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Autor:	Staub, Hans O.
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*Ernst Schmidheiny I,
1871–1935*



Ernst Schmidheiny I (1871–1935)

Mediator, negotiator and industrialist

He «mediated», said Ernst Schmidheiny senior on several occasions in his life, when asked about the underlying secret of his career. In «mediating», he proved one of his outstanding talents: to listen to contrary views, make the rough smooth, bring quarrelling parties together, eradicate errors, discover common ground. In this he showed his prowess both in his negotiating missions for Switzerland during the First World War and in his wide-ranging activities on behalf of the industries he worked in. Ernst Schmidheiny did not concern himself with just one branch of industry, but with several at once; he knew full well that a modern entrepreneur had to direct his attention to the whole, to the community – of his professional colleagues, of nations, of his fellow-citizens in general – to be truly successful. He always had several irons in the fire, and always knew what was going on everywhere. He was, as a contemporary member of the Federal Council put it, «one of our country's most remarkably well organized industrial brains».

It is true that Ernst Schmidheiny almost always took care never to set up a company or a business on his own – a characteristic he would pass on to his descendants. He loved to share the responsibility, initially with his brother and later with other colleagues. However, he always acted with the willingness to take risks that was typical of him, and had the necessary courage to engage in new initiatives (which occasionally entangled him in ventures which were too risky, especially

late in his life). His dedication and his knowledge of every detail of a firm and its staff won him respect from many quarters. Those employed by him worked not for an anonymous corporation but for «Mr Schmidheiny».

He had inherited his leaning towards the business world from his father Jacob. He was born on 1 April 1871 at Schloss Heerbrugg; his education at the cantonal school in St. Gallen was followed to begin with by a few years of apprenticeship and travel. In November 1893 he joined a Swiss firm of cheese wholesalers in Turin as a trainee. Even then he was friendly with the Kuster family from Altstätten, who lived there and who he described in a letter to his parents as «extremely nice people». With good reason: In the spring of 1894 Ernst Schmidheiny returned from Italy, only to set off for Turin again at the end of the year, this time as a trainee with the Kuster banking house. This was due not only to career considerations but also to personal feelings. Even before returning to Switzerland, he wrote to his parents: «...c'est dur pour moi de quitter l'endroit où j'ai trouvé mon bonheur.» His «happiness» was called Vera Kuster, the daughter of his principal Anton Kuster-Schläpfer; he became engaged to her at the beginning of 1896 and married her in October of the same year. The marriage produced two daughters, Vera Lydia («Verina», born in 1897) and Marie Luise («Lilly», 1900), and two sons, Ernst (1902) and Max (1908). Ernst later built a spacious house, named the «Villa», adjacent to Schloss Heer-

brugg for himself and his family, where his son Max was later to live and have his office in the final years of his working life.

Lieutenant, «phantom fireman» and member of parliament

Prior to his marriage, some weighty decisions had been taken for Ernst Schmidheiny senior. In the middle of January 1895 he interrupted a stay in England after six weeks to return to Heerbrugg on account of his father Jacob's poor health and to take on some of the business burdens that were threatening to crush him. Ernst would really have liked to study jurisprudence, but his father stopped him. In the same way that he implored his two sons to preserve Schloss Heerbrugg, he now turned to Ernst in a letter which betrays little respect for lawyers and their profession: «My dear Ernst, one cannot serve two masters. The profession of a lawyer and that of an industrialist are quite different. We conduct our affairs in peace, and this has given me much satisfaction. What is more, the financial existence of a doctor of law is in nine out of ten instances a miserable one – considering what the title costs. (...) Oh, my dear Ernst, do not abandon your ageing father now! It is one of my sweetest memories that I have been obedient to my blessed parents, and I hope that you will have the same experience one day.»

This heartfelt plea prompted a response. At the end of 1895 Ernst sent a letter to his parents in which he first expressed the deep piety which he had inherited from his father Jacob: «When I look back on the past year, I feel a strong obligation to express my warmest thanks, first to God, the creator of all that is truly good, and to you, dear parents, to whom I owe so much and can never repay.» Then followed



Vera Schmidheiny-Kuster 1877–1964



Ernst Schmidheiny at the age of 29 in September 1900

the confession to his father: «...and only believe, even though I cannot put my thoughts into words, that I none the less feel the purpose and the motive of all your work, and it is my greatest desire to follow in your footsteps in this respect.» This meant devoting himself fully to the enterprises which Jacob had built up. It was also true to

Captain Ernst and First Lieutenant Jacob Schmidheiny in 1903



the ambition which Ernst Schmidheiny had shown since his youth and had left him clearly frustrated during his first period of military service.

In 1891 he had attended the school for field artillery recruits in Frauenfeld and in the same year had been promoted to lieutenant. As a young officer, he wrote in 1904 from a refresher course: «Today I have completed half my period of service, thank goodness. I really wish I were already

home, for I find my duties very boring, since I do not have the position I want, because I am the youngest and have to do everything the others don't like doing. So I am a real stopgap.» Ernst received from his father a reply which was typical of Jacob Schmidheiny: «It is the great privilege of a man who is not bound by the pleasures of this world that no position in life, if it is willed by God, can seem unbearable to him.» Whether or not the son

took these words to heart – at any rate he climbed the military career ladder, commanding the then field battery 40 in 1901 as a captain, becoming a major in 1906. He was assigned in 1912 to transport department 11, which he commanded as a lieutenant colonel until 1919. According to later comments by employees and friends, however, Ernst Schmidheiny mainly discharged his military obligations during the brief holiday period. There was so much to do at home professionally and also for the local community, the canton or the nation that he hardly had time for anything else.

For besides his industrial activities, Ernst Schmidheiny enthusiastically devoted himself to public affairs. On returning to Balgach, he offered his services to the village fire brigade, which had been formed with his help, and was appointed a «phantom fireman», who – before the introduction of the telephone – had to muster his troops if a fire broke out. A record book of the Balgach voluntary fire brigade shows that «Lieutenant Ernst Schmidheiny» quickly became its chief. Twenty-three men were in the «voluntary corps», to which the parish council granted 800 francs and the inhabitants and the local savings bank contributed the «tidy sum of Fr. 609.00». For this «the necessary items, uniforms for the men, four ladders and an equipment wagon» could be ordered.

In 1903 the citizens of Balgach elected Ernst Schmidheiny to the parish council, where he became acquainted with the hardships suffered by the vine-growers and instigated the setting-up of the Balgach vinicultural cooperative, and in 1905 he became a member of the St. Gallen cantonal parliament. With his brother Jacob and others, he established a primary school in Heerbrugg, which was opened in

1906 as a non-denominational institution, in contrast to the then denominationally separate primary schools in the Rhine valley. It saved the children of Heerbrugg the long journey to Balgach. Ernst Schmidheiny finally also became a member of the school board, which he chaired from 1927 to 1933. And in 1911 he entered the National Council (the lower chamber of the Swiss parliament) as a Liberal, remaining a member of this body and of the St. Gallen cantonal parliament until 1919.

Electricity and energy

However, it was business affairs that occupied Ernst Schmidheiny most of all. In 1902 his younger brother Jacob, who now held an engineering degree from the ETH in Zurich, had returned to Heerbrugg. The two of them first jointly devoted themselves to the development of the brick and tile business before Ernst decided to concentrate entirely on cement and subsequently asbestos cement. Both of them delved into new areas: the regulation of the Rhine and regional and national electricity policy – two fields which were closely linked. They were the foundation for the growth of industry in their home region; they were vital to the creation of work and jobs in the Rhine valley.

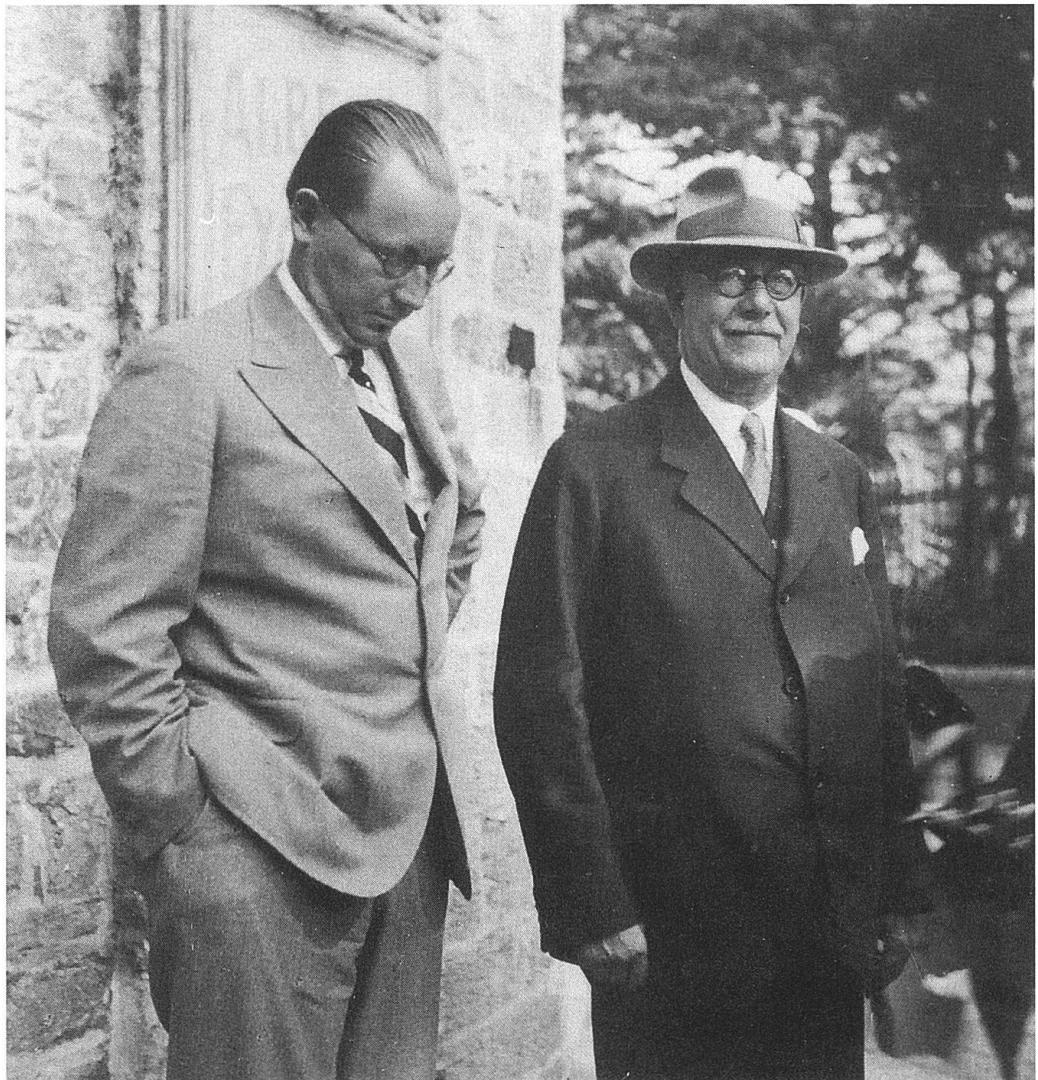
In 1904 Ernst Schmidheiny, together with Adolf Stoffel, was among the founders of the electricity company *Elektrische Kraftversorgung Bodensee-Thurtal*. On 8 August of that year an initiative committee met under his chairmanship to define the conditions for supplying power to the St. Margrethen-Lake Constance-Amriswil area. A year later, on 8 August 1905, the private joint-stock company for this purpose was formed. It would buy the electric power from Kubel power station near St. Gallen, a private

undertaking, and from *Motor AG für angewandte Elektrizität*, a private company founded in 1895 by Walter Boveri which engaged in the financing, construction and operation of electrical and electrochemical undertakings.

