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4 July 1951

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Copy No. C 1-9

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 7NO CHANGE IN CLASS. DECLASSIFIED

CLASS. CHANGED TO: TS 3

NEXT REVIEW DATE: 2001

AUTH: HR 702

DATE 17-7-71 REVIEWER: 3.5(c)

THIS DOCUMENT CONTAINS CODE WORD MATERIAL

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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FAR EAST

1. Enemy continues to augment forces in Korea:

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According to Far East Command numerous reports indicate that the enemy is continuing to reinforce and provide replacements for both North Korean and Chinese Communist

forces in Korea. Front line Korean corps have been strengthened by replacements drawn from units in the Pyongyang and Wonsan areas. The strength of these units, in turn, has been maintained by the consolidation of units assigned to rear area security missions, the reactivation of units dissipated in the defeats of last autumn, and the continuance of recruitment and training at a relatively high level. Recent unconfirmed reports have mentioned the activation in Manchuria of new North Korean divisions and their movement into Korea.

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[redacted] the arrival in Korea of additional Chinese Communist units to replace those recently withdrawn as a consequence of combat losses. Prisoners of war have confirmed the presence in Korea of the 140th Army. Other prisoners have reported that other units of the Fourth Field Army are in Korea in a relief role. [redacted] confirm the movement of sizeable Chinese Communist forces along the main enemy supply route to the rear of the northwest front.

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Comment: There is ample evidence of a long range program to build up the North Korean armed forces, which might be significant if all foreign troops were withdrawn. The extent to which the Chinese Communists have instituted a rotation of forces to replace units withdrawn remains uncertain. The influence of the cease-fire negotiations on such long term manpower commitments have not as yet been reflected in available information.

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2. Embassy Moscow believes Communist cease-fire terms dictated by prestige considerations:

[redacted] Embassy Moscow believes that the choice of Kaesong as the site of negotiations and the delay preceding negotiations are for reasons of prestige and propaganda. The

Embassy points out that if the delay were designed to allow Communist forces to improve their military situation, the launching of an offensive would be likely to boomerang against their alleged peaceful intentions. The Embassy further questions whether the Communists could not expect to improve their military position materially before cease-fire negotiations, except in the unlikely event that they are determined to conclude the Korean war with a large-scale air offensive against UN rear bases and naval vessels.

Comment: In addition to possible prestige and propaganda advantages, the Communists probably consider a delay necessary in order to prepare for a conference that has developed quite rapidly. With regard to military considerations, there is evidence that Communist forces in Korea will be capable by mid-July of resuming the offensive if they so desire.

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3. Soviet Representative in Japan optimistic concerning Korean settlement:

[redacted] General Kislenko, the Soviet member of the Allied Council for Japan, privately told US Political Adviser Sebald on 2 July that "at last we are going to have peace." When

Sebald replied that complex questions were sometimes difficult to resolve, Kislenko stated emphatically, "No, this time there is nothing to worry about." The US Political Adviser comments that the subject was spontaneously raised by Kislenko, as if the latter had some foreknowledge of cease-fire negotiation plans. This attitude was in marked contrast to a position taken earlier by Kislenko in regard to the Malik speech, when he denied all knowledge of it and refused comment.

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Comment: It is not customary for a Soviet representative to hint at possible future actions or attitudes of his government, particularly with regard to a question as important as a Korean peace settlement.

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4. Morale of Chinese Nationalist forces declining:

Suicide and desertion among members of the Chinese Nationalist armed forces have become a problem, according to a senior Chinese Nationalist general. The causes:

(1) fear of the Soviet-style political officers of Chiang Ching-kuo, the Generalissimo's eldest son; (2) physical sickness; (3) homesickness, heightened by the backfiring of propaganda promising an early return to the mainland; and (4) assignment to "coolie jobs."

Comment: Any marked increase in the already high sick rate would seriously affect the combat potential of the Nationalist forces. While the institution of political officers serving with the armed forces is not new, they had not been accorded as much power prior to Chiang Ching-kuo's appointment as their chief. Chiang spent approximately 10 years in Russia, and reportedly is attempting to emulate the Soviet methods of insuring control over both military forces and civilians. In the process, he is arousing increasing resentment from all elements.

NEAR EAST

5. Tanker receipt problem under consideration in Iran:

The US Ambassador in Tehran reports that he saw Prime Minister Mossadeq on 2 July and suggested acceptance by the new National

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Oil Company of the receipt proposed by AIOC (Anglo-Iranian Oil Company) which acknowledges the amount of oil loaded, but which would not prejudice the eventual outcome of the oil dispute. Mossadeq stated that he would accept such a reservation only if given an "absolute guarantee" that this endorsement will not be used by the AIOC or any other company transporting the oil as an excuse to avoid payment.

