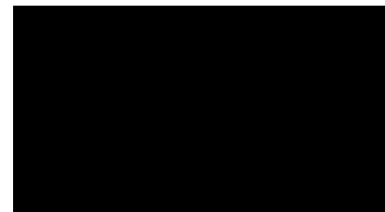


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WESTERN EUROPE DIVISION
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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WESTERN EUROPE DIVISION

WEEKLY SUMMARY

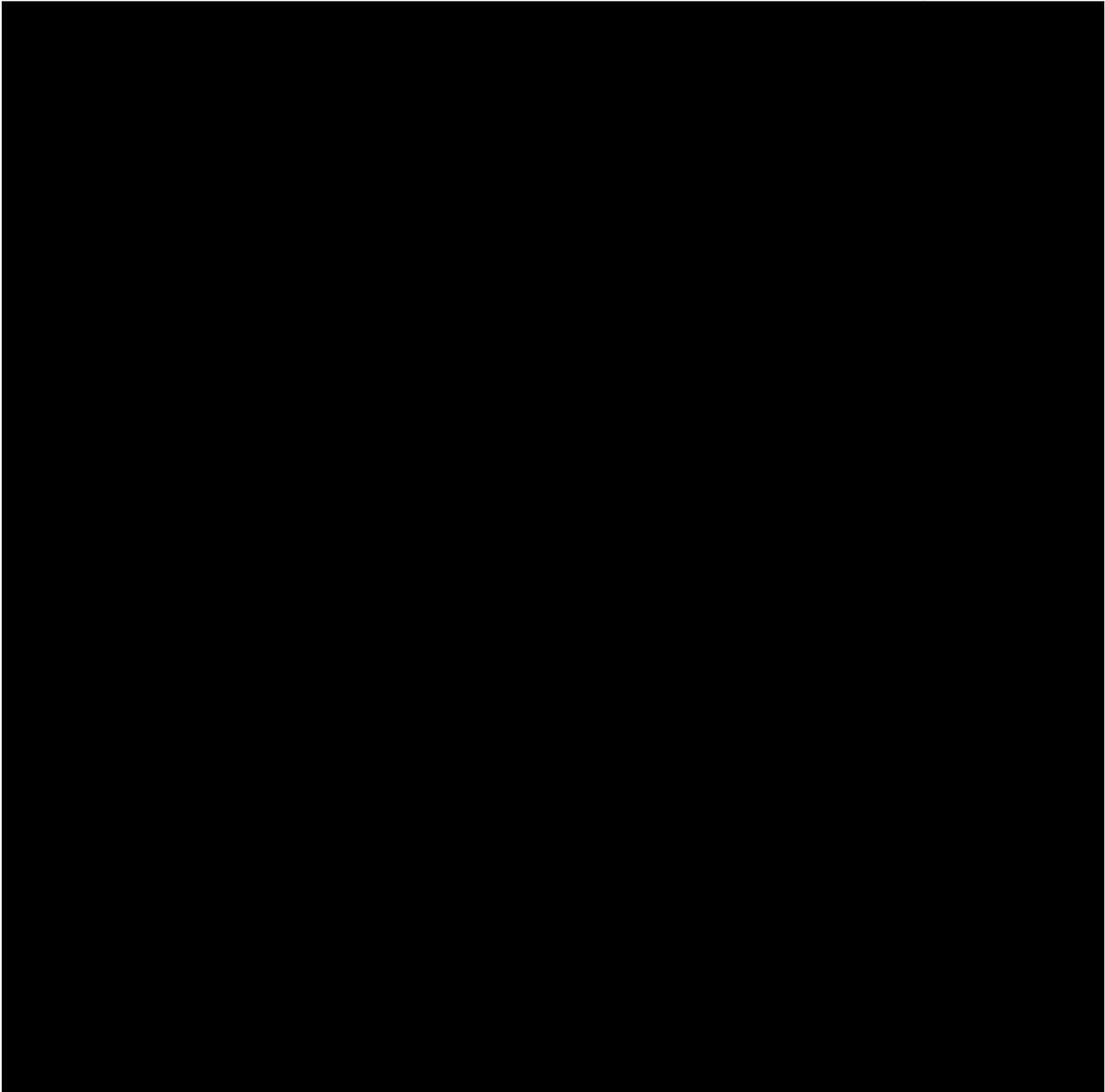
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AUSTRIA

