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1. Historical Background. For three years after being taken over by the Soviets as reparations under the Potsdam Agreement in 1945, the oil fields of eastern Austria were administered largely by the remaining Austrian employees who did not flee in front of the Russian advance. They were under only loose Soviet control. Soviet oil experts began arriving in 1948, and, since that date, have occupied all leading positions of responsibility. Production of crude oil for the month of September 1948 was 76,700 tons. Largely through the development of the new Matzen and Aderklaa fields, production was raised to 112,400 tons by September 1950 and 205,700 tons by October 1951. In the fall of 1951, efforts were initiated to locate oil in the Klein Neusiedl-Fischamend area south of the Danube along the so called "thermal line". These drillings were continued without success until the spring of 1953. In the meanwhile, however, the Matzen field proved so productive that, on 1 January 1953, it was divided administratively into two separate fields, Matzen and Bockflieiss. Largely due to the increased production of these two fields, total SMV production for the month of August 1953 reached 265,000 tons.

2. Throughout the 1951-52 period, it was apparent that the SMV was making long term investments which did not come close to being offset by income received from sale of the oil (see below). Furthermore, starting in the fall of 1951, the SMV was in constant financial straits, was continually millions of schillings in debt, and operations were often on the verge of being slowed down or stopped [redacted] due to the refusal of creditors to deliver the required materials. This generated an impression of either incompetence on the part of Vienna SMV officials or a conflict in policy between Vienna and Moscow. It appeared that the financial difficulties could be attributed either to extremely poor cost accounting and planning of Moscow approved investment projects, or by the Vienna Soviet officials going ahead with an expansionist policy to build their own empires in the face of a limited budget laid down by Moscow.¹

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3. Policy Changes in 1953. Dissatisfaction over the mismanagement of the SMV apparently came to a head in January 1953 and a strong policy aimed at cutting investment and restoring financial stability was laid down. A four-man commission from Moscow visited the SMV in early January and, on 12 January, Gruekov (fnu), the head of the commission, announced the following changes:²

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- a. Each division of the SMV must draw up each quarter a list of its requirements for the coming three months. This list of requirements is checked by a committee of local Soviet SMV officials plus one Moscow representative, and the division is then assigned an expense allowance for that quarter.
- b. Each division was ordered to form a planning staff to administer the above order and the Purchasing Office was ordered to set up a Finance Section to check on the various units and prevent them from making purchases in excess of their quarterly allowance.
4. A Soviet commission arrived from Moscow on approximately 24 July 1953 and issued a number of major policy instructions with the following results: ^{2 3}
- a. Personnel reductions were to start immediately, with some terminations effective as of 27 July; total dismissals as of 1 September reached approximately 1,500, or approximately one third of the personnel in the oil producing (everything except the refineries) divisions. [redacted] dismissals will eventually reach one half of the total personnel of the oil producing divisions.⁴ 25X1
- b. All exploratory drilling in search of new oil producing areas was to be stopped; the SMV divisions connected with that type of activity have been completely dissolved.
- c. The production drilling sections were to be cut to a small fraction of their former strength, thus stopping the expansion of already producing fields even though these fields are far from having been drilled to capacity.
- d. Administrative simplification throughout the SMV was to accompany the general cutback in personnel.
- e. All construction projects were halted immediately.
- f. All orders for imports from the USSR and satellites and for purchases from USIA as well as non-USIA firms were cancelled immediately pending review.
5. Economic factors alone were sufficient to cause the recent policy change.⁵ This is not to say that political factors played no roll; on the contrary, [redacted] it was political factors which forced the recognition of the pressing economic problems at this particular time rather than, for example, six months earlier, and it is certain that political factors must have cast a particular interpretation upon the basic economic facts. However, the political influences upon the decision [redacted] whereas the economic forces stand out rather clearly. The three economic factors forcing the cutback were overinvestment, schilling shortage, and inefficient operation. 25X1
6. Overinvestment. [redacted] during 1951 and 1952 that far more money was being poured into the fields than was being taken out in the form of crude oil. [redacted] figures can be given which permit approximate conclusions substantiating this view. 25X1
7. Turnover of the SMV Purchasing Office (which is a good index to the level of investment in the producing fields but which also includes a small proportion of purchases for the refineries) during 1951 and 1952 varied from a minimum of 28,400,000 to a maximum of 70,500,000, Austrian schillings per month with the average exceeding 45,000,000. Total cost of running the crude oil producing divisions of the SMV for a month is roughly equal to this figure plus the total of all salaries, approximately another 8,000,000 schillings. [redacted] 25X1
- [redacted] the approximate SMV sales price per ton of crude oil may be [redacted] around 160 Schillings. This figure is far below the world market price, but [redacted] this was not an important factor from the SMV view point, considering the unusual conditions prevailing since 1945 for the marketing and disposal of SMV products. Except for retail sales through the OROP system and recently initiated gasoline exports [redacted] the SMV presumably operated on an artificial price system. With the 1951/52 average monthly production at 210,000 tons and with the sales price estimated at 160 Schillings per ton, the average SMV monthly income was 33,600,000 Schillings during the same period. 25X1

