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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

DAILY DIGEST

Date: _____

- NOTE:
1. This summary of significant reports has been prepared primarily for the internal use of the Office of Current Intelligence. It does not represent a complete coverage of all current reports in CIA or in the Office of Current Intelligence.
 2. Comments represent the preliminary views of the Office of Current Intelligence.
 3. Marginal letter indications are defined as follows:
 - "A" - items indicating Soviet-Communist intentions or capabilities.
 - "B" - important regional developments not necessarily related to Soviet/Communist intentions or capabilities
 - "C" - other information indicating trends and potential developments

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SECTION 1 (SOVIET)

"B" USSR. Increased Prices for Waste Materials in Lithuanian and Latvian SSR's. US Embassy Moscow reports that since 15 June, procurement agencies of the USSR Ministry of Light Industry have been offering "sharply increased prices" to the public for waste materials. Reference is made to a notice published on 16 June in Sovetskaya Litva which, although not quoting the actual prices, lists the following proportionate increases: defective cloth increased 6.7 times; cotton wadding 4 times; wool rags 3.5 times; felt, flax-hemp products 3.3 times; canvas 3 times; mixed wool rags, cotton waste, pelts 25 times; heavy sacks 1.5 times. A similar but less detailed notice was published in Sovetskaya Latvia on 20 June, and both articles remind the public that ferrous and non-ferrous scrap, bone, and old rubber are also urgently needed by the State. (C Moscow 2170, 26 June 51). Field Comment: The Embassy observes that it is as yet unknown whether these increases apply to the USSR as a whole or only to the Baltic areas. It also points out that these upward adjustments may actually be minor, since state prices prior to 15 June "could be merely a token." If true, this move would stimulate public interest to sell items to the State that formerly circulated privately. The Embassy recalls that these new prices are the first acknowledged rise noted in Moscow since 1949, and may evidence growing raw material shortages at least in consumer industries. COMMENT: Although this is the first direct reference to a possible need for waste materials in the USSR, there have been several previous references to ferrous and non-ferrous metals shortages as reflected in urgent public appeals to support the scrap-metal drive.

"B" EASTERN EUROPE. BULGARIA. Minister of Agriculture Replaced. Radio Sofia has announced that the Bulgarian Minister of Agriculture, Titko Chernokolev, has been replaced by Nikola Stoilov. (R FBID, 25 June 51). COMMENT: The Communist Government has elevated to ministerial rank a Bulgarian, who, so far as is known, has held no important positions in either the Party or Government. Stoilov was listed as a Plovdiv delegate to the National Conference of Cooperative Farmers in April 1950. The position of Minister of Agriculture has apparently degenerated into a facade for the recently created Political Administration of the Ministry of Agriculture (O/CI Daily Digest, 6 June 51) which has been empowered with complete control of collectivized agriculture. The official announcement significantly did not name the head of the new Political Administration who may be a Soviet official. The ousted Chernokolev, a Bulgarian Communist with no training in the Soviet Union, but a member of the Bulgarian Politburo since 1947, has now apparently outlived his usefulness as a convenient scapegoat for the mass collectivization in Bulgaria during 1950.

