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Evaluation of "The Supply Situation in Poland" and "Evaluation of the Economic Agreement Between East Germany and the USSR, Signed During the Negotiations in Moscow Between 3 and 8 January, 1957"

A. General Comments

From our viewpoint the most valuable aspects of these documents are the following: 1) the fact that they contain a copy of a Soviet-Satellite Protocol relating to intra-Bloc economic intercourse; 2) the fact that certain details of the documents offer valuable confirmation of evidence obtained elsewhere; 3) the authors' opinions, which the documents reveal, of the present and future prospects for the East German and Polish economies in general and especially the influence likely to be exerted on these prospects by Soviet politico-economic policies.

1. The copy of the protocol contained in the documents represents the first copy of a Satellite-Soviet economic agreement which has been made available to us. *Ipso facto*, the presence of this protocol makes the document a gem for which we should like to award a laurel wreath. We would also be keenly interested in the acquisition of a copy of the agreement mentioned in article 4 of this protocol and relating to the determination of coefficients for the accounting of deliveries of uranium to the USSR and for the US funds made available by the GDR for the support of the Soviet occupation forces.

We would also be keenly interested in the implications of article 5 of the protocols: does this mean there will be a refund to the GDR (or to the USSR) for non-commercial services performed in 1955? What coefficients were in use in 1955 for settling non-commercial accounts between the GDR and the USSR?

2. The specific comments contained in part B of this evaluation relate only to points of disagreement between information available to us and the facts or their interpretation contained in the documents. Although confirmation of evidence is not specified in this report, there were a number of cases wherein agreement between facts cited in the documents and other evidence available to us was considered especially valuable by our analysts.

3. The specific comments contained in Part B, taken together, imply that the tone of the documents overstates the degree of difficulty facing both the East German and Polish economies in 1957. This disagreement over emphasis in part results from the fact that more information is available now than was the case when the documents were written. Also the flow of events since the beginning of 1957 provides additional evidence for judging Soviet policy toward the Satellites. Thus, although during the first half

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of 1956 East Germany's import plan was not fulfilled, for the year as a whole it was. This of course implies that during the second half of the year, and despite the shortfall in imports from Poland, Hungary, Communist China and the West, total imports increased enough to counterbalance the underfulfillment of the first half. The large increase came chiefly from the USSR and possibly Czechoslovakia. An examination of import-plan fulfillment by commodity groups suggest that the USSR assumed responsibility for assuring East Germany's supply of industrial raw materials, while encouraging the GDR to seek out its own sources of fibers, fabrics and food products either within the Bloc or in uncommitted western countries.

Thus, it must be concluded that the USSR has an interest in the recovery of the East German economy. But to deduce from article 2 of the protocol that the USSR expects nearly complete recovery by 1959 because repayment of the 110 million rouble free-currency credit is to begin in that year is placing far too much importance on a fairly insignificant amount. This provision says only that East Germany's net commodity imports from the USSR will be smaller by 170 million rubles (843 million) in 1959 and 1960 than they would otherwise be (or net exports to the USSR will be larger by 170 million rubles). The recent announcement that the USSR is to extend a fairly sizeable credit to East Germany in 1957 indicates again Soviet recognition that the East German economy has been operating under too great a strain.

Mention should also be made here of the fact that our analysis of available information does not indicate that the Polish railroads are having major difficulties. The railroad system does have a shortage of freight cars, and the prospect of additional traffic between the USSR and East Germany was probably viewed with some concern by the Poles. The Polish railroad system, however, is capable of handling a great amount of traffic and should be able to encompass the additional trade between the USSR and East Germany. The problem is one of allocation of priorities, as the additional traffic would not represent use of a significant part of Polish rail capabilities. The Poles can handle the traffic if they are disposed to do so—but it may be at the expense of domestic traffic.

The reports circulating on Polish railroad difficulties may have been inspired by the Poles themselves as a part of their scheme of independence. Or, they may represent an attempt by the Poles to justify higher revenues from goods transiting the country. In any event, additional revenues from transit traffic would assist in reducing Poland's trade deficit, and might be of greater economic benefit than the small amount of domestic rail traffic that would have to be supplanted by the increases in transit traffic.