Ernst Schmidheiny had entered the electricity industry as a private individual, but was of the opinion that the exploitation of the water power resources was ultimately a matter for the public authorities; he believed that officialdom ought to be persuaded to look after the interests in question. In November 1905 he submitted a motion as a member of the Liberal faction in the cantonal parliament of St. Gallen. The spirit of his proposal was that the cantonal administration should think about «how the still unexploited water

power resources of the canton of St. Gallen could be preserved for the general good». However, parliament and the administration took their time in dealing with the matter. Not until 15 May 1906 did the Council declare the motion to be relevant, and even then only because private individuals had applied for permission to build the Tamina Gorge power station which was opposed by certain parties on nature conservation grounds. The administration dawdled even longer, initially citing every conceivable difficulty which allegedly stood in the way of Schmidheiny's plans. In 1908 the submitter of the motion redoubled his efforts in the form of a parliamentary question, and in 1909 a commission was at last set up with Ernst Schmidheiny as a member.

Ernst Schmidheiny
father and son in 1930



In the meantime, however, he had developed his company *Bodensee-Thurtal* to the extent that in 1908 the supply contracts with *Motor AG* and Kubel power station were signed and sealed and the overhead power lines and a substation in Wil were under construction or already completed. However, the St. Gallen administration persisted in its delaying tactics and initially urged local authorities not to enter into power supply contracts with private companies. In the spring of 1911, though, the organizational rules were at last drafted for the St. Gallen electricity company; although they did not yet provide for the building of power stations, they did plan for the purchase of the most important power stations and main substations in the canton. At the same time, the canton of Thurgau began to prepare the legislation for a canton-owned electricity supply. *Bodensee-Thurtal AG* was thus able to transfer its installations in the two cantons to the cantonal utility companies. In addition, the responsible politicians and experts in St. Gallen and Appenzell began to realize the advantages of mutual cooperation in the energy sector. In 1914 the electricity company *Aktiengesellschaft der St. Gallisch-Appenzellischen Kraftwerke (SAK)* was formed. As in the St. Gallen cantonal electricity company and Kubel power station, Ernst Schmidheiny also served as vice chairman of the management committee of the SAK and was, as a chronicler put it, the real «driving force». The commemorative brochure «25 Jahre SAK 1914–1939» described him as «the chief instigator and promoter of the St. Gallen cantonal electricity supply». His younger brother Jacob replaced him on the board of directors of SAK in 1926 and on its management committee in 1937.

Ernst Schmidheiny's close rela-

tionship with electricity and power supplies was of course known nationwide and made use of it accordingly. In 1912 he joined the board of *Motor AG für angewandte Elektrizität*. He was also on the board of *Columbus AG für elektrische Unternehmungen*, formed in 1913 and based in the canton of Glarus, whose South American interests were quite successful. The two companies merged in 1923 to form *Motor-Columbus AG*, which began to play a leading role in the Swiss power plant construction industry. Until his resignation in 1933, Ernst Schmidheiny was also an active member of its board of directors as a specialist in electricity and, in particular, an expert in the cement field.

Ernst and Jacob II work together in the brick and tile industry

The building materials industry was to have a decisive influence on Ernst Schmidheiny's entire career. Following his father's death in 1905, he continued to devote himself intensively to the inherited brick and tilemaking activities together with his younger brother Jacob. From 1907 Ernst ceased to be a partner in his father's firm *Jacob Schmidheiny's Söhne*, which had been renamed *Jacob Schmidheiny & Co*. In 1906, however, the two brothers were members of the board of directors of the Zurich brick and tilemakers *Dampfziegelei Heurieth*, which on their initiative amalgamated with *Ziegelei Albishof* in 1907 to form *Ziegeleien Albishof-Heurieth*. On 1 June 1912, at four in the afternoon in the guildhall «Zunfthaus zur Zimmerleuten», the two united works merged with *Mechanische Backsteinfabrik Zürich* to form *Zürcher Ziegeleien*, a name which was to become more and more important in Swiss industry.

Ernst Schmidheiny initially ruled the roost at *Zürcher Ziegeleien*. He became the first vice chairman under the chairman, Professor Rudolf Escher, and joint managing director with Hermann Keller-Malzacher – at a difficult time. The years around 1880 were to a certain extent a boom period for the Swiss building industry. The capacity of the brick and tileworks rose in Switzerland by 60%, partly as a result of the change from craft to mechanized working methods. In 1898, however, the banks imposed credit restrictions to curb the speculative fever of the latter years of the 19th century; the building industry slid into recession and the brick and tileworks faced disastrous overproduction. Prices fell below the cost of production; however, various attempts to restrain the chaos through regional price agreements initially failed. The crisis – partly the fault of the industry itself and partly due to external factors – intensified towards 1910. The «great enemy of bricks» turned out to be reinforced concrete; fierce competition with the cement industry and numerous bankruptcies were the inevitable consequence.

Moreover, dark clouds appeared on the horizon: an armed conflict was looming between Germany and France. It was to lead to the outbreak of the First World War and, for the time being, bring the brick and tile industry to a complete standstill. Even when the factories were able to get going again in 1915, they only did so at half strength. Production, sales and especially profits fell: the huge increase in the price of coal and the soaring rates of pay could not be offset by price increases. The company also suffered from the loss of the skilled workers from Italy, for whom unskilled local Swiss workers were a poor substitute.

The «control of prices and production»

Nevertheless, the war also had some positive consequences. Firstly, during the lean years the industrialists increasingly began to think about their responsibilities to their employees. In 1912, in the first year of its existence, *Zürcher Ziegeleien* had set up an invalidity and old-age pension fund, which paid out benefits. In 1919 there was talk at the annual general meeting of the intention to establish «a special foundation in accordance with chapter II, section 3 of the Swiss Civil Code», for «it was the employer's duty to contribute towards social welfare provisions for his workers. Anyone who in this day and age has not yet understood that an employer's obligations to his workers are not fulfilled just by paying their wages is behind the times». In the years to come, considerable attention was paid to social welfare. In 1923 *Zürcher Ziegeleien* set up a welfare foundation; in 1936, under Jacob Schmidheiny II, it took on the form of an insurance scheme (a collective insurance scheme for the white-collar employees, a savings-linked scheme for the shop-floor workers) and was continuously expanded.

Secondly, the war forced the brick and tile industry to undertake radical rationalization measures, make important technical improvements and concentrate on the best developed factories. Whether the whole industry only survived the lean years because it had joined together into a solid cartel, as the annual reports of *Zürcher Ziegeleien* from those years claimed, remains an open question from today's point of view. At any rate, Ernst Schmidheiny played a decisive role in the organization and the cooperation of the brick and tile industry. As far back as 1899 he had carried out a

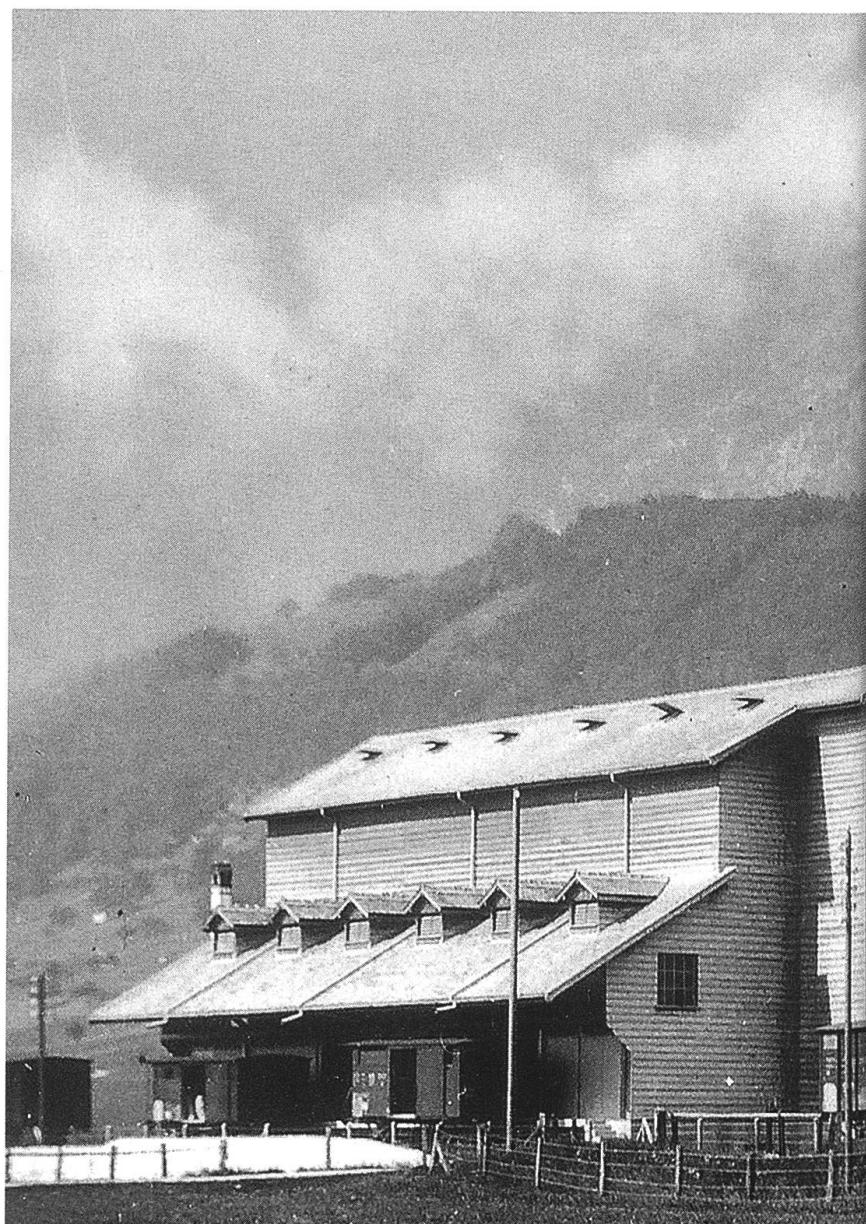
survey among brick- and tilework owners in Switzerland to find out whether and to what extent controls on prices and production were desirable. He declared: «We should not forget that price controls simply cannot be maintained, despite the severest penalties if production and consumption are not harmonized.» The results of Schmidheiny's efforts were inconclusive and production controls were regarded with great suspicion: of the 82 replies received (representing two thirds of Switzerland's total production), 40 were in favour of price and production controls and 20 were against, while 22 were undecided.