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- "B" CZECHOSLOVAKIA. French Now Opposed to Suspension of Czechoslovak Overflight. In an apparent reversal of position, the French Government has instructed its representative on the Civil Aeronautics Board to renew the Czechoslovak overflight permit for July. On 20 June the French Foreign Office advised US Embassy Paris that the French representative on HICOM had been instructed not to oppose any US proposal to suspend Czechoslovak overflight permission. Unspecified "diplomatic and commercial" reasons were given for the present move. (S Frankfurt 10515, 26 June 51; S Paris 7942, 20 June 51). COMMENT: The State Department has instructed US authorities in Germany to delay approving the Czechoslovak application for renewal of the present overflight permit which expires on 30 June. British authorities are still studying the question, although they have already given a preliminary view that they favor renewing the permit. (O/CI Daily Digest, 20 June 51).
- "B" RUMANIA. Large-Scale Yugoslav Border Evacuations Continue. The US Legation in Bucharest reports that large scale evacuations from the Yugoslav border area continue, with several trainloads per day under military guard observed passing through Bucharest. The size of the evacuation has severely taxed Rumanian railroad facilities, and several accidents have reportedly occurred. The evacuees are mainly Serbs, other non-Rumanian nationalities, and "kulaks". The Legation comments that, if this is a general evacuation movement of the Yugoslav frontier area, it would logically be only for defense or military operations, although possibly on a long term basis. The Yugoslav press alleges that the evacuees were informed by the Rumanian militia that the evacuation was necessary to save them from impending air attacks from Yugoslavia, where Anglo-American troops were massed for attack. (C Bucharest 771, 22 June 51; C Bucharest 778, 25 June 51; NYT, 26 June 51). COMMENT: The fact that this border evacuation, and similar moves in Hungary and Bulgaria, have occurred after accelerated military activities in these areas were already well under way lessens the probability that such evacuations are primarily connected with immediate military preparations. It is more likely that such evacuations have been ordered at this time to cut off the infiltration of Yugoslav agents and the escape of defectors, both of which activities have been considerably facilitated by the hostile frontier area populations of the Cominform countries.
- "C" YUGOSLAVIA. Application to European Payments Union Awaits Assurance of Acceptance. US Ambassador Allen advises that the Yugoslav Government probably will apply for membership in the European Payments Union (EPU), provided that the US indicates a willingness to facilitate its membership. Allen notes that the argument that European economic problems transcend national boundaries, emphasized by the Yugoslav delegate to the Geneva ECE meeting, could be used to approach the Yugoslav Government. However, as nothing has been heard since March 1951 concerning Yugoslav membership in EPU, Allen raises the possibility that the pro-Western Yugoslavs were overly optimistic regarding the speed with which Yugoslav leaders could swing the rank and file around to membership in the Western European organization. (S Belgrade 1977, 25 June 51). COMMENT: An accelerated pro-Western orientation in Yugoslavia apparently is hindered by the influence

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of a number of relatively well-placed Marxists who feel that official ties with Western capitalism constitute a repudiation of Yugoslav socialism.

"A" YUGOSLAVIA. Tito Evidences Pro-American Sentiment. In a farewell conversation with the Israeli Minister to Yugoslavia who is being transferred, Tito reportedly referred to the US in the warmest terms, stating that the US alone was the champion of liberty for the world. Contrasting US policy with that of the USSR, Tito remarked that, while Stalin was absolutely ruthless, he was clever enough not to let the USSR take an overt aggressive role. Tito felt that Molotov supported Stalin's view, but that Malenkov heads an aggressive Soviet faction which favors war before the Western world rearms. The greatest danger would arise if the Malenkov group were to gain ascendancy. Tito added that the USSR could never develop socialism under present Soviet policy, since successful socialism could only be based on humanism, which he was determined to **achieve for Yugoslavia.** Ambassador Allen comments that the increasing Yugoslav friendliness to the US has been promoted by the US policy of rendering prompt and effective assistance to Yugoslavia. Allen notes the special importance of continuing this policy of winning Yugoslav confidence, in order to have the new Yugoslav pro-US orientation overcome the remaining opposition in the middle and lower ranks of the Yugoslav Government. Allen is of the opinion that, although Tito will find it necessary to remove additional officials in this government, his position in the country as a whole has been strengthened by the new orientation. (S Belgrade 1979, 25 June 51). COMMENT: The current pro-US campaign being carried on in the Yugoslav Army and Party is probably aimed at overcoming some latent resistance to the Tito Government's pro-US orientation in the organizations on which Tito's support rests. Other reports within recent months have indicated differences of opinion within the Yugoslav Government and Party, and extending even into the Yugoslav Politburo, regarding Tito's growing pro-Western orientation.

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SECTION 2 (EASTERN)

"A" INDIA. Fourteen Indians Leave For Visit to USSR. On 19 June a party of 14 Indian scientists and writers left New Delhi for Lahore (Pakistan), Kabul (Afghanistan), and Moscow on a four-week study tour of the USSR. They were seen off by the Soviet Charge d'Affaires and the First Secretary. (U New Delhi 3701, 20 Jun 51; R FBIS Far East, 20 Jun 51). COMMENT: On 9 April 1951, twenty-four Indians were invited to visit the USSR (see OCI Daily Digest, 9 and 26 Apr 51.) Because certain individuals refused the invitations and others were prevented by the Government from leaving the country, the Soviets were forced to approach a number of persons not on their original list. The group of 14 which has finally departed for the USSR is composed primarily of individuals about whom little or nothing is known. Presumably, most are Communists or fellow travellers in whom the Indian Government has little interest and who have been invited by the Soviets mainly to prevent the much-publicized trip from being a total failure.

