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I.

General situation.

The position of the enemy powers has changed considerably in the past weeks. The reasons for these changes are as follows:-

1. Germany has to some extent regained her freedom of action in the West by resuming the offensive.
2. The German war potential is being gradually raised again, as a result of the measures for total war introduced in the autumn of 1944.
3. The intensified use of V-weapons and of jet-propelled aircraft, which clearly indicates the advanced stage of German rocket research.
4. The weakening of the British and American war potentials owing to a premature slackening of the war effort and a change over to peace-time production and the heavy losses on the Western Front.
5. The intensification of the war in the Pacific, China and Burma which has forced the Allies to abandon their original plan of finishing the war in Europe before concentrating on the war in the Far East has given both theatres an equal degree of urgency.
6. The further rise in the Russian war potential and the ensuing increase in political, economic and military freedom of action enjoyed by the Soviet Union.
7. The growing importance of the Allied-occupied countries, especially France and Belgium, as active allies and producers of war materials, and their ensuing greater political independence.

All these causes have combined to force Britain and America on to the defensive thus depriving them of some of their political and military prestige. The balance of power among the Allies has swung towards Moscow. France, too, is now in a stronger position.

II.

Change of policy in America and England.

Three months ago, both Government and public opinion in England and America believed that the war in Europe would end with the defeat of Germany at the beginning of 1945 at the latest. The fear of a collapse of the war markets and a consequent economic world crisis led to a substantial change-over in industry to peace-time production. The consequent decrease in armament production became very noticeable. Shortly before the end of the

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year, however, the process of converting industry to peace-time production came to a sudden halt in both countries. This fact is reflected in the state of the New York Stock Exchange. In the first week in January there was a boom in Wall street in all shares which would benefit from a continuation of the war; railway shares and industrial shares such as steel, automobile, aircraft, copper and electro-materials were in demand. Railway shares surpassed all records since 1937. They rose by  $3\frac{1}{2}\%$  while industrial shares rose by  $3\frac{1}{4}\%$  on an average, and public services by  $2\frac{1}{2}\%$ . The reason for this rise was the official government promulgation to all industries to forget all plans for the conversion to peace-time production and all other plans for peace and to concentrate on war production. As a result, the markets became more attractive, and speculators concluded long-term transactions. The Government issued several orders underlining the need for war production for a further period of hostilities. Thus, worsted yarn and skins, for example, were earmarked for the use of the Army for another five months. Orders for aircraft and aircraft parts, motor lorries and tyres, tanks, machine-tools, medium and heavy artillery ammunition are increasing. It is reported even, that new factories are being built. These, however, cannot operate before the latter half of 1945. The quantities of raw materials released for civilian production of all kinds, especially textiles, have been strictly limited.

The official declarations on this subject could not be plainer. Julius Krug, the head of the War Production Board (Kriegsproduktionsamt) made the following statement at one of his press conferences: the tenacious German resistance which has culminated in Rundstedt's counter-offensive, has necessitated a change in American war production plans. The rate of production must be such as to allow the American armies to continue the war in Europe for another year or even longer. The German advance in Belgium may cause the loss of large quantities of Allied materials and even necessitate a complete re-equipment of the American First Army. Mr. Krug also stated that the plans for the production of American aircraft had been revised.

Without waiting for a Congress decision on the question of conscription, Roosevelt has ordered the call-up of a further 500,000 men. Economic and social problems which the U.S.A. have so far tried to evade are now becoming acute. Out of a population of 130 million the U.S.A. is in a position to place 20-25 million men under arms. Today barely a third of that number has been enlisted. A call-up on such a scale would, however, force America to change her economic and social system and reduce her armament capacity, which today supplies the whole Allied world. During the call-up last summer a certain amount of combing out had already been done among the men up to the age of 26 who were employed in reserved occupations. This involved nearly one million men at that time. Their degree of fitness is, on the whole, very low, indicating that the state of health of the American people is poor.

