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3 March 1952

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DAILY DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

Army, DIA and State
Department review(s)
completed.

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SECTION 1 (SOVIET)

1. HUNGARY. US Legation in Hungary still able to detect major military preparations: The United States Charge in Budapest believes that, despite restrictions on diplomatic personnel, the American Legation is still capable of detecting preparations for major Hungarian military action against the West and should be able to give four to five days' warning. The Charge points out that, although new bridges and rail lines enable east-west traffic to bypass Budapest, communications, supply and administration are so centered in the Budapest area, where Western representatives are still permitted to travel, that any unusual activity could be observed.

An attack on Yugoslavia, however, could be made by Soviet and Hungarian forces in southern and eastern Hungary without the Legation's being able to furnish any warning. The Military and Air Attaches concur in the Charge's estimate.

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Comment: In view of the location of Bucharest on major east-west lines of communication in Rumania, the American mission there has similar capabilities for detecting Soviet-Satellite military preparations. The missions in Czechoslovakia and Poland possess even greater capabilities since the movement of Western personnel in these countries is still relatively unrestricted.

The current disposition of Soviet and Satellite forces on the Yugoslav border indicates a capability of initiating an attack without warning but would require reinforcements for sustained operations.

2. Hungarian pension rolls drastically cut: Between 20,000 and 70,000 pensioners have been cut from the rolls in Hungary effective 1 March. The pensioners affected are mostly former employees of the railroads, post office, higher courts, and the Ministries of Foreign Affairs, Justice and Commerce. The action was taken under a 1947 decree which authorized the government to reconsider pensions in the interest of balancing the budget. Legation officials point out, however, that according to the 1952 budget there will be a 200 million forint surplus this year. They believe that the decree is another blow at the remnants of the "class enemy."

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3 Mar 52

SECRET

Comment: Two other moves against the remaining elements of the upper and middle classes in Hungary have been reported recently. The confiscation of private property belonging to former capitalists and government officials was decreed on 17 February. In addition, there is evidence that deportations of residents from Budapest will be resumed early in March.

3. RUMANIA. Party criticizes local governmental bodies: Scanteia, the official newspaper of the Rumanian Workers' Party, has scored the economic activity of people's councils. Many regional authorities have failed to utilize their own resources to provide food, consumer goods, and construction materials for local use, preferring to rely on the central government to furnish supplies from other regions. People's councils, "following the Soviet example," must set up new undertakings, increase their output, and constantly cut production costs in order to improve the standard of living and culture of the working people. [REDACTED]

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Comment: Collection of agricultural products and production of consumer goods in Rumania have been insufficient even to meet the demand on the rationed market. The central government, by insisting that local authorities assume more of the burden of supplying the population, conveniently makes them the scapegoat for prevailing shortages and the poor standard of living.

4. Agricultural associations hailed: A recent lead editorial in Romania Libera, the official newspaper of the Rumanian people's councils, states that the first permanent agricultural associations of the Soviet TOZ type were formed in Rumania in the fall of 1951. Model statutes for them were published recently. People's councils are urged to popularize the statutes, abide by the principle of "free consent," prevent the entry of "kulaks" into such associations, and allow the peasants "internal democracy" in electing their own leaders. [REDACTED]

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Comment: Voluntary agricultural associations existed in Rumania prior to last fall but very often dissolved after each harvest. In September 1951, the Central Committee of the Rumanian Workers' Party decided that this form of association "did not allow members to draw all the benefits of mechanized agriculture" and recommended establishment of

SECRET

SECRET

Soviet TOZ-type permanent agricultural associations which would "enable the peasants to get better results and would accustom them to collective methods of managing their agricultural exploitations as a preliminary step toward establishment of collective farms."

Although actual collectivization virtually stopped in Rumania in 1951, the government appears to be tightening up on the preliminary co-operative stages. The permanent agricultural associations will now resemble more closely the co-operatives in the other Satellites, in which the peasants retain nominal ownership of the land and tools which they bring into the co-operatives.

5. TRIESTE. Tito proposes condominium as solution for Trieste issue: Marshal Tito has proposed that the Free Territory of Trieste be jointly administered by Italy and Yugoslavia under a governor appointed alternately by each country for a three year term. The Director of Public Security would be appointed from among citizens of a third country on the basis of mutual agreement.