"A" AFGHAN. Soviet-Afghan Trade Pact Fails in its Fulfillment. The US Embassy in Kabul reports that of 3,000,000 gallons of gasoline supposed to be dispatched by the USSR to Afghanistan before 30 June 1951 under the terms of the Soviet-Afghan trade pact of 1950, only 800,000 gallons were actually delivered by 1 June. (C Kabul 12503, 22 Jun 51). COMMENT: The exchange of other commodities has also lagged. It is believed that by 30 June, when the current Afghan-Soviet pact officially expires, neither country will have fulfilled its commitments under the terms of the pact, the Soviets presumably because of heavy indigenous and Chinese demands for their gasoline and the Afghan Government because of the difficulties of acquiring and assembling the agreed commodities for shipment to the USSR. Neither country appears to have made special efforts to ingratiate itself with the other, and no attempt to extend the life of the pact or to negotiate a new one for 1951-52 has been observed. Accordingly, earlier fears that the pact would result in economic and political orientation of Afghanistan toward the USSR seem to have been unfounded.

"B" INDIA. Food Supplies From the Communist Orbit. During the spring of 1951, the USSR reportedly made offers to supply India with up to 500,000 tons of foodgrains to ease the latter's current food crisis. On 22 June, according to a UP press dispatch, India and the USSR signed a barter agreement under which the USSR will provide 100,000 tons of wheat in exchange for various Indian commodities believed to include tea, tobacco, jute manufactures, and shellac. Scarcity of available Indian exports was said to be the reason for reducing the original Soviet offer of 500,000 tons to the agreed 100,000 tons. (U NY Herald Tribune, 24 Jun 51). COMMENT: The Indo-Soviet agreement regarding 100,000 tons of wheat is believed to include 50,000 tons earlier stated to be under firm contract. By this time, the USSR and China have probably achieved the maximum propaganda effect from their recent offers of food to India. Since passage of the US food-to-India bill, India does not

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require and probably will not press for further assistance from the Communist orbit. As the latter cannot easily match the quantities of US grain now reaching India, it is believed that the subject of further shipments will be dropped after contracts already negotiated have been fulfilled.

"C" AFGHANISTAN. Soviet Ambassador Returns to Kabul from USSR. The Soviet Ambassador to Afghanistan, who has been in the USSR since 12 April 1951, has returned to Kabul. (C Kabul 438, 26 Jun 51). COMMENT: The Soviet Ambassadors to Pakistan and India, who left for Moscow on 17 May and 1 June respectively, are still believed to be in the USSR.

"B" BURMA. Burmese Attitude Regarding UN Embargo of Communist China. A high official of the Burmese Foreign Office informed US Ambassador Key that his Government considered the UN strategic embargo of Communist China to be inapplicable to Burma on grounds that Sino-Burma trade was negligible. Although Key urged a reconsideration of this position, pointing out that China will be seeking new sources of supplies, the dependence of the UN upon collective action and the Communist facility of taking advantage of any sign of weakness, he doubts that the Burmese will modify their attitude which they consider to be consistent with a professed policy of neutrality. (S Rangoon 942, 22 June 51). COMMENT: Although the Burmese are unwilling formally to recognize the UN embargo, it is probable that they will attempt to restrict the flow of strategic items to China on the grounds of domestic need or absence of historical precedent. Burmese capabilities to prevent the movement of contraband are extremely limited.

"C" Smuggling From Burma and China Attracting Increasing Attention. The Burmese press has recently focused its attention on smuggling from Burma to China. One paper has even accused the Chinese Communists of promoting this activity to the detriment of Burmese interests. Meanwhile, a Burmese-American source recently returned from a trip to Upper Burma told an officer of the US Embassy that smuggling was becoming a major business and claims to have seen drugs, automotive parts, truck tires and even US Red Cross blood plasma stored at the border prior to smuggling into China. Source claims that most of these commodities come overland from India through the hands of numerous Chinese middlemen rather than via Rangoon. The Embassy states that in view of Burma's refusal to recognize the UN embargo such illegal trade with China is likely to increase until domestic shortages force the Government to take action. (S Rangoon 942, 22 June 51).

"B" Communist Campaign to Suppress Anti-Communism Among Chinese in Burma Continues. A well organized Communist propaganda campaign, in all probability directed by the Chinese Embassy, has been alarmingly successful in undermining anti-Communist activities in the Rangoon Chinese community. The only anti-Communist Chinese newspaper in Burma is threatened with ruin as its backers are now fearful of giving it further support and the committee established to distribute non-Communist textbooks has disintegrated for the same reason. (See O/CI Daily Digest, 12 and 19 June 51). The Chinese Ambassador is

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reliably reported to have gone so far as to request the Commissioner of the Rangoon Police to arrest several anti-Communist Chinese on charges of murder and offered to pay the "expenses" involved. US Embassy Rangoon states that the Burmese press is already calling upon the Government to regulate activities in the Chinese community, and believes that further barefaced interference in Burmese affairs by Communist diplomats may result in just such action. (S Rangoon 942, 22 June 51). COMMENT: Any Burmese effort to place restraints upon Communist activities among the Chinese will be undertaken only with great caution and with due consideration for Peiping's reaction.

