

SWNCC 091 AUSTRIA  
MISCELLANEOUS


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CARD 3

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DECIMAL FILE NO. 091 AUSTRIA, MISCELLANEOUS CARD 3

SWNCC \_\_\_\_\_ Series. Part \_\_\_\_\_ From SWNCC \_\_\_\_\_ thru SWNCC \_\_\_\_\_

(title)

Serial No.	From	Date	To	SYNOPSIS <del>CM-IN-1429</del>
28	JCS Sec. Moseley JCS JCS Sec. SANACC	10 Nov 47 12 Nov 47 14 Nov 47 14 Nov 47 14 Nov 47	SWNCC Sec. State Sec. SANACC SANACC Sec. State	SM-9180 Encl. WARK 89083; CM-IN 1275; Re: Provision of Supplies for Austria under Public Law 84.
29	Col. Urbach	5 Dec 47	JCS	Re: Commander's Estimate of the Situation (Hqs US Forces in Austria) as of 1 Dec 47
30	Sec. Army	9 Jan 48	Sec. of State	Re: Critical Food Situation in Austria.
31	Sec. JCS	18 Feb 48	Sec. SWNCC	Re: Procurement of Supplies for Austria
32	JCS	20 Feb 48	SWNCC	Cancelling action on CM-IN-2413 (SM-9556) above memo on Procurement of Supplies for Austria.
33	Sec. SANACC	11 May 48	JCS	Memo re: Provision of Supplies for Austria under Public Law 84. View action taken by Army in WARK 90169, 12 Nov 47, no further action will be taken by State and SANACC.

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File No. 091 Austria - Miscellaneous

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No.	FROM	DATE	TO	SYNOPSIS
12	JCS Mr. Moseley	5 Feb 47 6 Feb 47	SWNCC, Sec Sec. of State	Re: Removal of Unassimilable Displaced Persons from Austria.
13	Capt. Lalor	12 Feb. 47	Sec. SWNCC	Re: Contemplated disposition of political internees under automatic arrest in Austria.
14	Mr. Moseley Col. McFarland Mr. Hilldring Mr. Moseley, Sec	25 Feb. 47 25 Feb. 47 10 Mar 47 10 Mar 47	Sec. of State SWNCC SWNCC, Sec. Sec., JCS	Re: Interim Air Agreement with Austria.
15	Mr. Moseley, Sec. JCS	3 Mar. 47 28 Feb. 47	SWNCC MEMBERS Sec. SWNCC	Re: Contemplated disposition of political internees under automatic arrest in Austria.
16	Col. McFarland	13 Mar. 47	SWNCC	Re: Interim Air Agreement with Austria.
17	Mr. Hilldring Plans & Policy	14 May 47 22 May 47	SWNCC P&O Memo for Info.No. 61	Re: Translation of Article by P. Croquet-Damais. (The U.S.S.R. on the Threshold of the Air Age).
18	Capt. Lalor Mr. Moseley	13 May 47 14 May 47	JCS SWNCC State Mbr. SWNCC	Re: United States Future Policy Toward Austria.
19	Genl. Hilldring		Secretary, SWNCC	Re: United States Future Policy toward Austria
20	Capt. Stephens USN	19 May 47	SWNCC	Re: Results of Meeting - Allied Council for Austria. (CM-IN-3086)
21	Capt. Lalor	26 May 47	SWNCC	Re: United States Future Policy Toward Austria
22	SWNCC	23 May 47	JCS	Re: United States Future Policy Toward Austria
23	Captains Stephens	29 May 47	SWNCC	Re: Shipment of Food to Austria
24	SWNCC	2 Jun 47	STATE MEMBER, SWNCC	Re: Shipment of Food to Austria
25	Capt. Stephens Mr. Hilldring	19 Jun 47 19 Jun 47	SWNCC Sec. of State	Re: Allied Council (Austria) Meeting of 13 June 1947.
26	Mr. Moseley Mr. Hilldring	25 Jul 47 23 Jul 47	JCS SWNCC	Re: CABLE to American Legation at Vienna re relief Agreement.
27	Sec. SANACC SEC JCS State Mbr Swnc Sec. SANACC	27 Oct 47 24 Oct 47 30 Oct 47 3 Nov 47	Sec. of State SANACC Sec. SANACC JCS	Re: Group of cables on relief assistance agreements in the U.S. occupation zones of Vienna and Austria. SANA-5807

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LIST OF PAPERS

CARD 1

FILE NO. 091 AUSTRIA - MISCELLANEOUS

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Serial No.	From	Date	To	Synopsis
<del>1</del>	<del>Sec. McCarthy</del>	<del>9/27/45</del>	<del>U.S.S.</del>	<del>Memo re: EVACUATION OF GERMANS FROM UNITED STATES ZONE, AUSTRIA</del>
1	Sec. of War	10/5/45	Sec. of State	Letter re: tonage of supplies and coal to Austria.
(SUBJECT) - Interdepartmental committee for the resumption of communications for liberated areas - Reopening of Civilian Communications for Austria and Germany - Filed under SWNCC 311 Communications - Miscellaneous.				
2	Sec. of War	12/28.45	Sec. of State	Letter re: Proposals for the reduction of occupation forces in Austria giving record of strength.
3	Sec. of War	5/13/46	Sec. of State	Letter re: Austrian Political Representative to U.S. relative to the redemption of Military payment orders issued to prisoners of war being repatriated to Austria.
4	USFA VIENNA	7/16/46	War Dept. CM-2482	Incoming message P 1266 Re detailed suggestions and comments of proposal in WARX 90450 made as follows:
5	Capt. Lalor	11/19/46	SWNCC	Re: Reduction in Pension (CM-IN 2949 Expenditures in Austria.
6	Capt. Lalor Mr. Hilldring	11/22/46 11/26/46	SWNCC Sec. of State	Re: Distribution of Food Produced on Soviet Controlled Land in Austria.
7	Mr. Hilldring JCS	12/6/46 "	Sec. of State SWNCC	Re: Status of Occupation Forces in Austria.
8	Cpt. Lalor Mr. Hilldring	12/27/46 12/30/46	Sec. SWNCC Sec. of State	Re: Meeting of Allied Council in Vienna on 23 Dec. 46.
9	Sec. of War	12/23/46	Sec. of State	Re: Decision of the council Of Foreign Ministers Respecting Its Next Session to be transmitted to Generals McNarney and Clark.
10	Capt. Lalor Hilldring	12/31/46 Jan 2, 47	SWNCC State, 500	SM-8339 CM-IN-4377 Re: Procedure for procurement and importation of coal from U.K. Zone, Germany <del>XXXXXXXXXXXXXXXXXXXX</del> for use by occupying force.
11	Col. McFarland Mr. Moseley	1-28-47 1-29-47	SWNCC SEC OF STATE	RE: Meeting of Allied Control Council for Austria Held on 24 Jan. 47.

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THE STATE-ARMY-NAVY-AIR FORCE COORDINATING COMMITTEE  
Washington, D. C.

SANA-6074  
11 May 1948

MEMORANDUM FOR THE SECRETARY, JOINT CHIEFS OF STAFF:

Subject: Provision of Supplies for Austria  
under Public Law 84.

- References:
- a. SM-9180
  - b. SM-9209
  - c. SM-9212
  - d. SANA-5814
  - e. SANA-5818

In view of the action taken by the Department of the Army in WARX 90169 dated 12 November 1947 and WARX 92665 dated 19 December 1947, no further action will be taken by the Department of State and the State-Army-Navy-Air Force Coordinating Committee on references a, b, and c.

For the State-Army-Navy-Air Force Coordinating  
Committee:

H. W. MOSELEY,  
Secretary

- Copies to:
- 1 - State Member
  - 1 - Army Member
  - 1 - Navy Member
  - 1 - Air Force Member
  - 1 - P&O
  - 2 - Op-35
  - 2 - Dir., P&O, USAF
  - 1 - Off. of Secy of Defense  
(Mr. Blum)

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THE JOINT CHIEFS OF STAFF  
WASHINGTON 25, D. C.

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SM-9656  
18 February 1948

MEMORANDUM FOR THE STATE-ARMY-NAVY-AIR FORCE  
COORDINATING COMMITTEE:

Subject: Procurement of Supplies  
for Austria.

Enclosure: CM-IN-2413 (13 Feb 48) Copy No. 33.

The enclosed message from the Commanding General,  
U.S. Forces in Austria, is forwarded requesting the basis  
of reply.

For the Joint Chiefs of Staff:

*W. G. Lalor*  
W. G. LALOR,  
Captain, U.S. Navy,  
Secretary.

FFR 19 1948



SWNCC SECRETARIAT

- State Member
- ~~4365~~ Member
- Navy Member
- Ass't State Member
- Ass't Army Member
- Ass't Navy Member
- Executive Secretary
- Ass't Exec. Secretary
- State Adm. Assistant
- Army Adm. Assistant
- Navy Adm. Assistant
- File

*WGS*  
*Change of action to SS & P*

*Cable loaned to state*  
*W. G. Lalor*  
*a/s*

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JAN 9 1948



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 Ass't Navy Member \_\_\_\_\_  
 Executive Secretary \_\_\_\_\_  
 Ass't Exec. Secretary WMB  
 State 7 JAN 1948 \_\_\_\_\_  
 Army Adm. Assistant 501  
 Navy Adm. Assistant \_\_\_\_\_  
 File \_\_\_\_\_

*[Handwritten signature]*

*091 Austria*  
*[Handwritten signature]*

The Honorable *[Faint text]*

The Secretary of State

Dear Mr. Secretary:

Although the Department of the Army was relieved by the Department of State of financial responsibility for providing civilian relief for Austria on 30 June 1947, the Army is still vitally concerned with the problem of food for Austria.

Brigadier General J. D. Balmer, U.S. Deputy Commissioner for Austria, has analyzed the food program for Austria for the coming winter months and has come to the conclusion that by utilizing all available sources there will be sufficient food available only until 23 May 1948. Since the European Recovery Plan may in all probability not be operable by that time, the food situation in Austria will become critical. To prevent such an occurrence it is essential that supplementary aid be provided. Procurement for such additional aid must be initiated by March 1948 if the food program is to be continuous.

Food is the main weapon used by the U.S. in Austria to maintain our position there. Without food in sufficient quantities, U.S. forces of occupation may soon become incapable of accomplishing the main U.S. objectives in Austria, those of reconstituting Austrian sovereignty and economic self-sufficiency. The net result of lack of sufficient food for Austria might be the loss of an important U.S. strategic position on the Continent. A cessation of U.S. food shipments, which would force a reduction of the daily ration from 1700 calories to approximately 822 calories by the end of May 1948, would deprive the people of Austria of both the hope and the energy to resist effectively the pressure of Soviet expansion.

The people of Austria would not be able to endure this starvation diet for long. The safety of U.S. occupation forces is likely to be jeopardized by the violence and disorders generated by starvation. These disorders, effectively directed and propagandized by the Soviets, could easily increase in energy and violence until they surpass the capabilities of the U.S. forces to contain them. American casualties would be certain unless our troops were completely withdrawn. U.S.

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withdrawal from Austria under such circumstances could hardly be justified, however, and therefore it appears imperative that timely action be taken to avoid the crisis.

It is fully appreciated that there are other countries such as France and Italy which may require additional interim assistance. In Italy and France, however, the U.S. has no military commitments and the lives of U.S. troops would not be directly jeopardized as would be the case in Austria. It is the presence of U.S. troops in Austria that makes this problem the more critical and pressing, and it is for this specific reason that the food problem should be solved on a sound basis.

It is requested, therefore, that necessary steps be taken by the Department of State to insure delivery of minimum essential food supplies for Austria pending the implementation of the European Recovery Plan.

Sincerely yours,

(Signed) William H. Draper, Jr.

WILLIAM H. DRAPER, JR.  
Acting Secretary of the Army

Incl  
Memo by Gen Belmer

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9 December 1947

MEMORANDUM:

CRITICAL FOOD SITUATION IN AUSTRIA

1. The food pipeline will dry-up in May.

Based on the Interim Aid Bill and the monetary allowance presently programmed for Austria, IFPC Food Allocations for the 3rd quarter FY 48, food procured under PL 84 but not yet delivered to Austria and utilizing 1/13 of the harvest per ration period, there will be sufficient food to last until the 23rd of May, leaving the pipeline completely dry. The only food in Austria after that date will be the remaining 4/13 of the harvest amounting to approximately 822 calories per day per average consumer, plus a very small U.S. emergency reserve of 20 days flour, 15 days meat, 30 days fat, 3 days pulses, 4 days sugar.

2. A break in the pipeline must be avoided.

In order to continue feeding after 23 May, a break in the pipeline must be avoided. To accomplish this, procurement must be renewed not later than early March. This means that either the Marshall Plan must be in operation by March or additional relief funds made available by Congress, both of which from a practical point of view appear very unlikely. Therefore if the status quo of the occupation forces in Austria is to be maintained after 23 May 1948 supplies for all Austria must be provided by the Department of the Army under the disease and unrest formula and procurement must be initiated in March.

3. Import requirements in metric tons per ration period.

<u>ITEM</u>	<u>REQM'T</u>	<u>INDIG.</u>	<u>IMPT. REQM'T</u>	<u>EST COST</u>
Flour	47,755	17,090	30,665)	\$5,415,500.
Processed Cereals	11,601	2,273	9,328)	
Meat	5,908	5,545	361	158,840.
Fat	4,801	1,264	3,537	2,376,864.
Pulses	4,830	0	4,830	975,660.
Sugar	5,187	3,000	2,187	437,400.
Total				\$9,364,264.
Freight Cost				1,123,712.
Total				\$10,487,976.

The above interpreted in terms of Quarterly import requirements follow.

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<u>ITEM</u>	<u>QUANTITY (IN METRIC TONS)</u>	<u>EST. COST</u>
Grain	141,000	\$17,625,000.
Fat	12,000	8,064,000.
Pulses	16,000	8,232,000.
Sugar	7,000	1,400,000.
	<b>Total</b>	<u>\$30,321,000.</u>
	<b>Freight Cost</b>	<u>5,638,520.</u>
		<b>\$35,959,520.</b>

4. A Marshall Plan by June.

If one takes into consideration the present Congressional attitude toward the Marshall Plan, it can only be said that the program is more apt to begin its operations in June than in March. Therefore if procurement is initiated on these items of food supply by Department of the Army in March a continuous flow in the pipeline can be maintained until approximately the 22nd of August. If the Marshall Plan begins operations in June, there will be no interruptions in the pipeline and food supplies will thus be available for feeding after 22 August. This is a realistic view of the Austrian food situation.

This is an informal memorandum in which I desire to give interested agencies the benefit of our coordinated information before I return to Austria. Formal presentation will be made by the High Commissioner.

J. D. Balmer  
 Brig. General, USA  
 Deputy Commissioner, Austria

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HEADQUARTERS  
UNITED STATES FORCES IN AUSTRIA  
APO 777, U. S. ARMY

091 *Austria*

AG 319.1 x 008 GBI

5 December 1947

SUBJECT: Commander's Estimate of the Situation

TO: Joint Chiefs of Staff  
United States Army  
Washington 25, D. C.

1. This headquarters publishes a Commander's Estimate of the Situation monthly. Each monthly estimate is a complete document within itself and does not require reference to previous estimates.

2. The estimate presently is given extensive distribution within this headquarters in order to effectively coordinate and direct the efforts of the staff. It is also given extensive external distribution to keep all higher adjacent and lower headquarters, as well as military attaches and intelligence agencies, informed of the monthly estimate of the situation in Austria. This estimate is not intended to replace other reports from this headquarters.

3. This headquarters would appreciate your comment on the adequacy, accuracy and timeliness of contents as well as distribution and form of this estimate.

4. Two (2) copies of the Commander's Estimate of the Situation as of 1 December 1947 are inclosed for your information.

5. Request that one of the inclosed copies be passed to the State Department.

FOR THE COMMANDING GENERAL:

W URBACH  
Colonel AGD  
Adjutant General

Incl:

2 copies Cmdr's Est of  
the Sit as of 1 Dec 47.

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HEADQUARTERS  
UNITED STATES FORCES IN AUSTRIA  
APO 177, U. S. ARMY

1 December 1947

COMMANDER'S ESTIMATE OF THE SITUATION  
as of  
1 December 1947

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## SECTION I

SUMMARY

Political: Political tension increased during November, with some indication that a crisis might result. The passage of the Currency Protection Law by the socialist-People's Party coalition was the most important single development of the month, resulting as it did in the withdrawal of the sole Communist member of the Cabinet and the open acceptance by the Communists of the role of opposition party. The Soviet Element did not clearly define its attitude toward this law, but seemed likely to use it to cause maximum embarrassment to the Austrian Government. With the reconvening of the Council of Foreign Ministers in London, Austrians wondered whether a State Treaty might at last be obtained. It was impossible to reach agreement between the four Allies on most of the important matters discussed in the Allied Commission. The question of Pan-American flights into Vienna came closer to a head, with the Commanding General's second letter of protest to General Kourasov against Soviet restrictions. The Socialist Party appeared to have won significant victories in the shop council elections. The problem of the maintenance and care of Displaced Persons entered into a critical stage.

Economic: The long-discussed currency reform, announced by the passage of the Currency Protection Law on 19 November, created consternation and resentment; but this initial reaction has given way to a more sober estimate of the probable economic consequences, which are expected to be favorable on balance. Austrian industry in general maintains its October level of operation, although the rates of output of the component industries have been subject to marked fluctuations throughout November. The electric power shortage may be regarded as partially alleviated. The industrial coal situation continues favorable although household deliveries are well behind schedule. The liquid fuel shortage remains acute, with Austria importing petroleum products. Raw material shortages continue acute. The volume of exports remains generally unchanged although hoarding of finished goods continues to hamper internal trade. November rains improve the outlook for winter grains already sown. The transportation situation improves, with traffic being resumed on the Danube and an increase in electrified railroad operation. The labor situation remains unchanged. Soviet economic policies continue to work to Austria's disadvantage.

Psychological: Passage by the Austrian Parliament of the Currency Protection Law, and uncertainties regarding the position the Soviet Element will take towards the law in the Allied Council have intensified the psychological tension reported in previous summaries. The situation is aggravated by the fact that although passed at the urging of labor leaders the law is unpopular with the people. The withdrawal of the Communist Party from the government by way of protest against passage of the law has had a further disturbing effect. In case the Allied Council cannot agree on unanimous approval, 31 days must elapse before the law can be implemented. With confidence in present schilling gone and no new schilling to replace it pending the action of the Allied Council, the inevitable economic dislocation is expected to lead to serious labor unrest, particularly if the 31-day period has to be waited out. This period expires 22 December.

Military: Strength of Soviet forces in Austria remains at 53,000. Soviet Air Force strength in Austria remains at its same high level of 700 operational tactical aircraft. British and French troop strengths are unchanged at about 11,000 and 8,000, respectively; neither power has operational air units in Austria. The strengths above include military and Allied civilian elements of the occupation forces other than dependents. There is still no Austrian Army or Air Force. Austrian police strength remains 26,000. Soviet forces have concluded their summer field training and have moved to winter quarters, where their main activity continues to be combat training. Despite their being under T/O strength, all Soviet units are battle worthy and are both capable

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## SECTION II

GENERAL1. a. Mission: (See also par 1b below)

## (1) As US High Commissioner for Austria:

To represent the US Government in the Allied Commission for Austria.

