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COUNTRY Germany (East Zone)

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SUBJECT 1. DDR Business Concern INEX (Industrial
Installation Export)

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History, Functions, and Operation of INEX

1. INEX consisted solely of office personnel and had no fabrication facilities. The major portion of the firm was housed in a new office building opposite a ministry building at Leipzigerstrasse 4 in East Berlin. Because of lack of space, the INEX Main Department TG (Quality Control) was housed in East Berlin on Muehlenstrasse, and the Main Department T-3 (Power Plants) was housed in East Berlin on Brunnenstrasse.

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2. Historically, the firm INEX was the successor of the former Central Project-Planning Bureau of the DDR (Zentral Projektierungsbuero der DDR).¹ The change took place in July 1954. The Central Project-Planning Bureau had been responsible for the planning and the contracting for all industrial building in the DDR. The procedure for any new industrial construction or renovating was briefly as follows: a factory which needed any new construction sent its request to its own particular ministry; the ministry then forwarded the request to the Central Project-Planning Bureau, which called on the customer, drew up the plans for the construction, and sublet contracts to construction firms. An additional duty of this bureau was the technical inspection and servicing of all industrial installations in the DDR. Gradually, as orders from abroad more and more frequently requested complete industrial installations, it was decided to establish a new concern to handle foreign contracts for industrial installations, and to incorporate in the new concern the old Central Project-Planning Bureau and several other allied agencies which, up to that time, had operated independently. Thus, in July 1954, the Central Project-Planning Bureau was abolished, and its personnel and functions were incorporated as a separate department into the newly established INEX. Administratively, INEX was under the Ministry of Heavy Machine Construction. See the organization chart of INEX on page 3.

3. [redacted] negotiations had begun to transfer that concern to the Ministry of Foreign and Internal Trade. This change proved difficult to accomplish, however, since by that time it was generally known that INEX encountered insurmountable difficulties in meeting its delivery deadlines, and that sometime in the near future the ministry in charge of INEX would have to account for the enormous penalties already owed by INEX to its foreign customers.²

4. INEX was made the central planning, designing, and general contracting agency for all export contracts for industrial construction undertaken by the DDR. The impetus for the establishment of this agency was as follows. Up to the time of the inception of INEX, the DIA (Deutsche Innen-Aussenhandel = German Domestic and Foreign Trade) under the Ministry of Foreign and Internal Trade handled all foreign orders for machinery. In the course of 1953 and 1954, how-

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ever, foreign countries began to demand delivery of completely constructed and equipped installations instead of mere delivery of machines. DIA was not equipped to handle these orders, and INEX was founded to work out and carry through complete contract bids for entire industrial installations for export.

5. INEX was made responsible for the bid submitted and for meeting all delivery deadlines, but was not at the same time given the power to hold to their delivery dates any of the numerous firms with subcontracts for the project. Any complaints in this regard had to go from INEX to its ministry, from there to the ministry in charge of the particular firm holding the subcontract, and from there to the delinquent firm. The subcontracting firm, on the other hand, labored under constant material shortages. Months had passed before these material shortages could be taken into account by the ministry, the order for materials placed properly in a "plan," and delivery finally made. Apparently aware of this failure of a planned economy, the founders of INEX placed the full onus of responsibility for meeting delivery dates upon this agency without, however, sacrificing any administrative power of the ministry.
6. DIA continued to receive all foreign contract bid invitations and passed them to INEX for processing. The bid invitation and project description were then translated by INEX, and a preliminary judgment was drafted, stating whether the necessary technical facilities and capabilities were available to fulfill the conditions of the contract. This written judgment, together with an estimate of materials and machines needed, was sent to the Ministry of Heavy Machine Construction. The ministry then accepted or rejected the contract solely on the basis of the availability of necessary materials and the ability to meet the required delivery date. This acceptance or rejection of the contract was then sent to DIA. The latter then gave the official written order to INEX to begin work. This official order allowed INEX to obtain the necessary advances of funds to begin work on the compilation of the final bid.
7. If the contract was of a relatively simple nature, e.g., a small pumping station or a small transformer station, the planning, design, and construction were carried out within the organization of INEX. In a larger and more complicated contract, e.g., high-tension line, large transformer station, etc., for which INEX had not sufficient facilities at its disposal, subcontracts were given to specialized firms throughout the DDR. INEX sent its requirements to the firms, received the estimates of price and delivery date, and compiled the data into the final over-all bid. INEX then calculated the final all-inclusive price in DME, and the completed bid was turned over to DIA. There the price was calculated in the currency of the customer, and the bid was sent by DIA to the purchaser.

