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Activities of I.G. Farbenindustrie in the  
United States- 1929 until March 11, 1942

A thesis submitted to the History  
Department of the University of  
Richmond in partial fulfillment  
of requirements for degree of  
Bachelor of Arts

William C. Neubauer Jr.  
May, 1969  
History 318  
Dr. J. Martin Ryle

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## PURPOSE AND INTRODUCTION

The activities of I. G. Farbenindustrie in the United States afforded Americans the opportunity to observe Third Reich activities as they existed in pre-war America. This preview of Naziism in America helped unite popular opinion against Hitler. It is the purpose of this paper to point out the origins of such a system in this country, the conditions which nurtured its growth, characteristics of the system, and the steps which lead to the collapse of the system. The lack of a detailed and determined policy by the Germans prevented their utilization of I. G. Farbenindustrie to its utmost strategic value in the area of economic warfare. America, on the other hand, lacked a determined policy to deal with the German menace and had the Germans been able to follow a directed policy, it would have been harder for the U.S. to remove them from a strengthened position at a later date.

Farben's activities in the U.S. were of strategic, rather than tactical value to the Wehrmacht (German armed forces). Unlike Farben's European factories, the factories in the U.S. provided Hitler with no war material; they provided a greater service--the prevention of production of vital commodities needed by Hitler's enemies. Farben's effect on the U.S. economy was restrictive and regulative, rather than open and

contributory. The true strength of Farben's influence on the American economy remained hidden until the war broke out and even after September, 1939, its true strengths and characteristics were not fully understood. The passage of time has erased most of the emotional feelings of the war, thus permitting a more meaningful study of the activities of I. G. Farbenindustrie in the U.S. from 1929 until March 11, 1942.

#### A. Cartel: A definition.

The first step to be taken in the study of a cartel, such as Farben, is the establishment of a good working definition of the term cartel. The League of Nations in the 1920's addressed itself to the cartel problem, and after considerable deliberation, determined that

cartels are associations of independent undertakings in the same or similar branches of industry established with a view to improve conditions of production and sale.<sup>1</sup>

This definition reflected one aspect of the Leagues naivety, that is, the failure or inability to realize the long-term consequences that resulted from the lack of proper immediate corrective action. Corwin D. Edwards, the noted cartel historian, described cartels as arrangements which have the purpose of regulating competition in international trade.<sup>2</sup> This definition will be used in all references to cartels in this paper.

#### B. Farben's Rise to Prominence

It would be difficult to begin a study of I. G. Farbenindustrie with the formal foundation of the cartel in 1925. To

understand the reasons for the cartel's formation, the reader must know something about economic conditions which shaped pre-war Germany. The real origins of cartels began in late 19th century Germany. The period of greatest German cartel growth was in the economically turbulent years of the 1920's when the economy was subjected to frequent recessions. These economic upheavals encouraged, and often necessitated, the banding together of German business to eliminate competition whenever possible.

When the economic distress subsided, the various businesses tried to disjoin themselves from the combinations if possible.<sup>3</sup> The economic conditions which ushered in the Third Reich in 1933 sparked a renewed emphasis on cartel formation; a trend which Hitler found politically advantageous to encourage.<sup>4</sup> Hitler's defacto support of cartels gave rise to the idea that cartels were the product of a totalitarian society and that totalitarianism was "the final expression of the reactionary forces stemming from special privilege."<sup>5</sup> The period of German rearmament saw I. G. Farben and the Third Reich become so intermeshed that one could not exist without the other. The use of each by the other helped insure the apocalyptic events of 1939-1945.

The unfavorable economic conditions which followed WWI brought together the eight major German chemical firms in 1925. Out of this meeting came the formation of the Interessengemeinschaft (the I.G. in I. G. Farben) which represented a combination of businesses involved in the chemical

industry. This merger marks Farben's birth.

The close association of Farben and the National Socialists (Nazis) began in 1932. Farben financially supported Hitler in return for a pledge by Hitler to establish a synthetic gasoline plant in Germany. Farben's chemists had discovered the process of hydrogenation which allowed the Germans to extract petroleum products from coal, which was in great surplus in Germany. This process promised Germany self-sufficiency, a necessary condition in a future war. The program was accelerated in the 1933 Four Year Plan and was strengthened with the adoption of rearmament after 1935 which put demands upon the German petroleum industry. Another program, that of the development of synthetic rubber, was needed to supply the needs of the Wehrmacht. Soon, goals of self-sufficiency in gasoline and rubber became important. Germany zealously guarded the secrets of synthetic product, giving nothing away that would jeopardize German economic monopoly. The German foreign trade policy from 1935 to 1939 was frequently subjected to policy reversals. Continuity of a foreign trade policy was subordinated to the rearmament program. Such a conflict over rearmament arose between Reichsbankdirektor Schacht who favored a reduction in arms spending to offset inflation and Reichspresident Göring who urged (in 1937) that the entire economy be placed in a state of "readiness for war within four years."<sup>6</sup> The Schacht-Göring controversy continued for several years, eliminating any possibility of a directed policy on a long-term basis.