The shortage of labour became evident as early as the middle of October. At that time some 300,000 more workers were needed. The new call-up, coming simultaneously with an increased production, imposes strict limitations and a drain on the industries satisfying civilian requirements, and consequently lowers the standard of living. This must be a great setback to Roosevelt's "Prosperity Propaganda". The production of consumer goods has so far been maintained under great difficulties. In 1939 the gross production of the U.S.A. amounted to 108,000 million dollars, of which 78.2 thousand million represented consumer goods. In 1943 it amounted to 192 thousand million dollars of which 91.2 thousand million represented consumer goods. The percentage of civilian consumption fell therefore from 72.4% to 47.5%. In actual fact this figure is even lower because the prices rose during that period by 37%.

Any further transfer of men from industry to the Army can only be done at the cost of a radical restriction in civilian consumption which

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automatically lowers the standard of living. It would also make itself felt in the armament industry which will find it difficult to maintain its present high capacity. The U.S.A. is thereby faced with an acute social problem, for which it is in no way prepared. Yet another factor makes the problem even more urgent. Now that the 11 million pre-war unemployed have been absorbed into industry, and a wage increase has been adopted, the total sum paid out in wages and salaries has risen from 48,000 million dollars in 1939 to 111.6 thousand million dollars in 1943, i.e. by 135%. The additional purchasing-power, coupled with the decreased production of consumer goods, causes the prices to rise and favours the black market. It also increases the danger of inflation, which is already apparent in the tendency to invest in "real" goods. That is why the slogan "Save in jewels" appears in certain newspaper advertisements. It has also influenced the rise in railway shares.

Up to now Roosevelt has been able to keep to his promise of prosperity. The development of the war situation is now forcing upon him a change in economic policy for which the country is unprepared, and which affects the fundamental principles of its economic and social system. Roosevelt's message to Congress has, therefore, been badly received by the entire American press.

The British public too, was made aware of the seriousness of the situation by the call-up of 250,000 men at Christmas time. They were all the more badly hit, as the catastrophic situation of their exports had caused them to go over to peace-time production at the earliest possible moment. England thereby hoped to gain a start in the post-war world market, a start which she is badly in need of if she wants to assert herself. In England, too this conversion to peace-time production was hastily stopped. In a letter to Sir Walter Citrine, the General Secretary of the T.U.C., Churchill stated that the Army had already had to fall back on the reserves of ammunition.

On the development of the manufacture of ammunition, Churchill gave the following report:-

At the beginning of 1943 the production of ammunition was slowed down and the labour thus released transferred to other armament industries. Experiences in the Italian campaign and in France showed, however, that the artillery might have to use larger quantities of ammunition. It was decided, therefore, to increase production in particular of the three most important calibres made in Great Britain and Canada. Since then the factories had speeded up production.

Furthermore, one gathers from a statement of Churchill's in the Commons that the English armament industry has concentrated on the production of artillery ammunition for the European theatre of war and vehicles for the Pacific war.

The military setbacks caused by Rundstedt's surprise offensive have led to severe criticisms of General Eisenhower's capabilities and to political tension between London and Washington. The British have not forgotten that, in August 1944, Montgomery was excluded from the command of the invasion armies by reason of the American claims. Faced by the military facts, Eisenhower had to give in and transferred the 1st and 9th Armies from General Bradley's to General Montgomery's command. Montgomery now commands from the North Sea to the Saar, and Bradley has become the scapegoat.

Eisenhower has lost a considerable amount of prestige, particularly in the eyes of the American public, which is very sensitive to British criticism.

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III.

The Shipping crisis.

The British and Americans are facing a crisis which is not only confined to the armament industry. The supply system causes at least as many difficulties. In spite of the enormous transport tonnage, estimated by the Americans at approx. 37 million G.R.T. in 1944, the shortage of shipping space has become chronic.

This shortage is due to the following causes:-

1. The simultaneous demands of the war in Europe and in the Pacific.
2. The food shortage in the re-occupied countries, Belgium, France and Italy.
3. The congestion in the ports.

