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CENTRAL INTELLIGENCE AGENCY

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INTELLIGENCE MEMORANDUM NO. 286

2 May 1950

**SUBJECT: -Soviet Trade Practices and Activities Harmful to Satellite Economy and East-West Trade**

### Foreword

The paramount economic objective of the USSR is the enlargement of its economic potential for war. Within its own borders the Soviet Union has furthered this objective by concentrating on heavy industry and military production and by establishing certain enterprises in strategic areas. In the Satellite countries and the Soviet zones of Germany and Austria, the USSR pursues the same objective by exercising strict control over the Satellite economies and closely coordinating the Satellite economies with each other and with that of the USSR.

The USSR has used a number of devices to gain control over the Satellite economies. In addition to the rights gained through peace treaties, the USSR has used its power to obtain vast concessions from the Satellites in bilateral, mutual assistance, and economic collaboration pacts, most of them with secret protocols. Soviet control of Satellite internal economic activity has been achieved through local Communist parties. The Council of Economic Mutual Assistance, established in January of 1949, provided the formal vehicle for coordinating the Satellite economies, as well as a more effective mechanism for eventual economic integration. Thus the Soviet Government directly, or through the puppet Communist regimes, has broad control of the major aspects of economic planning, production, and distribution and in exercising this control has shown little or no regard for the national needs of the individual Satellite states.

Amply evidence exists of Soviet efforts to dominate the Satellite economies and to impose limitations on East-West trade. The following four sections compile data, all rated as reliable, which illustrate Soviet techniques and describe certain specific instances of Soviet exploitation and trade practices. The sections are divided as follows:

- I. Soviet-Satellite Economic Relations.
- II. Soviet Exploitation of Satellites Through Joint Companies.
- III. Soviet Directed Economic Sanctions Against Yugoslavia.
- IV. Soviet Imposed Limitations on East-West Trade.

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I. Soviet-Satellite Economic Relations

Satellite economic development and foreign trade have been forcefully directed toward the East, i.e., the Soviet Union. This thoroughgoing re-adjustment is detrimental to the economies of the Soviet-dominated states of Eastern Europe as exemplified by the following instances:

1. Bulgaria cannot sell any of its production, including tobacco, to the West without Soviet permission. Bulgaria has lost much of its profitable market for its principal export product, and most of the tobacco taken over by the USSR, by means of unfavorable barter practices, is resold at high profit.



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2. Czechoslovakia has been forced to export 75 percent of its shoe production to the Soviet Union at prices far below the price on the domestic market. For example, one shoe factory, which has delivered 25 million pairs of boots to the Soviet Union, received only 25 crowns a pair. This contrasts with the controlled price of 500 crowns for the cheapest boot on the Czechoslovak market, and the official free market price of 2,000 crowns.



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3. The USSR has exploited Poland by forcing Poland to pay more than the world price for Soviet goods, while paying hardly enough to cover the cost of Polish production. For instance, in 1948 the Soviet Union paid \$1.75 a ton for Polish coal; the Polish consumer paid over five times that amount, and Poland was receiving up to \$15.50 a ton for coal exported to the West.



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4. Czechoslovakia sold 100,000 tons of refined sugar from its 1948-49 crop to the Soviet Union, and is committed to sell 70,000 tons from its 1949-50 crop. The Soviet Union paid a low price for the sugar, then resold it outside of the orbit. Not only did the USSR compete with Czechoslovakia in the latter's normal markets, but in some cases undersold the Czechs with their own sugar. Bags for this year's crop are marked "USSR Export Sugar."



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5. In the case of Rumania, grain shipped to the Soviet Union in 1948 was used by the USSR to fulfill a substantial portion of its contract with the UK. Rumanian lumber consigned to the Soviet Union was shipped from Rumanian ports to Egypt and sold by the USSR at prices just below those offered by the Rumanian Government.



