

**WHY UNITED KINGDOM REFUSED THE ECONOMIC  
HELP FOR ROMANIA IN 1938.  
NEW DOCUMENTS FROM BRITISH  
NATIONAL ARCHIVES**

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**Abstract.** The topic of British-Romanian economic relations after Munich Agreement was under historians scrutiny for more than half a century and there are still new surfaced documents that allow for a better understanding of UK's Government motivations towards Romania. The present paper presents some new documents on the meetings of King Charles II had in London during his visit (14-17 November 1938) and an unknown project for a close Anglo-Romanian economic cooperation proposed by Mitiță Constantinescu, along with the British motivation for rejecting this project.

**Keywords:** United Kingdom, Romania, King Charles II, Mitiță Constantinescu, British-Romanian economic cooperation

**Rezumat.** Chestiunea relațiilor economice româno-britanice de după Acordul de la Munchen s-a aflat în atenția istoricilor vreme de mai mult de jumătate de secol și totuși încă apar noi documente care permit o mai bună înțelegere a motivelor care au stat în spatele acțiunilor Guvernului britanic față de România. Articolul de față prezintă câteva documente noi referitoare la întâlnirile pe care regele Carol al II-lea le-a avut în timpul vizitei sale la Londra din 14-17 noiembrie 1938, dar și o propunere necunoscută până acum din partea ministrului Mitiță Constantinescu pentru o colaborare economică strânsă româno-britanică, alături de motivarea britanică pentru respingerea acestui proiect.

The Munich Agreement from 29<sup>th</sup> September 1938 threw Romania's diplomacy in a spiral of negotiations aimed at obtaining guarantees for the preservation of the existing borders. Romanian diplomats were convinced that Munich Agreement covered not only the Czechoslovak issues, but also contained a „gentleman's agreement” by which Nazi Germany was given a „free hand” in South-Eastern Europe. There have been serious signals in this direction, as the statement of Prime Minister Neville Chamberlain on 1<sup>st</sup> November 1938 that Germany would have a dominant role in Central and South-Eastern Europe, while England had no intentions for an economic encirclement of Germany in this region<sup>1</sup>.

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1 Gheorghe Buzatu, *O istorie a petrolului românesc*, Casa Editorială Demiurg, Iași, 2009, p. 322

Romanian historiography promoted the thesis that during 1938-1939 the Romanian Government tried unsuccessfully to obtain from France and United Kingdom guarantees for its borders and economic support in order to avoid a massive German economic penetration, something that led to the German-Romanian Economic Treaty of 23<sup>rd</sup> March 1939<sup>2</sup>. Most of British and American authors agree more or less with this point of view<sup>3</sup>, while German historians seem to adhere to the idea that there was nothing more than „business as usual” in the German-Romanian economic relations at the end of 1938 – beginning of 1939<sup>4</sup>.

There is no doubt on the scopes and intentions of Romania's King Charles II visit to London, only that the interpretations of British-Romanian negotiations during this visit are based on a single document: the transcript of the audience the King had with Prime Minister Chamberlain and Foreign Minister Halifax<sup>5</sup>. While this document clearly presents the positions of both parties, it provides no intimate details on how the British Government saw the possibilities of helping Romania from falling under the Nazi Germany influence. These details are evident in some unpublished documents that are presented in the following lines. Kept closed until 1989, the file T160/908 from United Kingdom's National Archives is a large collection of documents bearing the title „Roumania: German economic penetration; Counter-measures to”. The file was compiled by Sir Frederick Leith-Ross, the chief economic advisor to the UK Government between 1932 and 1945. The documents in this file offer a different perspective on the British-Romanian negotiations in 1938, from the tense meetings and sharp retorts to an unknown Romanian proposal for a profound British involvement in the Romanian economy.

When German pressure on South-Eastern Europe increased dramatically at the end of 1938, Romania's economic relations with its Western allies appeared to be in a deadlock. The major problem was the difficulty of Romanian economy to buy the currency needed to pay the previously contracted debts and to increase the foreign currency reserves to guarantee new loans necessary for the weapons program.