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B. Specific Comments\*

East German Shortages of Metalworking Machinery (including metalcutting machine tools and metal forming machinery)

1. "Special assortments of heavy presses and boring mills" -- Although it is known that East Germany has produced large boring mills, these machines have been made chiefly for export markets. East Germany has also built mechanical forging presses as large as 6,000 tons pressure. In addition, Czechoslovakia produces large boring mills and large hydraulic presses, and the USSR has begun to produce large mechanical and hydraulic forging presses in recent years. The absence of specific information concerning the number of these large machines required by East German industry to fulfill their production plans and the number of machines planned for export, plus the use of a qualifying term ("special assortment") prevent confirmation or refutation of shortages in this area.

2. "Precision machine tools" -- Although this category is not sufficiently specific, certain information is available which indicates adequate production of particular types of precision machine tools. The East German machine tool industry produced between 100 to 150 jig boring machines annually since 1952 (probably considerably above domestic requirements -- East Germany may require 10-20 a year), plus some highly precise gear grinders, gear hobbers, and profile grinders. Furthermore, it is known that the USSR has been importing many precision machine tools from the European Satellites and the West. If an East German shortage does exist, therefore, it could be caused by the heavy Soviet demand, rather than by an inability to produce this specialized equipment or to produce it in quantities adequate to meet domestic requirements. While the existence of a shortage in precision machine tools cannot be disproved, it is regarded as doubtful.

3. "Heavy duty extrusion presses" -- Available evidence indicates that East Germany is not producing any extrusion presses, although a few have been built. In fact, any discussion of a general shortage of extrusion presses is somewhat suspect, since most extrusion presses are custom-built machines designed for particular applications at particular plants. In addition, the category "heavy duty extrusion presses", presumably differentiated from medium and light duty extrusion presses, is not standard usage.

Polish Railroads

Although the line capacity of the Polish railroads is sufficient to carry the additional imports from the USSR to East Germany, real difficulties would

\* The page references in this section relate to the translations of the documents copies of which accompany this report.

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be encountered should the East Germans and Soviets expect to use Polish freight cars to carry these additional goods across Poland. The Poles have had a freight car shortage for several years. It is highly doubtful that Poland would undertake to carry East German goods in her own cars unless she were planning to make a sizeable addition to her own freight car park; there has been no indication that Poland is planning to do the latter in 1957. On the other hand, recent reports suggest that rather large numbers of empty East German freight cars which were sent across Poland to Brest during April were used to bring back raw materials from the USSR to East Germany.

In regard to a lack of capacity in transloading facilities which the documents emphasize, it should be pointed out that these transloading stations have never in the past appeared to be a serious bottleneck. Since the construction of a transloading station does not require a large investment, additional capacity, where needed, can be added in a relatively short time. It is true that the Poles, in making their 5-year plan for 1954-1960, recognized that they would need additional transloading capacity. A translation of the plan reads as follows:

"The anticipated growth in transit traffic between the USSR and East Germany and the importation of ore from the USSR are to be insured by the reconstruction of the border transloading stations Malassejone and Surko-Modeta (east of Przemysl). These stations are to be provided with 'a sufficient amount' of transloading equipment and with an ore chaser in order to insure rhythmic supplies of raw material for our smelters in the winter period."

The East German press reports that imports from the USSR for the first four months of 1957 have increased 30 percent over the same period of last year. According to ABE of 11 May 1957:

"Since the beginning of the year, 75,000 railroad cars carrying about 1.5 billion tons of import goods from the Soviet Union, Mongolia, and Poland have passed the Frankfurt-on-Oder frontier station—the largest quantity in 4 months since 1945. In accordance with the trade agreement with the Soviet Union, the imports from the Soviet Union were about 30 per cent higher than during the same period last year. Apart from foodstuffs, a large proportion of the imports from the Soviet Union are accounted for by hard coal, coke, ores, metals, and crude petroleum. ....about 350 freight trains, totalling

18,000 cars, carried export goods from the GDR through the Frankfurt-on-Oder frontier station during the first 4 months of 1957. Exports to the Soviet Union included heavy machines, wood processing machines, furniture and (word indistinct--Ed). Poland, which ranks second among the trade partners of the GDR, received fertilizers, bicycles, motorcycles, cranes, and other goods."