In the end, however, the professional organization was successfully consolidated in the form of the «*Verband schweizerischer Ziegel- und Steinfabrikanten*» (association of Swiss tile and brick producers), and in due course the producers joined together to conclude actual cartel agreements. Although they may be understandable in times of crisis and war, such agreements are regarded unfavourably today. In those days, of course, the association's policy appeared indispensable to this close-knit community of businessmen. Even in 1918 the chairman, Prof. Rudolf Escher, mentioned in his statement to the annual general meeting the firm *Ziegelei Männedorf*, which was not a member of the «*Genossenschaft Zürcherischer Ziegeleibesitzer*» (federation of Zurich brick- and tilework owners) and therefore could «upset our price policy at any time as *unregulated* brickworks». The way to remedy this supposed outrage was clear: *Zürcher Ziegeleien* took over the trouble-maker. «We have acquired all the shares and so the brickworks is ours», we read in the minutes of that year's annual general meeting.

The relationship between *Zürcher*

Ziegeleien and the company *Ostschweizerische Ziegeleien*, which was run by Jacob Schmidheiny and mainly comprised the original family business in Heerbrugg together with the works in Istighofen, Bruggwald near St. Gallen and Oberriet, at first appeared to be vague and was mentioned in all the annual reports either strangely cursorily or not at all, even though in reality there were of course close ties – again under the aspect of cartelization. The minutes of the annual general meeting of 1915 also speak of the understanding «between the brick- and tileworks of eastern Switzerland and Zurich» which had been «arranged many years ago under the leadership of far-sighted men».

In that year Ernst Schmidheiny was still actively involved in *Zürcher Zie-*



In September 1906 Ernst Schmidheiny I forms Rheintalische Cementfabrik Rüthi with Anton Dufour of Rheineck and Heinrich Spoerri of Flums; the plant was closed eight years later following the merger with Aargauische Cementfabrik «Holderbank». A plaster factory was opened on the site in 1929.

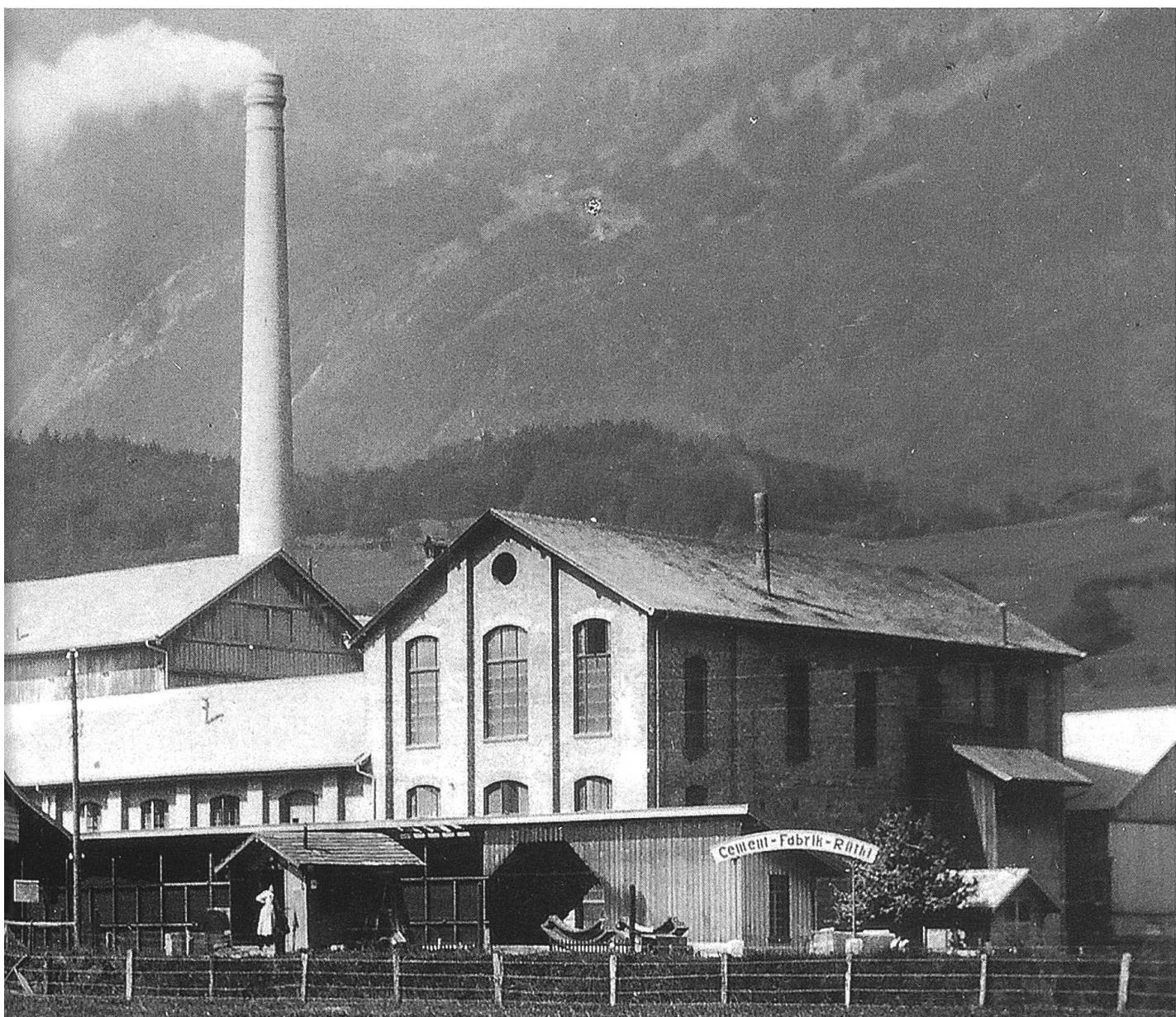
geleien. Then, however, his war-related work as a Swiss negotiator for trade agreements began to take up much of his time. In 1916 he resigned as managing director of *Zürcher Ziegeleien*. And nine years later, in 1925, he also retired from his position as vice chairman of the board of directors «on account of being overburdened with other work», according to the minutes of that year's annual general meeting. His brother Jacob took over his post; in the building industry, Ernst concentrated entirely on cement from now on.

«Bonding agent made from fine-ground limestone and clay marl»

The first steps in this field were a risk, but Ernst Schmidheiny recognized at an early date that cement

would become one of the most important building materials of the 20th century. In this he was clearly influenced by the Hungarian Ludwig von Tetmajer (1850–1905), who was professor at the ETH in Zürich and in 1879 took the initiative to found the institute which was later to become the *«Eidgenössische Materialprüfungsanstalt»* (Swiss materials testing institution). Tetmajer did outstanding work particularly in research of iron structures, railway-building materials, aluminium and, above all, cement.

The history of this «bonding agent made from fine-ground limestone and clay marl» (so the dictionary definition runs) essentially goes back to the 18th century and the first half of the 19th. In 1824 Joseph Aspdin, a Leeds bricklayer, applied for a patent for an



improvement in the manufacture of artificial rock, naming his product «Portland cement» after the small town of Portland on the south coast of England. At that time, a limestone was quarried there which was so durable and beautiful that it was often used for prestige buildings in London. Aspdin intended its name to indicate that a material could be made with his cement which was equivalent in strength and durability to the stone quarried in Portland. The Portland cement made by the Leeds bricklayer was, of course, not yet the material which we now know by this name. It took another Englishman, Isaac Charles Johnson, to perfect Aspdin's invention in 1844, the true year of birth of «Portland cement».

Ernst's father Jacob had already taken an interest in the new building material and had acquired a shareholding in the Unterterzen cement works on the Walensee, which was of course taken over by his sons. In the Rhine valley, Ernst Schmidheiny was guided in the development of this industry by two considerations. Firstly, the area seemed to be in a favourable geographical location from the point of view of its raw material sources. Secondly, he sought to create new jobs in his home region. At the beginning of the 20th century, the inhabitants of the Rhine valley were heavily dependent on the highly recession-prone embroidery trade, which mainly produced for export and was vulnerable to unpredictable changes in fashion. Although many small farmers had found a worthwhile source of additional income in the embroidery trade, either in factories or in home-working, this was increasingly at risk. Any new industry could help to avert hardship.

As a location for cement works, Ernst Schmidheiny had his eye on the

village of Rüthi in the canton of St. Gallen. The parish council was willing to assist him in the necessary clarifications and in buying the land. He initially estimated the capital cost at one million Swiss francs, a sum which he raised together with some friends, including Anton Dufour, the son of a silk manufacturer in Thal, and Heinrich Spoerri-Jakob of Flums. The company *Rheintalische Cementfabrik Rüthi AG* was formed on 14 September 1906. However, the works cost considerably more to build than he had estimated; the firm's capital had to be increased immediately to two million francs. The enterprise was in fact not very profitable; the raw material was not always of satisfactory quality. But Schmidheiny's optimism remained unbroken: in 1907 he and Anton Dufour set up another enterprise, a cement pipe factory in Rheineck.