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6. The Soviet-Hungarian Trade Agreement, valid 1 August 1948 through 31 December 1949, illustrates how the USSR exploits and controls trade between the Satellites. The USSR, through its agency "SOJUSPROMEXPORT," agreed to deliver to Hungary 400,000 metric tons of blast furnace coke with the following specifications: quality to be 170 kgs. per 241 kgs., according to the Simgren test; maximum sulphur content of 2 percent; minimum size of 40 mm; and price of \$23 per ton, f.o.b. Licartovce on the Czech-Hungarian border. By April 1949 only 120,000 metric tons had been delivered, most of it Polish coke purchased by the USSR for \$17.50 per metric ton. According to the terms of the agreement, the USSR was to pay the freight charges from Mezimosti on the Polish-Czech border to Licartovce, amounting to \$4.32 per ton. Despite repeated Hungarian protests, coke consignments arrived in Licartovce with the freight unpaid. The iron and steel plants that received the coke were compelled to pay the freight charges to "SOJUSPROMEXPORT." Thus the Soviet Union owed \$1,700,000 in January 1949 to the Hungarian iron and steel plants. In February 1949, the USSR agreed with the Czech railroad administration that the sum of \$1,700,000 would be settled within the Soviet-Czechoslovak Clearing Agreement and that the Czechs were to refund the already expended freight charges to Hungary. By April 1949, the Czechs had not reimbursed Hungary, and the coke consignments continued to arrive with the freight charges unpaid.



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7. The Soviet Union seems to regard Satellite trade with the West as a means both to obtain materials for itself and to further exploit the Satellites. When Poland concluded an agreement for high-grade ore from Sweden, the Soviet Union increased its demands for iron products from Poland, thus depriving Poland of the advantages of its agreement with Sweden.



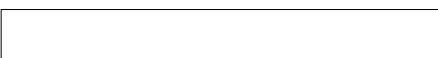
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8. About 70 percent of the imports received by Rumania under its trade agreement with Israel are destined for the Soviet Union.



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9. Czechoslovakian agricultural production is hampered by obligatory exports to the USSR of superphosphate and other fertilizers.



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10. The USSR has exerted pressure on the Czechoslovakian textile industry to supply established quotas of finished products, but fails to reciprocate with needed raw materials. Similar pressure has been exerted upon Poland and Hungary.



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11. The iron ore imported by Hungary from the Soviet Union is the hematite ore found at Krivoi Rog (Fe content 52-56 percent). From 60-70 percent of this ore is either powdery or arrives in small pieces of 5 mm in size. Its reduction is comparatively difficult, and its composition varies with each shipment. Therefore, the use of this ore in blast furnaces, to a degree higher than 20 percent, would be expedient only if the Hungarian plants had adequate agglomeration (sintering) equipment.

According to an agreement concluded between NIK (the Hungarian Ministry of Heavy Industry) and the Soviet Government on 1 June 1947, 400,000 metric tons of Krivoi Rog ore were to be delivered to Hungary by 31 July 1948, despite Hungarian inability to use 400,000 metric tons in a single year.

On 1 July 1948, the Soviet and Hungarian governments renegotiated an agreement to last 17 months, that is, until 31 December 1949. The iron and steel plants in Hungary, and consequently NIK, were willing to accept 100,000 metric tons of ore from the USSR if it were possible to obtain a higher quality ore, crushed into small pieces, with a low SiO<sub>2</sub> content, and if coke could also be supplied with the ore. The USSR, however, forced the Hungarians to accept 300,000 metric tons of Krivoi Rog ore of the same quality as received before. It was agreed that the same percentage of the shipments would be by rail, that the Fe content would be not less than 56 percent, the SiO<sub>2</sub> not over 13 percent and the H<sub>2</sub>O content not above 4 percent. The first shipment arrived, however, with an SiO<sub>2</sub> content of 18 percent. The Hungarians maintained that the 13 percent figure applied to each consignment, while the USSR claimed that it referred to the entire 300,000 metric tons. The Hungarians eventually were forced to drop their complaint.

