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COPY NO. 56
OCI NO. 3529/59
16 July 1959

CURRENT INTELLIGENCE WEEKLY SUMMARY



DOCUMENT NO. 9
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S
NEXT REVIEW DATE: 1989
AUTH: HR 70-2
DATE: 14 Aug 79 REVIEWER

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T H E W E E K I N B R I E F

PART I

OF IMMEDIATE INTEREST

EAST-WEST NEGOTIATIONS Page 1

As the Geneva conference reconvened on 13 July, Foreign Minister Gromyko took the line that prospects were favorable for an interim agreement on Berlin. Gromyko insisted at the 15 July session on linking any Berlin settlement to the establishment of an all-German committee. Soviet spokesmen at Geneva have hinted that the USSR may seek to win Western agreement to an all-German committee by offering to make such an organ subordinate to a four-power commission on the German problem.

[Redacted]

THE CARIBBEAN AREA Page 5

Tension continues high in the Caribbean area, and further serious outbreaks of violence are possible before the impending special conference of the American foreign ministers can act on the Caribbean crisis. The unsuccessful coup in Honduras on 12 July was symptomatic of the problems that trouble the area, but was not directly related to the wider crisis. The Cuban Government remains determined to oust the Trujillo dictatorship in the Dominican Republic, and Cuban exiles claim to be nearly ready for an attack on Cuba.

[Redacted]

MIDDLE EAST HIGHLIGHTS Page 7

Iraqi Prime Minister Qasim has apparently sought to reduce the force of Communist opposition by appointing to his cabinet four more leftists, three of them closely associated with the Communists. He also announced that party activity will be permitted to resume before next January and that Iraq's "transitional period" will end some time next year with the election of a "national council." Although the new cabinet is a disappointment to army officers who had hoped for a purge of the Communists, other non-Communist elements do not appear to be particularly discouraged by these moves. In Iran, the Shah and the prime minister maintain firmness in the face of continuing Soviet pressures. The Sudanese Government has lost prestige as a result of its conduct of the recent treason trials, and a political climate favorable to renewed dissidence may be developing.

[Redacted]

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PART II

NOTES AND COMMENTS

SOVIET MIDYEAR ECONOMIC REPORT Page 1

The TASS summary of the report on the USSR's economic performance during the first six months of the Seven-Year Plan indicates good progress toward the plan's goals, with the possible exception of agricultural output. Total industrial production is reported to be 12 percent over the corresponding period of last year. Six-month statistics in the past have usually been a reliable indication of performance for the full year. The Seven-Year Plan calls for an average annual increase of 8.6 percent. Industries overfulfilling their plan included pig iron, steel, rolled metal, iron ore, nonferrous metals, machine tools, electricity, coal, and oil. In agriculture, reported overfulfillment of the state purchase plan for livestock products and of spring sowing are the results of good feed supplies from the 1958 bumper crop and of an early dry spring. [redacted]

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PROBABLE NEW SOVIET MISSILE INSTALLATION IN EAST GERMANY . Page 2

Soviet military equipment of an unusual type, thought to be semimobile surface-to-air missile launchers, has been observed at Glau, about 15 miles southwest of Berlin in East Germany. Such launchers, which the Soviet Union apparently is introducing into operational units, would be considerably more flexible than the fixed system in the Moscow area. [redacted]

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RECENT SOVIET HIGH-ALTITUDE ROCKET FIRINGS Page 3

[redacted] Soviet announcements of experiments involving the vertical launching of rockets containing animals and scientific equipment. [redacted]

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INCREASED BLOC-ETHIOPIAN ECONOMIC TIES Page 4

The USSR and Ethiopia, in a joint communiqué issued at the end of Emperor Haile Selassie's recent visit to the Soviet Union, announced that Moscow has granted a \$100,000,000 credit to Addis Ababa for industrial and agricultural development. The credit is presumably intended for Ethiopia's planned \$300,000,000 economic development program. [redacted]

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PART II (continued)

CZECHOSLOVAKIA TO ELIMINATE PRIVATE PLOTS ON COLLECTIVE FARMS Page 5

As Czechoslovakia continues a mopping-up campaign to bring the nation's remaining private farmers--now cultivating less than 20 percent of all agricultural land--into the "socialist sector," the regime also is preparing to take over the private garden plots which have supplemented the incomes of collective farmers and kept up their morale. This highly unpopular move will probably stimulate a migration to cities and further hamper the thus far unsuccessful efforts to raise agricultural production above the prewar level.

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RUMANIA INTENSIFIES CONTROLS Page 6

The Rumanian campaign to tighten internal controls, initiated at the June 1958 plenum of the central committee, has increased in intensity. Designed at first to combat economic crimes, it has been aimed more and more at political unreliaables and potential security threats, and has caused near terror among some elements of the population. Intensification of the crackdown may lead to an increase in internal tension, but this will pose no serious threat to Communist control.

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SEVENTH WORLD YOUTH FESTIVAL Page 7

The first Communist-sponsored World Youth Festival outside the Communist bloc is scheduled to take place in Vienna from 26 July to 4 August. The Communists took a calculated risk in deciding to hold the festival in a free world city where there is strong anti-Communist public opinion and a wide potential for counterattractions, but they probably want to put these festivals and their sponsoring front organizations in a better light by maintaining the impression they are of a nonpolitical nature. Special arrangements are being made to separate Communist bloc delegates from non-Communist youths and to avoid seminars on controversial subjects.

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NEW AUSTRIAN GOVERNMENT Page 8

Last-minute intervention by President Adolf Schaerf has given Austria's 13-year-old coalition between the People's party and the Socialists another lease on life. The new government, in which increased Socialist influence is the salient feature, is not likely to be as stable as its predecessors in view of the tensions between the two parties, the divisions within the People's party, and Chancellor Raab's weakened position. The new Socialist foreign minister, who is strongly pro-Western, favors patterning Austria's neutrality more closely on the Swiss model.

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PART II (continued)

KERALA Page 9

Most leaders of India's Congress and Communist parties apparently expect New Delhi to suspend parliamentary government in Kerala State within a month, although no firm decision has yet been made. Congress party chiefs are trying to prepare a strong legal case for intervention and to organize the party in Kerala for eventual elections. Communists are planning retaliatory agitation in other key states--including nationwide "demonstrations" for 21 July--but reportedly will refrain from violent action in line with recent guidance from Moscow. The scope of anti-Communist demonstrations in Kerala is growing, in response to which the Communists are using increasingly strong countermeasures.

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INDONESIA'S NEW CABINET Page 10

The new Indonesian cabinet formed by President Sukarno is basically conservative, although five of the nearly 40 members are known to be leftists of varying hues. The army's increased representation affords it a greater opportunity to push its avowed aim of undercutting widespread Communist influence and activities. Underlying stresses are indicated by the Communist party's grudging support of the new government, and by air force criticism of the army's enhanced position.

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COMMUNIST TERRORISM IN SOUTH VIETNAM Page 11

The recent attack on an American MAAG detachment near Saigon highlights the security problem that has long plagued South Vietnam and may presage a new phase of Communist violence there. South Vietnam's security forces have been hard put to suppress sporadic acts of Communist terrorism, which has kept the government off balance and retarded essential progress in the economic field. Recent Communist propaganda has had a threatening tone toward American activities not only in South Vietnam but also in Laos, where an American military training mission is soon to be introduced.

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PEIPING ANNOUNCES REFORM PROGRAM IN TIBET Page 12

Peiping has announced a two-stage program of "democratic reform" in Tibet which is aimed at the ultimate destruction of the institutions most opposed to Chinese rule. The first objectives are an end to unrest in Tibet and the elimination of feudal practices by the upper classes and monasteries. The second step will be

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PART II (continued)

redistribution of land. No time schedule has been announced, and Peiping--perhaps deliberately--has not made clear what form land distribution will take.

[redacted]

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REPATRIATION OF KOREANS IN JAPAN TO NORTH KOREA Page 13

Leftist pressures and public opinion in Japan are so strong that the Japanese Government will eventually repatriate some Koreans in Japan to North Korea, with or without International Red Cross (ICRC) participation. The ICRC is inclined to assist the repatriation, although it has not yet approved the Japanese - North Korean plan and is concerned that a hasty decision will involve it in the "cold war." North Korea continues to attack Japan for refusing to sign the agreement prior to ICRC approval. President Rhee is opposed to offering any constructive program for repatriation to South Korea.

[redacted]

DEVELOPMENTS IN BRAZIL'S FINANCIAL CRISIS Page 14

The divergence between Brazil and the International Monetary Fund (IMF) on the terms of a stabilization program has widened in recent weeks despite the efforts of the Brazilian Finance Ministry to formulate mutually acceptable proposals as a basis for reopening loan talks. Recent Brazilian actions with respect to credit policy and coffee financing will add to the budget deficit and inflationary pressures already under attack by the IMF. A 60-day loan of \$50,000,000 from the Federal Reserve Bank of New York, granted on 10 July, has postponed any immediate Brazilian default on international debts but is only a palliative.

[redacted]

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THE SITUATION IN PERU Page 15

Peru's cabinet crisis, which followed a sharp opposition attack in June on the government's financial policies, has apparently ended with the appointment of Pedro Beltran, owner of the independent conservative daily La Prensa of Lima, as prime minister and minister of finance. Beltran has been strongly critical of the Prado government's economic and financial policies and may attempt to revise them with a view to reducing government controls.

[redacted]

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PART III

PATTERNS AND PERSPECTIVES

KHRUSHCHEV'S LIEUTENANTS Page 1

Khrushchev's principal lieutenants play a major role in the formulation of Soviet policy and the broad administration of the Soviet state. The relative importance of their current positions and duties, in terms of providing experience and opportunities for building up a personal following, is viewed as indicative of their prospects. Khrushchev has said that Frol Kozlov will be his eventual successor, but it remains to be seen whether Kozlov will remain in favor. [redacted]

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OIL IN NORTH AFRICA Page 6

Oil fields discovered in North Africa, close to European markets and free from dependence on the Suez Canal, will provide Western oil companies with a counter to the growing demands of the established oil-producing Arab states for higher revenues and a larger role in management. Although oil prospects in Morocco and Tunisia have not been encouraging, Algeria and Libya are expected by the end of 1961 to become major world oil producers, with a combined output of 500,000 barrels per day, equivalent to about one third of Kuwait's current production. Algeria's crude-oil production is now limited to only 11,000 barrels a day by inadequate transportation. Libya's oil output may reach a total of 100,000 barrels per day by early 1961. Paris has some basis for its hope that Algerian production will exceed a million barrels daily by 1970. [redacted]

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WESTERN EUROPE'S PROPOSED LITTLE FREE TRADE AREA Page 11

The "Outer Seven"--Britain, Denmark, Norway, Sweden, Austria, Portugal, and Switzerland--will meet in Stockholm from 20 to 22 July to agree on terms for a little Free Trade Area (FTA). Britain's major objective in sponsoring this move is to induce the Common Market countries--France, West Germany, Italy, and the Benelux nations--to reconsider their rejection of a larger Free Trade Area. Britain refuses to subscribe to the supranational controls required for membership in the Common Market. While West Germany and the Benelux countries would favor close coordination in a larger FTA, the slight impact of a little FTA on France's exports would not be sufficient to induce France to modify its opposition to a larger economic grouping. [redacted]

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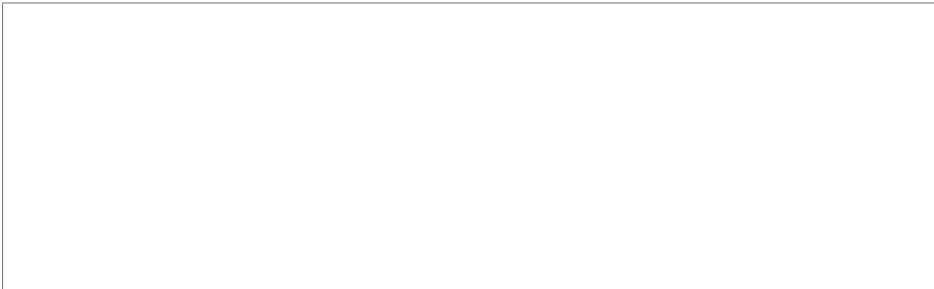
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PART I**OF IMMEDIATE INTEREST****EAST-WEST NEGOTIATIONS**

Soviet Foreign Minister Gromyko, at the first session on 13 July of the second phase of the foreign ministers' conference in Geneva, summed up the Soviet proposals of 19 June and made a bid to focus discussion on them. He asserted that before the recess the proposals had not been answered by the Western powers and suggested that the conference resume where it had left off, with a consideration of them.

But Gromyko hinted that the USSR might agree to adopt the Western proposals of 16 June along with the Soviet proposals of 10 and 19 June as a basis for negotiation. In comparing both sets of proposals, he commented, one sees that "there are points which are not so far from each other."

At the 15 July session Gromyko insisted on tying an interim Berlin settlement to the establishment of an all-German committee. He strongly maintained that creation of such a committee was "indispensable" for reaching any settlement on Berlin, that the link between the two questions was "logical and vital," and that it was not possible "to change anything in this connection."

Soviet spokesmen are seeking to create the impression

that the time limit on any interim agreement is harmless by suggesting that it would apply only to the all-German committee and not to the duration of Allied rights in Berlin. First Deputy Foreign Minister Kuznetsov "affirmed categorically" to the British ambassador on 9 July that Western rights would be maintained during renewed negotiations in the event the all-German committee failed to reach agreement.

