

~~SECRET~~

#2

File Copy

K. P. A. H. T.

WESTERN EUROPE BRANCH  
OFFICE OF REPORTS AND ESTIMATES  
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

BRANCH WEEKLY

NOTICE: This document is a working paper, NOT an official CIA issuance. It has been co-ordinated within ORE, but not with the IAC Agencies. It represents current thinking by specialists in CIA, and is designed for use by others engaged in similar or overlapping studies. The opinions expressed herein may be revised before final and official publication. It is intended solely for the information of the addressee and not for further dissemination.

DATE: 5 July 1949

DOCUMENT NO. 4  
NO CHANGE IN CLASS.   
 DECLASSIFIED  
CLASS. CHANGED TO: TS S C  
NEXT REVIEW DATE: \_\_\_\_\_  
AUTH: HR 70-2  
DATE 10-29-79 REVIEWER: 372044

~~SECRET~~

~~SECRET~~

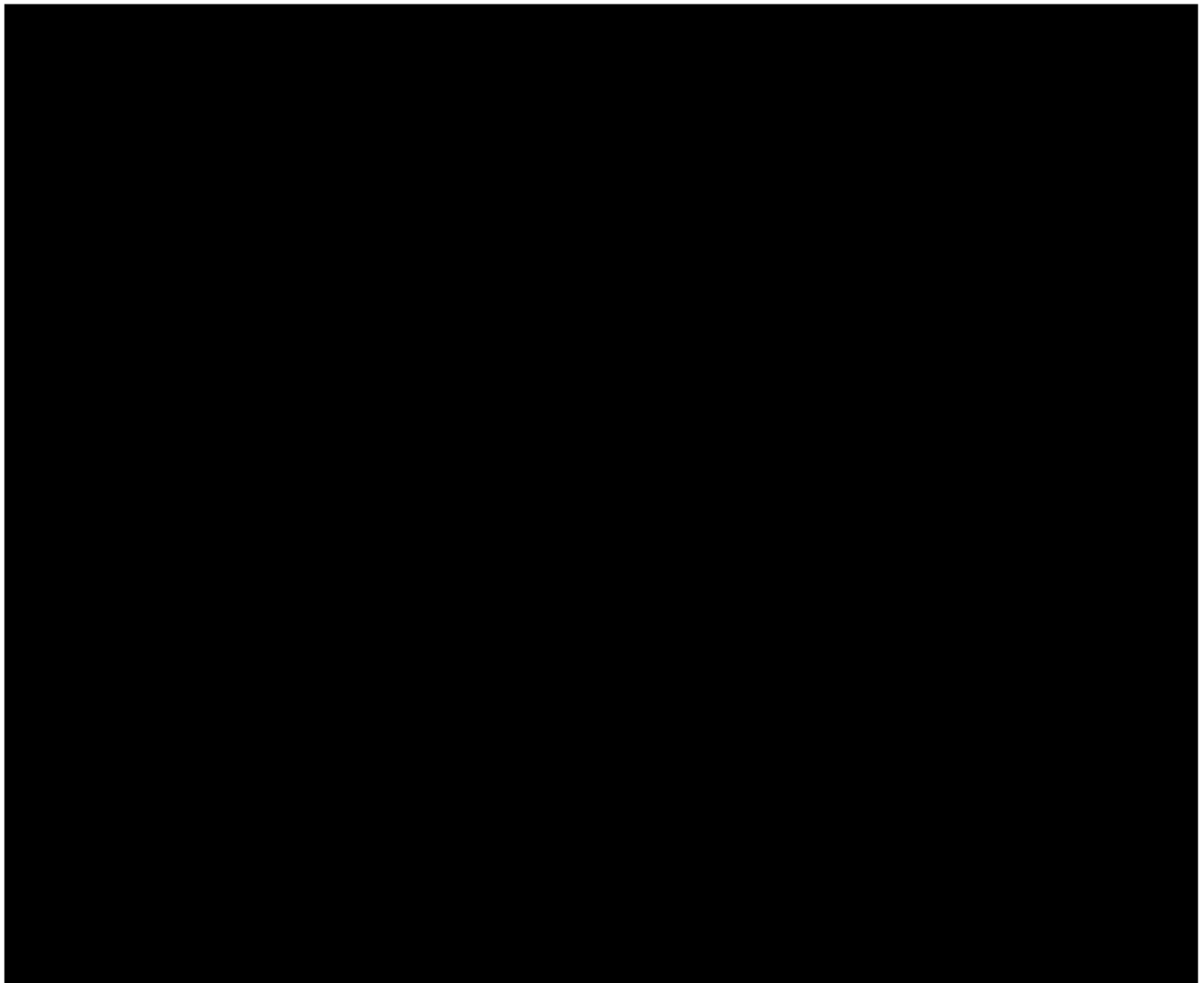
WESTERN EUROPE BRANCH

WEEKLY SUMMARY

VOL. IV - No. 11

For week ending  
5 July 1949

25X6A



~~SECRET~~

25X6A

Approved For Release 1999/09/02 : CIA-RDP79-01090A000400010004-3

Approved For Release 1999/09/02 : CIA-RDP79-01090A000400010004-3

25X6A



AUSTRIA

B Election year activity in Austria is likely to result in little change in the political scene. Despite undercurrents of new political interests, and the present uncertainty regarding the regulations on the participation of new parties in the October elections, the People's Party and the Socialists are expected to continue a coalition government in which the People's Party will retain a majority.

