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The Cartel and the Communists: The Aluminium Industry and the Norwegian Export Guarantees, 1929-1935

Espen Storli, PhD-student,
Department of History and Classical Studies,
Norwegian University of Science and Technology,
Trondheim
espen.storli@hf.ntnu.no

The Soviet Union was one of the few growing markets in the world during the worldwide economic depression after 1929, and to many Western corporations exports to the country appeared to be a potential “eldorado”.¹ However, trade with the Communists was difficult. There were serious political obstacles to trade, and since the Soviet Union was constantly pressed for hard currency, all the purchases had to be financed through credit arrangements. The difficulties apart, for those corporations that managed to overcome the pitfalls, the affairs could be very profitable. The Soviet market was for example virtually essential for the survival of German and US machine exports during the depression.²

This market was also extremely important for the international aluminium industry. In a period when demand for the metal on practically all other markets was shrinking, the Soviet Union started to import large quantities of aluminium annually. Initially the large aluminium producers competed vigorously for the orders, but after the international aluminium cartel had been reorganized in 1931 the cartel members presented a united front towards the Soviet government by coordinating their sales. However, the large producers had to take into consideration both the presence of independent and semi-independent aluminium companies and the unusual nature of the Soviet sales, i.e. the need for long-term credit arrangements and the risks that these entailed. Consequently, producers who had access to favourable credit

¹ Christine White characterizes the Soviet Union as “the elusive eldorado”, see Christine White: “Riches have Wings’: The Use of Russian Gold in Soviet Foreign Trade, 1918-1922” in John Hiden and Aleksander Loit (eds.): *Contact or isolation? Soviet-western relations in the interwar period*, Stockholm 1991, p. 117.

² Roger Munting, “British business and the politics of trade with the USSR during the New Economic Policy (NEP)”, in *Business History* 48:2 (2006), p. 266.

guarantee schemes were best placed to carry out business with the communist regime. This was the case of the Norwegian aluminium producers who from 1929 could use the Norwegian state guarantee to gain a dominant position on the Soviet market. The aim of the paper is to analyse the role of this Norwegian state guarantee in the aluminium sales to the Soviet Union. Why were the Norwegian authorities willing to guarantee for the sales of companies controlled by foreigners? How did the State securities affect the relationship between the aluminium producers? What role did the Norwegian guarantees play in the cartel cooperation?

Trade between the Soviet Union and the Western world in the 1920s

After the Russian Revolution, economic relations with the rest of the world broke down. Yet, after the allied blockade was lifted in January 1920, trade between the Soviet Union and the Western world slowly resumed. The framework for trade was constructed through a series of bilateral intergovernmental trade agreements, and Soviet trade missions were opened in London, Berlin and other European capitals. However, a framework in itself was not enough. Soviet Russia suffered from a serious famine in the early 1920s, and the country had a continuing difficulty in raising tradable export surpluses of foodstuffs and other commodities to cover import demands. Added to this, the international terms of trade for Russian exports had deteriorated from the pre-war years; foreign trade turnover remained below the levels of the Russian empire.³ The Communist government was forced to finance imports with gold, and by 1922 more than half of its gold reserves were depleted. Trade with gold was in itself difficult. As long as the new regime remained unrecognized there was a danger that gold exported by the state bank could be taken as representing security against pre-revolutionary debt. This question was a major obstacle to trade with Great Britain, France and the United States, the three major creditor nations of the Russian empire; much of Soviet Russia's trade with the West was therefore directed through Scandinavia, especially Sweden, or the Baltic states.⁴

The trade in gold could not continue, and after 1922 imports mostly had to be based on export earnings and foreign credits. Companies that wanted to do business with the Soviet Union had to secure credit arrangements either through government guarantees or through banks. Great Britain was the first major power to both conclude a trade agreement with the

³ Munting (2006), p. 255.

⁴ Munting (2006), p. 259.

Soviet Union (in 1921) and to grant full diplomatic recognition (in 1924), but the British government was not willing to give in to the recurring Soviet requests to grant credits to help them buy British goods.⁵ The political stance of Whitehall was that no credit would be given until the Russians had paid of the pre-war debts. The same policy was followed by France; the country would not give any credits before the debt question had been settled.⁶ The economic problems of France in the interwar period also meant that domestic banks generally were unable to supply credit for foreign trade. The United States, on its side, pursued a policy of non-recognition towards the Soviet Union until 1933, but after the allied blockade was lifted in 1920, US companies were allowed to trade with the communists at their own risk.⁷ Although the official US policy was not to encourage credit sales, American banks in several instances were willing to help in backing credits, while other American sellers were able to organize their own credit through non-banking channels.⁸

Germany and Italy were the only major countries where the governments were willing to endorse credit sales to the Soviet Union. Germany had established full diplomatic contacts with the Russians in Rapallo in 1922. This step was followed in 1925 and 1926 when German banks granted major trade credits backed with state guarantees.⁹ The first credit was in the range of 100 millions Reichmark (approximately \$23.8 millions), while the latter was 300 millions (\$71.5 millions). Similarly, under a trade treaty of 1927 Italy agreed to provide 75 per cent of export credit up to 350 million lira (\$18.4 millions).

It is no coincidence that the German and Italian credit arrangements were granted in this period. In 1926 the Supreme Economic Council (*vesenkha*) of the USSR drew up the first five year plan.¹⁰ Through large-scale investments in power generation, transport and capital construction the Soviet Union committed to a policy of rapid industrialization. Industrialization, however, could only be achieved through massive imports of Western machinery, goods and technology. Planners strictly rationed imports to give priority to raw materials and machinery to meet the demands of heavy industrial investment. As the Soviet economy became more import dependent, it became even more reliant on credits. Through the credit guarantees of their governments, Italian and German companies were able to secure large sales to the Soviet Union.

