

TOP SECRET
SECURITY INFORMATION

11 March 1952

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TOP SECRET SUPPLEMENT

TO THE DAILY DIGEST
(including S/S Cables)

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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State Dept. review completed

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THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECS. 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

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SECTION 3 (WESTERN)

1. FRANCE. Finance Ministry official hopes publicity on payments crisis will help: According to a Finance Ministry official, French authorities attach great importance to the EPU's prospective approval of a proposed Belgian loan of 100 million dollars intended to reduce France's EPU deficit for February to more manageable proportions. This expedient would give the new government an opportunity "to find its stride" and work toward a program for internal financial stabilization.

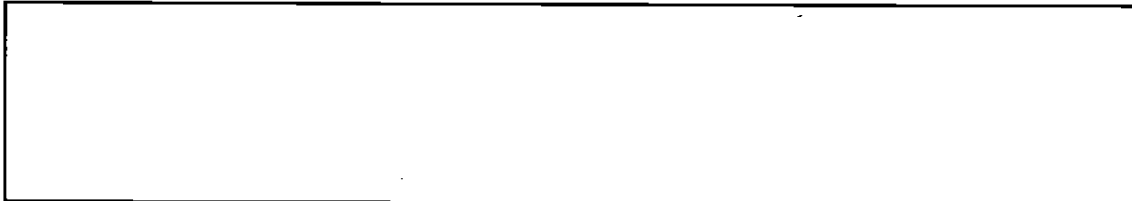
Even if the arrangements with Belgium go through, however, the government must still ask the Bank of France for enough gold to complete its February settlement with the EPU. Since this would require an act of Parliament, the French official assured that the "present deplorable situation" would be aired fully in public, with the effect of building up pressure for a firm correctional program by the government.

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Comment: The French deficit in the EPU nearly doubled from late January to the end of February, causing the government to reimpose licenses on all imports from EPU countries. This development, in conjunction with Parliament's refusal to vote sufficient revenues to meet increased defense commitments, has created a serious financial crisis.

Political differences preclude the correctional program necessary for an early end to this crisis.

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TOP SECRET

11 Mar 52

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TOP SECRET



3. ICELAND. US Minister fears Icelandic political crisis:
The American Minister to Iceland reports that party conflicts within the Conservative-Progressive coalition government over the balance of payments situation have become so bitter that "a serious political situation must be anticipated." A withdrawal of the Progressives, particularly on the eve of Admiral McCormick's visit to Iceland next week, would gravely prejudice current US efforts to conclude detailed arrangements for additional defense facilities.

The Minister strongly urges granting Iceland's request for immediate American economic aid. [REDACTED]

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Comment: The Progressive Party, which has for some time been seeking an issue on which to withdraw from the cabinet, violently opposes the imposition of additional import restrictions to meet the balance of payments crisis.

The death of President Bjornsson on 25 January removed from the scene the one figure who stood above partisan politics, and simultaneously set all political parties jockeying for position in the July election to choose his successor.

TOP SECRET

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11 March 1952

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SECTION 1 (SOVIET)

- 1. USSR. Stalin absent from the Joint Session of the Supreme Soviet: Premier Stalin did not attend the 6 March Joint Session of the Supreme Soviet. The American Embassy in Moscow comments that this absence was unusual, inasmuch as since the war he has missed only the 1946 meeting. [redacted]

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Comment: Except for irregular dinners, theater performances, and receptions for foreign representatives, Stalin's postwar public appearances have been limited to four annual state affairs: the Joint Session of the Supreme Soviet, the Lenin Anniversary celebration, the Air Day Parade and the May Day celebration. In recent years Stalin's public appearances have decreased in number. In 1945 he stopped attending the celebration on the anniversary of the Bolshevik Revolution, and his irregular appearances over the last year have been comparatively few.

- 25X1C 2. 25X1C Soviet combat pilots transferred to instructor status:

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[redacted] 83 Soviet pilots, veterans of Korean air combat, arrived in Mukden on 4 February. The pilots are to be transferred to Khabarovsk where they will become MIG-15 instructors. [redacted]

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Comment: This is the first report received concerning Soviet utilization of air combat veterans as flight instructors, although it is reasonable to assume that a Soviet training program, employing combat-experienced pilots, has been established. The addition of new pilot-replacements may be indicated by a decrease in enemy aggressiveness, noted since the middle of February. Variations in the

SECRET

SECRET

character of enemy air activity, ability and aggressiveness have already suggested a rotation plan for enemy air personnel.