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The announcement will serve only to exacerbate Italian public opinion and further dim the prospects for any imminent renewal of preliminary talks between the two governments to produce a formula for a bilateral settlement. Tito probably reasons, however, that the proposal will enhance the appeal of the pro-Tito party in Trieste among independent groups, and strengthen its position in the forthcoming local Trieste elections.

SECRET

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3 Mar 52

SECRET

SECTION 2 (EASTERN)

1. IRAN. Iran reportedly concludes oil contracts with German and Italian firms: The American Embassy in Tehran reports that the Iranian Government has concluded two contracts for the sale of oil. A contract with the Italian Middle East Petroleum Company involves an unspecified amount of oil; another, with a German company, provides for the exchange of 300,000 dollars worth of Iranian oil for pipe for the Kermanshah water system. [redacted]

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[redacted]
Comment: An earlier report from the Embassy in Tehran stated that the Italian-Iranian negotiations, involving 500,000 tons of oil, had not been concluded and presumably were awaiting the outcome of the International Bank attempts to reach an interim settlement.

Several West German firms now have representatives in Iran attempting to revive Iranian-German trade relations, and it is quite possible that any one of these could be negotiating with the Iranian Oil Company. Various independent operators including Americans, have been negotiating intermittently for Iranian oil, but so far as is known none has concluded any agreement.

2. Comment on Iranian Government's Internal Security decree: A decree of the Iranian Council of Ministers assigning direct responsibility for internal security to the Minister of the Interior appears to be an attempt by the government to extend its control over the Iranian armed forces which constitutionally owe allegiance to the Shah and are under his direct control. The decree is almost certain to arouse opposition from both the Shah and the Army.

A previous National Front attempt to win control over the Air Force resulted in a purge of National Front supporters by the Army Chief of Staff, backed by the Shah. On the basis of the decree, any attempt by the Shah to use the army without approval of the Minister of the Interior might result in a showdown between the government and the army. [redacted]

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3 Mar 52

SECRET

3. IRAQ. British Middle East Commander confers with Iraqi Prime Minister: General Robertson, commander of the British Middle East Land Forces, has attempted to explain to Iraqi Prime Minister Nuri the importance of properly maintaining the Suez Canal base and to dispel the Prime Minister's "wild ideas" on British evacuation of the Canal zone. The talks in Baghdad were general in nature and gave Nuri the opportunity of expounding his own ideas on Iraq's possible role in the Middle East Command.

The British Embassy Counselor in Baghdad believes that the subject of the two British-operated airbases in Iraq was not touched upon. He described Britain's position on that issue as "letting sleeping dogs lie." [redacted]

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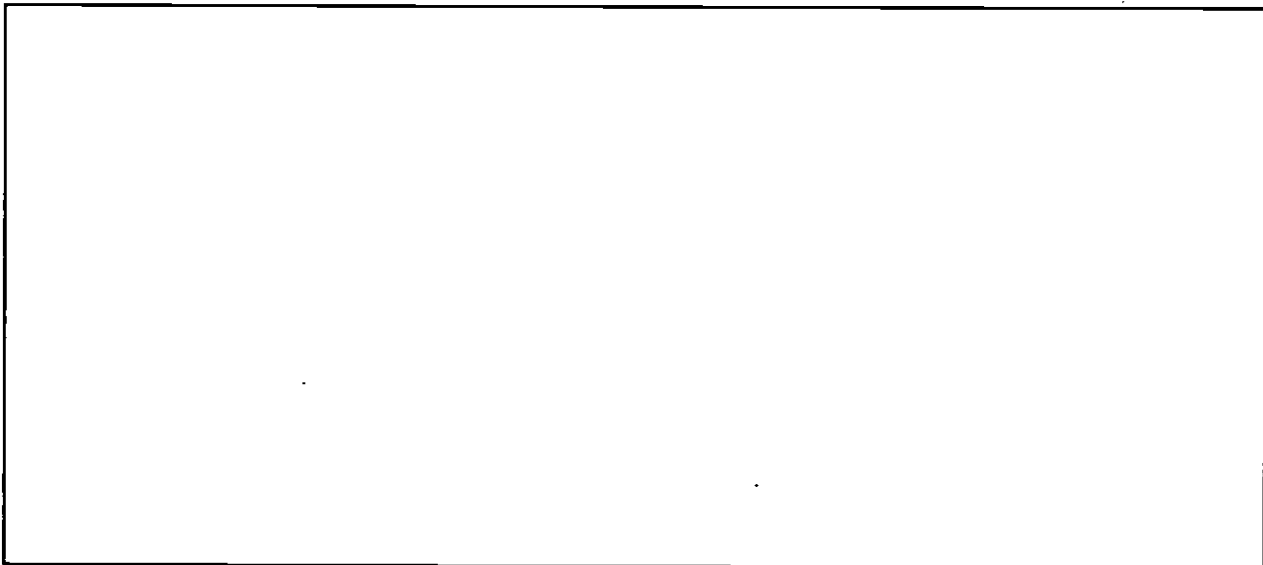
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[redacted]