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12. Czechoslovak iron and steel production has been hampered since the war by being forced to consume Krivoi Rog iron ore from the USSR. Although Krivoi Rog is known to have large deposits of high-grade iron ore, containing no sulphur and phosphorous, Soviet authorities have been shipping to Czechoslovakia the powdered tailings which the Germans left in their exploitation of Krivoi Rog. The poor grade Krivoi Rog ore shipped to the Czechs has necessitated a greater volume of ore per blast furnace charge, more fluxing and other ingredients, and has increased the cost of pig iron production. As a result, Czechoslovak steel authorities have been making strenuous efforts to increase imports of iron ore from Sweden.

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13. A Soviet directive to the Czechoslovak metal pipe industry to deliver large quantities of pipe, principally oil field pipe, to the USSR has prevented Czechoslovakia from meeting promised deliveries to other countries.



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14. The economy of the Soviet Zone of Germany has been hurt by shortages of scrap iron and steel resulting from forced exports to the USSR and the Satellites.



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15. The Satellites are forced to import some machinery from the USSR. The machines offered by the USSR, however, are frequently of poor quality, very old, expensive, delivered late, and lack operating instructions. Quotations for a Soviet longwall cutter of very old construction, for example, priced the machine at Kes 600,000, or about three times as much as a modern US or UK cutter would cost.



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16. Every month Czechoslovakia is forced to ship thousands of electric motors to the USSR. The motors require materials, principally copper, which are in such short supply that production has often been slowed or temporarily suspended. If Czechoslovakia had been permitted to ship these motors to the West, Czechoslovakia could have obtained foreign exchange to purchase needed raw material unobtainable from the Soviet Union.



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17. The Bata plant at Zlin, Czechoslovakia has been receiving Soviet-manufactured ball bearings as part payment for machinery which Bata manufactures for the Soviet Union. Bata at first used Soviet ball bearings in this machinery, but the USSR now insists that Swedish bearings be incorporated into the equipment destined for the Soviet Union. The USSR has even returned older Bata-manufactured machinery to Zlin so that the Soviet bearings could be replaced by Swedish bearings. This appears to be a tacit acknowledgment by the USSR that it is exchanging inferior products for those of higher quality. Further, Czechoslovak purchases of Swedish bearings for Soviet equipment drains Czechoslovakia of much needed exchange.



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18. The USSR is absorbing about 70 percent of East German industrial production, thus causing critical shortages of needed materials and preventing economic recovery. The USSR further exploits East Germany by buying East German goods at low prices and reexporting them at a profit. Foreign trade of the Sovzone in 1949 was directed increasingly towards the East, with the Soviet Union receiving 40 percent. The Sovzone delivered machine

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tools, as well as precision, mechanical, and optical instruments. A large part of these products was reexported by the Soviet Union on its own account.

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19. At a meeting of the Conference of Nationalized Firms on 28 November 1949, in Leipzig, regarding the 1950 trade agreement with USSR, it was stated that production must be increased by at least 30 percent above present levels -- preferably 50 percent -- because only the quantities produced in excess of the present output would be free for export.

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20. During 1949 the USSR sold Czechoslovakia twenty Il-12 passenger planes at a reported price of \$240,000 each. The eight which were delivered during 1949 were found to be practically useless because of unreliable flight instruments, poor engines, and generally shoddy construction. An engine change was required every 300 hours; spark plugs fouled after flights of two hours, and the landing gear was unsatisfactory. The wings of the delivered planes had already dropped several centimeters, even though the planes had been given only moderate use. As a consequence the Czechs grounded all of these planes indefinitely and cancelled all future deliveries. There is no likelihood that the Czechs will get their money back for the planes received.

