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27 May 1952

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Copy No. 53

CURRENT INTELLIGENCE BULLETIN



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ARMY and DOS review(s) completed.
USAF review(s) completed.

DOCUMENT NO. 13
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2009
AUTH: HR 70-2
DATE: 17 Dec 79 REVIEWER:

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY



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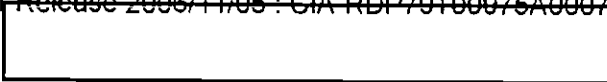
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FAR EAST

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1. Chinese take initiative from North Koreans at Panmunjom:

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[Redacted] the Chinese Communists have taken the initiative from the North Korean delegation in conducting the Panmunjom talks, and that Nam Il is now merely their spokesman. Chinese Communist delegates are in constant communication with Soviet political advisers.

The Koreans are said to have abandoned their demand for the withdrawal of Chinese "volunteers" along with that of all non-Korean UN troops.

The Chinese reportedly believe that a Soviet "political feint" directed at Britain, France, India, and Japan will impel some favorable "change in American plans."

Comment: Peiping's views are presumed to determine the North Korean line in the talks, because the over-all military position in Korea depends upon Peiping's willingness to continue its commitment.

Communist China has indicated an intention to hold its "volunteers" in Korea at least until all UN forces are withdrawn.

2. Communists may be using airborne intercept radar in Korea:

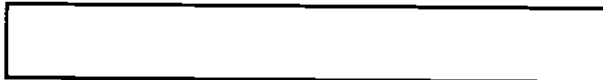
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[Redacted] The Far East Air Force reports that it has reason to believe the enemy may now be using airborne intercept radar in the Korean area. [Redacted]

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[Redacted]

The Far East Air Force comments that heretofore the Communists have been severely handicapped in night operations due to their non-employment of this type of radar. If the enemy chooses to employ planes equipped with such radar, he will have a capability not considered available to date in the Korean theatre.

3. Peiping believes Chinese Communist prisoners soon to be sent to Formosa:

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[Redacted] Chinese officials claim to have information that Chinese prisoners held in South Korea are "about to be sent to Formosa."

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Comment: Peiping is probably aware that many Chinese prisoners, particularly those who once served in the Nationalist armies, have asked to be sent to Formosa and that the Taipei government is urging such a transfer. The claim [Redacted] may be introduced at any time into Peiping's propaganda about Korea and alleged American plans for "aggression" in Asia, possibly in an attempt to block any plans for a transfer.

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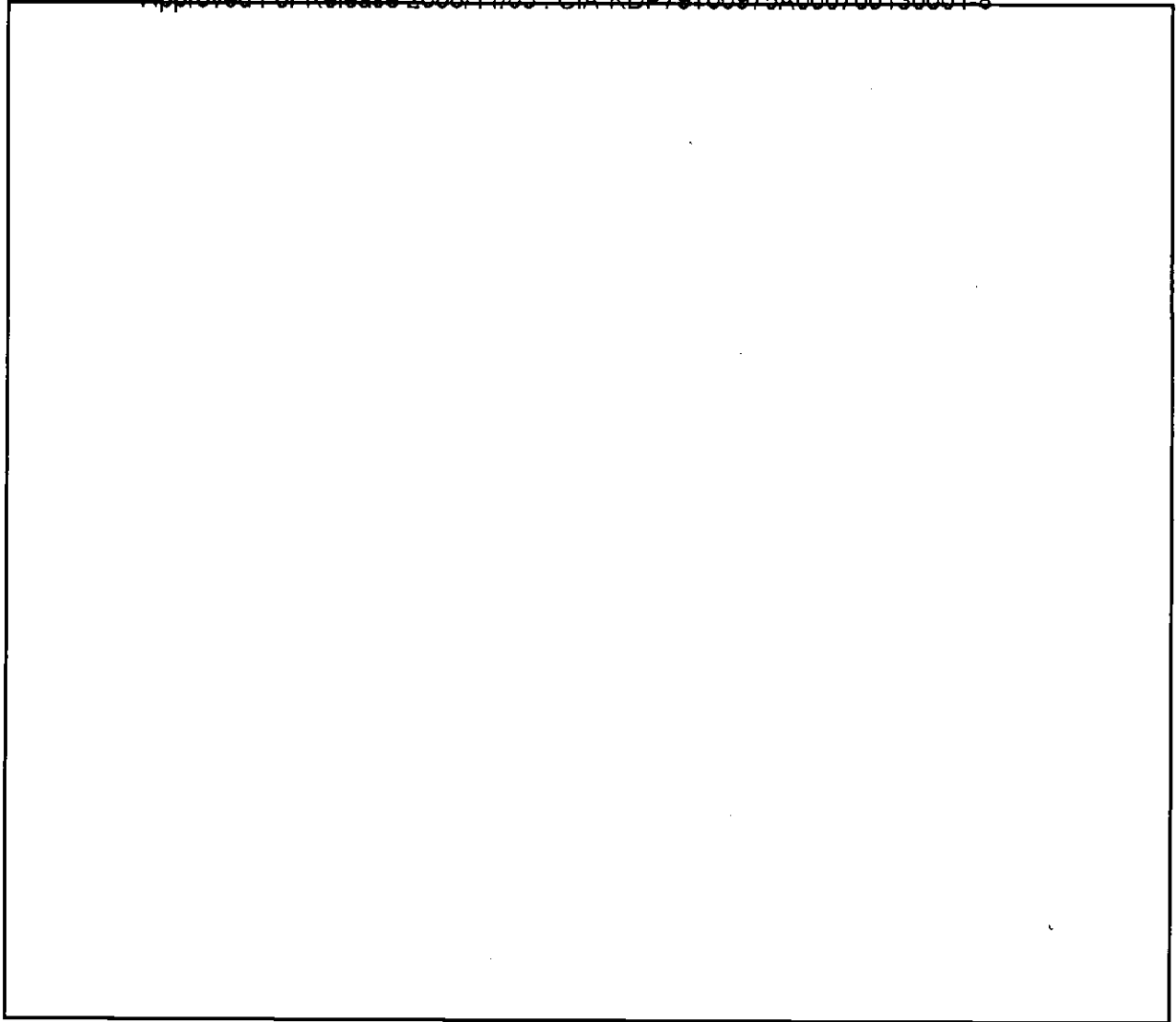
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NEAR EAST - AFRICA