Comment: This is the first information available on Robertson's 20-22 February visit. While this high level conference reflects London's desire to promote Anglo-Iraqi relations, the meeting appears to have been tied specifically to the Iraqi Prime Minister's announced willingness to mediate the Anglo-Egyptian dispute. Despite friendly British gestures, including the Robertson visit, Nuri's mediation plan has not been given serious attention by the London Foreign Office.

Britain, which has special treaty relations with Iraq, is also disturbed over ultra-nationalist Iraqis who, influenced by Egypt's actions, are again raising the question of revising the 1930 Anglo-Iraqi Treaty.

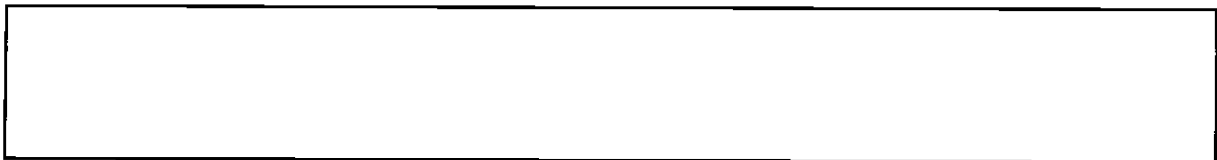
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5. Burmese Commander outlines plan for evacuation of Chinese Nationalists: Burmese Commander in chief Ne Win on 29 February amplified to the American Military Attache an earlier suggestion for solution of the problem of the Chinese Nationalists in Burma. Ne Win's plan calls for the surrender of the Nationalists and their repatriation to Formosa by airlift as far as Rangoon, and from there by sea.

Ne Win admits that his government has not approved the project, but he wants to know, for planning purposes, whether the United States will assist in any airlift of the Nationalists and if the Taipei government would help defray expenses.

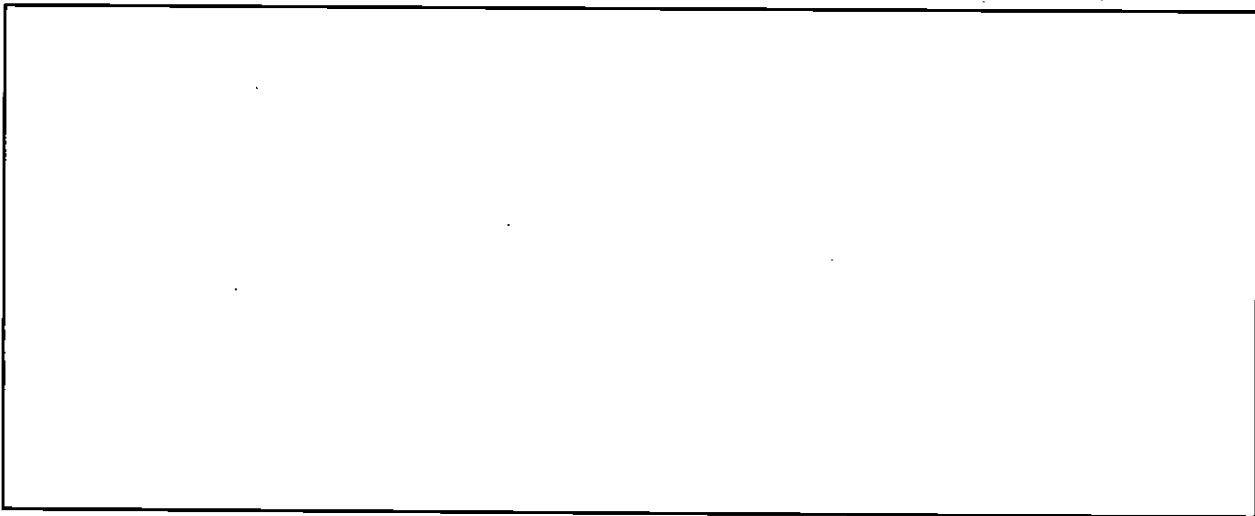
The attache doubts that the Burmese Government will accept the proposal. 

