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# **The Failure of German Business and Economic Policy Towards Iraq in the 1930s: an Example of the German Arms and Steel Company, Otto Wolff, Cologne**

Dennis Kumetat\*

## **Introduction**

German interwar Middle East policy has often been described as incoherent, disorganized, and not very successful. In many sources, the term “missed chances”<sup>1</sup> is used as an overall characterization of this era. Without accepting the ideological baggage that accompanies this terminology, this study will examine German-Iraqi economic and political relations in the 1930s. Iraq, Egypt and Saudi-Arabia were the only formally independent Arab states before World War II, although Iraq was still largely dominated by the British Empire. Arab leaders, however, showed great interest in enhancing their bilateral relations with Berlin. Germany, an influential European economic and military power, had little territorial interest in the Middle East, thus, an alliance was unlikely to turn into a new military and political dependency.<sup>2</sup>

This era of German-Middle Eastern economic history has relatively rarely attracted historians’ attention. Unquestionably, studies on the general political history of either Germany or Iraq, or more specialized publications on Nazi Germany’s economic, foreign, and also Middle East policy of the pre-war period are widely available. However, publications concerning German-Arabic political and especially economic relations are rare. Although quantitative material has been used, this paper primarily uses a qualitative approach. One

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<sup>1</sup> Cf. Fritz Grobba, *Männer und Mächte im Orient. 25 Jahre diplomatischer Tätigkeit im Orient* (Göttingen: Musterschmidt, 1967), 317, or the title chosen by Lothar Gruchmann, “Die ‘verpaßten strategischen Chancen’ der Achsenmächte im Mittelmeerraum 1940/41,” *Vierteljahreshefte für Zeitgeschichte* 18 (1970), 456-475.

<sup>2</sup> Thomas Scheffler, “The Burden of Geography: Germany and the Middle East 1871-1945,” *Journal of Arab Affairs* 12 (1993), 125-134, 131, reminds us that although Germany had little territorial interest in the region, its policy did not differ fundamentally from that of the other European powers in the Middle East: “Although Germany was a noncolonial power after 1918, it did not mean that it conducted an anticolonial policy in the Arab world.”

reason for this is the insufficient statistical data to be found,<sup>3</sup> as well as the fact that historical research on corporate history has only recently gained researchers' attention.<sup>4</sup> This study is based on an analysis of the activities of the Cologne-based German arms and steel corporation, Otto Wolff.<sup>5</sup> Its relatively good contacts with Nazi functionaries and its large number of representatives on all continents made it an influential German business in the area of heavy industry.

After a brief introduction on the Otto Wolff Company, the main part of this study consists of a survey of German-Iraqi foreign and economic relations, and after describing the key actors and structures of Iraqi politics in the 1930s, I will concentrate on the policy fields of oil (the German financial participation in the Iraqi British Oil Development/Mosul Oil Fields Ltd.), arms deals, and internal conflicts among the German representatives in Baghdad. In addition to an analysis of previously unexamined sources, this study aims to identify and justify the reasons for the eventual failure of German and, more specifically, National Socialist interests in pre-war Iraq and its implications for the overall international relations of this period.

### **The Otto Wolff Company**

The Otto Wolff Company, founded by Otto Wolff and Ottmar Strauss, was officially registered in Cologne in 1904. Starting off as a small sales company for iron spare-parts, it quickly grew to be a major regional corporation during and after World War I. This success was mainly the work of Strauss, who made a career in the German army administration during

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<sup>3</sup> This fact has already been noted in contemporary works. Cf. Reinhard Hüber, *Deutschland und der Wirtschaftsaufbau des Vorderen Orients*, Strömungen der Weltwirtschaft 3 (Stuttgart: Encke, 1938). Saudi-Arabia, for instance, is not mentioned in pre-World War II German foreign trade statistics; Iraq appears only after 1937.

<sup>4</sup> For remarks on the turn towards economic and especially corporate historical research on National Socialist Germany, cf. Lothar Gall, Manfred Pohl (Eds.), *Unternehmen im Nationalsozialismus*, Schriftenreihe zur Zeitschrift für Unternehmensgeschichte 1 (Munich: Beck, 1998), 128-129.

<sup>5</sup> Only the publication by Peter Danylow and Ulrich S. Soénius (eds.), *Otto Wolff. Ein Unternehmen zwischen Wirtschaft und Politik* (Munich: Siedler, 2005), forms an exception, as well as a minor publication on the occasion of the company's 50th anniversary in 1954.

World War I and stayed in Berlin after its end.<sup>6</sup> He received numerous major government contracts for his company, and after the company successfully survived the 1923 period of hyper-inflation, it enhanced its field of activity in the mid- and late 1920s by buying copper mines and facilities for steel, machine, and ship production.

Otto Wolff was close to the national-liberal DVP-party (*Deutsche Volkspartei*, or German People's Party) and never hid his dislike for the National Socialist movement during the Weimar Republic.<sup>7</sup> After the *Machtergreifung*, the plans of the new National Socialist-run Ministry of Economy to divide the company into smaller units could only be prevented by agreeing that an external administrator, chosen by the Ministry, was to run its business from that time onwards. This administrator, Rudolf Siedersleben turned out to be so great an asset for the company that he was made associate and then executive director in 1936 – a position he held until the end of the World War II – partially due to the fact that Ottmar Strauss and Otto Wolff had to leave the executive management for different reasons.<sup>8</sup>

In spite of the company's large number of representatives abroad, its 35,000 employees and approximately 550 million Reichsmark cash-flow in 1938,<sup>9</sup> its management always remained a newcomer to the highly influential and extremely wealthy elite of German steel barons. As evidence of this, the Otto Wolff Corporation was left out of numerous major

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<sup>6</sup> Dittmar Dahlmann, "Das Unternehmen Otto Wolff: vom Alteisenhandel zum Weltkonzern (1904-1929)" in *Otto Wolff. Ein Unternehmen zwischen Wirtschaft und Politik*, ed. Peter Danylow, Ulrich S. Soénius (Munich: Siedler, 2005), 13-97, 23.

<sup>7</sup> Eckart Conze, "'Titane der modernen Wirtschaft'. Otto Wolff (1881-1940)" in *Otto Wolff. Ein Unternehmen zwischen Wirtschaft und Politik*, ed. Peter Danylow, Ulrich S. Soénius (Munich: Siedler, 2005), 99-151, 128-132. Wolff was a friend of General von Schleicher's and held several meetings in his Berlin villa with directors of leading German corporations who had a critical stance towards Hitler. "There is ample evidence [...] that Otto Wolff was only spared in 1934, when Hitler violently rid himself of his competitors and adversaries within the Nazi party and from the von Schleicher circles during the 'Röhm-Putsch'. The General was shot on June 30, 1934 in a house [...] close to Potsdam that was given to Schleicher by Otto Wolff." Cf. *ibid*, 132. Translated from the German original by the present author.

<sup>8</sup> Otto Wolff Sr. reduced his involvement in the company for health reasons. Strauss, of Jewish origin, was actively pushed out of the company. Conze (2005), 135-136, recommends differentiating between personal and business considerations, but then states clearly: "There can be [...] no doubt about the fact that the fate of Ottmar Strauss after 1933 reflects one face of the 'Aryanization' policies of National Socialist Germany and reveals the highly complex conditions, forms, and possibilities of 'Aryanization'." Translated from the German original by the present author.

<sup>9</sup> Cf. Table 1: Excerpt from the Trade Accounts of the Otto Wolff Company on December 31, 1938: Employees and Sales Figures.

arms deals, and with the help of the National Socialist apparatus, companies bigger and more closely linked to the system, such as Krupp, Ferrostaal, and Rheinmetall, succeeded in pushing Otto Wolff out of several deals in the Iraqi arms and oil businesses.

Although foreign trade constituted about a third of the company's overall volume of sales in 1937 and 1938,<sup>10</sup> trade with Middle Eastern countries was generally not well developed and formed only about 1-2% of total sales – a characteristic number for major German corporations in the 1930s, since the overall foreign trade of the German Reich with the countries of the MENA-region was about 1% of the total German foreign trade.<sup>11</sup> If the business schemes analyzed in this paper had, however, been realized, a substantially greater number of transactions would have been executed.