"B" MALAYA. Chinese Communist Extortion Reported From Singapore. The Chinese press in Singapore reports that 58 members of the local Teochew (Swatow) community have received extortionate demands from Communist China totalling at least ten million Hong Kong dollars. The demands have been accompanied with threats of reprisals against "near and distant" relatives in China and the confiscation of property. At the same time growing anti-Communist sentiment among the Chinese is evidenced by the formation of a "Singapore Overseas Chinese Anti-Communist Resist Russia Committee." This organization, the first overt anti-Peiping group to be formed among the Singapore Chinese, intends to support the Government in its anti-Communist struggle and is planning an independent propaganda campaign. The US Consulate General Singapore believes that this organization can perform a valuable function, but doubts that it will become a rallying point for large numbers of Chinese, most of whom are unwilling openly to exhibit anti-Communist feelings. (USARMLO, Singapore, 230210Z, June 51). COMMENT: The extortion technique described in this report appears to be identical to that used by Chinese Communist agents in Saigon. (See O/CI Daily Digest, 25 June 51). Increasing, but as yet ineffectual, anti-Communist tendencies among overseas Chinese have been noted elsewhere in Southeast Asia.

"B" Anti-Communist Campaign May Undergo New Shakeup. On 15 June, Director of Operations Sir Harold Briggs broadcast new emergency regulations aimed at starving the Communist bandits by rigidly controlling the movement of food throughout Malaya. Simultaneously, an all-out military campaign was launched to clear the state of Johore with a maximum air effort and the commitment of every available man from headquarters bases and training centers. USARMLO comments that unless satisfactory gains are achieved by these actions in the near future, substantial changes in method and possibly a shakeup of the high command are to be anticipated. (USARMLO Singapore, 230210Z, June 51). COMMENT: British forces have been registering steady, though unspectacular gains, in terms of casualties inflicted against the Communist bandits during the past few months, but there are no indications that they are about to crush the Communist uprising. The British have constantly reviewed and revised their tactics in dealing with the Communists and no doubt will continue to do so. The prediction of a possible shakeup in command cannot be assessed on the basis of available information.

"C" INDONESIA. Strikes Threatened in Sumatra. The Medan branch of SOBSI, Communist-led labor federation, has instructed affiliated unions in East

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Sumatra to demand a month's free pay and a gift of free cloth from their employers in recognition of a Mohammedan holiday which falls on 5 and 6 July. If employers refuse but are considered financially able to meet the demand, the unions will strike on an individual basis late in June.

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[REDACTED]. COMMENT: During the past week, the Government has been faced with an increasing number of strikes, some of them in defiance of its ban on strikes in vital industries. The strikes undoubtedly have been encouraged by the Government's own statements that the strike ban is undesirable and will soon be changed and by Labor Minister Tedjasukmana's obvious hesitation to enforce it.

"B" INDOCHINA. Viet Minh Attack on French in Tonkin Still Threatens. Viet Minh forces are continuing to build up in the area opposite the southeast angle of French defenses in Tonkin. [REDACTED] predicts that these troops will attack in the near future.

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[REDACTED]. COMMENT: The French are aware of this threat and are probably prepared to repulse it successfully.

"A" CHINA. CCP Journal Endorses Malik's Speech but Implies No Compromise. The Chinese Communist Party journal, People's Daily (the Chinese equivalent of Pravda), in the course of a long editorial reviewing the Communist version of the Korean conflict and deriding US military capabilities, states that the "Chinese people fully endorse" Malik's suggestion that a cease-fire be arranged. However, the editorial asserts that, if the US "is willing to stop the war, she should therefore fall in at once with the just and reasonable measures for peaceful settlement...repeatedly proposed" by the Peiping regime. (R FBIS, 26 June 51). COMMENT: The editorial does not explicitly reaffirm Peiping's earlier terms for "peaceful settlement": withdrawal of UN forces from Korea, admission of Communist China to the UN, and US abandonment of Taiwan. The reference, however, to earlier proposals implies that Peiping's unacceptable terms will again be brought forward after a cease-fire is achieved, a pattern made familiar in Communist-Nationalist relations during the Chinese civil war. The Peiping regime appears prepared politically, economically and militarily to continue its commitment in Korea indefinitely.

