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25X1

15 February 1952

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[REDACTED] Copy No. 49

25X1

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 55

NO CHANGE IN CLASS.

DECLASSIFIED

CLASS. CHANGED TO: TS S C

NEXT REVIEW DATE:

AUTH: HR 70-2

DATE: 12-11-75 REVIEWER: [REDACTED]

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[REDACTED] 25X1

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

[REDACTED] 25X1

DIA review(s)
completed.

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DOS review(s) completed.

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FAR EAST

3. US mission concerned over South Korean anti-cease fire campaign:

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Ambassador Muccio reports that official South Korean hysteria against a cease fire is "sparked by President Rhee" and will reach a crescendo as the possibilities of a successful armistice grow. If the Rhee government boycotts the armistice talks and the ensuing political discussions, Muccio observes, "our faces will be very red." However, he does not think that South Korean forces will continue the fight after an armistice.

Comment: This is the first time that Muccio has expressed any suspicion that Rhee might refuse to accept the outcome of the truce talks. President Rhee's public statements that he could not accept an armistice and that South Korean troops should ignore the negotiations and fight on "to the Yalu" presage a more extreme line in this crusade against the Panmunjom talks.

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7. Greek army morale deteriorating:

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The morale and discipline of the Greek army are steadily deteriorating according to Marshal Papagos. He told the US Military Attaché that if he had the authority he would dismiss four lieutenant generals and the Defense Minister. The Marshal emphasized that the US military mission must handle the direction of the Greek armed forces firmly and that it should advise the King on exactly what was happening.

Comment: These statements were apparently designed to persuade the United States to halt the Greek government's current purge of the army. The generals whose dismissal Papagos favors are the ones believed responsible for the removal of several high-ranking pro-Papagos officers during the last few weeks. Although the Marshal's report is apparently biased, there is evidence of serious political meddling with the army.

EASTERN EUROPE

8. Yugoslavia to propose the establishment of a condominium for Trieste:

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Yugoslavia, anticipating a failure of the negotiations with Italy on Trieste, will propose in the next two or three months the establishment of an Italo-Yugoslav condominium for the Free Territory of Trieste. Attached to this proposal will be the condition that a union of the two zones will not be a preliminary step towards Italian annexation.

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The Yugoslav Government, convinced that the present Italian Government will not accept such a proposal, will reportedly advance this tactic in an effort to appease the population of Trieste and strengthen Yugoslavia's international position.

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Comment: Such a proposal would serve to strengthen the heretofore negligible Yugoslav appeal among the strong independent groups in Trieste and to embarrass the Italian Government by forcing it to modify its present intransigent attitude or further weaken its position in Trieste.

A recent report that Marshal Tito this month will secretly receive one of the leaders of a strong independent group in Trieste may be related to this Yugoslav proposal.

9. Yugoslavia continues to oppose membership in regional defense pacts:

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The US Embassy in Belgrade believes that it would be premature to press Yugoslavia in the near future toward formal military arrangements with Greece and Turkey, but that a favorable occasion may arise in connection with direct Yugoslav-US staff talks in which the Yugoslavs have professed interest.

The Greek Minister in Belgrade has informed the Embassy that he does not believe that there has been any change in Yugoslav opposition to involvement in Western political and military blocs, and that the independent Yugoslav attitude in this respect is possibly reinforced by their feeling that the immediate danger of Soviet attack is lessening.

Comment: The Turkish Foreign Minister recently informed Ambassador McGhee in Ankara that Greek and Turkish officials had agreed upon the desirability of asking the Yugoslavs to enter into secret military staff talks and would welcome US aid in obtaining Yugoslav adherence.

While the Yugoslavs would undoubtedly like to know more about Greece and Turkey's relationship with NATO, they continue to maintain that Yugoslavia cannot join such a pact or make political or military arrangements with Western powers.

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WESTERN EUROPE

10. Austria fears Polish retaliation for non-delivery of bearings:

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The Austrian Government fears the consequences of its failure to deliver during January and February the embargo-type ball bearings called for under its trade agreement with Poland.

Calling the US-requested action "a dangerous game being played with Austria's vital coal supply," government officials warn that if Poland stops coal deliveries, it may not start them again on the present terms. The officials state that Polish coal cannot be immediately replaced with high-priced American coal.

The Austrian Foreign Office expects a retaliatory reduction in coal deliveries within two weeks.

Comment: American officials have pressed the Austrian Government to suspend delivery of embargo-type bearings to see whether Poland would actually stop coal shipments. The large stock-piles of coal in Austria and Poland's recent failure to fulfill other parts of the trade agreement appeared to offer favorable conditions for such a test.

11. Switzerland may withdraw from economic organization:

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The American Minister in Bern warns that Switzerland will withdraw from the Organization for European Economic Cooperation if that body becomes the economic arm of NATO. Switzerland does not object too strongly, however, to covert cooperation between OEEC and NATO.

Comment: The Swiss have been concerned over the possibility of OEEC's subordination to NATO. They have informally indicated that in such an eventuality they would try to maintain economic cooperation with Western Europe through the Council of Europe, which coordinates closely with OEEC on economic matters.

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