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Comment: Burmese leaders have considered such a project in the past but have been unwilling to approve because of their fear of Chinese Communist reaction.

Although Ne Win believes he can influence the government to accept, any decision in the matter would be dependent on the attitude of Socialist Party leaders, who are reportedly planning to invite Communist China to eliminate Li Mi's forces.

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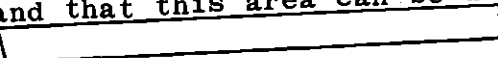


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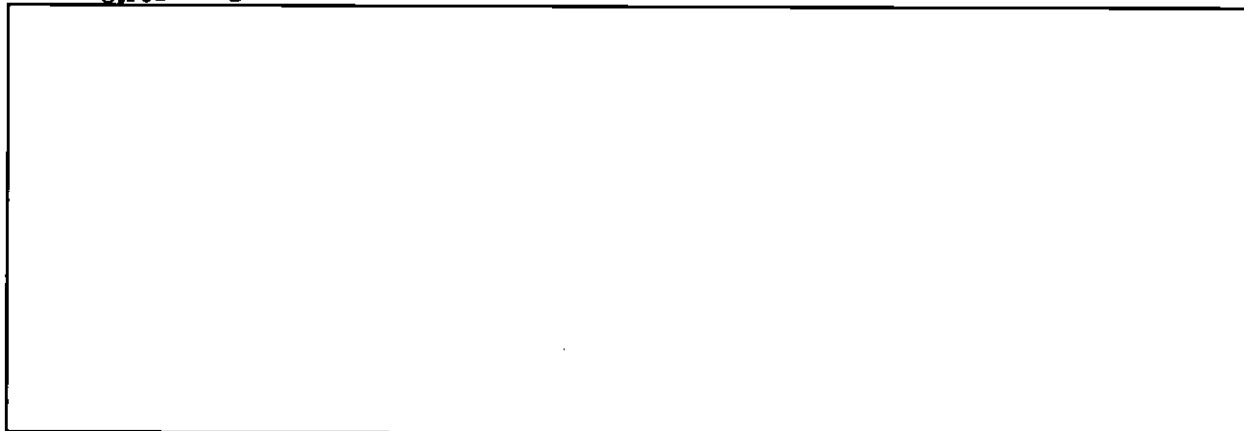


7. INDOCHINA. Hoa Binh withdrawal not indicative of general emergency: The recent French withdrawal from Hoa Binh is not considered by the American Legation in Saigon as a symptom of a general deterioration of the situation in Indochina. The military assistance chief, General Brink, reiterates his estimate of early February that the military picture in the Tonkin delta is not alarming and that this area can be defended, albeit with some difficulty. 

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Comment: The chief effect of the withdrawal is its adverse psychological impact on the "fence-sitting" Vietnamese population, an impact considerably aggravated by previous extravagant French claims of great victories around Hoa Binh.

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9. KOREA. High UNKRA officials express concern to President Rhee: Two high-ranking officials of UNKRA on 27 February told Syngman Rhee that they were concerned by reports of the high-handed methods being used in the current conflict between him and the National Assembly. They noted that these adverse reports are bound to affect the UN's attitude towards support of the ROK in a post-armistice program. Rhee replied that he, not the Assembly, represented the will of the people; therefore, he would be derelict in his duty if he failed to set up a system whereby the President is elected directly

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by the people. Although he disclaimed any personal interest in the dispute with the Assembly, Rhee indicated that he considered only himself qualified to be President. [REDACTED]

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SECRET

8

3 Mar 52

SECRET

SECTION 3 (WESTERN)

1. GERMANY. West Germans speed mobilization plans: West Germany's embryonic defense ministry is drafting preliminary plans for the conscription of the 400,000 men who will make up Germany's contribution to the European Defense Force. The planning office, headed by Theodor Blank, is preparing a conscription law similar to that of the United States to present to Parliament immediately after ratification of the EDC treaty by all participating countries. Actual enactment of the legislation would require another 60 days, but would not delay the voluntary recruitment of officers and cadres. The German contingents are expected to be at full strength two years after the system is inaugurated.

