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# CENTRAL INTELLIGENCE GROUP

## INTELLIGENCE REPORT

COUNTRY Germany (Russian Zone)

DATE: 25X1X6

SUBJECT Soviet A.G.'s: Their Status in and Effects on the Economy of the Province of Saxony

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A. Letter from the President of the Province of Saxony to all Provincial Departments.

HALLE/SAXONY.

8 November 1946

The Soviet Union has taken over numerous enterprises and established them as special Russian Aktiengesellschaften. As a result of this action, we must expect effects upon the economy of the Province of Saxony in numerous fields which will have the greatest influence upon its economic future.

I have therefore requested the Soviet Military Administration for Germany to arrange for a conference to which the presidents of all lands and Provinces of the Soviet Zone of Occupation in Germany and the presidents of the Central Administrations for Industry, Fuel and Energy, and Finance should be invited.

In order to obtain an overall view of the problems to be discussed at this conference I request you to send me a report within one week concerning the effects of the foundation of Russian A.G.'s upon your department. I should like to stress especially that the following problems should be covered: the relationship of the Russian A.G.'s to the overall planning of the economy; their treatment for the purposes of taxation; the problem of a uniform price structure; the problem of subsidies; the problem of manpower commitment; the problem of voluntary purchase of real estate by the occupation power; and finally, especially the problem of further dismantling of plants. I would ask you to stress especially the manner in which these measures affect the economy, finance, and political development of your field of work. In view of the great importance of this matter, I request the department chiefs to devote their time to this task.

Signed: *Hubener*

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B. Below are abstracts of the reports rendered by the various departments of the Provincial Administration of Saxony to the President of the Province, in answer to the above letter.

1. Department of Finance, dated 22 November 1946.

I should like to report as follows:

- a) Problems of a uniform price structure (establishing prices, price control, subsidies): German price authorities have no possibility of influencing the prices of the Soviet A.G.'s. Price matters of these companies are dealt with through their central office in Berlin-Weissensee. We do not yet know whether price rises for the Soviet A.G.'s have been agreed to by the SMA; however, such fears do not appear to be unfounded. In several cases the Soviet A.G.'s have changed conditions of payment unilaterally. In two large categories of goods, i.e., gasoline and cement, the Soviet companies raised prices in the Province. Details follow:
- (i) Price rise for gasoline. Gasoline prices were raised for the ostensible reason that German distributor organizations should not be regarded as dealers but as wholesale consumers (Grossverbraucher). Because the retail price of 40 pfg per liter of gasoline may not be raised, the trade was put in a difficult position... Its margin was reduced to five and eight pfg respectively. This margin... is in the long run impossible and may endanger supply of the German market with gasoline. It should not remain unmentioned that, according to the estimates of the German Central Administration for Fuel, it must be considered possible that it is the intention of the Russian A.G.'s to make the position of the trade so difficult that they will themselves be able to take over the distribution of gasoline...
- (ii) Price rise for cement. The Soviet plants producing cement have raised their prices by ceasing to deliver their products freight free... In this manner the German cement trade must pay a higher price than it is allowed to ask in resale... No subsidies are being paid to the now Soviet-owned plants (die sowjetisch gewordenen Betriebe); in this regard, a certain relief is being experienced in the conduct of business.
- b) Credit Problems. The creation of Russian plants causes fears as to long-term consequences in the field of credit. The now Soviet-owned plants were the largest in the Province and the chief customers of the Bank of the Province of Saxony. They used to absorb approximately 40% of the credit volume of issued bank credits. Their financing in the future will no longer take place through German capital, but through the Russian Garantie- und Kreditbank. The Bank of the Province of Saxony thus will no longer take part in the financing of plants which have now become Russian. For the bank this means a reduction of its income by approximately 40% through loss of this business. This severe measure will further aggravate the income situation of the Bank of the Province of Saxony and will increase the Bank's deficit, which must be covered out of Provincial funds.
- c) Effects on Taxes. The Russian A.G.'s are paying taxes. There are, therefore, no reductions in revenue.

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2. Building and Settlement Department, dated 19 November 1946.

The former Mansfelder Kupfer- und Messingwerke, now the Walzwerk für Rundmetalle der Sowj. A.G. der Metallurgischen Industrie, has caused the Russian Kreis Commander of Hettstedt to evacuate the home for the aged maintained by the Landrat of the Mansfelder Gebirgskreis at Schloss Meisdorf. The castle, together with outlying buildings and surrounding farmland, is being used as a recreation home for the employees of the above-mentioned plant... There is a danger that <sup>only</sup> a small part of the workers will obtain benefits from the farm and animal produce. It is to be expected that many other Russian A.G.'s will follow this example.