3. RUMANIA. Vasile Luca dismissed as Finance Minister: The Presidium of the Rumanian Grand National Assembly relieved Vasile Luca, high ranking Communist and Vice Premier, of his post as Minister of Finance on 8 March. He was replaced by Dumitru Petrescu, Chairman of the State Supply Commission, who was succeeded in that capacity by Emil Stanciu.

The American Legation in Bucharest has no further information as yet but suggests that Luca's dismissal, although he presumably still holds the title of Vice Premier, may presage a top-level shake-up in the Rumanian regime.

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Comment: The Legation reported that the dismissal of the three deputy finance ministers on 6 March was probably a face-saving device to combat general dissatisfaction with the January currency reform. Luca's dismissal may have more serious ramifications for top Rumanian leaders and is possibly connected with a "fleeting rumor" that Vyshinsky was in Bucharest last week. If Luca should be purged, it will be the first time a high-ranking Rumanian Communist leader has been ousted since before the Cominform-Tito break in 1948.

Luca spent many years in Moscow and, along with Ana Pauker, Bodnaras, and Chisinevski, returned to Rumania with the Red Army in 1944. Since that time these four have been the most powerful leaders in the Rumanian Workers' Party and Government.

Luca's successor, General Dumitru Petrescu, is also a Moscow-trained member of the Central Committee of the Rumanian Workers' Party.

4. TRIESTE. Trieste Mayor asks for Italian intervention in behalf of the Italian population in Yugoslav Zone B: In an interview with Italian Premier Alcide de Gasperi, Mayor Bartoli of Trieste urged the Italian Government to intervene in Washington and London in behalf of the rights of the Italian population in Zone B on the basis of the Hague Convention. He cited the introduction of a discriminatory

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SECRET

exchange rate, the suspension of trade between the two zones, and the employment of police terror by the Yugoslav military government in Zone B, as examples of acts designed to weaken Italian claims to the Yugoslav zone by strengthening Yugoslav control and forcing Italian emigration. Moreover, Bartoli contended that the arbitrary arrests of Italians are calculated to create an atmosphere of terror in preparation for the coming elections in Zone B. [REDACTED]

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Comment: Pro-Italian leaders in Zone A contended last month that the Yugoslav authorities had blocked the movement of all goods between the two zones. In addition, the Yugoslavs have established the dinar as the only legal tender in Zone B and imposed stricter regulations governing trade and monetary transactions between the two zones.

The over-all policy of Yugoslavia in Zone B is undoubtedly calculated to strengthen its claims to the territory by applying additional controls and forcing Italians to emigrate or accept increased Yugoslav domination. The effect of this action upon Italo-Yugoslav relations and the Trieste problem cannot help but be harmful.

5. YUGOSLAVIA-TRIESTE. French and British Ambassadors oppose buttressing Yugoslavia on Trieste: According to the American Charge, the French and British Ambassadors in Belgrade are very much opposed to the employment of economic pressure on Yugoslavia in order to bring about a solution of the Trieste issue. They believe that the application of pressure would undermine the current Western policy of buttressing Yugoslav independence by supplying aid with no political conditions. [REDACTED]

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6. YUGOSLAVIA. Breakdown of Yugoslav military budget for 1952 reported: The following breakdown by major categories of the Yugoslav defense budget of 210 billion dinars (700 million dollars) for 1952 has been supplied by Yugoslav officials:

	(in millions of dinars)
Heavy equipment and ammunition	83,237
Expendable supplies	79,006
Military structures and factories	26,525
Pay and allowances	18,500
Others	2,732
Total	210,000

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11 Mar 52

SECRET

Comment: Yugoslav expenditures for defense will not exceed the 1951 total. Western military assistance, however, will contribute substantially to the Yugoslav military potential.

7. Foreign Minister Kardelj to undergo major operation: The American Charge in Belgrade reports that during a luncheon attended by many top Yugoslav leaders, he learned that Deputy Foreign Minister Vlahovic may temporarily assume Foreign Minister Kardelj's duties since the latter may undergo a serious spinal operation this month which will require a two-month period of recuperation. As a consequence, Assistant Foreign Minister Barisic will replace Alex Bebler as the Yugoslav representative in the United Nations.

