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ECONOMIC INTELLIGENCE REPORT

**SOVIET METHODS OF ECONOMIC PENETRATION
IN AUSTRIA**



CIA/RR 15

23 October 1952

CENTRAL INTELLIGENCE AGENCY

OFFICE OF RESEARCH AND REPORTS

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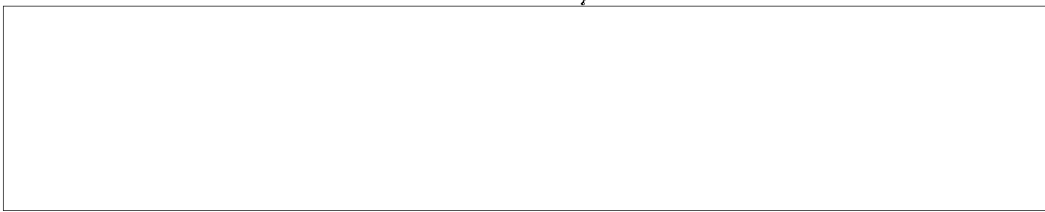
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SOVIET METHODS OF ECONOMIC PENETRATION IN AUSTRIA*

Summary

The Soviet method of penetrating the economy of Austria differs from the method used in the Satellite countries in that it does not rely on a Communist government or on a large Communist Party but is based directly on Soviet control of East Austria and of part of Vienna under Four Power occupation. An important part of Austrian industry, including the oil fields, is concentrated in the Soviet Zone, so that much of the Austrian economy remains vulnerable to Soviet exploitation during continued occupation.

Under a unilateral interpretation of the Potsdam Agreement, which turned over German assets in East Austria to the Soviet government, Soviet authorities have seized and exploited a large segment of the economy of Austria, with the probable intention of integrating certain phases of this economy into the Soviet Bloc.

USIA (Upravleniye Sovetskogo Imushchestva Avstrii), the central organization set up by the USSR to administer the seized properties, has become an important economic command post for the USSR in Vienna, since it also includes the Soviet mineral oil administration in Austria and control of all transportation in and out of the Soviet Zone. The deficit financing of industry by the Soviet Military Bank is an important factor in USIA operations. By forcing USIA enterprises to liquidate their capital and operate on funds supplied by the bank, the USSR has acquired a mortgage on much of the industry of East Austria. USIA facilities are used to promote East-West trade through the use of intermediaries and to acquire materials for the Soviet Bloc from Western Europe by way of Austria. USIA trade channels are also used by the USSR for such miscellaneous activities as buying dollar and sterling currency. An expanding retail organization is being built up by USIA to dispose of certain of its products and imports, which it does by underselling Austrian stores. This operation also serves as a propaganda device.

* This report contains information available to CIA as of 1 April 1952.

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S-E-C-R-E-T1. Basis of the Soviet Economic Position in Austria.

The framework of Soviet penetration of the Austrian economy differs from that found in the Satellite countries in that it does not rely on a Communist government or on a large Communist Party but stems directly from Soviet control of East Austria and of part of Vienna under Four Power occupation.* There is a Communist Party in Austria, but it is small and polls only about 5 percent of the popular vote. 1/** One of the objectives of Soviet economic penetration in Austria is the creation of confusion and crisis in Austrian political and economic life in order to increase the influence of the Communist Party. Such an objective may account, in part, for Soviet delay in agreeing to a treaty of restoration.

Austria was occupied by Allied forces in 1945, and an occupation zone was assigned to each of the four occupying powers, although zonal demarcations have been irregularly enforced, except by the USSR. Vienna, like Berlin, was divided into four sectors. Prewar boundaries were restored, separating the country from Germany, and a central Austrian government similar to the one before 1934 was reestablished. Unlike occupied Germany, and in accordance with the Moscow Declaration, Austria was to be considered a liberated rather than a conquered country.

An Allied Control Council and other Allied agencies to deal with post-war problems were set up. The Control Council was organized along the lines of the Austrian government and was originally a supervisory instrument. Although it has served a useful purpose, it has now become little more than a sounding board for differences between the Western Allies and the Soviet government. The agenda have come to consist mainly of attempts to compromise on secondary developments rather than to consider primary political and economic matters. 2/

In Austria, approximately 35 percent of the working population is employed in trade and industry. Finishing and processing industries are located mostly in and around Vienna, in the Soviet-occupied northeast part of the country, where the majority of Austria's 7 million people are located. Therefore, although there are other centers of industry in

* The division of Austria under the Four Power agreement is indicated on a map following p. 20.