Some representatives and managers of the Russian A.G.'s have declared that they will prohibit the registration and additional occupation of living quarters in the vicinity of their plants, although this living space, just as any other, falls under the stipulations of Law No. 18 of the Control Council of 8 March 1946...

3. Department of Barter and Inter-zonal Trade, (Warenaustausch und Interzonenverkehr) dated 16 November 1946.

The large chemical plants of the province are the most important asset in inter-zonal trade. Even before the establishment of Soviet A.G.'s, it had been difficult to obtain goods from them for delivery to the western zones. After their establishment - and almost all of the large chemical plants have become Russian A.G.'s - it is almost impossible. The plants release their products only in return for direct compensation in kind. At the same time they continue to obtain machinery and machine parts without compensation in kind (Gegenlieferungen). Deliveries from the west are charged to the province, and counter-deliveries are expected. These are, however, not furnished by the Russian A.G.'s. When certain categories of goods were obtained from the western zones in bulk, the Russian A.G.'s have repeatedly declined to deliver a proportionate share of these goods to the various firms in the province. Instead, they demanded that the merchandise be collected at the plant. This was done apparently in the desire to obtain counter-deliveries from the many individual plants.

4. Department of Inland Waterways, dated 15 November 1946.

Agricultural estates sequestered by the Russians do not pay their contribution to the Water and Soil Association (Wasser- und Bodenverbände) to which they belong... Duties such as delegating representatives to the meetings of the Water and Soil Associations, guarding dikes, etc., are not fulfilled on time... The Russian A.G.'s influence labor conditions at German building sites. All summer long, for instance, it was impossible to obtain the necessary workers from the Merseburg Labor Office for dike repairs at Creypau. The working morale of laborers on building sites under the supervision of the Department has suffered considerably through the preferential treatment accorded the workers in Russian plants nearby...

5. Department of Municipal Affairs (Kommunalabteilung), dated 19 November 1946.

As of the above date, approximately 15,000 workers were still employed in dismantlings. Local German authorities are not officially in a position to find out whether these workers are actually being employed in dismantling or whether the Russian plants have taken this opportunity for an indirect increase of their labor force...

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There are dangers with respect to labor law and wage policies. The Russian plants have granted wage raises, disregarding the wage stop decree. This results in a shift of labor from the crafts and other industries, as well as from agriculture. It was inevitable that formerly independent craftsmen have now become dependent workers, because they were unable to maintain their businesses... It must be added that workers withdrawn from other industries are usually the best and that the rest of industry must now get along with less competent labor... Workers in Russian plants obtain food privileges through special measures (Decree of SMA No. 2164/76 of 31 August 1946: Top level employees down to chief accountant, Group 1; all others are in Group 2. Leading employees in Group 1 obtained a monthly addition of: 5 kg flour, 2 kg prepared foodstuffs, 3 kg meat, 900 gr fat, 750 gr sugar, 10 kg potatoes, 300 cigarettes. Group 2, which receives ration card No. 2, obtained the following supplement: 3 kg flour, 1.5 kg prepared foodstuffs, 2 kg meat, 500 gr fat, 500 gr sugar, 10 kg potatoes, and 200 cigarettes.) All other employees and workers receive meals of considerable ration content at the plant kitchens.

Through these measures, the food supply difficulties of Stadt and Landkreise... are being further aggravated. Meat is especially short. The present supply plan had to reduce the proportion of pure meat in the meat ration from 80% to 66 2/3%. However, the claim to special food privileges is maintained as before... The psychological effects of these privileges on the rest of the population are unbearable... The danger of a labor shift into the Soviet plants is obvious, in addition to the mounting dissatisfaction of those who are not working in these plants... On the other hand, the agricultural population was ordered by SMA Order No. 179 of 1 August 1946 to depend on their own produce for food. Cases have already occurred where land reform settlers (Neubauern) have declared before the Landräte that they wanted to give up their land in order to enter a Russian plant because there, at least, they would obtain good food... The Russian plants often use their privileged positions to obtain agricultural estates for the special feeding of their workers... The Mansfeld A.G. has requisitioned cattle which had already been earmarked for distribution under land reform, for the improvement of rationing in the plant... Workers at the Russian plants obtain rare consumer goods on a privileged basis, with which they undertake a barter trade with the farmers... The plants themselves use their own products for a lively barter trade, which cannot be stopped because of the plants' untouchability. The nitrogen plant at Piesteritz has mailed a circular to the farmers, offering definite rates in the barter of fertilizer against food (1 kg bacon equals 100 lbs. of fertilizer; 100 lbs of beef equals one ton of fertilizer). The farmers naturally tend to take advantage of the barter trades rather than deliver their products as required by law.