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21. The Soviet Union receives much of East Europe's production of new transportation equipment. Furthermore, the USSR forces the Satellites to overload their own equipment. In Hungary, for example, the USSR has forced the Hungarians to operate "2,000 ton" freight trains. Since the maximum load for the average Eastern European freight train has normally been about 750 tons, the increase seriously strains the equipment. Maximum load limits of freight cars have been revised upward and the period of service between inspection and overhaul has been increased. Hungarian railways carry almost twice as much as prewar and much of the freight carried is for Soviet benefit.

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22. Under 1950 trade pacts 75 percent of the entire export production of Rumania, Bulgaria, and Hungary is consigned to the Soviet Union. Rumanian petroleum, for example, will be sold to the USSR at world prices which are far below production cost of Rumanian industry. Such control over the Rumanian petroleum industry is made possible through the joint company, SovRom Petroleum. The USSR is guaranteed an annual profit from this company regardless of earnings. Moreover, Rumanian oil will be re-sold at an additional profit by the USSR to Czechoslovakia, Bulgaria, Hungary, and Poland. In return the Soviet Union will obtain valuable industrial commodities, such as motorcars, locomotives, and

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machinery from Czechoslovakia. Inferior quality items or those not especially useful to the USSR will be re-exported to the Satellite countries. Similarly, Bulgarian coal delivered to the Soviet Union is exported to other Satellite countries in exchange for machinery and other products, while a part of such machinery, usually agricultural, is re-exported to Bulgaria.

Direct trade between Eastern European countries and the West is either subordinated to the interest of the Soviet Union or reduced to a minimum; for example, Czechoslovakia must procure large quantities of hides from Argentina in order to make deliveries to the Soviet Union of ten million pairs of first-class shoes.

In another way the Soviet Union monopolizes Satellite export production and foreign trade. The USSR sells Czechoslovak textiles to India and and Polish coal and Bulgarian tobacco to Italy.

The recently increased valuation of the ruble in relation to other currencies enables the USSR to procure products at a lower price than heretofore from the Satellites. Moreover it affords the opportunity to the Soviet Union to re-sell these products at a higher price under the guise of its own manufacture.

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## II. Soviet Exploitation of Satellites Through Joint Companies

The nature of Soviet economic exploitation through joint companies in the Satellites was further revealed as a result of the Tito-Cominform rift. Tito's charges against the USSR were similar to the charges made earlier, in May 1949, by the US delegate in the ECE meetings at Geneva. The USSR at that time sought to justify the existence of these companies by claiming they represented the fairest method for utilizing German assets in former Axis countries.

The following instances, drawn from Yugoslav sources, are believed to be reliable and illustrate Soviet use of the joint company as a means of exploiting the Satellites. (It should be emphasized that many other examples could have been included.)

1. Until its dissolution by the Yugoslav Government in July 1949, JUSPAD (a joint company concerned with Danube River traffic) had been dominated by a Soviet managing director who ignored his Yugoslav colleague in making company policies. JUSPAD was managed in favor of Soviet interests. For example, transportation charges were rigged in favor of Soviet interests, and business was directed to Soviet rather than Yugoslav river shipping, thus costing Yugoslavia about \$19,000,000 during the first year of operations. Meanwhile, the USSR had contributed less than 10 percent of its half of the capital stock, whereas Yugoslavia had paid in more than 76 percent of its 50 percent allotment.



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2. Although Yugoslavia and the USSR ostensibly were to share equally in the operation of JUSTA, the joint Yugoslav-Soviet airline, a Soviet General Director actually had complete authority over operations. The USSR contributed obsolete LI-2's at a price of \$90,200 each, well above world market prices, while airfields contributed by Yugoslavia were drastically undervalued. Yugoslavia had to obtain gasoline required for its airline (JAT) from Rumania at two or three times the normal cost. The joint airline was allocated the most profitable routes and sought to monopolize international traffic, while JAT was assigned unprofitable routes. JUSTA managed all important airfields and charged JAT for the use of its own landing fields. When JUSTA was dissolved in 1949, the USSR demanded \$140,000 for each of the old planes which they had provided.



