreign and Commonwealth Affairs, 4 January 1972.
44. Letter from Henderson to Patrick R. H. Wright, 21 November 1972, FCO 8/1895.
45. 'British policy towards Qatar', Minute by Young, 20 June 1973, FCO 8/2085.
46. Telegram from Henderson to the Foreign and Commonwealth Office, No. 153, 8 July 1973, FCO 8/2088.
47. Henderson to the Foreign and Commonwealth Office, No. 153, 8 July 1973.
48. Telegram from Douglas-Home to Doha, No. 156, 10 July 1973, FCO 8/2088.
49. Letter from Michael Alexander to M. Forrester, 17 August 1973, FCO 8/2088.
50. Brief for the Prime Minister's lunch for His Highness, Shaikh Khalifah bin Hamad al Thani, Amir of State of Qatar, on 18 September 1973, FCO 8/2088.
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52. Letter from Henderson to Wright, 4 December 1973, FCO 8/2088.
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54. The following is based on Letter from Henderson to Douglas-Home, 9 January 1974, FCO 8/2290.
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56. Telegram from Henderson to Wright, No. 179, 20 June 1974, FCO 8/2295.
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60. Letter from Henderson to James Callaghan, 26 September 1974, FCO 8/2291.
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84. Telegram from the Foreign and Commonwealth Office to Doha, No. 21, 5 February 1981, FCO 8/3818.
85. Telegram from Doha to the Foreign and Commonwealth Office, No. 40, 9 February 1981, FCO 8/3818.
86. Doha to the Foreign and Commonwealth Office, No. 40, 9 February 1981.
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The Foreign Office and Preparing for the First United Nations Conference on Trade and Development

Edward Johnson

I

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a forum to negotiate and regulate international trade policy. From the perspective of the British Government, the question of holding a conference was not initially attractive. There were a number of reasons for this, as the following analysis makes clear, but the Foreign Office came around to supporting the idea in part because there was a significant measure of international support for the conference and also because it was more important to try to influence the outcome of any agreements made at the Conference rather than be in semi-isolation as a grudging opponent outside it. In preparing for the first UNCTAD, the Foreign Office, with the Board of Trade, took the major role in policy formation and it became clear that the Foreign Office was intent upon taking the initiative seriously. It wished, from a positive position, to see something achieved in terms of development, but also something which the British could live with. What was very much of concern to the Foreign

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Office and to the British Government more generally was to ensure that the discussions leading up to the Conference did not become politicized and take on the mantle of a Cold War forum in which the Soviet bloc could act as a political and economic sniper against the advantages and progress of the West. In a wide economic forum, the possibilities for political polemics against the West were all too likely, especially with a set of newly independent, decolonized states as a potentially receptive audience. The Foreign Office thus sought to ensure that the results of the first UNCTAD were something which the British could accept and that it did not become a setting for Cold War divisions.

The origins of UNCTAD lay in the failure, after the Second World War, to establish an International Trade Organization (ITO) as part of a new post-war order of international political and economic governance. In the political sphere, the United Nations was to be the structure which would provide for international peace and security as well as seeking the improvement of social and economic conditions between and within states which would inhibit the spread of international disharmony. The economic foundations were to be found in three parts. Two of these came about as a result of discussions among the British, American and allied governments who conceived of a stable post-war economic order based on free trade and stable currencies.¹ At the Bretton Woods Conference in July 1944, 44 states met and agreed to the establishment of the International Monetary Fund (IMF) and the World Bank. The former was to oversee a system of fixed exchange rates and provide support and short-term assistance to states experiencing balance of payments difficulties and the latter was in place to provide economic support for the reconstruction of the war-torn economies and the economic growth of less developed states. The third element, the question of an agreement on trade, was postponed until the end of the war, and in 1947 negotiations began in Geneva and were followed up in Havana the following year for the establishment of the ITO, as part of the structure of the United Nations to regulate international trade. The Havana Conference of 1948 was not without its divisions and disputes, and the Americans were opposed on a number of occasions by the British in particular, who had a less than pure conception of free trade and wished to see protection accorded to their markets in the British Empire and Commonwealth.² In spite of these differences, the Conference saw the successful passage of the Charter for the ITO. However, it had to be ratified by member states and in the US Congress it ran up against those who thought the American Government had conceded too much

on free trade along with committed protectionists who felt it had gone too far. The Truman Government delayed putting the ITO Charter before Congress until 1950 and in that year distracted by, and focused more on, the Korean War it did not press for ratification.³ The American decision set in train a domino effect and of the 52 signatory states only one, Liberia, ratified the Charter: the ITO was thus stillborn.

Yet a parallel initiative had been started by the USA and its Western allies in 1946 to lower tariffs and trade barriers on industrial goods, which led to the creation of the General Agreement on Tariffs and Trade (GATT). This association of developed states who were rebuilding after the war, was not overly concerned with the interests of less developed states whose economies were built on agricultural products, raw material and commodities. Where the ITO failed, the GATT prospered. What developed in the 1950s was an economic system where the benefits seemed to accrue to the developed states and where the less developed states fell steadily behind in terms of economic development; and it was a system where the levers of control (the IMF; the World Bank and the GATT) were all in Western hands and seemed to operate for Western economic interests, thus creating a perception of a structure skewed in the West's favour: a 'them' and 'us' relationship or what was to become a 'North v South' one.

Thus, by the time of decolonization in the 1960s, there was a growing demand for international action on resetting the terms of world trade, one which took into account the role, activities and interests of those newly independent states in Africa and Asia. This became a particularly pressing question for the United Nations after 1960 when no fewer than 17 new members, 16 of which were African, became full members of the organization and gave the developing states a majority in the UN General Assembly. In September 1961, President Kennedy, in his speech to the General Assembly, proposed that the 1960s be formally designated the United Nations' 'Decade of Development' to promote economic growth, to unlock economic potential and to encourage development in a spirit of cooperation not competition.⁴ Following this, 17 less developed states sponsored a resolution in November 1961 calling on the UN Secretary-General, U Thant, to prepare a report on the question of holding a conference on trade and development. His report laid the basis for Resolution 917 (XXXIV) which was adopted by the UN Economic and Social Council on 3 August 1962,⁵ and called for the establishment of a Preparatory Committee to create an agenda for a UN conference on trade and development. The Preparatory Committee was to meet in three ses-

sions: between January and February 1963 and May and June 1963 and finally in February 1964 as a prelude to the Conference itself which convened in Geneva between March and June 1964.⁶

II

The British position towards the idea of a Trade and Development Conference was originally, if not hostile, then certainly not particularly welcoming. The British delegation to the UN, had argued at the 34th session of the Economic and Social Council against the idea on a number of grounds. These were laid out in a briefing paper⁷ prepared by the Board of Trade but distributed and agreed to by the Foreign Office and the Commonwealth Relations Office and through a further report of an interdepartmental committee on which there was Foreign Office representation.⁸ The British had not favoured an international trade conference under a UN umbrella, believing it to be dangerous and that it would undermine the existing GATT mechanisms which were sufficient to deal with the problems of the economic development of the less developed states. In stark contrast were the Russians who had been able to use the proposal for a conference, 'as a medium for attacks on colonialism and the GATT itself and as a means of achieving their aim of a new world trade organisation',⁹ something which they had long requested as a way of returning to the failed ITO to rival the GATT of which the Soviet Union was not a member.

The British were also concerned about the timing of the Conference, ostensibly in terms of shortness of time to prepare for it, but actually because it might affect the British application to join the European Economic Community if it were held before 1964. They even went so far as to indicate they might refuse to participate if it were held in 1963. Yet in spite of their opposition, the British delegation at the UN voted in favour of Resolution 917 (XXXIV) largely because of the weight of support behind it and they did not wish to be seen to be obstructive towards the developing states in the UN. The British also had the question of the Commonwealth to consider as 14 states, classified as developing and containing over 600 million people, were Commonwealth members.¹⁰ In this position, the Foreign Office and the Board of Trade accepted the inevitable and shifted position to accept the Conference but were still opposed to its timing. This opposition went public in the Economic Committee of the UN General Assembly when they were faced with a resolution,

sponsored by 18 developing UN members, which sought two objectives, both of which the British Government found objectionable. The first was the attempt to fix the timing of the Conference for September 1963 and the second to allow it to pass judgement on existing international bodies' effectiveness in dealing with the trade arrangements of developing states. This raised the possibility of institutional meddling into the GATT by the UN Conference,¹¹ as well as the possibility of Soviet influence appearing through a reformed GATT.¹² It was not surprising that the British took exception to it. They voted against this resolution along with nine others but it was adopted by a simple majority on 15 November 1962, by 73 votes to 10 with 23 abstentions. Some solace was gained from the resolution having to be tabled at the plenary session of the General Assembly where a two-thirds majority would be required and thus unlikely to be carried and in fact the Conference date was later set for 1964 in line with British hopes.¹³

Thus as 1962 ended, the Foreign Office, along with the Board of Trade, needed to tread cautiously over the question of UNCTAD. There was little point opposing the initiative but they did not wish to see it become established as a substitute for the stillborn ITO, nor for it to replace the GATT, nor for it to allow Soviet membership of the GATT through a back door. A concern was that a trade conference could lead to the creation of a rival to GATT which would be a forum for political propaganda for the politicization of trade affairs and the expression of ideological divisions of the Cold War from which the GATT,¹⁴ without the interference of the Soviet Union, was spared. This was something which Sir Patrick Dean, Britain's representative to the UN in New York, raised in anticipation of the first meeting of the Preparatory Committee in January 1963.¹⁵ His concerns were borne out as the Soviet Union signalled what it thought the Conference should discuss which included the need for growth among states to eliminate 'the consequences of colonialism', and the 'barriers and restrictions created by the Western Powers and their closed economic groupings' as well as the establishment of a new ITO.¹⁶

The British also had some inkling of American views on the proposed UN Conference in November 1962 when representatives from the Foreign Office and the Board of Trade met US officials to discuss trade issues.¹⁷ The Americans were keen to show that while they were prepared to give support to the idea of the Conference, there were a number of questions that they would oppose to being included on its agenda. These included East–West trade, any discussion of a new World or International Trade

Organization, anything on development assistance or aid and anything on questions linked to the trade in petroleum. They were willing to see links between trade and development raised as well as the need for developing states to help themselves even by encouraging trade between and amongst them. It was important however for it to be made clear in the Preparatory Committee's discussions of the agenda, that the Atlantic partnership of the USA and Western Europe posed no threat to the developing states and rather should be seen as a benefit to them. What did concern the Americans was the role of the GATT, and they did see it as important that the GATT be involved in the Conference otherwise the less developed states might come to see it as a restricted economic club which offered little to the developing world but which a new ITO, with Soviet membership, might provide. In this regard, the Americans felt it important that the west take initiatives at the UN Conference and not allow the Soviet Union a free ride. This seemed to point to an active US role, but Jacob Mosak, the American head of the UN Department of Economic and Social Affairs (DESA), was sure that his countrymen's goals for UNCTAD were in effect limited to a 'pious statement of intent' and a 'declaration of principles' but not to any new International Trade Organization. The USA, like Britain, would not want UNCTAD to become a replacement for the GATT, controlled as it was by the Western economies.¹⁸

III

The change of heart of the British and also the Americans to the idea of a Conference resulted from a political momentum generated by the developing states in the UN for the need for some action and even for the creation of a new economic order. Given this support, it became important for UNCTAD's sponsors for it to have firm leadership. Very quickly the idea of it having its own Secretary-General emerged largely to give it a separate status from the UN's DESA. The developing states did not wish to see UNCTAD controlled by the DESA with the possibility of undue Western influence on it.¹⁹ Then, with the encouragement of the Brazilian, Argentine and Yugoslavian Governments, the name of Dr Raúl Prebisch, an Argentine economist and Secretary to the UN Economic Commission for Latin America (ECLA), came to the fore to take on the post. Prebisch had enormous international standing through his work with the ECLA and indicated in late 1962 that he was prepared to take on the role.²⁰ He hoped that he would be able to translate into a world economic forum a

number of what he considered were lessons drawn from his experience with the ECLA: that there was structural inequality in world trade and there was a need for firm global planning to counter these defects.

It quickly became clear that the Foreign Office and other parts of the British Government had firm reservations about Prebisch. Prior to the first meeting of the Preparatory Committee, in January 1963, the Foreign Office came to a broad assessment of the likely candidates for the post of Secretary-General. They were: Sir John Crawford, formerly Permanent Secretary of the Australian Department of Trade; Bhaskar Adarkar from the Indian Ministry of Commerce; Philippe De Seynes, the Under-Secretary for Economic and Social Affairs in the UN Secretariat; and Raúl Prebisch.²¹ The Foreign Office had some doubts about all of them but was able to arrange an order of preference.²² Crawford was Australian and a friend to developing countries; he was seen as efficient but might press for binding commitments from the Conference which would not always be welcome to the British. Adarkar was an official about whom the British knew little and it was not clear if he would stand for the post. De Seynes was a well-known member of the UN Secretariat and was seen as sensible and moderate but he had 'gone native' in that he now believed that the emergence of so many developing states had rendered GATT outmoded and wished to see the UN create a rival trade organization.²³ The Board of Trade had heard from the French delegation to GATT, ideas to this effect and the British would not welcome this initiative. Finally, Prebisch had the support of the South American states, was a good economist but was something of a controversial figure and it was assumed he was not well disposed to the EEC.²⁴ There were those in the Economic Relations Department of the Foreign Office who were, 'apprehensive that if made Secretary General of the Conference he would use his position for injecting his own ideas into the Conference to the exclusion of others and would lack the balance and unbiased judgment necessary to such a post'.²⁵ The British therefore had real doubts about his suitability, doubts that were shared by the Americans, who felt he was intending to bring the role and activity of the GATT into the remit of the Conference and who were concerned that he had the support of the Soviet Union.²⁶ A further analysis of the American position was developed by Keith Unwin, a member of the British delegation to the UN, through comments by the American delegation to the Organisation for Economic Co-operation and Development (OECD) meeting in Paris. The Americans were happy to see a Latin American take the role of Chairman of the Preparatory Committee for

the UN Conference and an African as the Rapporteur largely because they were unsure of Prebisch's suitability for the post of Secretary-General. However, the Americans were not prepared to go public on this even though they had informed U Thant of their position but they were happy to see an Australian or an Indian take the role of Secretary-General. For them Prebisch would have too much energy and too many ideas.²⁷

Thus, the preferred candidate for the Foreign Office was Crawford, whom it would endorse, but there was a recognition that he might not have much support in the wider UN.²⁸ After Crawford the British were prepared to accept Adarkar or, failing that, some other Indian candidate if one could be found. After that it would have to be de Seynes. Edward Heath, the Lord Privy Seal and effectively the Deputy Foreign Secretary, minuted to the effect that the British should not back de Seynes at all given what was known of him and especially so if the French Government did not sponsor him: there was no mention of any support for Prebisch.²⁹ Although the Foreign Office seemed to be prepared to accept Adarkar if Crawford failed to be appointed, the Bank of England was less impressed with the Indian. He was a likeable man and well-disposed to the British but did rather take the role of spokesman for the less developed states and could be both long-winded and emotional about subjects under discussion: he would be an acceptable but not a brilliant choice.³⁰ The British position was fluid, however, in that by the middle of January 1963, the Foreign Office had been influenced by the views of the OECD executive committee who, meeting in Paris, had indicated that a new candidate, Mankombu Swaminathan of India, should be preferred although the Indian Government had come out in favour of an alternative, Parizad Satarawalla, the Indian Director of Imports and Exports. This was pleasing to the Foreign Office as it was noted he was pro-Western in outlook. New Delhi was against Adarkar, however, whom the Foreign Office had seen as its second choice. This shifted the Foreign Office position which was now prepared to put Swaminathan first and Satarawalla second,³¹ with still no welcome for Prebisch.

Yet the British were left somewhat exposed when the American reservations towards Prebisch were rapidly dispersed by the middle of January 1963, and they changed tack,³² thereby allowing his appointment as the Secretary-General. The British delegation to the UN had some early indications, however, that the American change of heart may have been precipitate: the World Bank representative to the UN relayed the view to the British delegation that Prebisch's 'influence on the Conference would

be most unsatisfactory from the Western point of view' and that the new Latin American Institute for Economic Development under Prebisch's direction had become a centre for 'unreliable economists' and 'a nest of Communist propaganda'.³³ Unwin had every faith in Lopez-Herrarte, the World Bank observer's opinion. The Foreign Office and the Treasury were certainly wary of Prebisch's approach to trade and development and considered that they must be prepared to counter his ideas, particularly that there was a structural bias in world trade which worked to create a persistent trade gap between the growth rates of developing states against those of developed states. Part of the UN's 'Decade of Development' goals had been a 5 per cent global growth rate for all states but to Prebisch this was not possible for the developing states as their growth was hampered by the inequalities of this trade gap; and it would reach, according to him, \$20 billion by the end of the 1960s and thus action was required to converge the rates.³⁴ To the Treasury and the Foreign Office this smacked of the creation of an 'international welfare state' with a global commitment by developed states to raise the growth rates of developing states, without any responsibility on their part to help themselves. It appeared to presage an open commitment where states such as Britain threw 'good money after bad'. This was not something which the British could easily accept even if, by then, they were forced to accept Prebisch.³⁵

IV

Although the British Government and the Foreign Office had originally been lukewarm in their acceptance of the Conference, once the political momentum for it became clear it had to be taken seriously. The British position, like that of other states was refined in the Preparatory Committee meetings of the Conference, the first of which took place in New York, from 22 January to 5 February 1963. The Committee's task was to fix the areas for discussion at UNCTAD which it organized into seven headings: international trade expansion; commodity questions; manufactured goods; invisible earnings for developing states; regional trade groups; the financing to expand international trade and finally the question of institutional arrangements. In the Committee, the British were keen to register their support for UNCTAD arguing that they had voted for its enabling resolution,³⁶ which was the case, without adding that it was done so largely for political reasons and against their better judgement. The British delegation noted with some satisfaction that the Committee's

meetings had been broadly positive and that the Soviet attempt to introduce polemics and extraneous political questions such as disarmament had not been well received. Yet there was still some concern that the long-held Soviet demand for a revived International Trade Organization had support within the less developed states on the Committee and this was to be resisted in order to avoid Soviet membership and the introduction of East–West trade into discussions which were about enhancing the growth of the less developed states. The Foreign Office hoped that in the continuing Committee discussions, a similar approach would be adopted with the emphasis on practical trade items and to ‘avoid polemics and a political atmosphere’.³⁷

In the light of this commitment to practicalities, the British delegation to the second meeting of the Preparatory Committee in Geneva in June 1963 raised the question of an action programme which had already been generated by the GATT ministerial meeting on October 1962 and converted and expanded by the British into a set of proposals for a comprehensive UN programme on trade and development.³⁸ The action programme itself could be distilled into a number of items which pointed very much towards freeing up trade between the developed and the less developed states. The British proposed the proscription of new tariff barriers against the exports of developing states and the elimination of existing tariff barriers on their primary products and semi-processed and processed products and on the removal of quantitative restrictions on imports from them.³⁹ It was very much a liberal approach to trade, one which the Foreign Office hoped would apply not only to free market economies but also to the centrally planned ones of the Communist bloc,⁴⁰ and not surprisingly it ran into opposition from the Soviet Union.⁴¹ But it also generated a dispute with the French, who had in mind very different proposals for the main UNCTAD Conference. In relaying the discussion in Geneva, Unwin, the Foreign Office representative, noted that the French ideas had been tabled not as a complement to other solutions to the problems of the developing states but as an alternative. French ideas were very much based on market organization, reflective of what was being established in the EEC through common policies but sought to translate these into the organization of markets on a worldwide scale.⁴² In seeking the protection of markets, the French saw the British liberal proposals as an attack on them and not aimed solely at the Soviet bloc.⁴³ This position of the French as divergent from the British was something which members of the Common Market, the Six, had recognized and there were some who thought the British plan

had been devised to embarrass not merely the French but also the rest of the EEC,⁴⁴ perhaps in response to the veto on Britain's membership in January 1963. The differences between the British and the French were stark and were amplified by the American delegation to the Preparatory Committee which publicly criticized the French for their restrictive practices. The general atmosphere had been sullied by the American attack and left the French feeling persecuted, as the British delegation saw it.⁴⁵ The British did though feel that they had emerged with credit from the Preparatory Committee.⁴⁶ Heath, the Lord Privy Seal, was less sure. While supportive of his own officials' action programme he was, perhaps as a prelude to his later support for EEC membership, less eager to dismiss the French idea of arranged markets noting that, 'there is something to be said for market organisation being part of any plan and we tend wrongly to underestimate its importance, but not for replacing the whole action programme'.⁴⁷

The results of the Second Preparatory Committee's work were outlined in an Intel sent to British Embassies and High Commissions in August 1963,⁴⁸ which provided guidance on the continuing British position. The British had emerged from the Preparatory Committee in a good light, having proposed the UN action programme. There appeared to be little support for the Soviet idea of an ITO with delegates far more concerned with the end results of the Conference rather than a focus on institutional reform. It seemed clear at that point that the Conference was to be a serious economic endeavour and not one necessarily skewed by political considerations. In the light of this estimation, the UN Conference was going to be a factor in future international economic relations.

In November 1963, with the end of the Second Preparatory Committee, the Board of Trade tabled a paper to an interdepartmental group on UNCTAD in Whitehall which identified the British political and economic position towards the Conference.⁴⁹ This broadly indicated a number of British goals but it might be regarded as a commitment to be seen to take the conference seriously, to not get bogged down in Cold War divisions and to press for the greater use of higher commodity prices in trade with developing states rather than rely on increased aid which was something on which the British were not keen, in the achievement of the growth rate of 5 per cent in line with the target of the UN's 'Decade of Development'. Britain's position within the Commonwealth gave her an advantage in taking the lead with the developed states in encouraging reform. It was

important that British policies in and towards the Conference be sufficiently positive to avoid any claim that they were not taking it seriously and not playing their part in achieving the UN Development targets. The Conference was to be a success and it was important for the British delegation to be seen to have played a key role in it.

V

By late 1963, the Foreign Office thought the British position going into UNCTAD was a good one and as a way of gathering broader interest in it, the Economic Relations Department of the Foreign Office came forward with the idea of a seminar on UNCTAD. This was part of an initiative at the time to acquire some academic contribution to British foreign policy generally, through the organizing of seminars at British universities.⁵⁰ It was to prove a tendentious and divisive idea. The seminar had been planned for late 1963 at Nuffield College, Oxford, but the Warden of Nuffield, Mr Frank Chester, requested it be delayed until early 1964 to fit in with College business.⁵¹

Sir Patrick Reilly, a Deputy Under-Secretary in the Foreign Office, who was to lead for Britain in the UNCTAD conference, was initially very supportive of the idea and wrote to the Board of Trade, the Treasury and the Ministry of Agriculture seeking their approval and participation. The reaction was however less than enthusiastic: the Board of Trade while seeing some merit in the idea thought the timing was too close to the opening of the UN Conference itself. Moreover, Nuffield College had, as the process developed, invited a wider audience than the Foreign Office had originally intended and this raised the status of the seminar to a level which Sir Richard Powell, the Permanent Secretary at the Board of Trade, thought was 'flying very high' and that the inclusion of politicians—Chester had intended to invite Fellows of the College which would have included Edward Heath and James Callaghan—was something about which Powell had real doubts.⁵² The Treasury agreed that the timing posed difficulties,⁵³ but the response from Freddie Bishop in the Ministry of Agriculture was even more negative. He agreed that the timing was not helpful and that the availability of suitable participants would pose a problem with the amount of work required for the Conference itself. But more significant was the claim, in contrast to the Foreign Office view, that the seminar could prove rather embarrassing and a potential minefield for the British. As Bishop indicated:

The United Kingdom is going to be in a peculiarly difficult position at this Conference [UNCTAD]. It is not only that we are a developed country and therefore a potential source of considerable concessions, but that we are one of the biggest importing countries and therefore particularly vulnerable. If there was high level participation in the Seminar from several Departments, it would be very hard to avoid bringing out, perhaps in the public gaze, the extreme difficulty of our negotiating position.⁵⁴

This opposition effectively killed off the idea of the seminar before UNCTAD convened. Reilly was not prepared to have a row with others in Whitehall over it and he did accept that the idea had rather expanded beyond the original plan of a simple seminar for officials to meet and discuss current policy issues with the academic world. He personally deplored Bishop's argument,⁵⁵ finding the tone of the Ministry of Agriculture's approach to the seminar and by extension to the UN Conference, to be 'depressing and unconvincing'.⁵⁶ Reilly hoped that the British could approach UNCTAD in a 'less defeatist spirit' and perhaps even see the questions that the UN Conference would consider as ones which Britain could approach more positively. He had been encouraged to hear, 'thoughts expressed that it may be in the *economic* interest of this country that it should do more than it is doing to strengthen the economies of the under-developeds,[*sic*] even if that means paying more for their primary products or even taking more of their manufacturers.'⁵⁷ Bishop was unrepentant, however, about the problems raised by a seminar before the Conference and the need for caution. The British were likely to be in a 'vulnerable' position at the Conference and under pressure to make concessions which, 'whether by aid or trade would certainly be financially significant and perhaps in forms which would be objectionable'.⁵⁸ In the event, the seminar was postponed to satisfy the doubters until later in the year.⁵⁹

When the Conference did convene in March 1964, Reilly sent back his thoughts after its first phase had ended.⁶⁰ In general the approach was hopeful; there had been the standard lines taken by states in the plenary sessions but not too much controversy had been generated. The proceedings had been slow but the machinery was working. Members of the Soviet bloc had been moderate but were prepared to put the best gloss on their own performance and had been willing to swallow the Prebisch line as well as pushing once more for an ITO. The developing countries had taken a generally moderate line but their case was politically uncontested and

the Prebisch line they took as accepted doctrine. The creation of a new International Trade Organization was one which Reilly thought a number of states were advocating, including some GATT members, even if it was a means of pressuring GATT into reform from within. The question for the British was the approach of some of their allies: in particular those difficulties with the Americans, who seemed intent upon eroding any excessive expectations placed on the Conference, and whose opening statement had been poorly received. The French had peddled their own well-known line but in a moderate fashion and seemed intent upon avoiding a dispute with any set of parties. What the French appeared to want was the Conference to end with a set of harmless declarations and an agreement to keep talking in the future, but for nothing which would harm French interests. The British position had been well received but placed them in an exposed position as the policies required the active support of the western allies, two of whom, seemed to be intent on talking the Conference into irrelevance.⁶¹ Reilly felt the British had either to break with the USA and France or to go along with them. But the danger of this might be the failure of the developed states to produce tangible results from the Conference which could lead to a number of unwelcome and to be resisted consequences. These were seen as the failure of the Conference being blamed on the developed countries and leading to embittered feelings by the developing states—something which could be exploited by the Soviet bloc, especially in its push for institutional reform and the need for an ITO. The second could be the orchestration by the developing states, along with Prebisch, of a set of resolutions which would put the West in a defensive position. The final outcome could be the realization by the Americans that the Conference would not be satisfied to develop into a mere talking shop, as they seemed to want and as Mosak had predicted, and might require them to produce some last-minute, diplomatic prestidigitation to buy off any resentment in the developing world: the British were worried that this might be linked to increased aid packages which would be unpalatable to them.⁶²

VI

Did the Foreign Office and the British consider anything had been achieved at the First UNCTAD? The record, like the Conference itself, was mixed. The Foreign Office had not wished to see the revival of an ITO under a UN umbrella with the attendant problems that that would bring with Soviet and Eastern bloc membership. Nor did it wish UNCTAD to be a mere

talking shop. The result was something of a compromise in that the developed states at Geneva would not accept Moscow's longed for ITO, but the developing states, the G77 as they became, would resist the status quo. The solution arrived at by Prebisch was that UNCTAD would become a part of the UN system, it would have regular conferences every three to four years and there would be a trade and development board established to manage the work of UNCTAD between sessions plus a separate Secretariat.⁶³ The feared ITO had at least been avoided, something which Heath relayed to the British Cabinet in early June.⁶⁴

Yet it was unlikely that a conference meeting over three months could reach a consensus on other intricate questions of trade and development. The Foreign Office, along with the Board of Trade, had hoped to see a conference devoid of polemics, where practical questions of development were raised and where the British could be seen to be taking a lead—often a key factor in post-war British foreign policy. The British action programme had been predicated on the liberalizing of international trade, but agreement in many areas was missing when UNCTAD closed. The final remarks of George Ball, the US Under-Secretary of State, to the Conference were brief, lacklustre, offered little optimism for the future,⁶⁵ and rather echoed his opening comments which had been highly critical of the whole UNCTAD premise, indicating that, as the developed world would not voluntarily open its markets to the developing world, the whole enterprise was a fraud.⁶⁶ His remarks, however, stood in stark contrast to those of Heath, who had moved from the Foreign Office to become Secretary of State for Industry, Trade and Regional Development, and who wound up for Britain at the end of proceedings. He noted that UNCTAD had agreed a number of *recommendations* which included the reduction or elimination of tariff barriers on exports of manufactured goods from developing states, which had been part of the British action programme. What had impressed him was the unity of purpose of many of the developing states, the G77 group, which had coalesced at Geneva in spite of many differences among them and he took the optimistic view, echoing the Foreign Office line, that much had been accomplished in terms of a recognition that 'international policies on trade and development are seen to be moving in the right direction'.⁶⁷ In reporting to the Cabinet later in the week, Heath was able to declare that the final outcome had contained no provisions of a mandatory nature and that the outcome for the British was not at all unsatisfactory.⁶⁸

NOTES

1. For an account of these negotiations see, R. N. Gardner, *Sterling-Dollar Diplomacy* (Oxford: Oxford University Press, 1956); a more recent analysis can be found in, G. John Ikenberry, 'A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement', *IO*, 46/1 (December 1992): 289–321.
2. For the American scepticism towards the British position on free trade at Havana, see *FRUS, 1948, General; the United Nations*, vol.1 part 2 (Washington, DC: US Government Printing Office, 1948), Norweb to Secretary of State, 27 February 1948, p. 878.
3. For the background to the decision see, R. Toye, 'Developing Multilateralism: The Havana Charter and the Fight for the International Trade Organization', *IHR*, 25/2 (June 2003) and J. Odell and B. Eichengreen, 'The United States, the ITO and the WTO: Exit Options, Agent Slack and Presidential Leadership', in A. O. Krueger (ed.), *The WTO as an International Organization* (Chicago: The University of Chicago Press, 1998).
4. See the transcript of Kennedy's speech on line at the John F. Kennedy Presidential Library, <http://www.jfklibrary.org/Asset-Viewer/DOPIN64xJUGRKGdHJ9NfgQ.aspx>
5. UN Economic and Social Council resolution (XXXIV), resolution 917.
6. The Proceedings can be found on www.unctad.org/en/Docs/econ.
7. Board of Trade paper, *United Nations: International Conference on Trade and Development*, 20 November 1962, FO 371/172268/UEE1012/7.
8. *General Policy for the United Nations Trade Conference*, 14 November, 1963, FO 371/172280/UEE/1012/249.
9. *General Policy for the United Nations Trade Conference*, 14 November, 1963.
10. E. Heath, *The Course of My Life* (Hodder & Stoughton, 1998), p. 604. Heath was Lord Privy Seal and effectively Deputy Foreign Minister in the House of Commons until October 1963 when he moved to become President of the Board of Trade and took the new title of Secretary of State for Industry, Trade and Regional Development. He was the British Minister who attended the final UNCTAD Conference.
11. GP(63)2, 3 January 1963, CAB 134/1958.

12. Board of Trade paper, *United Nations: International Conference on Trade and Development*, 20 November 1962.
13. Board of Trade paper, *United Nations: International Conference on Trade and Development*, 20 November 1962.
14. Board of Trade paper for the GATT Policy Committee, 'UN Trade Conference possible amendments to the GATT', 3 January 1963, GP (63)2, CAB 134/1958.
15. Telegram 10, 2 January 1963, FO 371/172268/UEE1012/3.
16. Soviet Union memorandum, *Consideration of Agenda of United Nations Conference on Trade and Development*, 28 January 1963, FO 371/172269/UEE1012/31.
17. FO 371/172268/UEE 1012/1, 26 November 1962.
18. Cited in E. J. Dosman, *The Life and Times of Raúl Prebisch, 1901–1986* (Montreal & Kingston: McGill-Queen's University Press, 2008), p. 387.
19. Dosman, *Life and Times*, p. 386.
20. Dosman, *Life and Times*, p. 383.
21. GATT Policy Committee, *United Nations Conference on Trade and Development*, 7 January 1963, GP(63)4, CAB 134/1958.
22. Note by Mason, 3 January 1963, FO 371/172268/UEE 1012/13.
23. GATT Policy Committee, *United Nations Conference on Trade and Development*, 7 January 1963.
24. Note by Mason, 3 January 1963, FO 371/172268/UEE 1012/13.
25. Note by Mason, 3 January 1963, FO 371/172268/UEE 1012/13.
26. Dean (NY) to Foreign Office, tgm.10, 2 January 1963, FO 371/172268/UEE1012/3.
27. Letter Unwin (NY) to Mason (Foreign Office), 11 January 1963, FO 371/172268/UEE 1012/20.
28. Tgm 64, Foreign Office to Brussels, 16 January 1963, FO 371/172268/UEE 1012/13.
29. Note by Mason, 3 January 1963, FO 371/172268/UEE 1012/13.
30. Letter, Portsmore (Bank of England) to Hubback (Treasury), 10 January 1963, FO 371/172268/UEE 1012/20.

31. Minute by Mason and accompanying minutes, 15 January 1963 and tgm. 429, Foreign Office to UK delegation (NY), 18 January 1963, FO 371/172268/UEE 1012/20.
32. Tgm. 101 Dean (NY) to Foreign Office, 18 January 1963, FO 371/172268/UEE 1012/20.
33. Unwin (NY) to Mason (Foreign Office), 26 January 1963, FO 371/172268/UEE 1012/20.
34. Dosman, *Life and Times*, p. 395.
35. Treasury note after the UNCTAD Conference on Prebisch with which the Foreign Office agreed, 2 October 1964, UNC (64)58, FO 371/178483/USD11018/48.
36. Note on the proceedings of the First Preparatory Committee prepared by the British delegation, 8 February 1963, FO 371/172269/UEE1012/38.
37. Foreign Office guidance tgm. 128, 4 March 1963, FO 371/172269/UEE1012/48.
38. FO 371/2172274/UEE 1012/121; a copy of the British Action Programme can be found at FO 371/172274/UEE 1012/125.
39. *A United Nations Action Programme*, FO 371/172274/UEE1012/125.
40. Foreign Office brief for M. Werner's visit to Britain, November 1963, FO 371/172284/UEE1012/307.
41. Summary by Burgh, Board of Trade, 9 July 1963, FO 371/172274/UEE 1012/129.
42. Tgm. 175, Unwin (Geneva) to Foreign Office, 28 June 1963, FO 371/172275/UEE 1012/155.
43. Summary by Burgh, Board of Trade, 9 July 1963.
44. Tgm. 175, Scott (Geneva) to Foreign Office, 28 June 1963, FO 371/172274/UEE1012/155.
45. Tgm. 178, Unwin (Geneva) to Foreign Office, 29 June 1963, FO 371/172275/UEE 1012/155.
46. Unwin (Geneva) to Mason, 10 June 1963, FO 371/172274/UEE1012/122.
47. Brief, 'UN Conference on Trade and Development', 2 July and 4 July 1963, FO 371/172276/UEE 1012/170.
48. INTEL 81, 20 August 1963, FO 371/172282/UEE 1012/269.
49. U.N.C. (63)9 Final, 18 November 1963, FO 371/172280/UEE 1012/249.
50. Letter, Reilly (Foreign Office) to Powell (Board of Trade), 21 November 1963, FO 371/172282/UEE1012/277.

51. Minute, Albert Lamb, 22 October 1963 and letter, Chester, 24 October 1963, FO 371/172282/UEE1012/277.
52. Letter Powell to Reilly, 28 November 1963, FO 371/172282/UEE1012/277.
53. Letter, Rickett (Treasury) to Reilly, 4 December 1963, FO 371/172282/UEE1012/277.
54. Letter, Bishop to Reilly, 29 November 1963, FO 371/172282/UEE1012/277.
55. Reilly's minute, 8 December 1963, FO 371/172282/UEE1012/277.
56. Letter, Reilly to Powell, 9 December 1963, FO 371/172282/UEE1012/277.
57. Letter, Reilly to Powell, 9 December 1963 (emphasis in the original), FO 371/172282/UEE1012/277.
58. Letter, Bishop to Reilly, 12 December 1963, FO 371/172282/UEE1012/277.
59. FO 371/178077/UEE1012/517.
60. Tgm.29 Reilly (Geneva) to (Foreign Office), 10 April 1964, PREM. 11/5179.
61. Tgm.29 Reilly (Geneva) to (Foreign Office), 10 April 1964.
62. Tgm.29 Reilly (Geneva) to (Foreign Office), 10 April 1964.
63. An excellent summary of the intricacies behind this compromise can be found in Dosman, *Life and Times*, pp. 405–9.
64. CM(64) 31st, 11 June 1964, CAB 128/38.
65. See www.unctad.org/en/Docs/econ, the statement by Ball to the 30th plenary meeting, 10 June 1964.
66. G. Ball, *The Past has Another Pattern* (New York: Norton, 1982), pp. 193–5.
67. See www.unctad.org/en/Docs/econ, the statement by Heath to the 36th plenary meeting, 16 June 1964.
68. CM(64) 32nd, 18 June 1964, CAB 128/38.

Commerce as a British Cold War ‘Heresy’: The Intra-NATO Debate on Trade with the Soviet Bloc, 1962–5

Evanthis Hatzivassiliou

By the early 1960s, post-war reconstruction and development had led to a relatively elaborate international economy. This evolved from the need to cover immediate needs, to fulfilling the requirements of the complicated world of sustained growth, expanded international trade, finance and financial guarantees. On the Cold War front, the search for détente seemed to open new prospects for a more active Western trade policy with the Soviet bloc. Within NATO, Britain took the lead in arguing that commerce with the Eastern bloc could present such opportunities. However, the allies had reservations, and the ensuing debate raged within NATO during the mid-1960s.

