

German Economic Power in Southeastern Europe: the Case of Reemtsma and the Greek Tobacco Merchants (1923-1939)

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Abstract

This article explains how the firms involved in tobacco trade between the largest producer and consumer of Oriental-type tobacco (Greece and Germany) adapted their strategies in response to the economic environment of the interwar period, which was characterized by increased economic étatism, high barriers to trade, and generalized economic depression. The leading firm of Germany's cigarette industry Reemtsma adopted innovative strategies for sourcing its raw material, while Greek leaf merchants turned to collective action and political advocacy in response to international competition and labor activism. The history of these strategies exemplifies the interplay between politics and business decisions. It also provides a concrete example of how German economic power over southeastern Europe in the interwar period manifested itself in a specific industry.

Introduction

The difficult business environment of the interwar period forced firms engaged in international trade to implement new strategies. In the case of German companies, historians have identified cartelization and long-term contracts as mechanisms for the reduction of uncertainty and the

moderation of what was perceived as excessive competition (Lubinski 2014; Schröter 1996, 2012, 2013). With regard to Germany's foreign trade policy in the same period, a number of historical works have analyzed international trade as a mechanism for the construction of a German sphere of influence in the European periphery (Spaulding 1991). In particular, the literature on Germany's relations with southeastern Europe has identified commercial exchanges as a central component of the German diplomatic toolkit (Gross 2015). As relevant as these findings on Germany's commercial relations with the European periphery are, German participation in a number of important markets remains understudied. Such is the case of the market for Oriental-type tobacco, the most important commodity in the composition of German trade with Greece, Bulgaria, and Turkey. More specifically, the field of business history has not yet addressed how the companies that were active in this sector waved the economic storms of the interwar period.

The purpose of this article is to explain how the firms involved in tobacco trade between the largest producer and consumer of Oriental-type tobacco (Greece and Germany) adapted their strategies in response to the economic environment of the interwar period. Such environment was characterized by increased economic étatism, high barriers to trade, trading blocs, and generalized economic depression. The history of how these firms responded to the new state of affairs provides an insight into how politics and business strategies influence each other, especially when it comes to sectors of special relevance within national economies.

In the 1920s and 1930s, the new uncontested leader of the German cigarette industry Reemtsma outmaneuvered its competitors with new strategies for the sourcing of its raw material in southeastern Europe. At the same time, Greek tobacco leaf merchants turned to collective action and state advocacy in order to combat the encroachment of foreign competition upon their market niche. The history of how these two inter-related developments came to be is part of the

broader history of Germany's economic *Drang nach Südosten*, of Greece's integration into the German sphere of economic influence in the 1930s, and of the expansion of state power into new areas of economic life in the small Mediterranean country. With regard to the business historiography on Greece, this article contributes to the existing knowledge about business interest associations, a topic that has received much less attention than patronage networks and other forms of interaction between businesses and the political sphere (Dimitriadou 2016; Dritsas 1997, 2003; Dritsas et al. 1996).

This article demonstrates that the successful strategies implemented by Reemtsma and a number of Greek firms created a market which allowed room for the existence of formally independent Greek merchants. In other words, while the Greek economy became highly dependent on German demand for Oriental tobacco, such dependence did not result in complete market control by the increasingly concentrated German cigarette industry. Drawing distinctions between different types of firms engaged in tobacco trade (e.g. German vs. Greek, intermediary vs. cigarette manufacturer) and exploring the historical implications of such differences is absolutely necessary if we want to overcome the merchants-workers dichotomy that one encounters in the historiography on interwar Greece's tobacco industry (Phountanopoulos 2005; Liakos 1993; Dankas 2003). With regard to German business historiography, the findings presented here contribute to a more thorough understanding of transnational business operations in the interwar period by looking at the cigarette industry. This branch of the economy, full of particularities related to taxation, tariffs, and its status as a large consumer goods industry, has been less studied than, for instance, the chemical and electrotechnical industries in the same period (Lubinski 2014; Schröter 1996; 2012; 2013). Last, a focus on the activities of specific firms and business associations reveals what economic integration and relations of dependency

look like not from the standpoint of macroeconomic indicators, but from that of concrete economic actors.ⁱ

The source base for this article is a combination of published sources and archival material kept at multiple sites in Greece and Germany: The archive of the Tobacco Museum in Kavala; the Institute for Social Research in Hamburg; the State Archives of Dresden and Leipzig; the Political Archive of the German Foreign Ministry in Berlin, and the Archive of the Piraeus Group Cultural Foundation in Athens. The main sources informing this paper include, but are not limited to, an unpublished volume on the history of the Reemtsma group; documentation produced by the Tobacco Merchant Federation of Greece; internal correspondence of banks involved in the tobacco sector; a German consular report from Greece penned in 1925; a periodical published by the Office for the Protection of Greek Tobacco in Kavala, and Greek legislation regarding the production and commercialization of tobacco.

I. Oriental tobacco and German soft power in southeastern Europe

Tobacco became one of the most lucrative cash crops of the eastern Mediterranean basin in Ottoman times. Among the different types of tobacco, we encounter one known as Oriental. Its main characteristic is a mild taste, which results from its low nicotine content, and its richness in fats, sugars and resin (Assaël 1972, 25-27). The Ottoman Empire was the only significant exporter of Oriental tobacco until the early twentieth century. In the interwar period, most of the world's production of Oriental tobacco was concentrated in Turkey, Bulgaria, and Greece. The latter had the largest share of the international Oriental tobacco market (Figure 1). Germany would not become a large importer of Oriental tobacco until late in the pre-WWI period (Figure 2). However, during the interwar period, it was the largest consumer of this variety (Figure 3). Today an important percentage of all the cigarettes sold worldwide contain a small amount of

Oriental tobacco mixed with other varieties. In contrast, cigarettes in interwar Germany were made almost exclusively of Oriental tobacco (Merki 1998). This particularity made access to eastern Mediterranean supply markets an issue of crucial importance for German cigarette manufacturers.

