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Austria - Economic Consequences of State Treaty

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After years of fruitless negotiation on the subject, the Russian Government invited representatives of the Austrian Government to visit Moscow early in April of this year for the purpose of discussing conditions under which a State Treaty for Austria might finally be agreed. On April 15, 1955, an Aide Memoire was initialed by the Russian and the Austrian Governments setting forth the conditions (agreeable to Austria) under which the Russians would be willing to negotiate with the other three occupying powers on a State Treaty for Austria. These conditions, particularly with respect to economic concessions, are more favorable than those to which Austria and the other Western governments concerned were willing to agree at the Berlin Conference of 1954; a Big Four conference tentatively scheduled in Vienna early this summer might well result in an Austrian State Treaty.

The Aide Memoire initialed in Moscow sets forth conditions under which Russia will give up economic concessions such as the USIA enterprises (former German-owned assets now operated by the Soviets in their zone of occupation), the Zisterdorf oil fields, and the Danube Shipping Company. In addition, both parties agree to enter into negotiations looking toward a normalization of trade relations between Austria and the USSR.

The details of the economic arrangements may not be known until the forthcoming negotiations on the State Treaty. Some information, often contradictory, has become available through the press. It may be useful, even on the basis of admittedly inadequate data, to assess the impact of the Treaty upon Austria's economy, with particular reference to the balance of payments.

Withdrawal of occupation troops

Withdrawal of all occupation troops from Austrian territory would eliminate a "service" item from the balance of payments estimated at from \$45 to \$60 million per annum. United States forces in Austria have been on a "pay-as-you-go" basis since 1947; the other occupying powers did not adopt this policy until the summer of 1953.

The most significant foreign exchange loss to Austria would result from the withdrawal of United States troops, both because receipts from U.S. forces have been consistently largest, and because the payments are made in dollars. These receipts have amounted to about \$30 million per year, as compared with a total dollar area surplus of \$45 million for fiscal 1954 (the last period for which a currency area breakdown is available). Important items from Austria's dollar balance of payments are set forth in the table below. If it is assumed that other items in this balance of payments would not change significantly, the withdrawal of the U.S. troops would still leave a substantial dollar surplus in the balance of payments. <sup>1/</sup>

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<sup>1/</sup> See, however, page 8.

AustriaDollar Balance of Payments, 1953-54  
(In millions of dollars)

	Receipts	Payments	Balance
Imports from dollar area, c.i.f.		55.8	-55.8
Exports to dollar area, f.o.b.	44.9		<u>44.9</u>
Balance of trade			-10.9
Dollar receipts from EPU settlement	53.5		53.5
U.S. expenditures in Austria	30.0		30.0
Tourism (dollar area)	12.9	0.8	12.1
Other	<u>17.3</u>	<u>4.0</u>	<u>6.6</u>
Balance on current account	<u>158.6</u>	60.6	98.0

Since 1953, the Russians have financed their occupation costs from the schilling proceeds of the USIA industries and sales of oil to the Austrians. From time to time, however, the Soviets have found it necessary to purchase schillings from the Austrian National Bank. The extent of such purchases is not made public; however, an Austrian newspaper has estimated that such purchases between January 1, 1953, and June 30, 1954, were in excess of one billion schillings (about \$40 million). <sup>1/</sup> The currency exchanged is not referred to.

The U.S. Operations Mission in Vienna, in calculating the balance of payments for fiscal 1954, estimated Soviet purchases of schillings at \$19.4 million equivalent against sterling. Although Soviet purchases of schillings are not made with sufficient regularity to warrant a projection, one might assume an annual foreign exchange loss on this account ranging from \$15 to \$30 million, probably in EPU currencies.

The British and the French have reduced their forces in Austria to such an extent that the foreign exchange loss on those accounts would be negligible.

