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~~TOP SECRET~~

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

1. [REDACTED]
2. [REDACTED]
3. Australia wants consultation on any five-power conference on Asia (page 4).

FAR EAST

4. Barter of Japanese ship for Russian oil proposed (page 4).
5. South Korea may approach US on Asian conference (page 5).

NEAR EAST - AFRICA

6. [REDACTED]
(page 5).

EASTERN EUROPE

7. Fear of Soviet military force prevents riots in East Germany (page 6).

WESTERN EUROPE

8. Molotov's remarks on trade seen tempting to West German businessmen (page 7).
9. Laniel believes France would reject EDC for Indochina settlement (page 7).
10. Monnet moves for early CSC action against cartels (page 8).

LATIN AMERICA

11. Italy may allow ammunition shipment to Guatemala (page 8).

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~~TOP SECRET~~

~~TOP SECRET~~

GENERAL

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~~TOP SECRET~~

~~TOP SECRET~~

3. Australia wants consultation on any five-power conference on Asia:

[Redacted]

The Australian chargé in Washington told the State Department on 5 February that his government would expect to be consulted before acceptance at Berlin of any proposal for five-power meetings on Asia.

Comment: Australia has long sought to establish its right to participate in decisions affecting the Far East and it will probably become more insistent, because Australia's responsibilities in the Commonwealth defense plan have shifted from the Middle East to Southeast Asia.

FAR EAST

4. Barter of Japanese ship for Russian oil proposed:

[Redacted]

The Japanese Foreign Ministry has requested the United States government's reaction to a proposed exchange of a 6,900-ton cargo ship for 223,000 tons of Soviet crude oil, involving about \$2,450,000 each way, the US embassy in Tokyo reports.

The Japanese say the transaction would be to their advantage as they lack sufficient shipbuilding orders and are faced with making increasing outlays of foreign exchange for petroleum.

Comment: If the facts are correctly represented, Japan appears to be concluding a very favorable trade, as its shipbuilding costs are relatively high and the price of the crude oil is quite low.

~~TOP SECRET~~

~~TOP SECRET~~

The USSR has been attempting to place orders for cargo ships with most major shipbuilding countries in the West and is relying increasingly on exports of petroleum products to pay for Soviet imports.

5. South Korea may approach US on Asian conference:

[Redacted]

George Paik, who headed the recent South Korean mission to Southeast Asia, intimated to the American embassy that his government will soon approach the United States on the calling of an anti-Communist Asian conference. He also indicated that President Rhee was eager to have Magsaysay take the lead in calling the conference.

Paik commented that South Korea was "not very pleased" at Chinese Nationalist reports that Japan would be included. The embassy believes, however, that if Magsaysay should invite Japan, Rhee would accept the decision.

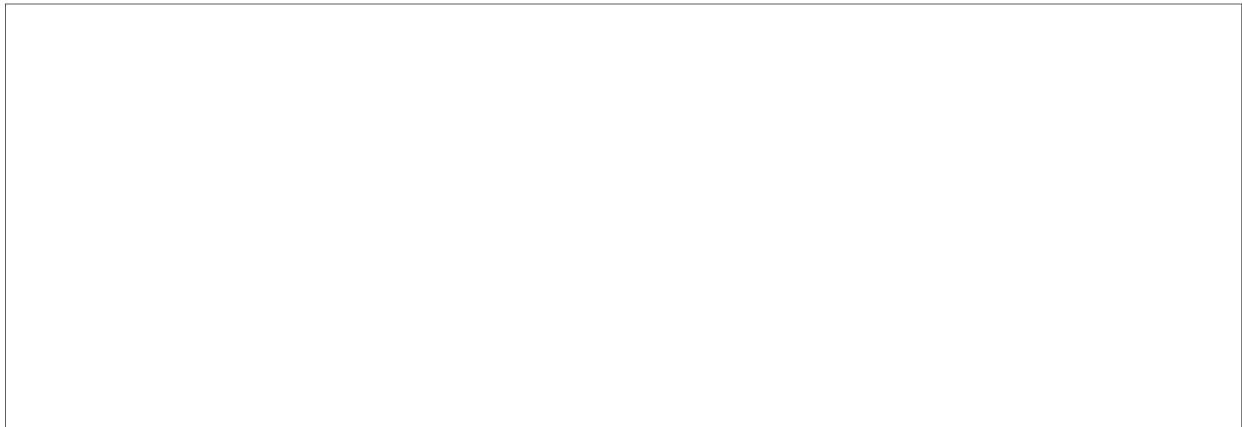
Comment: Rhee has reportedly formed a committee composed of Paik, Foreign Minister Pyun, Major General Choe Tok-sin, and Rhee's two private American advisers to plan a conference which would lead to an eventual alliance. To date, however, there has been little favorable response to Rhee's plan.

