

THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT)

CONFIDENTIALC.P.(51) 83COPY NO. 3119TH MARCH, 1951

CABINET

ORGANISATION OF THE GERMAN COAL, IRON AND  
STEEL INDUSTRIES: THE SCHUMAN PLANMemorandum by the Secretary of State for Foreign Affairs

The Council of the Allied High Commission in Germany will shortly be asked to take decisions on certain problems which are of importance for the conclusion of the Paris negotiations on the Schuman Plan. These problems are:-

- (i) to what extent should German steel concerns be allowed to own coal mines?
- (ii) What should be the form of any "combined ownership" of steel and coal assets?
- (iii) Should the central sales agency of the German coal industry be abolished?

2. The draft treaty embodying the Schuman Plan cannot be finalised until a solution of these problems has been agreed by the Allied High Commission. They have been discussed in detail between the French and Germans in the context of the Paris negotiations, and more recently in Germany between the Germans and Americans, who attach the highest importance to the speedy signature of the Schuman Treaty. It is therefore very possible that when the Council of the Allied High Commission is required formally to consider these problems, a solution will already have been agreed in principle between the French and Americans. Indeed the broad lines of such a solution have already emerged, and will probably prove to be embodied in the reorganisation plans which the Federal Government has just submitted to the Allied High Commission. In these circumstances my colleagues will wish to consider urgently and carefully the instructions to be sent to the United Kingdom High Commissioner.

Extent of "Combined ownership".

3. The United Kingdom element in the High Commission has always regarded the ownership of coal mines by steel companies on any extensive scale as economically unnecessary and dangerous for various reasons. "Combined ownership" on a large scale involves considerable concentration of power. The steel industry which owns the mines may enjoy undue advantages vis-à-vis other kinds of coal consumers and competing steel industries. Further "combined ownership" tends to interweave the two industries inextricably and makes it harder to bring either of them under a system of public ownership. For all these reasons United Kingdom and Allied policy in Germany has up to date been that combined ownership and

financial links between coal and steel companies should only be permitted when technically necessary. It is the view of the British steel experts in the High Commission that technical necessity can seldom be proved.

4. The French and Americans are, however, now clearly ready, in order to hasten the conclusion of the Schuman Plan Treaty, to meet the Federal Government at least half-way in their desire for an extensive ownership link between the German coal and steel industries. The Federal Government has just submitted its plans. They have not yet been examined by the United Kingdom High Commissioner's staff, but it is very possible that they have been previously agreed in outline with the French and Americans. Under these plans the steel industries are likely to own about 25 per cent of the Ruhr coal industry (as compared with 56 per cent before 1939). This would supply about 75 per cent of their requirements for coking coal. It should be emphasised that the plans are acceptable to all the German parties interested, including the Trade Unions, who formerly opposed "combined ownership" on a large scale.

#### Form of "combined ownership".

5. There is likely to be one very important mitigating feature in the Federal Government's plan, introduced at the insistence of the German Trade Unions and at present opposed by the Americans. The Germans proposed that "combined ownership" should be realised by the establishment of holding companies which would hold the shares in subsidiary and separate coal and steel companies. The holding companies would exercise considerable powers in determining the general policy of the subsidiary companies; but these latter would remain independent e. g. for accounting purposes.

6. The "holding company system" as advocated by the German Trade Unions removes one important objection to "combined ownership". The holding companies should not provide great obstacles to the planned development of the coal or steel industries nor to any eventual decision to bring them under public ownership. Moreover the combination of the "holding company system" with the recently introduced German legislation on joint control of industry by Trade Union representatives, would entrench the German Trade Unions strongly in the supervisory boards of both holding and subsidiary companies.

7. The "holding company system" is further less open to the economic objections raised in paragraph 3 above than a system of complete integration, such as is favoured now by the Americans. The financial operations of the coal and steel subsidiaries would be shown in separate accounts, and the supply of coal at discriminatory rates to the steel subsidiary would be easier to detect. I consider therefore that the introduction of the "holding company system" would in itself substantially modify our objections to the idea of "combined ownership" on a considerable scale.