Withdrawal of the occupation forces will have some effect on employment in the Province of Salzburg, where the American troops are based, and in Lower Austria and the Burgenland, occupied by the Russians. The effect will be numerically largest in Salzburg, where the American forces have been engaged in some major construction projects. It may be more burdensome, however, in the Russian-occupied provinces, where the rate of unemployment is already higher than that in the rest of Austria. During 1954, for example, the over-all ratio of the monthly average of persons seeking employment to total insured workers amounted to 8.5 per cent. In Lower Austria and in the Burgenland, the comparable figures were 10.8 per cent and 26.3 per

<sup>1/</sup> Die Presse, August 15, 1954

cent, respectively. Unemployment in these areas should, however, be transitional; persons who lose employment as the Russians withdraw might be absorbed as new investments are made to rehabilitate the USIA industries.

The withdrawal of the occupation troops, despite the guarantees expected to accompany the Treaty, will make Austria responsible for her own security. The draft treaty of 1949 limited the size of any future Austrian army to 53,000 troops, or about four divisions plus supporting troops. The cost of such an army has been estimated at about two billion schillings annually, or approximately 10 per cent of the 1955 budget. 1/

There is some discussion in Austria at the present time of seeking a larger army. 2/ However, if it is assumed that the estimated expenditure of two billion schillings is approximately correct, the effect of the army on internal financial stability would be little more inflationary than receipts from the occupying powers, which added an estimated 1.2 to 1.6 billion schillings to the money supply each year.

### The USIA industries

Immediately after the war, the Soviets took possession of all enterprises in their zone of occupation which they classified as "former German assets." Most important of these assets were the Zisterdorf oil fields and the Danube Shipping Company. They also included approximately 400 other enterprises, 250 of which were industrial or commercial. These assets had in some cases been established by the Germans; in other cases the Germans had merely seized title from their former Jewish owners.

Under Article 35 of the 1949 draft treaty the Soviets had agreed to return the 400 enterprises to Austria for a payment of \$150 million in fully convertible currencies, over a period of six years. According to the Aide Memoire of April 15 the price remains the same, but it may now be paid in Austrian goods over a period variously reported at six and ten years. 3/

In balance of payments terms it may be estimated that the balance of payments will be burdened by unrequited exports to the USSR in the amount of \$15 to \$25 million per annum, depending upon the length of time over which the payments are made. On the other hand, these exports will be offset by the return of these industries, either through increased exports or reduced imports, by an estimated \$10 to \$15 million per annum.

The Soviets have operated these industries for their own account as a complex known as "USIA" (Soviet Industries in Austria). There are no reliable published statistics as to the value of production of these in-

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1/ Die Presse, April 17, 1955.

2/ New York Times, April 24, 1955.

3/ In a report to the Austrian Parliament Chancellor Raab stated that the amount is to be paid over six years. See New York Times, April 28, 1955, page 5.

dustries. It is known that some of their products are sold on the Austrian market through USIA shops, while others are exported to Russia and other Eastern European countries. Both the domestically produced and the imported goods are now sold in Austria in competition with products of Western Austria and at much lower prices, since the USIA industries pay no taxes or customs duties to the Austrian Government. Thus, even at relatively low prices, the output of the more productive USIA industries can be disposed of at high profit to the Soviets.

An Austrian newspaper has estimated the "loss due to activities of USIA" (excluding oil) at 1,820 million schillings, or \$70 million over a five-year period. <sup>1/</sup> If this estimate may be taken as a rough approximation of the total resources lost to Austria through Soviet operation of these enterprises, an improvement of \$14 million per annum in the balance of payments might be expected upon the return of the industries to Austria. However, since it is known that most of the industries have become progressively less productive in the past few years, a maximum estimate of \$10 million per annum might be more realistic.

The USSR has also agreed to return the Danube Shipping Company, at a reported price of \$2 million. This will have a one-time impact upon the balance of payments which may be made up in later years by receipts from shipping.