An ‘older’ and experienced great power, Britain was often in the vanguard of Western Cold War policies. In October 1944, at a time when the Americans were resisting the concept of ‘spheres of influence’, the British Prime Minister, Winston Churchill, concerned over Soviet control of Eastern Europe, concluded the ‘percentages agreement’ with Stalin.¹ In the late 1940s, the Foreign Secretary, Ernest Bevin, played a major role in convincing the Americans to step in and restore the balance of

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power in Europe.² However, after playing a prominent role in organizing a Western strategy of deterrence, Britain sought a return to a kind of diplomatic normalcy. By 1952, the Global Strategy Paper envisaged a long Cold War and suggested that emphasis be placed on the nuclear deterrent,³ while in 1953–4 Churchill advocated a summit with the Soviets.⁴ In March 1959, the Prime Minister, Harold Macmillan, made a spectacular visit to Moscow. By the 1960s, Britain was taking the lead in arguing that a relaxation of tensions and an expansion of trade was a more efficient way of fighting the Cold War.⁵ All these initiatives, essentially, pointed towards traditional British pragmatism: although the ideological dimension was not absent from British Cold War attitudes, for Whitehall international relations were subject to specific power considerations and to an underlying ‘logic’ of the international system; the British were always closer to the thinking of Hans Morgenthau than of Woodrow Wilson.

At the same time, novel international procedures were emerging. The West was becoming better organized institutionally, and its responses were, to a large extent, the products of international or even transnational processes. NATO was a pivotal instrument of this institutionalization. As a military alliance, it focused on the military threat. However, it needed also to take into account additional elements rather than the mere comparison of levels of military forces. These included economic trends, social conditions, and the stability of political systems. Thus, NATO’s civilian administration (the International Staff) closely monitored the political and economic situation in the Soviet bloc.⁶

Economic affairs were not NATO’s domain. The British and Americans repeatedly stressed that NATO’s work should not infringe upon the competence of other specialized ‘Western organizations’ and in 1956 the Report of the Three on the reform of the alliance, accepted this thesis.⁷ However, there were aspects of economic relations which did touch upon strategy: since 1953, the alliance had pointed out to its members the need to respect the embargo on strategic materials, to avoid dependence on Eastern markets and to refrain from offering Moscow and its allies ‘unduly generous’ long-term credits.⁸ By the late 1950s, NATO experts were insisting that the West was unable to influence the tightly controlled Soviet satellites and that the development of East–West trade was subordinate to the solution of outstanding East–West problems.⁹

A change occurred in the early 1960s. International trade became a more complicated affair. It was now the subject of long deliberations between the Western powers, both bilaterally and in the context of the

General Agreement on Tariffs and Trade (GATT).¹⁰ At the same time, Western experts started detecting signs of structural stress in the Soviet economy, mostly a notable slowing down of its growth rates and major problems in agriculture. Moreover, the evolving Sino-Soviet split had now broadened the space for manoeuvre of the Eastern European countries. By 1963, 58 per cent of the total trade of NATO countries with communist states was directed towards the satellites, with 33 per cent going to the Soviet Union and only 9 per cent to China.¹¹ Facing key shortages, the Eastern European countries became interested in commercial relations with the West. In this respect, a series of new questions emerged. Could détente offer an opportunity to the West to 'weaken' the Soviet hold on its satellites? What was the role of trade in the search for détente?

THE IDEA OF A 'FORWARD' POLICY, 1961–2

The outbreak of the Cold War had impeded a revival of British exports to Eastern Europe. In 1948–50, under American pressure, Britain led the West Europeans in agreeing to the strategic embargo on the Soviet bloc. The British economic ministries strongly resented the restrictions. However, the Foreign Office and the Ministry of Defence prevailed by pointing to the political imperative of keeping in line with the USA.¹² Even so, by 1953–4 the Churchill Government set out, rather unsuccessfully, to convince the Americans to allow a modest relaxation in East–West trade.¹³ By the early 1960s, the recurring problems of the British economy convinced the British Cabinet of the need to embark on an export drive. The Treasury, the Board of Trade and the Bank of England supported this approach.¹⁴ Similarly, both the Foreign Office and British businessmen touring Eastern Europe had formed the impression that the satellites desired to 'switch purchases from West Germany to the United Kingdom'.¹⁵ In August 1961, even as the Berlin Wall crisis unfolded, Britain decided to adopt a new economic policy towards the satellites based on efforts to 'open up' Eastern Europe through trade and cultural contacts. In typical British fashion, Whitehall fostered 'evolution rather than revolution'. The expansion of trade would involve goods which did not appear in the strategic embargo lists, decided by the multilateral Coordinating Committee (CoCom) on East–West trade.¹⁶

In mid-1962, after sounding out the Americans, Britain suggested this policy to NATO.¹⁷ The State Department indicated that the 'basic premises of [the] UK Eastern European paper are in close agreement with

Department's thinking'.¹⁸ At the same time, however, the French, the Italians and the Americans doubted that economic means alone could produce political results.¹⁹ Thus, at the request of the North Atlantic Council (NAC), the NATO Committee of Political Advisers, under the chairmanship of the British diplomat Robin Hooper, prepared a special document on a future policy towards Eastern Europe. It was noted that the document ought to be used as 'a "think piece", reflecting broad consensus but not binding on Governments as to details'.²⁰ The final report was deeply influenced by the British concept of gaining 'evolutionary rather than revolutionary' change. It noted that although Soviet control over the region was indisputable, the West should adopt a positive policy over the long term.²¹ The paper was hailed as a great victory within the Foreign Office:

The 1962 NATO paper is a condensation of a British paper on policy towards the Satellites, which argued that it was in our interests to expand commercial and cultural contacts with them, and to encourage them to think of themselves as sovereign states, not wholly dependent on the Soviet Union. It was something of an achievement for us to have obtained NATO concurrence with our views.²²

The reality was that beyond agreement *in principle*, NATO was far from unanimous. Britain, the Scandinavians and Canada supported the new concept. The Dutch and the frontline states of West Germany, Greece and Turkey had doubts about the practical implementation of such a policy. The Americans were not forthcoming to the granting of credits to the Soviet bloc.

Thus, problems were bound to surface when specific issues occurred. The USA favoured an embargo on the Soviet Union on large diameter pipes and pipeline equipment. Although this item had been removed from the strategic embargo list in 1958, the Americans feared that an expansion of the Soviet pipeline system to the satellites would enhance the bloc's ability to move and supply troops. The British and the Norwegians suggested that such an embargo would not hinder Soviet policy.²³ The issue was examined in a joint meeting of the NATO Political and Economic Advisers early in 1962 and in successive meetings of the NAC. The British acquiesced to a NATO 'recommendation' to avoid such sales, under the impression that this was non-binding and that they would be free to continue their policy. Soon however, they came under pressure to comply with a 'concerted' approach even though they still believed that such an

area fell outside NATO's competence.²⁴ Early in 1963, the British resisted an American suggestion that CoCom make a similar recommendation.²⁵

Another problem that grew in importance in 1962–3 was 'credit competition'. Western credits to communist countries (including China) had risen, especially because of Eastern imports of grain from the West.²⁶ Government credits were given only to Poland, but government-guaranteed private credits were a different matter. During this period, the West came to fear that a 'credit race' could be sparked between Western countries each attempting to secure advantages in Eastern markets.²⁷ The problem was examined by the Berne Union, the Organisation for Economic Co-operation and Development (OECD) and the European Economic Community (EEC). In spring 1962, the French and the EEC suggested the adoption of the Berne Union rules which provided for advance notification for any guaranteed credit of over five years. They also included a procedure for consultation prior to a decision to extend credit.²⁸ The British accepted the idea of advance notification.²⁹ However, at the NATO Committee of Economic Advisers they were to stress that, with the exception of the strategic embargo list, they did not intend to discriminate against the 'Sino-Soviet bloc' and that NATO was not the appropriate body for the coordination of the economic policies of member states.³⁰

THE CRISIS OF 1963

The French veto on Britain's application to join the EEC, in January 1963, complicated the situation further. A few days earlier, the French and the Dutch had proposed to the British to join an EEC decision to limit credits to five years. The EEC proposal was supported by the USA, Greece, Turkey and Portugal, countries always more reserved on the credit issue. Indeed, the Americans repeatedly stated their position during the sessions of the NAC and the Committee of Economic Advisers.³¹ Britain, Canada and the Scandinavian countries argued, in contrast, that long-term government-guaranteed credits were necessary to open up the Eastern European economies and propel their 'diversification'.³² The French veto to Britain's EEC application aggravated the situation: it added insult to injury, increased the importance of British exports to Eastern Europe and made Whitehall even more determined not to give way on the credit front. Thus, Britain, which had initially hoped to attain NATO acquiescence for an expansion of East–West trade, found itself resisting a concerted alliance approach for a more conservative policy.

Meanwhile, other problems arose. In early 1963, the British Government examined proposals for the building of Soviet ships in British shipyards and for an increase of British imports of Soviet oil.³³ Similarly, the British continued their negotiations about the sale of large diameter pipeline equipment, ignoring warnings from the US Under-Secretary of State, George Ball, that this issue was important to Washington and that Congress considered it an indicator of Anglo-American relations. At the NATO Committee of Economic Advisers the British often found themselves facing pressure on this subject.³⁴ The pipeline issue revealed some unusual signs of British impatience or arrogance. In January 1963, the new Deputy Under-Secretary of State at the Foreign Office, Viscount Hood, bluntly told the NATO Secretary-General, Dirk Stikker, that 'there was no chance of our altering our policy'. On his part, Stikker 'repeated that he thought this was unfortunate, particularly at the present moment, when a gesture of this kind would help us in the context of the Brussels negotiations by showing we were ready to cooperate in Europe'.³⁵ From NATO, the British Permanent Representative, Sir Evelyn Shuckburgh (a former Assistant Secretary-General of the Alliance), warned that differences over oil, pipelines and credit could isolate Britain, but he was largely ignored.³⁶ By March 1963, the gap with the USA seemed to be widening. The Foreign Office repeatedly protested that Britain observed the CoCom rules for the strategic embargo and described the US attitude as 'emotional' and as favouring 'economic warfare'. On three occasions in March and April 1963, Ball suggested high-level bilateral talks on these matters, which the British avoided.³⁷ To make matters worse, early in April the Belgians were upset to find out that one of their firms negotiating with the Soviets had been out-flanked by a British firm offering long-term credit. The Belgians accused the British of starting a credit race.³⁸

In late May 1963, at the NATO Committee of Economic Advisers, the British agreed to establish a notification procedure for credits of more than five years, but they officially rejected the EEC proposal to limit all credits to just five years. At the NAC of 12 June 1963, the British found themselves isolated. The Americans and the Six called for a coordinated policy limiting credits to less than five years. Under this pressure, the British-led 'group' showed signs of disintegration. At the meeting of the Economic Advisers on 13 June, the representatives of Canada, Denmark and Norway (the countries most likely to side with London) found themselves conveniently 'without instructions'. A few days later the Danes indicated that, although they preferred the British approach, they would accept a limitation on

credits.³⁹ The Americans cautioned the British that there were signs that the Japanese and the West Germans would follow the British example and offer more generous credit to the Soviets. They also noted, ominously, that there were people in the USA who were having second thoughts about a 'special relationship' which 'was proving to be too much a one-way traffic'.⁴⁰ Shuckburgh pointed to his isolation and urged for an agreement with the Six, but again he was ignored.⁴¹

In August 1963, following consultations with the Americans and with François-Didier Gregh, the chairman of the Committee of Economic Advisers, the Six put forward a compromise proposal which allowed for some partial exceptions for credits longer than five years, on the condition that consultation would take place within NATO prior to the signature of an agreement. The USA supported the EEC proposal, but in early November the British again rejected it, despite Shuckburgh's warnings that the allies were angry.⁴² The Foreign Office noted that the whole NATO discussion had become a 'dialogue des sourds'.⁴³

At the same time, another disagreement occurred regarding imports of Turkish chrome. The NATO Economic Advisers asked the member states to agree to a resolution pledging to treat Turkish chrome preferentially, and discriminate against Soviet chrome. The British noted that their policy was against discrimination in non-strategic materials, and that the French and the West Germans had in fact bought large quantities of Soviet chrome in 1962. Moreover, the British wanted to avoid a repetition of the 1962 NATO recommendation on large diameter pipelines over which they had suffered strong pressures to comply.⁴⁴

Meanwhile, things were going very badly with the Americans as well. In Washington in early October, Ball indicated to the British his government's fears of a credit race between Western countries. He was confronted with the usual British arguments about non-discrimination in trade which, even assuming that they were correct, missed the point. Ball was not talking about the principles of trade policy. He was now directly suggesting that the British were not cooperating at a *political* level.⁴⁵ Following this, the Americans announced that Ball would attend the NAC meeting of 18 November, to explain the US position on East-West trade and soon the other allies announced that their Ministers would attend as well.⁴⁶ In the USA, moreover, public interest had grown following the Soviet decision to buy American wheat and both the press and Congress were demanding a harmonization of Western trade policies.⁴⁷ Matters were coming to a head. A meeting of the new British Foreign Secretary, R. A. Bulter, with Stikker

himself, on the issue of credits, proved abortive.⁴⁸ On 13 November 1963, Ball met Edward Heath, the British Secretary of State for Industry. Both men explained their respective positions in what was clearly a dialogue of the deaf.⁴⁹ It should be stressed that the Americans, and Ball personally, were fully aware of the British arguments about the importance of exports for the British economy and that Ball had presented these arguments in the intra-US debate over trade.⁵⁰ However, Ball was now voicing Washington's anxiety over the apparent *unilateralism* of the British position. Thus, the British were on a collision course with the Six and also the USA. In late October, the Moscow Embassy, while reporting on the projected visit of a Soviet delegation to London to renew the 1959 trade agreement, had advised that Britain should not be the first to break the 'credit front'. It had stressed also that this was not necessary for the expansion of bilateral commercial exchanges.⁵¹

Thus, in the NAC on 18 November 1963, Britain was against the wall. Ball insisted that by extending long-term credits to the Soviet bloc, the West was enabling it to overcome its economic difficulties or continue its military build-up. In Ball's view, this could even damage the prospects of détente. He was supported by the Germans, the French, the Dutch, the Portuguese and the Turks. The Belgian Foreign Minister, Paul-Henri Spaak (a former Secretary-General of NATO), tilted the balance against Britain. Although he was in favour of the 'greatest possible' increase of Eastern European trade he intervened decisively for the adoption of a common NATO policy which would prevent a credit race. Edward Heath put forward a case for the opposing view. He suggested that Western credits were a small portion of Soviet resources and could not influence either Soviet foreign policy or the Soviet military buildup. Heath was supported by the Canadians, the Danes and the Norwegians. The Italians and the Greeks held a middle line, suggesting the problem be studied further.⁵²

Such a row in the NAC between the Americans, the British and the Six was highly unusual, and caused further problems. The US Permanent Representative to NATO, Thomas K. Finletter, became very concerned that the *Washington Post* had reported an 'eyeball-to-eyeball' Anglo-American confrontation at the NAC.⁵³ Ball cabled to the State Department that the British quarrel was with Spaak, the French and the Germans, while he had 'stood down completely from this controversy'. He also claimed that he had helped Heath.⁵⁴ However, this was not an accurate picture. It is possible that Ball, with his well-known directness (and clumsiness), had adopted a stronger position at the NAC than Washington had really wanted, and that he had played into the hands of the Six who wanted to take on Britain.

In any event, the British were saved by the bell. Kennedy's assassination made all parties anxious to avoid further intra-NATO confrontation. In early December, during a meeting in Washington between Rusk and the Defense Secretary, Robert McNamara, it was noted that Kennedy's assassination made it important to have 'mutual reaffirmations of faith' in the forthcoming ministerial meeting. Rusk instructed the US delegation to NATO to reassure the British that the USA did not wish any confrontations and that this applied to the problem over credits.⁵⁵ At the NAC, Stikker strongly suggested that the ministerial session should demonstrate the unity and the cohesion of the alliance.⁵⁶

In order to defuse tensions, the British suggested that the Economic Advisers study the credits problem further. However, more disagreements arose. The British were prepared to accept an obligation to *notify* NATO at the stage of the *signature* of a contract, but they were against 'consultation' at the time of its offer, which implied an obligatory procedure that could also reveal projected contracts at the time they were being negotiated. They protested that private firms had been negotiating contracts under the assumption that 'long-term' credit was acceptable and that any backtracking at this stage could lead to Soviet counter-measures. By mid-December, the UK delegation to NATO had managed to convince its allies of the necessity of a new, wider study on East–West trade and its political repercussions. When the Foreign Office asked for further amendments to this provision, an exasperated Shuckburgh suggested that Whitehall underestimated the extent of British isolation. The Foreign Office replied that they fully understood the problem, but other government departments in London had different priorities.⁵⁷

At the December 1963 ministerial NAC the same positions on credits were expressed, but a new row was avoided.⁵⁸ The Foreign Office decided to continue with its policy of 'evolutionary coexistence' with Eastern Europe. In late January 1964, Heath announced Britain's decision to liberalize further its trade policy with Eastern European countries.⁵⁹

DEFUSING THE TENSIONS, 1964–5: A SUI GENERIS BRITISH SUCCESS

Anglo-American differences remained and even intensified after January 1964, when the Americans learned the credit terms extended by the British Cabinet for the sale of Leyland buses to Cuba. This led to bitter complaints by President Lyndon Baines Johnson to both Lord Home, the

Prime Minister, in February and the Foreign Secretary, Butler, in April.⁶⁰ A brief for Butler's meeting with Rusk, in April 1964, was to note that the two countries 'cannot reconcile' bilateral differences on trade, but that it was imperative 'to play down our differences and in particular to minimise public controversy on this issue'.⁶¹ In April 1964, the first conference of British Ambassadors in Eastern Europe concluded that the Americans were very optimistic regarding change in the Soviet bloc. According to the British diplomats, no quick results were to be expected, and the 'forward but not aggressive' British policy could promote diversity in the region.⁶²

In March 1964, the Atlantic Policy Advisory Group (APAG), a new body of NATO planners formed as a result of an Anglo-American initiative, discussed East–West relations. Some members, led by Britain, suggested that together with vigilance on the military level, the West should also seek 'fields of common interest' with the Soviets, aiming at 'progressively reducing differences between the two systems'. Others, however, led by the USA and France, noted that the monopolistic Soviet system would merely use East–West trade to alleviate its problems because the communist system would 'screen the Western exporter from the Soviet consumer'. Above all, expanded trade would entail recognition of Soviet control in Eastern Europe.⁶³ The British delegate, Sir John Nicholls, recorded his disappointment:

I am struck by the reluctance of some delegates to see anything good in the relaxation in Eastern Europe. They spoke almost nostalgically of the bad old days of monolithic Communism, when everything was dangerous and could be instantly recognised as such.⁶⁴

Meanwhile, the study of the NATO Economic Advisers was moving on. A working group had already made proposals for a procedure of notification on long-term credits.⁶⁵ However, the political issue continued to cause tensions. Initially, at the suggestion of the British, the Economic Advisers set out to discuss the relation, if any, of Western credit policy with Soviet economic problems. The British claimed that Western credit had a minimal impact on the Soviet economy and could not influence Soviet détente policy or Soviet military expenditure, as the Americans had claimed in the November 1963 NAC. However, in April, the British realized that the Economic Advisers were about to put forward the US view as a 'majority position'. Shuckburgh managed to block this, while Stikker also appeared anxious to avoid a new row in the forthcoming ministerial NAC.⁶⁶ Thus the study of the Economic Advisers on the political implications of credits led nowhere.

During meetings of the Economic Advisers with national officials in late spring of 1964, the British insisted that the West could encourage 'diversification' in Eastern Europe, but could not hope for a swift 'desatellization'. The majority of the other member-states argued that the satellites exported poor quality agricultural products to the West, while Western exports were hampered by these countries' lack of hard currency and their rigid planning which did not favour international trade. They also warned the British, obliquely, that they stood to lose in a credit race, since the other NATO members could outbid British offers.⁶⁷ The intensity of intra-NATO disagreements made Stikker comment anxiously in his spring 1964 political appraisal that 'if we cannot attain unanimity, let us at least see to it that our differences do not lead to our striving to outbid one another in the credit facilities we offer to the Communist World'.⁶⁸

Finally on 20 October 1964, the Economic Advisers reported to the NAC on 'recommendations as to such economic measures as might be taken by NATO to loosen the ties between the USSR and the various satellites'. This document was an indication of the huge British influence in the NATO civilian machinery. The Economic Advisers recorded the disagreements, and made the unprecedented suggestion that the NAC accept a *division* of the member-states. The economic experts were, in effect, proposing to allow freedom of action to those countries supporting a 'forward' policy. This was the first time that a NATO study group suggested that the NAC openly recognize an intra-NATO disagreement on such a salient issue.⁶⁹ Shuckburgh hailed the report with relief, noting that 'the question of long-term credit was happily allowed to run into the sands'.⁷⁰ Two days later, the Committee of Economic Advisers approved the recommendations of a working group, consisting of representatives of Belgium, France, West Germany, Holland and Britain, on a procedure for *ex post facto* notification of long-term credits.⁷¹ Starting from 1965, NATO members provided simple notification for these credits.⁷²

Britain had held its ground. The new British Government under Harold Wilson faced persistent economic problems and continued the policy of promoting trade and contacts with the East.⁷³ The new Foreign Secretary, Patrick Gordon Walker, was now planning to visit Eastern European countries, and the UK delegation to NATO was careful to give the allies early notification, in order to avoid any new misunderstandings.⁷⁴ A fanciful idea to encourage the association of Eastern European countries with the European Free Trade Association was quickly abandoned because of the obvious incompatibility of economic systems.⁷⁵

Meanwhile, Nikita Khrushchev's fall had sparked further uncertainties in the West. The new NATO Secretary-General, Manlio Brosio, was sceptical about the practicality of *détente* and the 'forward' trade policy.⁷⁶ These issues threatened the ultimate precondition of NATO's efficiency—its unity—of which the Secretary-General was the guarantor. Thus, in February 1965, Brosio tried to put the debate on East–West relations into perspective. He noted that '[t]he need for such a discussion is underlined by the various initiatives taken in recent months by member states of the Alliance with a view to renewing the dialogue between the West and the Soviet bloc'. He insisted that relations with Eastern Europe were 'important but subsidiary'. Thus, seeking 'the widest possible consensus', he stressed that '[i]t is essential that we should avoid a situation in which our efforts might become competitive rather than complementary, and in which the other side might play one of us off against the others'.⁷⁷

The Secretary-General's plea had a significant impact. The member states agreed to encourage diversification in Eastern Europe and to show flexibility in their policies, but also to avoid endangering allied unity.⁷⁸ A similar turn to more caution is detectable in the reports of the Economic Advisers. In their autumn 1965 study of the Eastern European economies, the experts recommended that NATO members should continue to encourage trade with the satellites, since 'there may be a link between trade with the West and the extent to which economic reforms are introduced in Eastern Europe'. However, they also asked that care be taken not to damage the interests of other allied states in the process and caution be displayed over credits to the satellites.⁷⁹ The APAG reached similar conclusions in May 1965 and January 1966.⁸⁰ Behind all this papering over the cracks a major change had occurred. In the words of the US delegation in late 1964, unanimity was no longer the NATO rule in East–West trade.⁸¹

The growing trend of commercial contacts proved irresistible. By 1966–7, alliance reports confirmed that the NATO countries' credits to the Soviet bloc were expanding, even in the absence of a fully concerted policy.⁸² In 1965 the British discussed the possibility of joint ventures with Eastern Europe, including capital investment (which was not regarded as acceptable to these regimes), sales of complete factories and interlocking sales to all these states.⁸³ By 1966 the British started pointing out the danger of a West German economic domination of the region.⁸⁴ In the NAC, they kept up the argument that trade could loosen up Soviet control over the satellites.⁸⁵

The alliance's future policy was significantly affected by the American decision to move towards a policy of *détente*. At the same time, NATO's pace towards the restructuring of its defence dogma and its acceptance of *détente* was accelerated after the French withdrawal from NATO's military command in March 1966. In November 1966, the Permanent Representatives reported on East–West relations. A report by Council in Permanent Session was very unusual, but also indicative that a firm agreement was now being sought. Despite British and Canadian complaints that the terms of reference were too narrow, the Permanent Representatives' report opened the road for a coordinated NATO policy on *détente*, which clearly welcomed the prospect of closer contacts with the Soviet bloc.⁸⁶

This process peaked with the Harmel report, a major turning point in NATO history, which has been extensively studied.⁸⁷ The new policy was based on the two pillars of 'defence and *détente*'. However, to a large extent, the *détente* aspect was significantly influenced by British ideas. The rapporteurs of 'Sub-group One', focusing on East–West relations, were the Assistant Under-Secretary of the Foreign Office, John Hugh Adam Watson, and K. Schutz of the German Foreign Ministry. The sub-group stressed that apart from defence, the common aim of allied policy was to 'eliminate' the 'unnatural' barriers separating Eastern and Western Europe. Economic and cultural relations could contribute to 'breaking down communist rigidity' and affect the 'artificially isolated societies of the East'.⁸⁸ Indeed, the role of Watson was pivotal. He was an analyst of exceptional qualities, who, in 1968 resigned his Foreign Office brief to become an academic and one of the founding members of the British School of International Relations.⁸⁹ Still, even after the adoption of the Harmel report, the road to *détente* would not be easy, as the Soviet invasion of Czechoslovakia would soon show.

CONCLUSIONS

This chapter discusses a crisis of adjustment. In the 1960s, a new point of balance needed to be found between a more elaborate international economy and a new phase in the Cold War which, in the search for *détente*, was already acquiring more complicated forms, including increasing internal disagreements within each bloc. To put it simply, it was easier to handle the frontal confrontations of 1947–62, than the more relaxed (and complex) atmosphere of the 1960s. The British took the lead in the adoption of a new NATO policy in late 1962, incorporating commerce as a

prominent feature of Western strategy in the Cold War. The NATO allies agreed to encourage more contacts, including trade, with the Soviet bloc. However, there were major misunderstandings from the start. The acceptance of the *principle* of a more active policy did not necessarily entail agreement over means, or over the *extent* of the liberalization of trade. During such a period of transition, the debate ultimately revealed differences in worldviews. At bottom, lay an unspoken difference between the more ideological approach of the Americans, and the more pragmatic view of the British. As the Americans put it, '[t]he British view of world communism is not a simple view'.⁹⁰ In Whitehall's wording, it was imperative to take a more functional view of the Soviet polity:

We should not, because we are dealing with a harsh and in many respects a mechanist doctrine, become dogmatic ourselves. There is nothing immutable about the Soviet system or about Soviet Communism any more than there is about any politico-economic system.⁹¹

In terms of practical policy, the British sometimes resented what they saw as an American backtracking from the initial understanding that NATO would not claim a role in international economic affairs and the USA felt strongly about the alleged British unilateralism. However, this always remained a partial Anglo-American disagreement, a difference between like-minded states, which did not threaten the wider context of the 'special relationship'. The idea of an evolution in Eastern Europe, or even of a 'convergence' of the two worlds, was a state-of-the-art concept in the early 1960s, and appeared in the first major historical work about the West, by William H. McNeill and in Zbigniew Brzezinski's landmark study of the Soviet world.⁹² Intellectuals are always more forward-looking than governments, but it is notable that Brzezinski was the American expert who worked with Watson in Subgroup One of the Harmel Report.

The episode also confirms the picture of Britain as a vanguard of Western policy in the Cold War. Britain was the first major Western state which had faced the Soviet Union in terms of the balance of power, and then the first to argue for a loosening of the more rigid Cold War mentalities. The British proposal for a forward policy in Eastern Europe was a continuation of this trend. It is clear that the Gaullist 'challenge' played a role in eventually bringing them together with the Americans. Moreover, NATO was an intergovernmental organization, requiring unanimity to make a decision, and thus an international forum where a determined great power could hold its ground. However, it still is impressive that in 1963–5 Britain man-

aged to overcome its isolation and to convince the allies—both the USA and the Six, the largest trading powers in the world—to condone its 'deviation'. This, especially the report of the Economic Advisers of October 1964, was arguably Britain's greatest victory in NATO processes, if only because it was scored against all odds.

NOTES

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17. Note by the UK Delegation, 4 July 1962, NATO/AC/119-WP(62)29; Minute (Ramsbotham), 8 January 1962, FO 371/165789/1.
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30. Minute (Buxton), 31 December 1962, FO 371/164423/52.
31. NAC Record, 24 June 1963, NATO/CR(63)33; Note by the US delegation, 18 January 1963, NATO/AC/127-WP/106(revised); Note by the US delegation, 16 January 1963, NATO/AC/127-WP/107. See also, letter, Potter to Mason, 25 March 1963, FO 371/172416/69.
32. Foreign Office circular telegram, 3 April 1963, FO 371/172416/77.
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35. Minute (Hood), 25 January 1963, FO 371/172534/31.
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37. Telegram, Ormsby-Gore (Washington) to Foreign Office, 7 February 1963, FO 371/172414/30; Telegram, Washington to Foreign Office, 4 March 1963, FO 371/172415/44; minute (Reilly), 27 March 1963, and telegram, Foreign Office to Washington, 9 April 1963, FO 371/172416/76. For a summary of the US position, see telegram, Ball to Paris, 8 April 1963, RG 59, Central Files 1963, NATO 3-1, Box 4230.

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Oil: Too Important to be Left to the Oilmen? Britain and the First Oil Crisis, 1970–3

Francesco Petrini

In autumn 1973, Britain's Conservative Government was going through hard times. The difficult domestic situation, with the clash with the unions over the government's anti-inflationary policy, was made worse by the cuts in oil production and the price hike decided by the petroleum exporting countries. In this context, on Sunday 21 October, the Prime Minister, Edward Heath, received at his country residence, the chairmen of British Petroleum (BP) and Shell Transport, Sir Eric Drake and Frank McFadzean. The ensuing conversation was stormy. As Drake remarked some time later, 'It was the first showdown with the government that BP have had.'¹

Heath asked the companies for preferential treatment for Britain; after all, the Arab oil exporting countries had placed Britain on a list of 'friendly' countries—not to be touched by the production restrictions—and the UK Government had traditionally enjoyed a close and collaborative relationship with both BP and Shell. Heath was refused on the grounds that the companies could not discriminate among their clients and were determined to follow a policy of 'equal misery' by spreading oil scarcity among the consumers. This episode is widely cited in the literature on the first oil crisis. Usually, the Prime Minister is criticized for his insensitiveness towards the concerns of private industry.² In Heath's defence, one may say that his requests were not

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totally unjustified. The conversation of 21 October came after three years during which the UK Government had given almost unconditional support to the oil companies in a series of negotiations with the Organization of the Petroleum Exporting Countries (OPEC) in the belief that this was the best way to ensure Britain had a stable and reasonably priced oil supply. Yet, in practice, as it turned out, the oil markets had become increasingly unstable and the price had kept on rising, reaching levels that consumers accustomed to the low prices of the 1960s could not help but to find worrying. From this perspective, one could see Heath as just trying to cash in on the credit he believed his government had accumulated with the two companies. The clash between the Prime Minister and the two British multinational oil companies came to epitomize a pivotal change in the history of the relations between oil industry and government in Britain.

INTRODUCTION: STATE AND THE OIL INDUSTRY IN BRITAIN

Those relations had been very close since 1914 when, on the initiative of the First Lord of the Admiralty, Winston Churchill, the government decided to take on a majority shareholding in the Anglo-Persian Oil Company (APOC) (later to become the Anglo-Iranian Oil Company and then, BP) in order to secure the supply of oil to the Royal Navy.³ This inaugurated a long history of interaction and reciprocal influence between the British state and the oil industry.

Despite the entry of public capital into its ownership, the APOC (and its successors) continued to operate as a private concern, with the government having a theoretical right of veto that was never exercised.⁴ On the other hand, BP's top echelons nurtured 'a very special sense of patriotic confidence',⁵ that derived mainly from the fact that BP's prosperity was closely intertwined with the imperial legacy and neo-colonial power relations. Royal Dutch Shell, though a purely private firm and 60 per cent owned by Dutch interests, also enjoyed a strong relationship with the British Government that was reinforced during the Second World War and its immediate aftermath.⁶

Forged in this cauldron of private and public interests, British oil policy developed along two distinct lines. At home it rested on a relatively liberal attitude that allowed foreign companies, such as Esso or Texaco, to operate on the domestic market. Abroad, it was based on a complete reliance on the two British companies to the point where national and companies' interests were seen as almost coincidental. This identification was justified

on different grounds: the importance of the companies' earnings to the British balance of payments; the conviction that it was preferable to keep separate commercial dealings on the oil markets from the political role played by Britain in the Middle East area and finally, as the best way to ensure Britain a stable and cheap supply of oil. The business–government collaboration in oil affairs was institutionalized in 1959 with the creation of the 'oil tea parties'—periodic and secret meetings between officials from the Foreign and Commonwealth Office (FCO) and the Ministry of Power and the two companies. For this system to work efficiently, as Jonathan Kuiken has pointed out, presupposed the existence of a unified governmental view on oil matters. Actually, the various governmental agencies dealing with oil (the FCO, the Ministry of Power, the Treasury) all held different views and this gave BP and Shell the room to make their views prevail. Furthermore, one of the main consequences of the reliance on private companies and at the same time a factor perpetuating it, was that government lacked the expertise to deal effectively with international oil matters, despite the fact that both the FCO and the Ministry of Power had special sections dedicated to oil matters:

Disputes between the civil servants of the three departments often resulted in the embrace of the oil company position as a compromise. [...] Periodic reviews, held in the wake of important changes to the oil industry [...] were all conducted with the full cooperation and advice of BP and Shell. Unsurprisingly, these reviews all concluded that the status quo was the best possible policy.⁷

By the late 1960s, it became increasingly evident that the status quo on the oil markets was soon to be subverted on the initiative of the oil exporting countries. How did the private–public compact in the oil sector cope with this development, how was it affected and with what consequences?

REVOLUTION IN LIBYA

On 1 September 1969, a group of young army officers, inspired by Arab nationalism, took power in Libya.⁸ Since the discovery in the late 1950s of vast reserves of high quality crude so near to the European market, the North African country had become the new oil Eldorado. Production skyrocketed, catapulting the country to the fourth place amongst world oil exporters by the late 1960s.

In 1970 a combination of factors put the oil companies in an exceptionally weak position vis-à-vis members of OPEC and especially the Mediterranean producers. In the face of increasing European demand, a tanker shortage which had existed since the closure of the Suez Canal in 1967, was exacerbated by the rupture of the Trans-Arabian Pipeline on Syrian territory that transported crude from Saudi Arabia to the Lebanese coast and by a number of accidents to supertankers. The tanker shortage caused freight rates to soar. Producers of 'short-haul' crude were thus placed in an exceptionally strong bargaining position, a situation the Libyan Government quickly proceeded to exploit. The objective of the new Libyan rulers was to maximize Libya's revenue per barrel, thus allowing preservation of their national natural resources without lowering the government take. In early 1970 they demanded from companies a rise in the posted price (the reference price for tax purposes) of their oil of \$0.40 per barrel. Furthermore, they wanted retroactivity payments going back to 1965 in order to redress what they perceived as the undervaluation of Libyan crude in the preceding years.