⁵ Andrew J. Williams: *Trading with the Bolsheviks. The Politics of East-West trade, 1920-39*, Manchester 1992, p. 55 and p. 83.

⁶ Williams (1992), p. 141.

⁷ White (1991), p. 119.

⁸ Williams (1992), p. 45, Munting (2006), p. 266 and Ernest C. Ropes: "The Shape of United States-Soviet Trade, Past and Future", *Slavonic and East European Review, American Series*, Vol. 3, No. 2 (Aug. 1944), p. 5.

⁹ Munting (2006), p. 260.

¹⁰ Munting (2006), p. 262.

British companies were not well placed to take advantage of the increased Soviet demand for industrial goods. The British government continued to refuse to back credit sales to the Soviet Union, and after British police in May 1927 raided the London offices of Arcos, the Russians main trading arm in Britain, diplomatic relations between the two countries were broken off, and the trade agreement of 1921 suspended. This breach was not fully repaired before 1930.¹¹ It is important to note that Canada chose to follow Great Britain's lead and Ottawa broke off all relations with the USSR in 1927.¹²

During the 1920s trade between the Soviet Union and the West was difficult and irregular. This was caused both by political issues and by the Soviet need to have credit arrangements to be able to carry out their purchases. After the communist government implemented its new economic policy in the latter half of the 1920s, the Soviet Union became a very important market for certain industries. In 1930, for instance, the USSR was the third largest buyer of U.S. industrial equipment and the largest market for American agricultural machinery and supplies.¹³ For firms that were able to manoeuvre around the political pitfalls and were able to secure credit backing, exports to the Soviet Union proved to be a very profitable business in some of the most economically troubled years of the interwar period. This was not the least the case for the international aluminium industry.

The aluminium industry and the Soviet trade

The Soviet Union did not establish any domestic production of aluminium until the 1930s, thus until then demand for the metal had to be filled by imports. Aluminium Français (a syndicate consisting of the two French aluminium producers) and the Aluminum Company of America (Alcoa) were the preferred trading partners of the Communist government. Alcoa delivered some aluminium from their Canadian subsidiary in 1925, while Aluminium Français (AF) started to approach the Soviet Union in 1923 by sending several delegations off to investigate business possibilities.¹⁴ In 1924 a "Comptoir franco-russe" was created with the aim of doing business in Russia and the neighbouring countries. AF made a two-year deal with the "comptoir" to act as agents in the Soviet Union.

¹¹ Williams (1992), p. 87-88.

¹² Williams (1992), p. 188.

¹³ Christine A. White: *British and American Commercial Relations with Soviet Russia, 1918-1924*, Chapel Hill 1992, p. 228.

¹⁴ Williams (1992), p. 187 and Florence Hachez-Leroy: *L'Aluminium Français, L'Invention d'un marché 1911-1983*, Paris 1999, p. 167.

The aluminium sales from the West to the Soviet Union really took off in 1927 as a consequence of the new economic policy. The French producers, under competition from Alcoa, won the first contracts, and during 1927 a total quantity of about 7,500 tons was delivered to the Soviet Union.¹⁵ However, Alcoa was given a share of about 1,000 tons of the sales this year. According to René Bonfils the Americans were cut in because they protested that AF had accepted a lower purchase price from the Russians than what was allowed by the international aluminium cartel.¹⁶ Florence Hachez-Leroy has shown that the French producers in secret actually broke the price directives of the cartel. In a confidential letter Louis Marlio, the AF director entrusted with the negotiations with the Soviet Union, said that the contract officially was signed with a price in accordance with the cartel regulations, but that the Russians in reality would pay less per ton. Since the accounts of AF were regularly scrutinized by the cartel, Marlio gave instructions about how the affair was to be settled so that the books of the French syndicate did not reveal the true nature of the deal.¹⁷

At first glance it seems natural that the Americans would protest at the breach of the cartel regulations, but we have to keep in mind that Alcoa was not a member of this cartel. The Aluminium Association was established in 1926 and comprised all the major European aluminium producers, but not the Americans.¹⁸ After having lost the Soviet contracts to AF, Alcoa must have found out about the true nature of the financial side of the deal. In July 1926 the American company had signed a two year contract with the Soviet government to search for bauxite in the Soviet Union.¹⁹ Alcoa employed more than 1000 workers and functionaries in the search, and had several executives present who probably had ample opportunity to get information about the deal with the French producers. Confronted with the prospect of the Americans blowing the whistle on their dealings with the Soviet Union, AF chose to include Alcoa in the subsequent contracts with the Russians. In 1928, 1929 and 1930 the French reserved one third of all the contracts that they concluded with the Soviet Union to Aluminium Limited of Canada (Alcan), the company that was established in 1928 when Alcoa spun off all its non-American activities and operations to create a new commercial entity.²⁰

¹⁵ Louis Marlio: *The Aluminum Cartel*, Washington D. C. 1947, p. 58.

¹⁶ René Bonfils: "Le contrat russe de 1930" Unpublished manuscript, Institute pour l'histoire de l'Aluminium, Paris 1999, p. 4. According to Hachez-Leroy Alcoa's demand was initially refused by AF, but the French were eventually overcome by the persuasive powers of the Americans. See Hachez-Leroy (1999), p. 168.

¹⁷ Hachez-Leroy (1999), p. 167-168.

¹⁸ Marlio (1947), p. 21.

¹⁹ Jonas Lied: *Over de høye fjelle*, Oslo 1961, p. 236-237.

²⁰ Marlio (1947), p. 58 prints a table of all the sales on the Soviet market in the period 1927 to 1938.