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8. If the DDR won the bid, DIA received the order and relayed it to INEX, and work was begun. A project was then drawn up, as were the construction design drawings, and INEX was then responsible for seeing that the project moved to completion, and carried full responsibility for meeting the delivery deadline. INEX was also responsible for the construction in the foreign country.
9. There was an almost complete lack of stock piles of materiel in the DDR. Furthermore, the Ministry of Heavy Machine Construction was, as a result of the economic system, the only authority to judge whether delivery could be made within the required time, and for reasons of prestige the ministry was always inclined to say yes. Consequently, insurmountable difficulties began to be encountered. When the delivery date was long overdue, as was most often the case, the contracting firm receiving the order was always held to be at fault. Someone in the firm was singled out as the scapegoat and was charged with laxity in his work, miscalculations, etc. No mention was made of the basic faults all the way along the administrative path.

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- b. The China project [see Enclosure A, blueprint]. The department DOC⁴ (T-6) at INEX worked on the project for three years. DOC was a complete and separate department of INEX and outside of INEX management. No one at INEX outside this department had any insight into the work and progress of the projects carried out by DOC.

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The project consisted of a large industrial installation for 30,000 workers to be built about 17 km from Peiping, China.

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The buildings of the machine shops of the factory were supposedly near completion, and the machines and equipment (lathes, boring machines, grinding machines, automatic lathes, laboratory equipment, materials-testing equipment, etc.) presumably have already been delivered by DIA.

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the machine-fabrication portion of the factory was partly in operation by the end of 1955. When completed, the factory proper would employ 3,000 to 4,000 workers. Since the Chinese wanted the most modern and efficient machine tools, and since the DDR was far behind in new developments in this field, it was necessary for the DDR to obtain the machines in the West. There was, however, a ban on delivery of these high-quality machines to countries behind the Iron Curtain.

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4. DOC stood for "Documentation China". Friedrich Schmidtke the first chief of DOC, assigned the name.

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The planning engineers responsible for the entire machine-tool portion of the installation were the engineers Burkhardt and Bruno Mueller. Both were members of Department T-24 in INEX, but worked almost exclusively for the Department DOC. They worked on this installation for China for about three years. Both were highly capable engineers, particularly Burkhardt. Since the planning of the machine-tool portion of the factory was in general completed, and the documentation of the installation worked out by them had been approved and accepted by the Chinese, Burkhardt received from the ministry the assignment to plan the complete ceramic department of the projected installation.

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- c. Grinding-wheel factory in Cheng Chu [?-German phonetic spelling Dscheng-dschou; coordinates not known], China. The equipping of the factory was planned by INEX Department T-1, and the electrical equipment to be installed was planned by Ing. Kotz (fnu) and Ing. Arno Karzer in Department T-22.

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13. The following group of bids was in the Departments T-22, T-1, and/or T-23 of INEX, undergoing preparatory work. In March 1955, neither an estimated value nor the exact determination of content and size of the projects had been made.

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- e. Phonograph-record factory for Bucharest, Rumania. Worked on by Dipl. Ing. Paul Simmel and Ing. Fleck (fnu), in Department T-23.

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- f. Installation for manufacturing lenses (50 ϕ) for moving-picture cameras and for making concave mirror reflectors (300 ϕ) in Bucharest. Worked on by Simmel and Fleck in Department T-23.

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Leading Personnel at INEX

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Burkhardt (fmu), Ing.

He was the planning engineer for Department T-24 (Precision Machines and Optics).

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Jaffke, Heinz⁶

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Jaffke came from Bleicherode, where he had been chief of Institute Rabe, the construction department in the V-2 factory. In Lehesten, he received the assignment from the Technical Commission of the Soviet Army to build an additional test stand for the V-2 missile. The first test was successfully run on this stand on 5 September 1946. The necessary steel constructions for this stand, and for an additional one which was delivered to the USSR, were made at that time by the firm of Riss and Lorber in Saalfeld [N 50-39, E 11-21], Thuringen. The chief designer, and plant director of this firm, was Ing. Sturm (fnu)