[INSERT FIGURES 1, 2, 3 HERE]

In the late nineteenth and early twentieth centuries, Oriental tobacco played a pivotal role in the transition from subsistence polyculture to export-oriented monoculture in many rural areas of the Ottoman Empire, and later on in those of Turkey, Bulgaria, and Greece. In the interwar period, multiple aspects of the economic policies of these three national states were shaped by the pressing need to secure export markets for Oriental tobacco. Probably the most salient aspect was the strengthening of commercial and diplomatic ties with Germany. The German government took advantage of the need of these southeastern European countries to export Oriental tobacco in order to open up export markets to German manufactures with the help of bartering agreements. For example, in 1935 German minister to Greece Ernst Eisenlohr brokered a deal by virtue of which the Greek army would purchase a substantial volume of military equipment from Germany, instead of its traditional supplier Britain. The Greek executive entered the agreement under the explicit threat of a reduction of German imports of Greek tobacco (Pelt 2014, 203; 1997, 139). For Greece, a country with politically unstable northern provinces that depended heavily on tobacco exports, nurturing good commercial relations with Germany was of paramount importance. There are multiple instances of Germany resorting to trade as a mechanism for strengthening its diplomatic position vis-a-vis the European periphery (Gross 2015; Hedberg & Håkansson 2008).

We know relatively little about is how the firms that participated in transnational trade adapted to the rapidly changing economic environment of the interwar period. This applies

especially to those firms that do not fit into the category of big business. The historiography on Germany's international business has focused on the country's export-oriented industry. This is not surprising, given the weight that this sector has traditionally had within the country's economy. A matter that has received less attention is how industries oriented towards domestic consumer markets sourced their raw material. One example is cigarette manufacturing. Since the early twentieth century, high tariffs on cigarettes have made it costly to (legally) export cigarettes. Therefore, companies have been forced to produce and sell their cigarettes within the same country. The one truly internationalized firm in the industry, the British American Tobacco Company, had to acquire manufacturing facilities in the countries into which it expanded in the first half of the twentieth century (Cox 2000). But how about smaller firms such as German cigarette manufacturers, or trading houses specializing in tobacco leaf?

Despite two highly informative historical studies on Reemtsma, Germany's leading cigarette manufacturer, and the centrality of the firm's purchasing strategies for its success, we know little about how the company actively shaped the Oriental tobacco leaf markets overseas for its own interests (Lindner 2008; Jacobs 2008). With regard to the Greek tobacco merchants that supplied the German cigarette industry, including Reemtsma, with raw material, historians have written very little. The only topic that has received considerable attention is the conflict between tobacco merchants and the workers who packaged the leaves before their export. Such conflict has been approached from the point of view of labor, rather than that of business history (Phountanopoulos 2005; Liakos 1993, 418-439; Dankas 2003). In section III, I discuss the efforts of these businessmen to mobilize state resources in order to protect their position within the market. The case of these businessmen, who operated within structured institutions recognized explicitly by the state, differs from the cases of informal business networks and political

patronage originating in this period. The latter have discussed in more detail in the existing business historiography on Greece (Dimitriadou 2016; Dritsas 1997, 2003; Dritsas et al. 1996).

II. Reemtsma: growing while maintaining flexibility

Reemtsma's share in the supply markets of the eastern Mediterranean grew throughout the interwar years. The firm was able to successfully navigate an environment in which access to foreign exchange and raw materials was difficult. Reemtsma was able to outflank its competitors by sometimes circumventing, sometimes taking direct advantage of, the mechanisms that the German state had put in place to control import and export flows. At the same time, the limited volume of the firm's sunk capital allowed for a high level of flexibility in its operations. The purpose of this section is to account for these achievements.

World War I turned many Europeans into smokers. The interwar period witnessed a continued growth in the demand for cigarettes. As the number of smokers continued to grow in Germany, so did the size of the country's cigarette industry. Soon Germany became the largest buyer of Oriental tobacco. The country already imported more Oriental tobacco in 1920 than it had in 1913 (*Statistisches Jahrbuch für das deutsche Reich* 1921-22, 149). The growth of the cigarette industry was not a specifically German development. The cigarette grew in popularity in many other countries as well. Specific to the German case were the structural changes that the industry underwent, and the rise of the Reemtsma group as a key firm.

In 1923, the Reemtsma brothers relocated the small tobacco manufacturing business that their father had founded in Erfurt in 1910. They chose Hamburg-Altona as their new base of operations (Lindner 2008, 13-25). The company quickly expanded and bought up competitors from different parts of Germany. By 1929, after taking over a number of poorly performing firms, Reemtsma already controlled half of the German cigarette market (Lindner 2008, 46-56). By 1935, it controlled over 60% (Lindner 2008, 149). A look at the firm's share of the supply

market is also revealing of the extent to which it was a key player in the industry: in 1938, Reemtsma bought 68% of all the Greek tobacco imported into Germany (Ritzaleos 136-137). The company's innovative strategies for the sourcing of raw material in the eastern Mediterranean played a major role in putting in ahead of its competitors in the 1920s (Jacobs 2008, 74-75). Such strategies would also have far-reaching consequences for the political economy of tobacco in Greece, the largest exporter of this commodity.

