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OFFICE OF CURRENT INTELLIGENCE

DAILY DIGEST

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- 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)

"A" USSR. Embassy Moscow's Views on Molotov and Zhukov Visit to Warsaw. Embassy Moscow considers the appearance of Molotov and Zhukov at the recent Polish holiday celebration indicates the Kremlin has reassessed the international situation. According to the Embassy, the setback to Communist aims in Korea can hardly fail to have repercussions inside the Soviet Politburo, and it is possible that new policies will be adopted in consequence. Molotov's reappearance as a spokesman on foreign affairs breaks a silence that has prevailed since his last speech in March, 1950. During this period public leadership in foreign affairs has been assumed by lesser Soviet figures. Although Molotov's appointment as Foreign Minister in 1939 was soon followed by a break with the Western democracies, the Embassy points out that Molotov was also identified with the policy of achieving a settlement with the outstanding power then threatening the USSR. The Embassy also considers it unlikely that Zhukov was produced only for a single appearance in Poland. He may be destined for some significant position such as that of an Eastern European counterpart to Eisenhower. While Zhukov is identified with the idea of good relations with the wartime allies, he also epitomizes successful conduct of a war. The Embassy inclines to the belief that he will be involved in a build-up of Soviet military preparations in Eastern Europe. [redacted]

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"B" Yugoslav Official Expects Communist Concessions in Korean Cease-Fire Negotiations. Yugoslav UN delegate Bebler remains optimistic that current negotiations in Korea will eventually result in a cease-fire. Bebler believes that the Communists' desire for a cease-fire will induce them to give in as regards the 38th Parallel demarcation line and the withdrawal of foreign troops, but he is not optimistic about achieving UN observation in North Korea. Bebler estimates that the Communists are insisting on the withdrawal of all foreign troops largely for its propaganda appeal in the Far East, while the USSR in fact will want to keep the US Army pinned down in Korea during prolonged attempts to reach a general settlement. With regard to Soviet/Chinese Communist relations, Bebler believes that additional tensions will arise over whose influence will prevail in North Korea.

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[redacted] COMMENT: Communist preliminary agenda concessions regarding the question of troop withdrawal are a further indication of a desire to negotiate a cease-fire. However, it has been a continuing Soviet objective in all areas to secure Western troop withdrawals so as to remove a force for stability and facilitate the Communist advance.

"B" Zhukov Sends Greetings to Eisenhower. Soviet Marshal G. K. Zhukov, in a conversation with the [redacted] spoke highly of his close friendship with General Eisenhower. He requested that the General be informed he was in good health and given his best wishes. The MA felt that the Marshal had aged considerably. [redacted]

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"C" EASTERN EUROPE. CZECHOSLOVAKIA. Military Purge Reported. According to a 26 July press dispatch from Paris, the Communist regime in Czechoslovakia has unearthed a wide-spread plot against the security of the State, involving at least four generals, Pavel, Veseli, Zadina, and Klen. The article states that the "Ministry of War" has issued an admonition to the various military leaders decrying the slow progress in transforming the Czechoslovak Army into a replica of the Soviet Army. [REDACTED] 25X1

COMMENT: Coincident with the top-level purge of so-called national deviationists within the Czechoslovak Communist Party in February 1951, there were also purges of the military hierarchy. [REDACTED] 25X1

Defense Minister Cepicka announced on 9 March that his deputy, General Bedrich Reicin, and another unnamed official in the Ministry (perhaps General Klen, Reicin's former assistant in Counter-Intelligence) were "guilty of conspiring against the regime and of deviation." The US Embassy Prague was reliably informed about the same time that Generals Josef Pavel, Deputy Minister of National Security and Chief of the Security Police (SNB), Jindrich Veseli, Chief of the Political Police (STB), and Zdanek Novak, Commandant of the Moravian Military District, had all been removed from office. The Sovietization process of the Czechoslovak Army has made little progress. Only the most rudimentary training in Soviet tactics has been conducted, very little Soviet equipment has been delivered, and the reorganization of units and staffs to conform to the Soviet model is far from complete. The bulk of the Czechoslovak Army is considered unreliable except in opposition to German aggression.