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Austria, some of the most important segments of Austrian economic life remain subject to dislocation, if not to control, by the USSR. 3/

At present the Soviet position in the Austrian economy is based on the Soviet interpretation of that section of the Potsdam Agreement which states: "The Governments of the UK and the USA renounce all claims in respect to reparations to shares of German enterprises which are located in the Eastern Zone of occupation in Germany, as well as to German foreign assets in Bulgaria, Finland, Hungary, Rumania and Eastern Austria." 4/ The question of Soviet action involves both the Soviet unilateral interpretation of German foreign assets and the manner in which the Soviet authorities have organized and exploited those assets.

The legal status of much German property in Austria, particularly that arising from the German occupation, has never been established. The Austrian government claims that "not only the decision of the four allies but also generally accepted legal principles demand the invalidation of all transfers of Austrian property to the Germans carried out under pressure." 5/ The USSR has treated all property in Austria which was in German hands at the end of the war as "German foreign assets," and the Soviet government has seized and is administering some 350 enterprises in its zone. This area of the Austrian economy is being exploited with the probable intention of integrating certain phases of it into the Soviet Bloc and currently as a means of tapping Western resources. 6/

The apparatus set up by the USSR to administer the confiscated properties in Austria is known as USIA* (Upravleniye Sovetskogo Imushchestva / Vostochnoy / Avstrii -- Administration of Soviet Properties in / Eastern / ** Austria). Until 1947 the allegedly German foreign assets seized by the Soviet government were handled in a somewhat haphazard fashion and without a central administration. It was the necessity for controlling and correlating these heterogeneous enterprises that led to the establishment of USIA. This main administration, which also controls the SMV (Sowjetische Mineraloelverwaltung -- Soviet Mineral Oil Administration in Austria); Juschweschtrans*** (the Soviet transportation agency which

* For details of the organization of USIA, see Appendix A.

** The word "Eastern" has been dropped.

*** German transliteration of the Russian Yuzhnyeshtrans (Yuzhno-vneshniy Transport -- Southern Foreign Transport); also referred to in German as Transport- und Speditionskontor (Transport and Despatching Office).

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handles all goods requiring Soviet clearance); and the DDSG (Donau Dampfschiffahrts Gesellschaft -- Danube Shipping Company), has become a significant economic command post in Vienna.

The effect of USIA on the industrial economy of Austria is twofold. It not only takes from Austria the products of the confiscated industries but also has established the USSR, through its banking operations, as the creditor of those industries. Both goods and capital, therefore, are being taken from Austria through USIA.

2. Soviet Industrial Operations in Austria.

a. Oil Production.

The oil fields of Austria, the production of which is surpassed only by those of Rumania and equals the combined output of the rest of Western Europe, are located entirely within the Soviet Zone. 7/ Before the war, production of crude oil in Austria was centered around Zistersdorf and was controlled by British and US interests. When the area fell under Soviet control after the war, exploitation begun by the Germans was continued under Soviet auspices. Beginning in 1949, the production area was extended southward to Matzen. The fields in the Matzen area now produce approximately 60 percent of all Austrian crude oil, estimated to have reached 2,400,000 metric tons in 1951. It is believed that intensive and uneconomical exploitation of the fields by the USSR may lead to premature decline in production. Close spacing of wells and excessive production rates, which rapidly deplete the deposits, are being used. Such a depletion causes a rapid decline in production rate and may reduce the ultimate recovery of oil and result in the closing down of the fields within 10 years. 8/

b. Factory Production.

One important and partially achieved objective of USIA is the incorporation of much of its output into Soviet production plans for the USSR. Large-scale Soviet orders have been filled from USIA factories, including diesel-driven winches, giant excavators, corrugated steel barracks, and many other items from USIA enterprises manufacturing electrical appliances and equipment. Some factories export more than half of their total output to the USSR. These deliveries are made according to Soviet plans and are intended to fill requirements for planned industrial development inside the USSR. 9/ Factories within the USIA

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combine which cannot produce goods of direct benefit to the USSR or whose sole market is in Austria are neglected, and no large investments are made in such plants.

c. Removal of Goods from Austria.