German officials estimate with "moderate pessimism" that the EDC treaty will be in force by autumn. Signature of the EDC treaty is considered possible by the middle or end of March, and it is hoped that the German contracts will be signed in April. Government leaders do not expect the question of constitutionality of rearmament to delay mobilization. [redacted]

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2. French tactics on German security controls jeopardize accord: French representatives in Bonn have reopened the question of restricting West Germany's arms-producing capacity, since they believe that the controls to be established under the European Defense Community are inadequate.

The US High Commissioner states that raising this question again could jeopardize the progress made so far. Both he and the British representative oppose consideration of capacity controls, and desire to limit current discussions to the specific weapons to be barred. [redacted]

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Comment: Although the recent Foreign Ministers' meetings produced a general solution to the West German arms restriction problem, agreement was not reached on certain weapons categories which are now being discussed by the Allied High Commissioners. Except for atomic, biological, and chemical weapons, no restrictions were placed on arms-producing capacity.

SECRET

3 Mar 52

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SECRET

3. West German Communists and right-wing extremists further underground plans: In preparation for a possible ban by the West German Constitutional Court, leaders of both the West German Communist Party and the neo-Nazi Socialist Reich Party are making plans to go underground. The KPD chairman has ordered all central executive departments to obtain cover apartments in Duesseldorf suburbs. In Bavaria, titles to party property are being transferred to party members. Since key Communists in the US Zone are reported missing from their accustomed haunts, and a few top functionaries are known to be in East Germany, it is presumed that West German KPD leaders are now getting instructions on future underground operations from East German authorities.

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SRP plans for such cover operations are sketchy to date. Party leaders are, however, believed to be planning to set up front groups. [redacted]

Comment: Although the government will try to have the two parties outlawed, German officials feel that the attempts may fail -- especially in regard to the KPD. The government recently raided the offices of these parties in order to obtain evidence for its case, and reportedly found that the two parties had apparently already made preparations for underground operations to the extent of destroying incriminating records.

4. FRANCE. Rumors of French-Viet Minh negotiations denied: French Foreign Office officials flatly deny that France is considering negotiations with the Viet Minh. There have been many reports in Paris papers that Minister of Associated States Letourneau, who has just completed a survey mission in Indochina, had implied such a policy change.

The American Minister in Saigon reports that Letourneau's comments, both public and private, showed no tendency to consider such negotiations. [redacted]

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Comment: Letourneau is reported to have stated that France would not refuse to negotiate with the Viet Minh, but would not take the first steps.

While a minority of the non-Communist deputies in the French National Assembly are convinced that France must face the question of a withdrawal from Indochina, the Assembly voted overwhelmingly on 29 February in favor of the government's motion to carry on the war.

SECRET

SECRET

The American Military Attache in Paris believes that the recent deterioration of the military situation in Indochina will soon force the French Government to reconsider its policy.

5. Solidarity of French labor in local strike movement considered nearer: Local non-Communist labor leaders in France are contemplating collaboration with their counterparts in the General Labor Confederation in the conviction that only direct action can bring a satisfactory rise in wages. They believe that effective joint action by all labor is possible at the plant level. Consequently "a major political question today" is whether Communist labor boss Benoit Frachon will return from Moscow with increased freedom to undertake a nonpolitical campaign for a "semi-uncontrolled factory level strike movement" like that of 1936. Such a campaign would coincide with Soviet propaganda stressing neutralism and East-West trade advantages.