"C" KOREA. Fresh Communist Unit Contacted in Korea. Far East Command reports the capture of 8 prisoners from the Chinese Communist 47th Army in the Cherwon area. Elements of this army, part of the Fourth Field Army, were identified in South China as late as January 1951. Chinese Nationalist Intelligence reported the 47th moved to Manchuria in April. FECOM notes that this ground contact tends to support the numerous agent and PW reports regarding the commitment of fresh Fourth Field Army units to replace those units of the same Field Army which were returned to China or were withdrawn from forward areas for rotation or rehabilitation. (S FECOM Telecon 4880, 27 June 51).

"C"

Food Situation in North Korea. A prisoner of war interrogation team, in passing along impressionson conditions in North Korea gained from

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recently taken prisoners, states that the food shortage has become so acute that the Chinese Communists stopped requisitioning food supplies about the end of April. Some starvation exists among the civilians near the east central front line area. Farm production is low with less than one-fifth of the fields near the fighting zone under cultivation, although in the rear areas most of the land is planted. Labor and fertilizer shortages are responsible for the reduced yields. The food shortage is being blamed on the Chinese Communist troops and is causing growing animosity between the Chinese troops and the Korean civilians and troops. (S Pusan 1087, 25 June 51). COMMENT: This is the first information received that the Chinese forces no longer requisition supplies. Otherwise, the agricultural outlook as presented, is generally borne out by other sources as are the comments on Sino-Korean friction.

"C".

Smallpox Outbreak in North Korea. Radio Pyongyang on both 23 and 25 June made references to smallpox in Kangwon Province on the east coast immediately north of the 38th Parallel. Health workers are credited with giving "aid to more than 300,000 persons, advice to more than 80,000 and 4,023 patients were cured of smallpox caused by the Americans." (R FBIS 26 June 51). COMMENT: While the worst outbreak is in Kangwon Province, smallpox is apparently widespread since epidemic teams are also reported in North Pyongan and Kanggye Provinces along the Manchurian border. Reuters reports a broadcast referring to over 40,000 cases in the northeast coast area.

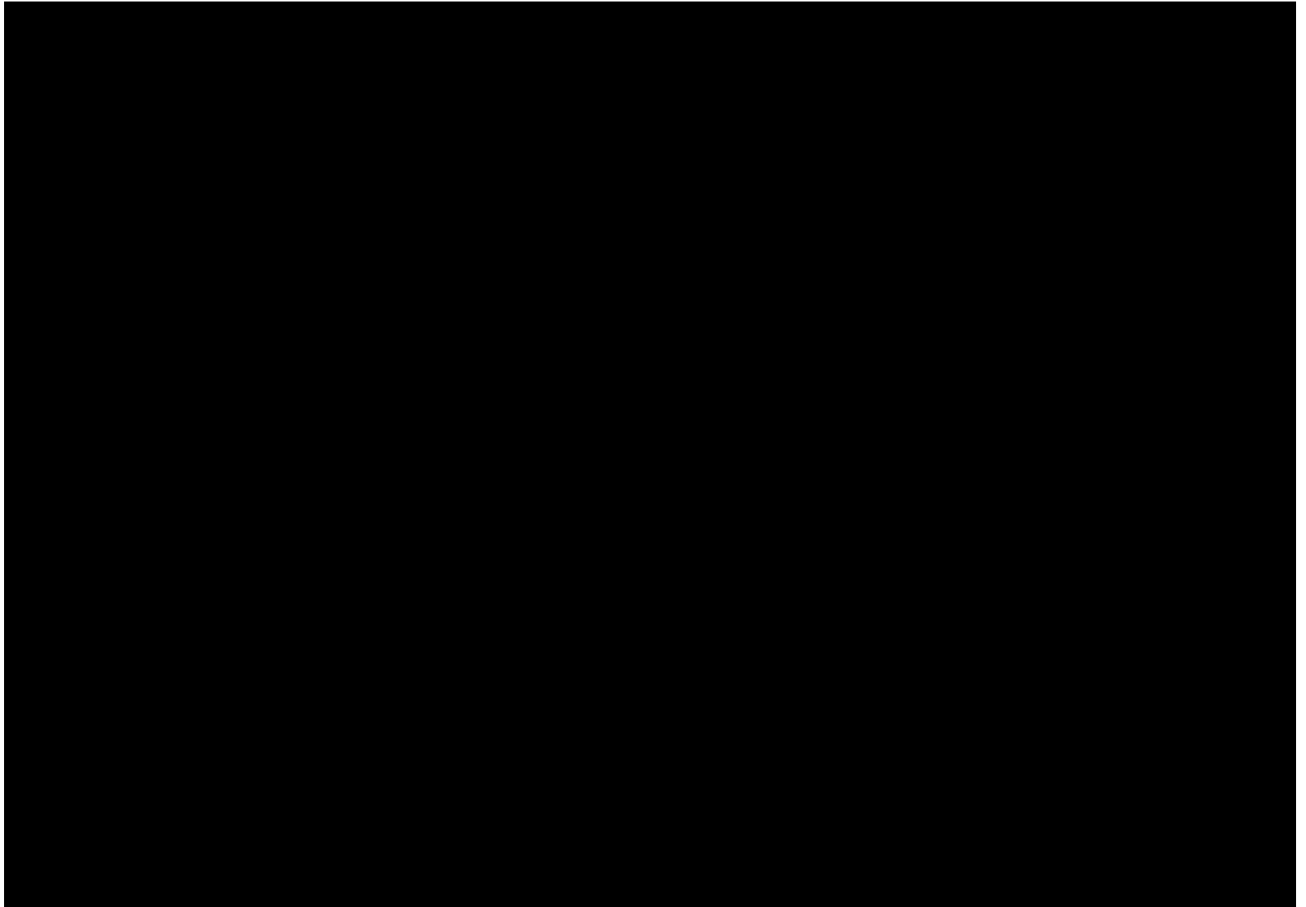
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SECTION 3 (WESTERN)