Recapitulation of USIA activities from January 1947 through June 1951 indicates that these Soviet-controlled industries have shipped approximately \$242-million worth of Austrian-produced goods to the USSR and the Satellite countries. At least \$100 million of this sum were in petroleum products, and the ratio of petroleum products to other goods is increasing. This sum is in addition to the \$200-million worth of machinery and equipment dismantled and removed in 1945 and 1946 by the USSR. An Austrian government estimate sets the replacement cost of machines and equipment removed at \$1 billion. Other Austrian losses are included in the Soviet profits from control of British and US oil properties in the Soviet Zone and from operations of the Danube Shipping Company. 10/

3. Soviet Financial Operations in Austria.

In 1951, USIA firms were indebted to the Soviet Military Bank, or Gosbank (Gosudarstvennyy Bank SSSR -- State Bank of the USSR), to the extent of approximately 475 million schillings. Soviet operating methods and accounting practices have increased the obligations of many enterprises beyond the possibility of repayment. This indebtedness was forced on the firms taken over by USIA by the USSR assuming title to German claims against them and then demanding payment of the claims in cash or bond. The indebtedness was then increased by forcing the sale of finished products through USIA sales channels, wherein the factory is paid minimum production costs and at the same time is charged a USIA management fee averaging 10 percent of the production cost. No funds are allowed for the amortization of USIA loans. Any reserves over and above 5 percent of the cost of production which the firms may have accumulated from previous operations are confiscated. With no funds for rehabilitation of capital assets, most firms, since they are required to continue production at full capacity, are forced to operate on deficit financing and must borrow further from the Soviet Military Bank to do so. The loans, although made in a legal manner, have been necessitated by the extralegal withdrawal of the assets of USIA firms through exorbitant administrative fees and excessive withdrawal of profits.

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In the event of a treaty settlement, the status of the loans remains to be determined. They have reached such magnitude that repayment of them within any time limit would impose serious strain upon the financial stability of entire sections of industry. As matters stand now, the USSR holds a mortgage on a sizable segment of the Austrian economy. 11/

4. Soviet Commercial Operations in Austria.a. Retail Operations.

Conjointly with its control of Austrian oil production, transport facilities, and some 350 industrial and commercial enterprises, USIA has extended its economic penetration into the retail field. 12/ The growing USIA retail complex consists of grocery, clothing, and general merchandise stores dealing in foodstuffs, textiles, and household items -- in some cases imported from the Satellite countries and Western Europe -- and also wine shops, restaurants, and even barber shops. 13/ The growth in the number of these stores (the ultimate aim is to have at least one shop in each town) and the manner in which they are operated are threatening normal trade in the Soviet Zone. 14/ It has been reported that USIA has also attempted to establish what are called "camouflaged contractual relationships" with a number of retail concerns in the British and US Zones. 15/

The essential characteristic in the USIA retail organization lies in its extraterritoriality, an imperialistic extension of the Potsdam Agreement by the Soviet government. Goods imported from the East as Soviet shipments, and allegedly for exclusive use of military and personal requirements of the occupation power, enter Austria without payments of customs duties or other taxes and, in the case of tobacco and alcoholic beverages, in violation of state monopolies. The USIA organization is also used for shipping goods to the East. 16/ On the sales level, again by virtue of extraterritoriality, USIA retail stores avoid payment of turnover taxes, financing fees, and corporation and sales taxes. Austria has thereby lost an estimated 1.4 billion schillings since 1945, according to the Austrian government. 17/ The USIA shops also ignore sanitation requirements and violate legal operating hours and other restrictions on sales by excluding Austrian enforcement officers from the stores.

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In addition to depriving the Austrian government of millions of schillings in revenue, USIA stores are also able to undersell ordinary Austrian stores by an average of 20 percent, forcing shopkeepers into bankruptcy and upsetting the prevailing price structure. 18/ Under Communist management the entire operation, moreover, is exploited as a propaganda device, with emphasis placed on cheap prices, particularly for food. The retail stores also supply USIA with an outlet for many manufactured goods and services which offer the USSR an additional source of schillings. Some of the funds thus obtained are used to finance propaganda in the trade union fields. Another method of penetrating the trade unions is the tendency to make Communist Party membership the price of employment in Soviet-controlled enterprises. 19/

b. Extension of Operations Beyond the Soviet Zone.