Gromyko, however, made it clear in his public statement on 28 June that a "definite time limit will be established for the temporary status of West Berlin and for the work of the all-German committee." He said the temporary status agreement would be "designed for a year and a half" and specified that the "all-German committee would have to complete its work by the end of that period."

On 13 July the Soviet foreign minister refused to drop his insistence on a time limit for negotiations by an all-German committee on reunification and a peace treaty, stating this would be "tantamount to demanding from the Soviet Union its consent to perpetuate the occupation regime." When questioned on Western rights in Berlin after the expiration of the time limit, he went no further than his 28 June

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statement and again avoided specifically reaffirming the continuation of Western rights in Berlin.

At the opening session, the Soviet foreign minister protested the holding of the West German presidential elections on 1 July in West Berlin as an example of the use of West Berlin for purposes of subversion and aggravation of tensions at a time when "the West Berlin question" is being negotiated and the Western powers "quite correctly confirm" that West Berlin is not a part of West Germany.

Taking advantage of an opportunity to seek increased international recognition of the East German régime, Gromyko replied to a Western call at the first plenary session for further restricted meetings by stating that he could not agree to attend unless East Germany were included. The Soviet press officer stated in defense of this Soviet tactic that last month's restricted meetings were not really "official"--they were "unrecorded."

Ambassador Thompson believes Moscow will consider the Western response to Gromyko's demand an indication of Western unity and determination or lack thereof. Western accession, he adds, would probably result in a stiffening in the Soviet position on the substance of negotiations.

Nuclear Talks

On 10 July the technical working group on detection of high-altitude tests presented its agreed conclusions to the plenary session. The report recommended that five or six earth satellites, ground control posts equipped with special observing and measuring instruments and, if thought necessary later, four satellites in solar orbits be employed to detect possible high-altitude explosions. It was agreed that the report be submitted to the three governments and, if favorably considered, be incorporated by the conference in the draft treaty.

The Soviet chief technical expert addressed the plenary session on 10 July, noting that there had been a failure to agree on only one out of ten detection methods considered. He emphasized that the methods recommended in last year's technical report had been "reassessed" and "approved" by the present technical working group. He then claimed that this tenth method, which employs the use of radar, was not technically necessary and would enable an alien staff to conduct spy operations.

Bloc propaganda is hailing the experts' reports as having proved that there are "no scientific technical obstacles in the way of banning nuclear tests." Charging that the high-altitude test problem has been "one of the artificial

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obstacles" to agreement raised by the Western powers, an 11 July Soviet commentary claimed that its elimination now leaves only the lack of good will in the West in the way of agreement.

On 9 July the Soviet delegation at Geneva introduced its draft article on a quota system for on-site inspections in a further effort to force discussion of this concept. Although the proposal itself contained no new elements, the Soviet delegate took the position that each nuclear power would be subject to the same number of inspections on its territory, thereby giving Moscow as many inspections in each of the two Western countries as the latter would have jointly in the USSR.

He contended that this arrangement was necessary because the Western "side" was composed of two countries in comparison with only one from the East. The Soviet delegate asserted further that it would be premature to extend the quota system beyond the territories of the three nuclear powers.

On 9 July the Soviet delegation agreed on Vienna as the site for the control organization headquarters.

Western Attitudes

Gromyko's efforts to present a picture of Soviet reasonableness have achieved considerable success in Britain. Prime Minister Macmillan and Foreign Secretary Lloyd, in public statements before the foreign ministers reconvened,

continued to present British goals in modest terms. The British accent now is on the acceptability of a temporary solution. There is also the expectation that the foreign ministers will arrive at some formula that can be considered sufficient progress to open the way to a summit conference. Over 60 percent of those questioned in a late June Gallup poll considered a summit meeting even more important if the foreign ministers show no progress.

Much comment in Western Europe assailed Britain's tendency to compromise and its publicly assumed conciliatory attitude as weakening the Western position. Reflecting widespread uneasiness was the charge by the influential independent Austrian Die Presse that Britain might be heading for another Munich. A French Foreign Ministry official told the American Embassy in Paris that he understood that during the conference interval, London had been "working on" the United States.

Bonn, while rejecting further Western concessions on Berlin, initiated the Western proposal to create a four-power commission with German advisers to discuss unification, increased contacts in Germany, and the principles of a peace treaty. After two and a half years, the foreign ministers would meet to discuss the commission's work.

In the event of a continued impasse at Geneva, however, Bonn is also considering a unilateral

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declaration accepting all-German negotiations provided East Germany conforms to the terms of articles 14 to 16 of the Soviet draft peace treaty of 10 January, which call for protection of human rights and political freedom. The UN might conduct an inquiry to determine if these terms are being fulfilled in both parts of Germany. Any agreements reached would be approved by the four powers, with each side retaining the right to withdraw from negotiations if terms on human rights were violated.

If Moscow rejects all Western proposals, Bonn favors setting certain minimum conditions for agreeing to a summit meeting. Moscow would have to agree that the foreign ministers should recess to meet again on the Berlin question and that the summit would only discuss disarmament, unification, European security, and measures for relaxing tension.

The West Berlin government has submitted a memorandum to the West German delegation describing the Western position as the maximum limits for concessions to Moscow

Brandt and Berlin authorities have also warned against accepting loose definitions of free access and re-

strictions on propaganda activities.

A statement made by French Foreign Minister Couve de Murville at a dinner he gave for Italian Foreign Minister Pella on 12 July suggests a possible change in French official attitudes toward a summit. He said the West should search for a minimum agreement with the USSR which would warrant a summit and suggested an interim solution on Berlin as the obvious arrangement to attain this purpose. He opposed the West German proposal that a summit should return to discussion of the German problem as a whole and disarmament.

In the regular session on 15 July Couve backed the Western proposal, but sharply attacked linking an interim settlement on Berlin with the overall German problem.

Heretofore, Couve has appeared lukewarm toward a summit meeting, and De Gaulle has been reluctant to proceed to the summit without some progress. During his visit in Italy, De Gaulle evidenced some impatience with the foreign ministers' meeting and the problem of whether to hold a summit meeting, stating that after a decision was made to hold one or not, a "new phase" of international relations will have opened which will require new consultations on the part of the West. (Con-

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THE CARIBBEAN AREA

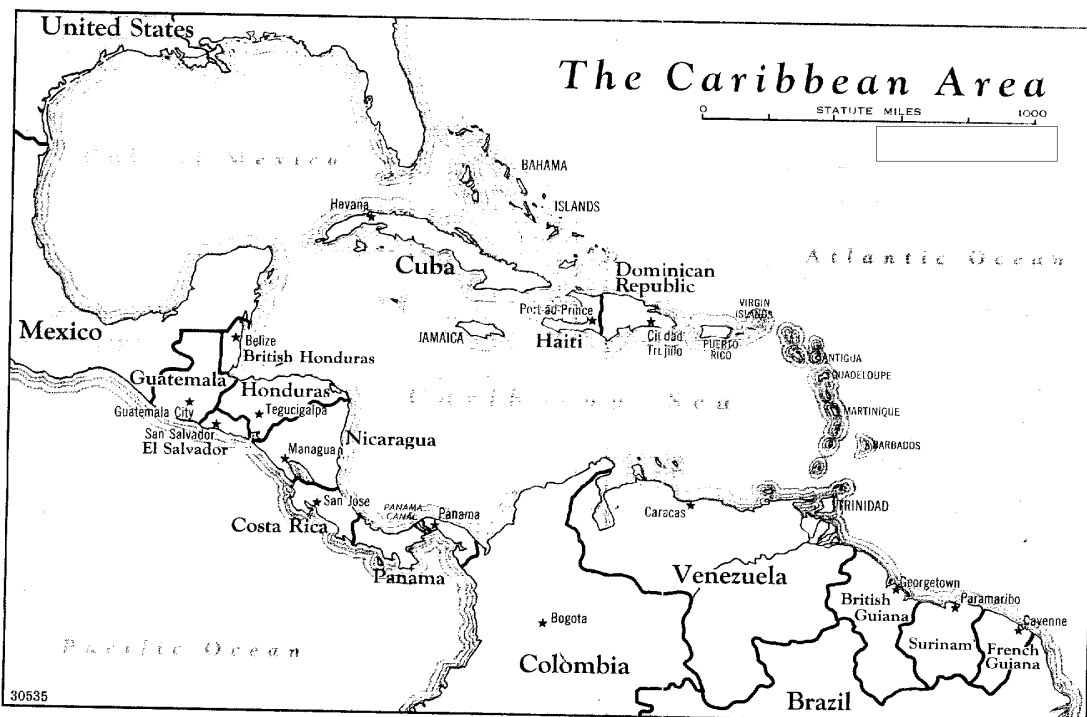
Tension continues high in the Caribbean area, and further serious outbreaks are possible before the impending special conference of American foreign ministers can act on the Caribbean crisis. The bloody unsuccessful coup of 12 July in Honduras and its aftermath of continuing tension and sporadic violence are symptomatic of the problems that trouble the area, although the events in Honduras are not directly related to the wider Caribbean crisis.

The Cuban Government remains determined to oust the Trujillo dictatorship in the Dominican Republic, and the weak Haitian Government fears Cuban-backed rebel landings in Haiti designed to open a new Cuban front against Trujillo. Cuban exiles in the Dominican

Republic and Florida, on the other hand, say they intend to launch an attack on the Castro regime before the end of this month.

Honduras

The abortive 12 July coup in Honduras, suppressed after 15 hours of fighting in the capital in which an estimated 100 were killed, stemmed primarily from deep-seated and long-standing frictions between the armed forces, which were striving to maintain their constitutionally endorsed autonomous status in the government, and a strongly antimilitary faction of the governing Liberal party. The Liberals, who came to power in Honduras' first free election in 1957, regard the military as an unwarranted drain on the treasury and an anachronistic



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leftover from the country's recently ended dictatorial past.

25X1 President Ramon Villeda Morales [redacted] has attempted to straddle the fence, although his sympathies lie with his Liberal party. Leading figures in his administration have constantly tried to weaken the position of the armed forces, and one even proposed recently that they be abolished.

25X1 25X1 Armando Velasquez, [redacted] former army chief of staff, returned to Honduras last month from exile apparently convinced that the armed forces were ripe for revolt and that he could lead it. After obtaining the backing of elements of the police in the capital and possibly also of some dissident groups in the army, he initiated action early on 12 July. Top officers, most of whom personally dislike Velasquez, kept major army units from defecting, and by late in the day Velasquez had surrendered, on condition--immediately accepted--that he be given asylum in an embassy and promise of safe conduct out of the country.

As many as 1,500 civilians, armed by Liberal leaders to help defend the government, took a leading part in the fighting on 12 July. Their subsequent actions made it clear they represent a threat to the authority of the armed forces. The military reacted energetically the following day by ordering all civilians off the streets of the capital and by declaring that the armed forces alone are

responsible for maintaining order. Clashes between civilian and military groups appear likely, both in the capital and in outlying areas where the Liberals also control sizable armed groups.

A factor which apparently brought the civilian-military feud to a head was the recent dispersal by the Honduran Army of two Cuban-supported rebel groups intent on invading Nicaragua. The army took the action in the face of widespread popular and Liberal party sympathy in Honduras for the Nicaraguan rebels. Although he denies it, President Villeda is known to have offered at least his moral support to the Nicaraguan rebels.

Cuba - Dominican Republic

Landings on the north coast of Haiti by several hundred insurgents from Cuba are expected imminently by both the Haitian and Dominican governments. The Haitian ambassador in Cuba says Cuba now has five military attachés and assistants in Haiti, presumably to coordinate opposition tactics in the capital with the landing forces. Any Cuban-backed invasion of Haiti would be primarily to open a new front against Trujillo and would probably provoke Dominican military intervention in Haiti.

The Haitian Army chief of staff, who has privately stated that Haiti is virtually defenseless against any invasion, emphasized to the American ambassador on 15 July that Haiti

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looks to the United States for help and wants no Dominican military assistance.

Cuban Prime Minister Fidel Castro is encountering increasing unrest as public attention is drawn to Communist penetration of his government. Cuban exiles in the Dominican Republic and in Florida claim to be intent on launching a counter-revolutionary effort in Cuba before the end of this month. Such an attempt would probably fail, however, as many Cubans now becoming disillusioned with Castro would patriotically rally

behind him. Such an attack, which probably would have Dominican support, might also lead to Cuban retaliation against the Dominican Republic.

The case of Major Diaz Lanz, former Cuban Air Force chief who defected to the United States on 29 June and publicly charged Castro and other top Cuban officials with being Communists, has aroused Cuban leaders to attack the United States bitterly for treating this "traitor" as a hero and thus "intervening" in Cuban affairs.

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MIDDLE EAST HIGHLIGHTSIraq

Prime Minister Qasim has made another major effort to abate party strife in Iraq by appointing four additional leftist civilians, three of them closely associated with the Communists, to his reorganized 16-man cabinet and by announcing that resumption of political party activity will be permitted before 6 January 1960. Qasim also announced that sometime next year the transitional revolutionary regime is to come to an end, a permanent constitution adopted, in consultation with the people, and an elected "national council" created.