The strategic value of foreign exchange was realized by all, but not with uniform and continued attempts to make good use of this scanty "raw material." The continually shifting currents of thought about what to do with German assets abroad wrecked havoc with the exchange program. General foreign exchange control was exercised by four agencies.<sup>7</sup>

Reich Ministry of Economics (ultimate control)  
Reichsbank  
Foreign Exchange Officer  
Supervisory Activities Board

The desire to control foreign trade resulted in the creation of the Wehrwirtschaftsstab (Military Economic Staff) in 1935 which approved all cartel arrangements, domestic and foreign.<sup>8</sup> The Amnesty Act of 1936 required all Germans to register their non-German property with the Reich and further required the immediate conversion of foreign exchange into German Reichmarks (RMs).<sup>9</sup> The Amnesty Act provided the Reich with a complete listing of all foreign properties outside of Germany which were subject to liquidation or transfer at a later date. The small amount of foreign exchange which flowed into Germany demanded strict regulation of foreign movies available in trade; the Wehrwirtschaftsstab and the Amnesty Act are only two examples of regulatory measures. Bad feelings soon developed between those persons whose properties faced liquidation and the Reich Ministry of Economics (which carried out liquidation.) The cost of rearmament demanded the liquidation of many minor properties abroad. It was decided (in 1937) that assets not "absolutely indispensable for the maintenance of German foreign



trade."<sup>10</sup> In general, the major businesses and industries remained intact.<sup>11</sup>

The need for economic espionage is present in the world of business is always present and Farben developed a refined intelligence system in the early 1930's. Farben instituted the VOWI (the Statistical Department) which kept Farben (and later, the Reich) informed of economic advances in other countries.<sup>12</sup> The Wehrmacht, realizing the value of economic intelligence, organized its own economic intelligence branch, the Vermillurgstelle W, to coordinate the various economic intelligence systems, including Farben's. VOWI operated without much of the bureaucratic red tape of Reich organizations and reached the peak of its activities in 1937-1938. With the outbreak of war in Poland, VOWI became the unofficial center for many Nazi intelligence systems. The excellence of its work prevented its merger into the intelligence system of the OKW (Army Supreme Command).<sup>13</sup> The Reich officials were smart enough not to tamper with this efficient, functioning system.

Farben's overseas representatives were both skilled businessmen and disciplined Nazi party members. Each man received intensive indoctrination and was a member of the German Labor Front (a Reich "union" of workers, both white and blue collar varieties) and each was aware that it was "their special duty to represent National Socialist Germany."<sup>14</sup> With businessmen skilled in commerce and persuasion, it is small wonder that Farben reached a commanding position in world trade.

### C. Farben's Policy Regarding America

The loss of Germany's position as a favored nation in 1936-1937 further complicated the formation of a workable foreign policy. Prior to 1936, Schacht endeavored to reduce friction between the U.S. and Germany in the foreign trade field. Schacht's fall from power in late 1937 enabled Goring to follow a harder line in regards to American trade, and foreign trade in general. An attempt at moderation was made in 1938 with the personal visit of Reichsbankdirektor Brinkmann to the U.S. He referred to trade relations between the two nations as "the pivot of the entire German trade policy, or even our general economic policy."<sup>15</sup> His personal mission failed due in part to adverse effect of the German occupation of Prague.

The following year, 1939, revealed the threat of a trade war between the U.S. and Germany. The fear soon passed and German foreign trade policy entered a new phase prior to 1939, the Germans had considered their assets in America as "a bond between the two countries."<sup>16</sup> The policy of the early part of 1939 which favored liquidation now shifted to cloaking of German assets by the summer of the same year. It appears strange that the Germans, in the pre-war years favored liquidation and when war approached, the emphasis was placed on cloaking. The Germans certainly underestimated the scope and duration of WW II.

### D. Wartime Measures

A directive from the Reich Ministry of Economics (RME)

dated September 9, 1939, dealt with the protection of German foreign assets and German trade with neutral countries.<sup>17</sup> The author of this directive, Dr. Gustav Schlotterer as chief of the Export Department called for the immediate transfer of titles of German properties to friendly neutral aliens.<sup>18</sup> The responsibility for all cloaking (concealment of apparent German control) arrangements was with the parent company. In spite of the lateness of such an order, (which points up a lack of coordination between the OKW and the RME) the parent company was held responsible for all actions of its satellite enterprises. Cloaking measures involved various schemes which transferred stock ownership to friendly aliens or dummy stockholders, stock transfers between German and neutral companies and the apparent wholesale selling of German properties when the Germans secretly controlled vital business functions.<sup>19</sup> No matter what method was used, there was considerable German reliance on the good faith of the aliens who participated in the cloaking schemes.

