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25X1

S U M M A R Y**GENERAL**

1. Four-power talks on Germany viewed as enhancing Western position (page 3).
2. France favors coordinating Yugoslav defense plans with West (page 3).

FAR EAST

3. USSR grants secret credit to China (page 4).
4. Letourneau discusses Indochina on eve of Washington visit (page 4).
5. Karen insurgent leader reported in Formosa (page 5).

NEAR EAST - AFRICA

6. Iranian official predicts possible military coup (page 6).

WESTERN EUROPE

- 25X1
7. [REDACTED] expects Soviet-East German contractual relationship (page 6).
 8. Portugal unwilling to reveal secret Azores agreements to NATO (page 7).

L A T I N A M E R I C A

9. Bolivian tin nationalization appears more certain (page 8).
10. Venezuela reportedly attempting to provoke break with the USSR (page 8).

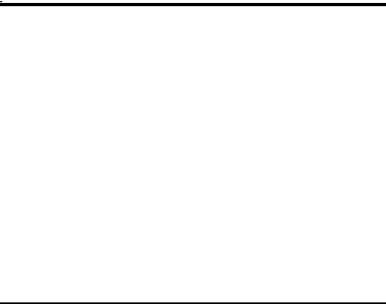
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GENERAL

1. Four-power talks on Germany viewed as enhancing Western position:

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Foreign Secretary Eden and Foreign Minister Schuman consider the French proposal to hold immediate four-power talks on Germany a tactical move which would strengthen public support of the Western position. They feel the talks would put the Soviet Union on record as opposing German unification and would make clear its responsibility for the breakdown of exchanges on the subject.

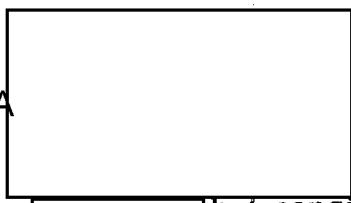
The American Embassy in Paris attributes Schuman's change of opinion largely to domestic political reasons. The British Foreign Office states that Eden arrived at his present position after consulting British authorities in Germany, who evidently believe that pressing for quadripartite talks will enhance the Western position there.

Comment: The present French and British views on the desirability of four-power talks are in almost complete contrast to those expressed by Schuman and Eden in their conversations with Secretary Acheson two weeks ago.

American officials have argued that four-power talks at this time will almost certainly prevent early West German ratification of the Allied-German contractual agreement and the Defense Community treaty.

2. France favors coordinating Yugoslav defense plans with West:

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France favors an early understanding with the United States and Britain on a joint approach to Yugoslavia on technical defense planning,

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[redacted] but considers it premature to bring up the question within the NATO framework.



The French Government believes that the NATO Standing Group is the only body qualified to study the question, but that actual conversations should be conducted according to Yugoslav preferences, possibly through three separate military missions which could coordinate closely with NATO.

Comment: France fears that the Standing Group's prerogatives are being usurped by SHAPE to the detriment of French influence.

Although Yugoslavia opposes formal military agreements with NATO, the Tito regime would probably be amenable to informal approaches along the lines suggested by Paris.

FAR EAST

3. USSR grants secret credit to China:

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A detailed analysis [redacted] discloses that Soviet deliveries of goods to China in 1951 under credit arrangements totalled about 155,000,000 dollars.

The publicized credit agreement signed by Peiping and Moscow in February 1950 obligated the Russians to extend to China a credit of only 60,000,000 dollars annually for five years.

Comment: Many reports have stated that the USSR has granted secret credits to China in addition to the known amount of the 1950 agreement. The additional credit enables Peiping to conserve its depleted reserves of Western foreign exchange and to curtail sharply purchases from non-Orbit areas.

4. Letourneau discusses Indochina on eve of Washington visit:

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[redacted] Minister-Resident Letourneau has suggested informally to an American official in Paris the establishment of two tripartite bodies, one to discuss the political aspects of Indo-China's international role, and the other the military.

25X1A

- 4 -

The best the French can hope for, according to the Minister-Resident, is to hold on until "the general international situation has improved sufficiently for us to negotiate a settlement." The American Ambassador infers that this remark envisaged inclusion of Indochina in an over-all Far East settlement, but suggests that a definite exposition of French thinking, both on this question and the possibility of negotiations with Ho Chi Minh, be sought in discussions with Letourneau next week in Washington.

Comment: As a preparatory step toward long-desired tripartite negotiations on Indochina some French officials in Saigon have recently suggested transforming their High Commission into a roving mission responsible for over-all supervision of French interests in Southeast Asia and the Pacific area.

There is still no confirmation of the many recent rumors that the French have been seeking to negotiate with Ho Chi Minh.