Local non-Communist leaders, asserting that most members of the General Labor Confederation and even a large percentage of Communist-voting industrial workers were "certainly not" pro-Soviet; pointed up a "real difference" between the views of local and national officials of that confederation. [redacted]

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Comment: The dissatisfaction of French labor with existing wage levels has been growing and serious strikes have been avoided only because the workers remain deeply disillusioned with their national union leadership. No reports have been received of a specific directive for a nonpolitical strike movement at the plant level. The chances of a solidarity of all local union leaders in such a program are increasing, however. The General Labor Confederation's national headquarters is antagonizing its membership by appointing "young inexperienced fanatics" to replace veteran local leaders who are being gradually purged, or fined by management in a drive by employers' associations to weaken union control in the factories.

6. AUSTRIA. Premature disclosures endanger Western treaty plans: The British Foreign Office is "disgusted" by the premature revelation in Paris of details of the new treaty which the Western Foreign Ministers have agreed to submit to Moscow some time in March. A Foreign Office official observed that the Paris report, attributed to a French Foreign Office spokesman, suggests that the "French are deliberately trying to

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sabotage the abbreviated treaty."

The US Embassy in Vienna is also much concerned by the publication of a London Associated Press despatch alleging that neither Britain nor France favors the skeleton treaty. The British are said to regard the treaty plan as a propaganda gesture designed to increase American popularity in Austria. The Embassy fears the report has given the Russians a ready-made propaganda line against the new draft. [REDACTED]

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Comment: The French and British have long been skeptical about the American plan, and the initial Austrian press reaction to the announcement of a forthcoming new draft has not been enthusiastic. Indiscretions -- variously attributed to London and Paris -- have undoubtedly revealed Western intentions to the Russians and brought on Soviet-Communist charges of Western desires to partition Austria.

7. BELGIUM. Belgium views French financial situation as critical: Belgian Prime Minister van Houtte has stated that Belgian government and business circles are alarmed because the French financial position is "visibly crumbling." Noting France's "pivotal" position in NATO, he stressed that that country's "incapacity to manage its economy" was damaging its defense effort.

As a result of the French debit position in the European Payments Union, Belgium expects further French trade restrictions. [REDACTED]

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Comment: Pressure from entrenched speculative interests and a deepening distrust of the franc are precipitating an early economic collapse. The underlying causes of this trend are the highly unfavorable trade balance and the burdensome defense commitments in Europe and Indochina.

While some political compromise postponing a showdown on revenues will probably permit replacement of the Faure government by another middle-of-the-road coalition, this solution would prevent realization of the 1952 military program.

The tightening French restrictions on EPU imports will provide a major stimulus to the chain reaction of measures by European countries against the trade liberalization program. This trend may soon preclude the steady rise in European production essential to meet rearmament goals.

SECRET

3 Mar 52

SECRET

8. ITALY. Businessmen call for open stand on Moscow Economic Conference: Certain Italian business interests want the government to take an open stand on the Moscow Economic Conference. So far the government has officially ignored the conference and discouraged attendance. Foreign Office officials now favor allowing certain anti-Communists to attend so that they can refute Soviet propaganda regarding the conference. [REDACTED]

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Comment: The Italian Confederation of Industry was invited to the Moscow conference several months ago. This is the first information received regarding the attitude of business interests toward the conference.

In January Communist chief Togliatti opened the Italian Communist drive in support of the conference with charges that the government's policy of curbing trade with Eastern Europe was preventing solution of the problems of southern Italy.

9. SWEDEN. Press pleased that Lisbon saw no extension of Denmark's and Norway's NATO ties: The Swedish press and radio have noted with satisfaction that Denmark and Norway were not pressed at the Lisbon NATO meeting to permit "foreign" troops to use air and other facilities in Scandinavia during peacetime. The fact that Denmark and Norway are not to join the European Defense Force is also greeted with satisfaction. [REDACTED]