The outbreak of war caused a disruption in Farben's role as a worldwide supplier of chemicals and dyestuffs. Prior to the Polish war, Farben accounted for almost 49% of the world's chemical sales abroad while the U.S. in comparison, provided only 20.7% of the world's sales.<sup>20</sup> The competition for Latin American markets was strong, but very lopsided. Sales figures for 1938 show that Farben provided 59.9% of Latin America's chemical purchases while the U.S. only provided 10.6% of the sales.<sup>21</sup> German trade arrangements with American chemical

companies resulted in the virtual exclusion of American chemicals from Latin America. The British blockade of Germany failed to halt the shipment of Farben's goods abroad. Farben's sales in 1940 show that sales in the amount of 4,005,925 RM (1 RM = \$0.40) were shipped through such neutral areas as Holland, Italy, and Siberia to Latin American markets for the most part.<sup>22</sup> These goods, when not shipped in neutral ships, employed the international postal services, cargo submarines and blockade runners.<sup>23</sup> Farben went to great lengths to provide for and protect her Latin American markets.

The German foreign trade policy of the 1930's was at most times confused, and at times, nonexistent. The changes of policy (liquidation and cloaking) represented the instability present in the upper levels of the Reich. These personality conflicts prevented the implementation of a single determined policy, and when war broke out, there was a great rush to institute a solid and feasible policy for foreign trade and assets. The transition could not be made smoothly, nor in time. Farben was able to see what was happening, and within the framework of the public policy on foreign activities, made some arrangements for the future which will be discussed later. Farben's activities from 1926 to 1939 can be summed up as "one of genius, not burdened with ethical conscience."<sup>24</sup>

## CHAPTER I

### FORMATION OF THE FARBEN EMPIRE IN AMERICA

#### A. Activities in the Post-war Decade

The close of WW I saw the U.S. government in control of all former German properties in America. The sale of confiscated German chemical corporations was a move to destroying remaining German influence on the chemical industry. The German pharmaceutical grant, Bayer, was sold to Sterling Products, Inc. who later sold certain portions of Bayer to the American company, Grasselli Chemical. In 1923, Bayer of Germany and Grasselli formed a joint chemical company in America under the Grasselli name and also formed General Dyestuff Corporation (GDC) to market the products. Grasselli sold its former Bayer dyestuffs holdings to I. G. Farbenindustrie and all other interests to du Pont on October 20, 1928. This transfer marks the re-establishment of the German Chemical Industry in America, in less than ten years after the Armistice, had regained the dye business which it had lost by confiscation.<sup>25</sup>

The following year, 1929, saw the formal merger of all of Farben's American holdings with the formation of the American I. G. Chemical Corporation, essentially a holding company composed of the following holdings.<sup>26</sup>

General Aniline (formerly Grasselli Dyes)  
Agfa-Ansco  
50% interest in Winthrop Chemical Corporation

50% interest in Magnesium Development Corporation

The company listed its two-fold objectives on its Certificate of Incorporation filed with the Securities and Exchange Commission in 1929. The corporation sought to foster and finance development of chemical industries in the U.S. and elsewhere, and secondly, to enter into any and all agreements deemed necessary for the benefit of the corporation.<sup>27</sup> This drive for economic supremacy, as mentioned in the objectives, was the key theme of all of Farben's activities with other businesses; Farben (and later, the Reich) were to be strengthened at the expense of others.

B. Activities of the Pre-war Decade

The direct Berlin control of I. G. Farben over American I.G. was well concealed from all non-Farben personnel. The board of directors included both Germans and Americans. American members of the board included Edsel Ford and Walter Teagle (a former president of Standard Oil of New Jersey). Many of the members of the board were members of the companies associated with American I. G. The election of Teagle to the board in 1929 followed a marketing agreement between Farben and Standard Oil in which American I. G. gained the services of Teagle and a quantity of Standard Oil stock. So well concealed was the Berlin control, that Walter Teagle sincerely pleaded before a Securities and Exchange Commission investigation of American I. G. that he did not know who really controlled American I. G.<sup>28</sup>

The main products produced by American I. G. (and later, General Aniline) were coal for dyes, chemicals, medicines,

cameras, film, and other photographic supplies. The firm of Agfa-Ansco was one of American I. G.'s better known companies. The economic power of American I. G. was able to increase in the Depression years. The areas of concentration by American I. G. and Farben will be separately covered in a following chapter.

The outbreak of the war in Europe made it necessary for American I. G. to change its name to a less German sounding title. The change became formal on October 30, 1939, due to belief that German names caused prejudice in this country.<sup>29</sup>

Another important development prompted by the rise of tensions in the late 1930's was Farben's use an American company, Chemnyco Inc., as its technological link to Farben's American enterprises. Farben went to considerable trouble and expense to maintain Chemnyco's services in the economic intelligence field. Not all German officials involved in economic espionage were in agreement to the value of Chemnyco's services; considerable correspondence between Farben and RME disclose a reluctance to release funds to pay for Chemnyco's services. The company gained unwanted publicity when Rudolf Ilger, the vice president, ordered the company's files burned.<sup>30</sup> In normal times, such an action might have passed without much concern, but not in the midst of the U.S. government's investigation of the company's activities. This did not improve Farben's image in America. The company was paid \$16,000 per month for its economic espionage activities. Farben summed up Chemnyco's services in a letter to RME dated August 3, 1940:

1. it provided "voluminous information on American industry,
2. it served as an agent in negotiations for American use of Farben's patents,
3. was tied to Magnesium Development Corporation and the American Magnesium Corporation.<sup>31</sup>

Chemnyco continued its services to Farben even though Farben, due to problems within RME or U.S. legal actions against Farben, was unable to pay. Chemnyco amassed credits with Farben, hoping to be paid in the future.

