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USSR

1. Turnover capital controlled by Soviet decree:

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The USSR Council of Ministers, by a decree of 19 November 1951, established strict control over the custody of "turnover" capital by prohibiting its use by industries and organizations which were not involved in capital construction and capital repairs.

Comment: Turnover capital, or current funds allocated to industrial enterprises for new construction or repairs, has apparently been diverted to non-strategic production. Some factory managers have not only spent this money to purchase scarce materials to manufacture consumer goods not envisaged in Plan schedules, but have expended more than the sum allotted.

The 19 November 1951 decree requires an annual accounting of the use of this fund, and specifically states that it may only be spent for the production of nonconsumer goods. The fact that the Council of Ministers issued a decree establishing such strict control over the custody of turnover capital implies that this abuse may be fairly widespread throughout the Soviet Union.

FAR EAST

2. Quirino wants Pacific Pact discussions renewed:

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President Quirino emphasized to Ambassador Spruance in Manila his great interest in reviving Pacific Pact discussions. In his opinion, the US defense treaties with the Philippines, Japan, Australia and New Zealand would be more effective if made "interlocking." The Philippine president also would like to sponsor a conference in the near future to include Thailand and Indonesia, in addition to the above-named countries, but would first like to obtain American support.

Comment: Quirino has maintained his interest in a Pacific Pact with varying degrees of intensity since he first proposed one in 1949. Recently-renewed agitation in Indonesia in favor of an "independent" foreign policy suggests that that country would not at this time consider joining discussions toward a regional defense arrangement which had even tacit US support.

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WESTERN EUROPE

4. Italy expected to ratify Greek and Turkish NATO membership this week:

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The Italian Senate may begin debate on Greek and Turkish participation in NATO by 14 February and give its approval by 16 February, according to the Italian Foreign Office. The

government has made no effort to speed up ordinary legislative procedures on this matter because it wishes to keep the Communists unaware of the importance of the time element and thus avoid a filibuster.

Comment: Italy is now the only country holding up Greek and Turkish participation in NATO. Approval by the Italian Senate should permit the completion of formalities for the admission of Greece and Turkey into NATO in time for it to be announced during the forthcoming Lisbon meeting.

5. De Gasperi urges postponement of Trieste Zone A elections:

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Italian Prime Minister De Gasperi recently told US Ambassador Dunn that elections in Zone A of the Trieste Free Territory should be postponed indefinitely. He added that elections would damage chances of arriving at a settlement with Yugoslavia on the whole Trieste issue, and he hoped that they could be avoided. He said that if the elections must be held, they should be scheduled to coincide with the municipal elections in Italy.

The Prime Minister stated that an acceptable arrangement on Trieste would ensure the defeat of the Communists in the forthcoming local and national elections in Italy.

Comment: De Gasperi's statements illustrate Italy's unwillingness to make any real concessions on the Trieste issue and prove once more that the majority Christian Democratic party is apprehensive of further losses in both the Italian and Trieste local elections.

Popular dissatisfaction with the Italian Government on internal political and economic issues would weigh more heavily than any favorable settlement of the Trieste issue as a determining factor in the forthcoming Italian elections.

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6. France proposes military budget in excess of NATO estimate:

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[Redacted]

The French Government has just proposed to American officials a 1952 military program based on expenditures totalling four billion dollars. The American Embassy in Paris believes that France cannot increase defense expenditures to this extent unless the United States provides at least 200 million dollars in addition to present commitments in the first half of 1952, and 500 million dollars for the last half of the year.

Comment: Although NATO estimated that France could not support a military program exceeding 3.4 billion dollars in 1952, the French Government is proposing a ten-percent tax rise in an attempt to meet its commitments beyond this figure. The proposed new taxes would cover only half the difference between 3.4 and four billion, however, and parliamentary opposition to the increase is strong.

LATIN AMERICA

7. Mexico rejects draft military agreement with the United States:

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[Redacted]

The Mexican delegation at the current military talks has rejected the US draft for the bilateral agreement needed for assistance grants under the Mutual Security Act. The basis for agreement as proposed by Mexico is considered "completely unacceptable" by the American delegation which feels it unlikely that any agreement can be reached at this time. The American Embassy suggests that a formula be found for keeping the door open for future negotiations.

The Mexicans hedged on accepting the principle of participation in hemisphere defense by Mexican forces; stated that Mexico should do everything possible to strengthen its capacity to defend itself; and asked that the United States facilitate the acquisition of equipment for improving Mexico's military industry. The US Embassy believes that the Mexican delegation is influenced by the government party's vulnerability to attacks from opposition groups during this pre-election period.