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State Department review completed

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### GENERAL

#### 1. British and French tone down opposition to US-Spanish ties:

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During the tripartite meetings on 14 September, British Foreign Secretary Morrison urged the US to go no further than necessary in its relations with Spain, and under no circumstances to raise

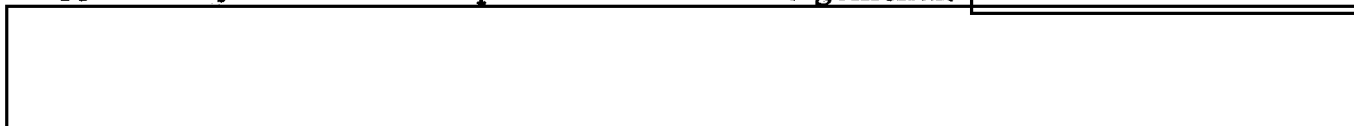
the question of bringing Spain into NATO. Morrison indicated that there was strong feeling in the UK on this issue.

French Foreign Minister Schuman said he believed that French opinion would be relieved by the US assurance that no attempt was being made to bring Spain into NATO. The main French fear, he said, would be a Spanish army equipped by the US. Such an army would be competing with France for supplies, and would make it appear that the US was basing Western defense on the Pyrenees.

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Comment: Last July the British and French openly opposed any bilateral US-Spanish defense arrangements.



### FAR EAST

#### 2. US Consul General argues for economic blockade of Communist China:

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The view of British Foreign Secretary Morrison that an economic blockade of Communist China probably would be ineffective and might force Peiping to "rely more heavily" on the USSR is opposed by the US Consul General in Hong Kong.

He points out that a blockade, while unable to disrupt the primitive Chinese economy or destroy the Chinese military potential, nevertheless would increase the strain on the economy, aggravate dissatisfaction over the Korean

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venture, and strengthen the position of those elements wishing to end the Korean conflict. He believes that additional Chinese economic dependence on the USSR would hasten Peiping's disillusionment with Soviet aid.

#### NEAR EAST

### 3. Comment on the Iranian-Soviet Oil Barter Agreement:

The Iranian Government announced on 17 September that it was preparing to sign a barter agreement with the USSR, presumably exchanging oil for sugar and other consumer goods. Previously Iran had stated that it was negotiating the sale of 1,200,000 tons of oil to Poland and Czechoslovakia.

The USSR, along with its European Satellites, owns 32 tankers and charters about 10 more. It could divert only a few of these from present commitments to hauling Iranian oil to Communist China or to the USSR itself. However, even a few tankers operating between Abadan and China would help the Soviet Union meet its Far East oil commitments, especially since an estimated 95 percent of the oil furnished China by the USSR is moved by rail.

In any event, the USSR will probably not have enough tankers available to move more than a small percentage of the normal annual output of Abadan. At present the 30,000,000 barrel storage tanks at Abadan are presumably nearly full, and contain more than could be moved by existing Orbit tanker facilities within several years.

Soviet barter agreements with other Middle Eastern countries have lagged behind promised deliveries, and there is no reason to believe that any Iranian-Soviet agreement would be fully implemented unless it were to the distinct advantage of the USSR. All concerned may, however, derive propaganda benefits.

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4. Egyptian government party leaders reportedly favor immediate abrogation of 1936 treaty:



The British Ambassador in Cairo was informed on 16 September that a majority of the government party leaders, who met the preceding day, favored immediate abrogation of the 1936 Anglo-Egyptian Treaty, but that the Minister of Interior had succeeded in postponing any action for ten days.

The ambassador is suggesting to London that the UK reply to the Egyptian Prime Minister's latest communication by indicating that new "interesting" proposals will be forthcoming. The US Ambassador warns the abrogation of the treaty will be difficult to prevent if some hope of new proposals is not offered Egypt in the immediate future.

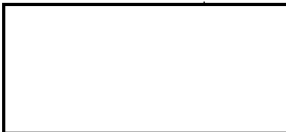
Comment: While party leaders have been gradually pushing the government toward definite action in regard to the long-threatened abrogation of the 1936 treaty, King Farouk, who has long opposed such action, probably will succeed in preventing any immediate steps.

The "interesting" proposals presumably will be an invitation to Egypt to participate in a joint Middle East Command. The present Egyptian mood, however, probably will not permit acceptance of membership in such an arrangement as a substitute for complete British evacuation of the Suez Canal area and of the Sudan.

#### WESTERN EUROPE

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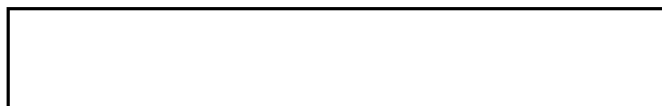
5. East and West Germans continue discussions on Berlin and interzonal trade:



West German authorities, reporting to the Allies on the progress of their current talks with East German officials on resumption of

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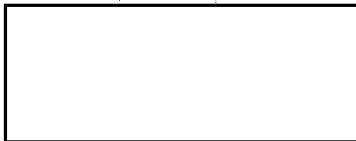
interzonal trade in return for cessation of current Soviet-East German restrictions in Berlin, are optimistic that various "conditions" will be met by the East Germans if the interzonal trade agreement is signed. The West Germans assert that both delegations are now prepared to sign the trade pact, with the verbal statement to be made by the West Germans that the trade agreement will be suspended if any impediments to trade are imposed.

Before considering whether the West Germans should be permitted to sign the interzonal trade pact, the Allies have insisted that the West German delegation obtain assurances from the East Germans that, in the event of the establishment of the proposed committee to review Berlin exports, the West German unit would have the final determination as to the legality of each shipment.

Comment: Despite a willingness to make certain concessions, the East Germans have left so many of the details unsettled, that the Allies cannot be sure of any appreciable improvement in the situation.

6. East German Communists revive unity campaign:

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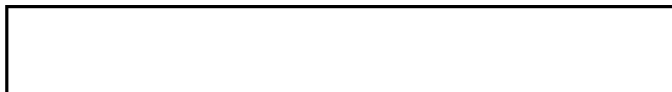


At a special session of the East German People's Chamber on 15 September, Premier Otto Grotewohl revived the spring 1951 campaign for "Germans at one Table," requesting the People's Chamber to send a new offer to the West German Parliament to hold an all-German unity conference. Grotewohl recommended a two-point agenda: (1) organization of all-German free elections for a national assembly charged with establishing a "united, democratic, peace-loving Germany," and (2) speeding up the conclusion of a peace treaty.

Grotewohl added that, in view of the gravity of the situation, East Germany would be willing to abandon its previous insistence on parity between East and West German delegations. In later remarks he stated that the number of representatives is "not of fundamental importance."

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Comment: Soviet and East German offers to negotiate German unification and to hold all-German elections have been made many times before, but there has never been evidence of willingness to hold elections on any other than Communist terms. The major aim of these "unity" proposals is to frustrate Allied efforts to obtain German participation in Western European defense preparations.

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