Under American pressure, Churchill and Roosevelt decided at the Quebec Conference to intensify the war against Japan. This was the reason for the "stepping stone" policy practised by the Americans with regard to the islands in the Pacific, which has now led to the final occupation of the Island of Luzon. The expectations of an early victory in Europe affected the Allied armament and shipping policy; the production of armaments and ships was concentrated on satisfying the needs of the war in the Pacific.

The war against Japan has thus assumed larger proportions and now demands greater quantities of supplies. This applies not only to the advance on the Philippines, but also to Burma where the 14th Army has now emerged from the mountainous jungle regions and is advancing upon the Central Burmese Plain. British troops have landed in the port of Akyab in central Burma. From North Burma and Yunnan, Chinese troops are advancing upon the Burma Road. These advances are serious. They threaten Japan's position in South China. They became necessary because the Japanese offensive had directly threatened Chung King. They do, however, use up more shipping space, since their supply requirements are enormous. The Western Allies have stated that over half the available transport vessels are pinned down in the Pacific. At the moment there is no possibility of relieving the situation. On the contrary, the number of supply vessels must be increased if the Western Allies wish to avoid the risk of further set-backs.

The landing on Luzon alone is reported to have involved 800 ships, which according to Japanese reports suffered heavy losses. Once the troops have landed they must still be supplied. The battles for Manila promise to be fierce and decisive. It will be impossible, therefore, in the near future to release any naval units from the Pacific theatre of war. On the contrary, every ship will be needed there.

In addition to this, the American and French ports are badly congested as they are not built for dealing with such heavy traffic. Finally, the food shortage in Belgium, France and Italy is becoming more and more acute, so that an ever-increasing quantity of shipping space is absorbed in bringing food supplies to those countries. These food shortages must be at least partly remedied as they lead to greater unrest in individual countries, thus indirectly affecting the military position of the Allied powers.

At the present time, when the shipping situation is already difficult, the unforeseen losses on the Western Front inflicted by Rundstedt's offensive have made larger quantities of supplies a necessity.

It is now impossible to decrease the supplies destined for the Pacific in favour of the European theatre of war. The war against Japan has already developed too far for that. The European requirements must, however, be met quickly if the situation, already tense, is to be prevented from developing into a military crisis.

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The shipping crisis thus dominates the Allied position. It forces them to adopt a different attitude towards the re-occupied countries. In the beginning, the Anglo-American forces had obviously not intended to rely on these countries for any strong measure of support. Although they supported the resistance movements, they were so convinced of their own strength that they neglected both France and Belgium as effective allies. Today both these countries are of importance not only as reserves of manpower, but also on account of their industrial resources, which being so close to the front, can effect a considerable saving in shipping-space.

The Belgian resistance movement has again offered its support to the Americans in spite of the fact that the British had fought and suppressed it as a safeguard for the Pierlot government.

The new call-up ordered by de-Gaulle is even more significant. After his meeting with Churchill at Eisenhower's headquarters he ordered the immediate call-up of the 1923 age group in France. Later, the call-up of the two age groups above and the three below this, was announced. France is attempting to re-establish a stronger regular army. How far and at what speed she will succeed in doing this depends on how much and at what rate the British and Americans will provide the necessary arms and equipment.

The most important factor is the French and Belgian industrial potential which is being put at the disposal of the Anglo-American armies. This presupposes the reconstruction of the industry and its equipment with machinery and materials. At the same time these countries have a share in the profits of war production. Neither is very pleasant for the English or the Americans, but the war situation is forcing this policy more and more strongly upon them. England has already had to transfer a great number of armament orders to France and to provide the necessary raw materials. The Americans had to follow suit. The U.S.A. have just given France and Belgian armament orders amounting to approx. 60 million dollars, mostly for precision tools. Before long, all industries, especially the iron industry, in both countries, will be working at full pressure to satisfy the requirements of the Anglo-American armament plan. This leads not only to an economic revival of both countries at the expense of England and America, but it also underlines their political importance and their claim as politically independent states. De-Gaulle's pact with Moscow is a clear sign of this change. France has again taken her place beside England and America as an equal and not as a subordinate. This development therefore narrows down the present sphere of influence of the two Anglo-Saxon powers.

