

LATVIA AND HITLER'S GERMANY: ECONOMIC RELATIONS 1933–1940¹

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Abstract

In the interwar years, Germany was one of the two main trading partners for Latvia (the other one was Great Britain). By 1937 some 70% of all trade was with these two nations. Latvia's economic relations with Hitler's Germany got off to a turbulent start with a boycott of German goods in 1933 (the so-called "Butter war"). After the coup d'état by Kārlis Ulmanis in 1934 economic relations continued to be strained. Particularly in relation to his policy of "Latvianising" the financial system, this affected German investments in Latvian banking. The 1932 Clearing Agreement to smooth out trading arrangements between the two countries was taken over by the Nazis and became the chief instrument of National Socialist foreign trade policy. However, Germany never dominated the trade of Latvia as effectively they did that of the Balkans. With the commencement of WWII and Germany's closing of access to the Baltic Sea, Germany's dominance of Latvian trade increased geometrically despite the exodus of Baltic Germans in late 1939 and early 1940. Up until the Soviet occupation of Latvia in June 1940 Latvia had signed a number of trade agreements with Germany. The absorption of Latvia (and the other Baltic States) by the Soviet Union has been seen as one of the triggers for "Operation Barbarossa".

Keywords: Latvia, Germany, Interwar, Economic Relations

Introduction

Latvia's relations with Hitler's Germany were turbulent from the very beginning and encompassed many aspects including economic relations. The nazification of Latvia's Baltic Germans created not only social problems, but also political and economic problems as well. Nevertheless, the Latvian government sought to maintain a neutral position in respect of the Baltic Germans and, indeed in all its relations with Hitler's Germany throughout the 1930s. It did not always succeed.

¹ A version of this article was presented at the 2018 AABS Conference at Stanford University: "The 100th Anniversary of Baltic Independence' Palo Alto, USA, 1–3 June 2018.

In the interwar years, Latvian and German economic relations was mainly confined to foreign trade and investment although other forms of economic relations such as shipping and tourism were also important.

Germany was one of the two main trading partners for Latvia (the other one was Great Britain). The first basis for Latvian trade with Germany was the 15 July 1920 treaty, which restored peaceful relations with Germany and included a resumption of trade relations. The delay in concluding a formal commercial treaty with Germany, (a treaty with Great Britain was concluded in 1923), was due mainly to unsettled claims which Latvia lodged against Germany for damages sustained during the German occupation of Latvia during and after WWI. To which Germany responded with a counter claim for structures of various kinds erected and left in Latvia. Treaty negotiations dragged on from 1921 to 1926 and it was not until both sides agreed to give up their mutual claims was it possible to sign the treaty in 1926. The treaty, which came into effect on 1 December 1926, was based upon the most favoured nation (MFN) principle and contained the Baltic and Russian clause.²

By 1932, Germany was still Latvia's main import partner despite the effects of the Great Depression. There were a number of reasons for this, including the fact that a large number of Latvian traders were Baltic Germans, which meant that contact with Germany was much easier for them. Moreover, a large amount of German capital, as will be shown later, was invested in Latvia's industry, commerce and banks, as well as in credits for the importation of goods from Germany. In certain sectors, such as the pharmaceutical and electrical equipment, Germany had a monopoly status in Latvian imports. Together with a growth of imports, exports also had increased up to 1929, but although there was an overall decline in trade due to the Great Depression, exports to Germany in 1932, (26.2% of total exports), were still much less than the value of imports (35.6% of total imports).³

In early 1932, Latvia signed a so-called bilateral "clearing" agreement with Germany. The basic idea behind bilateral clearing agreements was to even out or "balance" trade between two countries, while at the same time conserving scarce foreign currency and gold reserves. The "agreement" was an exchange of letters between the Bank of Latvia and the Reichsbank. Under this arrangement Latvian export to Germany and import from Germany generally increased. During the life of the arrangement,

² The Baltic and Russian Clause stipulates that the priority rights and privileges, allowed to the Baltic States and Russia, may not be made applicable to other contracting states by virtue of the most-favoured-nation principle.

³ See Table 1, in Karnups (2010), p. 7.