In addition, economic czar Boris Kidric indicated that a general Yugoslav Communist Party congress might be held within the year if external conditions permitted. A party congress has not been convened since 1948.

Since the luncheon was also attended by Interior Minister Rankovic, the American Charge was able to get an "interesting glimpse of what appeared to be intimacy and solidarity among top Yugoslav leaders."
(8 Mar 52)

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Comment: During the illness of Foreign Minister Kardelj last spring, Marshal Tito assumed the title of Foreign Minister. At that time the government was probably more concerned over the possibility of external aggression from the East and the problem of securing increased Western aid. Kardelj's death would remove a figure who is frequently mentioned as ranking next to Tito in importance in the Yugoslav hierarchy.

SECRET

4

11 Mar 52

SECRET

SECTION 2 (EASTERN)

1. JAPAN. Strikes anticipated during coming month: The non-Communist General Council of Labor Unions (Sohyo) has directed its affiliates to stage a series of brief strikes during the coming month [redacted]. The strikes will be timed to coincide with the presentation to the Diet of new labor legislation considered "oppressive" by labor. [redacted]

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Comment: The government has indicated its intention, with strong employer support, of enacting legislation which would reduce the scope and effect of the labor standards law, combine the Labor and Welfare Ministries, ban general strikes, and restrict public meetings. Since Sohyo supports the leftist Socialist platform -- which is identical with that of the Communists -- of opposition to the peace treaty, security pact and rearmament, the Communists undoubtedly will take an active role in the strike demonstrations.

2. JAPAN/KOREA. Treaty negotiations show progress: The ROK Vice Minister of Foreign Affairs informed the American Embassy that considerable progress has been made in the Japan-Korea negotiations and that agreement is near on many issues, including the nationality status of Koreans in Japan and the return of Japanese vessels of Korean registry. Korea, however, is "greatly disturbed" by Japan's insistence upon compensation for vested properties relinquished in Korea. [redacted]

25X1

Comment: The Japanese probably are advancing property claims against Korea only to set up a bargaining position to offset Korean property claims against Japan. Despite the optimism expressed above, there is still a wide divergence in views between the two countries on economic matters, with neither country psychologically prepared to retreat.

3. KOREA. Two ROK Cabinet changes announced: The ROK Office of Public Information announced two cabinet changes on 6 March. So Sanghwan, Attorney-General since April, replaced Cho Chinman as Minister of Justice, while Ham Insop relieved Yim Munhwan as Minister of Agriculture and Forestry. Ham, a graduate of Tokyo Agricultural University, was formerly dean of an agricultural college and an official of the Ministry of Agriculture and Forestry. [redacted]

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11 Mar 52

SECRET

Comment: The appointment of [redacted]

[redacted] the new Minister of Justice is a further manifestation of Rhee's policy of filling his cabinet with men personally loyal to him. On the other hand, Rhee must have deemed it necessary to appoint a competent man to head the Agricultural Ministry in an attempt to control the presently deteriorating food-price situation.

4. CHINA. Nationalists fear Japanese-sponsored third force: Nationalist officials believe that failure to negotiate a Sino-Japanese peace treaty before the ratification of the multilateral treaty would leave the Japanese Government free to sponsor, arm and equip a Chinese anti-Communist and anti-Kuomintang force. Influential war-time Sino-Japanese collaborators, now in Japan, would be used to attract the support of overseas Chinese. [redacted]

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Comment: Chiang Kai-shek reportedly expressed fear of this in the event of prolonged or unsuccessful Sino-Japanese peace treaty negotiations. Chiang's statement, and the fears of other Nationalist officials, may have been occasioned by reports that Nationalist Vice-President Li Tsung-jen, through his associates, is intensifying his activities in behalf of organizing a third force in Japan.

If such a force were established it might attract vocal and financial support from overseas Chinese to the detriment of the Kuomintang.