#### IV.

##### The growing strength of the Soviet Union.

The growing importance of the Soviet Union among the Allied powers is a most significant factor. Moscow's position is rapidly becoming stronger, overshadowing the Western powers.

The reason for this lies primarily in the steady growth of the Russian war potential, which will probably become entirely self-sufficient in the course of this year. After the losses in 1941/42, the heavy armament centres in the Urals and in Siberia, were developed to a maximum capacity. Thus, in spite of the loss of the Donetz basin, which in peace-time produced 70% of their coal, 60% of their iron ore, and over 50% of their crude steel, the Russians were able to keep pace with the German armament production in various fields such as tanks and light and medium guns. By 1944, the supply crisis in the light metal and chemical industries had been appreciably eased.

The reconstruction of the Donetz basin has provided the Soviet Union with a foundation for increasing their output of crude iron and chemical products and for a large-scale armament production, especially of weapons, ammunition, machinery and transport vehicles. In this way Russia will

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soon be completely independent of the British and American deliveries which will be limited to specialised parts for the Russian industrial machinery.

Furthermore, the newly-incorporated areas of Poland, Rumania, Bulgaria, Jugoslavia, Hungary, Slovakia and Finland have brought a substantial increase to the Russian reserves of raw materials and to their production capacity. Above all, these territories have substantially relieved the food shortage in the Soviet Union. The captured food reserves estimated, in 1944, at approx. 5 million tons can be used to supply the Russian armies. Once the demands of the army have been met sufficient quantities still remain to relieve the food situation of the civilian population.

The year 1945 will, therefore, witness a return to economic independence of the Soviet Union and a Russian armament potential at its maximum. This independence is already having its effect on the political attitude of the Soviet Union. For a long time she has avoided any kind of close alliance with the Anglo-Saxon powers, and has not been represented at any conference at which such an alliance was on the agenda for discussion. A further conference of the Big Three, Roosevelt, Churchill and Stalin, is being repeatedly cancelled and postponed.

Meanwhile the Soviet is taking over all economic resources in the occupied territories including even properties under foreign ownership. The latest developments in Iran are significant. Under British and American pressure the government of Iran refused the Russian demands for oil concessions in the North of the country. They have since been forced to give in. The Iran government has now informed the Russians that they are willing to discuss the question of Russian purchases of crude oil. It is proposed to establish a Persian company, equipped with Russian machinery, which would send the whole of its output to Moscow. Thus the question of a concession to the Russians would be avoided, although for all practical purposes these arrangements would amount to an actual concession.

Faced with the spread of revolts in Northern Iran, and lacking, for the moment any substantial British or American support, the Iran government has no choice but to comply with the Russian demands. Moscow is enjoying the same freedom of action in Iran as in Rumania, from where she transported to the Caucasus, parts of the foreign machinery used in the oil industry, or in Poland where she took over the Stanislaw oil fields and exploited them for her own use.

England, as well as America, has so far refrained from any official protests and timorously avoided any attempt at intervention. English and American economic circles, however, have lodged numerous questions and protests with their respective Governments. Typical of these is a declaration by the American National Foreign Trade Council which demands that the following three measures be adopted:-

1. The introduction of a policy in the occupied countries, aimed at safeguarding the rights of American owners, until such time as the private owners are in a position to resume control of their properties.
2. The granting of authority to American firms to communicate with their representatives in the occupied territories by telegraph, mail or other means.
3. The adoption by the U.S. government of a policy giving American citizens every facility to gain access to their properties as soon as the military situation permits.

The complete unconcern with which the Soviet Union is proceeding in her actions and the unrest among the private owners in England and America, who fear for their rights, must necessarily have an effect on political issues which may eventually lead to open disagreements among the Allies.

