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~~TOP SECRET~~

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SUMMARY

GENERAL

1. Impasse reached in Balkan military alliance negotiations (page 3).

SOVIET UNION

2. Comment on second Soviet note on Tuapse (page 3).

SOUTHEAST ASIA

3. French defense planning excludes most of Laos (page 4).
4. Anti-Western feeling among Vietnamese becoming more open (page 6).

NEAR EAST - AFRICA

5. UN observer believes Israelis may attack Old City of Jerusalem (page 7).

WESTERN EUROPE

6. Trieste settlement depends on territorial adjustments (page 7).

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4 July 54

~~TOP SECRET~~

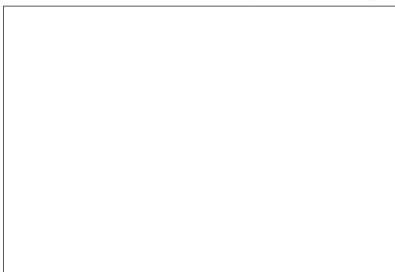
~~TOP SECRET~~**GENERAL****1. Impasse reached in Balkan military alliance negotiations:**

Representatives of Greece, Turkey, and Yugoslavia, currently meeting in Athens to draft a tripartite military alliance, have reached an impasse. Meetings of the full delegations have been suspended, according to Alexis Kyrou, director general of the Greek Foreign Ministry. He told the American ambassador that the controversial issue was Yugoslavia's unwillingness to assume military obligations in the event Greece or Turkey became engaged in conflict as the result of their NATO obligations. Kyrou believes it may be necessary to leave this question to the tripartite council of ministers to resolve when it meets in Belgrade later this month.

Comment: This is the first indication of potentially serious differences in the negotiations. In view of the strong mutual desire for an alliance, however, there will probably be only a temporary slowdown.

The alleged reluctance on the part of the Yugoslavs may be a bargaining tactic to obtain stronger commitments to meet aggression in the Balkans than the flexible proposals on this point advanced by Greece and Turkey.

Deputy Prime Minister Zorlu of Turkey has stated that Turkey would insist on a Yugoslav commitment to assist Greece and Turkey if they became involved in NATO military action.

SOVIET UNION**2. Comment on second Soviet note on Tuapse:**

The Soviet note of 2 July regarding the Tuapse incident is more restrained than its predecessor of 24 June. It omits the statement that the USSR will be compelled

- 3 -

4 July 54

~~TOP SECRET~~

~~TOP SECRET~~

[redacted] "to take appropriate measures" to safeguard its shipping in the area. This suggests that the Soviet Union is not planning at this time to convoy its ships, and to date there is no indication that any units of the Soviet Pacific fleet have been alerted for this purpose.

The note also omits the earlier demand for the "punishment of American officials responsible" but reiterates that the Tuapse, its crew and its cargo must be returned. It introduces a new factor in declaring that the Soviet Union retains the right to demand compensation from the United States. It also repeats that the tanker was seized by American naval forces, adding the phrase "under whatever flag they may have acted."

As of 3 July, the Tuapse was still at Formosa. Its crew and its cargo of kerosene had been removed. Although the Nationalist foreign minister is urging that the vessel be returned, Chiang Kai-shek is believed to oppose its release at this time.

Three Soviet tankers remain at Singapore, where they had been ordered following the Tuapse incident, and another is apparently still at Shanghai. [redacted]

SOUTHEAST ASIA

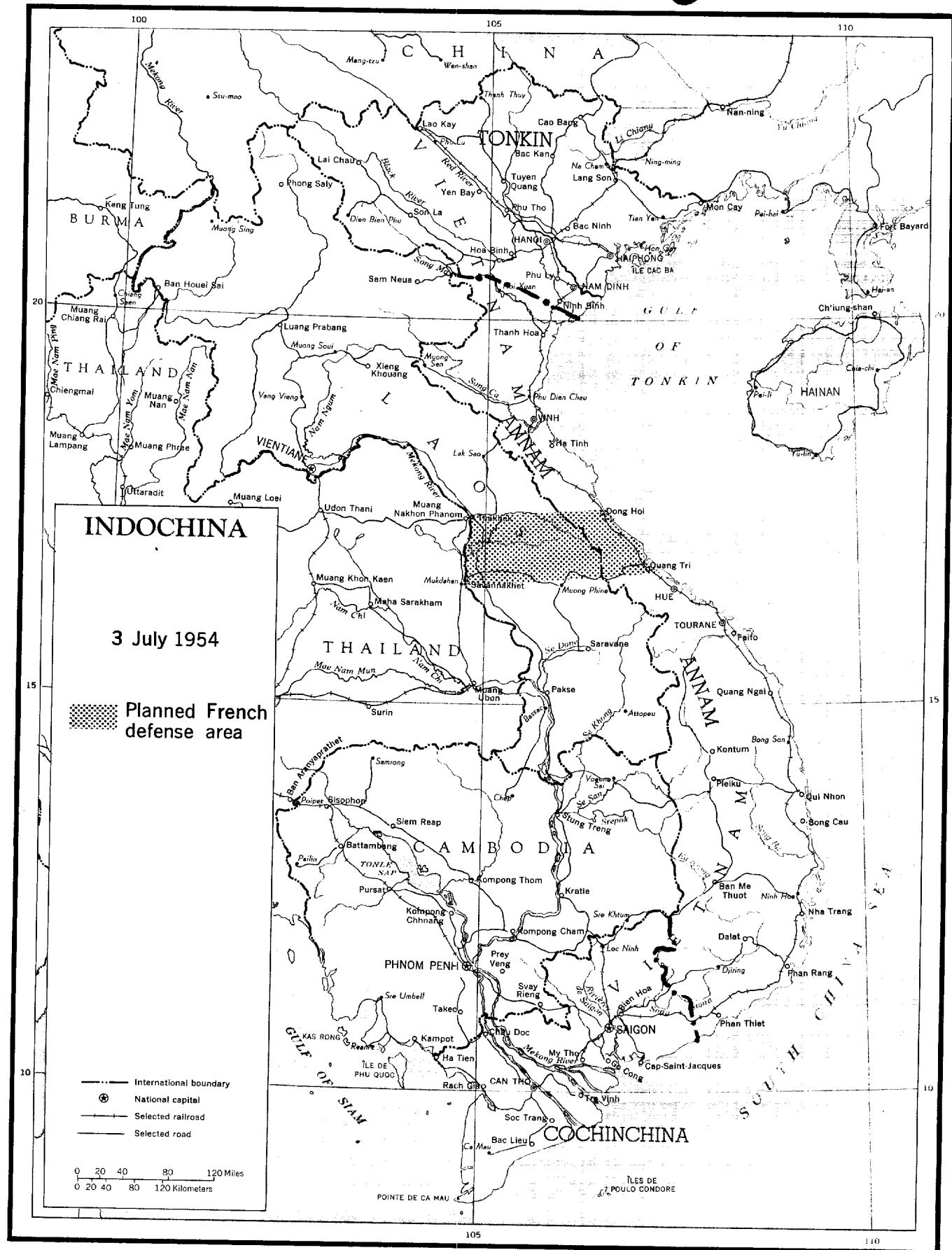
3. French defense planning excludes most of Laos:

[redacted] The American army attaché in Saigon reports that the fate of Laos is the biggest question mark in current French-Viet Minh negotiations. Regardless of the disposition made of Laos, the French reportedly are preparing detailed plans for the defense of the narrow waist of Indochina within the quadrangle Thakhek - Dong Hoi - Quang Tri - Savannakhet (see map, p. 5). The attaché reports that the French apparently feel that a satisfactory line for the defense of Laos cannot be drawn farther north. He believes that this narrow sector is indispensable from a terrain standpoint to the defense of South Vietnam.

- 4 -

4 July 54

~~TOP SECRET~~



SECRET

~~TOP SECRET~~

The attaché notes also that the transfer of the Tonkin force into southern Indochina will necessitate extensive clearing actions in areas of major Viet Minh strength, such as in the plateau regions of eastern Cambodia and embattled southern Annam.

Comment: The drawing of the primary French defense line in this area, while sound militarily, would probably produce the same psychological effects in northern Laos as the decision to abandon the southern part of the delta produced in Tonkin.

According to latest reports, the French and the Viet Minh are negotiating on the basis of a partition of Vietnam; France is seeking a line in the neighborhood of Dong Hoi and the Viet Minh is apparently holding out for one considerably farther south.

4. Anti-Western feeling among Vietnamese becoming more open:

The American chargé in Saigon reports increasingly overt hatred toward occidentals in general and the French in particular as news filters through to Saigon of the French "military decision" to withdraw from southern Tonkin. A prominent Vietnamese doctor told the chargé that the Vietnamese would, if possible, "turn against the French," and warned that Americans would also be "looked upon askance." He stated that the Vietnamese would probably accept a Viet Minh-dominated government embracing the entire country in preference to a partitioned Vietnam.

Comment: The hostility of the Vietnamese toward the French will have serious implications as it increases in the Vietnamese army and among the native troops who comprise more than a fourth of all French army regulars in Indochina.

The trend toward overt hostility will be accelerated if Premier-designate Ngo Dinh Diem declares Vietnam an independent state outside the French Union, as he has threatened to do if the French pull out of Tonkin.

4 July 54

~~TOP SECRET~~

~~TOP SECRET~~

NEAR EAST - AFRICA

5. UN observer believes Israelis may attack Old City of Jerusalem:

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According to UN observer Hutchison, General Bennike, chief of the UN Truce Supervision Organization, had a meeting with Israeli chief of staff Dayan following

Israel's failure to honor an unconditional cease-fire agreement of 1 July, accepted by both Jordan and Israel. Dayan reportedly told Bennike: "I do not hold with this 'cease-fire.' If and when I give the word there will really be some firing. I do not care what the UN or Military Advisory Commission thinks."

Hutchison has stated his belief that chief of staff Dayan might launch an all-out attack to capture the Old City of Jerusalem. The American embassy in Amman, however, is inclined to disagree.

Comment: General Dayan has a record for taking independent military action and is close to Ben Gurion, who is aggressive and still influential in Israeli affairs. In view of King Hussain's recent advice to Jordanians to return any Israeli fire, sporadic shooting can be expected even under a truce. [REDACTED]

WESTERN EUROPE

6. [REDACTED] Trieste settlement depends on territorial adjustments:

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~~TOP SECRET~~

4 July 54

~~TOP SECRET~~

Comment:

[] the Italian government now believes that a rapid solution of the Trieste question is desirable, even though it might not meet all of Italy's previous demands.

On the territorial issue, the Italians are insisting on minor revisions of the proposed boundary agreement so that the amount of territory exchanged would be more nearly equal for both sides.

- 8 -

4 July 54

~~TOP SECRET~~