"B" POLAND. Possibility of Orbit Policy Meeting in Warsaw Undetermined. US Embassy Warsaw reports that while there was ample opportunity following the public National Liberation Day ceremonies for conferences between the delegations of Eastern Europe and the USSR, no real information of what may have transpired is available. The Embassy reports, however, that at a Soviet Embassy reception on 23 July Polish President Bierut, Prime Minister Cyrankiewicz, and Minister of National Defense Rokossovski retired to a private refreshment room with the top Russian guests, presumably Molotov, Zhukov, and Pospelov. The US Embassy discounted the likelihood of any formal change in Soviet-Polish relations but noted a trend toward further Soviet confidence in and dependence upon Poland in the military and economic fields. [REDACTED] 25X1

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"B" POLAND. Polish-Norwegian Trade Talks Suspended. According to the ~~European~~ Foreign Office trade negotiations with Poland have been suspended with little likelihood of their resumption in the near future. Polish unwillingness to consider modification of their completely unacceptable demands was responsible for the breakdown of the talks. As in recent negotiations with Austria and France, Poland demanded certain strategic goods or materials in return for coal. Poland specifically required Norway to counterbalance Polish coal deliveries by shipments of strategic goods of equal value. The Norwegian negotiators do not believe that Poland will modify its position unless it finds that the other Western European countries are equally adamant in rejecting unreasonable Polish demands. [redacted]

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COMMENT: The exercise of strengthened and more united export controls has recently been evident in Western Europe's economic relations with the Soviet orbit. In the current Polish Austrian trade talks Austria has refused so far to accede to Polish demands for strategic goods. In the recently completed Polish-French trade talks France was forced to include only small amounts of strategic goods in order to reach agreement. These examples of Western unity on the sensitive question of export controls may in part account for the USSR's recent acceptance of an UN invitation to discuss the improvement of East-West trade. It is likely that the USSR is attempting by such multilateral discussion to weaken or split Western Europe's stronger approach to the control of strategic exports to the orbit, having failed to do so through bilateral negotiations. The USSR is expected to tempt Western Europe by offering large quantities of needed agricultural products in exchange for strategic goods.

"A" YUGOSLAVIA. Party Hierarchy Reportedly Split Over Policy. [redacted]

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[redacted] the questions of Yugoslavia's future economic organization and the employment of US loans have produced violent discussions among top officials. Cominform influence is allegedly greater than is generally believed and is reaching the "highest levels." Minister of Foreign Trade Milentije Popovic is suspected of being one of the key men in the Cominform penetration and several arrests are expected shortly. [redacted]

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[redacted] Yugoslav acceptance of Western arms and economic assistance has probably led to heated discussions within the Party and possibly accounts for some of the recent arrests of alleged Cominformists. In recent weeks two Assistant Ministers in the Ministries of Finance and Agriculture have been charged with Cominformism, and other arrests of important officials are probable. There is no available evidence, however, that Popovic, the Minister of Foreign Trade and a Central Committee member, is suspected of Cominformism.

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"B" INTERNATIONAL COMMUNISM. Five Power Peace Pact Given New Push. The Helsinki meeting (20-23 July) of the Executive Committee of the World Peace Council made the appeal for a five-power peace pact the main point in its principal resolution although it also included references to the proposed Japanese peace treaty and to the rearmament of Japan and Germany. Devoid of the usual Communist bombast and warmonger allegations, the resolution is reportedly a skillful appeal to those who are most anxious for peace.

COMMENT: The relative mildness of this resolution fits into the general conciliatory atmosphere pervading Communist tactics at present. In both 1949 and 1950 the USSR proposed a five-power peace pact in UN General Assembly meetings. It was taken up as the chief Communist propaganda subject at the World Peace Council Berlin meeting in February 1951 and was soon echoed in identical terms by substantially every Communist Party in the world. In the present instance, an appeal to support the Korean armistice efforts affords a new opportunity to reiterate the old line by saying such a pact will facilitate (1) the reversion of the UN to its original activities; (2) ultimate disarmament including prohibition of atomic weapons; and (3) economic cooperation to raise standards of living.

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SECTION 2 (EASTERN)

"B" IRAN. Iranians Seek to Sell Oil to India: On 24 July, the Iranian Ambassador in New Delhi expressed the hope that India would treat Iran's nationalized oil company with sympathy and would make some arrangement with the company to supply oil to India. The Ambassador was informed by the Indian Government representative who received him that India's importation of oil was presently in the hands of different companies, most of which were US and UK owned and had their own tankers. He added, however, that India would give due consideration to any other companies moving Iranian oil who could arrange tankers and handling facilities.

COMMENT: Iran has not been able to sell the oil from her nationalized oil industry. The recent Iranian invitation to the UK to send a Government representative of the oil company to Iran to reopen negotiations indicates that the Iranians have become aware of the gravity of the oil deadlock and the concomitant loss of revenue to Iran. The Ambassador's statements, however, suggest that Iran has not given up hope of managing the oil industry and marketing the oil itself.

