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DAILY DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

DIA AND DOS review(s) completed.

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SECTION 1 (SOVIET)

1. USSR. Soviet officials in Austria seeking Western markets for oil: Recent indications are that Soviet officials in Austria are looking for Western markets for oil produced by the oil fields under their control.

The move is interpreted as springing from the Soviet need for schillings to operate the Soviet Enterprises in Austria and Soviet difficulties in fully utilizing the increasing production of the Austrian oil fields. [redacted]

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Comment: Storage facilities in Austria have not kept pace with the rising production of crude oil, and increased shipment eastwards is handicapped by the shortage of transportation facilities.

The Soviet authorities may also be attempting to use oil as a means of procuring strategic materials from West Germany with the German marks earned by sales. [redacted]

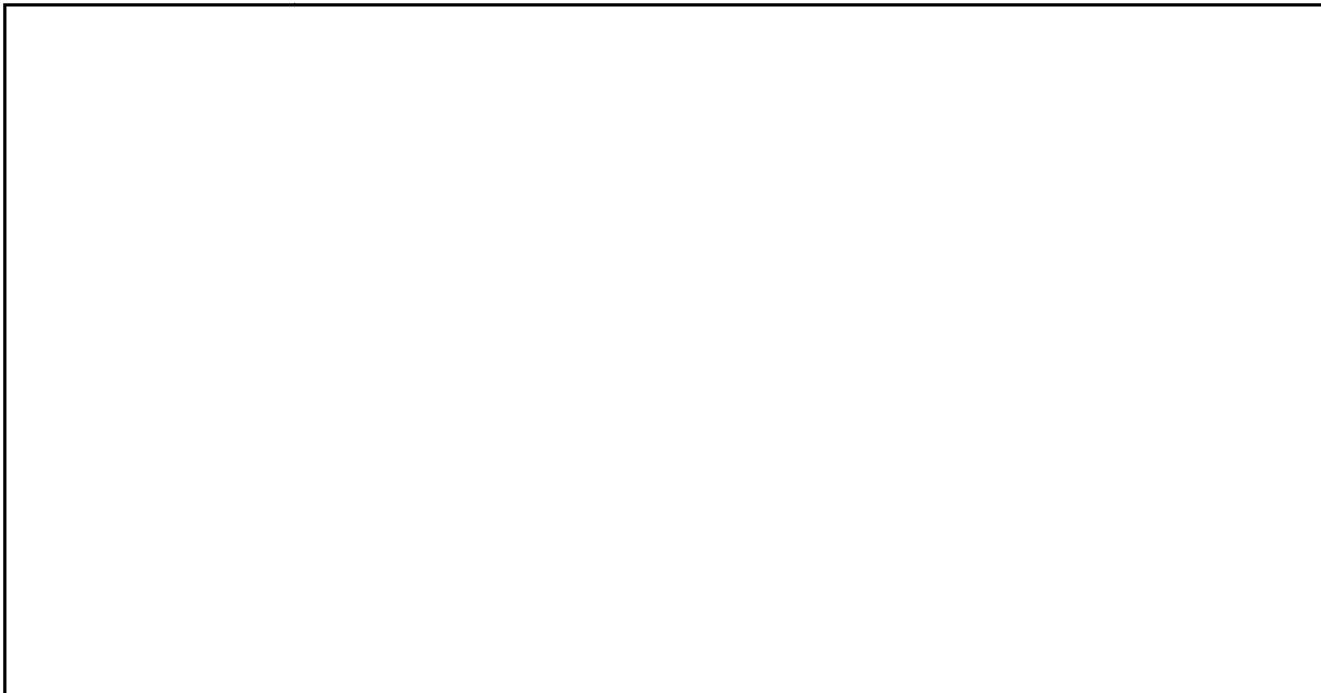
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4. YUGOSLAVIA. Creation of a new orthodox Communist Party in exile reported: A radio broadcast in Serbo-Croat to Yugoslavia originating with Yugoslav pro-Communist exiles states that a "new genuinely revolutionary Communist Party of Yugoslavia" is being created by "true Yugoslav patriots."

