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1 August 1950

SUMMARIES OF TRENDS AND DEVELOPMENTS

USSR

1. The return of the USSR to the UN Security Council probably reflects a Soviet decision to attain an eventual, but not necessarily early, negotiated settlement of the Korean war.  
(See page 5)
  
2. The speeches and decisions of the recent SED (Socialist Unity Party) Congress reveal no basic change in Soviet tactics in Germany. They indicate, however, an intensification and acceleration of the tactics the USSR has pursued in Germany since the formation of the German Democratic Republic (GDR) - consolidation of Communist power in the GDR, integration of the GDR into the Soviet orbit, and constant pressure on West Germany.  
(See page 6)
  
3. Recent Soviet tactics in Iran combine official friendliness with increasingly revolutionary appeals to subversive groups. The recent marked increase in Soviet official friendliness may mean that the USSR is extending its "peace campaign" to Iran.  
(See Page 8)
  
4. The latest evidence indicating trade between Eastern Europe and Spain is contained in a detailed report of a compensation account for the export of Spanish goods to transit Sweden. The persistence of such reports indicates that Eastern European trade with Spain may be expected to develop further, although it probably will not reach substantial proportions.  
(See page 9)

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5. A supplementary Soviet-East German trade agreement for 1950, providing for Soviet deliveries of cotton and foodstuffs on credit, seems principally motivated by political considerations. Soviet commitments of additional fats and oils, which were previously refused, suggest that the USSR considers it expedient to make further concessions to improve the standard of living in East Germany. The propaganda value of the agreement is indicated by an East German press statement that the additional cotton will bring the GDR closer to the elimination of textile rationing.

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EASTERN EUROPE  
BULGARIA

6. The USSR is apparently making efforts to strengthen military and civilian morale in Bulgaria. If successful, this factor would increase the Bulgarian war potential.  
(See page 10)

FINLAND

7. The recently revealed Soviet position on Soviet citizenship could, if pressed by USSR, pose severe problems for the Finnish Government in the repatriation of Soviet "war criminals" under the Peace Treaty.  
(See page 11)

HUNGARY

8. The upward revision of work norms in Hungary will facilitate the acceleration of heavy industrial production by reducing wages as a factor in the cost of production, by setting more exacting labor productivity requirements, and by limiting purchasing power, permitting the curtailment of the production and consumption rate of consumers' goods.  
(See page 12)

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POLAND

9. The last major step necessary to reorganize the Polish Government along lines parallel to those existing in the USSR was taken recently by introduction of a bill in the Polish Sejm to reorganize the Polish Judiciary. Approval of the measure is a certainty. Under its terms, the Judiciary will become a watchdog for implementation of the six-year plan and other Government directives.

(See page 13)

RUMANIA

10. The Rumanian Communist regime has attempted to establish formal control over the Catholic Church by presenting the draft of a new Church-State agreement to the Catholic vicars. Despite the vicars' opposition, the regime will probably be able to establish some sort of strictly controlled religious hierarchy.

(See page 14)

INTERNATIONAL COMMUNISM

11. The Communist potential in India may be considerably augmented as a result of the new "united front" tactic announced on 19 July.

(See page 15)

SPECIAL ARTICLES

12. Recent indications of a possible deterioration in Yugoslavia's economic situation point to the possibility that not only will the Yugoslav Government have difficulty in meeting some of its export commitments but may, through a continuation of its present economic policies, further reduce the already low standard of living of the Yugoslav people. The significance of

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these developments to US interests is highlighted by the recognized importance of maintaining an independent Yugoslavia and developing the Titoist heresy among World Communists.

(See page 16)

13. Czech foreign trade has moderate surplus balance for first half of 1950 compared to deficit for same period in 1949. Prospects for trade with the West have temporarily improved over the status in the fall of 1949.

