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1 July 1954

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Copy No. 80

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 32
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 3/1/80 REVIEWER: [Redacted]

[Redacted]

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

[Redacted]

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GENERAL

1. COCOM controls on ship sales may break down:



The American proposal in COCOM for temporarily maintaining the current quota controls on sales of ships to the Orbit has in effect been rejected, according to the United States delegation. Furthermore, the American-British proposal for revised controls, featuring a maximum combined quota of 150,000 gross tons per year for all COCOM participants, was blocked by the Danes on 23 June.

Within the past week COCOM has been apprised of 33 recent or contemplated ship deliveries to the Orbit from five participating countries, involving about 100,000 gross tons. The German delegate emphasized to his American colleagues privately on 28 June that Bonn considers that COCOM shipping controls have broken down; he doubts that his government can much longer resist pressure from shipbuilders to fill Orbit orders.

Comment: The failure of the COCOM working level to reach agreement on quota controls for any important items--such as ships--adds to the almost impossible task facing the Consultative Group at its forthcoming meeting which may be postponed from 8 to 21 July. This meeting had been expected to wind up the review of the whole controls program.

SOVIET UNION

2. USSR announces opening of atomic power station:



The USSR Council of Ministers has announced the opening on 27 June of an atomic electric power station. The plant has a 5,000-kilowatt capacity, is powered by "the nuclear fission of the uranium atom," and is producing current for neighboring industry and agriculture. Development work is in progress for similar plants with from 50,000 to 100,000 kilowatts capacity.

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Comment: The low power of this unit indicates that a developmental or pilot installation is being described. This Soviet claim does not necessarily mean that problems involved in the economic production of large amounts of power from nuclear sources have been solved. President A. N. Nesmeyanov of the Soviet Academy of Sciences recently stated that large-scale generation of power from atomic energy in the USSR was a long way off. The timing of the official announcement may therefore reflect Soviet reaction to what the USSR considers an American intention to move ahead with the "Atomic Pool" without Soviet co-operation.

3. TU-4's active at eight Soviet Arctic bases:

[redacted] since early April 1954 TU-4 medium bomber type aircraft have utilized eight bases and possibly six others located between the Bering Strait and Murmansk in the Soviet Arctic (see map, p. 5). At least six aircraft have been identified in this activity.

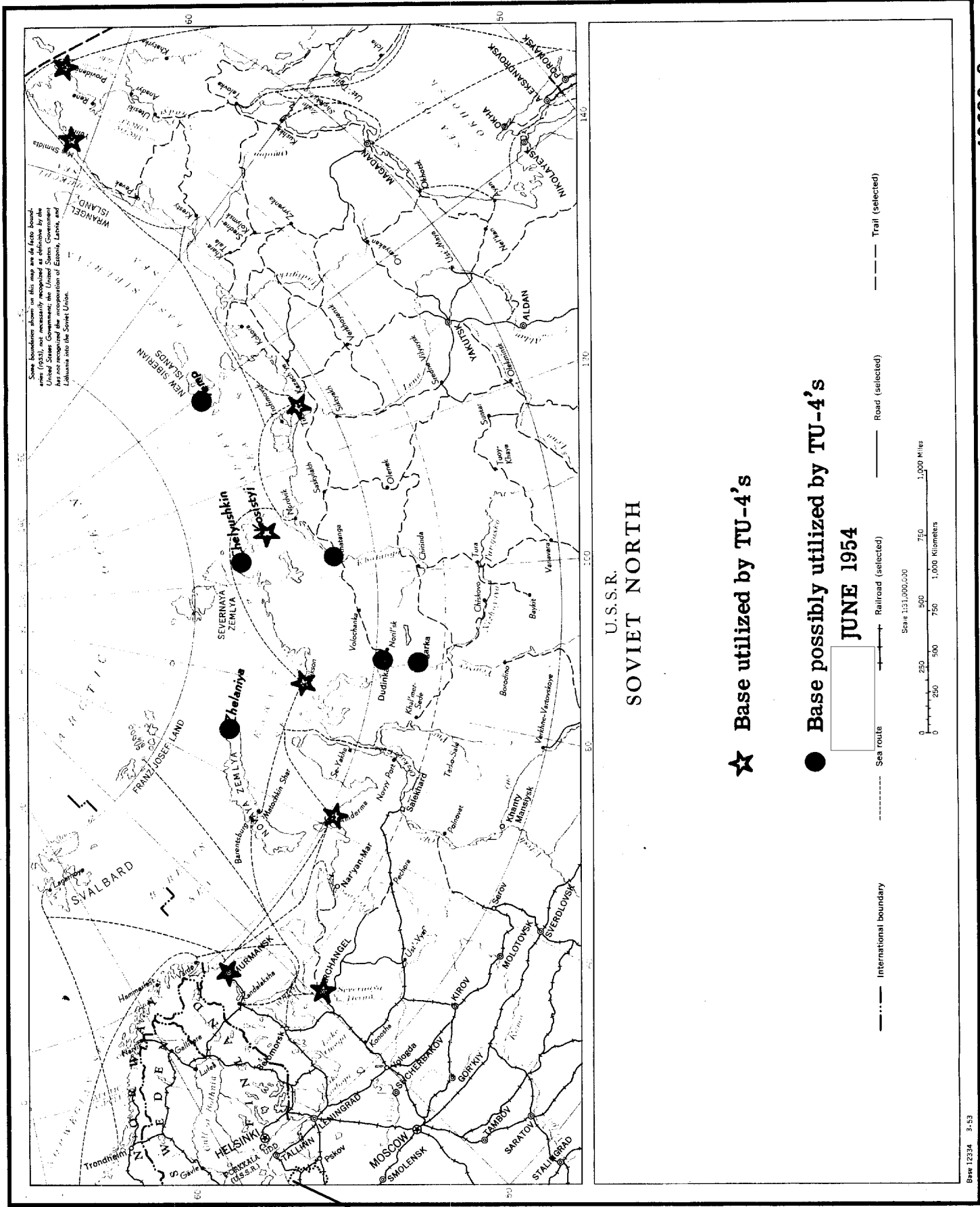
Comment: The recent flights suggest that the program of airfield construction and improvement under way since 1949 has progressed to the point that potential Soviet strategic bomber bases in the Arctic are now capable of maintaining limited TU-4 operations on a year-round basis.