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3. The Yugoslav press reported the following concerning joint Soviet-Rumanian companies: "The position of general directors in these companies is held by Soviet citizens while lower positions of management are given to Rumanians. The functions of Rumanians are decorative and honorary because Soviet representatives decide all important questions." The same source also alleged that the USSR had not sent even one single machine to the joint company, Sovromtractor, which was organized in January 1949.



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~~SECRET~~**CONFIDENTIAL****III. Soviet-Directed Economic Sanctions Against Yugoslavia**

After the Yugoslav-Cominform break of June 1948, the Soviet orbit imposed the Kremlin-directed program of economic sanctions which was aimed to disrupt the Yugoslav economy. The following examples of the sanctions imposed are believed to be reliable.

1. In a report on foreign policy in January 1950, Yugoslav Foreign Minister Kardelj declared: "You know that the USSR, at negotiations carried out toward the end of 1948, reduced the volume of material exchange with Yugoslavia by more than eight times, even though Yugoslavia fully executed all its obligations under the treaty. Further, the USSR, to fulfill a credit of \$135,000,000 on the basis of an investment agreement of 25 July 1947, delivered materials valued at only \$800,000 until the middle of 1948 and then stopped fulfilling its obligations ... Besides this, the Administration of Soviet Property in Austria did not want to fulfill any of the obligations arising from the treaties concluded in 1947 and 1948 between it and Yugoslavia, according to which this Administration was to deliver to Yugoslavia six turbines valued at \$1,363,815 between the end of November 1948 and the end of December 1949, even though Yugoslavia paid the entire deposit and freight amounting to \$773,650."

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2. The Yugoslav Ministry of Heavy Industry is quoted as follows: "During 1949 the Soviet Union was to have delivered 2,500 tons of manganese ore, valued at 4.5 million dinars, but failed to do so. Yugoslavia paid in advance the sum of 420.6 million dinars for shipments which were not delivered during the year."

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3. Hungary had received advanced payments from Yugoslavia of 455 million dinars against which goods totaling 217 million dinars were delivered prior to the Tito-Cominform break. Hungary has refused to make restitution on the balance. In his speech of 27 December 1949, Kardelj claimed Hungary was given an advance of \$26.5 million for investment in the joint aluminum enterprise. The project was abandoned and Hungary refused to repay the advance.

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4. On 6 July 1949, Poland suddenly announced the suspension of all trade deliveries to Yugoslavia. Poland claimed that trade with Yugoslavia was broken off because of Yugoslav failure to meet its commitments; actually Yugoslavia had met 80 percent of its commitments to Poland, whereas Poland had met only 67 percent of its commitments to Yugoslavia.



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~~SECRET~~**CONFIDENTIAL****IV. Soviet Imposed Limitations on East-West Trade**

Hilary Minc, Polish Minister of Economy, frankly stated in the November 1949 Cominform Journal that trade between East and West, in accordance with Lenin's "New Economic Policy," is designed to make Eastern European countries absolutely independent of the capitalist West, and not to increase trade as such. According to Minc, Satellite trade with the Soviet Union will, in contrast, be permanent, and the Council of Economic Mutual Assistance will serve as an organization to foster this trade and to provide for the "foundation and crystallization of these essentially new economic relations."

Despite repeated Soviet pronouncements in favor of expanded East-West trade, the USSR has refused, thus far, to renew trade agreements with Western Europe for 1950. Meanwhile, increasing Satellite antagonism towards the West indicates that the Satellites as well are preparing, under the guise of "these essentially new economic relations," to further reduce economic intercourse with the Western world. In more recent months, the direct implementation of the announced policy of delimiting trade with the West is evidenced by the following Soviet tactics in 1950 trade negotiations with the West:

1. The USSR invariably demanded strategic items of military potential in its negotiations with Western countries. In trade negotiations with Belgium, the Soviet Union requested such items as cobalt, industrial diamonds, steel products, and tin. Similarly, the Franco-Soviet talks were stalemated because the USSR insisted on oil tankers, steam rollers, and specialty steel. The USSR also demanded electrical equipment, ships, tin, industrial diamonds, and rubber from The Netherlands.