From the position gained through control of Austrian enterprises, Soviet economic penetration has been extended beyond the Eastern Zone. The Soviet Trade Delegation in Vienna has been active since 1948 in obtaining equipment, goods, and materials from all zones of Austria. Purchases are made from Austrian firms as well as from USIA enterprises and are paid for in schillings. Many Austrian suppliers are careful to handle these sales with discretion, often camouflaging them as domestic sales and failing to report the transactions to the Austrian Trade Ministry. Austrian taxes and export regulations are evaded in these transactions by utilizing Soviet extraterritoriality as an occupation power. 20/

Soviet trade representatives have also explored possibilities of selling Soviet goods to Austria and from Austria to other Western countries. Offers have been made by the Soviet government and through Satellite intermediaries to sell such materials as grains, manganese ore, asbestos, and leather. The Soviet Trade Delegation has also tried through Viennese intermediaries to obtain cotton and wool on the international commodity market. Few of these transactions have materialized, mainly because the Austrian nationalized banks have been unable to finance them.

Other USIA activities include buying dollar and sterling currency for the USSR 21/ from profits of USIA sales and contributing funds to the Communist Parties of both Austria and East Germany. USIA facilities also serve for transit and transshipment of strategic materials from the West to the Soviet Bloc. This gateway through the Iron Curtain has become more important with the altered position of Yugoslavia, which reduced the use of Trieste as a transshipment point.

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Satellite as well as Soviet agencies make use of USIA facilities. A permanent Bulgarian purchasing mission in Vienna procures essential machinery and other merchandise abroad through USIA purchasing and trade channels. Across the Hungarian border in Sopron, USIA goods are stored free from jurisdiction of the Hungarian government in what amounts to a free trade area for reshipment to Satellite countries. 22/

The USSR has resorted to various means in order to maintain its position. Occasional threats have been used to tighten interzonal trade controls. 23/ Permits which are required for the shipment of goods out of the Soviet Zone are occasionally used as instruments of political pressure. They are obtained through a forwarding agency which collaborates with Juschweschtrans, the Soviet transportation agency. In addition to establishing a monopoly over interzonal shipments, this device also supplies the Soviet Trade Delegation with a source of schillings to cover their purchases.

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APPENDIX A

COMMENTARY ON THE CHART OF THE PROBABLE ORGANIZATION OF USIA*

The chart of the probable organization of USIA was compiled on the basis of information supplied for the most part by Austrian defectors. It is not complete and does not indicate the relative importance of various production administrations within the main divisions of USIA. The organizational structure is not precise, and the chain of command is not always apparent even to USIA employees. The word "branch" is used in the chart to indicate the main divisions of the USIA Directorate. The Soviets do not use the term but have a system of numbers to designate departments, or simply refer to a department by the name of its chief. Throughout the organization, Austrians hold various offices, but executive and policy-controlling positions are held by Soviet representatives, and more importance is attached to the person than to the office which he holds.

1. Directorate.

The USIA Directorate is divided into three main branches: the Technical Branch, the Commercial Branch, and the Personnel Branch. The relationship between branches is not clear; each has considerable autonomy but in certain respects is subject to control by the other branches. Command channels from the branches to the production administrations are not clear. Each branch of the Directorate issues general instructions in its sphere of interest to its corresponding unit in the administration, but controversial matters usually go to Moscow for decision. The Directorate apparently exercises more authority in matters of finance, commercial policy, and personnel than in plant management.

a. Technical Branch.

(1) The Planning Department works in close coordination with the Quality Control Office. It issues general directives to production administrations but cannot enforce compliance except through Moscow. The branch exercises limited supervisory control over the administrations.

* A chart of the probable organization of USIA follows p. 14.

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(2) The Quality Control Office sets quality standards for USIA production and with the assistance of the production administrations tests products of USIA plants for quality.