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Political differences are also becoming manifest. The unfulfilled Russian demands have still to be discussed with England and America. They only partly concern Europe. The Japanese advances in China and the American break through in the Philippines have made the situation in the Far East more acute. The war in Europe is only a part of the world war, which is also being fought out in the Far East. The Soviet Union has long-standing interests in China, Mongolia and Manchuria, which she has recently neglected because the war in the West has weakened her armies in the Far East. Today, when the war in the Far East has become acute, the Soviet Union is forced to reinforce her armies there, in order to fulfil her obligations on both sides. The British and Americans will find it impossible to transfer to China large enough land forces to wage a successful campaign with strategic results, while their offensive against Germany is still in progress. China herself is too weak. The Russian Far-Eastern army is a powerful factor, which cannot be disregarded by either side. This army will at any time be capable of exercising strong political pressure.

For this, such an army must, of course, exist, which means that substantial parts of the available war potential must be diverted to the Far East. This in turn presupposes that Moscow has forced a final decision on the Western front, before such a diversion can take place.

The Anglo-Saxons had planned to finish the war in Europe before launching an offensive in the Far East. They are now faced with an equal urgency in both theatres of war. So long as the peace-pact between Moscow and Japan exists - it expires this year - and the British and Americans restrict their fighting aims in the Far East to acquiring bases and jumping-off points, the sequence of events, the Far Eastern war following on the end of the European war, is still assured as far as Russia is concerned. Her position is, therefore, more favourable, always provided that a final decision can be forced in the West, which would permit her to transfer her military strength to the East.

This is why the Soviet Union will throw her entire strength into the offensive against Germany, so as to force a final decision. This will lead to the fiercest and most decisive battles on the Eastern front.

Meanwhile the Russian winter offensive has begun. So far it has begun according to expectations, with an advance on East Prussia, Cracow and Upper Silesia, parallel with an advance through the Hungarian plain towards Vienna.

The offensive has started late. This was due to the military conditions originating from the freezing-over of the East Prussian lakes, but shows a lack of close co-ordination in the inter-allied strategy, as it should have started sooner. The weather conditions render impossible the continuation of an offensive in this area once the thaw has set in. The offensive will therefore be concentrated into a short space of time and will consequently be backed by the entire strength of the Russian war potential.

#### V.

#### Germany's position.

The German offensive in the West has achieved its operational aim, that is to relieve the front near Düren and in Alsace. Furthermore, it has smashed the enemy advance on the Ruhr. The enemy has suffered such heavy losses in men and materials, that a further advance is unlikely till the late Spring.

Strategic aims beyond this, such as a possible successful expansion of the industrial areas before the Western defences as far as the Maginot Line and beyond, and up to the Maas, have so far not been achieved. It is impossible to say here whether the High Command even bore such aims in mind.

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The German minor offensives in Kurland and Hungary served the same purpose, that is to anticipate hostile advances and attacks and to smash them. So far, a final stabilisation of the front in Hungary has not been achieved.

The expected Russian major offensive has meanwhile begun in the East, making heavy demands on the German defences. The enemy air offensive against the forward areas and the German hinterland, has not yet been checked. A surprise major attack by the German Air Force destroyed all enemy air bases near the front and inflicted considerable losses.

The Allies are now openly admitting the German superiority in the development of rocket weapons. The German V-weapons have been recently developed to a high degree of perfection. They were used against the West and North-West of England, thus demonstrating their great range, and have also proved their direct worth in operations on the front during the German offensive when they were used against enemy supply routes and supply depots.

On the present technical basis of our armament policy, we cannot catch up with the armament production of the enemy. Only a radical change in technical conditions would enable us to catch up with and equal the enemy production output. This change in the German armament policy can be achieved in two ways:-

1. By the intensified operational use of individual fighting men, equipped with specialised weapons.
2. By developing the technique of rockets, still in its infancy at present, but which opens up entirely new aspects of the science of war.