## (2) As Commander in Chief, US Forces in Austria:

To support the US High Commissioner for Austria in the accomplishment of his mission.

b. Intermediate Objectives:

The basic directives and declarations of US policy which govern USFA's operations indicate that USFA's efforts in Austria will be directed toward the following lines of action:

- (1) To make such positive contributions, or to help work out and carry out programs toward this end, as would assist the re-establishment of Austria's political and economic independence.
- (2) To resist to the utmost, within the authority granted to the US High Commissioner and Commander in Chief, any and all actions by any other power, or by the Austrians themselves, that would infringe upon the degree to which political and economic independence or viability of Austria already exist, and to resist any and all actions that would jeopardize Austria's early attainment of full political and economic independence.
- (3) To resist, within the limits of the US High Commissioner's and the Commander in Chief's authority, any extension of the military, political or economic influence within Austria of any other government whose preponderance would be considered inimical to the interest of the United States.
- (4) To advise against the conclusion of a treaty if a situation should develop in Austria that indicates the probability of a domination of Austria or impairment of its territorial integrity by another power in the event a treaty were concluded.
- (5) Help PCIRO to take over full operational functions concerning DPs under IRO mandate. Obtain a satisfactory arrangement for the care and maintenance of displaced persons. Resettle those DPs not under IRO mandate.

2. Considerations Affecting the Possible Lines of Action:

a. Basic documents governing action of the US High Commissioner and Commander in Chief, United States Forces in Austria.

(1) Moscow Declaration: October 1943

At this time the United States officially took the stand that she regarded Austria as the first free country to fall a victim to Hitlerite aggression. It regards the annexation imposed on Austria by Germany in March 1938 as null and void and considers itself as in no way bound by any changes effected in Austria since that date. The United States wishes to see re-established a free and independent Austria and thereby to open the way for the Austrian people themselves, as well as those neighboring states faced with similar problems to find political and economic security, which is the only basis

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- (6) The Allied Commission for Austria: (Machinery of control in Austria, dated 28 June 1946)

The four powers (Great Britain, USA, Russia and France) consider it necessary in view of the establishment; as a result of free elections here in Austria on 25 November 1945, of an Austrian Government recognized by the four powers to redefine the nature and extension of the authority of the Austrian Government and of the functions of the Allied organization and forces in Austria, and thereby to give effect to Article 14 of the Agreement signed in the European Advisory Commission on 4 July 1945, have agreed that the authority of the Austrian Government shall extend fully throughout Austria, subject only to the following reservations:

- (a) The Austrian Government shall carry out such direction they may receive from the Allied Commission.
- (b) Neither the Austrian Government nor any subordinate Austrian authority shall take action on matters specified in Article 5 without the prior written consent of the Allied Commission.

- (7) Statement regarding Austria Issued by the Department of State, Washington, D. C., 30 October 1946

In the opinion of the Department of State, the judgment of the International Military Tribunal rendered at Nuremberg on 30 September - 1 October 1946, gave further international confirmation to this view of Austria's status by defining the invasion of that country as an aggressive act - "a premeditated aggressive step in furthering the plan to wage aggressive war against other countries." The Nuremberg judgment also states that "Austria was in fact seized by Germany in the month of March 1938."

In order to clarify the attitude of the United States Government in this matter, the United States Government recognizes Austria for all purposes, including legal and administrative, as a liberated country comparable in status to other liberated areas and entitled to the same treatment, subject only to the controls reserved to the occupying powers in the New Control Agreement for Austria of 28 June 1946. The United States Government believes that the international acts mentioned above are adequate reason for all members of the United Nations to regard Austria as a liberated country.

- (8) Our Cable P-6876 in answer to W-88740 of 1 January 1947, giving requested suggestions for revision of JCS 1369/6.

In this cable, USFA concurs as to the desirability of a sharp concise document incorporating principally a statement of policy, to be effective until superseded by a new directive or until a treaty comes into effect. The following suggestions on general principles were emphasized:

- (a) That Austria be treated as a liberated country whose Government is recognized by the four powers.
- (b) That Austrian self-government through local and federal authorities, in accordance with the Austrian Constitution be supported and furthered in every way and at all levels; administrative responsibility and authority be handed over to Austrian authorities even though the latter may not be equipped to exercise them with full efficiency; exercise of remaining powers retained by Allied authorities in Control Agreement to be reduced progressively to point where Allied functions are limited to observation and advice, except in emergencies.
- (c) Austrian freedom of speech, press and religion, and the right to free and secret elections to be protected.

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resettlement of displaced persons and refugees in the U. S. Zone, subject to the supreme authority and responsibility of the Commanding General, USFA."

- (c) The Commanding General, USFA, is responsible for taking appropriate measures with the Austrian Government to provide, at no cost to IRO or to the United States, essential supplies and services to IRO for the care of displaced persons.

(II) Definition of a Displaced Person

Displaced persons in the U. S. area of control in Austria are divided into two categories:

- (a) Those who come under the IRO mandate and are defined by the IRO Constitution (Paragraph (12) above).
- (b) Those who do not come under the IRO mandate and who may be defined as non-Austrians who arrived in Austria prior to 1 November 1945 as a result of the war or events related to the war.

b. Lines of action taken by other Powers effecting the fulfillment of our objectives.

Refer to paragraph a(4) above.

A major stumbling block in the final settlement of an Austrian Treaty has been the so-called German asset problem. The Potsdam Agreement clearly states the position of each of the major powers as to their claims of former German property or assets in Austria. However, the amount as claimed by the Soviets is one which the other Allies believe is unbearably excessive, and more than a free and independent Austria can afford. Moreover, the insistence by the Soviets on what amounts to an extra-territorial status for the properties they claim makes impossible a reasonable compromise as to the amounts of assets to be turned over to the Russian Government. The arbitrary seizing of alleged former German assets by the Soviets without former representation to the other powers has led to much disagreement in the Allied Commission for Austria.

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SECTION III

POLITICAL ESTIMATE

1. The Current Situation:

November brought two main events, the consequences of neither of which were as yet foreseeable at the end of the month, but which might prove of greatest importance to Austria; the opening of the Council of Foreign Ministers in London, which would once again take up the question of the State Treaty, and the passage of the Currency Protection Law by Parliament. For the period of its duration, Austrians will anxiously follow the discussions of the Council, waiting to see whether agreement will finally be reached on a State Treaty or whether their present status will be continued indefinitely, with the possibility of worse to come. The Currency Protection Law, passed on the night of the 19th by the votes of the Socialist and Peoples' Parties, provided the occasion, if not the cause, of the breakup of the Government of concentration which had existed ever since the elections in 1945. By the resignation of the sole Communist Minister, the Communist Party gave up a valuable listening post but could drop all pretense of being anything other than an opposition party. This seemed to fit into the general tendency of the Communists to refuse to cooperate any longer with the Socialist and bourgeois parties in other European countries. The three western powers speedily expressed their assent to the currency law, a drastic and ill-timed measure aimed to check inflation, but by the end of the month the Soviets had still not taken a definite stand. The Communist press violently attacked the law and its sponsors, but the Soviet representatives in the Allied Commission confined themselves to stating that they required additional information as to the scope and operation of the law. They argued that it discriminated against them in failing to protect deposits in the Soviet military bank. However, they might still prove willing to accept the law with such modifications as would be highly profitable to themselves, rather than opposing it irrevocably according to the line taken by the Communist press. Should the Soviets in the end reject the law, the question would then arise as to whether they were prepared to take such extreme measures against its implementation as to force its withdrawal under the threat of economic partition of the country.

Aside from the inability of the Allied Council to reach a final decision with regard to the currency law, there was again disagreement on the most important topics discussed by that body, such as the monthly solid and liquid fuel plans, the attempt to compel Austria to bear freight charges beyond its borders on oil being transported to the Soviet Union as war booty, and price violations by USIA\*.

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\* USIVA (Administration for Soviet Assets in Eastern Austria) was changed to ESIA in mid-October, when the Soviets dropped the word "eastern" (in Russian, VOSTOSHOI).

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A plan is now under study whereby the Austrian Government would make available for DP purposes certain blocked schilling funds, known as the UNRRA Funds, which accrued to it as a result of sales of supplies brought in by UNRRA. This plan will require the consent of the Austrian Government and of the UNRRA Accounting Office in London.

In short there was a marked increase in political tension during the month of November, pointing toward a possible crisis in the near future.

2. Capabilities of Other Powers:

a. USSR:

(1) To attack the present Austrian Government and the record of its individual members.

(2) To continue the propaganda campaign against the western powers, with special emphasis on discrediting the objectives of the United States and slandering the conduct of the American forces of occupation. 6/2

(3) To prolong the present state of economic and political tension in order to exert pressure on the Austrian Government to accede to Soviet demands.

(4) To give political and material support to the Austrian Communists, who have now openly become an opposition party.

(5) To use the passage of the Currency Protection Law for the maximum embarrassment of the Austrian Government, and perhaps even as the pretext for the economic partitioning of Austria.

b. France:

(1) In the attempt to control the balance of power in quadripartite negotiations, to support or accept a compromise with Soviet proposals.

(2) To foster regionalism in Tyrol and the Vorarlberg at the expense of the authority of the central government.

c. Great Britain:

Barring a major change of policy, which would presumably be coordinated with the US, no line of action on the part of Great Britain is conceived which might adversely affect the accomplishment of the US Mission in Austria.

d. Austria:

(1) In view of inexorable Soviet opposition, to abandon the present policy of the Austrian Government of cooperating with the western powers.

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(5) Soviet capability 2a(5), the economic partitioning of Austria, would mean the complete defeat of present American objectives.

(6) French capability 2b(1), to support or compromise with Soviet proposals, would render this American line of action more difficult. However, since the French element in the past months has with increasing frequency sided with the American and British elements in the Allied Commission, and in view of French domestic political developments, this capability is unlikely. It would have no effect on American lines of action 3b, 3d and 3e, but would make 3c (opposition to Soviet penetration) more difficult.

(7) The chief effect of French capability 2b(2), the encouragement of regionalism in the Tyrol and the Vorarlberg, would be to weaken the authority of central government, which the United States element is anxious to maintain. In this sense it might have some adverse effect on American line of action 3a, but would not influence any of the others. There is no indication, however, that the French are considering any such policy.

(8) Austrian capability 2d(1), the abandonment of the present policy of cooperation with the western powers, would presumably result in the abandonment likewise of the American line of action under discussion. It would also render American line of action 3d pointless and greatly decrease the desirability of 3e. This Austrian capability is very unlikely, however, since the two parties of the Government are both firmly committed to a western course, which only protracted economic hardship and the apparent hopelessness of further resistance would induce them to abandon.

(9) Austrian capability 2d(2), the registering of protests against American policy for local political effect, might make the task of implementing American line of action 3a, as well as 3d and 3e, less grateful, but not more difficult or less desirable. It would have no effect on 3b or 3c.

3b. To give full Publicity to Soviet Action and Policy harmful to Austria:

None of the capabilities of the other powers could prevent the implementation of this American line of action. As to the Soviet campaign of anti-western propaganda, its effect is a cumulative one of attrition. Since the skeptical Austrian public accepts it only with much reserve, it is a nuisance rather than a threat to American objectives.

3c. To oppose all Soviet Attempts at Political and Economic Penetration:

Soviet capabilities 2a(4), but especially 2a(3), would have the most effect in hindering this American line of action.

3d. To support those legal Political Groups in Austria which are opposed to Communism:

None

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SECTION IV

ECONOMIC ESTIMATE

1. The Current situation (November)

The very fact that currency reform has been discussed so continuously in recent months brought it about that the actual announcement of passage of the Currency Protection Law on 19 November came as a sudden shock to the business community, as well as to the population generally. The community had become so inured to rumors, and denials of these rumors, that when the last cry of "Wolf" was actually followed by the wolf's appearance, consternation was general. But while it would be wrong to say that the initial consternation and resentment has given way to resigned acceptance of the law, it is certainly true that the discontent of the population has subsided in considerable degree as a result of a clearer understanding of the provisions of the law, and hence a clearer appreciation of its economic consequences.

It is clear, for example, that the wiping out of the 60% of old accounts blocked under the first post-war conversion (the Schilling Law of 30 November 1945), which had been more bitterly resented than any other provision of the law, will itself exert no deflationary pressure, since the accounts had already been immobilized. The same is true, to a considerable extent, of the 40% of old accounts "restricted" under the Schilling Law of 1945. This 40% will now be converted into negotiable 2% government bonds. Similarly, the 25% cancellation of "public" accounts (including the currency reserves of the British and French forces) will be more of an anti-inflationary than a deflationary measure, since the bulk of these reserves were being kept unspent in any case. The fact, finally that other bank accounts are blocked only temporarily (25% for six months, 25% for nine months) likewise indicates an anti-inflationary rather than a deflationary step, the plan being to provide a rough synchronization between the release of funds, on the one hand, and, on the other, the expected increase in the volume of goods produced and marketed.

It is the note-issue (to be exchanged in the ratio of 3 to 1) against which the really "deflationary" aspects of the law are directed; and even here note should be taken of the special provisions protecting the working class and the farmers. The workers are protected by the "head Quota" of S. 150 per person (so that a family of three, for example, will get S. 450 on a 1 to 1 basis). The farmers are protected by a provision guaranteeing redemption on a basis of 1 to 1 for an amount equal to the value of the crops they delivered through legal channels since June 1947.

This leaves the holders of large quantities of notes as the real target of such "deflationary" aspects as the law may be said to possess. The fact that 12 November 1947, the date after which (until the law goes into effect) new deposits are to be treated like notes, was chosen ex post facto on the basis of statistics of bank deposits and withdrawals, guaranteed that these large holders of notes would not be able to escape through advance knowledge of the terms of the law. It is generally agreed that these large note-holders are principally black market operators, who were not willing to subject their transactions, through bank records, to inquiries from the Austrian authorities.

That the law, as it stands, will work some individual hardships, is certain. But it is also fairly clear that on balance the measure, once it is implemented, is much more likely to help the general economic situation than to harm it. Those businesses which are being forced to receive payment of debts in old schillings are likewise able to pay their debts in these schillings. Only those who are not creditors will lose; and it is precisely these firms which can best bear any pecuniary loss involved. On the constructive side, the passage of the



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a loan of 2000 tons of diesel oil from the US Army be granted as an emergency measure.

Austrian foreign trade, which increased progressively during the first half of 1947, has reached a certain stability. The official Austrian import figures, which include coal but exclude food relief shipments, show a level of about eleven million dollars, while the export figures, which do not include exports of power or transit freight earnings, total approximately seven million. A serious limitation is being placed on the extent of foreign trade by the shortage of rail freight cars. The general tendency of manufacturers and dealers to hoard their stocks rather than to sell them was intensified by the announcement of the provisions of the Currency Protection Law, even to the extent that many merchants closed or attempted to close their stores and shops. The government promptly took measures to force these establishments to remain open. The initial state of chaos in the internal trade situation is subsiding, but it is not likely that internal trade will approach normal until well after the currency conversion is completed.

The rains in November, which made possible the plowing of land previously too dry, and accelerated the germination of winter grains already sown, considerably improve the outlook for these crops. Present indications are that three-quarters of the planned acreage of winter grains will be sown. Collection of crops has been better than last year, but milk deliveries are lower because of the severe drought of September and October when rainfall was only 20 percent of normal. Deliveries of indigenous food, particularly meat, from the Soviet and British Zones for the 32nd and 33rd ration periods were less than called for in the food plans. The Austrian Government increased the food ration to 1700 calories per normal consumer and is successfully implementing this new plan. Aside from requesting from the Austrian Government an estimate of total food requirements, indigenous resources and import requirements for 1948, the Allied Council has taken no official action in regard to this increase or to the proposed increase to 1800 calories.

Increased rainfall, which resulted in a rise of the Danube and a slight improvement in the electric power situation, has permitted the resumption of Danube shipping services and an increase in electrified railroad operation. The lack of calcium carbide, in quantities necessary to maintain properly the rail signalling system, is increasing the hazards of railroad operations. Critical shortages of gasoline and diesel oil have been eased in the Western Zones as a result of purchase from US Army stocks in Germany. Tire shortages are creating considerable difficulties in maintaining highway transportation and, unless relief is forthcoming in the near future, much highway transport will become inoperative.

Although unemployment is increasing slightly, indications are that no large scale unemployment problem will arise in the near future, since there is still a large excess of job openings over job seekers. The passing of the Currency Protection Law by Parliament and the resulting uncertainty as to when this law would become effective has created much confusion and lack of understanding among the population. The trade union leaders have appealed to labor to remain at work and not to take part in demonstrations, and so far, no significant manifestations of unrest have been in evidence. Indications are that the Austrian Federation of Trade Unions will be able to maintain discipline among workers in the face of this economic and political crisis. Progress in the repair and reconstruction of dwellings continues, but the housing situation remains critical.

The Soviets continue to exert an economic and political influence disproportionate to the actual extent of their economic holdings in Austria by the systematic exploitation of a monopolistic position in certain key industries and by insistence that Soviet-controlled firms are independent of wage, price, distribution, export-import and tax

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- (4) Economic isolation of Soviet Zone from Western Zones of Austria by renouncement of all previous commitments and refusal to permit or participate in any further quadripartite control or administration of Austria as an entity, with the aim of incorporating Eastern Austria (including Vienna) in the Balkan and Central European bloc.

b. France

- (1) Damaging the economy by rigidly exacting full restitution from Austria.
- (2) Increasing exploitation of French Zone economy for benefit of France.
- (3) Weakening of position of western powers by tacit acceptance of Soviet policies.

c. Great Britain

Resisting US policies which are or might be contrary to British trade interests.

d. Austria

- (1) Playing off Western Powers against USSR.
- (2) Acquiescence to Soviet pressures.

3. Own Lines of Action:

a. Increase Economic Impact from the West

- (1) Recommend the provision of rehabilitation credits.
- (2) Encourage and assist in the development of trade between Austria and other countries.
- (3) Contribute to the rehabilitation of economic life in Austria through advice and assistance to the Austrian Government.
- (4) Encourage the development of hydro-electric potential and the construction of an electric network adequate to distribute properly the resulting power.
- (5) Actively support the tourist program.
- (6) Turn over to the Austrian Government all collected and uncollected captured enemy material excess to the needs of USFA, as authorized, and as may be authorized by the Department of the Army.

b. Neutralize Soviet Economic Controls

- (1) Support Austrian representations against Soviet irregularities.
- (2) Publicize Soviet violations of Austrian law.
- (3) Neutralize USIA by:
  - (a) recommending exclusion of extra-territorial rights by Austrian state treaty;

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Austria), it would be unable to block or interfere seriously with trade with the US or other western countries. It could have little adverse effect on the tourist program, release of captured enemy material by the US or other western powers or on the giving of advice to the Austrian Government by the US.

b. Neutralize Soviet Economic Controls

- (1) Soviet capability 2a(1) (continuation of an active obstructionist policy) could be employed as a retarding and harassing measure. It would not constitute a serious threat to the success of the execution of an adequate and forceful neutralization plan.
- (2) Soviet capability 2a(2) (gaining economic control through quadripartite occupation) could not prevent the carrying out of a neutralization program. If such a program were successfully effected by the US and Austrian Government, the USSR would lose whatever chances it has of obtaining control of the Austrian economy through this capability.
- (3) Soviet capability 2a(3) (unfavorable state treaty) would make more difficult, but not preclude the implementation of a neutralization program. The implementation of such a program would require a longer period and be very expensive to the western powers.
- (4) Soviet capability 2a(4) (economic isolation of Eastern Austria) if carried out resolutely, would endanger the whole neutralization program, which relies upon actual Austrian participation; because the political effect would be so discouraging as to weaken Austrian resistance.
- (5) In general the USSR could attempt to counter neutralization measures by importing coal and raw materials for operation of USIA plants from the Soviet Zone of Germany or Soviet satellite countries. However, the operation of USIA plants independent of the Austrian economy would be difficult, not only because a large portion of the electric power needed by Eastern Austria must come from Western Austria, but also because of the economic impracticability of importing large quantities of raw materials needed and because of the problem of finding desired markets for end products. Other general measures which the Soviet Element might take to oppose this program would be the use of adverse propaganda and intimidation of the Austrian Government and people.

