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~~TOP SECRET~~

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

1. US Embassies in Moscow and London comment on Malik proposals (page 3).

FAR EAST

2. Substantial Communist defense construction noted on northwest flank of Korea (page 4).
3. US representative in Tokyo expresses concern over Japanese reaction to revised treaty draft (page 4).
4. British plan to defend Malaya (page 5).

SOUTH ASIA

5. India restricts the dissemination of military information (page 5).
6. Soviet-Afghan trade pact fails in its fulfillment (page 6).

NEAR EAST

7. AIOC's position in Iran deteriorating rapidly (page 7).

WESTERN EUROPE

8. West Germany to begin training 10,000 border police in July (page 8).

LATIN AMERICA

9. Argentine revolution rumored prior to 9 July (page 8).

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~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~**GENERAL****1. US Embassies in Moscow and London comment on Malik proposals:**

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The US Embassy in Moscow considers that Malik's cease-fire proposal represents a significant change in the USSR's attitude, for it abandons as immediate conditions for settlement talks the withdrawal of foreign troops, discussion of Chinese Communist membership in the UN, and the disposition of Formosa. The Embassy comments that because of increasing difficulties

in the Far East, the USSR and Chinese People's Republic may be willing to settle on less than their previously announced terms. However, the Embassy also notes that this maneuver could be primarily designed to enhance the alleged role of the USSR as peacemaker and, should the offer result in talks, would provide a suitable forum for Soviet propaganda themes. While Malik's talk does not constitute an actual proposal or suggest machinery for implementation, the Embassy feels it is desirable to investigate any possible element of sincerity. The Embassy concludes that if the proposal is genuine, it is possible that the USSR, unwilling to extend the present Communist commitment in order to eject the UN forces, intends either to call off the Korean war as a bad job that can be renewed later under more favorable circumstances or to use a short cease-fire period to improve the military situation.

The US Embassy in London considers that the endorsements of the Malik broadcast by the People's Daily, the official organ of the Chinese Communist Party, indicate prior consultation with the Chinese and careful preparation in advance of the broadcast. The chief UK Delegate to the UN has informed the Foreign Office of his belief that the statement was meant seriously and that, if a meeting is arranged between the US and USSR, efforts will then be made to bring in the Chinese Communist Government.

~~TOP SECRET~~

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~~TOP SECRET~~

FAR EAST

2. Substantial Communist defense construction noted on northwest flank in Korea:

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The US Far East Command, in analyzing the location and nature of recent enemy field work construction, notes an accent on heavy defensive works opposite the UN northwest flank.

Most of the substantial defensive installations completed or under construction during the past two weeks have been located in the area between the mouth of the ~~Yalu~~ River and the southwest corner of the "Iron Triangle" in the vicinity of Ch'orwon, and have included sizeable tank traps reinforced with road-blocks and mine fields, as well as the usual infantry emplacements. The possibility that this line may be used as a holding position in the next offensive is supported by the absence of significant vehicle movements, troop concentrations or supply build-ups in its rear. Furthermore, evidence of the concentration and regrouping of forces east and west of Kumhwa and the enemy's determined defense of his routes of access to the "triangle's" vital road net point to the central sector as the target of the main effort when the enemy resumes the offensive.

Comment: The enemy's preparation of anti-tank barriers across the approaches to the Pyongyang area is advisable with the approach of drier weather, which will favor the employment of superior UN mechanized forces.

3. US representative in Tokyo expresses concern over Japanese reaction to revised treaty draft:

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The US Political Advisor in Tokyo states that, while the revised US-UK draft of the Japanese peace treaty "does not do undue violence" to the publicly announced "treaty of reconciliation,"

it nevertheless appears unfriendly in tone and somewhat arbitrary. He anticipates it will give considerable shock to the Japanese Government and

~~TOP SECRET~~

~~TOP SECRET~~

people, especially since they have been led to believe that the only really onerous provisions of the treaty would be those relating to the former territories. He also notes that any resultant dissatisfaction will primarily be directed against the British and, secondarily, against the US, since the original US draft that was published in Japan will provide a basis for comparison and will reveal where and how the US gave way to British pressure.

Comment: In view of the Conservative majority in both Houses of the Diet, Japanese ratification of any reasonable treaty seems assured. It is conceivable, however, that a treaty containing unexpectedly unfavorable terms might react in the post-treaty period against the government responsible for the signing, thus paving the way for a return to power of elements less friendly to the US.

4. British plan to defend Malaya:

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During a recent conference of US and UK officials in Bangkok, the British Military Attaché stated that in the event Thailand were attacked by the Chinese Communists, his government intended to move British troops into southern Thailand from Malaya and take up defensive positions across the Kra Isthmus, the narrowest point of the Malay peninsula.

Comment: This is the first indication of British plans for the defense of Malaya in the event of a Chinese Communist invasion of Southeast Asia.