Latvia often had large sums outstanding in Germany in the form of clearing account surplus. For Latvia, it was often problem to find useful and adequate imports from Germany to make use of the frozen millions of lats.⁴

Latvia's main export to Germany was butter, which could be transported more quickly and cheaper to Germany than to Britain. In 1929, the advantages of exporting butter to Germany diminished as Germany increased the tariff on butter in the summer of that year and continued to diminish as Germany increased its tariffs year by year until in January, 1932 the tariff on butter was increased to 1 mark per kilogram.⁵ It was in relation to butter exports that Latvia's economic relations with Hitler's Germany first came into conflict.

Butter and the “Butter War”

As noted above, butter an important export product for Latvia to Germany. In the three years prior to 1933, Germany imported in 1930 81.07% of all Latvian butter exported, in 1931 – 75.36% and in 1932 – 54.02%.⁶ Although the percentage was falling, Germany was nevertheless still a very important market for Latvian butter. One of the reasons, for the somewhat sharp drop in 1932 was the fact of the Clearing Agreement with Germany as butter exporters were trying expand sales to hard currency markets especially Great Britain.

When Germany's new regime proclaimed a boycott of Jewish businesses on 1 April 1933, social democrats and the Jewish community in Latvia proclaimed a boycott of German goods in Latvia in June 1933 in protest. Germany's reaction was an announcement that from 12 June 1933 its borders would be closed to imports of Latvian butter. As noted above, Germany for a long time had been Latvia's largest butter export partner. In the first four months of 1933, Germany had bought more than 56% of Latvia's butter export. Therefore, this was a very unexpected move by Germany and on 13 June 1933, the Latvian government declared that on 12 June the government had issued an order that “no German goods were to be cleared by customs and let into the country... We shall not buy and we may not buy a single kilo of goods from such a country, which behaves in that way with us”.⁷ This mutual boycott lasted only a few days. The Prime Minister, A. Bļodnieks, announced to the Saeima [the Parliament] on

⁴ Ēķis (1943), p. 99.

⁵ Stranga (2015), p. 221.

⁶ *Ekonomists*. Nr. 8, 1933, p. 313.

⁷ Aizsilnieks (1968), p. 549.

30 June 1933, that after the Latvian government had given assurances that the government would take all legal steps against the proclamation of the boycott of German goods, the German government had revoked the ban on Latvian butter on 17 June⁸. In real terms, the “Butter War” had little direct effect on the trade balance between the two countries.⁹ It nevertheless hastened the displacement of Germany as Latvia’s main trading partner by Britain (for example, butter exports to Britain rose from 2.7 thousand tons in 1930 to 7.8 thousand tons in 1933). This decline in exports of butter to Germany is illustrated in Table 2 – from 53.7% of total butter exports in 1933 to 28.2% in 1938.

Trade with Hitler’s Germany 1933–1939

German trade policy with Latvia (and Eastern Europe in general) was driven in large part by the German rearmament priority, as well a drive for German agricultural self-sufficiency. By 1936, it was clear that German agriculture had failed to provide for domestic needs and this led to an enormous increase in the importation of foodstuffs (mainly from Central and South-Eastern Europe) and other products necessary for rearmament.¹⁰

On 4 December 1935, another agreement was concluded between Latvia and Germany regarding the interchange of goods and services and the Veterinary Convention. Economic delegations of Latvia and Germany met regularly to draw up lists of commodities to be exchanged and to find ways to hold in balance the exports with the useful imports to be obtained in Germany. The new agreement was concluded for one year – to 31 December 1936.¹¹ Trade accounts with Germany were further adjusted on the basis of a new clearing agreement concluded on 31 October 1937. This agreement superseded the Clearing Convention of 1932 between the Bank of Latvia and the Reichsbank.¹² The overall picture of Latvian-German trade in the period 1933–1939 is illustrated in Figure 1.