Before World War I, when Reemtsma was still a small, unknown firm, the German cigarette industry had consisted of a large number of cigarette manufacturers of a wide range of sizes. Even the largest ones, however, were much smaller in size than the leading American manufacturers of the time. To source their raw material, German firms usually relied on tobacco merchants, most often of Greek Ottoman extraction. The merchants imported the goods at their own risk, and then marketed them to cigarette manufacturers. In the early 1920s, Reemtsma started making its own purchases in the eastern Mediterranean, thereby circumventing the independent merchants. Reemtsma started working with Swiss tobacco trading firm Hermann Spierer in 1922 (Jacobs 2008, 74-75). Once the buying program for the season was ready, David Schnur, Reemtsma's top tobacco expert, traveled to the region himself, picked the varieties and areas that interested him, and then had tobacco trading firms (mainly Hermann Spierer, but also others) process, package, and transport the tobacco to Reemtsma's factories in Germany (Lindner 2008, 34). As the interwar period advanced, Reemtsma adapted this strategy according to the circumstances. However, something remained unchanged: the firm would use a limited amount of staff to supervise the value-adding chain, while abstaining from opening its own buying offices and tobacco-processing facilities on site.ⁱⁱ

In 1925, Reemtsma made an arrangement with manufacturers Jasmazi and Yenidze in order to make joint purchases through a Dutch-based company called Caland. Using Dutch

florins, whose value was more stable than that of the German Mark, and making direct purchases would give the group an advantage over other German buyers (Lindner 2008, 34-36). Some years later, Reemtsma started to commission its purchases to Hamburg-based Jewish merchant Zellermeier.ⁱⁱⁱ In 1935, he was still representing Reemtsma on the Greek market.^{iv} When the suppression of Jews in the German economy during the Third Reich made it impossible for Zellermeier to continue operating, he was replaced by Greek merchant Stylianos Voivodas.^v This strategy of having one main supplier whose operations were partially supervised by Reemtsma employees was supplemented by additional orders placed with smaller trading firms, a point to which I will return in the next section of this article. First, let us turn to how Reemtsma's approach to the sourcing of raw material features in the broader picture of German international business in the interwar period.

German manufacturers in industries that processed mineral ores and timber sought to reduce uncertainty over the supply of their raw materials while protecting their scarcest asset after World War I, i.e. capital. They did so by limiting foreign direct investment as much as possible, and opting instead for long-term contracts with suppliers.^{vi} Much like in the case of those industries, cigarette manufacturing faced considerable uncertainties when it came to raw materials. The supply of Oriental tobacco was by no means a predictable affair, as it was subjected to wide variations in terms of volume, quality and price. Furthermore, German manufacturers faced competition for raw material with foreign state monopolies as well as the much larger American cigarette industry. Reemtsma's strategy for reducing the risk associated with its raw materials, however, differs considerably from the practices of leading firms in other industries. In the case of Reemtsma, there were no long-term contracts with suppliers. Neither do we find even the limited foreign direct investments that some German firms engaged in in the 1920s in order to secure raw materials (Schröter 1988, 423). Reemtsma's approach can be

explained in part by the specific nature of tobacco as an agricultural commodity, and by the defining characteristics of interwar Greece's rural economy. Another part, however, can be attributed to the creativity of Reemtsma's leadership. Let us begin with tobacco's particular features as a commodity.

Oriental tobacco is a complex, non-standardized commodity. There are endless subtypes with different properties related to flavor, color, nicotine content, combustibility, weight, and humidity retention. The subtypes of Oriental tobacco were not systematized by virtue of any widely recognized authority. The quality and quantity of the tobacco available in a given year depended on climatic conditions, plant diseases, the availability of agricultural credit, and the quality of the labor force. With regard to the latter factor, it is noteworthy that Greek policy makers struggled to prevent casual producers from cultivating tobacco following a year of high prices. These occasional producers increased the supply of Oriental tobacco, while reducing the overall quality of the harvest. The consequences were negative for the rural populations that depended on tobacco exports, and for the national economy more generally.^{vii} Finally, the sourcing of Oriental tobacco involved the difficulties of navigating a highly fragmented market, composed of hundreds of thousands of small producers living in scattered, sometimes remote villages.

One way of reducing uncertainty with regard to the supply of Oriental tobacco could have been backwards integration into agricultural production. However, such strategy would have not been feasible even if cigarette manufacturers had been willing to invest in land. Most of the surface that was suitable for tobacco production, which was concentrated in northern Greece, had been allocated to new owners in the context of the agrarian reform of the 1920s. The peasants that had benefited from the reform held incomplete property rights over their land, which limited their capacity to sell it. Not even banks could repossess land in case of default (Petmezas 2012,

182). Another option, most common when commodities are complex, not standardized, and require high search costs, is resorting to middlemen (van Driel 2003). In fact, the intermediary merchant remained a viable business model throughout the interwar period. However, many important cigarette manufacturers decided to skip them, at least partially, by opening their own buying offices in the countries of production. Such was the case of the Austrian tobacco monopoly, which created subsidiary buying companies in Greece and Turkey in 1927 (Austria E.O. et al 1967, 3-4).

For German cigarette manufacturers, there was an important incentive for cutting the middleman, especially once the industry's nation-wide cartel started allocating sales quotas and setting prices. In 1929, four companies collectively owning 90% of the cigarette market formed a voluntary alliance. The companies were Reemtsma, which by then had cornered 50% of the market, Garbaty (10%), Haus Neuerburg (30%), and Greiling (10%) (Lindner 2008, 56-64). From 1935 onward, a reformed cartel, known as the German Cigarette Manufacturers Association (*Interessengemeinschaft deutscher Zigarettenersteller*), coordinated manufacturers that combined made up over 96% of the market (Lindner 2008, 148). Firms became unable to increase profits by boosting sales or pushing up their prices. However, let us keep in mind, the cartel was oriented towards sales, not the purchasing of raw material. In other words, a firm could still increase its profits by pushing down the cost of its raw materials. Among German cigarette manufacturers, Reemtsma was the only one with enough resources to consider the establishment of multiple buying offices in southeastern Europe. Why, then, did the industry leader not invest in its own warehouses, tobacco-processing equipment, and the bureaucratic apparatus required to buy tobacco directly from peasants?

