The Cost of Francoist Economic Policies to a British Firm: Rio Tinto Company, 1939-1954

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The clash of interests between the Spanish and Allied Governments throughout the 1940s created an adverse environment for the aspirations of the Rio Tinto Company. Indeed, the British mining company was unable to improve on the negative results obtained between 1931 and 1939. I will show in my paper that the Francoist drive towards economic self-suffiency led to the imposition of policies which curtailed receipts and inflated production costs. To some extent, these policies were deliberatedly implemented to squeeze the Company by bringing down its profits in the hope of nationalizing the Company's assets. Facing a heavy financial penalty, the London managers resorted to the sale of the mines in an attempt to reallocate funds to more profitable investments. This strategy was frustrated by the decision of the British government. It opposed the sale on account of the high propaganda value of the Mines during World War II. Confronting the official veto from the British government and the hostile attitude of the Franco regime, RTC was left to take steps to make the most of their ageing plant. Furthermore, little hope could be laid on the recovery of external markets for the Rio Tinto pyrites in the face of strong competition from native sulphur.

This paper is divided into three sections. I will first outline the main industrial and commercial policies implemented by the Francoist government during the 1940s. In the second section, I will discuss the response of the Rio Tinto Company. In the final section, an attempt will be made to assess the economic cost of these policies for the mining company.

Industrial and Commercial Policies

At the end of the Spanish Civil War, the Franco regime wasted no time in letting RTC know about their intentions with regard to the future of the mining firm. An embargo was almost immediately lifted upon its ore exports

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to all countries (other than Germany and Italy) [3]. This decision was not only a deliberate attempt to push up the prices of pyrites in world markets but also to assess the support on which the RTC could count from the Foreign Office. The embargo brought the Company's business to a standstill. The directors argued that the withholding of export permits was of an "expropriatory nature which if allowed to continue must result in the total stoppage of all operations" [18]. The British ambassador in Madrid protested the "discriminatory nature" of the embargo and asked for its immediate removal [16]. A Company deputation to Spain was able to assess that the ultimate goal of the government was to nationalize the Rio Tinto Mines [2]. RTC was able nonetheless to reach a compromise with Franco. It was established that export earnings would be carefully supervised through the submission of sales contracts to the authorities[2]. The settlement was a serious breach of RTC's business code as it meant the disclosure of confidential information on prices and on customers.

The six month crisis which placed RTC on the verge of collapse perfectly summarized the relations that emerged between the Franco regime and the mining Company. Over the years 1939/54, the Spanish Government adopted a number of measures in its quest to nationalize Rio Tinto. However, this process must be analysed against a double background. On the one hand, the drive towards economic self-sufficiency announced by Franco in 1939 was a major reason to bring the Mines under domestic control. On the other, ownership of Rio Tinto was connected with a long tradition of economic nationalism in Spanish life. By the turn of the century, the expropriation of raw materials under foreign ownership was already viewed as a desirable objective. This ideology received a strong boost in the 1920s during General Primo de Rivera's dictatorship, precisely at a time when the Company was paying fantastic dividends to its shareholders. Discontent about Rio Tinto stemmed from the special property rights were granted to the Company when it was founded in 1873. In contrast to other foreign mining companies which operated in Spain, RTC was in possession of the full domain over the land and mineral resources in Riotinto. To the hardliners of the regime, the 1868 Mining Law which was passed under the First Republic, led to a loss of sovereignty over a tract of Spanish territory. In this respect, they liked to draw a comparison between Riotinto and the Rock of Gibraltar after the Treaty of Utrecht. Thus, the Rio Tinto Mines were frequently described as an "economic Gibraltar" by senior officials of the Government. A clear example of this state of mind was provided by members of a deputation to Berlin for discussions of the terms for Spain's entry into the Second World War. The German claim on English and French owned firms in Spain was countered on the grounds that

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[2]For a detailed account of the *modus vivendi* agreed between the Spanish Ministry of Industry and RTC, see my forthcoming book on the sale of the Rio Tinto Mines.

> At a time when Spain was preparing to unfurl her flag and in the name of her honour, to regain that which was lost, she must uphold her claim to the ownership of the Rio Tinto Company, of which she had been robbed [13].

A highly symbolic value was therefore placed by the Franco regime on the recovery of Rio Tinto, on both economic and political grounds. To this end, the Spanish Government was free to follow a twofold strategy. The Company could be forced, on the one hand, to stop operations. The Mines would then be expropriated on application of the 1938 Mining Law. Any protest from Allied governments would be silenced by arguing that the stoppage was contrary to Spanish national interests. On the other hand, mounting pressure could be exerted upon RTC to induce the directors to sell the Mines under favourable conditions.