5. Peiping is noncommittal on trade with Hong Kong: The withdrawal of Chinese Communists from the Hong Kong market has caused many shipping companies in the Colony to lay up vessels formerly employed in carrying goods to the mainland. Ship operators in Hong Kong have tried to ascertain from Peiping if this tonnage should be left intact for the day when trading would resume, but their inquiries have brought no response. [redacted]

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Comment: The decline in Hong Kong's importance to the Chinese Communists as a source of supply for strategic goods was one of the notable trade developments of the past year. From a high point of about 260 million Hong Kong dollars in January 1951, exports from the British Colony to the Chinese Communists dropped to some 60 million Hong Kong dollars in December. This sharp decline in China's commercial dependence on Hong Kong has been associated with a marked increase in Peiping's propaganda attacks on the Colony.

SECRET

11 Mar 52

SECRET

6. Communists concerned over anti-corruption campaign's effects on production: The Central and South China District authorities on 2 March ordered that factories and commercial concerns were not to be allowed to close as a means of evading the campaign against graft.

Peiping reported in a broadcast that the personnel of a refinery in northwest China neglected safety practices and "labor discipline" and, as a result, the quota was not fulfilled. [redacted]

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Comment: During January and February the anti-corruption campaign was the predominant propaganda theme throughout China. These broadcasts are the first which report its adverse effects on industrial production. In the rural areas of Manchuria and East China the campaign has been suspended in the interest of spring planting.

7. BURMA. Communists capture major town: Two thousand Burmese Communists captured Myingyan, one of the largest towns in central Burma. They retired after looting the treasury, burning the post office, releasing convicts and capturing the District Commissioner. [redacted]

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Comment: Myingyan is located in the area where the Burmese Government is reported to have made major gains against the Communist insurgents.

This is the second recent incident in which the Communists have seized a large town for a short period of time.

8. New cabinet composition reported in local press: The American Embassy in Rangoon reports that the local press has published an unofficial, but accurate, list of "most" of the 22 ministers who will take office in the Burmese Cabinet during the next few days. While some papers are apprehensive over the fact that Socialists will hold the key portfolios, they have voiced general approval of the choices made, especially that of U Ba Swe (head of the Socialist Party) as Defense Minister.

The Embassy comments that the new cabinet will be stronger than its predecessor. [redacted]

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Comment: The new government will be stronger in the sense that it will include more members of the dominant political organization in Burma -- the Socialist Party. The moderate elements in the regime, however, will be further isolated by ruthless men who have always held distinctly anti-Western views.

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9. THAILAND. Political tension continues:

[Redacted]

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[Redacted] indicated that Premier Phibun intends to resign soon. The American Embassy in Bangkok, [Redacted] states that although the militarist group is "only one step away" from the ultimate goal of complete power, competition for Phibun's office between Phao and his chief rival, Assistant Army Commander Sarit, would create a serious internal conflict, possibly resulting in violence.

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[Redacted]

Comment: The Phao-Sarit rivalry has long been a threat to Thai stability.

[Redacted]

In the past, compromise agreements to accept Phibun as Premier have prevented the outbreak of violence between rival political groups.

10. IRAN. Shah reportedly prepared to dismiss Mossadeq and seize power: The Shah will seize power in Iran if Prime Minister Mossadeq refuses to resign

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According to another report, Mossadeq is "terrified" by threats of assassination from the terroristic Fedayan-i-Islam and may resign.

[Redacted]

SECRET

11 Mar 52

SECRET

Comment: These reports are unconfirmed. Although the Shah is opposed to Mossadeq's policies and wishes him removed, there is no indication that he intends to initiate drastic action to bring this about.

The Fedayan-i-Islam, which is credited with several killings and attempted assassinations, has in the past made wholesale threats against Iranian Government officials. Although Mossadeq may fear these terrorists, there is no evidence that their threats alone would force his resignation. His past expressions of interest in resignation have been political maneuvers.