An unpublished manuscript on the history of Reemtsma, originally intended for publication and distribution among the firm's employees, gives us the rationale for Reemtsma's

deliberate strategy of not engaging in FDI in the producing countries. In the first place, the strategy allowed for the existence of formally free merchants that Reemtsma would bind through a system of monetary advances. I will turn to how the relative autonomy of these merchants played in Reemtsma's favor vis-a-vis the Greek state. As far as the logistics of sourcing raw material are concerned, the strategy of simply supervising the commercial chain allowed Reemtsma to operate without much sunk capital. The firm retained enough flexibility to quickly adapt its buying campaigns, depending on the conditions on the different Greek, Bulgarian, and Turkish supply markets.^{viii} The small landholders that produced most Oriental tobacco could no longer resort to collective action and refuse to sell to Reemtsma's agents to push the sale price up. Taking advantage of the telegraph and the capacity to deploy agents in multiple locations at the same time, the firm could simply decide to decrease its purchases in one place and increase them elsewhere.^{ix}

The sheer size of the company's business allowed it to exert considerable influence over how formally independent actors operated, simply by deploying a limited amount of staff in the producing countries. For instance, David Schnur instructed peasants in Central Macedonia which tobacco varieties they should grow. One of the problems that tobacco merchants encountered in this period was that peasants would often choose tobacco varieties that did not match the composition of the soil that they tilled. They would turn to the most expensive varieties in the hope of reaping a good price, without taking into consideration that matching the right variety with the right type of soil was of great importance. Another example of how Reemtsma was able to influence how others worked is the popularization of a type of tobacco bale known that became known as "uso Reemtsma." This type of packaging was similar to the *tonga* type, which was already popular in the Oriental tobacco market. The "uso Reemtsma" packaging method was a smaller version of it, easier to handle and suited to the preferences of the company.^x

An account of the success of Reemtsma's buying strategies in the interwar period would be incomplete without a look at the system of clearing agreements, and how the firm operated within it. A clearing agreement involved two parties from two different countries. Each party would own a bank account in the other country. Whenever one of the parties bought goods from the other one, the buyer would deposit money in the account that the seller had in the buyer's own country. The seller would then withdraw money from the account that the buyer had in the seller's country. This system allowed for the exchange of goods without the need to transfer currency across state borders. This was important in a period characterized by foreign exchange controls. The most obvious downside was that, once one party had sold goods to the other one, the money was locked in an overseas account, and could only be used to purchase goods from that country. Hence the intensifying effect that the clearing agreements, usually signed between the central bank of Germany and that of another country, had on bilateral trade. Whenever a German cigarette manufacturer bought tobacco from, say, Greece, the money on the German account of the Bank of Greece could only be used by a Greek firm willing to import goods from Germany. In this context, Reemtsma was able to benefit greatly from its position as the largest importer of the most important export commodity of the Greek, Bulgarian, and Turkish economies.

Reemtsma was one of the only two privately owned firms that established clearing agreements with the Greek government. The other one was the much smaller cigarette manufacturer Greiling AG, which was owned by Greeks. With those two exceptions, Greece only signed clearing agreements with foreign governments and tobacco monopolies. On 16 August 1932, the Greek and German central banks signed a clearing agreement that did not modify the two separate, pre-existing private agreements that Reemtsma and Greiling had signed with the Greek Ministry for the National Economy (Varveropoulos 1935, 53-54). Reemtsma's

size allowed it to take advantage of the clearing system, as it made it possible to overcome bureaucratic hurdles. One of the disadvantages of the clearing system of payments was that it was "cumbersome and frequently ineffective in matching buyers and sellers. The byzantine regulations imposed serious costs and created massive impediments in the flow of information" (Gross 2015, 198). This meant that firms with the capacity to mobilize large bureaucratic resources were at an advantage over their smaller competitors.

Reemtsma was the only cigarette company able to operate with amounts of tobacco that could make up for high-value shipments of German manufactures. Clearing agreements were mutually beneficial as long as the value of the goods traded in one direction remained similar to that of the goods traded in the opposite one. For that reason, a transaction that was paired with another compensating transaction was more likely to be acceptable to both the German and the Greek governments. Whenever Reemtsma wanted to buy a large shipment of tobacco, a German bank would find a German exporter willing to sell its goods in Greece, and have a Greek bank find a buyer. Reemtsma would then easily import the raw material that it needed.^{xi} The presence of the company's top manager Philipp F. Reemtsma in the board of directors of Deutsche Bank in the mid-1930s was probably conducive to the documented instances of collaboration between the bank and the manufacturer (*Compass* 1935, 1376). Reemtsma could therefore benefit from its own private clearing agreements, but also operate through the national-level clearing agreements signed by the Reichsbank.