The TU-4 flights in the Arctic this spring are believed to have been conducted in support of meteorological research. Since June, these flights may also have been concerned with ice reconnaissance along the Northern Sea Route.

4. USSR believed using airborne intercept radar:

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[REDACTED]

Comment: Soviet postwar advances in the field of electronics indicate that airborne intercept radar could have been available since about 1951.

The Soviet Union's sensitivity to aircraft operating near its borders may have induced it to deploy all-weather fighters which had previously been withheld for security reasons. However, such aircraft have not been identified in operational Soviet units.

FAR EAST

5. Japan seen moving to normalize relations with the Soviet Union:

[REDACTED] Japanese economic circles claim Japan's relations with the Soviet Union are entering a new phase in which Tokyo is moving to normalize relations.

He notes that the continuing efforts of several Japanese ministries for a rapprochement are justified above all by economic reasons and particularly by the large orders for ships and ship repairs the USSR reportedly will offer.

[REDACTED] the Japanese think American policy toward Asia is too narrow in its emphasis on re-armament and fails to consider psychological factors. [REDACTED] the Japanese intend to "try their luck" within the limits Washington has recognized as valid for Western European dealings with the USSR.

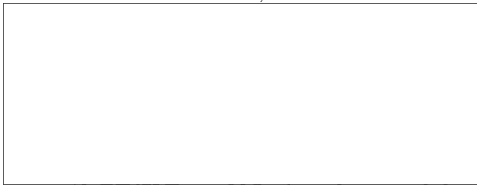
Comment: The Japanese government is supporting private negotiations with the USSR for a three-year trade arrangement valued at \$26,000,000 each way. Japan is to export eight cargo ships, eight fishing vessels, and eight tugboats, and provide ship repairs and reconstruction. The Soviet Union will provide in return lumber, petroleum, coal, manganese, chrome, raw cotton and platinum.

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The continuing serious decline in Japan's economy has strengthened Japanese sentiment for trade with the Communist Orbit--now only about one percent of the Japanese total-- as a panacea for present economic ills.

SOUTHEAST ASIA

6. Ngo Dinh Diem will not form government without French pledge to defend Tonkin:



Ngo Dinh Diem stated emphatically to the American chargé in Saigon on 29 June that he would not form a government unless assured that the French would defend

Tonkin. He explained he had no intention of taking office merely to sign a capitulatory peace.

Diem said his urgent request to General Salan not to evacuate southern Tonkin had been turned down on the ground that Salan had received explicit instructions from Paris to withdraw from this area. Diem asked that American diplomatic pressure be brought to bear on the French to reverse this policy, but did not appear to expect armed American intervention.

Comment: It will be difficult if not impossible to form an authentic Vietnamese nationalist government which will agree to the abandonment of Tonkin. The formation of a "Cochinchina Republic," now advocated by certain French officials, might attract a handful of Vietnamese opportunists, but would be even less popular than a provisional partitioning of the country which left open the hope of eventual unification.

7. Impending clash between French and Cambodian policies on American aid:



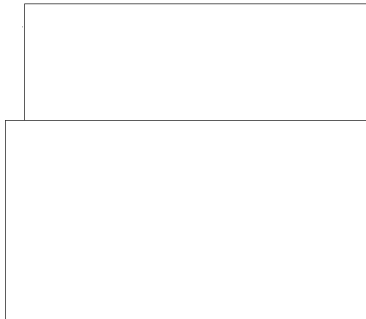
The American chargé in Phnom Penh reports that the Cambodian government is making plans in the expectation of

direct American military aid and training, whereas the French have no intention of permitting such a program.

