

6942

~~Secret~~



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Short-Run Economic Effects
of the Soviet Occupation of Czechoslovakia*

OIA HISTORICAL REVIEW PROGRAM
RELEASE IN FULL 1997

~~Secret~~

ER IM 68-114
September 1968

Copy No. 175

~~SECRET~~

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
12 September 1968

INTELLIGENCE MEMORANDUM

Short-Run Economic Effects of the Soviet Occupation
of Czechoslovakia

Summary:

The Soviet occupation of Czechoslovakia seriously disrupted the country's economy during the first week to ten days. In the confusion of the first few days, a great many factories and shops either failed to open or, if open, were largely inactive. All public buildings, communication centers, and financial institutions were occupied by Soviet forces. A Czech source estimates the total damage to the economy during the first week of Soviet occupation at \$250 million. Subsequent losses undoubtedly raised the total losses substantially.

The greatest strain on the economy resulted from the disruption of transportation. Municipal transport slowed almost to a halt, and international transport ceased for at least a four-day period (21 to 24 August) as border crossing points were closed. Transport disruptions interfered with all aspects of Czechoslovak economic life -- the supply of provisions to the population, the supply of raw materials to industry and agriculture, imports and exports, and the general movement of the country's citizens. As a result, losses in industrial output were surely substantial. With the possible exception of hops, damage to crops probably was minor because the grain harvest had already been largely completed.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Strategic Research.

[no index]

~~SECRET~~

~~SECRET~~

By the end of the first week in September, economic life had not yet approached normal. Many factories were not in full operation. Rail and road transport had resumed, although civilian traffic was still restricted to daylight hours, and civil air transport was largely inoperative. Some significant losses, such as a sharp decline in hard currency earnings from Western tourism, could be quite prolonged. Resumption of normal transport schedules is critical to the avoidance of further serious economic damage. With the resumption of foreign trade and general economic activity, with the impending harvests of potatoes and sugar beets, and with the accumulated backlog of freight, great strains will be placed on the country's transportation net. Additional strains undoubtedly will be created by the supply needs of the occupation forces, whose number is estimated at about 250,000.

- 2 -

~~SECRET~~

~~SECRET~~

Overall Loss

1. The total damage to the Czechoslovak economy during the first week to ten days of the Soviet occupation, when disruptions were most severe, cannot be estimated independently, but it was surely very substantial. Subsequent losses undoubtedly add substantially to the total. A report attributed to the Economic Institute of the Czechoslovak Academy of Sciences estimates the damage to the economy at 4 billion crowns (\$250 million)* for the first week of the occupation. Damage to the economy of Prague alone was estimated by the Prague Municipal Statistical Office at 200 million crowns for the first three days of the occupation and 65 million crowns for each additional day. "Economic experts" in Vienna have put the cost at \$10 million per day, basing their estimate on the loss of export business and the tourist trade. Various financial estimates of the damage in specific regions and sectors of the economy are now appearing in the Czech press. The matter of reparations for damages to the economy reportedly is one of the items to be taken up in the discussions over economic matters to be held with the Soviets in mid-September.

Property Damage

2. Property damage resulting from the Soviet occupation of Czechoslovakia cannot be assessed in value terms, but does not appear to have been heavy. Reports from Prague have stated that several street cars were destroyed and some buildings burned and that damage ran into millions of crowns. Such damage was not widespread. It apparently was limited to those few places where the occupying forces were actively resisted -- for example, in the vicinity of radio transmitters (both legal and clandestine). There have been no reports of damage to railheads. The

* At the official exchange rate, 7.2 crowns to US \$1, the 4 billion crowns would equal US \$556 million. Apparently the conversion was made by using the tourist rate of 16.2 crowns to US \$1, which more nearly reflects the purchasing power of the crown.

SECRET

~~SECRET~~

only reported damage to railroads involved the Czechs' tearing up tracks on a bridge over the Danube River at Komarno. These rails probably could have been replaced within a few hours. Because of heavy tank traffic within the country, damage to road surfaces could have been extensive. Only one bridge has been reported destroyed; it collapsed from the weight of a Soviet tank. (It now bears the name "Bridge of Czechoslovak-Soviet Friendship." Previously, it had been nameless.)

Transportation

3. The Soviet occupation of Czechoslovakia is greatly disrupting the flow of transportation within the country and across its borders. Immediately following the invasion, all air and commercial rail traffic and all road transport crossing the frontier halted. Road transport within the country was seriously disrupted: the prevailing uncertainty restricted operation to daylight hours, and fuel shortages substantially reduced the flow of traffic.

4. Rail transport has since resumed operation, but, along with road transport, is still restricted to daylight hours. Restrictions on international transport reportedly were in effect from 21 to 24 August, when all border crossing points were closed. There are indications that foreign shipments did not resume to any extent until 26 August. As of 4 September, commercial air traffic had not been resumed, although reportedly it will be in operation in time for the Brno Trade Fair, which is now scheduled to open on 15 September.