However, around the turn of the century, in the throes of a recession which had begun some ten years earlier, times were also difficult for the cement industry and the competition from Switzerland's neighbours grew fiercer and fiercer. Defensive measures, reciprocal agreements and mergers appeared to be inevitable not only for the brick and tile makers but for other producers of building materials too. As the founder of the Rüthi cement works, Ernst Schmidheiny got in touch with the manager of the closest similar factory, Borner in Walenstadt and with him formed an eastern Swiss cement industry group. But for a long time he was reluctant to side with those cement firms which were aiming at creating more extensive cartels.

The cement cartel: a matter of survival

The efforts of these factory owners seemed to produce only meagre re-



On 20 and 21 February 1932, Ernst Schmidheiny celebrated his friend Colonel Rudolf Frey-von Vigier of Luterbach's 25th anniversary as chairman of E.G. Portland. In the front row on the left is Dr. Ernst Martz, president of the Association of Swiss Cement, Lime and Plaster Manufacturers, in the middle is Ernst Schmidheiny I and next to him is Rudolf Frey, who met his death together with Ernst Schmidheiny on 15 March 1935 in the Sinai Desert.

sults at first. Around 1870 the two cement works in Luterbach (near Solothurn) and Saint-Sulpice (near Neuchâtel) that should have supplied the building materials for the new railways being built were under enormous pressure from competitors in France and Germany. In 1880 Robert de Vigier of Solothurn took the initiative to set up a cement-makers' association, whose membership had grown to 26 firms by 1885. This enterprise was intended to demonstrate to the public that Swiss building materials were just as good as foreign ones. The demonstration succeeded, but the pressure on prices remained. Proposals made in 1884 for a closer union with a joint sales office and minimum recommended prices came to nothing. Not until 1895 did Rudolf Zurlinden, the founder and owner of *Jura-Cement-Fabriken* with works in Aarau and Wildegg, succeed in establishing the first real cartel, the aims of which were to control prices jointly and to ward off imports. But by 1900 this cartel too was

defunct, its dissolution heralding the return of overproduction and giveaway prices.

A year later, in 1901, the second cartel was formed, the *Aktiengesellschaft der Vereinigten Portland-Cement-Fabriken*, known as AG Portland. It was headed by Rudolf Frey, who had been manager of *Cementfabrik Vigier* in Luterbach since 1901 (and who was to meet his death in 1935 together with Ernst Schmidheiny in the air crash in the Sinai Desert). This second cartel had ambitious aims: a joint distribution organization, identical prices and freight rates at all railway stations and the fixing of market shares in the form of quotas were intended to protect its member works. In 1909, however, this attempt also failed: a renewed drop in sales and the ever more savage competition from Germany led to another bitter struggle for market shares and price undercutting in breach of the cartel agreement, due to the unwillingness of some factory-owners to exercise self-restraint.

In September and October 1910, with the assistance of the banks *Credit Suisse* and *Swiss Bank Corporation*, an attempt was made to form a third cartel – again without success at first. For the first time, however, Ernst Schmidheiny attended the meetings as a representative of *Rheintalische Cementfabrik Rüthi*. Under his influence, the third cartel, which was listed in the Commercial Register under the name *Eingetragene Genossenschaft Portland* (abbreviated to *E.G. Portland*), was finally established on 23 November 1910. Its purpose was again «the elimination and prevention of unfavourable conditions of competition» or, according to another – official – definition «the protection of the Swiss cement industry, the safeguarding of its general interests and the preservation of order in the cement trade». The aims were, above all, to close works that were unviable, to modernize the viable ones, to contractually fix prices and terms of delivery, to control and coordinate trading and transport through a central sales organization and to assign a specific production quota to each member. *E.G. Portland's* rules were more flexible than those of its predecessor *Portland AG*. This was in line with the intentions of Ernst Schmidheiny, who was immediately elected to the board of the new cartel; he wished to stick to the essentials and avoid any unnecessary administration.

However, Ernst Schmidheiny adhered to the cartel's basic principle. He had become convinced that the non-metallic minerals industries in Switzerland could only blossom if the trade groupings amalgamated. Future generations of cement producers continued to abide by this axiom, although the principle of the cartels came increasingly under attack in the course of time. How could the principles of eco-

nomic liberalism, which were held high by every representative of the Schmidheiny family, be reconciled with control of the private sector through cartels (*E.G. Portland*, for example)? In a lecture to the St. Gallen Trade and Industry Association in January 1957, Ernst Schmidheiny's younger son Max admitted that *E.G. Portland* had «at that time fought the outsiders». But «it was not a matter of increased profit or deliberate domination of the market by the cement cartel, but of the very existence of the cement industry», for, so Max Schmidheiny explained in the same lecture, «the exceptional conditions in the cement industry ruled out, on the grounds of economic unavoidability – as the Swiss Price Commission also recognized – a return to the old forms of the free-market economy». Moreover, the cement works used the ecologically effective argument, especially in later years, that only a cartel was able, thanks to favourable charging agreements with the Swiss Federal Railways, to ensure that most of the heavy cement traffic went by rail, thus taking traffic off the roads.

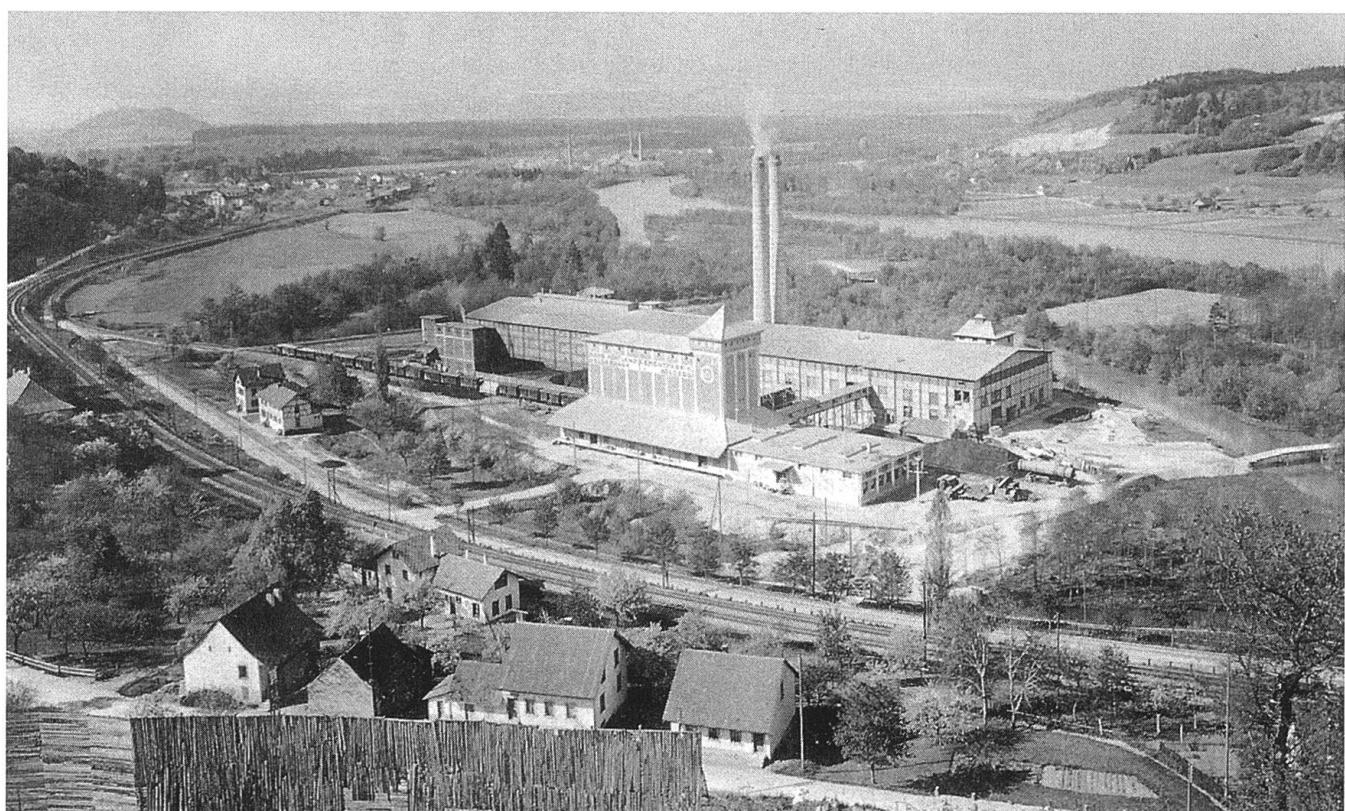
The dispute over the cement industry cartel continued to rage beneath the surface right into the 1990s. In 1992, however, Ernst Schmidheiny's grandson Thomas and the «*Holderbank*» company headed by him succeeded, by means of acquisitions and complete restructuring, to bring well over half the Swiss cement market under his control. This essentially made the cement industry cartel redundant; its dismantling will be dealt with later.

The birth of «Holderbank»

In 1910, though, things were seen differently. At first, it was a question of preserving the still very fragile cartel structure. Shortly after its forma-



The site of the «Holderbank» cement works before the start of building work (at the top left is Schloss Wildegg)...



*... and after construction of the new buildings in autumn 1912.
Production began in 1913.*

tion, *E.G. Portland* was threatened by new dangers. Its main worry was the project for a Portland cement plant in Holderbank near Wildegg in the canton of Aargau. The established cement manufacturers united in the cartel feared around 1912 that capital from Wilhelminian Germany, which was economically very aggressive, could find its way into projects for new cement works, including this one in Holderbank. The board of *E.G. Portland* therefore asked its member Ernst Schmidheiny to speak to the Basel personages who had been named in connection with the project and persuade them to drop their plans. However, the mission was a total failure; on the contrary, Schmidheiny's interlocutors declared that they would compete against the existing cement industry with all their might, even though they politely assured him that they «harboured no hostility to it». They revealed to Schmidheiny into the bargain that the works in Holderbank would be equipped with the then novel rotary kilns, which were reported to be more efficient than the old shaft kilns. Furthermore, the firm was thinking of offering its customers a highly modern special cement. And on 15 February 1912, the company *Aargauer Portlandcementfabrik AG mit Sitz in Holderbank* was officially formed. The management included the Basel banker Henri Rieber, who had previously been a member of the board of directors of the Laufen Portland cement works, and general manager Adolf Gygi, the son of Philipp Gygi, who had owned lime works in Holderbank for many years and had carefully prepared the land deals for the new cement works. Adolf Gygi was later to become manager of the works. On the board of the newly formed company sat (besides a number of people from Switzerland and Alsace) Charles

Eckel of Basel from the banking house Vest, Eckel & Cie; Edmund Schultess of Brugg, a barrister and member of the Council of States (the upper chamber of the Swiss parliament), was elected chairman. By the end of 1912, however, he had become a member of the Federal Council and so resigned from the board of directors. There was no sign of German influence.