Economic Policy as a Weapon against RTC

The dramatic course of international politics and the growing economic stringency suffered by Spain saved RTC from confiscation on two occasions: in 1939 and again in 1944. Thereupon the regime turned to economic policy as a way to suffocate the Rio Tinto Mines. By resorting to a less provocative approach, the government fulfilled two additional goals. First, copper, pyrites and sulphur were supplied at low cost after mining operations were resumed at Rio Tinto. Furthermore, the output of the Mines was exchanged for large sums in foreign currency which were indispensable to import corn, fertilizers and oil. Second, the Francoist administration benefitted from RTC's standing in the financial markets to obtain advantageous deals in their bilateral negotiations with England or the United States. Thus Carceller, as Minister of Industry, applied to RTC the same 'carrot and stick' policies which were used by the British government to prevent Spain from joining the Axis powers [8, p. 79]. One such episode took place in 1941/42 when the minister made the approval of higher copper prices for the home market conditional upon the granting of export licences by the Roosevelt administration. RTC was also asked to increase its copper output by a fairly considerable amount. To meet this latter requirement, equipment had to be imported from either England or the United States. However, British goodwill to assist RTC faced strong opposition from the American Office of the Lend-Lease Administration. After much hesitation, an agreement was finally concluded in early 1942 between Churchill and Roosevelt to "supply the RTC from the United Kingdom, equipment that they will need to comply with the wishes of the Spanish Government" [5]. It meant a flagrant transgression of the recently approved Anglo-American policy with regard to the Franco regime. The disclosure of this agreement created a great scandal in the press. However, it did not shatter the support given to RTC by the British Government[3].

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[3]Further details about this episode are given in chapter 2 of my forthcoming book.

To keep the Rio Tinto Mines under pressure, the Spanish Government had at its disposal a whole range of economic checks derived from its general industrial and commercial policy. However, a small number of measures were specifically designed for the purpose.

Industrial policy inflicted a heavy penalty upon the operation of the Rio Tinto Mines. Its influence should be assessed from a double perspective. Firstly, its striving for self-sufficiency led to the obligation on the part of RTC to sell its copper output in the home market. RTC thus failed to take advantage of the existing differential between the London Metal Exchange (LME) quotation for copper and the Spanish price. Secondly, RTC lost the monopoly returns which it had hitherto extracted as the sole copper producer in Spain. In the marketing of pyrites, RTC had traditionally acted as a dominant firm pressing for high prices through the cartel which was under its control. In the fight to curb an inflation rate of 11.5% p.a. between 1940 and 1954, the Spanish government departed from market mechanisms. Drastic price controls were implemented. Requests for price increases by RTC were examined by the Ministry of Industry after consultation with a number of governmental agencies. Although this complex system gave rise to widespread corruption among senior officials, RTC gained little advantange from it. To some extent, the managers failed to grasp the profound changes which were taking place in the way business was conducted under the new regime. They badly miscalculated the reactions of their new interlocutors who viewed their approach as arrogant. By their dealings they generated an even more antagonistic attitude towards Rio Tinto's foreign ownership. The regime embarked upon a policy of promoting state controlled firms to counter RTC's dominant position in the home market. In the late 1940s, an effort was also made to challenge RTC's supremacy in the European pyrites cartel.

Commercial policy also exerted a negative impact upon RTC's interests. While such policies were not a deliberate attempt to damage the Company, their side effects were certainly a major source of concern to RTC. Trade regulations stemmed from the serious shortage of foreign currency which was suffered by the Spanish economy throughout the 1940s. They affected RTC's business in a double way. Firstly, the Company was persistently denied the appropriate licences for the importation of spare parts and coal. Secondly, the firm was forced to surrender all its foreign currency earned on its export sales at the official rate of exchange of the peseta. This rate greatly overvalued the free rate[4]. The exchange differential was equivalent to the imposition of a tax on export sales since it considerably reduced the peseta value obtained by the seller. Moreover, the sterling required to cover social overheads at the London headquarters was purchased at yet another rate. However, currency regulations would have prevented the repatriation of capital gains to England even if the Rio Tinto Mines had been profitable in the 1940s.

Finally, RTC's variable costs were badly hit by a long succession of social initiatives intended to improve the welfare of the workers who suffered

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[4]The average official rate was 38.3 ptas to the pound for the years 1940/54 while it reached an average value of 104.7 ptas in the free market of Tangiers.

the impact of raging inflation. Although wage increases were seldom granted to avoid boosting price increases, indirect measures were put into effect: Sunday pay, social allowances, working hours, special regulations for underground work and cooperative stores. The Company was denied permission to reduce its workforce in spite of high excess capacity.

