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GENERAL**1. Soviet tanker apparently seized by Chinese Nationalists:**

The US Seventh Fleet reported on 23 June that the Russian tanker Tuapse had been sighted that morning "dead in the water" about 100 miles due south of Formosa. Two Chinese Nationalist destroyer escorts were observed standing by.

Comment: The Tuapse has apparently been seized, and, if so, will probably be escorted to Formosa.

This vessel is a new tanker, built in Denmark in 1953, of 9,051 gross tons.

As of 23 June, three other Russian tankers were following it at some distance to the southwest.

The USSR, following the policy adopted after Nationalist seizure of the Polish tanker Praca last October, may divert the other tankers to the port of Canton. The Chinese Communists could provide air and naval protection as the ships approached South China coastal waters.

Moscow's immediate reaction is expected to take the form of protests to the United States and the UN, describing the incident as piracy, and charging American responsibility. These charges will be widely accepted, especially in the Far East.

2. Viet Minh suggests willingness to neutralize Laos and Cambodia:

[redacted]
At a dinner given by Chou En-lai on
21 June, the Viet Minh delegate took a
conciliatory line [redacted]

[redacted]
He "accepted the principle" of a Viet Minh
withdrawal from Laos and Cambodia and emphasized his concern
over the possibility of American bases in those states.

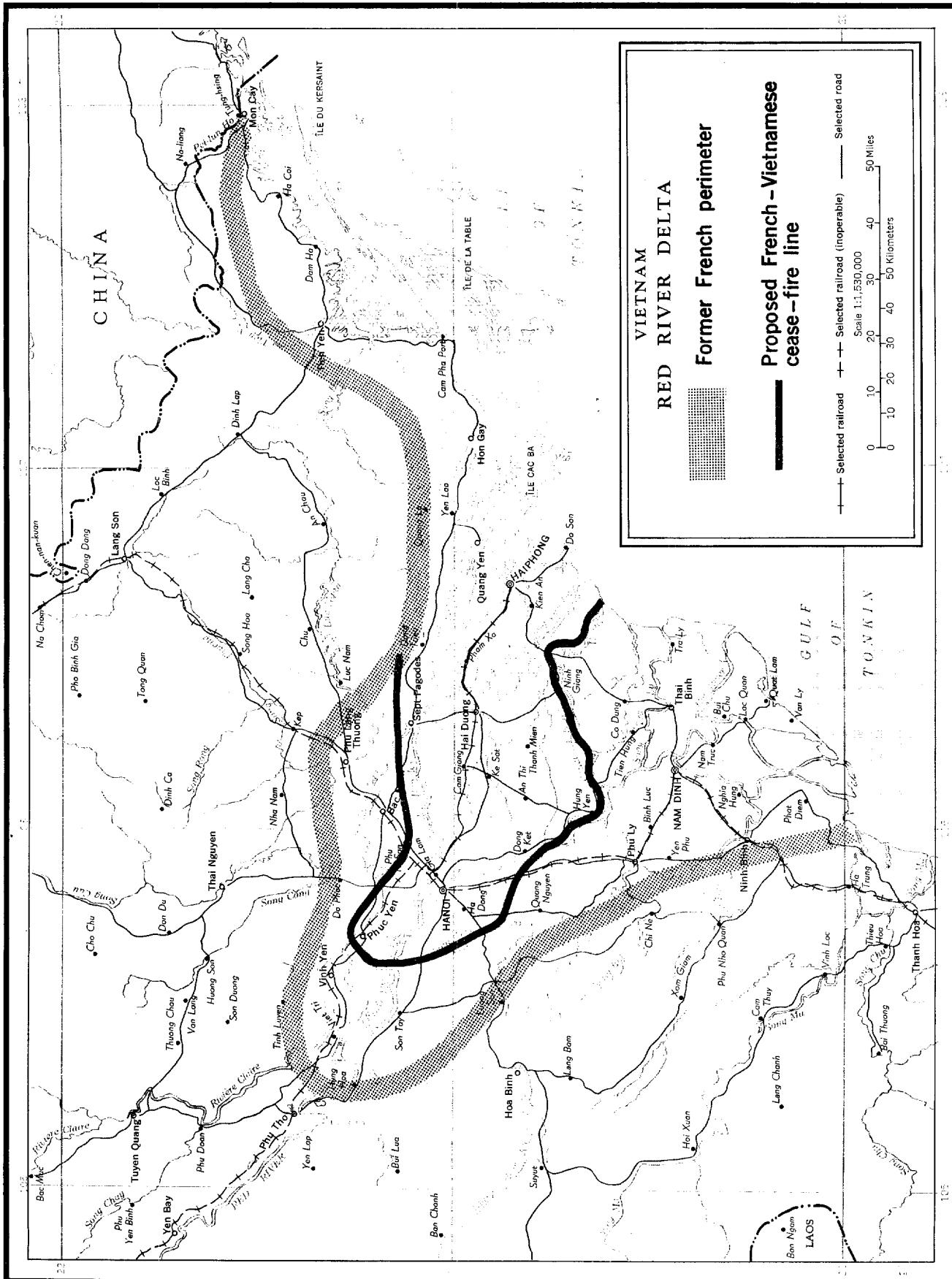
The Viet Minh delegate asserted that
most of the Viet Minh forces in Laos have already been withdrawn.
In saying this, he implied that the remainder constitutes a native
"resistance movement" which the Communists consider a more
valuable asset than the movement in Cambodia.

[redacted]
Communists clearly seem to be moving toward an understanding which
would in effect neutralize Laos and Cambodia or at least prevent them
from participating in a Southeast Asian defense organization.