Qasim probably hopes these moves will at least reduce the force of the long-standing Communist pressure for resumption of legal party activity and for party representation in the cabinet. The Communists may well remain dissatisfied with these seeming concessions, however, since the things they have sought are freedom for party ac-

tion now--while they are still very strong in relation to other popular political organizations--and a cabinet including outright party representatives, not just individuals who happen to be Communists or near Communists.

The degree of influence the new ministers will exercise is far from clear. As a result of the cabinet reshuffle, Ibrahim Kubba, the outstanding pro-Communist who, as minister of economy, was the primary architect of the Soviet-Iraqi economic agreements, has become minister for agrarian reform and acting minister for petroleum affairs.

Kubba for some time has been cut out of negotiations between the government and the Iraq Petroleum Company, however, and he may hold the oil portfolio in name only. Furthermore, the agrarian reform program is full of pitfalls, and Kubba could turn out to be the "goat" for its failure. The first woman cabinet member, Dr. Nadia Dulaymi, a gynecologist who

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headed a Communist-front women's rights organization, takes the Ministry for Municipalities, a new creation whose actual powers are poorly defined. At the same time, Finance Minister Hadid, a member of the National Democratic party (NDP), which has been attacking the Communists, has become acting minister of industry--a portfolio which apparently will include most of the functions of the former powerful Iraq Development Board.

The most immediately important aspect of these moves by Qasim is likely to be the impression they create among Iraqis generally as to which group Qasim really favors. Indications so far are that these impressions are being formed cautiously, probably because the apparent contrast is too striking between the anti-Communist posture of the police and security forces immediately before 14 July and what, taken at face value, are appointments and announcements favoring the Communists.

The idea that Qasim is really trying to maintain an equilibrium including the Communists and other groups is probably a difficult and frustrating concept for the average Iraqi political partisan to grasp, especially because it gives him no clear clue as to which side the police are likely to be on in any given situation.

In regard to the use of police powers, Qasim made it clear again this week that the punishment of "traitors" and the guarding of the republic against "plotters" is the business of government, not of self-appointed groups which may "unintentionally" try to take the law into their own hands.

Thus it does not seem likely there will be any significant relaxation of the stern security measures such as those taken last week against Communist groups which demonstrated violently in several provincial areas, or against the Communist goon squads which have in the past attacked their opponents in Baghdad.

Under these conditions the Communists' rivals--especially the NDP, which already has an embryonic peasant organization--can try during the next six months to build popular political organizations to contest more seriously the former Communist predominance "in the street."

Iran

Radio Moscow's attacks on the Shah and his policies continue without significant variation; however, on 10 July the clandestine "National Voice of Iran," located in the Soviet Caucasus area, for the first time referred to the development of a "free officers organization" in Iran.

The American Embassy regards the apparent weakening of Iranian self-confidence in the face of the continuing Soviet propaganda attacks as the most disturbing factor in the present Iranian situation. While any immediate radical change in the Iranian position is not anticipated, the initial Iranian pride and self-esteem at standing up to the Soviet attacks appear to be giving way to nervousness. A wide range of embassy contacts in Tehran reflect increasing concern over the possible domestic effect of the continuing subversive propaganda, although

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such concern will probably not in itself lead to serious disturbances in the near future. Increasing pressure is being exerted on the Shah to take a more conciliatory line with the USSR.

Iran intends to take the issue of Soviet propaganda to the United Nations, and it is now investigating the best approach. The recently appointed foreign minister, Jalal Abdoh, is resigning for "reasons of health," and he apparently will return to New York to handle the issue in the United Nations.

Sudan

The public courts-martial against Brigadiers Shannan and Abdullah, leaders of the coup attempt of 22 May, have proved to be something of a washout. The trial proceedings are over, but the announcements of verdicts--and presumably of sentences--are not expected until the end of this week. Whatever these may be, the Abboud government has failed to present a thoroughly convincing case of anything but how tenuous its control over the army officer corps really has been. What was to have been a demonstration of the military government's strength and resoluteness, what was to have set an example to all army personnel of swift, impartial justice, has instead created a climate for new dissidence.

Among the general populace, as many are reported to be sym-

pathetic toward Shannan and Abdullah as toward the government's position. Grumblings among junior officers in the regional commands have persisted in the wake of the arrest of most of the leaders of the Shannan-headed junior officers' movement, and loyal troops of the Khartoum garrison have remained deployed to protect the capital throughout the trial proceedings. A week ago government security officials arrested former Major Abd al-Rahman Kibayda, an inept and chronic plotter, who was trying to line up dissident army personnel in the Eastern Command. Deputy Army Commander in Chief Bashir Nasir, who has had the major voice in army assignments for the past few months, might decide to try to take control if he feels the present regime is tottering.

In addition to his problems within the army, Prime Minister Abboud is being subjected to increasing pressure from the head of the Ansar religious sect and from important political leaders for a gradual return to a civilian government.

In separate maneuvers, friends of retired Major General Wahab, former interior minister and an Ansar sect and Umma party stalwart, are urging officers of the Khartoum garrison and of the Southern Command to support his return to the government.

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PART II

NOTES AND COMMENTS

SOVIET MIDYEAR ECONOMIC REPORT

The TASS summary of the report on the USSR's economic performance during the first six months of the Seven-Year Plan indicates good progress toward the plan's goals with the possible exception of agricultural output. Total industrial production is reported to be 12 percent over the corresponding period of last year. Growth rates reported for 1958 and 1957 were 10 percent, and for 1956, 10.7 percent. Six-month statistics in the past have usually been a good indication of performance of the full year. The Seven-Year Plan calls for an average annual increase of 8.6 percent. Official Soviet production indices are accepted as statistically accurate, but they are not directly comparable to US statistics.

The plan was fulfilled by all union republics and economic areas (sovnarkhozy). Industries overfulfilling their plan included pig iron, steel, rolled metal, iron ore, nonferrous metals, machine tools, electricity, coal, and oil.

The physical output data included in the report indicate rates of growth in general in excess of those needed to achieve Seven-Year-Plan goals. The omission of data on cement suggests that production of that item is probably behind schedule.

Industrial labor productivity reportedly increased 8 percent--compared with 6 percent in 1958 and 6.5 percent in 1957.

The increase in labor productivity in construction was 9 percent.

A reported increase of 1,800,000 workers since mid-1958 indicates that necessary additions to the labor force are being found.

Investment

The volume of capital investment increased 10 percent;

USSR: TRENDS IN INDUSTRIAL PRODUCTION

(Million Metric Tons Unless Otherwise Specified)	Production First Half 1958	Production First Half 1959	Percentage Increase First Half 1959 Over First Half 1958	Annual Rate of Percentage Increase Needed to Achieve Seven-Year Plan Goals
Crude Steel	27	29.3	8.5%	6.6-7.4%
Pig Iron	19.3	21	8.8%	7.4-8.5%
Rolled Metal	21.3	23.1	8.5%	6.3-7.4%
Coal	245	252	2.9%	2.7%
Petroleum	54	61.7	14.3%	11.1%
Electric Power (Billion KWH)	114	126	10.5%	11.8%
Percent Increase First Half 1958 Over First Half 1957				
Gross Industrial Output	10.5%		12 %	8.6%
Labor Productivity in Industry	6 %		8 %	5.6%

the volume of building and assembly work went up 15 percent, thus indicating that the delivery of equipment at the building sites fell below plan. State housing made ready for occupancy in the first six months of 1959 amounted to about 330,000,000 square feet of floor space, or 13 percent more than in the corresponding period of last year.

Agriculture

The total area sown to winter and spring crops--484,000,000 acres--is approximately

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the same as last year. The plan for sowing spring crops was overfulfilled as a result of an early, dry spring, but weather so far suggests that average crops this year will be considerably below last year's record.

The area sown to corn was increased by 6,670,000 acres to a total of 55,400,000 acres. This area, however, is still less than the record area of 59,100,000 acres in 1956. The area sown to sugar beets was increased by almost 1,240,000 acres to a total of 7,400,000 acres, compared with 5,200,000 in 1957.

The half-year plan for the purchase of meat was overfulfilled by 35 percent; milk and wool, by 8 percent; and eggs by 16 percent. This was made possible by the good feed supplies available from last year's bumper crops.

Consumer

The total volume of state and cooperative retail trade was reported to have increased 9 percent, in comparable prices, over the corresponding period of last year. Both this increase and the increase of 13 percent in state-financed housing construction were up to plan. 25X1

(Prepared by ORR)

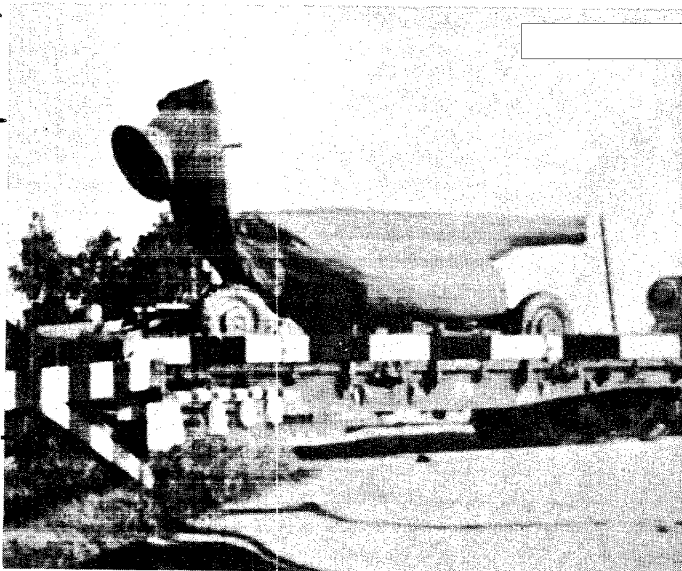
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PROBABLE NEW SOVIET MISSILE INSTALLATION IN EAST GERMANY

Soviet military equipment of an unusual type, thought to be semimobile surface-to-air missile launchers, has been observed at Glau, about 15 miles southwest of Berlin in East Germany. Such launchers, which the Soviet Union apparently is introducing into operational units, would be considerably more flexible than the fixed system in the Moscow area.

The weapons at the Glau site are arranged in six re-ventments in a generally circular pattern around what appears to be a more complex radar array than

that located at conventional antiaircraft artillery sites. This equipment corresponds to no known Soviet radar, but it



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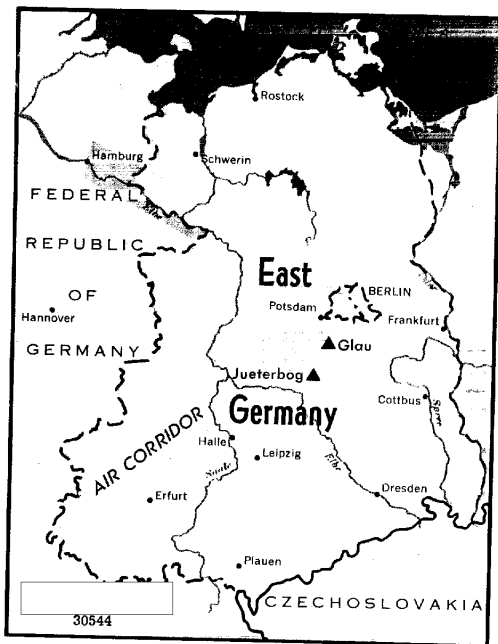
*Probable Semimobile Surface-to-Air Missile Launcher
Sighted Near Leningrad*

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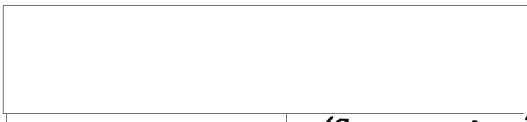


could be used for surface-to-air missile guidance.

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All the types of similar equipment [redacted] on a train near Leningrad last month, with the exception of generator trailers, now have turned up at the Glau site. In addition, a ZIS-151 truck and trailer carrying a canvas-covered object resembling a surface-to-air missile was reported on 6 July at the Glau site.

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(Concurred in by OSI and ORR)

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RECENT SOVIET HIGH-ALTITUDE ROCKET FIRINGS

[redacted] Soviet announcements that two upper-air research rockets were fired into space recently, presumably from the Soviet Missile Test Range at Kapustin Yar. Subsequent press releases stated that both rockets contained living animals, which were successfully recovered, and scientific instrumentation.

The launching on 2 July, according to TASS, contained a 4,410-pound payload consisting of two dogs and a rabbit and instrumentation for studying ultraviolet rays, the structure of the ionosphere, micrometeorites, and air currents, as well as the density, pressure, temperature, and composition of the atmosphere. TASS claims that the animals were recovered in good condition.

The second of these two vertical firings took place on

10 July and appears to have been a similar experiment. Again live animals were involved and --according to TASS--measurements of infrared radiation of the earth and photographs of the earth's cloud coverage were taken.

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Neither of these operations appears significant from the standpoint of altitudes reached or payload lifted. Both, however, indicate an active Soviet experimental program on the reaction of living organisms to outer space and to the stresses imposed in placing them there and recovering them successfully. The experiments appear to be directly related to the Soviet program of achieving human travel in space.

