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Editorial AB
RRAH

18 July 1951

[redacted] Copy No. CI-9

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CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 19
 NO CHANGE IN CLASS.
 DECLASSIFIED
 CLASS. CHANGED TO: TS S C
 NEXT REVIEW DATE: 2009
 AUTH: HR 70-2
 DATE: 12-79 REVIEWER: [redacted]

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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GENERAL**1. US and UK move to effect a bilateral Italian-Japanese peace treaty:**

[Redacted] US officials have informed Italy that its participation in the Japanese peace treaty is not deemed appropriate and that, instead, the UK and the US are prepared to use their good offices for the negotiation of a mutually satisfactory Italian-Japanese bilateral peace settlement.

The British Foreign Office suggests that the **UK** and the US move promptly to dispel public resentment at Italian exclusion from the Japanese peace settlement so that the Italian Government will not be pushed into a strong public position in conflict with that of the West. Italy was also informed that the US wishes to avoid antagonizing the Japanese public by putting Italy in the role of a victor.

Comment: The Italian Government has protested against its exclusion from the Japanese peace treaty on the grounds that this would (a) deal a serious blow to Italian prestige and (b) disastrously affect Italian public opinion. The Italian Government has sought to develop the idea that Italy has worked its way back to the family of nations especially by its staunch support of NATO.

FAR EAST**2. Enemy possibly extending jet operations:**

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[Redacted] Recent jet fighter operations support the Far East Air Forces' estimate that the enemy is capable of extending his air defense to cover all of Communist-held North Korea. In

addition to several air engagements in the Pyongyang area last week involving moderate to large-size enemy groups, there is evidence of possible enemy use of large external fuel tanks. Large silver tanks were reportedly observed dropping from enemy jets in their first pass at UN F-51's attacking Kangdong airfield northeast of Pyongyang.

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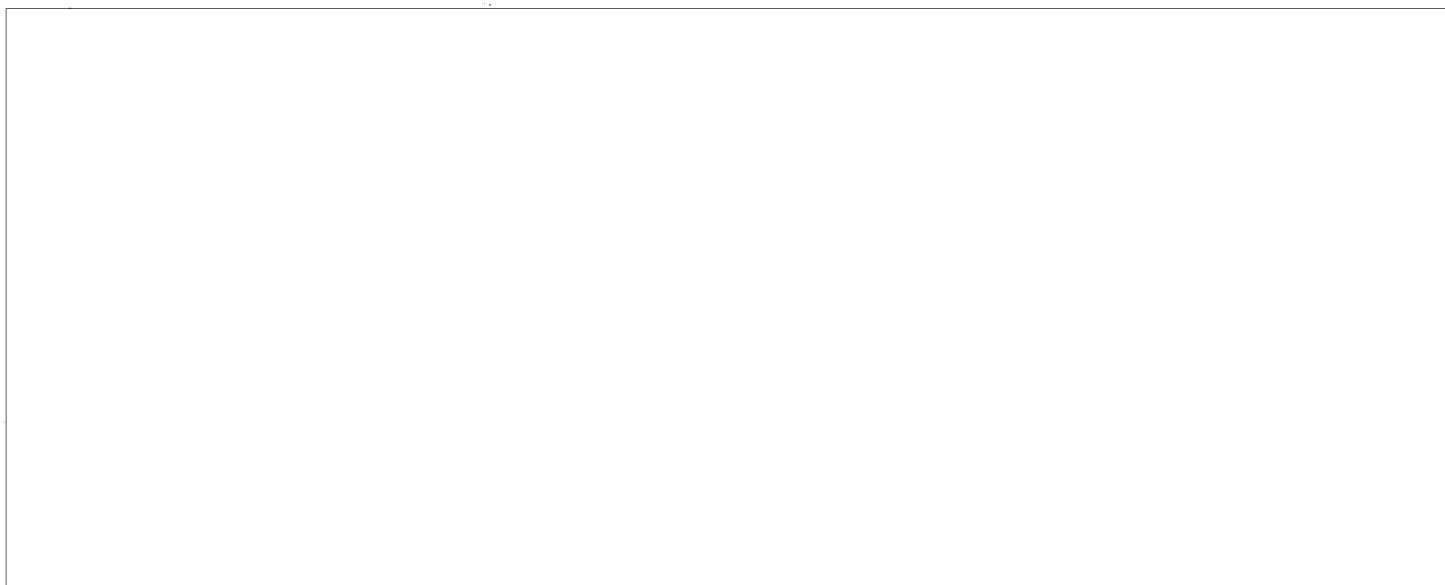
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Comment: Air Force technical intelligence has for some time reported that the MIG-15 is believed capable of a combat radius of more than 400 nautical miles if large tanks (approximately 150 gallons) were used. The above sighting, if confirmed, would be the first evidence that this potential has been reached. The combat radius of an MIG-15 equipped with 33 gallon external wing tanks is estimated to be about 250 nautical miles.