In the Iraq of the 1930s, the Otto Wolff Company was represented by the German Orientalist and businessman Dr. Waldemar Gerschkow, who managed to build up close ties with the ruling elite in Baghdad.<sup>12</sup> Due to his efforts, the contract for a major arms deal could have been signed with the Iraqi Chief of Staff, Bakr Şidqī, by mid-1937. Yet, one should not conclude that German companies acted independently in the Iraq of pre-World War II. The eventual failure of this contract and many others shows how volatile the new Iraqi state was. Moreover, it specifically depicts the continuing influence of the British Empire over the Iraqi political and economic system.

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<sup>10</sup> Cf. Table 1. Cf. Jost Dülffer, “Die ‘Gruppe Otto Wolff’ 1929 bis 1945” in *Otto Wolff. Ein Unternehmen zwischen Wirtschaft und Politik*, ed. Peter Danylow, Ulrich S. Soénius (Munich: Siedler, 2005), 153-243, 187-241 for an overview of the worldwide network of Otto Wolff as concerns representatives, contractors, and local production sites.

<sup>11</sup> Cf. Table 2: Middle Eastern Countries' Shares of German Exports 1929-1936.

<sup>12</sup> From his Baghdad office he kept publishing small reports for the German journal *Orient-Nachrichten*, such as: “Das Gesundheitswesen im Irak” (The Health-Care System in Iraq), *Orient-Nachrichten* 18, 2 (1936); “Die Einnahmen des irakischen Staates aus den Erdölkonzessionen” (The Revenues of the Iraqi State Oil Concessions), *Orient-Nachrichten* 28, 2 (1936), and “Die öffentlichen Arbeiten im Königreich Irak” (Public Works in the Kingdom of Iraq), *Orient-Nachrichten* 25, 2 (1936).

**Table 1: Excerpt from the Trade Accounts of the Otto Wolff Company on December 31, 1938: Employees and Sales Figures**

Total volume of sales of the Otto Wolff Group							
Year	Total Domestic Trade		Total Foreign Trade		Total Sales	Share of the Foreign Trade	
	1,000 RM	Tons	1,000 RM	Tons	1,000 RM		
1938	487,516	238,293.8	61,242.1	3,204,505.8	<b>548,758.1</b>	11.16%	
1937	409,353	362,588.7	108,417.8	2,828,031.4	<b>517,770.8</b>	26.49%	
Staff of the Otto Wolff Group, including apprenticeships							
Date	01.01.1933	01.01.1934	01.01.1935	01.01.1936	01.01.1937	01.01.1938	01.01.1939
Workers	7,936	9,785	11,124	16,685	18,811	28,887	30,668
Office Clerks	1,319	1,465	1,660	2,274	2,564	4,020	4,503
Total	9,255	11,250	12,784	18,959	21,375	32,907	35,171

Source: *Rheinisch-Westfälisches Wirtschaftsarchiv*, Cologne, Germany, 72-116-11.

**Tab. 2: Middle Eastern Countries' Shares of German Exports 1929-1936 (% of the total export)**

Country	1929	1930	1931	1932	1933	1934	1935	1936
Turkey	0.5	0.4	0.5	0.6	0.8	1.2	1.6	1.7
Egypt	0.6	0.6	0.5	0.5	0.6	0.7	0.9	0.9
Iran	0.2	0.1	0.1	0.1	0.1	0.2	0.3	0.7
Syr.-Leb.	-	-	-	-	-	0.1	0.2	0.1
Palestine	0.1	0.1	0.1	0.1	0.2	0.4	0.5	0.4
<b>Total</b>	1.4	1.2	1.2	1.3	1.7	2.6	3.5	3.8

Source: Reinhard Hüber, *Deutschland und der Wirtschaftsaufbau des Vorderen Orients*, Strömungen der Weltwirtschaft 3 (Stuttgart: Encke, 1938), 88-89.

## Politics and Economic Development in 1930 Iraq

### *Iraqi Domestic and Foreign Policy after Independence*

Although Fayṣal Ibn al-Ḥusayn, son of Sharīf ʿAlī of Mecca, ascended the newly created throne of Iraq on August 23, 1921,<sup>13</sup> the country remained a British mandate until its formal independence on October 3, 1932. However, throughout the 1930s, internal sectarian

<sup>13</sup> In Iraq, Fayṣal did not enjoy great popularity. In Baghdad, people had hoped to receive his brother ʿAbdallah as the new king. His eviction from Damascus by the French forces on July 24, 1920 remained Fayṣal's stigma, even after his ascension to the throne in 1921. Peter Wien, *Iraqi Arab Nationalism. Authoritarian, Totalitarian and Pro-Fascist Inclinations, 1932-1941* (New York: Routledge, 2006), 8.

and tribal tensions destabilized Iraqi political life. King Fayṣal himself saw a deep divide within Iraqi society between the small, pan-Arab ruling class, on the one hand, and the common citizens, on the other, a divide that rendered all attempts at political or social reform unsuccessful. He wrote in a confidential memorandum:

My heart is full of sadness and pain [because], to my mind, there is no Iraqi people (*shaḥb*) in Iraq as yet. Rather, there are human masses devoid of any patriotic ideas (*fikra waṭaniyya*), imbued only with traditions and religious vanities. Having nothing that binds them together and listening to evil, they are prone to anarchy and always ready to rise against any government whatsoever. And we [...] want to shape out of these masses a people (*shaḥb*) that we would refine, train and educate.<sup>14</sup>

In addition to that, the economic hardships of the World Economic Crisis of 1927 had its impact on the Iraqi economy of the early 1930s, and the *Dette Publique Ottomane* put further strains on the state budget.<sup>15</sup> It was obvious to all sides that the newly independent country would not be able to cope with those burdens without foreign, predominantly British, support. Under these circumstances, King Fayṣal suddenly died of a heart attack during a visit to Bern, Switzerland, on September 8, 1933. With the King's death, the country lost a political leader who might have been able to integrate the aspirations to power of the conflicting Iraqi parties.<sup>16</sup> His successor, King Ghāzi I (born in 1912), was far less experienced. Thus, Iraqi internal politics remained troublesome. Until the outbreak of World

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<sup>14</sup> Khaled Salih, *State-Making, Nation-Building and the Military* (Goteborg: Goteborg University, Department of Political Science, 1997), 53.

<sup>15</sup> According to the regulations of the Treaty of Lausanne (July 24, 1923), Iraq had to assume a part of the debts of the Ottoman Empire by obtaining loans from the European powers after the state bankruptcy in 1875. Accordingly, Iraq had to pay 9.5 million Turkish gold pounds until the financial year 1933/34. Cf. Zvi Yehuda Hershlag, *Introduction to the Modern Economic History of the Middle East*, 2<sup>nd</sup> ed. (Leiden: Brill, 1980), 256.

<sup>16</sup> Edith Penrose and Ernest Penrose, *Iraq. International Relations and National Development* (London: Benn, 1978), 149, hold that judgement. Besides this, the account of Fayṣal's reign is the subject of controversy. While Majid Khadduri, *Independent Iraq, 1932-1958: A Study in Iraqi Politics* (London: Oxford University Press, 1951), 46, hails him as "a monarch who had given his life for his country," Elie Kedourie, "The Kingdom of Iraq: A Retrospect" in *The Chatham House Version and other Middle-Eastern Studies*, 2<sup>nd</sup> ed. (Chicago: Dee, 2004), 247, holds quite the opposite opinion: "the king's character and position were still the same as in Damascus [...] a crisis or an emergency would find him the plaything and the prisoner of his strong-willed and violent followers."

War II, cabinets stepped down at least on a yearly basis, and the most common form of power transfer was the coup d'état.<sup>17</sup> Two political movements emerged amongst the Iraqi elite. The first was supported by popular anti-British sentiments within the Iraqi population, particularly fueled by the Arab uprisings in Palestine; the second, a new Ahālī-group, emerged as a democratic social reform movement with predominantly American or British-educated leaders.<sup>18</sup> It could not, however, gain much popular support until shortly before the outbreak of World War II.

One of the more notable Iraqi governments of the 1930s was that of Yāsīn al-Hāshimī, formed in October 1936. A fairly successful and balanced prime minister, he managed to stay in power over the then-remarkable period of 18 months and was able to place qualified, well-trained personnel into the top ranks of almost all ministries, fighting the omnipresent nepotism and mediocre performance of the Iraqi higher administration. During the year 1936, however, al-Hāshimī's rule became more and more autocratic, a development opposed by many Iraqis. The downfall of the "Bismarck of the Arabs"<sup>19</sup> was triggered by a public speech in October of the same year, in which al-Hāshimī mentioned that he would love to rule the country for ten more years in order to mitigate the most severe hardships amongst the Iraqi people. It remains unknown whether this was just unfortunate wording or indeed a first attempt to set up a dictatorship; in any case, the public uproar was considerable. Army General Bakr Ṣidqī reacted quickly, and on October 29, 1936, the Iraqi army marched towards Baghdad under his command, demanding that the al-Hāshimī government step down. After King Ghāzi had reassured himself that the coup d'état was not directed against him, but rather

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<sup>17</sup> Between its independence and the outbreak of World War II, Iraq witnessed 12 different governments. Cf. Penrose and Penrose, *Iraq*, 86.