If we accept the above announcement by the East Germans, then whatever transport difficulties existed have been overcome. If we do not accept the announcement, then we need some evidence to support the contention that the Polish railroads will be a bottleneck in moving goods from the USSR to East Germany. The following information would be required:

- 1) Traffic between East Germany and USSR in tons by commodity for each border crossing (both east-west and west-east traffic) by month for 1956 and 1957.
- 2) The same for traffic between Poland and East Germany.
- 3) The same for traffic between Poland and USSR.

#### Food and Agriculture

Evaluation of East German-Soviet Protocol, page 1, paragraph 2: The agreement calls for a "30 percent increase in the delivery of goods from the USSR to East Germany, 1957 as opposed to 1956, including increased deliveries of Soviet...., sawn timber, grain, meat, butter, etc...."

- 1) Sawn timber -- East Germany has traditionally imported sawn timber to the USSR. Through 1957, according to official Soviet statistics there have been no USSR exports of sawn timber to East Germany; thus, any USSR shipments of sawn timber to East Germany would represent an increase over the 1956 if tradition held true that year also. The USSR has the capability of increasing timber shipments to East Germany.
- 2) Grain -- East German imports of grain in 1956 are estimated at about 1.5 million metric tons, the majority (75 to 85 percent) of which came from the USSR. Anticipating 1956 domestic grain production in 1956, 1957 East German import requirements of grain were estimated at 1.5 million tons. The unsatisfactory 1956 grain harvest, however, forced a revision of import plans for 1957 which

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are believed to now call for about 2.0 million tons (incidentally, about 30 percent above the 1956 level as was implied in ref. paragraph 1). In view of poor grain crops in other Soviet Satellites, and thus increased competition for USSR grain supplies, it seems unlikely that Soviet 1957 deliveries of grain to East Germany will exceed the 1956 figure of 1.5 million tons. The recent East German announcement of plans to increase free market purchases of grain and to mill a coarser flour in order to make up the gap between planned and actual Soviet deliveries further implies that the Soviet Union will not meet her foodstuff export commitments. Our conclusion is, therefore, in contradiction of paragraph 1, page 11.

- 3) Meat and Butter -- In 1956 East Germany imported 95.5 thousand metric tons of meat and meat products, and 30.0 thousand metric tons of butter. Soviet production of commercial livestock products including butter has developed unsatisfactorily. While an increase in Soviet exports of these products is possible, it is less likely for meat than for butter. A substantial portion of USSR quality food exports to East Germany are consumed by Soviet troops stationed in East Germany.

The Supply Situation in Poland, page 1, paragraph 2: The information is believed to be generally true. It would appear, however, that reference to 200,000 tons of wheat and barley scheduled for delivery between January and June 1957, is below plan. Could this not mean 200,000 of wheat monthly?

#### Chemical Raw Materials

Supply Situation in Poland, page 6 - (5): The quantity of natural gas used for heating should be 400,000 cubic meters per day.

#### Non-Ferrous Metals

- 1) In contrast to the statement that certain non-ferrous commodities are not available to East Germany from Bloc sources, our evidence indicates East German imports of graphite, raw phosphates and other non-ferrous commodities from the USSR.
- 2) The conclusions in the document on Poland relative to the imports of lead and zinc concentrates and the opening of the new lead-zinc mines imply that Poland is striving for self-sufficiency in lead and zinc from indigenous ores. Poland is one of the world's

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important producers of zinc, and the import of lead-zinc concentrates and the export of zinc metal have been standard practice for some years. Thus Poland is more than self-sufficient in zinc and is in fact a supplier of zinc to the other European Satellites.

3) In contrast to the statement that the domestic copper refining industry is entirely dependent on black copper from the USSR, a number of reports contain information on the production of refined copper from domestic ores in Poland. Also, in view of the shortage of copper in the USSR, it seems unlikely that Poland could obtain Soviet black copper.

#### Coal

Supply Situation in Poland, page 3, paragraph d, sub (1): The report plan for 1957 is around 13,000,000 tons and not 10,000,000 as shown.

