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**The International Crisis and the defence of liberal capitalism: the Rio Tinto Company and the coming of the Second World War**

In the long-run of the twentieth century, the progressive and seemingly unstoppable advance of an American-dominated consumerist culture may well represent one of the great economic transformations of the twentieth century. Undoubtedly, the crisis of the Second World War marked a turning point in the demise, in western Europe at first, of other forms of political economy. In this context, one historian even suggests that when, in 1940, Hitler's armies stood triumphant in Europe the first climax was reached in the transatlantic clash between the two rival civilizations. Certainly, it is important not to overstate the strength of liberal capitalism in the 1930s as it struggled to survive in the wake of the Great Depression, Financial Crisis and the rise of extremist ideologies. At the same time, the institutional foundations of liberal capitalism remained intact and amongst the most powerful and enduring of the institutions in the capitalist armoury was multinational enterprise. Businesses with global reach continued to play a vital role in the defence of liberal, capitalist values throughout the international crisis of the late 1930s and the course of the war.

This paper offers a brief analysis of the issues around transnational business practice and culture in the shadow of dictatorship by examining the strategies pursued by one British-based multinational enterprise: the Rio Tinto Company. As a major, international mining company, Rio Tinto controlled the trade in several, strategically important minerals and metals; with the expansion of rearmament programmes and the accelerating preparations for war, industry based in both the democracies and the dictatorships increasingly depended on the steady supply of such raw materials. But, with major interests in the Iberian peninsular, Rio Tinto was forced to confront the rise of nationalism and then required to come to terms with the Francoist victory in the Spanish Civil War. Based on an analysis of Rio Tinto's records, this paper examines the policies and strategies pursued by management as the company endeavoured both to protect its investments in a potentially hostile environment and, in the face of the growing international crisis of the 1930s, ensure that it could contribute to the defence of capitalism and liberal democracy.

There is a certain assumption that British economic and financial interests supported the Nationalist cause. But, in the case of British banks, Tom Buchanan has recently suggested that the reaction to the Civil War was very largely one of extreme caution. He observes that there was certainly little sympathy for the Republic, and a willing complicity with the policy of the British government in the policy of Non-Intervention. However, Buchanan found no reliable evidence of any conspiracy against the Republic, nor any particular desire to invest in a victory by Franco.<sup>1</sup>

In his important study of Rio Tinto, Charles Harvey reached the conclusion that while Franco endeavoured not to be drawn too closely into the German economic orbit, the placing of Anglo-Nationalist relations on a more secure basis was important in helping to resist this tendency. Not only was British policy in Spain directed towards the containment of the war but, according to Harvey, the policy was also most successful in preserving Spanish freedom of action in the political and economic spheres. More than this, Harvey claims that,

In the economic sphere, the sovereignty of British companies in the pyrites trade was preserved, supplies to Britain were not restricted during or after the civil war, and as early as May 1939 Rio Tinto was not penalized for refusing to supply Germany.<sup>2</sup>

It is one of the central arguments of this paper that this interpretation is, at best, a partial one. To characterise Rio Tinto as a sovereign entity is to suggest that the company not only retained ownership of its investments in Spain but that it also enjoyed a high degree of agency in its relations with the Francoist regime. But, as this paper intends to make clear, the company struggled to retain control of its trade with Germany.

The position of Britain's direct investments in Spain in 1936 was in fundamental ways analogous to the position of foreign direct investments in Germany in 1932: the foundations of a liberal, capitalist economy were being undermined by ideological challenges from both ends of the political spectrum. The threats included disruption caused by labour disputes and strike action organised and inspired by the political left, or a possible loss of control and autonomy if a nationalist, interventionist regime were to achieve political power, and the clamour constantly heard on both the extreme left and right that foreign economic interests should be nationalised. Britain was the largest foreign investor in Spain with assets amounting to some £40 million, or 40 per cent of total foreign direct investments.<sup>3</sup> British-owned mining interests

represented the most significant part of these investments, and the Rio Tinto Company was the largest of all the businesses operating in Spain.

