

INFORMATION REPORT

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SUBJECT Fulfilment of Reparations Plans during 1949

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1. The DDR delivered 1,069,000,000 DM worth of goods as reparations in 1949. The quota was 1,020,000,000 DM. Experience has shown that a slight reduction in the first figure must be expected as the result of final adjustments. In any case the quota for 1948 was not filled so any surplus in 1949 will be applied to the 1948 deficit.
2. The surplus was due to the following:
  - a. Insufficient production because of material shortages, especially in the first six months, and numerous other factors led the authorities to lower the quota. A number of orders which were not expected to be filled were transferred to the 1950 quota. In their stead new orders were placed in branches with excess capacity, e.g. the graphics industry. The improvement in material supply in the second six months and increased efficiency then made it possible for some of the postponed orders to be filled in 1949.
  - b. A number of factories pledged themselves to deliver additional items not included in the plan in celebration of Stalin's birthday. The Soviet Control Commission was moved by the workers' friendship to the USSR to accept these additional unplanned items as reparations.
  - c. In some cases it was found necessary to grant price increases so that there was an increased value without any increased amount.
3. The surplus cannot conceal the faults in our reparations program. The DDR is honestly determined not only to fill its reparations quota but also to do everything in its power to repair the damage done by the German Wehrmacht and to strengthen the

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USSR as the guarantor of peace. From this point of view it is to be regretted that production by item (Nomenklatur) reached only 98.6% of quota. Inasmuch as this deficit is made up primarily of important equipment, e.g. metallurgical equipment, it must be considered very grave. To be sure it was not caused by bad will or neglect; nevertheless its causes must be thoroughly analyzed in order to insure 100% fulfillment in 1950. Some of the blame may be placed on material shortages, but we are of the opinion that there were also serious organizational faults, e.g., poor cooperation between factories, inattention to quality, bureaucracy, etc.

#### Analysis of Production

4. The reparations plan called for the production of machinery to the extent of 74.2% of total reparations production. This fact is of especial importance because:
  - a. The emphasis on machinery required large quantities of material, mainly metal. As a result of the illegal blockade imposed by the western occupational powers and the cutting off of deliveries from Western Europe and a series of delays in other imports, fulfillment of the quota was faced with serious difficulties.
  - b. The concentration on machinery, especially heavy machinery (48% of machinery total), raised the problem of cooperation between factories. Delay in recognizing the need for this cooperation was one of the main causes for our difficulties.
5. The quota for equipment for the basic industry of the USSR was 9.6% of the total. Transport equipment accounted for 16.4%. Equipment for power plants accounted for 11.2%. Standard houses represent only 5.2% of the total but their importance is not limited to the fact that they add to the reconstruction of destroyed living space. (They can hardly play a decisive roll compared to the total reconstruction in the USSR.) Their special importance is that they emphasize more than most other products the moral phase of reparations for the broad masses of the people.
6. Shortages of material, especially ferrous metals and special parts, e.g. ball bearings and electric motors, were further complicated by the necessity of producing items entirely unknown in Germany. This was usually carried out on the basis of Soviet blueprints, which were subject to misinterpretation and error in translation, causing lengthy delays, and which often required changes for adaptation to our available production facilities. These changes had to be approved by the customer in the USSR with resultant delays. All in all, however, we may say that our industry mastered these difficulties and met all requirements as far as humanly possible.
7. In some cases fulfillment of the quota required the construction of new factories, reconstruction of destroyed factories, or increase of capacity, thus demanded double effort, first for the construction of capacity and then for the production process itself.
8. The publicly owned factories accounted for 39.2% and other German factories (private) for only 17.5%. The importance of the SAGs to the German economy is demonstrated by their large share, 44.3%. The explanation for this is that the factories of the heavy industry branch are largely SAGs and the shift in emphasis in reparations to heavy industry necessarily meant allotting the SAGs more contracts.

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Survey of Fulfillment

9. The shift to heavy industry required a warming-up period so the quota for the first quarter was set at 18.0% of the annual quota. Nevertheless production lagged behind at 17.1%. Various factories attempted to blame this on delayed reception of the contracts. A careful investigation disclosed that this claim does not hold water since 65% of the annual contracts had been awarded by 31 January 1949 and 96.3% by March.

10. Delivery of materials was very slow. According to our statistics the supply of rolled steel, castings, malleable steel, etc., amounted to:

January	.5%	of annual supply
February	2.1%	" " "
March	8 %	" " "

11. A number of deliveries scheduled for December 1948 were not made then. These were taken over in the quota for the first quarter 1949 and thus the figure of 17.1% was achieved. Deliveries of equipment for mining and for the metallurgical industry totalled only 3.3% of the annual quota in the first quarter. Transport (14%) and chemical industry (12.5%) were also laggard.

12. When the regularity of production is broken it is natural that production at the beginning of the new plan period will lag. The increased production at the end of 1948 necessarily resulted in excessive consumption of materials and a reduction in production of preparatory products, so that 1949 began with a shortage of material and a shortage of semi-finished products. This concentration of work in the last days of the 1948 period, with overtime and no holidays, produced a reaction in the workers which resulted in slackened production.

13. By the end of the second quarter 1949 44.2% of the annual quota had been reached. Improved supply of ferrous metals in April and May was the reason. In addition all contracts had been allotted and technical difficulties had been overcome. Equipment for metallurgical industry remained the weak spot (13%). The main reason was the poor quality of sheet metal and castings. This condition continued through the third quarter and seriously endangered the whole program.