The return of these properties will have diverse effects upon the internal financial situation. Economically, the recovery of taxes and customs duties which are not now paid by the USIA enterprises may cover a substantial portion of the expense of an army. Politically, the dual problems of ownership and the source of investment funds necessary to rehabilitate these industries may exacerbate the coalition arrangement. The People's Party has advocated a minimum of nationalization and the return of a majority of the properties to private ownership, with necessary investments to be made gradually and financed by private capital. Such a program would require the reorganization of the banking system and the capital market structure, as recommended by an international banking commission in 1953; to date, the two parties have been unable to agree on these recommendations.

The Socialists advocate the complete nationalization of the USIA enterprises and immediate and large investments from the public budget. The debate has already begun in the party presses and in public addresses of high party leaders; it is certain to become more bitter before the issue is finally settled.

#### The Zisterdorf oil fields

Under the draft treaty of 1949, the Soviets would have retained control of 60 per cent of the Zisterdorf oil fields for a period of about 30 years. According to the text of the Joint Communiqué issued in Moscow on

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<sup>1/</sup> Die Presse, February 23, 1954.

April 15, "The Soviet Government agreed further to cede to Austria the oil fields and refineries . . . in exchange for the delivery of crude oil in amounts agreed to by the parties." This "agreed amount" is not yet known; early press reports set the time over which deliveries would have to be made from six to thirty years. 1/ It now appears, however, that annual deliveries of one million tons of crude oil over a period of ten years may be correct. 2/

Oil production in the Lower Austrian oil fields during 1954 was reported at 3.2 million tons, worth about \$44 million at current world prices. Of this amount the Soviets allocated (against payments in schillings) about 1.2 million tons to the Austrians. The rest presumably was shipped to the East.

The allocation of 1.2 million tons in 1954 apparently filled the needs of Austria, since imports of crude oil were negligible. There were, however, imports of some refined products during 1954 amounting to about \$6 million.

Assuming a future level of consumption of 1.5 million tons (to allow for a demand which seemed to be growing towards the end of 1954), assuming an annual reparation rate of 1 million tons, and assuming a production rate at or near the 1954 level, the Austrians will have about 700,000 tons of crude oil available for export. At present prices this would improve their balance of payments by almost \$10 million per annum. In addition, recovery of the refining capacity in Lower Austria might permit a reduction in imports of petroleum products, or a conversion of crude oil into an export product of higher value. Net improvement in the balance of payments should be \$10 million at a minimum and might be as much as \$15 million per annum.

#### Trade with USSR

It is difficult to estimate what effect a "normalization of trade," as provided for in the Aide Memoire, may have on the balance of payments. In 1937, East Europe (excluding Yugoslavia) provided 32 per cent of Austria's imports and took 28 per cent of her exports. Russia's share of this total, however, amounted to less than 1 per cent of both imports and exports.

In 1954, despite the fact that Austria has clearing agreements with most East European countries, East Europe's share of trade had dropped to 9 per cent of both imports and exports. Russia's share of the total amounted to about 0.2 per cent. A return to the prewar position would not greatly increase the volume of trade between Austria and Russia.

Even if the "normalization" is extended to all of Eastern Europe there is reason to doubt that trade volume would be significantly

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1/ New York Times, April 16, 1955.

2/ New York Times, April 17, 1955, Die Presse, April 17, 1955.

affected. Austria has been eager, within the limits prescribed by consideration of strategic materials, to renew trade relations with the countries of Eastern Europe. The difficulty has been that the complementarity that formerly existed between Austria and the then predominantly agricultural Balkan countries no longer exists. These countries are still eager to import Austria's manufactured products but have little (except coal in the case of Czechoslovakia and Poland) which they can offer in return. As of December 31, 1954, Eastern European countries with which Austria has clearing agreements owed Austria \$3.1 million, net, under the swing arrangements. This was despite the fact that Austrian imports during 1954, at \$51 million, exceeded exports by about \$5 million.

