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CENTRAL INTELLIGENCE AGENCY

REPORT NO. [REDACTED]

INFORMATION REPORT

CD NO.

*Handwritten:* 5/3/52

COUNTRY Germany (Russian Zone/Western Zones)

DATE DISTR. 13 August 1951

SUBJECT Current activities of the China Export Corporation

NO. OF PAGES 5

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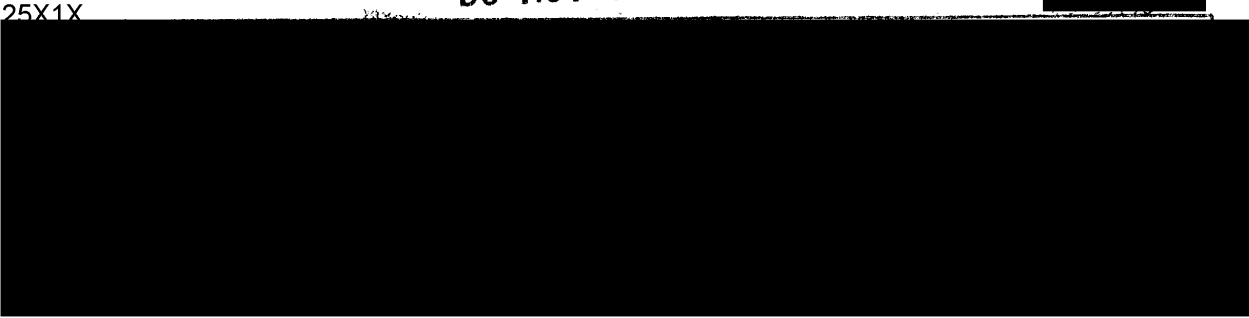
NO. OF ENCLS. (LISTED BELOW)

DATE OF INFO. October 1950 - mid-May

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SUPPLEMENT TO REPORT NO. [REDACTED]

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Internal Difficulties

1. During April and May 1951, relations between the China Export Corporation, GmbH, of Berlin, on the one hand, and the China National Import Corporation of Tientsin and the Ministry for Foreign and Internal Trade, on the other hand, deteriorated steadily. Ernst Erben, managing director of the China Export Corporation, now realizes that the East German Ministry officials, particularly Minister Handke; his assistant, Bramlow, fru; and the Ministry's representative in Peking, Tuerpe, fru, are siding with the Tientsin company against him.
2. Erben has been attacked on the following principal grounds:
  - a. For originally having invoiced goods shipped to China at cost price plus five percent, while crediting Chinese exports at the lower October 1950 prices.\* Although the China Export Corporation has made full amends, Erben's personal prestige has suffered considerably as a result of his fraudulent method of accounting. The DDR Ministry officials who previously approved his methods have now completely disassociated themselves from them.
  - b. For failing to safeguard the Corporation's dollar funds properly.
  - c. For not foreseeing the SS MAI RICKERS debacle.\*\*
  - d. For making insufficient deliveries to China as compared with the results achieved by other Chinese purchasing agencies.
  - e. For buying useless goods.

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- f. For indulging in personal extravagance. Erben considers himself the Chinese trade ambassador to Europe and is stated to have spent some \$15,000 on clothing, travel, and other personal items. He recently purchased a large Mercedes as a second personal car. The furnishings in his Berlin offices, including panelling and carpets, are valued at between \$20,000 and \$30,000.
3. On the credit side, Erben is universally commended for the good prices and prompt payments he has obtained on the sales of Chinese soya beans, tea, silk, and other exports.