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11 Mar 52

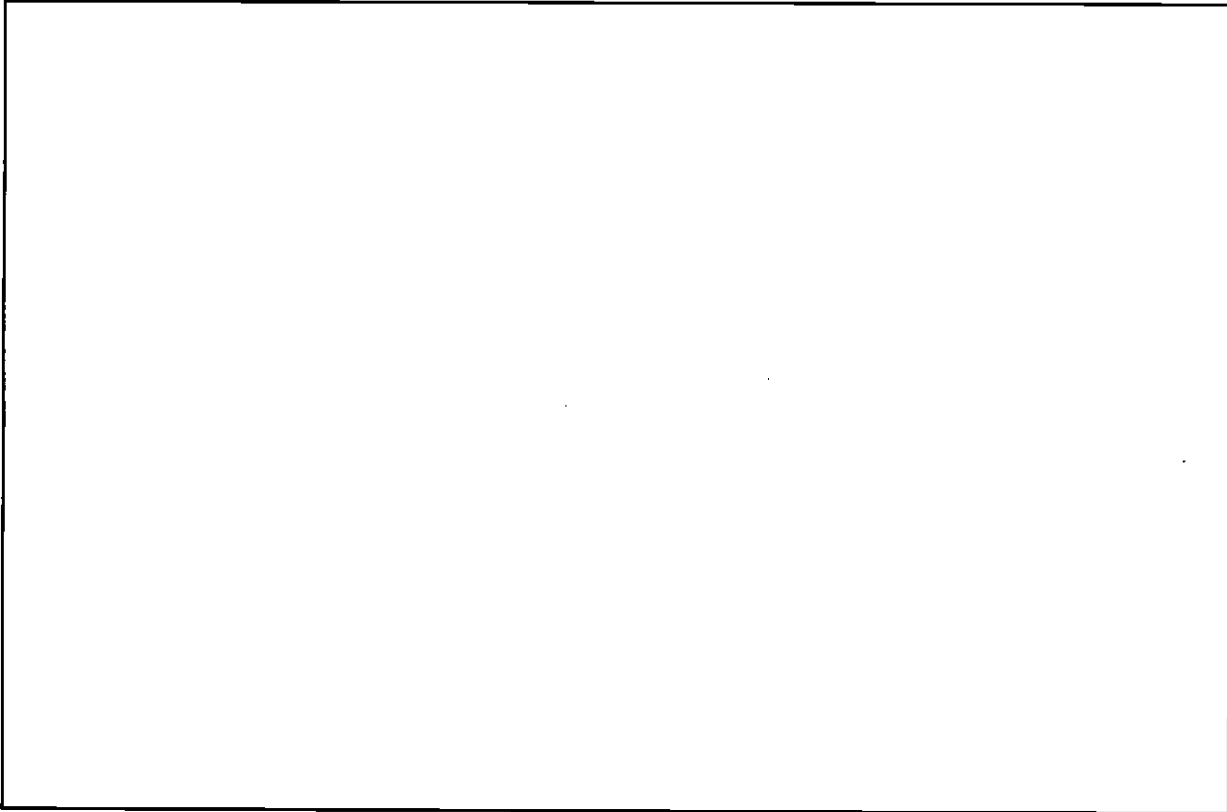
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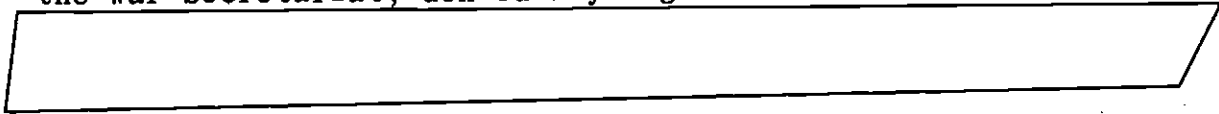
SECTION 3 (WESTERN)

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2. FRANCE. French Army effects possible purge of Communist officers:
The recent transfer of about 100 junior French army officers to a "practically inactive" post has been interpreted by the press as a purge of Communists and sympathizers from the army. Although a later press release, purportedly originating with the War Secretariat, denied any significance in these transfers,

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Comment: Since the end of the war, when the Communists held a number of important military assignments, the government has been fairly successful in removing them from the armed services. Of the several hundred known Communist officers, almost all are of junior rank; of the very few senior officers, none occupies a command position.

