

The war windfall and the Basel cartel

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The First World War transformed the position of the Basel chemical industry, as the previous chapter noted. The German dye industry, which had supplied the majority of the world's dyes, was cut off from the markets of the Allied and neutral countries by the British blockade. The Basel companies were the only significant alternative suppliers, so they could sell their entire production at high prices to France, Britain, Italy, Russia and the United States. As their profits multiplied, they used them to expand production, build reserves and invest in research.

The war also cut the Basel companies off from their German suppliers of intermediate products, which they had bought from the German giants. They had to produce these intermediates themselves, which required new plants and new processes. They emerged from the war with an integrated production that made them more independent.

In 1918, anticipating the return of German competition after the war, the three largest Basel chemical companies, Ciba, Geigy and Sandoz, concluded an agreement known as the Basler Interessengemeinschaft, the Basel community of interests. The three companies pooled their profits according to a fixed formula, coordinated their production and sales, shared their research and refrained from competing with each other.¹ The Basel IG, which lasted until 1951, was in effect a cartel that allowed the Basel companies to face the German IG Farben, formed in 1925 by the merger of the German dye companies, from a position of strength.

In the interwar period, the Basel IG participated in international cartel agreements with IG Farben and the French and British dye producers, which divided the world market for dyes among the participants and fixed quotas and prices.² These agreements were lawful under Swiss law, which tolerated cartels until the end of the twentieth century. Although Switzerland was long described as a paradise for cartels, it was only with

the Cartel Act of 1995, revised in 2003 to introduce direct sanctions, that Swiss competition law acquired real force.³

The Basel cartel illustrates the relationship between industrial strategy and competition law. The cooperation of Ciba, Geigy and Sandoz allowed them to survive the competition of the much larger German industry and to finance their research. It also restricted competition, raised prices for customers and protected the companies from the pressure to become more efficient. The modern law of competition, in Switzerland and in the European Union, prohibits such agreements unless they are justified by efficiency gains. The pharmaceutical companies of Basel today operate under strict competition rules. The Basel IG belongs to a period in which the state left the organisation of markets largely to the industries themselves.

1 Notes

1. On the Basler Interessengemeinschaft (Basel IG), concluded in 1918 between Ciba, Geigy and Sandoz and dissolved in 1950/51, see HLS, article "Basler IG"; the literature on the Basel chemical industry. Dates to be verified. ↩
2. On the international dye cartel of the interwar period (agreements between IG Farben, the French producers, the Basel IG and later Imperial Chemical Industries, 1927–1932) and its quota system, see the literature on international cartels. To be verified. ↩
3. Federal Act of 6 October 1995 on Cartels and other Restraints of Competition (Cartel Act, CartA, SR 251), revised in 2003 (direct sanctions in force since 1 April 2004). To be verified. ↩

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