For the UK the matter was serious. Both Shell and BP operated in the country. The first as partner of three US 'independent'⁹ companies in a consortium called Oasis which was the largest producer in Libya with a daily output of 1 million barrels a day (b/d). BP was partner of another US independent, Bunker Hunt, in a joint venture that produced 400,000 b/d. These participations contributed about £10–£15 million annually to the British balance of payments in the FCO's calculations. Moreover, the Libyan crude accounted for more than a quarter of British oil imports in 1969.¹⁰

After the Libyan revolution Whitehall aimed at establishing a 'useful working relationship' with the new regime in order to maintain British interests and avoid 'the Libyans turning to the USSR'.¹¹ To this end, even though the British forces present in Libya were evacuated at the end of March, the UK Government offered to continue the training of Libyan armed forces and arms deliveries.¹²

Following its traditional policy Whitehall left the two British companies to take their own decisions, 'particularly on the posted prices issue'.¹³ The FCO limited itself to give diplomatic support when required. When, on 4 July, Libya nationalized the marketing operations of Shell (alongside with those of Esso and the Italian Agip), the answer, agreed between the British Government and the company, was 'low key',¹⁴ demanding adequate compensation but without forcing the tones. As they said, con-

sidering the character of the new Libyan rulers, 'There seems in fact to be little influence we could exert on the Libyans to protect Shell and BP'.¹⁵

At the end of August Shell and BP met FCO officials to discuss the Libyan situation. The companies presented their conundrum to the government: to cave in to the Libyan requests would constitute a dangerous precedent *vis-à-vis* other producing countries. On the other hand, to resist would mean a cut of production (with dire consequences for the European supply), selective nationalization and in all likelihood the Soviet entry into the Libyan production. FCO officials assured that the government would not seek to influence the companies' decision and in practice gave them *carte blanche*: 'HM Government's worry was not that an oil industry decision would prejudice other British interests: rather the reverse, that strained Anglo-Libyan relations might make the oil companies' position even more difficult'.¹⁶

Under the threat of being cut off from their Libyan production, the smaller companies, which had little or no alternative source of crude supply to satisfy their customers on the European market, one by one began to accept the Libyan requests. Shell's partners in the Oasis consortium were among the first to cave in in mid-September, while Shell maintained its opposition, fearing in particular the retroactivity element contained in Libya's request of a rise of the tax rate. This, Shell argued, would give rise to similar requests by other producing countries.¹⁷ BP was of the same advice and strongly endorsed Shell's position. On 23 September, David Barran (chairman of Shell) and Drake informed the FCO that they intended to stand firm, 'at whatever cost locally, against Libyan demands'. 'It would be disastrous'—they said—'to concede the principle of host governments decreeing posted price, especially retroactively'.¹⁸ The two businessmen said that they had been in contact with the US majors and believed that their views were similar to theirs. Thus they thought it possible to create a unified front to confront the Libyan Government. The Foreign Secretary, Alec Douglas-Home, strongly supported the idea and instructed the Embassy in Washington to intercede with the State Department to overcome US anti-trust barriers.¹⁹

On the 24th Drake and Barran flew to New York to meet their US counterparts and coordinate the companies' resistance to the Libyan offensive. The meeting dashed their hopes of crafting a companies' common front. The main obstacle on this road turned out to be the US State Department, which appeared more concerned with the implications of a firm stand for European supplies than with the consequences for the

oil industry of accepting the Libyan demands. As explained by Peter Flanigan, the President's Assistant in international economic affairs, the risks of a break with Libya were high, 'in terms of emphasizing the hold of Russian-controlled Arab states' on Europe and Japan. On the other hand the increase of price, resulting from a settlement, 'would affect 100 per cent of European and Japanese petroleum supplies and only a small per cent of US petroleum supplies, the result would be a competitive benefit to the United States'. So he advised the US majors to be flexible and acquiesce to Libyan demands.²⁰

In the light of this development Douglas-Home rectified his unconditional support to the companies' intention to stand firm:

We share the anxieties of Shell and BP [...]. On the other hand, the Libyans are quite capable in their present mood of stopping the majors' production there and depriving Europe of one and a half million barrels a day of short haul oil. This would be most serious development.[...] We do not think we could undertake to support the British companies alone vis-à-vis Europeans in such circumstances.²¹

The majors' common front collapsed. One by one the companies accepted the terms proposed by the Libyan Government. By 30 September Standard Oil of California and Texaco, both known as hardliners in the oil industry, had signed agreements with the Libyan Government. They were followed by Esso, Mobil and BP. Shell, whose Libyan production had been shut down by the government in the meanwhile, was the last to surrender, on 16 October.²² The new agreements increased the posted price by \$0.30/b and established a higher tax rate on companies' profits as a substitute for retroactivity.²³ The Libyan example spurred further action by the Persian Gulf producers who obtained, by the end of the year, a 55 per cent tax rate, instead of the 20-year-old 50–50 rate. The increase in companies' costs that these changes entailed, were quickly passed on to consumers in Europe and Japan.²⁴

'AN AVALANCHE OF ESCALATING DEMANDS':²⁵

THE TEHRAN AGREEMENT

As feared by Drake and Barran the developments on the Libyan front encouraged further demands by the producing countries. After the events of autumn 1970, what became known as 'leapfrogging' set in motion:

in December, the Venezuelan Government raised the tax on oil companies to 60 per cent; in early January, the Libyan Government summoned the companies operating in Libya and demanded further tax increases and a further freight premium. In the meantime, meeting in Caracas on 9–12 December 1970, OPEC adopted a series of resolutions aimed at increasing the payments made by the companies. The main demand was the establishment of ‘uniform general increases’ of the posted prices in all member countries.²⁶ A committee of Ministers from Iran, Iraq and Saudi Arabia, was set up by OPEC to negotiate on behalf of the member countries situated in the Gulf. They demanded that negotiations with the companies’ part of the Iranian Consortium should begin in Tehran, on 12 January 1971.

The companies, learning from past errors, seemed determined to present a joint position to OPEC which, for the first time, was showing a united front. Again, Shell and BP took the initiative to coordinate the companies’ response. In early January, Shell advanced proposals for collective action. Shell planned for negotiations with all oil companies together, involving the independents, and stressed the necessity of getting full support from parent governments.²⁷ On his part Drake wrote to the Prime Minister, putting the cards on the table and saying that, unless the companies were fully supported by their parent governments, they would have no choice but to acquiesce to producer governments’ demands and pass on the additional costs to the consumers. If any attempt were to be made to resist OPEC’s demands, the companies would need the concerted support of all the consuming governments, both *vis-à-vis* the producing governments and in order to make sure that no individual Western oil company broke the line for the sake of immediate commercial advantage.²⁸

The Prime Minister, who was leaving for Washington for inter-governmental talks on the oil situation, sent a brief but sympathetic acknowledgement to Sir Eric Drake.²⁹ A fuller reply was sent by Sir John Eden, Minister for Industry, on 8 January, after the conclusion of the Washington talks. In it he indicated that one of the main subjects of discussion with the Americans, the French and the Dutch had been the question of giving the companies the assurances for which they were asking.³⁰ The government was well aware of the stakes in play, as shown by a memo drafted by the Department of Trade and Industry (DTI) and the FCO which defined as ‘dramatic’ the foreseeable effect of the rise in posted price demanded by the Caracas resolution.³¹ Yet the intergovernmental talks in Washington registered unanimity on the assumption that the negotiations

should be left to the companies, while the parent governments would limit themselves to giving diplomatic support, when needed, and to keeping the contacts with other consumer countries through the OECD machinery.³²

The companies' common front took form in the following days, when the majors and many independents met in New York to agree the form their co-operation would take and get a waiver from US anti-trust authorities.³³ A negotiating team was created, headed by George Piercy of Exxon, and Lord Strathalmond of BP.³⁴ To back up the negotiations the companies created a two-prong structure with a decisional centre in New York, at Mobil headquarters, where the CEOs met to decide the overall strategy, and another in London composed by senior executives charged with following the day-to-day evolution of the negotiations.

The governments of the consuming countries discreetly followed the companies deliberations from outside. As indicated by the meeting of the OECD Oil Committee, among the consuming countries 'the general feeling [...] was that the right course would be to leave the oil companies to make the running, with diplomatic support coming well behind; the dispute would thus be kept as far as possible on a commercial basis'.³⁵ After the delivery of a common message to OPEC by the companies, on 15 January, the FCO sent instructions to posts in OPEC countries to ask the governments to which they were accredited to consider favourably the oil companies' proposals.³⁶

However, contrary to Whitehall's hopes, the negotiations took a bad turn, as the positions remained very distant on some crucial point (rise of posted prices, assurances of future stability). Aware of these difficulties, the FCO considered the possibility of a personal message from the Prime Minister to the Heads of State of the Gulf producers. The companies indicated that they would welcome such a step in the event of a breakdown in the negotiations, but they would not wish such action to be taken beforehand.³⁷

This moment came only a few days later. On 2 February, having failed to secure what they deemed to be the minimal assurances against leapfrogging, the companies broke off negotiations. The same afternoon, Drake and Barran called on Douglas-Home requesting the government to promote concerted action by 'as many major countries as possible' to ask for time and to stress the dangers of an increase in the posted price as requested by OPEC. The following day the Ambassador in Tehran delivered a personal message from Heath to the Shah sketched out along the lines suggested by Drake. Identical messages, though not as a prime min-

isterial personal letter, were delivered by the embassies in Kuwait City, Baghdad and Jeddah. Similar steps were taken by the USA and by other consuming countries (France, the Netherlands, the Federal Republic of Germany, Italy, Japan). As a response, the OPEC meeting in Tehran on 3–4 February approved a resolution that threatened unilateral legislation unless a settlement was reached by 15 February. On 4 February the majors held a meeting, presided over by Drake, to discuss the situation. With the exception of the French *Compagnie Française des Pétroles*, they agreed that ‘the lesser evil was to let them go ahead with legislation. [..W]ithout assurances, on which there seemed to be no prospect of progress, any deal done with Gulf producers would be valueless’.³⁸ In any case, as indicated by Drake to the DTI, the companies had no cash and they would have to raise their prices by more than the rise in the price decreed by the producers. Not having found sufficient assurances from the producers, the companies were now looking for them among the consumers. They estimated that to be legislated against would put them in a position of saying that they had done everything possible in the interest of consumers to keep oil prices low.³⁹

However, within a few days the companies completely reversed their position. Both Whitehall and the other main consuming countries had indicated clearly that their priority was for the regular flow of oil supply, the price being considered a dependent variable.⁴⁰ At the same time, from Tehran, Lord Strathalmond communicated that legislation would be far more onerous than previously estimated.⁴¹ In view of these developments, the majors held another meeting on 8 February where they agreed that a negotiated agreement was in their interest and decided to return to the negotiating table.⁴²

The agreement was signed in Tehran on 14 February by the six OPEC members bordering the Gulf and the companies associated with the negotiations.⁴³ As summed up by an internal memo of the FCO: ‘The terms negotiated by the companies in Tehran amounted virtually to a capitulation to OPEC’s demands.’⁴⁴ The scope of the companies’ retreat is clear when the original OPEC demand was for an increase of the posted price of 54 cents per barrel. In their letter of mid-January the companies had offered 15 cents. In the end the Tehran agreement provided an increase of almost 49 cents. As the DTI noted: ‘The financial terms of the agreement were very close to those tabled by the OPEC countries on 2 February [when the companies left the negotiating table] and were slightly better for the companies than the original OPEC demands.’⁴⁵ In

terms of stability, the point that was of most interest and concern to the consuming countries, the companies got only a five-year guarantee on the agreement, being unable to obtain more concrete assurances to avoid a resumption of leapfrogging between the Mediterranean and the Gulf.

OIL: TOO IMPORTANT TO BE LEFT TO THE OILMEN?

The negotiations had demonstrated the weakness of the position of the companies facing a cohesive OPEC in the context of a tight oil market characterized by insufficient supply and a growing demand. But the companies had at their disposal an easy way out from their predicament. As indicated by Barran, in 1968: 'Pressure from the producing governments on costs is something that we can live with provided we are not at the same time denied freedom to move prices in the market so as to maintain a commercial margin of profit.'⁴⁶ And, indeed, this freedom was not denied to the companies: in fact, the final result of the 1971 agreements on new posted prices was, for the European consumers, a rise in the prices of the refined products in a range between 50 and 100 per cent.⁴⁷ Thus the consuming countries got a substantial increase in their energy costs in exchange for vague assurances on the stability of supplies. This triggered a reconsideration of their relationship with oil companies. This was especially true for the countries which had no direct connection with the oil majors or had traditionally followed a policy of national independence and state intervention in energy matters, such as Italy or France. But criticisms against the majors came even from their home countries. In fact, as stated by the British Embassy in Tehran, considering 'the industry's virtually total capitulation to the producing governments, many consuming countries started to ponder alternatives to the dependence from the majors, even in the parent countries'.⁴⁸ In the UK, in December 1971, the Conservative MP Sir John Foster wrote to Heath and Douglas-Home suggesting that governments, rather than oil companies, should, in future, lead negotiations with the producing countries.⁴⁹ As he wrote:

In my view the oil companies are too weak to stand up to the producing countries [...]. In any case the extra price is passed on to the consumer and the oil companies have no overriding interest to stop the escalation. It is therefore necessary, I think, to put the governments in the front rank.⁵⁰

In Foster's opinion it was time to put an end to the asymmetry that had characterized the oil negotiations and have governments confront other

governments. In this game, he thought, the Western countries had more cards to play, in the form of ‘alliances, armaments deliveries, protection against enemies’.⁵¹ The letter caused quite a stir in Whitehall. Victor Rothschild, a former vice-director of scientific research at Royal Dutch Shell and currently heading the Central Policy Review Staff (CPRS), the planning unit set up within the Cabinet office in February 1971, declared his support for Foster’s position:

Although unpopular with the oil companies and, perhaps, in some parts of Whitehall, I have no doubt that the time has come when Governments must participate in discussions with the oil-producing countries, as Sir John Foster suggests.⁵²

As remarked by Lord Rothschild, the matter was particularly urgent as on 10 January 1972 the companies and a few Gulf producers had opened a new round of talks, this time not on price but on the even thornier issue of ‘participation’, that is the entry of the producing governments into the ownership of the consortia extracting the crude from their territory. This would have created an even closer link between companies and producers, at the risk of widening the gap with the consumers. As Rothschild wrote to the Prime Minister’s Private Secretary, Robert Armstrong:

Significant participation [...], if carried far enough, would virtually turn the oil companies into extensions of, for example, Saudi Arabia, Iran, etc. This is one of the reasons why, sooner or later, Governments will have to participate in the discussions international companies have with the oil-producing countries; and I share Sir John Foster’s view that the sooner this happens the better.⁵³

Moving along these lines, the CPRS studied the possibility of instituting an OPIC (Organization of Petroleum Importing Countries), where companies would be compelled to negotiate collectively under the consumer government’s supervision.⁵⁴

However, within the government the prevailing opinion, defended by both the DTI and the FCO, was to continue to trust the companies as the best defenders of Britain’s interests. Lord Rothschild’s ideas were defined by the FCO Oil Department as ‘premature but also unrealistic at this stage’.⁵⁵ In October 1972, when the negotiations between the companies and the OPEC countries on participation were in full gear, an interdepartmental working group, composed by officials of the DTI, the Treasury,

the FCO and the CPRS, concluded a preliminary survey of the companies' role and of their relations with governments: 'No major change of policy is recommended at this stage. [...] the oil companies still largely share the government objectives of stability of supply and the lowest possible level of producer government taxation'.⁵⁶ However, they added, it was necessary to keep pressure on the companies and make them aware that they were committed to the defence of the national interest, defined as a stable supply at a reasonable price.⁵⁷ As we have seen, there was discontent with the companies over their past dealings with OPEC and also for their present behaviour. The head of the Oil Department, George Chalmers, lamented the companies' incapacity to sort out a clear, coherent and unitary philosophy regarding their dealings with OPEC.⁵⁸ The Head of the Oil Division at the DTI warned the companies that they could not anymore 'expect blank support from HMG'.⁵⁹ On the whole, however, the participation negotiations seemed to be leading to a deal that appeared 'the best which could reasonably be expected', therefore—they concluded—there was no need for government intervention.⁶⁰ There was more preoccupation for the state of relations with Iraq (which had nationalized its oil industry in June 1972), where the tough stance assumed by the companies risked, in the Group's opinion, to drive the Iraqis into the Soviets' arms. Therefore, their recommendation was to ask Shell and BP to use their influence on other companies to press them towards a compromise.⁶¹

In general the policy advocated by the government to the companies was one of moderation and accommodation of the producers' interests. The biggest fear was for an interruption of supplies following a breakup of negotiations with the companies. This would cause disruption to the domestic economy and might also undermine the cohesion of the Western alliance. Thus the directive, as established by the FCO Oil Department, was to inform the companies that the British Government (and the US too for that matter) could not support them in case they adopted a completely negative policy in regard to OPEC demands.⁶²

On their part the companies advocated a greater coordination between consuming countries, in order to prevent what they saw as the free riding of some independent national company (such as the Italian Ente Nazionale Idrocarburi) or some country (such as Japan). Paradoxically, it was BP that stressed the political character of the oil question and demanded a greater involvement to a reluctant government. Lunching at Chequers with Heath, on 14 February 1971, the day of the signature of the Tehran agreement, Drake pointed out to the Prime Minister that the question

of oil supplies and prices for Europe had become ‘a political problem for Governments, not a commercial problem for companies’. The BP chairman remarked grimly that the recent Tehran negotiations ‘had shown that Europe was in practice at the mercy of the whim of the oil producing states’. Drake acknowledged the utility of the role the FCO played in supporting the companies during the negotiations but he asked for a step forward:

the point had now been reached where Governments had to come to grips with the whole problem, and to consider what political pressures could be applied to ensure energy supplies for Europe.⁶³

But a direct involvement was exactly what the government wanted to avoid the most, lest it should antagonize the Arabs.⁶⁴ Anthony D. Parsons, Under-Secretary at the FCO, during a meeting with BP and Shell, in June 1973, expressed the opinion that: ‘a UK initiative [in promoting consumers co-operation] would divert the anti-American feeling of the Arabs on to us’. What is interesting is that, on this occasion, Drake agreed with Parsons.⁶⁵

As concluded by the interdepartmental group on oil policy: ‘any attempt to influence the companies should be made discreetly and in as general terms as possible in order to avoid government becoming directly involved in negotiations’.⁶⁶ The basic strategy, in the minds of the British policy makers, was to operate behind the scenes to promote forms of coordination between consuming countries, though carefully avoiding giving the impression of wanting to create a common front directed against OPEC.

In spite of the government’s conviction about the identity of interests between the companies and the country, the outcome, in December 1972, of the negotiations on participation was, once again, a disappointment from the point of view of the consumers.⁶⁷ As pointed out by Walter Levy, one of the most prominent experts of the oil industry, frequently consulted both by the UK Government and the US administration, it was another instance of connivance between the companies and the OPEC countries by which they had ‘agreed minimum profit levels [...] work[ing] together to their mutual advantage but to the detriment of the consumer’. Then, he concluded, the oil companies ‘could no longer be trusted to take care of the interests of their parent governments or of consumers’.⁶⁸ Strong doubts on the companies’ role began to emerge also inside the

FCO. John Wilton, Ambassador in Kuwait, a country where a heated debate was taking place due to the National Assembly demanding full control of the national resources, wrote explicitly:

HMG's policy in the matter [oil...], seems to have been to leave it to the oil companies to make the best bargain they can in each succeeding round with the producers. This is fine so long as 'what is good for BP is good for the UK'; do you think it is likely to continue to be so?⁶⁹

These misgivings were to strengthen during the first months of 1973 when dark clouds appeared on the horizon of the oil market. While the negotiations on participation continued amid many difficulties, the growing unbalance of demand and supply brought about a rise in world prices that boded ill for the continuation of the agreements signed in 1971. Still, Whitehall's faith in the wisdom of leaving the companies in the driving seat of negotiations with oil exporting countries seemed intact and the British Government persisted in the difficult exercise of supporting the companies without irritating the producers. As remarked by Nicholas Fenn, Deputy Head of the FCO Energy Department, a confrontation was not in Europe's interest, 'We need the oil more than the producers need to sell it',⁷⁰ and, at the end of the day, the existing arrangements whereby oil companies negotiated and the governments stood in the background 'have helped to keep politics out of oil', a quite questionable opinion, contradicted by Drake himself, who plainly acknowledged that the Tehran negotiation had been 'a straight political confrontation between the oil producing states and the rest of the world'.⁷¹ In any case, it was precisely to avoid provoking the producers, and the opposition of industry, that the OPIC project was discarded in favour of a code of conduct for the consumer governments. This would have left intact the companies' role as the sole negotiators, whilst at the same time strengthening their position at the negotiating table. The main problem seemed that of bringing back maverick countries to a common discipline; in Levy's words: 'to prevent countries such as Italy and France going off and making private deals with OPEC countries'.⁷²

However, dissenting voices quickly multiplied. Fenn himself, who three months earlier was all for continuing to rely on BP and Shell as the best guarantors of British interests, wrote in June: 'The companies themselves have reached the end of the road. They can no longer guarantee oil delivery, let alone at reasonable prices. They will continue to resist OPEC

demands as skilfully as possible, but we must be under no illusion—they will surrender every time in the end.⁷³

What had happened in the meantime? First of all, the agreements on participation and the discussions with the Shah on a new partnership had brought about a structural change in the companies' role in the Middle East. The companies had been 'squeezed out' from their monopoly of Middle Eastern production and they were now focusing on diversifying into other energies and new sources of crude production outside OPEC. Their connecting role between producers and consumers was vanishing. Second, the companies' image had been seriously tarnished in the eyes of the consumer by two years of continuous rise in the price of crude and of oil products, despite the assurances of stability obtained in Tehran.⁷⁴ The last straw was the final outcome of the talks that OPEC and companies held in spring 1973 on the measures to compensate the dollar devaluation. A first round of talks on the matter had concluded with an agreement signed in Geneva on 20 January 1972.⁷⁵ The further devaluation of the dollar in spring 1973 prompted a new round of negotiations. The companies' initial offer was for a rise of the posted price of 7–8 per cent. In the end, in June 1973, they agreed on a rise of 11.9 per cent, in practice accepting the integrity of the producers' demand.⁷⁶ During the negotiations BP and Shell had informed the government that 'the situation was less critical' than expected, therefore they did not think 'that diplomatic intervention would be helpful'.⁷⁷ So, left to themselves, the companies once again colluded, or at least appeared to do so, with the producers at the expense of consumers, as the rise in the posted price was quickly transferred on the markets of consumption.

As a report on British oil policy concluded, while 'up to now HMG has been able, in the main, to achieve ... secure oil supplies at reasonable prices with a basically *laissez-faire* policy', the recent developments in the oil markets 'suggest that, despite the hazards of interfering in such a complex industry, HMG will have to play a more positive role than hitherto, in co-operation with other major consumer governments [...]'.⁷⁸ The companies had spent almost all their credibility at the negotiating table with OPEC.

EPILOGUE: THE END OF AN ERA

On 8 October 1973, two days after the outbreak of the war in the Middle East, a new round of talks on the posted price opened in Vienna. The exporting countries demanded an increase of posted prices to align them

with the soaring market prices and thus share in the huge gains made by the companies in the preceding months.⁷⁹ This was to be the last occasion in which the oil price was negotiated between the companies and OPEC.

Just before the start of the talks, Drake met the Minister for Trade and Industry, Peter Walker, stressing to him the weakness of the companies' bargaining position and renewed his demands for cooperation between consumers to prevent the proliferation of bilateral deals.⁸⁰ This kind of action by consumer governments, Drake pointed out, would lead 'to absolute anarchy in the oil market and very steep increases in prices'. But the prospects of achieving effective co-operation among consumers were bleak. Once again, as Walker gathered from his talks with the US State Department, the Nixon administration appeared disinterested, more concerned with supply to the domestic market than with the worldwide ramifications of the oil market.⁸¹

The course of the oil negotiations during autumn 1973 is well known.⁸² From the start, positions appeared far apart and the talks in Vienna broke off. The use of oil as a weapon in the Arab-Israeli clash further exacerbated the situation. On 16 October, the Persian Gulf producers declared the Tehran agreement had expired and proceeded to raise the posted price by 70 per cent (to \$5.11). For the first time, the oil price had been set without the companies. One day later, the Arab oil exporting countries decided on a production cut of 5 per cent from the production level of September and further monthly cuts of the same amount until Israel withdrew from the occupied territories.⁸³

As we have seen at the beginning of this chapter, in October 1973 Heath received a flat refusal when he asked the British companies for a preferential treatment to bypass the Arab oil producers' embargo. Actually, while in public the companies appeared to stick to their position of 'equal misery',⁸⁴ they secretly abided by the government's request. As the Secretary for Industry wrote in a report to the Prime Minister, when assessing the supply situation of the British market, 'BP is [...] serving us very well. Shell [...] so far have met our demands upon them quite well and I am confident will continue to be cooperative with us.'⁸⁵

At any rate, British oil policy had been shattered. After three years of attempts, the British Government abandoned the idea of promoting a common front of consumers—an idea that would be re-launched by the US administration anxious to recover its hold over the Western bloc. Britain joined the 'scramble'—as Drake defined it⁸⁶—in the pursuit of bilateral deals with the oil exporters.⁸⁷ This was accompanied by measures

to control the price of oil products on the internal market.⁸⁸ It was a policy that triggered a vehement reaction from the companies as it potentially denied them their usual way out from the grip of the oil exporters, raising prices for the consumers. As Drake wrote to Walker: ‘If [...] there is no prospect of effective joint action now by consumer governments [...] BP and no doubt other companies need, in bidding for oil at the price levels in question, to have confirmation that they do so in the knowledge that the government [...] accepts that the costs incurred will be recovered in the market.’⁸⁹

In the conditions of oversupply prevailing in the oil market until the late 1960s, the reliance on private companies effectively guaranteed a stable and cheap flow to Western economies at the expense of producing states. In the early 1970s, the market tightened and the exporting countries exploited their increased bargaining power to acquire greater control over their natural resources. As the grandson of the man who was at the start of the connection between government and oil industry, Conservative backbencher Winston Churchill, pointed out ‘the era of [...] Western oil imperialism in the Middle East [had come] to an end’.⁹⁰ The events reviewed here seem to confirm what one scholar had observed in the 1920s: ‘the absurdity of regarding a cosmopolitan business enterprise as a ‘citizen’ or ‘subject’ of any particular state’.⁹¹ The idea of companies as a buffer between consumers and producers was no longer credible. The repeated increases in the oil price made it clear how delusional and asymmetrical—at the public’s expense—was the assumption of a coincidence of interests between business and government.

NOTES

1. A. Sampson, *The Seven Sisters* (Sevenoaks: Hodder and Stoughton, 1975), p. 276.
2. See C. More, *Black Gold. Britain and oil in the XXth Century* (Continuum, 2009), pp. 139–40.
3. G. Jones, *The State and the Emergence of the British Oil Industry* (Macmillan, 1981), chapter 6.
4. The letter from the Treasury to the Anglo-Persian Oil Company of May 1914, ‘Bradbury’s letter’, stated that the government would avoid interference in the day-to-day commercial activities of the company. The text of the letter is in R. W. Ferrier, *The History of the British Petroleum Company*, Vol. 1: *The Developing Years*,

- 1901–1932 (Cambridge: Cambridge University Press, 1982), pp. 645–6. The substance of the letter was confirmed, in the midst of the Iranian crisis, by the Bridges’ letter of April 1951, whose text is at: http://hansard.millbanksystems.com/written_answers/1977/feb/16/british-petroleum.
5. Sampson, *The Seven Sisters*, p. 212. On BP’s history and in general on the UK and oil during the years under review here: J. Bamberg, *British Petroleum and Global Oil, 1950–1975. The Challenge of Nationalism* (Cambridge: Cambridge University Press, 2000).
 6. S. Howarth, J. Jonker, *A History of Royal Dutch Shell*, Vol. 2: *Powering the Hydrocarbon Revolution, 1939–1973* (Oxford: Oxford University Press, 2007), chapter 1.
 7. J. Kuiken, ‘Caught in Transition: Britain’s Oil Policy in the Face of Impending Crisis, 1967–1973’, *HSR*, 39/4 (2014): 272–90, 277.
 8. D. Vandewalle, *A History of Modern Libya* (Cambridge: Cambridge University Press, 2012), chapter 4.
 9. This term indicates any company other than the majors.
 10. ‘The importance of Libyan oil to the UK and Western Europe’, 21 September 1970, Oil Department (OD), memorandum, FCO 67/434.
 11. Colin T. Brant (OD), briefing note, ‘Libyan oil: the British stake’, 27 May 1970, FCO 67/432.
 12. Brant, ‘Libyan oil: the British stake’, 27 May 1970. Although HMG shelved an offer of Chieftain tanks they still offered an alternative sale package of less advanced Centurion and Vickers tanks.
 13. Brant, ‘Libyan oil: the British stake’, 27 May 1970.
 14. Brant, briefing note, ‘Libyan nationalisation of Shell’, 31 July 1970, FCO 67/434.
 15. Brant, ‘Libyan oil: the British stake’, 27 May 1970.
 16. ‘Record of Meetings held at the FCO on 26 August 1970 and 28 August 1970’, FCO 67/434.
 17. Telegram, Carlisle (Shell) to W. E. Bell (Shell), 21 September 1970, FCO 67/435.
 18. Telegram, Alec Douglas-Home (Foreign Secretary) to Embassy in Washington, 23 September 1970, FCO 67/435.
 19. Douglas-Home to Embassy (Washington), 23 September 1970.
 20. *FRUS*, 1969–1976, vol. 36, *Energy Crisis 1969–1974*, document 57.
 21. Telegram, Douglas-Home to UK Mission to the United Nations (New York), 25 September 1970, FCO 67/435.

22. For a detailed chronology of the Libyan negotiations see: Congressional Record 93rd Congress, First and Second Session, United States Senate, Committee on Foreign Relations, *Multinational Corporations and United States Foreign Policy, Hearings Before the Subcommittee on Multinational Corporations* (Washington: US Government Printing Office, 1974) (hereafter *Hearings*), Part 4, pp. 160–77.
23. On the implications of this decisions, defined as a ‘disaster’ for the companies, see I. Skeet, *OPEC: Twenty-Five Years of Prices and Politics* (Cambridge: Cambridge University Press, 1988), p. 61.
24. Oil imports costs grew by \$730-million for Europe and \$195-million for Japan ‘Consuming Nations Face Staggering Rise in Oil Imports Costs’, *Petroleum Intelligence Weekly* (hereafter *PIW*), 9/51, 21 December 1970, pp. 1–2). The oil products rose accordingly: ‘Oil Prices in Europe Soaring Sharply at Refinery Level’, *PIW*, 9/49, 7 December 1970, pp. 1–2.
25. Barran cited in Bamberg, *British Petroleum and Global Oil*, p. 455.
26. Skeet, *Opec*, pp. 63–4.
27. *FRUS*, 1969–1976, vol. 36, *Energy Crisis 1969–1974*, document 65.
28. Letter, Eric Drake (BP chairman) to Edward Heath (British Prime Minister), 5 January 1971, PREM 15/1090.
29. Letter, Heath to Drake, 6 January 1971, POWE 63/769.
30. Letter, John Eden (Minister of State for Industry) to Drake, 8 January 1971, FCO 67/554.
31. Memorandum, ‘The Consequences of the XXI OPEC Conference’, 5 January 1971, POWE 63/769.
32. *FRUS*, 1969–1976, vol. 36, *Energy Crisis 1969–1974*, document 65.
33. OECD High Level Group, Briefs, no date, POWE 63/769.
34. On the organization of the companies’ common front see J. J. McCloy’s declarations in *Hearings*, Part 6, pp. 234–7.
35. Research Department Memo, ‘The Tehran Oil Agreement’, 13 November 1972, FCO 51/242.
36. Telegram, Douglas-Home to various posts, 15 January 1971, FCO 67/554.
37. Douglas-Home to various posts, 15 January 1971.
38. ‘Record of a phone conversation between Drake and Denis Greenhill’ (PUS, FCO), 5 February 1971, FCO 67/557.
39. (‘Record of a meeting FCO-BP-Shell to discuss the OPEC Resolution’, 31 December 1970, POWE 63/769). As indicated as

early as December by David Steel, Managing Director of BP: 'the companies might be better off vis-à-vis the consumer governments if the companies were legislated against and the increases were then seen to be a matter between producer and consumer governments'.

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41. Ellingworth, 'Oil Negotiations'.
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43. Text of the agreement in *PIW*, 10/8, Special Supplement, 'Full Text of Persian Gulf Oil Agreement', 22 February 1971.
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50. Memorandum, John Foster to Heath, 'Oil Negotiations with OPEC Countries'.
51. Memorandum, John Foster to Heath, 'Oil Negotiations with OPEC Countries'.
52. Memorandum, Rothschild to Charles W. Roberts (Cabinet Office), 13 January 1972, PREM 15/1090.
53. Rothschild to Robert T. Armstrong (Principal Private Secretary), 20 January 1972, PREM 15/1090; memorandum, CPRS, 'Participation', 16 February 1972, FCO 67/743.

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55. Letter, George B. Chalmers (Head of OD) to Greenhill, 22 February 1972, FCO 67/743.
56. 'Interim Report on Oil Policy of a Group of officials', 6 October 1972, PREM 15/1836.
57. Letter, Douglas-Home to Thomas Bridges (PM's Private Secretary for Overseas Affairs), 22 June 1972, PREM 15/1836.
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70. Nicholas M. Fenn (Industry, Science and Energy Department), briefing note, 'Oil Policy', 23 March 1973, FCO 55/1075.
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73. Fenn, 'Oil Talks with the Companies', 29 June 1973, FCO 55/1057.
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83. M. Auzanneau, *Or Noir. La grande histoire du pétrole* (Paris: La Découverte, 2015), pp. 379–82.
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85. Minute, Peter Walker (Secretary of State for Trade and Industry) to PM, 'Oil Supplies', 12 December 1973, PREM 15/1843.
86. Letter, Drake to Walker, 12 December 1973, FCO 55/1060.
87. 'Note pour M. le Président de la République, Accords bilatéraux avec les Etats producteurs de pétrole', 22 February 1974, 5AG2/1037, Présidence de la République, Secrétariat General, Centre Historique des Archives Nationales, Paris, which listed a number of co-operation projects producers-consumers, among them those of Great Britain with Saudi Arabia and Iran.
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British Policy Towards Socialist Countries in the 1970s: Trade as a Cornerstone of Détente

Angela Romano

British policy towards the Socialist bloc countries in the 1970s is fertile ground for analysing the relationship between commerce and the Foreign Office. At the domestic level, the 1964–77 period saw three committees inquiring into the diplomatic service's organization and tasks, and calling for a tighter relationship between diplomacy and trade. At the international level, this long decade was characterized by the consolidation and deepening of a web of contacts, exchanges and mutual treaty obligations between West European capitalist countries and East European Socialist states, a process known as détente. This new pattern of intra-European relations lasted well into the 1980s, despite renewed superpower confrontation. Yet historiography on Britain and détente has to date overlooked the economic component of this process.¹

This chapter first explores the role assigned to trade in UK policy towards the Socialist bloc countries; it then assesses the other side of the coin, that is, what the Foreign and Commonwealth Office (FCO) could do to promote British firms' interests, and takes into consideration the views expressed by the latter at the time. In its conclusions, the chapter

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offers an assessment of the relationship between commerce and the FCO in this area and highlights the main driving forces behind it. It will be argued that the juncture described above created a perfect match between the interests of British business and the FCO's aims: business inevitably required government assistance and backing when trading with Socialist countries and the Foreign Office saw trade as a valid means to nourish relations with the East and promote *détente*.

WHAT TRADE COULD DO FOR BRITISH FOREIGN POLICY

Build Bridges and Foster Détente

From the mid-1960s most Western European governments used trade to foster dialogue and cooperation with the Soviet Union and its European allies, which were all members of the Council for Mutual Economic Assistance (CMEA). While not the most successful, Britain had been a pioneer in the field. It was Churchill who promoted, after Stalin's death in 1953, a new approach to East–West relations; the idea was not only to renew politico-diplomatic contacts, but also to promote as many commercial, social and cultural contacts as possible across the Iron Curtain. The Macmillan Government followed the same path and, up to the mid-1960s, Britain was indeed the CMEA's leading trading partner in the West.²

In the mid-1960s, CMEA countries turned to the world market as a means to promote a faster and more effective transition to intensive growth; in particular, the acquisition of Western technology, products and know-how was paramount in this endeavour. This new CMEA approach met with the developing *détente* policies of the Western European countries—the latest and most thorough of which would be the FRG's *Neue Ostpolitik*—and trade became a key feature of East–West relations in Europe.³ British ambassadors in Eastern Europe, from their vantage point, indicated that new opportunities were available to exert political influence in Eastern Europe; they therefore advocated Britain joining in the new commercial and scientific cooperation between East and West.⁴ Harold Wilson's Labour Government recognized the appeal for the removal of barriers between East and West and for the identification of common interests. Wilson had visited Moscow in February 1966, mainly to develop bilateral trade and technology exchanges; he then 'used a British industrial exhibition in Moscow to justify another visit' and continued to build a relationship with Soviet leaders.⁵ In July, his government brought a

proposal for a code of good behaviour in East–West relations in Europe to NATO. In Wilson’s view, European countries should expand bilateral and collective cooperation in the fields of trade, technology, science, and culture, in order to realize the prosperity of the continent and everybody’s human and material potential. These minor advances would then facilitate the solution of more complex problems, such as the German question and frontiers in Central Europe, and bring stability and security to the continent.⁶ This approach withstood the test of the suppression of the Prague Spring by the Warsaw Pact in August 1968.⁷ Despite his outrage and shock at the intervention, Wilson renewed his government’s commitment to détente before the House of Commons.⁸ If anything, the Czech crisis had confirmed that changes in Eastern Europe could only take place gradually and within the framework of improved East–West relations. Immediately after the Warsaw Pact intervention in Prague, Foreign Secretary Michael Stewart instructed UK embassies in Eastern Europe that contacts at every level should be promoted, for this was ‘the principal means by which we can hope to encourage the liberal forces in these countries’.⁹

As Archie Brown put it, ‘one strand of Foreign Office thinking ... was the seeking of more East–West contact in the belief that this would contribute over the long term to a liberalisation of the regimes under Communist rule. That approach predominated in the mid-1970s and a striking manifestation of it was the seriousness with which FCO officials took the Helsinki process.’¹⁰ Since February 1972, Britain, soon to be a member of the European Economic Community (EEC), was actively involved in European Political Cooperation (EPC), the brand new inter-governmental mechanism set up by EEC member states to speak with a single voice in the international arena. Through EPC, national policies of détente were melded into a common approach to East–West relations and a collective détente policy that centred on the promotion of contacts and exchanges with the Socialist bloc countries at every level and in various fields. This European—and British—détente differed from, and often conflicted with, détente between Nixon and Kissinger’s United States and the Soviet Union. The latter aimed at stabilizing the continent and consolidating bipolarity, whereas the former had a transformative intent meant to promote a gradual overcoming of the Cold War divide in Europe.¹¹ EPC’s first visible success was the substantial shaping of the Final Act of the Conference on Security and Cooperation in Europe (CSCE) according to the Nine’s common vision of détente.¹² When the UK Cabinet met to discuss the prospects for relations with Eastern European countries

in the aftermath of the CSCE, it deemed the development and exploitation of trade contacts to be of 'the highest importance'; indeed the Prime Minister was already in contact with the Secretary of State for Trade about this.¹³

British commitment to détente did not fade when an immediate wave of scepticism followed the adoption of the Final Act. By 1976, the Soviet Union's activities in Angola, its military build-up in Europe, and its bad record of implementation of CSCE provisions made it hard to believe in East–West cooperation. The Wilson Government defended the Final Act and remained committed to détente policy while facing growing scepticism both at home and abroad about the benefits of such a policy.¹⁴ Although having 'no illusions about détente', the successor Callaghan Government declared a 'nevertheless firm' commitment to encouraging 'contacts and cooperation between both the governments and the peoples of East and West across the whole spectrum of human interests and activities'.¹⁵ In March 1977, Foreign Secretary David Owen strongly defended détente policy in his speech before the Diplomatic and Commonwealth Writers' Association in London. He explained that areas of competition were endemic to the ongoing bipolar struggle between East and West and the global nature of Soviet power, but that détente could and should expand areas of cooperation, so that in the long-term areas of competition would contract. Détente, he clarified, was an immensely complex process, born in 1953 and with still a long way to go. Rather than promoting campaigns of denunciation that would provide little practical assistance to people living in the Soviet bloc, and which might well provoke a confrontational response, the Callaghan Government intended to 'help provide and sustain the framework of peace and security within which human rights c[ould] be discussed, championed and enlarged'.¹⁶ This framework also included trade and economic contacts with no strings attached.

