

The Lohmann Affair

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Achievements, extravagances, and exposure of a clandestine German interbellum operation in military research and development.

The Weimar Republic's attempts in the twenties to circumvent the Versailles restrictions on its armed forces produced clandestine operations which in their financing, cover devices, and hazards of exposure present a close parallel with intelligence operations. One such series of undercover research and development projects, carried out by a Captain Walther Lohmann of the German Naval Transportation Division, got out of hand and became a source of acute embarrassment to the Weimar Ministry of Defense. The affair was hushed up, and in more recent times has been virtually overlooked by historians. Sufficient material is now available, however, for a scrutiny of Lohmann's work, its oddities and blunders, and for an account of the way the German Cabinet successfully veiled its true nature after some of the clandestine activities had been exposed in the press.¹

Walter Lohmann, the son of a one-time director of the North German Lloyd shipping line, served inconspicuously as a non-combat logistics specialist during the European war of 1914-1918. He won recognition in navy circles afterward, however, for his work on a subcommission which negotiated the disposition of the German merchant fleet and for his direction of shipments of emergency food supplies to Germany. He also managed the return from overseas of German war prisoners. In 1920, while on the first of two trips to Leningrad to negotiate with the Russians regarding the release of captured German merchant ships, he met the comely German-born Frau Else Ektimov, destined later to play a

role in his downfall. He subsequently arranged for the return of the lady to Germany and for her support.

In October 1920 he assumed command of the Naval Transport Division of Navy headquarters in Berlin, a post concerned primarily with logistical matters. For this reason, and also because he enjoyed the complete trust of Admiral Paul Behnke, then commander in chief of the Navy, he was given full charge in early 1923 of the disbursement of the Navy's "black" funds reserved for clandestine purposes.

Achievements

Initially, these funds included large sums--amounting in dollars to at least 25 million--obtained from the sale of warships and submarines scrapped in 1919 and 1920 at the order of the Allied Powers. Later, some two and a half million were added as the Navy's share of the so-called "Ruhr funds," monies voted by the Reichstag and used to strengthen the armed services above Treaty limit at the time of the French occupation of the Ruhr. Subsequently, smaller sums totaling about two and a quarter million were obtained or diverted from other sources. Most of this money was transmitted to recipients through a Lohmann-supported bank, the Berliner Bankverein, which acted as a middleman between the Naval Transport Division and the various projects funded.

Only one inspector, a man of Lohmann's own choice, was assigned to audit the funds, and he had no authority to question the wisdom or validity of the captain's disbursements. His presence afforded a partial check against improper book-keeping and ordinary waste, but none to hinder Lohmann from supporting whatever projects he chose. Admiral Behnke and Minister of Defense Otto Gessler, trusting Lohmann to use the money for worthwhile undertakings, seem to have given him *carte blanche*, an opportunity which appealed to his Hanseatic spirit.

Between 1923 and 1927 Lohmann financed nearly all of the clandestine and semi-clandestine projects of the Navy. Most of these were established with the initial concurrence of his superiors, and many required the closest cooperation with several divisions of the naval staff; but some were founded and supported solely on the captain's initiative without the knowledge of even the commander in chief of the Navy. This

independent activity was protected by the necessity for strict secrecy in clandestine operations and by Lohmann's extremely broad powers.

The projects which dealt with aircraft and submarine design and development were for the most part soundly conceived, well executed, and extremely important for the future development of the Navy and the Luftwaffe. With subsidies from Lohmann, three German shipyards operated a highly successful submarine design bureau in The Netherlands which maintained contact with Navy headquarters through a dummy firm known as Mentor Bilanz. The "Dutch" bureau, Ingenieurskantoor voor Scheepsbouw, designed a submarine which Lohmann and Captain Wilhelm Canaris (later to become the Abwehr chief of ambivalent loyalties) in 1926 arranged to have built at Cadiz in Spain. The purpose was to train German technicians and to develop a prototype medium-size submarine, which among other features had torpedo tubes designed to eliminate the large bubble of air that normally betrayed a submarine's position when a torpedo was fired.

Lohmann's work in aircraft development was equally significant. The firms of Heinkel, Dornier, and Rohrbach enjoyed his subsidies, and in 1926 he purchased outright the Casper Aircraft Company to obtain facilities for the type-testing of "commercial" aircraft which closely resembled the fighter, bomber, and reconnaissance planes being built abroad by such firms as Boeing, Vickers, and Douglass. By 1927 Germany had several successful prototypes, and the Swiss subsidiary of Dornier was about to embark on the design and development of the "DO X" flying boat, a twelve-engine giant larger even than the famous Boeing Clippers of Pan-American, to meet the requirement for a patrol seaplane capable of landing and refueling at sea. Only an unacceptably low service ceiling made it necessary to abandon this design.