First of all, a lawsuit took place between *E.G. Portland* and the founders of «*Holderbank*», which led to an amusing and conciliatory incident. The competent civil court in Basel also summoned the parish council of Holderbank to appear as witnesses in the proceedings. However, the council said that it knew nothing whatever about the planned cement works. The presiding judge became angry; surely, he said indignantly, the local authorities must be aware of the large purchases of land by the initiators of the project? But the witnesses stuck to their claims, until it was discovered that the wrong parish council had been summoned: the councillors in the courtroom were not from Holderbank in the canton of Aargau canton but the one in the canton of Solothurn...

In March 1913 the «*Holderbank*» cement works, for those days ultra-modern, went into production. In May of that year it became a member of *E.G. Portland*. This, and the agreement with the other two new works in Siggenthal and Vouvry (Valais), were due to Ernst Schmidheiny's extraordinary diplomatic skills. He knew how to turn opponents or vacillators into allies or friends. In the case of «*Holderbank*» he had realized the technical superiority of the new firm in good time. He therefore attempted, over several months, to convince the owners of the various other firms of the need to join forces and, where necessary, also to get them

to close unprofitable plants. The new works also demanded their share of the market, which they could only receive if older firms handed over a piece of their quota. Schmidheiny himself set an example: he gave up his own works, *Rheintalische Cementwerk Rüthi*, which was too weak to withstand the competition, as one of the first. On 30 September 1914 it merged with «Holderbank» and was closed down. Schmidheiny joined the board of directors of the new company, rising to become managing director and, in 1921, chairman. Many years later, he atoned for his «crime» against the Rhine valley: in 1923 he joined the board of *Gips-Union*, and in 1929 a plaster factory was built on the site of the closed cement works.

In 1913 Ernst Schmidheiny won from the members of *E.G. Portland* «unanimous thanks and highest appreciation for the admirable way in which he accomplished his work». His diplomatic skills would subsequently be proved and recognized; he was a much sought-after mediator in professional circles and in public affairs. His professional colleague and comrade-in-arms Rudolf Frey brought him onto the board of *Vigier Cementfabrik* to implement the necessary closure of the Luterbach and Rondchâtel plants and so concentrate on the more important operation in Reuchenette (Berne). A similar contractual association linked him with the company *Portlandcement Laufen*, and substantially reinforcing the «Holderbank» group's position.

Head of the Barter Office

However, the First World War put a stop to any further expansion of Ernst Schmidheiny's companies and took up much of his energy. In 1913 and 1914, Switzerland was absolutely unprepared for the conflict. In particular, the

idea of an extensive economic war seemed to be totally foreign to Switzerland's politicians, and nobody was especially worried about the fact that the country was completely dependent on imports for at least two fifths of its supplies of basic foodstuffs and energy. In 1912 the Federal Council had in fact decided to lay up 60 days' stocks of grain. But even this had evidently never really been done: on the outbreak of war, so Ernst Schmidheiny said later in a lecture on «Supplying Switzerland's economy and the difficulties involved», the available stock of bread-making grain would have lasted for two weeks at the most.

The politicians in charge long nurtured the illusion that the situation had been saved with the recognition of the declaration of neutrality of 3 August 1914 and the military protection of Swiss territory from foreign attack. They were unable and unwilling to recognize that in reality, Switzerland had given up a large part of its sovereignty and that economics and politics had become an indissoluble whole. The response of the government in Berne was at first confused; a clear economic policy was nowhere in sight, even though the situation very quickly became serious. Both sides in the war – the allies and the central powers – had initially embargoed all exports to Switzerland; as early as the end of August 1914 the German government banned the export of certain products. Exceptions were only possible if the neutral party offered products which were scarce in Germany.

To survive, therefore, Switzerland had to negotiate as quickly as possible with the various foreign powers. In December 1914 the first «barter transactions» took place; these, however, proved quite difficult. With its limited range of goods, Switzerland always found itself at a disadvantage; more-

over, its diplomats turned out to have insufficient knowledge and experience for this delicate task. The department of commerce, which was under the control of the Political Department, was, according to a contemporary record, «unable to cope (...) with the new state of affairs. The opening of new offices and the recruitment of new officials proved unavoidable. In the department of commerce, there are merchants from all over Switzerland coming and going from morning to night, as if it were a bazaar». For it really was a bazaar: as both Switzerland and the warring countries had imposed numerous import bans, a real system of barter developed. The various neighbouring states only exported this or that product to Switzerland if they received certain other goods in compensation. «Goods were no longer supplied in exchange for money, but only in exchange for other goods» – in an elaborate accounting system: sugar for rice, cheese, aluminium, condensed milk, nitric acid, and so forth.

The situation gradually became more and more complicated. So the department of commerce finally decided to look for someone with the stature and skills to ensure, on an official basis, that the country was kept supplied through these barter transactions and to carry through the necessary big barter deals in Berlin, Vienna or Bucharest in a commercially and technically correct manner. The head of the Political Department, federal councillor Arthur Hoffmann, chose the industrialist from Heerbrugg and member of parliament for St. Gallen Ernst Schmidheiny as negotiator. The latter suggested to the Federal Council that a proper Barter Office be set up; this was done at the beginning of 1915, with himself as its manager. His job was to act as an intermediary in the extremely delicate and laborious nego-

tiations between the *Trust Agency for the Importation of German Goods into Switzerland*, set up in June of that year, and the allies and thus to secure a minimum level of supplies for Switzerland. This work necessitated extensive travel, especially to Vienna, Bucharest, Budapest, Berlin, Paris and other focal points of the economic war, where Schmidheiny constantly had to justify himself to ministers and various «excellencies and heads of section» in an extremely difficult dialogue.

How tough the negotiations were is shown by a letter from Schmidheiny to federal councillor Hoffmann dated 21 July 1915. The German negotiator, Dr. Johannes, suddenly disputed that the German Reich had given any undertaking the right to supply Switzerland with coal. He made statements which Schmidheiny could only interpret as unveiled threats. Switzerland's emissary asked «very naïvely», as he himself put it: «So, do you in fact want to force us into the war?» This the German then strongly denied; Schmidheiny, he said, ought to understand his words more as backing for Switzerland against the Entente...

There were more unwelcome experiences to come. The Entente powers, especially Great Britain, intensified the economic war against Germany consistently and according to plan. In October 1915 they forced the setting up of the *Société Suisse de Surveillance* (SSS), an organization which was actually constituted under private law but was officially certified by a confidential memorandum of the Federal Council. The SSS succeeded, as the historian Hans Ulrich Jost subsequently stated, «in monitoring most of the foreign trade and even the barter traffic with the central powers». In 1916 the end of the by now crumbling arrangement with Germany was in

sight. The Entente's supervision of the barter traffic became more and more rigorous and the central powers, for their part, began to be increasingly miserly with their exports to Switzerland. As the trade war intensified, Germany cut off its coal supplies; other imports were prevented by the activity of U-boats in the Atlantic as the United States entered the war. In 1917, the same year that federal councillor Hoffmann was obliged to resign from his post, Ernst Schmidheiny obtained his release from his post as head of the Barter Office, which was then abolished. At the Federal Council's request, however, he remained a negotiator in dealings with foreign powers until the middle of 1918.

From the «beans deal» to the «Schmidheiny affair»

In late 1914 the Swiss government had spoken of using Schmidheiny as a negotiator in the service of the nation's supplies for «six to eight weeks». These became several years, during which the head of the Barter Office sacrificed (he said) five sixths of his time to the state – for an allowance of 30 francs a day! Schmidheiny found little time for his private affairs, and even less to defend himself against press attacks launched against him early in 1918.

The cause was an obscure and involved «beans deal» from the year 1916. Schmidheiny had been ordered to buy 50 to 100 wagonloads of beans in Romania to supply the army. The delivery subsequently turned out to be unnecessary; the army cancelled the order and Schmidheiny entrusted the beans to a fellow countryman by the name of Gilli, who got hold of other buyers as well as the necessary permits and made a profit on the deal. Another Swiss, Otto Peter, went all out to stir up trouble over the matter. He

would have liked to have been involved in the deal, and he began a campaign of libel against Schmidheiny, in which the Swiss Association in Bucharest and the local Swiss general consulate – who hated each other's guts – also became involved. Peter received support from western Switzerland; the «Schmidheiny affair» appeared to be just the thing to deepen further the «rift between German-speaking and French-speaking Swiss» which the appointment of General Wille had opened up at the beginning of the war.

The Federal Council ordered an administrative investigation of Ernst Schmidheiny, who, for his part, sued Peter for defamation and libel. He also demanded a parliamentary investigation into his own affairs; a fellow member of parliament from Geneva, Horace Micheli, the long-time parliamentary correspondent for the «Journal de Genève», made the same demand. The investigation was entrusted to a sub-committee of the Neutrality Commission. Its members included the Fribourg conservative Jean-Marie Musy, who subsequently became a federal councillor, and the Zurich socialist Hermann Greulich. On 15 May 1918 the Commission delivered a closely-printed 21-page report, and in June the National Council cleared Schmidheiny of any wrongdoing in a one-day debate. The «accusations of personal financial involvement, unacceptable favouring of third parties or other misuse of his official business» were, it said, «entirely groundless and unjustified». Even the workers' leader Greulich, who was otherwise not exactly well-disposed towards the bosses, supported Schmidheiny with the words «I am in complete solidarity with the sub-committee». In October of that year, the Romanian-Swiss Otto Peter was found guilty of defamation

and libel by a lower court; the high court in Berne increased the penalty imposed, and the Federal Supreme Court confirmed this judgement in its entirety.

Thus Ernst Schmidheiny was fully rehabilitated. But the affair did not leave him and his family unscathed. When he retired from the National Council in the autumn of 1919, a certain degree of resignation may have played a part. Schmidheiny also suspected that due to a redistribution of the seats in parliament, the St. Gallen Liberals would lose one seat – possibly his own. He nevertheless had the satisfaction that on his retirement from parliament in 1919, the Federal Council paid him a special tribute in the form of an enormous silver tray, 77 cm (31 inches) in length, «in recognition of the outstanding service given to the nation during the war years». The government's letter of thanks had been preceded by a letter from federal councillor Edmund Schulthess, asking Ernst Schmidheiny whether he would be willing to become Swiss envoy in Rome. Federal councillor Motta and the Italian prime minister Orlando supported this request, wrote Schulthess. But Schmidheiny – in agreement, clearly, with his wife Vera, who had grown up in Italy – had no desire to accept this post, nor did he desire any further political honours.