(See page 18)

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EASTERN EUROPE

U S S R

Return of USSR to UN Security Council Probably reflects Soviet decision to attain eventual negotiated settlement of the Korean war

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The return of the USSR to the UN Security Council probably reflects a Soviet decision to attain on the best possible terms an eventual, but not necessarily early, negotiated settlement of the Korean war. The USSR may well estimate that North Korea faces ultimate defeat by the US and the UN and that a more advantageous compromise settlement can be obtained during the period of North Korean military successes. The Kremlin has, since the beginning of the Korean conflict, very carefully avoided any formal involvement of either the USSR or its satellites which might stand in the way of a negotiated solution. In the past the USSR has eventually withdrawn from positions (Iran, Greece, Berlin) when faced with sufficient Western strength and determination. Furthermore, the Kremlin may well be concerned with the coalescing of the non-Soviet world behind the US through the UN and the partial mobilization of American industry and manpower.

By returning to the Security Council, the USSR can and will, through use of the veto, deter this organ from adopting any resolution signifying an intention to go beyond the 38th parallel in order to unify Korea and/or to punish North Korean aggression. It is unlikely, however, that the USSR, even if it plans an aggressive move in another area in the near future, is reentering the Security Council with any real hope that its veto power alone would keep the US from taking such action as it deemed necessary against new aggression. The US and other members of the UN can, under Article 51 of the UN Charter which relates to self defense, act against it.

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Minimum Soviet terms for a compromise solution of the problem of Korea will probably not be forthcoming as long as North Korean military successes continue. Initially, the USSR may make any peaceful solution contingent on a proposal to withdraw UN military forces and to hold early all-Korean elections under UN supervision. The Kremlin may believe that these elections, following North Korean military successes, even if a North Korean withdrawal to the 38th parallel ensues, would result in either immediate or early Communist control of Korea. While the USSR may attempt to make any Korean settlement contingent on the entry of Communist China into the UN, defeat on this issue is extremely unlikely to cause a resumption of the Soviet boycott of the Security Council. If the Soviet Union fails in its attempt to have early elections in Korea, it will probably devote its primary UN efforts to protection of the 38th parallel and the North Korean regime. (SECRET)

Soviet intentions toward Germany  
as mirrored in recent SED Congress

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The speeches and decisions of the recent SED (Socialist Unity Party) Congress reveal no basic change in Soviet tactics in Germany. They indicate, however, an intensification and acceleration of the tactics the USSR has pursued in Germany since the formation of the German Democratic Republic (GDR) - consolidation of Communist power in the GDR, integration of the GDR into the Soviet orbit, and constant pressure on West Germany.

The attitude of the Congress toward the German Federal Republic (GFR) and the Western Occupation Powers was extremely hostile and belligerent. Leading East German officials frankly and openly announced that the Communists would perform acts designed to cause unrest in West Germany. They urged West Germans to resist Allied Occupation preparations for Western defense, and called on all Germans, including ex-Nazis, to join the "National Front in order to overthrow the Bonn Government and expel the Western Powers." West Germans were told that they were not

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legally obligated to obey the Western Occupation Powers because the Western Powers had forfeited their right to remain in Germany through violation of the Potsdam Agreement. In order to give more skillful direction to the Communist effort to gain influence in West Germany, the Congress transferred primary responsibility for the "struggle for peace" in the German Federal Republic from the ineffectual KPD (West German Communist Party) to the SED.

The Congress displayed no lack of confidence in the ultimate establishment of a united Germany under Communist control. President Pieck claimed that discontent was growing among the masses in West Germany as a result of Western Occupation policy, and that an eventual "eruption" was "certain." Deputy Premier Ulbricht, in discussing the merchant fleet the GDR will build as a part of its Five-Year Plan, stated that East Germany would not establish a port on the Baltic coast as the "time will come when Hamburg and Lubeck (West German ports) will be at the disposal of the GDR." For the present, according to Ulbricht, the GDR, by agreement with Poland, will use part of Stettin.