The source material cited by Hachez-Leroy and Bonfils thus suggests that it was because of blackmail that AF decided to split the promising Soviet market with Alcoa/Alcan. It is understandable that they would rather give in to the Americans than to come clean to the other cartel members. A key component of the cartel agreement was that each member was allocated a sales quota. In 1926 the French producers had been unable to fill their sales quota, and if this continued it was likely that their quota would be regulated down in future cartel negotiations.²¹ The magnitude of the Soviet orders was a guarantee against this happening, but if the other members found out that the deals were based on cheating on the cartel's price policy, they would probably not view the business with a kind eye. It was better to cut in the Americans on the deal, and keep the details secret.

In this period, AF and Alcoa managed to get their hands on all important contracts with the Soviet Union. Alcoa, as mentioned, got the right to prospect for bauxite, while AF secured the sales contracts and in 1930 a large and lucrative contract to supply technological assistance to the Russians to help them produce aluminium from domestic raw materials.²²

However, neither AF nor Alcoa were conveniently placed for doing business with the Soviet Union. Unlike Germany and Italy, the French government was unwilling to supply any state guarantee for the credit arrangements, and the French banks were weakened by the troubled economic times of the 1920s. Alcoa had better possibilities of getting credit through their connections with American banks, but the company used its Canadian subsidiary to supply foreign markets. Trade with the Soviet Union, however, became problematic after the Arcos affair in May 1927 as the Canadian government followed Britain and broke off all relations with the Soviet Union. The difficulty was further amplified when Alcan was established in 1928 and took over all of Alcoa's business with foreign markets. However, in 1929 a long-term solution to the credit problem was found. The Norwegian state decided to issue state guarantees for credit sales of industrial products to the Soviet Union. AF and Alcan could now use *Det Norske Nitridaktieselskap* (DNN), their joint venture in Norway, to supply the Soviet market under Norway's credit arrangement with the neighbour in the East. Why was the Norwegian state willing to go to this step?

²¹ Hachez-Leroy (1999), p. 168.

²² Bonfils (1999), p. 4.

The Norwegian state guarantee

The story of the Norwegian state guarantee for credit sales to the Soviet Union hails back to 1922. Before World War I, Russia had been one of the main buyers of Norwegian herring, but after the Russian revolution that market was closed to Norwegian exports. This trade had been especially important for the fishermen in the North of Norway, and when other export opportunities also disappeared in the post-World War I depression, the population became increasingly more destitute. To avert the ravages of the depression, Norwegian authorities in November 1921 started negotiations with the Soviet trade delegation to secure contracts for large deliveries of fish to the Soviet Union.²³ It was soon clear that full payments cash on delivery was out of the question, and that the negotiations had to be based on the basis of partial credit guarantees. The Norwegian government agreed to grant credit of up to 11 millions Norwegian *kroner*. 34 percent of the total sales were paid in cash upfront, while the Soviet government issued sola bills for the rest. The Norwegian state gave guarantees for herring export to the Soviet Union in 1922, 1923, 1924, 1927 and 1928. The Soviet regime punctually fulfilled all their obligations on the issued bills.²⁴

Fish, however, is not the main issue in this article; we are concerned with the extension of the credit guarantee to also cover industrial products. Was it a coincidence that the question was first brought before the Norwegian parliament in 1927, the same year in which the aluminium producers competed for large contracts in the Soviet Union? It appears to be so. In the beginning of January 1927, Leningrad Trading & Shipping Co. contacted the Norwegian government asking the state to grant guarantees for credit sales of industrial products to the Soviet Union. The request was supported by the Federation of Norwegian Industries (*Norges Industriforbund*) and a long list of large industrial firms, but no aluminium producers were included on the list.²⁵ The Leningrad Trading & Shipping Co. argued that Norwegian exports to the USSR had suffered as a consequence of the huge credits which were granted by Germany and large financial institutions in other countries. The Government brought the request before Parliament, where it was eventually turned down.

²³ Stortingsproposisjon nr. 50, 1922: "Om delvis statsgaranti ved kredittsalg til Russland av russebehandlet saltfisk og saltet storsild og vårsild av inneværende års fangst".

²⁴ Stortingsproposisjon nr. 37, 1927: "Om delvis statsgaranti ved kredittsalg til Sovjetrepublikkforbundet av tørrfisk og russebehandlet saltfisk samt av saltet storsild og vårsild", p. 2.

²⁵ Stortingsmeddelelse nr. 8, 1927: "Om statsgaranti for norske eksportørers fremtidige varekreditt til Russland. Handelsdepartementets innstilling av 4. februar 1927. A copy of the original letter from the Federation of Norwegian Industries can be found in Norges Industriforbund, saksarkiv II, box 1914, Riksarkivet.

However, the question did not go away. Both unnamed Norwegian interests and the Soviet trade delegation in Norway put pressure on the government.²⁶ The Russians claimed that they would be able to purchase considerable amounts of Norwegian goods if they were given credit, and they would also be willing to buy more fish from Northern Norway. The combination of aiding both the industry and the population in the North of the country made the proposal far too tempting to turn down. The government proposal was sent to parliament in late January 1929 and was recommended by a sub-committee in February. The question was then debated at length in a plenary session in parliament on the 19th of February and finally approved by a majority vote.²⁷ The Norwegian state would guarantee for credit sales to the Soviet Union of up to 15 millions *kroner* (\$3.9 million dollars). The guarantee would cover up to 75 percent of the value of the exported goods, but the deliveries had to be of predominant Norwegian manufacture.²⁸

The official records from parliament are revealing about the important role that the aluminium industry played in this question. Aluminium was one of the goods the Soviet trade delegation singled out as being of interest in the first contacts with the Norwegian government.²⁹ The significance of aluminium was spelled out more clearly in the parliamentary debate. The representative Gabriel Moseid said that he had understood that the guarantee to a large degree would be given to the aluminium industry.³⁰ His line of argument was that Norway as such would not gain from the guarantees, but that they would be very lucrative for the foreign aluminium companies who in this way could get an outlet for parts of the large stocks that they had on hand. The argument was taken up by the responsible cabinet minister, Lars Oftedal. He could inform parliament that representatives from the aluminium industry had told him that if the guarantee was not extended to cover aluminium, operations would cease at one of the works in Norway.³¹ Earlier in the debate Oftedal had spoken of the quiet-mannered, but urgent appeals of certain leading industrial groups, he might more properly have qualified the appeals as menacing. The threat was clear and unmistakable: either the aluminium industry got what it wanted, or Norwegian workers would loose their work. The cabinet minister did not disclose which of the plants would be closed, but it must

²⁶ Innst. S. nr. 27, 1929: "Innstilling fra den forsterkede næringskomite nr. 1 om delvis statsgaranti ved kredittsalg av norske varer til Sovjetrepublikkforbundet", p. 63.