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2 Viorica Moisuc, *Diplomația României și problema apărării suveranității și independenței naționale în perioada martie 1938-mai 1940*, București, Editura Academiei, 1971; Ioan Talpeș, *Diplomație și apărare. 1933-1939*, București, Editura Științifică și Enciclopedică, 1988; Ioan Scurtu, Gheorghe Buzatu, *Istoria românilor în secolul XX*, Editura Paideia, București, 1999

3 A.J.P. Taylor, *Originile celui de-al doilea război mondial*, Polirom, 1999; Elisabeth Barker, *British Policy in South-East Europe in the Second World War*, Macmillan, 1976; Sidney Aster, *1939: The Making of the Second World War*, London, 1973; Martin Gilbert, Richard Gott, *Conciliatorii*, București, Editura Politică, 1966; Simon Newman, *March 1939: the British Guarantee to Poland*, Oxford at the Clarendon Press, 1976; David Britton Funderburk, *Politica Marii Britanii față de România 1939-1940*, Editura Științifică și Enciclopedică, București, 1983

4 Andreas Hillgruber, *Hitler, regele Carol și mareșalul Antonescu*, Humanitas, București, 1994

5 *Documents on British Foreign Policy 1919-1939*, Third Series, Volume III, doc. no. 262

Prior to the visit to London of King Charles II, British Government received worrying signals on the economic situation, transmitted by different channels. A British diplomatic cable dated 14 November 1938 from Bucharest announced that a German economic delegation arrived in Romania asking for shares in various Romanian oil companies<sup>6</sup>.

A letter from Vicker's representative in Bucharest, Boxhall complained that Max Auschnitt's efforts to export Romanian wheat in order to cover the debt to Vickers remained unsuccessful. Moreover, Max Auschnitt feared that German economic delegation in Bucharest will be able to obtain an increase in the exchange rate between the German mark and the Romanian leu. In addition, the Italian government granted very favorable credit conditions for achieving the Romanian naval program. Boxhall hoped that the visit of King Charles II in London will improve all these problems<sup>7</sup>.

In fact, detailed discussions in London on the Romanian- British relations have been rather strained and did not reach firm conclusions. On November 16, 1938, King Charles II met Sir Leith -Ross, UK Government advisor on economic issues. Sir Leith -Ross described the meeting in a report to the Foreign Minister Halifax: King of Romania repeated the well-known proposals whose implementation is very difficult. Leith -Ross summarized the requests of King Charles II as follows: finding ways for British investments in Romania for the old project of a British naval base on the Black Sea, the construction of silos, developing canning industry. Leith-Ross's response was disappointing: the question of British naval base was considered a political one, dependent on future developments; the remaining investment projects were highly dependent on the extent to which the investments could be recovered. Regarding the Romanian wheat, Leith-Ross pointed out that its price was much more than prices in the rest of the world, something that blocked any British imports and in the oil sector, Romanian restrictive government policies were difficult for further British investments. Concluding the discussion Charles II said that he did not wanted his country to be economically controlled by Germany, and for that he needed British economic aid. Leith-Ross replied "the political aspects were questions which he ought to discuss with my Ministers; but he could be assured that we would do what we could for Roumania, if Roumania would only adopt a policy which made trade with us possible"<sup>8</sup>.

After this quite disappointing meeting with Sir Leith -Ross, King Charles II had a discussion with the Third Sea Lord and Controller Admiral Reginald Henderson during which the Romanian King "was very frank and open and called

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6 National Archives UK, T160/908, Palairt's telegram 14<sup>th</sup> November 1938