6. Iranian National Bank refuses loan to government:

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Prime Minister Mossadeq informed Ambassador Henderson on 22 May that Nasser, Acting Governor of the Iranian National Bank, had refused to advance funds to help the government meet its monthly payroll. The Prime Minister was furious at Nasser and insisted that he be replaced even though his removal might shake public confidence in the bank and thus increase Iran's financial difficulties.

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[REDACTED]

Mossadeq, who claimed that Britain and the United States had brought pressure on Nasser to refuse the loan in order to cause the government's downfall, insisted that the bank could afford to lend the money. The American Ambassador reported that the British Embassy had confirmed his opinion that it had not put pressure on Nasser. He commented that Mossadeq would undoubtedly create additional opposition if he were to remove Nasser, since the latter is widely respected.

Comment: Nasser's refusal to grant the loan, which would total about ten million dollars, is undoubtedly due to his concern for the bank's stability. It may also reflect the growing lack of confidence throughout Iran in the Prime Minister.

WESTERN EUROPE

7. Party official reports dissension among Trieste pro-Cominformists:

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A dissatisfied official of the pro-Cominform Communist Party in Trieste has indicated that it may be necessary for elements of the party to break away from the leadership of Vittorio

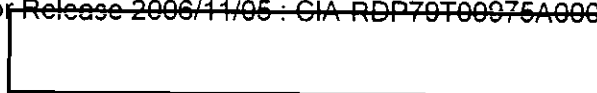
Vidali. The official states that Vidali has been controlling the party through a special junta established about 1 April 1952. This group is "sacrificing old comrades for new members who automatically obey directives without question."

Comment: Vidali's party has been losing members steadily for more than a year. In addition, considerable dissension recently was generated among party officials when reports reached them that Vidali had advocated the return of the Free Territory to Italy in pre-election speeches in southern Italy. Large elements of the party desire for various reasons to maintain the present line calling for an independent Trieste.

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8. Germans prefer contractual agreement to present Soviet unity proposal:

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Reporting the views of both East and West Germans on the Soviet unity proposals, American observers in Bonn state that the proposals have apparently elicited no more support in East Germany than they have in the West.

East Zone residents interviewed in West Berlin believe that the proposals are nothing more than propaganda and should be rejected. Even if the USSR were to drop its insistence on the Oder-Neisse border, opposition would still outweigh approval among East Zone respondents. Among West Germans, however, Soviet concession of the territory east of the Oder-Neisse line would make the proposal acceptable to better than half of those interviewed, including not only those of neutralist inclinations, but also those who have previously supported the West.

Comment: There has never been any evidence of substantial East German support of the Soviet proposals; there have, on the other hand, been reports of uneasiness among Socialist Unity Party functionaries for fear that their party might be sacrificed for unity.

The one reported declaration by the East German radio in March that the USSR was willing to reopen the Oder-Neisse question was refuted by subsequent Soviet statements that the border was final.

The latest Soviet note on a German peace treaty serves as another clear indication that the USSR is not yet prepared to make any significant concessions in Germany. Although it was the last chance to prevent Allied signature of the contractual agreement and the EDC treaty, the Soviet Union not only did not meet the Western condition that there be agreement on free all-German elections prior to a four-power conference; it also did not advance from its position as stated in the Soviet note of 10 April.

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9. East Germans draft law for establishment of national army:

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[redacted] the East German Government has drafted a law for the establishment of a national army. United States Army observers in Heidelberg believe this action was taken in anticipation of the signing of the contractual agreement.

Comment: The recently reported allocation of heavy weapons to the paramilitary police, an acceleration in recruiting, and vigorous propaganda on the need for an armed force to counteract West German contingents all suggest that the 24 Alert Police units may soon be formally unveiled as a national army. This probability is supported by a governmental reorganization which may culminate in the establishment of a defense or armaments ministry.

The paramilitary police, a force of 52,000 which includes 14,000 to 16,000 officers, can easily be expanded at least to keep pace with the growth of a West German defense force.

The formal establishment of an East German national army would not preclude continuation of the unity campaign.

10. France taking initiative on concessions to Saar:

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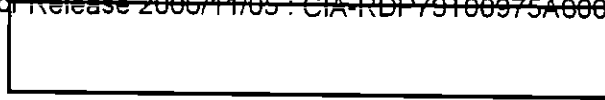
[redacted] The French Ambassador and the Saar Government have decided on the immediate formation of a mixed commission to revise the 1950 conventions governing French-Saar relations. The commission will file a report early in July for the French Assembly's consideration.

The French Ambassador at Saarbruecken is said to favor "substantial concessions," provided strengthening the Saar as an autonomous state does not prejudice French economic interests.

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[redacted]



Saar demands will be in the direction of greater autonomy, particularly in the fields of taxation, banking, social welfare, and labor relations.

Comment: France and Germany have been keeping the Saar issue in abeyance until the signing of the contractual agreement and the EDC treaty. The latest move seems to be a new French approach designed to win local goodwill and promote autonomy for the Saar as the alternative to reintegration with Germany.