A study of the actual stock ownership of General Aniline will show undeniable German ownership. The 1940 Annual Report of General Aniline on file at the Securities and Exchange Commission shows that the Farben sponsored Swiss corporation Internationale Gesellschaft für Chemische Unternehmungen (I. G. Chemie) controlled 77.76% of the General Aniline stock.<sup>32</sup>

#### Common A stock

388,816 shares	I. G. Chemie	73.46%
66,632 shares	Osmon A. G.	12.59%
176 shares	not disclosed	

#### Common B. stock

650,000	L. D. Pickering & Co.	31.71%
600,000	Chemo Maatschappi	29.27%
300,000	N. V. Maatschappi	14.63%
500,000	Banque Federale	24.39%

The blocks of stock held by the Maatschappi companies had been "transferred" to I. G. Chemie after the fall of Holland. L. D. Pickering & Co. was an American investment house which handled Farben's American securities. The Treasury Department in the fall of 1940 refused to recognize the transfer of the Maatschappi



stock to I. G. Chemie. This was one of the earliest strong economic measures taken against Farben to date by the U.S. government. The actual ownership of General Aniline stock shows undeniable German control of the company.

General Aniline, like I. G. Chemie, was a holding company. The 1940 Annual Report lists General Aniline's holdings with a value of \$10,880,860 with major holdings in Standard Oil (\$6,979,946), Sterling Products Inc. (\$2,424,320) and du Pont (\$899,250).<sup>33</sup> The holdings represented a considerable investment in pre-war America.

Stock manipulations were not limited to international transactions; the attempts by certain American I. G. executives to gain control of General Dyestuff Corporation added to Farben's problems of maintaining its economic empire. The key to control of General Dyestuff was the stock option clause inserted by I. G. Farben when GDC became associated with American I. G. The sales of stock were controlled by an option device which specified that each stockholder must sell his holdings to the option holder at the option price of \$100 per share, plus a 6% dividend payable from the date of the last announced dividend.<sup>34</sup> After a long series of manipulations, the option came to Chemnyco and D. A. Schintz, the leading Chemnyco stockholder. His plans for control of GDC were thwarted by the shift of German foreign assets policy which called for cloaking rather than liquidation. His plans to gain a quick profit before liquidation (which never came) were demolished by the policy change. He received orders from Farben

to sell his stock valued at \$460 (on the open market) and had to resign from the board at General Aniline. After the fall of D. A. Schintz, GDC was able to purchase some of its own stock which removed considerable foreign control.<sup>35</sup> The cloaking program was speeded up after May, 1940, with the revamping of the I. G. Farben, I. G. Chemie, and General Aniline relationship. It called for an increase in the use of American personnel and the elimination of some of the more obvious association of I. G. Chemie and General Aniline which antagonized many Americans.<sup>36</sup> Farben generally turned a deaf ear to General Aniline's requests for cloaking measures.<sup>37</sup> The Reich Ministry of Economics created a Transaction Section to deal with the necessary Americanization of German firms. This section, under the directorship of Ministerialrat Imhoff never lived up to expectations.<sup>38</sup> It was hoped that American fears about German firms in America would subside. Farben soon found out that they had underestimated the American public.

## CHAPTER II

### FARBEN'S PARTICIPATION IN THE AMERICAN ECONOMY

Farben's areas of participation in the American economy show wise foresight and strategic planning. Farben's participation was regulative rather than contributive in its position to the economy; it exerted great concealed pressure upon direction from Berlin as in the case of synthetic. Farben's rise to importance in the U.S. was not accomplished overnight; it was the product of years of scheming and negotiations. The result of such actions was not really felt until the war in Europe threatened to embroil America. The effects of Farben's control were, at the best, generally short-term and overcome by a directed effort of a united nation in war.

Farben's American activities can be broken down into four main areas: pharmaceuticals, light weight metals, synthetic gasoline, and synthetic rubber. The strategic advantage (or more correctly, the lack) of the use of such products in wartime is beyond doubt; Farben attempted to deny the United States and her allies the use of these vital materials.

1. Pharmaceuticals - Farben's pharmaceutical sales in the U.S. were handled by General Aniline through the Winthrop Company. General Aniline owned 50% of the Winthrop preferred stock with a value of \$125,000.<sup>39</sup> Winthrop operated under a

Farben license to manufacture pharmaceuticals products, veterinary remedies, and insecticides. The territorial limitations, for sale of products, were limited to the continental U.S., Canada, and the American possessions.<sup>40</sup> Winthrop chemical controlled the below listed companies.<sup>41</sup>

H. A. Metz Laboratories  
Drug Inc.  
United Drug Inc.  
Antidolar Manufacturing Company  
Sterling Products Inc.

The British blockade of Germany resulted in the re-definition of sales territory. With I. G. Farben unable to supply the pharmaceutical needs of Latin America, Farben's American companies were pressed into service to fill the void. These companies directly aided Germany by their sale of pharmaceuticals to Latin America in containers which beared a strong resemblance to former German packages.<sup>42</sup> This fraudulent marketing had the advantage of appearing to reduce the blockade of Germany. Farben's sales and production of pharmaceuticals were of minor importance when compared to her other activities. The chief value of Farben's pharmaceutical activities lay in its advantage to supplement German drug trade. When the U.S. and Great Britain realized what Farben was doing, both nations eventually ended this trade, thus ending any advantage formerly enjoyed.