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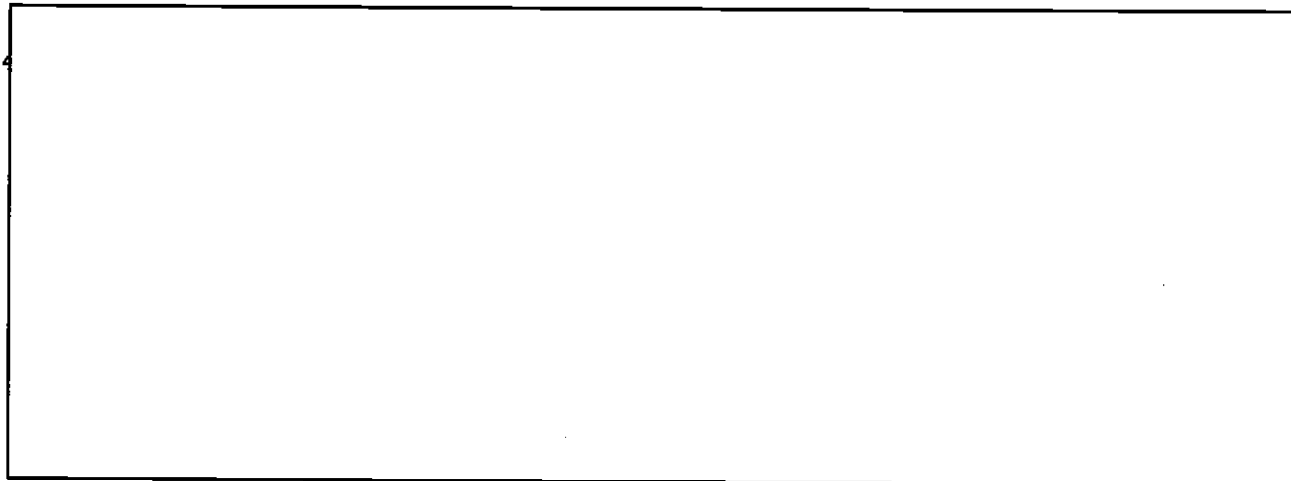
Recent reports, however, indicate intensified Communist effort to infiltrate the army reserve organizations. Success here would mean that Communists could seriously hamper a unit's activities in the event of mobilization.

3. AUSTRIA. Russians renew demands for raw materials: Soviet officials have brushed off Austrian protests against the obstruction of interzonal trade permits, and have repeated requests for large Austrian allocations of nonferrous metals to Soviet Enterprises in Austria (USIA). Soviet demands still far exceed Austria's total production of copper, and amount to 45 percent and 15 percent respectively of the country's production of lead and aluminum.

Conditioned upon Soviet agreement to return an equivalent tonnage of processed metals to the Austrian economy and to repay foreign exchange expended on such metals, Austria is prepared to make a maximum offer of 1,200 tons of aluminum, 1,800 tons of lead, and 2,000 tons of copper. While larger than the 1951 allocations, these quantities are less than one third of the Soviet demands. The American Embassy supports the Austrian proposal, but will press Austria to try to obtain the abolition of transit permits.

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5. ITALY-TRIESTE. Italians in Trieste plan demonstration favoring Territory's return to Italy: Pro-Italian elements in Trieste are planning a demonstration for 20 March to mark the fourth anniversary of the tripartite declaration calling for a return of the entire territory to Italy.

