

*WE/2
File Copy*

~~SECRET~~
WESTERN EUROPE DIVISION
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION 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: 6 December 1949

DOCUMENT NO. 78 10
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: _____
AUTH: HR 10-2
DATE 10-4-79 REVIEWER: 372044

~~SECRET~~

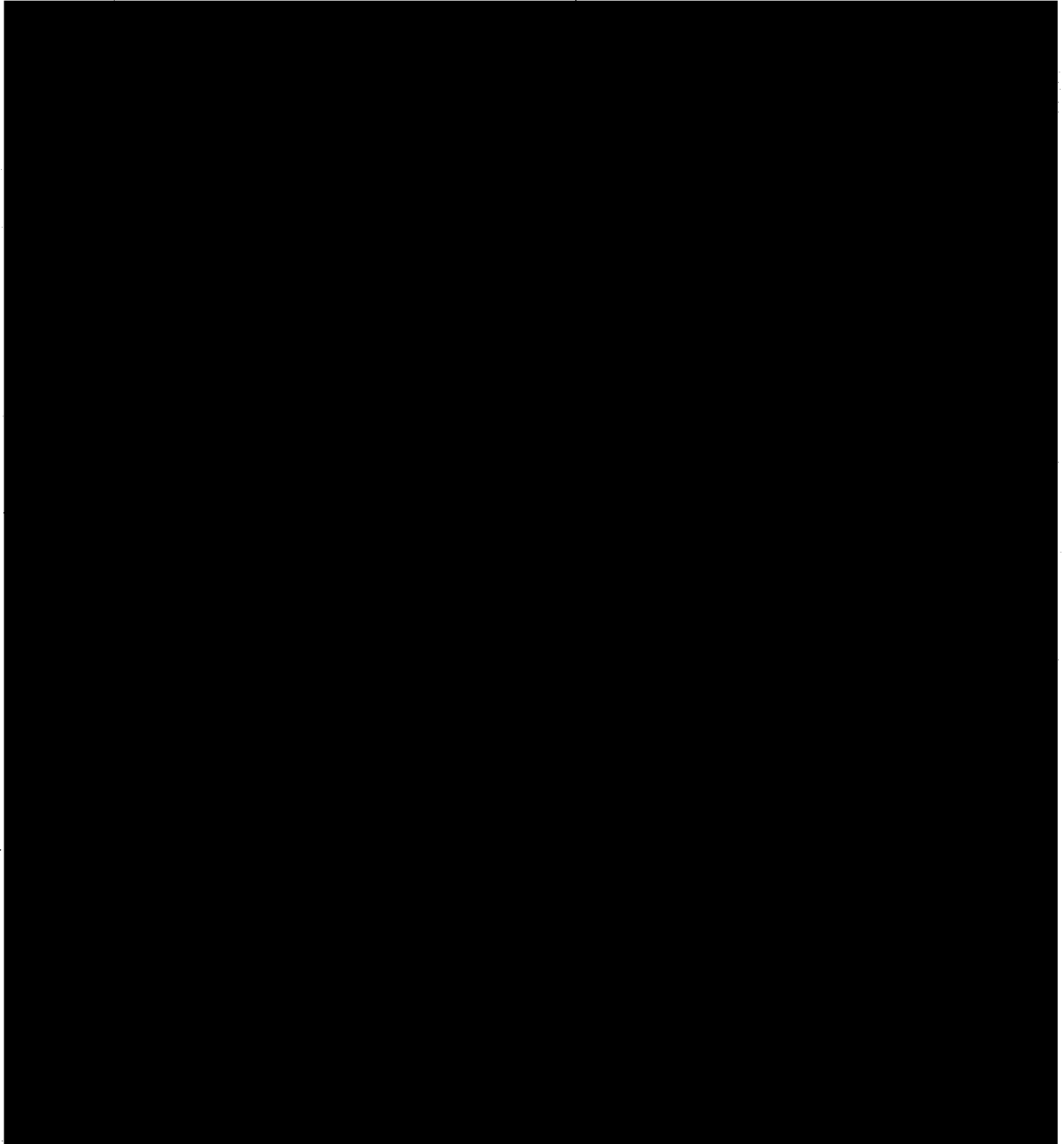
WESTERN EUROPE DIVISION

WEEKLY SUMMARY

VOL. V - No. 20^a
25X6A

For week ending
6 December 1949

A



25X6A

Approved For Release 1999/09/02 : CIA-RDP79-01090A000400020010-5

Approved For Release 1999/09/02 : CIA-RDP79-01090A000400020010-5

SECRET

SWITZERLAND

B

Switzerland's conduct of foreign affairs continues to be rooted in its traditional policy of neutrality. This policy, which often means following the consensus of world opinion, enables Switzerland to meet changing situations and demands, as evidenced in the current Swiss attitude toward the two German Governments and toward Communist China.

In the case of western Germany, the Swiss Foreign Office has apparently taken a lead for other European countries in accrediting a representative with the personal rank of Minister to the Allied High Commission for Germany. Although the Swiss Consul General in Frankfurt has been designated as this representative, the Swiss expect him to reside more of the time at Bonn, where he can look after Swiss interests in close contact with the new Government. Although the Swiss action does not constitute de jure recognition, and the Swiss would prefer that this issue did not arise, an indication of eventual recognition lies in Foreign Office statements that the Federal Republic's Government was legally elected, and thus is totally different from that in eastern Germany.

In the latter area, the Soviet Ambassador attempted to force the Swiss to apply to the east German Government for visas for the Swiss mission in Berlin, but finally granted the visas himself. Switzerland has indicated it is firmly against recognition of the German Democratic Republic, despite anticipated difficulties in the work of the Mission.

With regard to Communist China, Switzerland will apparently follow the pattern of the Israel recognition. This will mean that Switzerland will wait until a substantial number of countries have recognized the new regime and then join the majority.

FRANCE

A

The hostility of various French Government agencies toward US trade and investment activities in France will be brought to a focus in the forthcoming Assembly debate on a bill to prohibit the importation of Coca-Cola. This hostility has been directed periodically against other US products such as permanent wave sets, motion pictures, and automobiles.

S E C R E T