In 1936 Rio Tinto understood that, at the very least, a long period of unrest in Spain lay ahead and expected that foreign firms operating in the country would be the first to suffer: a very large proportion of Spain's industrial production was in the hands of comparatively few foreign companies.<sup>4</sup> In view of this state of affairs, Rio Tinto had suspended the payment of dividends on its Ordinary Shares.<sup>5</sup> By May 1936, Rio Tinto had become so concerned about the deteriorating political conditions in Spain that it decided a new policy was needed to try to prevent the gradual destruction of the capital value of the company's property. This involved taking the lead in setting up of an interest group - the Association of Foreign Businesses in Spain – with the objective of trying to persuade the governments of the various countries represented in the Association to urge the Spanish government to do everything possible to preserve foreign economic interests.<sup>6</sup> In June and July, strikes and stoppages periodically halted production at Rio Tinto's mines. News then reached London of the outbreak on 18 July of a 'Revolution' that brought out on strike the company's entire Spanish workforce. The port of Huelva was handed over to what was described as the 'Insurgents', and the company's employees there returned to work. But the conditions were thought to be so dangerous that all British women and children at the mines and at Huelva were evacuated to Gibraltar on 24<sup>th</sup> July by the Royal Navy destroyer, HMS Boreas.<sup>7</sup> By 26 August, the Nationalist forces had occupied the mines region and were proposing that the British staff should return. In London, the Rio Tinto board authorised the Chairman, Sir Auckland Geddes, to send a telegram to General Queipo de Llano, one of the leading military conspirators and commander of the base at Seville, asking for the utmost clemency to be extended to the company's workers.<sup>8</sup>

From the outset of the Civil War, raw materials from Spain provided the Nationalists with an opportunity to secure weapons and war materiel from Nazi Germany. With Spain's gold and foreign currency under the control of the Republican government, the Nationalists looked to the trade in ores, pyrites, copper and sulphur as means of compensation for the support received from the Third Reich. At the same time, with the establishment of the Four Year Plan under Göring, as plenipotentiary, Germany had an ever-growing need to import strategic raw materials for its rearmament programmes, but severely limited reserves of foreign currency to pay for such imports.<sup>9</sup> There were even attempts by the Third Reich, in 1937 and 1938, to gain

greater control of Spanish raw materials by investing directly in mining and production enterprises. But these attempts were resisted by the Nationalists: Franco's reluctance to be drawn too closely into the German economic orbit allowed existing foreign-owned companies such as Rio Tinto to continue occupy a preeminent place in the minerals and metals export trade.<sup>10</sup>

To some extent, Franco's policy worked to the benefit of Britain's strategic interests: just as Germany sought to ensure greater security in the supply of raw materials, so it was calculated that the more the Third Reich depended on trade channelled via British multinationals, the more chance Britain had of depriving Germany of such materials in time of war. Engaging in international trade in strategic raw materials during peacetime helped to facilitate rearmament in Nazi Germany. But, in the minds of British policy-makers, imposing constraints or limitations on such trade would have been counter-productive: it would have encouraged Germany during peacetime to seek to establish alternative sources of supply which might then have been more difficult to disrupt during wartime. Furthermore, the idea of imposing limitations or, even worse, sanctions on the activities of British companies, thereby rendering those companies less viable, was anathema to the Britain's National Government: it would have hardly helped to bring about the return of a strong economy – increasingly seen as the fourth arm of defence.

