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2 April 1954

Copy No. 76

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 19
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2009
AUTH: HR 70-2
DATE: 28/12/79 REVIEWER:

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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SOVIET UNION

1. Comment on Soviet price cuts on consumer goods:

[Redacted]

The price reductions of 1 April benefit the Soviet consumer less and deprive the budget of less potential revenue, than any of the other six annual price reductions decreed since the war. The government has announced a total direct saving to consumers of 20 billion rubles, compared to an annual average of 47 billion rubles for the years 1948-53.

The size of the total price cut this year was probably limited by the gap between the increased purchasing power generated by the "new course" and the relatively limited amount of goods for sale. This disparity is accentuated by current lags in Soviet efforts to fulfill agricultural production targets.

The most substantial cuts were made on those items purchased mainly by higher income groups. In contrast to last year's large reduction in agricultural items, the government has made no cuts or only minor ones on food products. Thus, this year's reductions are apparently more realistically geared to the availability of commodities.

The pattern of this year's reductions is consistent with the government's present attempt to narrow the spread between the urban and rural real income. By maintaining prices on most food products without change, the government is apparently attempting to protect its new procurement price policy for agricultural products, as well as to prevent reductions in peasant incomes which would follow a drop in food prices.

FAR EAST

2. South Koreans "irate" over Secretary Dulles' letter:

[Redacted]

William Glen, American adviser to President Rhee, said on 27 March that South Korean officials were "irate" over Secretary Dulles'

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letter replying to their questions about the Geneva conference,

[redacted] The adviser stated that the only part of the letter acceptable to Seoul officials was the promise to walk out on the conference after 90 days if the Communists failed to negotiate in good faith. Glenn added that he "would not be surprised if Korea absolutely refuses to go to Geneva."

Comment: This conflicts with other reports that Rhee would stall on accepting an invitation, but would announce his acceptance on the eve of the conference. There is evidence, however, that the extremists around Rhee, including Foreign Minister Pyun, are becoming increasingly influential in policy matters.

SOUTHEAST ASIA

3. Commander at Dien Bien Phu says situation is black:

[redacted] Colonel de Castries at Dien Bien Phu has reported that his men are growing exceedingly weary and that unless he receives fresh reinforcements the situation looks very black.

This information was given to Ambassador Heath at midday 1 April by Commissioner General de Jean, who had just received a telephone report on the situation from General Navarre.

Intensified enemy antiaircraft fire and infiltration of the drop zone are making French airdrops considerably more difficult, and about half of the ammunition parachuted in on 31 March fell into enemy hands. A shortage of aircraft has delayed the dropping of a reinforcing paratroop battalion waiting at Hanoi.

The issue thus seems to boil down, according to Ambassador Heath, to weather, availability of transport aircraft, and the strategic reserves Navarre can provide.

Comment: Navarre reportedly has three reserve paratroop battalions immediately available in the Tonkin delta, plus one in training there. Two more battalions are in Laos. According to a report of the late afternoon of 1 April, the French were planning a counterattack that evening to cover a drop of one parachute battalion on the airstrip.

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The Viet Minh reportedly has ten uncommitted battalions near Dien Bien Phu, presumably including elements of the crack 308th Division, which took part in the heavy fighting for strong-point "Gabrielle" at the start of the assault but has not since been used extensively in an offensive role.

The Viet Minh, [redacted]
has already been reinforced by 3,000, many of whom, however, are suffering from malaria. The 13,000 additional enemy troops allegedly en route from the delta probably will not arrive in time to influence the current phase of the fighting.

4. Vietnamese chief of staff admits plan to make himself dictator:

[redacted] In a conversation with an American embassy officer on 30 March, General Hinh, the Vietnamese chief of staff, admitted that he was seeking a form of military dictatorship for Vietnam. He said he intended to rule under Bao Dai, but by martial law if necessary.

Hinh described the Buu Loc government as a "group of schoolboys," and said senior army officers agreed with him that the time had come for the army to assume a political role.

Comment: Hinh has in the past closely identified himself with the French. He has neither the personality nor the organizational support to rule Vietnam effectively, and even in the army his backing is doubtful. An effort to set himself up as dictator could only create further popular disillusionment with the Bao Dai government.

NEAR EAST - AFRICA

5. No progress seen on Iraqi adherence to Turkish-Pakistani pact:

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Comment: Because of strong domestic opposition to military links with the West, Iraq is moving cautiously on the pending arms aid agreement with the United States. The government is likely to be even more cautious on joining the Turkish-Pakistani pact.