5. Comparison of Own Lines of Action:

a. Increase Economic Impact from the West

This is the most desirable line of action at present. USIA owes its progressive development largely to its ability to utilize fully its key industrial monopolies in a country badly in need of outside assistance to industry. The granting of industrial assistance to Austria by the US would not only make successful operation by USIA more difficult but would also further our basic mission of economic rehabilitation while waiting for a final settlement of the Austrian state treaty. It is also the line of action least subject to opposition by Austria and the Western Allies. The provision of outside industrial rehabilitation credits is vital to the establishment of an independent Austrian economy.

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SECTION V

PSYCHOLOGICAL ESTIMATE

1. The Current Situation:

Failure of the Deputy Foreign Ministers to reach agreement on the position of Austria on the agenda of the Council of Foreign Ministers and well founded uncertainties regarding the implementation of the currency reform has heightened the psychological tension referred to in previous summaries. Of the two factors cited, the currency reform is the most telling. The Austrians have learned to accept disagreement among the great powers as a matter of course, but the currency reform problem is new.

It has long been common knowledge that currency reform was being contemplated, and it was obvious that the failure of the price-wage agreement and the demand of the Trade Union Federation and the Chamber of Labor for currency reform rather than further wage increases rendered it imminent. But the actual passage of a Currency Protection Law by Parliament on 19 November was a shock, nevertheless, and there were immediate economic consequences as a result of the inevitable flight from the schilling.

The situation has been rendered doubly difficult owing to the impossibility, under the circumstances, of an immediate overnight conversion. The law cannot be implemented until it has been passed on by the Allied Council. In the event that one of the four powers refuses to approve it, a waiting period of 31 days must elapse before the bill can come into force and the conversion be carried out. This period expires 20 December; in other words, just before Christmas. Since there is a great desire to get rid of schillings and a great reluctance among business establishments to accept them, the Christmas shopping season would be drastically disturbed. The US, French and British elements have stated their willingness to approve the law, but the Soviets, while agreeing to give it special consideration in the interests of speeding implementation, have not as yet made their position known. Even if they were to approve, a certain uncomfortable waiting period would still be inevitable, since the Government is not prepared to put through an immediate conversion because of technical considerations.

Although the population feels some reasonable anxiety about the Soviet attitude towards the law and the possible consequences of Soviet refusal to recognize it, the most important single psychological consideration is the fact that it is an unpopular law. It is true that it was passed on the insistence of the Trade Union Federation and the Chamber of Labor - The Socialist Party supporting it at the point of a gun held by the labor leaders and the People's Party acquiescing only in face of a seriously meant Socialist threat to break the coalition if it refused - but the labor leaders seem to have acted more on their own individual convictions than on the convictions of the rank and file. To the conservative and thrifty Austrian middle class, and to many workers, a currency reform is an unsettling and risky business, and especially unpalatable just before Christmas.

The Communist minority has been alert from the start to the opportunities offered by this set of circumstances. It has opposed the law loudly, consistently and demagogically, apparently believing that it has here the instrument it has long sought to drive a wedge between the rank and file workers and their western-oriented socialist leaders. Dr. Altmann, Minister of Power, and the only Communist member of the Austrian cabinet, resigned rather than go along with the cabinet's decision to forward the bill to Parliament, and the four Communist deputies in the Nationalrat voted against it. Dr. Altmann's resignation was probably rather attributable to the new international Communist policy of non-participation in non-Communist Governments, but currency reform gave him the chance to make the most of his departure. The consequence that the Communist Party is now openly and officially in opposition to the Government and no longer in the position of

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SECTION III

POLITICAL ESTIMATE

1. The Current Situation:

November brought two main events, the consequences of neither of which were as yet foreseeable at the end of the month, but which might prove of greatest importance to Austria; the opening of the Council of Foreign Ministers in London, which would once again take up the question of the State Treaty, and the passage of the Currency Protection Law by Parliament. For the period of its duration, Austrians will anxiously follow the discussions of the Council, waiting to see whether agreement will finally be reached on a State Treaty or whether their present status will be continued indefinitely, with the possibility of worse to come. The Currency Protection Law, passed on the night of the 19th by the votes of the Socialist and Peoples' Parties, provided the occasion, if not the cause, of the breakup of the Government of concentration which had existed ever since the elections in 1945. By the resignation of the sole Communist minister, the Communist Party gave up a valuable listening post but could drop all pretense of being anything other than an opposition party. This seemed to fit into the general tendency of the Communists to refuse to cooperate any longer with the Socialist and bourgeois parties in other European countries. The three western powers speedily expressed their assent to the currency law, a drastic and ill-timed measure aimed to check inflation, but by the end of the month the Soviets had still not taken a definite stand. The Communist press violently attacked the law and its sponsors, but the Soviet representatives in the Allied Commission confined themselves to stating that they required additional information as to the scope and operation of the law. They argued that it discriminated against them in failing to protect deposits in the Soviet military bank. However, they might still prove willing to accept the law with such modifications as would be highly profitable to themselves, rather than opposing it irrevocably according to the line taken by the Communist press. Should the Soviets in the end reject the law, the question would then arise as to whether they were prepared to take such extreme measures against its implementation as to force its withdrawal under the threat of economic partition of the country.

Aside from the inability of the Allied Council to reach a final decision with regard to the currency law, there was again disagreement on the most important topics discussed by that body, such as the monthly solid and liquid fuel plans, the attempt to compel Austria to bear freight charges beyond its borders on oil being transported to the Soviet Union as war booty, and price violations by USIA\*.

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The efforts of the three western powers to authorize resumption of telephone and telegraph communications between Austria and Germany encountered formalistic objections on the part of the Soviets. One positive step which followed upon a statement in the Allied Council by the U.S. High Commissioner was the Austrian Government's action in increasing the ration level to 1700 calories per day, still short of its goal of 1800.

General Kurasov's unsatisfactory reply to the Commanding General's protest concerning Soviet restrictions on Pan-American flights to Vienna via the Prague corridor necessitated another letter of protest. In this second letter the importance of the service to the US Forces, Austria was again pointed out and the Commanding General stated that, should the Soviets still refuse to grant clearance for the number of flights desired, he would on December 5 order daily Pan-American flights via the Prague corridor to be executed as urgent missions, hence subject only to two hour prior notification to the Soviet Commander-in-Chief.

The matter of the three Lower Austrian police officials removed from their posts in the preceding month by the Soviets was seemingly settled by tacit Soviet acceptance of the second trio of replacements selected by the Austrian Government.

A further analysis of the still incomplete shop council elections bore out the initial indications that the Socialists had achieved important successes. They won control of almost three-quarters of the firms in which elections had been held, and could point with especial pride to having captured three former Communist strongholds of the Alpine-Montan complex in Styria.

In contrast to the successes of the compact Socialist Party, the Peoples' Party experienced organizational troubles, of which the ouster of the President of the Bauernbund, the most important of its constituent leagues, was the most conspicuous outward manifestation. Foreign Minister Gruber continued his series of vigorous anti-Communist utterances, calling for unequivocal opposition to their machinations. The violent Communist attack on the currency reform law also brought very sharp rejoinders by both State Secretary Graf and Minister of the Interior Helmer, who, speaking in Baden not far from Soviet Headquarters, declared that Austria was unwilling to accept the fate of the people's democracies such as Hungary and Rumania.

The question of the care and maintenance of DP's has become critical. The Austrian Government has disclaimed any legal obligation on its part to provide the funds necessary for the maintenance of DP's in camps; USFA has no funds at its disposal for this purpose; and IRO, with the limitations set by its constitution and its budget, is proving incapable of handling more than a small fraction of the problem.

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A plan is now under study whereby the Austrian Government would make available for DP purposes certain blocked schilling funds, known as the UNRRA Funds, which accrued to it as a result of sales of supplies brought in by UNRRA. This plan will require the consent of the Austrian Government and of the UNRRA Accounting Office in London.

In short there was a marked increase in political tension during the month of November, pointing toward a possible crisis in the near future.

2. Capabilities of Other Powers:

a. USSR:

(1) To attack the present Austrian Government and the record of its individual members.

(2) To continue the propaganda campaign against the western powers, with special emphasis on discrediting the objectives of the United States and slandering the conduct of the American forces of occupation.

(3) To prolong the present state of economic and political tension in order to exert pressure on the Austrian Government to accede to Soviet demands.

(4) To give political and material support to the Austrian Communists, who have now openly become an opposition party.

(5) To use the passage of the Currency Protection Law for the maximum embarrassment of the Austrian Government, and perhaps even as the pretext for the economic partitioning of Austria.

b. France:

(1) In the attempt to control the balance of power in quadripartite negotiations, to support or accept a compromise with Soviet proposals.

(2) To foster regionalism in Tyrol and the Vorarlberg at the expense of the authority of the central government.

c. Great Britain:

Barring a major change of policy, which would presumably be coordinated with the US, no line of action on the part of Great Britain is conceived which might adversely affect the accomplishment of the US Mission in Austria.

d. Austria:

(1) In view of inexorable Soviet opposition, to abandon the present policy of the Austrian Government of cooperating with the western powers.

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(2) To register protest against American policy, for local political effect.

3. Own Lines of Action:

a. To extend economic and political aid to the Austrian Government on as adequate a scale as practicable.

b. To give full publicity to Soviet action and policy harmful to Austria, refuting the Soviet propaganda campaign.

c. To oppose all Soviet attempts at political and economic penetration.

d. To support those legal political groups in Austria which are opposed to Communism.

e. To promote the resumption by the Austrian Government of normal diplomatic relations abroad and Austrian membership in international organizations.

4. Analysis of Possible Lines of Action:

Of all the capabilities of the other powers, it is those of the Soviets which most seriously threaten the fulfillment of American objectives in Austria and interfere with the carrying out of American lines of action here.

3a. To extend Economic and Political Aid to the Austrian Government on as adequate a Scale as Practicable:

(1) Soviet capability 2a(1), to attack and frustrate the present Austrian Government, is calculated to remove from authority persons friendly disposed toward the western powers and to replace them with individuals willing to play the game of the Soviets. This would seriously interfere with the implementation of American policy in Austria, but chances for success in the immediate future are small, and therefore it cannot at present materially affect this American line of action.

(2) The continuance of anti-western propaganda campaign, capability 2a(2) of the Soviets, would not affect this line of action.

(3) The obstructionist and delaying tactics of the Soviets are, aside from partitioning, the most harmful of their capabilities 2a(3), since an indefinite prolongation of economic hardship and suffering would both weaken the Austrian will to resist and render the American objective of aid and reconstruction far more difficult.

(4) Support of the Austrian Communist Party, Soviet capability 2a(4), is in line with their general attack on the Austrian Government and is likely to have little success and little effect at this time.

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(5) Soviet capability 2a(5), the economic partitioning of Austria, would mean the complete defeat of present American objectives.

(6) French capability 2b(1), to support or compromise with Soviet proposals, would render this American line of action more difficult. However, since the French element in the past months has with increasing frequency sided with the American and British elements in the Allied Commission, and in view of French domestic political developments, this capability is unlikely. It would have no effect on American lines of action 3b, 3d and 3e, but would make 3c (opposition to Soviet penetration) more difficult.

(7) The chief effect of French capability 2b(2), the encouragement of regionalism in the Tyrol and the Vorarlberg, would be to weaken the authority of central government, which the United States element is anxious to maintain. In this sense it might have some adverse effect on American line of action 3a, but would not influence any of the others. There is no indication, however, that the French are considering any such policy.

(8) Austrian capability 2d(1), the abandonment of the present policy of cooperation with the western powers, would presumably result in the abandonment likewise of the American line of action under discussion. It would also render American line of action 3d pointless and greatly decrease the desirability of 3e. This Austrian capability is very unlikely, however, since the two parties of the Government are both firmly committed to a western course, which only protracted economic hardship and the apparent hopelessness of further resistance would induce them to abandon.

(9) Austrian capability 2d(2), the registering of protests against American policy for local political effect, might make the task of implementing American line of action 3a, as well as 3d and 3e, less grateful, but not more difficult or less desirable. It would have no effect on 3b or 3c.

3b. To give full Publicity to Soviet Action and Policy harmful to Austria:

None of the capabilities of the other powers could prevent the implementation of this American line of action. As to the Soviet campaign of anti-western propaganda, its effect is a cumulative one of attrition. Since the skeptical Austrian public accepts it only with much reserve, it is a nuisance rather than a threat to American objectives.

3c. To oppose all Soviet Attempts at Political and Economic Penetration:

Soviet capabilities 2a(4), but especially 2a(3), would have the most effect in hindering this American line of action.

3d. To support those legal Political Groups in Austria which are opposed to Communism:

None

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None of the Soviet capabilities listed would affect the carrying out of this line of action.

3e. To promote Austrian Diplomatic Relations and Membership in International Organizations,

This line of action, too, would be unaffected by any of the Soviet capabilities.

5. Comparison of Own Lines of Action:

a. The granting of the maximum possible political and economic support to the present Austrian Government affords the greatest possibility of success in the accomplishment of the American mission in Austria. Effective economic support means not only help in securing relief supplies of fuel and foodstuffs, but credits and machinery for economic rehabilitation. Two ready means of furnishing political support to the Austrian Government are to advocate wherever possible, at all quadripartite levels, the acceptance of requests addressed by it to the Allied Council, and to champion on all occasions the general principle that the primary function of the occupation is now supervision rather than operation and that internal administrative functions are the responsibility of the Austrian authorities.

b. The carrying out of an aggressive campaign to inform the Austrian public of American objectives in Austria and the magnitude and nature of United States assistance to this country, at the same time unmasking Soviet actions and obstruction, is an important accompaniment to our own lines of action. The advantages of such publicity outweigh the possibly greater stiffness in quadripartite dealings to which this might provoke the Soviets and in view of their sensitiveness to adverse publicity, might restrain their actions.

c. Firm opposition to Soviet penetration, in the light of present Soviet overall policy, is essential to the accomplishment of American objectives and is to be advocated even though it may make personal and administrative relations with the Soviets in Vienna more difficult.

d. Active support of legal political groups opposed to Communism would require a policy directive from the Joint Chiefs of Staff. Such a step is contrary to past policy and appears of doubtful value.

6. Decisions:

a. To extend economic and political aid to the Austrian Government on as adequate a scale as practicable.

b. To oppose all Soviet attempts at political and economic penetration.

c. To promote the resumption by the Austrian Government of normal diplomatic relations abroad and Austrian membership in international organizations.

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SECTION IV

ECONOMIC ESTIMATE

1. The Current situation (November)

The very fact that currency reform has been discussed so continuously in recent months brought it about that the actual announcement of passage of the Currency Protection Law on 19 November came as a sudden shock to the business community, as well as to the population generally. The community had become so inured to rumors, and denials of these rumors, that when the last cry of "Wolf" was actually followed by the wolf's appearance, consternation was general. But while it would be wrong to say that the initial consternation and resentment has given way to resigned acceptance of the law, it is certainly true that the discontent of the population has subsided in considerable degree as a result of a clearer understanding of the provisions of the law, and hence a clearer appreciation of its economic consequences.

It is clear, for example, that the wiping out of the 60% of old accounts blocked under the first post-war conversion (the Schilling Law of 30 November 1945), which had been more bitterly resented than any other provision of the law, will itself exert no deflationary pressure, since the accounts had already been immobilized. The same is true, to a considerable extent, of the 40% of old accounts "restricted" under the Schilling Law of 1945. This 40% will now be converted into negotiable 2% government bonds. Similarly, the 25% cancellation of "public" accounts (including the currency reserves of the British and French forces) will be more of an anti-inflationary than a deflationary measure, since the bulk of these reserves were being kept unspent in any case. The fact, finally that other bank accounts are blocked only temporarily (25% for six months, 25% for nine months) likewise indicates an anti-inflationary rather than a deflationary step, the plan being to provide a rough synchronization between the release of funds, on the one hand, and, on the other, the expected increase in the volume of goods produced and marketed.

It is the note-issue (to be exchanged in the ratio of 3 to 1) against which the really "deflationary" aspects of the law are directed; and even here note should be taken of the special provisions protecting the working class and the farmers. The workers are protected by the "head quota" of S. 150 per person (so that a family of three, for example, will get S. 450 on a 1 to 1 basis). The farmers are protected by a provision guaranteeing redemption on a basis of 1 to 1 for an amount equal to the value of the crops they delivered through legal channels since June 1947.

This leaves the holders of large quantities of notes as the real target of such "deflationary" aspects as the law may be said to possess. The fact that 12 November 1947, the date after which (until the law goes into effect) new deposits are to be treated like notes, was chosen ex post facto on the basis of statistics of bank deposits and withdrawals, guaranteed that these large holders of notes would not be able to escape through advance knowledge of the terms of the law. It is generally agreed that these large note-holders are principally black market operators, who were not willing to subject their transactions, through bank records, to inquiries from the Austrian authorities.

That the law, as it stands, will work some individual hardships, is certain. But it is also fairly clear that on balance the measure, once it is implemented, is much more likely to help the general economic situation than to harm it. Those businesses which are being forced to receive payment of debts in old schillings are likewise able to pay their debts in these schillings. Only those who are not creditors will lose; and it is precisely these firms which can best bear any pecuniary loss involved. On the constructive side, the passage of the



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law will mean an end of the uncertainty with respect to the imminence of a conversion that has plagued the economic situation for months, and its implementation should lead to a cessation, or at least a moderation, of the hoarding of goods and the recourse to direct barter which has been characteristic over recent months.

One of the important aspects of the law is the effect which it will have upon the Soviet economic position in Austria. It is too early to assess what this effect will be.

Austrian industry in general maintains its October level of operation although the rates of output of the component industries have been subject to marked fluctuations throughout November. General industrial decreases which occurred during the beginning of November are largely offset by the increased output made possible in the textile and engineering industries by an improvement in electric power availability. Output of certain products, however, such as steel and rolled material, cellwool and ceramic building materials remains slightly less than in October. In spite of local and temporary fluctuations in the rate of production of the wool spinning, rawhide processing, food processing and woodworking industries, available data do not yet indicate any serious effect of the impending currency reform on the volume of industrial production. While somewhat less severe than in October, the power shortage, along with the lack of steel scrap and other raw materials, continues to limit production throughout industry.

The electric power shortage may be regarded as partially alleviated. Hydro production, which continued at a very low level through the first week of November, rose sharply thereafter and is at the highest level since August. Thermal power production has, accordingly, been reduced. Although no significant additional stockpiling of coal has been possible, the drain on the existing stockpiles has, for the present, ceased. With benefits from increased hydro production being realized in the form of reduced coal consumption, the industrial power supply remains under careful governmental control by means of the priority system of electric power rationing, as placed into effect in November. Direct industrial benefits have, however, been derived by those firms with their own power generating equipment. Difficulties arising from difference of interpretation of the provisions of the Coal Power Agreement Between Austria and Bi-Zone, Germany, continue to hamper satisfactory fulfillment of its provisions.

The coal situation continues favorable. Polish coal is being delivered at double the October rate, offsetting deficiencies in Ruhr coal deliveries which temporarily decreased in November because of transport difficulties. Port and rail congestion at Venice and Trieste, resulting from heavy shipment of US coal, has largely been relieved and the coal is arriving regularly in Austria. The rate of coal receipt continues to be sufficient to prevent industrial recession, but not to permit expansion, while present stockpiles are considered adequate for the protection of industry against any short-term emergency. In contrast with the favorable industrial coal situation, the delivery of coal for the heating of dwellings and public buildings is well behind schedule and little improvement is anticipated in this regard, beyond that which might be expected as a result of limited emergency assistance from the Allies and other sources.

The liquid fuel shortage remains acute. The Soviet Element is effecting a further reduction in its releases to Austria from the indigenous oil production under its control, thus partially offsetting the benefits which have been expected from imports under the Austrian purchase of US Army gasoline, diesel oil, motor oils and greases. Estimating the extent of Soviet deliveries at 75 percent of allocations for November, the Ministry for Trade and Reconstruction is requesting that December deliveries of US Army petroleum products be expedited, and that

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a loan of 2000 tons of diesel oil from the US Army be granted as an emergency measure.