6. Department of Justice, dated 19 November 1946.

The following problem is of fundamental importance:

Are the Soviet A.G.'s to be regarded as

- a) extra-territorial,
- b) branches of foreign corporations,
- c) German corporations?

If (a), then Soviet A.G.'s cannot be registered in the Trade Register, and cannot be sued before German courts, with the exception of real property, which comes under the international Lex Rei Sitae. Property of the Soviet A.G.'s would have to be

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registered in the real estate register (Grundbücher), and German courts would be competent for differences arising out of real property rights (dingliche Rechte). This fact appears to be recognized by the SMA, because the Soviet Foreign Trade Ministry in Berlin had its property entered in the Grundbücher.

If (b), then the branch offices must be registered in the German Trade Register according to paragraph 27 of the German corporate law (Aktiengesetz). After the date of registry, the corporations' branches would be actively and passively subject to German law. Apart from this, the corporations' affairs are regulated by the law of their home country.

If (c), then the German corporate law should be applied with regard to management and council of directors (Vorstand, Aufsichtsrat). So far as is known, the Russian A.G.'s have not up to now followed the law on this point. The functions now executed by the controlling Russian general managers seem to resemble more or less the functions of a council of directors in German corporate law.

7. Department of Economy and Industry, dated 22 November 1946.

To date, forty-eight of the approximately 2,100 plants supervised by this department were taken over by the USSR, exclusive of fuel and energy plants and trade and distribution enterprises.

Total number of workers employed in the 2,100 plants:	221,000
Thereof in Russian A.G.'s (48 plants)	117,500; i.e., 53%
Productive capacity of the 2,100 plants as of October 1946:	RM 110,000,000
Thereof Russian A.G.'s (48 plants)	RM 65,000,000; i.e., 59%

Difficulties in the planning of production had seemingly been overcome with a directive issued by the SMA that Russian enterprises were to be incorporated in the planning. The Russian plants, however, have been directed by their central offices to report only in brief form. Such details as raw material requirements and the number of employees are being refused. Many plants decline to report in any manner whatsoever. The production plans for 1947 must therefore use roughly estimated figures.

Further difficulties arise in the compilation of current production statistics. If the problem of reporting by Russian plants cannot be settled by a Karlshorst order obliging Soviet plants to report in the same manner as German plants, then all production statistics will become impossible in the future.

The allocation of materials through the provincial administration has also become impossible, because basic figures cannot be obtained. There is the danger that special allocation plans for the Russian A.G.'s will leave only insufficient raw materials and finished products for the remainder of industry. Moreover, individual Soviet A.G.'s have already begun a lively exchange of goods and finished products among themselves, excluding German enterprises. In the field of manpower procurement, the Soviet A.G.'s also have the upper hand. A voluntary shift of labor to the Russian plants is already noticeable. In the field

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of exports and imports the Russian plants, before acting upon delivery instructions from the provincial administration, demand further instructions from the Central Office of the Soviet A.G.'s in Berlin-Weissensee. They are thus endangering the export and import trade balance.

The following further dismantlings are planned (so far as known to this department):

Aether- und Nährhefefabrik (Ether and yeast factory), Wolfen

Giesches Erbe, Magdeburg, zinc foundry; most modern zinc foundry in Europe with a capacity of 55,000 t electro-tin, 75,000 t concentrated sulfuric acid, 300 t electro-cadmium, 22,000 t zinc alloys, and 10 t thallium sulfate.

The most important key industries were taken over only in the last few weeks, and more are still being taken over. Therefore, some of the most serious consequences cannot yet be estimated in detail...

8. Church Department, dated 13 November 1946.

Church measures are being hampered, since several institutions of the Inner Mission have been taken over for the benefit of workers of the Soviet A.G.'s...

9. Department of Agriculture and Forestry, dated 23 November 1946.

Efforts are being made to turn estates into special food supply sources for the Russian A.G.'s. Once requisitioned, these estates consider themselves free from all delivery duties...

The Kyffhäuserhütte in Artern has become a Russian A.G.... Its manufacture of agricultural machinery and parts for the rural Kreise has thus practically ended. Other plants of the same type have high reparations orders or, in the case of Famo-Werk in Schönebeck, have been dismantled. Nor can spare parts be procured from either Schäfer & Budenberg in Magdeburg, or from Wolf in Magdeburg, both of which have become Russian A.G.'s.