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"B" JORDAN. Prince Tallal Rumored to Have Left Switzerland. Rumors are rife in Amman that Prince Tallal has disappeared from the sanatorium in Switzerland and may be attempting to return to Jordan. The Turkish Press has been quoted as announcing that Tallal has passed through Istanbul. It is generally feared that his arrival in Jordan at this point would precipitate a serious internal crisis as his name is being utilized as a rallying point for the forces which are hostile to the British and the late King.

COMMENT: Prince Tallal is known to have disliked his father and to have extended that antipathy to the British with whom his father was friendly. At the time that Tallal was sent to Europe for treatment of his mental affliction, many people throughout the Arab world felt that he was not mentally unbalanced but had been removed because of his anti-British sentiments. The Iranian Minister of Court claims that the story is gaining credence in the Arab world that Naif is regent because he will do British bidding. The Syrian Prime Minister has already expressed the view that Tallal is the rightful successor to the throne. The combination of his self-effacing nature and his anti-British sentiments would make Tallal popular with groups in and out of Jordan that are anti-Israeli and anti-British and opposed to the creation of a union between Iraq and Jordan.

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"C" CEYLON. Aircraft Refueling Facilities Curtailed. Because stocks of aviation gasoline are limited, the Ceylonese Government has temporarily refused refueling facilities to non-scheduled carriers as well as to scheduled carriers which have not maintained regular service through Ceylon.

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"B" INDIA. Attitude Toward Korean Truce Negotiations. Cessation of hostilities in Korea, rather than the principles involved, seems to be the major concern of the light Indian press comment appearing to date on the Korean truce talks. According to press commentators, the hostilities themselves resulted from US and Soviet power rivalries. Virtually no mention has been made of Communist aggression or of UN collective action. The US Embassy in New Delhi states that a clear, overwhelming UN victory in Korea might have influenced Indian public opinion to line up with the UN and to refer to it as a world organization instead of as an Anglo-American power instrument. The locally regarded stalemate in Korea and UN meddling in Kashmir, however, have not increased UN prestige in India. The Embassy feels that the majority of Indian opinion will continue to follow Prime Minister Nehru in advocating avoidance of involvement in a "power struggle" and will urge concessions by the UN and US if they be necessary to achieve a peace. [redacted]

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"B" Burmese Government Denies Reports of Ne Win's Resignation. An official Burmese Government statement declares that reports of Gen Ne Win's resignation have no foundation. US Embassy Rangoon comments that there is increasing evidence that Ne Win intends to return to his post and that tension between the general and the Socialists continues unabated. [redacted] COMMENT: Until the struggle between Ne Win and the Socialists is resolved, the efficiency of Burma's military establishment will continue to deteriorate and the threat of violence between the two factions will remain present.

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"C" Burmese Interested in Kashmir Settlement. The Burmese Foreign Minister is currently visiting Delhi and Karachi to offer assistance in seeking a settlement of the Kashmir problem. US Embassy Rangoon believes that the Burmese are increasingly concerned over the Kashmir impasse which seriously weakens Burma's position vis-a-vis Communist China. The Embassy also speculates that the Foreign Minister wishes to discuss the Japanese peace treaty and a friendship pact with Pakistan. [redacted]

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"B" Deficiencies of Nationalist Armed Forces Analyzed by General Chase.
 "The Chinese Nationalist Armed Forces are not, at this time, an effective modern fighting force," according to a late May report of General Chase, Chief of the US Military Aid and Advisory Group to Formosa. Observing that the present strength, training and equipment are probably sufficient for a successful defense of Formosa against the "present prospective enemy," Chase states that they are without sufficient petroleum, spare parts, ammunition, transportation, artillery, supply of all classes or replacement personnel for more than a few days of all-out combat. Joint planning and coordination is reported as weak or non-existent. The presence of a "highly objectionable system of political officers throughout the armed forces is cited as a force which penalizes initiative and under-mines military commanders' authority at all levels. A lack of real leadership is singled out by General Chase as the most serious deficiency in the Nationalists' military establishment. This is reportedly being alleviated to some extent by the gradual rise of younger more able leaders, many of them American trained. The General estimates that the Nationalist forces, "with full support of a vigorous program of American training and equipment could possibly become combat effective in a minimum of six to eight months after full implementation of our aid program."