(3) The Accounting Department checks and approves budgets for the various production administrations and keeps financial records for all USIA plants in conjunction with the Soviet Military Bank. The Chief Accountant, one of the most important officials of USIA, controls finances in the Directorate as well as in the production administrations. Since the chief accountants of all administrations report to him, he may be the comptroller.

(4) The Financial Department, a section of the Accounting Department, studies production costs in USIA plants.

b. Commercial Branch.

(1) The Central Commercial Bureau (CCB) is the largest and most important department of the Directorate. It is directly responsible to the Deputy for Commercial Matters. The chief of the CCB is responsible for the approval of every shipment scheduled to leave USIA plants or warehouses. The CCB also functions as an independent broker, purchasing from USIA plants and selling on its own account, chiefly to export companies. An important function of the Bureau is said to be to discover ways and means of circumventing Austrian commercial and foreign exchange regulations. The relationship between the CCB and sales and purchasing offices of individual production administrations is not entirely clear. In general, they are competent only in matters pertaining to their enterprises, such as contracting for raw materials and equipment and marketing the products. Such operations are carried on within the framework of instructions issued by the Commercial Branch of the Directorate to the Commercial Department of the individual production administration. The function of the Commercial Department within each individual administration appears to consist mainly of adapting general commercial policies issued by the Commercial Branch to the needs and problems of the administration concerned.

(2) Economic Research Department keeps records of black-market and world prices for goods and foreign currency and supplies the information to USIA departments and plants. It also performs economic intelligence functions in that it maintains records of Marshall Plan deliveries to Austria as well as data on non-USIA plants in Austria.

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S-E-C-R-E-Tc. Personnel Branch.

(1) The Labor Regulations Section, usually called Trud (the Soviet term for labor), issues labor policy directives for all USIA plants. Final appeal in labor disputes are addressed to the director of this section.

(2) The Central Bookkeeping Section (AXO) handles salaries for all USIA employees.

(3) An Austrian Personnel Section maintains liaison between USIA and the Austrian Communist Party (KPOe).

(4) The Administrative and Services Section is in charge of repair and maintenance crews in USIA buildings. There is also a chief shop steward in this section whose duty it is to act as intermediary between the trade union in USIA and the Directorate.

2. Auxiliary Administrations.

The departments under this heading form a separate category of USIA organization. Each is relatively independent, headed by a director general. In general, they perform research and legal functions with regard to German property and patents in Austria which are of interest to USIA. Functionally these departments are responsible to the Technical Branch of the Directorate. They have administrative relations with the Personnel Branch, as indicated by broken lines on the chart.

a. The Survey of German Properties Department makes surveys of firms, plants, and properties in Austria in order to determine the percentage of German ownership on which firms have German creditors. Decisions on percentage of German ownership is based on study of questionnaires answered by the firms. The figure on which the value was determined (in 1949) was the assets figure in the 1945 balance sheet, and, in the case of real estate, the value of the property as indicated by the Austrian cadastral records (Grundbuch), expressed in 1945 schilling values.

b. The Legal Department passes on the legality of decisions reached by the German Properties Department and tries USIA cases in Austrian courts. For the latter purpose it engages the service of pro-Soviet Austrian law firms. This department also supervises the work of young Soviet lawyers who are placed in various departments for training.

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c. The Patent Department studies records of USIA plants in order to decide which patents can be claimed by the Soviets as German-owned.

3. Production Administrations.

The production administrations which direct the activities of USIA plants assigned to them are semiautonomous. Their structure is similar to the Directorate in that each administration has technical, commercial (policy-making and coordinating), and personnel sections. Each administration also has a sales and purchasing office. Directors of production administrations report directly to the Director General of USIA and his three deputies, as indicated by the solid red line on the chart. Information is presently available on only three production administrations.

a. Machine Construction Administration.

(1) The Heavy Industry Section directs some 40 USIA enterprises, primarily heavy machinery plants and bridge construction firms. The sales and purchasing office has offered prompt delivery on machine tools and dies, agricultural machinery, cigarette machines, bridge and other steel structures, tank cars, locomotives, and various machine parts.

(2) The Automotive and Fine Mechanics Department, known as Avtodelo, handles all USIA vehicle construction and repair facilities as well as five industries producing fine mechanical devices such as electrical measuring instruments.

b. Administration for Light Industries.