The organizational changes in the Sed, which were announced at the Congress, are additional steps in the consolidation of Communist power in East Germany. The new party statute, eliminating a former provision that office holders be selected on a one for one basis from Communist and Socialist ranks, abandons all pretense of equality between the two parties composing the SED. In contrast to the former SED Executive Committee, which consisted of an equal number of former Communists and Socialists, Communist officials hold a substantial majority in the new SED Central Committee. The new party statute, which closely patterns that of the USSR Communist Party, states clearly that the party aim is the "establishment of the political power of the workers." East German Deputy Premier Ulbricht, the new secretary-general of the SED, expressed the desire of the GDR to enter the Economic Council for Mutual Assistance (CEMA), the so-called Soviet counterpart to the Marshall Plan. Entry of East Germany into this organization will

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be another step in its integration into the Soviet orbit. (SECRET)

Soviet tactics in Iran combine official friendliness "B"  
and revolutionary appeals to subversive groups

The Soviet Ambassador in Tehran has recently displayed marked friendliness to the Iranian Government and to American officials. On 24 July the Soviet Ambassador called on the Iranian Prime Minister to state, on behalf of his government, that the USSR was most anxious to be of any assistance possible to Iran and to resume normal trade relations. The Ambassador had not previously paid a courtesy call on the head of the new government and, according to the Prime Minister, the Soviet Ambassador, "had not called on any Prime Minister of Iran for as long as anybody can remember." The new US Ambassador in Tehran and Mrs. Grady have been shown almost ostentatious cordiality by the Soviet Ambassador and his wife.

At the same time, however, the clandestine Azerbaijan Democratic station, located in the USSR, has broadcast increasingly revolutionary appeals to the Azerbaijani and especially to the Kurds, who are being told that "Kurdistan is one country and it should be liberated." The clandestine radio has directly charged Iran with violating the 1921 Soviet-Iranian Treaty (which permits Soviet troops to enter Iran under certain conditions) and alleges that the Kurds will rise up against the Government "if and when the Soviet Army enters Iran."

Displaying friendliness on an official level, while at the same time strengthening local subversive organizations, is generally characteristic of current Soviet tactics in the Near and Middle East. Iran, however, has been subject to official Soviet pressure since May 1950. This recent show of friendliness may mean that the USSR is extending its "peace campaign" to Iran. It may indicate Soviet satisfaction in the recent Iranian assurance, in answer to a Soviet note, that no Americans would be used in surveys near the Soviet border. (In this connection, it

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should be noted that Iran has recently declared that Western correspondents have been banned from Azerbaijan "to avoid provoking the USSR." The display of Soviet official friendliness could, however, be an attempt to lull Iran while strengthening local subversive organizations and possibly preparing for guerrilla activity on the Iranian border. (SECRET)

Swedish intermediary used  
in Spanish-Soviet orbit trade

"B"

The latest evidence indicating trade between Eastern Europe and Spain is contained in a detailed report of a compensation account for the export of Spanish goods to transit Sweden. Commodities valued at nearly \$17.5 million each way are to be exchanged through an especially established Swedish firm which will serve as an intermediary. Spanish agricultural, chemical and mineral exports will be balanced by the import of a million tons of Polish coal.

The following facts substantiate this transaction:  
(1) The USSR desires Spanish wolfram and pyrites, while Spain needs coal and wheat. (2) Four thousand tons of Polish coal, said to be the first shipment under this account, were imported last March by Spain via Portugal. (3) Both the \$35 million figure and the existence of the Swedish firm have been previously reported. (4) Late in June the Swedish Charge d'Affaires in Madrid denied that the Swedish Government was officially involved as an intermediary, but he acknowledged the existence of a deal between "Spanish entities and some foreign national, not Swedish, in Sweden."

The persistence of reports regarding Spanish-Orbit trade negotiations indicates that Eastern European trade with Spain through devious channels may be expected to develop further. Such trade is economically logical. Each area has products which would require hard currencies if purchased elsewhere.