2. Light Weight Metals - Farben, in the 1920's and 1930's, was able to profit from the American competition between the established aluminum industry and its infant rival industry, magnesium. From 1919 to 1927, Dow Chemical and the American

Magnesium Corporation (AMC) as a subsidiary of the Aluminum Company of America (Alcoa) enjoyed the distinction of being the only producers of domestic magnesium. The interest of the aluminum companies in magnesium were ones geared to the displacement of aluminum by its long feared replacement, magnesium. American thinking in this decade was geared to the thought of complete supremacy in the industries; there was no chance for peaceful co-existence between the two metals. In 1927, AMC ceased production of magnesium, giving Dow a monopoly. Alcoa became indirectly involved in the aluminum cartel when her subsidiary, Alted, joined the cartel. Thus, Alcoa gained some benefits (guaranteed minimum prices, exclusive marketing territories, etc.) from Alted's participation.

In 1931, Farben, as the chief producer of magnesium in Germany, entered into an agreement with Alcoa known as the Alig Agreement. A joint corporation, Magnesium Development Corporation (MDC), was formed to supervise the exchange of magnesium patents between the two sponsors. Farben received a 50% interest in Alcoa's American Magnesium Corporation. Alcoa's interests in the agreement were two-fold.<sup>43</sup> First, Alcoa hoped to secure a powerful position in the rival magnesium industry, and second, the agreement prevented Farben from licensing other American firms to produce magnesium. Production of American magnesium was set at the low figure of 4,000 tons yearly.<sup>44</sup>

Dow Chemical entered into a patent cross-licensing

agreement with MDC on January 1, 1934.<sup>45</sup> Dow concluded another agreement which secured Farben as Dows chief magnesium customer.<sup>46</sup> The agreement allowed for token shipments to Great Britain. In the first two years, Dow sold 3.8 million (out of a total production of 4.0 million) pounds of aluminum to Farben. Due to Farben's preferential customer status, she paid 30% less per pound than regular customers.<sup>47</sup>

These agreements fell into disuse after 1938 when Germany accelerated her magnesium production while the other nations produced the metal at cartel's assigned figures. The effect of such arbitrary regulation was not really felt until the U.S. entered; and then, the effects were all too visible. Defense readiness had been subordinated to the selfish interests of the aluminum interests.<sup>48</sup> Farben had developed a domestic competition into a virtual monopoly, a tribute to German know-how and American shortsightedness.

3. Synthetic Gasoline - Discovery of the hydrogenation process by Farben chemists in 1926 thundered both political and economic triumphs of the first magnitude.<sup>49</sup> Large scale production of synthetic gasoline from coal via the hydrogenation process threatened to upset Standard Oil's virtual control of petroleum production. On the other hand, the discovery promised to make Germany self-sufficient in gasoline in a future war, a long-cherished dream. On November 9, 1929, the full marriage of Farben and Standard Oil secured Standard's position in the oil industry with the exception of Farben's production of German gasoline. This Division of Fields Agreement secured

Farben's position in the chemical field worldwide. The Four Party Agreement called for the creation of a joint corporation, Standard I. G., to exchange processing petroleum secrets as specified in the Division of Fields Agreement. Standard Oil gained 80% control of Standard I. G.<sup>50</sup> The joint American Study Group Company was another company that was formed in the 1929 agreements, founded to develop chemical processes not included in the Four Party Agreement.<sup>51</sup> Farben and Standard were equal partners in Jasco, but the majority of work was done in Standard's plants. The Division of Fields and the Four Party Agreements had the effect of insuring Standard's position outside of Germany but at the cost of retarding any future serious work in related fields, especially in the field of synthetic rubber.

Farben, in 1937, undertook to purchase \$20 million worth of aviation gasoline and lubricants from the U.S. Farben secured the necessary petroleum products in the U.S., but did not purchase directly from Standard Oil; Standard did, however, underwrite Farben's agreements with the American suppliers. Farben secured the necessary funds from the Reich government and received no profits for its services;<sup>52</sup> Farben felt that it was their moral obligation to help supply Germany's petroleum needs until plants for synthetic gasoline could be built.<sup>53</sup> Farben made another petroleum purchase in America in 1938. Farben secured 500 tons of tetraethyl lead (a necessary chemical used in the production of high-octane aviation gasoline) from the Ethyl Export Corporation, an American firm. The agreement

called for Farben to borrow the necessary chemical after posting a collateral of \$900,000.<sup>54</sup> Again, Standard Oil gave its support to this transaction and the bargain was concluded. After the tetraethyl lead was delivered, Farben notified the Ethyl Export Corporation of its voluntary forfeiture of the posted bond. This good bargain illustrates Farben's use of business associations to aid the needs of the German war machine.