The Coca-Cola bill would empower the Ministry of Health to refuse entry licenses for any beverage, containing vegetable extracts, which in concentrated form has therapeutic qualities. The growing intensity of feeling on this question is indicated by the overwhelming vote of the Public Health Commission to forward this bill to parliament for immediate action under its emergency procedure, despite the pressure of critical legislation involving collective bargaining, the budget, and Indochina.

The Cabinet, however, will seek to block the Commission's recommendation, and will argue: (1) that France is committed under various international agreements to a broad policy of discouraging restrictions and discriminations against foreign products; and (2) that the US is promoting imports of French goods, in order to increase France's critically-needed dollar earnings. Unless the Cabinet succeeds in having consideration of the Coca-Cola bill postponed, its passage is likely with both heavy support among the Popular Republicans (MRP) and Socialists, and the solid backing of the Communists.

A

Political considerations will weaken the French Government's efforts to arrest the current inflationary trend. This Cabinet is aware that the prospective opposition by business, farm, and labor groups to its budget bill will be critical in December. Hence, it is not likely to take adequate steps for tightening credit or preventing an inflationary rise in wages. The ECA Paris Mission, believing that the Government will be in danger in the forthcoming budget debates, has abandoned its pressure on the French Government to adopt a stronger anti-inflation policy at this time; it has now recommended to Washington that the 1948 balance of the franc counterpart fund (about 37 billion francs) be released in December for investment purposes.

A renewed upward spiral of prices and wages can therefore soon be expected. The price rise itself, which began in mid-summer, is continuing; after a rise in the retail price index of about 9% between July and November, the over-all cost of living for the average Parisian worker without dependents climbed an additional 1.4% in November.

The Bank of France has already rejected ECA's recommendation that it adopt stronger credit controls and that it especially send up a "warning signal" by setting

S E C R E T

a higher rediscount rate. The bank professes its readiness to tighten existing restrictions, give credit only to essential users, and try to deny credit which would be used to finance speculative accumulation of inventories. It refuses, however, to take any obviously deflationary action, contending: (1) that deflation is "difficult to stop once it has gained momentum"; and (2) that it is unwilling to "jeopardize" the Government's commitments to maintain full employment and a "high level" of economic activity.