A Several Soviet-controlled Austrian front organizations appear to be undergoing a deliberate strengthening designed to ensure them a solid position in Austria's post-treaty economic picture. The case of Intrac, an east-west trading firm enjoying Soviet approval, is particularly instructive. Even under conditions of occupation and the existence of USIA (the organization of Soviet-controlled firms), Intrac has grown in importance. Legal organizations like Intrac are the logical successors to the present Soviet economic structure, which has never been recognized under Austrian law. Operating not only as a commercial representative of the Satellite countries, Intrac is enlarging its operations in disposing of USIA products and trading in other Austrian production. It is also acquiring a monopoly of Austrian trade with the Satellites, who prefer to deal through Intrac. Furthermore, Austrian producers are under pressure to use Intrac for their eastern transactions.

Not only will their preferential position in east-west trade strengthen these Communist-staffed and Soviet-controlled organizations, but they are also evidently slated to be heirs to certain assets of Soviet firms that will be relinquished under the treaty. Orders recently placed in USIA plants for a future delivery appear likely to give Intrac a post-treaty legal title to a portion of Austrian production. Some credits now on the books of USIA may be transferred to the front companies. A Soviet cover organization called Istegstabl has reportedly been set up to acquire and exploit patent rights now held by the Soviet-controlled firms.

In addition, Austrian transportation agencies will find it difficult, particularly in the eastern trade, to compete with the Soviet-controlled transport firm, Juschweschtrans, which has held a near-monopoly during the period when Austrian companies have conducted very limited operations. There are indications that the relation between Juschweschtrans and the Soviet Danube Steamship Company will be closer after Soviet shipping claims are sanctioned by a treaty.

FRANCE

B The sensitivity of the French public to US economic dictation is an important factor in the French Government's slow progress toward agreement with the OEEC countries on parallel action to control the export of potential war items to the Soviet orbit. Following the adjournment of the 14 October plenary session of the OEEC, held in Paris, the French representative recommended the transfer of the export control question from the OEEC to the NAP organization, where

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it would be considered on a purely military basis. US observers at the meeting believed that French dissatisfaction with the present approach through OEEC was clearly demonstrated during the course of the discussions, which resulted in little more than a formalization of the Anglo-French restricted list, now approximately 48 items short of what the US considers adequate. France agreed in principle with: (1) the US on the areas to be included within the Soviet orbit; (2) the UK on most of the electronic items still under discussion; and (3) with all OEEC nations on the urgency for reaching agreement. France would, however, prefer a French-sponsored understanding among western European countries, in regard to eastern European trade, unclouded by considerations of US economic assistance. It was, in fact, due only to UK and Dutch insistence that France belatedly invited the US to participate in the final OEEC meeting.

B The reduction in direct ECA dollar aid to France for 1949-50 will result in a curtailment of the French import program, which will considerably hamper attainment of both the immediate and long-term production and investment goals. At the suggestion of ECA, the cut recommended by OEEC was increased so that the aid figure now stands at \$673 million, compared to the requested \$980 million. The present sum is over 31% less than the amount for 1948-49. The effects, however, of the reduction will be softened by the appreciable decline of US prices since France estimated its dollar needs early in 1949. To conform to the aid figure of \$673 million, France has now drafted a further downward revision of an import program based on \$740 millions of ECA aid, which was regarded in September as the absolute minimum necessary to give the country a chance to meet its 1949-50 production goals and its modernization objectives under the Long-Term Program. Even the latest revised import program cannot be adhered to if it becomes necessary to provide for unplanned imports of grain. The French, finally acknowledging the necessity of some grain imports, have scheduled \$11.6 million of the ECA aid for corn. Quite possibly, however, considerably greater imports of grain from dollar areas will be imperative. In this case, there will have to be further cuts in imports of raw materials and equipment. No French Government is likely to take the politically-dangerous alternative--renewed bread rationing and requisitions of meat.