<sup>18</sup> Phebe Marr, *Modern History of Iraq*, 2<sup>nd</sup> ed. (Boulder, Colorado: Westview, 2003), 73. Most of the intellectual leaders of this group were graduates of the American University of Beirut. Cf. Helmut Mejcher, *Die Politik und das Öl im Nahen Osten: Der Kampf der Mächte und Konzerne vor dem Zweiten Weltkrieg* (Stuttgart: Klett-Cotta, 1980), 42.

<sup>19</sup> A term used, for instance, by the Iraqi newspaper, *al-Bilād*, on 25 June 1936. Cf. Marr, *Modern History of Iraq*, 67, fn 21.



against the cabinet, he withdrew his support.<sup>20</sup> Al-Hāshimī immediately left the country and died shortly thereafter in Beirut. Ṣidqī's putsch was significant, as it was the first military change of power in a contemporary Arab state.

Bakr designated Ḥikmat Sulaymān to be the new Prime Minister as well as the Minister of the Interior, while he, himself of Kurdish origin and a strong supporter of the Ahālī-group, remained Commander of the General Staff, the strong man behind the government. For the first time, the traditional Ottoman elites had lost the struggle for power against the reformist Ahālī forces. The new prime minister, Ḥikmat Sulaymān, had close relations to Germany, as he had stayed there for a period of time during World War I.<sup>21</sup> There were rumors about a coming dictatorship by Bakr, but the General seems to have been reluctant to assume such a position.<sup>22</sup> On August 11, 1937, Bakr Ṣidqī and his Air Force General Muḥammad ʿAlī Jawdat were shot during a trip to a military command post in Turkey, most probably following the orders of the nationalist pan-Arab circle of officers. In order to prevent civil war, Sulaymān stepped down six days later and Jamīl al-Midfāʿī took over his post. Thus, a liberal interregnum in Iraq came to an end, and the old, conservative elites regained power at a time when public sentiment against the British Empire was stirred up by the British policy towards Palestine.

Even though another change of government followed in 1938 (Nūri as-Saʿīd became prime minister, and Ṭaha al-Hāshimī, the brother of the former prime minister, lead the Ministry of Defense),<sup>23</sup> the political power structure in Iraq remained the same until Britain reoccupied the country after the pro-German putsch in 1941. Therefore, a politically weak king (or regent after the death of King Ghāzi in 1939) headed a state in which governments

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<sup>20</sup> Personal letter by Deutelmoser to Otto Wolff, November 2, 1936, *Rheinisch-Westfälisches Wirtschaftsarchiv*, Cologne, Germany 72-189-2 (hereafter RWWA). Unless stated differently, all quoted documents from RWWA were translated from the German original by the author.

<sup>21</sup> Cf. letter by Deutelmoser to Otto Wolff, November 2, 1936, RWWA 72-189-2.

<sup>22</sup> Cf. Khadduri, *Independent Iraq*, 120.

<sup>23</sup> Cf. Edgar Flacker, *Fritz Grobba and Nazi Germany's Middle Eastern Policy 1933-1942* (London: London School of Economics and Political Science; unpublished PhD thesis [microfilm], 1998), 311.

dependent on military strongmen ruled the country. The old military elite that had come to Iraq with King Fayṣal<sup>24</sup> dominated the political life of the country, and leaders competing with this elite, which was by and large legitimized by land ownership and tribal attachment, could hardly ever gain influence.

### *The Discovery of Iraqi Oil*

Like other territories in the region, before the substantial export of crude oil in 1936, the Iraqi economy was heavily underdeveloped. Although Iraq's fertile floodplains had made the country the world's largest supplier of dates,<sup>25</sup> modern industry was non-existent, and dates were used sometimes as payment for new machinery – in September 1937, the Otto Wolff Company signed an agreement with the Iraqi authorities that it would accept as payment for a shipload of diesel-lorries with a value of US\$13,000 a “payment” of 180 tons of dates, which were shipped to its New York bureau by 1938.<sup>26</sup> Certainly the most decisive event for the economic and political future of the young kingdom and its approximate 3 million inhabitants<sup>27</sup> in the interwar period was the discovery of crude oil in sizeable quantities.

After the sensational discovery of oil in October 1927<sup>28</sup> in Bābā Kurkur, close to Kirkuk, an international holding company, the Iraq Petroleum Company (IPC), successfully obtained the oil concession from the Iraqi government, agreeing to a fixed payment

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<sup>24</sup> Note Köpke, Foreign Office Berlin, November 15, 1938, RWWA 72-188-1.

<sup>25</sup> Iraq provided 80% of the world's date exports, which were shipped through the Basra port. Its trade was organised by the Date Board of Iraq. Cf. Hans Menien, “Die irakische Dattelwirtschaft,” *Orient-Nachrichten* 8, 4 (1938), 116-118, 118.

<sup>26</sup> Otto Wolff to Gerschkow after a meeting in the Ministry of Economy, September 30, 1937, RWWA 72-189-5. Due to the long time required to complete these transactions (this one had taken almost 6 months), the German company refrained from such deals thereafter.

<sup>27</sup> Cf. Hershlag, *Economic History*, 238. The author stresses that this could only be an approximate number, since the 1933 census was “conducted mainly in villages by the primitive method of counting the number of houses and multiplying by an arbitrary number of persons.”

<sup>28</sup> Cf. extensively Stephen H. Longrigg, *Oil in the Middle East: its discovery and development*, 3<sup>rd</sup> ed. (London: Oxford University Press, 1968), 71-72.

(“royalty”) of 4 shillings per ton of crude oil to the Iraqi government.<sup>29</sup> However, it took seven years before the first Iraqi oil was sold on the world market because the transportation of oil emerged as a key issue. In the late 1920s, the consortium had agreed to build a pipeline from Kirkuk to the Mediterranean. As France and Great Britain owned shares of the IPC, and both countries wanted the pipeline to terminate at their mandate territory, the mandatory powers decided in September 1930 to build a forked pipeline which would terminate at the ports of Haifa and Tripoli in Lebanon.<sup>30</sup> By mid-1934, the pipeline – at this time the longest of its kind in the Middle East – was finalized, and on August 24, 1934, the first oil tanker left the harbor of Tripoli, while on October 26, the first ship was loaded in Haifa. With the commercial use of the oil riches, the long-awaited revenues for the Iraqi state budget began to flow.<sup>31</sup> Due to the fact that oil revenues constituted 36.9% of the total Iraqi state budget in the fiscal year of 1938-39,<sup>32</sup> the degree of dependency on the British Empire rose rather than declined.

**Table 3: Oil Production in the Middle East, 1933-1939 (million long tons)**

Year	Egypt	Iran	Iraq	Bahrain	Saudi-	Middle East	World	Share of world
(1933)	0.23	7.08	0.1	0	0	7.41	n.a.	n.a.
1934	0.21	7.54	1.06	0.04	0	8.85	207	4.28
1935	0.17	7.49	3.66	0.17	0	11.49	225	5.1
1936	0.17	8.2	4.02	0.62	0	13.03	244	5.34
1937	0.17	10.6	4.29	1.52	0	14.76	278	5.31
1938	0.23	10.19	4.32	1.11	0	14.85	270	5.50
1939	0.65	9.58	4.04	1.01	0.53	15.81	278	5.69

Source: Stephen H. Longrigg, *Oil in the Middle East: Its Discovery and Development*, 3<sup>rd</sup> ed. (London: Oxford University Press, 1968), Appendix II, 478-479.

<sup>29</sup> It became common practice to pay royalties of 4 shillings per ton of crude oil throughout the Middle East, a figure which was used for the first time for the Iraqi concession. The amount of 4 shillings resulted from an estimated  $\frac{1}{8}$ <sup>th</sup> of the value of the oil, a percentage taken from American oil concessions. Cf. Zuhayr Mikdashi, *A Financial Analysis of Middle Eastern Oil Concessions: 1901-65*, Praeger Special Studies in International Economics and Development (New York: Praeger, 1966), 61-63.