²⁷ Stortingstidende 1929, p. 373- 389.

²⁸ Innst. S. nr. 27, 1929: "Innstilling fra den forsterkede næringskomite nr. 1 om delvis statsgaranti ved kredittsalg av norske varer til Sovjetrepublikkforbundet", p. 65.

²⁹ Innst. S. nr. 27, 1929: "Innstilling fra den forsterkede næringskomite nr. 1 om delvis statsgaranti ved kredittsalg av norske varer til Sovjetrepublikkforbundet", p. 63.

³⁰ Stortingstidende 1929, p. 381.

³¹ Stortingstidende 1929, p. 384.

probably have been the works in Tyssedal or Eydehavn run by DNN which were jointly owned by Alcan and AF.

Alcan and AF thus got what they wanted. The importance of the scheme can be read out of the Norwegian export statistics for trade with the Soviet Union in 1929. During that year Norway exported a total quantity of 3 900 tons of aluminium of a value of more than 5,2 millions kroner under the state guarantee.³² This was more than a third of the total value of the sales covered by the Norwegian credit arrangement that year. In the following years aluminium continued to be the most dominant item covered by the guarantee. However, Alcan and AF were not able to keep the Soviet market exclusively for themselves. The reason for that was to be found in Norway.

Naco and the Soviet sales

DNN, the joint venture controlled by Alcan and AF, was not the only aluminium producer in Norway. Of the other four aluminium companies in Norway, three were controlled by British interests, while the last, Norsk Aluminium Company (Naco) had a very interesting ownership structure. Fifty percent of the shares in Naco were owned by Alcan, while the rest was in the hands of Norwegian stockholders. Since Alcan had the right to nominate four out of seven members of the board, Naco was dominated by the Canadians. However, the Norwegian presence in the company could and did at times exert their influence. This was one such instance.

In early January 1929 the Naco board of directors convened for a crisis meeting.³³ The company had unsold stocks of 4,000 tons of aluminium, which was equal to the total amount of metal that Naco had sold in 1928, and the liquid funds were running low. If the company did not increase the sales immediately, all production would have to be stopped. The board settled on a plan. From sources within government they had been informed that the Soviet trade delegation had approached Norwegian authorities with the purpose of getting a large order for aluminium from AF covered by the proposed credit guarantee. The contract between AF and the Soviet Union concerned 4,000 tons of aluminium. The directors appointed by the Norwegian shareholders argued that Naco should contact the Norwegian government and

³² St. prp. nr. 13, 1930: Om delvis statsgaranti ved kredittsalg av norske varer til Sovjetrepublikkforbundet, p. 2.

³³ Naco-archives, Minutes of Board meeting 9-10 January 1929, box 37, file 1115-2-2, Hydro's history centre, Notodden.

demand to get a substantial part of the contract. The board also decided to make an urgent appeal to Alcan to get help in securing Naco's existence. Alcan had assigned the Norwegian company to only sell to the Scandinavian market, but Naco's directors wanted to expand their sales territory.³⁴ The Soviet Union was not mentioned, but it is probable that this was what the directors thought of. After all, was it not natural that the Norwegian state guarantee ought to help a partly domestic owned company more than a producer wholly owned by foreigners?

Naco had an additional advantage over DNN besides the Norwegian part-ownership. According to the rules, the state guarantee should only be given to exports which were considered to be of predominant Norwegian manufacture. DNN produced aluminium on the basis of imported alumina, while Naco imported bauxite to produce its own alumina in Norway. Naco's production was therefore more "national" than the aluminium that DNN manufactured. This was a point that the Naco-directors could exploit in their contact with Norwegian authorities.

Naco was successful in its cry for help. After having been contacted by Naco's Norwegian directors, the national authorities immediately approached the Soviet trade delegation in Norway and told them that if Naco did not receive as large orders from the Soviet Union as the ones given to DNN, the credit guarantee would be shelved.³⁵ The Soviets was unable to meet the demands outright, as the contract had already been signed with DNN.³⁶ But the Norwegian stance was effective. Not only did the Soviet Union purchase an additional amount of aluminium from Naco, but the intervention of the Norwegian authorities also induced Alcan to transfer its share of the Soviet orders for 1929 from DNN to Naco³⁷ The orders were in the range of 1,800 tons aluminium and helped alleviate Naco's precarious position. The following year the operation seems to have been repeated; Naco covered Alcan's share in the sales which AF had negotiated with the Soviet Union.³⁸ Through these sales the Norwegian company established a firm presence on the Soviet market, something which was to pay off.

³⁴ The relationship between Naco and Alcan is more thoroughly discussed in my forthcoming article: "Blame Canada! Naco between Alcoa and Alcan 1923-1940".

³⁵ Handelsdepartementet, Handelskontoret: Eksportkreditordningen Sovjet, box 240, Letter from the Department of Trade to the Soviet Trade Delegation in Norway, 11th January 1929, Riksarkivet.

³⁶ Handelsdepartementet, Handelskontoret: Eksportkreditordningen Sovjet, box 240, Letter from the Soviet Trade Delegation in Norway to the Department of Trade, 16th January 1929.