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(Concurred in by OSI)

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INCREASED BLOC-ETHIOPIAN ECONOMIC TIES

The USSR and Ethiopia, in a joint communiqué issued on the completion of Emperor Haile Selassie's recent visit to the Soviet Union, announced that Moscow had granted a \$100,000,-000 credit to Addis Ababa for industrial and agricultural development. The Kremlin probably expects that granting aid to Ethiopia will further its program of expanding bloc contacts throughout Africa and demonstrate Soviet support of nationalism in the area. The acceptance of Soviet aid by Ethiopia also offsets to some extent Moscow's failure earlier this year to gain Sudanese approval of an offered aid program.

Moscow's \$100,000,000 credit--if used by Addis Ababa--presumably would be applied toward Ethiopia's planned \$300,-000,000 Five-Year Development Plan (1957-1961). Moscow probably will soon send a team of experts to Ethiopia to advise the Emperor on the feasibility and desirability of projects to be undertaken by the bloc. Large-scale use of the Soviet credit probably will not begin for at least a year, while initial surveys are being carried out, but the Soviet Union can be expected to attempt to undertake some relatively small projects immediately for their propaganda impact.

The Soviet credit, apparently similar to other major Soviet development credits to underdeveloped countries, will be repaid, at least partially if not completely, in Ethiopian commodities--primarily agricultural products.

A Soviet-Ethiopian trade agreement was also concluded during the Emperor's visit: Moscow is to supply machinery, petroleum products, medicines,

and other products in exchange for coffee, hides, nuts, and oil seeds. Implementation of the aid and trade agreements would increase substantially the Soviet Union's role in Ethiopia's foreign trade. Although bloc trade with Ethiopia has risen gradually to about \$2,000,-000 in 1958, it still accounts for only a negligible portion of Ethiopia's total foreign trade.

In addition to extending economic aid to Ethiopia, Moscow presented the Emperor with an IL-14 (C-47 type) transport aircraft; committed itself to construct and equip, as a gift, a secondary school accommodating 1,000 students; and promised to supply medical equipment for a hospital, one of several being built in Ethiopia under a Czech \$2,000,000 credit. Rumors persist that a secret protocol was signed for some arms aid, including--as a gift--materiel for his personal bodyguards.

It is unlikely that close political relations between the two countries will develop despite the agreements reached in Moscow, the acceptance by Khrushchev and Voroshilov of invitations to visit Ethiopia, and the various gifts presented to Haile Selassie. The Emperor, who reportedly expects "large numbers of Soviet technicians" to enter Ethiopia, has long been concerned over subversive and antiregime activity in his country, and he is aware that even a moderate increase in contacts with the Russians could give rise to a Communist group which would attempt to increase the existing restiveness among the younger, foreign-educated elements.

Addis Ababa has several treaties with the United States concerning mutual defense,

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military and economic aid, and technical cooperation. Total aid planned under these agreements through fiscal 1960 amounts to about \$87,200,000 exclusive of International Bank for Reconstruction and Development loans totaling \$25,000,000 and an Export-Import Bank loan of \$24,000,000.

It seems doubtful that Haile Selassie would be willing to jeopardize these programs and risk losing the friendship of the United States, which has enjoyed the greatest prestige among foreign powers having interests in traditionally xenophobic Ethiopia. However, the Emperor's actions--probably influenced by what he considers strong support from Moscow--may be intended to demonstrate a more aggressive attitude toward the West, a willingness to accept aid from any quarter, and a desire to associate Ethiopia more closely with pan-Africanism.

In a conversation with an American Embassy official in Addis Ababa, the American legal adviser to the Ethiopian Foreign Ministry opined that the Soviet credit "might not be too dangerous." He added that acting Prime Minister Aklilou "might keep it up his sleeve for bargaining"--an implication that the credit may have been accepted to induce the United States to increase and accelerate its military and economic aid to Ethiopia. However, the initial reaction to the credit among some top officials in Addis Ababa is that the Emperor may have gone too far, although government officials generally are elated over the prospect that Soviet aid may ease the country's economic difficulties. 25X1

(Prepared jointly with ORR)

CZECHOSLOVAKIA TO ELIMINATE PRIVATE PLOTS ON COLLECTIVE FARMS

In a step toward the complete socialization of agriculture, Czechoslovakia is preparing to pre-empt land now privately tilled by collective farmers--long recognized as essential to the cooperative farmers' standard of living. Under what is apparently a pilot project, private plots on 40 collectives in the Ostrava region are scheduled to be worked in the same manner as other collective farmland by the end of the year. The press observes that where this process is under way, the "evil" of members' excessive devotion to their plots has been removed.

This spring the regime affirmed that disposition of pri-

ate plots would be left to the discretion of individual collectives. At the same time, however, it took steps to reduce members' income from private plots--on the assumption that farmers would spend more effort on collective labor if they received less from individual work. Income from private plots will shrink further when the new single-purchase-price system for agricultural products goes into effect on 1 January 1960.

The tentative manner in which the regime is undertaking this program suggests that the party anticipates trouble, and the outcome will depend on the effectiveness of party control

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in the collectives. Even in the USSR, the reluctance of farmers to reduce or relinquish private plots has thus far prevented their dissolution.

This program is certain to increase discontent on the collectives while the drive continues to bring into collectives the private farmers, who now operate less than 20 per-

cent of Czechoslovakia's farmland. It is unlikely that the peasants will offer more than passive resistance, which would, nevertheless, hamper the regime's efforts to raise agricultural production to prewar levels. There may also be increased migration of farmers to the cities.

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(Prepared by ORR)

RUMANIA INTENSIFIES CONTROLS

The Rumanian campaign to tighten internal controls--a program originally introduced at the June 1958 plenum of the central committee to stamp out embezzlement and misappropriation of state funds--has gradually expanded to include Rumania's large Hungarian minority, lower- and middle-level party and government officials, clergy, foreign nationals, "Zionists," teachers, intellectuals, students, and professional people. Although arrests and convictions for economic crimes continue, political trials are becoming more common.

The American Legation in Bucharest has characterized the new measures as symptomatic of the almost pathological concern of the regime for its security, and the campaign has resulted in near terror among certain elements of the population.

By warning that some economic crimes constitute sabotage and that offenders are therefore guilty of treason, the regime has paved the way for treating even minor economic offenses as political crimes against the state. In a 16-hour session on 23 June, a Bucharest military tribunal tried

nine cases of "agitation and propaganda against the state." Former Iron Guardists, Socialists, peasant leaders, and other "bourgeois remnants" are being detained, including some who had previously served prison terms for their activities, and more direct charges of "antistate activity" have been made against ranking intellectuals.

Bucharest has closed certain Hungarian-language institutions such as theaters and cultural centers, and the Hungarian and Rumanian universities at Cluj were merged on 2 July. Much of the future teaching at the universities, as well as at all other institutes of higher learning in Transylvania, will be conducted in Rumanian. Magyar secondary schools will also be integrated with their Rumanian counterparts. Editorial boards of three minority literary magazines were reorganized, following a February plenum of the Writers' Union, for propagating "harmful, chauvinistic, and nationalistic ideas," and almost all their editors were removed.

The situation has not yet evoked an overt antiregime reaction. The apathetic passive

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resistance does not pose a serious threat to Communist control, although tensions will be exacerbated by continuing arrests, trials, and heavy sentences.

Bucharest's program is probably designed to ensure

maximum internal security in preparation for the third party congress in December, which will announce a sharp economic expansion and demand close political conformity in an effort to "complete the building of socialism" by 1965.

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SEVENTH WORLD YOUTH FESTIVAL

The first Communist-sponsored World Youth Festival outside the Communist bloc is scheduled to take place in Vienna from 26 July to 4 August. This is the seventh of such festivals, which have been organized every two years since 1947 by two Communist-front organizations--the World Federation of Democratic Youth (WFDY) with headquarters in Budapest, and the International Union of Students (IUS), with headquarters in Prague.

This year's festival will be shorter and only about half the size of the most spectacular and costly one held two years ago in Moscow. It is estimated that 17,000 persons between the ages of 14 and 32 will attend, including an expected 3,700 to 5,500 from the Communist bloc. As in 1957, special appeals are being made to youths of colonial and other underdeveloped areas to attend.

Questions of finance have been treated lightly and in general terms in regional preparatory reports. Western estimates have placed Moscow's contribution alone at from \$4,000,000 to \$14,000,000. Other bloc countries and Communist parties abroad are expected to contribute to the operating costs and to the transportation costs of many delegates from colonial or distant areas.

The Communists took a calculated risk in deciding to hold the festival in a free world city where there is strong anti-Communist public opinion and a wide potential for efficient counterpropaganda and counterattractions. Austrian opinion has been sharply divided on the festival. In defending its authorization, government spokesmen have contended that there might be advantages for the West in having festival participants exposed to the attractions of a relatively prosperous free world capital.

Monetary considerations and a desire not to offend the Soviet Union, however, also are factors in the official Austrian attitude. Most Austrian citizens are opposed to the festival, all non-Communist youth organizations are boycotting it, and counterattractions are being prepared.

The Communist leaders, after much vacillation, chose Vienna--probably to put these festivals and their sponsoring front organizations into a better light by maintaining the impression that they are of a nonpolitical nature and "open to all." The leaders may feel that more delegates from uncommitted countries may be induced to come to a neutral country, and that the Austrian Government would avoid any action to interfere with the

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festival which might antagonize Moscow.

Mindful that the Moscow festival misfired in some respects, bloc delegations to Vienna will be smaller and better indoctrinated, offering less fertile ground for "contamination" by free world ideas. The Polish delegation, composed largely of members of the intelligentsia and artistic groups, will probably not be such strong backers of the Communist line. Delegates from at least three bloc countries--Hungary, Czechoslovakia, and Rumania--reportedly will stay on ships anchored on the Danube, where they can be kept from contact with non-Communist youths.

Such popular and well-attended seminars as those in economics, philosophy, and

literature at the Moscow festival will not be repeated in Vienna, presumably because these were the "controversial" fields which offered too much opportunity for challenging the Communist line.

The propaganda build-up for the Vienna festival has so far been on a low level, and preparatory reports have seemed deliberately vague as to the "study tours" and lectures on the agenda. Despite efforts to represent the event as a non-Communist one serving no political purpose, the purpose of these festivals is still to influence youths and to promote Soviet foreign policy objectives. The Hungarian delegation reportedly has been assigned the special task of inducing some of the Hungarian refugees in Austria to return.

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NEW AUSTRIAN GOVERNMENT

The conservative People's party - Socialist coalition which has governed Austria for more than 13 years has received another lease on life, largely because of the personal influence of President Adolf Schaerf. It is doubtful, however, that the new government--led like the earlier ones by Julius Raab of the People's party--will be either as stable or as efficient as its predecessors. Its formation was preceded by the longest and bitterest political struggle since 1945, the People's party is badly shaken by the crisis, and Raab no longer dominates the Austrian political scene.

The salient feature of the new coalition is the expanded role the Socialists have achieved as a result of their gains in the 10 May elections

and their skillful maneuvering since then. In particular, they have won expanded authority over the nationalized industries, which now will be run by a new ministry under Vice Chancellor Pittermann. The increased Socialist grip on Austria's economic life--a sizable segment of which is nationalized--will be balanced only in part by the conservative finance minister's retention of his cabinet post.

Other compromises of a patchwork nature have been worked out, and renewed friction between the parties seems likely once summer vacations are over. In the past, the Socialists have sometimes played the role of an opposition party as well as a coalition partner; if they again attempt to do so, Raab will be in an especially difficult

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position. During the coalition negotiations, he was openly repudiated by his party for his willingness to make concessions to the Socialists, and the conservative elements probably would like to see him retire. Raab's poor health may hasten this.

Although there are no fundamental party differences over foreign policy, the Socialists are likely to make their increased weight felt. The Foreign Ministry, traditionally an office of the federal chancellery, has been elevated to full cabinet rank and for the first time since World War II will be headed by a Socialist--Bruno Kreisky. A brilliant intellectual with an international reputation, Kreisky is pro-Western and less addicted to the opportunism that Raab frequently tended to inject into Austria's relations with the Communist bloc in the past. On the other hand, Kreisky has tended to feel that Austria's neutrality--required by law

only in the military field--should be patterned after the broader Swiss concept. This and his dislike of West German



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economic influence in Austria have made him oppose Austrian membership in the Common Market in favor of participation in a broader economic association.

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KERALA

Most leaders of India's Congress and Communist parties apparently expect New Delhi to suspend parliamentary government in Communist-governed Kerala State within a month, and are making preparations accordingly. Pending a formal government decision, likely to be made late in July, Congress party chiefs are attempting to prepare a strong legal case for intervention and to organize the party in Kerala for eventual elections. The scope of anti-Communist demonstrations in Kerala is growing, in response to which the Communists are resorting to increasingly strong countermeasures.

Both Congress and Communist leaders have stepped up their propaganda campaigns throughout India to win public support. Kerala party bosses have again made trips to New Delhi to present their opposing cases to the national government and press. Branches of the two parties in other states have been instructed to launch intensive campaigns to counter opposition propaganda. The Congress leadership is especially apprehensive that the Communists will retaliate for the Kerala agitation by using similar tactics against Congress governments in other key states.

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The Communist party has announced plans to stage nationwide "demonstrations" in late July or early August to support the Kerala government. Separate civil disobedience campaigns exploiting local issues in cooperation with other opposition groups are planned in the states of West Bengal, Bombay, and Punjab. The party apparently intends to avoid serious violence, however, in response to guidance which it reportedly received from the Soviet Communist party.