This policy did not change when Margaret Thatcher became Prime Minister. When presenting its foreign policy to the House of Commons, her government stressed the change from Labour in terms of planned increases in the defence budget, yet it also unambiguously stated the intention to 'persevere without respite in attempts to improve relations between East and West'. In effect, defence and détente were considered 'inseparable'.¹⁷ After discussion of East–West relations at the Heads of Missions Conference in London, the Foreign Secretary, Lord Carrington, sent all the missions concerned a dispatch containing his conclusions on

the subject. He explicitly mentioned East–West contacts as ‘part of our armoury in the contest of ideas’. In particular, the British should do what they could ‘to undermine Soviet power by encouraging existing tendencies towards diversity within the Warsaw Pact’, though without provoking a crisis in the area that ‘would again be ended by invasion if the Russians thought it necessary’. The CSCE Final Act, in particular, was deemed important and useful ‘as a forum for East–West dialogue and in order to keep up the long-term pressure on the Warsaw Pact countries to improve their performance on human rights’.¹⁸

As Brian White has argued, there was ‘an essentially consistent British view of détente from the 1950s ... through the 1980s’, which, with variations of emphasis, combined maintaining a sound security structure through NATO and promoting East–West contacts at every level.¹⁹ Trade featured prominently in this scenario, as did cooperation in the fields of economics, science, technology, and environment as envisaged in the CSCE Final Act.

No Tool of Coercion

Yet, in the second half of the 1970s, the issue at stake in Western discussions was the possibility of using economic and financial relations as a political instrument to induce change in Soviet policy, whether the latter concerned human rights at home, military build-up, or actions in the world beyond Europe. This argument had been present in the House of Commons since early 1976, when MPs discussed Soviet activities in Africa.²⁰ The debate was particularly lively in the United States, also thanks to the vigorous stance that just-elected President Carter took on the question of human rights in the Soviet bloc. Following the Soviet invasion of Afghanistan in December 1979, Carter adopted sanctions against the Soviet Union and turned to a punitive use of economic diplomacy. The worsening of the Polish crisis and the imposition of martial law in the country in the early 1980s triggered additional sanctions under President Ronald Reagan. Yet sanctions also fitted well with Reagan’s strategic approach: in his view, the Soviet Union faced serious economic and political challenges, and this situation offered the West a historic opportunity to create a more stable relationship with Moscow.²¹ Denial of further credits, limitations on exports and the widening of the technological gap were all meant to aggravate Soviet weakness and redress the balance in favour of the West.

Reagan constantly tried but failed to turn US unilateral policy into a multilateral Western action. Although denouncing both the invasion of Afghanistan and the imposition of martial law in Poland, Western European governments continued on the path of détente.²² At the March 1982 European Council meeting, they officially ‘recognised the role which economic and commercial contacts and cooperation ha[d] played in the stabilisation and the development of East–West relations as a whole and which they wish to see continue on the basis of a genuine mutual interest’.²³ In effect, starting with the CSCE, the EEC member states elaborated and implemented a collective Ostpolitik which aimed, in the long term, at overcoming the Cold War and asserting the EEC influence in the continent; economic contacts were a key means to achieve both goals.²⁴

Britain, by this time an EEC member for almost ten years, actively contributed to forging this common stance. It did so also in line with a solid and long-standing tradition of support of international trade. Stephen Woolcock has described ‘the existence of a broad and stable consensus within Whitehall which favours trade and is sceptical of the effectiveness of using economic relations as an instrument of foreign policy’, also due to disappointment with past experience of economic embargoes and sanctions (from Abyssinia to Rhodesia).²⁵ True, in the late 1940s, the British Government supported a policy of security export controls to the Soviet Union, and helped create the Coordinating Committee for Multilateral Export Controls (the so-called CoCom), an informal Western organization which aimed at coordinating national controls over the export of strategic materials and technology to the Communist bloc. Yet, ever since the mid-1950s, together with France, it had pressed successfully to limit the application of such controls only to items of military importance to the Soviet Union.²⁶ According to Wallace, the predominant orientation among policy-makers and economists identified Britain’s interest with the maximum possible degree of free trade; associated with this principle was the belief that political considerations should not be encouraged to distort the international economy, and that the government should limit intervention in the operations of the international market to the minimum.²⁷

There certainly was a faction concerned with the possibility that trading with the Socialist bloc would only strengthen the enemy and run against the vital interests of the West; key figures belonged to the Opposition benches of the Conservative Party: MPs Nicholas Winterton (Macclesfield), Victor Goodhew (St. Albans), Patrick Cormack (Staffordshire, South-West), Julian Amery (Brighton, Pavilion), Julian Critchley (Aldershot), and above

all Peter Blaker (Blackpool, South).²⁸ This faction advocated restrictions on, or the cessation of, credits and other advantageous trade conditions; Blaker, in particular, even called for EEC action to consider whether the UK 'should modify the ridiculous policy of offering credits and technology to the Soviet Union'.²⁹ Although there were officials in the Foreign Office sharing this hawkish approach, the line of conduct remained solidly against accepting an embargo and sanctions.

In mid-1977, FCO officials produced a paper on East–West economic relations and the transfer of technology for the Secretary of State, who had expressed the desire to be briefed on this subject.³⁰ The paper was meant to provide ministers with more factual data on which to base political judgements about whether the West should try to use technology transfer as an instrument of pressure to influence Soviet domestic and foreign policies. The paper's main conclusions indicated a clear rejection of such a policy. First, the assumptions on which the embargo policy was mainly based seemed to lack grounding in reality. One such assumption was that Western technology transfers helped the Soviet Union progress at a faster pace; however, evidence suggested that, more often than not, the benefits of imported technology were dissipated either through an inability to absorb it quickly or because 'the natural sluggishness of Soviet industry discourage[d] ... the most efficient exploitation of new techniques'. Another major argument put forward by advocates of restrictions and embargo was that technology transfers would release Soviet budget resources for use in the military sector. The FCO paper recognized that—*in theory*—restrictions on the flow of Western technology could sharpen competition between the civil and the military sectors, that this competition could impact negatively on the standard of living of Soviet citizens, and that in consequence Soviet leaders might face domestic problems. In practice, however, the paper highlighted that '[d]efence requirements ha[d] always taken precedence over the improvement of the Soviet consumers' lot, and this [wa]s unlikely to change'. The safest assumption was therefore that the military sector would continue to receive whatever investment or research effort the Soviet leadership considered necessary. At the very least, then, the efficacy of a policy of embargo as a means of influencing Soviet policies was open to doubt. The FCO paper went further than that, and concluded that an embargo policy would be highly counterproductive on two main grounds. First, evidence showed that large imports of Western technology discouraged investment in R&D and the development of indigenous technology, and so could help preserve the

technology gap between the West and the Soviet Union. Consequently, the imposition of constraints on the exports of Western technology could ‘provide the sort of stimulus needed for the Russians to attach greater importance to pushing through the kind of organisational and structural reforms necessary to make the Soviet economy more efficient’. Second, an embargo policy would be detrimental to the main strategic goals of the UK (and of its EEC partners) in the continent, for it would

almost certainly either presuppose or create an increased risk of unstable East/West relations. At worst, the consequence of turning off the tap could be the emergence of a regime committed to autarky and to the more confrontational policy towards the West which would be necessary to justify internally the material hardship involved. In such circumstances, the West’s ability to encourage a gradual evolution of Soviet society towards greater contact with the West and the achievement of better East/West understanding at all levels would be substantially reduced.³¹

Nor was such policy actually deemed feasible. As Owen told the House of Commons on 10 July 1978, the government was ‘not to take action against the Russians in the trade field, since this would put our own industry and prosperity at risk; and many of our allies would not follow suit’.³² The same rationale featured in the UK position paper for the 1978 G7 Summit in Bonn. The FCO’s Eastern European and Soviet Department (EESD) summarized the UK position as ‘no interests in embargo’. The paper explained that it was ‘extremely difficult to persuade British business of the merits of Government-imposed restriction on their freedom to trade’, and cutting credits when no other in the West would follow (and they were not expected to do so) would only mean loss for Britain, which ‘need[ed] the business’. In addition, the ‘economic card’ would be useless to human rights campaigners on trial and have detrimental effects on arms negotiations, as it would sour East–West relations in general. The UK position was therefore that trade should remain ‘an element in the long-term process of expanding contacts and cooperation with the Soviet Union and Eastern Europe’, because trade was ‘a cornerstone of détente’.³³

Concern with British industry’s interests was also clear in the Thatcher Government’s approach to East–West relations. In December 1979 a Foreign Secretary’s dispatch to overseas posts underlined that, although decisions to go after projects in CMEA countries were the responsibility of

industry, political relations played a key role: 'Political activity will not win us contracts when we are uncompetitive, but its absence may help us to lose them.'³⁴ The government would therefore continue to provide substantial support to British firms that aimed to secure business in Eastern countries. Although Thatcher adopted a tough declaratory posturing in the worsening East–West climate of the early 1980s, her government's actions were remarkably restrained; even on the occasion of the worst crises, that is Afghanistan and martial law in Poland, it imposed only mild sanctions against the Soviet Union.³⁵

Overall there was no support for US economic warfare policies towards the Soviet Union. On the contrary, on 21 November 1981, some Western European countries, including Britain, signed a colossal natural gas pipeline deal with the Soviet Union, leaving the Reagan administration horrified. When the latter continued to fight the project, Thatcher in person told US Secretary of State Alexander Haig that she was not prepared to see British and other European firms sustain losses on the massive scale that such an embargo would cause.³⁶ Similarly, when Washington continued to ask for a tightening of export controls within the framework of CoCom, the British Government showed readiness to support initiatives to close loopholes in existing measures, but refused any broadening of their scope. Credits and CoCom rules were also discussed at the Versailles G7 summit in June 1982, but Reagan did not obtain substantial satisfaction; hence, immediately after the summit, he opted for unilateral action.³⁷ He ordered the expansion of the existing US export ban to US-controlled firms in Europe and equipment produced by European firms under US license, so as to hit directly Western European firms involved in the gas pipeline project.³⁸ Reagan's unilateral move engendered vigorous protests by both the EEC and individual member states. British policy-makers were dismayed by the US decision to escalate sanctions unilaterally and immediately after the summit meeting; Foreign Secretary Francis Pym spoke of the need to maintain 'political, commercial and cultural...links between the two halves of Europe', and declared that the British Government was 'convinced that as long as these exchanges and contacts [we]re on a reciprocal basis' Western Europe had 'nothing to lose and much to gain'.³⁹ The British Government coordinated defiance of US policy with EEC partners; their vigorous opposition made the US administration eventually yield on 13 November 1982.⁴⁰

WHAT THE FCO COULD DO FOR COMMERCE

By the end of the 1960s, after having enjoyed a comfortable position as CMEA's leading trading partner in the West for a decade, British firms faced intense competition from other Western European countries. As Britain quickly lost its leading position to the Federal Republic of Germany, subsequent UK governments responded with further liberalization of CoCom controls, advantageous credit conditions, and creation of joint East–West trade commissions. Nonetheless, the loss of CMEA markets' share continued: by the 1980s, Britain accounted for only 6.7 per cent of the Organisation for Economic Co-operation and Development (OECD) exports to the CMEA, compared to 25 per cent for the FRG and 12 per cent for France and Italy. The CMEA market's importance was also declining for British commerce: by 1981, trade with CMEA countries accounted for only 2.5 per cent of Britain's world trade.⁴¹ Although marginal to the British economy as a whole, exports to the CMEA markets were clearly significant for several industrial branches. In particular, British firms retained a competitive edge over Western European competitors in the fields of fibres and yarns (Courtaulds), power generating equipment (Rolls-Royce, John Brown), automation and data processing (ICL; Ferranti and Plessey); although declining, the chemical sector's share was still remarkable (ICI), as was the oil and gas equipment sector (Shell; BP).⁴²

It is no secret that the UK economy at the time was in decline. Since the 1960s, there had been a national emphasis on the importance of export, with the realization that trade developed much faster between industrialized states than inside the Commonwealth. Overall, the economic performance of the EEC six member states outstripped that of the United Kingdom. When Britain eventually entered the EEC in 1973, the first oil shock put an end to the glorious 30 years of continuous growth in Western economies. This unfortunate international juncture and the process of deindustrialization hit British industry particularly hard during the rest of decade. Hence, preserving and possibly increasing these firms' share in the Socialist markets was economically important for the country.

Governmental action to ease firms' way into Socialist markets certainly remained useful; government could intervene at a high political level, at EEC level to define import rules, and at a routine level through trade promotion and assistance.

Create a Safe Environment: The High Politics Level

The deteriorating East–West climate of the late 1970s and early 1980s has been often presented as the major cause for the decline of the British share in the CMEA markets. In fact, Woolcock has argued that political events had no significant effect, as industry ‘generally maintained contacts during periods of political tension’.⁴³ The truth is probably in the middle, where Lord Carrington put it: political activity would not win contracts for uncompetitive firms, but its absence could lose contracts otherwise obtainable.

It seems here more relevant to explore British firms’ perception at the time. When called to provide evidence about the impact of UK–Soviet relations on business before the House of Commons’ Foreign Affairs Committee, Dr Norman Wooding of Courtaulds claimed that neither his company’s business nor that of a number of firms with which he was well acquainted had been adversely affected by the reactions of the West towards Soviet policy in Afghanistan; by contrast, Mr Ralph Land of Rank Xerox considered that in a difficult political climate business did not grow and frequently declined: within a week of the expulsion of 105 Soviet diplomats during 1971–2, his company had lost a £2 million contract which was ready for signing.⁴⁴ In effect, perceptions varied greatly across the large number of firms involved in trade with the East and largely depended on their strength in the Socialist markets. Yet it is possible to ascertain some general trends by focusing on the Confederation of British Industry (CBI). As Wallace has pointed out, ‘peak’ organizations such as the CBI operated primarily to influence government at the middle and higher levels of foreign policy, leaving more specialized associations to lobby the government on less central issues; publications of the CBI were circulated to a wide range of ministers, senior civil servants, and MPs.⁴⁵

There is sound evidence of growing concern within the CBI about the decline of détente in the mid-1970s. On 8 November 1976, representatives of the CBI met with Foreign Secretary Anthony Crosland at the House of Commons to talk about foreign relations. When addressing East–West relations, they asked whether, in light of the result of the US presidential elections, détente was still respectable and the CBI should ‘still be trying to do business with the Russians and East Europeans’. Crosland replied that ‘détente was still on the table ... although East Europeans [we]re not keeping their side of the bargain’, and that ‘HMG still wanted to expand East/West trade’.⁴⁶ With the worsening of the climate between

the two superpowers, the CBI did not hesitate to make its voice heard on the question of using trade as a stick in East–West relations. The CBI’s first National Conference, held in Brighton on 13–15 November 1977, stated

[f]reedom of trade must not be obstructed on political grounds, except obviously where defence considerations or United Nations sanctions apply. Companies must be able to base their export marketing strategies on strictly commercial considerations, and to do business with any country irrespective of its political complexion. If British industry were able to trade only with those countries that have the same attitude to parliamentary democracy and to human rights as ours, our exports would be severely cut and unemployment rise substantially.⁴⁷

One year later, the second CBI National Conference declared its ‘concern ... with the recurrent pressures for interference with trade or investment on political grounds’, and did not hesitate to underline that ‘[s]uch interference rarely achieve[d] any worthwhile result, yet the effect at home in terms of lost trade and lost jobs c[ould] be serious’. While accepting that constraints could be justified in case of the defence of national security and compliance with UN sanctions, the CBI called anyway for security control over exports to ‘be kept under constant review and held to a minimum’. In addition, the CBI brought to the fore a comparative element, as it stated that ‘[w]hatever the grounds for interference with normal business, British business must not be put at a disadvantage compared with its competitors.’⁴⁸

When US pressure grew for embargoing the Soviet Union and Poland in the early 1980s, the CBI’s position became outspoken. Its document *International Trade Policy for the 1980s* clearly affirmed,

It is accepted that governments are obliged on occasions to impose constraints on trade for political or national security reasons. However, such restraint must be given legal or official force and business does not accept that it should be expected to practise voluntary self-restraint for political reasons: business should always be fully consulted to ensure that full weight is given to the interest of continuing trade ... The economic outlook, both for Britain and the world, is so serious that the CBI is entitled to make a special plea for consideration of the trade dimension in the formulation of Government policies. The consequences for trade should be a ‘first charge’ on every foreign policy decision considered and this should be reflected in ministerial time and effort devoted to trade promotion.⁴⁹

Overall, the CBI opposed any interference with trade based on purely political grounds. Exporters were not alone in having a substantial interest in keeping détente alive. The City was against using credit as an instrument of foreign policy, because such a line of conduct would damage London's position as a world financial centre. Woolcock has contended that the London banking community influenced British policy on Polish debt, by lobbying in particular in favour of a rescheduling of Poland's official debts.⁵⁰

The other side of trade with the East was, of course, import of Eastern goods. This posed additional pressure on sectors under strain, such as textiles or footwear, in terms of both quantity and price of goods. First, due to the lack of hard currency, Socialist countries frequently insisted on buy-back clauses when signing deals with Western firms; second, prices were often artificially low, due to Socialist prices not following the demand/supply rule but being set by government. This unfair competition is known as 'dumping'. The CBI refused protection of the home market, and rather aimed at fairer trade.⁵¹ Since the mid-1970s competence on both quantitative restrictions and anti-dumping rules rested almost entirely with the EEC and its Common Commercial Policy (CCP). Britain joined the EEC in the formative years of the policy and hence had a say in its elaboration; the CBI lobbied the government to make sure that British industries would not lose their safeguards as a result of the transfer of responsibilities for anti-dumping action to the European Commission.⁵² Although the CBI and firms would mostly contact civil servants in the Department of Trade and Industry (DTI), the Foreign Office was also a target for lobbying, as its officials attended the EEC Council of Ministers when it discussed foreign trade. By the end of the 1970s, the CBI overtly praised EEC action in the field and even called for more, stressing that no single European state had comparable weight in the setting of the rules of international trade.⁵³

*Assisting in Daily Life: The Practical Level of Doing Business
with the Communists*

Irrespective of high politics, trading with CMEA countries required assistance and backing from the government on several practical aspects, such as developing marketing strategies and structures to meet the specific needs of the Socialist markets.

Between the mid-1960s and the mid-1970s, three major reports were published on the reorganization of the Diplomatic Service: Plowden

(1964), Duncan (1969), and Berrill (1977).⁵⁴ Common to all was the emphasis placed on commercial work as one of the most important functions of overseas posts, and this indeed became accepted FCO doctrine. Yet international trade was not the preserve of the FCO, but rather of the Board of Trade, and the two had to coordinate their tasks and efforts. The Duncan Report had recommended that the Export Department of the Board of Trade should be strengthened by, among other things, a transfer of relevant staff from the FCO. The latter should therefore no longer run a headquarters department of its own with an interest in such matters. What actually happened was a mere translation of the FCO's Export Promotion Department into its Trade Relations and Export Department (1973); for its part, the Board of Trade became the Department of Trade and Industry (DTI).⁵⁵ The process of re-organizing the Whitehall machinery for international trade that took place in the 1970s would require a historiographical study of its own. It suffices here briefly to review the fundamental competence and duties of each Department, and the way they interacted with each other.

The DTI was responsible for external commercial policy, export promotion, and overseas trade. Three divisions were devoted specifically to the promotion and control of exports: they dealt with export licenses, the collection and dissemination of information on export opportunities, government sponsorship of and participation in trade fairs, liaison with the various government-assisted bodies encouraging businessmen to seek out exports, and cooperation with the Export Credits Guarantee Department (ECGD). Both the DTI and ECGD maintained a network of regional offices throughout Britain 'to ease communications with industry and to ensure maximum use of their services to exporters'.⁵⁶ The DTI was also the sponsoring department for most of British industry: it represented industrial interests in governmental discussions of overseas policy, and defended the interests of British companies operating in foreign countries.⁵⁷

Although firms would mainly contact the DTI, the Foreign Office had its important share of responsibilities. The FCO's Trade Policy Division related directly to CRE4, the DTI division on general policy towards the sensitive area of East-West trade. FCO geographical departments were in regular and informal contact with the corresponding geographical divisions of DTI responsible for commercial relations and exports, 'desk officer to desk officer, receiving copies of the same telegrams and consulting each other about the replies'.⁵⁸ The two departments were also closely linked by the commercial activities of overseas posts, in which the Diplomatic

Service operated on behalf of DTI divisions. The DTI also needed to work closely with overseas posts to arrange assistance to the many officials who travelled for consultations and for the management of joint intergovernmental projects. Apart from logistics, overseas posts provided knowledge: reporting on personnel or policy changes in the host country's economic ministry or central bank was of direct interest to the DTI. In addition to overseas missions' reports, analyses produced by the Foreign Office's EESD or Research Department were also 'called upon constantly by home Departments and by British industry and commerce'.⁵⁹

Beyond the DTI, there were several bodies that could give assistance and advice to firms interested in exporting to Socialist countries. The British Overseas Trade Board (BOTB) was formed in 1972 to direct and develop the government's export promotion services and overseas finance and planning on behalf of the Secretary of State for Trade and Industry. The Board consisted of business leaders and representatives from DTI, ECGD, CBI, the Trade Union Congress, and the Foreign Office; the Secretary of State for Trade presided.⁶⁰ The BOTB also had area advisory groups, among which was the East European Trade Council. This was an independent, grant-aided body responsible for stimulating British trade and industrial co-operation with CMEA countries and providing general information to exporters. In a more limited way than in other Western European countries, Chambers of Commerce could also be of some help; the London Chamber of Commerce and Industry, in particular, had a quite active East European section which promoted information about trade and sponsored seminars on the subject.⁶¹

British embassies in Socialist countries acted in cooperation with DTI and BOTB to give market guidance and briefing, and assisted established firms with a wide range of specific problems. They helped firms whose dealings in the East needed setting within the context of government-to-government relationships. This was a very relevant aspect in trade with CMEA countries, as their governments attached great importance to formal agreements; these usually covered, in considerable detail, consular relations, cultural exchanges, trade, scientific research and technological collaboration, and were reinforced where possible by the creation of joint commissions. Also of major importance when aiming at doing business with Socialist countries was knowing whom best to approach in the host government's various ministries on a particular question, and being sufficiently well acquainted with them to be able to contact them.⁶² Socialist states' trade organizations tended to be highly specialized in their

structure and it was therefore important to target precisely the correct division and officials; moreover, these contacts needed constant nourishing, with routine visits duly organized well in advance. Anna Dyer maintains that understanding national business culture and norms was also of paramount importance.⁶³ As a matter of fact, with trade in those countries completely in the hands of state trading corporations, British exporters would, more often than not, have got nowhere without the efforts of the diplomats on the ground.⁶⁴

CONCLUSIONS

British policy towards CMEA countries was characterized by the persistence of a broad consensus that trade should be maintained or promoted. Woolcock has argued that this consensus developed in the mid-1950s out of economic interest, since Britain was CMEA's leading trading partner in the West. Even after Britain lost its leading position, the consensus survived well into the 1980s. This was due to the 'legacy of leadership', disappointment with past experiences of sanctions, and competition with other Western countries.⁶⁵

Woolcock's work has the merit of highlighting the salience of economic interests and past experience, but overlooks the importance of political rationale. This chapter has demonstrated that Britain's policy towards East–West economic relations was a key part of the broader policy of détente conceived as a long-term process involving cooperation in many fields and meant to favour gradual change in the East and the eventual overcoming of the Cold War in Europe. Since the mid-1950s, no British Government, not even Thatcher's, considered trade as a means to force change in Soviet foreign and/or domestic policy or to force a change of the Eastern European regimes. British governments also contributed to maintaining both the collective EEC *Ostpolitik* and keeping the CSCE process alive. In both cases, the FCO naturally had the key responsibility for devising the British contribution. It is fair to say then, that commerce had a key role in the implementation of British détente policy; it served the Foreign Office's goals.

Reversing the perspective, commerce gained from the commitment of British governments to détente at both national and EEC levels. First, it did not have to suffer the consequences of a policy of restraints and embargoes towards Socialist countries; second, it benefited from a stable governmental engagement to promoting East–West economic

contacts and fairer trade, though it was clear that no amount of effort would be enough for uncompetitive British firms. The DTI was the main actor preoccupied with protecting, assisting, and backing British firms, yet the Foreign Office had key responsibilities, especially since trade in CMEA countries was completely in the hands of state corporations. The FCO had also an important role at EEC level where the rules for imports from the Socialist countries were decided since its officials attended the EEC Council of Ministers when foreign trade was on the agenda. In conclusion, it is fair to say that there was an encounter of minds and interests between Foreign Office and British commerce on the question of trade with Socialist countries during the Cold War.

NOTES

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6. Archives du Ministère des Affaires Etrangères, Europe 1944–70, Grande Bretagne, 223, *Proposition britannique d’un code de bonne conduite pour les relations Est-Ouest*, 1966.
7. The invasion was decided and conducted by the Warsaw Pact; Romania openly disagreed with the decision and did not participate in the invasion.

8. Foreign and Commonwealth Office, *Miscellaneous No. 17: Selected Documents Relating to Problems of Security and Cooperation in Europe 1954–77*, Cmd 6932 (HMSO, 1977), p. 58.
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10. A. Brown, 'Margaret Thatcher and Perceptions of Change in the Soviet Union', *JEIH* 16/1 (2010): 17–29, here p. 18. For a recent appraisal of Britain's approach to the CSCE: A. Romano, H-Diplo Article Review n. 512 on F. J. G. Bozek, 'Britain, European security and freer movement: the development of Britain's CSCE policy 1969–1972' (2015) <http://tiny.cc/AR512>.
11. The literature is rich. See, for example, F. Bozo *et al.* (eds), *Overcoming the Iron Curtain: Visions of the End of the Cold War in Europe, 1945–1990* (New York and Oxford: Berghahn Books, 2012).
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14. For the home debate, see Hansard, *HC Debs, Vol. 906*, 24 February 1976, cc201–340, particularly p. 6, <http://hansard.millbanksystems.com/commons/1976/feb/24/fo> (last access 9 October 2012).
15. 'Record of a meeting between the Foreign and Commonwealth Secretary and representatives of the CBI at the House of Commons on Monday 8 November at 3.00 pm', 1976, FCO 28/2831.
16. Foreign and Commonwealth Office, *Miscellaneous No. 17*, pp. 331–40.
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18. FCO Secretary of State, 'British Policy in East-West Relations', London, 7 December 1979, FCO 28/3683.
19. White, *Britain, détente*, p. 165.
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23. Archive of the Council of the EU, *30ème Aperçu des Activités du Conseil, 1 janvier – 31 décembre 1982*, Secrétariat Général du Conseil des Communautés Européennes, 1983, p. 122. See also Romano, 'G-7s, European Councils and East-West Economic Relations, 1975–1982', in E. Mourlon-Druol and F. Romero (eds), *International Summitry and Global Governance. The Rise of the G-7 and the European Council, 1974–1991* (Routledge, 2014), pp. 198–222.
24. See Romano, *The European Community and Eastern Europe in the Cold War* (Routledge, 2017); on action from the EC: Romano, 'Untying Cold War knots: The European Community and Eastern Europe in the long 1970s', *CWH*, 14/2 (2014): 153–73.
25. Woolcock, 'Great Britain', pp. 141–2.
26. See F. Cain, *Economic Statecraft during the Cold War: European Responses to the US Trade Embargo* (Routledge, 2007).
27. W. Wallace, *The Foreign Policy Process in Britain* (Royal Institute for International Affairs, 1976), p. 157.
28. Hansard, *HC Debs*, Vol. 906, 24 February 1976, cc201–340, in particular pp. 17, 24–5, and 42; *HC Debs*, Vol. 927, 01 March 1977, cc195–326, p. 43. Blaker, a former diplomat, was MP for Blackpool South for 28 years (1964–92), and then a peer from 1994. He acted as army under-secretary in the Heath government and had just been shifted sideways to the Foreign Office when Labour won the February 1974 election. He would then be Minister of State in the Thatcher government, first at the Foreign Office (1979–81) and then at the Ministry of Defence (1981–3). He was a fervent Atlanticist and one of the most vocal anti-Soviet Tory members.
29. Hansard, *HC Debs*, Vol. 927, 01 March 1977, cc195–326, p. 43.
30. Butler to Lord Goronwy-Roberts, 'East-West Economic Relations', 30 March 1977, FCO 73/348.
31. Butler to Lord Goronwy-Roberts, FCO 73/348.
32. Llewellyn Smith (EESD) to Ferguson, 'Bonn Economic Summit: Economic Sanctions against the Soviet Union', 13 July 1978, FCO 28/3280.

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35. White, *Britain, Détente*, pp. 140–3. M. Clarke, 'The Soviet Union and Eastern Europe' in P. Byrd (ed.), *Foreign Policy under Thatcher* (Oxford: Philip Allan, 1988), p. 66. See also R. Aldous, *Reagan and Thatcher: The Difficult Relationship* (Hutchinson, 2012).
36. White, *Britain, Détente*, p. 142.
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47. CBI, *Britain Means Business 1977* (CBI, 1977), p. 58.
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49. CBI, *International Trade Policy for the 1980s* (CBI, 1980), p. 11.
50. Woolcock, 'Great Britain', p. 147.
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52. CBI (1977), p. 58.
53. CBI, *International Trade*, pp. 6, 10, 28, 37.
54. For an analysis of the three reports see Young, *Twentieth-Century Diplomacy*, ch.3.

55. G. Moorhouse, *The Diplomats. The Foreign Office Today* (Jonathan Cape, 1977). In 1974 the DTI was dismantled in four Departments: Energy; Ministry of Trade; Ministry of Industry; Ministry of Consumer Protection; in 1983 DTI was reconstituted.
56. Wallace, *The foreign policy*, p. 179.
57. Wallace, *The foreign policy*, pp. 42–3.
58. Wallace, *The foreign policy*, p. 149.
59. Wallace, *The foreign policy*, p. 149.
60. TNA, Records of the British Overseas Trade Board, Administrative/biographical background, <http://discovery.nationalarchives.gov.uk/details/r/C846>
61. Dyer, 'Doing business', pp. 217–18.
62. Wallace, *The Foreign Policy*, p. 179.
63. Dyer, 'Doing business', pp. 219–20.
64. Wallace, *The Foreign Policy*, pp. 244–5.
65. This is the main argument of Woolcock, 'Great Britain'.

‘Paying Our Way in the World’: The FCO, Export Promotion and Iran in the 1970s

Richard Smith

In late 1973 Britain, and other Western industrialized nations, were dealt a profound shock when, as a result of the Yom Kippur war, the Organization of the Petroleum Exporting Countries (OPEC) quadrupled oil prices. This checked European economic growth for the first time in a quarter of a century and brought with it recession and continuing inflation. The rise in oil costs, coupled with a strike by miners, led to an energy crisis in Britain which pushed the government to declare a state of emergency and a three-day working week from 1 January 1974.¹ Rising oil costs played havoc with Britain’s balance of payments which had long been high on the political agenda, with success in exporting linked to full employment and economic security.² In November 1974 the monthly visible trade deficit was the largest ever recorded.³ This contributed to a total deficit of £3317 million for 1974 compared with a surplus of £191 million in 1972.⁴ In the distance was the prospect of North Sea oil which, when it began to flow in sufficient quantities, would make the UK a net exporter. But the Governor of the Bank of England was forecasting ten years of economic

The views expressed here are those of the author alone, and do not represent those of any government department.

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austerity for Britain until the vast balance of payments deficit was corrected.⁵ In August 1976 a review of Britain's overseas representation by the Central Policy Review Staff (CPRS) pointed out that the country's international standing had been unavoidably weakened by its deteriorating economic position, and there was little that diplomatic spin or international public relations could do to change this fact.⁶ This chapter examines the response of the Foreign and Commonwealth Office (FCO) to the oil shocks of late 1973 and its attempts to assist UK economic recovery during the rest of the decade by promoting trade with oil-producing nations, taking Iran as a case-study.

Throughout 1974 the FCO considered what the economic situation might mean for Britain and her independence, prosperity and security; and concluded that the UK would have a hard time in the 1970s.⁷ Among industrialized nations the UK was thought particularly hard hit because of a relatively high dependence on essential imports, an existing non-oil deficit and a high rate of inflation. The country was borrowing unprecedented amounts from abroad and this was likely to continue until North Sea oil came on stream. Without the continued confidence and support of major foreign lenders it was difficult to see how Britain could avoid crippling economic privations with all the political and social repercussions that this might entail at home and abroad. Stronger industrialized countries would rely on vigorous export policies to maintain home employment, whilst higher prices would force less developed countries to economize on their imports. Economic difficulties and the deficit on the balance of payments during the next few years required a high degree of concentration on immediate national priorities. The central objective was to eliminate progressively the deficit on the balance of payments without resorting to a siege economy at home. Even with the most optimistic assumptions about the availability of North Sea oil, the progress of British exports, the state of the world economy, and the terms of trade, this would take years to achieve. But the ability to maintain the same level of imports would require the willingness of other countries to lend the UK vast sums. Foreign policy had an important role to play in preserving and developing worthwhile export markets, maintaining access to imported energy, raw materials and food, and upholding British credit worthiness. Oil-producing nations were considered key in this endeavour. Their lucrative markets for British exports were already important and would become increasingly so. They would need to see Britain as a reliable economic partner, able to repay debts and provide goods for oil. Past associations

and military ties meant there were still special opportunities in some oil producing countries: namely Abu Dhabi, Nigeria and Iran. 'These will have to be exploited to the maximum extent, not only in order to promote British exports but also to increase our chances of credit in normal circumstances and of supply in emergency.'⁸

Similar sentiments were expressed in a paper drafted by the Trade Relations and Exports Department (TRED), aimed at identifying ways in which the UK could cope with the economic challenge of the balance of payments deficit—a case of 'Paying our Way in the World' rather than 'Borrowing our Way in the World'. There was concern that Britain's rate of export increase was too low, export opportunities were being missed, that British industry was not working at full capacity and that Britain was losing its share of world markets.⁹ The paper concluded that the prime object of the government's economic strategy must be to secure a rapid and sustained increase in earnings from exports, both visible and invisible, to contribute directly to the earliest possible reduction of the current account deficit. This would also maintain credit-worthiness, reduce borrowing and future levels of debt servicing, increase international confidence in the UK as a viable base for industrial investment, and restore badly needed confidence to crucial sectors of the domestic economy. The paper rejected the idea of any restriction on imports as 'a complete reversal of traditional and present British policy' which was unacceptable in terms of international economic and financial, and domestic terms. The UK's ability to survive would depend on identifying remaining export opportunities, and ensuring that they were met promptly and competitively by allocating resources appropriately.¹⁰

Along with their traditional foreign policy role of establishing and maintaining a political climate conducive to world trade, and upholding UK credibility and creditworthiness, diplomats played a key role in the government's export machine. The FCO operated the overseas end of export promotion services and the Department of Trade (DT) the home end. The two departments worked closely together to ensure a coordinated service. Officials from both departments, along with businessmen and officials from the Export Credits Guarantee Department and Department of Industry (DOI), were also represented on the British Overseas Trade Board, set up in 1972 to reflect the requirements of exporters in the operation of export promotion services. The services provided by the FCO were varied: supporting the display of UK goods and services in trade fairs and promotions; helping British business to explore overseas markets;

finding agents for use by British business; coordinating government help for major capital projects overseas to ensure a strong British effort; assisting exporters on independent visits overseas with market information, and the opportunities and ways of doing business; assisting with arrangements for inward missions from overseas government officials and businessmen; dealing with enquiries from overseas firms, usually relating to source of supply, providing advice, encouragement and publicity for exporters; and supporting the work of joint commissions.

Britain's survival, then, would rest on the very countries responsible for pushing Britain into its balance of payments predicament in the first place—the oil-producing nations, now awash with petro-dollars. Iran was at the top of this list as one of the UK's top 20 export markets and the largest in the Middle East (consisting mainly of manufactured goods such as motor vehicles, and electrical and industrial machinery). Crude oil accounted for more than 90 per cent of UK imports from Iran. Prospects were good. The Shah had ambitions for Iran to become a major industrial and military power within a generation—what he referred to as the 'Great Civilisation'. Agreements in February 1971 and July 1972 with the oil companies operating in Iran saw him gain greater control over the industry and increase the country's oil revenues. Iran was seen as a stable country, with a tradition of close links, a strategic partner in the Central Treaty Organisation and a promising commercial market for domestic and military exports.¹¹ Commercial relations had been formalized by the establishment of a Joint Ministerial Economic Commission, which met for the first time in June 1972 and then alternately in London and Tehran each year. An Iran–UK Investment Conference was held in Persepolis in November 1973. What was described as the largest party of British tycoons ever to have been assembled by the CBI for an overseas mission spent two days meeting Iranian ministers, officials and the private sector. It resulted in a number of joint-project agreements between British industry and the Iranian public and private sectors worth over £250 million.¹² The conference was important in drawing attention to the Iranian market at exactly the right moment.