<sup>30</sup> Walter Adams, James W. Brock, and John M. Blair, “Retarding the Development of Iraq's Oil Resources: An Episode in Oleaginous Diplomacy. 1927-1939,” *Journal of Economic Issues* 27 (1993): 69-93, 73-74.

<sup>31</sup> Cf. Tables 3-4. Before the outbreak of World War II, Iraq developed into the second largest oil producer in the region and the seventh largest producer worldwide. Cf. Hershlag, *Economic History*, 272.

<sup>32</sup> Cf. Table 4.

**Tab.4: The Iraqi State Budget and Oil Royalties in the 1930s**

Year	State Budget	Oil Royalties	Total Percentage of the State Budget
	in ID 1000	in ID 1000	
1932-33	3,570,443	806,672	22.6
1933-34	3,764,904	583,796	15.5
1934-35	3,813,197	1,036,973	27.2
1935-36	4,494,496	895,906	19.9
1936-37	4,727,335	942,482	19.94
1937-38	5,196,402	1,063,583	20.47
1938-39	5,469,813	2,021,490	36.96

Source: Abid A. Al-Marayati, *A Diplomatic History of Modern Iraq* (New York: Speller, 1961), Appendix V.

## German-Iraqi Economic Relations

### *German Oil Interests and the Otto Wolff Company*

Before the start of IPC crude oil extractions on April 20, 1932, another concession was granted by the Iraqi state covering an area of approximately 46,000 square miles, west of the River Tigris and north of the 33<sup>rd</sup> degree of latitude. The consortium that received the concession for 75 years – the British Oil Development Company (BOD) – was a new actor on the Iraqi oil stage. London had reluctantly permitted the Iraqi authorities to issue another concession on the condition that the company’s leaders were British and its headquarters were in London.<sup>33</sup> As the BOD consisted of a consortium of Italian, German, Franco-Swiss, Dutch, Iraqi, and, of course, British share holders, the corporation decided to establish a holding company, the Mosul Oilfields Ltd. (MOF), with 1 million pounds sterling seed capital. The German portion of the capital, which made up 12% of the total sum,<sup>34</sup> was represented in London by the independent businessman, Thomas Brown, and by Max Hirschfeld,<sup>35</sup> a leading representative of the steel and arms company, Ferrostaal, Essen. Ferrostaal, itself, represented

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<sup>33</sup> Cf. Mejcher, *Die Politik und das Öl*, 39-41.

<sup>34</sup> Cf. a copy of the contract of Dec. 14, 1932, RWWA 72-189-6.

<sup>35</sup> The choice of Hirschfeld for the London board seems to have been a frequent object of complaints. The German delegate and later ambassador to Iraq, Dr. Max Grobba, complained in a letter: “Hirschfeld [...] should be removed from the board, as he cannot speak English and was thus attending the board meetings merely as a ‘silent witness of Thomas Brown’.” Note by Otto Wolff about his meeting with Grobba in Baghdad, August 20, 1938, RWWA 72-167-10.

a German consortium, the Irak-Industriekonsortium, which also consisted of the corporations Otto Wolff, Mannesmann-Röhrenwerke, and Stahlunion-Export GmbH, Düsseldorf. The Krupp Company had withdrawn its plans to join the consortium shortly before its foundation. On December 14, 1932, after the German Minister of Economy, Warmbold, had given the group a state guarantee of 50% of the capital,<sup>36</sup> the consortial agreement was signed, and each company received 17,100 initial shares.<sup>37</sup> Ferrostaal took the leadership of the consortium outside Germany, while Otto Wolff was responsible for the German and internal affairs of the group.<sup>38</sup> The German investors were driven by two main motives. While all of the participating companies had little or no interest in the oil business itself, they were powerful corporations of the Ruhr-District heavy industry whose interest had been awakened by the quota of 38% of all goods necessary for the BOD for oil extraction and transportation that Thomas Brown had negotiated for the German side. It was a highly profitable deal worth approximately 100 million Reichsmark.<sup>39</sup> At the same time, the products needed – e.g., drilling machines and pipes for potential pipelines or railway tracks – exactly matched the production of the German companies participating in the BOD. The reason that the Reich ministries gave a substantial guarantee to the companies involved was, yet, a second point aside from their interests in the economic development of the country – the founding contract of the BOD granted the German side 12% of all crude oil extracted and its free delivery to an as-yet-undetermined port on the Mediterranean.<sup>40</sup>

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<sup>36</sup> Cf. Titus Kockel, *Deutsche Ölpolitik 1928-1938*, Jahrbuch für Wirtschaftsgeschichte, Beiheft 7 (Berlin: Akademie-Verlag, 2005), 93.

<sup>37</sup> Cf. a note by Siedersleben, March 25, 1935, RWWA 72-167-10.

<sup>38</sup> Contract between Thomas Brown Ltd. (BOD) and the Irak-Industriekonsortium, December 14, 1932, RWWA 72-167-10.

<sup>39</sup> Cf. Mejcher, *Die Politik und das Öl*, 109.

<sup>40</sup> Mejcher, *Die Politik und das Öl*, 105-108. The decision-makers in Berlin knew all too well that the Iraqi oil fields could most likely not be held in a case of war.

**Table 5: Shares and Benefits of Mosul Oilfields Ltd. in 1934**

	Capital share	Delivery of production goods	Receipt of oil deliveries
<b>Italian group</b>	47%	47.5%	47%
<b>German group</b>	11%	38%	12%
<b>British group</b>	37%	14.5%	35%
<b>French group</b>	5%	-	6%

Source: Mejcher, *Die Politik und das Öl im Nahen Osten: Der Kampf der Mächte und Konzerne vor dem Zweiten Weltkrieg* (Stuttgart: Klett-Cotta, 1980), 126.

Unfortunately, in the following year the German side was unable to invest more capital into MOF, a measure necessitated by the first tangible construction plans for a pipeline and the development of the oil rigs, as well as the fact that the Iraqi government had demanded a dead rent – an annual payment of £100,000, increasing by £25,000 a year until it reached an annual sum of £200,000 – for the period in which no oil royalties could be received due to the unfinished construction of the oil rigs. Even though a German-Italian majority would have been permanently possible,<sup>41</sup> the Reich refused to enhance its guarantees, and without them the private companies were unwilling to invest more capital into the project. As a result, the German part of the overall capital sank continuously with every new dead rent or other financial effort. Furthermore, a key reason for the new National Socialist administration not supporting this project of a German-Italian majority within the BOD may have been Hitler's pro-British policy in the early 1930s.<sup>42</sup> Berlin did not want to jeopardize its fragile relationship with the British Empire through a financial attack on Britain's dominance of the Iraqi oil business. According to sources from the German Ministry of Economy, Hitler himself had opted against the takeover of the majority of shares at the BOD. He stated that the priority for this project could not be viewed from the

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<sup>41</sup> In 1933, Brown had the option of gathering 54% of the shares with Italy and Germany during a raise of capital. The Reich government, however, refused to give a new guarantee over 2 million Reichsmark, since it considered that the companies had guaranteed too little financial security for this very promising deal (Mejcher, *Die Politik und das Öl*, 120-122).

<sup>42</sup> Cf. Andreas Hillgruber, "England in Hitlers außenpolitischer Konzeption" in *Deutsche Großmacht- und Weltpolitik im 19. und 20. Jahrhundert*, ed. Andreas Hillgruber, 2<sup>nd</sup> ed. (Düsseldorf: Droste, 1979), 180-197 and Josef Henke, *England in Hitlers außenpolitischem Kalkül*, Schriften des Bundesarchiv 20 (Boppard a. Rh.: H. Boldt, 1973).

standpoint of oil policy exclusively; the already existing commitment could itself only be justified through having a positive effect on the German labor market.<sup>43</sup>

As a consequence, the German consortium was unable to keep its two permanent board seats, for they were granted by the number of shares the various parties held. With a lower percentage of the capital, it also became less and less likely that the companies would in fact receive their 38% of all oil production. Only the Ferrostaal Company, with much closer access to information via the board seat of its representative, Hirschfeld, could secure major orders of approximately £100,000 for the BOD, paid by the distribution of more BOD shares to Ferrostaal. The company, now the owner of 101,000 shares, began to dominate the other participants on the German side, who owned only 17,000 shares respectively. It approached the Otto Wolff Company and demanded from it the complete leadership of the consortium in and outside of Germany<sup>44</sup>. The Cologne-based Otto Wolff, however, disapproved of those claims, stating that Ferrostaal's new shares had been acquired by "unlawful means,"<sup>45</sup> thus no rights from those new shares could be legally claimed. While this internal conflict preoccupied the German companies and the Reich administration, the Italian part of the consortium, the Azienda Generale Italiana Petroli (AGIP), succeeded in securing an absolute majority of shares for itself by mid-1935.<sup>46</sup>

Subsequently, the Nazi administration suddenly regained an interest in the BOD-consortium. In early 1936, the German Ministry of War and the general command of the naval troops (*Reichsmarineleitung*) opted for a greater financial engagement in BOD/MOF. Their motive was not so much Iraqi oil, but rather the possibility of exchanging the rights from this concession against concessions in Middle and South America, which substantially

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<sup>43</sup> Cf. Mejer, *Die Politik und das Öl*, 124.