Moscow is said to have advised the Indian Communists not to adopt a drastic program in retaliation for pressures against them in Kerala--a line consistent with recent Soviet efforts to avoid offending

Nehru. Moscow did, however, promise to aid the Indian party in undertaking "widespread agitation"--presumably nonviolent.

The Soviet directive appears to have sidetracked a change in tactics planned by Indian Communist leaders late in June.

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cow's "advice" apparently has strengthened the hand of the moderate faction. The chronic conflict between advocates of a "peaceful, parliamentary approach to power" and those favoring a hard policy, however, is likely to continue. [REDACTED]

INDONESIA'S NEW CABINET

The complex new government fashioned by President Sukarno following reinstatement of the 1945 constitution is basically conservative in nature. It consists of three parts: an 11-man "inner cabinet" led by Sukarno as prime minister and former Premier Djuanda as first minister; 7 ex officio ministers; and 25 deputy ministers whose activities are to be directed by the inner cabinet. It remains to be seen whether the inner cabinet can maintain itself as a streamlined governing organization or whether it will become entangled in the routine administrative affairs of the deputies.

Regardless of structural changes, the composition of the new cabinet leaves Indonesia's national leadership relatively unchanged. The trio which has

led Indonesia for the past two years--Sukarno, Djuanda, and Army Chief of Staff General Nasution, who now is also minister of defense--has emerged with strengthened powers under the new constitution. Sukarno announced at the cabinet's installation on 13 July that the government is to remain in office for five years.

The army has increased its direct political authority from two posts in the last government to at least ten which it either holds or strongly influences in the present cabinet. The army thus appears to have greater opportunity to push its avowed aim of undercutting widespread Communist influence and activities. The enhanced position of the army is resented by the air force, although Sukarno has acted promptly to stifle open criticism.

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The Soviet directive appears to have sidetracked a change in tactics planned by Indian Communist leaders late in June. The party's central committee, under pressure from the extremist faction, had reportedly decided to adopt throughout India a program of "maximum force feasible under the constitution" if the Kerala regime were ousted. Moscow's "advice" apparently has strengthened the hand of the moderate faction. The chronic conflict between advocates of a "peaceful, parliamentary approach to power" and those favoring a hard policy, however, is likely to continue.

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Five of the nearly 40 cabinet members are known to be leftists of varying hues. They range from openly pro-Communist Sudjono, a deputy minister for "mobilization of the people's potential," through "national Communist" Prijono, who is deputy minister for education, to "leftist nationalist" Mohammad Yamin, minister for social and cultural affairs. Compared with the former cabinet, however, leftist representation has been reduced.

The cabinet promises to adequately supply consumer

items for the people, to establish security, and to continue the "struggle" for West New Guinea. There is little indication, however, that effective remedial action in the realms of economy or security is possible within the near future.

The Indonesian Communist party has announced it will support the cabinet's program but will criticize "any wavering action" which is contrary to the "people's wishes."

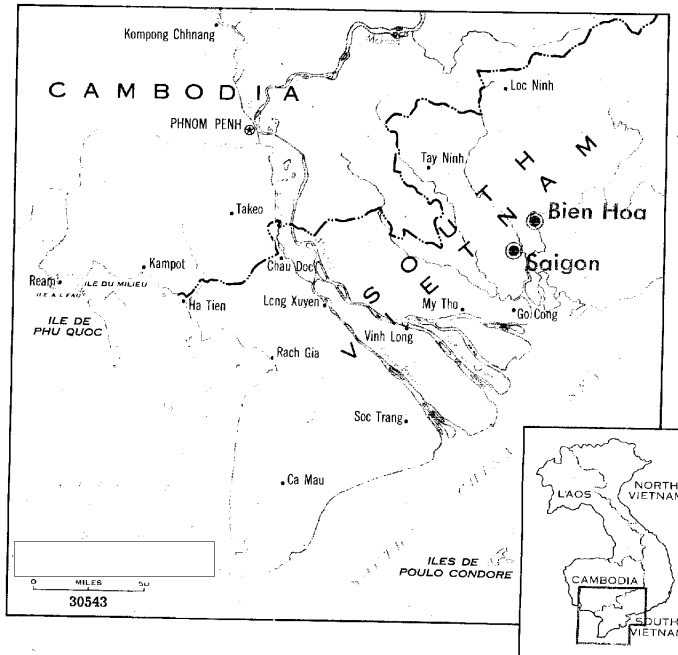
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COMMUNIST TERRORISM IN SOUTH VIETNAM

The killing of two Americans in the recent Communist attack on a MAAG detachment at Bien Hoa, near Saigon, highlights a security problem that has long existed in South Vietnam. The Diem government, in contrast to its initial success in quashing large-scale dissidence following the end of the Indochina war in 1954, has in more recent years been virtually powerless to suppress sporadic acts of Communist violence committed principally in the rural areas by a small but well-organized underground.

from the task of making South Vietnam's economy viable in the long-term competition with North Vietnam.

It is uncertain whether the Bien Hoa terrorism foreshadows a new phase of Communist violence directed against



The most notable feature of this campaign of terror has been the assassination of several hundred lesser Vietnamese officials. This situation has kept the Diem regime off balance and has diverted money, attention, and energy

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American activities and influence, or is merely another development in persistent Communist efforts to create instability in South Vietnam and foment lack of confidence in Diem's leadership.

In recent years, numerous reports have been received of alleged Communist plans for anti-American terrorism, but the last previous incident involving American personnel was in October 1957 when bombs in Saigon injured 13 MAAG members. Hanoi radio, however, depicting the recent attack as a manifestation of growing anti-American sentiment among the Southern masses, warned that the only way for the American imperialists to avoid wrathful blows at their heads is to quit South Vietnam." Hanoi has also called on the people "from north to south" to use

20 July--the fifth anniversary of the Geneva agreements--as an occasion to demonstrate their "spirit of revolutionary struggle against the traitorous Diem clique and American interference in Vietnam."

Communist propaganda recently has also taken a threatening tone toward Laos, where American personnel are soon to be introduced to assist the French military mission in training the small Laotian Army. The Communist bloc, which heretofore has relied primarily on restrictive provisions under the 1954 Geneva agreements to limit the American military presence in Laos, can be expected to react sharply to this development. With an extensive Communist underground responsive to Hanoi existing in Laos, parallel acts of violence against American personnel may develop there.

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PEIPING ANNOUNCES REFORM PROGRAM IN TIBET

Peiping has announced a two-stage program of "democratic reform" and "socialist transformation" for Tibet which is designed to bring about the eventual destruction of those elements of the Tibetan social structure most opposed to Chinese rule--the nobility and the clergy. Details of the program are under discussion at the second plenary session of the Preparatory Committee for the Tibetan Autonomous Region now being held for that purpose in Lhasa.

Peiping, possibly anticipating difficulties, has carefully avoided any reference to the time required to complete the program. The Chinese Communists are asserting that the suppression of the "upper

strata" during the revolution last March has made possible the immediate start of the reform program, which was originally to be delayed until 1962.

The first step of the program includes the complete suppression of the rebellion and the elimination of the "feudal practices" of the upper classes and monasteries, such as unpaid forced labor and excessive rent and interest. The second step will be the redistribution of land. Peiping has fussed over whether the recipients of land will be individual peasants or "the people" --some form of collective ownership.

The regime has been explicit, however, in differentiating

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between loyal landowners and monasteries and those who participated in the rebellion. Peiping will "buy out" the land of those who remained loyal while the holdings of rebels will be confiscated. Loyal monasteries suffering financial losses under the "democratic reform" will be "suitably" subsidized by the government. These policies are apparently designed to make reform more palatable. Freedom of religion is ostensibly guaranteed, but monastic privileges, "exploitation and oppression under the cloak of religion," will be

abolished, and monks will be considered ordinary citizens and subject to labor.

During this period of reform, peasants' associations will be established in rural areas to replace the existing military control committees which were formed to take over from the local Tibetan government organs at the outset of the rebellion last March. These associations will exercise the power and functions of the lowest level of government in the countryside.

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REPATRIATION OF KOREANS IN JAPAN TO NORTH KOREA

Japanese Government officials believe that if the International Committee of the Red Cross (ICRC) rejects the draft agreement between the Japanese and North Korean Red Cross Societies or otherwise refuses to participate in the repatriation of Koreans in Japan to North Korea, leftist pressures and strong public opinion will demand that the repatriation be handled by the Japanese Red Cross alone. No Japanese government would be strong enough to call off the entire scheme at this point. Efforts by Prime Minister Kishi to resist these pressures could seriously damage his position and perhaps even force him out of office.

Although the ICRC has not yet made a final decision, it feels morally committed to assist in the repatriation. The

ICRC is concerned, however, that a hasty decision would involve it in the "cold war" and forfeit its reputation as a neutral and independent organization. It apparently believes it might be able to make a private arrangement with the Japanese Red Cross which would give the ICRC an effective role in the screening of the repatriates.

President Rhee continues to oppose an American proposal that South Korea announce a constructive plan which would recognize the right of Koreans in Japan to choose their place of residence and offer them immediate repatriation to South Korea.

While Rhee may desire to settle his problems with Japan, his unwillingness to compromise

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has blocked any progress. He has insisted in the past that Japan make payments to any prospective repatriates to South Korea--a condition which Japan thus far has refused to accept. Rhee probably would also insist that any repatriation to South Korea be handled as a separate proposal, not as part of the Japanese - North Korean plan.

Should Rhee be persuaded to offer a repatriation plan as a challenge to the Japanese - North Korean program, a contest for attracting the prospective repatriates probably would ensue. Estimates as to how many of the approximately 650,000 Koreans in Japan would return to North or South Korea vary; Ambassador Dowling suggests that 10,000 to 15,000 might choose the South, and Tokyo believes that less than 40,000 would go to the North. The reception given the first repatriates at their destination

probably would be the primary influence in determining the number of repatriates going to each of the Koreas..

North Korea continues to attack Japan for refusing to sign the repatriation agreement prior to ICRC approval. On 6 July the North Korean delegation to Geneva implied in a press statement that the agreement would have to be signed the following day. When the Japanese delegation, on instructions from Prime Minister Kishi, reaffirmed the decision to withhold formal signature until ICRC approval, the North Korean side, although reiterating its "demands" for immediate signature, indicated willingness to accept an indefinite delay. Pyongyang may feel, however, that the delay will work to its advantage by providing an opportunity for further efforts to influence Korean residents of Japan to return to the North.

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DEVELOPMENTS IN BRAZIL'S FINANCIAL CRISIS

The area of divergence between Brazil and the International Monetary Fund (IMF) has widened in recent weeks, even though Brazilian Finance Ministry officials have been attempting to formulate new stabilization proposals that will satisfy both President Kubitschek and the IMF as a basis for reopening loan talks.

Since early June, when Kubitschek suspended negotiations with the IMF, Brazilian industrial groups have announced strong backing for Kubitschek's refusal to slow economic development as part of a stabiliza-

tion program. Kubitschek in return has promised "adequate" industrial credit facilities, implying a relaxation of monetary controls which the IMF had already pronounced inadequate.

Another new obstacle to an agreement appeared on 1 July when Brazil's coffee program for this crop year was announced. The withholding and price-support provisions, virtually identical with last year's program, will prove more costly this year because of the larger harvest and will add substantially to the federal deficit, which the IMF has described as a principal source of the financial disequilibrium.

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Kubitschek is still adamantly opposed to a "complete" exchange reform as advocated by the IMF, fearing this would lead to sharp increases in the cost of living and to serious civil disturbances. He is especially apprehensive about the effect of this on the 1960 presidential elections.

No date has been set for new talks with the IMF. Brazilian finance officials indicated a "cooling-off period" would be necessary following the break in June. Brazil's special financial advisory committee is split over the course to be followed. Two of the five working members oppose new talks with the IMF and strongly advocate stepped-up political pressure on the United States for a bilateral balance-of-

payments loan of about \$300,000,000.

Brazil's financial position continued to deteriorate during June with cash dollar holdings at a low of \$1,500,000 on 6 July. The prospect of an immediate default on international debts was postponed, however, by a 60-day, gold-backed loan of \$50,000,000 from the Federal Reserve Bank of New York. Brazil's new ambassador to the United States plans to start talks on rescheduling payment of Brazil's dollar debt in a further effort to mitigate the immediate crisis and to provide a "breathing period" during which his government can reassess its bargaining position with respect to the IMF.

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THE SITUATION IN PERU

Peru's cabinet crisis, which followed a sharp opposition attack in June on the government's financial policies, apparently has ended with the appointment of Pedro Beltran, owner of the independent conservation daily *La Prensa* of Lima, to form a new cabinet. Beltran will assume the dual role of prime minister and minister of finance, as did his predecessor, First Vice President Luis Gallo Porras. Other appointments to the cabinet have not been announced. Beltran indicated on 8 July that Foreign Minister Raul Porras Barrenechea, whose friendliness to the United States Beltran doubts, may be dropped.

Beltran has been strongly critical of the economic and financial policies of President Prado's government, and as finance minister he may attempt

to revise them. Peru is faced this year with a record budget deficit estimated at 900 million soles (approximately \$30,000,000) and the prospect of an even greater deficit in 1960.

The Peruvian sol, which held steady at about 19 to the dollar for several years prior to 1958, declined rapidly to about 30 to the dollar by mid-June this year but rallied somewhat following the announcement of Beltran's appointment. The government's failure to adhere to the stabilization agreement with the International Monetary Fund (IMF) has resulted in suspension of Peruvian drawings from the stabilization fund. An IMF team has departed for Lima to help work out a new agreement.