~~S E C R E T~~

At present, an effective government for Austria is dependent in large part upon cooperation between agriculture and industry (both represented by the People's Party) and labor (represented by the Socialist Party). Although each party strongly desires to be the senior partner in the government, it is unlikely that either would refuse the secondary position. Aside from the dignity accruing from participation in the government, and the opportunity such participation affords for watching and checking the other, each party desires to receive credit for achieving and implementing an Austrian treaty.

Though the relations between the conservative People's Party and rightist/regionalist and ex-Nazi elements constitute a threat to future People's Party-Socialist cooperation, these relations will not affect the present coalition government or prevent its re-constitution following the October elections. Some dissatisfied elements within the People's Party would like to align themselves elsewhere, but no new party which could serve this purpose has appeared; the Socialists are, for practical purposes, invulnerable to the threat of new parties.

The political amnesty resulting in the addition of over 800,000 new voters to the electorate has intensified pre-election campaigning. Within this block of new voters are several nascent political groups, unnamed and still nebulous, but led by prominent ex-Nazis. The People's Party has courted these new groups in the attempt to ensure and, if possible, to increase its majority in the next government. It has also played the new groups against each other to forestall the emergence of a new unified party which might prove capable of dispersing rightist strength to the advantage of the Socialists. The apparent readiness shown by at least two of the nascent groups to arrive at an alliance with the People's Party would indicate their lack of assurance of their independent political strength. Although Socialist leaders are probably fearful that ex-Nazis will become strongly influential in the People's Party, recent Socialist protests against its government partner for consorting with ex-Nazis are largely election propaganda. There are no indications that the Socialists will withdraw from the Government.

~~S E C R E T~~

FRANCE

A The excellent French bargaining position in the Franco-Soviet trade-agreement negotiations, resumed on 28 June at Moscow's suggestion, reflects the marked economic and political progress of France since these discussions were broken off by the USSR late in 1947. The French are likely to resist successfully Soviet efforts designed to circumvent ECA policy. The USSR retains, however, considerable bargaining leverage for inducing French concessions.

The French proposal to take sharply-reduced tonnages of coarse grains and fewer tons of chrome ores and chemical pastes underlines the improved position of the nation since 1947 in these vital production sectors; the desire for 50% more manganese than previously requested points up the average monthly increase from March through May 1949 of approximately one-third over the 1948 average in crude steel production.

The French instructions would specifically deny the USSR certain significant products which it has solicited, namely, small cargo vessels and tankers, although the instructions make no reference to the Soviet requests for electric motors, pumps, steel pipes, excavators, or cranes, some of which are restricted items. On the other hand, the USSR has proposed to eliminate from its export list items desired by the French, such as linen, lamp black, and cotton lintens. The USSR has also suggested limiting the term of the anticipated agreement to the balance of 1949 only, a tactic which the French are unlikely to accept because it would leave France a heavy debtor in this trade at the year's end, forcing settlement in dollars.

The French approach to the negotiations is symptomatic of the Third Force Government's increasing confidence and over-all resistance to Soviet pressures.

C The Government's "anti-trust" plans to stem the current trend toward cartel agreements on price-fixing are not likely to achieve this objective soon, although they may appeal politically to the working class and left of center groups and result in closer harmony within the coalition. The cartel agreements are partially responsible for the general failure of manufacturers' prices to decline, which is one of the most stubborn remaining inflationary factors causing labor unrest.

~~SECRET~~

The Government's present draft of proposed anti-trust legislation provides for: (1) obligatory registration of price-fixing agreements, (2) the creation of a cartel commission, and (3) a definition of what is prohibited, including a clause providing that all agreements would be illegal which resulted in prices higher than those which would result from free competition. Some difficulty is being experienced in achieving agreement on the definition of an illegal price arrangement. Obligatory registration could serve in the long run to consolidate and legalize, rather than prevent or invalidate, price-fixing and other restrictive business practices. Moreover, in view of French Government inexperience in this matter, registration might result in wholesale official approval of highly restrictive agreements.