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11 Mar 52

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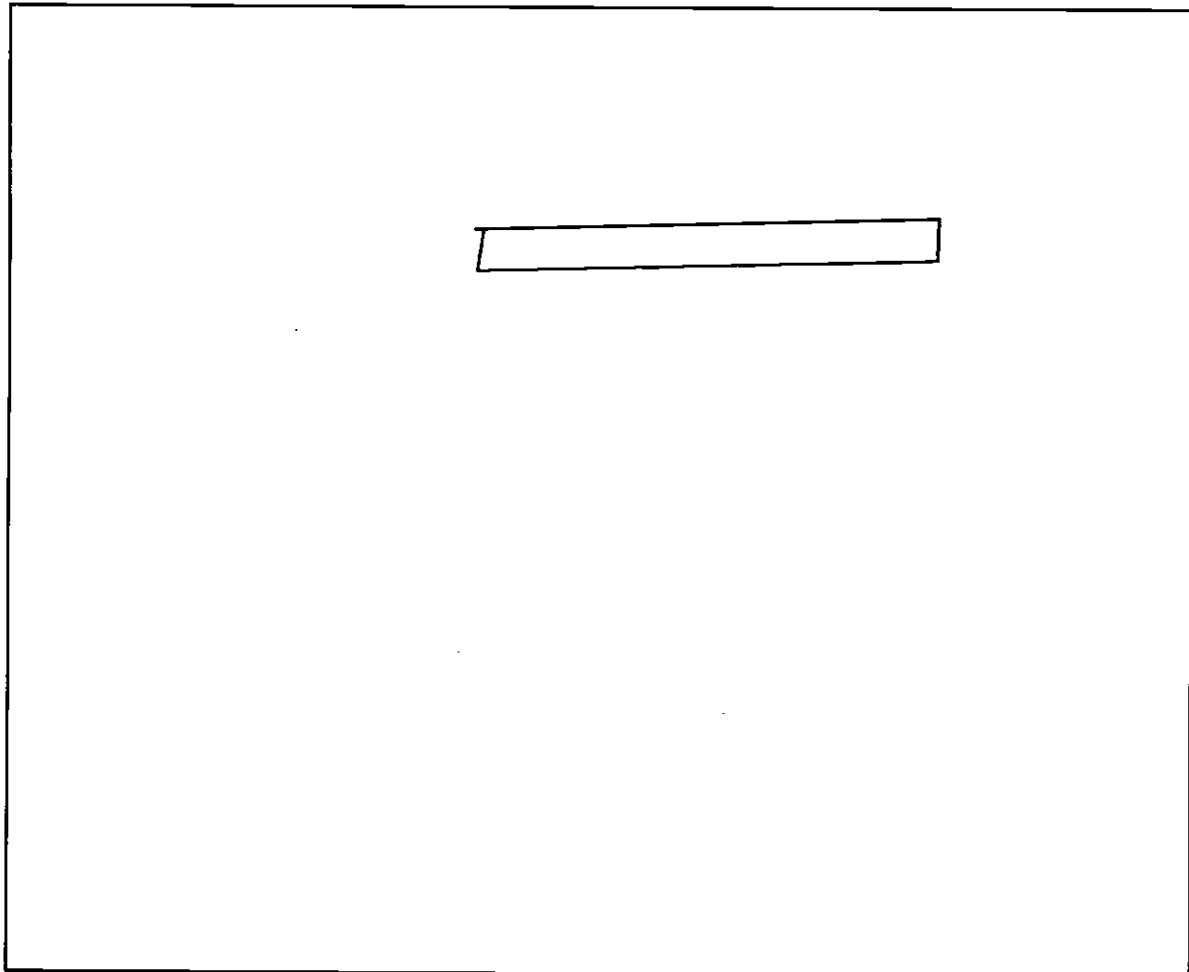
The American Political Adviser comments that this action is obviously designed to commit the United States and Britain to support of the tripartite declaration through local Allied Military Government's approval of the demonstration. Meanwhile, at a recent meeting of the Big Three Ambassadors in Belgrade, Italy's failure to advance a reasonable or even concrete proposal for a solution of the Trieste issue was considered partly to blame for the impasse in Italo-Yugoslav negotiations. [redacted]

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Comment: There have been indications that Italy does not desire a settlement of the issue now, although the possibility of an Italian counterproposal, purely for the record, has been suggested. Premier de Gasperi is undoubtedly giving unofficial support to the proposed demonstration as a means of strengthening popular support for his Western-oriented government in face of the forthcoming Italian elections.

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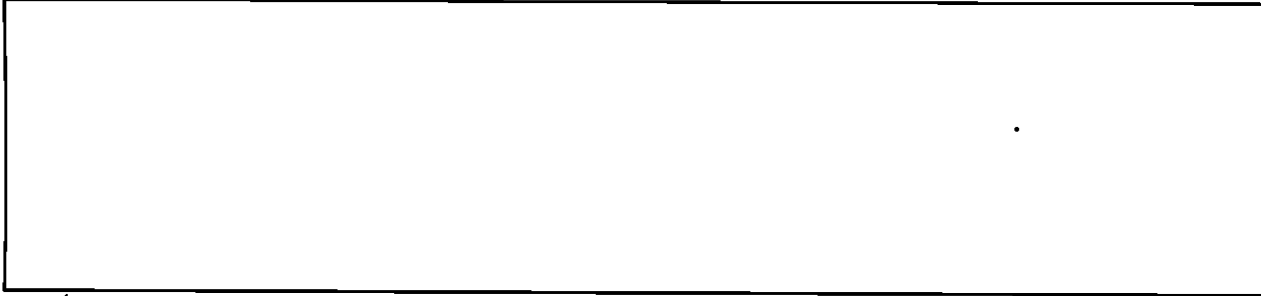
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8. **MOROCCO.** Communist efforts reduced to holding operations: The Moroccan Communist Party was "decapitated" by the death of Henri Bonnet last December [redacted] who added that the party's influence will continue to decline because the French Communist Party cannot find a suitable replacement. Party activities are now reduced to forming cadres and maintaining a state of vigilance. [redacted]