The Finance Ministry has admitted to ECA that the Government is thoroughly aware of the danger of a general rise in wages following the prospective return to collective bargaining. A bill providing for this return has, however, already been submitted to the Assembly, and will probably be approved with modifications within a few weeks. The Government will not delay this process inasmuch as a prompt return to collective bargaining is a major demand of all labor organizations. The Socialists' obligation to push this demand could be expected to force them, if necessary, again to place the life of the Government in jeopardy.

B

A new joint front by powerful French business and farm groups against the additional taxes provided for in the draft 1950 budget will force the unstable Bidault Government to weaken somewhat that draft. The Socialists will insist on the proposed expenditures for nationalized industries and social security; hence an abandonment of the new taxes would lead either to a serious curtailment of governmental investment, or to borrowing which could have some inflationary effect. Right-of-Center groups in the coalition, however, which are the political defenders of farm and business interests, will be ready to mitigate their demands in return for progress toward both electoral reform and an advancement of the date for national elections. Nevertheless, the combined grass roots opposition to the proposed taxes is sufficiently vehement to restrict considerably the concessions which Right-of-Center political groups will find it practicable to offer.

B

The failure of the French Communist Party to create greater social unrest in France, and its fear of Titoism will probably lead it to intensify its peace campaign

and further promote the reorganization of its cadres in the departments. There are indications that the CPF's relative ineffectiveness is causing increased anxiety in the Kremlin, which feels that the Communist-led General Confederation of Labor (CGT) should be able to develop crippling strike action.

The CPF is likely to aim its peace propaganda increasingly at workers, intellectuals, and religious groups. This campaign will be used to avert the spread of Titoism, and also to check the spreading hostility to the CPF's political objectives. Reorganization of the CPF in the provinces is already being implemented by the replacement of local secretaries of "bourgeois origin" with members of the working class. There are indications that the Communist para-military organization (Francs Tireurs et Partisans Francais--FTPF) may now be replaced by a new underground organization, which will emphasize the quality rather than number of personnel.

The Kremlin's concern for the CPF's tasks may be deduced from its increasing dependence on the hard-core Stalinist members of the Party's Political Bureau--notably Andre Marty, Etienne Fajon, and Leon Mauvais. Recurring rumors that Maurice Thorez, Secretary General of the CPF, is in disgrace are, however, probably unreliable, inasmuch as his recent publication, "Fils du Peuple", would have been less likely to receive publicity in France by the CP had it not been approved by Moscow.

THE NETHERLANDS

B

The Netherlands Catholic-Labor coalition (including two minor rightist parties) probably will tend toward instability after ratification of the Dutch-Indonesian agreement this month. The withdrawal from the Cabinet of the two ministers representing the minor parties, which were included primarily to assure the necessary two-thirds approval of the agreement, would not be of great importance and would, in some respects, facilitate Cabinet decisions on other issues. There are, however, recent indications of growing tension between the two major parties as a result of the expected rise in the Dutch cost of living, which probably will not be accompanied by Government approval of corresponding wage increases. The Government has already planned to increase certain subsidy payments for six months to prevent any appreciable rise in prices, but even a moderate decline in the real income of

S E C R E T

workers will increase Catholic-Labor conflict and threaten the stability of the coalition. Cabinet agreement on domestic, economic and social issues and parliamentary approval of Cabinet proposals will become increasingly difficult. For the time being, however, compromises seem more probable than a break-up because of: (1) the difficulty for the Catholic Party to form a stable coalition with parties other than Labor; (2) the existence within the Catholic Party of a substantial pro-labor group; and (3) the greater advantages to the Labor Party in the Government than in the opposition.

ITALY

A Efforts to reduce the western European export of anti-friction bearings to eastern Europe by the restriction or elimination of such exports by the Villar Perosa Company (RIV) of Italy will be circumvented by the cartel arrangements made between SKF of Sweden and RIV.

