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~~TOP SECRET~~**GENERAL****1. Soviet and French draft declarations reveal continued disagreement on basic points of Indochina settlement:**

[REDACTED] The Soviet counterproposal to a French draft declaration to be issued by the Geneva conference as part of its final proceedings points up four main areas of disagreement on an Indochina settlement:

- (1) The Communists are seeking to prevent all three Associated States from entering "any military alliances whatsoever" or granting foreign military bases, whereas the French wish to allow the states to take necessary defense measures.
- (2) The Soviet draft provides for the withdrawal of all "foreign troops and foreign military personnel" from all three states, whereas the French wish to leave this decision to the governments of the states.
- (3) The Communists want general elections in all three states by June 1955, whereas the French do not want to fix any dates.
- (4) The Communists want the conference participants to "approve" the cease-fire agreements and commit themselves to take "collective measures" to ensure their observance, whereas the French want the conference to "take note" of the agreements and to "study measures" to "assure respect" for them.

Comment: The French and Viet Minh representatives had agreed on 6 July that the conference should make a declaration on the agreements reached in their bilateral talks. Issuance of this declaration presupposes final agreement, not yet reached, on the terms and supervision of a truce.

The basic disagreements between the two parties evident in the French and Soviet drafts are the same disagreements which have persisted throughout the talks.

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2. Soviet Union presses Finland for foreign policy support:

[REDACTED] Finnish prime minister Toerngren told the American minister on 15 July that the Soviet Union has tried to make the signing of the trade agreement now being negotiated dependent on Finnish issuance of a statement in support of the Molotov plan for a European security pact and one associating Finland with the Soviet peace campaign. The prime minister stated that his government had determined not to support the security plan and to accept the other declaration only if it is couched in the most general terms and does not associate Finland with any Soviet-sponsored group of "peace-loving nations."

Toerngren also revealed that in connection with the trade agreement the Soviet Union had urgently suggested the desirability of raising of diplomatic missions to embassy status. He feared that Finland could not avoid agreeing to this.

Comment: This is the first known Soviet approach to a non-Communist state for support of the European security pact. It may be followed by similar approaches to other European states in preparation for another European conference, which the Kremlin reportedly is planning to suggest.

3. Finnish exports to USSR to rise under trade agreement:

[REDACTED] The Finnish prime minister has informed the American legation that the new five-year Finnish-Soviet trade agreement (1956-60), which will probably be signed in the next few days, contemplates an annual level of Finnish exports 10 percent higher than planned for 1954. Finnish exports are to average \$155,000,000 per year under the new agreement, with the USSR paying \$10,000,000 annually in gold or Western currency to make up for the lower level of Soviet exports.

The Finns resisted Soviet demands for a much greater expansion of trade but agreed to construct two large ice-breakers, 15 cargo vessels of 3,100 tons each and eight tankers of 4,000 tons each.

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The prime minister added that Finland no longer intends to purchase radar equipment from the USSR, but it still plans to buy three Soviet jet training planes. It does not, however, intend to permit Soviet instructors to come to Finland. [redacted]

Comment: In 1953 approximately 25 percent of Finland's exports went to the USSR and over 30 percent to the Soviet bloc as a whole. Finnish exports in the past have included considerable amounts of shipping but not so many tankers and cargo ships of this size.

The USSR's insistence on obtaining such vessels is in line with Moscow's almost simultaneous ultimatum to Denmark that unless the latter agrees to deliver two large tankers during 1955 and 1956, the USSR will not sign the trade agreement currently under negotiations.

SOVIET UNION

4. New agricultural difficulties in the USSR:

[redacted] Unusually hot and in some areas dry weather has resulted in premature ripening of grain crops. As a result, fall-sown and spring-sown grain are being harvested simultaneously in some regions, placing an abnormally heavy burden on equipment and personnel. The premature ripening also decreases yields.

The embassy reports that Soviet officials apparently consider present farm labor inadequate and are obligating members of youth organizations and other youths to participate in the harvesting of crops in the reclaimed lands.

Comment: A Pravda editorial on 16 July emphasized that other difficulties affecting agriculture were causing "considerable alarm." It stated that the plan for the construction of grain storehouses by the Ministry of Procurement was met by only 34 percent as of 10 July, while the goal for major repairs of motor vehicles in the first six months of the year was completed by only 76 percent.