The clandestine broadcast says that "the struggle for the overthrow of the Tito fascist regime is gaining momentum in all Yugoslav provinces"; that the creation of a new Yugoslav Communist Party represents "a great historic stride of our people." Yugoslav patriots are called upon first to direct their efforts towards the industrial centers of the country, which should provide "the source of the most revolutionary cadres of the Yugoslav Communist Party."

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Comment: These assertions constitute a new line in anti-Tito propaganda and follow the appeal by exile leader Pero Popivoda calling for the formation of a national liberation front in Yugoslavia. The article appeared in the Cominform Journal and was republished in Pravda.

Although the broadcast fails to elaborate on the creation of a new orthodox party or on the whereabouts of its headquarters, it is the first suggestion since 1949 that Moscow is attempting to establish a rival party organization in Yugoslavia or in the Satellites. However, no confirmatory reports, suggesting increased Stalinist activity or the creation of a party organization within Yugoslavia, have been received.

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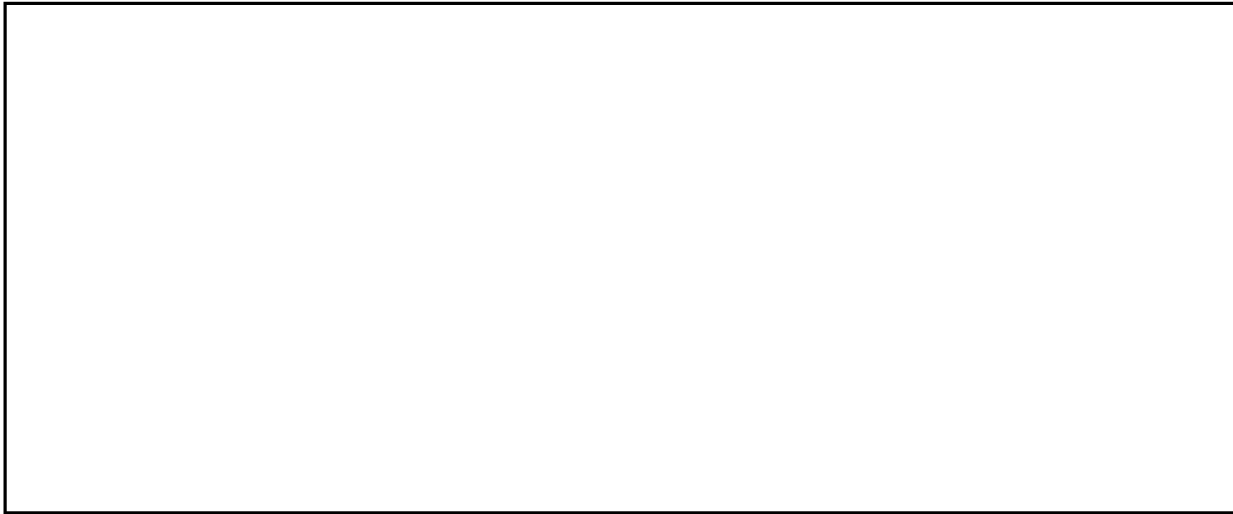
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4. IRAN. Shah believes problem of American aid to Iran will be solved soon: The Shah, in a conversation with General Zimmerman, Chief of the US Military Mission, said that the Mossadeq government will not be in power much longer and that the problem of the US Military Mission and of American military aid will be solved when a new government takes over. He urged that the Mission continue temporarily without a contract and emphasized the difficulties it would face in returning if it left. The Shah added that he was disappointed by the small amount of military aid given Iran because he thought its strategic position should result in special consideration.

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Comment: The Shah's belief that the government will not remain in power may be inspired by Prime Minister Mossadeq's recent statements that he intends to resign after the new Majlis meets in April. However, Mossadeq continually vacillates on the question of his resignation.