³⁷ Naco-archives, Report from Kloumann to the Board of directors, dated Oslo 23 May 1929, box 38, file 1115-2-3.

³⁸ Naco sold about 1,800 tons to the Soviet Union in 1930 (Annual report 1932, box 51, file 9002A, Naco-archives) and according to Louis Marlio Alcan's share amounted to 1,800 tons in that year (see Marlio (1947) p. 58).

In late July 1930 the Soviets contacted Naco and offered to buy 900 tons of aluminium wire bars.³⁹ The deal seems to have been engineered by Norwegian authorities, and made on the condition that the sale was done by Naco alone.⁴⁰ However, the Soviet market was not allocated to the Norwegian company, so they had to get permission from Alcan. The affair was a turning point. Since 1927 the French producers had taken care of all negotiations with the Soviet Union, setting aside a piece of the action for Alcan. Due to the dire financial straits of Naco, the Canadians had allocated their share of the sales to the company, but in practice Naco had played the part of a sub-contractor, leaving the contract negotiations with the Russians to AF. Now Sigurd Kloumann and Naco established a direct link with the right people in the Soviet Union. The direct channel combined with the fact that Kloumann was better placed than AF to exploit the Norwegian state guarantee, meant that Naco was now ready to take up competition with the French producers. Kloumann must surely not have objected to the insistence of the Norwegian authorities that the order should be filled exclusively by his company to qualify for the credit arrangement. Indeed, it is likely that the condition was expressed at his instigation. Be that as it may, the important fact of the matter is that the deal established Naco as an independent player on the Soviet market. The significance of this became evident in 1931.

Naco was kept floating through its financial troubles by getting Alcan's share of the Soviet contracts in 1929 and 1930. Eventually, the link with the Soviet Union was to become more than just a lifeline thrown to keep Naco on a subsistence level. In February 1931 Naco closed a contract directly with the Russians that was so large that the Norwegian company again could declare dividends.⁴¹ The magnitude of the contract was such that Naco could not fill it alone. Naco delivered 6,800 tons of aluminium to the Soviet Union in 1931, something which was more than a whole year's total production, while other producers were given the opportunity to supply about the same quantity.⁴² Kloumann and Naco had managed to oust AF from the position of key supplier of aluminium to the Soviet Union.

The question is whether this development was caused by shrewd manoeuvring by the company, or if it was thrust on Naco by external factors. Kloumann, at a later date, claimed

³⁹ Naco-archives, copy of telegram from Kloumann to the Norwegian board members of Naco, 26 July 1930, box 38, file 1115-2-3.

⁴⁰ See copy of letter from Sigurd Johannessen, chairman of the Norwegian Commission of Russian affairs (Russlandskommisjonen) to the Department of Trade, 31st. July 1931, Norges Industriforbund, saksarkiv II, box 1914, Riksarkivet.

⁴¹ Naco-archives, copy of letter from Kloumann and Herman Christiansen to Davis, 4 February 1931, box 37, file 1115-1.

⁴² Naco-archives, Annual report 1932, box 51, file 9002A, and Kåre Fasting: *Norsk Aluminium gjennom 50 år. Aktieselskapet Norsk Aluminium Company, A/S Nordisk Aluminiumindustri 1915-1965*, Oslo 1965, p. 156.

that it was all up to his work.⁴³ But other source material points towards external factors. After the Russian revolution, relations between the new communist regime in the Soviet Union and France were difficult. France had lent enormous amounts of money to tsarist Russia, and was also the largest investor in the country. The Soviet authorities refused to accept responsibility for this debt, and did not pay compensation for the French investments lost through nationalization. As long as the debt question remained unsettled, the changing French governments had trouble establishing normal state off affairs with the Soviet regime. Depending on who was in power in France, the authorities pursued ever-shifting policies of rapprochement and distancing towards the Soviet Union. In 1930 the French government went back to a hard stance towards the Soviet Union.⁴⁴ In October that year, France instituted a policy of licensing exports to and imports from the Soviet Union. The Russians responded by banning French imports. The confrontation had implications for the aluminium sales. When Louis Marlio went to Moscow in December, he found that the Soviet negotiators were less positive towards AF than they had been on his previous travels. Marlio took this to be a result of the new French policy towards the Soviet Union.⁴⁵

While the relations between Moscow and Paris cooled off and AF and Marlio lost their good rapport with the Russians, Norway took over the role as aluminium suppliers to the Soviet Union. The key was the Norwegian state guarantees. In November 1930 a Norwegian delegation went to Moscow to negotiate the next year's sales. Included in the delegation were representatives for Norwegian exporters, among them three delegates from Naco.⁴⁶ The credit guarantee was increased in 1930 to 20 millions kroner. When the Norwegian parliament discussed whether or not to grant state credits for sales to the Soviet Union in 1931, both the Minister of Commerce and the chairman of the special committee which had treated the question made it plain that the guarantees were given because Norway wanted to sell fish.⁴⁷ The Soviet authorities, on their side, were not really interested in buying fish. As the Soviet negotiator stated in 1932, the prevailing economic five year-plan had as a rule that foreign currency should only be used for purchases of machinery or raw materials.⁴⁸ The reason why

⁴³ Landssvikarkivet, Note by Sigurd Kloumann on his professional life, Landssviksak 4226, box 6, file IX-1-4, Riksarkivet. See also letter from Kloumann to Nils Olav Young Fearnley, 4th August, 1943, private archive material kept by Thomas Fearnley, Nittedal.

⁴⁴ Williams (1992), p. 141.

⁴⁵ Bonfils (1999), p. 4.

⁴⁶ Stortingstidende 1931, p. 72.

⁴⁷ Stortingstidende 1931, statements from Minister of Commerce Lars Oftedal and committee chairman Thorvik p. 68-70.