If the Government could, however, by some means force prices down in the near future, it might be able to avoid serious labor disturbances later in the year. Non-Communist labor to date has not been generally willing to unite with the General Confederation of Labor in unity of action on wage demands, continuing rather to express its desire for real price reductions.

#### FRENCH AND SPANISH NORTH AND WEST AFRICA

B

US extraterritorial rights in Morocco are jeopardized by the seeming determination of France to have them reviewed by the International Court of Justice (ICJ). If the US should be stripped of these rights, enjoyed since 1836, the Moors would find their legal justification for obtaining their independence from France weakened. Moorish sovereignty is presently recognized only by the US and France. The precise definition of US rights has been a source of latent friction between the US and France since the Treaty of Fez in 1912 established Morocco as a French protectorate. Currently the issue has taken the form of disagreement over French restrictions upon the importing rights of US nationals in Morocco. If France does take the case to the ICJ, it will be exposing itself to an examination of its own status in Morocco, particularly its application of the Treaty of Fez.

~~SECRET~~

BELGIUM

A            The failure of van Zeeland to form a Belgian Government pledged to the return of King Leopold will pave the way for a more moderate Catholic to attempt the formation of a cabinet on the basis of less exacting Catholic demands. The Liberals joined the Socialists in refusing to support the Catholics in effecting Leopold's return. If the Catholic Party is now willing to call Leopold back only long enough for him to abdicate in favor of his son, agreement on this issue with both the Liberals and Socialists is possible. The major point of negotiation between the Catholics and the other two parties would then be economic and fiscal policy. The area of disagreement with the Socialists is much less than with the Liberals, unless the latter are willing to modify drastically the demands stated in their election platform. Thus, the most likely final result of the current negotiations among the parties continues to be another Catholic-Socialist coalition.

ITALY

B            Decisions taken at recent national congresses of three Italian political parties, Christian Democrats, moderate Socialists, and Left-Socialists, have confirmed Premier De Gasperi's position, and have somewhat cleared his way for important legislative action. The opposition to De Gasperi in each of the three parties has become more vocal, but has not gained in immediate effectiveness. The left-wing Christian Democrats, who would prefer to substitute one of their own group for Premier De Gasperi, enlarged their representation on the Christian Democratic National Council, but the 12 members of the new executive committee of the Party are solid De Gasperi supporters. The left wing of the moderate Socialists, who differ with the Premier on several major issues, was overwhelmed by a vote of 85% for the right wing at the Party convention, and will accordingly have less influence on the Party's representatives in the Cabinet. At the Left-Socialist congress a non-Communist faction broke away from the Party. The dissident faction has failed so far to persuade the moderate Socialists to leave the Cabinet and join forces in a Socialist Party, independent of the Communists but in opposition to the Government.



S E C R E T

Aware of his stronger position, De Gasperi may now pursue a more aggressive campaign to implement his expressed intentions on various basic measures, particularly moderate agrarian and industrial reforms, and labor legislation. He will equally realize that continued delay or inadequate reforms may destroy his recent gains.

PORTUGAL

A The Salazar regime in Portugal is threatened with a loss of popular confidence due to the steady increase in the country's adverse foreign trade balances. Portugal is now living on its reserves, and, unless substantial relief is received, unencumbered balances of gold and dollar exchange will have vanished by the end of 1949. There is little prospect for any change in the trend of postwar years in which the adoption of such austerity measures as greatly curtailed purchases of foreign luxuries have failed to compensate for the decline in exports, while minimum import requirements, almost entirely for food, remain at a high level. In the face of growing business depression and tightening credit, public cognizance of these factors is spreading, causing a panicky state of mind which is dangerous because confidence in Prime Minister Salazar rests basically on his financial achievements in bringing the country out of economic and political collapse in 1926..

One of the immediate economic threats to stability is seen in the sharp contraction in the largest source of Portuguese dollar earnings, cork exports. Portuguese cork is being displaced in world markets, particularly in the US, as a result of underselling by the Spanish producers under their special exchange rate. Portuguese exports of cork to the US in the first half of 1949 were down 25% from the 1948 level (\$1.7 million compared to \$2.4 million). The Lisbon Government is seriously concerned over the fact that Spanish cork is being offered at prices 15 to 20 percent lower than Portuguese cork--protests to the Spanish Government have been to no avail. Because of Portugal's stringent dollar exchange position, the ECA mission and US Embassy in Lisbon

- 8 -

~~S E C R E T~~

~~SECRET~~

have requested the opinion of ECA, the Tariff Commission and other interested agencies, regarding Spanish cork imports entering the US on virtually a subsidized basis. Should it become necessary for the US to apply countervailing duties against Spanish cork, Spain would suffer a new loss of dollar exchange, and there would be introduced an additional factor of strained relations between Portugal, Spain, and the US.

- 9 -

~~SECRET~~