Austrian foreign trade, which increased progressively during the first half of 1947, has reached a certain stability. The official Austrian import figures, which include coal but exclude food relief shipments, show a level of about eleven million dollars, while the export figures, which do not include exports of power or transit freight earnings, total approximately seven million. A serious limitation is being placed on the extent of foreign trade by the shortage of rail freight cars. The general tendency of manufacturers and dealers to hoard their stocks rather than to sell them was intensified by the announcement of the provisions of the Currency Protection Law, even to the extent that many merchants closed or attempted to close their stores and shops. The government promptly took measures to force these establishments to remain open. The initial state of chaos in the internal trade situation is subsiding, but it is not likely that internal trade will approach normal until well after the currency conversion is completed.

The rains in November, which made possible the plowing of land previously too dry, and accelerated the germination of winter grains already sown, considerably improve the outlook for these crops. Present indications are that three-quarters of the planned acreage of winter grains will be sown. Collection of crops has been better than last year, but milk deliveries are lower because of the severe drought of September and October when rainfall was only 20 percent of normal. Deliveries of indigenous food, particularly meat, from the Soviet and British Zones for the 32nd and 33rd ration periods were less than called for in the food plans. The Austrian Government increased the food ration to 1700 calories per normal consumer and is successfully implementing this new plan. Aside from requesting from the Austrian Government an estimate of total food requirements, indigenous resources and import requirements for 1948, the Allied Council has taken no official action in regard to this increase or to the proposed increase to 1800 calories.

Increased rainfall, which resulted in a rise of the Danube and a slight improvement in the electric power situation, has permitted the resumption of Danube shipping services and an increase in electrified railroad operation. The lack of calcium carbide, in quantities necessary to maintain properly the rail signalling system, is increasing the hazards of railroad operations. Critical shortages of gasoline and diesel oil have been eased in the Western Zones as a result of purchase from US Army stocks in Germany. Tire shortages are creating considerable difficulties in maintaining highway transportation and, unless relief is forthcoming in the near future, much highway transport will become inoperative.

Although unemployment is increasing slightly, indications are that no large scale unemployment problem will arise in the near future, since there is still a large excess of job openings over job seekers. The passing of the Currency Protection Law by Parliament and the resulting uncertainty as to when this law would become effective has created much confusion and lack of understanding among the population. The trade union leaders have appealed to labor to remain at work and not to take part in demonstrations, and so far, no significant manifestations of unrest have been in evidence. Indications are that the Austrian Federation of Trade Unions will be able to maintain discipline among workers in the face of this economic and political crisis. Progress in the repair and reconstruction of dwellings continues, but the housing situation remains critical.

The Soviets continue to exert an economic and political influence disproportionate to the actual extent of their economic holdings in Austria by the systematic exploitation of a monopolistic position in certain key industries and by insistence that Soviet-controlled firms are independent of wage, price, distribution, export-import and tax

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regulations, and other Austrian governmental controls. In some respects the Austrian Government appears to have been forced into an attitude of closer cooperation with USIA (Administration of Soviet Enterprises in Eastern Austria) and the USSR in that it is granting authorizations for export of USIA goods to Western Europe in return for a percentage of the hard currency proceeds, as well as reaching agreements concerning electric power supply to USIA firms and barter of Western Zone raw materials for USIA produced goods or fuel. The recently imposed Soviet ban on the shipment of Austrian scrap metal from the Soviet Zone to other Zones of Austria has been superseded by an informal barter arrangement whereby the quantities of scrap licensed by the Soviet authorities for shipment to the Western Zones are dependent on the quantities of rolled material allocated to USIA from these Zones. On the other hand, the strong stand of the Austrian Government in regard to Soviet opposition to the Currency Protection Law indicates a more independent and aggressive attitude on the part of the Austrian Government. The fact that USIA has recently employed a competent Austrian accountant to prepare estimates of the amount of taxes which it would have to pay on seized plants is an indication that the USSR is giving consideration to the possibility of complying with Austrian law. However, evidence that the USSR is investigating the practicability of supplying its coal and raw materials from the Soviet Zone of Germany may indicate that it is also considering the possibility of making its Austrian industrial combine impervious to possible measures by the Austrian Government designed to enforce Austrian law. The USSR has been applying pressure to USIA to expend all efforts to increase exports to countries capable of paying in dollars or Swiss francs. Although USIA has, either directly or indirectly, sold a considerable volume of goods for dollars to firms in western countries and the satellites, the volume has not been sufficient to satisfy present Soviet demands for hard currency.

The French Element is displaying less inclination to concur with or support the Soviet Element on quadripartite economic matters. This should not be interpreted as forceful support of US or British positions, but rather as a "middle of the road" policy which in some instances tends to equivocate. The British Element continues its general policy of cooperation with the US Element and opposition to economic practices of the Soviet Element, particularly in the matter of oil allocation to Austria.

## 2. Capabilities of Other Powers:

### a. USSR

- (1) Continuation of an active obstructionist policy toward rehabilitation assistance of the US and other western countries, utilizing propaganda measures to make such assistance appear as capitalistic aggression, thus weakening the position of the Federal Government and fostering its collapse in preparation for Communist domination in the federal structure.
- (2) Gaining control of the Austrian economy during quadripartite occupation of Austria by accelerating the present Soviet program of retarding or preventing flow of goods from Eastern to Western Austria, exerting economic pressure on the Austrian Government through Soviet controlled monopolies, while drawing raw materials and electric power from Western Austria.
- (3) Overt deceptive withdrawal under an unfavorable state treaty designed to reserve to the USSR maximum economic and political influence upon Austria, while assuring expeditious withdrawal of western powers and their influence upon Austria.

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- (4) Economic isolation of Soviet Zone from Western Zones of Austria by renouncement of all previous commitments and refusal to permit or participate in any further quadripartite control or administration of Austria as an entity, with the aim of incorporating Eastern Austria (including Vienna) in the Balkan and Central European bloc.

b. France

- (1) Damaging the economy by rigidly exacting full restitution from Austria.
- (2) Increasing exploitation of French Zone economy for benefit of France.
- (3) Weakening of position of western powers by tacit acceptance of Soviet policies.

c. Great Britain

Resisting US policies which are or might be contrary to British trade interests.

d. Austria

- (1) Playing off Western Powers against USSR.
- (2) Acquiescence to Soviet pressures.

3. Own Lines of Action:

a. Increase Economic Impact from the West

- (1) Recommend the provision of rehabilitation credits.
- (2) Encourage and assist in the development of trade between Austria and other countries.
- (3) Contribute to the rehabilitation of economic life in Austria through advice and assistance to the Austrian Government.
- (4) Encourage the development of hydro-electric potential and the construction of an electric network adequate to distribute properly the resulting power.
- (5) Actively support the tourist program.
- (6) Turn over to the Austrian Government all collected and uncollected captured enemy material excess to the needs of USFA, as authorized, and as may be authorized by the Department of the Army.

b. Neutralize Soviet Economic Controls

- (1) Support Austrian representations against Soviet irregularities.
- (2) Publicize Soviet violations of Austrian law.
- (3) Neutralize USIA by:
  - (a) recommending exclusion of extra-territorial rights by Austrian state treaty;

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(b) fully supporting the Austrian Government in its efforts to:

1. reduce availability of Austrian controlled coal, electric power and raw materials to USIA plants, and
2. block unlicensed external trade to USIA firms and firms serving as "middlemen" for USIA and
3. limit the availability of Federal Railways rolling stock to USIA and the USSR;

(c) breaking USIA industrial and fuel monopolies in Austria by supplying Austria with fuel and industrial goods of the types which are controlled by USIA.

(4) Expose government officials who place interests of Soviet Union above interests of Austria.

4. Analysis of Possible Lines of Action

It is believed that the USSR is the only one of the four powers involved which deliberately threatens the successful implementation of US lines of action. The implementation of line of action 3b (neutralizing Soviet economic penetration) would require the full cooperation of the Austrian Government, as well as the support of Great Britain.

a. Increase Economic Impact from the West

- (1) Soviet capability 2a(1) (continuation of active obstructionist policy) would be utilized to support the execution of lines of action open to the USSR under capabilities 2a(2) (gaining economic control through quadripartite occupation) and (3) (unfavorable state treaty). In itself, this capability cannot block economic impact from the west, although it would be capable of lessening the effect and making more difficult the delivery of this impact.
- (2) Soviet capability 2a(2) (gaining economic control through quadripartite occupation) cannot block the delivery of economic impact from the West, particularly if this impact takes the form of monetary rehabilitation assistance, adequately and forcefully delivered.
- (3) Soviet capability 2a(3) (unfavorable state treaty) might prevent the successful implementation of this line of action if such a state treaty is agreed upon, particularly if it permits the USSR to retain ownership of all seized enterprises and to continue its present extra-territorial practices.
- (4) Soviet capability 2a(4) (economic isolation of Eastern Austria), if carried out, could completely prevent the implementation of this US line of action in Austria as a whole.
- (5) In general the USSR could oppose economic impact from the West by seizing upon features of US relief and rehabilitation legislation which insist upon control of the use of such credits, as a pretext for taking their own measures designed to split Eastern from Western Austria. It could also oppose such assistance through propaganda designed to make it appear as capitalistic aggression. It would be able to impede trade between Austria and the eastern countries, but unless it resorted to capability 2a(4) (economic isolation of Eastern

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Austria), it would be unable to block or interfere seriously with trade with the US or other western countries. It could have little adverse effect on the tourist program, release of captured enemy material by the US or other western powers or on the giving of advice to the Austrian Government by the US.

b. Neutralize Soviet Economic Controls

- (1) Soviet capability 2a(1) (continuation of an active obstructionist policy) could be employed as a retarding and harassing measure. It would not constitute a serious threat to the success of the execution of an adequate and forceful neutralization plan.
- (2) Soviet capability 2a(2) (gaining economic control through quadripartite occupation) could not prevent the carrying out of a neutralization program. If such a program were successfully effected by the US and Austrian Government, the USSR would lose whatever chances it has of obtaining control of the Austrian economy through this capability.
- (3) Soviet capability 2a(3) (unfavorable state treaty) would make more difficult, but not preclude the implementation of a neutralization program. The implementation of such a program would require a longer period and be very expensive to the western powers.
- (4) Soviet capability 2a(4) (economic isolation of Eastern Austria) if carried out resolutely, would endanger the whole neutralization program, which relies upon actual Austrian participation; because the political effect would be so discouraging as to weaken Austrian resistance.
- (5) In general the USSR could attempt to counter neutralization measures by importing coal and raw materials for operation of USIA plants from the Soviet Zone of Germany or Soviet satellite countries. However, the operation of USIA plants independent of the Austrian economy would be difficult, not only because a large portion of the electric power needed by Eastern Austria must come from Western Austria, but also because of the economic impracticability of importing large quantities of raw materials needed and because of the problem of finding desired markets for end products. Other general measures which the Soviet Element might take to oppose this program would be the use of adverse propaganda and intimidation of the Austrian Government and people.

5. Comparison of Own Lines of Action:

a. Increase Economic Impact from the West

This is the most desirable line of action at present. USIA owes its progressive development largely to its ability to utilize fully its key industrial monopolies in a country badly in need of outside assistance to industry. The granting of industrial assistance to Austria by the US would not only make successful operation by USIA more difficult but would also further our basic mission of economic rehabilitation while waiting for a final settlement of the Austrian state treaty. It is also the line of action least subject to opposition by Austria and the Western Allies. The provision of outside industrial rehabilitation credits is vital to the establishment of an independent Austrian economy.

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b. Neutralize Soviet Economic Controls

The extent of Soviet influence on the Austrian economy renders Austria vulnerable to Soviet economic, and thus political domination. If Soviet enterprises are permitted to retain their present extra-territorial status, and the key monopolies now held by the Soviet enterprises are not reduced to impotency by accomplishment of economic rehabilitation of Austria and achievement of a favorable trade relationship with Western Europe, Austria will be unable to maintain political independence.

6. Decisions:

a. To stress to the Joint Chiefs of Staff the urgent need for economic assistance to Austria, in the form of credits for industrial rehabilitation and hydro-electric power development.

b. To continue to:

- (1) encourage and assist Austria in building up foreign trade and developing a sound tourist program;
- (2) advise and assist the Austrian Government in the development of a realistic plan for the rehabilitation of the Austrian economy;
- (3) encourage the rehabilitation of existing electric utilities, the development of hydro electric potential and the construction of an electric network adequate to distribute properly the resulting power;
- (4) turn over to the Austrian Government all collected and uncollected captured enemy material excess to needs of USFA, as authorized and as may be authorized by the Department of the Army.

c. To continue to study, and revise if necessary, the recently prepared plan of active opposition to Soviet economic penetration of Austria (submitted to Joint Chiefs of Staff November, 1947), and to recommend that such a plan be implemented at the conclusion of the London Conference if agreement on the Austrian State Treaty cannot be reached, or if it becomes clear that the making of a treaty would enable the USSR to continue its plans for the economic penetration of Austria.

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SECTION V

PSYCHOLOGICAL ESTIMATE

1. The Current Situation:

Failure of the Deputy Foreign Ministers to reach agreement on the position of Austria on the agenda of the Council of Foreign Ministers and well founded uncertainties regarding the implementation of the currency reform has heightened the psychological tension referred to in previous summaries. Of the two factors cited, the currency reform is the most telling. The Austrians have learned to accept disagreement among the great powers as a matter of course, but the currency reform problem is new.

It has long been common knowledge that currency reform was being contemplated, and it was obvious that the failure of the price-wage agreement and the demand of the Trade Union Federation and the Chamber of Labor for currency reform rather than further wage increases rendered it imminent. But the actual passage of a Currency Protection Law by Parliament on 19 November was a shock, nevertheless, and there were immediate economic consequences as a result of the inevitable flight from the schilling.

The situation has been rendered doubly difficult owing to the impossibility, under the circumstances, of an immediate overnight conversion. The law cannot be implemented until it has been passed on by the Allied Council. In the event that one of the four powers refuses to approve it, a waiting period of 31 days must elapse before the bill can come into force and the conversion be carried out. This period expires 20 December; in other words, just before Christmas. Since there is a great desire to get rid of schillings and a great reluctance among business establishments to accept them, the Christmas shopping season would be drastically disturbed. The US, French and British elements have stated their willingness to approve the law, but the Soviets, while agreeing to give it special consideration in the interests of speeding implementation, have not as yet made their position known. Even if they were to approve, a certain uncomfortable waiting period would still be inevitable, since the Government is not prepared to put through an immediate conversion because of technical considerations.

Although the population feels some reasonable anxiety about the Soviet attitude towards the law and the possible consequences of Soviet refusal to recognize it, the most important single psychological consideration is the fact that it is an unpopular law. It is true that it was passed on the insistence of the Trade Union Federation and the Chamber of Labor - The Socialist Party supporting it at the point of a gun held by the labor leaders and the People's Party acquiescing only in face of a seriously meant Socialist threat to break the coalition if it refused - but the labor leaders seem to have acted more on their own individual convictions than on the convictions of the rank and file. To the conservative and thrifty Austrian middle class, and to many workers, a currency reform is an unsettling and risky business, and especially unpalatable just before Christmas.

The Communist minority has been alert from the start to the opportunities offered by this set of circumstances. It has opposed the law loudly, consistently and demagogically, apparently believing that it has here the instrument it has long sought to drive a wedge between the rank and file workers and their western-oriented socialist leaders. Dr. Altmann, Minister of Power, and the only Communist member of the Austrian cabinet, resigned rather than go along with the cabinet's decision to forward the bill to Parliament, and the four Communist deputies in the Nationalrat voted against it. Dr. Altmann's resignation was probably rather attributable to the new international Communist policy of non-participation in non-Communist Governments, but currency reform gave him the chance to make the most of his departure. The consequence that the Communist Party is now openly and officially in opposition to the Government and no longer in the position of

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to share the responsibility for the Government's inevitable vicissitudes. An additionally disturbing psychological factor, in view of the support the East minority enjoys from the Soviet occupation authorities.

These disturbing developments have been only partially offset by the increase in ration to 1,700 calories and the fact that unseasonably warm and rainy weather has somewhat eased the heat and light problems. A series of Communist-led demonstrations and strikes immediately after passage of the currency law did not lead to the widespread disorders that seemed likely at the time, and the Communists are certainly only biding their time. If Soviet disapproval holds up implementation of the law and economic dislocation becomes acute as a result, trouble may be anticipated, with the Communists receiving support from many normally non-Communist and even anti-Communist elements among the population.

With regard to the State Treaty discussions in London, there are undoubtedly Austrians who secretly hope that no agreement will be reached, if only because they have abandoned hope of an agreement that would give Austria an outlet to the sea. Public opinion polls carried out last month showed that 59 percent of the population favors acceptance of a State Treaty only if "complete economic and political freedom is guaranteed." There are similar reservations with regard to the withdrawal of the occupation troops, with more than 70 percent expressing the opinion that there should be no withdrawal until Austria has an army of its own to protect its borders. There is no reason to believe that this trend of opinion has undergone any change since summer.

A recent ISB public opinion survey of Austrian reaction to the Marshall Plan and to Churchill's proposal of a United States of Europe shows, with respect to the Marshall Plan, that the Austrian Government has the overwhelming support of the population in subscribing to it, but, at the same time, that the man in the street, despite the enormous amount of publicity given to the plan in press and radio, has only a sketchy idea of what it is all about.

Soviet propaganda in Austria is handicapped by popular skepticism and the comparatively small circulation of the Soviet and Communist-controlled press. Austrians are very well aware of the effect that Soviet seizure of their natural resources and industrial properties is having on their economic life, and they seriously doubt the sincerity of Soviet talk of Austrian sovereignty and independence. Talk of American imperialism and economic expansion, however, may be expected to find some credence, particularly among the mass of Socialist workers, whose Marxist indoctrination in the period between the wars taught them to think of capitalism as their enemy and of the United States as the capitalist prototype.

## 2. Capabilities of Other Powers:

### a. USSR

- (1) To continue an aggressive press campaign against the United States, exploiting for this purpose their own Austrian press and the various press organs of the Communist Party in Vienna and the provinces.
- (2) To encourage a sense of intimidation and futility in the Austrian population with continued seizures of industrial properties under the Potsdam Agreement and continued tightening up in the allocation of vital economic commodities.
- (3) To counteract unfavorable Austrian opinion toward the Soviets by such means as the return of the PWs from the Soviet Union and Yugoslavia.

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To continue fence-straddling between the US and Soviet positions.

c. Great Britain

To continue mitigating the effect of the support generally given to United States policies by the reprinting of articles of such leftist-inclined British journalists as Alexander Werth of the Manchester Guardian and Michael Burn of the Sunday Times.

d. Austria

To give way to discouragement resulting from their difficult economic situation, especially with regard to coal, gasoline, electric power and food and the failure of the Austrian Treaty Commission to reach agreement, and to show a more sympathetic attitude toward eastern orientation.

3. Own Line of Action:

a. To use all means available to publicize the United States relief program, the Marshall Plan, the contribution made by the United States through the assumption of occupation costs and the support given Austrian interests in the Allied Council and to point out how these various actions are in accord with and in support of the basic mission of re-establishing a free and independent Austria.

b. To continue with the press and radio facilities at our disposal to expose the true nature of Soviet policies in Austria and to encourage the Austrian people in their resistance to Soviet encroachments on their political sovereignty and economic independence.