⁴⁸ Promemoria dated 30 January 1932 by Sigurd Johannessen, chairman of the Commission of Russian affairs (Russlandskommissjonen), printed in St. med. Nr. 15: Om statsgarantien ved kredittsalg til Sovjetrepublikkforbundet, p. 12.

the Soviet Union were willing to break their own rule was that Norway was ready to extend the state guarantee to cover sales of aluminium, nickel and ferro-alloys. In other words, this was a case of a direct trade off: To sell fish, Norway would grant credit guarantees for sales of aluminium, while the Soviet Union would accept to buy fish as long as it could also buy aluminium.

It was against this backdrop that Naco prospered, but it was not all down to just mere chance. Naco was only one of several aluminium producing companies in Norway, and the reason why it was picked to participate in the Moscow-delegation in 1930 must be the fact that Naco, unlike the other producers, was partly Norwegian owned. Naco also had an additional advantage since the company produced its own alumina based on a process developed in Norway by a Norwegian professor. This gave Naco a special standing in the political environment. The Naco directors could also exploit the considerable political opposition to grant credit backing to foreign owned industries. In 1931, for instance, the representative Andresen with obvious irony asked in a parliamentary debate whether it was natural to “employ our Norwegian abundance on a free state guarantee” for the benefit of world syndicates?⁴⁹ Naco, although partly owned by Alcan, because of its Norwegian ownership, steered clear of some of the criticism which was directed towards the other aluminium companies in Norway.

The Norwegian producers, the international cartel and the Soviet sales

Through the credit guarantees, Norway became the largest supplier of aluminium to the Soviet Union. Initially the sales were controlled by AF, and to a lesser degree Alcan, but by 1931 Naco had established itself as an important actor on the scene. However, the company was neither large enough, nor powerful enough, to be able to keep the market to itself. The directors of Naco not only answered to the Norwegian shareholders, but also to Alcan. Alcan had to balance the interests of Naco with the interests of its other subsidiaries. Because of the difficult relations between Canada and the Soviet Union in the early 1930s, it was not a viable option to use the Canadian smelter capacity to supply the Russians with aluminium, but Alcan also controlled one third of DNN.

⁴⁹ Stortingstidende 1931, p. 66.

More importantly, Alcan also had to think about how to handle the affairs with its international competitors. Although not a member of the cartel, Alcan had established an *entente cordiale* with AF and the other European producers. In July 1930, the Europeans and the Canadians agreed to share the lucrative Japanese market.⁵⁰ Alcan was appointed to be exclusive sales agent for products exported to Japan by the European producers and was alone authorized to fix prices. Alcan should supply 52 per cent of all aluminium sales to Japan, while the rest was divided among the European producers. If the Alcan-owned Naco provoked AF on the Soviet market, AF might possibly retaliate on Alcan in other markets.

This did not happen. The persons involved, the directors of Naco, AF and Alcan managed to find a solution that seems to have been satisfactory to everybody. The large orders placed under the Norwegian guarantee in 1931 were at the behest of Norwegian authorities divided between three Norwegian companies in the following ratio: Naco 2/5, DNN 2/5 and Haugvik Smelteverk 1/5.⁵¹ We don't know how and when this was agreed to, but the rationale behind it seems clear. The share that Naco kept was, as we have seen, in 1931 larger than their annual production. By giving DNN the same share, AF was satisfied, while Haugvik Smelteverk, which was owned by a small British aluminium producer, was probably included because that company leased power from the Norwegian state. Haugvik was badly hit by the economic depression, but by including them in the Soviet sales, the company could continue producing aluminium and keep paying their workers, while at the same time it was made sure that Haugvik would not default on their power lease obligations towards the Norwegian state.

In 1931 the international aluminium cartel was reorganized. Alcan now joined in with the large European producers. The cartel agreement that was signed in Paris in July stipulated prices and production quotas, but it also regulated the sales of aluminium to the Soviet Union.⁵² The producers agreed that in the event of a new Russian contract, 50 percent of the sales would be supplied by the Norwegian factories which enjoyed a guarantee. At the request of the two cartel members which did not have a Norwegian factory, the German VAW and the Swiss AIAG, the remaining 50 percent would be divided among the members of the cartel. It was stipulated that each cartel member would get a cut of the total sales to the Soviet Union which was proportionate to their total production quotas.

⁵⁰ Marlio (1947), p. 26.

⁵¹ Norges Industriforbund, letter from Naco to the Norwegian Commission of Russian affairs, 17th April 1931, saksarkiv II, box 1914.

⁵² Archives of British Alcan (formerly British Aluminium Company) Cartel agreement, 3 July 1931, journals of Alliance Aluminium Company, UGD347-21-45-6, Glasgow University.

However, this plan would only work if Naco agreed to it. Louis Marlio was given the task of taking the subject up with Sigurd Kloumann. Late in the autumn of 1931, Marlio could reveal at a cartel assembly that he had struck a deal with Kloumann along the lines of the cartel stipulation.⁵³ The aluminium producers would negotiate with the Russians for the 1932-sales in two rounds, first Kloumann in the name of the Norwegian companies, and then later Marlio would negotiate with the Soviet authorities. The Norwegian companies would get 50 percent of the sales, while a total quantity of 2,500 tons of the next 50 percent would be given to the Italian producers SAVA and SIDA. These two companies were in a similar position to Naco as they were only half owned by a cartel member, AIAG and VAW respectively, and that the second half was owned by domestic interests, in both cases Montecatini. Like Naco, neither SAVA nor SIDA participated in the cartel, so giving them a part of the Soviet sales was a good way of making sure that they would cooperate with the large producers. There was an additional factor here as well. Italy was one of the few countries willing to supply a state guarantee for credit sales to the Soviet Union, and by giving some deliveries to the companies which Montecatini had an ownership interest in, it would be easier to get the sales covered by a guarantee.