#### Electric Power

The comments concerning the Polish power supply appear to be reasonably correct; however, the first part concerning the necessary shut-down of old equipment may be questionable if it is on the basis of efficiency, as the article implies. It is common practice to keep old, inefficient equipment available for peaking purposes far beyond its normal life. It is not unusual to restrict the heavy industrial users of power over the severest winter peaks as a means of stretching capacity. A 200 hr shortage covered in this manner does not seem serious, even though it may not be desirable. It would seem more important to point out that Poland has had an excellent power-production record thru 1956. The planned rise in power production is at a lower rate of increase than Poland has been able to achieve in the past, the rate of increase declining from 13 percent to about 10 percent. New capacity due in 1957 will not be a major contribution to 1957 production.

#### Ferrous Metals

Evaluation of East German-Soviet Protocol, page 6, paragraph 1: Latest information indicates that East Germany has at least partially solved the supply problem created by the Polish cut-back in coke shipments for 1957. The USSR has agreed to supply to East Germany in 1957 a total of 450,000 tons of coke, a large proportion of which probably will come from Poland. Soviet and Polish deliveries have been thus far at a rate which, if continued throughout the year, should equal the commitment.

Supply Situation in Poland, page 3, paragraph 3d (2): Because Poland's production of pig iron is to increase by 285,000 tons in 1957 over 1956,

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(based on official Polish announcement) the increased consumption of metallurgical coke for this purpose will probably amount to approximately 900,000 tons. It is agreed that Polish shipments of coke to East Germany will be reduced in 1957, but not for the reason given. It appears more likely that Polish coke shipments to East Germany and other Bloc countries will be reduced to provide exports of coke to Free World countries for foreign exchange as was done in 1956 when Polish exports to the Bloc were reduced by almost the same amount as exports to the West were increased.

Pages 4 and 5, paragraph 3d (4): Our information confirms the fact that transport bottlenecks have existed in connection with shipments of Krivoy Rog ore to Poland. Although the closing of the Suez Canal may have delayed the shipments of ore from India and Communist China, receipts from both of these countries increased in 1956 over 1955. Available data indicate that Poland's domestic production of iron ore in 1956 supplied approximately 15 percent of total iron content requirements and 17 percent of blast furnace needs compared with the 12-14 percent contained in the document.

The statement concerning costs and investment in the mining of iron ore from the Gostochowa and Leszyca regions is interesting, but needs further explanation. The document appears to mean that money invested in the Leszyca region would have been spent more wisely in Gostochowa. If correct, our information tends to support such a conclusion on the basis of relative costs of obtaining 1 ton of iron content from ore mined in each of these regions. These costs are: for Gostochowa - 700 slots; for Leszyca - 1200 to 1500 slots. However, costs for Gostochowa and Leszyca are 3.5 and 7.5 times respectively the cost of obtaining 1 ton of iron content from imported ore. Consequently, the conclusion might be that it would be less costly for Poland to depend entirely on imported ore, provided it was available in sufficient quantities to meet requirements.

Page 11, paragraphs 4c and 4d: Poland currently sinters a considerable amount of fines from Krivoy Rog ores. Sintering capacity of the Polish industry in 1954 was 3 million tons and plans indicate more capacity is to be built by 1960 so that the percentage of sinter in Polish blast furnace burdens may be increased from 35 to 85 percent. Over the past two years Poland has attempted to obtain more iron ore from Sweden whose shipments dropped from approximately 1 million tons in 1951 to 413,000 tons in 1954. The Poles were successful in getting Sweden to increase shipments to 520,000 tons in 1956 and in completing a trade agreement for 650,000 tons in 1957.

#### Electrotechnical Industry in East Germany

The East German industry is not only plagued by shortages of input materials



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(with resulting low production rates and plant shutdowns) but also by high levels of exports to the USSR, China and other Satellite countries (with resulting shortfalls in her own domestic plans). If this situation is to be remedied, it seems that the USSR will have to go farther than a free currency grant and acceptance of a lag in the export of East German goods in repayment. The USSR may have to increase its investment in industries producing those input materials now in short supply in all the Satellites. The USSR may also have to take concrete steps to put East Germany's idle plant capacity back into production. Any trends in these directions are of particular interest.

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