The training of airmen was at the same time not overlooked. Battle-experienced pilots of the Lohmann-financed Severa flying service based at Noordney and Holtenau conducted tactical exercises with the fleet and trained a dozen young naval officers each year in the art of flying.

Extravagances

As Lohmann's list of projects grew--including also such things as the

secret construction of motor torpedo boats and subsidies to various small-boat shipyards and yachtsmen's associations--his ambition increased proportionately. By about 1926 he seems to have become convinced that he could perfect a massive structure of clandestine projects financed by profitable commercial ventures bolstering the rapidly dwindling "black" funds. He then stepped into another world, the world of commerce and business, where his successes were lamentably few. He had become the victim of *Masslosigkeit*-- gross intemperance.

Two projects which attempted to combine money-making with what might today be termed "defense-related research" bordered on the fantastic. One company was founded to exploit an experimental method of raising sunken ships by surrounding them with ice, and another sought to extract motor fuel from potatoes. These accomplished nothing, and both aroused much public ridicule when they were later exposed. Another device, a coal-pulverizing machine, came to grief in the course of experiments and the Lohmann-financed company which sponsored it went bankrupt.

But it was the Berliner Bacon Company which came to be described by German Socialists as the most odiferous of Lohmann's schemes. This project was initiated primarily as a money-maker in the spring of 1926. Lohmann proposed to wrest from the Danes the lucrative British bacon market by offering a German product cured by a new process especially for the Englishman's palate. He had incidentally in mind that the fast refrigerator ships he hoped to acquire for the bacon trade would be useful in wartime as troop transports.

His ambitions, however, exceeded his ability to analyze the British market potential, and by mid-1927 his company was bankrupt.

Lohmann's downfall stemmed from his relations with the Phoebus Film Company, in 1927 the third largest producer of motion pictures in Germany. Beginning in 1924 Lohmann granted subsidies to this firm on condition that it produce films of a "national" character designed to stimulate the "fatherland consciousness" of the German people. He also hoped to use its overseas offices to establish an intelligence network in former enemy countries where Germany was not allowed a naval attaché.

The captain probably had personal reasons for supporting' Phoebus as well. Prior to his association with the company he had become a close

personal friend of one of the directors, and afterward a member of a hunting club organized by him. Through this man Lohmann secured for his friend Frau Ektimov a position with Phoebus at a salary of 1,000 marks a month, enough to enable her to support her aged mother and young son in comfort. Frau Ektimov, employed for "representation," did no work, and she had apartments in a house purchased by Lohmann. Lohmann's personal relations with her are nevertheless officially said to have been above reproach, motivated solely by a desire to help her; and *honi soit qui mal y pense*. He also seems not to have appropriated any of the "black" funds for his own use.

Between 1924 and 1927 Lohmann provided Phoebus, a company capitalized at approximately \$1,000,000, with a total of over \$2,500,000. He informed his superiors of only one of five separate grants, a government-guaranteed loan from the Girocentral Bank in Berlin in March 1926. In order to obtain their signatures on this guarantee, Lohmann resorted to a stratagem, informing them that the Lignose Company, a producer of raw film, had also guaranteed the loan and that in the event of default it would stand the loss instead of the government. He neglected to add that he had in effect bribed one of Lignose's officials with a \$2,500 "negotiating fee," and that he had given this man a written assurance that Lignose would not have to pay. In the early half of 1927 he arranged two more government-guaranteed loans which he kept secret from his superiors by affixing his own signature in the name of the Reich.

Despite this massive aid, Phoebus continued to lose money. In 1927 it was in such serious financial difficulties that it failed to convene its regular annual stockholders' meeting or issue a financial report. By August disaster was impending for both Lohmann and Phoebus. The company was falling behind in payments on its loans, and penalties were mounting rapidly. None of Lohmann's various money-making projects had paid off, and the "black" funds were near exhaustion.

Exposure

Kurd Wenkel, one of the financial writers of the *Berliner Tageblatt*, a liberal daily of high quality, had been following the declining fortunes of

the German film industry with close attention. He was well aware of the financial condition of Phoebus, and by mid-July had begun to suspect that Phoebus enjoyed official support. At about this time he became acquainted with a former director of the company, Isenburg, who had resigned in disgust in 1926 and knew of Lohmann's dealings with Phoebus, of the several government-guaranteed loans, and of Lohmann's relations with Frau Ektimov. Evidently for reasons of spite he told all this to Wenkel, who took care to check the story independently and then in articles on 8 and 9 August created a sensation by exposing the shameful scandal.

Wenkel, however, was apparently not aware of Lohmann's real clandestine mission. For him the Phoebus relationship constituted an attempt by the Navy to strengthen right-wing elements in Germany. His articles briefly mentioned some of Lohmann's other activities, including subsidies to a boatbuilding yard, but only as attempts to help industries that had some war potential. One of his disclosures, however, had it been pursued, could have exposed most of Lohmann's work--his connections with the Berliner Bankverein.