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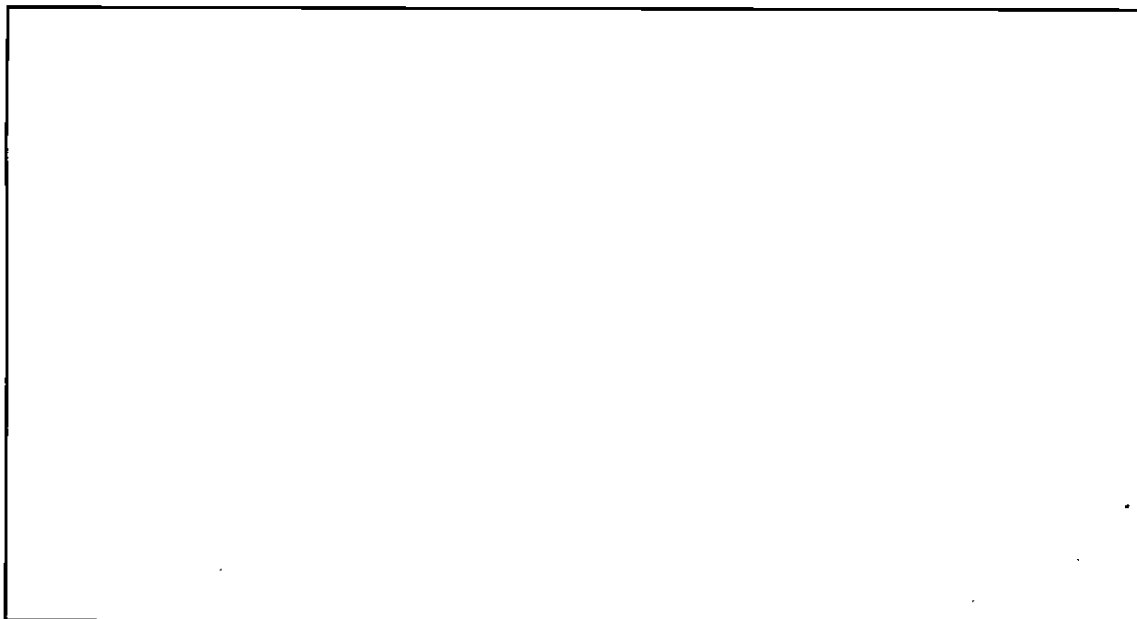
Comment: Most Swedes see Danish and Norwegian NATO membership as adversely affecting the prospects for continued Swedish neutrality, and particularly fear the establishment of "foreign" bases in their neighbor countries. Some Swedes still entertain hopes for limited Scandinavian military cooperation, and consequently desire to see Denmark's and Norway's NATO ties kept to a minimum.

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11. Bolivia again requests Latin American support in tin dispute: The Bolivian Ambassador in Argentina recently held a press conference to review Bolivia's complaints against the tin price offered by the RFC. He announced the early submission of the case to the Organization of American States on charges of economic aggression and requested Argentine Government support. This gives Peron additional damaging propaganda which will be exploited throughout Latin America. [redacted]

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Comment: The Bolivian Ambassador in Quito held a similar press conference [redacted] In La Paz the government told the press that Bolivia will file charges of economic aggression against the United States only if efforts to renew tin negotiations fail.

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12. VENEZUELA. Outlook for trade agreement negotiations improves: Venezuela's Director of Political Economy, Manuel Reyna, is now convinced that US officials have been active and sincere in their efforts to overcome the difficulties impeding the negotiation of a new trade agreement. [redacted] Ambassador Warren feels that Reyna is now aware that some compromises will be necessary and that, in addition, he is willing to resist the pressures of Venezuelan protectionist groups if the US can grant him certain desired concessions. Reyna is now anxious to begin preliminary talks. [redacted]