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"B" ITALY. Resurgence of Neo-Fascism. Increasing pressure on the neo-Fascist Italian Social Movement (MSI) to assume an intransigently anti-US position is reportedly being exerted by its terroristic para-military organization, the Fasces of Revolutionary Action (FAR). The FAR, composed largely of die-hard ex-militiamen of Mussolini's Salo Republic, is extremely nationalistic, is opposed to both the Christian Democrats and the Communists, and seeks to overthrow democratic institutions in Italy by every possible means. It has connections with Fascist groups in other countries and maintains particularly close ties with Franco Spain. Many MSI leaders are members of the FAR. The MSI has received financial aid from even right-wing members of the Christian Democratic Party. It is making considerable headway in gaining popular support and offers a particularly strong appeal to Italian youth.

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COMMENT: The MSI has been gradually gaining strength since the 1948 national elections—a trend confirmed by the recent local

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elections. Although not yet considered by official observers as a force to be reckoned with (it has so far maintained a pro-US position on many international issues), it will undoubtedly continue to attract support from those nationalist-minded groups who are dissatisfied with the present Government's policy and yet oppose Communism. If, as is anticipated, the Government accelerates its agrarian reform program, influential land-owner elements will tend to give the MSI increasing financial support and, in many instances, to join the party.

"C" VATICAN. Pope Believes War Inevitable. In reply to, and in implied approval of, the strong anti-Communist statements of the newly accredited British Minister, the Pope appeared pessimistic regarding possibilities for preserving peace in our time. He indicated that the chasm between East and West was becoming much deeper with time and that the establishment of peace seems a forlorn hope. In a veiled reference to the breaking up of the Paris conference of deputy Foreign Ministers, he recalled his efforts to bring about a true and sound understanding among nations, but remarked that that objective "seems to recede farther and farther away." (U NY Times, 24 June 51) COMMENT: It is possible that in the face of world-wide persecution of the Church by Communists and the persistence of strong Communist currents in Western Europe, the Pope now believes that war is the only thing that will preserve the Church's strength in Europe and Asia.

"C" Policy Toward Palestine to Be Revised. Cardinal Tisserant, who as secretary of the Holy Congregation for the Oriental Church has the greatest responsibility for the Holy See policy in that zone, realizes that the Vatican's Palestinian policy must be revised. High personalities in the Church realize its insistence upon the internationalization of holy places has resulted in the formation of a united front between Israelites and Arabs on this issue. Cardinal Tisserant has been authorized to study the entire problem with a view to early revision of Vatican policy toward holy places in Palestine.

COMMENT: The Pope indicated last year that a revision of the Church's stand for the internationalization of holy places in Palestine might be possible, while Monsignor Tardini, acting Secretary of State and a conservative, is believed to have opposed any change in the Vatican's policy. There is no Arab-Israeli "front" on this issue. The general impression is that the Arabs have on the whole approved the Vatican's position regarding Palestine in general.