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2. Conversely, the USSR has refused to export items which the Western countries wanted, and has attempted to force the Western countries to take Soviet surplus commodities in excess of their needs, or has offered inferior goods at excessive prices. The USSR denied a Belgian request for white clover and flax seed, and wanted the Belgians to take 200,000 metric tons of grain, whereas they needed only 60-70,000 metric tons. Similarly, the

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USSR was unwilling to supply chrome and manganese to the French and offered to ship only one half or one quarter of Belgium's manganese requirements.



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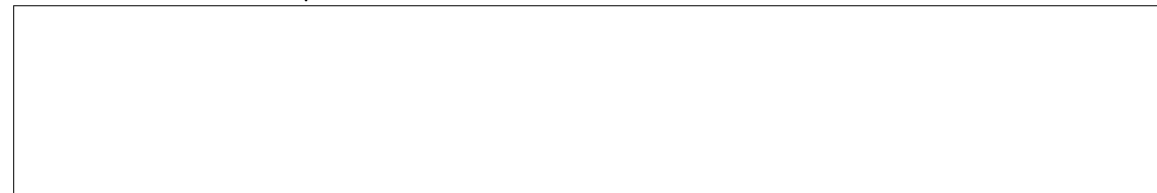
3. More recently, the USSR has demanded a "favorable balance of trade" with the West. In the case of Belgium, this request would have placed Belgium in a position of a debtor to the extent of 865 million Belgian francs. Although the USSR had built up considerable surpluses in previous years, it held up payments for contracted Belgian merchandise. Employing a similar tactic in negotiations with the French, the USSR demanded an unbalanced exchange, with hard currency settlement favorable to the Soviet Union.

In spite of the accumulated surplus of over 20 million kroner in 1949, the Soviet Union insisted on continued export surplus in its trade with Norway for 1950 which would be payable to the USSR on demand in US dollars or gold. Sweden and The Netherlands find themselves in a similar position as debtor nations, thus enabling the USSR to extract substantial sums of dollars.



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4. The Kremlin has stalled Finnish-Soviet trade talks for several months. The Soviet Union refused to make clear its position and rejected Finland's proposal provisionally to carry on 1950 trade. During the negotiations the USSR, in an obvious effort to exert pressure, stopped shipments to Finland. More recent information indicates that the USSR has finally decided to resume negotiations.



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5. A Soviet purpose in utilizing obstructionist tactics in trade negotiations with the West was recently disclosed by Mikoyan. He asserted that the USSR had no intention of assisting Western Europe close the dollar gap by providing it with bread grains and other commodities otherwise obtainable only in the dollar area. The sale of such commodities, according to Mikoyan, would be made only in such quantities and for such periods of time as might suit the USSR.

In the March meeting in Geneva of the Agricultural Committee of Economic Commission for Europe, the Soviet delegate stated his country was prepared to sell large quantities of grains to Western Europe. Three days later, the Soviet delegate refused to agree to any concrete procedure for implementing his proposal. The Soviet offer to sell grains therefore appeared merely a propaganda gesture.



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In recent months, the Satellites have followed the lead of the USSR in taking steps calculated to reduce the extent of their economic relations with the West.

1. In the fall of 1949, Poland denounced Provisions 1 and 8 of the Polish-Italian Payments Agreement of June 1949. The two provisions, favorable to Italy, related to taxation and nationalization of Italian property. This unilateral action took place on the eve of negotiations for the price of Polish coal to be delivered under 1949-50 trade pact and was instrumental in delaying agreement on this question.