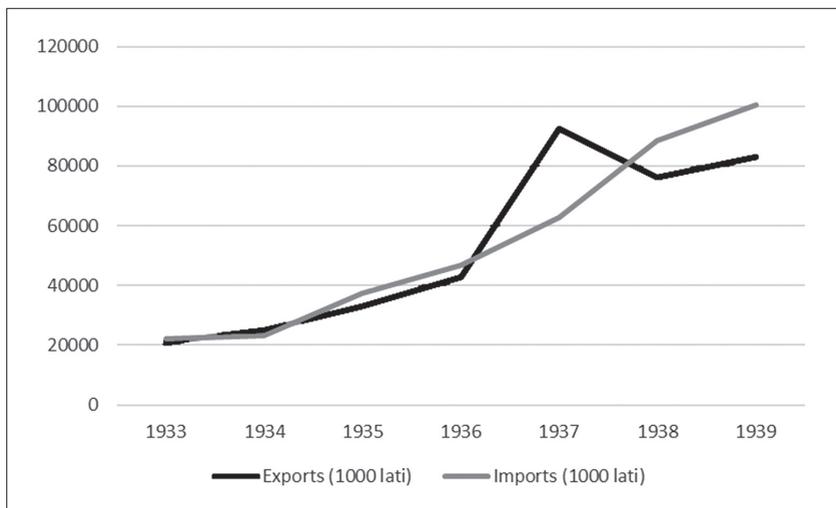
⁸ Saeima transcript, 30 June 1933, p. 1062.

⁹ For a detailed examination of the “Butter war” see Cerūzis (2004), pp. 144–158.

¹⁰ For a detailed examination see Kaiser (1980), pp. 130–169, as well as pp. 263–283.

¹¹ *Ekonomists*. No. 23, 1935, p. 875.

¹² *Latvian Economic Review*. No. 1, 1938, p. 35.



Source: Latvijas Statistiskā gada grāmata. 1933–1939 [Latvian Statistical Yearbooks 1933–1939] – Rīga: Valsts Statistiskā Pārvalde, and Strukturbericht über das Ostland. Teil I: Ostland in Zahlen. – Rīga: Reichskommissar für das Ostland, 1942: 57–58

Figure 1. Latvian trade with Germany 1933–1939

Latvia had a number of problems with trade with Germany. The first arose from the fact of the Clearing arrangements themselves. Latvia as noted above often had large sums outstanding in Germany in the form of clearing account surplus. This was partly due to the difficulty in finding suitable German products to import. This in turn was partly due to Latvia's industrial development, which meant that many manufactured goods formerly imported from Germany were now being manufactured in Latvia, and partly because the items that Latvia needed – iron, steel, coal – were needed by Germany for its rearmament programmes.¹³

The second reason was due to the devaluation of the Latvian lat by 40% in 1936, when it left the Gold Standard and became a member of the Sterling bloc. Germany had not devalued and this meant that German goods were now even dearer than were previously. There was nearly a two-fold increase in the value of the mark relative to the lat. From 123.65 lats for 100 marks prior to devaluation to 201.50 lats for 100 marks after devaluation.¹⁴ Theoretically, this should have worked to Latvia's advantage, however, because of the Clearing arrangements if Latvia wanted to export

¹³ *Ekonomists*. No. 9, 1939, p. 646.

¹⁴ Stranga (2015), p. 238.

to Germany it had to import the now dearer German goods, which could be obtained cheaper elsewhere (up to 30% cheaper).¹⁵

As can be seen in Figure 1, in 1937 the clearing account surplus was in Latvia's favour due the abnormally large sale of timber and timber products that year overall and to Germany in particular. Thereafter, the surplus was in Germany's favour, which meant that exporters had to suffer inordinate delays in receiving their payments.¹⁶ The pattern of Latvia's main exports to Germany can be seen in the following Table 1.

Table 1. Latvia's Main Exports to Germany 1933–1939

Year	Butter		Plywood		Flax		Timber (including lumber, sleepers, pulpwood, pit props and planks)	
	t	Value (1000 Ls)	t	Value (1000 Ls)	t	Value (1000 Ls)	t	Value (1000 Ls)
1933	6214	11316	10679	11316	590	449	142019	2897
1934	6018	7320	12593	2970	1932	1577	178445	5832
1935	4849	6516	10101	2837	1734	2087	220795	10155
1936	5271	7682	10611	3844	1564	1978	228999	15348
1937	6818	17570	15917	6884	1208	2706	498745	40568
1938	6009	15294	17045	6882	1016	1460	273780	25196
1939*	4517	10956	4227	1558	1504	2730	66020	9711

* For first 8 months of 1939

Source: Latvijas ārējā tirdzniecība un transits – 1937–1938. [Latvian Foreign Trade and Transit. 1937–1938.] Rīga: Valsts Statistiskā Pārvalde; Mēneša Biļetens Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939]; author's own calculations

As can be seen in Table 1, 1937 was the peak year for Latvian exports to Germany. Butter exports, which had previously been declining increased as did plywood and timber. Timber and timber products (including plywood) became the main export goods to Germany. Nevertheless, Latvia resisted becoming an economic satellite of Germany and expended a great deal of effort to send its exports to hard currency countries such as Great Britain. This can be seen in percentage of total exports of the main export goods that went to Germany (Table 2).