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"C" SPAIN. Franco Reported Seeking Rapprochement with the Church. [redacted] reports that a "reconciliation" has been effected between the Regime and the Church. Martin Artajo and other prominent Catholics are reported responsible. The Spanish Church reportedly ordered a cessation of criticism of the government after a conference between Franco and Primate Pla y Deniel in

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early June. The reconciliation move was reportedly championed by the Bishop of Madrid and supported by the Bishop of Malaga (an outspoken critic of the regime). Earlier the Vatican is reported, [REDACTED] to have held long conversations with a Spanish representative concerning the cancellation of the freedom from censorship previously enjoyed by the Catholic publication TU. Meanwhile, it appears that the Vatican directive to the Spanish clergy on social conditions did not, as reported earlier, strongly condemn the regime.

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[REDACTED] S Madrid Desp. 1375, 18 May 51)
COMMENT: There are indications that Franco is attempting to placate disaffected supporters of the regime. No open break between Franco and the Church has occurred and steps are apparently being taken to prevent policy differences from leading to a crisis. If the report is true, it would appear that Franco has made some concessions to Church pressures and that the Catholic Action-Monarchist group may be regaining influence in the Government at the expense of the Falange. The Vatican, although desirous of improving the welfare of the people, does not want a precipitate change in the Spanish regime.

"C"

UNITED KINGDOM. British Continue Preparations for Protection of the Evacuation of their Nationals from Iran. Foreign Secretary Herbert Morrison said yesterday in the House of Commons that the cruiser Mauritius has been ordered to the vicinity of Abadan from somewhere in the Persian Gulf. London circles reported that the UK Government has decided on the early withdrawal of British personnel under cover of troop protection if necessary. The Cairo press reported that UK troops are expected soon to leave for Basra, Iraq. (U NY Times, 27 June 51) COMMENT: These reports indicate further steps in the implementation of British plans already announced. A cruiser has been in the Persian Gulf since March, to remain for the duration of the emergency. Troops sent from the Canal Zone to Basra, near Shaiba airfield, would be in accordance with War Office plans (see OCI Daily Digest, 23 June 51). The British Government is under pressure from Conservative members for firmer action, while Labor members are more fearful of the implications of a show of strength. Although the British are following a prepared plan in the Iranian crisis, it is evident that each step is taken reluctantly, and only when there appears no alternative.

"B"

Support for Early German Rearmament Seen. The head of the Foreign Office's German political department has observed that, as a result of the breakdown of the Deputies' talks in Paris, 1) the Western powers should press for German rearmament, 2) that the British Joint Chiefs of Staff are of the same view, and 3) that Foreign Secretary Morrison is "sold" on the need for an early German contribution to Western defense. (S London 6782, 23 June 51) COMMENT: Previous indications had been that responsible British officials felt no great urgency in the need for German rearmament, despite the Government's agreement in September 1950

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to a German contribution to Western Defense. The British counseled caution especially during the many months when consideration of the subject at a possible Foreign Ministers' conference seemed likely. Another retarding factor has been the considerable public opposition to German rearmament, especially in Labor circles. (See OCI Daily Digest, 12 Mar 51.) Recently, however, the failure of any serious foreign policy rift to develop in the Labor Party as a consequence of Aneurin Bevan's cabinet resignation, and the apathetic public reaction to the termination of the Deputies' meetings may have instilled some new confidence into Government leaders--who have regularly been ahead of public opinion on the German question.

"C" MEXICO. Student Riot. On 23 June, students from various schools and the University of Mexico engaged in a five-hour street battle which resulted in injuries to 150 participants and damage estimated at US \$58,000. An attempt to burn the doors of the Vocational School failed, but great damage was done with rocks to the School of Dentistry and valuable equipment was destroyed. Ambulances were attacked, and the police--badly outnumbered--failed to intervene. The riot was terminated only after the students of the Military College threatened to take part. At first, the battle was reported as arising out of a university initiation; later, however, a press report stated that the police regard the riot as a "premeditated act of Communist agitators". (R Mexico City 1657, 25 June 51)

COMMENT: The battle illustrates the extent to which the normal student potential for riotous behavior may be released on a holiday. It is unlikely that the riot occurred or spread as a result of "premeditated Communist agitation". However, it serves as a reminder that unpremeditated riots may occur in Latin America which could conceivably affect US interests.