4. Analysis of Possible Lines of Action:

a. Own line of action paragraph 3a (to publicize beneficial US acts and US support of re-establishing a free and independent Austria):

- (1) Soviet capability 2a (1) (to continue an aggressive press campaign against the US) has been pursued in the past to cast discredit upon the Marshall Plan and upon the efforts undertaken by the US thus far to contribute to the re-establishment of Austrian political and economic independence. More recently it has been extended to include direct calumnious attacks upon Americans in Austria, upon US Military Government and department of US personnel. It may be expected to continue. Its continuance will neutralize to an extent the effect of this line of action, but since Soviet propaganda is handicapped by popular skepticism and a relatively small circulation of Soviet and Communist-controlled press, its effect will not be great on the Austrian people. Talk of imperialism and economic expansion will find some credence among the Socialist workers whose Marxist indoctrination taught them to treat capitalism as an enemy and the US as its prototype. The carrying-out of this Soviet capability may tend to lower the prestige of the Soviet Union as long as the US does not sink to the same mud-slinging level.
- (2) Soviet capability 2a (2) (to encourage a sense of intimidation and futility in the Austrian population) will affect our line of action (paragraph 3a) only insofar as it makes it necessary to strengthen the need for this action. As Soviet capability 2a (2) increases, this line of action must increase.
- (3) Soviet capability 2a (3) (to counteract unfavorable Austrian opinion toward the Soviets) will tend to influence Austrian public opinion in favor of the Soviets. It will in no way affect this line of action.
- (4) Capabilities of France and Great Britain (paragraph 2b and c) will have little effect on this line of action since their

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- (5) Austrian capability (paragraph 2d) will require maximum effort on this line of action to overcome this tendency.

b. Our line of action paragraph 3b (to continue with the press and radio facilities at our disposal to expose the true nature of Soviet policies in Austria):

- (1) The execution of Soviet capabilities 2a (1) and 2a (2) will necessitate strong action on our part to implement this line of action. These capabilities will to some extent neutralize this line of action. On the other hand, their following these capabilities will act to our advantage by providing us with additional detrimental Soviet actions to substantiate our propaganda designed to expose the true nature of their policies in Austria.
- (2) The execution of Soviet capability 2a (3) will require strong implementation of this line of action to point out the true reasons for such Soviet action. Any good resulting to the Soviet by the implementation of this capability may be effectively countered by a skillful exposure of the fact that Soviet and Soviet-controlled states exploit the individual for political purposes and a factual recapitulation of what the US and the Western Powers have already done with respect to the return of the PWs or any other such action which the Soviets might take.
- (3) Capabilities of France and Great Britain (Paragraphs 2b and c) will have little effect on this line of action since their capabilities are largely negative and have little effect on the Austrian people.
- (4) The execution of the Austrian capability (paragraph 2d) will tend to neutralize the effect of this line of action. The true nature of Soviet policies in Austria must forcefully be brought home to the Austrians. At the same time such steps as increasing the calory ration and making available additional fuel should be taken in order to encourage the Austrian people in their resistance to Soviet encroachments on their political sovereignty and economic independence.

#### 5. Comparison of Own Lines of Action:

Each of our own lines of action has a good possibility of success since the majority of the Austrians are convinced of the sincerity of our intentions and of the high standard of accuracy of the US press. For each of our lines of action to be successful it is essential that their implementation anticipate Soviet and Austrian capabilities and be forcefully inculcated on the Austrian people, rather than implemented as a defensive or countermeasure to Soviet and Austrian capabilities.

#### 6. Decisions:

a. To use all means available to publicize the United States relief program, the Marshall Plan, the contribution made by the United States through the assumption of occupation costs and the support given Austrian interests in the Allied Council and to point out how these various actions are in accord with and in support of the basic mission of re-establishing a free and independent Austria.

b. To continue with the press and radio facilities at our disposal to expose the true nature of Soviet policies in Austria.

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*Secret*SECTION VIMILITARY ESTIMATE1. The Current Situationa. USSR

- (1) Ground - Present strength of Soviet occupational forces in Austria remains at 53,000; of these 39,000 are in combat units, both ground and air. The troops are subordinate to Headquarters Central Group of Forces (also controlling occupation forces in HUNGARY), which is commanded by Colonel General V.V. KURASOV. Now that the summer exercises have been concluded, major tactical units have moved into permanent quarters for the winter. The 95TH GUARDS MOTORIZED DIVISION has returned to its former area in the western area of Upper and Lower Austria, where part of its troops are committed to security missions along the U.S. and British zonal demarcation lines and the remainder are engaged in training of the individual soldier. A concentration of troops from the 95th are garrisoned in the northern part of the LUEHLVIERTEL where it is believed their mission will be to retard the movement of the BANDERA. The 17TH GUARDS MECHANIZED DIVISION is now in the eastern part of Austria. Some elements may already have returned to their former locations in western HUNGARY. 23RD ANTI-AIRCRAFT ARTILLERY DIVISION has returned to its former area just north of VIENNA. The 13TH GUARDS MECHANIZED DIVISION is once more garrisoned in the VIENNA area. Noteworthy is the fact that during the last month this division has been ascertained to be a mechanized division -- a unit which in general out-weighs the American war-time division 4 to 3 although lacking in certain organic service units. No major new trends have been observed in the political orientation program of the Soviet Army. Although Soviet tactical units in Austria still average only about 60% of authorized T/O strength, and there have been few replacements received since May, all units may, indeed, be considered battle worthy. The 13TH GUARDS MECHANIZED DIVISION, the 95TH GUARDS MOTORIZED DIVISION, the 17TH GUARDS MECHANIZED DIVISION, the 23RD AAA DIVISION (also fully motorized) and separate GHQ units totaling the equivalent of three combat regiments and three combat battalions comprise a well-trained, well-equipped and highly mobile striking force which could be committed at any time the necessity arose.
- (2) Air - Total personnel strength of Soviet Air Force units in Austria has not been appreciably altered from last month's estimate of 9500 (this figure being included with the overall figure of 53,000 cited above). Although a slight shift in the deployment of units and an increase in flying activity has been noted in Austria, there is nothing to indicate any change in overall strength of the SECOND AIR ARMY (subordinate to HEADQUARTERS CENTRAL GROUP OF FORCES) in Austria or Hungary. Total strength of this Army is still at 1400 tactical aircraft and 15,000 personnel. In Austria proper there are still the two corps: VI GUARDS BOMBER CORPS and a fighter corps believed to be the VI, with a total of about 700 operational tactical aircraft.

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(A possible significant development is the appearance over Austria of at least 20 four-engine bombers, which reportedly conducted bombing practice in the southeastern corner of Austria. It was originally thought that these bombers were based northeast of Vienna but this now appears doubtful. There is little question, however, that SAF four-engine bombers have been operating over Austria, and it is to be presumed that they are based somewhere nearby.) In HUNGARY there are three corps with a probable total of 700 operational tactical aircraft. There has been no major demobilization in SAF units since early spring and all units are understrength. Although Soviet operational units of the SECOND AIR ARMY are types used for ground support, and have a limited tactical range, the appearance of four-engine bombers must constitute a considerable lengthening of the striking arm of the SAF from a base in this area. Otherwise the total strength of the Soviet SECOND AIR ARMY in Austria and Hungary is about the equivalent of that required to provide ground support for an army group.

b. FRANCE - Total strength of French occupational forces is 8,000. Combat troops number about 3,000 and comprise four mountain infantry battalions, one mechanized cavalry squadron, one artillery battalion, and two engineer companies. There are also six gendarmarie companies. All units are completely committed on occupational missions. There are no French Air Force units in Austria.

c. GREAT BRITAIN - Total strength of British occupational forces is 11,000; of this number 5,000 are combat troops, comprising five infantry battalions (2 Som LI, 1 W Yorks, 1 RUR, 2 R Hamps, 1 E Yorks) disposed at VIENNA, PORTSCHACH, VILLACH, TESSENDORF, and BRUCK. Tactical headquarters for these units is HEADQUARTERS 138TH INFANTRY BRIGADE, located at VELDEN; and area headquarters are GRAZ GARRISON, KLAGENFURT GARRISON, and HEADQUARTERS BRITISH TROOPS, AUSTRIA. British Forces are performing normal occupational missions which all but preclude military training. Main troop mission remains security of the Austro-Yugoslav frontier and of the Soviet Zone - British Zone demarcation line. There are no operational Royal Air Force units in Austria.

d. AUSTRIA - There are no Austrian armed forces. The closest equivalent is the Austrian Police Force, with a total strength of approximately 26,000. This force, subject to a certain amount of Communist control, continues to be completely occupied with normal police security and frontier control missions. There is no Austrian Air Force.

## 2. Capabilities of Other Powers:

### a. USSR

- (1) Continued military support of current program of consolidation and gradual extension of control.
- (2) Withdrawal from Austria.
- (3) Military support of a coup d'etat.
- (4) Combat operations to seize control of all Austria and destroy forces of the Western Allies.

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(NOTE: The above are capabilities of Soviet Forces in Austria as now constituted. It should be remembered that in Hungary there are still more troops controlled by the Soviet Commander in Austria, and in Rumania, Bulgaria, and the USSR are still more troops which could on very short notice be made available.)

b. OTHER POWERS - None.

c. AUSTRIA - None.

3. Own Lines of Action:

The only military line of action which is practical and which would lead to the successful accomplishment of our mission is continuation of the provisions of military support for occupational missions.

4. Analysis of Possible Lines of Action:

a. Capabilities (1), (2), and (3) of the USSR cannot of themselves directly affect our own military line of action -- although of course, the political actions or programs with which they would be concurrent would rather definitely affect our own political program. In any case, the troop mission would remain support of occupational missions.

b. Capability (4) of the USSR would negate our own line of action entirely by destroying or dispersing our forces in, at the most, four days. This is quite a far-fetched possibility, however.

5. Not applicable.

6. Decision - Continue to provide military support for occupational missions.

GEOFFREY KEYES  
Lieutenant General, U. S. Army  
United States High Commissioner  
and Commander-in-Chief  
United States Forces in Austria

OFFICIAL:

*C. P. Bixel*

C. P. BIXEL  
Colonel GSC  
Director of Intelligence



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THE STATE-ARMY-NAVY-AIR FORCE COORDINATING COMMITTEE  
Washington, D. C.

SANA-5818  
14 November 1947

MEMORANDUM FOR THE SECRETARY OF STATE:  
(Attention: Mr. Williamson - CE)

Subject: Provision of Supplies for Austria  
under Public Law 84.

Reference: SANA-5814 dtd 12 Nov 47.

At the request of the Joint Chiefs of Staff, the attached messages are forwarded in connection with the request contained in the above reference.

For the State-Army-Navy-Air Force Coordinating  
Committee:

W. A. SCHULGEN,  
Acting Secretary

Enclosure:  
CM-OUT-90169 (Nov 47), Copy No. 41 ) Furnished to  
CM-IN-2199 (14 Nov 47), Copy No. 7 ) addressee only.

Copies to:  
1 - State Member  
1 - Army Member  
1 - Navy Member  
1 - Air Force Member  
1 - P&O  
2 - Op-35  
2 - AC/AS-5

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THE JOINT CHIEFS OF STAFF  
WASHINGTON 25, D. C.

091 Austria  
Misc.

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SM-9212 ✓  
14 November 1947

MEMORANDUM FOR THE STATE-WAR-NAVY-AIR FORCE COORDINATING  
COMMITTEE:

Subject: Provision of Supplies for Austria  
Under Public Law 84.

- References:
- a. SM-9105
  - b. SANA 5807
  - c. WARX 89083
  - d. SM-9180
  - e. SM-9209

- Enclosures:
- a. WAR 90169 (Copy No. 41)
  - b. CM-IN-2199 (14 Nov 47) (Copy No. 7)

The enclosed message from the Commanding General, U.S. Forces, Austria (Enclosure b) in reply to WAR 90169 is forwarded in connection with the request in SM-9180.

*W. G. Lalor*  
W. G. LALOR,  
Captain, U.S. Navy,  
Secretary.

*Enclosures forwarded to State  
Dept. by SANA \_\_\_\_\_*

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THE JOINT CHIEFS OF STAFF  
WASHINGTON 25, D. C.

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SM-9209  
14 November 1947

MEMORANDUM FOR THE SECRETARY, STATE-ARMY-NAVY-AIR FORCE  
COORDINATING COMMITTEE:

Subject: Provision of Supplies  
for Austria under  
Public Law 84.

Reference: SM-9180.

Enclosure: CM-IN-2013 (13 Nov 47) Copy No. 12.

The enclosed message from the Commanding Gen-  
eral, U.S. Forces in Austria, Vienna, Austria, is a  
corrected copy of the message forwarded as Enclosure "B"  
to SM-9180.

*M. M. Stephens*  
M. M. STEPHENS,  
Captain, U.S. Navy,  
Executive Secretary.

*An interim reply has been made to  
this cable in WAR 90169 dated  
12 Nov 47 - Mr Vedeler, CE advised*

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*me this date*

*[Signature]*

(28)



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PER PARAS 511 and 60a (4), AR 380.5

*Corrected Copy*

From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite PASGS  
To: Dept of the Army CSCAD pass to State  
Info: OMGUS attn General Clay  
Nr: P-8054 12 November 1947

This is a repeat of ourad P 8035. Reference WX-89083 and P-7933, Legation cables 910 and 1060 to State 25 Sept and 18 Oct, and cable CC-2218 being dispatched this date to Draper from Clay, subject: "Procurement of coal under Public Law 84."

2. It is our interpretation that under Public Law 84 it is impossible, without special authority, to pay for coal already delivered to Austria under the coal power and offset agreements.

3. It is estimated that coal furnished from the Ruhr during the calendar year 1947 will be to a total value of 21 million dollars, which currently can be paid for by 5 million power export and 8 million from British grant, leaving a balance of 8 million to be paid for by the United States.

4. Notwithstanding that in September (see cable 903, Legation to State, 24 Sept) the British informed us that they would provide 10 million dollars, they now stand on the "Playfair Agreement" between State Dept and British, 22 Nov 1946 and will make available only half of the net bill or approximately 8 million for this purpose. This accounts for 2 of the present 5 million deficit to Bizone referred to in Paragraph 5.

CM IN 2013 ( 13 Nov 47 )

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Page 2

From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite PASGS

Nr: P-8054

12 November 1947

5. This Headquarters had 8.5 million unobligated Public Law 84 fund applicable to purchase of coal of which 2.4 million have been committed for Polish coal (see Para 6). This Headquarters proposed to Bizone to make a firm military purchase of 3.1 million dollars Ruhr coal effective at once with permission to extend to a total of 8.5 million. This purchase to be made in accordance with conditions which follow and to which Bizone agrees:

A. The purchase of coal by United States Forces in Austria will not be considered in any way to abrogate or change the terms of the overall Ruhr coal allocation to Austria or the coal power and offset agreements between Austria and the Bizone.

B. The coal procured by United States Forces in Austria will be considered as a meeting of and equal commitment made by Austria under the power coal agreement.

C. Except for the provisions of the preceding paragraphs these two agreements will continue in force, and coal will be furnished under them concurrently equal to Austrian power exports. Bizone estimated such a contract cannot be fully implemented before 15 Nov 1947 by which time a debt of 5 million dollars will have been accumulated for which funds are not in sight here if our interpretation of Public Law 84 is correct.

6. In accordance with authority from you negotiations have been entered into with the Austrians for the procurement of 2.4 million dollars of Polish coal. The Austrian Government

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( 13 Nov 47 )

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Page 3

From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite PASGS

Nr: P-8054

12 November 1947

has been firmly told that this coal can only be purchased under the following conditions:

A. That the entire 1.2 million dollars required to make payment as of 20 Nov 1947 will be furnished by the Austrian Government.

B. That thereafter this Headquarters will purchase not to exceed 40,000 tons per month at a cost of approximately \$600,000 per month based on Polish coal delivered for use in the western zones. This means that the Austrian Government will have to provide free dollars in the amount of approximately \$600,000 each month starting in December. The Austrian Government has now agreed to make this commitment. The Austrian Government has two contracts with Poland for coal; one in the sum of 9 million dollars, 4 million dollars to be paid in dollars and 5 million dollars may be paid in exports. The Austrian Government has just reported that exports for the period of the contract cannot exceed 3 million dollars and that exports per month for the next four months will not exceed the equivalent of 10,000 tons of coal. The second contract calls for purchase of 3 million dollars worth of coal, thus Austria has available to meet a 12 million dollar commitment only 7 million dollars purchasing power composed of 3 million dollars barter, 2.8 million which has already been supplied from Public Law 84 funds and 1.2 million which has been supplied by Austria, plus the funds referred to in "A" and "B" above.

7. We feel here that it is most important that the present rate of flow of coal into Austria be maintained by continuing the present flow from Poland concurrently with the

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Page 4

From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite PASGS

Nr: P-8054

12 November 1947

flow from the Ruhr. Due to Austria's lack of dollar availability and export capacity, if we discontinue purchase of Polish coal with Public Law 84 funds, it can be expected that Poland will break the contracts and that at the best only such coal as can be financed by exports will come from that source after 20 Nov 1947 thus reducing Polish coal imports from 85,000 to a maximum of 10,000 tons per month if not completely eliminating them. Poland has already indicated that in case a new contract is to be signed with the Austrians there will be a \$2 per ton increase in the price of coal.

8. If our interpretation of Public Law 84 is correct and if there is a firm commitment on the part of State Dept to the British to pay one half of the balance of the cost of Ruhr coal for the calendar year 1947 after power export credits have been deducted funds in the sum of approximately 5 million dollars must be made available for the payment of the amount to Bizone.

9. The situation here requires and immediate decision. We have in Berlin personnel authorized to sign a contract with Bizone. General Clay is informing you in his cable that he will not approve this contract except on orders from you unless provision is made for the payment of the approximately 5 million dollars which will be due Bizone by 15 November 1947. The longer we delay in signing this contract the greater the debt will become.

10. The following solutions are possible:

A. To make available from sources other than Public Law 84 five million dollars for payment of this debt.  
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Page 5

From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite PASGS

Nr: P-8054

12 November 1947

B. To make available from sources other than Public Law 84, 2 million dollars and to authorize payment of 3 million from Public Law 84 to meet the five million debt.

C. Authorize use of Public Law 84 funds in the sum of 5 million dollars to pay the debt for coal used only in the western zones and city of Vienna and delivered after 1 July 1947. If course "C" is taken, we will be forced to break our commitment to the Austrian Government and withdrawal of our support from the Polish Austrian agreements will force the complete collapse of these agreements and the stoppage of practically all coal shipments from Poland to Austria. I strongly recommend that 5 million dollars be made available to pay this debt from sources other than Public Law 84 and if this cannot be done I recommend the solution proposed in Paragraph "B".

11. I am instructing my representatives to remain in Berlin pending a decision by you as to the course of action I am to take. It is requested that this matter be handled as urgent and that a decision be given soonest.

12. Political advisor and Gibling concur.

This message has been relayed to State Dept. End

P 8035 is CM IN 1275 ( 8 Nov ) JCS

P 7933 is CM IN 3258 ( 17 Oct ) JCS

910 is CM IN 5259 ( 28 Sep ) Gen Lutes

1060 is CM IN 3545 ( 19 Oct ) Gen Noce

CC 2218 not identified in SMC

903 is CM IN 5235 ( 28 Sep ) CAD

ACTION: JCS

INFO : Gen Noce, Gen Wedemeyer, Gen Lutes, Mr Draper,  
Gen Richards

CM IN 2013 ( 13 Nov 47 )

DTG 122133Z

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THE STATE-ARMY-NAVY-AIR FORCE COORDINATING COMMITTEE  
Washington, D. C.

SM-9180

SANA-5814  
12 November 1947 091

*Austria  
misc -*

MEMORANDUM FOR THE SECRETARY OF STATE:  
(Attention: Mr. Williamson - CE)

Subject: Provision of Supplies for Austria  
under Public Law 84.