This meant that the Soviet sales, which initially had been exclusively controlled by AF and Alcan, now was divided among the cartel members and four smaller companies which were not partners in the cartel (Naco, Haugvik, SAVA and SIDA. Haugvik, however, was taken over by the cartel in 1932.) The arrangements that were settled in 1931 were applied in both 1932 and 1933. The aluminium producers negotiated in two rounds with the Soviet authorities, Kloumann taking care of the first negotiations on behalf of the Norwegian producers, while Marlio handled the second. The contracts that Kloumann secured were divided among DNN, Naco and Haugvik according to the established ratio. The Marlio-contracts were sought brought under the guarantees supplied by the Italian and German governments, and the Société Financière pour le Développement du Commerce Français avec les Pays de l'Europe du Nord (Sofidenord). Both in 1932 and in 1933 a substantial part of the Marlio-contracts were left uncovered by guarantees, and the risk had to be taken by the sellers.⁵⁴

The arrangement disintegrated in 1934. At a meeting in December 1933, Marlio told the board of the aluminium cartel that a conflict had broken out with Kloumann on the subject

⁵³ Pechiney-archive, IHA. minutes of cartel meeting 20-21 October 1931. The official minutes are found in file 00-2-15928B, the provisional in file 00-2-15940,

⁵⁴ See Pechiney archive, IHA, minutes of cartel meeting, 6 October 1932, file 00-2-15928B.

of the Soviet sales.⁵⁵ The minutes do not explicitly say what was the base of the conflict, but it seems to stem from the fact that the cartel changed its policy on contact with the Soviet Union. From the new cartel was organised in 1931 the cartel members had channelled all sales to Russia through the negotiations carried out by Louis Marlio, but for the sales in 1934 it was decided that the producers could negotiate for themselves. However, if a cartel member sold a quantity of aluminium to the Soviet Union, he was obliged to purchase the same quantity of metal from the cartel's central stock. The every-man-negotiates-for-himself policy was not to apply for Norway. The cartel decided that Kloumann should negotiate with the Soviet Union and the Norwegian government for inclusion in the state guarantee on behalf of the Norwegian aluminium industry. The sales he arranged with the Russians should be split between Naco, DNN and Haugvik along the lines of the established proportion.⁵⁶

In March 1934 representatives from the cartel and Naco met in Oslo to discuss the decision taken by the cartel. The cartel was represented by Jean Dupin, managing director of AF and François de la Chaise, managing director of DNN, while Naco sent Sigurd Kloumann, Hermann Christiansen, chairman of the board, and the sales manager Hardy Lundheim.⁵⁷ At the meeting, Kloumann declined to accept to negotiate along the lines proposed by the cartel. He argued that with the new policy he ran the risk of finding himself in direct competition with the other producers. If that was the case, he might as well compete with DNN and Haugvik, since these companies, in reality, were little more than extensions of the other producers. In short, he preferred to keep his freedom. Then the meeting took an interesting turn. Dupin argued that it was in Kloumann's interest to limit the competition, especially the competition from the other Norwegian producers. At this point Dupin played out his trump card: The board of the cartel had reasoned that the best result would be obtained if the Norwegian aluminium producers presented a unified front towards the authorities. Surely Kloumann did not dream of negotiating alone both with the Russians and with the Norwegian government?

This was exactly what Kloumann intended. He was not at all concerned about meeting the Norwegian authorities alone, after all, his company was "beaucoup plus norvégienne" than the other companies and was therefore better placed to be covered by the credit arrangement. Kloumann reasoned that it would be possible to get a priority on these

⁵⁵ Pechiney archive, IHA, minutes of cartel meeting, 20 December 1933, file 00-2-15928B.

⁵⁶ Pechiney archive, IHA, minutes of cartel meeting, 10 February 1934, file 00-2-15928. The decisions concerning Norway were not included in the minutes, but can be found in the report written by Dupin after the conference with the Naco-management, 12-13 March 1934, file 00-2-15928, Pechiney archive, IHA. The following paragraphs are based on his report.

⁵⁷ Louis Marlio was prevented from attending, but was originally supposed to have presided at the negotiations.

guarantees; perhaps Naco might be the only company granted support? Kloumann would only be willing to include DNN and Haugvik if his company, Naco, was given a guarantee by the cartel of minimum sales of 1,500 tons of aluminium to the Soviet Union in 1934.

Kloumann's stance seriously alarmed both Dupin and de la Chaise. After the meeting they therefore went to see Sigurd Johannessen, chairman of the Commission of Russian affairs (Russlandskommisjonen), the institution within the government which administered the Norwegian state guarantee. Johannessen did not put their fears to rest. On the contrary, he warned that if the Norwegian exports of aluminium to the Soviet Union were small in 1934, it was not impossible that the Norwegian government would agree to Naco being the only aluminium producer given a state guarantee.

The envoys from the cartel had to return empty-handed. Naco did not accept the cartel decision, and just like Kloumann had predicted, during 1934 the company was the only aluminium producer included in the Norwegian state guarantee. However, Naco only sold 712 tons of aluminium to the Soviet Union in 1934, well below the 1,500 tons Kloumann demanded the cartel should guarantee him, and a far cry from the 2,527 tons Naco had exported to the Russians a year earlier.⁵⁸

The most striking detail of the affair is the light it sheds on the relationship between Naco, Alcan and the international aluminium cartel. Alcan was of course an integral member of the cartel, and the company therefore took part in the cartel's decision to open up competition on the Soviet market. Alcan also agreed to the decision to pool all Norwegian sales to the Russians, and thus continue the arrangement whereby Kloumann negotiated on behalf of DNN, Haugvik and Naco. Since Alcan was part-owners of all three Norwegian companies the arrangement made sense. But Naco refused to play along with the cartel policy. Could Naco and Kloumann openly defy both the cartel and their foreign owner Alcan and get away with it?