Very little has been reported on this administration other than that it has a special sales office for textiles which sells leather and low-grade flannel.

c. Construction and Building Materials Administration.

This administration has a central sales and purchasing office which handles the products of six firms producing window glass, reed products, bricks, sand and gravel, building hardware, and iron pipe. It has been pointed out that this list illustrates the lack of system in assigning plants to various administrations.

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4. Independent Organizations Associated with USIA.

(1) Juschweschtrans* is a Soviet-controlled shipping firm which handles the clearance of all goods shipped from the Soviet Zone beyond the demarcation line or out of Austria. Since independent Austrian merchants as well as USIA units must obtain clearance for shipment through this agency, Juschweschtrans has established a virtual monopoly over Soviet Zone transport. This organization is registered with the Austrian Trade Registry and may retain a transport monopoly to the East even though a treaty is concluded. Juschweschtrans extends its control to Danube shipping through DDSG, the Soviet-controlled Danube Shipping Company.

(2) The Soviet Military Bank holds all funds of USIA branches, administrations, and sales offices. It grants credits and performs all normal banking services for USIA plants.

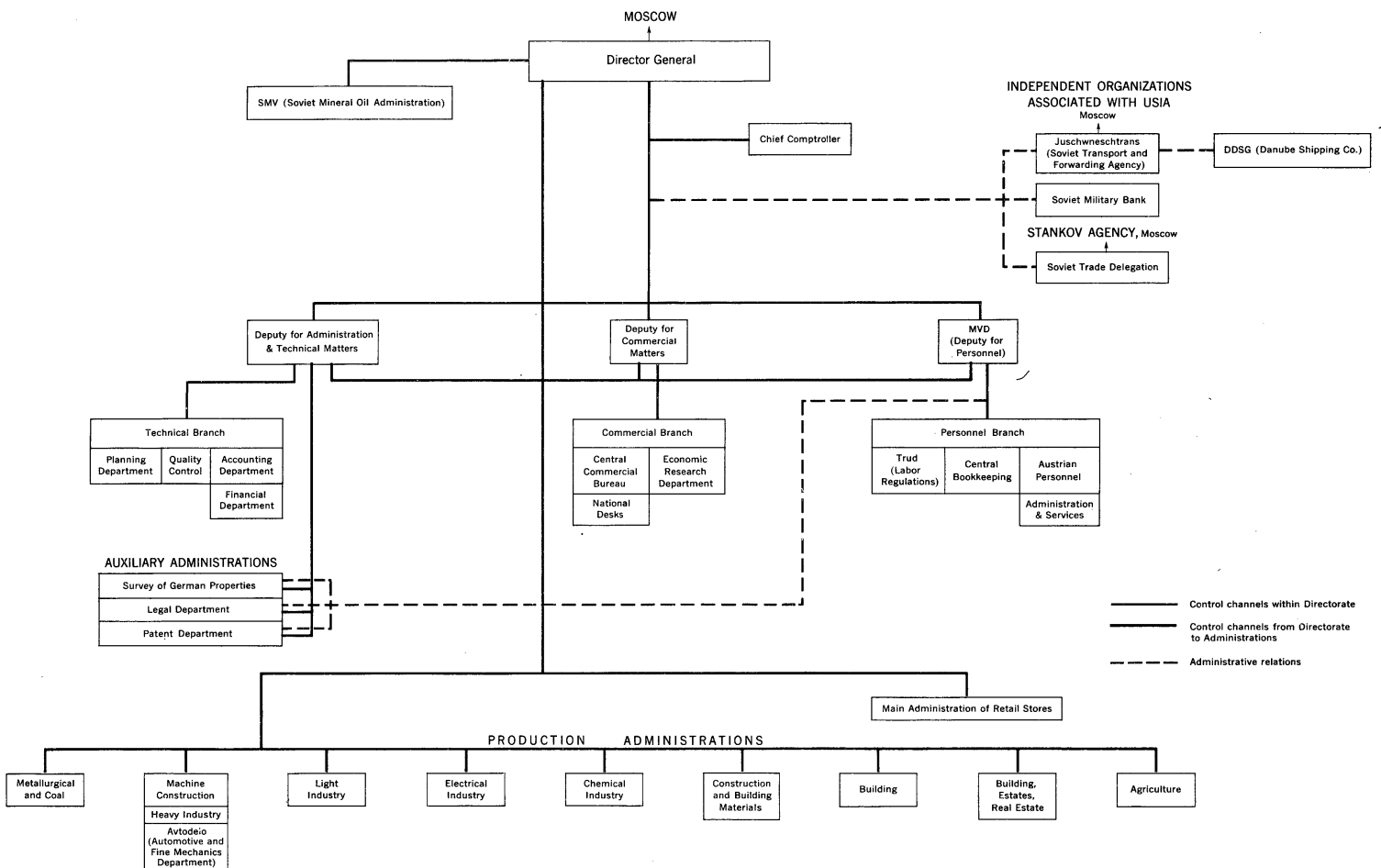
(3) The Soviet Trade Delegation, which represents the Stankov Agency, a central Soviet import agency in Moscow, has been in Austria for some time. On behalf of the Soviet government it purchases from Austrian firms as well as from USIA firms. Previously, purchases for the Soviet government were made by the sales offices of the various administrations.