<sup>44</sup> Note of director Siedersleben about a meeting with Director Leese, board member of the Ferrostaal A.G., Essen, held in the Berlin office of Otto Wolff Company on March 25, 1935, RWWA 72-189-6.

<sup>45</sup> Mr. Rudolph, Otto Wolff, Department for Foreign Trade, to Director Siedersleben, Cologne, April 3, 1935, RWWA 72-189-6, text markings in the original.

<sup>46</sup> Flacker (1998), 70. AGIP had transferred the dead rent to the Iraqi authorities on April 1, 1935. Cf. note by Rudolph about a meeting with Conte Carafa of AGIP in Bucharest on May 29, 1936, RWWA 72-189-6.

suiting the German military geo-strategy more than the Iraqi ones.<sup>47</sup> A move of Germany's ally, Italy, prevented those German plans. When Mussolini conquered Abyssinia in October 1935, the League of Nations issued an embargo on Italy of resources vital for a wartime economy, especially crude or refined oil.<sup>48</sup> Only the oil corporations under British control broke this boycott, and by 1936 the financially weakened AGIP made an offer in London to pay the British oil deliveries during the boycott with its BOD/MOF shares.<sup>49</sup> Thus, the Italian shares were completely transferred to the Anglo-Iranian Oil Company (formerly Anglo-Persian Oil Company), which had held heretofore 23.75% of the BOD shares;<sup>50</sup> as a result, British domination of the BOD became complete.

When Berlin received the news, it decided to immediately withdraw its financial engagement, which had become useless. Even the German delegate to Iraq, Dr. Grobba,<sup>51</sup> who had lobbied for German economic penetration of the Middle East in the *Wilhelmstraße* in 1935,<sup>52</sup> gave in to the new realities in October 1936. With its withdrawal, the Reich administration suffered the consequences of its defeat in the competition for Iraqi oil. Those responsible in Berlin seemingly had not expected that London would be able to play off the Italians against the German companies and administrations in that matter. One should, however, not forget that the Reich had already missed the chance to gain control of the BOD when it denied the granting of new financial guarantees for the German Irak-Industriekonsortium two years earlier.

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<sup>47</sup> Cf. Mejcher, *Die Politik und das Öl*, 138-140.

<sup>48</sup> Cf. Manfred Funke, *Sanktionen und Kanonen. Hitler, Mussolini und der internationale Abessinienkonflikt 1934-36*, Bonner Schriften zur Politik und Zeitgeschichte 2 (Düsseldorf: Droste, 1970), 48-52.

<sup>49</sup> Siedersleben wrote on April 15, 1936 to Ferrostaal that he had learned that the Italian and the British groups have "lately" cooperated, RWWA 72-167-10.

<sup>50</sup> Cf. Flacker, *Fritz Grobba*, 72.

<sup>51</sup> Schwanitz has given a recent account of this prominent figure of National Socialist Middle East policy in Wolfgang G. Schwanitz: "Der Geist aus der Lampe: Fritz Grobba und Berlins Politik im Nahen und Mittleren Orient" in *Deutschland und der Mittlere Osten*, ed. Wolfgang G. Schwanitz (Leipzig: Leipziger Universitätsverlag, 2004), 126-150.

<sup>52</sup> Cf. Flacker, *Fritz Grobba*, 71.



Taking those developments into consideration, the German corporations also lost interest in the consortium. Otto Wolff, Mannesmann, and Stahllunion, the three remaining smaller shareholders, intended to withdraw from the consortium, and authorized Ferrostaal to sell their shares in London. Ferrostaal began with the negotiations, but it refused to give the companies on whose behalf it led the negotiations any information about the agreements reached with other board shareholders<sup>53</sup> when, in March 1937, after months of negotiations, it transferred to the three companies 275,000 Reichsmark for their 17,100 shares, respectively. Otto Wolff had been personally warned by the Reich's Minister of Finance and Economy, Hjalmar Schacht, that Ferrostaal might reach a separate, secret agreement with BOD/MOF for the sale of the German shares.<sup>54</sup> Yet Ferrostaal issued a statement that:

Ferrostaal will by a fully binding decision of Mr. General Director Reusch completely leave the Mosul-Oil-Complex. It will furthermore not receive any rights for delivery, acquisition and freight or similar advantages by any means.<sup>55</sup>

Of how little concern this statement seems to have been for the company is evident from Ferrostaal's house publication, *Das Echo* (The Echo) that, in a special issue on the company's 50<sup>th</sup> anniversary in 1980, states:

By the sale of our shares of the Mosul Oil Fields we were able to receive a considerable supply contract of 1.2 million £ Sterling (at the time 1£ = 20.40 Reichsmark) for the delivery of various oil field material for the British oil corporations.<sup>56</sup>

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<sup>53</sup> Siedersleben complained to the German Ministry of Economy on March 18, 1936 that he had not received any information concerning the London negotiations "for months". Ministerial Director Schniewind only replied on August 13, 1935 that the ministry would generally neither comment nor intervene in those cases, RWWA 72-167-10.

<sup>54</sup> *Geheimrat* (Privy Councillor) Deutelmöser informs Siedersleben about this on November 5, 1936. Minister Schacht said that it would be a bargain for Ferrostaal if they only paid 270,000 Reichsmark, since people expect that "they will gain hidden financial advantages from that deal." Otto Wolff Sr. answered that "he would not mind a solely financial gain for Ferrostaal, except that if it will also entail new deliveries, he strongly wants to receive a share of them." Cf. RWWA 72-189-7.

<sup>55</sup> Note by Siedersleben about the negotiations with Director Hirschfeld, Ferrostaal, at Hotel Excelsior, Cologne, February 26, 1937, RWWA 72-167-11.

<sup>56</sup> Anon., "Jubiläumsausgabe zum 50jährigen Bestehen der Firma Ferrostaal" *Das Echo. Nachrichten der Ferrostaal AG*, 22, 2 (1980), 6.

Furthermore, the Otto Wolff Company discovered in 1938 that Ferrostaal had used the right to deliver 38% of the goods solely for its own benefit.<sup>57</sup> Its managing director, Rudolf Siedersleben, wrote, however, that he did not want “to stir up the pointless Ferrostaal/MOF-argument again,”<sup>58</sup> thus admitting his company’s obvious defeat in that matter.

Another German opportunity to enter the Iraqi oil business occurred in mid-1937, when the Iraqi government had contracted out a concession for the exploration of the oil-rich province of Basra. At that time, as will be shown in the following section, the Otto Wolff Company negotiated a major arms deal with the Iraqi government worth approximately 90 million Reichsmark. For a country like Iraq, rich in oil yet short of finances, the idea of paying for the weapons with the Basra oil was attractive. Otto Wolff’s leading representative, Baron von Khaynach, laid out the possibilities for the company and the Reich on June 2, 1937:

The arms deal can be linked to an extraordinarily valuable petrol-concession close to Basra, which the government in Baghdad is willing to contract out. British petrol-corporations have supposedly offered an annual payment of £300,000 for this concession.[...] The concession, itself, is not being considered for German exploitation due to the geographical setting of the oil fields. It should, however, be of great interest to the German navy to obtain it as an object of exchange against a similar concession in Mexico in which the German Marine has a key interest as an oil station. It is conceivable that British oil circles would welcome the exchange in order to eliminate disturbances in the Iraqi oil business caused by the Germans.<sup>59</sup>

The governments of both Iraq and Germany seemed interested in von Khaynach’s ideas. On June 4, Grobba telegraphed Cologne that the Iraqi government led by Bakr Ṣidqī would be willing to receive a German offer for the concession and a connection to the arms

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<sup>57</sup> Anon. (poss. Director Redlich) to Otto Wolff, Cologne, January 28, 1938, RWWA 72-189-9.