4. Synthetic Rubber - The development of synthetic rubber (buna) was high on the list of national objectives of the German. Rubber represented the weakest link in the German war machine; her enemies, Great Britain, France, and the U.S., controlled the world's supply of natural rubber. The knowledge that any future war would end German imports of natural rubber, and the problems arising from the lack of rubber, prompted Germany to seek a domestic source of rubber. The 1929 agreements with Standard Oil gave Farben the go-ahead to develop synthetic rubber alone; Standard Oil could do only small scale experimental work with Farben's permission. Farben, as a result of the high priority of synthetic rubber development, could release very few secrets to Standard without finding itself in serious trouble.<sup>55</sup> From 1930 to 1938, Standard Oil developed its own buna, Butyl, and gave fully detailed information to Farben through Jasco as specified in the 1929 agreements.<sup>56</sup>

The synthetic rubber situation became somewhat more



complicated when Goodyear applied for a Farben license in 1937 to produce Farben buna in the U.S. Farben turned down Goodyear's request stating that American buna and production techniques were inferior to Farben's and that Farben was prohibited by the Reich government from granting licenses to non-German companies.<sup>57</sup> Farben's American patents on their Buna S and Buna N did not expire until 1950 and 1951 and these patents gave Farben exclusive control of buna production in America.<sup>58</sup>

Rejected by Farben, Goodyear made considerable progress in experimental research and even had plans of competing with Standard's Butyl in the future if there was a way to circumvent Farben's control.<sup>59</sup> The big change in Farben's policy came after September, 1939, when Farben permitted Standard Oil to license companies to produce Farben buna. There were considerable stipulations attached which enabled Standard to purchase up to 75% of Farben buna produced by the other companies, the payment of a high royalty to Standard Oil of 75¢ per pound, and a written understanding that any technological advances made by the licenses would become exclusive property of Standard and Farben.<sup>60</sup> It is rather easy to see how synthetic rubber production in the U.S. was severely retarded. It is interesting to note that there was somewhat of rivalry between the proponents of natural and synthetic rubber (analogous to the aluminum-magnesium controversy) and that this inability to co-exist caused problems in later years. America, unlike Germany, failed to realize the consequences of being denied a ready

source of natural rubber as was the case in early 1942. This failure was overcome only by a determined and united effort by American industry in 1942. Farben's ability to utilize American business competition to benefit the war machines of Nazi Germany is a monument to German efficiency.

### CHAPTER III

#### DISSOLUTION OF THE FARBEN EMPIRE IN AMERICA

The breakup of Farben's economic empire was a long overdue action. The American public was almost inconceivably unaware of the extent of German control of American industry and this had the effect of creating a minor flood of muckraking journalism. The extent of foreign control pointed up the need for more government regulation of the economy. It is possible to breakdown in terms of actions taken by the U.S. government.

##### A. Investigation of Farben Begun

The U.S. Senate took steps to attack the cartel problem by the appointment of a subcommittee to investigate the "degree of German control of industries essential to defense through patent pools and other arrangements."<sup>61</sup> This subcommittee, formed on January 4, 1941, was headed up by Senator Wheeler. The investigation was prompted by problems in securing certain materials (optical goods and plexiglass to name two) that were used in Lend Lease shipments to Great Britain. German patents on these products enabled the Germans to effectively curtail Lend Lease shipments to England.

Senator O'Mahoney, chairman of the Temporary National Economic Committee (TNEC), opened the controversy in the light metals industry. TNEC, beginning in 1939, began to study

concentrations of economic power in the U.S. The committee reported on domestic monopolies in many segments of the American economy. O'Mahoney lashed out at Alcoa for its entering into agreements with Farben to secure use of Farben's patents. He felt that Hitler would soon be producing a billion pounds of aluminum yearly in comparison to America's production of 327 million pounds per year.<sup>62</sup> A federal court in New York returned an indictment against six companies with antitrust violations. Companies named were Alcoa, Magnesium Development Corporation, Dow Chemical, General Aniline, and I. G. Farbenindustrie. It was revealed that Germany purchased magnesium for 21¢ per pound while American purchasers paid 30¢ per pound. President Roosevelt, upon hearing of the price differences, remarked that "the government had a right to take over any plant, American or foreign."<sup>63</sup> Note the shift in emphasis from aluminum to magnesium.

Arthur Davis of Alcoa led seven individuals into court on February 6, 1941, and all pleaded "not guilty" to charges of conspiracy with I. G. Farben.<sup>64</sup> General Aniline went unrepresented at the hearing until Karl Hockswenter, a company representative, entered a "not guilty" plea for himself. He made no plea for the company. Federal Judge Alfred C. Cox entered a "not guilty" plea for General Aniline.

The most important single person in the breakup of Farben was the Assistant Attorney General, Thurman W. Arnold, of the Antitrust Division. This Harvard trained lawyer was instrumental in securing convictions, especially Farben's.