Food Supplies

5. The interruption of internal transportation almost immediately affected retail food supplies in the cities. Nighttime and early morning deliveries of perishable foodstuffs were halted by the uncertainty that prevailed in the large population areas. Consequently, deliveries of bread, fresh meat, and milk to retail stores were delayed several hours. Many shops remained closed during the first two days of the occupation (21 to 22 August). Moreover, the

~~SECRET~~

~~SECRET~~

temporary closing of border crossing points (21 to 24 August) added to the shortage of fresh fruit and vegetables, particularly from Hungary and Bulgaria. Thus there were shortages of some items and long queues for most. Not until the sixth day of the occupation (26 August) did the supply of provisions become more or less normal and the queues begin to grow smaller and fewer.

Industry

6. Industrial output was particularly hard-hit by the invasion. During the first two days of the occupation, the situation was very unsettled. Some reports indicate that occupation forces had surrounded some factories and would not let employees enter; other reports suggest that employees had gone to the factories but attended meetings instead of working. On the third day of the occupation (23 August), Prague factories were open, but appeared inactive. As the situation stabilized, factory operations gradually resumed, but because of a public transportation shutdown in the evenings, factories were unable to maintain a full afternoon shift, as workers sought to get home early. Third shifts were shut down entirely. A similar situation was reported to exist in Bratislava.

7. After a week's occupation, industry also began to feel the effect of the cut-off of imports, as many plants began to report raw material shortages. In particular, it was reported that Soviet deliveries of coking coal, natural gas, and iron ore had shrunk since the occupation. In a radio interview on 26 August, Deputy Premier Lubomir Strougal indicated that the country's steel works were dangerously short of coke supplies. On 30 August, factories in the Ostrava region were reported to be working at 65 percent of capacity, and in other areas there were reports of plants running at one-half capacity or less. In a move to make up for lost production, special shifts were scheduled in some plants for the weekend of 31 August; such action may be repeated in the weekends to come.

~~SECRET~~

~~SECRET~~

Agriculture

8. In spite of reports to the contrary, agriculture probably was not seriously damaged by the occupation. Most of the country's grain crops should have been harvested and placed in storage before the invasion, so that damage would have been minimal. Potatoes and sugar beets are the only major crops still to be harvested. These harvests will not begin in earnest until mid-September for potatoes and October for sugar beets. Some early potatoes may now be ready for harvesting, but a few days delay should not harm them.

9. The harvesting of potatoes and sugar beets in Czechoslovakia is a labor-intensive activity. Continued transportation difficulties and the employment of workers on special weekend shifts in factories may deprive agriculture of the necessary extra manpower to assist with the harvest. The continued interruption of transportation could seriously affect the timely sowing of winter grains, as great demands are placed on the transportation system for the delivery of required fertilizer.

10. The interruption of transportation could have harmed future output of livestock to the extent to which deliveries of commercial feed may have been held up. Nonrecoverable losses were likely to have been incurred where delays led to spoilage of milk and other perishables.

11. The hop crop may have been damaged by the occupation. There have been reports that Soviet tanks had been driven in fields in the hop-growing area northwest of Prague. If a large share of this year's harvest was indeed destroyed or severely damaged, the consequences for the Czech beer industry could be severe. Moreover, a valuable export will have been lost. In 1966, hop exports earned about \$10 million in foreign exchange for Czechoslovakia, of which more than \$8 million was in hard currency. In an attempt to save this year's crop, a reported 10,000 volunteers have gone to the fields to help with the harvest.

~~SECRET~~

~~SECRET~~

Foreign Trade

12. Czechoslovakia's foreign trade was completely disrupted by the country's invasion. For four days (21 to 24 August) all shipments into and out of the country stopped, and as late as 30 August Yugoslav exports to Czechoslovakia reportedly were being turned back by the Hungarians. On the other hand, it appears that the flow of Soviet crude oil, particularly to the Slovnaft refinery near Bratislava, continued uninterrupted. In addition to the temporary losses in export earnings and the strain on domestic supplies as imports were stopped, the Czechs also lost nonrecoverable foreign exchange normally earned on goods shipped through Czechoslovakia to other countries. For example, goods destined for Berlin, East Germany, or Poland had to be rerouted through Austria and West Germany.

13. A further effect of the occupation will be the delay in the delivery of Czechoslovak exports, particularly to the West. Although no orders from the West are known to have been canceled, short-run disruption of Czechoslovak imports from the West has been indicated in an interview -- conducted by Dun and Bradstreet analysts -- of "key business organizations doing business with the Eastern Bloc." Those interviewed in eight West European countries stated that they will put a "temporary stop on all contracts and shipments to Czechoslovakia, pending further clarification of the situation there."

14. Tourism, at the height of its season, is dead. The Prague-Ruzyne Airport was still closed to commercial traffic as of 4 September, and 10 of 14 Czechoslovak civil airports were reportedly still occupied by Soviet troops. The only foreigners now permitted to enter the country are diplomats and businessmen who have invitations to visit Czechoslovak firms or who are to attend the Brno Trade Fair.

15. The Brno Trade Fair was originally scheduled to open on 8 September, but has been delayed for one week. According to Associated Press reports, international flights are expected to resume in time for the fair's opening. There have been signs of hesitation, however, among some Westerners who were to have exhibits at the fair. Indeed, the present climate is not conducive to a heavy turnout.

~~SECRET~~