Buying Difficulties and Proposed Remedies

4. Almost all the large concerns which had agreed in principle to supply rolling mill products, machines, chemicals, and surgical equipment to the China Export Corporation during 1951 had failed as of mid-May to deliver any goods whatsoever.
5. In the rolling mill sector, the 1951 requirements were originally covered "on paper" as follows:
- a. 30 percent of Otto Wolff, including suppliers selling through, or introduced by, Wolff (Ferrum, Saarbrücken, etc.);
  - b. 30 percent by Otto R. Krause, Düsseldorf (owned by Willy H. Schliecker), including Ernst Meyer of Düsseldorf, Dr. Kroth of Ost-West Handel, Berlin, and other associates;
  - c. 40 percent by a miscellaneous groups, including potential suppliers in France, Belgium, Switzerland and elsewhere.
6. As of mid-May, Otto Wolff and Otto R. Krause had made no deliveries. Under the 40 percent miscellaneous heading, the following deliveries have been made:
- |   |                     |
|---|---------------------|
| Metalimport Trust, Zurich and Paris               | \$500,000-\$600,000 |
| Ocimex, Brussels                                  | \$300,000           |
| Gerimex, Berlin                                   | \$100,000           |
| Others, including Intrac and local Berlin traders | \$300,000           |
7. In all other sectors (i.e., other than rolling mill products) deliveries have not exceeded \$400,000, including goods bought from the DDR to a value of about \$150,000.
8. Until very recently, the China Export Corporation had hoped to open up the following principal fields of supply:
- a. Great Britain, on a free dollar export basis, with valid export licenses giving the China Import Corporation of Tientsin as the end-user. Erben had hoped to obtain considerable quantities of semi-strategic materials, including railroad equipment, from Britain. However, the recent measures of the British Government with regard to exports to China have rudely shaken his confidence.
  - b. France, on a free dollar export basis, with export licenses for India and Ceylon obtained through bribery. Erben has not given up hope entirely in this direction, but at the moment is unable to find a suitable channel to the competent French authorities.
  - c. From any western country, including possibly even the United States, via the Middle East by means of the barter of Chinese ores against casings, tubing, steel sheet, etc. In October 1950, Erben was informed by the China National Import Corporation that a railroad line permitting the overland shipment of high-grade tungsten and chrome ores would be in service by March 1951, and that the China Export Corporation could then count on regular supplies. Erben has now been informed that 70 percent of the total Chinese output of tungsten and chrome ores has been allocated for 1951 for export to other organizations, and that the China Export Cor-

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9. As a result of these circumstances the China Export Corporation relies increasingly on clandestine buying. Laszlo Vasarhelyi of the European Trading Company of Stockholm has had repeated conferences with Erben, and it is likely that he will become the principal purchasing agent for the China Export Corporation.
10. For smaller deliveries the China Export Corporation relies on Metalimport Trust of Zurich and Paris and on Gerimex of Berlin. In cooperation with the German trustee for east-west trade, Gerimex has discovered a method of delivering goods to the China Export Corporation within the terms of the interzonal trade agreement. Erben, with his customary optimism, has now earmarked Gerimex for deliveries of most of his electrical equipment requirements, valued at several million dollars. Gerimex has its own separate steel safe in the China Export Corporation offices, where all its files are kept.
11. Ernst Meyer\*\*\* of Düsseldorf continues to be a regular guest at the China Export Corporation offices, where he always receives a most cordial reception. He also spends large sums entertaining Erben and other members of the staff. The cordiality is difficult to explain since, according to the Corporation's officials, Meyer has made no deliveries during 1951.

#### Sales

12. Robert P. Schroeder of Hamburg, who refines and sells soya beans on behalf of the Corporation, recently visited the United States. Erben is so pleased with his efforts that he intends giving him the exclusive selling agency for Chinese soya beans. This move may be complicated by the fact that DDR Minister Georg Handke has accused Schroeder of making over \$400,000 in profits on his soya bean deals.
13. Ocimex of Brussels, which has received tea valued at \$1,000,000 from the Corporation and has supplied in return steel cable to a value of only \$100,000 recently remitted to the Corporation between \$300,000 and \$400,000 in cash. The China Export Corporation has lost all confidence in Kratly, the owner of Ocimex and of Ancotrama, as a buyer, seller, and forwarding agent.
14. The SS MORELLA arrived in Rotterdam on 15 May 1951 with a cargo of soya beans and silk for the China Export Corporation. The Corporation intends selling this cargo for western DM's through DDR organizations in Western Germany. The cargo is valued at approximately \$2,000,000. Two further vessels carrying soya beans, rice, and silk left Taku Bar during the last week in April and first week in May respectively.