The new British Ambassador to Iran, Sir Anthony Parsons, who arrived in March 1974, was keen to capitalize on this activity. To do this he felt he needed to strengthen commercial representation at the Embassy and requested a roving vice-consul/commercial officer to cover the south of the country.¹³ But the extra resources needed to generate new export earnings came at a time when the FCO was least able to afford it due to

retrenchment and spending cuts in Whitehall. The Tehran mission was due to be inspected in the spring of the following year and the FCO Personnel Department preferred to wait until then, when a thorough review by the Inspectors might suggest savings in one area 'to counter-balance increases in more pressing areas of work'. In the meantime they hoped 'nothing essential will be lost if you carry on as you are'.¹⁴ However, Parsons saw things differently, and in September 1974 he returned to the charge by which time an economic boom had broken out in Iran. Oil revenues for 1974–5 were five times those of the previous year and in August the Five Year Development Plan (1973–8) had its projected expenditure doubled to \$68 billion. New developmental projects were announced in industry, agriculture, infrastructure, health, education and housing; along with an expansion of the armed forces and investment in Western industry.¹⁵

As a result the Embassy was now operating in a totally different environment in which commercial demands were more pressing than ever. Parsons was concerned that opportunities were being lost in the provinces due to lack of staff to tour the regions. In Tehran itself the 'avalanche' of visiting ministers, industrialists, bankers, oilmen, trade missions, economists, and contractors threatened to overwhelm staff, particularly as British firms often required extensive support due to the complexity of the Iranian commercial and bureaucratic system.¹⁶ Time was also needed to meet Iranian officials as this was a crucial way of spotting commercial opportunities at an early stage. The cultivation of contacts in key posts was important as information was often not published quickly enough. The Embassy was also finding it hard to maintain careful analysis of economic planning and trends. The Ambassador now asked for an extra 1.5 commercial officers (and a 0.5 consular officer due to the expanding British community in the country). The next nine months were critical, he thought. Parsons feared the service provided to British industry would deteriorate at a time when 'we and our competitors are straining every nerve to pick up as much of the additional business as we can'.¹⁷ The available opportunities had naturally stimulated international competition with West Germany, the USA and Japan already ahead of the UK in terms of market share and France and other West European countries looking to improve their positions.¹⁸

Parsons already had an alternative source of pressure. The Lord Privy Seal, Lord Shepherd, had visited Iran in September 1974 to attend the International Trade Fair and meet with ministers ahead of the next Joint Ministerial Economic Commission. Before he left Shepherd asked Parsons

to draft a minute making recommendations for the future commercial effort in Iran. Parsons reassured the head of the Middle East Department (MED) that he was not empire-building but concerned not to lose new opportunities opening up rapidly, when foreign competition was intense and Britain was going to have to 'exert a maximal effort in order to hold our own, let alone improve our position'.¹⁹ Shepherd duly submitted his report to No. 10 urging that the issue of extra resource for the Embassy should be followed up quickly and positively. He thought the Iranian opportunity was so exceptional that substantially more official effort should be put into promoting export and investment. The rewards were so great that a small investment would be justified, despite present restrictions on civil service manpower.²⁰ His minute had the desired effect and prompted the Prime Minister to enquire of Ministers what was being done, which in turn brought matters to the attention of the Foreign Secretary and then to senior officials in the Office.²¹ Meanwhile the former Permanent Under-Secretary (PUS), Lord Greenhill, was receiving accounts from the business world that the commercial side of the Tehran embassy was inadequate and gave the impression of 'lack of organisation, imprecision and waffle.'²² The Assistant Under-Secretary of State covering trade issues now minuted the Personnel Department for the need to act urgently 'to show ministers what we are doing'. 'It is fairly clear', he wrote, 'that we can and should make a further Diplomatic Service effort in the form of reinforcing the Embassy. We should do so forthwith.'²³

Parsons was also supported in London by the head of TRED, John Cloake, who described Tehran at this time as 'going mad' and the resulting frenzy of activity as a 'real crisis on that side of the office'.²⁴ Cloake had first-hand experience of Iran, serving as Economic Counsellor in his previous posting (1972–6), and its peculiar difficulties which had to be overcome if the FCO was to help British business break into the market. The size of the country (roughly that of the EEC) meant that the main centres of industrial development were far apart and touring was a time-consuming business. Much of the work concerned joint-venture investment and large scale development projects in which British businessmen needed a great deal of official help and advice. Most case work took far longer than it would at an average post due to a variety of factors: the postal system was chronically unreliable and the telephone system archaic and confusing; traffic in Tehran was congested and chaotic; there was a shortage of competent middle-managers and those at the top were over-worked; the role of the 'fixer' was still ubiquitous in business; Iranians

were considered to be shrewd bargainers; and it was vitally important 'to learn to detect the wishful thinker, the half truth and the empty promise or affirmation given out of misguided courtesy'. It was also difficult to employ good local staff as anyone who could speak English was already in great demand and could command a salary far greater than the Embassy could afford.²⁵

Still keen not just to throw resources at the issue the Personnel Department arranged for an emergency inspection in November 1974. The inspector found that the commercial section was 'groaning under the strain' and recommended two additional posts and extra locally-engaged administrative assistance for the commercial section. But judging by the advice he also gave in planning commercial work—the need to prepare a clear statement of objectives, and better planning and direction for the programme of visits—it is clear that the available manpower might not have been functioning in the most efficient way possible.²⁶ An FCO Minister announced the new resource in Parliament and added that the Ambassador, and many other members of his staff, devoted a great deal of effort to commercial work, 'which is a first charge on the resources of the Diplomatic Service'.²⁷

Parsons deliberately turned all the resources of the Embassy towards commercial activity, with export promotion at the top of the list. As well as securing additional personnel economic reporting was transferred to the Chancery giving it equal importance to political reporting. Other political officers were told to keep a lookout for export opportunities. Even the service attachés were primarily servicing the defence sales programme rather than providing military information. Political reporting was primarily about the need to provide sound advice to potential British business and investors.²⁸ By his own admission there was a 'missionary flavour' to the Ambassador's reporting to London. He described himself as 'genuinely and objectively' convinced that the scale and scope of opportunities emerging from Iran for the advancement of the UK's material interests was 'probably virtually unprecedented' in the world in recent years.²⁹ This singular drive would later prove contentious.

The FCO's commercial work was split into responsive and initiative activity: The former consisted of approaches from business for assistance and the latter was where commercial officers actively sought out export opportunities to then feed back to business. Generally in most posts initiative work exceeded responsive work, but with two consistent exceptions: the Soviet bloc (where scope for initiative was very limited) and

oil-exporting countries, where staffing levels had not responded to the increased responsive workload following the post-1973 boom.³⁰ It was this lag that Parsons was seeking to overcome. Another similarity between Middle East and Communist countries was the importance they attached to the involvement of Western governments in economic affairs. Meeting the competition for business in the Middle East required the full resources of government both at the political and official level to assist the efforts of industry. Companies had a greater chance of success if they evidently had government backing.³¹ In addition government to government involvement was expected in the negotiation and financing of major public contracts. These development programmes for industrialising nations brought with them opportunities for large-scale contracts but required months of negotiation and ministerial interest.³²

The omens for 1975 were good. In January Peter Shore, the Secretary of State for Trade, visited Iran for the Third Session of the Anglo-Iranian Joint Ministerial Economic Commission. He established a new programme of joint ventures between British and Iranian firms in housing, hospitals, freight distribution and training; including the electrification of the Tehran-Tabriz Railway and supplying Iran with cargo ships—contracts worth £500 million. It was also confirmed that Iranair would be one of the first airlines to operate Concorde.³³ A peak was reached in May 1975 when the commercial staff received 402 business visitors from the UK, in addition to local visitors, initiative visits, two trade missions and an exhibition joint venture.³⁴ One of the lasting impressions of the *Financial Times* Middle East correspondent was of the indignities and discomforts senior executives of major international companies were prepared to tolerate.³⁵ Five hundred beds were installed in the Hilton Ball Room to accommodate the rush of people flocking to Tehran to get in on the trade boom. At the height of the boom Parsons reckoned he was receiving personally between five and ten company chairmen a day. ‘My Commercial Section was like Wembley Stadium!’ he recalled. ‘It was just packed with people the whole time.’³⁶ Despite the agreed increases in staff it was almost a year later before the section was fully staffed as envisaged. Michael Orlebar-Simpson, the Commercial Counsellor, lamented that by this time ‘the flood tide had washed over us and was on the ebb’. He noted that if ways could be found of more rapidly reinforcing posts when compelling pressures developed, ‘we could have done more for our many visitors ... than time and sheer exhaustion permitted’.³⁷

But as the year progressed, reduced oil production, dollar depreciation, increasing costs of imports and a domestic inflation rate of over 20 per cent served to dampen the mood of euphoria. Iranian infrastructure and bureaucracy struggled to cope with the pace of economic expansion. By mid-1975 over 200 ships were waiting to unload their cargoes at Khorramshahr, the principal port.³⁸ Mounting costs and declining revenues saw a renewed emphasis on financial planning and project management in the Iranian Government. Ministers were instructed to prune the budget and avoid waste. The Embassy had attempted to help British companies to secure some of the major contracts on offer under the Five-Year Plan but fingers were burnt and some bids were postponed or cancelled altogether. But British companies also shared the blame. When the Iranians prioritized speed of delivery over cost this attracted firms out to make a quick killing. 'Croesus himself would have looked askance at some of their initial prices', noted the Commercial Counsellor.³⁹ This also reflected badly on the FCO who often did not have the ability to check the validity of proposals being put forward by companies they were backing. But Parsons remained upbeat believing that whilst there might be a more price-conscious approach to present policies a radical change of direction was unlikely. This would make the market more competitive, as Iranians were already amongst the most difficult negotiators in the world, and price was one of the UK's weaker points. But with the carpet-bagging element of foreign visitors discouraged and the more absurd projects cancelled there was scope for rational planning and administration in Iran. It was important that British industry should not be discouraged. Scepticism about Iranian capacity to fulfil the Shah's developmental ambitions had tempered opinions in the past—'the then Jeremiahs cost us dear (and our bolder competitors prospered at our expense) when their fears proved unfounded'.⁴⁰

With a more sober economic mood many British firms returned disappointed. British and other foreign business discovered 'that the gold which still paves the streets of Iran is much more difficult to prise loose than they had anticipated'.⁴¹ For those that had managed to secure contracts the path was not always smooth. Ahead of a visit by Foreign Secretary James Callaghan to Iran in March 1976 the embassy reported that there was 'not one major commercial contract with the Iranian public sector which is progressing happily, or even profitably for the British participants'. Arguments and niggling existed in both commercial and technical assistance relationships.⁴² But when the Foreign Secretary raised the issue with the Shah of

British firms having received no progress payments for months he reacted quickly to the news.⁴³ But the outgoing Commercial Counsellor thought Iran was likely to remain one of the world's most rapidly expanding economies and for all its drawbacks and difficulties, 'it must remain a prime target for British exporters: we cannot afford to neglect it'.⁴⁴ Despite all the difficulties the value of UK exports to Iran continued to rise year on year, from £66.3 million in 1970 to £510.9 million by 1976.⁴⁵ But questions were being asked about the UK's market share which seemed to be slipping in the face of stiff competition from other countries.⁴⁶ UK market share in Iran was 11.6 per cent in 1972–3, but slipped to 8 per cent in 1974–5, reviving to 8.8 per cent in 1975–6.⁴⁷ The Treasury declared themselves 'somewhat perturbed' that UK exports to OPEC countries were not growing at the same rate as those of the UK's principal competitors: 'I am sure a really concerted and continuous effort is required to enlarge our future share of this business', wrote the Chancellor.⁴⁸ The head of MED noted gloomily that the rate of expansion, 'which would under normal circumstances represent staggering success', was not lauded because the UK was losing market share.⁴⁹ Ominously, Parsons thought improved performance depended not on political relations (which were excellent) or greater willingness to buy British (the will was there) nor in applying the whip to exporters, visible and invisible, to do more (they were doing their best) but 'rather in the revival of the British economy'.⁵⁰

By 1977 Parsons believed the British official and semi-official machinery for export promotion to Iran was as well-developed and efficient as could reasonably be expected and the political background to exporting efforts was highly favourable. British interests prospered: a new trade magazine, *Britain Today*, was published and an Irano-British Chamber of Commerce established, which 50 Iranian and 77 British companies joined. Visible exports were up by 25 per cent on 1976 to nearly £650 million.⁵¹ More generally the CPRS report recognized the effort the FCO was putting into commercial and export work with the largest proportion of the FCO budget (£24.2 million out of £155 million) going on export promotion services.⁵² Parsons noted: 'It is up to British business and industry to demonstrate that they can make full use of these advantages.'⁵³ But this is where one of the intrinsic problems behind the drive for exports lay: the incapacity of British industry to take advantage of the opportunities open to them.

Ministers talked up the prospects for the British economy when speaking to Iranians. They acknowledged that there had been a long period

of under-investment and a failure to recognize the importance of able management but predicted that conditions would improve, not least with North Sea oil which would begin to relieve the balance of payments difficulties 'which had been such a malign influence in the past'.⁵⁴ But many commercial sections of British missions abroad thought that the constraint appeared to be within UK industry rather than the markets. When overseas posts were asked to comment on the paper 'Paying our Way' they were virtually unanimous on the need for more effective dialogue between Whitehall and industry, for better communication between British industry and overseas customers, a radical improvement in the relationship between management and labour and for a closer association of organized labour with the exporting effort. Posts in different markets of the world told a similar story; that inefficient management and bad communication with customers had contributed decisively to declining overseas markets and a bad British image abroad. Andrew Stark in Copenhagen noted that customers were no longer interested in putting up with British delivery failures and quality reductions. In Berne, John Wraight thought there was a need to create the right atmosphere and spirit in Britain to regenerate production and exports—'Too much planning and consultation may inhibit this development'. In Rome, Sir Guy Millard had doubts over whether further tampering with export machinery would help. Some of the UK's more successful competitors had rather less machinery he noted. He thought the root of the problem was essentially political. Hugh Cortazzi in Washington agreed that a coordinated export strategy was no substitute for effective action on the domestic economy. Sir Willis Combs in Jakarta doubted whether the official export machinery could be improved but thought its use by industry could be more effective. Many Export Intelligence Service notices 'probably go straight to London offices of our main competitors', he noted. In Abu Dhabi, Donal McCarthy thought that it should be brought home to trade unionists the difficulties that exporters faced in overseas markets. Kenneth Jamieson in Lima agreed that posts should not try to do industry's job selling overseas and the FCO should not become 'Great Britain (Exports) Ltd.' Industry must improve its marketing and efficiency when dealing with export customers: 'there is a world of difference between *long* delivery and *late* delivery'.⁵⁵ The FCO concluded that industrial strife, and the resulting failure to achieve promised deliveries, not only damaged the UK reputation for reliability but also eroded goodwill in traditional markets 'which have hitherto lacked the sophistication or the initiative to turn elsewhere'. Other suppliers were now only too eager to take the UK's place.⁵⁶

One classic example was British Leyland (BL) and the supply of Land Rovers. In October 1977 Parsons warned London about a looming problem over a shortage of Land Rover kits for BL's joint venture with Morratab in Iran. This was not a new problem as there was a worldwide demand for Land Rovers and Land Rover kits which the company did not have the capacity to meet. The Foreign Secretary wrote immediately to the Secretary of State for Trade calling the situation 'disgraceful' and pointing out the consequences. If Leyland failed to fulfil the contract (worth £14 million), it would jeopardize not only the joint venture with Morratab but also their other interests in Iran in cars, trucks and buses, and their impending bid (as part of a consortium) for a lucrative contract for tank transporters. He thought it 'impossible to exaggerate the damage that Leyland's failure to meet their obligations would do to our credibility as an exporting nation in the highly competitive Iranian market'. He asked that this be made abundantly clear to the company.⁵⁷ Officials in the FCO were worried not only about losing the entire Iranian market to Toyota but also the potential political interest at stake. The Shah was apt to take as a personal affront any sign that British companies were not taking seriously their relations with Iran. There was a need to maintain good relations at a time when the UK was looking for the support from the Shah over Rhodesia and South Africa.⁵⁸

The problem was not just confined to Iran. At the same time the Minister for Overseas Development complained to the Department of Industry about the constant stream of complaints over delivery times for vehicles, so much so that she considered the company at the very brink of losing the enormous potential market of Africa to Toyota. In the Land Rover the UK had a perfect example of a product in a vital sector of the UK economy which met the objectives of contributing not only to the balance of payments, but also to UK employment and to progress in developing countries. To lose the African market to Toyota would be tragic because it was unnecessary. 'Africa does not *prefer* Toyota. But, *faut de mieux*, it must buy them if we cannot supply land rovers'. The Minister wanted Leyland to devote just enough present production to reduce delivery rates in Africa in the next few months, on aid-financed and commercial vehicles, and offer greater hope of better delivery rates in the future.⁵⁹

The Chairman of BL was well aware of the problems but powerless to alleviate the situation. The fundamental difficulty was the failure to produce and ship enough kits during 1977. This, he explained, had its roots in industrial action—the long running Rubrey Owen strike in November

and December 1976, which devastated shipments for the first quarter of 1977, and also strikes at the Land Rover chassis plant and the kit packing plants. As a result output was running at just over half the declared capacity, reserve stocks were exhausted and all key Land Rover markets were being starved.⁶⁰ Not enough vehicles to satisfy all markets risked robbing Peter to pay Paul. The only real solution, as the DOI recognized, was to produce more Land Rovers. This depended on improving industrial relations in Leyland, and their suppliers, and also reversing the lack of investment prior to the government rescue of Leyland in 1975. A £30 million programme was under way to increase production of Land Rovers by 15 per cent in 1979 but bigger programmes to increase production, as justified by the demand, would need hundreds of millions in investment and would not have effect until 1982–3 at the earliest.⁶¹

In the end the intervention by the FCO did serve to get the Iranian case full attention within Leyland in order to defuse the situation. Full use was made within Leyland of the Secretary of State's letter to get the board to consider plans to divert resources from the UK and other markets to supply the Iranian market.⁶² The DT did not enter into negotiations directly, believing there was 'tactical merit' in keeping a distance between the British Government and Leyland, but maintained close contact with the latter behind the scenes. Leyland agreed to supply 6000 units for the coming year, short of the 8000 requested by Morratat but enough to keep them content. However, it was conceded in private that even this commitment could only be fulfilled if Leyland and their suppliers remained free from labour disputes, 'and on past form this assumes a lot.'⁶³ The whole episode was a salient reminder that export promotion by the FCO was only as good as British industry's capacity to deliver.

In January 1978 riots in Qom began a cycle of protest and strikes by opposition groups in Iran which ended a year later with the Shah leaving the country. The push for rapid modernization had led to increased social and economic tensions that could no longer be contained. New wealth had been unevenly distributed, corruption had risen to new levels and public expectations had been raised only to be disappointed.⁶⁴ At first it was hoped that if the Shah went, the new regime would still need access to Western technology, goods and markets and Britain might settle down to an uneasy but profitable relationship, such as that enjoyed with Iraq.⁶⁵ But by early 1979 Iran had descended into chaos. The economy was in ruins, business and industrial activity had ceased, government administration and financial activity was paralysed and oil production had declined.

Even if the country made a quick economic recovery, at best Iran would be a smaller market for British goods and services, at worst the UK might be shut out of the market altogether.⁶⁶

Had the FCO undone all its good commercial, economic and industrial work by being so focused on these aspects that it neglected political analysis and objective advice which could have developed policy options more likely to preserve the Shah's regime? This was one of the considerations in a major review, undertaken at the behest of the Foreign Secretary David Owen, into the history of British policy towards Iran, and the information and judgements on which it was based. Written by Nicholas Browne, who would later serve as Ambassador in Tehran, the aim was to examine where, if anywhere, British policy had gone wrong and what could be done better in the future. It proved to be a seminal document for a new generation of diplomats at the outset of their careers. It raised questions and outlined lessons for the FCO in matters such as the balance between political and commercial work, the degree of commitment to a particular ruler, and the extent to which it was possible with an authoritarian regime to maintain contact with opposition figures.⁶⁷

The report observed that there was a temptation in British policy to be unnecessarily accommodating towards the Shah in order to protect British interests. Successive ambassadors had deliberately avoided contact with opposition figures through fear of damaging relations with the Shah who, as an autocrat, had the ability to interfere with Britain's strategic and commercial interests. As the 1970s progressed this stemmed more from a position of weakness as awareness grew that economic circumstances meant Britain needed Iran more than Iran needed Britain. The importance of the Shah had not been lost on officials: 'Tedious at times though it may be to have to keep smoothing the peacock's feathers', as one official put it, 'we realise that the potential rewards make it worthwhile.'⁶⁸ The prevailing attitude, the report believed, had been that Britain should keep her opinions to herself and 'make hay while the sun shone' to ensure that 'she did not fall into the shadow of a petulant imperial eclipse'.⁶⁹

Another observation was that in prioritizing economic over political reporting, insufficient attention had been paid to religious affairs, intellectual life and the merchants in the bazaar. If political reporting had been given a higher priority, at the same time as the commercial department was increased, it might have been possible to acquire a more detailed knowledge of the country. The Report also observed that there was a temptation in the Embassy to draw conclusions that were too optimistic, despite having

correctly identified all the problems that eventually led to the Shah's downfall. This was motivated, it was thought, by a desire not to alarm London or British businessmen who might lose interest in Iran if they thought there was a risk to stability. Parsons firmly denied this point and also disagreed that a greater number of political officers in the Embassy Chancery would have necessarily filled the gap in analysis. He also maintained that after 150 years of British interference in Iranian affairs all Persians were obsessive about the hidden hand of Britain and the only way to establish a working relationship with the Shah was to do everything possible to allay his fears. The failure as he saw it was not one of information but imagination—the Embassy's approach was too operational and not academic enough. If there had been more active dialogue with experts outside government, and between the department, planning staff and the Embassy, they might have been 'more conscious of the relevance of the lessons of history'.⁷⁰

CONCLUSION

In the 1970s the FCO was fully committed to the policy of export promotion which it had identified as crucial to relieving the balance of payments deficit; in turn, this not only had economic benefits for the UK but also bolstered its wider role on the world stage. But successful exporting depended on a number of factors—quality, price, delivery, salesmanship—and these were all beyond the competence of the FCO. Government export promotion services were only part of the effort and weaknesses in the UK economy ultimately dictated the success of the policy to export more. The policy of ultimate export promotion came closest to being fulfilled in Iran where the *need* to export to aid the UK economy, the *opportunity* to export as a result of Iranian petrodollars, and the *desire* to push exports by an active ambassador all coincided. The FCO correctly identified the opportunity that Iran presented and attempted to capitalize on this, within the constraints of its manpower resources and bureaucratic procedures. But the single-minded effort came at a cost in terms of prioritization and in the wake of the Iranian Revolution the FCO was left wondering whether its priorities were right. But, as Parsons noted, 'we must never forget how well we did out of the Shah's regime for a number of years'. British business and industry made 'an enormous amount of money' out of Iran before and during the boom.⁷¹ Ultimately this export revenue from Iran and other countries like it, which helped to limit Britain's trade deficit and compensate for the rise in the cost of oil, did indeed go some way towards ensuring that Britain was still able to pay its way in the world.

NOTES

1. These events have been much discussed. See for example: B. Harrison, *Finding a Role? The United Kingdom 1970–1990* (Oxford: Oxford University Press, 2010) and J. Campbell, *Edward Heath* (Jonathan Cape, 1993).
2. For an overview see J. Tomlinson, ‘Economic Policy’, in R. Floud & P. Johnson (eds), *The Cambridge History of Modern Britain*, vol. 3 (Cambridge: Cambridge University Press, 2004), pp. 196–9.
3. ‘£534m trade deficit is worst ever’, *The Times*, 13 December 1974. After allowances had been made for an estimated £130 million surplus on invisible earnings the November current account deficit stood at £404 million.
4. B. R. Mitchell, *British Historical Statistics* (Cambridge: Cambridge University Press, 1988).
5. ‘Deficit threatens austerity up to 1984, says Bank governor’, *The Times*, 16 January 1974.
6. *Review of Overseas Representation*. Report by the Central Policy Review Staff (HMSO: 1977), p. ix.
7. ‘Surviving the Seventies’ by FCO Planning Staff, 10 October 1974, FCO 49/552. They ended on a dystopian note: ‘Our main problem will be our own survival: as an economically viable country; as an independent country; as the United Kingdom.’
8. ‘Surviving the Seventies’, 10 October 1974, FCO 49/552.
9. Brief for a discussion of the FCO paper ‘Paying our Way in the World’, 1 November 1974, FCO 69/544.
10. ‘Paying Our Way in the World’ by the FCO, 15 October 1974, FCO 69/544.
11. Iran was the UK’s biggest customer for defence equipment but this article does not deal with this aspect as sales were primarily handled by the Ministry of Defence.
12. ‘New British investment in Iran to top £250m’, *The Times*, 29 November 1973.
13. Sir Anthony Parsons to Patrick Moberly (Head of Personnel Policy Dept (PPD)), 1 July 1974, FCO 79/333.
14. Moberly to Parsons, 28 Aug 1974, FCO 69/547.
15. This included the UK: ‘£500m Iran loan for British state sector’, *The Times*, 23 July 1974.

16. Annual Review for 1974 by Parsons, 9 January 1975, FCO 8/2497.
17. Parsons to Moberly, 26 September 1974, FCO 79/333.
18. ‘British Interests in Iran’ by Parsons, 31 October 1974, FCO 69/547.
19. Parsons to Patrick Wright (Head of MED), 9 October 1974, FCO 79/333.
20. ‘The Challenge to British Commerce and Industry in Iran’ by Lord Shepherd, 14 October 1974, PREM 16/704.
21. Minutes by Lord Bridges, 21 October 1974 and James Callaghan, 24 October 1974, PREM 16/704.
22. Minute by Donald Maitland (after meeting with Greenhill), 18 October 1974, FO 79/333. Criticism also surfaced in the press: see ‘Lack of purpose in British export effort’, *The Times*, 10 October 1974.
23. Peter Marshall to Moberly, 4 October 1974, FO 79/333.
24. John Cloake speaking in 2013 to the British Diplomatic Oral History Programme (DOHP 140), CACC. TRED acted as the ‘mother hen’ for all the commercial sections within embassies overseas.
25. ‘Brief by TRED for the inspection of the post in Iran’, 28 October 1974, FCO 69/547.
26. Report on British Embassy Tehran by Peter Laurence, 9 November 1974 and G. W. Woodwood (PPD) to Robert Alston (Tehran) 25 November 1974, FCO 69/547.
27. Mr Sillars MP (Ayrshire South) to Mr Ennals, Minister of State, FCO, Hansard, *HC Debs*, Vol. 883, 20 December 1974, cc677–8W. This statement echoed the Plowden Report (1964) which had stated that economic and commercial work was of fundamental importance and should be regarded ‘as a first charge on the resources of the Diplomatic Service.’
28. A. Parsons, *The Pride and the Fall* (Jonathan Cape, 1984), pp. 37, 40.
29. ‘British Interests in Iran’ by Parsons, 31 October 1974, FCO 69/547.
30. *Review of Overseas Representation*, p. 415.
31. Minute from Peter Shore (DT) to the Prime Minister, 29 October 1974, FCO 69/547.
32. W. Wallace, ‘After Berrill: Whitehall and the Management of British Diplomacy’ in *IA*, 54/2 (1978): 231.

33. Protocol of the Third Session of the Anglo-Iranian Joint Ministerial Economic Commission, 29 January 1975, PREM 16/704. Also 'Ships may be first sales to Iran,' *The Times*, 31 January 1975.
34. 'Commercial Work in Tehran, 1972–1982' by Michael Orlebar-Simpson, 31 October 1976, FCO 8/2747.
35. R. Graham, *The Illusion of Power* (Croom Helm, 1978), p. 11.
36. Parsons speaking in 1996 to the British Diplomatic Oral History Programme (DOHP 10), CACC.
37. 'Commercial Work in Tehran, 1972–1982', 31 October 1976, FCO 8/2747.
38. Graham, *Power*, p. 87.
39. 'Commercial Work in Tehran, 1972–1982', 31 October 1976, FCO 8/2747.
40. Tehran Tel. No. 4 Saving of 5 June 1975: 'Iranian Financial Situation', FCO 8/2511.
41. Iran: Annual Review for 1976 by Parsons, 1 January 1977, FCO 8/2981.
42. Tehran Tel. No. 165 of 26 February 1976, FCO 8/2736.
43. Tehran Tel. No. 193 of 8 March 1976, FCO 8/2736.
44. 'Commercial Work in Tehran, 1972–1982', 31 October 1976, FCO 8/2747.
45. Figures taken from brief B3 on commercial relations with Iran for a visit by the Foreign Secretary in May 1977, FCO 8/2988.
46. Iain Sproat MP (Aberdeen South) to Eric Deakins, Under-Secretary of State for Trade, *HC Debs*, Vol. 891, 05 May 1975, cc989–90.
47. Iranian figures from 'Commercial Work in Tehran, 1972–1982', 31 October 1976, FCO 8/2747.
48. Minute to the Prime Minister, 31 January 1975, PREM 16/704.
49. Ivor Lucas (Head of MED) to George Chalmers, 20 January 1976, FCO 8/2728.
50. Iran: Annual Review for 1975 by Parsons, 15 December 1975, FCO 8/2728.
51. Iran: Annual Review for 1977 by Parsons, 4 January 1978, FCO 8/3191.
52. Table 4.1. 'Expenditure on Overseas Representation, 1975–76', in *Review of Overseas Representation*, p. 26.
53. Iran: Annual Review for 1976 by Parsons, 1 January 1977, FCO 8/2981.

54. Minutes of a meeting between Lord Shepherd and Dr Zia'i, President of the Tehran Chamber of Commerce, 27 September 1974, BT 343/103. Shepherd added that the picture given of the UK abroad was often 'misleadingly denigratory'.
55. Replies from HM Representatives: Stark, 4 November; Jamieson, 4 November; Wraight, 6 November; Millard, 8 November; Combs, 17 December 1974; McCarthy, 15 February 1975, FCO 69/544.
56. 'Paying Our Way in the World' by the FCO, 15 October 1974, FCO 69/544.
57. Tehran tel. no. CREDA 354 of 19 October 1977; David Owen to Edmund Dell (DT), 14 October 1977, FCO 8/2994.
58. As above. Minute by Ivor Lucas, 7 November 1977.
59. As above. Judith Hart (Overseas Development Agency) to Gerald Kaufman (DOI), 2 November 1977.
60. As above. Sir Richard Dobson to Edmund Dell, 20 October 1977.
61. As above. Gerald Kaufman (DOI) to Frank Judd (FCO), 16 December 1977.
62. As above. Maurice Hunt (DT) to Mr Steele, 8 November 1977.
63. As above. Baghdad tel. no. 35 of 28 November 1977.
64. E. Abrahamian, *A History of Modern Iran* (Cambridge: Cambridge University Press, 2008), pp. 139–43.
65. Comment on despatch 'The Future of Iran' by David Tatham (MED), 13 June 1978, FCO 8/3194.
66. 'Iran: Annual Review for 1978' by Parsons, 31 December 1978, FCO 8/3359.
67. 'British Policy on Iran, 1974–1978' (1980) by Nicholas Browne, FCO 8/3601.
68. Comments by Rex Hunt (MED), 4 September 1973, FCO 8/2061.
69. 'British Policy on Iran, 1974–1978', p. 46, FCO 8/3601.
70. Annex B to the Browne Report, Comments by Sir A.D. Parsons, 'British Policy on Iran, 1974–1978', p. 85, FCO 8/3601. See also Parsons, *Pride and Fall*, pp. 134, 137.
71. As above. 'British Policy on Iran, 1974–1978. Annex B', p. 86.

Thwarting Thatcher: Britain, Nigeria and the Rhodesian Crisis in 1979

William Bishop

On 4 May 1979, Margaret Thatcher and the Conservatives trounced James Callaghan's Labour Party at the polls. The outcome was generally attributed to a decade of economic stagnation and social unrest that had culminated in the 'winter of discontent'. Although the election had been fought primarily over domestic issues, the change in governments raised considerable uncertainty as to the direction of Britain's African policy. In particular, international commentators wondered if the election of a Conservative Government would alter Britain's policy towards its rebellious colony of Rhodesia (known briefly in 1979 as Zimbabwe-Rhodesia). Since Ian Smith's unilateral declaration of independence in 1965, both Labour and Conservative Governments had refused to grant the colony independence before black majority rule was ensured. And since 1968, both parties had adhered to the mandatory economic sanctions imposed against Rhodesia by the United Nations. However, Thatcher's election came at a pivotal moment in Rhodesia's history. In April 1979, Smith had handed the reins of power to a popularly elected black leader, Bishop Abel Muzorewa. Although this transfer of power was condemned throughout sub-Saharan Africa for reasons that will be discussed, the Tories had pledged during the 1979 British election campaign that they would rec-

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ognize Zimbabwe-Rhodesia if they were returned to power.¹ Although this course of action was expected to complicate Britain's relationship with members of the Commonwealth and the Organization of African Unity (OAU), many international commentators nevertheless expected Thatcher to recognize the new nation and lift sanctions.

For this reason, many African leaders regarded Thatcher's ascension to the prime ministership as cause for concern. Zambian officials were particularly concerned about Britain's new leader, whom they regarded as nothing short of a 'colonial cardboard cut-out'.² In the estimation of L. P. Chibesakunda, the Zambian High Commissioner to London, Thatcher had displayed 'total ignorance' about African affairs during the election campaign. The Zambians therefore feared that Thatcher would quickly move to lift sanctions and recognize Muzorewa's Government.³ Nor were the Zambians alone in their concern; several other African governments expected Thatcher to recognize the newly elected government in Salisbury as well.⁴ So did many members of Muzorewa's entourage. Ken Flower, the head of Zimbabwe-Rhodesia's Central Intelligence Organization, was particularly confident that Thatcher would adhere to her party's election manifesto and recognize Zimbabwe-Rhodesia. Once Britain had done so, he expected the European Community and several African nations to follow suit.⁵

Contrary to expectations, however, Thatcher did not recognize Zimbabwe-Rhodesia. This chapter will seek to explain why she instead decided to push for a settlement that included Robert Mugabe and Joshua Nkomo (the leaders of the Patriotic Front, a radical nationalist organization that had taken up arms against Rhodesia's white regime) rather than simply recognizing Muzorewa's regime and washing her hands of the Rhodesian affair. It will argue that the economic and diplomatic pressure levelled by members of the Commonwealth and the OAU—particularly the Nigerian Government—influenced Thatcher's policy to a degree that scholars have not previously appreciated. In so doing, it will seek to illustrate one case in which Britain's postwar economic decline helped to shape London's decolonization policy as well as its response to the forces of radical nationalism in southern Africa.⁶

EXPLAINING THATCHER'S VOLTE-FACE

Some scholars have questioned whether Thatcher truly intended to recognize Zimbabwe-Rhodesia; however recently declassified documents reveal such doubts to be unfounded.⁷ The Prime Minister believed that

Muzorewa's election had been as 'free and fair' as any that had occurred south of the Sahara.⁸ As she pointedly reminded the Commonwealth Secretary General, the United Kingdom (along with many other nations) had recently recognized 'a number of African regimes...who did not owe their authority to any kind of democratic elections'.⁹ Thatcher's willingness to accept Muzorewa's elections at face value was bolstered by the hostility she felt toward Mugabe and Nkomo. '[P]lease do not meet [with the] leaders of the Patriotic Front', she instructed a British envoy headed to southern Africa to discuss the Rhodesian situation shortly after her election. 'I have never done business with terrorists until after they became Prime Ministers.'¹⁰ A number of other documents confirm that, upon assuming office, Thatcher was not opposed to the idea of recognizing Muzorewa's Government and leaving Mugabe and Nkomo on the sidelines.¹¹

In addition to Thatcher's disdain for the guerrilla leaders, she felt some domestic pressure to recognize the newly elected regime in Salisbury. Among Muzorewa's most vocal supporters were members of the Monday Club, a conservative group which one prominent American news magazine described as 'not really to the right of Genghis Khan'.¹² Preoccupied with racial issues at home and abroad, one of the group's highest priorities was rallying support for their 'kith and kin' in Rhodesia. Its leaders demonized any politician deemed too eager to sell the Rhodesians down the river. These arch conservatives were especially concerned about Foreign Secretary Peter Carrington, who had the temerity to suggest that any agreement which excluded Mugabe and Nkomo was unlikely to produce a lasting settlement. The Monday Club responded by displaying 'Hang Carrington' banners at its meetings.¹³ Few Britons were quite so invested in the Rhodesian issue. Nevertheless, the 'internal settlement' that had brought Muzorewa to power (so called because the externally based Mugabe and Nkomo had not been allowed to participate in it) enjoyed widespread support from mainstream Conservatives and the press. Given these pressures, Thatcher appreciated that she probably would not be able to persuade her parliamentary colleagues to renew sanctions when they lapsed in November.¹⁴ With only months before sanctions were set to expire, she may have felt resigned to recognizing Zimbabwe-Rhodesia and hoping for the best.¹⁵

Given that Thatcher and many of her Conservative colleagues supported the internal settlement, one may reasonably ask why the Prime Minister ultimately failed to recognize Zimbabwe-Rhodesia. One important—and

understudied—factor was the economic and diplomatic pressure applied by African nations. Many African leaders (particularly those in nearby Zambia, Mozambique, Tanzania and Botswana) dismissed the internal settlement as a ruse designed to establish a puppet black government that would allow the country's white citizens to retain a disproportionate amount of power.¹⁶ African statesmen were appalled by the contents of Zimbabwe-Rhodesia's 1979 constitution. The OAU Secretary-General concluded that the document 'did not solve the country's problems'. Because the constitution left the whites in effective control of the army, the judiciary, the police force, the economy, and the civil service (in addition to enabling the whites to veto any proposed constitutional amendment and failing to enact any meaningful land redistribution), the Secretary-General asserted that it 'seemed to institutionalize a form of [racial] discrimination'.¹⁷ The OAU Liberation Committee reached a similar conclusion and branded Muzorewa and his ministers as 'traitors' guilty of 'betraying the people of Zimbabwe'.¹⁸ Member states were urged not to recognize the Salisbury regime or provide its leaders with any aid or assistance.¹⁹ Thus, although some African leaders were personally sympathetic to Muzorewa's position, none was willing to deviate from the OAU line.²⁰ To the contrary, Thatcher received '[t]elegram after telegram' from African leaders informing her that until some of the more egregious shortcomings of Zimbabwe-Rhodesia's constitution had been rectified, the country stood no chance of gaining international recognition.²¹

In the months following Muzorewa's election, the OAU attempted to isolate his regime. In May, the organization issued a statement denouncing the 'sham elections' that had brought 'a few misguided and ambitious black politicians' to power. Because the 1979 constitution failed to place the country's black and white citizens on an equal footing, the OAU pledged to continue its support for the liberation war being waged by Mugabe and Nkomo's guerrilla forces against the Government of Zimbabwe-Rhodesia (a conflict known in Africa as the second *Chimurenga*). The OAU statement concluded with a warning to those nations considering recognizing Zimbabwe-Rhodesia (particularly Britain). 'While there is still time they should work toward an internationally accepted solution in Zimbabwe. To defy reason and African opinion is to plunge themselves into a situation the consequences of which they cannot predict.'²² At the conclusion of a July meeting held in the Liberian capital of Monrovia, the OAU issued a statement urging member states to take whatever cultural, political, or economic measures they deemed practicable against any nation that rec-

ognized Zimbabwe-Rhodesia or lifted sanctions.²³ These resolutions suggest that, at least publicly, OAU members stood united in their opposition to a regime that sought to protect the interests of Rhodesia's white minority at the expense of its black majority.

