

Hard and Fast Pact

Optical Trust Reveals How Cartels Are Set Up

By THOMAS L. STOKES

Twenty years ago America was easing off into the era of "normalcy" promised by Warren G. Harding.

People wanted to forget the war and all it connoted, tho the coffins bearing American boys killed in France were still coming back to be laid row by row in Arlington Cemetery or in family plots.

Tho this was supposed to have been the war to end wars, and people thru-out the world looked for a long period of peace, there were some who were gambling that wars would still recur regularly.

So, just when America was settling down to normalcy and inducting its prophet, Mr. Harding, in place of the dour and disillusioned Woodrow Wilson, now an invalid slipping slowly toward death, a conference was held in an office at Rochester, N. Y., unbeknownst to the American people or any of its officials, which was based on the assumption that nations would continue to arm heavily and that there were ways and means of cornering some of this business.

REACH AGREEMENT

A representative of Carl Zeiss, the famous German optical-instrument firm, sat down with officers and directors of Bausch & Lomb, the American optical-instrument firm, and they outlined a hard-and-fast agreement whereby they would maintain a world monopoly on military optical instruments, controlling production, suppressing competition thru exclusive patents, and thus being enabled to fix their own prices.

Sitting in at this conference, among others, were Edward Bausch, then president of Bausch & Lomb, now chairman of its board, and three men now dead, Carl F. Lomb, William A. E. Drescher and George N. Saegmuller, all of Bausch & Lomb.

Subsequently, George Saegmuller and his son, Frederick B. Saegmuller, went to Germany and negotiated an agreement along lines worked out at Rochester which provided for creation of a special military department of Bausch & Lomb, in which Zeiss placed its own representatives. The agreement, signed April 28, 1921, was to continue for 20 years—until April 28, 1941. It allotted the United States to Bausch & Lomb as its exclusive territory, and the rest of the world to Zeiss.

HAD CHECK ON U. S.

At prices maintained by this monopoly, the United States Government, during all these years, purchased from Bausch & Lomb military optical instruments which it used in periscopes, range finders, altimeters, bore sights, bomb sights, torpedo directors, sights for guns, and many other devices.

Not only that, but thru an exchange

of information on sales, the German Zeiss company was kept informed constantly of the quantities of all these instruments and devices which the U. S. Government was using, and thus had at hand a very good picture of the nation's military and naval program.

The whole story of the conferences 20 years ago, of the secret agreements, of how output and sales were controlled and prices fixed, now has come to light due to the activity of Thurman W. Arnold, in charge of anti-trust prosecutions for the Justice Department, and his corps of assistants who ferreted out the facts about this costly monopoly.

ENTER CONSENT DECREE

A complaint was filed last July 8, and the next day Zeiss and Bausch & Lomb entered a consent decree whereby they agreed to stop all the practices by which they had controlled output and prices. The way is now open for entrance of competition into the field, for release of patents by sale to others, and for a reduction of the prices which have contributed to making American rearmament so expensive.

This is not a single case. Many other cartels are operating in materials vital to defense. Most of them likewise have been organized since the last war. All of them are now under investigation by the Justice Department, and indictments are imminent in cases where American corporations tied themselves up with foreign monopolies.

FOLLOW SAME PATTERN

The operations of this optical-instrument monopoly and its terms are interesting because the others follow the same pattern and similarly are contrived to maintain exorbitant prices for materials necessary to industry and now very essential to defense.

The exclusive agreement whereby Bausch & Lomb were allotted the United States and Zeiss the rest of the world guarded against all eventualities. Among other things, if one company received an inquiry from a government in the territory of the other, the agreement provided that the price would be boosted 20 per cent to throw business to the other. But if the bidder decided to pay the high price with the 20 per cent increase, then the added 20 per cent would be paid to the other party, in whose territory the order originated.

Under the agreement, however, Bausch & Lomb could not sell to governments

other than the United States without getting the consent of Zeiss, and the record compiled by the Justice Department contains numerous examples of vetoes, including refusal to permit sale of airplane range finders to Finland in 1939.

Bausch & Lomb had to pay a royalty to Zeiss on every piece of military optical equipment sold in the United States, including everything sold to the U. S. Government.

The agreement also forbade Bausch & Lomb to permit the use of any of its devices, instruments, machinery, equipment, information or patents by any company in the United States which was engaged in the manufacture or distribution of military optical instruments—thus maintaining airtight control against competition.

Under the original 1921 agreement the contracting parties agreed "to keep the foregoing agreement in strict confidence as regards a third party and to guard silence concerning this agreement also with their own employes as far as this may be practical under the circumstances."

This secrecy provision was eliminated from a revision of the agreement signed in 1926, but another provision was changed so as not to indicate that the two companies had divided the world market among themselves.

NEXT: Henderson warns the lumbermen.