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"B" Chinese Nationalists to Consolidate Armed Forces. The Chief of the Chinese Nationalist Supreme Staff, after a series of conferences with the American Military Aid and Advisory Group (MAAG) has directed that the present 10 armies composed of 30 "weak" divisions be compressed into 10 armies of 21 divisions (9,000 each, plus "necessary army troops"). Plans for implementing this reorganization, which is expected to increase combat effectiveness by about 50%, are now being prepared by the Chinese under US MAAG supervision at a combined staff level. The probable date of the reorganization is 10 October 1951. US officials are reportedly well pleased with Chinese Nationalist cooperation, but urgently request that delivery of some "hard goods" be expedited to convince the Nationalists that "we really mean business."

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"C" Military Conscription Ordered for First Time on Formosa. The Chinese Nationalist Ministry of National Defense ordered the conscription of 15,000 men by 31 August. This is Formosa's first military conscription since the defeat of Japan in 1945. 1,000 of the conscripts will be trained to drive military vehicles. COMMENT: Conscription at this time may reflect the Nationalists' anticipation of increased US aid. Recent reports from US officials on Formosa tell of Chinese plans to compress the armed forces in a US-recommended reorganization designed to increase their combat effectiveness. Though not specified, this conscription may include native Formosans who have been recruited previously, on a limited scale, for essentially non-combat service duties.

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"C" KOREA. Communist Explanation of Compromise on Withdrawal of Foreign Troops Issue. After endless demands in Communist propaganda for the withdrawal of foreign troops from Korea, Radio Peiping under a P'yongyang dateline broadcast the following explanation of Communist compromise with the UN refusal to place the issue on the Kaesong agenda: "In order to arrive at an early armistice agreement so as to fulfill the initial hopes of the world's peace-loving people, we agree to the proposal of your side."

The Communist radio in Vienna ingeniously explained the settlement in these terms: "For the moment the Americans seem to have gained an advantage but the Korean and Chinese representatives forced the re-opening of the discussions by postponing this question of the withdrawal of troops."

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SECTION 3 (WESTERN)

"B" FRANCE. French Consider Cut-back in Defense Program. The French are increasingly skeptical of the fruitfulness of the current hearings on defense burden sharing before NATO's Financial and Economic Board (FEB) and believe French defense plans must be cut back or spread over a longer period. A slow-down would result in curtailing production plans rather than the commitments on Indochina, bases, or manpower. The French feel that none of the NATO countries is undertaking an additional defense effort involving any real risk for its economy; hence France is assuming a disproportionately large burden. The French still strongly prefer a multilateral NATO approach to rearmament planning, including the determination of US assistance; they now consent to continue bilateral talks with the US only because no arrangements for multilateral discussions have been made. [redacted] COMMENT: Growing inflationary pressures in France, which the prospective weak coalition government is not likely to control, threaten the fairly ambitious French defense program. The last government warned the US that France would be unable to fulfill its commitments in Indochina and Western Europe without much fuller cooperation from all the NATO countries. [redacted] the US Embassy [redacted] in Paris recently decried the "serious misunderstandings" between the US and French administrations, already resulting in a "sharp deterioration" of the mutual confidence necessary for obtaining the desired level and effectiveness of French defense strength.

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"C" AUSTRIA. Soviets are Confiscating Housing for Non-Occupation Personnel. State Interior Secretary Graf has told the Austrian Cabinet that the USSR is currently turning over confiscated apartments and houses in the city of Moedling to persons not officially connected with the Soviet occupation element. One villa was vacated for Louis Sallant, Secretary General of the World Federation of Trade Unions (WFTU), which moved its headquarters to Vienna last spring. The Soviets were also seeking residences for other officials of the WFTU as well as of the Soviet-controlled USIA plants. Graf called the confiscation of housing for non-members of the occupation force a gross violation of the control agreement. [redacted] COMMENT: The Austrian Government has been looking for some way to strike at the WFTU, whose presence in Austria is unwelcome. As the WFTU enjoys the protection of the Soviets it will be necessary for the Austrians to discover the labor organization in some clear-cut violation of law if the protests are to be effective.