<sup>58</sup> Siedersleben to Director Redlich, Berlin, January 29, 1938, RWWA 72-167-11.

<sup>59</sup> Note by von Khaynach, Berlin, June 2, 1937: Carrying out the Iraq arms deal by financing it with German credit in order to get hold of an oil base in the Gulf of Mexico for the German Navy. Sent to the Ministry of Economy, Director Blessing on June 2, 1937, RWWA 72-188-11. Another option would have been the exchange of this concession for one on the Dutch Antilles. Cf. Minutes of the lunch meeting on June 3, 1937, between the government official *Oberregierungsrat* Dr. Fetzer and R. Siedersleben, RWWA 72-236-6.

deal would be possible as well.<sup>60</sup> On the following day, the board of the Otto Wolff group decided against this option; the company had experienced how “impossible successful work with the Mosul Oil Fields [...] option had [...] become, even though the outlook of that project might appear very promising at first glance.”<sup>61</sup> The frustrating experience of the BOD/MOF-consortium seemed too grave and too recent to encourage the board to plunge the company into yet another uncertain oil project in Iraq. Accordingly, no offer for the Basra concession was made by the German state. Thus, the IPC (which had, in the meantime, merged with MOF/BOD) was granted the concession on July 29, 1937, completing its monopoly over the Iraqi oil riches.<sup>62</sup>

### *German-Iraqi Arms Deals*

International arms deals in the 1930s did not contribute significantly to the financial volume of international foreign trade. In 1937, their value was less than one percent of the overall international trade volume. Nevertheless, it was the combination of economic power, military goals, and political opportunism that placed international arms deals at the centre of attention.<sup>63</sup> For the German side, arms deals were of crucial interest for two reasons: German steel producers had an economic interest in exporting weapons, whereas the new National Socialist leadership was looking for new strategic alliances and foreign currencies; both could be very well acquired by new weapons deals.

With the 1930 Anglo-Iraqi treaty paving the way for Iraq’s independence two years later, Great Britain secured a quasi-monopoly of the arms trade with Iraq. While London was obliged to deliver “arms, ammunition, equipment, ships and airplanes of the latest available

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<sup>60</sup> Telegram by Grobba, Baghdad, to Otto Wolff Group, Cologne via the Foreign Office, Berlin, June 4, 1937. RWWA 72-109-9.

<sup>61</sup> Telegram by Siedersleben to von Khaynach, June 5, 1937, RWWA 72-109-9.

<sup>62</sup> Cf. Longrigg, *Oil in the Middle East*, 82.

<sup>63</sup> Cf. Willi A. Boelcke, *Deutschland als Welthandelsmacht 1930-1945* (Stuttgart: Kohlhammer, 1994), 70-75.

design,”<sup>64</sup> the treaty did not specify the Iraqi rights in the case that the British Empire would not be able to deliver those goods to Iraq due either to her own needs or general shortages. As could be seen, the military was the key actor in domestic Iraqi politics in the 1930s. It gained influence not only by continuously fighting tribal insurgencies, but also since Bakr Ṣidqī’s putsch in 1936 the military elite had an immediate impact on politics. Already, before his coup d’état, the German ambassador Grobba had introduced representatives of the main German arms producers to the then-military commanders of Kirkuk and Baghdad, Bakr Ṣidqī and ‘Abd al-Laṭīf Nūrī as-Sa‘īd, Air Force general Muḥammad ‘Alī, and to the two politicians, Ṭaha and Yāsīn al-Hāshimī. The latter had already alluded in his talks to the British that the Iraqi army might receive weapons from the Reich in the future. In the last phase of the al-Hāshimī’s government, the Otto Wolff Company received positive signals from the German Ministry of War and the *Auswärtiges Amt* (Foreign Office),<sup>65</sup> and first plans for a visit and a potential list of purchases were developed.<sup>66</sup> But although a visit to the Cologne-based company had been scheduled, al-Hāshimī only visited Krupp and Rheinmetall, two corporations better known and connected with the Nazi administration. However, his order of war material<sup>67</sup> was annulled by Ṣidqī’s coup d’état on October 29, 1936 and the installation of the government of Ḥikmat Sulaymān.<sup>68</sup> When the local contractor Gill, a businessman of Indian origin, came to Baghdad with a binding offer from Rheinmetall, “the old government had been toppled and all adherents of Taha were chased away [...] Gill visited various government offices [...] but eventually realized that he was confronted with an

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<sup>64</sup> Flacker, *Fritz Grobba*, 76.

<sup>65</sup> Note by Deutelmoser, “my meeting in the Reich Ministry of War,” Berlin, August 4, 1936: “The Reich Ministry of War is generally of the same opinion as the Foreign Office. It very much [...] recommends the delivery of arms and war material for Iraq.” RWWA 72-188-11.

<sup>66</sup> Gerschkow, Baghdad, August 14, 1936 to Otto Wolff, Department of Foreign Trade: “It is a fact now that Taha Pasha will visit Germany [...] the Ministry of Defence will go shopping; a detailed list does, however, not exist yet [...]. I would suggest to raise interest for the following products: small tanks, attack and defence artillery, rifles, machine guns, military kitchens, plastic pioneer boats, bombs, gas and other kinds of ammunition.” RWWA 72-188-11.

<sup>67</sup> Letter by Redlich to Wolff, August 27, 1936, RWWA 72-188-11.

<sup>68</sup> Cf. Flacker, *Fritz Grobba*, 76.

invisible wall of rejection everywhere.”<sup>69</sup> This was one of many examples of how scheduled deals with Iraq could not be realized due to political instability. Nonetheless, the new government was generally considered “not unpromising for Germany, yet undesirable for England.”<sup>70</sup> Gerschkow, the Baghdad representative of Otto Wolff reported on the local business climate. Aside from the British, the Czech company Škoda was the biggest competitor with the German companies. Škoda’s representative, Shemptop, and his partner Kheḏīrī held in Kheḏīrī’s villa “major parties ‘using’ Houris from 1001 nights. He also does not mind distributing some cheques,”<sup>71</sup> Gerschkow reported dryly, and added:

Whoever wants to finalize deals here either needs to use money or women or he must know his people that well so he can promise cooperation. The last one is the least successful way compared to the others. To only place an offer and then wait that it be accepted simply because it is cheap (and has good quality) is a waste of time. One places an offer at the ‘Defense;’ this offer will be processed by different gentlemen [...]. How the final assessment will look, the more diligent competitors can already tell in advance.<sup>72</sup>

Around the same time, the new Sulaymān government approached German ambassador Grobba with a request for arms deliveries to Iraq. He forwarded the request to the local representative of Krupp, Mr. Weiske.<sup>73</sup>

Simultaneously, the Otto Wolff Company received a letter from Chief of Staff Šidqī, himself, forwarded by the local arms dealer Dimitri Caraslanis.<sup>74</sup> The latter, “very good friends with the Chief of Staff,”<sup>75</sup> reported:

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<sup>69</sup> Letter by Deutelmoser to Wolff, November 2, 1936, RWWA 72-189-2.

<sup>70</sup> Letter by Deutelmoser to Wolff, November 2, 1936, RWWA 72-189-2.

<sup>71</sup> Gerschkow to the Berlin office of Otto Wolff, Baghdad, February 6, 1937, highly confidential, RWWA 72-188-11. *Nota bene*, this orientalizing, commodifying description of prostitution is the only section of the paper where women are mentioned, for they play little or no role in the historical sources and the literature of this period and field of interest. A historical analysis focusing on the gender relations of this time would certainly be a fruitful undertaking; it would, however, need to concentrate on other sources and other social areas than is the focus of this survey.

<sup>72</sup> Ibid.

<sup>73</sup> Cf. Flacker, *Fritz Grobba*, 81-84.

<sup>74</sup> French translation of a letter from Bakr Šidqī to “Dimitri Caraslanis, Ministère de Défence, Département d’État-Major,” March 31, 1937, RWWA 72-188-11.