5. LIBYA. Defense Minister wants Libya to join Middle East Command: The Libyan Defense Minister has expressed his country's eagerness to participate in the proposed Middle East Command. Libya's strategic importance, he told the American Minister, should make it an integral part of Middle East defenses; and the fact that Libya's future lies in association with the United States and the United Kingdom makes it ready to share in the support of free nations.

The Minister also discussed plans for the Libyan defense force, saying that he looked to Britain for help in training Libyan soldiers and to the United States for "assistance in some form."

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Comment: Newly-created Libya is not a member of the Arab League, and is the only Arab country which has expressed a positive desire to join the Command. While many Arab leaders have privately shown interest in the MEC, none has dared to support the idea in public for fear of antagonizing Egypt.

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SECTION 3 (WESTERN)

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2. FRANCE. French Socialists may attempt to force British participation in EDC: Guy Mollet, Secretary-General of the French Socialist Party, apparently plans to try to force Britain to participate in the European Defense Community. He has informed American officials in Paris that at the 22 March meeting with British Labor Party representatives his party will publicly declare that Britain's participation is essential for Socialist support of the EDC treaty.

The US Embassy in Paris infers that Mollet intends to swing his party back to ratification if the maneuver fails, but it questions his ability to do so in view of basic Socialist opposition to the Defense Community.

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Comment: Socialist support is essential for French ratification of the EDC, since dissident middle-of-the-road deputies are numerous enough to give the Communists and the Gaullists a majority against the measure.

Although a powerful element within the British Labor Party favors committing British troops to the European Army

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to prevent German domination, neither the Labor Party as a whole nor the British Government is prepared to consider closer political association with the Defense Community.

3. French National Assembly feels pressure of grass-root demands: The US Embassy in Paris believes that public opinion, "notably in the provinces," was the deciding factor in resolving the most recent French Cabinet crisis. A "widespread and long over-due" reaction from voters who are beginning to demand submersion of party differences in the national interest may account for the unusual coherence of the center parties in the investiture vote.

The Embassy also reports that the Gaullists' abstention, "which was certainly not what the General himself would have liked," confirms an earlier estimate that there are about 60 participation-minded RPF deputies, 38 of whom allegedly threatened to violate party discipline if the decision were made to vote against the new Premier.

The Socialists also showed sensitivity to grass-roots pressure when, by a very narrow margin, they voted to abstain rather than take the responsibility for defeating Pinay. [REDACTED]

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Comment: As the tempo of recurring cabinet crises quickens and the possibility of an advanced date for national elections becomes greater, the parliamentary representatives will harken to their constituents' demands. With a majority of the deputies in the opposition, however, it is unlikely that Pinay will be able to obtain adoption of the controversial financial measures which must eventually be faced.

4. NETHERLANDS. Dutch and German EDC delegates deadlocked on mutual defense guarantee in Defense Community treaty: The German and Dutch delegates to the European Defense Community talks are still in basic disagreement on the mutual defense guarantee in the Defense Community treaty, despite the efforts of the French delegate to effect a compromise.

The Dutch delegate has suggested in private, however, that his country might accept an "automatic" defense commitment if the Brussels Pact as well as the North Atlantic Treaty is tied to the EDC treaty. He believes that such a solution would bring Britain into closer association with the Community, thus satisfying Dutch desires, and help solve the problem of Dutch troop commitments under the Brussels Pact. [REDACTED]

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Comment: The Netherlands has taken the position that the Defense Community should not be able to take action in the event of an attack without the unanimous consent of its member states. The Dutch add that the possibility of the Community's acting by itself is "preposterous," since it lacks certain essentials, such as a strategic air force, for waging war.

The Germans regard a provision for the Community's automatic and unanimous action as indispensable.

5. ITALY. Communist press echoes charges that United States is using BW in Korea: The Communists are giving great press publicity to stories from Korea alleging that the US is spreading bacilli behind the North Korean lines. The US Embassy in Rome is beginning to receive inspired "protests" from local labor organizations and believes that despite official denials, the Communists intend to push their campaign.