He knew how to apply all forms of pressure to the involved companies to secure the truth about their dealings. It was said of his trustbusting skill, "It was really simple, and Thurman perfected the method if he did not invent it."<sup>65</sup> In future cases, Arnold used all forms of mass media to encourage public opinion against the cartels and to urge patent law reforms and stricter antitrust measures. He met with considerable, but not complete, success in the following year.

The Justice Department, under the supervision of Arnold, opened its investigation of German control on April 10, 1941. The government subpoenaed the company records of General Aniline, Sterling Products, and Winthrop Chemical Company. The indictment alleged restraint of commerce as specified in the Sherman Antitrust Act.<sup>66</sup> Attached to each subpoena was a list of 100 corporations and a court order for each company to report any transactions with the listed companies (which were German controlled).<sup>67</sup> Schering Corporation, subpoenaed earlier, went on record that "not one per cent of its South American sales profits go to Germany, either directly or indirectly."<sup>68</sup> The validity of this statement was questionable. The investigation had the value of showing the extent of German penetration into the South American drug market.

The British Economic Warfare Ministry under Hugh Dalton announced, in the beginning of May, 1941, that General Aniline, Sterling Products, and Schering Corporation were German controlled. The report requested the U.S. government

to freeze all German assets.<sup>69</sup>

B. Freezing of German Funds

The government ordered the seizure of the funds of General Aniline on deposit in the National City Bank of New York in an attempt to force the Germans to appear at the magnesium investigation. The order was issued on May 10; the investigation began in January. In the seizure order, Attorney General Jackson called Farben "probably the most powerful single influence in American industry."<sup>70</sup>

The sinking of the U.S. destroyer Robin Moor in the middle of June gave FDR the opportunity to issue his freezing order of June 14. There was much speculation about government actions in regards to German patent rights and many hoped that the patents would also be frozen.<sup>71</sup> Attorney General Jackson estimated that German and Italian assets in the U.S. had a value in excess of \$300 million. Considerable concern was expressed over reported Swiss holdings in excess of \$1.5 billion.<sup>72</sup> It was realized that much of that sum represented cloaked German holdings which did not fall under the jurisdiction of the Freezing Order.

The government gained a victory on September 5, 1941, when Acting Attorney General Biddle announced that Sterling Products, Bayer, and Alba Pharmaceuticals were enjoined in a consent decree from association with I. G. Farben.<sup>73</sup> The consent decree was the result of the investigation of South American drug sales by Farben's U.S. associates.

### C. General Aniline's Antitrust Case

The final and most important court case against Farben in 1941 was the case involving General Aniline. General Aniline, realizing that they would have to appear in court at some future date, attempted some belated corrective measures. A high level executive shake-up ousted D. A. Schintz as president and elected his successor, John E. Mack.<sup>74</sup> The Americans had gained considerable control on the board of directors and were making moves to prevent the collapse of the company from a federal take over. In the middle of October, the government announced its plans to investigate General Aniline.

The Americans on the board at General Aniline elected William C. Bullit to the board during the absence of the German directors, D. A. Schintz, Dr. Ernest Schwartz, and Felix Iselin.<sup>75</sup> The election of Bullit, a personal friend of FDR, was hoped to reduce the government's contention that the firm was openly German. This relief was short-lived, lasting until the war broke out. Two days after the declaration of war by Germany, the Treasury Department stationed 17 agents on the General Aniline premises to insure stability.<sup>76</sup>

On December 20, the government announced that General Aniline had been indicted on 3 antitrust violations. Antitrust indictments were also returned against the brothers Schintz, Ernest Schwartz, and W. H. vom Rath.<sup>77</sup> General Aniline and her German directors pleaded "not guilty." Joseph O'Connell of the Treasury Department's Foreign Funds Control Division barred the

indicted directors from the company's premises.<sup>78</sup> The barred men were labeled "personifications of I. G. Farben."<sup>79</sup> The government asked for, and received, a postponement of the trial proceedings to further develop their case.

Secretary of the Treasury, Morgenthau, announced that the February 16th seizure of General Aniline's stock had netted 95% of the common and preferred stock and disclosed that 95% of the company's debentures were owned by Americans. General Aniline might have been controlled by the Germans but the company's debt was owned by Americans. He said that the action was only temporary and that "the question of ultimate disposition is left open."<sup>80</sup> This seizure was supposed to relieve the "mental hardship" borne by the American directors who were later reduced in number from 12 to 4.<sup>81</sup> Robert McConnell was chosen to head the company as its new president.<sup>82</sup>

#### D. Creation of the Office of Alien Property Custodian (OAPC)

The Office of Alien Property Custodian was created on March 11, 1942, as defined in Executive Order N. 9095.<sup>83</sup> The Trading with the Enemy Act of 1917 had set up a similar body to deal with enemy property during WW I and Executive Order N. 9095 made changes to facilitate the activities of the 1942 OAPC.<sup>84</sup> The creation of this office did not terminate the Treasury Department's dealings with enemy property; it merely created a division of authorities. The Treasury Department had sought to control the enemy's general purchasing power to prevent its use for purposes contrary to the interests of the United States.<sup>85</sup> The OAPC dealt with real property and sought to



remove any potential misuse of property and the prohibition of all unlicensed communications by the enemy.<sup>86</sup>