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Transportation and supply, in addition to political difficulties, will probably prevent Orbit-Spanish trade from reaching substantial proportions. Moreover, it is not believed that Spain will be able to fulfill its obligations in a deal of such proportions, but regards the arrangement as a "hunting license" rather than a firm commitment. Franco, however, is interested in any advantageous foreign trade and undoubtedly considers the threat of a Spanish-Soviet rapprochement a useful weapon in his campaign for US aid. (SECRET)

EASTERN EUROPE

BULGARIA

USSR attempts build-up  
of Bulgarian morale

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A western military attache in Sofia has recently reported that Bulgarian soldiers on the Yugoslav frontier have "good morale for any conflict with the Yugoslavs." If true, the USSR has made marked progress in its campaign to inspire in Bulgarian troops the will to fight an aggressive action and counteract somewhat widespread disaffection in Bulgaria. Such results, although not confirmed, would increase military and civilian potentialities of Bulgaria as a tool of Soviet-inspired aggression.

Large shipments of Soviet equipment and supplies into Bulgaria during the past few months probably have improved morale of the army. The widespread purge of Bulgarian army officers, which began in 1946 and continued with varying intensity until the removal of the chief of staff and his assistants in 1949, doubtless weakened both the morale and efficiency of the then poorly equipped army. Sovietization of the armed forces was virtually completed with the appointment

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of the Russianized Panchevsky as Minister of War and the infiltration of Soviet "advisers" down to the lowest echelons. It is likely that the advisers have been well chosen by the Kremlin to tighten discipline and increase military efficiency. Such improvement in performance of Bulgarian units might tend to boost soldier morale and perhaps even offset resentment created by Soviet domination.

The desire to become a large and powerful nation has been an historic Bulgarian objective. Successive defeats in war since the end of the nineteenth century have progressively whittled away the coveted territory in Macedonia which Bulgarian troops have several times occupied. A concerted Soviet propaganda campaign designed to convince Bulgarians that they are in imminent danger of attack from neighboring countries who now hold this coveted territory has been stepped up.

During the past few months there is some evidence that the USSR has also tried to bolster Bulgarian civilian morale. Since May two joint decrees of the Central Committee of the Bulgarian Communist Party and the Council of Ministers have held forth the hope that the collectivization drive would be eased and distribution of consumer goods to the people would be expedited. There is no possibility that such announced intentions are sincere. Even a short-term surcease from Soviet oppression, however, would probably have a popular reaction.

It would thus appear that the Kremlin is making efforts to strengthen the military and civilian morale in Bulgaria, which, if successful, would increase the Bulgarian war potential. (SECRET)

FINLAND

Firms encounter new source of possible trouble with USSR

"B"

During Finnish Prime Minister Kekkonen's visit to

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Moscow for the signing of the Soviet-Finnish trade agreement, at Stalin's suggestion Kekkonen broached only two matters of concern to Finland: the peace treaty disposition of surplus war material -- upon which the USSR has not yet expressed an attitude -- and the return of two or three thousand Finnish POWs still in the Soviet Union. Stalin made no reply on these matters, but Gromyko, in a later conversation, reminded Kekkonen of the desirability of the return by Finland of Soviet war criminals under Article 9 of the Peace Treaty. Gromyko, in addition, cited a Soviet law of 1931 and 1932 requiring any Soviet citizen abroad to obtain the express permission of the Soviet Government before renouncing Soviet citizenship. The Finnish position has always been not to repatriate former Soviet citizens who have become Finnish citizens. Inasmuch as approximately ten thousand persons could be affected by this interpretation of Soviet citizenship, a strong Soviet stand in the matter would confront the Finnish Government with a difficult decision. (SECRET)

HUNGARY

Hungarian norm revisions indicate  
accelerated industrial production

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The upward revision of work norms and the reduction of take home pay are the culmination of the recent campaign to impress upon the Hungarian workers the implications of their "excessively" high standard of living. The April 1950 achievements selected as the basis for norm revision represent exacting standards, since that was the period of the production campaigns in honor of Hungarian liberation and May Day. These higher productivity requirements, and the reduction of wages as a factor in the cost of production will facilitate the expansion of heavy industrial production.