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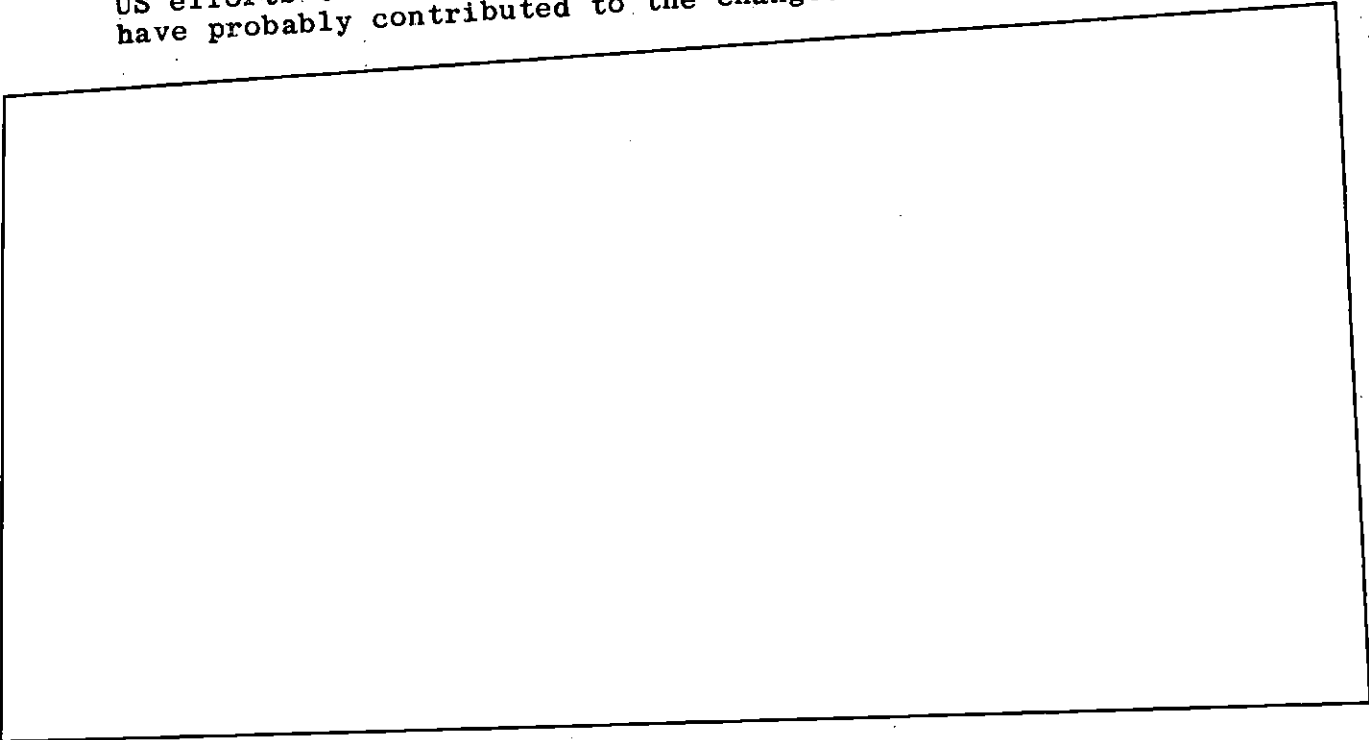
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3 Mar 52

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Comment: The present Venezuelan position is in sharp contrast to that of a few weeks ago when Foreign Office officials virtually refused to consider a new agreement unless the US could promise substantial reductions in the oil tariff. Recent US efforts to hasten long-awaited deliveries of military supplies have probably contributed to the changed attitude.



SECRET

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3 Mar 52

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TOP SECRET

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3 March 1952

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SECTION 2 (EASTERN)

1. JAPAN. Greater progress toward Japan-China peace treaty urged: The Department of State has advised the US Political Adviser in Tokyo that there is a growing reluctance on the part of several US Senators to act on the Japanese peace treaty while the Japanese-Chinese peace treaty talks appear to be in a critical state. It was suggested that the Political Adviser bring this to the attention of Prime Minister Yoshida in the hope that good progress could be made at Taipei in order to dispel any suspicion that the Japanese are not acting in good faith and intend to break off the negotiations as soon as the United States ratifies the San Francisco pact. [REDACTED]

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Comment: The principal obstacle to progress in the current Japanese-Chinese talks is Chinese insistence that Formosa and the Pescadores be defined in the treaty as "territories of the Republic of China," which gives the islands a status beyond that contemplated in the San Francisco treaty and in the Yoshida letter to Dulles.

SECTION 3 (WESTERN)

2. UNITED KINGDOM. British military dubious about future of Suez Canal base: The British Ambassador in Cairo and the British military authorities in the Canal zone are agreed that the cooperation of Egyptian authorities and the friendship of the Egyptian people, both considered necessary for the successful operation of the British bases, do not now and probably never will again exist. [REDACTED]

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Comment: Until recently British military authorities have held that the Suez Canal bases could be maintained even in the face of considerable Egyptian opposition.

British plans for the defense of the Middle East are still based on the transformation of the British base into a Middle East Command base and the maintenance of British troops in Egypt as part of the Allied force.

TOP SECRET

3 Mar 52

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