It seems to have been understood by the British government that there would, inevitably, be a price to pay for being allowed to retain the ownership of – if not full control over - British investments in Spain. For the mining companies, this meant contributing to the Nationalist war effort. Initially, Rio Tinto attempted to keep above the fray. In early 1937, the Board discussed whether a financial contribution should be made, through the Huelva Mining Association, to the Nationalist Army. It was decided that, 'the Company must closely observe the strictest canons of neutrality'. The proposal was rejected. Instead, the Board authorised the expenditure of pesetas 1 million on charitable work and the relief of distress in Nationalist-held areas.<sup>11</sup> This policy of charitable giving seems to have continued until the end of the war: in March 1939, the Board authorised a 'substantial contribution' to the National Fund for Catalan Relief.<sup>12</sup> Nevertheless, as the tide of war turned in Franco's favour, Rio Tinto alone was to supply the Nationalists with goods and services to the value of £2,850,000. Moreover, there was no doubt, according to Harvey, that 'Franco's policies regarding the production and distribution of pyrites and iron-ore contributed much to his ultimate victory.'<sup>13</sup>

It is difficult to assess precisely which goods and services were brought into the calculation in order to arrive at the total valuation cited by Harvey. But, it is more important to consider the impact on the financial health of Rio Tinto of compliance with Franco's coercive policy. As the Nationalist armies began to establish control over the regions of Spain in which Rio Tinto's mines and facilities were located, the effect of the Civil War on the company's fortunes immediately became clear: pyrites and ores produced by the company were requisitioned by the military authorities.

The pyrites and ores requisitioned by Nationalist Spain were exported to Italy and, in particular, to Germany – Rio Tinto's most important European market apart from the UK market. All of the company's ores destined for Europe (except the UK and Ireland and also Spain and Portugal), were sold under contracts in the name of the European Pyrites Corporation Ltd. (EPC), or its subsidiary, Schwefelkies GmbH. EPC was incorporated in December 1926, with a shareholding that was divided equally between Rio Tinto and the Frankfurt-based Metallgesellschaft AG.<sup>14</sup>

Rio Tinto took immediate action to try to safeguard its interests. Geddes cabled J. N. Buchanan, the Finance Director, who at that point was in Estoril, Portugal. Geddes asked Buchanan to travel to Burgos in order to press the authorities to re-establish the smooth working of the trade with Germany. Renewed efforts were to be made to persuade the Nationalists to allow the company to conduct its own ore business with Germany. This involved securing buyers before shipment, and also Reichsmark credits equivalent to the full contract value which the company would then place at the disposal of the authorities in exchange for pesetas. Geddes argued that this would allow for a progressive increase in deliveries on the basis of more organised and regular shipments.<sup>15</sup> Rio Tinto was also concerned that by requisitioning the production of copper and, especially of pyrites, that was destined for Germany, the sales organisations of the company and its subsidiaries would be so disrupted that existing, large customers would be neglected with the result that they would resort to sourcing supplies from competing countries and important markets would be lost to Spain.<sup>16</sup>

In November 1936, Head Office in London was informed that no payment had been received from the authorities in Seville for production valued at pesetas 5m. The company's representatives in Spain pressed for payment, but without success. Trade between the Nationalist Spain and Germany was channelled via a payments clearing agreement. For Rio Tinto, this posed a grave threat: as the company was compelled

to accept payment entirely in pesetas on the basis of a valuations of ore shipments, sterling resources became paralysed. In turn, the company told Metallgesellschaft that it was forced to pay any commissions or remuneration owed to German agents in pesetas rather than sterling as,

a position has developed of such abnormality that the power to make £ payments lies not with us but with those who regulate directly or indirectly commercial transactions in our mining area.<sup>17</sup>

Given the course of events in Spain, Rio Tinto felt that it had no choice other than to continue to impose this policy on its trading organisation - regarded as 'a large family'. The rise in world copper prices in the second half of the 1930s, driven by demand arising from the rearmament boom, brought no relief. Rio Tinto thought it was preposterous that the rise in copper values did nothing to help their sterling currency trading position as the more valuable the copper in the ore, the more sterling they were forced to deliver to the Franco government.<sup>18</sup>