The Chief of the General Staff urgently needs war material, which he would preferably buy in Germany if the delivery does not take too much time. A part of it, mainly flak-weapons [...] worth approximately £33,000, he intends to purchase for cash immediately [...]. Apart from this, he aims to fix a general arms deal with a credit range of ca. 6 years [...]. The total credit sum is supposed to be £4-6 million.<sup>76</sup>

Iraq's oil revenues were presented as guarantees for its financial reliability. Since the Otto Wolff group was unable to cover such a big demand for weapons alone, its founder informed other major steel corporations about his plans, and during a meeting in the National Ministry of Economy, it was decided that the Krupp Company was to carry out the first, comparatively small arms deal, after which Otto Wolff would lead the negotiations for the second major arms deal. For the second part of the arms deal, the Irak-Industriekonsortium was founded, mainly led by Rheinmetall-Borsig, which would cover the Iraqi demand for artillery; it would also be led to a smaller degree by Otto Wolff, and cover other material to be delivered. Yet, the German Foreign Office and the Ministry of Economy would not allow Otto Wolff any activity until the end of the Krupp deal – which indicates that Krupp had excellent contacts with the Reich administration.<sup>77</sup> Director Otto Wolff protested in a meeting

[...] that his company has done business with Iraq for the last 5 years [...]. Mr. Gill, recommended by Dr. Grobba, has turned out to be a lame duck. Suddenly, however, the Iraq deal had been reserved for the Krupp Corporation, which rejected any kind of cooperation. It is not conceivable to exclude the Otto Wolff Company from the deal. Mr. Wolff also reminded the audience of the considerable efforts which his company had made during the Mosul Oil deals. Following the [German] government's recommendation, his company had to step in and bear the full risk alone. Mr. von Khaynach reported about his negotiations in Baghdad, stating that new order lists from the

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<sup>75</sup> Minutes of Baron von Khaynach about the meeting with Dimitri Caraslanis concerning the Iraq arms deal, Baghdad, on 15.4.1937, Berlin, 15.4.37, RWWA 72-188-11.

<sup>76</sup> Ibid.

<sup>77</sup> Considering the fact that Krupp was one of the pillars of National Socialist economy, this conclusion is by no means far-fetched. Cf. Werner Abelshauser: "Rüstungsschmiede der Nation? Der Kruppkonzern im Dritten Reich und in der Nachkriegszeit 1933-1951" in *Krupp im 20. Jahrhundert* ed. Lothar Gall (Berlin: Siedler, 2002), esp. 287-327.

Iraqi army, valued at approximately £7 million, could be considered as its outcome.<sup>78</sup>

In addition, Otto Wolff's partner, Rheinmetall, expressed the "strongest disagreement with the Krupp monopoly granted by the administration."<sup>79</sup> But although the representatives of Otto Wolff in Baghdad, Gerschkow<sup>80</sup> and Caraslanis,<sup>81</sup> continuously pleaded for speeding up matters, the Reich administration's decision in favour of the minor Krupp deal prevailed.

By early summer 1937, it became evident that the Krupp deal would not be realized. After the signature of a preliminary agreement on May 25, Şidqī asked for a postponement of the binding contract until the end of June. The negotiations had taken so much time that Iraq had fixed financial obligations with other states, Şidqī's military budget was tight, and the British bank, Baring Bros., financing the acquisition of arms, was neither financially nor politically able to give the Iraqi state a credit for a major arms deal to purchase arms from Nazi Germany.<sup>82</sup> Thus, the deal could not be signed; von Khaynach reported on July 16, 1937: "The Secretary of the [German] Legation, Mr. von der Damerau gave me the confidential note that the Krupp arms deal has been rejected by the Iraqi Ministry of Defense."<sup>83</sup> Only then did the Reich administration permit Baron von Khaynach, a senior Otto Wolff staff member, and Captain Lieutenant Löwenstein from Ferrostaal to fly to Baghdad on July 18. Due to the delay, Şidqī was only able to offer a deal of £500,000 maximum, while another series of credit-based deals would be scheduled with an annual sum

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<sup>78</sup> Minutes of a meeting in the Ministry of Economy on May 26, 1937 on the Iraq arms deal. Present: the Directors of the Reichsbank Brinkmann and Blessing, General administrator H. Göring, representatives of the companies Krupp, Otto Wolff et al., RWWA 72-188-11.

<sup>79</sup> Note on the Iraq deals, Berlin, May 13, 1937, Wedde, RWWA 72-188-11.

<sup>80</sup> For instance, Gerschkow urged Otto Wolff on June 11, 1937 to finally make an offer to the Iraqi authorities. Otherwise "nothing at all will be agreed upon here", RWWA 72-188-11.

<sup>81</sup> Caraslanis to Otto Wolff, Baghdad, July 3, 1937: "Chaque minute, chaque seconde, chaque heure travaille contre nous," RWWA 72-188-11 (French in the original document).

<sup>82</sup> Flacker, *Fritz Grobba*, 89. Cf. the report of the Otto Wolff representative Wedde about his phone call with von Khaynach on August 2, 1937: "The Iraqis seem to have ordered a little too much; they have bought 25 airplanes in Italy, half of them bombers, the other half fighters for approximately £500,000; in Czechoslovakia they bought machine guns, tanks and armoured vehicles for about £300,000; in Austria and England for approximately £ 400,000, including a lot of railroad material," RWWA 72-189-8.

<sup>83</sup> Note by von Khaynach, Berlin, July 16, 1937, RWWA 72-189-8.

of £300-400,000, and with a total sum of approximately two to three million pounds sterling and an option to further enhance that deal.<sup>84</sup> On August 10, the Iraqi Council of Ministers voted in favor of the deal, and August 14 was set for the signing of the contract – too late, as von Khaynach described in his following letter:

On August 9, the General Chief of Staff held a reception where the whole general staff was present. Bekri Sidki expressed his joy about the successful result of the negotiations and confirmed that he would accept the invitation to participate in the *Reichsparteitag* in Berlin on August 26, during which the £2 million deal should be negotiated. On August 10, Bekri Sidki traveled to Mosul to attend army maneuvers in Turkey. Led by [the German] delegate Dr. Grobba, we bade farewell at the train station where he told us again that we could consider our contracts signed and that the Vice Minister of Finance and the Prime Minister would actually sign the document in the coming days, which Prime Minister Hikmet Suleiman, also present at the station, officially confirmed on his behalf as well. On August 11, the General Chief of Staff was murdered with his adjutant in Mosul. The entire situation has been changed and a signature of the contracts can no longer be expected. The delegation returned home following the urgent recommendation of the Prime Minister and the German delegate.<sup>85</sup>

Von Khaynach had no doubt about who was to blame for yet another failed deal with Iraq:

The [order] for our Iraq-Consortium to leave the country due to the Krupp deal has been a fatal blow to us. If we had been able to begin the negotiations a little earlier, undoubtedly, the contract would have been signed.<sup>86</sup>

From the point of view of historical research, this analysis of the situation seems convincing,<sup>87</sup> although Iraqi domestic politics certainly did not smooth out the negotiations. After Sulaymān had stepped down, the new al-Midfā'ī government felt itself bound by Şidqī's

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<sup>84</sup> Report by von Khaynach from August 3, 1937 about his meeting with Şidqī, General Chief of Staff, on the previous day, RWWA 72-189-9.

<sup>85</sup> Report by von Khaynach about the negotiations of the Irak-Industriekonsortium in Baghdad, Berlin, August 23, 1937, RWWA 72-189-9.

<sup>86</sup> Ibid.

<sup>87</sup> Flacker, *Fritz Grobba*, 97: “the Germans themselves were mainly responsible for the lack of progress towards a major contract.”



promises to the German companies.<sup>88</sup> Nevertheless, a conflict broke out between the two most important companies, Otto Wolff and Rheinmetall, which blocked any progress in the consortium for several months. In January 1938, *Rheinmetall* sent Major s.g. Hans Steffen to Baghdad as its new representative. He acted as the new general representative of the consortium to the Iraqi authorities despite the fact that Otto Wolff's representative, Gerschkow, was still present in the country and had been working there for numerous years. In his 8-page report dated February 26, 1938, he filed a strongly worded complaint against Gerschkow and recommended that the German consortium immediately dismiss him on the pretext of unsuccessful business practices and a lifestyle that would be considered immoral by the Iraqis.<sup>89</sup> The conflict divided the whole German expatriate community in Baghdad as well as the two companies in Germany to the extent that on April 8, Gerschkow, Steffen, and the German Ambassador, Grobba, received orders to travel to the Berlin Foreign Office immediately. Although an NSDAP-court proved that Gerschkow was not guilty,<sup>90</sup> the Foreign Office prevented him from returning to Baghdad. Otto Wolff considered itself a victim of defamation by Rheinmetall, whose goal it was to push out the competing company and its experienced local representative, Gerschkow, from the Baghdad business.

One can clearly see that certain circles have an interest in fully extinguishing the ground for the Otto Wolff Company in Baghdad, as it is an uncomfortable competitor due to its success [...]. The attacks against our company have also reoccurred in the arms-business.<sup>91</sup>

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<sup>88</sup> Cf. Gerschkow to von Khaynach, highly confidential, December 10, 1937, RWWA 72-189-8.