An opponent of economic controls, Beltran advocates

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immediate termination of food subsidies and an increase in the price of gasoline, measures which are generally considered necessary to improve the financial situation but which would be politically unpopular. Food subsidies, which are estimated at about \$5,000,000 this year, are contrary to the IMF stabilization program, which calls for trimming budget expenditures. The government did not lift the subsidies following nationwide wage increases earlier this year.

The practice of artificially controlling petroleum

prices below the world market level threatens the producing companies and may thus reverse Peru's position as an oil exporter. The two largest producing companies stopped their drilling programs last December for this reason, and production has dropped off. Some companies have offered loans to the government to help offset the budget deficit if petroleum prices are raised. The Communist-controlled Chauffeurs' Federation, however, has threatened to strike if gasoline prices go up.

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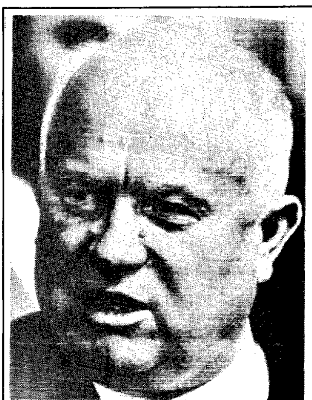
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PART III

PATTERNS AND PERSPECTIVES

KHRUSHCHEV'S LIEUTENANTS--THEIR RESPONSIBILITIES AND STATUS

While Khrushchev appears to have attained virtually complete political control in the Soviet Union and is undoubtedly in a position to insist on his point of view, he delegates far greater responsibilities to his subordinates than Stalin ever did, has greater confidence in



KHRUSHCHEV

them, and takes account of their opinions. Khrushchev's lieutenants, therefore, play a major role in the formulation of Soviet policy and the general administration of the Soviet state.

The relative importance of their individual duties, in terms of providing experience and opportunities for building up a personal following, has considerable bearing on their prospects.

Khrushchev is said to have designated Frol Kozlov as his eventual successor, but it remains to be seen if Kozlov will be able to stay in Khrushchev's favor, secure control when Khrushchev dies, and defend his position against other contenders.

Of the 14 members of the presidium, First Deputy Premiers Mikoyan and Kozlov and party secretaries Kirichenko and Suslov form a group immediately below Khrushchev in influence. They apparently divide responsibility for four major fields--foreign affairs, domestic governmental matters, internal party affairs, and relations with foreign Communist parties. The secret police, downgraded considerably and brought under strict party control since Stalin's death, have not been identified as the special province of any one presidium member.



MIKOYAN



KOZLOV



SUSLOV



KIRICHENKO

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Anastas Mikoyan

Anastas Mikoyan, one of the two first deputy premiers, is concerned primarily with foreign relations--especially foreign trade--and is the guiding spirit behind the USSR's global economic penetration drive of recent years.

Mikoyan, who seems to have achieved a position akin to an elder statesman, is the only presidium member enjoying a status almost equal to that of Khrushchev.

Khrushchev in his interview with former Governor Harriman implied a virtual partnership with Mikoyan when he remarked that Kozlov would take over when "we (Khrushchev and Mikoyan) are gone." Mikoyan, however, does not seem to command any important bloc of followers in the party and apparently has little inclination for supreme power.

Mikoyan is Khrushchev's closest adviser in foreign affairs. He recently jokingly remarked that he was always given the job of dealing with "capitalists" and thought it high time some others on the presidium also "had the opportunity." Mikoyan probably also supervises internal trade, a field with which he has been closely associated for over 30 years.

British officials who accompanied Prime Minister Macmillan to Moscow in February observed that Mikoyan's opinion was often solicited by Khrushchev. Mikoyan did not hesitate to intervene occasionally to reinforce some point made by Khrushchev and often interrupted the premier during speeches--to the latter's irritation. There appeared to exist between them a close and relaxed relationship. They regularly addressed each other in the familiar form, and Khrushchev

frequently teased Mikoyan--on several occasions insisting that he could and perhaps should remove his deputy. Mikoyan was the only one of Khrushchev's entourage--which included Kirichenko and Kozlov--who countered Khrushchev's ribbing, although circumspectly.

Frol Kozlov

Frol Kozlov, the other first deputy premier, appears to concentrate on internal governmental matters. An engineer by training, Kozlov until recently has been confined to party administration. Since his appointment in March 1958 as a first deputy premier, he has been a member of the inner circle, frequently in Khrushchev's company.

Kozlov's speech at the 21st party congress in February was mainly devoted to a comprehensive discussion of industrial automation, modernization of machinery, and labor productivity, suggesting that these are at least some of the areas with which he is concerned.

Western officials have been impressed by Kozlov's intelligence and cultured, urbane manner. He treats Khrushchev with great deference, appears to get along well with Kirichenko and Mikoyan, but is slightly aloof in his bearing.

Kozlov seems to have many of the necessary attributes to qualify him for the top position. His one disadvantage is that he apparently does not have a large personal following in the party machine--the vital source of power in the Soviet Union--and as first deputy premier he is not in the best position to develop a larger following.

With Khrushchev's assistance, however, Kozlov has been extending his influence in the

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party machine by securing the assignment of a number of his former subordinates in Lenin-grad to important jobs in the central party apparatus, where they might serve as a nucleus for "a Kozlov group." If Khrushchev is to be successful in establishing Kozlov as his successor, he will probably have to transfer him ultimately to the party secretariat.

Aleksey Kirichenko

Aleksey Kirichenko is first and foremost a Khrushchev protégé. His elevation to the party presidium in 1954 was the first of what was to become a growing list of Khrushchev appointments to such key positions.

Kirichenko has apparently been second in command, under Khrushchev, on the secretariat since his election to that body in December 1957. He assists Khrushchev in the general supervision of the secretariat and its central staff--hence of the entire professional party machine.

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[redacted] Kirichenko also has specific responsibility for overseeing assignments of party cadres. Evidence to substantiate this is lacking, but the heads of the central committee party departments--which deal with party personnel and organizational matters--are staffed by officials who formerly served with him in the Ukraine.

Officials in Macmillan's entourage were impressed by Kirichenko's ability, energy, and self-confidence. He appeared to have an extremely jovial personality coupled with rough "proletarian" manners.

The British officials were most impressed by Kirichenko's relationship with

Khrushchev, which seemed almost that of father and son. Khrushchev often addressed him in the familiar form, and Kirichenko was extremely deferential, generally giving the impression that he was attempting to model himself after his mentor. Despite this close relationship and Kirichenko's key position in the party secretariat, Khrushchev has intimated that he does not consider Kirichenko successor material.

Mikhail Suslov

Mikhail Suslov has been on the party secretariat since 1947, longer than any of the other present members, including Khrushchev. He is considered one of the foremost Soviet ideologists and has long specialized in international Communist party affairs. Nonetheless, his relative position and influence in the Soviet hierarchy continue to remain largely a mystery and the source of endless speculation.

From Stalin's death until Kirichenko's rise in 1957, Suslov was the most influential official in the secretariat next to Khrushchev and acted as the first secretary's right-hand man--much as Kirichenko does today. He also had responsibilities in the foreign-policy, internal-propaganda, and cultural fields, as well as in Soviet relations with foreign Communist parties. Suslov now appears to devote himself almost exclusively to foreign Communist parties and does not seem to have any significant influence in internal party affairs.

While there are some indications of past disagreements between Suslov and Khrushchev, notably in regard to Khrushchev's scheme in early 1958 to reorganize the machine-tractor stations, there is no

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SOVIET PARTY PRESIDUM MEMBERS 15 JULY 1959

	AGE	FULL-TIME JOB	RANKING ON BASIS OF PROBABLE INFLUENCE	NATIONALITY	YEAR JOINED PARTY
ARISTOV	55	Central Party Secretary Deputy Chairman RSFSR Bureau	Middle Group High Potential	Russian	1921
BELYAYEV	56	First Secretary Kazakhstan	Lowest Group Comeback Possible	Russian	1929
BREZHNEV	52	Central Party Secretary	Middle Group	Russian	1930
FURTSEVA	49	Central Party Secretary	Middle Group	Russian	1931
IGNATOV	58	RSFSR President	Lowest Group Comeback Possible	Russian	1939
KHRUSHCHEV	65	Party First Secretary, Premier and Chairman RSFSR Bureau	Top Man	Russian	1918
KIRICHENKO	51	Central Party Secretary	Among Top Five	Ukrainian	1930
KOZLOV	51	First Deputy Premier	Among Top Five	Russian	1926
KUUSINEN	77	Central Party Secretary	Middle Group Near End of Career	Finnish	1904
MIKOYAN	64	First Deputy Premier	Among Top Five	Armenian	1915
MUKHITDINOV	41	Central Party Secretary	Middle Group	Uzbek	1942
SHVERNIK	71	Chairman, Party Control Commission	Lowest Group Near End of Career	Russian	1905
SUSLOV	56	Central Party Secretary	Among Top Five	Russian	1921
VOROSHILOV	78	USSR President	Lowest Group Near End of Career	Russian	1903

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evidence that Suslov ever actually challenged Khrushchev's leadership. Khrushchev appears to have found in Suslov a valuable political and professional asset at times but has apparently never warmed up to him as a person. Suslov nonetheless still ranks as one of the top members of the presidium.

Central Committee Secretaries

The remaining members of the party presidium can be divided between those who are central party secretaries and those who work at other jobs. The functioning members of the secretariat, in addition to Khrushchev, Kirichenko, and Suslov, are Averky Aristov, Leonid Brezhnev, Yekaterina Furtseva, Nuritdin Mukhitdinov, and Otto Kuusinen. A ninth, Petr Pospelov, is not a full member of the party presidium, although he is highest ranking of the candidate members. Nikolay Ignatov, elected chairman of the Russian Republic's (RSFSR) Supreme Soviet

Presidium last April, has not yet been formally removed from the secretariat, but he presumably no longer performs secretarial work.

The secretariat runs the professional party machine and directs the daily operations of the party--checking on the fulfillment of policy and "distributing" the manpower and resources of the party. Khrushchev, of course, has general responsibility, assisted by Kirichenko, and Suslov handles relations with foreign Communist parties. The other executive duties are divided among the remaining secretaries.

Averky Aristov, because of the potentialities in his present assignment, bears careful watching. A member of the secretariat since 1955 and a full member of the party presidium since June 1957, Aristov is also deputy chairman of the central committee's important bureau for the RSFSR. Created

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in the central party apparatus in 1956 with Khrushchev as its chairman, the bureau gives the RSFSR a central party organization somewhat comparable to the central committee apparatus in the other republics.

Khrushchev probably has little time for active supervision of the bureau, and the actual day-to-day direction has fallen increasingly to Aristov. Aristov's functions apparently are comparable to those of a republic party boss, for he closely oversees all matters of party concern in the RSFSR.

Aristov now appears to be too close to the working level to exercise a major role in national policy formulation. He is, however, in a strategic position to build up a personal following among professional party officials and other influential party members. RSFSR officials constitute over one third of the present all-union party central committee.

Leonid Brezhnev, a 53-year-old party professional and former associate of Khrushchev during World War II, has been a member of the secretariat since 1956 and appears now to be supervising party work in the heavy industry, construction, and transportation fields. His speech to the 21st party congress was an extensive survey of developments and tasks in heavy industry, and on several recent occasions he has met with heads of satellite party departments of heavy industry. Brezhnev seems also to be responsible for political work in the armed forces and paramilitary organization.

Yekaterina Furtseva, formerly party secretary of Moscow City, and the only woman on the presidium, frequently represents the party leadership at conferences on propaganda agitation, culture, science, and higher education,

often accompanied by Pospelov. The exact division of duties between them is not clear. There is some reason to believe that Pospelov is not viewed by Khrushchev as a close supporter, and it may well be that Furtseva was directed into these fields to act as a counterweight to Pospelov. Not an ideologist by training, she may therefore concentrate on administrative and personnel problems, leaving to Pospelov the more subtle interpretations of the party line.

Nuritdin Mukhitdinov, an Uzbek, is the youngest official in the top echelon. In the last two years he has been increasingly active in Near Eastern affairs. He has traveled extensively in that area and has made a number of major policy speeches setting forth the Soviet line on the Near East. Leaders in those countries apparently consider him the official next to Khrushchev to contact on important matters.

Otto Kuusinen, elected to the party presidium and secretariat in June 1957, assists Suslov in the field of foreign Communist party relations.

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Kuusinen is nearly 80 years old and is in failing health, which suggests that his role is principally that of an elder statesman and adviser. He is said to be about the only one on the central committee with a classical education. He was probably elevated to the top ruling body in recognition of his early support for Khrushchev and also to utilize his great prestige as an old and respected official of the international Communist movement.

Other Presidium Members

Kliment Voroshilov, Nikolay Shvernik, Nikolay Belyayev,

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and Nikolay Ignatov, for varying reasons, are of relatively less political importance than their colleagues. Voroshilov holds the largely honorary post of USSR President. He is 78 years old, in poor health, and somewhat under a cloud for his involvement with the anti-party group in June 1957. Shvernik, chairman of the party control commission--the supreme appeal body for cases of party discipline--is 75 years of age, ailing, and appears to have little political influence.