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FRENCH AND SPANISH NORTH AND WEST AFRICA

B A precedent for nationalist defiance of the French has been established in Tunisia, and will encourage similar incidents throughout North Africa. Asked to address some extemporaneous remarks to the Congress of Islamic Culture meeting in Tunisia, a well-known Algerian intellectual, Sheik El-Okbi, seized the opportunity to castigate French imperialism in a two-hour tirade. Neither the abrupt and pointed departure of the French Resident General and the Commander of Armed Forces in Tunisia nor the hurried arrival of a messenger from the Bey with a plea to desist deterred the speaker. Tunisian nationalist leader Habib Bourghiba staged a dramatic entrance at the close of the speech, drew the Sheik into a political clambake, and sponsored him in similar talks at Kairouan, Gabes, and Sfax. When called to account by the Algerian Governor General, the Sheik refused to be cowed. It probably will be necessary for the French to hamper his activities. Meanwhile, Bourghiba has achieved a first step in regaining his political following in Tunisia, which awaits his next move.

ITALY

B A new strike by Italian seamen and port workers over economic issues may be expected before the end of the present year. Such a development is suggested first by the fact that the 19-day strike of seamen during September, which affected only Italian passenger ships, failed to satisfy the seamen's demands for an increase in wages and pensions. Secondly, both Giulietti, leader of the seamen's union, and De Stefano, chief of the port workers' union, are now completely under the control of Di Vittorio, head of the Communist-dominated General Labor Confederation (CGIL). Further, Giulietti declared at the recent CGIL convention that he was preparing to urge the longshoremen and stevedores to renew their agitation.

Should such a strike include cargo carriers as well as passenger vessels, its purely economic character would probably enlist more active support from the workers than was accorded the September strike, the success of which was compromised by Giulietti's desire to obtain additional benefits for a personal project.

On the other hand, the complete subservience of Giulietti and De Stefano to Di Vittorio and, by implication, to the interests of the Italian Communist Party might alienate the support of non-Communist maritime and port workers. Lack of support from these groups would probably prevent a successful strike, particularly in the ports of Naples, Bari, Venice

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and Palermo, where the non-Communist unions have made their greatest gains. Even without the support of the non-Communist unions, a vigorous maritime strike would have a damaging effect on the Italian economy by cutting off a source of dollar income and delaying the arrival of basic food supplies and raw materials for Italian industry.

VATICAN

B Now that subordination of Church to State is virtually assured in the Soviet Satellite countries, the Vatican will be more than ever concerned with the problem of holding its following in these areas. So far, the Roman Catholic Church's struggle for survival in eastern Europe has gone through three phases: (1) an early period of belief on the part of certain Vatican leaders that a modus vivendi could be achieved with eastern Europe; (2) abandonment of a conciliatory for an increasingly firm attitude, marked by the issuance of an excommunication decree against Czech Catholic participants in the spurious Government-sponsored groups labelled after the Vatican lay organization, Catholic Action; (3) increasing fear of a loss of the faithful, which brought a Papal decree against Catholic Communists. This latter decree, presumably issued partly with the idea of holding western Europe, where Vatican influence is still dominant, was calculated to make clear to both clergy and laity the fundamental issue at stake in the Church-State struggle in eastern Europe.

Recently the Vatican's minimum conditions for a rapprochement with Communism have been put on record, probably because the Vatican: (1) feels it can still gain concessions from the eastern European governments; (2) wants to leave the door open for further negotiations; (3) is anxious to make clear to the western world the justice of the Church's position.

From this point on, whatever the prevailing relations between the Satellite Governments and the Roman Catholic hierarchies, the Vatican can be expected to concentrate on intensified indoctrination of the population by priests in eastern Europe. The clergy will probably attempt to win popular support for the Church by keeping alive local patriotic opposition to foreign political control. The Church will utilize its traditional skill in organizing undergrounds to provide the core of future governments cooperative with the Vatican; any attempts by the local Governments to persecute Church leaders or other Catholics connected with the underground will be exploited by the Vatican propaganda media. Beyond these attempts, the Roman Catholic Church in eastern Europe will bide its time until the unpopularity of the present governments or the advent of war disrupts the status quo in the Soviet Satellites.