Comment: This suggests that the current dispute over the oil tanker loadings could be resolved. Since Mossadeq has maintained an intransigent position heretofore, however, it will be surprising if he does not manage to attach conditions involving the "absolute guarantee" which will be unacceptable to the British. 3.3(h)(2)

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~~TOP SECRET~~**7. US company offers 2,500 US technicians to Iran to operate oil industry:**

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The US Ambassador in Tehran reports that Lee-Factors Inc. of Los Angeles has written Iranian Prime Minister Mossadeq and the chairman of the Iranian National Board offering to negotiate immediately a contract to supply up to 2,500 technicians to operate the oil industry in Iran. The letters state that the firm is "not interested in politics, but in rendering efficient and capable service to enable your petroleum industry to function on a highly profitable basis and to expand your petroleum industry as the needs may require." The Ambassador comments that the Lee-Factors approach unquestionably will be made public soon and cannot fail to complicate an already serious situation.

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Comment: The major US oil companies have a tacit understanding that they will not offer their services to Iran at the present time, inasmuch as the repercussions would far outweigh any advantages which might accrue to them.

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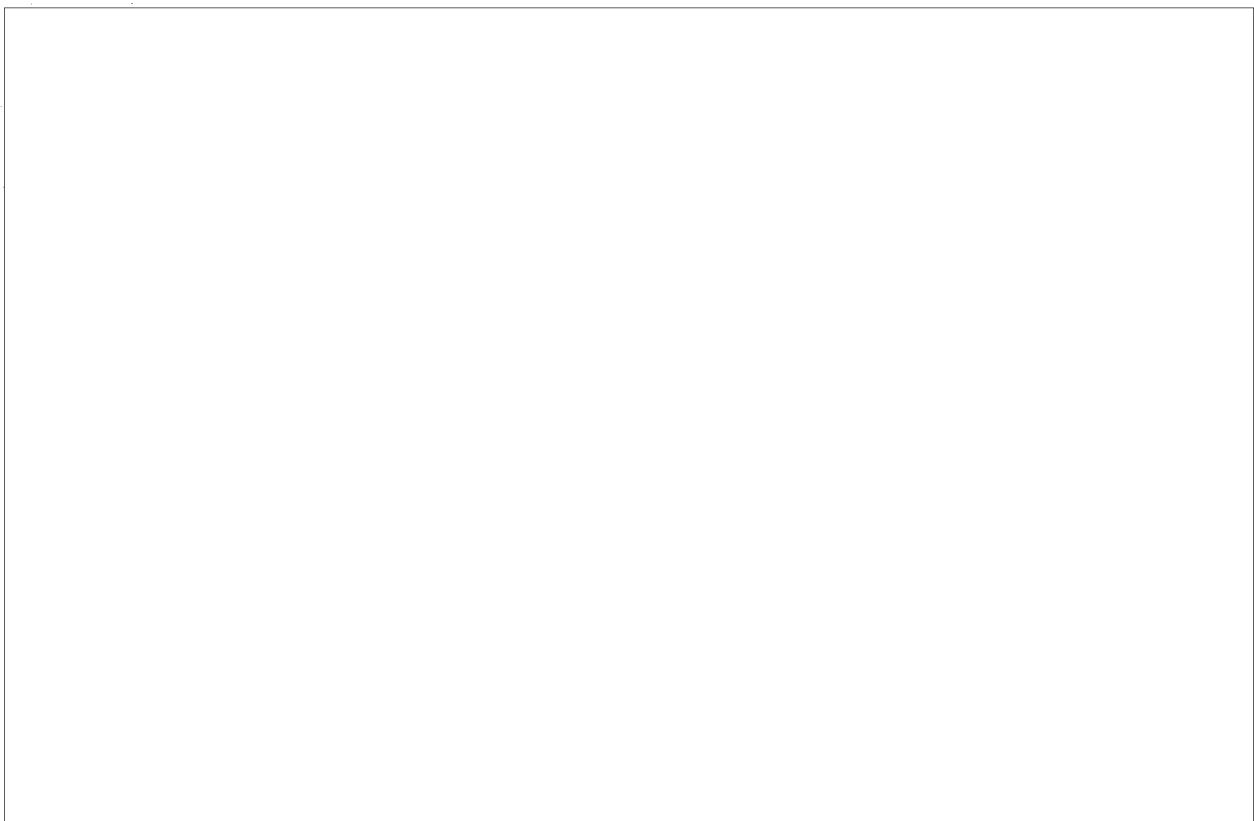
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