Belyayev and Ignatov, on the other hand, still have a chance for a comeback. Once one of the top men on the secretariat but now stationed in Alma Ata as party first secretary of the Kazakh Republic, Belyayev is removed from a position where he can exercise day-to-day influence on the national level. Ignatov, prior to his election in April to the heretofore politically unimportant post of RSFSR president, was a party secretary charged with supervision of agricultural matters. The reasons for Ignatov's apparent demotion are unclear, although there is some evidence that he is a victim of some of his presidium colleagues' maneuvers to improve their positions.

Political Intrigue

There is very little evidence of special groupings or factions within the party presidium, and only tenuous indications of jockeying for power. Khrushchev's control is so great that any political intrigue is apt to be confined to maneuvering among his lieutenants for favor and influence, and the development of personal followings in preparation for his death. Despite the fragmentary evidence, the existence of such maneuvering can be assumed because of the nature of the party structure and its tendency to promote factional competition.

Khrushchev's selection of Kozlov as his successor, if such is actually the case, will tend to stimulate rather than discourage competition. Kozlov now is likely to become the target of plotting by other hopefuls and may find it difficult to maintain his standing with Khrushchev. Kirichenko, by virtue of his role in directing the work of the party apparatus, is the most logical rival to Kozlov; Aristov, as administrator of the key RSFSR party bureau, would almost certainly be drawn into any maneuvering among members of the party presidium.

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OIL IN NORTH AFRICA

Oil fields discovered in North Africa, close to European markets and free from dependence on the Suez Canal, will provide Western oil companies with a counter to the growing demands of the established oil-producing Arab states for higher revenues and a large role in management. Although oil prospects in Morocco and Tunisia have not been encouraging, Algeria and Libya are expected

by the end of 1961 to become major world oil producers, with a combined output of 500,000 barrels per day, equivalent to about one third of Kuwait's current production.

Algeria's crude oil production is now limited to only 11,000 barrels a day by inadequate transportation. Libya's oil output may reach a total of 100,000 barrels per day by early

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1961. Paris hopes Algerian production will exceed a million barrels daily by 1970.

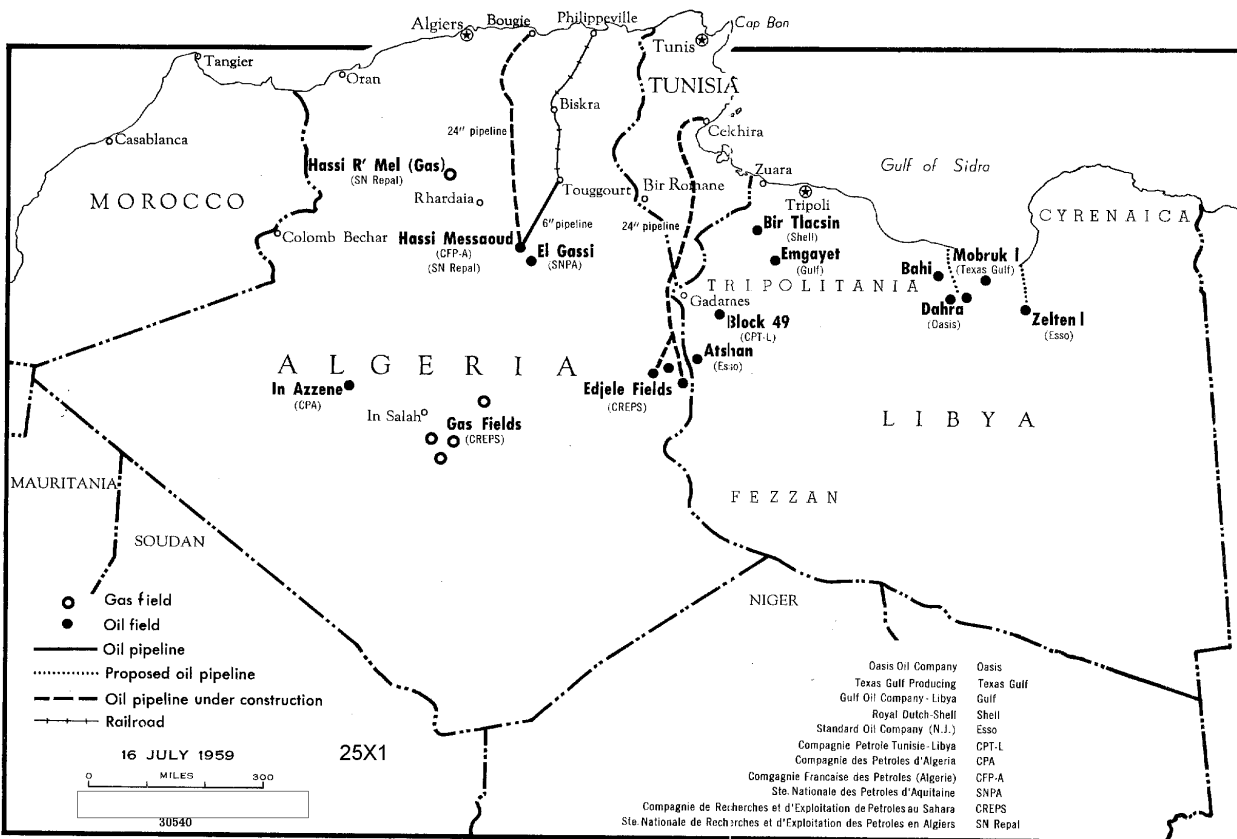
France Seeks Self-sufficiency

The De Gaulle government considers that the Algerian fields satisfy its long search for self-sufficiency in petroleum. Domestic French output of oil rose to 28,263 barrels a day in 1958 from only 1,159 barrels a day in 1949. Most of the increase, however, was from a single field near Paris where production now has leveled off to about 23,000 barrels a day. Despite major French efforts, oil produced in the metropole accounts for less than 5 percent of domestic requirements, and prospects for further marked increases are unlikely.

French determination to develop Algerian oil at any

cost stems in large part from Paris' awareness of its vulnerability to a denial of Middle East oil. The Suez crisis in July 1956 hit France especially hard, for it was a major purchaser of Iraqi oil carried by the Syrian-sabotaged pipeline to the Mediterranean. Since then French interests have been concerned over Baghdad's threats to nationalize France's 23.75-percent share of the Iraq Petroleum Company.

In addition to its vulnerability to pipeline sabotage, France fears closure of the Suez Canal. Almost 17 percent of oil carried northbound through the canal is destined for French ports. Paris is also determined to end the substantial foreign-exchange cost of foreign petroleum, which must be paid for largely in sterling and dollars, by developing a supply of "franc" oil.



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Algerian Oil

The Algerian oil search began in 1945; until recently it was largely restricted to French companies, usually with direct government participation. Under these conditions major American oil companies did not seek concessions. In November 1958, however, a more liberal Sahara oil law was promulgated embodying a 50-50 profit-sharing formula. Even under the new law, Paris will exercise strict control, as illustrated by the conditions under which approval was given in early July to the Standard Oil Company (N.J.) concession.

This 4,940,000-acre concession near the Tunisian-Libyan border is a joint venture with French companies, a French partner being required by law. The French 50-percent share is owned 35 percent by Cie. Francaise des Petroles--which is 40-percent government controlled--and 15 percent by Societe des Participations Pétrolières--wholly government owned.

French hopes that the Sahara would develop into a major source of "franc" oil have risen steadily since a French and Royal Dutch - Shell group discovered oil in Algeria in December 1955. Since then at least five new oil fields and two major gas fields have been located and exploration now is at an all-time high. Because of transportation bottlenecks, only the Hassi Messaoud field is producing thus far. Production of 11,000 barrels a day moves to the Mediterranean coast by a 125-mile, six-inch pipeline which joins a 225-mile,

single-track railroad. Even this token export has been interrupted occasionally by rebel sabotage.

The Saharan oil gamble should begin paying off when the 420-mile, 24-inch pipeline from Hassi Messaoud to the Algerian coast town of Bougie is completed in October. An initial flow of 80,000 barrels a day is set, but Paris hopes the pipeline will be carrying 280,000 barrels a day by the end of 1961. In anticipation



VIEW OF GRAND ERG ORIENTAL CONCESSION OF STANDARD OIL (NEW JERSEY), IN FRENCH SAHARA NEAR TUNISIA

of receiving large amounts of Hassi Messaoud crude oil, the British Petroleum Company has already expanded its refinery near Marseille.

Work has begun on a second major pipeline running from Algerian fields near the Libyan border across Tunisia. The French-American group building this 470-mile, 24-inch pipeline envisages completion by October 1960. Initially the pipeline will carry 150,000 barrels a day and ultimately 275,000 barrels a day.

These lines could be expected to meet most of France's domestic needs, but because of

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the technical characteristics of high-quality Algerian crude, this is not the case. Refined high-gravity Algerian crude yields a relatively large percentage of gasoline and a relatively small percentage of fuel oil, approximately the reverse proportion of the French consumption pattern. Since fuel oils account for more than 65 percent of all petroleum products used in France and since requirements for gasoline are relatively small, Paris will be seeking foreign markets for a large portion of its Algerian output.

This anticipated marketing problem has been an important factor in opening Algeria to American and British oil companies. France will continue importing low-gravity Middle East and Venezuelan crudes because of their high fuel oil content. Except for the United States with its highly developed motor transport, most large oil-consuming countries prefer low-gravity crudes. Thus France will find it difficult to sell its Saharan output.

Algerian Natural Gas

Algeria also has vast natural-gas reserves, but here too transportation is the major stumbling bloc. A study group of the Economic Committee of the Council of Europe recently reported that the Hassi R'Mel gas field could supply Europe with the equivalent of 75,000,000 tons of coal annually.

Other Algerian gas fields raise these estimates substantially. Proved gas reserves in the United States are estimated to total 237 trillion cubic feet.

No firm plan for shipping this gas to Europe has been de-

veloped. Paris points optimistically, however, to the successful US-UK experiment in which liquified gas was shipped by a specially constructed tanker. Since this scheme would require a large capital investment, development of Algeria's gas fields in the near future appears unlikely.

Paris hopes the gas and oil discoveries will also spark plans for Algeria's rapid economic development, but substantial investment is required to build an industrial base before Algeria can utilize Saharan oil and gas. In addition, the nature of the oil industry provides relatively few jobs.

Libyan Oil

Libya's oil history has been relatively short, the first concession having been granted in December 1955. In less than three years of intensive exploration, however, the country has been confirmed as a major oil area. While it is still too early to evaluate the country's over-all prospects, oil will probably make Libya free within the next five years from its almost complete dependence on foreign aid.

Western interest in Libya's oil prospects has been sharpened by increasingly effective demands from the established Persian Gulf oil countries for more and more revenues and for a larger role in management. European petroleum consumption now is almost completely dependent on the Middle East, and in 1956 the Suez crisis demonstrated that Europe could be crippled by a complete denial of Arab oil. Libya eliminates two security problems, for its geographical location avoids both the Suez Canal and pipeline bottlenecks which place the uninterrupted flow of Middle East oil under Egyptian aegis.

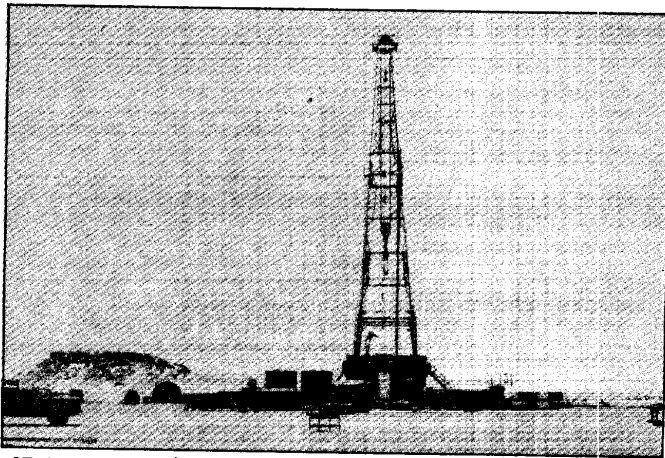
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Libyan Prospects

Nine successful oil wells have been drilled in the past 18 months--five in the past three months alone. The most striking discovery thus far is the Standard Oil Company (N.J.) "Number one Zelten" well about 100 miles south of the Gulf of Sidra. This well, rated at about 17,500 barrels daily, is a major producer even by Persian Gulf standards. The field is expected to be ready to export oil by mid-1961. Initial Libyan production is expected



STANDARD OIL (NEW JERSEY) ZELTEN OIL WELL NO. 1 IN LIBYA

to reach 100,000 barrels daily which, based on Persian Gulf practices, should yield the government \$36,000,000 annually in oil revenues.

About 100 miles west of Standard's discovery, the American-owned Oasis Oil Company--owned jointly by Ohio Oil Company, Amerada Petroleum Corporation, and Continental Oil Company--has drilled three successful wells with a production potential conservatively rated at a total of 2,200 barrels a day. The Oasis strike is only between 75 and 100 miles south

of the Mediterranean and has no obstacles to pipeline construction.

The Libyan-American Oil Company--wholly American-owned--has found oil close to the Oasis oil discovery on its 1,106,000-acre concession. This discovery, however, has not yet been evaluated.

Four promising discovery wells have also been drilled in western Libya in the Fezzan and Tripolitanian provinces, but they are likely to be less productive than the Cyrenaican wells.