<sup>89</sup> Steffen, Baghdad, to the Board of Rheinmetall-Borsig, February 26, 1938, RWWA 72-189-8. Unsurprisingly, Gerschkow's reaction is vehement: "Boaster, [...] bounder, who is not ashamed to pull the rug from under the feet of fellow nationals who have done honest work out here for years." Cf. letter by Gerschkow to von Khaynach, Baghdad, March 18, 1938, RWWA 72-187-9.

<sup>90</sup> Report by von Khaynach, Berlin, June 1, 1938: "Answering my official [...] information request at the local *Gau* court, whether any of the claims Mr. Major s.g. Steffen raised against our Dr. Gerschkow could be proved [...] I was given the following answer: [...] The taking of evidence and the statements under oath of almost the whole expatriate community in Baghdad as well as of the German delegation in Baghdad have resulted in the sentence that Dr. Gerschkow has no connection whatsoever to the rumours and charges raised against him.", RWWA 72-173-6.

<sup>91</sup> Von Khaynach to Otto Wolff in Cologne, Berlin June 18, 1938, RWWA 72-188-1.

After a private meeting with Otto Wolff, Major Steffen was sent back to Iraq. The consortium was, however, dissolved in November 1938 as the outlook on new “arms deals with Iraq seem to be pointless for the time being.”<sup>92</sup> Major Steffen remained in the region until the outbreak of World War II. Meanwhile, permission to return to Baghdad was never granted to Gerschkow by the National Socialist authorities.

## **Conclusions**

Judging from the projects presented above, Max Grobba’s quote about “missed chances” can only be confirmed from a historical point of view. Reasons for that can be found in three dimensions: first and foremost, the plans failed due to German delays, inconsistencies, and conflicts; second, the domestic political instability of the Arabic partners did not make conditions easier; third, in the rare cases when both sides cooperated well, the United Kingdom, still politically and economically dominant, interfered.

As a starting point, the circumstances within the Third Reich should be analyzed. The delay of the arms deals negotiations on the German side constituted a central part of the overall impediments to the finalization of the deal. Thus, the worries of the senior Otto Wolff representative, von Khaynach, that “the minor Krupp deal will endanger the major [Otto Wolff] project” turned out to be true.<sup>93</sup> Conceding that the disruptive event – the murder of Chief of the General Staff Ṣidqī – was not directly connected with the negotiations, they could still have been finalized weeks, if not months, earlier. Initially, the German state obstructed the companies by not granting them exit permits and by expressing fundamental criticism about the overall plans. When the Reich finally agreed, competition between the companies themselves prevented any further success. A similar analysis is also valid for the German pullout from the Iraqi oil business. By not granting more guarantees, the National Socialist

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<sup>92</sup> Rheinmetall to the Otto Wolff Company, Berlin, November 22, 1938, RWWA 72-188-1.

<sup>93</sup> Von Khaynach during a meeting in the Reich Ministry of Economy on July 13, 1937. Cf. RWWA 72-188-11.

authorities missed their opportunities to dominate BOD/MOF in cooperation with the Italian AGIP and to determine the company's future business policies. Only after this option had been rejected could the Empire fully achieve its IPC-monopoly in Iraq through the Italian-British oil deals during the Abyssinia war.

Besides these difficulties on the state side, many problems were created by the German companies themselves. All were key players in German heavy industry, and they were unable to solve, or at least hide, their mutual biases and competitions in order to present themselves as a cohesive and competent consortium before the Iraqi authorities. The Otto Wolff Company, the main subject of this paper, was unable to compete with the much better politically connected corporations, such as Krupp, Rheinmetall and Ferrostaal. The Krupp Company's influence in Berlin played a large role in delaying the exit permit for the Otto Wolff members for months, and the ensuing conflict between the representatives of the Otto Wolff Company and Rheinmetall must have furthermore presented the German companies as less than attractive business partners. While only the interests of single companies were affected, had the major contracts been granted and in fact carried out, this would have had implications for overall German-Iraqi relations and certainly would have opened new opportunities for the political representatives in the region.

Furthermore, circumstances in Iraq, nominally independent at this time, did not simplify matters. While a number of good personal and institutional contacts had been established between German and Iraqi representatives, the domestic political instability substantially complicated long-term planning of any kind. Through the almost annual change of governments and, accordingly, the perpetual change in the higher ranks of the ministerial bureaucracy, the establishment of durable contacts to institutional representatives – a foundation of successful business not only in the Arab world – was made impossible.<sup>94</sup>

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<sup>94</sup> Cf. Gerschkow's remarks above about how deals were settled in Baghdad.

As a third factor, the role of Great Britain was instrumental. It is a commonplace strategy to single out the hegemonic power of a region as the main reason for jeopardizing certain plans or interests. In our case, this notion can only partially be confirmed. To identify the United Kingdom as the key destructive source in all kinds of Middle Eastern interwar projects would be to overemphasize the British-imperial role – a glance at the German and Arab errors quickly shows this. Neither arms deals nor first oil contracts were vetoed by London, and also Şidqī's killing was certainly not a pro-British putsch. That London was indeed a main political power in the Middle East of the 1930s cannot be denied;<sup>95</sup> it should, however, not be depicted as omnipotent. Yet it remains unclear to what extent London would have in fact exercised its dominant political and economic power had the German or Iraqi sides not already failed to do business with each other. Where Britain saw a potential threat to its interests, as in the case of the monopoly on the Iraqi oil, it acted quickly; London even breached the oil-embargo and supplied its severest competitor, Italy, with oil during the Abyssinia crises in order to gain control over the BOD/MOF. For permanent control over the Iraqi oil market, London was willing to risk the rise of a strong Italy in North Africa.

In the long run, Iraq did not gain political or economic liberties – failed arms deals and a British monopoly over the Iraqi oil could hardly be considered as a success for Iraq. Instead, existing power relations were perpetuated rather than changed. It became evident that the *realpolitik* outcomes of the country's formal independence in 1932 remained minute.

For the National Socialist rulers, the outcome was limited; German attempts to economically and/or politically penetrate the region had either remained futile or the contact persons, like Bakr Şidqī or Yāsīn al-Hāshimī, had not maintained their powers long enough to establish non-transient relations. Presumably, the Reich authorities had also too little interest in heavily investing in regional strongmen. The few German Middle East experts within the

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<sup>95</sup> Penrose and Penrose, *Iraq*, 144: "It is easy to understand and to sympathize, however, with much of the Iraqi bitterness towards [...] the British government [...] but [...] it does seem likely that the direct influence of Britain in Iraqi politics has been much exaggerated. [...] Imperialism there clearly was; the difficulty is to judge its significance correctly."

German Foreign Office, such as Grobba, and the representatives of the private companies, Gerschkow or von Khaynach, knew the power relations in the region too well and were not so strongly influenced by National Socialist ideologies that they would have misjudged the realities on the ground. With the cutting of diplomatic ties between Germany and the Arab states, relations on the economic level were severed too. That German companies did not try to enter the markets of the region immediately cannot be surprising, given the detrimental economic situation in their home country in 1945. Thus, at the end of the National Socialist rule, Germany's economic and political relations with the Middle East were in as precarious a state as they had been two decades previously. In some fields substantial progress was never reached during the interwar period, in others it was immediately annulled again by the war instigated by Nazi Germany.

The political and economic elites of the United Kingdom can certainly be regarded as the greatest beneficiaries of the events described in this paper. On the level of private business, retaining the monopoly over the Iraqi oil and various other goods produced considerable profits. On the political level, London enjoyed an excellent starting position in the Middle East at the outbreak of World War II, although after the Palestinian uprising in the 1930s it had little local support; the regional expertise the British colonial and mandate administrations had gathered in the preceding decades was substantial and the Anglo-Iraqi Treaty retained numerous possibilities to influence domestic politics. In a medium to long-term perspective, however, British hegemony in the Middle East became more and more challenged. After 1945, the ruling monarchy of Iraq was overthrown as a symbol of foreign dominance, and the British oil monopoly was undermined by a nationalization of oil industry,<sup>96</sup> leading the country economically and politically into a new era, certainly not easier, but characterized by greater national independence.

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<sup>96</sup> For the Iraqi putsch toppling Fayṣal II and the Iraqi Free Officers, cf. Marr, *Modern History of Iraq*, 153-181 and Penrose and Penrose, *Iraq*, 199-293.