7 National Archives UK, T160/908, Boxhall to Sir Leith-Ross 11<sup>th</sup> November 1938

8 National Archives UK, T160/908, Leith-Ross to Halifax 16<sup>th</sup> November 1938

a spade a spade"<sup>9</sup>. King of Romania presented the project of building a port on Lake Taşaul north of Constanta, port that should have been linked with Danube at Cernavoda; unfortunately, this project had no prospects, despite ten years of negotiations. Charles II did not refrain himself from harsh statements: "said that he could go to Germany and Italy, get an answer in 48 hours and obtain credit for projects for naval construction on a long term basis of 7 years, but here, in this country, and the one that he wanted to come to, he could get no satisfaction" Admiral Henderson tried unsuccessfully to obtain from Charles II a response on his vision about the guarantees that could be given for such a British investment. The second issue discussed was the idea for Britain to support Romania in building a fleet of fishing vessels and cargo ships - an idea greeted with great reservations. Admiral Henderson concluded his presentation of this dialogue transcript stressing that "The one thing about which he left me in no doubt was that he was convinced that he could get all he wanted from Germany and Italy and, if Great Britain could not make up its mind quickly, he would be forced to go to one or other of those countries, with the result that such influence as we have at the present in Roumania would wane".

In parallel with this meeting, British Foreign Minister Halifax met his Romanian counterpart Petrescu Comnen, having a discussion at least as less satisfactory for the Romanian officials<sup>10</sup>. Minister Petrescu- Comnen approached one by one the Romanian diplomatic requests: the question of Hungarian revisionism, the prospect of a Ukrainian state created with the support of Germany, the situation and the Little Entente and Balkan Entente. Halifax's answers come one by one, each more disappointing than the other: as regarded the Hungarian revisionist claims he promised that he would have a discussion with the Hungarian ambassador in London, on the Ukrainian question said that "His Majesty's Government had, of course, no direct interest in that part of the world beyond their general interest in the maintenance of peace. Further, their ability to interfere in that region was strictly limited"; and the situation of Czechoslovakia and the Little Entente was seen in dark colors - Halifax appreciated that if Czechoslovakia status would be changed and settle in a neutral position similar to that of Switzerland, then its relations with the Little Entente were to suffer some changes.

The meeting between Halifax and Petrescu- Comnen was attended by Sir Leith-Ross when it came to economic issues. Halifax pointed out from the very beginning what he said the day before King Charles II during his meeting with Prime Minister Chamberlain, namely that it was impossible for the British

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9 National Archives UK, T160/908, Minute of a conversation between the King of Roumania and the Third Sea Lord and Controller regarding the construction of a commercial port and naval base near Constantza

10 National Archives UK, T160/908, Viscount Halifax to Palaret, 17<sup>th</sup> November 1938

Government to participate in unviable economic investments. The main difficulties in the Romanian-British relations were the Romanian export policy and the fact that all advanced proposals were economically unsustainable. According to Halifax, after meeting King Charles II, Prime Minister Chamberlain demanded a re-examination of Romanian proposals for building a naval base and bilateral economic cooperation projects. British Foreign Minister added that after completion of this re-examination the idea of sending an economic mission to Bucharest would be considered.

Petrescu-Comnenu replied that after the conclusion of the Munich Agreement he was concerned to learn that there was a gentleman's agreement between London and Berlin, conceding economic privileges for Germany in Central and South-Eastern Europe and he was relieved to find out that there was no such understanding. Presenting the plight of Central and South-Eastern Europe under German pressure, Petrescu-Comnenu asked for a more active British policy in the region and he repeated the Romanian requests: open government credit lines for Romania, loans to private investors; British private or public participation in enterprises in Romania. At this point, Sir Leith-Ross mentioned "how much work he had lately devoted to the examination of improving Anglo-Roumanian trade relations. Sometimes, however, he was filled with despair." Leith-Ross explained to Comnenu that "The principle upon which the British Government based itself was that all credit must be founded on some sound commercial basis, i.e. that the methods of repayment should be by normal commercial means." Leith-Ross referred to the problems of the main export products of Romania: cereals and oil. Romanian cereals were more expensive than those from other regions of the world, so that Romania had to take steps to lower prices. Regarding oil, Leith-Ross was "he was filled with yet more despair": British oil companies had a lot of complaints against the Romanian Government's new legislative initiatives (at this point, Halifax handed Petrescu-Comnenu a list of complaints of British oil companies in Romania). Leith-Ross's conclusion was that "Despite the admiration people felt for Romania, there was no gain-saying the fact that capital invested in that country was in a very precarious position and the credit of Roumania considerably damaged. There was thus much for the Roumanian Government to do before a basis could be furnished for new credits or investments." In his conclusion of the meeting, Petrescu-Comnenu "ventured to suggest that the moment was an exceptional one and the problem demanded exceptional treatment. If this country (i.e. Great Britain) adhered to its old methods he feared it would find itself, to say the least, handicapped throughout the Danubian basin". During these meetings a telegram from Bucharest brought to London the latest news from Romania regarding the details of German-Romanian negotiations: the Germans wanted to buy wheat, oil and other raw materials that would amount up to 80% of Romanian trade<sup>11</sup>.