The OAPC exercised three forms of control: the vesting order which gave the Custodian title to enemy properties, the supervisory order which called for government supervision of a business, and a general order which required specific persons to perform certain actions.<sup>87</sup>

Property controlled by OAPC was valued in excess of \$7 billion which made Custodian Leo T. Crowley a very rich man, at least on paper.<sup>88</sup> This figure included all alien property which came under OAPC control; the value of enemy property was \$456 million. The Germans after 1941 disagreed over the value of their now confiscated holdings, a paper by the Reichbank gave three figures on the value of assets in America, ranging from \$15,747,000 to \$77,000,000 depending on the agency compiling the report.<sup>89</sup> The paper's only comment about the inconsistency was "but again, there is no way of verifying their correctness."<sup>90</sup> Actual German assets in the U.S. amounted to \$105 million<sup>91</sup> while U.S. investments in Germany were in excess of \$420 million.<sup>92</sup>

#### E. The Standard Oil Controversy

The government opened its attack on Standard Oil on March 26, 1942, stating conspiracy with I. G. Farben. The charges and countercharges show an honest difference of opinion.

Standard argued that she had gained valuable secrets from Farben, citing them in the December 25, 1942 issue of

Petroleum Times.<sup>93</sup> Standard declared that she had gained knowledge of the production of toluol, used in TNT, by the hydrogenation process. Standard also declared that Oppanol, an additive to maintain constant lubricant viscosity was a secret gained from Farben. Standard argued that all these developments had aided the American war effort.

The men at Farben had also read the Petroleum Times article. They called it "another defense against accusations that America had come off badly as a result of the cooperation between Standard Oil and Farben."<sup>94</sup> Farben named three reasons for association with Standard. Standard had specialized petroleum experience not available in Germany, Farben wanted no unnecessary competition in the petroleum business in Germany, and lastly, that work done at Standard would not have to be duplicated by Farben. They concluded that the U.S. gained no real secrets from Farben.<sup>95</sup>

August von Knieriem, a defendant at the Nürenberg Trials commented on the American methods of resolving the Standard Oil-Farben controversy.

These reproaches against Standard Oil were raised in a civilized form of a hearing before a Senate Committee. But now imagine the situation of a German firm in 1944 before the People's Court. I don't believe I need say any more about that.<sup>96</sup>

The demands of the war eventually caused the government to postpone most of its proceedings to insure Standards' full attention to war production.

#### F. The Controversy Continued

The magazines of the period paid considerable attention to the problem of foreign control. Thurman Arnold pleaded for changes in the patent system. In the Atlantic Monthly, he said that the then present patent system repressed new inventions, and sought stricter supervision of patents to prevent foreign control of U.S. patents.<sup>97</sup> Lawrence Langer, a former secretary of the National Inventors Council, took issue over Arnold's proposed patent changes. He felt that if a person refused to license his patent (Arnold wanted no exclusive control of a patent by a single company), that he would be labeled a criminal according to Arnold's definition.<sup>98</sup> There was no simple, universally acceptable solution although some of Arnold's measures were adopted.

The case of J. R. Bonnar v. U.S. in the U.S. Court of Claims is an attempt by one person to question the wartime seizure of General Dyestuff Corporation stock by the U.S. government. This case shows us in 1969 that we are a product of the past. Examination of the records and exhibits of that case have made this paper possible and did much to stir interest in Farben.

## CHAPTER IV

### CONCLUSION

This study of Farben's activities in the United States allows a comparison of the state of the art of economic warfare as it existed in the 1930's. This very real aspect of total war, <sup>was</sup> not fully appreciated by the Germans who created it, or the Americans who felt the effects of it. The short term effects of Farben's activities were very real: the retardation of American industries in vital areas.<sup>99</sup> The only reason American companies entered into cartel arrangements with Farben was for their economic advancement. In the over-all view, the price paid by America was far in excess of what she received; the U.S. could have developed the various Farben processes in due time and it should be quite apparent that Germany did not disclose anything of absolute necessity.<sup>100</sup>

The blame for the growth of Farben in this country lay with the American people and their government; maintenance of the status quo and fear of rocking the economic boat are to blame. The U.S. made attempts to extract<sup>g</sup> itself from the grasp of Farben only when she saw the true meaning and objectives of Farben. The activities of the Temporary National Economic Committee, beginning at the turn of the decade, were worthy undertakings but the real problem was not tackled until 1941.<sup>101</sup> The U.S. had good legal weapons to fight the

problem. The Sherman Antitrust Act, if properly enforced, had considerable power. The lack of initial response to the cartel problem cannot be attributed to the act's power, but in the persons who used it.

The Germans, on the other hand, eventually lost everything through human error. The lack of a consistent foreign economic policy lost Germany everything. Without a long-term economic program on the national level, Farben could hardly be expected to make any strategic decisions. Farben's decisions were generally sound and demonstrated economic genius. American's must share their thanks for the fall of Farben between determined American efforts and blundering on the part of Nazi economic strategists.

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