5. Karen insurgent leader reported in Formosa:

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An important leader of the Karen insurgents in Burma was flown to Taipei in April, [redacted] [redacted] The local press reported on 11 June that the same person was in Taiwan discussing the possibility of cooperating with the Chinese Nationalist troops in northeast Burma to prevent Chinese Communist aggression.

25X1

Comment: Although this information cannot be confirmed, there have been previous reports of contacts between the Karen insurgents and the Chinese Nationalist forces. These reports are supported by the statement made by the Burmese Minister of Karen Affairs to an officer of the American Embassy in Rangoon that the Karens in eastern Burma had recently received considerable numbers of American rifles, with which the Chinese Nationalists are known to be well supplied.

- 5 -

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[redacted]

NEAR EAST - AFRICA

6. Iranian official predicts possible military coup:

25X1A

[redacted]

Prime Minister Mossadeq does not have the support of the Iranian public, the Senate, Majlis or the Shah, former Iranian UN representative Abul Panahi told the American Ambassador on 6 June. As a result of growing alarm over the financial crisis, Mossadeq will no longer be tolerated.

Panahi stated that if the Shah did not soon replace the Prime Minister, a military coup would take place. He added that a discussion of the possibility of a coup was even then taking place, but that he had refused to attend.

Comment: Prime Minister Mossadeq's position has appreciably weakened during the last two months. There is no firm evidence, however, that his control of the government is as yet seriously threatened or that the Shah is ready to take action against him.

While current press reports of an attempted army coup support Panahi's account of army intrigue against the Prime Minister, there is no evidence that the army leadership is either willing or able to carry out a successful coup without the Shah's approval.

WESTERN EUROPE

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7.

[redacted] expects Soviet-East German contractual relationship:

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[redacted] anticipates that the Soviet Union will react to the Bonn and Paris treaties with open rearmament of East Germany and some form of contractual relationship.

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East German Deputy Premier Ulbricht reportedly told a 6 May meeting of representatives

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- 6 -

25X1A

[redacted] of East German mass organizations that the Soviet Control Commission is to be dissolved leaving only Soviet diplomatic representatives. He added that the East German Government is to acquire sovereignty and will then ask the West for new Berlin agreements on the grounds that the Potsdam and subsequent agreements have been invalidated by this new status. He concluded by stating that if new agreements are unobtainable, traffic to and from Berlin will be restricted.

25X1

[redacted] plans for an alliance whereby the Soviet Union would protect the German Democratic Republic against Western aggression. The alliance would be dissolved upon German unification.

Comment: Conclusion of such an agreement for East Germany and the dissolution of the Soviet Control Commission would be consonant with the Soviet policy of ostensibly paralleling in East Germany the development of the Bonn republic.

8. Portugal unwilling to reveal secret Azores agreements to NATO:

25X1A

[redacted] Portugal's permanent NATO representative has informed an American official in Paris that his government does not want the secret arrangements negotiated under the US-Portuguese Azores defense agreement to be communicated to the NATO Standing Group. According to the Portuguese diplomat, the Lisbon government wishes by this means to prevent other NATO members from soliciting facilities in the Azores similar to those granted the United States.

Comment: The Portuguese Government has always insisted that it could not recognize NATO's authority to interfere in the details of the Azores agreement.

- 7 -

25X1A

As for extending peace-time military facilities to other NATO members, the Azores treaty reserves Portugal's right to grant such privileges only to Great Britain. Current Portuguese reservations in this matter, therefore, appear to be directed primarily against France, the third member of NATO's Standing Group.

LATIN AMERICA

9. Bolivian tin nationalization appears more certain:

25X1A

At ceremonies swearing in the Tin Nationalization Study Commission, President Paz Estenssoro called on Bolivians to brace themselves for the "most transcendental and vital step since independence, namely nationalization, which is the principal goal and justification for the revolution." He discounted the operational problem and expressed belief that a solution could be found for the financial and commercial problems.

Comment: This contrasts sharply with earlier descriptions of Paz' "moderate" attitude, and may indicate that the influence of extremist Minister of Mines Lechin still predominates.

The tin nationalization measures are to be applied only to the three principal producers, who control approximately 80 percent of Bolivian tin production.

10. Venezuela reportedly attempting to provoke break with the USSR:

25X1A

Venezuelan authorities on 7 June refused entry to Soviet "courier" Yakushev and his wife. The Venezuelan chief of protocol is reported to have said that if the USSR does not break relations as a result of the "evident insult," it will be clear that the Russians have some "impelling reason" for remaining.

Comment: Rumors that Venezuela would break relations with the USSR have cropped up periodically since mid-1949, but this is the first "incident" of any kind. The Venezuelan action bears a strong resemblance to the Cuban moves which preceded the break there last April. A decision to close the Caracas Embassy would leave only three Soviet diplomatic missions in Latin America -- in Mexico, Uruguay and Argentina.