¹⁵ Ibid, p. 240.

¹⁶ Leits (1958), pp. 148–151.

Table 2. Percentage of Latvia's Total Exports exported to Germany 1933–1939

	Butter	Plywood	Flax	Timber (including lumber, sleepers, pulpwood, pit props and planks)
Year	% of total butter exports	% of total plywood exports	% of total flax exports	% of total timber exports
1933	53.7	33.4	13.8	11.3
1934	50.9	35.9	34.5	20.8
1935	35.2	29.4	24.1	43.6
1936	30.3	29.6	11.8	45.2
1937	38.7	30.8	21.2	37.7
1938	28.2	33.9	8.7	39.9
1939*	28.4	10.8	12.3	26.1

* For first 8 months of 1939

Source: Latvijas ārējā tirdzniecība un transits – 1937–1938. [Latvian Foreign Trade and Transit. 1937–1938.] Rīga: Valsts Statistiskā Pārvalde; Mēneša Bijetens Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939]; author's own calculations

As Table 2 shows, although there was a decline in the percentage of butter exports (most of which then went to Great Britain), a little over an average of a third of timber exports (including plywood) was consistently exported to Germany.

Latvia's imports from Germany were conditioned in large measure by the strictures of the Clearing agreement and Germany's drive to rearmament. While Latvian exports to Germany were agricultural and forestry products, Latvian imports from Germany consisted of all kinds of manufactured goods. The chief items were industrial machinery and motors, yarns, dyes and dyestuffs, pig iron and other metal products, coal and coke, chemicals, artificial silk and other textiles, and pipes for industrial purposes. As Germany geared up for war, the types of manufactured goods that Latvia wanted became less and less available and Latvia had to settle for a range of manufactured goods that it did not really want or need to clear the Clearing surplus held by Germany (for example, large quantities of German children's toys). Moreover, Germany often violated the terms of its agreements and failed to deliver or sell to Latvia what Latvia had already paid for with its butter and timber deliveries to Germany. By 1939, Germany was 20 million lats in debt in its deliveries of goods.¹⁷

¹⁷ Latvia. *Toward 100 Years* (2014), p. 206.

The pattern of Latvia's main imports from Germany can be seen in the following Table 3.

Table 3. Latvia's Main Imports from Germany 1933–1939

Year	Pipes for industrial purposes		Coal and coke		Machinery (industrial & agricultural)		Metal products (iron & steel)	
	t	Value (1000 Ls)	t	Value (1000 Ls)	t	Value (1000 Ls)	t	Value (1000 Ls)
1933	614	252	37964	629	1483	2533	2717	436
1934	945	362	92929	1523	1921	3388	2977	564
1935	2716	804	124651	2029	2382	4336	11458	1666
1936	2596	778	182771	3236	3469	6600	14122	2468
1937	2306	1589	146336	4815	3051	8129	6337	2627
1938	3067	1919	146821	5309	5695	14861	21626	6659
1939*	2573	1429	90565	2778	5465	12282	14207	5030

* For first 8 months of 1939

Source: Latvijas ārējā tirdzniecība un transits – 1937–1938. [Latvian Foreign Trade and Transit. 1937–1938.] Rīga: Valsts Statistiskā Pārvalde; Mēneša Biļetens Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939]; author's own calculations

As Table 3 shows, the main imports from Germany was manufactured goods and raw materials. Germany's share of the total main imports was very large. For example, 79% of total imports of pipes for industrial purposes, 73% of agricultural and industrial machinery and 66.5% of metal products (iron and steel).¹⁸

The shortage by the second half of the 1930s of manufactured goods for export by Germany was reduced by the encouragement of large-scale, long-term exports of arms.¹⁹ Up to 1938, Latvia resisted making large purchases of arms from Germany, as it did not want to become dependent on Germany for arms. However, the need to reduce the Clearing surpluses forced Latvia to make large purchases of arms,²⁰ which from the beginning of 1939 totalled over 10 million lats of which some 5 million was on the Clearing accounts and the remainder in hard currency.²¹ Needless

¹⁸ Stranga (2015), p. 239.

