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SECURITY INFORMATION~~

[Redacted]  
20 June 1952

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[Redacted]  
Copy No. 53

3.5(c)

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 33  
NO CHANGE IN CLASS.   
 DECLASSIFIED  
CLASS. CHANGED TO: TS S C  
NEXT REVIEW DATE: 2009  
AUTH: HR 70-2  
DATE: 17 Dec 79 REVIEWER: [Redacted]

[Redacted]  
3.5(c)

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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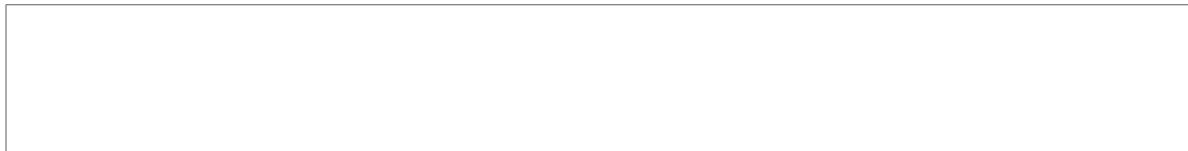
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## GENERAL

1.

Soviet policy toward Germany:

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[redacted] the Kremlin has not abandoned its effort to exploit the German people's aspirations toward unity.

[redacted] Moscow has become less concerned about free all-German elections because it feels that they would result in victory for the Social Democratic Party.

[redacted] the USSR might be willing to accept a united Germany tied militarily to the West if a renewal of the Rapallo agreements were arranged. Such a Germany would divert Great Britain and France from being drawn into an anti-Soviet crusade.

3.3(h)(2)

[redacted] Germany is not the principal field of Soviet maneuvering and that the Middle East offers more favorable opportunities for exploitation.

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Comment: The Rapallo Treaty of 1922 established diplomatic and economic relations between Germany and the USSR and laid the framework for covert military cooperation.

Current indications are that the USSR is steadily increasing its control over East Germany and is not prepared to make real concessions on the issue of free German elections.

## FAR EAST

2. Possible Chinese concession on POW's reported:

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[redacted] was told by Chou En-lai on 15 June that the Chinese were willing to consider two alternative proposals for solving the prisoner-of-war question at Panmunjom, the British Foreign Office has learned.

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According to Ambassador Gifford, the first proposal is a reduction in the number of POW's to be repatriated, and the second acceptance by the UN of the principle that all POW's who wished could return to their homes. The POW's not electing to do so would be brought to Panmunjom "after being freed from the military influence and control of Kuomintang and Rhee agents" to be interviewed by "neutral nations" and Red Cross representatives from both sides. The North Koreans and Chinese would then abide by the prisoners' decisions.

Ambassador Gifford concludes that, although [redacted] unreliability must be considered, this may be a "genuine feeler."

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Comment: Communist propaganda has continued to stress the "impermissible" nature of UN screening owing to pressure from "Kuomintang and Rhee agents." Chou's development of this theme [redacted] may mean that the Communists are interested in a face-saving compromise.

3.3(h)(2)

## EASTERN EUROPE

### 3. Comment on reduction of Yugoslav diplomatic staff in Sofia:

The recall of all but one official of Yugoslavia's Embassy staff in Bulgaria follows a series of official Yugoslav-Bulgarian recriminations concerning mistreatment of diplomatic missions. It is probable that the staff of the Bulgarian Embassy in Belgrade will now be reduced.

While relations between the two governments have been moving in the direction of a complete break, it would appear to be advantageous for both countries to continue maintaining diplomatic missions [redacted]

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~~TOP SECRET~~**4. USSR reportedly takes over full control of Hungarian aluminum:**

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[redacted] The USSR is reported [redacted] to have taken over full control of the hitherto jointly-administered Magyar-Soviet Bauxite Aluminum Company. Simultaneously the chief of the non-ferrous metals department of the Ministry of Mining and his deputy were removed.

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**Comment:** The USSR has gradually been tightening its control over this key Hungarian industry. Assumption of complete control by the Soviet Union is logical in view of the recent severe criticism levelled at the bauxite industry and the critical need of the Soviet Orbit for aluminum.

During 1951 Hungary accounted for more than one third of the total Soviet Orbit bauxite production, and augmented the USSR's production of aluminum by 15 percent. The Hungarian bauxite industry in 1952 is scheduled to increase its 1951 output by fifty-three percent.

**WESTERN EUROPE****5. Response to French loan disappointing:**

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[redacted] The French Government is disappointed because the first three weeks of its new loan drive have resulted in the sale of barely half of the first bond issue. While 50 percent of the 457 million dollars received so far represents a return of hidden capital to circulation, less than 10 percent is in gold.

Subscriptions are lagging, particularly in rural districts, partly because of pre-harvest cash shortages, but also because of dissatisfaction with the government's current firm stand against agricultural price increases.

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Comment: The fate of the Pinay government will be determined largely by the success of this drive, the money from which is urgently needed to provide a minimum investment program and meet the administrative and military deficits. It is primarily important to the government for its psychological effect, however, because it tests popular confidence in the anti-inflation program.

**6. Franco reportedly plans to assume position of regent:**

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[Redacted]

General Franco plans to name the minor son of Don Juan as heir-apparent to the Spanish throne and to assume the position of regent himself. This action will allegedly be taken before 18 July, the anniversary of the outbreak of the Civil War.

Comment: Such a step would permit Franco to remain in power another 16 years.

The Pretender, Don Juan, has consistently refused to relinquish his rights to the throne in favor of his son or to recognize the validity of the 1947 Law of Succession.

If Franco carries out this plan, he will risk creating an incident serious enough to threaten the security of the regime. Such action would therefore indicate his confidence in the security of his position.

## LATIN AMERICA

**7. Argentina bars broadcast of US denial of press censorship:**

3.3(h)(2)

[Redacted]

The director of the Argentine government-controlled radio on 18 June refused to allow the US Embassy in Buenos Aires to broadcast the State Department's official denial that Senora de Peron's "The Reason for my Life" has been banned in

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the United States. The previous day the director had cut the statement from the script of the Embassy's radio program on the grounds that permission for its use had to come from higher authorities.

The Embassy comments that it is now evident that Argentine officials will not allow the denial to be broadcast or to be published in the Spanish-language press.

Comment: Charges that the United States has banned Senora de Peron's book currently highlight Argentina's anti-US campaign. Only two small English-language newspapers in Buenos Aires have published a denial of the charges.

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