The chargé observes that if the Cambodians are not soon given a proper understanding of the limitations to American involvement in their affairs, their present good feeling toward the United States could be quickly reversed.

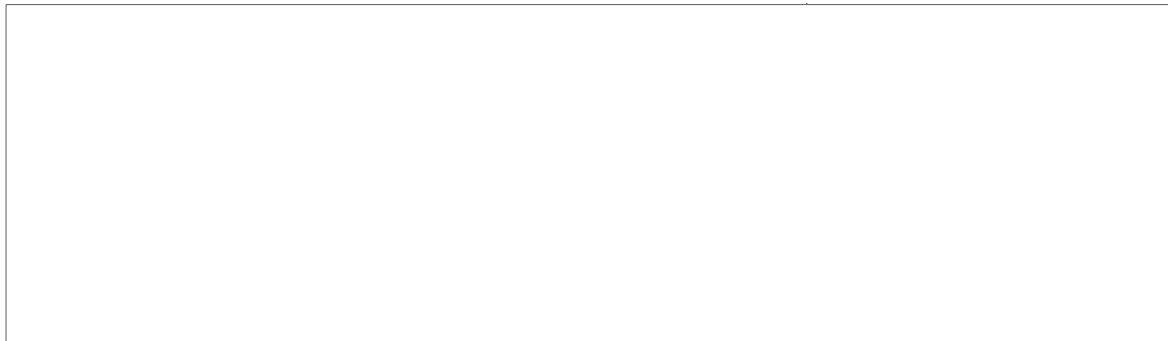
Comment: The apparent French decision not to defend Tonkin will make the Cambodians all the more eager to obtain direct military aid from the United States.

8. Comment on Chou En-lai's visit to Rangoon:



The joint statement issued on 29 June by Chou En-lai and Burmese prime minister U Nu paralleled the Chou-Nehru declaration only in pledging nonaggression and noninterference in each other's affairs. The lack of any reference to the desirability of "unified" states in Indochina suggests that Chou was unable to persuade

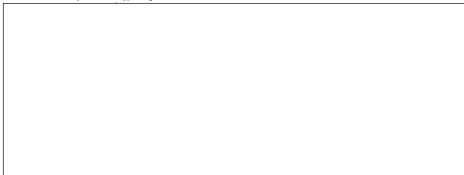
Burmese leaders that Viet Minh control over all Vietnam would be in Burma's interest.



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NEAR EAST - AFRICA

9. Turks advise Libya against threatening to demand evacuation of US base:

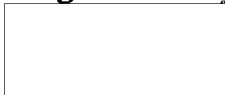


The Turkish minister to Libya, who accompanied Libyan prime minister Ben Halim on his recent visit to Ankara, has told the American counselor in Benghazi that the Turks have advised Libya to settle for a "reasonable offer" for use of the American base--presumably more than the offered \$2,000,000 annual payment--and rely on American good will for future economic aid.

The counselor understands that the Turks tried to persuade Libyan prime minister Ben Halim not to threaten the United States by demanding immediate evacuation and challenging the present interim base agreement if Libya's exorbitant requests for economic aid are not met.

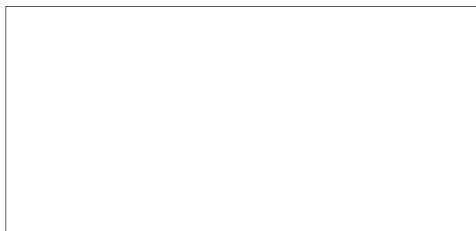
Comment: Earlier statements by Ben Halim and the Libyan minister of defense suggested that Libya would threaten to abrogate the interim base agreement, initialed in December 1951 just prior to Libyan independence, in a final effort to obtain annual compensation of as much as \$7,000,000 for an American base agreement.

The Turkish foreign minister has told Ambassador Warren that he believes a "slight increase" in the current offer of \$2,000,000 annually might satisfy the Libyans. This attitude on the part of the Turks, whose advice is much respected in Benghazi, may encourage the Libyans in their belief that the present offer is inadequate.



WESTERN EUROPE

10. French premier says he may request conscripts for Indochina:



Premier Mendes-France told Ambassador Dillon in Paris on 29 June that he was inclined to favor asking the National Assembly

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for permission to use conscripts in Indochina. He added that the government would have to decide on this issue before the end of the week.

The premier said that he did not know whether he could pick up enough votes on the right to counter probable Socialist opposition to this policy. He told Dillon that there is a difference of opinion on the subject among the military and that Marshal Juin has taken a firm position against it.

Comment: Aware that the National Assembly would most likely not grant authority to use conscripts in Indochina, Mendes-France is probably only making a gesture to satisfy both American opinion and those Gaullists who favor a strong Indochina policy. He is anxious to elicit greater American support for his government, including a specific statement limiting Communist expansion.

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