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However, it is still too early to make a final appraisal of the 1954 grain harvest.

SOUTHEAST ASIA

5. Laotian government indicates desire for united anti-Communist stand:



Comment: Laos has previously suggested its interest in a collective security system for Southeast Asia and its desire for American moral and material backing, excluding military intervention.

The terms put forth by the Communists at Geneva for a Laotian settlement include Communist control of some part of that state and a ban on Laotian participation in a collective security system. There is evidence that the Laotian government is split on the question of whether to compromise with the Communists.

EASTERN EUROPE

6. Comment on replacement of Semenov by Pushkin in East Germany:



The appointment of G. M. Pushkin to replace V. S. Semenov as high commissioner and ambassador of the Soviet Union does not appear to indicate an immediate

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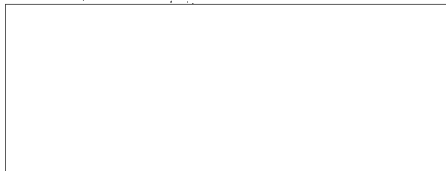
change in policy toward East Germany. Recent developments in East Germany have pointed toward a slight liberalization of some policies, particularly in an attempt to encourage contacts at all levels with West Germany. There is no firm basis for the rumors that Pushkin has stood for "tougher" policies than Semenov.

Semenov, the leading Soviet political figure in Germany since the war, spent several weeks in Moscow prior to the introduction of the new course in East Germany in June 1953 and again prior to the Berlin conference. If the reports of Soviet interest in a new conference on Germany and European security are correct, he may be returning to Moscow in order to play a key role in its preparation and at the conference.

Pushkin is a widely experienced diplomat who served as head of the diplomatic mission to East Germany from October 1949 to June 1952, when he was appointed a deputy minister of foreign affairs. In June 1953 he was made head of the 3rd European Division which is responsible for German, Austrian, Icelandic and Finnish affairs. The Kremlin may believe that Pushkin will be a more appropriate representative in a period of emphasis on East German sovereignty than Semenov, for years associated with the control machinery in Germany.

WESTERN EUROPE

7. West German defense commissioner fears consequences of rearmament delay:



West German defense commissioner Theodore Blank has expressed a concern, reportedly shared by other Bonn coalition leaders, that British-American plans for

West German sovereignty, with a prohibition on immediate rearmament, would only offer France further opportunities to hedge on EDC and to delay West German armament.

Many Germans had supported rearmament only in return for regaining partial sovereignty, Blank told American officials, and if West Germany regained its sovereignty with no such condition, support for rearmament would wane. Social Democrats,

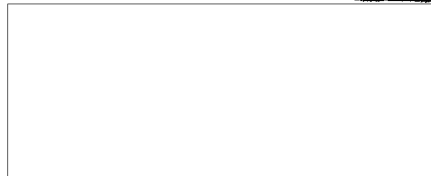
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he said, were already returning to an antirearmament line and would exploit these sentiments to the detriment of Chancellor Adenauer's position.

Comment: Adenauer appears less concerned with the rearmament delay. His advisers may be influenced by the unexpectedly strong encouragement to neutralism given by the all-German church rally in Leipzig a week ago, and the increasingly bitter SPD attacks on a future German national army, both of which could have serious political repercussions for the Bonn coalition.

8. American embassy comments on Thorez departure for Moscow:



Ambassador Dillon speculates that the departure for Moscow on 16 July of French Communist Party leader Maurice Thorez may indicate that he was called to consult

on the party's future policy or that a decision has already been made to revert to the Billoux "hard line" which led to the 1952 anti-Ridgway riots. Still another possibility is that Moscow intends to liquidate Thorez, under whose regime the French Communist Party has suffered "real deterioration."

Comment: Thorez was in Moscow for his health during the last period of French Communist hard line tactics. After his return in April 1953 the party re-emerged from its political isolation. His liquidation now seems unlikely, since his prestige is still a major attraction to many party followers.

The French Communists are apparently committed to a soft line as long as the Geneva talks hold some prospect of success. They may be readying hard line tactics in case Geneva fails or France takes any steps to permit German rearmament.