10. Department for Labor and Social Welfare, dated 19 November 1946.

Labor requests by the Russian A.G.'s have recently been increased. These requests could be satisfied only by allocations from other districts. This has increased transportation difficulties and costs. Workers who are being compelled to take jobs in new locations lack all desire to work, are in part badly housed in barracks, and their social supervision has deteriorated. In the field of labor protection (Arbeitsschutz), Kombinat Golpa, Brabag in Tröglitz, and Düngemittel AG in Stassfurt, have refused all information concerning the number of their employees and their wage scales, by referring to Decree No. 1179 of the SMA.

11. Department of Health, dated 23 November 1946.

The following pharmaceutical plants of the Province have become Russian A.G.'s:

<u>Former Name</u>	<u>New Name</u>	<u>Pharmaceutical Products</u>	<u>Production plan 1st Quarter '47</u>
Ammoniakwerk Leunawerke	Chemiewerke Leuna der sowj. AG für Mi- neraldüngemittel	Melensol, C4 Alicinetten	RM 58,000
Farbenfabrik	Farbfabrik Wolfen in der sowj. AG für Mineraldüngemittel	Lauseto, Bron- tosil, Eleu- dron, ether	RM 997,000

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Bunawerke	Chemische Werke Buna der sowj. AG der chemischen Industrie, Schkopau	Disinfection preparations	RM 155,000
Hydrierwerke Rodleben/Elbe	Chemische Fabrik Hydrierwerke der sowj. AG für Mineraldüngemittel	Sulfanilamid, Sulfapyridin, Disinfection preparations, Ointment bases	RM 527,500
Deutsche Solvay- werke, Zweignic- derlassung Bern- burg	AG für Kalidüngemit- tel in Deutschland, Werk Bernburg-Solvay- hall	Bromide salts	RM 50,000

None of the remaining pharmaceutical plants in the province are able to manufacture sulfonamides and disinfection materials. Russian general managers, so far, have not given any clear directives for the release of their products... Even if such a release should still occur, difficulties must be expected, as these plants will not accept directives from the SMA Halle or from the provincial administrations, but only from the Zentral Sowjetische A.G., Berlin-Weissensee. Monthly production reports are no longer forthcoming, making orderly planning of the production of medical supplies impossible. Only an approximate picture can be obtained through personal contact with German personnel in the Russian plants.

12. Department of Fuel and Energy, dated 16 November 1946.

Liquid Fuels: Of the 18 mineral oil plants in the Province, three montan wax plants have become Russian A.G.'s. Of the remaining 15 plants, 10 will have become Russian A.G.'s by 1 January 1947. The following plants, which are least productive, are left in German hands:

- a) Brabag, Magdeburg. (Fate as yet undecided.)
- b) Schwelerei & Mineralölwerk Egeritz (part of Grube Leopold A.G.)
- c) Schwelerei Greitschen (hitherto AKW [sic]).
- d) Schwelerei Voss (hitherto Riebeckische Montanwerke A.G.)
- e) Schwelerei Concordia-Rolle in Nachterstedt (hitherto Riebeckische Montanwerke A.G.)

The above plants remaining in German hands have been producing the following share of the total production in the Province:

Gasoline 9.5%; Diesel oil 20%; Automobile oil 0%; Lubricating oil 0%; Petroleum 0%; Paraffin 0%; Semi-coke 29%; Bituminous tar 23.5%; Light oil 23.5%; Liquid gas (Flüssiggas) 3.2%; Heating oil 0%.

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Comment: Reliable reports have since been received concerning the dismantling of Brabag, Magdeburg. [redacted] in abstracting the document, omitted giving the basis for the percentage figures above; the context, however, indicates that they are based upon production during the first half of 1946.)

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It is not clear what share of their production the Russian liquid fuel A.G.'s will leave in the country. Nor are there any final declarations on the end of dismantlings, or imminent new dismantlings.

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Solid Fuels: The following have become Russian property (in Russischen Besitz übergegangen): Carl-Bosch-Pirkau; Deuben-Strangpresse; Naumburg I/II; Tagebau Concordia; Marie; Von Voss I/II; Concordia Strangpresse; Tagebau Profen; Brikettfabrik Profen; Brikett Wehlitz; Brikett Hedwig; Tagebau Pfännerhall; Brikettfabrik Pfännerhall; Grube Golpa; Grube Kurt; Brikettfabrik Kurt.

These mines and plants represent 23% of raw coal production, and 25% of briquette production. If Babig with Tagebau Kleinleipisch and the briquette factories Emanuel I and II are also taken over, then the above figures will be increased to 28% of raw coal production and 33% of briquette production...