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Comment: The Communists are doubtless striving to fan anti-American feeling among Italian workers in order to disrupt defense production.

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7. PORTUGAL-ANGOLA. Angolan trade aggravates Portugal's EPU surplus problem: Angola's 1951 trade statistics show a record export balance of 35 million dollars. Despite a

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sharp increase in manganese shipments to the United States, the relative position of the US as an export market declined while that of the Netherlands, France, and Britain rose. The percentage of Angola's total exports going to Portugal also declined.

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[REDACTED]

Comment: Angola's record exports to Europe are an important factor in Portugal's growing surplus with EPU countries. The cumulative surplus, which in December 1951 exceeded by almost 10 million dollars the revised Portuguese quota of 95 million, led to Portuguese measures aimed at increasing imports from and curtailing exports to EPU countries. In this connection, Portuguese importers are being advised to procure goods whenever possible in Europe rather than in the dollar area.

8. UNITED KINGDOM. Britain insists upon prohibiting German manufacture of magnetic mines: Foreign Secretary Eden has asked the United States to reconsider its rejection of the British proposal to include magnetic and other types of influence mines among the weapons Germany is to be prohibited from manufacturing. Britain is principally concerned at the danger of the USSR's overrunning Germany and obtaining facilities for manufacturing weapons which are a matter of "life and death" to a country dependent upon sea communications. Eden understands that Sweden has already asked Germany to make influence mines.

According to Eden, neither Churchill nor Defense Minister Alexander will accept anything less than the present British proposal.

Comment: The Allies had reached almost complete agreement on German security controls, which include armament restrictions, when Britain introduced a belated proposal to extend the definition of guided missiles to include influence mines.

9. American Embassy considers new British budget not sufficiently deflationary: The US Embassy in London views the 1952-53 British budget as not sufficiently deflationary to provide a fiscal solution to Britain's problem of reallocating resources for the maintenance of national solvency. Although relying heavily on monetary controls the government is still maintaining direct control on consumption and investment, thus implying a continuation of the present suppressed inflation.