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11 National Archives UK, dos. T160/908, Palairt to Viscount Halifax, 17<sup>th</sup> November 1938

The above mentioned political discussions were triggered by an extended cooperation proposal, advanced by the Romanian Minister of Economy Mitiță Constantinescu. This document, under the title „Schema resumatif des secteurs plus importants d'une collaboration economique Anglaise en Roumanie” basically covered the whole spectrum of economic collaboration, proposing a deep involvement of British capital in Romanian economy. The first sentence of the memo held that "The English technology and capital may find in Romania areas of activity and collaboration as follows, to mention only the most important." In the civilian economy British investors were given the opportunity to be involved in: the development of raw materials processing industries, the development of extractive industries, the development of hydropower, development of agriculture, the development of means of communication. Regarding the issue of the military industry Mitiță Constantinescu's proposal just mention that Romania needs development in this area. Civil investment issues were discussed at length after their initial listing. Thus , in terms of manufacturing industries the project stated that Romania had many raw materials, but little processing capabilities, and development of such enterprises with a production targeted for domestic consumption could generate profit. In this sense it was mentioned first oil manufacturing that could produce chemical materials, pharmaceuticals, dyes, solvents, fertilizers, synthetic rubber, industrial oils, insecticides , plastics etc. For the food industry Mitiță Constantinescu proposed investment opportunities in the manufacturing of canned food and required the involvement of the British capital in developing the fisheries in the Black Sea, the construction of a fishing fleet and of some ships equipped with refrigeration facilities for exporting meat , building slaughterhouses and deposits refrigerators etc.

Regarding the extractive industry Mitiță Constantinescu's project suggested the involvement of British investors in the mining of gold, silver, lead, zinc and sulfur. Here was included the possibility of developing companies to produce aluminum. The next chapter stated that Romania is rich in possibilities for producing hydro-energy. In the section dedicated to agriculture, the project stated that Romania needs 500 tractors, 1,000 mechanical harvesters, 50,000 wagons, 20,000 grapes etc. and all these agricultural tools could not be purchased only on credit. Regarding Romanian arms industry, Mitiță Constantinescu announced that detailed plans were confidentially transmitted, and for the re-arming program Romania needed a loan of 12-15 million pounds on a period of 10 years<sup>12</sup>.

If Mitiță Constantinescu would have had the chance to read the assessment of his proposals made by the experts of the Export Credits Guarantee Department in London would have been at least disappointed<sup>13</sup>. This analysis dominated the

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12 National Archives UK, dos. T160/908, Memo „Schema resumatif des secteurs plus importants d'une collaboration economique Anglaise en Roumanie”

13 National Archives UK, dos. T160/908, Memo „M. Constantinescu's Memorandum on possibilities of British Economic Assistance to Roumania”

UK Government's actions regarding Romania at the end of 1938 and beginning of 1939, so it's worth to be presented in detail. From the very beginning of the analysis, ECGD experts pronounced a grim view: "Apart from the oil companies (whose case is a special one and will no doubt be considered separately) there seems no likelihood of inducing private British investors to sink money in development schemes in Roumania at present". Mitiță Constantinescu's proposals were seen as difficult to follow since the investments would have been repaid by goods credits to be paid in annual installments, an unlikely perspective from the point of view of the British Government experts: "It is unlikely that British manufacturers would be prepared themselves to give extensive credit to the Roumanian Government or would be able to obtain finance for the purpose in the City without a Government guarantee".