¹⁹ Kaiser (1980), p. 131.

²⁰ The purchase of arms does not appear in the import statistics of Latvia.

²¹ Leits (1958), p. 150.

to say, between January 1939 and October 1939, Latvia received only a small fraction of the arms it had ordered from Germany.²² The Molotov-Ribbentrop pact of 23 August 1939 put an end to receiving any more of the paid-for armaments from Germany.

German investments in Latvia 1933–1939

Foreign capital in Latvia was mainly invested in banking, industry, transport and trade. By 1927, over 60% of the equity capital of all Latvian joint-stock banks²³ was foreign owned, while foreign capital comprised 27.8% of aggregate capital in insurance, 33.9% in trade, 63.1% in transport and about 50% in industry.²⁴

German capital returned to Latvia gradually after WWI. It was only after the stabilisation of the mark in 1923 that German capital began to invest in a substantial way in Latvian undertakings, especially banks. German investors were familiar with the circumstances and market in Latvia and were ready to invest across the whole spectrum of the economy. In 1927, German capital was mainly invested in the textile industry, chemical industry, metallurgy, timber and paper industry, and commerce, in particular, banking.

On 15 May 1934 under the leadership of the then Prime Minister, Kārlis Ulmanis, the Minister for War Jānis Balodis, the home guard and the army carried out a coup d'état. The regime tried to implement an economic programme aimed at reducing the role of foreign capital in industry and trade, and instead strengthen the State-owned enterprises, as well as increase the role of State monopolies and joint-stock companies. On 9 April 1935, a new commercial bank – the Credit Bank of Latvia – was established with the task of reorganising credit institutions. The bank was in fact a State-owned enterprise with an equity capital of 40 million lats.²⁵ By 1938, it had taken over eight private banks for liquidation. Foreign investment stock in the company capital of Latvian undertakings overall was reduced from 50.4% in 1934 to 25.4% in 1939 of which the reduction in industry was from 52.4% in 1934 to 31.9% in 1939, in commerce from 35.9% to 28.2% and in finance and banking from 62.4% to 9.7%.²⁶

²² Stranga (2015), p. 245 and Footnote No. 566.

²³ For a brief overview of banking in Latvia in the interwar period see Hiden (2000), pp. 133–149.

²⁴ *The Latvian Economist* (1928), p. 24.

²⁵ Aizsilnieks (1968), p. 637.

²⁶ *Finanču un kredīta statistika* (1939), p. 172.

German capital in 1939 was mainly invested in the textile industry, chemical industry, paper industry and trade as can be seen in Table 4.

Table 4. Foreign Investment Stock of Germany in the Company Capital of Latvian Undertakings (as at 1 January). 1934–1939

Year	Textile industry (1000 lats)	Chemical industry (1000 lats)	Trade (1000 lats)	Paper industry (1000 lats)	Other (1000 lats)	Total (1000 lats)
1934	3631	3167	1332	1959	9588	19677
1935	3721	3032	1193	1959	9118	19023
1936	3729	3032	1484	203	8616	17064
1937	3064	2339	1409	1167	3790	11769
1938	2892	2520	1466	500	2478	9856
1939	2837	2308	1696	834	2015	9690

Source: Finanču un kredīta statistika (1939), p. 173

As Table 4 indicates, the reduction in German capital was gradual in most sectors, except banking, where investment fell from a high of 4 826 000 lats in 1930 to 2 862 000 lats in 1939 – a reduction of some 40%.²⁷

Repatriation of Baltic Germans

One of the main conditions posed by Hitler to Stalin in August 1939 (in relation to the infamous Molotov-Ribbentrop pact) was the prior transfer of all ethnic Germans living in Estonia and Latvia to areas under German military control. In a speech to Reichstag on 6 October 1939, which was broadcast live on radio, Hitler announced that German minorities should be resettled in the Reich.

An agreement for the repatriation of Baltic Germans – Latvian citizens (and German nationals) was signed on 30 October 1939.²⁸ According to the agreement Baltic Germans had a choice of taking up Hitler's offer and thereby renouncing their Latvian citizenship or staying in Latvia. A report by the State Statistical Administration to Ulmanis dated 24.04.1940 states

²⁷ Latvijas Statistiskā gada grāmata. 1930, p. 290 and Statistikas tabulas (1940), p. 170.