Yet another example of how Reemtsma's size allowed it to overcome the difficulties posed by the system of clearing agreements is related to the purchase of large amounts of tobacco from the Greek government in 1932. In order to alleviate the plight of a Greek peasantry unable to sell their tobacco as a result of the crisis, the Greek government bought unsold stocks that year. A significant portion of these tobaccos was sold to Reemtsma in 1935. Soon after the

sales agreement was signed, Reemtsma requested an extension of the deadline for picking up the goods. Solomon Zellermeier, who at the time was in charge of the purchasing of raw material, explained that the firm could not have the transaction approved by the German authorities in a timely manner since there had been no order of German products of similar value to be delivered in Greece. The administrators of the office in charge of exporting the Greek state-owned tobaccos had no option but to agree to a delay in the transaction without asking Reemtsma for anything in return. In the words of one of them, the reason was "the seriousness of the buying firm and the volume of the tobacco that it had purchased which, as it [was] well known, it would be impossible to sell outside of the German market."^{xii}

III. Greek merchants: organizing within an expanding state apparatus

Despite Reemtsma's success, the company never became the only game in town, whether in Germany or Greece. In the 1920s, many Greek merchants were still selling tobacco in Germany. The growth of the cigarette market still granted opportunities for relatively small manufacturers and suppliers. However, a series of economic and political factors motivated a generalized turn towards collective action among Greek tobacco trading firms. Such factors were the redrawing of state borders after a decade of war (1912-1922), increased competition with foreign firms, and the combative stance of Greek tobacco workers.

The wars of the 1910s had concluded with Greece's annexation of the formerly Ottoman provinces of Macedonia and western Thrace, two of the most important producers of tobacco in the region. This territorial expansion had opened up a new field of activities for Greek banks, which would lend to virtually whoever wanted to sell tobacco in Germany. Even individuals with little or no experience in tobacco trade could become casual entrepreneurs. It was risky business if the sale to a cigarette manufacturer had not been secured in advance. The system worked

relatively well until the crash of 1929, when large amounts of tobacco remained unsold in the hands of many small merchants (Papastratos 2012, 133-134).

Meanwhile, German banks also expanded their operations into Oriental tobacco trade in the mid-1920s. Whereas before World War I they had not been willing to lend money to eastern Mediterranean merchants unless the tobacco was already stored in Germany, this was no longer the case (Richter 1921, 15). Banks such as Gebrüder Arnhold, Dresdner Bank and Deutsche Bank opened departments specialized in Oriental tobacco trade. One of the services that Gebr. Arnhold's tobacco department offered was regular information about the Oriental tobacco market, which suggests that the bank would lend money to firms with limited first-hand access to market information (Nestoroff 1928). Unfortunately, many small trading firms working with German banks also went bankrupt in the crisis of the early 1930s.^{xiii} This development made it even more difficult for small cigarette manufacturing firms in Germany to source raw material at competitive prices. Nevertheless, the existence of such manufacturers guaranteed the existence of a market for relatively small suppliers throughout the interwar period. For that reason, the Greek independent merchant never went away completely.

In Greece, much like in Germany, the tobacco market was changing rapidly in the early 1920s. Reemtsma was implementing its first on-site buying programs in Greece, while some newcomers were trying their hand at small-scale tobacco exports. In this context, the experienced Greek merchants had good reasons to worry about the future of their trade. The economic and political circumstances had changed considerably. As a result of the collapse of the Ottoman Empire, many commercial networks and routes had to be rearranged. Merchants who had once been Ottoman subjects of Greek ethnicity, such as the Anastasiadēs or the Gavriēloglous, had now become just Greeks.^{xiv} From now on, they would buy tobacco from the territories within the Greek state. They would also have to compete with cheaper tobacco from Bulgaria and Turkey.

The production of tobacco in what now had become northern Greece had been disrupted by the population exchange with Turkey. As a result, the prewar merchant's knowledge of the supply market no longer granted the same competitive advantage. Many seasoned tobacco producers had had to emigrate. In addition, selling tobacco in the European markets had become more difficult. The weakness of a variety of currencies had reduced the amount of solvent buyers in Germany, Austria, Russia, Romania and Yugoslavia. Foreign firms with access to large amounts of capital were replacing Greek exporters. The Tobacco Merchant Association of Macedonia and Thrace complained in a report from 1925 that 80% of tobacco exports from Greece were already in the hands of fifteen such firms, in which Greek capital had limited participation. Without mentioning their names, the Association listed the nationality of those firms: five American, two French, two British, three Dutch, one Swiss, one Italian, and one Belgian.^{xv} The absence of German firms from the list is noteworthy. At the time that the report came out, Reemtsma was purchasing its tobacco through either Herman Spierer or Caland, none of which was registered in Germany. As I have already explained, Reemtsma only mobilized a few members of its staff as supervisors along the commodity chain.

Foreign competition and geopolitical shifts were not the only problems facing Greek tobacco merchants in the mid-1920s. Another challenge for the merchants was the usual one when we talk about tobacco: taxation. Since 1918, tobacco leaves produced in Greece had been taxed at 10% based on the price paid to the farmer. In 1922, the tax rate went up to 14%. There could be additional local taxes depending in some parts of the country (Iōannidēs 1997, 183-188). Taxation was one of the main bones of contention between tobacco trading firms and the Greek state throughout the interwar period. Whenever Greek tobacco encountered difficulties in foreign markets, the merchant associations would point at Greece's taxes being higher than those of Turkey and Bulgaria as one of the two main burdens on their activities. The other one, they

would often argue, was excessive labor costs in the form of wages and welfare benefits (Dankas 2003, 745).

Since the 1910s, the urban workers in charge of sorting and packaging the tobacco leaves before their export had gradually become an organized political subject, able to exact concessions from the state. In 1914, the tobacco workers of northern Greece forced their employers to sign the first large-scale union contract in the history of the country (Avdela 2006, 131-152). In the Thessalian city of Volos, which was already part of the Greek state before 1912, tobacco workers had been the protagonists of successful strikes in the first decade of the 20th century as well (Iōannidēs 1997, 76). Throughout the 1920s and 30s, there would be more victories for workers in the form of favorable legislation and union contracts.