ECGD mentioned a 10 million pounds credit line for Turkey and the fact that Roumania was seeking something similar through Mitiță Constantinescu's proposals. Only that the basis of any discussion of credit (but not a purely political subsidy) should have been the possibility of repayment by the following means: 1) the debtor would have sufficient resources to pay rates or 2) the investments will create new financial resources. The credit for Turkey was considered as being built on both ways of payment: a mortgage on existing exports of grain, timber, cotton, fruits and vegetables, as well as metals, ores, coal - whose production was expected to grow by developing investments under the loan.

Regarding Romania, E.C.G.D. experts appreciated that no such guarantees could have been obtained by employing Romania's existing resources. The same experts were concerned that the sole guarantee of Mitiță Constantinescu's proposals was the repayment of the new debt by the exports to UK. ECGD did not agree with this: „The difficulties of the Anglo-Roumanian clearing have shown abundantly that at their present annual level Roumania's exports to the United Kingdom are not adequate to cover her existing commitments much less to repay a new credit”. In the following lines Mitiță Constantinescu's proposals were taken into account one by one:

Constantinescu Mitita disagreed on their analysis, stating that annual exports of Romania in the UK were not enough to repay existing loans, much less could guarantee new loans. Following their analysis, experts E.C.G.D. analyzed point by point the Romanian proposals. New industries based on the processing of oil products were seen as speculative since „the products would in the first instance go to supplying the home market, rather than provide exports to free-exchange countries”. Also, food products from Romania offered little possibility of additional exports to free-exchange countries, while Hungary and Poland had no success when tried to sell canned foods in UK. The development of hydraulic power in Romania was rebuffed with a stern sentence: „This would clearly produce no additional revenue in free exchange”. In what concerned the

development of communications in Romania with the help of British capital, ECGD stated that this could not produce the desired free-exchange, while the creation of a Romanian merchant fleet „we should clearly not wish to encourage the creation of a Roumanian merchant fleet”. Romanian mining industry development was seen with the same skepticism: "If the oil companies were willing to increase their investment in Roumania, they would hardly require Government assistance".

ECGD concluded that the only Romanian- British joint projects that would have been expected to produce profits in the form of convertible currencies were 1) mining, 2) manufacture of oil derived products of petroleum and 3) cellulose and wood products. But these projects were seen as posing further problems for investors: mining development would have required a long time and large financial resources; the manufacture of products of petroleum and wood cellulose processing would have required the creation of new industries.

In concluding their analysis, experts E.C.G.D. proposed a different method for obtaining guarranties for a credit, namely the construction of silos for grain storage. But there were difficulties in this area: the project was already the attention of companies from Belgium and Germany - and besides, it was not mentioned in the Memorandum of Mitiță Constantinescu. "If the contract is still obtainable it might be the best basis for a credit. One of the difficulties of selling Roumanian wheat in the free market is the absence of storage in Roumania, which makes it impossible to hold the grain for a market. The provision of silos would therefore make it easier for the Government to convert a part of the Roumanian wheat crop into free exchange, while the wheat stored in the silos might be made collateral security for the credit". Another source of foreign currency was the Romanian oil exports to Egypt and cereals in Greece - but given the difficulties of obtaining Romanian convertible exchange was estimated that these sources were not available for a new credit guarantee. The conclusion of ECGD basically rejected the idea of granting a credit to Romania on the basis of Mitiță Constantinescu's proposals: "Apart from such limited possibilities, it seems as though the grant of new credits to Roumania must be subordinate to some arrangement for increasing Roumanian exports, the consideration of which is outside the scope of this paper".

Basically, the United Kingdom saw no perspective in granting a large loan to Romania in the end of 1938. Also, ECGD rejected a Romanian proposal for an increased economic cooperation. There is a striking resemblance between the project advanced by Mitiță Constantinescu and the German-Romanian Economic Treaty of 23<sup>rd</sup> March 1939<sup>14</sup>.

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14 Ioan Scurtu, Theodora Stănescu-Stanciu, Georgiana Margareta Scurtu, *România între anii 1918-1940. Documente și materiale*, Editura Universității București, 2001, doc. 12.4