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2. The arbitrary nationalization of foreign-owned property by the Hungarian Government resulted in Western European retaliation. Sweden abrogated its recently concluded trade pact with Hungary, Switzerland stopped its shipments of machine tools, and Hungarian-British trade talks were disrupted.



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3. The Czechoslovak-Italian Trade Agreement provides for Italian deliveries of rolling mill equipment in exchange for Czechoslovak textiles and other items. It has been Czechoslovakia's practice to withhold

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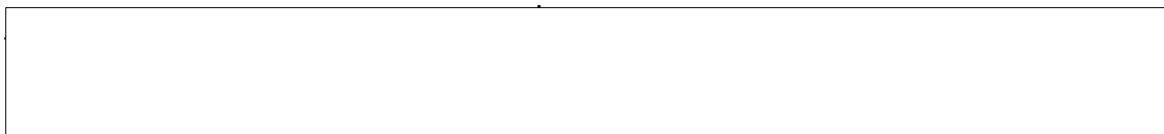
deliveries until the arrival of the Italian equipment. In numerous instances, Czechoslovakia delivered inferior textiles and ignored Italian claims for adjustment.



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Soviet-imposed priorities have, in many instances, interfered with the natural flow of Satellite foreign trade or prevented the Satellites from fulfilling their commitments to the West.

1. Under the Polish-Soviet Agreement of 1945, great quantities of the Upper Silesian coal were delivered to the USSR at the low price of \$1.25 to \$1.30 per ton. The agreement specified that Poland was to deliver to the USSR at preferential prices 8,000,000 tons of coal in 1946; 13,000,000 tons of coal during each of the years from 1947 to 1950, and 12,000,000 tons during each of the following years of the Occupation of Germany by Soviet troops. Meanwhile, Sweden was obliged to pay as high as \$15.50 per ton for Polish coal. Even under the current competitive condition, Poland could obtain \$9.80 per ton for coal exports to other Western countries. Thus, Poland not only loses considerable foreign exchange but is prevented from trading with Western Europe.



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2. Czechoslovakia exported \$2.3 million of goods to Albania under a long-term credit repayable during 1950-55. Similar long-term commodity credits, causing strain on the Czechoslovak economy, have been granted to other Satellite states, particularly to Rumania and Bulgaria. These agreements have contributed to Czechoslovak delinquency in deliveries to Western Europe. Czechoslovakia lost business in Belgium in early 1949 because of its failure to keep delivery promises. Czechoslovakia met only about 30 percent of its commitments under the 1949-50 trade pact with The Netherlands. There has been a drastic reduction in trade between Switzerland and Czechoslovakia since the latter failed to meet its prescribed quotas (1949) of shipments of such items as sugar, coke, and machinery. Likewise, Czechoslovakia was unable to furnish Denmark with the rolled mill products and machinery desired under the 1950 pact.



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3. Presumably because of Soviet requirements, Polish deliveries to the UK have been reported as being unreasonably slow. Moreover, the Polish Government is unwilling to increase quotas above the minimum provided by the pact and delays granting licenses for imports of British goods. The UK, on the other hand, is willing to continue and expand trade and has granted short-term credits to finance Polish purchases, such as wool.



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4. As a result of Soviet exploitation, East Germany is unable to meet or is slow in fulfilling its trade commitments to the West. As long as the USSR has top priority, East Germany has difficulty, and in some cases cannot meet all its trade commitments even to the Satellites. In fact, East Germany can export goods only after fulfilling its obligations for commercial shipments to the Soviet Union, Soviet reparations shipments, and filling the demands of the Soviet Military and Contracting Commission.

Sovzone policy is to make itself as independent of the West as possible, and to buy there only those items which cannot be obtained from the East. The East Berlin press of 6 October 1949 announced openly that future trade policy should be directed toward the best possible relations with Eastern Europe and that Western Europe and the US would have only a relatively insignificant role.



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