NIGERIA AND THE RHODESIAN CRISIS

Noble as such expressions of pan-African solidarity were, international commentators appreciated that it would take more than moral suasion to convince Thatcher to reverse her Rhodesian policy. For as the Zambian High Commissioner to London noted, the Prime Minister 'tended to view all international issues only in relation to British interests'.²⁴

While the Zambians lamented Thatcher's approach to foreign affairs, other nations sought to exploit it. Foremost among those seeking to influence British policy at this critical juncture was the Federal Military Government of Nigeria. British officials had a difficult time understanding why the Nigerians were so opposed to Muzorewa's regime. Peter Carrington suspected that the Nigerian leader, General Olusegun Obasanjo, harboured a personal grudge against Muzorewa.²⁵ The British High Commissioner to Lagos, Mervyn Brown, suspected that Obasanjo saw the Rhodesian situation as an opportunity to bolster his legacy as he prepared to retire from public life.²⁶ Other British officials simply felt the Nigerian leader was opposed to a constitution that left too much power in the hands of the whites.²⁷

Recent scholarship on Nigerian foreign policy suggests that the last of these theories was closest to the mark. Obasanjo, like his predecessor, General Murtala Muhammed, was an ardent supporter of southern Africa's liberation movements.²⁸ In part, this support was a matter of principle; Muhammed and Obasanjo wanted to remove the scourge of white minority rule from the African continent. Yet their interest in southern Africa's liberation struggles was motivated by more than a desire to do good in the world. The white regimes in Rhodesia, South Africa and the Portuguese colonies had aided the Biafran separatists during the Nigerian civil war, and Muhammed and Obasanjo therefore believed that Nigeria's national security depended upon replacing these hostile white regimes with friendly black ones. Obasanjo's desire to play a leading role in the search for Zimbabwean independence was also motivated by his desire to pursue an activist foreign policy befitting of Africa's preeminent power.

For these reasons, Obasanjo was unlikely to accept the new regime in Salisbury. Moreover, the Nigerian leader had the ability to make Britain pay if Thatcher disregarded his wishes. Perhaps no one was more alert to this fact than Mervyn Brown, who warned the Foreign Office that recognizing Zimbabwe-Rhodesia could have 'disastrous' consequences for Britain. The High Commissioner predicted that lifting sanctions (which the Nigerians regarded as the first step toward recognition) might lead to anti-British riots, a breach in diplomatic relations and economic reprisals.²⁹

Policy-makers in London were particularly worried about the possibility of Nigeria waging economic warfare against them. Their concern is not surprising since Nigeria was Britain's ninth largest export market and most important trading partner outside of Western Europe and North America.³⁰ At a time when the British economy was in the doldrums, moreover, Nigeria was one of the few countries with which Britain maintained a favourable balance of trade.³¹ This balance was expected to tilt even more heavily in Britain's favour in the coming years because the Nigerian economy was growing quickly thanks to the conclusion of the Nigerian civil war and the oil boom of the 1970s. Awash in petro-naira (these were, after all, 'the years of champagne and lace' in Nigeria), Lagos had embarked in 1975 on its ambitious Third Development Plan, an economic program that called for using oil revenues to finance rapid, state-directed growth in heavy industry and infrastructure.³² British officials predicted that if they could maintain their share of the Nigerian market, British firms could expect to reap the benefits as Nigeria continued to modernize its infrastructure and military.³³

Conversely, Britain stood to lose a great deal if relations between the two nations soured. For while highly profitable, Britain's economic links with Nigeria were far from irreplaceable. '[T]he bulk of the goods and services we supply, and the technology and expertise we provide, could be met relatively quickly and easily from other sources if the Nigerians decided on a boycott', concluded one British official. Worse yet, British firms were deemed 'highly vulnerable' to Nigerian reprisals.³⁴ The oil giant British Petroleum (BP) had invested heavily in Nigeria, and British officials worried that Obasanjo might nationalize the company's Nigerian holdings if Britain recognized Zimbabwe-Rhodesia. In addition to taking action against BP, Britain's Deputy High Commissioner to Lagos warned of a range of punitive measures the Nigerians were considering. These included embargoing British imports, preventing British

firms from bidding on public sector contracts, and nationalizing British assets in Nigeria.³⁵ By contrast, the scope for effective countermeasures was deemed to be 'negligible'. Britain's balance of trade with Nigeria was so favourable, and British firms stood to profit so handsomely from Nigeria's economic boom, that almost any retaliatory measure was likely to redound to Britain's disadvantage. At a time when the British economy was in a shambles, Thatcher and her advisers must have had serious qualms about risking such lucrative ties for the sake of Ian Smith and Abel Muzorewa.³⁶

Fears in London were exacerbated by the Nigerians' apparent willingness to use their economic leverage. Anglo-Nigerian relations had been at low ebb since 1975, when Murtala Muhammed's support for the radical Movimento Popular de Libertação de Angola (MPLA) had upset Whitehall officials. Tensions escalated after Muhammed was assassinated in February 1976 during an abortive coup. Many Nigerians suspected Britain of masterminding the assassination in order to punish Muhammed for supporting the MPLA. These suspicions gained an air of credibility when the British Government refused to extradite a Nigerian national accused of spearheading the plot (former President Yakubu Gowon). Although the outrage gradually subsided, Anglo-Nigerian relations remained 'cool but correct' thereafter.³⁷

The election of a Conservative Government that seemed impervious to African sensitivities revived these latent tensions. The state-owned *New Nigerian*, which described Thatcher's victory as 'a major disaster' for Africa, carried a string of editorials warning the new Prime Minister not to recognize Zimbabwe-Rhodesia.³⁸ Nigerian officials reiterated these warnings in private contacts with their British counterparts. As the Nigerian Chief of Staff explained to Mervyn Brown, Thatcher's Rhodesian policy had placed their countries on a 'collision course'. If forced to choose between 'a Muzorewa government backed by Britain and the Patriotic Front', there would be no question as to where Nigeria's loyalties would lie. Lagos would side with 'the forces of black liberation'.³⁹ In early June, the Nigerians barred British firms from bidding on public sector contracts until the Tories 'clarified' their position on the Rhodesian situation. The decision, which was taken at Obasanjo's behest, left little doubt but that the Nigerians meant business.⁴⁰

Important as these commercial ties were, they were not the only source of leverage the Nigerians held over the Thatcher Government. British officials also worried that the Nigerians might try to bring the Commonwealth

crashing down. The Nigerian press had been speculating for some time about their country's membership in the Commonwealth. Shortly after Thatcher's election, the Nigerian press began publicly linking their country's future participation in the organization to Britain's Rhodesian policy. A decision to recognize Muzorewa's regime, the *New Nigerian* warned 'must mean the end of the Commonwealth'.⁴¹ Policy-makers in London had reason to believe that the Nigerians were prepared to make good on this threat. Not only was Nigeria's 'sentimental commitment' to the Commonwealth deemed to be 'virtually nil' in 1979, but it was well known that some members of the country's Ministry of Foreign Affairs had been pushing for withdrawal for some time.⁴² Nor were British officials alone in their concern. Australian Prime Minister Malcolm Fraser warned that the Rhodesian issue 'has the potential to split the Commonwealth at a time when all the other signs have been pointing in the direction of enhanced Commonwealth unity'.⁴³

Nigeria was not the first African nation to threaten to withdraw from the Commonwealth, but British officials viewed this threat with special concern. Because of its size, population, potential wealth, and the considerable clout it exercised in international fora, Nigeria's withdrawal would have represented a serious blow to the Commonwealth. Given the importance British officials attached to their country's role as the leader of a multiracial Commonwealth, the threat of its demise likely provided further incentive for Thatcher to reconsider her stance on Rhodesia.

In his memoirs, Peter Carrington credited Obasanjo with orchestrating the opposition to Muzorewa's regime.⁴⁴ This recollection probably reflects the fact that British officials were more concerned about the Nigerians' 'bite' than the OAU's 'bark'. However, it ignores the important role that other Commonwealth states played in opposing the internal settlement.⁴⁵ The Zambian and Tanzanian Governments played especially important roles in marshalling support against Muzorewa's regime. The Zambians were particularly cognizant of the need for Africa to present a united front—not only to deter Britain from recognizing the newly elected regime in Salisbury, but also to keep other African nations in line.⁴⁶ In the months following Muzorewa's April 1979 election, Nigerian, Zambian, and Tanzanian officials worked to preserve an African consensus on the Rhodesian issue.

Other Commonwealth countries also protested the Tories' Rhodesian policy. On 18 May, the Commonwealth Committee on Southern Africa met to discuss the recent developments in Zimbabwe-Rhodesia. Those

present agreed that the April elections in Rhodesia did not represent a genuine transfer of power. The Nigerian, Zambian, and Ghanaian representatives were among the most strident critics of Zimbabwe-Rhodesia's constitution, however non-African nations such as India and Jamaica also decried its flaws.⁴⁷ Britain's Under-Secretary for Southern Africa subsequently reported that, 'There was no doubt...about the anxiety felt by all Commonwealth representatives' over the Rhodesian issue. He added that concern had not been limited 'to those who are instinctively hostile to the Bishop (e.g., Nigeria, Zambia, Tanzania)' but had included 'other more moderate and uncommitted Commonwealth representatives who genuinely feared that Rhodesia was an issue which could pull the Commonwealth apart'.⁴⁸ As a follow-up, eight High Commissioners met with Carrington to express their concern about the Tories' apparent tilt toward Muzorewa.⁴⁹ While the British recognized that '[n]o other African country can hurt us the way the Nigerians can', they could hardly afford to disregard such widely held concerns about the Rhodesian constitution—for fear that the Commonwealth and the OAU could do 'lasting damage' to Britain's reputation and interests if they acted collectively.⁵⁰

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The Foreign and Commonwealth Office got the message loud and clear. So did the Prime Minister, who began to reassess her Rhodesian policy. Concerns about the hostile Commonwealth and OAU reaction 'seem to be producing a sense of caution', the Acting Zambian High Commissioner to London reported in June.⁵¹ This pause for reflection enabled Thatcher, who, in the words of her Foreign Secretary, 'had not particularly bent her mind to Africa' at the time of her election to appreciate that the internal settlement was not a panacea for her Rhodesian dilemma.⁵² Few (if any) African or Commonwealth countries could be expected to recognize Zimbabwe-Rhodesia if Britain did so. And not only was premature recognition likely to jeopardize British interests abroad, it was unlikely to bring the increasingly destructive liberation war to an end.⁵³ After a month on the job, Thatcher was coming to appreciate that recognizing Muzorewa's regime would not solve Britain's Rhodesian problem. She therefore began to abandon her earlier determination to recognize Zimbabwe-Rhodesia and decided to seek a settlement capable of attracting 'the widest possible international acceptance'.⁵⁴

To this end, she sent an envoy to liaise with the African leaders most directly involved in the Rhodesian crisis. David Harlech, a former ambassador to the United States, was selected for the mission, and he embarked on a seven-nation tour of southern Africa on 12 June. His consultations reaffirmed Carrington's belief that not a single African leader was prepared to accept the current set-up in Zimbabwe-Rhodesia. However, a glimmer of hope emerged when Harlech learned that African leaders' opposition to the internal settlement stemmed primarily from their dissatisfaction with Zimbabwe-Rhodesia's constitution.⁵⁵ If it were amended so as to give more power to the country's black majority, and if new elections were held, most African leaders seemed prepared to accept the result.⁵⁶

While Harlech's consultations offered a roadmap for achieving an internationally acceptable Rhodesian settlement, they also revealed that no constitution produced in Salisbury would be acceptable to African opinion. 'There was a unanimous view that, whatever the content of the eventual settlement, in form it must be seen to be British and not merely the legalisation after the event of a solution which Britain, the colonial power, had played no role in working out', Harlech informed the Foreign Office.⁵⁷ In order to avoid charges of colluding with the Salisbury regime, the Patriotic Front would have to be included in the drafting process. For whatever British policymakers may have felt about Mugabe and Nkomo, the guerrilla leaders had many supporters inside and outside of Rhodesia. By late June, therefore, Thatcher had abandoned her initial desire to sideline the Patriotic Front. Instead, she realized that Britain would need to convene an all-parties conference to hammer out Zimbabwe's independence constitution and determine how to conduct the election that would determine who would lead the new state to independence.⁵⁸

Thatcher and Carrington were able to convince their Commonwealth colleagues to get behind their plan at the August 1979 Commonwealth Heads of Government meeting in Lusaka, Zambia. With the support of an influential group of leaders that included Zambia's Kenneth Kaunda, Tanzania's Julius Nyerere, Australia's Malcolm Fraser and Jamaica's Michael Manley, they persuaded their colleagues to endorse Britain's plan to convene a constitutional convention to which Muzorewa, Mugabe and Nkomo would be invited and sponsor a fresh set of elections. With the support of the Commonwealth, the British convened an all-parties conference at Lancaster House that lasted from 10 September until 21 December. Despite many difficulties and tense moments, the parties

managed to reach a settlement that set Rhodesia on the path to independence under majority rule.⁵⁹

RHODESIA AND THE END OF EMPIRE

After reading the above narrative, one might be left wondering how the Rhodesian case fits into the broader narrative of British decolonization. It is to that subject that we will now briefly turn.

Historians usually look at developments in one of three areas to explain the demise of the British Empire after the Second World War: in the colonies, on the international scene and in the metropole. Those scholars who focus on events inside the colonies believe that nationalists in Africa, Asia, the Middle East and the Caribbean seized their independence by protesting, rioting, and (when necessary) resorting to guerrilla warfare. In this telling, '[N]ationalist aspirations could not be contained at a price that was worth paying, or perhaps at any price.'⁶⁰

Scholars who focus on the international dimension believe it was the changing international environment that compelled the British to relinquish their imperial holdings. William Roger Louis, for instance, has argued that American anti-imperialism during and immediately after the Second World War caused British officials to reassess their colonial policies.⁶¹ While America's anti-communist crusade helped temper its anti-imperialism after 1945, the Americans could (and did) still act ruthlessly against their European allies when they felt that continued colonial rule was pushing nationalist movements into the arms of the Soviet Union and its allies.⁶² Thus, even after the onset of the Cold War, British officials had reason to doubt that the United States would support their imperial aspirations when push came to shove. They therefore began giving serious consideration to winding down the empire. Other scholars, including Melanie Torrent, have argued that British officials were primarily motivated by a desire to keep pace with the other colonial powers so as to avoid being pilloried in front of the international community.⁶³ Indeed, the United Nations provided countries in the developing world with a bully pulpit from which to criticize the colonial powers and their allies, and Ronald Hyam has argued that such criticism played a major role in convincing British officials to abandon their imperial ambitions.⁶⁴

Scholars who focus on the metropolitan dimension believe the empire ended not because of external pressures, but because the British allowed it to end. According to this school of thought, the British were not pushed

out of the colonies, but rather they withdrew of their own accord. In this telling, the empire ended not with a bang but with a whimper—or perhaps a yawn. A. P. Thornton long ago asserted that many British citizens had a long-standing ambivalence about the empire.⁶⁵ Bernard Porter and Ronald Hyam have recently picked up on this point, arguing that the imperial project never much mattered to most Britons.⁶⁶ The implication is that a people who had always been indifferent about the empire's future were not particularly troubled to see it go when the time came.

Left unsaid is why these 'absent-minded imperialists' saw the decades after the Second World War as the time to relinquish their imperial holdings. Previous generations of scholars have variously emphasized a 'loss of nerve' on the part of British officials, the adoption of a more progressive mentality on the part of British citizens, and the realization that Britain's future was as a European, rather than an imperial, power.⁶⁷ However, these arguments have not convinced everyone. Many scholars maintain that financial considerations prompted Britain's retreat from empire. Supporters of this school of thought note that British officials in the post-war era increasingly came to question whether the costs of maintaining a formal empire outweighed the benefits. While these officials were initially worried about 'deficit areas', financial considerations became increasingly important as the British economy failed to recover from the war as quickly as those of its chief competitors.⁶⁸ Tony Hopkins has asserted that the final nail was placed in the imperial coffin in 1957, when the Colonial Policy Committee determined that Britain's economic interests would not suffer if London granted independence to its remaining overseas possessions.⁶⁹ After reviewing this 'audit of empire', Prime Minister Harold Macmillan (who had previously served as Chancellor of the Exchequer) concluded that granting independence to Britain's remaining colonies offered the best of all worlds, enabling Britain to garner a degree of international goodwill, avoid footing the bill for costly development schemes in many of the empire's least developed territories, and retain a degree of informal influence after independence.⁷⁰

Accounts of the search for Zimbabwean independence have tended to focus on the metropolitan dimension (Lord Carrington's skilful management of the Lancaster House Conference),⁷¹ the colonial dimension (the liberation war),⁷² and, more recently, the international dimension.⁷³ This chapter, meanwhile, has shown that financial considerations also helped to shape Britain's Rhodesian diplomacy during the crucial year of 1979. It has demonstrated that Britain's economic weakness contributed to Margaret Thatcher's

decision to include Robert Mugabe and Joshua Nkomo in discussions about Rhodesia's future despite the enmity she felt for the guerrilla leaders. In particular, it has highlighted the Nigerian Government's efforts to use their oil wealth to pressure the British into rejecting the internal settlement—a fact that previous scholars have tended to downplay or overlook. One aim of this chapter is to show that, although balance sheets and ledgers may be less trendy than narratives involving nationalist resistance or superpower intrigue, they remain an important element in the story of British decolonization.

Despite this aim, readers should not come away with the impression that economics alone can explain why events in Zimbabwe-Rhodesia unfolded as they did during the summer of 1979. For as John Darwin has noted, monocausal explanations cannot adequately explain Britain's retreat from empire.⁷⁴ In this instance, events inside Rhodesia also helped to shape Britain's Rhodesian policy. In particular, the internal settlement and the liberation war prodded British policy-makers into action. Without these developments, it seems unlikely that the Thatcher Government would have pushed for an all-parties conference. The international dimension also factored in, with members of the Commonwealth and the OAU lobbying Thatcher not to recognize Muzorewa's regime.⁷⁵ And the metropolitan angle must also be taken into account. For it is possible that Nigeria's attempts at economic coercion primarily served to enable Peter Carrington—who all along preferred a settlement that included Mugabe, Nkomo, and their supporters—to make his case more effectively to the Prime Minister. My hope is that this chapter can serve as a reminder, not only of the importance of the economic considerations, but of the complex, multi-causal nature of the decolonization process.

NOTES

1. 1979 Conservative Party General Election Manifesto, <http://www.conservative-party.net/manifestos/1979/1979-conservative-manifesto.shtml>. See also, K. Flower, *Serving Secretly: An Intelligence Chief on Record* (John Murray, 1987), p. 225; J. Nkomo, *Nkomo: The Story of My Life* (Methuen, 1984), p. 191; P. Carrington, *Reflect on Things Past: The Memoirs of Lord Carrington* (Collins, 1988), pp. 290–1.
2. M. Thatcher, *The Downing Street Years* (New York: Harper Collins, 1993), p. 76.

3. Political Report, L. P. Chibesakunda to Minister of Foreign Affairs, April 1979, UNIP 7/23/71, United National Independence Party Archives (UNIPA). Remaining references with this prefix are from this source.
4. Mervyn Brown to FCO, 'Rhodesia—Political Consultation', 29 May 1979; Peter Moon to FCO, 'My I.P.T. Rhodesia', 28 May 1979; and Mr. Thompson to FCO, 'Rhodesia and South Africa', 17 May 1979, PREM 19/106.
5. Flower, *Serving Secretly*, pp. 225–6.
6. This was not the only case in which Thatcher's foreign policy was shaped by economic considerations. See, D. Lahey, 'The Thatcher Government's Response to the Soviet Invasion of Afghanistan, 1979–1980', *CWH*, 13/1 (June 2013): 21–42.
7. For instance, A. DeRoche, *Black, White, and Chrome: The United States and Zimbabwe, 1953–1998* (Trenton: Africa World Press, Inc., 1991), p. 276.
8. Sir John Hunt to the Prime Minister, 'Rhodesia', 4 May 1979, PREM 19/106.
9. Call on the Prime Minister by the Commonwealth Secretary General at 10 Downing Street on 18 June 1979, FCO 36/2528.
10. Stephen Wall to Bryan Cartledge, 25 May 1979, PREM 19/106.
11. Tony Duff to Robin Renwick, 'Rhodesia', 3 May 1979, FCO 36/2489; Sir John Hunt to the Prime Minister, 'Rhodesia', 4 May 1979, PREM 19/106; PM Giscard Meeting Note, 5 June 1979, PREM 19/107. See also, Carrington, *Reflect on Things Past*, p. 292.
12. *Time*, 'Britain: Bloody Monday', 30 April 1973.
13. Carrington, *Reflect on Things Past*, p. 298.
14. Martin Reid to H. A. Geldenhuys, 3 July 1979, BTS 1/156/7 vol. 2, South African Department of International Relations and Cooperation Archives; Rick Inderfurth to Zbigniew Brzezinski, 'State Morning Summary', 15 July 1978, NLC-4-14-2-14-5, Jimmy Carter Presidential Library, Atlanta, Georgia.
15. Carrington agreed that if a negotiated settlement had not been reached by October, the British would have to turn their energies towards the task of minimizing the fallout from the inevitable lifting of sanctions. Record of a Meeting between the Foreign and Commonwealth Secretary and the Australian Foreign Minister

- held at the Foreign and Commonwealth Office on 15 June 1979, FCO 36/2528.
16. Interestingly, Carrington was not unsympathetic to this view. Carrington, *Reflect on Things Past*, p. 290.
 17. R. M. Tesh to FCO, 'OAU and Rhodesia', 21 May 1979, FCO 36/2552.
 18. Peter Moon to FCO, 'OAU Liberation Committee: Rhodesia', 26 January 1979, FCO 36/2552.
 19. R. M. Tesh to FCO, 'OAU and Rhodesia', 21 May 1979, FCO 36/2552.
 20. Visit by the Parliamentary Under-Secretary to Khartoum, 10 July 1979, Brief No. 1: Rhodesia, 6 July 1979, FCO 36/2553.
 21. Note on the Prime Minister's Meeting with Bishop Abel Muzorewa at 10 Downing Street on 13 July, FCO 36/2416.
 22. R. M. Tesh to FCO, 'OAU and Rhodesia', 23 May 1979, FCO 36/2552.
 23. Mr. Donald to FCO, 'Consultations with OAU', 12 July 1979; Annex, 16th Meeting of the Heads of State and Government of the Organization of African Unity, Monrovia, 17–20 July 1979, FCO 36/2553.
 24. Political Report, L. P. Chibesakunda to Minister of Foreign Affairs, April 1979, UNIP 7/23/70.
 25. Carrington, *Reflect on Things Past*, p. 290.
 26. Mervyn Brown to FCO, 'Nigerian Attitude to Rhodesia', 24 May 1979, FCO 36/2508.
 27. Mervyn Brown to Derek Day, 'Nigeria and Rhodesia', 21 May 1979, FCO 36/2508.
 28. J. Iliffe, *Obasanjo, Nigeria, and the World* (Woodbridge: James Curry, 2011), pp. 73–84; O. Abegunrin, *Nigerian Foreign Policy Under Military Rule, 1966–1999* (Westport, CT: Praeger, 2003), pp. 61–96; K. K. Eke, *Nigeria's Foreign Policy Under Two Military Governments, 1966–1979* (Lewistown: The Edwin Mellen Press, 1990), pp. 27–56; Abegunrin and O. Akomolafe, 'Nigeria and the Southern African Liberation Struggle', in Abegunrin and Akomolafe (eds), *Nigeria in Global Politics: Twentieth Century and Beyond* (New York: Nova Science Publishers, 2006), pp. 107–25; and A. Ajala, 'Nigeria and Southern Africa', in G. O. Olusanya and R. A. Akindele (eds), *Nigeria's External Relations: The First*

- Twenty-Five Years* (Ibadan: University Press Limited, 1986), pp. 196–210.
29. Mervyn Brown to Tony Duff, 'Rhodesia', 17 April 1979, FCO 36/2508.
 30. Iliffe, *Obasanjo*, p. 74.
 31. British exports to Nigeria in 1978 were valued at more than £1 billion, which almost equaled British exports to the rest of sub-Saharan Africa combined. British imports from Nigeria, by contrast, were less than a quarter of that amount.
 32. Although the economic boom of the early 1970s had tapered off somewhat by the end of the decade, oil revenues remained high. For instance, in 1979, Nigeria earned ₦9,583,500,000 as opposed to ₦17,640,000 in 1970. Olusanya and Akindele, 'The Fundamentals of Nigeria's Foreign Policy and External Economic Relations', in Olusanya and Akindele (eds), *Nigeria's External Relations*, p. 21. For more on Obasanjo's economic policies, see, Iliffe, *Obasanjo*, pp. 56–68.
 33. D. P. R. Mackilligin to J. R. Williams, 'Rhodesia: Nigerian Action Against British Interests', 1 June 1979, FCO 36/2508; Mervyn Brown to unknown, 'The Nigerian View of Rhodesia', 5 June 1979, FCO 36/2489.
 34. Mackilligin to Williams, 1 June 1979.
 35. Frank Kennedy to FCO, 'Rhodesia', 8 July 1979, FCO 36/2553. At the time, Britain was far and away Nigeria's largest foreign investor. British firms were heavily invested in the oil, manufacturing, construction, banking, and insurance industries. The £2.5 billion British investors had poured into Nigeria represented more than half of Lagos's foreign investment. Some British officials feared that they would lose all this if Thatcher acted too hastily in Rhodesia. Mackilligin to Williams, 1 June 1979.
 36. Meeting held at the Foreign and Commonwealth Office on 19 July 1979, 'Rhodesia: Counter-Retaliatory Action against OAU States in Event of Action by Them Against UK Interests', FCO 36/2553; J. R. Williams to Private Secretary, 'Possible Retaliatory Action Against Nigeria', 9 July 1979, FCO 36/2508; Mackilligin to Williams, 1 June 1979.
 37. J. Garba, *Diplomatic Soldiering: Nigerian Foreign Policy, 1975–1979* (Ibadan: Spectrum Books, 1987), pp. 168–71. For more on Anglo-Nigerian relations, see K. Whiteman, 'The Switchback and

- the Fallback: Nigeria-Britain Relations', in A. Adebajo and A. R. Mustapha (eds), *Gulliver's Troubles: Nigeria's Foreign Policy after the Cold War* (Scottsville: University of KwaZulu-Natal Press, 2008), pp. 255–80 and Eke, *Nigeria's Foreign Policy*, pp. 129–37.
38. Mervyn Brown to FCO, 'Press Comment on Election', 10 May 1979, FCO 36/2508.
 39. Mervyn Brown to FCO, Untitled, 30 May 1979, PREM 19/106.
 40. Mervyn Brown to FCO, 'Rhodesia—Political Consultation', 29 May 1979, PREM 19/106. See also, Abegunrin, *Nigerian Foreign Policy*, pp. 86–7.
 41. Mervyn Brown to FCO, 'General Election: Nigerian Press Comment', 7 May 1979, FCO 36/2508.
 42. R. A. R. Barltrop to J. R. Johnson, 'Nigeria and the Commonwealth', 19 September 1979, FCO 36/2509; Mr. Bourke to FCO, 'Commonwealth Heads of Government Meeting (CHGM) 1979', 30 April 1979, FCO 36/2508; Frank Kennedy to FCO, 'Rhodesia', 8 July 1979, FCO 36/2553.
 43. Fraser to Thatcher, 19 May 1979, PREM 19/106.
 44. Carrington, *Reflect on Things Past*, p. 290.
 45. Nigerian officials were not shy about acknowledging that they were acting on behalf of other, less influential African nations. Mervyn Brown to FCO, 'Rhodesia—Political Consultations', 29 May 1979, FCO 36/2508.
 46. As the Zambian High Commissioner to London reported, '[A]lthough it is unlikely that many African governments will lend respectability to the new regime immediately [after] it is established, some could do so if the OAU is not united in its condemnation and rejection'. L. P. Chibesakunda to W. M. Chakulya, Special Report, May 1979, UNIP 7/23/71. The Zambians were worried not only that much of Francophone Africa would eventually recognize Zimbabwe-Rhodesia but also that some Anglophone African nations would 'sit on the fence' unless prodded in the right direction. Special Report, E. N. Nyirenda to Minister of Foreign Affairs, June 1979, UNIP 7/23/71.
 47. Commonwealth Committee on Southern Africa: Minutes from the Meeting on the Committee on Southern Africa, 18 May 1979, FCO 36/2527.
 48. Derek Day to Stephen Wall, 'Call by Commonwealth High Commissioners', 22 May 1979, FCO 36/2527.

49. Peter Carrington to British High Commission Lagos, 'Rhodesia: Meeting with Commonwealth High Commissioners', 24 May 1979, FCO 36/2528.
50. Mackilligin to Williams, 'Rhodesia: Nigerian Action against British Interests', 1 June 1979, FCO 36/2508.
51. Political Report, E. N. Nyirenda to W. M. Chakulya, June 1979, UNIP 7/23/71.
52. Carrington, *Reflect on Things Past*, p. 292.
53. Commonwealth Heads of Government Meeting Lusaka, August 1979: Report of the Commonwealth Committee on Southern Africa, June 1977-June 1979, FCO 36/2528.
54. Thatcher to Frasier, 31 May 1979, PREM 19/106.
55. Report by Lord Harlech, 'Rhodesia: Moving Towards a Settlement', 25 June 1979, FCO 36/2563.
56. Robin Renwick to Stephen Wall, 'Rhodesia: Lord Harlech's Mission', 22 June 1979, FCO 36/2563.
57. Report by Lord Harlech, 'Rhodesia: Moving Towards a Settlement', 25 June 1979, FCO 36/2563.
58. The idea of sponsoring another constitutional conference seems to have emerged in early June 1979. Robin Renwick to Tony Duff and David Harlech, 'Rhodesia', 8 June 1979, FCO 36/2563. Harlech's consultations seem to have convinced the British that an all-parties conference represented the best way forward. Bryan Cartledge to Stephen Wall, 'Rhodesia', 26 June 1979, and Robin Renwick to Stephen Wall 'Rhodesia', 22 June 1979, FCO 36/2563.
59. For more on the Commonwealth Meeting and the Lancaster House negotiations, see M. Meredith, *The Past is Another Country: Rhodesia, UDI to Zimbabwe* (Pan Books, 1980) and R. Renwick, *Unconventional Diplomacy in Southern Africa* (New York: St. Martin's Press, 1997).
60. P. J. Cain and A. G. Hopkins, *British Imperialism: Crisis and Deconstruction, 1914-1990* (New York: Longman, 1993), p. 7. D. A. Low, *Eclipse of Empire* (New York: Cambridge University Press, 1991), p. 263; F. Cooper, *Decolonization and African Society: The Labor Question in French and British Africa* (New York: Cambridge University Press, 1996).

61. W. R. Louis, *Imperialism at Bay: The United States and the Decolonization of the British Empire, 1941–1945* (New York: Oxford University Press, 1978).
62. For instance, in Indonesia and Suez. Louis and R. Robinson, 'The United States and the Liquidation of the British Empire in Africa, 1941–1951', in P. Gifford and Louis (eds), *The Transfer of Power in Africa: Decolonization, 1940–1960* (New Haven, CT: Yale University Press, 1982), pp. 31–55.
63. M. Torrent, 'Deceptive Ends of Empire? British Policy-Makers and the Assessment of the French Approach to Decolonisation in Sub-Saharan Africa (1956–1965)', *Cercles*, 28 (2013): 138–65.
64. R. Hyam, *Britain's Declining Empire: The Road to Decolonization, 1918–1968* (New York: Cambridge University Press, 2007).
65. A. P. Thornton, *For the File on Empire: Essays and Reviews* (New York: St. Martin's Press, 1968), pp. 349–56.
66. B. Porter, *The Absent-Minded Imperialists: Empire, Society, and Culture in Britain* (New York: Oxford University Press, 2004); Hyam, *Britain's Declining Empire*, p. 2, footnote 4. Others have argued that the empire played an important role in shaping British domestic identity. For instance, C. Hall, 'Culture and Identity in Imperial Britain', in S. Stockwell (ed.), *The British Empire: Themes and Perspectives* (Malden, MA: Blackwell, 2008), pp. 199–217; J. MacKenzie, 'The Popular Culture of Empire in Britain', in J. Brown and Louis (eds), *The Oxford History of the British Empire*, vol. 4 (New York: Oxford University Press, 1999), pp. 212–31; A. Thompson, *The Empire Strikes Back? The Impact of Imperialism on Britain from the Mid-Nineteenth Century* (New York: Pearson Longman, 2005).
67. E. Monroe, *Britain's Moment in the Middle East, 1914–1971* (Baltimore, MD: Johns Hopkins University Press, 1981), pp. 131–50; R. F. Holland, *European Decolonization, 1918–1981: An Introductory Survey* (New York: St. Martin's Press, 1985), pp. 207–10; Thornton, *File on Empire*, pp. 354–62.
68. A. Hinds, *Britain's Sterling Colonial Policy and Decolonization, 1939–1958* (Greenwood, CT: Westport Press, 2001).
69. Hopkins, 'Macmillan's Audit of Empire, 1957', in P. Clarke and C. Trebilcock (eds), *Understanding Decline: Perceptions and Realities of British Economic Performance* (New York: Cambridge University Press, 1997), pp. 234–60.

70. Hopkins, 'Macmillan's Audit of Empire', p. 239.
71. Renwick, *Unconventional Diplomacy*.
72. D. Martin and P. Johnson, *The Struggle for Zimbabwe: the Chimurenga War* (Boston: Faber and Faber, 1981); T. Ranger, *Peasant Consciousness and Guerilla War in Zimbabwe: A Comparative Study* (Berkeley: University of California Press, 1985).
73. DeRoche, *Black, White, and Chrome*. See also Sue Onslow's work on South Africa's Rhodesian diplomacy.
74. J. Darwin, *The End of the British Empire: The Historical Debate* (Blackwell, 1991), pp. 114–22.
75. For that matter, so did the superpowers. See, W. Bishop, 'Diplomacy in Black and White: America and the Search for Zimbabwean Independence, 1965–1980', Ph.D. dissertation, Vanderbilt University, 2012.

Missing the ‘Klondike Rush?’ British Trade with China 1971–9 and the Politics of Defence Sales

Ed Hampshire

This chapter provides an account of British Government attempts to gain a portion of the trade with the People’s Republic of China, as it began to open up commercially, and tentatively align with the West against its main adversary, the Soviet Union. It soon became clear that defence contracts would provide a large part of the possible deals. This chapter provides a case study not only of the role of the FCO in supporting trade with a communist state that was beginning its journey towards a form of capitalism, but also of the role of the Foreign and Commonwealth Office (FCO) in negotiating its way through the difficult and contentious field of overseas sales of defence equipment. The unusual levels of state involvement in the defence industry (particularly after 1977 when most of the industry was nationalized), coupled with the state-controlled nature of Chinese business

The phrase ‘almost Klondyke frenzy’ was used by Geoffrey Pattie, a junior defence minister, to describe to Margaret Thatcher attempts to secure defence sales in China during the period 1977–9, Pattie to Thatcher, 5 August 1982, PREM 19/670.

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and industry at the time, created an unusual situation in which governments on both sides played a much greater role than would normally be expected. This chapter analyses the two earliest significant contracts with China: the sale of Trident airliners in 1971 and the contract to supply and support Spey aero-engines in 1975. It assesses the 'Klondike rush' period of 1977–9 when a range of defence and civil contracts appeared to be a possibility. In fact, very few of these contracts came to fruition. The chapter concludes by analysing to what extent the FCO helped exporters to China in this period, to what extent the FCO was able to deal with competing pressures over whether arms sales to China should occur at all, and finally whether these negotiations and sales had a beneficial impact on British foreign policy objectives.

BRITISH RELATIONS WITH THE PEOPLE'S REPUBLIC OF CHINA

The United Kingdom was one of the first Western states to recognize the People's Republic of China in January 1950, but the UK had still recognized Chiang Kai-Shek's Republic of China on the island of Taiwan. As a result, the Communist Chinese never accepted an embassy; the British mission was named 'the office of the British Charge Chargé d'Affaires' and had a subordinate consulate in Shanghai.¹

Trade relations between China and the United Kingdom had atrophied very quickly after the 1949 revolution. A mere five years later the embassy staff in Beijing had almost no useful commercial contacts at all as the old guard of merchants had been swept away or left powerless by the revolution. Increasingly, the Party placed Western merchants and businessmen in an impossible position. They were forced to pay for the upkeep of large staffs yet prevented from developing sustainable businesses.² Regular diplomatic access to Chinese officials, on trade matters or otherwise, was severely circumscribed.³

The burning of the British mission building in Beijing by Mao's Red Guards in 1967 in the midst of the Cultural Revolution was the post-war nadir in relations with the People's Republic of China. The British mission staff were besieged in their offices and then set upon by a mob when the mission building was set alight. Despite the intervention of the People's Liberation Army to prevent any deaths, some of the mission staff were stopped from leaving the country for many months and some British subjects were detained as hostages. However, as Mao's revolution began to

wind down, reformists under the protection of premier Zhou Enlai began to return to positions of influence and the People's Liberation Army continued to worry about the threat from the Soviet Union. Relations with the United Kingdom slowly began to improve. The encouragement of trade in general, and signing of trade deals between the two states in the particular, was one of the main means by which this re-opening occurred.