In sum, the combined effects of industrial, commercial and labor policies jeopardized the normal operation of the Rio Tinto Mines. Their impact was further boosted by the dislocation of the entire economy due to the destruction suffered in the Civil War. Shortages of coal and power brought the smelter to a standstill on several occasions in the course of the 1940s and disrupted the internal transportation system. The lack of spare parts hindered repairs at the Company's workshops. The impossibility of importing new equipment to melt ores with low copper content brought about decreasing returns. As a result, the average cost per ton of ore was multiplied by a factor of 5.8 between 1940 and 1954, though in real terms, the increase amounted to only 27 per cent. The largest cost increase took place between 1947 and 1953 (64 per cent) after the Government had agreed to substantially raise wages[5]. High operating costs responded to a combination of declining labour productivity and the emergence of diseconomies of scale as Rio Tinto operated well below full capacity. Between 1938 and 1944, the volume of ore extracted from the Rio Tinto Mines was cut from 1,116,000 Tons to 391,000 Tons or a mere 35 per cent of its former level. By 1952, output was still 20 per cent under the prewar level. The high dividends paid until 1929 were followed by the payment of a mere 2.2 per cent on preferential shares for statutory reasons between 1931 and 1947. As Harvey has shown, the "financial standing of RTC was only maintained by the high dividends paid by the Northern Rhodesian copper companies" [7, pp. 296-7].

It would be misleading, however, to put all the blame for RTC's declining productivity on the impact of Francoist economic policies. At pithead and at the Huelva seaport, the plant was rendered obsolete after a long period of low investment which began in 1931. In the 1930s, the investment climate had been unfavourable due to political instability and threats to foreign interests. In the mid-1940s, RTC's General Manager recognised that a "bad guess" was made in the 30s when it was decided that "no money should be spent in modernising plant and equipment and installing labour-saving devices" [17]. Of course, neither the Board nor the managers could have foreseen the dramatic events which happened after 1936 both in Spain and elsewhere. But they certainly had enough elements of judgement to predict the declining copper content of the ores and the exhaustion of the Riotinto reserves.

[5]This is a weighted average cost of extracted ore in the opencast and underground mines including the cost of overburden [7, p. 347].

The Response of RTC

How did the London management react to the antagonism shown by the Francoist regime? While at pithead drastic savings were introduced in all lines of production, the Board discussed four alternatives. All of them had important pros and cons that called for a close examination.

As sale earnings failed to cover variable costs, economic rationality urged a complete stoppage of mining activities, at least until business expectations had improved. However, the directors were right to fear that this move could lead to a loss of control over Riotinto. Indeed, current legislation contemplated the possibility of leaseholders seeing their property rights cancelled whenever national interests were at stake. The regime had invested itself with the right to expropriate any mining company which did not comply with the terms of the law. It had even attempted in 1943 to supress RTC's special rights over the mineral deposits of Riotinto by making the British company comparable to any other concession holder. The attempt was frustrated only after the British Government had strongly pleaded against such a step.

As a second alternative, the RTC board discussed the possibility of leasing the Mines to the Spanish Government [12]. This solution was also dismissed for its inherent dangers. The directors feared that once control over the Rio Tinto Mines had been transferred to Spanish hands, the authorities might have felt little prone to return them back to their British owners. Furthermore, it would have been difficult to prevent the authorities from supplying Germany with the products of the Mines.

After the two previous options had been discarded, the board declared itself strongly in favour of the disposal of the Mines. The money from the sale could then be pumped into the profitable Rhodesian copper belt where the Company had been investing large sums of capital since the early 1930s [7, p. 223]. In this respect, the possibility of creating a subsidiary which would have granted Spanish capital access to the Rio Tinto Mines was examined by the directors. However, mining laws prevented the adoption of this solution. Indeed, the 1944 law established that foreign capital could only own a 25 per 100 holding in any mining enterprise. In addition, the chairman and 2/3 of the directors had to be Spanish nationals. Confronted with the certainty of losing the control of the Mines, the Board resorted to the transfer of their entire assets in Spain. The operation was attempted at three different times in the period 1940/54. Sir Auckland Geddes, the acting Chairman of RTC, argued in 1943 that the "most profitable course from the Company's and from the shareholders' point of view would be to dispose of the Mines" [15]. It is clear that the Board had realized that the opportunity cost of failing to sell the Mines was huge, even if profits had recovered their prewar level[6]. Negotiations were started with a view to the sale of the company's property in Spain. They lasted for 11 years as they were frequently interrupted by