Lohmann had bought a controlling interest in the Bankverein in March 1925 in order to use it as a covert financing agency for his projects. But the private bankers who remained shareholders were greatly displeased at the depreciation of its stock caused by failures such as that of the Berliner Bacon Company, and their discontent made them serious security risks. If any of them emulated the vindictive Isenburg and talked to the press, there was grave danger that the Lohmann affair might become not only a scandal but a revelation of serious German violations of the Versailles Treaty.

Antidotes

The German Cabinet and Chancellor Marx were therefore anxious to smooth the affair over as rapidly as possible. Lohmann was suspended from office, an official Cabinet inquiry was begun, and a retired official of the Prussian State judiciary, was placed in charge of Lohmann's office for the purposes of investigation and audit. Publicity was curtailed and Wenkel silenced by pressure on the *Berliner Tageblatt*. Two radical

journals continued to carry articles through late August, September, and October, but neither had good enough contacts in navy or industrial circles to make further damaging disclosures. Chancellor Marx consulted directly with various important party leaders to insure silence in political quarters.

In November the Cabinet began a series of meetings on the affair. As prophylactic action against future extravagant indiscretions by one individual or one component of the government, it decided to establish a "Supervisory Commission for the Secret Tasks of the Armed Forces" composed of the heads of the Army and Navy, the Reich Finance Minister, and the President of the General Accounting Office (Rechnungshof) to supervise and approve all clandestine projects of the services. Within the Navy a special "B" budget for funds diverted from publicly budgeted items was placed in the charge of a regular budget officer who had no authority to initiate or control projects. Although illegal operations were ultimately on a considerably larger scale than during the Lohmann era, rising from \$1,700,000 in 1928 to \$5,250,000 in 1933, there was no further abuse of the powers conferred by secrecy.

Lohmann, much in disfavor, was nevertheless punished only by forced retirement on a reduced pension. There seem to have been two reasons for this clemency--first, that extensive investigations showed he had not appropriated official funds for himself; and second, that an elaborate court-martial would have brought on the very thing the government wanted most to avoid, publicity which might disclose violations of the Versailles Treaty. Lohmann was a broken man, however, and he died only three years later of a heart attack. His widow had so little money that she was unable to pay the necessary inheritance taxes. Of Frau Ektimov's fate there is no word.

Before the Reichstag and the world public the Cabinet was able to obscure the fact that violations of the Versailles Treaty' had occurred. The matter had to be brought to the Reichstag for approval of a special appropriation to pay off the government-guaranteed loans to Phoebus; but the Cabinet announced in advance the resignation of both Defense Minister Gessler and Navy commander Zenker, who, as Lohmann's superiors, had to accept responsibility for the scandal. In the Reichstag discussions the question of why Lohmann had engaged in such unusual activities was never fairly asked. Violation of the Treaty was charged only once, by the young and, fanatical Communist deputy, Ernst Schneller, who declared correctly that Lohmann had been involved in submarine

production in Spain. He ruined the effectiveness of an otherwise good case, however, by continuing with wild allegations that Germany's former enemies were assisting her in this work preparatory to a combined capitalist assault on that bastion of socialism, the U.S.S.R. This was such hackneyed tripe that the responsible German press did not bother to print his charges. The French news agency Havas carried them, but only in routine fashion and without comment.

Abroad, the fact that Lohmann's work violated the Versailles Treaty was completely missed by the press. Furthermore, the reports of the American Embassy in Berlin were brief and incurious regarding Lohmann's motives. British and French diplomatic reporting is not available, but an examination of the German Foreign Office records fails to disclose even a memorandum of conversation on the subject between these embassies and the Wilhelmstrasse. The conclusion seems inescapable that either the vaunted British and French intelligence services were caught napping, or, as seems more likely, the policy-makers in Paris and London chose to ignore the affair. To them the apparent collapse of the German Navy's efforts to circumvent the Treaty was perhaps a matter for quiet amusement rather than for alarm or indignation.

1 The following materials were used in the preparation of this article: captured documents of the German naval staff, in custody of the Division of Naval History, U.S. Navy; the record of proceedings of the German Cabinet and documents of the German Foreign Ministry, in custody of the U.S. Department of State at the National Archives; records of the Berlin Embassy of the Department of State, now available to the public at the National Archives; documents of the German Reichstag and the files of several German newspapers, including the *Berliner Tageblatt*, available at the Library of Congress. In addition the writer has consulted the published memoirs of former German Defense Minister Otto Gessler, *Reichswehrpolitik in der Weimarer Zeit* (Stuttgart, 1958). Precise documentary citations are made in another version of this study being submitted to the *Journal of Modern History*.