In January 1971, John Denson, the *Chargé d'Affaires*, was received by the Chinese deputy foreign minister, and a month later Chancery was re-established—the re-fitting of the gutted building was paid for by the Chinese Government.⁴ Denson was received by Zhou Enlai in March and for the first time information was passed to British diplomats over the four remaining British subjects in custody. As 'ping pong diplomacy' began to help the thaw in relations between the West and China, a one month trade mission by John Keswick, of the semi-official Sino-British Trade Council, signalled that not only diplomatic but also trade relations were being re-established. Three weeks after Keswick left China, negotiations over the establishment of an embassy began. The establishment of Sino-British relations at ambassadorial level was paralleled by the opening of relations with other states: not only in Africa and the eastern bloc but also in Western states such as the USA, Austria, France, Canada and Australia.⁵ China was eager to rebuild its international reputation and diplomatic influence following the Cultural Revolution, and also to counter deteriorating and increasingly publicly acrimonious relations with the Soviet Union.⁶

THE TRIDENT AIRLINER CONTRACT

China was now re-engaging with the world, and it seemed that the British were first in with a major trade deal that could presage a flowering of lucrative contracts for struggling British industry. In August 1971, only a few weeks after Kissinger's first (secret) visit to China, the Chinese Government placed an order for six British Hawker-Siddeley Trident civilian airliners. A further 14 were confirmed the following year, with a total of 34 finally purchased.⁷ Various British commercial and political delegations began to arrive in China, and discussions began over sales of Concorde and VC10 airliners. It was thought in the mission that the Chinese were willing to spend large sums on the shorter production and more expensive British airliners because they did not wish to become dependent on either of the superpowers for such aircraft. Britain was the only alternative airliner-maker at the time.⁸ In the event, despite the *chargé d'affaires* describing

'gruelling negotiations' over the Trident sale, this would be probably the easiest and quickest set of commercial negotiations the British mission in China would deal with over the next decade.⁹ A newly delivered Trident aircraft would have the dubious distinction of being the aircraft chosen by the leading communist general and potential rival to Mao Zedong, Lin Biao and his family when they reportedly attempted to flee to the Soviet Union, fearing the worst. The aircraft crashed before reaching the USSR, perhaps destroyed under the Chairman's orders, but just as likely due to the rushed use of the new plane and pilot error.¹⁰

The Trident negotiations had also been linked to the negotiations over the establishment of a full embassy, with the Chinese hinting that the aircraft order would not go through if the British did not make concessions. One major concession, when the exchange of ambassadors was finally agreed upon, was the British recognition that Taiwan was legitimately part of China and that the People's Republic should be recognized at the United Nations in place of Taiwan. After the re-establishment of the ambassadorial presence, a slew of official visits occurred culminating in the visit of the Foreign Secretary, Sir Alec Douglas-Home, and his meeting with premier Zhou Enlai, amongst other senior Chinese figures.¹¹

In trade terms, the United Kingdom was far from being a major exporter to China but its early engagement suggested it could be in a position to gain an 'early starter' advantage. In 1972 Japan was the leading exporter with \$610 million. It was followed by Canada with \$262 million, West Germany with \$165 million and Italy with \$79 million. The United Kingdom was fifth with \$78 million, with France, the United States, Chile, Australia and Sweden lagging behind, but it was unable to capitalize on this position in the next few years.¹² The Trident contract was followed by a contract for a handful of power-generation gas turbines produced by John Brown Ltd. The year 1973 saw the export of over £20 million of copper via the London Metal Exchange and some few millions of pounds of diamonds, but these were not the start of sustained purchases or commercial relationships. 1973 was therefore a good year with \$206 million of exports where the above contracts were combined with the delivery of a main batch of Tridents, but 1974 demonstrated how volatile trade with China was, and how dependent it was on a small handful of lucrative deals, usually with little follow through or long-term sustainability.¹³ In that year Japan's exports to China had tripled to £1988 million, United States' exports had increased dramatically to \$807 million,

Canada's exports were \$446 million, West Germany's exports had risen to \$421 million and Australia's to \$355 million. The UK had exported \$168 million with France at a similar level. The UK figures would not improve dramatically over the next three years, whilst those of its major competitors—although fluctuating—averaged a much higher level.¹⁴

It was becoming increasingly clear by 1974 and 1975 that China required industrial machinery, some high technology equipment and quite considerable amounts of processed or unprocessed natural resources. The United Kingdom could not provide the natural resources, and in the other areas it found it difficult to compete with Japan, West Germany and the United States in terms of cost, quality and timely delivery. Some of this was ascribed to British economic and currency uncertainty at the time, but quality issues almost certainly also played a part.¹⁵

The early optimism was sustained through most of the early 1970s despite many potential commercial deals being locked in seemingly perpetual negotiation and a large number finally falling through. However, it soon became clear that there were only a few niches where British high technology equipment seemed to offer some form of competitive advantage. These appeared to be aerospace, and its increasingly linked cousin, the defence industry. Hawker-Siddeley was not just a commercial airliner manufacturer. Most of its profits came from the defence aerospace industry: it was the manufacturer of the Seahawk and Hunter military aircraft as well as of the Harrier 'jump-jet', a revolutionary Vertical/Short Take-Off and Landing (VSTOL) fighter which had recently been purchased by the US Marine Corps and the Royal Air Force.

The biggest opportunity after the success of the Trident contract was the export of the Spey jet engine. The Spey, manufactured by Rolls-Royce (which had been bailed out by the government in 1971), was not only a jet engine that could be fitted to commercial airlines like the Trident or the Boeing 707, but also to military aircraft such as British operated F4 Phantoms and, after modification, to warships as gas turbines. It would be the production and support for Rolls-Royce Spey engines that provided the next success for British trade with China and began the move towards the defence industry. The Harrier, despite Chinese expressions of interest as early as 1972, would remain in the background during the Rolls-Royce negotiations, and would come to the fore after they had been successfully concluded.¹⁶ By this time almost all British Government attention would be on the promotion of defence deals with the Chinese.

THE ROLL-ROYCE SPEY CONTRACT

Soon after the signing of the Trident contract in 1971, discussions began over the purchase of Spey jet engines but it appears that these did not proceed further.¹⁷ Contacts between Rolls-Royce engineers and the Romanian Government (which itself had been developing links with the Chinese) resulted in an invitation for substantive and ultimately successful discussions over purchasing the Spey. However, it was quite clear from early 1973 that the Chinese were keen to receive the military version of the Spey found in the British Phantom rather than the civil Spey that powered Trident.¹⁸ Initially negotiations proceeded briskly. However, the Chinese began to stall, apparently having second thoughts almost at the point of signing. Then, when there was a change of British Government, China requested re-affirmation of British interest. Further stalling from the Chinese side occurred during the referendum campaign on British membership of the European Economic Community. Once the vote in favour of remaining in the Community was announced the negotiations continued.¹⁹

On the British side there were additional problems respecting the Co-ordinating Committee on the International Strategic Embargo ('CoCom'), an organization consisting of NATO members and Japan which unanimously agreed lists of embargoed 'strategic exports'—usually military, nuclear or high-end civil technology with possible military cross-overs—to communist states. The Spey engines, under the lists then current, fell within embargoed categories. The first approach to CoCom under the Heath Government resulted in an objection from the United States and reservations from Japan, France and Germany.²⁰ The next tack taken was proposed by Jim Callaghan, the new Labour Foreign Secretary, and was agreed by the Prime Minister. Callaghan suggested that other CoCom members should be approached to suggest the re-writing of CoCom's 'strategic criteria' by which export items were assessed as they were now 'out of line with present-day realities'.²¹ The criteria had to be unanimously agreed by all members, so each state would have to be persuaded. This approach proved similarly unsuccessful, as crucially the United States vetoed any change in the criteria for inclusion in the lists.²²

Having failed to change the terms of CoCom criteria so that the Spey deal could go ahead, the only option now available, if the sale were to go through, was to ignore CoCom altogether and in effect risk undermining the organization. This was less of a drastic option than it at first

seemed, as the British had an ally in the form of Henry Kissinger, the American Secretary of State, and architect of the rapprochement between the People's Republic of China and the United States. He gave repeated and categorical reassurances that any US protest to the British sale would be mild and low key.²³ This approach: public disapproval combined with sympathy and some support in private, would set the tone of the United States' position on arms sales to China over the next five years.

The total deal, which was finally signed at 9pm on 13 December 1975, was worth £76 million to Rolls-Royce with almost all of the profit coming from the licensing side of the agreement, the sale of engines in the event making almost no money for the company.²⁴ The Chinese had negotiated extremely hard: the number of engines to be purchased had been reduced from 200 to 50, and an unprecedented hybrid document called an 'export authority' had to be drawn up by the Department of Industry to assuage Chinese concerns about export licensing.²⁵ Throughout the Chinese piled pressure onto the ten-man Rolls-Royce negotiating team, repeatedly going over the terms, stonewalling over minor issues, then placing unnecessary time pressures on the British. They also threatened that a lack of success in the Spey negotiation would jeopardize Sino-British relations and prevent any further trade deals.²⁶ Quibbling over secondary issues and mistranslations right up to the last minute did not make the negotiations any easier: two celebratory banquets went ahead without the contract being signed because of such problems.²⁷

Despite this, the contract was important for Rolls-Royce, a company that had been expensively bailed out by the government in 1971 and which therefore had a strong interest in ensuring a return to long-term profitability and gaining a long-term customer in the Chinese Government.²⁸ Edward Youde, the British Ambassador, ascribed part of the nerve-racking final stage of the negotiations to Chinese worries. China disliked entrusting such a sensitive and important part of its defence programme to a foreign power after its experiences with the abrupt severance of Soviet support in the early 1960s. He was also aware that the aggressive Chinese approach reflected an element of psychological warfare combined with fear on the part of the negotiators if the deal failed or did not provide the hoped-for benefits. However, it also became clear over the following years that this was the standard Chinese negotiating approach to such deals. The negotiations had also required considerable resources from the British Embassy to help bring it to a successful conclusion: not only the intervention of the ambassador at key points—particularly over the matter

of export licenses—and the general support provided by the embassy's commercial department, but also the use of its communication facilities. Over the last three months of the negotiations over 40 per cent of the embassy's telegram traffic was carried out on behalf of Rolls-Royce relating to the deal.²⁹

The United Kingdom's fellow CoCom members and other key allies in the wider region (such as India, Malaysia, Australia and Singapore) were informed just before the deal had been signed. Henry Kissinger, who had been informed in confidence more than a year before, ensured that the American response, although framed as an objection—the strongest response from any of the CoCom members—was muted and not made in strong language. Japan, West Germany and France expressed reservations, and the remaining states did no more than note the deal.³⁰ The United Kingdom had gained what seemed at the time to be a breakthrough deal, requiring considerable stamina on the part of the negotiators and the embassy staff. However, in the process CoCom had been gently undermined as the West hurried towards a rapprochement with the People's Republic.

AFTER THE SPEY CONTRACT: HIATUS AND THE HARRIER

It had been hoped and expected that the Spey deal would open the doors to a range of British trade contracts, primarily in the defence area. In fact a senior official at the Defence Sales Organisation (DSO) of the Ministry of Defence had called the Spey deal, 'the stalking horse in the matter of the sale of military equipment to China'.³¹ In the event this was not the case, at least in the short term. Whilst the Spey negotiations proceeded, the FCO forbade attempts by other firms to tout their wares, among them, Hawker-Siddeley putting forward the Harrier. Such activities would distract from, and could even jeopardize, the deal under negotiation.

Another major agreement that had been in suspension since 1974 was an Air Services Agreement allowing British Airways to provide regular scheduled flights to Beijing and possibly other major cities in China. An agreement in 1973 had been initialled, but not signed when the Chinese issued new conditions over a year later. These conditions concerned the treatment of Taiwanese civil aircraft and were so severe they would jeopardize Cathay Pacific's highly lucrative Hong Kong to Tai Pei services. As any flights to and from Beijing would have had marginal profitability for British Airways, the agreement remained in abeyance with the British unwilling to make unacceptable concessions.³²

Following the Spey deal, the Air Services agreement remained in a holding pattern, and despite the DSO's bullish attitude FCO officials were generally much more cautious. Any further military sales to China would still need to take account of the CoCom members—there was an acute awareness that the Spey deal had gone ahead despite the opposition (albeit muted) of some of its key members. As the new sales included a complete military aircraft like the Harrier, there would be much less ambiguity than with the Spey engines. Although a large Chinese delegation attended the Farnborough Air Show, there were no direct approaches by the Chinese for the purchase of military equipment as 1976 progressed.³³

The year 1977 brought further complications for the FCO with the arrival of a new administration in Washington DC. Henry Kissinger, who had supported British sales throughout the last five years was no longer in government, and Jimmy Carter, the new president, had in May committed himself to a range of conventional weapons non-proliferation measures. The FCO's Defence Department described Carter's commitment to this policy as being due to his 'idealistic sincerity'. It chiefly comprised the restraining or banning of the sale of advanced weapons technologies to non-Western states which did not already possess such technology, limitations on the transfer of certain sensitive weapons, and restraint in the agreement of co-production or licensing to other countries.³⁴ However, over at least the next year, divining the exact nature of the new administration's policy proved difficult as it became clear that the administration itself was divided over how far to go with the new arms control policy. Richard Holbrooke of the US State Department admitted this at a meeting with David Owen, the new Foreign Secretary, in October 1977, and this was still the case in March the following year when Peter Jay, the Ambassador in Washington, attempted to explain to Owen the complexities of the US position and the differences within the administration.³⁵ Meetings with the US Secretary of Defence, Harold Brown and with Zbigniew Brzezinski, the National Security Adviser, did not clarify the issue further: Brown was relaxed about the sale of naval gas turbines but not the Harrier, whilst Brzezinski had no problem with the Harrier sale 'personally' but would not commit the US Government. Even President Jimmy Carter seemed unsure when the Prime Minister raised the issue with him in 1978.³⁶ This indecision in itself did much to increase further the FCO's caution over the coming months.

Not only was a Harrier contract a possibility; Rolls-Royce was attempting to follow up its Spey success with the sale of maritime gas turbines

for warships. This was linked to a potentially even larger set of contracts with the People's Liberation Army Navy. Until February 1979, it was hoped that the sale of Type 42 guided missile destroyers would be possible.³⁷ However, this was vetoed by the Prime Minister, probably mindful of strong US concerns about warship sales on the Taiwan lobby in Congress.³⁸ After this, attention shifted to plans by the shipbuilder Vosper Thornycroft to modernize the Chinese Luda class destroyers, whose existing equipment was derived from late 1950s Soviet technology, with state-of-the-art British weapons and sensors including the Seadart area air defence missile system and the Seawolf point air defence missile system.³⁹ In 1978, the tank manufacturing division of Vickers Ltd was also approached to modernize China's ageing fleet of T59 main battle tanks, and the Chinese Government expressed interest in a range of weapon systems from hovercraft to anti-tank missiles.⁴⁰

A CHANGE IN CHINESE PRIORITIES

By late 1977, it was becoming clear that the Chinese were increasingly keen on securing arms contracts with the United Kingdom and other Western states. Internally, the fall of the hard-line 'Gang of Four' centred around Mao's wife Jiang Qing, and the rehabilitation of reformists led by Deng Xiaoping, had restored some stability to Chinese Government decision-making. Crucially, one of Deng's power bases was in the military, and among his earliest acts was to push Hua Guofeng into reforming the armed forces and re-directing their priorities.⁴¹ In December 1977, the Chinese Central Military Committee, the party organ that controlled the armed forces and of which Hua was chairman, decreed that conventional arms development would take priority over strategic weaponry.⁴² Nuclear weapons and their delivery systems had been given the lion's share of funds since the early 1960s and those that were developing these systems had had considerable autonomy from political interference; for example, nuclear scientists had been much less affected by the impact of the Cultural Revolution than other parts of the research establishment. However, this diversion of funds had resulted in the neglect and atrophy of the rest of the equipment of the armed forces.⁴³ Fear of Soviet attack and awareness that Chinese military capabilities were often 30 years behind the West helped the generals support the transfer of attention to conventional arms. Deng knew that he had to keep the military on side in his battle with Hua Guofeng for control of the leadership. The focus would be on high

technology transfer, so there was now a promise of funds being directed towards a range of conventional military projects at the higher end of the technical spectrum.⁴⁴

The detail of this was only dimly understood in the Western embassies in Beijing, but what was clear was that Chinese approaches regarding possible arms contracts were multiplying. There appeared to be significant commercial opportunities available to the British—with the sale of Harriers being the highest profile possible purchase. However, there were considerable problems with selling such equipment to the Chinese. British foreign policy was being pulled in a number of directions. Respecting CoCom lists of prohibited equipment, aero-engines and maritime propulsion were sufficiently ambiguous, but it was very difficult to be ambiguous about the offensive properties of a heavily armed specialist ground attack aircraft such as the Harrier. Fred Mulley, the Defence Secretary, admitted that a 'fudge' would have to be found, and strenuous attempts were made to equate the VSTOL Harrier with helicopters, and to emphasize the Harrier's lack of range and therefore its lack of practical use in any potential attack on Taiwan—a concern of the US State Department.⁴⁵ Although the United States and other allies might be supportive in private, none wanted any circumventing of the CoCom rules to be so blatant that the organization was completely undermined.⁴⁶ For example, by late 1978, the West Germans were suggesting the creation of a 'no comment' procedure for members faced with such issues, whilst the French, in a similar position to the British, were trying to sell arms but neither undermine CoCom nor relations with the Soviet Union.⁴⁷ Any approaches to allies would have to be cautious, but were likely to receive a quietly sympathetic hearing.

In addition, the United States and other NATO members were engaged in prolonged negotiations with the Soviet Union over both nuclear and conventional arms control: the second run of Strategic Arms Limitation Talks and the ongoing discussions on Mutual and Balanced Force Reductions in conventional weapons. China angrily eschewed any talk of arms control as attempts by the Soviet Union to neuter political enemies. Dealing with such a state would inevitably draw Soviet protests—which were duly forthcoming during 1978—and could jeopardize those talks.⁴⁸ The Foreign Secretary, David Owen, had also committed himself to supporting these talks and did not want to be responsible for their compromise or at worst their collapse.⁴⁹ Despite this, the continued rapprochement with China was an important foreign policy objective of both the United States and the United Kingdom. From June 1978, the British

Ambassador was Sir Percy Cradock, who had been Head of Chancery when the consulate had been burnt down in 1967. He was a keen advocate of using arms sales as a way to build and strengthen relations with China, and saw it as a way to open the door to civil trade deals and improved relations over Hong Kong.⁵⁰

TO TRADE OR NOT TO TRADE: DOMESTIC PRESSURES ON BRITISH POLICY

The domestic pressures were also intense and competing. The aerospace and shipbuilding industries had recently been nationalized creating two enormous state corporations: British Aerospace and British Shipbuilders. Both were increasingly dependent upon military orders for survival: the Trident airliner had been eclipsed by the hugely successful Boeing 727 and 737, to such an extent that the state-owned British Airways had agreed in 1978 to replace its own Trident fleet with 737s just as the last Trident was being delivered to China.⁵¹ The shipbuilding industry was in the midst of a vertiginous crisis: civilian orders were drying up across Europe as Japanese and South Korean builders swamped the market. British shipbuilders, saddled with a legacy of poor management, poor union relations and outdated machinery and practices, was hit the hardest of the European shipbuilders.⁵² The British Shipbuilders' government-backed recovery plan assumed that by 1980 nearly half the industry's workforce would be working on warship construction or for yards producing both warships and merchant vessels; in 1977 this figure had been less than a third.⁵³ Both industries, which employed large numbers of unionized workers, provided an important constituency of support for the Labour Government. They therefore increasingly relied on military orders—which could not be satisfied by domestic orders alone—for survival. Generating orders of military equipment from NATO allies was difficult: the market was static, if not shrinking: many had their own domestic industries which would have preference over foreign suppliers. The growth markets were in the developing world, and many of these states were under non-democratic regimes. Between 1977 and 1980 only 12 per cent of British arms sales were to NATO and other Western states, whilst over 58 per cent were to the Middle East and North Africa.⁵⁴

The Department of Trade, the Department of Industry, and the DSO lobbied in favour of such sales. The DSO, set up by Harold Wilson's

Government in 1965, was by 1979 about the size of a small Whitehall Department in itself.⁵⁵ It lobbied within government and internationally for arms sales by British companies. The recent economic and financial crisis in Britain, in which the International Monetary Fund had provided emergency finance in return for stringency in government spending, had also emphasized the importance of international trade to support the British economy. Although such exports totalled 34 per cent of gross national product in 1976, the UK was running a balance of payments deficit of £15 billion.⁵⁶ Even trade with China was in deficit, with British textile manufacturers arguing for caps on the import of cheap Chinese-made clothes.⁵⁷ The defence and aerospace industries seemed to be one of the few parts of the British manufacturing economy that both turned a profit and could generate considerable export earnings.

There were equally strong pressures on the FCO in the other direction. The Labour Party itself had been shifting leftwards over the 1970s, and as a minority government, backbenchers were in a position of influence and had to be won over for each parliamentary vote. The National Executive Committee of the Labour Party had been so disappointed by the relatively minor changes in defence policy following the 1975 Defence Review that they undertook their own informal defence review which when it completed in 1977 called for radical reductions in defence spending and the mass conversion of 'swords into ploughshares' for the defence industry. It also condemned the sale of arms to un-democratic regimes.⁵⁸ As many states in Africa and Latin America slipped into one-party or military rule, British overseas arms sales came under increasing scrutiny by human rights groups, Labour activists and Labour MPs. Could such weaponry be used against their own populations for repressive purposes?

Robin Cook, a young backbench MP, was the most consistent and committed parliamentary campaigner for the reduction in arms sales. During this period both the Ministry of Defence and FCO received signed petitions from MPs, church groups and local politicians protesting against British arms sales to undemocratic regimes. In response to this, the FCO's Arms Control Department deliberately built good relations with Cook and others, and consulted them on the progress of the nuclear and conventional arms limitation talks.⁵⁹ Meanwhile, the FCO's Defence Department, supervised by the same assistant under-secretary as the Arms Control Department, acted as the main liaison with the Ministry of Defence, and the link between the DSO and diplomats and attachés abroad. The awkwardness was accentuated by splits within Owen's own

ministerial team. Frank Judd, one of his two Ministers of State, was a passionate supporter of Cook's position and was not afraid to make his case to Owen, his fellow ministers and to senior officials.⁶⁰ Lord Goronwy-Roberts, the other Minister of State, in contrast took a more 'pragmatic' stance and was probably mindful of the unionized workforce in the defence industry.

Given the strength of these competing internal, external and overseas pressures, it is not surprising that the Overseas Policy and Defence Committee (OPD) of the Cabinet ordered that a policy document on arms sales to China, created by both the MoD and FCO, be prepared for approval. With a clear agreed policy the risk of paralysis would be, it was hoped, much reduced. The policy document took many months to draft. When placed in front of the Prime Minister, Harold Wilson, perhaps unsurprisingly, it presented the case for using the defence and aerospace industries as a way to open up a wider export drive to China. With respect to the sticky issue of CoCom the policy document proposed something close to what had been the existing policy since 1975: to discuss sales with CoCom members, but if necessary to go ahead with arms sales if the industrial and commercial benefits outweighed the diplomatic difficulties.⁶¹ The weight of opinion within the FCO and across government was in the end stronger than the countervailing forces elsewhere: CoCom could be bypassed and in practice undermined if domestic factors were sufficiently strong.

Strategic factors were also assessed: the improvement in Chinese military capabilities could tie down more of the Soviet Union's military in defending its long border in the east with China, whilst harmonious relations with China would help with respect to China–Hong Kong relations in the medium and longer term.⁶² The human rights perspective which was important in terms of Labour backbench (and some ministerial) opinion, was dealt with in half a page: 'the Chinese have no need of Western defence equipment for internal security purposes, and the kind of purchases they will generally make have defensive rather than internal security implications. Nor would Western pressure applied through withholding arms have any effect on China.'⁶³

The paper assessed that Britain's best chances of sales came from the aerospace industry, and it was in this area—primarily on the military side—that China had expressed the most interest thus far. It noted that the UK had failed to gain a number of contracts in previous years for the reasons given above. However, underlying much of the paper, and made explicit in a note from Owen to Callaghan, was that the French, who had fewer scru-

ples about sales to China or for that matter other non-democratic regimes, had had considerable success in obtaining both military and civilian contracts in competition with the British.⁶⁴ A later proposal by David Owen, to attempt to match the Harrier and potentially other military contracts with China with civilian contracts of a similar value, also helped to smooth over the issue: controversial contractual announcements would hopefully be held alongside un-controversial civilian commercial contracts.⁶⁵

THE HARRIER CONTRACT WITHIN REACH?

Whilst politicians and officials edged their way towards setting a policy, and then giving the go ahead to sales of the Harrier, the pressures from the Chinese to purchase that aircraft gradually became greater and greater as 1978 progressed. Increasingly frequent visits of British politicians and businessmen to China and reciprocal visits of senior Chinese party members and ministers to Britain provided the circumstances for discussions regarding the Harrier and other possible defence deals. A significant early visit was that of the Chief of Defence Staff, Air Marshal Sir Neil Cameron, in April 1978. Given strict instructions not to commit to any sales given ongoing discussions within government and with CoCom allies, the visit itself went well: the Chinese were given to understand that the British were keen to discuss the Harrier, and other possible deals were also raised.⁶⁶

Despite being a diplomatic success, the visit ended up raising a political storm back in the United Kingdom, after British journalists reported Cameron's description of the Soviet Union as 'our common enemy' during a long and well-lubricated banquet. Coupled with a hitherto obscure interview with a Methodist magazine a few months before in which the vehemently anti-communist Cameron had described the Soviet Union as 'the anti-Christ', this caused indignation within the Labour left.⁶⁷ Tony Benn requested that the matter be discussed in Cabinet, to which Callaghan reluctantly acquiesced.⁶⁸ At that meeting, providing an example of how far to the left some leading figures were willing to go, one cabinet minister proposed that inter-party relations should be established between the Labour Party and the Soviet Communist Party. This was slapped down by the Prime Minister, James Callaghan: 'it would be wrong to encourage the development of inter-Party relations. These would not reflect the views of the people of this country and any association of the Party with the extreme left could only be damaging to its electoral prospects.'⁶⁹ Despite a backbench delegation led by the former cabinet minister Barbara Castle

calling for Cameron's resignation, Callaghan brushed this off as well, cheerfully stating to Cameron that the whole issue 'had provided the only interest and excitement of the past week'.⁷⁰ The China defence sales document was returned for minor changes and finally approved on 21 June 1978. Even then, OPD did not agree to go ahead with selling the Harrier to the Chinese: the United States and other CoCom powers would have to be consulted and their acquiescence finally confirmed.⁷¹

The momentum was maintained by the visit of Edmund Dell, the Secretary of State for Trade, and a delegation of businessmen in August 1978. Dell's delegation touted their wares—which ranged from aerospace to the coal industry—to the Chinese. It was the latter which produced an unexpected and what seemed almost accidental deal: a contract of up to £100 million for companies working under the National Coal Board to supply equipment and expertise to the north Chinese coalfields.⁷² Dell returned to the UK confident that the 'Chinese are likely to place a considerable amount of new business in the next year or so.'⁷³ Perhaps civilian contracts would be able to counterbalance the expected rush in military sales.

The OPD revisited Harrier sales in October, but still no decision was made as the position of the United States and other CoCom allies had not yet been confirmed.⁷⁴ In October, US policy was very confused. At one point the State Department asked the FCO that no British official or diplomat even approach any US official or diplomat below ambassador level over the issue of arms sales to China.⁷⁵ Movement by the Carter administration towards the British position occurred in early November. Then, the Secretary of State, Cyrus Vance, finally announced that although the United States would not undertake arms sales to China, it did not object to its allies doing so: but the strength of a potential US objection through CoCom was not yet known.⁷⁶

The visit of Chinese Vice Premier Wan Chen in November 1978 helped increase the heat on the undecided British position on the Harrier to boiling point. Wan agreed to a bilateral trade deal which theoretically agreed to up to \$10 billion of exports to China in both the military and civilian spheres.⁷⁷ However, this was no more than a statement of intent at best rather than any firm commitment, and the figure was pointedly less than a similar deal agreed with the French a few months earlier.⁷⁸ In Wan's meeting with the Prime Minister, the Chinese Vice Premier directly asked whether the United Kingdom would sell the Harrier. Jim Callaghan temporized, talking about a balanced trade relationship with China involving both civil and military trade, but did not give a firm answer.⁷⁹ The United

States' potential response to a sale through CoCom channels was not yet known: Callaghan could not commit to a sale yet.

Wan and his entourage, who were swiftly followed by Lu Tung, the minister for the aerospace industry, stoked much enthusiasm in the defence industry by expressing further and deeper interest in a range of items from destroyers through to main battle tanks. Most of these could not be described as 'defensive' in nature.⁸⁰ However, the lack of a commitment by the British Government to selling the Harrier had almost immediate repercussions, and heralded a return to the aggressive Chinese tactics of the Spey negotiations three years earlier. In October the new Chinese Ambassador, Ke Hua, in his first meeting at the FCO following his arrival in the country, had ignored all the usual pleasantries and declared that previous discussions on the Harrier had been 'mere shadow boxing' and made it clear that if the Harrier were not sold to the Chinese, the extensive lists of civilian and military deals that had been mooted would be under severe threat.⁸¹ With the Wan and Lu visits not yielding a Harrier contract, the temperature was further turned up and the messages delivered through different means: the implications for British trade (and by implication Sino-Hong Kong trade) were made clear to British officials and businessmen in Hong Kong.⁸² The Chief Executive of Rolls-Royce was also informed that future aero-engine contracts might go to US competitors if the British government did not sign the Harrier contract.⁸³

With the general election now delayed until 1979, Callaghan could not put off a decision any further. Discussions between Owen and Vance in December had not yielded any indication of the President's settled view on the Harrier issue, so the Prime Minister would make a final decision following the four power meeting in Guadeloupe with the US and French presidents and the German Chancellor in early January.⁸⁴ If Jimmy Carter expressed no reservations, the Industry Secretary Eric Varley's mission to China in February 1979 would be given permission to begin substantive negotiations. The Prime Minister, with the support of German Chancellor Helmut Schmidt and French President Valerie Giscard d'Estaing, finally obtained the answer he wanted and Varley was given the go ahead following the agreement of Cabinet.⁸⁵ Within days this was countermanded after the Chinese, to the surprise of the outside world, invaded Vietnam following that state's own invasion of Cambodia to stop of the murderous policies of the Khmer Rouge. Callaghan made it clear that this was only a temporary halt whilst the military campaign endured.⁸⁶ Although this invasion was short, the ill-equipped and poorly led Chinese were held down by the

Vietnamese, causing a rapid retreat after heavy losses. The Harrier negotiations were never to re-start. Chinese internal priorities were already changing yet again.

FOOL'S GOLD

In December 1978, Deng Xiaoping's speech at the 3rd plenum of the 11th Communist Party Central Committee set out a clear new approach for Chinese military procurement, consisting of three elements: first, civilian economic reconstruction would now have priority over defence modernization; second, society as a whole would be de-militarized and; third, science and technology would in effect be de-politicized as it was now considered not to have a 'class character'.⁸⁷ This last element was a final repudiation of the radical ideology of the Cultural Revolution and its leaders' aims to influence and control science, but the first two elements had fundamental consequences for Chinese military procurement plans, and therefore for British hopes of defence sales. At the time, the significance and consequences of this speech were not fully understood in the West. The initial steps back from the mooted large defence programme were gradual and never formally announced. Concerns were beginning to be expressed within the British Government about China's ability to pay for such a large programme, given their reluctance to take on debt to finance such purchases.⁸⁸

The first hint of these changes came during the planning of Eric Varley's visit to China in February 1979. A few days before Varley departed for China, word was received from British Aerospace negotiators in Beijing that the Chinese themselves had abruptly changed from pushing hard on the Harrier purchase to expressing a cool reluctance to commit to any deal. This was greeted with some relief—such a coolness was perceived to be temporary, and ensured that there would be no embarrassment as the British postponed discussions again, because of the invasion of Vietnam.⁸⁹ Throughout 1979, the full range of equipment in which the Chinese had expressed interest during the Wan and Lu visits remained on lists presented to the Prime Minister setting out possible and prospective defence sales. However, one by one they dropped away as the Chinese Government pulled back from negotiations. Margaret Thatcher's new Conservative Government was particularly keen to revive negotiations with the Chinese (and to boost arms sales in general) but the visit of the new Defence Secretary, Francis Pym, to China in 1980, finally confirmed that the Harrier deal was off.⁹⁰

On the non-military side, the situation seemed similarly dispiriting. A range of potential deals had faded away, and even the area with the greatest initial promise—extensions to the 1978 coal mining contract—eventually foundered on the inability of the various coal equipment manufacturers and operators to cooperate and present a united front against Japanese and US competitors.⁹¹ Hong Kong businessmen were in the end those best able to take advantage of the developing thaw in Sino-British relations. The most significant Hong Kong-led deal was Sir Lawrence Kadoorie's scheme for a nuclear power station in Guangdong province: it tied the Hong Kong electricity grid to China but also provided a series of lucrative sub-contracts to British companies.⁹² Even though the future of Hong Kong lay in the background during much of these discussions, it was recognized by Owen, in mid-1978, that 'if we are responsive to Chinese needs we can ensure the most favourable political and economic climate for when decisions on Hong Kong are likely to be needed'.⁹³ Although the initial approach to China over the future of new territories in early 1979 did not go as favourably as many would have wished, the preceding years of trade dialogue and reciprocal visits at least helped to ensure that negotiations were not as painful as they might have been.⁹⁴

By the end of 1980, only one mid-sized military contract had been signed, the sale of Marconi avionics equipment to the Chinese air force, and only one deal remained on the table for negotiation: the modernisation of Chinese Luda class destroyers with British missile systems and radar.⁹⁵ This was potentially a large deal, worth £100 million with the promise of much follow-on work, and in 1982 it finally got to the stage of being negotiated and signed. However, the Chinese backed out at the last minute by deciding not to 'ratify' the contract within the allotted time period.⁹⁶ With this, the last surviving fragment of the 'Klondike rush' for Chinese defence sales fell to dust. The contract would have been extremely expensive for the Chinese (they eventually investigated cheaper American and later French options for modernization of these vessels) and in retrospect it is surprising how long the deal survived given the direction of Chinese policy at the time. In January 1980, Deng had reinforced his position on the primacy of civilian economic development by stating that even the crossover potential of military technology into the civilian sphere was insufficient to justify any primacy of defence technology over civilian.⁹⁷ By 1982, Western analysts were noting that Chinese defence spending had shrunk by nearly 10 per cent in three years.⁹⁸ The Chinese military industrial complex was entering an era of unprecedented scarcity in what

would later be known as the period of ‘looking for rice [i.e. money] to put in the wok’.⁹⁹ In these circumstances the need for expensive and sophisticated jump-jets and naval anti-aircraft missile systems from overseas was somewhat limited.

CONCLUSION

How well did the FCO help facilitate trade with China? Trade links with China had, as has been seen, largely collapsed following the revolution, but as relations began to thaw in the 1970s trade discussions proved instrumental in this process of opening up to the West and to the UK in particular: trade forged the way for more general diplomatic efforts. The Ambassador’s role in supporting the Spey negotiations at crucial deal-breaking moments demonstrates the attention and the effectiveness of the FCO’s role. In 1978, the embassy successfully lobbied for its staffing—particularly in the commercial section—to be increased, and during the 1980s the commercial section produced regular, knowledgeable and useful trade reports and updates for British business thinking of investing in China.¹⁰⁰ In no way could trade be regarded as a ‘neglected’ or second tier adjunct to more traditional diplomatic roles. During this period it in fact held centre stage in British efforts to rebuild relations with the People’s Republic. The lack of trade deals in either the defence or civilian spheres was not for want of trying on the part of the FCO and British missions in China.

The FCO had an unenviably difficult task in negotiating the internal governmental challenges of creating and implementing a policy on defence sales to the Chinese. It had to respond to strong pressure from a number of government departments: from the MoD to the Departments of Trade and of Industry who were pushing for sales to go ahead, often prompted by domestic economic pressures, whilst at the same time dealing with internal FCO splits. Neglecting the wider arms control negotiations with the Soviets threatened to strain relationships with the US State Department, whilst neglecting the moral aspects threatened backbench revolts and embarrassing publicity for a minority government. It was an impossible balancing act: particularly given that the policy of the US Government was itself in near constant flux until the end of 1978. Therefore the development of an explicit policy on arms sales to China was essential to enable an agreed line across government, and it was further moderated by Owen’s insistence that any defence sales to China must be matched, as far as possible, with civilian contracts.

Regarding the more vexed question of whether British foreign policy should have been supporting or allowing defence sales to China, the historian does have the advantage of hindsight. Sir Percy Cradock was to some extent right that defence discussions and negotiations did provide a means of rebuilding relations and constructing confidence. Domestic pressures lobbying for defence sales were also considerable and effective: the defence and aerospace industries were among the few successful exporting industries that the UK possessed at a time when the economy was recovering from economic crisis and bail out by the International Monetary Fund.

In retrospect however, ignoring or blinding oneself to the humanitarian and moral arguments against defence sales to non-democracies could also have had a significant foreign policy consequence beyond reputational damage and charges of hypocrisy. If sales of Harriers and the modernisation of destroyers had gone ahead, these state of the art weapons technologies would have been available to a regime that was at best a wary and arm's-length ally which, as was seen during the Tiananmen Square uprisings in 1989, was willing ruthlessly to maintain Communist Party power, and by the late 1990s had begun to challenge the regional security status-quo in East Asia. That challenge would have been more formidable with the equipment that the United Kingdom nearly sold to the Chinese, in particular the Luda class modernization which would have given the Chinese a blue-water task force air defence system in the late 1980s, over ten years before that capability actually appeared.¹⁰¹ Harriers would have also provided an effective ground attack capability and would have added to Chinese capabilities in any confrontation with Taiwan. The one major defence-related technology that the Chinese did acquire, the building of Spey aero-engines under license from Rolls-Royce, was one that the Chinese were never able to exploit effectively, probably because of their reliance on British expertise which was withdrawn when the contract finished. Even today the Chinese have problems manufacturing reliable modern turbo-fan jet engines.¹⁰²

The United Kingdom was therefore lucky that, despite many attempts to ensure otherwise, it did *not* sign more defence deals with the Chinese. However, the discussion of such deals laid paths to support what soon became the most important long-term foreign policy objective of the British Government in the region: the orderly transfer of power in Hong Kong by 1997, whilst maintaining that territory's wealth, legal and economic systems.