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Comment: The decline in Moroccan Communist activity is confirmed by other sources. In addition to the loss of Bonnet, however, the party is faced with the arrest of its active members, confiscation of its property, native indifference, and nationalist animosity.

9. **ARGENTINA.** Occasional anti-Communist press items designed to bolster third position: The US State Department asked the Embassy in Buenos Aires to comment on a recent anti-Communist article in the daily newspaper La Critica, which is understood to be infiltrated by Communists, including Rodolfo Puiggros. The Embassy believes that the publication of occasional anti-Communist material is recognized as necessary to maintain Peron's third position and is not incompatible with the self-declared opportunism of the dissident Communists, such as Puiggros. [redacted]

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Comment: The continuing "anti-imperialist" campaign of the government-controlled press has often paralleled the Communist line and has attacked capitalism more consistently than Communism.

Puiggros, who reportedly enjoys good rapport with Peron, formed a dissident Communist group in 1946, because he disagreed with Argentine Communist Party tactics. Reportedly, he is well-regarded by Moscow, since the latter estimates that in Argentina Communism can make greater gains through infiltration of Peronista ranks than in opposition to the government (see [redacted])

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10. COLOMBIA. Guerrillas designate selves as "Red Front": [redacted] the guerrillas in the departments of Tolima and Huila refuse to surrender despite government offers of pardons, food, and employment. Replies to such offers proclaim war to the death, and some are signed by names such as "The Red Front of Tolima" and "The Guerrillas of the Red Front." [redacted]

Comment: Red is the Liberal Party's color and the term "Red Front" may well be derived from the affiliation of the guerrillas with certain elements of that party. Although individual Communists were reported in May 1951 to be cooperating with the guerrillas in Tolima, there is no indication as yet that Communists are playing a significant role in any of the outbreaks of violence in Colombia [redacted]

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11. CUBA. Comment on coup: General Fulgencio Batista has seized control of the Cuban Government in an almost bloodless coup. He appears to be in complete control of the situation. All police and military officials in the Havana area are on his side. The five outlying provinces are also in the hands of his forces.

Batista has announced the temporary suspension of all constitutional guarantees for 45 days and has cancelled the 1 June general elections. He has appointed an interim government consisting of himself as Prime Minister, Carlos Saladrigas as provisional president, and a 15-man Council of Ministers. Promising to maintain domestic order and to comply with all international obligations, Batista has stated that the new interim government will remain in power only long enough to "establish a regime based on progress and justice" at which time elections will be held.

Batista, former dictator of Cuba, and a senator since 1948, has been a candidate for the presidency in the coming June elections. He headed the United Action Party which placed third in the October 1951 party listings with less than 10 percent of the total registered voters. Since that time, his chances for attaining the presidency had diminished considerably, and it may have been his deteriorating position which impelled him to strike this sudden blow.

12. PANAMA. French banking interests seek control of Panama Trust Company: The Banque National pour le Commerce et l'Industrie

SECRET

11 Mar 52

SECRET

is trying to acquire control of the Panama Trust Company. The US Embassy in Panama estimates that the dominating motives are a desire to facilitate the French bank's contacts with the dollar area and to establish a safe, centrally located Western Hemisphere depository in which flight and circumvention capital will play a substantial role. [REDACTED] and 7 Mar 52)

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Comment: A branch of the Banque National pour le Commerce et l'Industrie has been one of the more important of the numerous banks in Tangier, where a completely free money market has existed since the last war. More recently, financial circles in Tangier have been apprehensive of the imposition of controls by that government and have also feared the possibility of eventual Russian control of North Africa.

SECRET

15

11 Mar 52