In addition, the reduction of purchasing power to

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meet the current situation of continuing shortages of consumers' goods, especially foods, will restrict inflationary tendencies and retard the standard of living which is reported to have attained the level planned for 1952. Food scarcities have been justified recently on the basis of requirements for export. Restricted consumption will enable exports to continue, permitting the importation of materials needed for heavy industry. Moreover, less rapid consumption of already available non-food consumers' goods will permit curtailment of light industry production and transfers of investment and labor to heavy industry. (SECRET)

POLAND

Polish judiciary to be reorganized

"A"

The final major step necessary to complete the gradual reorganization of the structure of the Polish Government along lines parallel to those existing in the USSR was taken with the recent introduction of a bill in the Polish Sejm (Legislature) to establish and define the functions of a Prosecutor General's Office. Approval of the measure is a certainty. The new office will closely follow its Soviet counterpart, the Procurator General's Office, both as to responsibilities and its relationship to the executive branch of the Government.

In the USSR, the Procurator General's Office is highly centralized, is an extra-departmental organ beyond the control of the executive branch (specifically the Ministry of Justice), and operates on the same level as does the executive. The office has broad supervisory power over the execution of the laws by all ministries and institutions subordinate to them, and has greater supervisory authority than does the Supreme Court of the USSR.

Under the terms of the proposed bill, the Polish

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Office will be appointed by and responsible only to Council of State, the most powerful executive organ in Poland. Since the Council of State is largely concerned with planning and is staffed by Poland's most reliable communists, it seems likely that this new Polish Office will be used primarily in a watch-dog capacity over the implementation of directives for the current six-year plan. (SECRET)

RUMANIA

Rumanian government drafts Church-State agreement

"B"

The Rumanian Communist regime has attempted to establish formal control over the Rumanian Catholic Church by presenting the draft of a new Church-State agreement to the Catholic vicars, who have been in charge of Church administration since the arrest of all their bishops early this year. More recently, they were deprived of the guidance of the papal nuncio, because of his expulsion on 4 July. The vicars, who met to discuss the proposal, agreed unanimously that it was unacceptable, and, professing lack of authority to sign it or even discuss it with state representatives, suggested that the Government submit it directly to the Vatican. The substance of the agreement is unknown, but presumably it follows the line of the resolution of the Catholic Action Committee last May, which called for "normalization" of relations between Catholics and the Government. The experience of Rumania's Uniate Church indicates that by "normalization" the regime means nationalization and severance of the Church's ties with the Vatican. The Action Committee resolution also proposed that the Government pay priests' salaries and pensions, and control church property. If the draft agreement runs along such lines, as seem probable, its adoption would make the Church wholly dependent upon the state and therefore completely subordinate to it.

The demonstrated opposition of the Rumanian church

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hierarchy to Communist control has prompted the Government to lay plans to replace obstinate vicars with more docile clergymen. The Government has also attempted to build support for itself by circulating copies of the draft among the weaker elements of the lower clergy and has continued to arrest recalcitrant clergymen, both secular and regular. Although many of the hierarchy and clergy will suffer persecution rather than submit to Communist demands, the superior material forces at the state's disposal suggest that the Communists will soon succeed in setting up some sort of church hierarchy capable of isolating at least some of the lower clergy and a substantial number of Rumania's Catholics. (SECRET)