Morocco and Tunisia

Although Morocco has been producing oil since 1918, total output has never been significant. The country's 88 wells now produce a total of only 1,567 barrels per day, and major oil companies have shown little interest in Moroccan acreage. Nevertheless, the Italian government-controlled oil firm, Ente Nazionale Idrocarburi, was awarded a 7,411,000-acre concession last year. The Italian concession agreement follows the terms of the company's agreement with Iran, which calls for a joint company with Tehran with the government receiving 75 percent of the profits.

Tunisia has no crude oil production; a French company operates the country's ten-year-old gas field at Cap Bon. Two American companies have recently won concessions totaling 10,880,000 acres, located mostly in central and west-central Tunisia.

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WESTERN EUROPE'S PROPOSED LITTLE FREE TRADE AREA

The "Outer Seven"--Britain, Denmark, Norway, Sweden, Austria, Portugal, and Switzerland--will meet in Stockholm from 20 to 22 July to agree on terms for a little Free Trade Area (FTA). Their major objective in this move is to induce the Common Market countries--France, West Germany, Italy, and the Benelux nations--to join with them in a larger Free Trade Area.

A little FTA, not associated with and in competition with the Common Market, would involve serious economic risks and difficulties for all participants. Britain, as the major trading country of the group, and the others are clearly taking a calculated risk because of the greater prospects they see in a larger FTA. While West Germany and the Benelux countries favor enlargement of the Common Market, the slight impact of a little FTA on France's exports would not be sufficient to induce France to modify its opposition to a larger economic grouping.

Provisions of the Little FTA

The little FTA project was put forward early this year following the collapse of negotiations for a larger FTA when the Outer Seven countries sought measures to compensate for any injury to their trade that might result from the Common Market. Inasmuch as the Outer Seven had largely seen eye-to-eye on terms in the protracted earlier FTA negotiations, they were able to arrive at a large measure of agreement on terms of association in the little FTA proposal drafted at Stockholm from 1 to 14 June.

The proposal declares wider economic association as the ultimate goal. It calls for step-by-step reduction of tariffs on internal trade in industrial products only and progressive elimination of import quotas during a 10-year transitional period beginning 1 July 1960, roughly paralleling the Common Market's schedule for removing trade barriers.

In contrast to the Common Market, the little FTA proposal permits member countries to determine their own external tariffs and it requires no coordination of economic and social

FOREIGN TRADE OF PROPOSED "LITTLE FREE TRADE AREA"
(1957 MONTHLY AVERAGES IN THOUSANDS OF DOLLARS)

	BRITAIN*	SWEDEN	AUSTRIA	NORWAY	DENMARK	SWITZER.	PORTUGAL
IMPORTS							
TOTAL	951.0	201.9	106.1	112.8	94.0	164.2	41.7
FROM COMMON MARKET COUNTRIES	114.7	79.5	33.1	40.9	48.8	94.2	15.4
FROM "LITTLE FREE TRADE AREA" COUNTRIES FROM BRITAIN	93.1	49.3	41.2	44.6	10.9	17.6	8.5
		28.0	18.5	27.6	3.9	8.7	5.5
EXPORTS							
TOTAL	775.8	178.4	68.4	96.3	81.5	130.5	23.9
TO COMMON MARKET COUNTRIES	107.3	58.9	19.3	29.2	40.2	50.2	5.3
TO "LITTLE FREE TRADE AREA" COUNTRIES TO BRITAIN	79.4	53.5	26.1	40.9	10.3	19.9	4.8
		32.1	13.7	26.9	2.0	7.1	3.4

*Export figures for Britain do not include re-exports.

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policies between members. These issues were major stumbling blocks in the earlier negotiations for a larger FTA.

Positions and Problems

The United Kingdom: Britain fostered the larger FTA proposal to assure its trade with the rapidly growing economies of the six Common Market countries mainly because of its concern for West German economic ascendancy on the Continent. It now supports the little FTA project as a step toward establishment of a larger FTA to include the Common Market.

A smaller FTA without access to the Common Market would have

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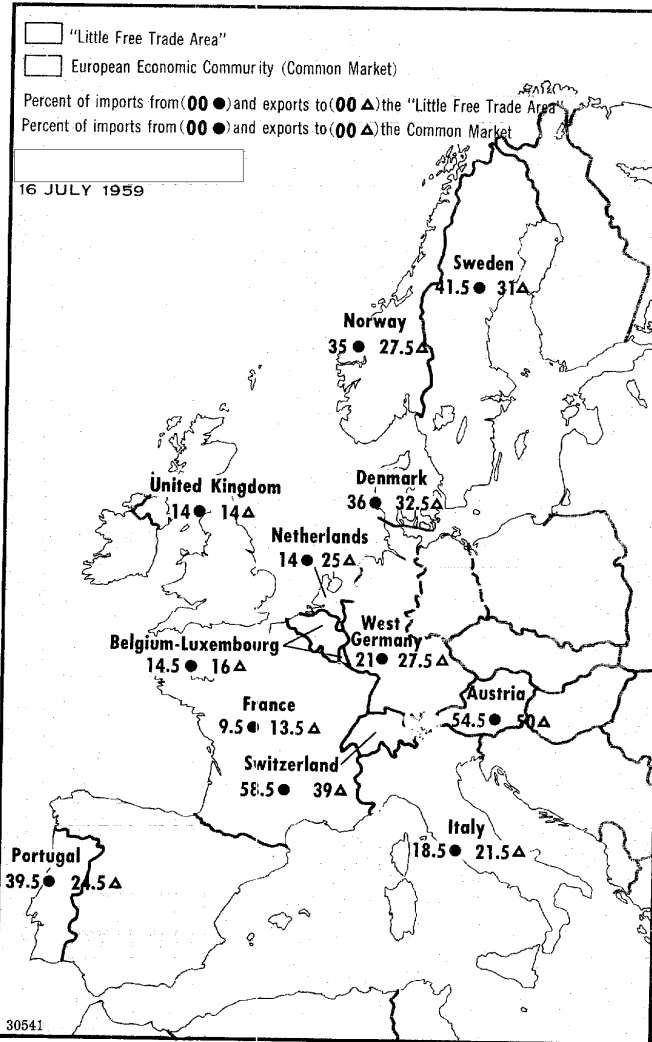
limited advantages and substantial disadvantages for Britain. Unlike the Common Market countries, the Outer Seven do not form a natural market group and all members trade more with the Common Market countries than they do with each other; Britain itself sends 14 percent of its total exports to the Common Market compared with 9 percent to the Outer Seven.

Furthermore, room for expansion of Britain's exports to the Outer Seven in a free-trading arrangement is much more limited than would be possible under a similar arrangement with the Common Market. Outer Seven tariffs are already substantially lower than those of the Common Market members. Also, the economies of the Common Market countries are expanding at a considerably faster rate than those of the Outer Seven.

With total British foreign trade exceeding that of all other Outer Seven members combined, the United Kingdom would be very much the senior partner in a little FTA. Free access to Outer Seven markets would enable Britain to make substantial inroads on West Germany's trade with the Outer Seven, which accounts for 27 percent of Bonn's total exports. In these countries, West Germany now heavily outsells the United Kingdom in iron and steel products, metal manufactures, machinery, automobiles, and chemicals. Added exports to the Outer Seven area for Britain in a little FTA have

been estimated at \$200,000,000 to \$300,000,000 annually.

On the other hand, the removal of import quotas in a little FTA would mean that important British industries would suffer substantial losses in their domestic market through competition from Outer Seven partners. British manufactures would have to compete with Swedish steels, Swiss watches, Austrian machine tools, and Scandinavian paper manufactures, as well as scientific instruments, cutlery, glassware, and toys. Thus, in the preliminary Outer Seven talks, Britain initiated the provision for

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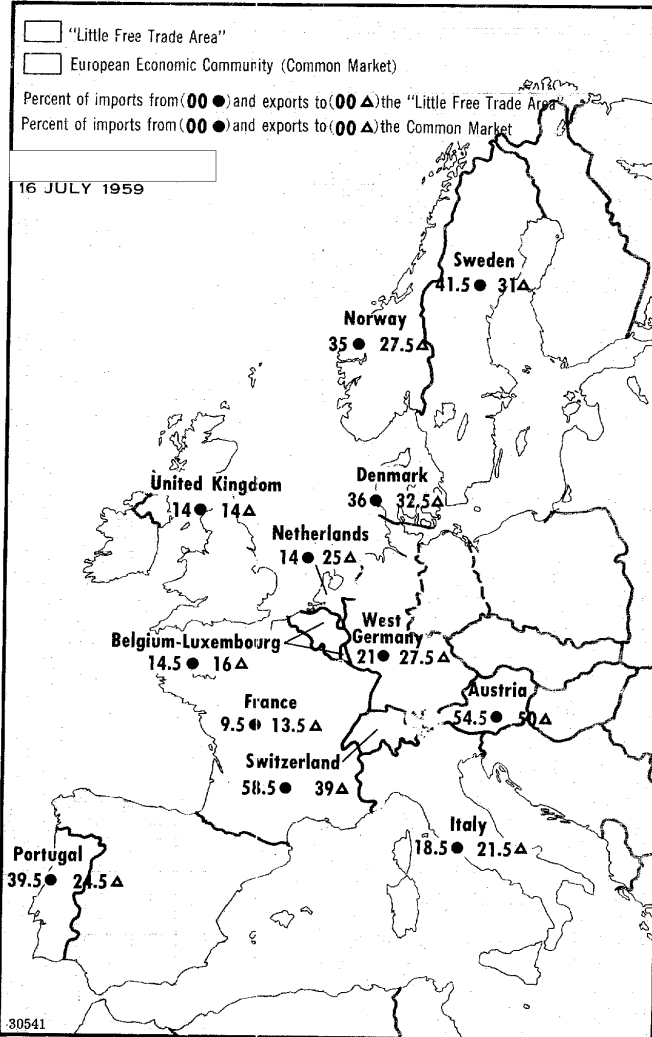
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a scheduled removal of trade barriers coinciding with that of the Common Market to facilitate a later merger with that group in which Britain's advantages would be much clearer.

Scandinavian countries: Well-advanced plans developed over several years for a Nordic customs union, possibly to include Finland as well as Sweden, Norway, and Denmark, now appear to be overtaken by the move of the Outer Seven toward a little FTA.

The Finns are interested in being associated with a little FTA in order to keep their markets in Western Europe and prevent any further increase in their economic dependence on the USSR. They would not be inclined, however, to join a little FTA in the face of Soviet opposition. Consequently, the Scandinavians may seek to establish some regional grouping which would permit Finland to participate, and which would consolidate a Scandinavian bargaining position within the little FTA.

Sweden, with its relatively advanced industry, is enthusiastically taking the initiative in promoting the little FTA. Norway's fishing and particularly Denmark's agriculture--which are not planned for in FTA trade liberalization--will require special arrangements.

Denmark: The Danes would be in the most delicate position of all of the Outer Seven countries in joining a little FTA because their largely agricultural exports are marketed about a third in Britain and another third in the Common Market, largely in West Germany. Attractions of the rich Common Market strongly impel Denmark to associate with it, but political loyalties to the other Scandinavian countries hold Copenhagen back.

Recently, however, following bilateral discussions with

Britain and West Germany, Denmark became convinced that the advantages of joining a little FTA outweighed the disadvantages and that, contrary to its previous contention that the little FTA would lead to a European trade war, participation in it would improve the chances for a general accommodation with the Common Market.

Britain assured Denmark that present import arrangements would continue as a minimum and that, in principle, access for its agricultural produce would be increased as long as such a move would prove compatible with Commonwealth commitments. West German reassurances to Denmark were particularly significant. Bonn representatives not only committed West Germany not to take retaliatory action against Denmark for joining the little FTA if the feared trade conflict with the Common Market should occur, but also declared its willingness to endure considerable trade disadvantages in the interest of averting such conflict and to hasten agreement on the broader FTA.

Other countries: Austria with one half and Switzerland with 40 percent of their total exports going to the Common Market, with which they have felt an urgent need for provisional special trading arrangements, also face serious practical difficulties in lining up with the little FTA. In preliminary discussions, Austrian representatives stated that the Soviet Union had recently reminded their country of its export quotas to the Eastern bloc and of the impropriety of a neutral country integrating in a Western bloc.

The Swiss, in addition to a large volume of trade with the Common Market, have financial and other traditional ties with their Continental trading partners in the Common Market that would add to their alarm at any prospective impairment of these

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relations. Portugal is apprehensive that its less-developed economy would be at a disadvantage in free-trade competition with its Outer Seven partners and has therefore sought a 20-year rather than the 10-year transitional period for removal of trade barriers.

Prospects

The consensus of well-informed views is that the Outer Seven will probably agree in Stockholm to go ahead with establishing a little FTA. There is considerable speculation that France's remarkable economic improvement and its extensive liberalization of its trade and payments at the end of last year

may pave the way for a less antagonistic attitude toward a larger FTA.

French Finance Minister Pinay, however, has recently made it clear that he is a determined opponent of the little FTA, seeing it as a device to revive the larger FTA and thereby weaken the Common Market. The priority now accorded by De Gaulle to political considerations affecting France's relations with other Western European nations, particularly West Germany and Britain, render futile any attempt to predict the likelihood of French agreement to a larger FTA on a basis of economic considerations.

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