A noteworthy victory for tobacco workers came in 1922 when, after a series of successful strikes, the state passed law 2869/1922. The law banned the export of tobacco leaves unless they had undergone the required sorting and packaging on Greek soil. The passing of this legislation, which was intended to save local jobs, was a wake-up call for Greek businessmen. It became clear to some of them that the challenges posed by foreign competition, the labor movement, and state regulations could only be successfully addressed through collective action. In 1924, they created the Tobacco Merchant Federation of Greece (hereinafter TMFG).^{xvi}

The establishment of this nation-wide federation was a logical development after the creation of regional tobacco business associations all over Greece in the previous years. The initiative to create a nation-wide organization had been originally taken by merchants based in Athens. This fact is in itself a sign of how the political geography of eastern Mediterranean tobacco was changing. By far the largest amount of Greek tobacco destined for export grew in the northern provinces of Macedonia and Thrace, which had recently become Greek territory. However, the new political and financial center to which these regions now looked was the

Greek capital city. The TMFG brought together merchants from both Old Greece (i.e. the territories that belonged to the Greek state before the Balkan Wars), and the New Lands. A national tobacco lobby of sorts had been born. Big decisions involving Greek tobacco were to be made in Athens.

On the domestic front, the initial purpose of the TMFG was to advocate for lower taxes, as well as favorable mediation by the state vis-a-vis unions.^{xvii} At the international level, the organization aimed at expanding export markets for Greek tobacco. For this agenda to come to fruition, the development of new state agencies would be necessary. The TMFG's leadership considered it necessary to gain access to the management of such agencies. In this sense, the articulation of a tobacco merchants' movement in interwar Greece was not just a response to the expansion of state power in the form of taxes and regulations. It was also an attempt to actively shape, and further expand, the allocation of state resources for the management of tobacco-related issues. The success of the TMFG on this front is undeniable. Within its first year of existence, the organization secured representation in an important governmental advisory body, the High Council for Commerce and Industry (Anótato Symvoúlio Emporíou kai Viomēchanías).^{xviii} A few years later, TMFG's Secretary General was given a seat at the board of the Agricultural Bank of Greece and, after 1937, at the High Economic Council (Anótato Oikonomikó Symvoúlio).^{xix} Another achievement in its first year of operations was playing a decisive role in the establishment of the Offices for the Protection of Greek Tobacco. The latter constituted the first important step towards the institutionalization of state-led upgrading in the tobacco sector, through the popularization of best practices among peasants, policy advising, the production of standardized market information, and the promotion of Greek tobacco overseas. There were three Offices, each one in an important commercial hub for Oriental tobacco: Volos, Salonika, and Kavala.

The decree that incorporated the Offices during the Pangalos dictatorship was later ratified under Venizelos' elected government through law 3534/1928. The tobacco merchants soon gained the upper hand in their management. The law that incorporated the Offices for the Protection of Greek Tobacco was quite vague as to what their exact functions should be. It also left it up each Tobacco Office's bylaws to determine how the governing council would be elected. A look at the example of the Tobacco Office of Kavala (Table 1) reveals that urban workers only had some sort of representation in the first years, and later lost it. Tobacco merchants and representatives of the agricultural cooperatives soon occupied all the positions of responsibility. Even though peasants were, in appearance, well represented in the Tobacco Offices, they did not have as much of a say as the merchants. To begin with, the representatives of tobacco peasant cooperatives were sometimes in cahoots with the merchants, as denounced by Liberal MP Leōnidās Iasōnidēs in 1929 ("Ē kapniké krísis" 1929). Peasant representatives characterized the Tobacco Offices a tool in the hands of tobacco merchants at the Agrarian Congress of Langadas in 1930 as well (" Ē trítē ėméra" 1930).

[INSERT TABLE 1 HERE]

Throughout the interwar period, the range of services that the state provided to tobacco merchants for the purposes of securing export markets increased. It is at this point that the size of the German market, and also its specific structure with Reemtsma as the largest player, became important factors in the development of Greece's institutional arrangements concerning tobacco. Securing a market share in the countries where the tobacco industry was a state monopoly, such as Sweden, Austria, Poland or France, was a matter of having the Greek government negotiate export quotas. In the German case, the matter was more complex. In the first place, there were still relatively small manufacturers who sourced their tobacco through trading firms. In a number of cases, these manufacturers were either partially owned by Greeks, or had a Greek in charge of

tobacco mixes for their cigarettes. The Federation successfully advocated for the state to support small manufacturers operating in Germany so that they would buy Greek tobacco. In 1932, for instance, the state brokered favorable loans by the National Bank of Greece to the Dresden-based manufacturer Greiling AG, which was owned partially by the Anastasiadēs family, and to Kaloudēs, a Greek who owned a factory in Wiesbaden.^{xx}

Greek state agencies also supported the organization of exhibitions of Greek tobacco with the collaboration of manufacturers that used it in their cigarettes. In 1927, for instance, Greece participated in the Leipzig Fair exhibiting, among other products, Muratti and Nestor Giannaclis cigarettes.^{xxi} The biggest fish, however, was Reemtsma. In the 1930s, there were years when the firm would buy more than a third of the Greek and Bulgarian harvests.^{xxii} The Greek merchants in control of the TMFG had to flex their political muscle in order to make the Greek supply market attractive to the German giant and, at the same time, guarantee their own survival.

As I have already mentioned, Reemtsma had a policy of not opening its own buying offices and tobacco processing facilities in the countries of origin. Instead, it would send a reduced amount of staff to select the product, and supervise its processing and shipping. In addition to these direct purchases, Reemtsma was willing to buy some tobacco in the secondary market in order to prevent its definitive demise.^{xxiii} Reemtsma's policy of not excluding Greek merchants completely allowed the firm to have local businessmen mediate before government agencies and agricultural organizations. In Greece and Bulgaria, the threat of a monopolization of tobacco exports by the state was present throughout the interwar period.