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8. These figures, [redacted] indicate that the income from crude oil for this period only covered about three-fifths of the expense of extracting it. Another fact which tends to support this analysis of SMV overinvestment is that, starting in February 1953, the SMV cut its purchases by two-thirds: despite this reduction in investment and the recent reduction of employees, there has been no intention of cutting the monthly production of crude oil and no reduction in output has in fact been reported. The income is the same from a much smaller investment. 25X1
9. The reason for this cut in investment in the SMV might be any or all of the following:
- By necessitating increased purchases from non-USIA firms; this large rate of capital investment was aggravating the schilling shortage discussed below.
 - Although the cutbacks started well prior to the Soviet renunciation of occupation costs, they might nevertheless be a saving ordered when the renunciation of occupation costs was foreseen and means for compensating for this financial loss were being sought.
 - It is quite possible that the Soviets never did intend to lose so many schillings on the Austrian oil fields, and the cutback simply indicates that Moscow is just now catching up with a situation which never should have been allowed to exist.
 - A considerable part of this investment -- the search for oil in the Klein Neusiedl-Fischamend area south of the Danube which they thought would reveal a connection between the Austrian and Hungarian fields -- was in vain; it is only natural that this part would be cut.
 - Much of the investment was of a type which would pay for itself only in three to five years; political decisions regarding the long range future of the Austrian oil fields might have resulted in the cutback of this type of investment.
 - It is possible that oil production was increased without planning for increased markets for the oil, and that this has forced the cutback, but this whole problem is closely connected with the schilling shortage.
10. Schilling Shortage. A large part of the SMV crude oil production has always been shipped to the Soviet bloc. In spite of the fact that the Communist press has been attributing the SMV cutback to a lack of Austrian markets, a 25 percent cut in oil shipments to the Soviet bloc occurred simultaneously with the new SMV policy. This would appear to be due less to a lack of need for the oil in the satellite countries than to an inability of these countries to pay for the oil in currencies or goods of value to the SMV. Exports of oil to the Soviet bloc are apparently of greater value than the goods required by the SMV from the Soviet bloc. This discrepancy was formerly offset by the SMV's black market activities. SMV used to take as payment for oil shipped to the Soviet bloc all sorts of goods not needed by the SMV but which could be sold for schillings either on the black market or through USIA stores. This practice was made far more difficult by an Austrian law enacted in early 1952 and it is now practically non-existent. Ever since the passing of this practice, the SMV has had financial difficulties in that it has been unable to pay schilling debts.
11. In the spring of 1953, at a time when the entire USIA complex was suffering from a schilling shortage, the SMV ordered that no goods be purchased from non-USIA firms if the same goods were available from USIA firms, even if the USIA-produced goods were of a lower quality or a higher price. The purpose of this order was apparently to keep as few schillings as possible from leaving the Soviet-controlled complex of firms.
12. To correct this unbalanced financial situation, the SMV took two steps. Starting in late June, 1953, crude oil exports to the Soviet bloc were cut twenty-five percent, with the probable intention of stabilizing Eastern trade at a lower level. [redacted] They had only two other choices: 25X1

