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FAR EAST

1. Comment on murder of British High Commissioner in Malaya:

State - Singapore 427 The US Consul General in Singapore concludes that the murder of High Commissioner Gurney on 6 October will probably convince the notoriously noncommittal Chinese population of Malaya that cooperation with the British is a dangerous policy.

The US representative also transmits the unofficial views of the office of the Commissioner General for Southeast Asia that the incident will arouse the British Government to a greater awareness of the serious Malayan situation, be a strong boost to bandit morale, increase dissatisfaction with security operations, and possibly call for substitution of stiffer measures.

3.3(h)(2)

2. Portugal acts to limit flow of military goods to China:

3.3(h)(2)

[redacted] in late September the Lisbon government instructed the Macao authorities that an embargo on the shipment of military supplies to Communist areas was to go into effect on 1 October. [redacted] on 26 September the avowedly anti-Communist Macao chief of police prevented the transfer of eight aircraft engines from a Macao warehouse for possible sale to the Chinese Communists.

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Meanwhile, the head of Macao's Economic Services, P. J. Lobo, reportedly refused to announce the embargo. He maintained that export trade with China could continue, inasmuch as no export licenses are required in Macao.

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Comment: Lobo, reputedly political boss of the colony with a sizable financial interest in Macao's smuggling activities, has opposed any attempt to regulate the China trade.

Although Portugal has not recognized the Peiping Government, it is anxious not to antagonize the Chinese Communist regime, because of possible loss of the colony. While in general agreement with the need for an embargo, the Lisbon government has hitherto maintained that Macao, which depends on Communist China for much of its food and even its water, is an exceptional case.

NEAR EAST

3. Iranian Prime Minister desires to avoid Security Council consideration of oil dispute:

3.3(h)(2)

[Redacted]

Prime Minister Mossadeq prefers to settle the British-Iranian oil dispute by prior negotiations and to avoid Security Council action. Mossadeq expressed this sentiment in an interview with Assistant Secretary of State McGhee and US United Nations delegates, and added that the strong statement which he must make in the Security Council would preclude successful negotiations. Therefore he suggested a delay of six days during which an agreement could be sought.

Comment: There is no reason to assume that Mossadeq is willing to negotiate on terms more favorable to the British than those previously offered. Resumption of negotiations, however, might avoid the dilemma of an Iranian refusal to comply with a UN recommendation. The USSR would similarly not be given the opportunity of posing in the UN as the champion of Iran.

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EASTERN EUROPE

4. Yugoslavia attempts to circumscribe size and authority of US military aid staff:

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The Yugoslav Government has requested amendment of the US-Yugoslav bilateral military aid agreement to specify that the US military advisory group operate as part of the office of the Military Attaché, and not directly under the control of the US Ambassador. It also insists that the US military staff total not more than 15 or 16, and that US observation of the use of arms supplied by the US be confined to Yugoslav proving grounds.

Comment: Although the draft of the bilateral military aid agreement was handed to the Yugoslav Government on 5 September, Yugoslav efforts to circumscribe the size and authority of the US military group have delayed its signature. The Yugoslav Government has resisted a US compromise plan that the US military supervisory group initially total 30 persons operating as part of the US Embassy and responsible to the Ambassador.

Yugoslav military officials have also attempted to limit the supervisory powers of the group. The Yugoslav attitude can probably be explained in part as an attempt to avoid a repetition of its experience with the Soviet military mission prior to the Cominform break; it also reflects the regime's deep-rooted suspicions of the West.

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WESTERN EUROPE

5. French popular support of European Defense Forces confused by East German "unity" proposals:

The US Embassy in Paris reports that the East German "unity" proposals have confused the current of French opinion favorable to the European Defense Forces

3.3(h)(2)

plan, but have not reversed it. The virtual absence of non-Communist opposition to any German military contribution whatever is considered by the Embassy as "perhaps the most outstanding feature of public opinion development."

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Should the USSR demonstrate, however, that it is prepared to make real concessions in its campaign for German "unity," French public opinion "would be very profoundly affected."

Comment: US officials in Berlin recently warned that the East German "unity" campaign might lead France to reconsider its German policy. It is unlikely, therefore, that the defense plan will be abandoned by the French Government under any foreseeable international circumstances, inasmuch as this plan is an essential phase of the integration of Europe. The French are increasingly inclined to view such integration as essential.

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