Electricity: The majority of electric power stations has become Russian property:

Sowjetische A.G. für Kraftwerke	241,500 kw	installed	output
" " " Brennstoff-	260,200 kw	"	"
" " " industrie			
" " " Mineraldüngemittel	677,300 kw	"	"
" " " Metallurgie	42,000 kw	"	"
" " " Maschinenbau	9,500 kw	"	"
	<u>1,230,500 kw</u>	- 72%	" "
Power stations remaining under sequestration	197,100 kw	- 12%	" "
Power stations remaining in German hands	275,600 kw	- 16%	" "
	<u>1,703,200 kw</u>	-100%	" "

Moreover, with few exceptions, all high tension lines for 110 and 220 kv, including transformer plants (Umspanwerke), have become Russian property.

The effects of these changes upon the power supply of the Province cannot yet be estimated. It is probable that special power delivery contracts will have to be concluded with the Russian plants...

Conditions for the Province of Saxony are aggravated by the fact that Landkraftwerke Leipzig AG at Kulkwitz, which have been supplying the southern part of the Province, have also become Russian property, together with all medium and low tension equipment.

Coal-Gas Supply: Of the twenty-six gas producing plants in the Province of Saxony, none has been taken over by the Russians. However, the Aktiengesellschaft Sächsische Werke (ASW) in Böhlen and Brabag Böhlen, located in Land Saxony, have become Russian plants. Their new names are:

Sowjetische AG für Brennstoffindustrie, Kombinat Böhlen, and " " " " , Brabag Böhlen.

Both plants are supplying gas to the Deutsche Continental-Gas-Gesellschaft (DCGG) for the GAMANAG (Gasversorgung Magdeburg-Anhalt AG), which supplies Land Saxony, Land Thuringia, and the southern part of the Province of Saxony.

At the beginning of October, the Russian General Manager of Kombinat Böhlen declared that for economic reasons he had to raise the delivery price of gas from 2.4 pfg to approximately 5 pfg. The protest entered by the DCGG with reference to Order No. 63 (price stop) is still pending in Karlshorst.

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13. Department of Press and Propaganda, dated 21 November 1946.

The film distribution corporation, "Solusintorgkino", has obtained a monopoly on film distribution, not only for Russian but also for old German films. The company charges 50% of the theater owners' net receipts. Since the beginning of October Solusintorgkino has operated under the name of "Sovexportfilm"... Before the creation of this motion picture distribution monopoly, theater owners had the opportunity to choose... Moreover, they were charged only 30% to 41% instead of the present 50% of their receipts. At the present time only one German film is being distributed to every four Russian films... Sovexportfilm uses its income to buy up the best motion picture houses...

14. Department of Reparations, dated 11 November 1946.

All credit business of the Russian plants was turned over to the specially created Garantie- und Kreditbank in Berlin, which has branch offices everywhere in the Russian Zone. Investment opportunities for the Bank of the Province of Saxony were considerably reduced as a result. On the day the German plants became Russian property, the 31st of July 1946, the Bank of the Province of Saxony had 183.5 million marks of outstanding debts. Of this sum, the new Russian plants owed 73.7 million marks, i.e. 40%...

No control over the execution of reparations orders is possible, since no reports are received from Russian plants...

The now Russian Mansfeld concern (Mansfeldscher Kupferschieferbergbau) has applied for release from the turn-over tax. It argued that copper mining is subsidized in any event, and that the subsidies should be credited against the turn-over tax... Since almost the whole production of the Soviet A.G.'s goes to Russia via reparations account, the question arises whether they should continue to be subsidized.

15. Department of Trade and Supply, dated 26 November 1946.

It is estimated that during a three-month period the following amounts of additional foodstuffs will be required in fulfillment of decrees Nos. 3958 of 29 August 1946, 4179 of 7 September 1946, 4399 of 16 September 1946, 4904 of 3 October 1946, and 5595 of 11 November 1946 by SMA Province of Saxony, ordering a privileged ration status for the approximately 121,500 workers and employees of the Soviet A.G.'s:

Bread	912 tons	Coffee Ersatz	45 tons
Prepared Foods	351 "	Salt	91 "
Potatoes	1,558 "	Meat	67 "
Vegetables	1,005 "	Fat	13 "

This additional food for the Soviet A.G.'s is a considerable burden on the supply plan. It has caused ill will among the workers of similar plants under German management. The Provincial Administration usually bears the blame.

16. Department of Transportation, dated 21 November 1946.

The transfer of industrial enterprises into Soviet hands has become noticeable in all sectors of transportation through a shifting of freight rail hubs and through a change of priorities. Privileged delivery of raw materials and semi-finished materials to Soviet plants is generally demanded... as well as privileged transportation of finished products from these plants. No figures are available on this phenomenon, as the effects have not been observed long enough.

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