Although the arrangements may reduce RIV participation in the eastern European market, the withdrawal is achieved only by turning this market over to SKF. Therefore, the availability to the USSR of anti-friction bearings of western European manufacturers is not reduced. The extent of this eastern European trade is indicated by RIV's open or covert shipment in 1948 of at least 3,000,000 ball bearings, and probably about the same number in 1949. In shifting to a concentration on the western European market, RIV's operations will be expanded, assisted by a recent ERP credit of \$1,552,000. Sweden will supply RIV's steel.

B A third Italian Socialist party, which is likely to emerge from the current Socialist unification congress, may accelerate action on a progressive socio-economic program by the Government, but may also be susceptible to extremist views in foreign policy. Such a party would stand between the Nenni Socialists (PSI) on the Left, and the Italian Party of Socialist Workers (PSLI) on the Right. It would include most of the PSLI center and left wings which are now splitting from the section of the party led by Saragat. The Saragat group, in the event of the return

S E C R E T

S E C R E T

of its representatives to the Cabinet, would be a weaker force in the Government in which rightist influence has already increased.

A new Socialist party, commanding greater parliamentary and workers' support than Saragat's group, could form an independent opposition and partially offset rightist influence in the Government by pressing for reforms, particularly in the socio-economic field. On the other hand, should such a Party be dominated by the Romita autonomists (the last group to leave the pro-Communist PSI), it might be vulnerable to Communist overtures for collaboration on important issues, or at least its program might be popularly associated with that of the Communists. Should it succumb to extreme leftist coaxing, its position, especially on foreign policy, would be contrary to US interests in Italy.

THE VATICAN

B

The question of relations with the Chinese Communist regime is becoming increasingly important to the Vatican, which is likely to urge recognition of the regime by the western powers. The Holy See is anxious to establish some sort of relationship, formal or informal, for the following reasons: (1) to reestablish connection with the Catholic population in China and to protect Church interests there; (2) possibly to extend the propagation of the faith in that area; (3) to have Vatican representatives available on the spot to detect and counter anti-Vatican propaganda by the Chinese Communists; and (4) generally, to maintain a hold in the Eastern hemisphere, where Soviet influence is spreading.

This last purpose is presumably a subject of increasing concern to the Vatican. Reports suggest that Catholic groups in the Far East, to increase their prestige with native populations, are considering espousing independence for some colonial areas.

Recognition of the Mao Government by one of the three major western powers would probably be followed by similar Vatican action. Meanwhile, the Vatican will attempt to establish informal relations with China through the diplomatic channels of some intermediary country, preferably a Catholic one.

- 8 -

S E C R E T

~~SECRET~~

SPAIN

A

Spain's rejection of the US offer to consider a treaty of Friendship and Commerce "until the US has given evidence of intention to come to Spain's aid" is part of the currently patent effort of the Spanish Government to blame President Truman and the Secretary of State for Spain's economic crisis. Franco tries to maintain the fiction, for the benefit of the US public even more than for the Spaniards themselves, that the Truman administration has put an embargo on US trade with Spain.

The Spanish Government for some months has engaged in a campaign to secure US financial assistance on a purely political basis, rather than on an economic basis. Minister of Industry and Commerce Suances has told the US Charge d'Affaires that economic data requested for the National Advisory Council's study of the Spanish economy would not be forthcoming, as Spain could not qualify for an economic loan and such information would only detract from Spain's case for a political loan. This case is being carefully built up by hired public relations experts and legal counsel in the US and in the talks of Spanish officials with visiting US congressmen, military figures, and others. Syndicated columns in US newspapers have been used to make the false charge that the US maintains a boycott on private as well as official commercial relations with Spain, and that this boycott has produced the growing economic crisis.

Every use has been made in the controlled Spanish press of statements favorable to the Franco regime by American visitors. These statements have undoubtedly stimulated hope for early US aid, and have likewise renewed the confusion and uncertainty of the moderate forces in opposition to Franco. Both trends will strengthen the position of the Spanish regime during the critical winter months.

~~SECRET~~

25X6A

Approved For Release 1999/09/02 : CIA-RDP79-01090A000400020010-5

Next 1 Page(s) In Document Exempt

Approved For Release 1999/09/02 : CIA-RDP79-01090A000400020010-5