Rescue operations in all quarters

Ernst Schmidheiny now devoted himself all the more intensively to his industrial interests, which were by no means limited to cement and cement products. One of his most pressing concerns was again to safeguard or create jobs in the Rhine valley. In 1924, he acquired an interest in a company named *Verkaufsaktiengesellschaft Heinrich Wild's geodätischer Instrumente*, which was founded in the

previous year and which will also figure in the biography of his younger brother Jacob Schmidheiny II. And thus he became interested at the same time in *Société de la Viscose Suisse*, which in the summer of 1923 had advertised from Emmenbrücke for suitable building land or an acceptable existing factory site. It received about a hundred offers. Ernst Schmidheiny and his brother Jacob had close social and professional links with the chairman of the board of *Viscose*, Eduard von Goumoens: during his time as director of the Barter Office during the First World War, Ernst had worked closely with Goumoens when he was head of the *Eidgenössisches Ernährungsamt* (Swiss Office of Food). The industrialist from Heerbrugg drew the attention of the chairman of *Viscose* to the favourable conditions in the Rhine valley community of Widnau, which itself pressed to be chosen as the site and in fact was – above all because of the large pool of labour available there. Schmidheiny himself had never invested any money in *Viscose*.

Things were different in the case of another «rescue operation» which Ernst Schmidheiny undertook after the First World War and to which he committed his own money. In 1876 a timber importing and sales firm had been set up in Rorschach near the eastern Swiss border. It was a modest enterprise to begin with, possessing only 13 woodworking machines. Its success, though, was considerable; around the turn of the century, it became necessary to move the firm to a more suitable rail-connected site in St. Margrethen. In 1905 the first big sawmill was erected there. However, the First World War and the difficult times which followed spelt disaster for the company, dependent as it was on imports. The banks refused to grant any more loans; staff had to be made



Holzindustrie AG St. Margrethen (HIAG) was constituted in 1924 under the chairmanship of Ernst Schmidheiny I.

redundant. It was only thanks to the far-sightedness and financial support of Ernst Schmidheiny that the firm was saved from failure. Under his chairmanship a joint-stock company was set up in 1924. Operating under the name *Holzindustrie St. Margrethen AG (HIAG)*, sales of round-wood and cut products of all kinds were greatly expanded (especially from 1930 onwards) following the enlargement of the sawmill and the construction of a crate factory and a splitting and planing factory.

Eternit: «the building material of the future»

However, even after the end of the First World War, Ernst Schmidheiny's true element was the building materials industry, which included cement and was to be bolstered by an important product line launched by Ernst Schmidheiny. Around 1920 he befriended Jean Baer of Thurgau, general manager and managing director of *Schweizerische Eternit-Werke AG in Niederurnen*. Formed on 22 September 1903, the company exploited an invention by Ludwig Hatschek of Austria. The latter had succeeded in strengthening Portland cement with asbestos fibres. He called his asbestos cement «Eternit» – based on the Latin word «aeternum» or «everlasting». The new building material was praised as having unlimited durability. In those early days nothing was known

about the environmentally harmful or health-damaging effects of asbestos. Instead, asbestos was regarded as the «mineral of the century». The business in Niederurnen flourished initially, and substantial markets opened up. From 1910 to 1914 large quantities of «Eternit» were exported overseas; the chronicle «Glarner Geschichte in Daten» recorded that the works in Niederurnen had «shipped four wagon-loads of «Eternit» slabs, 120,000 in all, to Bangkok for roofing the King of Siam's summerhouses». But the common man was also intended to benefit from this miracle material; in Switzerland, the «Eternit house» was promoted as the «Swiss small house of the future», as a «lifeline» for «ordinary people», for «many of our less well paid working-class families».

The First World War and the drying-up of sources of asbestos caused an initial drop in production. After 1919 there was a period of recovery, which now attracted Ernst Schmidheiny's attention. In conversation, Baer had revealed that he was thinking of building a cement plant in the vicinity of the Eternit works, which could independently supply the asbestos cement firm with raw material. This would of course mean new competition for the existing cement works. Schmidheiny again put into practice an old principle which he always adhered to in his business dealings (and which he once wrote in a marginal

In 1920 Ernst Schmidheiny acquired a majority shareholding in the Niederurnen asbestos cement works, at that time only a modest operation.



note in a private letter): «If you can't beat them, join them». In alliance with Jean Baer, he decided to acquire a majority shareholding in the asbestos cement works. In December 1923, the existing company was turned into two firms: a manufacturing company named *Eternit AG Niederurnen* and a holding company by the name of *Amiantus AG* (the «indestructible», that is, asbestos), the aim of which was equity investment in asbestos, asbestos cement and bonding agent industry companies. Ernst Schmidheiny was chairman and Jean Baer managing director of both companies.

There now began an extremely dynamic policy of foreign expansion: in 1922–1923 *Eternit-Werke Niederurnen* had acquired an interest in *Eternit SA Haren*, based near Brussels, and

in 1924 *Amiantus AG* took a stake in the Belgian firm *Cimenteries & Briqueteries Réunies SA* of Antwerp, Ernst Schmidheiny being voted onto its board. He subsequently made two journeys to Cyprus to inspect asbestos deposits which might be a useful source of raw materials. However, the planned purchase came to nothing. But the asbestos cement business expanded elsewhere: In 1928 the establishment of *Deutsche Asbest-Zement AG Berlin* was formed, in which asbestos cement factories in England, Spain, France, Belgium, Italy, Austria and Germany acquired interests. This led under Ernst Schmidheiny's leadership to the formation of *Internationale Asbestzement AG (SAIAC)* with the aim of mutually exchanging experience, publicity materials and patents

and jointly purchasing raw materials. Mutual financial obligations were not entered into; the association was intended to promote, in general terms, the development of the asbestos cement industry, which at that time was entirely above suspicion, throughout Europe. Ernst Schmidheiny immediately took a leading role, for he had an invaluable advantage over everyone else: his knowledge of languages meant that he was the only person who could freely negotiate with everyone.

«Holderbank» goes abroad

Under the leadership of its chairman Ernst Schmidheiny, «Holderbank» began with equal determination to expand its activities at home and abroad – mostly northwards and westwards at first, where fairly close relations already existed. In 1922 «Holderbank» was for the first time engaged as a consultant to build and commission a new cement works in the French department of Seine-et-Oise, to be named *Ciments Portland Beaumont-sur-Oise*. This was a milestone in the history of the Aargau-based company: it marked the start of what was subsequently to be termed «engineering and construction». In April 1923 the two fathers Ernst Schmidheiny and Adolf Gygi sent their sons Ernst II and Max Schmidheiny together with Hans Gygi and cousin Peter Schmidheiny as well as Professor A. Hartmann from the Aargau cantonal school on a three-week fact-finding tour of Belgium and Luxembourg. Their job was to find out what local cement works were potential takeover candidates. Whether it was the result of their report or of other documents – at any rate, in 1925 «Holderbank» acquired a majority shareholding in *Ciments d'Obourg SA* in Belgium, which was then still a small work, but was nevertheless the first foreign company to be controlled

completely by «Holderbank». This was followed a year later by the acquisition of a substantial interest in the Dutch company *Eerste Nederlandsche Cement Industrie (ENCI)*, a firm which was to acquire special importance for father Ernst and his younger son Max; Ernst became chairman of the board, and there Max learnt, so he said later, «cement-making from the bottom up» in 1932–33 as a crane-driver, in the quarries, in every possible type of work – «for 200 guilders a month».

After 1925 further foreign investments came in quick succession: in France, Germany, Egypt and the Middle East – especially in two regions which will be dealt with later. The expansion of «Holderbank» proved to be so ambitious that in time it became necessary to separate manufacturing from the holding-company function. On 29 July 1930, the general meeting passed a resolution to convert *Aargauische Portlandcementfabrik AG* into a holding company named «Holderbank» Financière Glarus Ltd. (HOFI) with Ernst Schmidheiny as its chairman; the manufacturing company formed was called *Cementfabrik «Holderbank»-Wildegg AG*. At the same time, *Schweizerische Cement-Industrie-Gesellschaft (SCI)* in Ennenda (later in Glarus) – established in 1906 and which Ernst Schmidheiny had been managing director of since 1919 – was also turned into a holding company, and *Cement- und Kalkfabrik Unterterzen AG* (with its headquarters in Heerbrugg and plants in Unterterzen) was set up as a production company.

By exchanging shares in the two manufacturing companies, a contractual association was formed between HOFI and SCI which later formed the basis for the worldwide operations of the «Holderbank» group.

Egypt: Ernst Schmidheiny's destiny

An activity which was to become particularly important for Ernst Schmidheiny and his family was his venture into the Arab world. In the early twenties, during a trip to Cyprus, the Heerbrugg industrialist made a one-week excursion to Egypt, having heard there was an attractive opportunity for landing an attractive deal in the cement industry. He discovered that there was indeed a run-down cement works in Maasarah, but it was so inefficient that massive imports from abroad were necessary. Ernst Schmidheiny therefore decided in 1926 to form a company named *Société Egyptienne Tourah-Le Caire* with the aim of building a modern cement works about 14 kilometres (9 miles) south of Cairo, halfway between there and Helwan. In 1927 Ernst Schmidheiny became chairman of the board of this company, which with «Holderbank», *Amiantus* and *Schweizerische Cement-Industrie-Gesellschaft (SCI)* as its owners was entirely under Swiss control, despite having some Egyptians on the board.

For Ernst Schmidheiny, the formation of this company became his personal destiny. He liked Egypt so much that he decided to go and live there, especially since his wife Vera liked the climate very much for health reasons. This was also the time when Schmidheiny formed his view that Egypt would be able to stay out of all the approaching world conflicts and the country was therefore particularly suitable as a refuge for foreign investment. How wrong he was would only be revealed much later, after Ernst Schmidheiny's death.

The early years of the Tourah works, which commenced production in December 1929, were «fairly turbulent», as his younger son Max wrote.

On 1 May 1931 Ernst Schmidheiny complained in a letter about the legal complications caused by Egyptian lawyers, who were trying to hold up the development of the cement works. The old works in Maasarah had in fact reached the end of its life; it was ultimately merged with Tourah and closed, enabling Schmidheiny's plants to modernize further and to increase its output. At the same time, however, a new rival appeared in the shape of the *Helwan Portland Cement Company*, a Danish firm which subsequently agreed to collaborate with Schmidheiny. This led to what was really a cartel, which was presented as the only possible route to an efficient corporate policy. Product promotion and sales were handled jointly «to improve the effectiveness of the local industry» and thus to withstand the importers, who were attacking with giveaway prices.