#### German coal sales organisation.

8. The question of the abolition of the German central coal sales agency (D.K.V.) has no direct connection with the reorganisation under Law 27 of the German coal, iron and steel industries. The D.K.V. was set up after the war under our auspices, with the function of distributing orders from Germany and abroad among the coal concerns, all of which are compulsory members and subscribers. It does not fix the price of coal; this is done by the Federal Government for the home and export markets. It

has been a useful organisation, in many ways resembling the Marketing Boards in this country; the Americans, however, have always regarded it as an undesirable monopoly, and have recently brought the French to share their views. Largely under American influence, provisions have been inserted into the Schuman Plan draft treaty which would eventually require the liquidation of the D.K.V.

9. The Germans have refused to accept these provisions. They and particularly the Trade Unions are strongly in favour of retaining the D.K.V. They claim that it is essential for the maintenance in production of the less efficient mines and for the supply of suitable qualities and grades of coal to consumers. The United States High Commissioner has, however, intervened personally and seems to have succeeded in bringing the Trade Unions as well as the Federal Government to accept the abolition of the D.K.V. in stages spread over two or three years. It is not yet clear what kind of organisation will replace it. I regret the American attitude, but do not consider that this is a matter which touches our essential interests.

#### Schuman Plan negotiations.

10. The United Kingdom High Commissioner will not be able to consider the problems outlined in paragraphs 3 - 9 above on the basis of technical arguments alone. He will be under strong pressure from his colleagues to consent to any solution of which the main lines have already been agreed between the Americans, French and Germans in order to hasten the fulfilment of the Schuman Plan and to bring that agreement to the point of signature. All of them attach the greatest political importance to the conclusion of the Schuman Plan negotiations, and I would agree with them so far at least as to say that any failure to conclude these negotiations would now have a very serious effect on public morale and perhaps on policy in France and Germany if not throughout Western Europe. We have repeatedly expressed our desire to see the Schuman Plan negotiations succeed and not to put any obstacle in the way of their success. It was stated for example in the official communique issued on 3rd June, 1950, that "His Majesty's Government.... strongly desire to make a helpful constructive and practical contribution" to the discussions. The Prime Minister in his initial statement on the Schuman proposals described them as a "notable contribution towards the solution of a major European problem", and Mr. Bevin in a talk with M. Schuman on 1st August expressed our particular anxiety 'not to take any initiative which might upset progress between the six negotiating powers'. The attitude of the United Kingdom High Commissioner in the consideration of the problems outlined above will be taken as a touchstone of our sincerity. If he is faced with a united front of his American and French colleagues, opposition can only have a delaying effect and cannot substantially change any Franco-American line. It will, in these circumstances, almost certainly be attributed to lingering spite against the idea of the Schuman Plan. We would be subject to pertinacious and bitter propaganda, and our relations with the French and United States Governments would undergo a serious strain. In these circumstances I do not think that the United Kingdom High Commissioner should oppose any solution agreed by the Americans, French and Germans of the problems discussed above, unless our vital interests are at stake.

#### Recommendations

11. In the light of these considerations, I would recommend that the United Kingdom High Commissioner be instructed to:

- (i) Accept the broad lines of any agreement reached between the Americans, French and Germans on the problem of

"combined ownership", provided that "combined ownership" shall take the form of holding companies with separate subsidiaries, as proposed by the German Trade Unions, rather than completely integrated coal and steel companies as desired by the Americans.

- (ii) Accept any agreement reached between the Americans, French and Germans on the dissolution of the German coal sales organisation.

H. M.

Foreign Office, S. W. 1.,

19TH MARCH, 1951.

"combined ownership", provided that "combined ownership" shall take the form of holding companies with separate subsidiaries, as proposed by the German Trade Unions, rather than completely integrated coal and steel companies as desired by the Americans.

- (ii) Accept any agreement reached between the Americans, French and Germans on the dissolution of the German coal sales organisation.

H. M.

Foreign Office, S. W. 1.,

19TH MARCH, 1951.