INTERNATIONAL COMMUNISM

Communist Party of India announces a change of policy

The new policy, announced by the Communist Party of India at its Bombay headquarters on 19 July, provides for: (1) abandonment of the former tactic of violence and sabotage; (2) united front with all popular groups willing to work for "an independent India freed from Anglo-American imperialism and its Indian collaborators, the bourgeois and feudal elements;" (3) profiting from the experience of the Chinese Communists, whose path "is the only correct path before the Indian people;" and, in line with this, (4) special stress upon the peasant masses and upon the land question, which is recognized as the key question throughout Southeast Asia. The first point above - abandonment of violence and sabotage - was undoubtedly included primarily to confuse the opponents of communism and to deprive the Government, as far as possible, of an excuse for repressive action. The Party actually will abandon its violent tactics only in urban districts where violence has recently worked to the Party's disadvantage, and in those rural areas where the Party is weak. In rural areas where the Party is well entrenched and where violence has proved a successful method of consolidating

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the Party's strength, there is no reason to believe that this successful tactic will be dropped.

It is noteworthy that the CPI's new tactic follows almost exactly the instructions for colonial areas carried in the Cominform Journal of 27 January 1950; and that the Resolution embodying the new tactic includes an abject apology, addressed directly to Mao Tse-tung, for "utterly wrong, irresponsible, and slanderous criticism made against him by the former Politburo" of the CPI. On both these counts, the CPI's new tactic bears witness to the solidarity of international communism as a world-wide, Moscow-directed movement.

If this new tactic is conscientiously adhered to and if factional strife within the Party can be successfully suppressed, it is believed that the CPI stands to make substantial gains both in rural areas and among India's government officials, intellectuals, and white collar workers, many of whom are already predisposed toward a Marxist viewpoint. (CONFIDENTIAL)

#### SPECIAL ARTICLES

##### Living standards of the urban population in Yugoslavia declined during the first half of 1950

Recent indications of a possible deterioration in Yugoslavia's economic situation point to the possibility that not only will the Yugoslav Government have difficulty in meeting some of its export commitments but may, through a continuation of its present economic policies, further reduce the already low standard of living of the Yugoslav people. The significance of these developments to US interests is highlighted by the recognized importance of maintaining an independent Yugoslavia and developing the Titoist heresy among World Communists.

The report by the Chairman of the Economic Council of the Yugoslav Government, Boris Kidric, on the Economic Plan fulfillment, for the first half of 1950, gave evidence that the

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living standards had declined particularly among the urban population.

Kidric stated that foreign exchange difficulties necessitated a revision of production goals in some light industries with the result that production of consumer goods industries were not expanded according to plan and in some cases fell below last year, while basic industries and capital construction received priority for raw materials and equipment. Another factor having an adverse effect upon the living standards was the faulty distribution of meats and fats.

There was no indication that conditions during the latter half of 1950 would be improved. Kidric stressed the fact that the country must direct efforts toward the basic branches (heavy industry) of the Five Year Plan and absolutely subordinate all other tasks to this one. This will mean that investments in consumer goods industries will continue to be sacrificed for heavy industry so long as foreign exchange difficulties exist.

In addition to the alleged requirements of heavy industrial development, the Yugoslav Government must face external Cominform pressures which are steadily assuming a more ominous character. In order to perfect Yugoslav defensive capabilities, considerable emphasis of necessity is placed on the equipment of the Yugoslav armed forces, primarily through Yugoslavia's own efforts. Since Yugoslavia is not eligible for arms aid from the West and indeed appears reluctant, for political reasons, to make any open request for Western military assistance, the Tito Government apparently hopes to supplement its own inadequate military manufacturing facilities with purchases from "neutral" countries such as Sweden and Switzerland. Such purchases, which will probably have to be augmented if the Yugoslav armed forces are to maintain and improve their defensive capabilities, will place additional burdens on Yugoslavia's already-strained foreign exchange resources.

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With investment priorities going to heavy industry and the military establishment, the consequent reduction in consumer goods production is likely to result in greater difficulties in collecting from the peasants the foodstuffs required both for feeding the urban population and meeting Yugoslavia's export commitments for 1950-1951. It has already been estimated that 1950 food crop production has been adversely affected by drought. This may, therefore, indicate a still further decline in the Yugoslav standard of living.