CM-IN-1275 dated 8 November 1947 and CM-IN-1429 dated 9 November 1947, from the Commanding General, U.S. Forces in Austria, in reply to WARX 89083, both of which have previously been furnished the Department of State, have been referred to the State-Army-Navy-Air Force Coordinating Committee by the Joint Chiefs of Staff for the basis of a reply.

It is requested that the Department of State furnish the State-Army-Navy-Air Force Coordinating Committee with a draft reply to the Commanding General, U.S. Forces in Austria.

For the State-Army-Navy-Air Force Coordinating Committee:

H. W. MOSELEY,  
Secretary

- Copies to:
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  - 1 - Army Member
  - 1 - Navy Member
  - 1 - Air Force Member
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THE STATE-ARMY-NAVY-AIR FORCE COORDINATING COMMITTEE  
Washington, D. C. *091 Austria  
misc.*

SANA-5807  
3 November 1947 *Cross*

MEMORANDUM FOR THE SECRETARY, JOINT CHIEFS OF STAFF:

Subject: SM-9105 dated 24 October 1947.

- References: a. CM-IN-2337 (13 Oct 47)  
b. CM-IN-3258 (17 Oct 47)  
c. CM-IN-3769 (21 Oct 47)  
d. CM-IN-4474 (24 Oct 47)

The above references were forwarded to the Department of State requesting the basis of a reply. The Department of State has advised the SANACC Secretariat that a reply to the above references was dispatched to the Commanding General, U.S. Forces, Austria, in the Department of the Army's telegram number WAR 89083 dated 24 October 1947.

For the State-Army-Navy-Air Force Coordinating  
Committee:

H. W. MOSELEY,  
Secretary

- Copies to:  
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THE JOINT CHIEFS OF STAFF  
WASHINGTON 25, D. C.

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SM-9180  
10 November 1947

MEMORANDUM FOR THE STATE-ARMY-NAVY-AIR FORCE  
COORDINATING COMMITTEE:

Subject: Provision of Supplies  
for Austria under  
Public Law 84.

References: a. SM-9105.  
b. SANA-5807.  
c. WARX 89083.

Enclosures: a. WARX 89083 (24 Oct 47) Copy No. 16.  
b. CM-IN-1275 (8 Nov 47) Copy No. 12.  
c. CM-IN-1429 (9 Nov 47) Copy No. 17.

The enclosed messages from the Commanding General,  
U.S. Forces in Austria, Vienna, Austria (Enclosures "B" and  
"C") in reply to WARX 89083 are forwarded requesting the  
basis of reply.

For the Joint Chiefs of Staff:

*W. G. Lalor*  
W. G. LALOR,  
Captain, U.S. Navy,  
Secretary.

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PER PARAS 51i and 60a (4) AR 380-5

Civil Affairs Division  
Lt Col Martin 73738

24 October 1947

COMGENUSFA, Vienna, Austria

INFORMATION:

HQ EUCOM, Frankfurt, Germany

Nr: WARX 89083

From CSCAD ECON.

1. Problems raised by urads Oct P-7901, P-7907, P-7932, P-07950 and and LEGTEL 1060, 18 Oct, under intensive review by Dept State and will receive continued consideration until solution reached best possible that circumstances permit. USAF's attention to partition hazard and resourceful study of alternative expedients have been most valuable, and of much assistance for accurate estimation gravity and complexity of situation developing in Austria.

2. Main aspects of problem appear to be as follows:

(A). Immediate necessity of moving coal into Sov Zone in accordance with quadripartite pooling agreement of June 1946, and similar problem to follow re seed, pesticides, and fertilizer, without violation PL-84 or disclosure that PL-84 funds not being utilized for pooled supplies flowing to Sov Zone (LEGTEL 1060, P-7907, P-7933);

(B). Necessity of either finding other sources of funds for coal and civilian relief supplies flowing to Sov Zone, or disclosure inability to fulfill quadripartite pooling agreements with funds or supplies disposable by US element, thereby risking Sov retaliation and de facto partition with onus placed on US (LEGTEL 1060, P-7933, P-7950);

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(Oct 47)

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Nr: WARX 89083

24 October 1947

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(C) Difficulty maintaining strong pro-US and Communist sentiment Austrian people through a third class of 1550 calory ration (P 7901, P 7932).

3. Re (A) and (B) state of opinion that over long run it should not be impossible so to Marshall dollars, sterling, and supplies available to Aust Govt from sources other than PL-84, (POW encashments, mil pay-as-you-go receipts, barter transactions, Aust Govt), as to meet requirements for pooled supplies flowing east. It is recognized, however, that this will involve careful planning and that the Aust Govt may already have so committed its funds from other sources that nothing is immediately available for the purchase of normal portion Ruhr coal for Sov Zone.

4. Re specific suggestions made in LEGTEL 1060 and P 7933, namely directive to bizone cancelled coal price increase to Austria, or renegotiation coal power agreement to provide increase power rate as of Jan 1947. State and Army of opinion these not practicable. Special coal price for Aust likely to invoice bizone in such complications with other claimants Ruhr coal that suggestion would meet with extreme opposition. Also as pointed out P 7950, settlement of coal-power agreement may require several months negotiation, and in any event unlikely to provide sufficient credit for immediate purpose, since doubtful that increase power rate can be established for 6 months antedating increase coal price. No objection perceived to alternative discussed Para 9 B P 7933 and Para 4 of LEGTEL 1060. Use Brit coal in Sov Zone not matter for determination by US but is concern of Brit and Aust. State could not agree to use of USFRP procured coal in Soviet Zone as substitute for Brit and power procured coal which has already been consumed in the Western Zones. However, if any of suggestions by State Dept made below are fessible, coal problem for Sov Zone could be temporarily solved as follows:

(A) Ruhr coal to be delivered to Austria during period approximately 2 months immediately following exhaustion of Brit 2.5 million sterling, to be procured by Aust Govt with Aust funds obtained as shown below. Coal so procured will satisfy Ruhr coal requirement Soviet Zone through March 1948, per P 7933 and LEGTEL 1060

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(Oct 47)

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Nr: WARX 89083

24 October 1947

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(B) In addition, in order to avoid problem of distribution in Soviet Zone of pesticides, seeds and fertilizer procured and/or programmed with USFRP funds, suggest Aust Govt pay for all these items out of own funds. This means that the 2.2 million dollars auth for purchase of fertilizer in Czechoslovakia and Belgium and approximately another 2.0 million dollars programmed for pesticides and seeds would become available for programming of other USFRP items.

(C) Funds required by Aust Govt for Ruhr coal for period of 2 months approximately 5.0 million dollars. To pay for procured and programmed pesticides, seeds and fertilizer requires 4.2 million dollars. Total 9.2 million dollars. Aware that fertilizer and seed requirements for spring cultivation considerably higher than amounts included for this purpose in the 4.2 million dollars. However, for lack of sufficient funds, this sum is all that could be allotted for this program from USFRP funds.

(D) Most likely that 9.2 million dollars could become available to the Aust Govt from fol 2 sources: 1, As all of the 9.2 million dollars, of which 7 million dollars may be used for overseas procurement, would revert to the USFRP funds for reallocation purposes, State may be able to arrange pmt for Philippine copra, which Aust Govt is financing out of its own dollar receipts. Amount involved in copra transaction understood to be 1.9 million dollars. 2, Partial distribution Austrian share Gold Pot waiting only signature at London of Protocol admitting Austria to Pot. We are informed signature awaiting Aust Govt authorization to Aust Rep London to sign necessary documents, texts of which have been communicated to Aust. Problems envisaged under P 7950 might be minimized by Aust obtaining short term loan against portion of gold pledged as security and which could be repaid from fairly assured future income such as POW payments and mil purchases. Aust Govt might wish explore this possibility with Fed Reserve Bank NY or Swiss National Bank. If Aust Govt disposed take such action, it is believed a 6-7 million dollar loan would be sufficient to take care of problem. In this connection you will note that part of distribution to Aust from Gold Pot will consist of gold now

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Nr: WARX 89083

24 October 1947

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in NY Fed Reserve Bank. You understand, of course, we are not in position to request Aust Govt to make use of this resource for this purpose and caution required to prevent precedent which may be exploited by Soviets.

5. Above sources, that is, loan on gold and release of funds expended by Aust Govt on copra, appear to be most immediate solution feasible for coal problem Sov Zone, as well as for pending problem of distributing fertilizer, seeds and pesticides in that zone. Total funds these 2 sources from 7.9 to 8.9 million dollars. By the time pmt becomes due for Dec delivery Ruhr coal, it is hoped that all necessary funds to bring the total up to the 9.2 million dollars will thereby become available to the Aust Govt.

6. Urgency of (C), increase of ration, in no way minimized. Third and fourth quarter USPRP funds programs have already been communicated to you. **Pal is tentative program** for first quarter calendar 48 in thousands of NLT tons. Grains 112, soya flour 3, rolled oats 9, fats and oils 6, pulses 3.

7. Above program will exhaust remaining funds tentatively allotted for relief Aust first quarter 48. Program considerably lower than third and fourth quarter 47 program and will not permit increase in present ration scale assuming availability of average only 850 calories per non-self-supplier from indigenous supplies and imports other than US relief. Believed that to make possible 1700 calory ration scale tentative program first quarter 48 would have to be increased as follows in thousands NLT tons: Fats 6, pulses 4, grains 8.

8. No assurance these supplies will be available but every effort will be made to provide these or substitutes. Add supplies will require approximately an add 6 million dollars. If the suggested course of action on coal, fertilizer, pesticides and seeds is followed, sufficient funds would revert to USPRP to finance the add supplies. If on basis this program you are satisfied ration can be increased to 1700 calories, agreeable to such increase. Note that first quarter 48 program makes provision for food only with exception 900 tons fatty acids for soap.

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(Oct 47)  
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Nr: WARK 89083

24 October 1947

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9. For your info, Aust also included in plans (emphasized) interim aid bill to be presented Congress. Present total relief funds for Aust is 27 million dollars for first quarter calendar 48. Only possibility these funds not being available would be occurrence earlier Italian crisis compelling diversion funds at present ear-marked Aust pending expected Congress action.

10. State requests Erhardt and Gibling be informed.

11. If after receipt this cable telecon still desirable please notify.

End

NOTE: P 7933 is CM IN 3258 (17 Oct)  
P 7950 is CM IN 3769 (21 Oct)  
LEGTEL 1060 is CM IN 3545 (19 Oct)  
P 7907 is CM IN 2337 (13 Oct)  
P 7901 is CM IN 1882 (10 Oct)

ORIGINATOR: Gen Noce

DISTRIBUTION: Mr Draper, JCS, Gen Chamberlin, Gen Norstad,  
Gen Lutes, Gen Richards

CM OUT 89083

(Oct 47)

DTG 250150Z

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PER PARAS 511 and 60a (4), AR 380-5

*Subject dealt within Aemptel to Rome 2439  
RAP 247, Nov. 21.*

From: COMGENUSFA Vienna Austria sgd Keyes cite PASGS personal

To: Department of the Army CSCAD pass to State

Info: OMGUS attn Gen Clay

Nr: P 8035

7 November 1947

Reference WX 89083 and P 7933, Legation cables 910 and 1060 to State 25th September and 18th October, and cable CC 2218 being dispatched this date to Draper from Clay, subject "Procurement of coal under Public Law 84."

It is our interpretation that under Public Law 84 it is impossible, without special authority, to pay for coal already delivered to Austria under the coal power and offset agreements.

It is estimated that coal furnished from the Ruhr during the calendar year 1947 will be to a total value of \$21,000,000, which currently can be paid for by \$5,000,000 export and \$8,000,000 from British grant, leaving a balance of \$8,000,000 to be paid for by the United States.

Notwithstanding that in September (see cable 903, Legation to State, 24th September) the British informed us that they would provide \$10,000,000 they now stand on the "play fair agreement" between State Department and British, 22nd November 1946 and will make available only half of the net bill or approximately \$8,000,000 for this purpose. This accounts for 2 of the present 5,000,000 deficit to bi-zone

CM IN 1275

(8 Nov 47)

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From: COMGENUSFA Vienna Austria sgd Keyes cite PASGS personal

Nr: P 8035

7 November 1947

referred to in paragraph 5.

This headquarters has 8.5 million unobligated Public Law-84 funds applicable to purchase of coal of which 2.4 million have been committed for Polish coal (see paragraph 6). This headquarters proposed to bi-zone to make a firm military purchase of 3.1 million Ruhr coal effective at once with permission to extend to a total of 8.5 million. This purchase to be made in accordance with conditions which follow and to which bi-zone agrees:

A. The purchase of coal by United States Forces in Austria will not be considered in any way to abrogate or change the terms of the overall Ruhr coal allocation to Austria or the coal power and offset agreements between Austria and the bi-zone.

B. The coal procured by United States Forces in Austria will be considered as a meeting of an equal commitment made by Austria under the power coal agreement.

C. Except for the provisions of preceding paragraphs these 2 agreements will continue in force, and coal will be furnished under them concurrently equal to Austrian power exports. Bi-zone estimates such a contract cannot be fully implemented before 15th November 1947 by which time a debt of \$5,000,000 will have been accumulated for which funds are not in sight here if our interpretation of Public Law 84 is correct.

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From: COMGENUSFA Vienna Austria sgd Keyes cite PASGS personal  
Nr: P 8035 7 November 1947

In accordance with authority from you negotiations have been entered into with the Austrians for the procurement of 2.4 million dollars of Polish coal. The Austrian Government has been firmly told that this coal can only be purchased under the following conditions:

A. That the entire 1.2 million dollars required to make payment as of 20th November 1947 will be furnished by the Austrian Government.

B. That thereafter this headquarters will purchase not exceed 4,000 tons per month at a cost of approximately \$600,000 per month for 4 months based on Polish coal delivered for use in the Western Zones this means that the Austrian Government will have to provide free dollars in the amount of approximately \$600,000 each month starting in December. The Austrian Government has now agreed to make this commitment. The Austrian Government has 2 contracts with Poland for coal; one in the sum of \$9,000,000, \$4,000,000 to be paid in dollars and \$5,000,000 may be paid in exports. The Austrian Government has just reported that exports for the period of the contract cannot exceed \$3,000,000 and that exports per month for the next 4 months will not exceed the equivalent of 10,000 tons of coal. The second contract calls for purchase of \$3,000,000 worth of coal, thus Austria has available to meet a \$12,000,000 commitment only \$7,000,000 purchasing power composed

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From: COMGENUSFA Vienna Austria sgd Keyes cite PASGS personal

Nr: P 8035

7 November 1947

of \$3,000,000 barter, 2.8 million which has already been supplied from Public Law 84 funds and 1.2 which has been supplied by Austria, plus the funds referred to in "A" and "B" above.

We feel here that it is most important that the present rate of flow of coal into Austria be maintained by continuing the present flow from Poland concurrently with the flow from the Ruhr. Due to Austrias lack of dollar availability and export capacity, if we discontinue purchase of Polish coal with Public Law 84 funds, it can be expected that Poland will break the contracts and that the best only such coal as can be financed by exports will come from that source after 20th November 1947 thus reducing Polish coal imports from 85,000 to a maximum of 10,000 tons per month if not completely eliminating them. Poland has already indicated that in case a new contract is to be signed with the Austrians there will be a \$2.00 per ton increase in the price of coal.

If our interpretation of Public Law 84 is correct and if there is a firm commitment on the part of State Department to the British to pay one half of the balance of Ruhr coal for the calendar year 1947 after power export credits have been deducted funds in the sum of approximately \$5,000,000 must be made available for the payment of the amount to bi-zone.

The situation here requires an immediate decision. We have in Berlin personnel authorized to sign a contract

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From: COMGENUSFA Vienna Austria sgd Keyes cite PASGS personal

Nr: P 8035

7 November 1947

with bi zone. General Clay is informing you in his cable that he will not approve this contract except on orders from you unless provision is made for the payment of the approximately \$5,000,000 which will be due bi zone by 15th November 1947. The longer we delay in signing this contract the greater the debt will become.

The following solutions are possible:

A. To make available from sources other than Public Law 84 \$5,000,000 for payment of this debt.

B. To make available from sources other than Public Law 84, \$2,000,000 and to authorize payment of \$3,000,000 from Public Law 84 to meet the \$5,000,000 debt.

C. Authorize use of Public Law 84 funds in the sum of \$5,000,000 to pay the debt for coal used only in the western zones and city of Vienna and delivered after 1st July 1947. If course "C" is taken, we will be forced to break our commitment to the Austrian Government and withdrawal of our support from the Polish Austrian agreements will force the complete collapse of these agreements and the stoppage of practically all coal shipments from Poland to Austria. I strongly recommend that \$5,000,000 be made available to pay this debt from sources other than Public Law 84 and if this cannot be done I recommend the

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(8 Nov 47)

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From: COMGENUSFA Vienna Austria sgd Keyes cite PASGS personal

Nr: P 8035 7 November 1947

solution proposed in paragraph "B".

I am instructing my representatives to remain in Berlin pending a decision by you as to the course of action I am to take. It is requested that this matter be handled as urgent and that a decision be given soonest.

Political Advisor and Gibling concur.

End

Note: This message has been relayed to State Department.

Note: P 7932 is CM IN 3258 (17 Oct) JCS  
910 is CM IN 5259 (28 Sep) Gen Lutes  
1060 is CM IN 3545 (19 Oct) Gen Noce  
CC 2218 not identified in SMC  
903 is CM IN 5235 (28 Sept) CAD

ACTION: JCS

INFO : Gen Noce, Mr Draper, Gen Wedemeyer, Gen Lutes,  
Gen Richards

CM IN 1275 (8 Nov 47) DTG 071825Z hhl

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*Subject dealt with  
in Deptlet Vienna  
930 Nov 11, 479 Nov 28,  
1056 Dec 30.*

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PER PARAS 511 and 60a (4), AR 380-5

From: COMGENUSFA Vienna, Austria sgd Keyes cite PASGS

To : JCS pass to State

Info: CSCAD ECON

Nr : P-8042

8 November 1947

1. Reference P 8012 paragraph 4.
2. This Headquarters deeply concerned statement your para nine urad WX 89083 indicating only \$27,000,000 likely to be available Austrian relief first three months 1948. Same subject mentioned in WX 89663.
3. Result of such reduction below Austrian estimates presented in P 7924 considered calamitous.
4. If forced to consider reduced relief available, our estimate possibility Austrian financing minimum needs first three months 1948 with only \$27,000,000 indicated your cable WX 89083 para 9 approximately as follows:
  - A. Requirement for food approximately \$30,000,000 against which \$27,000,000 must be considered committed with remaining deficit \$3,000,000.
  - B. Proceeds of exports and estimated occupation costs not sufficient to cover coal requirements and outstanding barter trade agreements.
  - C. Miscellaneous credit items including transit and tourist trade totaling between three and four million virtually only source of revenue not earmarked fully to be applied against estimated dollar needs in Austria rptd in P 7924.
5. Our veiw industry cannot possibly maintain even present level production without substantial portion funds as estimated in P 7924.

CM IN 1429 (9 Nov 47)

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From: COMGENUSFA Vienna, Austria sgd Keyes cite PASGS  
Nr : P-8042 8 November 1947

6. Following comments are made on specific categories:  
Food: Our position regarding food requirements fully stated in cables P 7782, P 7901, P 7932, P 7975 and especially P 8025.

Agriculture: Agricultural import requirements \$18,000,000 reported in P 7924 is essential minimum. Effect any curtailment our program will result in far more than proportionate loss in indigenous production. Agricultural machinery and repair parts are needed desperately. Pesticides and some veterinarian supplies critically necessary. Crop yields must be increased by use fertilizers not available in adequate quantities past several years. Curtailment of needed agricultural supplies inevitably will result in later need for increased food imports.