SOUTH ASIA

5. India restricts the dissemination of military information:

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The Indian Ministry of External Affairs has addressed a circular to the heads of diplomatic missions in India directing service attaches and

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~~TOP SECRET~~

advisors to submit in writing to the Director of Intelligence at their respective service headquarters all requests for military information. Similar procedure is required in order to secure permission to visit military stations, units and installations. Attaches are also to inform the Director of Intelligence whenever they wish to leave New Delhi for any reason, giving the purpose of their journey, their proposed itinerary and the date of their return. The circular stressed the necessity for giving adequate notice of intentions in all cases.

Comment: This directive is in accordance with other measures being taken by the Government of India to restrict the flow of military and economic information. It is becoming increasingly difficult for US diplomatic and military representatives to obtain required data

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6. Soviet-Afghan trade pact fails in its fulfillment:

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According to the US Embassy in Kabul, only 800,000 of the 3,000,000 gallons of gas scheduled for shipment by the USSR to Afghanistan before 30 June 51 under the terms of the Soviet-Afghan trade pact of 1950 were actually delivered by 1 June.

Comment: The exchange of other commodities covered by this agreement has also lagged. It is believed that by 30 June, when the current Afghan-Soviet pact officially expires, neither country will have fulfilled its commitments under the terms of the pact -- the USSR presumably because of heavy internal and Chinese demands for its gasoline and the Afghan Government because of the difficulties of acquiring and assembling the agreed commodities for shipment to the USSR. Neither country appears to have made special efforts to ingratiate itself with the other, and no attempt to extend the life of the pact or to negotiate a new one for 1951-52 has been observed. Accordingly, earlier fears that the pact would result in the economic and political orientation of Afghanistan toward the USSR seem to have been unfounded.

~~TOP SECRET~~

~~TOP SECRET~~

NEAR EAST

7. AIOC's position in Iran deteriorating rapidly:

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The US Embassy in London has been informed by the UK Foreign Office that, as a result of the Iranian oil commission's letter to Abadan Refinery Manager Drake accusing him of sabotage, Drake was flown out of Iran on 25 June. The Foreign Office is perturbed over this news and fears it will have grave repercussions on other Anglo-Iranian Oil Company personnel who

will feel that they should leave as well. Over the week end, the British Manager of the small AIOC installations at Kermanshah (western-central Iran) was notified that he was no longer in authority "because of non-cooperation."

Comment: UK Foreign Secretary Morrison told Parliament on 26 June that all tankers have been instructed to leave immediately, if necessary, after unloading any oil they have taken aboard. Meanwhile, he also announced that the British cruiser "Mauritius" had been ordered to proceed immediately to the Abadan area. Although the UK is probably not surprised by the rapid deterioration of AIOC's position, it is now planning on a day-to-day basis.

Drake's departure and the order recalling all tankers are direct results of two Iranian moves: (a) the announcement that a law would be enacted shortly under which any person accused of sabotaging oil production was liable to trial by a military court, and (b) the Iranian refusal to permit any loaded oil tankers to leave without a receipt, signed by the ship's master, in effect acknowledging Iranian ownership of the oil transported. Although Mossadeq has invited the AIOC staff to stay, the conditions under which they would operate and the general attitude of the Iranians make it virtually certain that a mass exodus will take place in the next few days. The result of this will be: (a) the unemployment of approximately 80,000 Iranian oil workers, (b) a cut of approximately 40 percent in government revenues, (c) the suspension of virtually all oil exports from Iran due to Iran's lack in tanker shipping, and (d) a complete shutdown of the refinery due to Iranian inability to manage and run such a complex installation.

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WESTERN EUROPE

8. West Germany to begin training 10,000 border police in July:

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[redacted]

West German officials take a more optimistic view of the country's internal security, since the task of organizing a border police of 10,000 is now almost completed. They expect that the establishment of this force will do much to raise both public morale and the prestige of the Federal Government, and comment that they have already noted a favorable public reaction. Organization of this force, which will begin training by 15 July 51, has caused the Interior Ministry to abandon attempts to amend the basic law to permit the formation of a federal emergency police. The Ministry states that if an augmentation of the security force is ever required, it would prefer to increase the size of the border police, rather than establish a new force.

Comment: The attempt to organize a federal emergency police, which was originally authorized by the Western Foreign Ministers, founded on the opposition of the German states to centralized control of the police. As a result, federal officials secured parliamentary approval in March 1951 for the formation of this new federal border police, which is also designed to serve as the main federal force for maintaining internal security.

LATIN AMERICA

9. Argentine revolution rumored prior to 9 July:

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[redacted]

ports that: (a) there are many rumors of a "blowup coming prior to 9 July," (b) Domingo Mercante, retired army colonel and Governor of the important Province of Buenos Aires, reportedly has the strong backing of several top generals, and (c) the bulk of

~~TOP SECRET~~

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~~TOP SECRET~~

the army is against Peron. He comments that all signs indicate that a critical situation is rapidly building up, and that "tension is mounting over the Peron-Evita election."

Comment: This confirms previous reports of the tense political situation in Argentina. Mercante is known to have some support among high-ranking officers, but there has been no indication that non-commissioned officers and enlisted men would support a revolt against the Perons at this time. Peron, however, has recognized the threat to his regime, and has taken precautionary measures, such as increased surveillance over top-level army officers, the replacement of the police chief of the Province of Buenos Aires, and numerous arrests of civilians.

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