There is an indicated export to the USSR on reparation account, including oil, of \$30 to \$40 million per annum over the next six to ten years. If this export is made from new production rather than a diversion of present exports (or if such a diversion is made good within the period), and if Russia continues to take such goods upon the expiration of reparations, the volume of exports might be increased by the indicated amount. The net effect on the balance of payments, however, would depend upon the ability of the USSR to provide goods which could be used by Austria, or to pay in a currency which would provide such goods. As indicated above, in the light of the direction of economic development in Eastern Europe, there seems little likelihood that the prewar pattern of trade will be reestablished.

#### Summary and conclusions

The information at hand does not lend itself readily to a quantitative analysis of the effects of the State Treaty on the domestic economy. For example, it would be necessary to make assumptions with respect to the timing of the effects in relation to the cyclical development in Austria, the outcome of the debate regarding the source of new investment funds, etc. This summary, therefore, will confine itself (and even here with great reservation) to an estimate of the direction and range within which the balance of payments might be affected. The assumptions are as follow:

1. Withdrawal of occupation forces. Assumes loss of dollar exchange at \$30 million and loss of foreign exchange from schilling purchases by the Russians ranging from \$15 to \$25 million per annum. Total loss to Austrian balance of payments might range from \$45 to \$60 million.

2. Return of USIA industries. Assumes improvement in balance of payments resulting from Austrian control of production ranging from \$10 to \$15 million per annum. Loss through unrequited exports in the form of payments for return of the USIA industries would range from \$15 million per annum over a ten-year period to \$25 million per annum over a six-year period. <sup>1/</sup> Net effect on balance of payments might range from zero to a loss of \$15 million per annum.

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<sup>1/</sup> See footnote 3/, page 3 .

3. Return of oil fields. Assumes an export surplus of 700,000 tons of crude oil worth about \$10 million at current prices. Another \$5 million might be added by substitution of domestically refined products for products imported last year. Net improvement might range from \$10 to \$15 million per annum.

4. Increased trade with USSR. No assumptions have been made regarding the possible outcome of trade negotiations with the USSR.

The net effect of these assumptions are summarized in the following table:

Change in Balance of Payments Following  
Conclusion of State Treaty  
(In millions of dollars)

	Minimum	Maximum
1. Withdrawal of occupation troops	-45	-60
2. Return of USIA industries	0	-15
3. Return of oil fields	15	10
4. Increased trade with USSR	no estimate	no estimate
TOTAL	-30	-65

These estimates are extremely tentative, particularly with reference to the value of production of the USIA industries. Also, it may well be that the Austrians will not wish to maintain oil production at the level achieved by the Soviets in 1954. These figures, however, should be an indication of the direction and the magnitude of the influence of the State Treaty on the Austrian balance of payments.

The Austrian balance of payments for 1954 shows an over-all surplus on current account of \$68 million. Assuming continuation of this favorable development in the year following implementation of the State Treaty, this surplus might be cut in half or almost completely wiped out by the assumptions made with regard to the Treaty.

However, the trade deficit during the first two months of 1955 amounted to the equivalent of \$30 million, or an annual rate of \$180 million, as compared with an annual rate based on the first two months of 1954 of about \$23 million and a trade deficit for 1954 of only \$44 million. The trade deficit with the dollar area during January and February 1955 amounted to almost \$9 million as compared with a deficit for all of 1954 of \$10.9 million.

Balance of payments statistics for the first quarter of 1955 are not yet available; however, the EPU position, which may be taken as an indication, showed a deficit of about \$38 million as compared with a surplus of \$17 million during the same period of 1954.



If the developments during the first quarter of this year presage the return of a substantial deficit in the global and dollar balance of payments, the estimated effects of the State Treaty on that balance should emphasize the present urgency for stricter anti-inflationary policies. Gold and foreign exchange reserves, at a level of \$358 million as of March 15, 1955, could not long withstand a drain of the magnitude indicated by the current trade statistics.