For Ernst Schmidheiny, the pinnacle of his Egyptian venture was 25 April 1933, when King Fuad I visited the Tourah cement works, accompanied by a large entourage. The monarch was dressed in western style, with a parasol over his arm and the traditional fez on his head, and Ernst Schmidheiny was ceremonially attired in a stiff top hat, as was the custom of the day. He was visibly delighted by the high honour, even though at that very time he was beset by serious financial worries. «Tourah was dealt a heavy blow in 1931 by the devaluation of sterling and the Egyptian pound that was pegged to it», wrote Max Schmidheiny, looking back on those days. «For Tourah was financed to a great extent with debt, which was denominated in Swiss francs, resulting in considerable exchange rate losses.» This was all the more serious in that during that time *Société Egyptienne de Ciment Portland Tourah-Le Caire* had





On 25 April 1933 King Fuad I of Egypt, accompanied by a large entourage, visited the Tourah-Le Caire cement works 14 km (9 miles) south of Cairo; for Ernst Schmidheiny it was one of the greatest days of his life.



The Tourah-Le Caire cement works, which were designed and built by Rudolf Frey, went into production in 1929; they were nationalized by President Nasser in July 1961.



King Fuad I and Ernst Schmidheiny during the visit to the Tourah-Le Caire cement works in April 1933.

taken on other commitments: in 1933 it had taken control of *Société des Ciments Libanais Chekka*.

The bleak years

It was mainly the wide-ranging foreign commitments which made Ernst Schmidheiny's position so critical following the «Black Friday» of October 1929, i.e. after the New York stock market crash and the subsequent depression in Europe. The foreign currency devaluations caused his assets to shrink further and further, not only in Egypt but in other countries too. A particularly disastrous role was played by the machinations of an unscrupulous Belgian business associate by the name of Chaney. The property deals with him had spawned the company *Immobiliengesellschaft Glarus AG*. Swiss *Volksbank* had granted it substantial loans which Ernst Schmidheiny stood as guarantor for. In 1932 he suffered huge losses, above all from guarantees amounting to over 670,000 Swiss francs. The catalogue of guarantees raised fears of further obligations in the current year, which came to approximately a quarter of a million francs. Moreover, tens of thousands of francs' worth of assets were nothing more than credit balances from grants and loans to numerous insolvent individuals and small traders in the Rhine valley. The expenses that had to be paid in bank interest and other charges alone exceeded the total annual receipts by about 100,000 francs.

Schmidheiny feared the worst. In a letter to his wife in 1932 he remarked «It is abominable how bad luck pursues me. One might think that I was the stupidest businessman for miles around.» And he warned his son Max in a letter from Tourah on 30 November 1932 «Let it be your guiding principle in life rather to do fewer deals or to do deals for the account of others,

and have no debts. You have no idea how much, after my busy and successful life, the fact of being in such a difficult position depresses me. I have to summon up all my energies in order not to go under.» In those bleak days he also bequeathed his house in Heerbrugg to his son Max as a precaution. He told his children that if he himself should go bankrupt, at least the estate should not come under the hammer. And on a business trip to Brussels he planned to stay in the second-class hotel *Atlanta*, which he then owned, next door to the *Métropole* – instead of at a more distinguished address: «I don't want to spend any more money when we have a hotel of our own, and I don't think it will matter for reasons of prestige.»

However, it was only the banks that could really help. With his balance sheet as of 31 December 1932, Ernst Schmidheiny sent the chairman of the board of Swiss *Volksbank*, National Council member Schüpbach of Steffisburg, a personal letter which revealed everything about the despair he was then suffering: «Perhaps I could experience another rise of fortune (albeit a modest one); but only if the *Volksbank* agrees to my proposal, otherwise I will certainly be crushed; things do not even need to get any worse for this to happen.» Schmidheiny continued «If I were now to be forced into liquidation by any party, this would mean a complete collapse. The only possible way for me to emerge honourably from this extremely precarious position and not lose my income is to seek to reduce my obligations. If this is not achieved soon, the disaster will happen, and in these agitated, sensation-loving times the noise and chatter over losses running into millions would go far beyond the facts. I urge you to help me avoid this scandal. You are in a position to do

so without making a sacrifice; on the contrary, this will enable you to take your doubtless very burdensome Belgian interests out of your books and replace them with shares in a Swiss property company.»

The bank, itself in severe difficulties and dependent on state help, hesitated at first, but then realized that an amicable agreement was also in its own interest. It ended up taking over the property company *Immobilienellschaft Glarus* and Schmidheiny was released from the guarantee; the worst had been prevented. At the same time, things began to brighten up for the firm in Chekka in Lebanon; Ernst Schmidheiny wrote in March 1933 that the Patriarch of Antiochia, who formally held the title «delegate for life», had «given his consent to the enlargement of the factory, so we can now make progress despite opposition from Paris».

Of course, this did not solve all the problems, and the crisis had by no means been completely overcome. As late as the beginning of April 1933, Ernst Schmidheiny sent his son Max a letter on his 25th birthday which was nothing less than a cry for help and which in its tone was strangely reminiscent of the imploring words which his father Jacob had once addressed to his sons: «I was granted the pleasure of taking care of you children; (...) unfortunately, I would not be able to take care of Mama if something on a human level should shortly happen to me. I maintain that it is the sons' duty to care for their mother, in such a way that she cannot regard this care as charity! My heartfelt request is that you and Ernst should do this, should it become necessary, in return for my having placed you in positions which offer you great opportunities and are worth more than large fortunes. Money is lost so soon, but there will

always be a need for people who are true leaders. Many a man has what it takes, and he is successful too, but by the time he has reached a satisfactory position, he is old and often exhausted. He also needs a certain prestige, and this is never obtained quickly. It must be acquired over a long period. You have got it from your grandfather and your father. It is your job to preserve and increase it. I very much hope to work with you for many more years to come and again to work my way out of this difficult position. I am strongly relying on your help in this.»

The air disaster at El Arish

This letter was Ernst Schmidheiny's real last will and testament. For his hope that he would be able to work with his sons «for many more years to come» was to be dashed two years later. In February 1935 Ernst Schmidheiny was staying in Cairo with his elder son Ernst II and Rudolf Frey, chairman of the board of *E.G. Portland* and the actual builder of the Tourah works. On 11 March they set off for Jerusalem together with Schmidheiny's wife Vera and Rudolf Frey's wife. The three men made an excursion to Chekka to inspect the extensions to the Lebanese factory. They then returned to Jerusalem, from where they planned to travel back to Cairo.

On 15 March they boarded a plane operated by the Egyptian airline *Misr Airworks*, a twin-engined De Havilland Dragon. Besides Schmidheiny senior and junior, on board the aircraft were Rudolf Frey, a British colonial officer, and an unknown civilian. Near El Arish in the Sinai Desert the plane rapidly lost speed and height in a violent squall, went into a dive and smashed to pieces on the ground. Ernst Schmidheiny senior, Rudolf Frey and the unknown civilian died

instantly in the massive impact. Ernst Schmidheiny junior and the colonial officer were slightly injured; they managed to stop a train travelling through the desert towards Cairo and summon help. The pilot of the plane survived the crash, but died in hospital in Cairo. According to oriental custom, the corpses of the two Swiss industrialists were embalmed and transported to their native country by sea and rail. Ernst Schmidheiny's mortal remains were interred on 6 April in Balgach cemetery in the presence of a crowd numbering thousands of people.

His work survived him, as did numerous charitable foundations connected with his name and activities. In 1905, shortly after his father's death, he and his brother set up the *Jacob Schmidheinyscher Weihnachtsfonds*, which was endowed with 20,000 francs for Christmas presents for the poor of Balgach, whatever their religion or nationality. In 1914 he became president of the *Anstalt Oberfeld in Marbach* for the education of less gifted children – a position which he occupied for two decades. In particular, he was responsible for the construction of a new agricultural building. He secretly donated the necessary sum, wishing to remain anonymous. After the establishment of an organization for the care of tuberculosis sufferers, the *Mittelrheintalische Tuberkulosefürsorgestelle*, in 1925, Ernst Schmidheiny assumed the chairmanship of this institution as well, and one year later he and his brother established a foundation to fight tuberculosis. In 1926, on Ernst and Vera Schmidheiny's 30th wedding anniversary, a donation of 150,000 francs laid the foundation for a welfare fund for the aged of the parish of Balgach. And after his death, his wife Vera donated the money for the building of

the holiday home «*Rhinterhus*» in Wildhaus in the Toggenburg area for children from the Rhine valley who were in need of a holiday; it was opened in 1942.

However, the financial worries which threatened to overwhelm Ernst Schmidheiny in the thirties also lived on after his death. The burden of the accumulated debts fell on the two sons; «My brother and I were faced overnight with huge responsibilities», wrote Max Schmidheiny in 1976. The lines which contain these words bear the title «*Memories of bleak years*».