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OFFICE OF CURRENT INTELLIGENCE
DAILY DIGEST OF SIGNIFICANT S/S CABLES

27 June 1951

SECTION 2 (EASTERN)

"B" IRAN. AIOC's Position in Iran Deteriorating Rapidly. The US Embassy in London has been informed by the UK Foreign Office that as a result of the Iranian oil commission's letter to Abadan Refinery Manager Drake, accusing him of sabotage, Drake was flown out of Iran on 25 June. The Foreign Office is perturbed over this news and fears it will have grave repercussions on other Anglo-Iranian Oil Company (AIOC) personnel who will feel if the situation is sufficiently serious to necessitate his departure, they should leave as well. Over the weekend the British Manager of the small AIOC installation at Kermanshah (western-central Iran) was notified that he was no longer in authority "because of non-cooperation". (S, S/S London, 25 Jun 51; C, S/S Tehran, 25 Jun 51.) COMMENT: UK Foreign Secretary Morrison told Parliament on 26 June that all tankers have been instructed to leave immediately, if necessary, after unloading any oil they have taken aboard. Meanwhile, he also announced that the British cruiser "Mauritius" had been ordered to proceed immediately to the Abadan area. Although the UK is probably not surprised by the rapid deterioration of AIOC's position, it is now planning on a day-to-day basis. Drake's departure, and the order recalling all tankers are direct results of two Iranian moves: (1) the announcement that the law was shortly to be enacted under which any person accused of sabotaging oil production was liable to trial by a military court and (2) the refusal by the Iranians to permit any loaded oil tankers to leave without a receipt signed by the ship's master in effect acknowledging Iranian ownership of the oil transported. Although Mossadeq has invited the AIOC staff to stay, the conditions under which they would operate, and the general attitude of the Iranians, make it virtually certain that a mass exodus will take place in the next few days. The result of this will be: (1) unemployment of approximately 80,000 Iranian oil workers, (2) a cut of approximately 40% in government revenues formerly derived from oil royalties---these payments were suspended on 30 April (3) suspension of virtually all oil exports from Iran due to Iranian lack of tanker shipping and a (4) complete shutdown of the refinery due to Iranian inability to manage and run such a complex installation.

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- "B" Iranian Official Declares Attempt by AIOC Staff to Depart in Group Would Be Tantamount to Sabotage. The US Embassy in Tehran reports that Daftary, a member of the Provisional Administrative Council, made a public statement on 25 June to the effect that any attempt of the British staff of the Anglo-Iranian Oil Company (AIOC) to depart in a group would be tantamount to sabotage, and that the anti-sabotage law will probably be passed 30 June as a matter of special urgency. Meanwhile, the position of Drake, Abadan refinery manager is still unclear. The decision has been referred to London as to whether Drake's sudden departure for Iraq should be explained as an official trip, and that he will return, or whether he should be instructed to return to Khorramshahr without the issuance of an official statement. (S, S/S Tehran 3440, 26 Jun 51). COMMENT: Daftary's inflammatory statement is in keeping with the current mood of Iranian officials, however, it throws some suspicion on the sincerity of previous official statements that the AIOC personnel were free to leave Iran, though were requested not to do so en masse. Drake's return to Iran in the present circumstances would probably not long encourage willingness among British AIOC personnel to face further incidents arising out of the anti-sabotage law.
- "B" ISRAEL/SYRIA. Situation Deteriorating in Huleh Demilitarized Zone. After consultations with General Riley, Chief of Staff of the UN Truce Supervision Organization (TSO), the US Embassy in Tel Aviv reports that unless effective action is taken promptly in the dispute over the Lake Huleh region serious consequences are likely to result. The Embassy feels that it is clear that no agreement for the continuation of the drainage project on Arab land will be reached because the landowners do not want to subject themselves to Arab displeasure. Work on the Jewish-owned land will be completed in a few days, and the Embassy believes that Israel will then appeal the case to the Security Council. However, Israel has no intentions of allowing the drainage project to be halted; and if a UN decision were delayed, it would take direct action, which would undoubtedly be countered by Syria. Difficulties have arisen during the interviewing of the Arabs evacuated from the Huleh region; UN representatives felt the refugees' reactions were conditioned by fear of Israeli pressure on one side and Arab displeasure on the other. Certain problems will arise in repatriating those 750 who wish to return because many of the villages have been destroyed. The Embassy estimates that Israel by indirect means will attempt to resist their return. The Embassy anticipates that Israel will refuse to remove their police, which are in control of virtually the entire area, and return the area to civilian administration. (S, S/S Tel Aviv 906, 22 Jun 51). COMMENT: Until some territorial settlement in this area is arranged, outbreaks of violence are possible at any time. Syria is determined to retain control over at least a portion of the demilitarized zone, while Israel wants control of the entire area because it lies within the former Mandate borders.

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