*. See footnote on p. 3, above.

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PROBABLE ORGANIZATION OF USIA
(UPRAVLENIYE SOVETSKOGO IMUSHCHESTVA v AVSTRII)

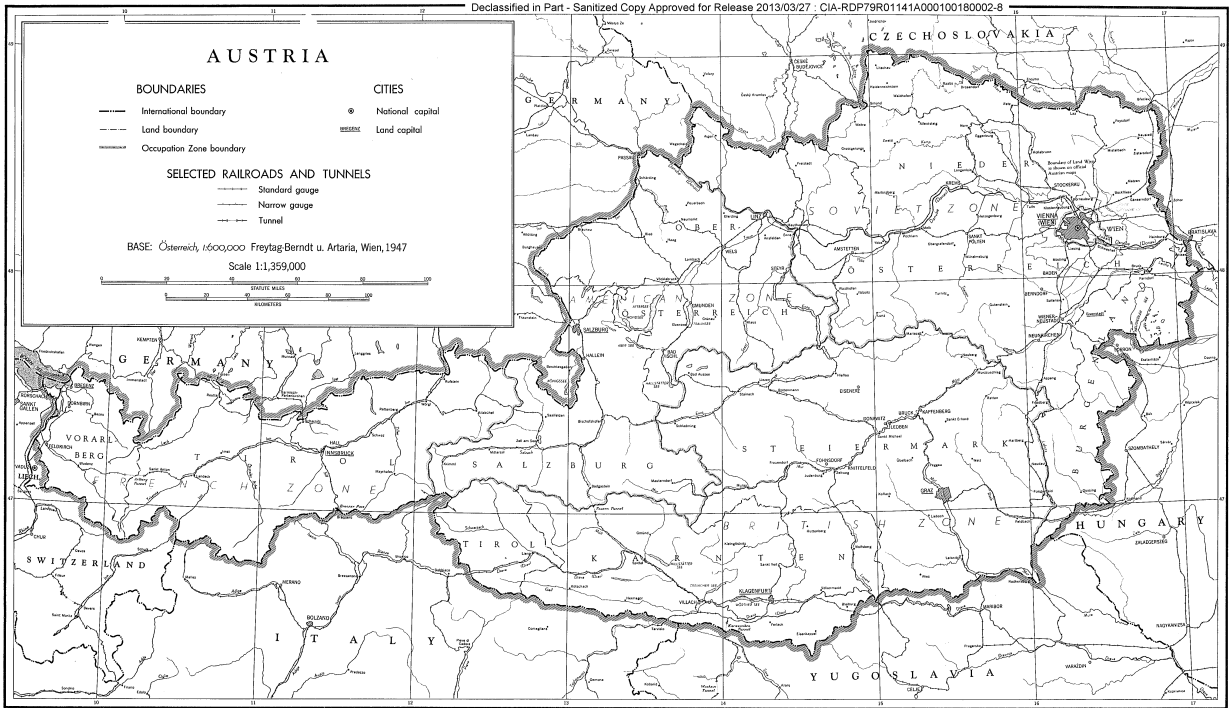


— Control channels within Directorate
— Control channels from Directorate to Administrations
- - - Administrative relations

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