[6]It was estimated that nearly 30 years of normal profits were necessary to beat the L 5m net price which could have been realized from the sale of the Mines in 1944.

events of a non economic nature. One such episode happened in 1944. The Company had been involved in a long negotiation with a banking syndicate. The settlement was finally frustrated after both the Foreign Office and the Treasury vetoed the sale. However, other departments in the British Government had initially given their approval. From the point of view of war policy, no objections were raised as the English chemical industry could be supplied by pyrites from Sicily or Cyprus. The Bank of England also favoured the operation. It would have meant the return of substantial sterling balances currently in the hands of Spain. In spite of these positive aspects, strong views were still voiced against the sale. Sir J. Anderson, the British Chancellor, emphasized that RTC was "a channel of commercial communication between [England] and Spain" [10]. Senior members of the Foreign Office staff expressed their discontent in terms of a "loss of national prestige". Their views were shared at a higher level by Sir Alexander Cadogan, Sir Anthony Eden and the ambassador to Spain, Sir Samuel Hoare. All three stressed the fact that the "disappearance of the most important company in Spain might prove a severe blow to our prestige".

The British Government's veto lasted for several months. When RTC resumed negotiations with Spanish industrial interests, the situation was markedly different from what it had been. On the one hand, Riotinto did not recover its strategic position until Allied ambassadors were withdrawn from Spain to put into effect the 1946 United Nations decision to isolate the Franco regime. On the other hand, Spain again underwent an acute shortage of foreign currency which hindered any commercial transactions involving a vast sum of sterling. It was now the turn of the Spanish authorities to reject all dealings concerning a possible transfer of the Rio Tinto Mines. They resorted to economic policy as a far cheaper and more efficient way to comply with the country's requirements in copper and sulphur.

A cost-benefit analysis of nationalization was most probably not undertaken by Franco's ministers in 1944 [14, pp. 298-301]. By postponing the purchase of the Mines until 1954, the Government proved that the cost of nationalizing Rio Tinto on purely political grounds could hardly be balanced against its potential advantages. It would have been indeed difficult to justify the allocation of several million pounds to obtain control over Rio Tinto when the economy faced a major scarcity in food and raw materials. Moreover, the purchase of the Mines might have led to a decline in mining efficiency. It is doubtful whether Spain could have matched British know-how in large scale open-cast mining. Spanish businessmen did not have the same expertise for the marketing of pyrites at a crucial time. British commercial experience was a formidable asset for the recovery of those markets which had been lost to native sulphur in previous years. But, above all, the Spanish Government's efforts to gain international recognition were incompatible with a nationalization which could be interpreted abroad as a plain confiscation of a foreign owned entreprise. It was important not to deter capital imports at a time when they were urgently needed for the reconstruction of the economy. However, most of these arguments were still valid when the Mines were finally sold to a banking syndicate in 1954. Planell, the Minister of Industry at the time, was very critical of the deal. He was convinced that Rio Tinto was on the brink of being grabbed as a ripe fruit if only economic policy were left to act a little longer.

While the sale of the Mines went into effect, RTC made great efforts to minimise the heavy losses endured with the continued operation of the Mines. It was hoped that an increase in foreign prices or an expansion of the world demand for pyrites would ease the position of the Company. To this end, no efforts were wasted by the Company to improve its relationship with the Franco Government. In 1947, the Board agreed to change the external of their Spanish business to make it more acceptable in the eyes of Party members. Spanish nationals were thus appointed to senior posts in the Mine. The Company also tried to make the most of its bargaining power in international circles. On several occasions after 1946, it acted as a special envoy for the Franco regime. As a reward, it enjoyed a more conciliatory attitude from the economic authorities. Requests for higher domestic prices were not rejected out of hand as had happened in the early 1940s. RTC was even granted access to an important Eximbank credit which enabled the Company to import machinery and spare parts which were vital to sustain mine operations.

Conclusions

The Rio Tinto Company was negatively affected by Government action both in England and Spain throughout the 1940s. As I have already argued, the British interest in the Mines laid entirely in their political value once they had ceased to be a reliable source of pyrites for British industry. The Spanish attitude shared elements with the British position. It did not escape the Spaniards that gaining control over Rio Tinto could have important propaganda externalities, especially as the legitimacy of the regime was increasingly questioned by Allied countries. The British Government would never have agreed to return Gibraltar nor accepted its loss by force. Rio Tinto was thus an excellent second best to fulfill Franco's desire to show the world that his regime would not give in. Other countries, like Germany, also shared an interest in the Mines which could help them to satisfy their requirements for strategic raw materials in wartime.