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PORTUGAL

B In an important speech to Portuguese provincial government officers, Dr. Salazar has begun preparing the public for possible loss of the colonies in Asia, and has intimated that his reputedly dictatorial powers are limited by Cabinet opposition to his proposals for the formation of a more representative National Assembly in the November election.

The National Assembly this year, for the first time, will have constituent powers. Salazar explained that the list of nominees for the National Assembly had been compiled so as to provide legislative continuity, by retaining some of the former deputies while bringing in new talent. The Prime Minister intimated that his dictatorial powers were not complete when he said that despite his wishes and attempts to prevent it, more than 50% of the candidates are civil servants. (The Salazar regime has been repeatedly criticized for being overburdened with civil servants.) The Prime Minister also suggested that an inner cabinet be established, composed of ministers having the function of coordinating the activities of departments, thus suggesting that he may have been having some trouble with the Ministers of State.

Referring to the Portuguese possessions in the Far East, Salazar said that the Asiatic continent is undergoing one of its century-long transformations with the coming into power of the two great states in the Indian subcontinent, the Communist victory in China and the formation of the Indonesia Republic. He did not discount the distinct possibility of the loss of all or some of the Portuguese possessions in south-east Asia (Goa, Macao, and Timor) when he noted that strength alone could not overcome the difficulties there.

Although the speech was made only two days before General Franco's visit, Salazar made no reference to that event or to Portuguese relations with Spain.

SPAIN

B If Franco should meet with Don Juan in Portugal to discuss a political arrangement, the Pretender will call the turn. He is unlikely to consider any new promises from Franco to restore the monarchy by "evolution" of the present regime. Don Juan's advisers believe that Franco may soon have to bow out if he is not strengthened by foreign aid; the Pretender is therefore maintaining a position of willingness to answer Spain's call for him to assume control in the event of Franco's loss of Army support.

One of the conditions Don Juan would require in a meeting with Franco is the presence at any conference of some of the Pretender's advisers, among them Jose Maria Gil Robles. Last

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year Franco insisted on a secret talk with Don Juan alone.

The Pretender is in a good position at this time to deal with Franco. The economic situation in Spain has deteriorated at about the rate Don Juan predicted when he met the Caudillo a year ago. Since then, in spite of the propaganda truce maintained by the Monarchists, Don Juan's following in Spain has remained at least constant, while the morale of the Army, hitherto completely loyal to Franco, has been impaired by the depression and Franco's failure to obtain foreign loans and military aid. In addition, the Pretender has been promised support and given a free hand by the anti-Communist Socialists, who represent the only Spanish leftist and labor groups which have retained prestige and confidence among the western European countries and the important US labor leaders. This is quite a handful of good cards, and Don Juan has demonstrated that he can play them patiently.

Should Franco meet with Don Juan under these conditions, the Monarchists would take it as a sign of weakness, and an admission by Franco that he fears he will not be able to obtain US aid in time to avert a dangerous political reaction resulting from the national economic crisis. The psychological effects of this crisis may be allayed by relief from the drought, seasonal upswing in certain lines of business, and other factors. For basic rehabilitation, however, foreign aid is imperative.

Meanwhile, the deterioration has gone so far, and the Government and the national economic structure have become so tangled in a web of half-measures, temporary expedients and extraordinary expenditures, that restoring the country and reorganizing its over-expanded governmental and military establishments, without creating chaos, would be an almost superhuman task. No new government could expect to accomplish it without prompt assurances of substantial foreign aid. Such considerations already have deterred some Army officers from planning a military coup in Don Juan's favor. Both to preserve the dignity of his position as the legitimate Pretender and for these obvious practical reasons, Don Juan will not accept the responsibility of pulling Franco's "chestnuts out of the fire" but will require some form of mandate. For the present he will merely wait and see how events move in Spain.

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