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- a. to draw further upon the USSR's schilling reserves, which, if the overall schilling shortage in USIA firms is any indication, are already quite low; or
- b. to declare bankruptcy due to an excess of credit which could not be used up in Soviet bloc countries, and a shortage of schillings which were urgently required to purchase goods from non-USIA Austrian firms.
13. This schilling shortage alone was sufficient to force a change in the marketing of SMV products. Whether the schilling shortage alone was sufficient to force the general reorganization of the SMV is another question. The cutback in investment will reduce imports from the Soviet bloc countries, hence aggravating what is assumed to be an uneven balance of trade with that sphere.⁶ It will, on the other hand, materially reduce purchasing from non-USIA firms and, since schilling receipts from sale of oil would not be reduced, the net result would be an improvement in the schilling balance. It is questionable whether the resultant improvement in the schilling balance would be sufficient to justify the entire investment cutback, but when seen in the light of the other factors cited above, the schilling problem must certainly have contributed to the final decision to reorganize the SMV and reduce its staff.
14. Inefficiency. All the problems of the SMV must be viewed in the light of the inefficiency and incompetence which characterizes that organization. The following is one glaring example in which inefficiency probably aggravated the SMV's over-investment problem and hence contributed to the need for reorganization. In this case, the root of the trouble was the Soviet production norm and the premium for workers who surpass it. It is the job of test drilling teams to cut samples of the geological structure at various levels. The geologists then study these samples and use them to help determine where oil might be located. These test drilling teams have a norm of so many meters of drilling per day. When a broken drill or some other unforeseen event throws off their time schedule, they must somehow make up the lost time. Standard practice of the test drilling teams in the Klein Neusiedl-Fischamend area was to fake their results by turning in samples that were left over from previous drillings, claiming that they were from newly drilled holes. It is not clear whether the geologists ever did find out that the drilling teams were doing this. As a result of this deception, the geologists had to report the geologic structure in this area as "twisted", and attempts to produce oil from the area were given up after a year and a half of vain efforts and heavy investments. This is not an isolated instance. Hasty drillings, cement not given time to dry, and inaccurate perforations have often resulted in costly repairs and abandoned wells.
15. Possible Soviet Intentions Regarding SMV. The change in SMV policy can be reasonably explained and justified on economic grounds alone, without considering possible Soviet policy regarding the future of Austria and the Austrian oil fields. As the SMV policy change started in early January 1953, prior to the death of Stalin, it is quite likely that it is, or at least was in the beginning, unrelated to the apparent changes in the Soviet attitude which have taken place since March 1953. However, as it can be assumed that SMV policy is at least not inconsistent with current Soviet foreign policy, some speculation is possible. The following two views are those which are most generally held:
- a. The curtailment of new investments indicates that the Soviets do not expect to be around to reap their benefits three to five years from now. Either they expect to have to renegotiate the Austrian Treaty draft and, in the process, obtain fewer rights in the oil fields, or else they plan to evacuate the oil fields completely.
- b. The Soviets are converting the SMV into a normal business operation which they plan to run at a profit rather than a loss for some years to come. According to this view, [] the cutback now indicates that the Soviets do not plan to give up any of their rights in the oil fields. The Soviet acceptance now of a substantial propaganda defeat in carrying through the cutback must somehow be explained. If they planned to renounce in the near future any part of their claims on the Austrian oil fields, [] they would have held back on personnel dismissals until this renunciation took place. Then, they would be able to attribute the dismissals to the restoration of Austrian sovereignty in the fields.

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Comment. It is, of course, also possible that the ignorance and inefficiency reigning in both Moscow and Vienna was so complete as to defy logical analysis of SMV policy.

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Comment. Between the visits of the two commissions, SMV Director General Grigori Sidorenko went to Moscow, departing during April and returning on 27 May 1953.

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Comment. It is possible that the January and the July commissions were composed, at least partially, of the same personnel.

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Comment. Several Soviet officials have also been dismissed and have departed for the USSR, but it is noteworthy that there has been no high level shakeup. The visiting Soviet commission has several times exercised its veto power over the decisions of General Director Sidorenko, but Sidorenko himself and all his major deputies are still in their jobs.

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Comment. The Austrian press gave various interpretations of the changes reported in the SMV. The Communist press blamed the cutback on difficulties in marketing the oil products, which were said to be the result of policies of the Austrian government. The Communists accused the Government of placing increased taxes on oil products, discouraging factories from changing over from coal to oil fuel and of importing oil to undercut the SMV market. In part, these allegations reflected the difficulty which the Communists were having in explaining the large-scale firing of workers. It is perhaps noteworthy that the Soviets might have avoided this propaganda defeat and even made political capital by attributing the cutback to a voluntary curtailment of their "reparations" requirements from the Austrian oil fields. The non-Communist Austrian press, which based its reporting of the SMV changes largely on Socialist press service material, gave a late and inaccurate picture of the actual developments. The non-Communist press attributed the reduction in personnel to inefficient management, which had allegedly caused exhaustion of the fields.

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maintains that the fields have not as yet reached maximum output and that talk of exhaustion is completely false, even though he does confirm the charge of mismanagement.

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Comment. An interesting note on the influence of the cutback on the SMV-USSR trade balance is the following. In August, 1953, the SMV ordered that all imports from the USSR be cancelled immediately. Moscow refused to acknowledge this cancellation, however, and immediately notified the SMV that all goods already ordered would be delivered through the end of 1953 whether the SMV now needed the goods or not.

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