Reemtsma was concerned about projecting the image of an exploitative colonizer if it were to ever acquire monopsonistic power in the market. From that point of view, it was beneficial to have a series of semi-independent trading firms with political leverage invested in

fighting initiatives for the monopolization of the tobacco sector.^{xxiv} In 1934, for instance, Achilleas Mantzarēs, Secretary General of the TMFG, published a diatribe against multiple propositions for a monopoly made by different members of Greece's political and financial establishment, as well as agrarian organizations (Mantzarēs 1934). Addressing the broader public through publications was one of the many strategies that the advocates of the interests of Greek merchants used to exert political influence.

Whereas the interests of Reemtsma coincided with those of Greece's organized merchants when it came to preventing the monopolization of tobacco trade, in other cases there were important differences. One such case is the regulations that the Greek government passed with regard to primary processing^{xxv} of tobacco. In very general terms, such processing consisted of drying the leaves in the sun, and then packaging them to prevent deterioration during storage and transportation to an urban center for further processing. From 1925 onward, Greek governments passed multiple pieces of legislation regulating this activity. More specifically, the regulations were intended to force peasants to classify their tobacco in three different categories according to quality, and to package them separately.^{xxvi} In practice, such regulations were hardly ever enforced until 1936, under the dictatorial rule of Iōannēs Metaxas.^{xxvii} Whereas the Greek merchant organizations were in favor of such requirement, Reemtsma's interests would have been hurt by it.

At the core of this divergence of interests lies the fact that Reemtsma mixed different qualities of tobacco in Greece's port cities before shipping it to its facilities in Germany. Undifferentiated tobacco bales were cheaper since they were less labor intensive. On the other hand, they were also less durable than the more homogeneous ones. It is more difficult to calibrate the right humidity and temperature levels in storage when the leaves forming the bale have different properties. Storing large, thick leaves in direct contact with small leaves could

result, in the long run, in the deterioration of the smaller ones (Assaël 1972, 35-37). This was not a problem for Reemtsma, since it could plan with relative ease how much tobacco it would need, and when. In contrast, independent merchants could have a tobacco bale in storage for years before selling it. Therefore, they needed a better quality of packaging.^{xxviii} Having the more refined system of primary processing imposed by law would make it easier for these merchants to compete with Reemtsma's virtually monopsonistic power. The German giant would be forced to buy the more expensive tobacco bales. The peasants would not have the option to make undifferentiated tobacco packages, and thereby reduce the supply of tobacco that independent merchants could buy.

In the event, despite the preferences of multiple merchant organizations, the Metaxas administration granted an exception suited to the needs of Reemtsma.^{xxix} By virtue of law 1193/1938, if a peasant had reached a formal sales agreement by a certain deadline, he would be entitled to package his leaves without making distinctions based on quality. Reemtsma's weight in the market was such, that peasant organizations could not risk having the firm turn to their Bulgarian and Turkish competitors.^{xxx} The argument that German demand for Greek tobacco had to be nurtured above any other considerations carried the day. Greece independent tobacco merchants could use the state to further their own interests, but within certain limits.

IV. Conclusions

Reemtsma was able to successfully navigate the clearing system in a way that its smaller competitors could not. It was also able to increase its control over the supply chain without sacrificing flexibility in the form of sunk capital. Finally, aware of the political cost that an excessively imposing presence in southeastern Europe might entail, the firm's leadership deliberately resorted to purchases on the secondary market in order to keep independent merchants in business.

In the face of increased foreign competition and a state that was willing to grant concessions to workers, the Greek tobacco merchants engaged in collective action strategies in order to promote their interests. In doing so, they fostered the development of new institutions that would advise and regulate the tobacco sector. They were able to avert the monopolization of tobacco exports, mobilize resources for the international promotion of their goods, and secure some material support for small Greek manufacturers overseas. They could not, however, get state authorities or the peasant population to accept any measures that might favor Greek merchants if the cost entailed discouraging Reemtsma from purchasing in Greece.

The findings presented in this article allow us to understand in more concrete terms the unequal economic relations between Greece and Germany in the interwar years. The expansion of German economic and diplomatic influence in southeastern Europe was in part a matter of trade treaties, cultural rapprochement and diplomatic exchanges as historians have already pointed out. However, it was also an instance of firms endowed with different strengths, grappling with the challenges of a new business environment. In the uneven division of labor within international trade, the manufacturer located in the industrialized center gained control over the market at the expense of the commercial middleman.

i For a study on the growing influence of the German business cycle on the economies of southeastern Europe, see Morys and Ivanov (2015). On the history of Greece's agriculture from the point of view of its integration into the global economy, see Petmezas (2013).

ii Manuscript "Der Rohtabak" [Raw tobacco] by Kurt E. Heldern, PFR Reemtsma, Philipp F. / Reemtsma Cigarettenfabriken [Reemtsma Cigarette Factories], folder 115/52, pages 4-8, Hamburg Institute for Social Research (HISR).

iii There are records of purchases made by Zellermeier from merchant N. Kougioumtzoglou between August and October of 1930 on Reemtsma's account. *Deltion tou Grapheiou Prostatias Ellēnikou Kapnou Kavallas* Aug. 1930; Sep. 1930; Oct. 1930.

iv A large purchase made by Zellermeier is recorded in *Efēmeris tēs Kyvernēseōs*, 4 June 1935, vol. 1, item 14.

v Letter to Special Court for Collaborators, 1945, JUS-013 Eidiko Dikastirio Dosilogon [Special Court for Collaborators], folder 871, item 8, Historical Archives of Macedonia.

vi Schröter discusses the strategies that German firms followed in order to secure the supply of raw materials from Scandinavia in "Risk and Control." On the contract that IG Farben signed with the Canadian firm INCO in 1934, see Plumpe 1990: 426-429.