Chronology

1871 1 April: birth of Ernst Schmidheiny I

1893 Trainee in a Swiss firm in Turin (cheese wholesalers)

1894 Trainee with the Kuster banking house in Turin

1895 Return to Heerbrugg from a stay in England

1896 10 October: marriage to Vera Kuster of Altstätten (born 1877), daughter of the banker Anton Kuster-Schläpfer

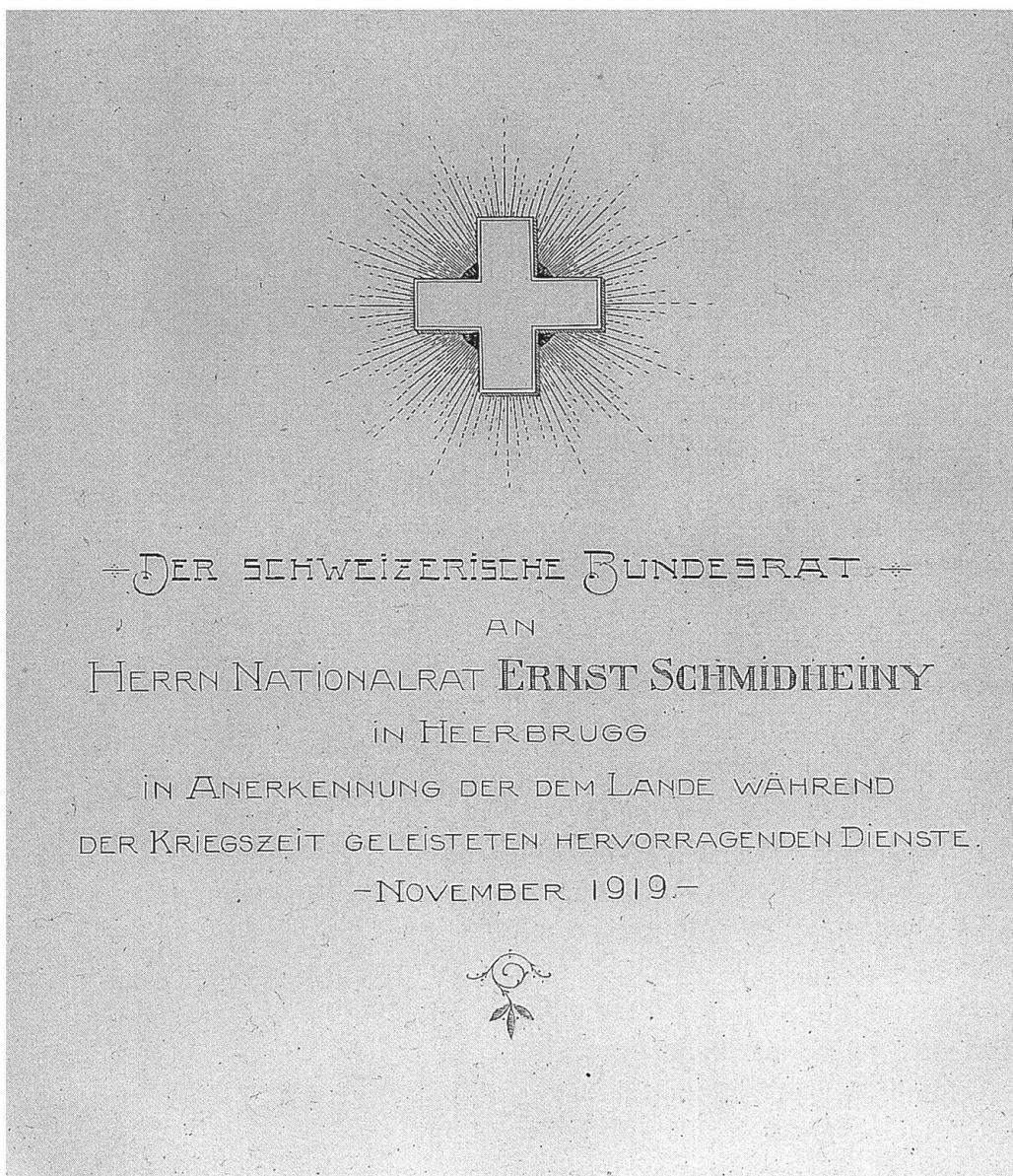
1897 10 December: daughter Vera Lydia («Verina») is born

1900 12 December: daughter Marie Luise («Lilly») is born

1902 16 July: first son Ernst II is born

1904 8 August: Ernst Schmidheiny initiates the formation of the electricity company *Elektrische Kraftversorgung Bodensee-Thurtal*

1905 18 February: death of his father Jacob Schmidheiny I; the firm *Jacob Schmidheiny und Söhne* is renamed *Jacob Schmidheinys Söhne* – together with his brother Jacob, Ernst Schmidheiny I establishes the brick and tile works *Dampfziegelei Heurieth* – he is elected to the St. Gallen cantonal parliament (remaining a member until



To thank him for his services as head of the Barter Office and trade agreement negotiator during the First World War, in November 1919 the Federal Council presented Ernst Schmidheiny with an enormous silver tray 77 cm (31 inches) long.

1918); in November Schmidheiny and other members of parliament sign a motion in favour of the exploitation of the water power resources in the canton of St. Gallen

1906 14 September: Ernst Schmidheiny forms *Rheintalische Cementfabrik Rüthi AG Flums* together with Anton Dufour of Rheineck and Heinrich Spoerri-Jakob of Flums – formation of *Schweizerische Cement-Industrie-Gesellschaft Ennenda (SCI)*

1907 Ernst Schmidheiny forms *Cementröhrenfabrik Rheineck* with Anton Dufour

1908 3 April: second son Max is born

1910 23 October: the Swiss cement works are again united under *E.G. Portland*, with Ernst Schmidheiny I on the board

1911 Ernst Schmidheiny is elected to the National Council (retires in 1919)

1912 15 February: formation of *Aargauische Portlandcementfabrik «Holderbank»-Wildegg* – 2 April: work starts on the building of the «Holderbank» cement works (chairman of the board of directors: Edmund Schulthess; general manager and managing director: Adolf Gygi – 1 June: formation of *Zürcher Ziegeleien (ZZ)*; Ernst Schmidheiny becomes vice chairman of the board of directors and managing director (chairman: Rudolf Escher)

1913 15 April: the «Holderbank» cement works goes into production – 6 May: «Holderbank» joins *E.G. Portland*

1914 30 September: merger of «Holderbank» with *Rheintalische Cementfabrik Rüthi*; the Rüthi works is closed; in 1929 a plaster factory is built on the site – Ernst Schmidheiny joins the boards of «Holderbank» and *Schweizerische Cement-Industrie-Gesellschaft Ennenda (SCI)* – in the same year Ernst Schmidheiny becomes vice chairman of the board of the newly formed power generation company *St. Gallisch-Appenzellische Kraftwerke AG* (until 1924)

1915 January: federal councillor Hoffmann appoints Ernst Schmidheiny as a negotiator for trade agreements and head of the *Barter Office*

1917 Ernst Schmidheiny obtains his release from his post as head of the *Barter Office*, but remains a negotiator with the foreign powers until 1918

1918 15 May: A sub-committee of the Neutrality Commission of the National Council reports on the «Schmidheiny affair» and clears Ernst Schmidheiny of all blame

1919 Ernst Schmidheiny retires from the National Council – he becomes managing director of *SCI*

1920 Ernst Schmidheiny and Jean Baer acquire a majority shareholding in *Schweizerische Eternit-Werke AG Niederurnen*; the chairman of the board is Ernst Schmidheiny

1921 On Ernst Schmidheiny's initiative, a contractual association is formed between *Portland-Cementfabrik Laufen*, *Cement- und Kalkfabriken R. Vigier AG*, and *Aargauische Portlandcementfabrik «Holderbank»* – Ernst

Schmidheiny becomes chairman of *Aargauische Portlandcementfabrik «Holderbank»*

1922 Société Suisse de Ciment Portland SA Neuchâtel engages «Holderbank» as «consultants» to build and commission its works at Beaumont-sur-Oise near Paris; beginning of engineering and construction activities

1923 December: conversion of *Schweizerische Eternit-Werke AG Niederurnen* into a holding company named *Amiantus AG*; formation of the manufacturing company *Eternit AG Niederurnen* – Ernst Schmidheiny joins the board of *Gips-Union AG Zürich*

1924 Acquisition of an interest in *Verkaufsaktiengesellschaft Heinrich Wild's geodätischer Instrumente in Heerbrugg* (formed in 1923) – acquisition by *Amiantus AG* of an interest in *Cimenteries & Briqueteries Réunies SA Anvers – Holzindustrie AG (HIAG) St. Margrethen* is established under Ernst Schmidheiny's chairmanship

1925 Purchase by «Holderbank» of a majority shareholding in *Ciments d'Obourg SA* – acquisition of an interest in *Ciments d'Origny* in France – further investments in Germany and Egypt – Ernst Schmidheiny retires as vice chairman of the board of *Zürcher Ziegeleien* – work starts on the office building at Talstrasse 83 in Zürich

1926 Formation of *Société Egyptienne de Ciment Portland Tourah-Le Caire* – acquisition by «Holderbank» of an interest in *Eerste Nederlandsche Cement Industrie (ENCI) Maastricht* (founded by *Cimenteries*



& Briqueteries Réunies SA) with Ernst Schmidheiny as chairman of the board

A memorial tablet to Ernst Schmidheiny made for the Heerbrugg parents, teachers and pupils association in 1935.

1927 Construction of the Tourah-Le Caire cement works, designed by Rudolf Frey; Ernst Schmidheiny becomes chairman of the board; the plant goes into production in 1929

1928 Formation of *Cementwerke AG Glarus* – formation of *Deutsche Asbestzement AG Berlin* under Ernst Schmidheiny's direction

1928–29 New works in Maastricht under Ernst Schmidheiny's direction

1929 Formation of *Internationale Asbestzement AG (SAIAC)* on Ernst Schmidheiny's initiative and under his leadership – acquisition of an interest in *Ciments de Chalkis Portland Artificiels SA* in Greece

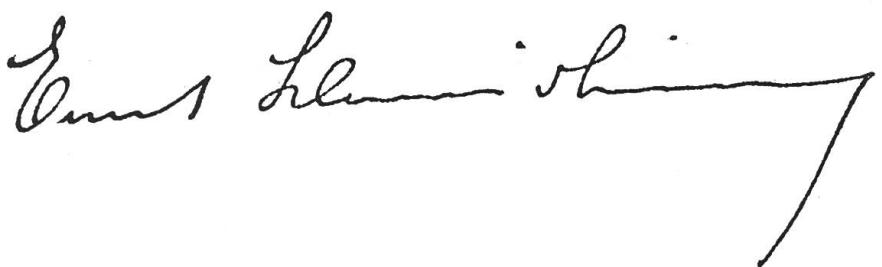
1930 29 July: conversion of *Aargauische Portlandcementfabrik «Holderbank»* into *«Holderbank» Financière Glarus (HOFI)* and formation of the

manufacturing companies
Cementfabrik «Holderbank»-
Wildegg AG (CFH) and
Cement- und Kalkfabrik
Unterterzen AG; the companies
are headed by Ernst Schmid-
heiny

1933 25 April: visit of King Fuad I
of Egypt to the Tourah-Le
Caire works with Ernst

Schmidheiny – *Société Egypti- enne de Ciment Portland Tou- rah-Le Caire* takes control of
Société des Ciments Libanais
Chekka

1935 15 March; death of Ernst
Schmidheiny and Rudolf Frey
(chairman of *E.G. Portland*) in
an air crash near El Arish in the
Sinai Desert

A handwritten signature in black ink, appearing to read "Ernst Schmidheiny". The signature is fluid and cursive, with a long horizontal stroke for the first name and a more stylized, vertical flourish for the last name.