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Commercial Diplomatic Policy and Practice: a practitioner's perspective

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Properly to understand what the Foreign Office and Foreign and Commonwealth (FCO) have done for British commerce in modern times, it is right to glance briefly at the past. Early diplomacy and espionage, under Queen Elizabeth I, were crucially commercial in their objectives. The Turkey Company, created for purely commercial reasons, established an embassy in Constantinople. Its later Letters Patent and Charter of 1581 added political force and objectives to its commercial diplomatic role. In the 1570s, English merchants, denied trading in Spain by an embargo, looked instead to the Levant Seas,¹ and were supported by Queen Elizabeth I's Government in complex competitive levy bargaining with Florentine and Venetian authorities. The English Turkey and Venice Companies together sought support from the Lord High Treasurer, William Cecil (Lord Burghley), whose office was probably the third highest in the land. The companies argued that they merited government assistance in their overseas commercial business in part because they had been useful to the Crown in European political matters. The eventual result was the Levant Company, granted a Charter in January 1592 to many merchants, some appointed by the Crown, and licensed to trade, with English customs and other advantages, in the Levant (and the 'lately discovered' East Indies).²

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Queen Elizabeth I chartered the (English) East India Company at the end of 1600, as a monopolistic trading entity. It soon became an instrument and driver of English colonial policy and military action in support of trade and imperialism—the two inextricably entwined—and served well into the nineteenth century. Of mixed but on balance splendid history, the East India Company can well be regarded as among the finest forms of privatized British Government action, serving British interests—commercial, economic and political, to excellent effect.

Thus the pursuit of British interests overseas has long been indissolubly a matter of practical diplomacy with military support and adventures, to secure British trading as well as political aims. Often, political aims were a necessary precursor to, or a product of, the trading objectives. To separate diplomacy into different disciplines, commercial and political, has often been done down the centuries organizationally, but rarely, in my view, has been wise for the UK. Such separation was not wise, especially but not only, during the Cold War. Ever since the end of the privatized diplomacy that fused (and saw no significant difference of purpose between) commercial and political diplomatic disciplines, to reorganize the two by separation has been tried often: almost as often it has failed, or produced less than optimal results. At their joint best, the two disciplines are practised by one organization possessing the necessary breadth of skill and understanding. Indeed, in my experience, only when both disciplines have been combined and given proper weight and attention at senior official, and even governmental level when needed, have key British interests been fully and best served.

Early in the twentieth century but rather late in the First World War, ‘the growing importance of economic policy led to the foundation of the Department of Overseas Trade, with the intention of improving the promotion of British trade abroad and the dissemination of commercial information at home. It was jointly controlled by the Foreign Office and the Board of Trade, to the satisfaction of neither.’³ A sound judgement by the FCO Senior Historian. Furthermore, with variations of structure and nomenclature, it has been thus ever since. With few (brave, distinguished and individual) exceptions, the two departments have not worked well together in the British interest, despite several reconstructive attempts, the appointment of a single junior minister to both departments, and changes of names of both commercial diplomatic services offered and government organizations involved. Such changes serve mostly to confuse foreign and British businessmen alike. And multiple reorganizations were made

through the century, by no means only following changes of government. I was often to think of that late twentieth-century saying, commonly, but probably erroneously, attributed to Petronius Arbiter: ‘We trained hard ... but it seemed that every time we were beginning to form up into teams we would be reorganised. I was to learn later in life that we tend to meet any new situation by reorganising; and what a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency and demoralisation.’²⁴

A number of my senior diplomatic service colleagues have argued down the years that the function of British diplomats where British business is concerned should be restricted to the provision of purely political advice about ‘their’ country. The underlying assumption is that diplomats are unqualified to do more than offer political advice, and are not—and should not be—responsible for commercial decisions. (Despite his smile, my first head of mission in 1962 was a good deal short of ironic when he actually gave me advice in that time-honoured, and in the present context, quite extraordinary phrase, ‘a gentleman does not soil his hands with trade’.)

Diplomats can be, and during the second half of the twentieth century often were, trained and qualified to offer straightforwardly commercial advice; and can and should offer both political and commercial advice. To do so is itself a good discipline, and each element enhances the value of the other. Diplomats should know the market place in which they are serving, its economic background and trends, its culture, language, politics, peculiarities and players well enough to offer studied, well-rounded, well-judged and expert advice. They should not shirk responsibility for their advice; while knowing that if commercial success results, the British company alone will take the credit, and if the reverse occurs diplomats will be accorded a large slice of the blame, whether justified or not. Such is, and should be, diplomatic life.

Yet some diplomats believed through the twentieth century (and some may even still believe, though, I think, far fewer) that all that British companies operating abroad need from British Embassies, High Commissions and Consulates is sound political advice. That view is to miss so much. Political advice is certainly essential in many instances, but it is insufficient: economic analysis, market intelligence and direct advice on contacts and how best to handle them are often at least as crucial to helping British companies win and keep winning contracts. To enable the best advice to be given and followed up, the diplomat needs the range of classic diplomatic attributes and skills: languages, economic, cultural and histori-

cal knowledge, contact-making, 'networking' (in the modern word) and more. Diplomats should also understand global and regional economic trends. In the acceptance of these prescriptions lies the argument for trained, well-rounded and experienced diplomatic service officers to do commercial diplomatic work abroad.

I stress diplomatic service officers, not others—save perhaps exceptionally by means of a few secondments from British industry to some of the larger diplomatic posts abroad, best at mid-to junior, probably First Secretary, level. In the British Embassy in Paris, a bright young man from the steel industry, served, if I recall aright, as First Secretary (Commercial). After some teething problems, my impression (I worked elsewhere in the Embassy) is that this forthcoming and friendly colleague more than proved his worth as a member of the dedicated commercial diplomatic team. However, in the best way he did exemplify a couple of the several management problems of such secondments: his remuneration and the assurance of return at the proper level to his career in industry. He may have gambled on the latter, though one hopes that successful service in a British Embassy might help rather than hinder his career. On the former, the gap between his larger salary in British industry and that paid to a First Secretary was considerable. As with other similar secondments, his industry employer quietly made up the difference (thus presumably helping to ensure the return of a valued employee after his secondment). However, the lifestyle he could afford in Paris was at markedly higher a level than his colleagues of similar rank and position. That should not matter at all, but I sensed a whiff of regret among some colleagues. On balance, the British interest was well served, as I believe it was by secondments to other embassies from the Bank of England and the motor industry. I regret that there seems to be rather little appetite for such sensible secondments now, though secondments to industry from the FCO do occur in small numbers, and are often (if not always) advantageous to all concerned and to the British commercial interest in both short and long term. Secondments from the British academic world were also tried in the 1970s, though sensibly enough, mostly to political desks in the FCO, so not strictly relevant then to commercial diplomatic work. My contrary view that such desk officers should be sensitive to and where necessary active in the pursuit of British commercial interests had barely, if at all, been heard in the 1970s. One such, and successful, secondeé to the FCO was a lecturer in economics at the University of Glasgow, among whose later accomplishments were as a senior businessman and a Secretary of State.⁵

A chapter in this book rings bells with this former practitioner. Evanthis Hatzivassiliou most interestingly addresses British commerce as a Cold War ‘heresy’, and analyses the 1962–5 intra-NATO debate on trade with the Soviet bloc. That debate and its later repercussions were ringing in my ears when posted to the embassy in Paris as an economic secretary and UK Delegate to the Coordinating Committee (CoCom), the ‘Western’ classified organization that decided and operated the strategic embargo against the Soviet bloc. (ChinCom was run in parallel by the same organization.) CoCom membership differed in some measure from that of NATO, but there was much overlap, and CoCom was, in a sense, the coalface of the intra-NATO debate. I am much interested by the Hatzivassiliou chapter.

To be the UK Delegate to CoCom involved classic multilateral diplomacy, requiring conciliation of varying views among member countries, but also among warring Whitehall departments. It further involved discussion, even arguments, between European nations and the USA, as in NATO. In CoCom these could be complex, detailed and technical, requiring careful study. The overriding need for the UK Delegate was to lead the Europeans and others, often against the USA, in part because, as Evanthis Hatzivassiliou makes clear, our commercial approach and interests differed. The American delegate seemed to work on the general basis that CoCom should not allow exceptions to the agreed embargo lists: we took the opposing view, that there could and should be safe exceptions, not only in the CoCom members’ commercial interests, but also in the Western interest in *détente* and good conduct of relations with the Soviet bloc at a time of Cold War. This transatlantic dichotomy was always before us in CoCom, but, I claim, never seriously adversely affected Anglo-US relations, even at the most tense times, such as during the fairly regular CoCom Reviews. These crawled through every item on the extensive and detailed embargo lists and sought to update parameters and criteria; to remove outdated items and to add new items following technological advance. For these reviews, delegates were supported by technical experts from capitals—from, for example, the Ministry of Defence and the then Ministry of Technology. I was glad that we also had experts from the then Department of Trade and Industry (DTI), for I was keen that we should strive for a safe balance between commercial and strategic interests; between exports and defence. I would therefore argue that the work in CoCom was also something the Foreign Office (and other Ministries) did for British commerce. That applied in argument about individual exceptions to the embargo lists; but also and importantly to the major reviews of the lists.

Those reviews carried strategic importance such that the overall results, and occasionally particularly contentious individual items, were considered in Cabinet. They were also considered, in parallel with NATO, in CoCom High-Level meetings—and, I am glad to add, in bilateral Anglo-US meetings, often also at ‘High Level’. (It was nostalgic and pleasant, years later, as Assistant Under-Secretary (Economic), to lead for the FCO in High Level CoCom discussions.) It was in part preparatory work as UK Delegate for High-Level meetings that led me to think more analytically and academically about the theory and practice of the embargo, and about the history of East–West trade and technology transfer. Some years later, the FCO allowed, even encouraged, me to pursue that thinking in a sabbatical as a visiting fellow at the University of California, Berkeley, and to write a piece which might even influence US policy, at a time of reviews in Washington and elsewhere. There was much to study and to argue. Just one example was whether civil end-use undertakings for embargoed equipment or technologies could be trusted, and exceptional exports consequently allowed. This argument raged at CoCom in the 1960s and, with others, still raged in the late 1970s, when I was researching and writing at Berkeley. Government support for permissible British exports to the Soviet bloc led the UK to take on US arguments. Where civil end-use statements could be verified and checked over time, and where diversions could be prevented or were most unlikely for e.g. practical reasons, British diplomats argued that exports of normally embargoed items or technologies should be permitted. The US Department of Defense were notably in the vanguard of arguments to the contrary, and argued their case from first principles—that ‘know-how’ once released cannot be controlled, and deterrents to discourage diversion of it, or of manufacturing equipment are intrinsically unreliable.⁶ The argument and its counters are discussed in a slim volume of history and policy discussion written during that sabbatical.⁷

This long after the Cold War, such arguments, passionate and of considerable commercial and strategic consequence at the time, may now be but a footnote of history. Yet they illustrate what the FCO was doing in the twentieth century to support British industry in its efforts to improve the UK’s trade balance and gross domestic product (GDP)—against political and defence arguments. And the FCO were in the lead in Whitehall on this subject. The FCO, with the DTI, were champions of British exports in this tricky and important, even strategically risky field, at a time of cold war when risk-averse arguments and policies often carried the day in the West.

Careful judgements and balances were constantly required. The experience included occasional interface and discussion with British manufacturers and exporters, sometimes even disappointed exporters. Though the DTI did most of that work, the FCO, and the UK Delegate to CoCom, learned useful lessons about how commerce could best be conducted during the Cold War. In my submission, in this field the FCO used common sense and political acumen to help British commerce, added something to détente, and did both without disadvantage to the conduct of the Cold War.

Examples abound of other important British interests and questions requiring, for their proper pursuit and resolution, a combination of commercial and political acumen. Whether and how best to barter with Soviet satrap states was one; how best to secure payment from state organs in such countries (sometimes impossible without diplomatic service help) was another. How to live and work with British government strategic embargoes and restrictions on trade with such states in sensitive goods and services was a third. Also in a long list, a sub-set of advice was necessary for some years during the Arab boycott of Israeli goods following the Arab-Israel war of 1948. All these conundrums and more were politically loaded, sensitive and of key importance to UK commercial as well as political interests in the mid- to late twentieth century. Some of the techniques successfully employed may still apply in some markets today. So may others, such as commercial diplomatic advice and support for British industry in the USA, where six or seven regional markets vary significantly from each other in their market conditions and practices, and need differing techniques to achieve commercial success. Then there is how to do business successfully in the many countries conditioned by endemic corruption in government and business—both before and after British legislation against bribery. Different prescriptions are needed for how to do business well and sustainably in developing countries; in emerging markets, from BRICs to MINTs (Brazil, Russia, India, China; and Mexico, Indonesia, Nigeria and Turkey, grouped thus, rather artificially in my view, for some analytical purposes; and each requiring very different approaches and strategies for winning business). There are different best counsels for how most effectively to mount and run major campaigns in widely varying countries to sell many millions of pounds worth of capital industrial or defence equipment; and for how best to build new and how to restore lost or damaged business reputations. All these and more relate to how to secure contracts and thus to create or preserve jobs in the UK—a prime

objective of HM Diplomatic Service, and sadly, one not always well recognized or pursued. One must add the essential and often very detailed market analyses, and valuable advice, introductions and cautions frequently provided by long-standing and expert locally-engaged members of the staffs of High Commissions, embassies and consular offices: the coalface work, as one British businessman shrewdly calls it.⁸

British Government support for the export of defence equipment and training is arguably a separate subject, one with a varied, even chequered history. Yet here again, creation or preservation of jobs in the UK is, or should be, one driving force. Here again, government support has been centred in differing offices right across Whitehall, from the Ministry of Defence to the Trade Ministry; and here again the FCO and the Diplomatic Service have played key, sometimes determining roles. The politics and problems of defence sales are often tense, even obdurate, in their complexity—both at home and abroad. Human rights ‘records’ and end-use concerns can play their part, and judgements can be subjective. British defence equipment companies have sometimes been labelled ‘merchants of death’: some counter with ‘purveyors of peace’ (i.e. selling arms to secure victory and the end of war, or for its prevention by deterrence). Disinformation and misinformation about the use or misuse of defence equipment too frequently abound; some, sad to say, from journalists. Thus there is quiet, determined work to be done by diplomats and ministers, to limit the risks of misuse and, often enough, in my experience, to ensure there is no risk of that misuse. If the facts or successes of such work were trumpeted, the music would stop, the gains vanish. As so frequently in other fields of diplomatic endeavour, loud (‘megaphone’) commercial diplomacy in defence sales work would fall on instantly deaf ears, and be ineffective. Defence sales campaigns also have to be thought through particularly carefully to succeed against typically fierce, even unscrupulous, competition—and on occasion against well-meaning but subjective and unhelpful influences even within the exporting nation.

All this and more the Foreign Office has done for British commerce and for the wider British interest, despite changes through much of the twentieth century, some radical and necessary (e.g. following the Plowden⁹ and Duncan Reports¹⁰), and some seemingly only for the sake of change (c.f. Petronius Arbitrator); despite problems of structure, government organization, and branding; and despite the variety of skills around the diplomatic service. I trust the FCO is still doing all this and more, despite the severity of Treasury cuts. Reductions in public spending were admittedly neces-

sary in principle and widely across government, but the recent ones (more than 25 per cent over five years) knifed well into the bone and marrow of the service, and hurt British interests. How many diplomatic services of our competitor nations, with in many cases worse national financial problems than ours, would have to make cuts such as one a few years ago that resulted in 400 diplomatic jobs abroad being ‘localized’? I am a firm supporter of local staff and the valuable continuity and depth of expertise they can bring to commercial diplomacy. However, both the Diplomatic Service and the country whose interests it assiduously pursues, also and vitally need bright and able UK-based younger officers who are accorded the experience, training, knowledge and skills necessary for them to become well-rounded and effective senior diplomats who can serve their country and government around the world, who can offer soundly based advice to London (‘speak truth unto power’), and who can cope well in crises. In that one Treasury cut, the UK-based diplomatic service lost all those 400 junior UK-based jobs abroad, together with the training and experience they provided. I understand that one consequence was that young diplomatic service officers could no longer expect to serve abroad in the first two grades of what used to be known as the senior branch of the service. What a blow to careers; what a disincentive to continuing in the career; and what a blow to future recruitment of the quality of diplomats the country needs.

I hope the FCO and the British diplomatic service will be enabled to continue to provide this vital commercial/economic/political/cultural advice and practical help to British industry and commerce, and with even greater effectiveness. Hope, not certainty; not only because of resource restrictions, but also because from the earliest days of the Levant and other Companies and through the history of varied structures of commercial diplomatic services, the British Diplomatic Service has suffered from a self-inflicted roller-coaster of a reputation for commercial diplomacy. That reputation is not only external, among British businessmen based in the UK and abroad, among their foreign business partners or competitors, and among foreign governments. It is also internal, within the FCO, the Diplomatic Service and across government. In large part, that roller-coaster of reputation has reflected the fluctuations of priority given within the Diplomatic Service to commercial work, which has been too often wrongly regarded as a poor relation of, different from, and of lower status than political diplomacy: thus the disciplines have been subject to competition, even to fashion among the disciples of diplomacy.

Fashion among diplomatic disciplines, and particularly fashion for commercial diplomatic work is a reasonable concept, given the historically transitory nature of the priority accorded to diplomatic work in support of British commerce. From ‘a gentleman does not soil his hands with trade’, to commercial work being valued by and concentrated on to good effect by some of the best of British diplomats, is a large leap, and one that has been made many times not only down the centuries but within the twentieth century, often after some years of disregard and downgrading of commercial work that has amounted almost to desuetude. Thus too often, British interests have been neither fully nor most effectively pursued.

There is an important underlying assumption here: that companies need commercial diplomatic services. The assumption should be tested widely among British businesses: I support it with the assertion of experience. Even when British companies have expatriate representatives or subsidiary companies established abroad, when the going gets tough (and mostly before it is too late) the companies have often come to Embassies, High Commissions and Consulates for commercial diplomatic—and political—help, advice and sometimes action with the government of the country concerned. The underlying assumption is, I believe, valid for the largest and best as well as for the smallest British companies. But the assumption applies only when the diplomatic service’s reputation for commercial diplomatic work stands high, and the work is of high quality.

In the mid- to late twentieth century, a few distinguished reputations were made by individual diplomats, against the dictates of fashion, correctly perceiving British interests in the countries where they served, having some understanding of and feel for business, and working effectively to secure contracts for what a few of us began to call UK Ltd (later UK plc). The fact that one ambassador in the Middle East had monthly working sessions over drinks with British businessmen in his official residence was widely thought to be eccentric, but was also gradually but increasingly admired, and later emulated.¹¹ It was appreciated by expatriate and visiting British businessmen, and helped advance their commercial interests.

A long-established, major and much respected international British company has told me of having held receptions in official residences of British Ambassadors in key markets. Twenty-first-century British Ambassadors are evidently and rightly keen to help, to play co-host with the company, and thus to advance their commercial cause—in this case to entertain present and potential customers and opinion formers in a venue of good size, prestige and elegance; and to demonstrate British

Government backing for the company and its efforts in the country concerned. I believe that such backing should be the norm for all good (and for some selected less successful) British companies; and notably but by no means only when the British company is seeking to secure foreign government or quasi-government contracts. A charge (the introduction of charging for commercial services is discussed later in this chapter) is levied; one which the major company said they thought was low, reasonable and represented especially good value for money.

The British Embassy residence in Paris is a particularly fine example of this kind of valued support for British commerce. Sir John Fretwell, Ambassador to Paris 1982–7, aptly and rightly referred to his residence there as a theatre of diplomatic operations.¹² Emphatically, this appellation applies to commercial diplomatic operations. It is good to report that such events in ambassadorial residences were held in the twentieth century, if only towards its end. I recall the residence in Canberra being used for an evening culmination of a Jaguar Golf Competition in the mid–late 1990s. My wife had, with difficulty but persistence, persuaded Jaguar (then entirely a British company) to offer a Jaguar car for a hole-in-one achieved that day. One competitor came within 16 inches of success. Brand new Jaguar cars graced the lawns in both front and rear gardens of the residence and a happy event was held, perhaps in part because of the 16 inches. To attribute a subsequent increase in car sales to that event, its attendant publicity and follow-up work might be arguable: great goodwill was certainly fostered.

I asked the other major British company whether they saw value in themselves entertaining British diplomats or civil servants—the question of civil servants accepting such entertainment entirely apart. The company did see such value, at the right level, which, clearly, for them included heads of diplomatic missions. This judgement applied in even those countries not likely to prove profitable markets, but where British Ambassadors might well later serve in current or prospective markets. But such business attitudes were rare in my experience: discussions in diplomats' offices abroad were, rather, the rule—and British diplomats were more than content with that. British businessmen, expatriate or visiting, were more often likely to be included in official diplomatic entertainment abroad, in large part to help them with local culture and contacts. That a few British companies now apparently wish to spend money entertaining British officials may indicate a change of British business culture. I hope it implies that British diplomats are more highly valued in this century than

the last. I suspect it rather implies some careful selection of diplomats as likely to be of use to British companies: if so, that is another measure of the varying nature of commercial ability and acumen in British diplomats. There are obvious dangers in British officials accepting such entertainment, and there are systems and practices in place to deal with those.

Then there is the question of equal treatment by diplomatic officials of British companies competing in the same overseas market. Had another British car company sought parallel treatment to that afforded to Jaguar, it would have been offered. A more complex issue is how to treat British firms competing for one single foreign government contract. If, as is sometimes the case, the competing companies join the same trade mission, then for posts abroad to deliver equal treatment is relatively simple, though it is vital to be scrupulous, when speaking separately to or lobbying the foreign company, ministry or government Minister concerned. Where competitors from Britain visit or lobby at different times, there may be complications, for example, to do with different stages of contract negotiations; but such complications are not beyond the wit of diplomats to deal with evenly, and I have never found British companies appear in the least distrustful of assurances from officials abroad that equal treatment will be pursued, indeed assured. I think, for example, in Indonesia of major and complex power-generation contracts whose negotiations were spread over many months.

That Indonesian example raises the matter of the 'Aid for Trade' (AFT) provision operated, amid some controversy, by HM Government from the late 1970s until 1997. As I saw it from a country to which British overseas aid was granted, this provision was a fine and effective weapon in the battles to defeat competition from other countries' companies. Thus it helped campaigns to deliver contracts to British companies, and hence in the preservation or creation of jobs in the UK. AFT was discontinued by the next British government. I had found the provision both an excellent use of British aid in facilitating the supply of much needed infrastructure in a developing country and easily defensible to the British taxpayer. (It is notable that today's EU Aid for Trade supports the introduction of policies to develop the commercial sector in developing countries and the removal of trade barriers, but rightly can include trade-related infrastructure.)

In 1998, the then UK International Development Secretary, Clare Short told British Exporters that the promotion of British corporations was not part of her brief,¹³ aid for trade having been discredited by a scandal involving aid for the construction of a hydro-electric dam on the Pergau River in Malaysia, aid allegedly linked to British sales of arms to

Malaysia. It is sad indeed to have seen the demise of such a sensible use of British government funds—and arguably even sadder much later to have seen the considerable and indefensible waste of too much British overseas aid that apparently inevitably goes with the ring-fencing of the UK's very high aid provision today—and that at a time of so-called austerity and of draconian cuts in, for example, the FCO and defence budgets.

Back to where this chapter principally belongs—in the twentieth century. It was in the late 1950s that a bank manager, a cousin of mine serving in the Far East, disappointed me greatly with his evidentially supported and strongly argued view that working with 'his' local embassy was at best a waste of time. I vowed then that, if ever I could, I should argue within the service the national interest merits of, and indeed seek to practise, commercial diplomacy in its fullest sense, almost whatever the jobs I had were labelled—political or otherwise, and bilateral or multilateral.

It was in large part the Duncan Report that led the FCO to a conscious attempt in the 1970s to stimulate a resurgence of the fashion and perceived priority for commercial diplomatic and investment promotion work.¹⁴ To the apparent consternation of their contemporaries, especially those who had not read Sir Val Duncan's report, two leading young, not yet then mid-career, 'flyers' in the diplomatic service were sent, *seriatim*, as Deputy Directors of the oddly if worthily named British Trade Development Office (BTDO) in New York. One of these 'flyers' preceded his commercial tour by a spell at the Harvard Business School. The other's service in New York was followed by Harvard. (Such a rare 'career break' was known then as a sabbatical. Later, Prime Minister Margaret Thatcher rather disapproved of, as she saw it, bright British diplomats having such evident luxuries—valuable as they nearly always were: the name was changed to 'career development attachment'.) Those two postings to BTDO New York were serious and well-intentioned allocations of scarce FCO resources to commercial diplomacy. Both officers immediately thereafter returned to classic political diplomacy (incidentally to the same job, again *seriatim*). One mentions New York in his *Who's Who* entry, but not BTDO: the force of fashion ruling once again, perhaps. I trust that both officers influenced commercial diplomacy in their subsequent positions with skill and effectiveness. Certainly they both, as well as another officer of similar quality who in the 1970s went to do commercial diplomacy in Rio de Janeiro as Consul (Commercial), later Consul-General, had subsequent careers of signal distinction as top-flight senior diplomats in their respective fields. After retirement, all three held senior business positions—another lesson learned, and again in the interest of Britain and of UK plc.

It is worth comparing the British commercial diplomatic effort with that of some of our competitors. The post-Second World War German constitution and culture of course, differ widely from the British. It is instructive nonetheless that in the mid-twentieth century (remember the ‘German miracle’), it was the German Chambers of Commerce who had responsibility for pursuing German commercial interests in foreign markets. The policy and effort were well resourced. For example in the small and tricky market of then communist Bulgaria in the early 1960s, British commercial diplomacy was accorded half the time of one Consular officer, while, if memory serves aright, the Germans had six people on the ground from their Chambers of Commerce. The Canadians, and some other former dominions, have (or have had, in some cases) distinct Trade Commissioner Services, in the Canadian case with their offices around huge Canada as well as the world. Their system suits them, evidently, well. Our system seems never quite to settle on what best suits UK plc. It may be that changing times mean our systems should change from time to time; though not, absolutely not, to the detriment of the end goal of serving the British interest well, and never to the confusion and confidence-sapping of British business.

Commercial intelligence reported to London by British High Commissions, Embassies and Consulates was issued monthly by the Department of Trade (DT) for too long a period in mid-twentieth century: at the head of the queue for the monthly handout to anyone who came to the DT offices in Victoria Street was a commercial officer from the Japanese Embassy in London. What a denial that was of British interests; and what an indictment of Whitehall organization!

Thus, the British system, apparently designed to support British Industry was wrong then, and was often wrong for much of the twentieth century, in one aspect or more. The best attempt at joint work in Whitehall was probably ‘United Kingdom Trade and Industry’ (UKTI) and its immediate predecessor. Even so, the UKTI logo and branding was, at least initially and for some years, counterproductive abroad for foreign and Commonwealth businessmen, and for British expatriate businessmen based abroad. UKTI survives, at least at the point of writing. It has combined, sometimes, if not always, to excellent effect, the work at senior and other levels of members of both the Home Civil Service and the Diplomatic Service, and has attracted people from business to its ranks. That may help explain its longevity. It too has had a mixed reputation, but overall it must be valued by British business, or it too may well have been ‘reorganized’. On its website, UKTI claims to be a non-ministerial department. However, a Minister of

State has for some years been appointed to hold office jointly in both the FCO and the DTI and its successors. This unusual device should serve to ensure Ministerial supervision of UKTI as well as of relevant FCO departments: it certainly serves to illustrate both the complexity of the organisational problem and this attempt to mitigate it.

One important feature of UKTI (and its immediate predecessor organization), and probably another reason for its continuance and relative success, is that it covers not only work to advance exports but also the promotion of 'inward investment'. During much of the twentieth century, inward investment promotion work abroad for the UK suffered from poor organization at home.

Upon arrival in Chicago in the early 1980s as Consul-General covering eleven Mid-West states, and their large and mostly well-heeled markets, I thought the opportunities for successful inward investment promotion should be legion. I found, in and around Chicago, that the various UK Regional Development Authorities (RDA's) of the day, some working for counties, some for other entities, were well represented by well-staffed offices, which were serious competitors of each other. They were a fine example of the satire implicit in that quotation about reorganization so often ascribed to Petronius Arbiter. The RDA's competed for central government tax relief, factory rent concessions and other incentives to offer potential inward investors, who, in the Mid-West of America at least, soon learned how to play the RDA's against each other to achieve the best offer—at considerable extra expense to UK taxpayers. To my chagrin I learned of multiple examples of these smart American investment businesses carrying that process further—using the best UK offer to tempt, for example, the French to offer still better a deal. Secrecy and jealousy seemed to rule the day among the UK RDA representatives in the Mid-West. How their offices there were 'justified' could only have been by constant success in that competition: clearly impossible for all. The Consulate-General would do a better job at far lower cost. It was necessary to bring the rival, conspiratorial RDA representatives together and to apply a more or less civilized form of banging heads together. The story, and that of the special case of Northern Ireland, is told elsewhere,¹⁵ but the point about reorganization causing multiple ills, at taxpayers' expense, was well exemplified by this fortunately fairly short-lived nationally masochistic absurdity.

Also described more fully elsewhere is the attitude of the Confederation of British Industry (CBI) to the Mid-West of the USA in the early 1980s.¹⁶ At a pre-posting call for a Consul-General Chicago-designate to make,

the CBI was self-confessedly ignorant of the size and opportunities of the market in the ten large US States the Consulate-General covered. The CBI described the area as a 'Black Hole'. The Consulate-General worked up analyses and suggestions and sent them to the CBI with an article illuminating that 'hole'. The article was published in the CBI magazine; British business visitors arrived and consulted the Consulate-General; and trade developed satisfactorily: a good example of pro-active and profitable commercial diplomacy. The underlying ignorance in much of British industry about the Mid-West was among the reasons for British diplomats from the USA to mount, with DTI involvement, a 'road-trip' (literally, by bus) in the 1980s around the UK to try to fill that gap in knowledge and to stimulate British interest in the US markets by presentations to Chambers of Commerce and other regional commercial organizations from the south-east to Scotland. The results were not easy to quantify, but the numbers of business visitors seeking American contracts—and official commercial diplomatic assistance—increased significantly. And trade did grow.

One of the many governmental reorganizations of the commercial diplomatic effort, fairly late in the twentieth century, was the introduction of charging British businesses for commercial diplomatic work done by diplomatic and consular posts abroad to advance companies' aims in any given market. That new policy was introduced at the instance of the government then in power, though I should be surprised if HM Treasury did not play a part. Notwithstanding that British companies contribute mightily to the Exchequer, via a host of corporation and other business taxes, the considered reaction of most exporters and firms pursuing investments abroad was to pay up, because they valued the services. Some bridled, understandably, but they rarely paid consultants, agents or others to do similar work—largely, I suspect, because British Government charges were low, and the services and advice were good value for money. The fees were set, or agreed, by government ministers. The administration of the charging was (and for all I know still is) inevitably bureaucratic, and costly. So the net gain was small. There was another drawback, that of channeling official effort towards the prescribed, and sometimes rather formulaic, chargeable services alone, and thus quite significantly to stifle imaginative research and analytical work which would inform and produce the best advice to British business—well-synthesized advice often based on deep knowledge of political, economic and cultural mores, and on market intelligence. I thought the charging exercise, in principle, difficult to defend to British companies, still less to the thinking taxpayer.

I was Assistant Under-Secretary (Economic) in the FCO supervising (inter alia) the FCO Department concerned with commercial work and policy when, with that taxpayer in mind, officials later proposed increases in the charges. That proposal was made reluctantly: officials would have preferred to abandon charging altogether, but they judged that that would be rejected by Ministers. However, Ministers rejected the advice or invitation to increase the charges, despite then both a run of inflation and the quantified argument that the net gain to HM Government from the then charging rates and system was risible. Ministers' refusal to increase charges may have been an example of officials speaking truth unto power, but power deciding, for domestic political reasons. Such is our system of democratic government. In respect of commercial support for British business (among much else), Winston Churchill's dictum that democracy is the worst system of government until one considers the others that have been tried is true and aphoristic.

In the twenty-first century, the fashion for commercial diplomatic work has been given extra momentum, including by William Hague, a recent Foreign and Commonwealth Secretary, who created a unit in the FCO to drive commercial work, and prescribed that all ministerial visits abroad, from whatever government department, should have substantive commercial content. Senior Ministers thereafter led more trade missions than before—though they frequently, and rightly, peeled off to do necessary purely political work too. I was so encouraged when this new drive was announced a decade or more after my retirement that I spoke to a senior member of the government of the day, with the result that I was asked to call at the FCO to discuss commercial diplomatic policy with the unit. I tried to offer advice and was told that if all Diplomatic Service officers thought as I did and had my experience there would be no need for the unit. The key is that experience: without it, without recruitment and training aimed at the pursuit of the whole range of British interests abroad, the job will not be well enough done. And that experience will not be available when FCO resources are cut well into the bone; when junior UK-based jobs in diplomatic missions and consular posts abroad are 'localized' by the hundred in a small service; and when Home Civil Servants from the Department of Business *et alia* fill commercial diplomatic jobs abroad for a while and return to the home civil service. This is by no means a plea for a trade commissioner service: on the contrary; it is rather for the FCO/Diplomatic Service anew, but this time enduringly, to recruit for, efficiently to train for, properly to value (as highly as political

and consular work), to reward successful commercial diplomacy among diplomats—and to be resourced properly to do all this well. That way lies not merely the restored reputation of the Diplomatic Service among British business, but also and most importantly, the successful pursuit of all British interests abroad and the bottom lines of the trade balance, jobs and contribution to GDP. There is, too, a natural, reasonable and productive role for a UK-based DTI, Department of Business or whatever name is fashionable—to be the government’s interface with home-based British business and to steer it towards commercial diplomats working abroad.

In the (northern) spring of 2015 I met in Auckland a clearly hardworking British businessman: I learned much from Mr Robin Burnill to confirm my views and to illuminate the support and efficacy of British commercial diplomacy for small businesses—a priority for many modern British governments, including in the twentieth century.¹⁷ Mr Burnill was naturally concerned that the then relative strength of sterling disadvantaged British businesses seeking export orders, not only increasingly badly hurting his European business, but also diminishing his Middle Eastern and Asian client base. This phenomenon is worse in the present than the twentieth century, as the trade figures at the time of writing sadly demonstrate.

Mr Burnill had much time for some of our posts abroad, but thought the quality of our commercial diplomacy varied. His company had commissioned official commercial reports from five or six diplomatic posts around the world: some were very good and valuable to his business. Some were too theoretical and insufficiently commercial (does not that support my arguments about ‘fashion’, for more and better training, and for higher priority to be accorded to commercial work by the FCO as a whole?). He believed that the FCO personnel cuts were deleterious both to commercial diplomacy and to the overall British interest.

I also found interesting an experience of Mr Burnill’s: a difficult and potentially serious unpaid debt in a foreign market was paid only after the intervention, at his request, of the diplomatic post (a High Commission) in the country concerned. Debt collection on behalf of British companies, or at least applying diplomatic pressure of the right weight in the right place, is not an obvious, but has long been an important part of British commercial diplomatic policy and practice. It is perhaps rather more intuitively normal, and was normal twentieth-century practice for our posts abroad, actively to seek payment of debts to HM Government—sovereign debt. By logical extension, that effort applies equally to debts to British companies that had been guaranteed by Export Credits Guarantee Department (ECGD), as it

was termed in the twentieth century; now UK Export Finance (UKEF). In practice, I saw and see no difference of principle between attempts to collect official debts and debts owed directly to British companies, who are equally part of UK plc. It is UK plc for whom British diplomats work. In practice and in my experience, diplomats pursued all debts owed to UK plc—and met with mixed outcomes, on balance more positive than negative.

Other chapters than this address far better and more fully the other of this book's main subjects, what British commerce did to shape British foreign policy in the twentieth century. As a practitioner of and adviser on foreign policy, I would offer only a few thoughts in summary. It is clear from the early history that commerce and much of foreign policy were once indivisible. The first half of the twentieth century was so full of warring that businesses suffered loss of export markets and were constrained principally to support governments at home. Without British manufacturing industry, the story of those wars would have been different indeed. In the century's second half, British commerce did increasingly well for a long time to restore the shattered economy, and did so importantly in manufacturing, without the vastly larger US reconstruction aid to our former enemies, now competitors, for example, Japan and Germany. British manufacturing exports helped restore and increase Britain's standing and influence in the world. The shift in favour of services in the last quarter of the twentieth century, much of it with government support, has been much debated in its validity as policy, and in its effect. Consultants multiplied like rabbits, and British diplomats abroad worked to support their invisible exports. That effort became increasingly difficult over time, as foreign customers questioned why they should any longer employ British consultants: for example, the UK no longer made railways, so our basis for (once dominant and excellent) railway consultancy had disappeared. Motor car consultancy did a little better (see, for example, the Proton car in Malaysia). Financial consultancies, notably on privatization, had a good few years. British foreign policy aims meshed well with those services for some years, and were supported by them. Manufacturing exports did less well, inevitably, and in that field, the British reputation for excellence, and some British foreign policy influence declined commensurately. British entry in 1973 to the then EEC was no doubt followed, and preceded, by government consultation with and lobbying by British commerce on Single Market and other matters: another of many areas of contribution to policy by British commerce.

I am tempted to conclude, however, that despite all the organizational changes, waste and muddle, British governments, including officials, have

(if by a fairly narrow margin) done more for British commerce than vice versa, both in forming policies that helped profitable exports and productive investment abroad, in quiet diplomatic action and in the provision of sound advice and commercial diplomatic assistance to those ends. If that conclusion is right, then good: it should be so. Successful British commercial endeavours abroad do the country serious service and merit serious support.

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