6. Arab Legion's new policy may cause more serious clashes with Israel:

The Arab Legion's new policy of supporting besieged Jordanian villages as soon as requested creates the possibility of more serious engagements on the Israeli-Jordanian border, according to Ambassador Mallory in Amman.

The new policy protects the Legion and the Jordanian government from the type of internal criticism directed at them last October for withholding support from Qibya when it was attacked by Israeli armed forces.

Mallory observes that British officers of the Legion were gratified by the fact that its forces were on the road within minutes after receiving the SOS from Nahhalin.

Comment: The Legion's policy may induce the Israeli government to hold a tighter rein on extremist elements inside and outside the government. However, the presence on the border of Israeli and Jordanian units ready for action increases the danger that an incident might precipitate hostilities.

7. Israeli cabinet provisionally approves Sharett's moderate policy:

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Comment: This is the first indication of the line the Israeli government intends to follow for the present. Sharett's statement that he has gained only a "respite" for his present policy makes it clear that an aggressive approach will follow if he does not get substantial international support.

8. Comment on attempts of Egyptian RCC to show it has army support:

[redacted] Colonel Nasr's group is attempting to create the impression that it has the support of the armed forces.

The extent of genuine army support for Colonel Nasr and the council is, accordingly, open to question. The council is therefore likely to avoid a situation which would directly test the army's loyalty.

WESTERN EUROPE

9. Continued French pressure for American intervention in Indochina foreseen:

[redacted] Ambassador Dillon, in reporting on the wide publicity given Secretary Dulles' 29 March speech, believes there will be continued

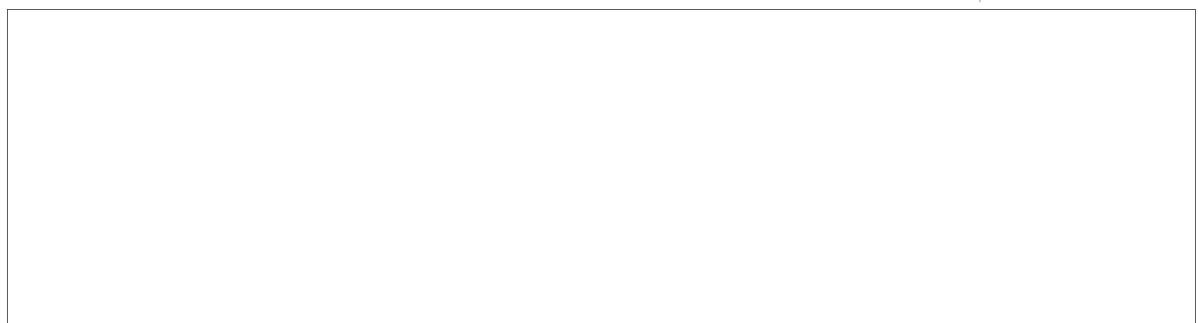
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pressure from the Socialists and such cabinet members as Finance Minister Faure and Vice Premier Reynaud for American concessions to Communist China at the Geneva conference. If concessions are not forthcoming, Dillon expects these elements to blame the United States for the failure of the conference, and thereby to open the way for a request that the United States take over the fighting in Indochina.

Dillon further reports that the secretary's statement regarding "united action" has been editorially interpreted to mean that the United States would be prepared to send a military force to Indochina if the Geneva conference fails.

10. Italian ambassador links anti-Communist crackdown to Trieste solution:



Comment: Although Italy has frequently tried to use the EDC issue to win a favorable Trieste settlement, this is the first attempt to exploit the anti-Communist program similarly.

On 31 March Premier Scelba instructed his cabinet to begin the crackdown on Communism which he had announced on 18 March. His instructions were somewhat ambiguous, however, and the effectiveness with which he will be able to carry out the program remains in question.

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~~TOP SECRET~~**LATE ITEM****11. Major attack on Hanoi-Haiphong communications threatens:**

[redacted] nine regular Viet Minh battalions are now deployed along the Hanoi-Haiphong lines of communications. [redacted] these units intend to make a major effort against the lines.

Comment: While traffic on the road and rail routes between Hanoi and Haiphong was interrupted repeatedly during recent weeks by guerrilla activity, the French were able to resume it quickly.

[redacted]

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