A further deterioration in the standard of living will probably increase local discontent and weaken morale at a time when the Government itself appears aware of the necessity of augmenting its popular support. Much of the Cominform propaganda beamed at Yugoslavia is currently stressing the decline in the Yugoslav standard of living, allegedly because of Western exploitation of the country's resources and Tito's "militaristic policy." Finally, the Government's failure to register tangible economic improvement would further tend to substantiate Soviet claims that the country is unable to "build socialism" without the aid of the Soviet Union.  
(SECRET)

#### Czechoslovakia continues trade with the West

Czech foreign trade during the first half of 1950 compared favorably with the first six months of 1949. Combined exports and imports of 35 billion crowns, though 12 percent less than the first half of last year, produced an export surplus of 800 million crowns in contrast to a 200 million crown deficit for 1949. Moreover, the decline in actual volume was less than the drop in value owing to currency revaluations and the wider adoption of the Czech policy of selling below cost. Prospects for trade with the West picked up considerably over last fall as a result of Czechoslovakia's more reasonable attitude toward negotiations and growing worldwide competition.

The most significant change in non-Orbit commerce

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has been in Czech-US balances. Although total interchanges for the first four months of both 1949 and 1950 approximated \$15 million, the breakdown has shifted radically from a \$1 million deficit in 1949 to a \$5.7 million surplus this year. Heavy July arrivals in New York of such consumer goods as glassware, hat bodies, and Christmas tree ornaments indicates a continuation of the first quarter trend. However, difficulties have arisen. Cutrate prices, which characterize many exports, have already alarmed the US shoe and hat trade, and caused customs investigations; and Czech merchandise has been boycotted by leading US department stores.

Commercial relations with other non-European areas are also improving. Exports to Canada, particularly women's shoes, have risen sharply, and the Czech exhibit at the June Canadian International Exhibit was exceeded only by those of the UK and Canada. After being politically blocked in 1949, a two-year pact was concluded with Brazil in May 1950. Czechoslovakia is to receive, principally, hides, cotton, wool, and vegetable oils in exchange for machinery, industrial installations, and consumer goods. In addition, Czechoslovakia signed a \$4 million agreement with Israeli after protracted negotiations; the Czechs obtain citrus fruits and property settlements in return for various industrial products. Furthermore, Czechoslovakia readily accepted less favorable terms proposed by India during renewal of the Czech-Indian commercial agreement.

Czech-European business dealings have definitely taken a turn for the better. Trade prospects with the Netherlands, because of freight transit difficulties, a substantial florin deficit, and other circumstances had been bleak, but they have recently shown considerable improvement. The florin deficit has been liquidated and negotiations for a new pact on a considerably modified scale were slated for July. In May an 18 billion franc agreement was made with France, replacing one which expired in August 1949 and incorporating a 10-year nationalized properties settlement. The 1950 quotas of the Czech-British pact were settled expeditiously, with

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Czechoslovakia making no effort to secure strategic items. Intra-Orbit business is, of course, continually expanding.

In discussing terms for a 1950 pact with Norway, a relatively minor trading partner, the chief Czech delegate cynically admitted that his country had no intention of accepting fish meal from Iceland under a recently negotiated pact. This attitude is not conducive to improving trade relationships. In addition, the Czechs still remain adamant regarding the settlement of nationalized Norwegian interests, patents and processing rights, maintaining they will pay no more than the nominal book value.

The underlying reason for Czechoslovakia's conciliatory attitude toward, and vigorous promotion of, non-Orbit business is probably the Czech attitude that without Western imports, Orbit commitments would not be fulfilled. In addition the Czechs have probably realized that nationalized property settlements are an inevitable prerequisite to the development of any long-term trade and furnish the Czechs through their provisions for payments from export surpluses, a useful lever for future negotiations. Nevertheless, strictly self-interest will continue to dominate Czechoslovakian trade. (SECRET)

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