Industrial and miscellaneous imports: Austrias ability to become economically self sustaining and to pay back her debts is largely dependent upon extent of industrial rehabilitation have been negligible since beginning occupation. In spite of importance attached by Austrian Government to manufacture for export, minimum subsistence needs of internal economy are constant and inevitable and must be met before other requirements can begin to be satisfied. Reduction of US financial aid as reported WX 89083, para 9, will not only further retard rehabilitating industry but will strangle Austrias attempt to implement its exports plan. Even much of industrial impetus gained with assistance given by the British grant in aid \$40,000,000 will be lost. Further reduction of industrial assistance at this time plays directly into Soviet hands. It is believed that Soviet influence can  
CM IN 1429 (9 Nov 47)

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From: COMGEN USFA Vienna, Austria sgd Keyes cite PASGS

Nr : P-8042

8 November 1947

be neutralized only by substantial outside aid to Austrian industry.

Exports: Reduced industrial imports together with reduced coal imports will certainly have a disastrous effect on exports. Full weight of any such reduction may not be evidenced during period under discussion but resulting delay will cause a decided setback in 1948.

Commercial loans: It is hoped that some export-import bank credit may be available for financing industrial rehabilitation imports of a specific nature during this period. It is considered very doubtful whether commercial agencies other than export-import bank will extend credit to Austria on scale indicated in Austrian plan as reported in P 7424 unless America stands ready to finance requirements as outlined in that cable.

7. Increased aid to Austria first three months 1948 beyond suggested total \$27,000,000 urgently necessary to prevent very serious consequences indicated above. Political adviser concurs. End

- NOTE: P-8012 is CM IN 357 (4 Nov 47) CAD  
 P-7924 is CM IN 3103 (16 Oct 47) CAD  
 P-7782 is CM IN 2151 (13 Sep 47) SSP  
 P-7901 is CM IN 1882 (10 Oct 47) Gen Lutes  
 P-7932 is CM IN 3266 (17 Oct 47) SSP  
 P-7975 is CM IN 4750 (26 Oct 47) SSP  
 P-8025 is CM IN 748 (6 Nov 47) Gen Lutes

ACTION: Gen Noce

INFORMATION: JCS, Gen Chamberlin (State), Mr Draper,  
Gen Wedemeyer, Gen Lutes, Gen Richards, CSA  
CM IN 1429 (9 Nov 47) DTG 081320Z hab

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ADDRESS OFFICIAL COMMUNICATIONS TO  
THE SECRETARY OF STATE  
WASHINGTON 25, D. C.



DEPARTMENT OF STATE  
WASHINGTON

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*File  
309  
6*

October 30, 1947

MEMORANDUM FOR THE SECRETARY  
STATE-ARMY-NAVY-AIR FORCE COORDINATING COMMITTEE:

*Ref: SANA-5789*

The reply to the attached telegrams was dispatched to the Commanding General, United States Forces, Austria, in the Department of the Army's telegram no. WAR 89083, 24 Oct.

*Philaules P. Clayton Jr*  
for Charles E. Saltzman  
State Member

Enclosures:

- A-CM-IN-2337 (13 Oct 47)
- B-CM-IN-3258 (17 Oct 47)
- C-CM-IN-3769 (21 Oct 47)
- D-CM-IN-4474 (24 Oct 47)

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THE JOINT CHIEFS OF STAFF  
WASHINGTON 25, D. C.

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SM-9105  
24 October 1947

MEMORANDUM FOR THE STATE-ARMY-NAVY-AIR FORCE  
COORDINATING COMMITTEE:

Subject: *W. G. L. Martin, CC*  
Provision of Supplies for  
Austria under Public Law 84.

- Enclosures:
- (A) CM-IN-2337 (13 Oct 47) Copy No. 37.
  - (B) CM-IN-3258 (17 Oct 47) Copy No. 39.
  - (C) CM-IN-3769 (21 Oct 47) Copy No. 44.
  - (D) CM-IN-4474 (24 Oct 47) Copy No. 12.

The enclosed messages from the Commanding General,  
U.S. Forces in Austria, Vienna, Austria, are forwarded re-  
questing the basis of reply.

For the Joint Chiefs of Staff:

*W. G. L. Martin*  
W. G. LALOR  
Captain, U.S. Navy,  
Secretary.

OCT 27 1947



STATE, ARMY & NAVY COORDINATING  
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PER PARAS 511 and 60a (4), AR 380-5

From: COMGENUSFA Vienna, Austria from Keyes cite PASGS

To: JCS pass to State

Nr: P 7907

10 October 1947

USFRP proceeding satisfactorily in Vienna and Western Zones. Field supervision to date indicates relief assistance agreement being observed at all levels of distribution channel in keeping with provisions public law 84. Negotiations continuing but possibility of formal or informal acceptance of the supervisory requirements in Soviet Zone appears unlikely in near future. I will continue negotiations with faint hope that some subsequent change in conditions might influence Soviet attitude. In the meantime I will continue procedure outlined our P 7700, and restrict USFRP to Vienna and Western Zone with no public law 84 supplies entering Soviet Zone. Requirements of food pooling agreement of 13 December 1946 will be met by using CA-MG stocks to meet indicated Soviet Zone deficiencies. Thereby food pooling agreement can be honored and Soviets denied one excuse in the event they try to withhold excess indigenous production. Medical supplies now available CA-MG sources being distributed in zones. Public law 84 medical supplies will be restricted Vienna where greatest need exists. Same procedure can be followed for clothing with Army excess stocks meeting needs outside Vienna. Indigenous procured coal and coal procured by barter and trade agreement assures more than sufficient supply for needs Soviet zone. By careful release coal procured public law 84 have restricted public law 84 coal to Vienna and western zones. Barring unforeseen emergency believe public law 84 coal can be safely excluded from use Soviet zone. Public law 84 coal will be delivered to federal railroads only in the western zones and Vienna. Fertilizer, pesticides and seed present special problem because of effect upon indigenous food production and fact Soviet zone produces 65% Austria's indigenous food. Recent shipment UNRRA assures

CM IN 2337 (13 Oct 47)

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*Guel A*

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From: COMGENUSFA Vienna, Austria from Keyes cite PASGS

Nr: P 7907

10 October 1947

supply super phosphate to Soviet zone. 1000 tons procured Switzerland public law 84 will be used western zones exclusively. Phosphates procured Czechoslovakia will be distributed basis 60% Soviet zone 40% western zones. Austrians have indicated intent to pay from occupation dollars for all fertilizer used Soviet zone. Public law 84 will pay for fertilizer used western zones. Public law 84 funds not used for procurement of fertilizer abroad as authorized will be held in special account pending new authorization or other instructions. Pesticides and seed because of late arrival will be saved for spring use. Perhaps as Soviet zone indigenous reserves from this harvest are about to be exhausted in the spring the availability of such agricultural aids in Austria can be used as wedge to secure Soviet acceptance supervisory requirement public law 84. Otherwise needs Soviet zone can be ignored and stocks used western zone if Austrians cannot purchase proper share due Soviet zone. Unless special circumstances make it necessary do not recommend any statement this arrangement be made at this time. Any other action would be inconsistent with our desire to assist Austria and present government and would result in advantage to Soviets and possibly result in partition of Austria.

End

Note: This message has been relayed to State Dept.

P 7700 is CM IN 4175 (24 Aug) Gen Noce

and CM IN 4278 (24 Aug) Gen Noce

ACTION: Gen Noce

INFO: Gen Spaatz, Adm Leahy, Mr Draper, JCS, Gen Chamberlin,

Adm Nimitz, Gen Norstad, Gen Lutes, Gen Richards, CSA

CM IN 2337

(13 Oct 47) DTG 102031Z

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PER PARAS 511 and 60a (4) AR 380-5

From: COMGENUS&A Vienna Austria PERSONAL from Keyes cite  
PASGS

To: JCS pass to Secy of State and CSCAD

Nr: P 7933 16 October 1947

1. Reference cable from State to Legation, 10th  
October 47 and our P 7845 and P 7889.

2. We are faced here with a situation which requires  
a decision as to what course of action is to be taken, unless  
it is to become publicly known that relief supplies procured  
under Public Law 84 are not in fact, being distributed in  
the Soviet Zone of Austria. Failure to ship any hard coal  
into the Soviet Zone would result in Soviet protest to the  
Austrian Govt and Allied Council, thus making inevitable public  
knowledge that we are limiting Public Law 84 supplies to the  
City of Vienna and the three western zones. Allied Council  
coal pooling agreement of 14 June 46 provides all indigenous  
and imported coal will in the future be pooled under the  
authority of the Austrian Govt and as long as occupation  
continues, occupying forces shall have first priority. Soviets  
probably would retaliate by withholding indigenous food and  
coal production. Since it is our desire to avoid announcement  
of our method of disposing Public Law 84 supplies with its  
probable consequences, at least until after CRM meeting,  
London, it is important that Soviet Zone receive its share  
of hard coal supplies, for which sources other than Public  
Law 84 must be found.

3. This crisis has arisen as the result of a number  
of factors, which are as follows:

CM IN 3258 (17 Oct 47)

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From: COMGENUSPA Vienna Austria PERSONAL from Keyes cite  
PASGS

Nr: P 7933 16 October 1947

A. Prior to passage of Public Law 84, in accordance with policies transmitted to us by State, negotiations were entered into and various trade, including the offset, agreements, were consummated by Austria with Bi-zone and other countries, including Poland and Czechoslovakia. These negotiations, carried on for many months and pursuant to understandings between United States and United Kingdom Governments, and the resulting agreements were known to you and presumably approved. It was the opinion here at that time that the provisions of Public Law 84 would be such, that in fact, the grant would be available to carry out these commitments within the machinery therein provided.

B. While this Headquarters questioned the wording on the relief agreement signed with Austria, the full impact of the wording, its conflict with the control agreement and the mechanical difficulty created by reaction of the Soviets, were not foreseen at the time it was signed.

C. After signing the coal power agreement with Bi-zone, Bi-zone raised the price of coal \$5.25 (50%) per ton, thus decreasing the Austrian purchasing power, using power export and British grants, by 150,000 tons for the period 26 August to 15 October 1947. Had this not been done, we would have had

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From: COMJENUSFA Vienna Austria PERSONAL from Keyes cite  
PASGS

No: P 7933

16 October 1947

150,000 tons of free coal procured by other than Public Law 84 funds which could have been distributed in the Soviet Zone without violation of Public Law 84. 48,730 tons per month of hard coal is required for the Soviet Zone for October, November, and December, or a total of 146,190 tons. A directive to Bi-zone cancelling the price increase to Austria would correct the situation.

D. The coal power agreement provides for a tentative temporary price for power of one cent per kilowatt hour, effective 1st January 1947 until final determination is made by Price Waterhouse Company, London. The income to Austria from this source to date is approximately \$5,000,000. It is not anticipated, due to the water shortage, that any appreciable exports will be made for balance of the calendar year. This tentative rate is ridiculously low, but it was agreed to by the Austrians due to pressure placed on the Austrian Government in order to secure an agreement with Bi-zone. If a retroactive increase were made in the provisional rate effective from January 1947, it would provide ample credits to cover the requirements for Soviet Zone.

E. If the provisions of Public Law 84 are strictly complied with, no coal purchased with funds

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From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite  
PASGS

Nr: P. 7933

16 October 1947

provided by this law can be distributed in the Soviet  
Zone.

4. We repeat, we are prepared to carry out the  
desires of State and Department of the Army as interpreted  
in Par 2 of USFA cable P 7845.

5. We feel that Par 2 and 3 of State cable can be  
implemented and that any technicalities arising between  
this Headquarters and Bi-zone can be adjusted.

6. However, in accordance with State cable, this  
subject has been discussed again with the British element,  
Vienna, who hold emphatically to their stand that machinery of  
the offset account should be preserved as originally intended  
and state that they have asked the Foreign Office to confirm  
this view, by direct telegram to Washington.

7. Our cable P 7918 recommends concurrence with  
Austria's request that \$2,400,000 be allocated for  
purchase of Polish coal. Austria has insufficient dollar  
funds available with which to pay for Polish coal to be  
delivered during the period 1 to 30 November 1947. It had  
been anticipated that funds for this purpose would have been  
available from occupation payments or as a result of United  
States converting PW payment certificates, but difficulty  
in processing and loss of \$1,500,000 worth of original  
certificates has prevented us from making this money available  
to the Austrian Government.

CM IN 3258 (17 Oct 47)

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From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite  
PASGS

Nr: P 7933

16 October 1947

8. We have no positive assurance that sufficient funds from other sources will be available for the \$2,400,000 for Ruhr coal during the first quarter of 1948. There will be occupation funds available but these will be required for equal priority procurements. However, if the \$2,400,000 is kept for Ruhr coal after December, we are faced with stoppage of coal shipments from Poland in November and feel that a solution to this problem must be given priority at this time. Other concurrent Austrian commitments considered to have priority equal to coal are as follows:

- \$1,950,000-tentatively for fertilizer to be used Soviet Zone.
- \$1,050,000-for food.
- \$ 600,000 for POW.
- \$1,000,000-to COMUS in accordance with coal POW agreement, in payment of present 1 July 47 debt for coal.

These other commitments require more money than Austria has currently available.

9.

A. Assuming that British funds are used to pay for the coal from the Ruhr in excess of power exports since 1 July 1947 to date, British funds will be exhausted as of 15 October 1947. In accordance with law, no coal or other supplies purchased

OM IN 3258 (17 Oct 47)

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From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite  
PASGS

Nr: P 7933

16 October 1947

with Public Law 84 funds can be distributed to or used in, Soviet occupied areas of Austria, pending agreement by the Soviet to permit inspection by United States relief authorities as to distribution. Thus, if coal is purchased and brought into Austria in accordance with Par 2 of P 7845, this coal must be used in the western zones only. The only hard coal which would be available for Austria to use in the eastern zone, would be such coal as may be currently on hand, plus the very small amount which they would receive under their barter agreement with Poland and Czechoslovakia.

B. On the other hand, if Ruhr coal is obtained in accordance with the offset agreement and power coal agreement, it might be assumed that the new coal coming in could be used to replace coal previously purchased and paid for by British funds and power exports, which was used in the western zones and thus make physically available coal to the Austrians, which they in turn could distribute in the Soviet Zone. It is realized that the last suggestion may not be considered consistent with the spirit of Public Law 84, however, as previously pointed out, failure to ship any hard coal into Soviet Zone would result in Soviet protest to Austrian Government and Allied Council.

CM IN 3258 (17 Oct 47)

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OPERATIONAL PRIORITY

Page 7

From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite  
PASGS

Nr: P 7933

16 October 1947

10. As of 24 September, there were still available 400,000 pounds sterling unspent British funds applicable to coal. Cable was sent to State that date stating "In order to have sufficient sterling available in last three months to cover deliveries to Soviet Zone, it is most important to begin application of USFRP as soon as possible". On 26 September 1947, P 7845, requesting decision on method of procurement, was sent to War. At that date it would have been possible to make a military procurement of coal as outlined in Par 2, P 7845, and still have sufficient British funds available for purchase of hard coal for the Soviet Zone.

11. Either the actions proposed in Par 3C and 3D are adopted, we can immediately proceed with the purchase of Ruhr coal as outlined in Par 2 of USFA cable P 7845, but probably subject to British objection.

12. If the courses of action outlined in Par 3C and 3D are not approved, the only remaining alternatives, unless hard coal is to be denied to the Soviet Zone, is the action outlined in Par 9B.

13. It is felt that the obviously unfair impact on Austrian economy caused by the actions described in Par 3C and 3D are sufficient justification for action by you, even though the actual agreements were signed between the Austrian Government and Bi-zone.

CM IN 3258 (17 Oct 47)

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OPERATIONAL PRIORITY

Page 8

From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite PASGS

Nr: P 7933 16 October 1947

14. I recommend, in order of priority:

A. Retractive increase in price of power and procurement of Ruhr coal, in accordance with Par 2, USFA cable P 7845.

B. Cancellation of increased price on Ruhr coal or deferrment of payment for portion represented by coal price increase and procurement of coal, in accordance with Par 2, USFA P 7845.

C. Procurement of Ruhr coal as outlined in Par 9B.

15. As we see it here, there are no other courses of action than those outlined in the preceding paragraph possible, unless the present application of Public Law 84 is to be made publicly known. If this should occur it can be anticipated that the Soviet will press for cleavage which may factually result in the complete economic, if not the physical partition of Austria.

16. Reference state cable, Par 7, our estimates are Austria will receive \$1,500,000 per month average from USFA occupation cost. Present lag in making payment due to difficulty in securing bills and processing same. Every effort is being made to expedite.

CM IN 3258 (17 Oct 47)

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OPERATIONAL PRIORITY

Page 9

From: COMGENUSWA Vienna Austria PERSONAL from Keyes cite PASGS

Nr: P 7933

16 October 1947

17. I wish to point out the extreme difficulty of the Austrian Government to meet their minimum economic requirements for which commitments were made prior to the present price increases. The Austrian Government was forced to make large commodity commitments against their limited dollar availabilities prior to recent price increases, thus creating a major financing problem with possibility of economic and political collapse unless solution is found. If one of my recommendations (Par 14) is adopted and our economic and financial advice is followed by the Austrian Government, I believe that the situation for the balance of 1947 can be solved. Negligible funds other than occupation cost, are currently in sight for requirements after 1st January 1948.

18. I feel that the decisions involved have such serious political implications, that the final decision as to the course of action to be followed must be made by you. Action soonest is requested since this matter may be brought to a head if the Austrians are unable to meet their Polish commitments 20th October 1947 and since no more British funds or power credits are available for imports arriving daily. If it appears that your decision may be delayed, request a TELECON 18 October 47 latest. Political advisor and GIBLIN concur.

19. This is urgent.

NOTE: This message has been relayed to State Dept. <sup>End</sup>

CM IN 3258 (17 Oct 47)

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OPERATIONAL PRIORITY

Page 10

From: COMGENUSPA Vienna Austria PERSONAL from Keyes cite  
PASGE

Nr: P 7933 16 October 1947

NOTE: P 7845 1s CM IN 5254 (28 Sept) SSP  
P 7889 1s CM IN 1588 (9 Oct) SSP  
P 7918 1s CM IN 2691 (15 Oct) SSP

ACTION: Gen Lutes

INFORMATION: Gen Noce (Gen Clay, Gen Richards, Mr Draper

CM IN 3258 (17 Oct 47)

DTG 161500Z

hab

ACTION CHANGED TO:

CAD (Gen Noce) 22 Oct 47  
JCS 24 Oct 47

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PARAPHRASE NOT REQUIRED. HANDLE AS TOP SECRET CORRESPONDENCE  
PER PARAS 511 and 60a (4), AR 380-5

From: COMGENUSFA Vienna Austria sgd Keyes cite PASGS (AIRGRAM)

To: Dept of the Army CSGSP/D5 personal for Lutes

Nr: P 7950

20 October 1947

Urtel WX 88632. Experts determination power cost cannot proceed until Bizone and Austria agree on terms of reference (Basis of computation) which is the underlying question on which Bizone and Austria appear to have widely differing views although not yet formally discussed. United States power specialists here believe that if terms of reference agreed, the actual computation could be made by Austrian and Bizone experts without expense of certified accountants. Austrian Government has exchanged letters with Price Waterhouse London as suggested as initial step by Bizone. Nothing conclusive to date. Computation by latter would probably take at least six months. Solution of present emergency cannot be founded on final determination power rates because of protracted delay. Solution could be had only by immediate Bizone acceptance higher provisional rate. This would have to be retroactive from January 1 to release sufficient credit for purpose, specially because there will be little or no power exports over next several months.

Would State prefer urging use gold reserves over solutions suggested in our P 7933 and Legations telegram October 18 same subject. Legation believes the United States Government would strongly oppose utilization gold reserve for current purposes. Point out also such use gold would almost certainly force public knowledge and emphasis on fact that USFRP withheld from Soviet Zone.