In the course of 1937 and 1938, Rio Tinto enlisted the support of the British government in attempts to recover payment for its requisitioned products. In February 1937, the company decided to prepare a claim against the German government for the equivalent tonnage of fine copper contained in the precipitate that had been requisitioned up to that point. A similar claim was prepared against the Italian government. Geddes told the Rio Tinto board that representations were being made through diplomatic channels to both the German and Italian governments, and to General Franco.<sup>19</sup> But the démarche was completely ineffective. Indeed, by the time the British Foreign Office received a reply from the German government, in May 1937, a further 500,000 tons of pyrites had been requisitioned, and the company asked the British government to present a fresh protest to Germany.<sup>20</sup> In early 1938, Rio Tinto wanted the Foreign Office to make similar protests to the Spanish authorities, and to draw attention to the 'flagrant discrimination' against the company as a result of the continuing requisitions of pyrites for Germany and Italy.<sup>21</sup>

There is no doubt that the impact of the Spanish Civil War on Rio Tinto was severe. In presenting the Annual Report and Accounts in April 1938, Geddes commented that the accounts told the story of the year with painful clarity. The total of sterling and goods of sterling value delivered by order of General Franco's government since the outbreak of the war, and for which the company had been required to accept pesetas or the promise of pesetas, was at the point in excess of £1.75m. The

inescapable, but nonetheless distressing, conclusion reached by the chairman was that 'If it were not for its investments outside Spain, the Company would have had great difficulty in standing this financial strain.'<sup>22</sup> In the calendar year 1938, some 360,000 tons of ore mined by Rio Tinto was delivered to Germany and over 18,000 tons of ore was delivered to Italy. Payment was made in pesetas, which the company calculated would have provided a notional profit of £64,753. In May 1939, as Harvey stated, Rio Tinto refused to allow any further supplies to be delivered to Germany. However, in the first five months of that year, approximately 100,000 tons had already been supplied and Italy had received over 82,000 tons. The company records reported this trade as a net loss.<sup>23</sup>

It seems likely that the reason the company insisted in 1939 that supplies to Germany should cease had as much, if not more, to do with the problems over payment than it did with any issue over the coming of war. In May 1938, representatives of Rio Tinto and Metallgesellschaft met in London to negotiate an extension to the EPC agreement, which was due to expire at the end of the year. At that stage, Rio Tinto made it very clear that the company was most anxious that the agreement should continue; the response of Metallgesellschaft was equally enthusiastic.<sup>24</sup>

At the outbreak of Second World War, Rio Tinto composed a secret memorandum for the Ministry of Economic Warfare (MEW) on Germany's situation in respect of pyrites. The document offers an opportunity to assess what British strategic policy and Rio Tinto's corporate strategy had achieved in the course of the Spanish Civil War and the growing international crisis of the late 1930s. Germany was not only the greatest consumer in Europe of pyrites (consuming some 2 million tons per annum) but it was well equipped in the capacity for treating the residues from pyrites: there were copper extraction plants in several locations and also plants for the conversion of pyrites iron residues into iron ore suitable for blast furnaces. The level of stocks at the consumer works were believed, in the case of those belonging to IG Farben, to be equivalent to 10 months supply.

Consequently, in respect of industrial processes that depended on utilising these raw materials, German war production hardly faced a position of severe shortages. In this context, any analysis that emphasises an 'early' stoppage of Rio Tinto's pyrites trade with Germany becomes highly questionable: it is rather more pertinent to consider whether the company should have continued to supply Germany with such vital raw

materials until as late as May 1939. The issue for MEW was to consider where the enemy would turn for alternative supplies and what, if anything, could be done to disrupt the movement of such supplies. In the last year of peace, Germany had consumed almost one million tons of pyrites from Spain alone. With the loss of this trade, Germany was compelled to turn to Norway and Sweden; shipments from their mines had reached a peak in 1937 of one million too, though this had been achieved by drawing heavily on stocks in order to take advantage of the artificial shortages created by the Spanish Civil War.<sup>25</sup> There was some hope, in 1939, that Britain could do something to forestall German attempts to gain control of Norwegian production; preventing Swedish production from going to Germany was, however, considered a lost cause.