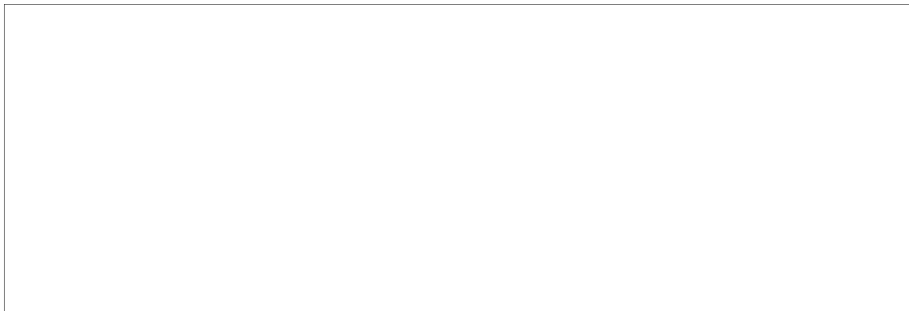
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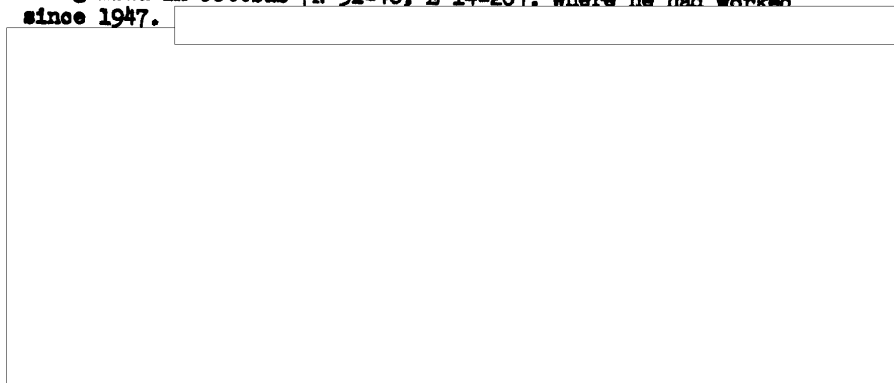
Karger, Arno, Ing.



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He was planning engineer for Department T-22 (low-voltage and power installations). He came to INEX in summer 1954 from Starkstrom-Anlagenbau in Cottbus [N 51-46, E 14-20] where he had worked since 1947.

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Naujocks, Theodor

Chief of the Labor Department at INEX



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Neumann, [Albert], Ing.

Technical director of INEX.

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Pagel, [Heinz]

Business-administration specialist. He was the Main Department director for the Department K-1 (Export and Sales) at INEX.

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Pech, [Franz], Ing.

Main Department chief of Department T-1 (Machine Construction).

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Sasse (fmu)

Business-administration specialist; chief of the department for organization and personnel. [REDACTED]

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Schmidtke 9, Friedrich, Ing.

[REDACTED] He was the Main Department director of Department T-2 (Electrical Installations). In the years 1950-1952, Schmidtke was department director of DOC, and in this position had a substantial part in the work on the Peiping, China, industrial project. [REDACTED]

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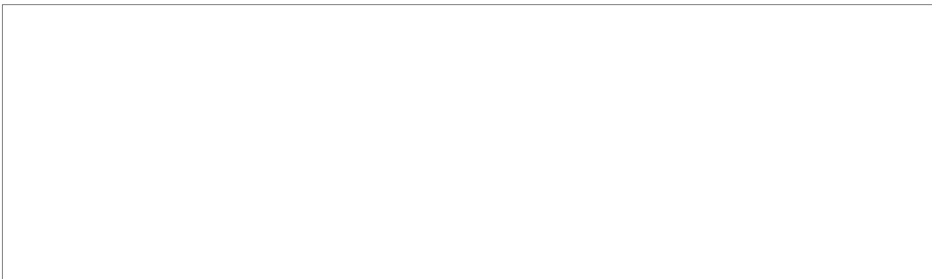
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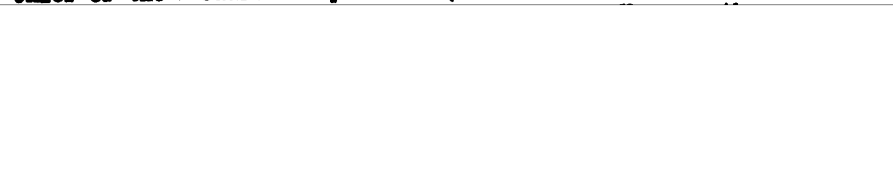
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Schwenk, [Erwin]

Chief of the Cadre Department (the so-called Kaderabteilung).