The individual fighting men equipped with specialised weapons can revolutionise ground warfare despite the material superiority of the enemy. The rocket revolutionises air warfare by introducing entirely new strategic conditions.

In order to develop and perfect both these tactics, and to convert her armament industry, Germany requires a pause in the military operations; the German offensive seems to have secured this in the West, but it must still be fought for in the East and South-East. At all costs, the German war potential must be strengthened so that we may be in a position by next Spring to withstand a renewed enemy onslaught in the West.

## VI.

### Conclusive appreciation of the situation.

The battles for the maintenance of our lines in the West, and for the defence of the Reich against the major Russian offensive in the East, will lead to the real climax of this war. If we succeed in holding the fronts without suffering strategic losses in territory, men and materials, we shall thus be able to lay a firm foundation for final victory after the gradual reinforcement of the German Air Force has resolved, at any rate partly, the critical air situation.

In the West the German Supreme Command will have to aim at securing strategic freedom of action by a new offensive. The weaknesses in the enemy's position in the West are due to his supply difficulties owing to a lack of shipping space, the congestion of the ports, in the disruption of the traffic network in Belgium and France, temporary deficiencies of French armament and to the compression of men and materials in a limited area.

The strength of Germany's position lies in the advantage of being able to

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operate on internal lines of communication. The protection offered by the West Wall and the new system of defence in depth make it possible to prepare armies for surprise attacks. This has been proved necessary by previous experience, which has shown that a solid line of defence cannot be held without the co-operation of offensive forces.

The weakness of Germany's position are the threat to her transport system from enemy air superiority and Germany's dependence on the time factor. In spite of Anglo-American efforts to increase their potential by further mobilisation, increased production output, the re-organisation of their supply system and the use of Belgian and French men and materials, their forces have so far been limited. They will however, in time be reinforced by an all-out effort. Having regard to our limited scope, this must not be permitted. At the moment we can still talk of a possible equalization of our forces, but as time goes on, the proportion will become more disadvantageous to Germany.

The compression of the enemy ground forces and their heavy losses of men and materials must be regarded as of great strategic value to us. The realization of this will probably lead the German High Command to continue the offensive which may well decide the final issue.

For the moment we will have to ignore any wider strategical aims, and concentrate on the destruction of the enemy fighting forces themselves, if possible where their superiority is not too overwhelming.

An outside observer may well recall the German offensives of 1918. From a purely military point of view, the reason for the ultimate failure of these offensives is the fact that too many minor offensives were launched. Furthermore the fighting spirit of the German people had been broken by 1918 and the German war potential weakened.

Once the offensive in Belgium and Luxemburg has forced the enemy to transfer substantial forces from other fronts, it will be necessary for us to stage similar attacks on other weak points with the object of undermining the enemy's fighting strength as quickly as possible. The attacks in Alsace are a means towards such an objective. The Aachen area and Holland are further possibilities. In the East, owing to the vast expanses to be defended a strategic defensive action will be preferable to a strategic offensive. Our defences against the very heavy Soviet offensive will have to be elastic; small territorial losses will be of less importance than the undermining and destruction of the enemy forces. Once the enemy forces have been sufficiently depleted and their operations are at a standstill, the time will have come to use the units commanded by the renegade Russian General Wlassow.

The German High Command has at the moment no decisive opportunities from the political angle; the political situation will be determined by military events. The Allied fronts are becoming broader in the West (France and Belgium) and more fluid in the East (Russia). Potential conflicts may arise on a number of points, but so far the Anglo-Saxon powers have yielded to the Russian demands, thus avoiding any open friction. There are as yet no opportunities for German political infiltration in the West or in the East, but these may however, appear during the future course of the war.

At present Germany is solely dependent on the efficacy of her own weapons, the power of her new technique and armaments, and the spiritual and moral strength of her people. Thus equipped she is entering upon the most decisive phase of the war, which is rapidly moving towards a climax.

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