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3.5(c)

~~TOP SECRET~~

~~TOP SECRET~~**SUMMARY****GENERAL**

1. Portugal may not block NATO membership of Greece and Turkey (page 3).

NEAR EAST

2. US-Arab relations damaged by Suez resolution (page 3).

WESTERN EUROPE

3. Social Democrats attack policies of Allies and Adenauer government (page 4).
4. Strike threat endangers French Cabinet (page 5).
5. French oppose US proposal for revision of Italian peace treaty (page 5).

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3.5(c)

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

3.5(c)

GENERAL

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1. Portugal may not block NATO membership of Greece and Turkey:

Prior to his departure for the Ottawa conference, the Portuguese Foreign Minister informed the US Ambassador in Lisbon that his government still feels that the full admission of Greece and Turkey to NATO is undesirable. He mentioned the possibility of inclusion of Greece and Turkey in NATO with the proviso that other members would not be committed to defend these nations in case of attack. He gave the impression, however, that he is not instructed to carry his objections at the Ottawa conference to the point of intransigence.

Comment: Portugal has consistently advocated a Mediterranean pact which would include Greece and Turkey and provide a basis for the eventual integration of Spain. The Mediterranean pact would, in the Portuguese view, effectively interlock with NATO through the Portuguese-Spanish Iberian defense pact.

The Lisbon government is concerned about the gap in Portugal's defenses caused by its militarily weak Spanish neighbor. Current negotiations for a bilateral US-Spanish military agreement have somewhat quieted Portugal's apprehensions.

Draft States

NEAR EAST

2. US-Arab relations damaged by Suez resolution:

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American relations with the Arab world have received a heavy blow as a result of US support of the UN resolution against Egyptian restrictions on Suez canal traffic. According to the US Ambassador in Cairo, the American stand has caused a renewal of Egyptian interest in the Palestine question and may have a bearing on US ability to

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

3.5(c)

3.3(h)(2)

help promote a settlement of the Anglo-Egyptian dispute. Once again there is a revival of talk about closer Arab-Soviet relations.

Comment: American officials in Iraq and Syria have likewise reported violent anti-Western reactions to the Suez resolution. These sentiments will make even less likely any accomplishment by the UN Palestine Conciliation Commission, currently meeting in Paris with Arab and Israeli representatives. Egyptian spokesmen, angered by the UN resolution, continue to issue uncompromising and bitter statements in reference to Anglo-Egyptian relations.

While the Arab states will hardly turn to the USSR, Arab frustrations and antipathy toward the West lend themselves to Soviet exploitation.

WESTERN EUROPE

3. Social Democrats attack policies of Allies and Adenauer government:

The opposition Social Democrats, after a three-day policy session in Bonn, have released a statement sharply attacking the German policy pursued by the Allies, as well as the policies of the Adenauer government. The statement stresses that Allied policy has prevented "real unity in the fight for freedom" and that Germany is still being denied equality of treatment.

In a speech to party officials, party chief Kurt Schumacher adopted the same general line, stressing that the Social Democrats would continue to oppose German rearmament on the present terms, which "enviseage the use of Germany as an advanced battlefield... not for a common cause, but for the national egotism of other States."

Comment: Despite certain optimism in German government circles, there is still no evidence that Schumacher will change his basic stand of opposition to German rearmament under the present conditions, or permit party endorsement of rearmament in the parliament.

- 4 -

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

3.5(c)

4. Strike threat endangers French Cabinet:

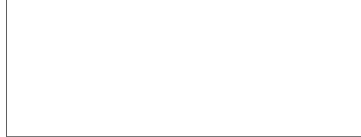
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The strike committee representing the five major labor organizations in the Paris transport system decided unanimously Monday to request salary increases considerably above the 15 percent minimum wage boost just approved by the government. This prompt reaction by the committee which led the successful transport strike last spring may foreshadow active union opposition to the new wage scale.

Comment: The serious position in which the Pleven cabinet is placed by this move is aggravated by the fact that the Gaullists have combined with the Socialists and the Communists to force a debate, scheduled for 14 September, on the government's wage and price policy. The cabinet's position has been considerably weakened by Socialist bitterness over approval of financial aid to church schools, and it may now be obliged to depend on Gaullist support to survive a vote on its wage policy. Gaullist support, however, can be counted on only until the school-aid bill has passed its final reading, probably about 18 September.

The situation is most favorable for the Communist "unity-of-action" drive, whose ultimate aim is the disruption of the French defense effort.

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5. French oppose US proposal for revision of Italian peace treaty:

The French are still very dubious about the procedure proposed by the US for the revision of the Italian peace treaty, which is "revision by agreement."

Foreign Minister Schuman has been expected to suggest in Washington a procedure involving three stages. First, a tripartite declaration would be made that steps should be taken to afford Italy relief from the treaty's military clauses. Next, this declaration would be submitted to the UN General Assembly for approval. Finally, individual communications approving the tripartite declaration and indicating what treaty

- 5 -

3.5(c)

~~TOP SECRET~~

~~TOP SECRET~~

3.5(c)

rights they would renounce would be sent to Italy by the US, UK, France and the other treaty signatories who wish to do so.

Comment: The Italians are anxious to have the entire peace treaty abrogated and replaced by bilateral treaties as a step toward restoring Italy to a position of complete parity in the family of nations. Consequently, they may be expected to oppose the French proposal, which is undoubtedly an attempt to weaken the validity of anticipated Soviet objections to abrogation of the treaty in whole or in part.

- 6 -

~~TOP SECRET~~

3.5(c)