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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

Czechoslovak civil air operations to the Near East may soon be curtailed or even blocked entirely. Lebanon and Egypt are threatening to cancel landing rights now enjoyed by the Czechoslovak national airline (CSA), unless Czechoslovakia suspends its flights to Israel. Iraq has already terminated such rights for CSA, and Greece may eventually prohibit all CSA flights through Athens to the Near East. (Item No. 1, C)

A four-year plan for the development of Italian civil aviation, with direct financial assistance from ECA, is being considered by the Italian Government. The program includes projects for improving Italian airport facilities, establishing schools for training air crews, and rehabilitating the Italian aviation industry; it would seek ECA assistance totaling 160 billion lire (\$280 million). (Item No. 2, C)

The conclusion of a liberal civil air agreement between Argentina and the Netherlands does not indicate a retreat by Argentina from its restrictive aviation policy. Argentina has consistently attempted to limit the commercial rights of foreign airlines in its territory and will continue this policy except in specific instances where it is to her advantage to disregard it. (Item No. 3, C)

Despite recent discussions, the Chinese cancellation of the Sino-Soviet air agreement will stand unless new negotiations produce a solution by September 1949. (Item No. 4, C)

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- 2 -

Despite the submission of a formal note of protest by the Austrian Government to Soviet authorities, and an implied threat to place the matter before the Allied Council unless the Soviet claim is greatly reduced, the Austrian rolling stock issue remains unsolved.
(Item No. 5, B)

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- 3 -

SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

1. Czechoslovak civil air operations to the Near East may soon be curtailed or even blocked entirely. Probably as a result of Czechoslovakia's active participation in the air supply of Israeli fighting forces, Iraq has cancelled the temporary landing rights granted the Czechoslovak national airline at Baghdad. Lebanon has informed the Czechoslovak Government that the agreement permitting CSA's flights to Beirut will be denounced unless Czechoslovak aircraft discontinue their present flights to Israel. Egypt is also considering cancellation of the provisional authorization permitting CSA's flights to Cairo if CSA continues to serve Israel. Should CSA lose its landing rights at Beirut and Cairo, its operations to the Near East would be restricted to the services from Athens to Istanbul and Haifa. Even these schedules will have to be cancelled if Greece carries out its expressed intention (See TG Weekly Summary #36) to restrict progressively and eventually prohibit all CSA flights through Athens to points in the Near East.

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2. A four-year plan for the development of Italian civil aviation, with direct financial assistance from ECA, has been prepared by the Italian Ministry of Defense-Aeronautics and is being considered by the Italian Government. The program, covering the period 1948-1952, encompasses four principal projects: (a) construction of a new international airport near Rome; (b) reconstruction of the Italian airport network; (c) establishment of schools for training Italian air crews; and (d) rehabilitation of the Italian aviation industry to include facilities for production of large long-range aircraft. The proposed program would seek ECA assistance totaling approximately 160 billion lire (\$280 million). The existence of modern air facilities in Italy would not only encourage the development of Italian civil aviation, thereby contributing toward Italian economic recovery, but would be of strategic value to the US and Western Powers.

ECA might not accept the Italian program in its entirety. The argument would be raised that Italy's aircraft industry cannot produce long-range four-engine transports in competition with US and other foreign producers unless subsidized heavily. Furthermore, ECA may take

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- 4 -

the position that some of the projects envisaged, such as the international airport, could be financed more appropriately through the International Civil Aviation Organization, of which Italy is an active member.

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3. The conclusion of a liberal civil air agreement between Argentina and the Netherlands does not indicate a retreat by Argentina from its restrictive aviation policy. Argentina has consistently attempted to limit the commercial rights of foreign airlines in its territory and will continue this policy except in specific instances where it is to her advantage to disregard it.

The agreement with the Dutch, which was signed in Buenos Aires on 29 October, contains none of the restrictions proposed by the Argentines during intermittent negotiations over the past two years. (Since the Netherlands was unwilling to accept restrictions, such as an arbitrary division of traffic, the Dutch airline, KLM, was forced to terminate in Montevideo the South Atlantic route which it inaugurated late in 1946.) KLM is now granted direct and unrestricted access to Buenos Aires and will be authorized to extend its services to Santiago, Chile, after an Argentine carrier has inaugurated service to Amsterdam.

Argentina has concluded six non-restrictive agreements with European countries during 1948. These apparent concessions to a more liberal civil aviation policy, however, do not actually indicate adoption of such a policy by Argentina, but represent a compromise exacted by the European countries as the price of operating rights for Argentine airline services to Europe.

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4. Chinese delegate Liu, Foreign Affairs Commissioner for Sinkiang Province, has stated on his return to Tihwa that no understanding was reached at Alma Ata between Soviet and Chinese representatives regarding the Sino-Soviet air agreement which covers the "joint" air operations in Sinkiang. Liu asserts that he lacked authority to discuss terms with the Soviet delegates and that the USSR desires to continue the conversations in Moscow. He emphasizes that the Chinese cancellation of the Sino-Soviet air agreement will stand unless new negotiations produce a solution by September 1949. An evaluation of Liu's version, which is open to doubt, appears somewhat academic, because the political prospects of the Nationalist Government suggest that the USSR will probably be able to continue air operations in Sinkiang, regardless of the status of the air agreement.

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- 5 -

SURFACE TRANSPORTATION

5. The Austrian Government has submitted a formal note of protest to Soviet authorities in regard to the Soviet requisition of Austrian rolling stock (See TG Weekly No. 36). The note carries an implied threat to place the matter before the Allied Council unless the USSR greatly reduces its claims. (Austria requests a reduction of about 3,000 cars in the Soviet demand for 540 locomotives and 5,575 rail- way cars.) Despite the Austrian note, the USSR has directed that, pending reconsideration, the deliveries proceed as requested. While there are no indications that the USSR will relinquish any of its claim, it may have deliberately inflated the original figures. In this case, it will eventually announce its reductions with a show of generosity. On the other hand, instead of offering a reduction, the USSR may offer to sell the rolling stock back to Austria for hard cur- rency. At the best, however, the Austrian economy will be severely strained.



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