RTC stood at the centre of this triangle. It is evident that the attitudes which derived from these national positions escaped from the control of the mining company. There was little scope to ride out the storm of early Francoism or to improve on the bad reputation and record of the Company in Spanish politics. The Company hoped to make the most of the highly symbolic value which was placed by the Spanish government on the ownership of Rio Tinto. In this connection, it can be argued that the Company grossly overestimated the reactions of the Government. They believed that the Government would be prepared to perform any sacrifice, no matter how costly, for the sake of Riotinto. It would seem that they miscalculated the severity of the collapse of the Spanish economy. There were only a few cards that could be safely played by the Company. It was thus forced to comply with the demands of the Francoist regime in order to cut down its financial losses. In this field too, the performance of the managers was quite clumsy. They failed to find a way to avoid further friction with the civil servants who occupied key decision posts within the new Administration. One might be tempted to see this as a matter of recurrent mistakes by the management. However, their past performance, together with numerous events which adversely affected the economic environment, accounted for most of the misfortunes of the Rio Tinto Company during the 1940s. Until the sale of the assets was finally realized in 1954, the Company inevitably paid a high price.

To conclude, I will try to assess the cost to RTC of some of the policies implemented both in England and Spain. In a counterfactual situation where such policies were absent, RTC would have exported all its copper output after 1946 and would have earned larger peseta balances for its pyrites sales. As it might be expected, Spanish regulated copper prices outweighed the LME quotations expressed in pesetas at the official rate of exchange (the 1943/44 price is exceeded even at the free rate of exchange). Once price controls were removed in England in 1947, Spanish prices were much lower than LME quotations expressed in free pesetas. At the Tangier rate of exchange, copper price differentials fluctuated between a mere 30 per cent in 1946 and 164 per cent in 1952. In a counterfactual situation, RTC would have earned an extra £5.6 million for the years 1946/53 [1, pp. 12-3; 11, p. 391]. It is not yet possible to estimate the extra income which would had been derived from the application of the free exchange rate to the pyrites sales. New research on contract prices must be undertaken before that time. RTC declared export prices of about 25 per cent less than the real figure in order to avoid greater peseta losses and larger taxation [7, p. 296]. It is obvious that the overvaluation of the peseta brought about substantial losses to RTC when we realize that the free exchange rate in 1950 was nearly 4.8 times higher than the official rate.

An alternative calculation will be based upon the opportunity cost of the frustrated sale of 1944. Had the Spanish assets been realized, RTC's equity holders would have earned the high dividends which were paid by the Rhodesian investments. Of course, the sale price of the Mines cannot be known. The two parties had very divergent views on the real value of Rio Tinto. While the Company put its value at £9.265 million, the Spanish bankers were prepared to pay only £2.3 million [19]. In later contacts, positions converged[7]. If we assume that the final price would have been close to £7.5 million (which is actually the price paid in 1954), shareholders would have earned a minimum return of £2.83 million by 1954 at the interest rate paid by consols and a maximum return of £15 million at the profitability rate of the North Rhodesian investments[8].

I have tried to show in this paper how a British firm was affected by economic and political conditions in Spain and by mounting international confrontation between the Francoist regime and the Western powers. RTC

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[7]The British brought down the price to £7.5 million while the bankers increased their bid to £3.5 million.

[8]In the calculation of the accumulative return, I have used the yield on consols [6, p. 104].

found itself in a cross-fire situation where international politics played a crucial role. As Sir Samuel Hoare liked to put it, RTC was rightly or wrongly a by-word in Spain for what the Spaniards would call the 'domination of foreign interests in the life of the country' [4].

For that reason, the days of foreign ownership of the Rio Tinto Mines were clearly doomed after the triumph of Franco in 1939. It was thus only a question of time before the Company would be forced to dispose of its Spanish Mines which were once the jewel of the multinational corporation. Rio Tinto was certainly used to transmit abroad the image of British power. RTC missed a golden opportunity in 1944 to free its assets from the financial burden of the Generalissimo's grip. Other important foreign-owned firms such as ITT's telephone company were nationalized at the time. Finally, it can be said that a high dose of altruism was asked from RTC to support British foreign policy. Sir Alexander Cadogan was thinking about that when he stated that, "We have of course to be careful not to give [RTC] any encouragement to believe that the Government will indemnify it for any losses it may incur should it decide to carry on" [9].

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