#### Financial Notes

15. The China Export Corporation lost over \$6,000,000 in funds blocked by the Zurich Volksbank. The greater part of this sum represents the proceeds from sales of soya beans by Schroeder. The money was in transit at the Volksbank for 48 hours only, since the Corporation intended using it for the opening of letters of credit. The money was placed in transit at the Volksbank on the personal order of Erben, despite warnings from the Deutsche Notenbank.
16. The China Export Corporation has another dollar account in its own name at the Volksbank which it can operate freely, since the counterpart funds are not deposited in the United States, but in Switzerland. As of mid-May 1951, this account had a credit balance of \$100,000, \$66,000 of which was being remitted to Metalimport Trust, Zurich.

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17. The China Export Corporation has further dollar accounts in Switzerland, registered in various names and numbers. As of the middle of May 1951, these accounts totalled between \$300,000 and \$400,000.
18. The Corporation's holdings of dollar bills in Berlin amounted in mid-May to approximately \$60,000. It also held some 1,000,000 western D.M.'s, some of which were shortly to be transferred to Gerimex.
19. As soon as the SS MORELLA's cargo has been sold, Ernst Ramlow, the financial director of the China Export Corporation, intends to visit Switzerland to make new financial arrangements there. He still plans to open an account with Hans Seligman-Schtreh & Co. of Basel, and to open a small Zurich office under a neutral name to replace Hobro A.G.\*\*\*

#### Visit of Chinese Delegation

20. The visit of a delegation of 17 Chinese engineers to Berlin has been announced for the first half of June 1951. It is probable that Tuerpe, the Peking delegate of the DDR Ministry for Foreign and Internal Trade, will join this delegation, which is to have extensive talks with officials of the China Export Corporation. No details of the discussion agenda have as yet reached the Corporation, beyond the intimation that the delegation will put forward proposals for the shipment of goods to India and for transportation by rail.

#### Personnel Notes

21. The following notes have been received on personnel of the China Export Corporation:
  - a. Ernst Erben, despite faults which have considerably reduced his prestige, particularly among DDR officials, is still regarded as being a capable executive. His main faults are those of overconfidence, overoptimism, and the inability to concentrate sufficiently on any one problem.
  - b. Richter (fnu) is a complete nonentity and is not taken seriously by anyone except Erben, whom he serves as a favorite sycophant.
  - c. Ernst Ramlow is the most capable of all the Corporation's officials. He appears to have been chosen by the SED Central Committee to keep an eye on Erben.
  - d. Lindholz (fnu) has proved himself to be the best of the senior clerks (Referenten) and is the only one to have received an increase in salary. Ramlow has every confidence in him, while he is indispensable to Richter.
  - e. Kupfer (fnu) is the young and not particularly intelligent employee in charge of the machines department. As of mid-May he procured little outside of two Diesel engines, which were rejected by Tientsin. He is likely to be replaced by some one else.
  - f. Schmid (fnu) is a new employee, moderately capable, who has been put in charge of the chemical and surgical equipment departments.
  - g. Sinecker (fnu) is another new employee, in charge of the textile division. He was formerly engaged by the DAHA furs division. He spent six months in DDR prisons after a worker in his section at DAHA embezzled some furs and escaped to West Berlin.
  - h. Brod (fnu) is a new man, formerly employed by Derutra, who has been placed in charge of transportation.
  - i. Frau Krause (fnu) secretary to Erben, is both capable and dangerous. Through her husband she has direct contact with the Russians at Karlshorst.

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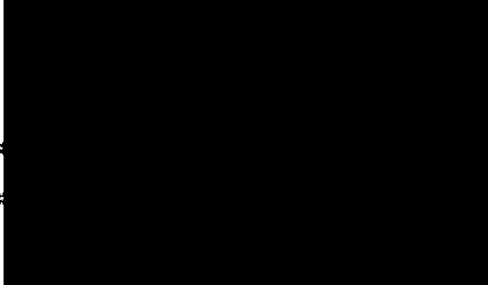
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