²⁸ Feldmanis (2016), pp. 167–172.

that some 46954 persons had been released from their Latvian citizenship to repatriate to Germany.²⁹

According to the agreement, emigrants were allowed to take with them some personal property, but not currency, securities, art objects, weapons, pedigree cows, or motorised means of transport. Real property was taken over by a specially established joint-stock company – *Umsiedlungs-Treuhand Aktiengesellschaft* (UTAG), which worked on the basis of Latvian law, but was completely in the hands of the German government. UTAG gradually sold private property (parcels of land, companies, etc.), but the funds acquired via the Latvian Credit Bank were transferred to Germany through Latvian export goods. By the summer of 1940, UTAG liquidated real property to the value of 183.3 million lats.³⁰ Nevertheless, according to UTAG figures, in June 1940 Latvia still owed Germany a total of 75.6 million lats.³¹

Latvia-Germany and World War 2

After September 1939, foreign trade became Latvia's weakest point. A great deal of what happened in foreign trade was beyond the control of Latvia and was a consequence of the war. Nevertheless, Latvia could have been better prepared in the case of the collapse of foreign trade. The commencement of the war effectively closed the Baltic Sea region to British and allied shipping as it was clear that the Royal Navy would not enter the Baltic Sea to offer protection against German warships.

Despite various attempts to maintain trade with Britain in the early part of the war, Latvia's trade was now mainly limited to Germany, the USSR and Sweden. Latvia had to meet whatever demands Germany made, and Berlin was able to fulfil most of its goals in its economic relations with Latvia. These were firstly to sever Latvia's trade with the West, especially Great Britain. Here the Latvian government managed to reject this demand³² and tried to maintain trade links with Great Britain via Scandinavia.³³ Secondly, to force Latvia to direct its exports – except those desired by the USSR – to Germany. It was in this spirit that Latvia signed a wartime trade agreement with Germany on 15 December 1939. Latvia's trade with Germany increased rapidly as can be seen Table 5.

²⁹ LVVA, 5969 f., 1. apr., 389. l., p. 2.

³⁰ Feldmanis (2012), p. 56.

³¹ *Ibid.*, p. 60.

³² Zunda (1998), p. 212.

³³ For a detailed examination see Karnups (2011).

Table 5. Latvian-German trade for the period 01/09/1939–31/12/1939 and 01/01/1940–31/03/1940

	Imports		Exports		Balance of trade
	Million Ls	% of total imports in the period	Million Ls	% of total exports in the period	
01/09/1939–31/12/1939	32.23	52.50	35.19	56.50	2.96
01/01/1940–31/03/1940	14.65	42.60	13.20	38.40	–1.45

Sources: Calculated with figures are taken from Strukturbericht über das Ostland. Teil I: Ostland in Zahlen. – Rīga: Reichskommissar für das Ostland, 1942. – pp. 57–58, Mēneša Biļetens Nr. 10 [Monthly Bulletin No. 10]. – Rīga: Valsts Statistiskā pārvalde, October 1939. – pp. 1058–59, 1083–87 and LVVA, 1314. f., 5. apr., 100. l, p. 39–40

As can be seen from Table 5, in the four months to the end of 1939 over 50% of Latvia's imports and exports went to Germany giving in fact a positive trade balance for Latvia. In the first part of 1940, this trade balance was negative. This was partly due to the diversion of trade to the USSR as result of the "Agreement on Trade Turnover between the Latvian Republic and the Soviet Union" signed on 18 October 1939. The main exports to Germany as a whole during this period were live pigs, bacon, butter, timber and timber products (including plywood), flax and linseed. The main imports were coal, coke, metals, petroleum products, raw cotton and wool, and mineral oils.

Thirdly, Germany attempted to subordinate Latvian shipping and mobilise it for the German war economy. This was done through a combination of intimidation and use of force. On 21 December, the Germans seized the Latvian ship *Atis Kronvalds* (1423 BRT), which was taking 870 tons of Latvian and Lithuanian bacon and butter, as well as 202 tons of plywood to Sweden for further shipment to Britain.³⁴ The Ministry of Economic Warfare Weekly Report to the War Cabinet for the period 17/12 – 31/12/1939 (p. 3) noted somewhat resignedly, "It is feared that in view of this seizure no further attempts will be made to export produce from the Baltic States to the United Kingdom."³⁵ In the same month, the Germans also seized the *Aija* (575 BRT) enroute from Rīga to

³⁴ Stranga (1994/1), op. cit. p. 22.