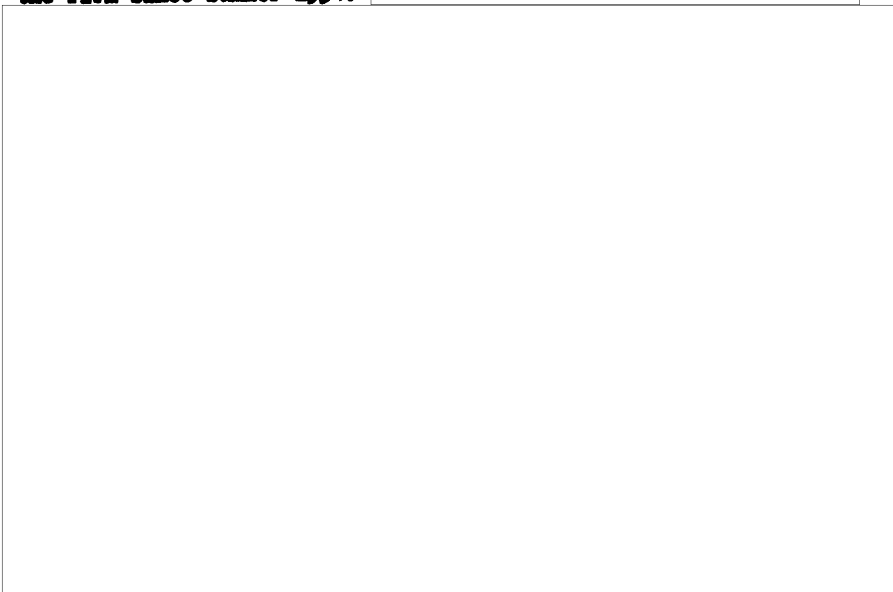


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Simmel, Paul, Dipl. Ing.

He was chief of Department T-23 (Telecommunications Engineering) in INEX. He had been with the firm since summer 1934.

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Hypothetical Foreign Contract Case

The following generalized example of an export contract undertaken by the DDR illustrates how the administrative policy of the DDR affects a typical firm. That policy places full responsibility upon the individual concern for the fulfillment of contract obligations but gives it no simultaneous administrative power to insure that the contract is completed.

A foreign government draws up a project for a power station. It publishes in booklet form an official offer of contract, in which the exact conditions of contract are stated (what is wanted, in what quantities and capacities, delivery date, etc.). Bids are accepted during three months from the date of publication. The bids are then reviewed and the contract given, in this case to the DDR. In calculating their bids, private firms in other countries have made use of their own engineering offices stationed in various foreign countries. These offices know what is possible and what is not possible in the particular country in question, and on the basis of their knowledge review the project description, make their own calculations and comments, and send the data to their home office. The DDR has only a commercial attache in the particular country, who obviously cannot have specialized knowledge in every field. He can only roughly estimate the difficulties entailed in fulfilling the contract and send the data to his ministry in the DDR. The ministry then, partly for reasons of prestige and partly for political considerations, places its bid and wins, since it is the lowest bid.

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One of the conditions of contract is a seven months delivery date, free on construction site, with one percent penalty per day for failure to carry out the contract on time. The conditions of contract, including the final judgement as to whether the delivery deadline can be met, are thus accepted by the ministry and not by a firm specialized and expert in this field. The responsibility for meeting the deadline, however, lies with the contracting firm given the task by the ministry.

The project is now given to some private or nationalized firm for fulfillment, and only now does the matter come into the hands of an expert. The expert sees immediately where difficulties in development, material shortages, and additional costs for transport, foreign labor, material imports, etc., will arise. His prophecies come true, and the costs mount daily because of failure to meet the schedule and the resultant penalties.

In this case, at one percent penalty per day, a three months delay would mean a total loss, and the delivery on many contracts today in the DDR is one to one and a half years late. This simply means that at the time of reckoning, the purchaser has perhaps enough credit to buy two or three installations for nothing, and the manufacturer must keep working to pay for the penalties of the late delivery of the first installation. The number of cases such as this has recently increased in the DDR, where foreign contracts were accepted at all costs, whereas fulfillment was later realized to be impossible, and the resulting penalty costs were often double the value of the original item.

The policy of placing full responsibility upon the individual concern for contract fulfillment, but without giving it any authority to insure the completion of the contract, can only lead to the bankruptcy of the individual firms and to resultant stronger ties with the USSR.

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