End

NOTE: P 7933 is CM-IN 3258 (17 Oct) Gen Lutes

ACTION: Gen Lutes

INFO: Gen Noce (Gen Clay), Gen Chamberlin, Gen Norstad,  
Gen Richards, Mr Draper

CM-IN 3769 (21 Oct 47)

DTG 201830Z avc

ACTION CHANGED TO:

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CAT (Gen Noce) 22 Oct 47

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PARAPHRASE NOT REQUIRED. HANDLE AS TOP SECRET CORRESPONDENCE  
PER PARAS 511 and 60a (4) AR 380-5

From: COMGENUSFA Vienna Austria sgd Keyes cite PAGDS  
To: Department of the Army for CSCAD pass to State  
for action  
Nr: P 7967 24 October 1947

Reference our cable P-7933 and cable dated 18  
October 1947, Legation to State. The situation today regarding  
procurement of Polish coal is; we have committed \$700,000.00  
and the Austrian Government \$500,000.00 for total of 1.2  
million dollars which will pay for November coal from Poland.  
This exhausts PL-84 funds allocated for procurement of Polish  
coal.

End

NOTE: This message has been relayed to State Department.

NOTE: P 7933 is CM IN 3258 (17 Oct 47) JCS

ACTION: JCS  
INFORMATION: Gen Noce, Gen Norstad, Gen Lutes, Gen Richards,  
Mr Draper, CSA

CM IN 4474 (24 Oct 47) DTG 241055Z hab

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STATE-ARMY-NAVY-AIR FORCE COORDINATING COMMITTEE  
Washington, D. C.

*091 Austria*

*MOC*

SANA-5789  
27 October 1947

MEMORANDUM FOR THE SECRETARY OF STATE:  
(Attention: Mr. Williamson, CE)

The enclosed messages from the Commanding General, U.S. Forces in Austria, forwarded by the Joint Chiefs of Staff requesting the basis of reply, are forwarded to the Department of State for preparation of a draft reply.

For the State-Army-Navy-Air Force Coordinating Committee:

H. W. MOSELEY,  
Secretary

Enclosures:

- A - CM-IN-2337 (13 Oct 47)
- B - CM-IN-3258 (17 Oct 47)
- C - CM-IN-3769 (21 Oct 47)
- D - CM-IN-4474 (24 Oct 47)

Copies to:-

- 1 - State Mbr
- 1 - Army Mbr
- 1 - Navy Mbr
- 1 - Air Force Mbr
- 1 - JCS
- 1 - P&O
- 1 - CAD
- 2 - ACNO
- 2 - AC/AS-5

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TOP SECRETENCLOSURE "A"

From: COMGENUSFA Vienna, Austria from Keyes cite PASGS

To: JCS pass to State

Nr: P 7907

10 October 1947

USFRP proceeding satisfactorily in Vienna and Western Zones. Field supervision to date indicates relief assistance agreement being observed at all levels of distribution channel in keeping with provisions public law 84. Negotiations continuing but possibility of formal or informal acceptance of the supervisory requirements in Soviet Zone appears unlikely in near future. I will continue negotiations with faint hope that some subsequent change in conditions might influence Soviet attitude. In the meantime I will continue procedure outlined our P 7700, and restrict USFRP to Vienna and Western Zone with no public law 84 supplies entering Soviet Zone. Requirements of food pooling agreement of 13 December 1946 will be met by using CA-MG stocks to meet indicated Soviet Zone deficiencies. Thereby food pooling agreement can be honored and Soviets denied one excuse in the event they try to withhold excess indigenous production. Medical supplies now available CA-MG sources being distributed in zones. Public law 84 medical supplies will be restricted Vienna where greatest need exists. Same procedure can be followed for clothing with Army excess stocks meeting needs outside Vienna. Indigenous procured coal and coal procured by barter and trade agreement assures more than sufficient supply for needs Soviet zone. By careful release coal procured public law 84 have restricted public law 84 coal to Vienna and western zones. Barring unforeseen emergency believe public law 84 coal can be safely excluded from use Soviet zone. Public law 84 coal will be delivered to federal railroads only in the western zones and Vienna. Fertilizer, pesticides and seed present special problem because of affect upon indigenous food production and fact Soviet zone produces 65% Austria's indigenous food. Recent shipment UNRRA assures supply super phosphate to Soviet zone. 1000 tons procured Switzerland public law 84 will be used western zones exclusively. Phosphates procured Czechoslovakia will be distributed basis 60% Soviet zone 40% western zones. Austrians have indicated intent to pay from occupation dollars for all fertilizer used Soviet zone. Public law 84 will pay for fertilizer used western zones. Public law 84 funds not used for procurement of fertilizer abroad as authorized will be held in special account pending new authorization or other instructions.

- 1 -

Enclosure "A"

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Pesticides and seed because of late arrival will be saved for spring use. Perhaps as Soviet zone indigenous reserves from this harvest are about to be exhausted in the spring the availability of such agricultural aids in Austria can be used as wedge to secure Soviet acceptance supervisory requirement public law 84. Otherwise needs Soviet zone can be ignored and stocks used western zone if Austrians cannot purchase proper share due Soviet zone. Unless special circumstances make it necessary do not recommend any statement this arrangement be made at this time. Any other action would be inconsistent with our desire to assist Austria and present government and would result in advantage to Soviets and possibly result in partition of Austria.

End

Note: This message has been relayed to State Dept.

P 7700 is CM-IN 4175 (24 Aug)  
and CM-IN 4278 (24 Aug)

CM-IN-2337 (13 Oct 47)

- 2 -

Enclosure "A"

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ENCLOSURE "B"

From: COMGENUSFA Vienna Austria PERSONAL from Keyes cite  
PASGS

To: JCS pass to Secy of State and CSCAD

Nr: P 7933

16 October 1947

1. Reference cable from State to Legation, 10th October 47  
and our P 7845 and P 7889.

2. We are faced here with a situation which requires a decision as to what course of action is to be taken, unless it is to become publicly known that relief supplies procured under Public Law 84 are not in fact, being distributed in the Soviet Zone of Austria. Failure to ship any hard coal into the Soviet Zone would result in Soviet protest to the Austrian Govt and Allied Council, thus making inevitable public knowledge that we are limiting Public Law 84 supplies to the City of Vienna and the three western zones. Allied Council coal pooling agreement of 14 June 46 provides all indigenous and imported coal will in the future be pooled under the authority of the Austrian Govt and as long as occupation continues, occupying forces shall have first priority. Soviets probably would retaliate by withholding indigenous food and coal production. Since it is our desire to avoid announcement of our method of disposing Public Law 84 supplies with its probable consequences, at least until after CFM meeting, London, it is important that Soviet Zone receive its share of hard coal supplies, for which sources other than Public Law 84 must be found.

3. This crisis has arisen as the result of a number of factors, which are as follows:

A. Prior to passage of Public Law 84, in accordance with policies transmitted to us by State, negotiations were entered into and various trade, including the offset, agreements, were consummated by Austria with Bi-zone and other countries, including Poland and Czechoslovakia. These negotiations, carried on for many months and pursuant to understandings between United States and United Kingdom Governments, and the resulting agreements were known to you and presumably approved. It was the opinion here at that time that the provisions of Public Law 84 would be such, that in fact, the grant would be available to carry out these commitments within the machinery therein provided.

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B. While this Headquarters questioned the wording on the relief agreement signed with Austria, the full impact of the wording, its conflict with the control agreement and the mechanical difficulty created by reaction of the Soviets, were not foreseen at the time it was signed.

C. After signing the coal power agreement with Bi-zone, Bi-zone raised the price of coal \$5.25 (50%) per ton, thus decreasing the Austrian purchasing power using power export and British grants, by 150,000 tons for the period 26 August to 15 October 1947. Had this not been done, we would have had 150,000 tons of free coal procured by other than Public Law 84 funds which could have been distributed in the Soviet Zone without violation of Public Law 84. 48,730 tons per month of hard coal is required for the Soviet Zone for October, November, and December, or a total of 146,190 tons. A directive to Bi-zone cancelling the price increase to Austria would correct the situation.

D. The coal power agreement provides for a tentative temporary price for power of one cent per kilowatt hour, effective 1st January 1947 until final determination is made by Price Waterhouse Company, London. The income to Austria from this source to date is approximately \$5,000,000. It is not anticipated, due to the water shortage, that any appreciable exports will be made for balance of the calendar year. This tentative rate is ridiculously low, but it was agreed to by the Austrians due to pressure placed on the Austrian Government in order to secure an agreement with Bi-zone. If a retroactive increase were made in the provisional rate effective from January 1947, it would provide ample credits to cover the requirements for Soviet Zone.

E. If the provisions of Public Law 84 are strictly complied with, no coal purchased with funds provided by this law can be distributed in the Soviet Zone.

4. We repeat, we are prepared to carry out the desires of State and Department of the Army as interpreted in Par 2 of USFA cable P 7845.

5. We feel that Par 2 and 3 of State cable can be implemented and that any technicalities arising between this Headquarters and Bi-zone can be adjusted.

6. However, in accordance with State cable, this subject has been discussed again with the British element, Vienna, who hold emphatically to their stand that machinery of the offset account should be preserved as originally intended and state that they have asked the Foreign Office to confirm this view, by direct telegram to Washington.

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7. Our cable P 7918 recommends concurrence with Austria's request that \$2,400,000 be allocated for purchase of Polish coal. Austria has insufficient dollar funds available with which to pay for Polish coal to be delivered during the period 1 to 30 November 1947. It has been anticipated that funds for this purpose would have been available from occupation payments or as a result of United States converting PW payment certificates, but difficulty in processing and loss of \$1,500,000 worth of original certificates has prevented us from making this money available to the Austrian Government.

8. We have no positive assurance that sufficient funds from other sources will be available for the \$2,400,000 for Ruhr coal during the first quarter of 1948. There will be occupation funds available but these will be required for equal priority procurements. However, if the \$2,400,000 is kept for Ruhr coal after December, we are faced with stoppage of coal shipments from Poland in November and feel that a solution to this problem must be given priority at this time. Other concurrent Austrian commitments considered to have priority equal to coal are as follows:

- \$1,950,000-tentatively for fertilizer to be used Soviet Zone.
- \$1,050,000-for food.
- \$ 600,000-for POW.
- \$1,000,000-to OMGUS in accordance with coal POW agreement, in payment of present 1 July 47 debt for coal.

These other commitments require more money than Austria has currently available.

9. A. Assuming that British funds are used to pay for the coal from the Ruhr in excess of power exports since 1 July 1947 to date, British funds will be exhausted as to 15 October 1947. In accordance with law, no coal or other supplies purchased with Public Law 84 funds can be distributed to or used in, Soviet occupied areas of Austria, pending agreement by the Soviet to permit inspection by United States relief authorities as to distribution. Thus if coal is purchased and brought into Austria in accordance with Par 2 of P 7845, this coal must be used in the western zones only. The only hard coal which would be available for Austria to use in the eastern zone, would be such coal as may be currently on hand, plus the very small amount which they would receive under their barter agreement with Poland and Czechoslovakia.

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B. On the other hand, if Ruhr coal is obtained in accordance with the offset agreement and power coal agreement, it might be assumed that the new coal coming in could be used to replace coal previously purchased and paid for by British funds and power exports, which was used in the western zones and thus make physically available coal to the Austrians, which they in turn could distribute in the Soviet Zone. It is realized that the last suggestion may not be considered consistent with the spirit of Public Law 84, however, as previously pointed out, failure to ship any hard coal into Soviet Zone would result in Soviet protest to Austrian Government and Allied Council.

10. As of 24 September, there were still available 400,000 pounds sterling unspent British funds applicable to coal. Cable was sent to State that date stating "In order to have sufficient sterling available in last three months to cover deliveries to Soviet Zone, it is most important to begin application of USFRP as soon as possible". On 26 September 1947, P 7845, requesting decision on method of procurement, was sent to War. At that date it would have been possible to make a military procurement of coal as outlined in Par 2, P 7845, and still have sufficient British funds available for purchase of hard coal for the Soviet Zone.

11. Either the actions proposed in Par 3C and 3D are adopted, we can immediately proceed with the purchase of Ruhr coal, as outlined in Par 2 of USFA cable P 7845, but probable subject to British objection.

12. If the courses of action outlined in Par 3C and 3D are not approved, the only remaining alternatives, unless hard coal is to be denied to the Soviet Zone, is the action outlined in Par 9B.

13. It is felt that the obviously unfair impact on Austrian economy caused by the actions described in par 3C and 3D are sufficient justification for action by you, even though the actual agreements were signed between the Austrian Government and Bi-zone.

14. I recommend, in order of priority:

A. Retractive increase in price of power and procurement of Ruhr coal, in accordance with Par 2, USFA cable P 7845.

B. Cancellation of increased price on Ruhr coal or deferment of payment for portion represented by coal price increase and procurement of coal, in accordance with Par 2, USFA P 7845.

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C. Procurement of Ruhr coal as outlined in Par 9B.

15. As we see it here, there are no other courses of action than those outlined in the preceding paragraph possible, unless the present application of Public Law 84 is to be made publicly known. If this should occur it can be anticipated that the Soviet will press for cleavage which may factually result in the complete economic, if not the physical partition of Austria.

16. Reference state cable, Par 7, our estimates are Austria will receive \$1,500,000 per month average from USFA occupation cost. Present lag in making payment due to difficulty in securing bills and processing same. Every effort is being made to expedite.

17. I wish to point out the extreme difficulty of the Austrian Government to meet their minimum economic requirements for which commitments were made prior to the present price increases. The Austrian Government was forced to make large commodity commitments against their limited dollar availabilities prior to recent price increases, thus creating a major financing problem with possibility of economic and political collapse unless solution is found. If one of my recommendations (Par 14) is adopted and our economic and financial advice is followed by the Austrian Government, I believe that the situation for the balance of 1947 can be solved. Negligible funds other than occupation cost, are currently in sight for requirements after 1st January 1948.

18. I feel that the decisions involved have such serious political implications, that the final decision as to the course of action to be followed must be made by you. Action soonest is requested since this matter may be brought to a head if the Austrians are unable to meet their Policy commitments 20 October 1947 and since no more British funds or power credits are available for imports arriving daily. If it appears that your decision may be delayed, request a TELECON 18 October 47 latest. Political advisor and GIBLIN concur.

19. This is urgent.

CM IN 3258 (17 Oct 47)

NOTE: P 7845 is CM IN 5254 (28 Sept) SSP  
P 7889 is CM IN 1588 (9 Oct) SSP  
P 7918 is CM IN 2691 (15 Oct) SSP

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TOP SECRETENCLOSURE "C"

From: COMGENUSFA Vienna Austria sgd Keyes cite PASGS (AIRGRAM)  
 To: Dept of the Army CSGSP/D5 personal for Lutes  
 Nr: P 7950

20 October 1947

Urtel WX 88632. Experts determination power cost cannot proceed until Bizone and Austria agree on terms of reference (Basis of computation) which is the underlying question on which Bizone and Austria appear to have widely differing views, although not yet formally discussed. United States power specialists here believe that if terms of reference agreed, the actual computation could be made by Austrian and Bizone experts without expense of certified accountants. Austrian Government has exchanged letters with Price Waterhouse London as suggested as initial step by Bizone. Nothing conclusive to date. Computation by latter would probably take at least six months. Solution of present emergency cannot be founded on final determination power rates because of protracted delay. Solution could be had only by immediate Bizone acceptance higher provisional rate. This would have to be retroactive from January 1 to release sufficient credit for purpose, specially because there will be little or no power exports over next several months.

Would State prefer urging use gold reserves over solutions suggested in our P 7933 and Legations telegram October 18 same subject. Legation believes the United States Government would strongly oppose utilization gold reserve for current purchases. Point out also such use gold would almost certainly force public knowledge and emphasis on fact that USFRP withheld from Soviet Zone.

End

NOTE: P 7933 is CM-IN 3258 (17 Oct)

CM-IN-3769 (21 Oct 47)

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Enclosure "C"

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ENCLOSURE "D"

From: COMGENUSFA Vienna Austria sgd Keyes cite PAGDS  
To: Department of the Army for CSCAD pass to State for action  
Nr: P 7967

24 October 1947

Reference our cable P-7933 and cable dated 18 October 1947, Legation to State. The situation today regarding procurement of Polish coal is: we have committed \$700,000.00 and the Austrian Government \$500,000.00 for total of 1.2 million dollars which will pay for November coal from Poland. This exhausts PL-84 funds allocated for procurement of Polish coal.

End.

NOTE: This message has been relayed to State Department

NOTE: P 7933 is CM-IN 3258 (17 Oct 47)

CM-IN-4474 (24 Oct 47)

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Enclosure "D"



C  
O  
P  
YTOP SECRETJuly 23, 1947  
3 pmAMLEGATION,  
VIENNA

534

FOR ERHARDT AND GIBLIN PASS TO HIGH COMMISSIONER

DEPT in general agreement with views expressed LEGTEL 624 Jul 17 and Keyes' P-7547 Jul 19 re situation created by Kourasov protest of relief agreement and Figl reply. Following points stressed:

One. As we see it, your immediate problem not so much that of emphasizing firmness your reaction, means for which lie in your hands, as that of exercising maximum skill in arriving at arrangement with Sov authorities which will permit relief supplies to enter Eastern zone. Legal opinion Dept (DEPTEL 523, Jul 18), with informal concurrence legal division General Accounting Office, is that if relief cannot for any reason be distributed one part Austria it can continue be distributed other parts. If operation relief program for all Austria should prove not possible under agreement as it stands, we are prepared to operate program in three Western zones with possible modification certain provisions existing agreement specifically referring to all Austria. You are accordingly fully backed up under most unfavorable hypothesis that Sov authorities definitely prevent compliance conditions agreement their zone.

Two. Exhaust means to reach mutually acceptable arrangement. Most important that relief supplies continue to enter Eastern zone, in order to strengthen AUST GOVT, to avoid Sov withholding indigenous supplies their zone from Vienna and western provinces and to forestall division of country if possible. High Commissioner may in his discretion threaten withholding supplies if necessary for purposes bargaining with Sovs, but should also agree to any feasible working arrangements, such as suggestion LEGTEL 624 that US observation teams in Sov Zone be accompanied by Sov liaison officers, where possible without compromising basic provisions of law. DEPT has given explicit assurances to Congress on latter point. Complete reciprocity may be offered for Sov supervision any relief imports they provide.

Three. No leeway under existing commitment to Congress for High Commissioner to accept merely partial compliance with basic terms of agreement or law, although DEPT fully aware that in dealings with Sov authorities such increased manoeuvrability would strengthen High Commissioner's hand. Meanwhile report soonest any development which cannot be met under your present instructions and if possible suggest arrangements necessary your judgment to counter Sov obstruction in order avoid alternative of confining relief to Western zones.

Four. Difficulties of situation should not be publicly magnified into greater issue than it actually is. Suggest brief but effective assurance to other High Commissioners, AUST GOVT or public that QUOTE US intention is to supply relief envisaged by agreement in whatever areas it is possible comma to the extent that comma in the judgment

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July 23, 1947  
Amlegation, Vienna  
534

TOP SECRET

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For Erhardt and Gibling Pass to High Commissioner

Continued -

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of the US authorities comma the purposes of the agreement can be carried out UNQUOTE. Agreed that Figl will be backed up, but should understand that if Sov authorities do not permit compliance with agreement result will be that despite our understanding of AUST helplessness under circumstances we must nevertheless withhold supplies to Eastern zone. Position of AUST GOVT fully appreciated.

Five. Agree that US, BRIT and FR High Commissioners should be prepared for emergency that may be created if Kourasov refuses to permit working arrangement. Any effort to make US withdraw from Vienna or attempt to divide country further or abolish Control Council will of course be resisted and should be countered as violation existing agreements between occupying powers.

Repeated to Richard Allen, Rome, as 1210.

/s/ Marshall

MARSHALL

CODE ROOM: Please repeat to Richard Allen, ROME, as no. 1210.

TOP SECRET