³⁵ PRO, FO 837/37, War Cabinet, Economic Warfare, 15th Weekly Report, 17–30 December 1939.

Stockholm;³⁶ the Ausma (1905 BRT)³⁷ enroute from Rīga to Ghent with a cargo of pit-prop timber;³⁸ the Evertons (4101 BRT) in Kiel with a cargo of pit-prop timber;³⁹ the Skrunđa (2414 BRT) in the Kiel Canal with a cargo of pit-prop timber for Ghent,⁴⁰ and the Spīdola (2833 BRT) in the Kiel Canal enroute to Antwerp with a cargo of pit-prop timber.⁴¹ The Latvian Chamber of Commerce and Industry reported that:

“The number of Latvian vessels detained in Germany has grown from 8 ships on November 18, 1939, to 24 in the middle of December, which represented nearly one-third of the Latvian merchant fleet.”⁴²

In February and March 1940,⁴³ the Germans commenced arresting Latvian ships with goods addressed to Sweden on the pretext that they had on board peas and vetch, which were not mentioned in the 15 December 1939 agreement regarding the so-called “Nordseeroute”. By early June 1940, the Germans were suffering an acute shortage of shipping in the Baltic Sea and as Lulea port in Sweden was open for iron ore shipments they started to put pressure on Latvia and the other neutral states around the Baltic Sea (Sweden, Finland etc.) to mobilise all free tonnage in the Baltic for the carrying of iron ore.⁴⁴ This issue was resolved on 17 June 1940 when Latvia was occupied by the Soviet Union.

Conclusion

In the interwar years, Germany was one of the two main trading partners for Latvia (the other one was Great Britain). By 1937, some 70% of all trade was with these two nations. Latvia's economic relations with Hitler's Germany got off to a turbulent start with a boycott of German goods in 1933 (the so-called “Butter war”). After the coup d'état by Kārlis Ulmanis in 1934 economic relations continued to be strained. Particularly in relation to his policy of “Latvianising” the financial system, this affected particularly German investments in Latvian banking. The 1932 Clearing

³⁶ Latvijas Jūrniecības vēsture 1850–1950 (1998), p. 152.

³⁷ *Ibid.*, p. 156.

³⁸ The 15 December 1939 agreement between Latvia and Germany prohibited the transport of pit-prop timber to Belgium and Holland.

³⁹ Latvijas Jūrniecības vēsture 1850–1950 (1998), p. 169.

⁴⁰ *Ibid.*, p. 201.

⁴¹ *Ibid.*, p. 202.

⁴² Latvian Economic Review. No. 1(17), January 1940, p. 28.

⁴³ LVVA, 2574. f., 3. apr., 3279. l., pp. 46–47.

⁴⁴ Confidential memo from A. Kampe (Director of the Legal Dept. in the Ministry of Foreign Affairs) to the Foreign Minister. – LVVA, 1314. f., 5. apr., 100. l., pp. 8–13.

Agreement to smooth out trading arrangements between the two countries was taken over by the Nazis and became the chief instrument of National Socialist foreign trade policy. However, Germany never dominated the trade of Latvia as effectively they did that of the Balkans. Latvia resisted becoming an economic satellite of Germany and expended a great deal of effort to send its exports to hard currency countries such as Great Britain. Latvia's imports from and exports to Germany were conditioned in large measure by the strictures of the Clearing agreement and Germany's drive to rearmament. During the life of the arrangement, Latvia often had large sums outstanding in Germany in the form of clearing account surplus. For Latvia, it was often a problem to find useful and adequate imports from Germany to make use of the frozen millions of lats. With the commencement of WWII and Germany's closing of access to the Baltic Sea, Germany's dominance of Latvian trade increased geometrically despite the exodus of Baltic Germans in late 1939 and early 1940. Up until the Soviet occupation of Latvia in June 1940, Latvia had signed a number of trade agreements with Germany. The absorption of Latvia (and the other Baltic States) by the Soviet Union has been seen as one of the triggers for "Operation Barbarossa".

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