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"C" ITALY. De Gasperi's New Cabinet Takes Oath. Premier De Gasperi's new Cabinet was sworn in on 26 July following a ten-day Cabinet crisis. As previously, all but the three Republicans, Sforza, Pacciardi and La Malfa, are Christian Democrats. In addition to the Premiership, De Gasperi has taken over, at least temporarily, the Ministry of Foreign Affairs from the

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ailing Sforza, who is now Minister without Portfolio in charge of relations with the European Union. Pella remains as Minister of the Budget, while Finance Minister Vanoni retains his post and becomes interim Treasury Minister. Attilio Piccioni becomes Vice Premier. Scelba, Interior Minister, retains his post. Among ministers not included in the previous Cabinet are: Fanfani, Agriculture and Forests, and Rubinacci, Labor. [REDACTED] 25X1

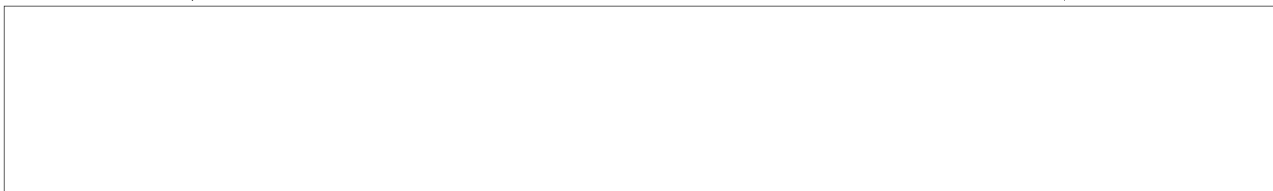
[REDACTED] COMMENT: Judging by personnel, it appears that the policies of the new Cabinet will be much the same as those of the old one, although Rubinacci, who is a leader of the Christian Democrat trade union (CISL), will probably be more favorably disposed toward labor than was his predecessor. Of the four most prominent Ministers under attack from both the right and the left wing of the Christian Democratic Party, only one, Togni, is excluded from the new Cabinet. Left-wing Christian Democrat Dossetti is reportedly displeased with the post given to his group's representative, Fanfani. Piccioni, conservative centrist, has long been rumored to be an eventual successor to De Gasperi. 25X1

"B" NETHERLANDS. Renewed Vigor Needed to Combat Negative Attitude toward NATO. Dutch Minister of Defense Staf has stated that NATO was "dying" and has proposed an operating body of the North Atlantic defense ministers and the SHAPE commander, meeting at least once every three months and empowered to speed up rearmament. Staf's proposal is aimed at assuring greater West European government participation in NATO decisions as well as a freer intra-West European exchange of information than is now the case. Dutch policy, based on a strong NATO, fears that the European Army concept might turn into a "third force". Dutch military leaders amplified Staf's comments pointing out that uncertainty exists over deliveries of US military equipment and that failure to meet agreed programs will upset the Dutch timetable for defense. [REDACTED] COMMENT: Staf's views reflect the widespread feeling that European leadership has allowed NATO to take on a negative character in the minds of the people. The decline in Dutch popular support for the defense program, brought about by the serious morale problem of the Dutch Army, probably will be accelerated if US military aid is considered inadequate. However, there is some tendency in the Netherlands to let the blame be placed on the US for the Dutch Government's unwillingness to implement fully its defense policy. 25X1

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"C" UNITED KINGDOM. Change in Ambassadors to Moscow. The UK Foreign Office has confirmed that Sir Alvary Gascoigne will replace Sir David Kelly as Ambassador to the Soviet Union. Kelly will leave in September. [REDACTED]

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[REDACTED] COMMENT: There appears to be no political significance in the move. Gascoigne is a veteran of the British Foreign Service of over 30 years' standing. His varied posts have not included the Soviet Union. Immediately following the war he was Minister to Hungary, and from 1946 to February 1951 served as head of the UK Liaison Mission to Japan with the rank of Ambassador. Gascoigne's first wife was an American, and he is regarded as a strong advocate of Anglo-American cooperation.

"B" MOROCCO. French President is said to be Investigating Replacement for Juin. President Auriol is reported to be exploring the possibility of appointing the French Ambassador to Egypt, Maurice Couve de Murville, as Resident General of Morocco. The President also is said to have requested a study of concessions which might be made to the Sultan when Resident General Juin is replaced, probably by a civilian. [REDACTED]

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[REDACTED] COMMENT: The French President can recommend but does not have the power of appointment. Couve de Murville, disliked by the Egyptians, is extremely ambitious and a clever diplomat. He now covets the soon-to-be-vacant post of chief of the French delegation to the UN, and would not be likely to consider accepting the Residency General in Morocco. There is no dearth of civilian and military candidates for Juin's Moroccan post. General Guillame (now substituting for Juin on SHAPE) and General Koenig (Inspector General of Armed Forces for North Africa) are probably more likely candidates than any of the civilian possibilities named to date. If the post is retained by the military, there is little likelihood that any actual concessions will be made to the Sultan.

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