vii After the high prices of 1935, for instance, the Ministry of Agriculture bargained with the Association of Greek Banks so that they would reduce the amount of credit allocated for tobacco production that season. Limiting the credit supply was expected to limit the uncontrol expansion of tobacco production in the new season. Circular letter from ABG's central offices, 1936, Konstantinos Karavidas papers, box 43, folder 2, Archives of the Gennadius Library at the American School of Classical Studies at Athens.

viii Manuscript "Der Rohtabak" by Kurt E. Heldern, PFR Reemtsma, Philipp F. / Reemtsma Cigarettenfabriken, folder 115/52, pages 4-8, HISR.

ix Jacques Saporta to Central Committee for Tobacco Purchasing and Administration, 1932, A1S28Y1F17 Kentriki Epitropi Agoras kai Diacheiriseos Kapnon [Central Committee for the Purchasing and Administration of Tobacco], items 39/156 and 39/157, Archives of the National Bank of Greece (NBG).

x Manuscript "Der Rohtabak" by Kurt E. Heldern, PFR Reemtsma, Philipp F. / Reemtsma Cigarettenfabriken, folder 115/52, pages 4-8, HISR.

xi One such transaction is documented in Kiehl to Hermann Reemtsma, 1935 and 1936, R/8119F Deutsche Bank, folder 4747, Federal Archive Berlin-Lichterfelde.

- xii Minutes of the 29th meeting of the Central Committee for Tobacco Purchasing and Administration, A1S28Y1F19
Kentriki Epitropi Agoras kai Diacheiriseos Kapnon, items 20/66-20/67, Archives of the NBG.
- xiii The cases of two merchants that defaulted in their debt with the Deutsche Bank are documented in Internal Deutsche Bank correspondence, 1931-1933, 13131 Deutsche Bank, Filiale Dresden [Dresden Branch], folder 225, Central State Archives Dresden (CSAD); Internal Deutsche Bank correspondence, 1930-1932, 13131 Deutsche Bank, Filiale Dresden, folder 388, CSAD.
- xiv Nikolaos Anastasiadēs had been a prominent merchant of Ottoman Macedonian tobacco in Dresden before World War I (Verband deutscher Zigarettentabakhändler [Association of German Cigarette Tobacco Merchants] to German Ministry of the Interior, 1915, 10736 Ministerium des Innern [German Ministry of the Interior], folder 7126, items 88-91, CSAD. Members of the Anastasiadēs family remained involved in tobacco trade and cigarette manufacturing throughout the interwar period (Deutsche Bank internal correspondence, 1938, 13131 Deutsche Bank, Filiale Dresden, folder 1226, CSAD. Information about the Gavriēloglous is available in Bibliographical note, registry no. 28/2010, file 31766, Archive of the Tobacco Museum of Kavala.
- xv German consulate in Salonika to German Foreign Ministry, 1925, R Auswärtiges Amt des Deutschen Reiches, folder 242106, items 181-182, Political Archive of the German Foreign Service.
- xvi The report on the first year of the TMFG's activities makes a specific reference to this law as the main motivation for the creation of the association. Report "Η δράσις της κατά το πρώτον έτος της ιδρύσεώς της," 1925, registry no. 26/2006, item 1692, Archive of the Tobacco Museum of Kavala.
- xvii Ibid.
- xviii Ibid.
- xix Minutes of governing board meeting, 7/11/1930, Archeio Agrotikis Trapezas tis Ellados, Seira Praktika Dioikitikou Simvoulou [Archive of the Agricultural Bank of Greece, Collection of Minutes of the Governing Board], Historical Archive of the Piraeus Group Cultural Foundation (PGCF); High Economic Council of Greece 1937: III.
- xx Department of International Operations to Legal Department, 1932, A1S8Y7 Ypiresia Enegyyon Pistoseon kai Eglyiseon [Department of Letters of Credit and Security Deposits], folder 21, Archives of the NBG.
- xxi Photo of Greek Pavillion, 1927, 20202 Leipziger Messeamt [Leipzig Fair Office] (I), file F3711, Saxonian State Archive Leipzig.
- xxii Manuscript "Der Rohtabak" by Kurt E. Heldern, PFR Reemtsma, Philipp F. / Reemtsma Cigarettenfabriken, folder 115/52, pages 4-8, HISR.

xxiii Ibid.

xxiv Ibid.

xxv In agriculture, the term *primary processing* refers to value-adding procedures performed upon a product as preparation for its storage, and/or further processing downstream the value chain (Fellows 2011).

xxvi Decree on the processing of tobacco and the insurance of tobacco workers. Government Gazette, 15 July 1925.

Decree on the modification of the decree of 11 July 1925 "on the processing...", *Efēmeris tēs Kyvernéseōs*, 31 October 1927, vol. 1.

xxvii Circular letters, 10 September 1936 and 21 October 1939, Archeio Agrotikis Trapezas tis Ellados, Seira Engyklioi kai Diatagai [Collection of Circular Letters and Ordinances], Historical Archive of the PGCF.

xxviii Andreadēs to League of Offices for the Protection of Greek Tobacco, 1937, 262 Dioik. 18.01 Archeio tou Kapnologikou Institoutou Nomou Dramas [Archive of the Tobacco Research Institute of Drama], folder 1700, General State Archives Drama.

xxix Representatives of the tobacco merchants Petridēs and Spyrantēs voiced their support for the prohibition of the *seira postal* method, one of the most simple, in a government-sponsored congress in Kavala. See *Kapniki Siskepsis Kavallas* 1937, 163-170.

xxx These were the concerns, for instance, of peasant cooperativist leader Petalōtēs, as expressed in *Kapniki Siskepsis Kavallas* 1937, 163-170.