For Rio Tinto, there were also immediate concerns over what the coming of the Second World War would mean for the Spanish mining industry and, consequently, the company's considerable investments in that country. It was feared that the loss of the German market coupled with the assumed loss of the company's annual pyrites shipments, of up to 400,000 tons, to the USA, would create great difficulties for the Spanish mining industry. Nevertheless, both Britain's policy of Non-Intervention and Rio Tinto's corporate strategy in managing the crisis posed by the Spanish Civil War played a part in enabling Britain to survive the Nazi onslaught at the beginning of the Second World War. Rio Tinto was also successful, of course, in ensuring its long-term survival and has grown to become a mining enterprise on a global scale.

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<sup>1</sup> Tom Buchanan, 'The Republic Besieged? British Banks and the Spanish Civil War, 1936 – 39', in *Crisis and Renewal in Twentieth Century Banking: exploring the history and archives of banking at times of political and social stress*, Edwin Green, John Lampe & Franjo Stiblar, eds., (2004, Aldershot, Ashgate), p.100.

<sup>2</sup> Charles E. Harvey, *The Rio Tinto Company: An Economic History of a Leading International Mining Concern 1873 – 1954* (1981, Penzance, Alison Hodge), pp 284-5.

<sup>3</sup> E. Moradiellos, 'The origins of British non-intervention in the Spanish Civil War: Anglo-Spanish relations in early 1936', *European History Quarterly*, 21, 1991.

<sup>4</sup> London Metropolitan Archives, Rio Tinto Company, SSR 2272 10/0/1/13, letter, 13 May 1936, Company Secretary to FR Phillips, Central Mining & Investment Corp. Ltd.

<sup>5</sup> LMA 4543/01/07/01/001, Operating Committee Minutes, 23 April 1936.

<sup>6</sup> LMA 4543/01/02/0 SSR/16, Board Meetings Minutes Book, 11 May 1936.

<sup>7</sup> *Ibid.*, 10 Aug. 1936.

<sup>8</sup> Ibid., 14 Sept. 1936.

<sup>9</sup> Adam Tooze, *The Wages of Destruction: The Making and the Breaking of the Nazi Economy* (2006, London, Penguin Books), Pp. 223-230

<sup>10</sup> Glyn A. Stone, *Spain, Portugal and the Great Powers, 1931 – 1941* (2005, Basingstoke, Palgrave Macmillan), p.36.

<sup>11</sup> LMA 4543/01/02/0 SSR/16, Board Meetings Minutes Book, 8 March 1937.

<sup>12</sup> Ibid., 19 March 1939.

<sup>13</sup> Harvey, *Rio Tinto*, p.286.

<sup>14</sup> RTC 7 10-B-07, Memo, dated 8 Jan.1935.

<sup>15</sup> RTC 118 100-A-34, telegram, 23 Sept.1936, Geddes (London) to Buchanan (Estoril).

<sup>16</sup> Ibid., translation of letter, 29 Sept. 1936, Jose Sanchez Mora (Rio Tinto) to the President, Official Chamber of Commerce, Industry and Navigation, Huelva.

<sup>17</sup> RTC 95 80-A-13, letter, 22 Dec.1936, Beecher (Company Secretary) to Metallgesellschaft (Frankfurt).

<sup>18</sup> Ibid., letter, 12 March 1937, Beecher (Company Secretary) to Metallgesellschaft (Frankfurt).

<sup>19</sup> LMA 4543/01/02/0 SSR/16, Board Meetings Minutes Book, 8 Feb. 1937.

<sup>20</sup> LMA 4543/01/07/01/001, Minutes of the Operating Committee, 27 May 1937.

<sup>21</sup> LMA 4543/01/02/0 SSR/16, Board Meetings Minutes Book, 14 Feb. 1938.

<sup>22</sup> RTC 78 30-C-41, Report & Accounts dated 29 April 1938.

<sup>23</sup> CAR 170 Parts I & II, 'RTC Profit on Sales of Produce', 1938 and 1939.

<sup>24</sup> RTC 95 80-A-13, note of discussion, 24 May 1938.

<sup>25</sup> CAR 7, 'Secret and Confidential for Ministry of Economic Warfare – Situation of Germany September 1939 in respect of Pyrites'.