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NEAR EAST

4. Work on pipeline from Iraq to be hastened:

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The Iraq Petroleum Company plans to speed up work on the pipeline currently being constructed from Iraq to the Mediterranean with the completion date set between April and June 1952. This move is part of IPC's plans to increase oil production to meet the deficiencies resulting from the Iranian situation.

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[Redacted]

Comment: With the pipeline from the Kirkuk oil field to the refinery at Haifa closed, Iraq can export only 7,000,000 tons of oil per year. The completion of this new 30-inch pipeline will increase export capacity to nearly 20 million tons -- equivalent to two-thirds of Iran's 1950 output.

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SOUTH ASIA

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6. Increased Soviet and Communist activity in Afghanistan:

The US Embassy in Kabul reports considerable activity on the part of Soviet diplomats in Afghanistan, as well as rumors of significant Communist activity within the country.

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[Redacted]

Soviet Embassy and Trade Delegation personnel in Kabul are moving out of their embassy compound to take up residence in various parts of the city and are mingling to a greater degree with the local populace. Communist publications are now circulating in Kabul and Jalalabad, and there have been rumors of Communist infiltration into the Afghan Army. Furthermore, the Communist Iranian Tudeh Party has been reportedly active in the Herat province of northwest Afghanistan.

Comment: Growing internal political unrest, which stems from dissension within the ruling governmental clique and from the recent development of an anti-government liberal movement, makes Afghanistan a particularly inviting target for Soviet exploitation. Soviet diplomats in Afghanistan, many of whom speak fluent Persian or Pushtu, are well equipped to mingle with the Afghan populace.

WESTERN EUROPE

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7. Sforza expected to leave Italian Foreign Ministry:

[Redacted]

Although the domestic political situation remains obscure following the Italian Cabinet's resignation, there is a growing indication that Foreign Minister Sforza will be replaced.

According to well-informed Foreign Office circles, however, the final decision has not been made.

Comment: The replacement of Count Sforza, an elder statesman with little political following within Italy, has long been expected. His conduct of foreign affairs has been widely criticized, particularly by nationalistic rightist groups, on the grounds that it has been ineffective in defending Italian interests. Earlier reports have indicated that Sforza might negotiate a Trieste settlement with Yugoslavia and then be sacrificed in order to appease Italian public opinion.

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8. West German Socialists again criticize US and British labor units:

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The Social Democratic Party in Western Germany recently launched another bitter attack against the German Labor Service Units maintained in the US and UK zones. The

Social Democrats criticize the fact that the members of these labor and guard units are removed from German jurisdiction, and allege that there has been a tendency to transform the units into a paramilitary organization. The party further charges that the Allies have reorganized the labor units secretly and without consulting the Bundestag, and it demands immediate action to assure that the units do not become auxiliary troops. Government party deputies agree with the Socialists that action with respect to the labor units must not prejudge the question of German rearment.

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Comment: The US and UK together maintain

about 86,000 German and other employees under contract to guard installations and provide technical assistance. Although these units are not intended as cadres for a German armed force, the USSR has protested their existence. The Social Democratic Party, which is opposing German rearment, suspects that an attempt may be made to create armed forces "through the back door"; it therefore opposes the US-UK labor units, as well as the proposal to double the size of the Federal border police.

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9. Franco confirms long-awaited Spanish cabinet shakeup:

General Franco has personally informed the US Ambassador in Madrid that a general reorganization of his government will be announced on 19 July. Only four of the present

cabinet officers will be retained. They are: Minister of Labor Jose Antonio de Giron, Minister of Foreign Affairs Alberto Martin Artajo,

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Minister of the Interior Blas Perez Gonzalez, and Minister of Air Eduardo Gonzalez Gallarza. Lieutenant General Agustin Munoz Grandes is reliably mentioned as the new Minister of the Army.

Meanwhile, press reports describe the contemplated cabinet changes as a concession to public opinion in democratic countries.

Comment: This shakeup indicates a general tightening of the internal structure of the regime in order to obviate the criticism of inefficiency and corruption throughout the various governmental departments. Minister of Labor Giron has reportedly told the cabinet that if Spain's economic crisis is to be understood abroad, there must be some freedom for public criticism within Spain; otherwise, he claimed, it was logical for the US to hesitate to assist in Spain's economic rehabilitation. Giron is generally regarded as the government member with the greatest influence over the workers within the Falangist organization.

Retention of Martin Artajo signifies Franco's eagerness to retain the support of the active Catholic elements in Spain.

Lt. General Munoz Grandes is one of Franco's ablest and most trusted generals.

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