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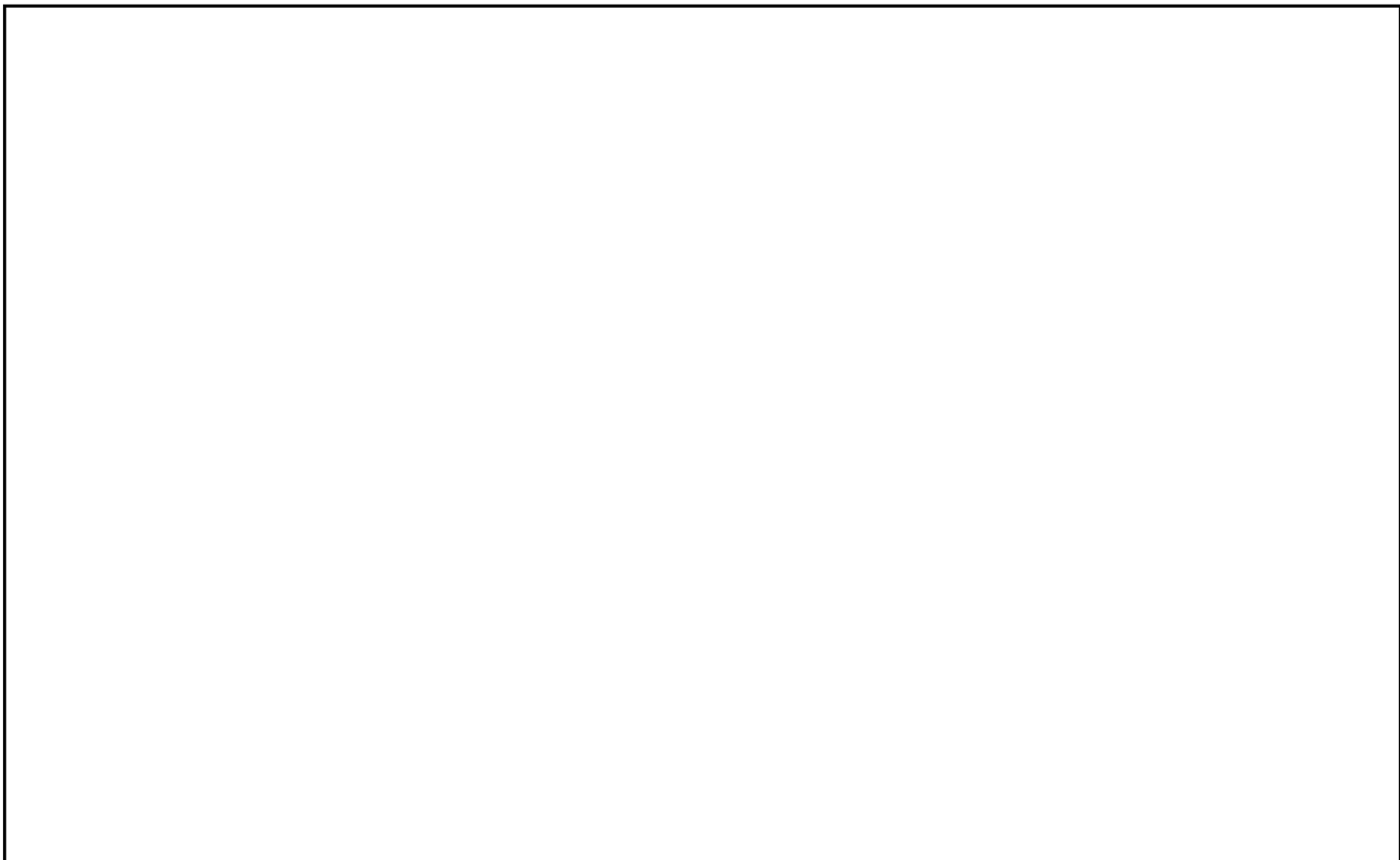
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However, the Embassy considers "very salutary" the changes in budgetary approach which aim at giving the economy greater flexibility by such methods as tax adjustments to provide increased incentives.

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Comment: The announced cuts in imports and the expected increase in exports will leave a 1,820-million-dollar gap between purchasing power and goods remaining for British consumption in 1952. Since the inflation inherent in a gap this large is not likely to be offset satisfactorily by the prospective surplus in the budget, the government is evidently relying heavily on the raising of the bank rate from 2.5 to 4 percent to discourage inflationary borrowing and reduce the supply of money.



11. BRAZIL. Vargas approves US-Brazil military assistance agreement:
President Vargas has approved the US-Brazilian military

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assistance agreement, according to the Foreign Minister. The latter agreed with US officials to having the signing ceremony at the Foreign Office on 15 March, at which time he intends to publicize the agreement through the press, radio and television.

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Comment: The talks were initiated by the United States and Brazil early in January, and the final agreement was reached only after considerable negotiating.

Brazil is the third country to reach agreement on the military assistance the US will grant to Latin American nations under the Mutual Assistance Act. Negotiations with Mexico were cancelled since no agreement could be reached at this time. Ecuador and Peru have signed similar agreements. Other countries with which the US has been negotiating are Colombia, Uruguay, Chile and Cuba.

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13. PANAMA. Batista coup may encourage extralegal activities in Panama: The US Embassy in Panama reports that, according to numerous rumors, the smoothness of operation of Batista's coup in Cuba may encourage the forces of presidential candidate Remon to suspend civil liberties in Panama and to cancel elections. The probability of such action will be heightened if Arnulfo Arias agrees to join with the forces opposing Remon's candidacy.

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Comment: Arnulfo Arias was released from jail by the pro-Remon majority in the National Assembly on 7 February. There has been no indication, however, that Remon was able to secure a promise of political support from Arnulfo in return for his release.

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