They could. The incident speaks volumes about Naco's room for manoeuvre. The cartel could not dictate the actions of the Norwegian company. This was partly because Kloumann and his cohorts were skilful in handling their relationship with the Norwegian government. The Naco managers used the company's "Norwegianness" to great effect, and Naco therefore had a special standing in the eyes of the authorities. This special relationship was misjudged by the cartel. When the policy of Soviet sales was changed, the board of the

⁵⁸ Naco-archives, annual report 1934, box 51, file 9002A. In addition to aluminium, Naco also sold 400 tons of alumina to the Soviet Union in 1934, see St. prp. nr. 57 (1935): Om delvis statsgaranti ved kredittsalg av norske varer til utlandet.

cartel reasoned that Kloumann would accept less favourable terms for Naco because he would not dare to act alone towards the authorities. However, the cartel members needed Kloumann more than Kloumann needed the cartel in this affair. The end result was that only Naco was covered by the state guarantee in 1934.

Alcan’s role in the incident is more difficult to grasp. The Canadian company had the right to elect four out of seven directors on the board, and thus should have had good control over Naco. However, two of the directors Alcan appointed lived outside Norway and seldom participated in the board meetings. Naco was therefore basically run by the two last directors appointed by Alcan. Both of these directors, Christiansen and Kloumann, were present at the meeting in March. The report from Dupin suggests that Christiansen and Kloumann acted without prior consent from Alcan. Kloumann repeatedly asked the Frenchman not to tell Edward Davis, the president of Alcan, about Naco’s new policy towards the Soviet sales.⁵⁹ This could of course be a case of Kloumann playing to the gallery and a tactic used to exonerate Davis from any blame from the other cartel members. Unfortunately the source material does not reveal the true state of the affair.

The altercations of 1934 were not repeated the next year. In May 1935, the three main actors on the Soviet market came to an agreement to share all the orders from the Soviet Union covering raw aluminium, semi finished products, and alumina.⁶⁰ The orders would be split according to the following quotas:

	Raw aluminium	Semi finished products	Alumina
Naco	50	50	30
AF	30	20	50
Alcan	20	30	20

Table 1. All figures are in percent.

The agreement remained valid until World War II and secured Naco a significant presence on the Soviet market. However, in spite of the agreement, in a report from late 1935, Kloumann pessimistically concluded that Russian business was practically lost.⁶¹ During the years 1935-1937 the Soviet Union more or less stopped importing aluminium, basically because the

⁵⁹ Pechiney archive, IHA, report written by Dupin after the conference with the Naco-management, 12-13 March 1934, file 00-2-15928.
⁶⁰ Marlio (1947), p. 57.
⁶¹ Naco-archives, report on production and sales, 1935, box 37, file 1115-1.

country got its domestic production rolling. The exports of aluminium to the Soviet Union were taken up again in 1938, but this time without the help of the Norwegian state guarantee.

Conclusion

In the interwar period the Soviet Union grew to be one of the most important markets for aluminium. In 1931 only Germany and the United States consumed more aluminium than the Soviet Union, and since the country did not yet have any domestic aluminium production, all metal had to be imported from the West.⁶² The prospect of selling large quantities of aluminium to the Russians sparked intense competition in the industry. The problem was that the normal rules of the game did not apply to these contracts. The Soviet Union could not pay in cash on delivery, but had to buy on credit. The prospective sellers therefore had to be able to offer generous credit arrangements, thus there was a large element of risk involved in the transactions. This risk could be reduced through different credit schemes, either arranged by private financial institutions or national states. The preferred option was the state guarantees, since they had better terms. A serious obstacle that faced the large producers was that only a few states were willing to grant credit guarantees, a successful sale was therefore reliant more on high politics than on mere business acumen.

The two main competitors Alcoa/Alcan and AF both had to find their way without much help from their domestic governments. The United States and France did not establish full diplomatic relations with the Soviet Union until 1933-1934, and Canada followed Britain in breaking off ties with the Bolshevik regime in 1927. None of these states were willing to furnish credit guarantees, but the attraction of the Soviet market was strong enough to motivate AF and Alcoa/Alcan to find a way around the problems. A seemingly perfect solution to the question was found when the two aluminium producers managed to get their Soviet sales placed under the Norwegian state guarantee in 1929.

The rationale behind the Norwegian state guarantee for sales to the Soviet Union was basically to secure the livelihood of the troubled fisherman population of the country. To this end, the authorities were willing to extend credit guarantees to cover the sales of foreign-owned industrial companies. However, the guarantee also acted as a door-opener for Naco. Because it was considered to be more “Norwegian” than the other Norwegian aluminium

⁶² Size of aluminium consumption is given in Metallgesellschaft: *Statistische Zusammenstellungen über Aluminium, Blei, Kupfer, Nickel, Quecksilber, Silber, Zink und Zinn*, Frankfurt am Main, 1936, p. 5.

producers, Naco could count on the support of the national government. AF and Alcan were forced to concede a large part of the Soviet sales to Naco, and through shrewd tactical manoeuvring and by taking advantage of a political dispute between France and the Soviet Union the company established itself as an independent player on the Soviet market.

The Norwegian state guarantee also had a significant impact on the international aluminium cartel, since it gave the cartel members with a presence in Norway a significant advantage in trading with the Soviet Union. Although the Swiss and German producers could to some degree benefit from the Italian credit scheme, this was not as generous as the Norwegian guarantee. The most important consequence of the Italian guarantee was probably that it, just as the Norwegian scheme, opened the door for a national producer, Montecatini and Naco respectively. The guarantees thus were very advantageous to two outsider companies who were not members of the cartel.

The aluminium trade with the Soviet Union in the interwar period is in many ways a potent reminder of the power of politics. Although the large multinational aluminium producers have traditionally been portrayed as a powerful oligopoly which kept the industry in an iron grip, this case suggests that the picture should be modified. The producers operated in a highly politicised business environment, and the structure of the markets was to a large extent influenced by national policies.