14. Thanks to the energetic endeavors of all concerned, production rose in the fourth quarter in all branches and the annual quota was filled with 104.9%. This improvement was made possible by reallocating orders which had piled up in various overworked plants. Thus Krupp-Gruson had been given the major portion of contracts for the production of equipment for the metallurgical industry; in September Krupp-Gruson's subcontractors were obliged to give these orders first priority by SMA Order 135; later a number of orders for rolling mill equipment were transferred from Krupp-Gruson to German factories and the head of the Machinery Section of the Ministry of Industry was placed in charge of the whole program. In addition subcontractors' conferences were held regularly to eliminate bottle-necks.

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15. Out of a total of 3,262 reparations contracts 69% were changed from 1 to 10 times for a total of 3,200 changes. It cannot be proved exactly how much this effected the entire program; however, it is a fact that various contracts had to be cancelled for various periods. The changes often could not be made in time, either because of misunderstandings by the contractor or dissatisfaction on the part of the customer. In such cases approval had to be obtained from the USSR with resultant losses in work preparation, planning, and production.
16. The quality of reparations production was often poor and resulted in rejections. Much time was lost because the materials received were of such poor quality that they could not be used. The loss amounted to 10% of capacity in some factories. Six factories had 120,000 lost hours in the first half of 1949 because of poor castings received from Kunsch, KFT, Krautheim, and Otto Gruson. The same trouble was sometimes encountered in material imported from the West. Thus steel imported from Belgium in August could not be used, likewise steel pine from Hamburg.
17. Execution of a production plan requires correct allotment of materials. Because some contracts were received late, it was often impossible to submit requests for materials on time. Again and again it was found that the necessity for additional allotments for late contracts seriously interfered with the entire material supply plan. It soon became evident that some allotments could not be realized, because the material allotted on paper had already been issued elsewhere. In addition it appears that some associations did not give enough supply support to their factories engaged in reparations production. This applies to packing materials especially.
18. Ball bearings and electric motors were a bottle-neck all year long. In the first six months the supply of steel castings was 1,100 tons short of the amount required for production of metallurgical equipment alone. Later there was some improvement. Factories which required imported materials were especially hard hit. At first it was possible to obtain materials from western firms in spite of the blockade but with increased border controls this became impossible. After the blockade was lifted there was a considerable lag in deliveries. The supply of DM (West) was difficult to obtain; usually several weeks were necessary and even then the entire sum was seldom available. Only through intensive effort was it possible to raise the large sums needed in the fourth quarter 1949.

#### Conclusion

19. Reparations production in 1949 can be considered satisfactory. Although some individuals dislike reparations, the majority of the workers and technicians regard reparations as a moral duty and as an important contribution to the reconstruction of the USSR and thereby to the improvement of the economy of the DDR. The following points must receive special attention in 1950:
- a. One of our greatest difficulties was the shortage of material and poor quality. The Reparations Office must pass the necessary ordinances. The Office of Reparations must be granted a supply of DM (West) to be issued by it to the Ministry of Industry, the SAGs, and the state governments to buy important materials.

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- b. The ball bearing problem must be solved by reorganizing DKF, Leipzig, by building a new factory, and by making arrangements immediately for imports.
- c. The Ministry of Industry must provide sheet metal of proper quality and electric motors of the types needed.
- d. The large metal-working machinery needed must be acquired promptly.
- e. Cooperation between the factories must be improved, particularly between SAGs and German factories.
- f. Difficulties have arisen because the German directors of SAGs were not strong enough. The SAGs are an essential part of the economy of the DDR and therefore the government must put strong German directorates in them even though they are Soviet property. The Soviet Directors are too few and are not acquainted with conditions here and thus are not able to make all necessary arrangements.
- g. Quality is the important question. Factories which produce high quality goods for reparations should receive prizes.
- h. Factories which deliver with serious delays because of carelessness should get stiff fines.

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ATTACHMENT ONE

A. Reparations Plan 1949 according to branch of industry.

<u>Branch</u>	(in 1,000 DM) <u>Plan</u>	<u>Actual Production</u>
Machinery including electric equipment	742,013	762,754
Chemical	134,141	138,218
Light industry including standard houses	58,298	57,861
Including typographical production	186,274	200,119
Including others	52,320	52,944
	88,000	102,286
	32,187	31,777

B. According to type of product.

Eqnt. for basic ind. incl. eqnt. for metallurgical ind.	96,487	100,791
Incl. mining eqnt.	31,812	33,217
Eqnt. for transport incl. RR eqnt.	32,493	32,125
" Shipping eqnt.	164,852	175,029
Eqnt. for chem. ind. " food ind.	98,221	106,486
Machinery incl. machine tools	66,631	68,543
" presses, etc.	19,329	19,158
" tools	61,448	63,664
Eqnt. for power plants	25,605	28,802
Special equipment	11,033	9,318
	9,367	9,613
	14,002	14,833
	112,891	116,728
	22,241	22,484

C. According to ownership of factory.

German	570,000	610,363
Incl. VEB(Z)	376,000	402,752
" VEB(L)	18,000	18,006
" Other (Private)	176,000	189,605
SAGs	450,000	458,198

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