NEAR EAST - AFRICA

6.

[Redacted]

~~TOP SECRET~~

~~TOP SECRET~~

EASTERN EUROPE

7. Fear of Soviet military force prevents riots in East Germany:

American observers in Berlin believe that "unrest is so near the surface" in East Germany that only the fear of Soviet military force will prevent demonstrations if Molotov

remains intransigent at the four-power conference. According to these observers, open antiregime discussion in East German plants is specifically linked to the Soviet delegation's inflexible opposition to free elections.

The Soviet stand on unity together with failures of the "new course" in East Germany and continuing repression has created a situation potentially more explosive than any since 17 June.

Comment: Communist authorities have taken elaborate security precautions in both East Berlin and the provinces to prevent uprisings similar to that of 17 June. The press has reported the threat of uprisings at widely scattered points in East Germany, but there is no evidence of any activity beyond vocal expressions of opposition.

~~TOP SECRET~~

WESTERN EUROPE

8. Molotov's remarks on trade seen tempting to West German businessmen:

[redacted] Molotov's remarks at the Berlin conference on the economic aspects of the Far East problem were arousing great interest among West German businessmen who want to expand East-West trade. Citing the favorable comment of a prominent newspaper on the possibility of opening vast Eastern markets,

[redacted] must reckon with the demands of German businessmen.

Comment: On several occasions during the conference, Molotov has called for increased trade between Orbit countries and the West. One result of the considerable pressure in the Federal Republic for increasing such trade was the Bonn government's request two months ago for Allied relaxation of the embargo on steel and iron to Communist China.

[redacted] a Moscow trade delegation is in Berlin to explore the possibilities for increasing trade between the Soviet Union and the Federal Republic.

9. Laniel believes France would reject EDC for Indochina settlement:

[redacted] Premier Laniel told American representatives in Paris on 3 February that he believes his government could not resist the popular and parliamentary appeal of a plausible-sounding Soviet proposal, no matter how insincere, for ending the Indochina war in exchange for French rejection of EDC.

Laniel believes, however, that EDC ratification is possible if the existing text and protocols are presented in such a way as to enable the Socialists and others to vote for it without reference to domestic partisan considerations.

~~TOP SECRET~~

Comment: Laniel's cabinet had agreed prior to the Berlin conference to reject an Indochina settlement linked to abandonment of EDC. The mere announcement of such a Soviet proposal, however, would make it difficult for Laniel to press for assembly ratification of EDC soon after the end of the Berlin talks.

10. Monnet moves for early CSC action against cartels:

 Jean Monnet, president of the European Coal-Steel Community, will submit this week to its High Authority a program contemplating dissolution of the steel export cartel and the major coal sales organizations within the community.

The American mission to the CSC believes that, in view of the desire of most of the six member governments to preserve cartel control of coal and steel price policies, the proposed anticartel regulations will meet considerable opposition both within the High Authority and at the 8 March meeting of the Council of Ministers.

Comment: The approaching showdown between the High Authority and the cartel-minded coal and steel interests is expected to determine whether the CSC can fulfill its original purpose of breaking down the chief barriers to a free market.

Leading German industrialists have declared their determination to re-form cartels, and in France a powerful steel cartel is believed to have been formed last fall to defend that industry's protected position.

LATIN AMERICA

11. Italy may allow ammunition shipment to Guatemala:

 In response to American protests regarding an order placed in Italy by a Swiss firm for the shipment of \$69,000 worth of ammunition

~~TOP SECRET~~

to Guatemala, a Rome Foreign Ministry spokesman defended the order on grounds that "Italy did not want to alienate a supporter for its United Nations membership" and that "Guatemala had voted against the Soviet bloc there."

After the American embassy pointed out the possible repercussions of such a shipment, the spokesman promised that the Foreign Ministry would use its "good offices" in an endeavor to block the shipment and that it would discuss with the United States future requests for ammunition export licenses for Guatemala. He gave no assurances, however, that the shipment under question would not be permitted.

Comment: The Italian government blocked a shipment of aircraft to Guatemala in May 1951, but has refused to stop small arms and ammunition shipments in the past.

~~TOP SECRET~~