SOUTHEAST ASIA

3. Cease-fire line in Tonkin being drawn by French and Vietnamese:

[redacted]
French and Vietnamese officials in Hanoi
believe a cease-fire in Vietnam is inevitable,
and that this would be a long step toward
handing over Tonkin to the Viet Minh, ac-
cording to the American consul.

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Comment: The Communists at Geneva have been reported claiming current control over all of the delta except Hanoi and Haiphong, and another report suggests they may bid for those cities as well in any settlement.

4. "Large quantities" of Chinese aid to Viet Minh reported:

[redacted] Chinese materiel have crossed the border into Viet Minh-held territory during the past several weeks. The materiel, consisting largely of ammunition and heavy weapons, included between 36 and 50 105mm howitzers.

[redacted] a large proportion of this materiel was destined for the Thai Nguyen area, just north of the

~~area~~ Tonkin delta, where one enemy division and nine battalions in training are located.

French headquarters in Saigon, meanwhile, still foresees the possibility of a new Viet Minh division consisting of the nine battalions at Thai Nguyen, according to the American army attaché in Saigon. It is now known, he states, that three of these battalions were originally intended to be an artillery regiment and they may still be trained as such.

Comment: This report supports previous estimates that the Viet Minh is continuing to maintain a capability for a full-scale attack on the delta during the rainy season. The decision as to whether to make such an attack will probably rest largely on political considerations.

5. Chinese Communist military posts reported inside Burma:

The Chinese Communists have established three military posts within the Burmese Wa States.

The posts are said to be garrisoned by a total of 500 men.

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Burmese government official in the Wa States told local leaders that Burmese and Chinese Communists were working closely together in the administration of the Wa country, which lies on both sides of the border.

Comment: There have been periodic reports of Chinese Communist incursions into the Burmese Wa States, but this is the first to indicate permanent occupation of any part of the area.

The military posts are located on the Burmese side of a boundary agreed to by the British and Chinese Nationalists in 1941. A Chinese atlas of December 1953 placed the border considerably to the west and the establishment of the military posts suggests Peiping's intent to bring this additional area under its administration.

NEAR EAST - AFRICA

6. Iran's prime minister may "close" Majlis and call on army to sustain him in power:

Prime Minister Zahedi has given the impression that he will resist efforts to force him to resign and may even call on the army to sustain him in power.

Zahedi is growing increasingly impatient with the "obstructionist" attitude of the Iranian Majlis and may try to "close it" after an oil settlement has been approved.

Comment: [redacted]

[redacted] current political instability in Iran. The army is traditionally loyal to the shah. It is very doubtful if Zahedi would get much army support in any contest for power with the royal court.

A rapid disintegration of the Iranian government, which is increasingly indicated in current reports as likely to follow an oil settlement, would seriously jeopardize the implementation of any agreement.

7. HammarSKJOLD plans to remove Palestine truce supervisor:

[redacted] UN secretary general HammarSKJOLD plans to remove General Bennike as Palestine truce supervisor in the near future, according to the British UN delegate.

Comment: The Israeli government has repeatedly accused the truce supervisor of bias, and the press has been campaigning for his removal. In the opinion of most Western officials in the area, however, Bennike has been impartial in the difficult job which he has held since June 1953.

8. Saudi Arabian-Onassis tanker agreement [redacted]

Comment: On 7 June the Saudi government published the text of the Onassis agreement and two letters from Onassis. One of these more fully defines certain articles of the agreement and the other outlines the procedures for implementing the pact.

the seriousness of the Onassis deal, which has already been the subject of formal protests by the Department of State and ARAMCO.

The Saudi Arabian Maritime Tanker Company of Onassis has formally acquired its first tanker and presumably will soon be able to load Saudi oil.

WESTERN EUROPE

9. Britain proposes joint action to end West German occupation:

The Foreign Office has informed the American embassy in London that it is prepared to begin talks on bringing the contractual agreements with West Germany into force. The embassy has the impression that Britain is ready to risk breaking with France on this issue. Some British officials feel, however, that France would accede "with a sigh of relief."

The British have drafted two treaties. The first would put the Bonn conventions into effect immediately. The second, for use in the event France rejects the first, would restore German sovereignty in the British and American zones. In either case, German rearmament would be the subject of separate negotiations.

Comment: Eden warned Mendes-France last week end that any alternative to EDC would entail greater German independence. British officials are, moreover, fully aware of the difficulties involved in separating the Bonn and Paris treaties.

Top Foreign Office officials hold privately that EDC in its present form is "dead." They continue to argue officially that EDC is the "best" way of rearming Germany, however, and they may still hope to shock the French into ratifying an acceptable modified version.

Former premier Paul Reynaud told Ambassador Dillon on 21 June he expects that Mendes-France will present to the National Assembly an "unworkable" compromise EDC formula, which, "if the circumstances are right," could be beaten. Reynaud felt that the present EDC treaty could then be passed.

LATIN AMERICA

10. Guatemalan Communists reported planning attack on American embassy:

[redacted] Communists in Guatemala City claim they will attack the embassies of "unfriendly" governments in Guatemala City [redacted]

[redacted] They reportedly expect to seize documents in the American embassy proving collaboration between the United States government and Castillo Armas, leader of the opposition forces.

Comment: The departure on 19 June of the bulk of the army forces usually stationed in Guatemala City has rendered the city vulnerable to Communist-incited mob violence. The Communists have charged repeatedly that the United States was implicated in the Castillo Armas "invasion" and the American embassy may become the target for Communist "reprisals."

Communist-led labor and youth groups in Guatemala City are believed to have been armed by the government.