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GENERAL

1. Soviet Union buying Austrian schillings with foreign currency:

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The US Embassy in Vienna reported on 8 December that the Russian Military Bank had sold at unfavorable rates approximately 620,000 pounds sterling and 300,000 Swiss francs to the Austrian National Bank for schillings. The Embassy observes that this is the first foreign currency sale by the Russian military authorities to the Austrian Bank since the termination of hostilities in 1945.

Banking circles in Vienna have informed the Embassy that the Soviet Union needs schillings to finance the Soviet-sponsored People's Peace Congress scheduled to meet in Vienna from 12 to 18 December.

The Embassy believes, however, that the shortage of schillings in Soviet-controlled industrial enterprises in Austria is the basic reason for this large-scale currency conversion.

Comment: A part of this schilling fund of approximately \$1,800,000 may be used to defray the expenses of delegates, which have been paid to an increasing extent by the World Peace Council at earlier peace meetings. The Soviet press has announced that 2,500 are expected to attend the forthcoming congress.

FAR EAST

2. Chiang wants jets based on Formosa:

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Chiang Kai-shek told American officials at Taipei on 7 December that he hopes jet fighter planes will be "actually based" on Formosa before he is asked to contribute troops to Korea. The Generalissimo, expecting a Communist air attack on Formosa if Nationalist troops are sent to Korea, does

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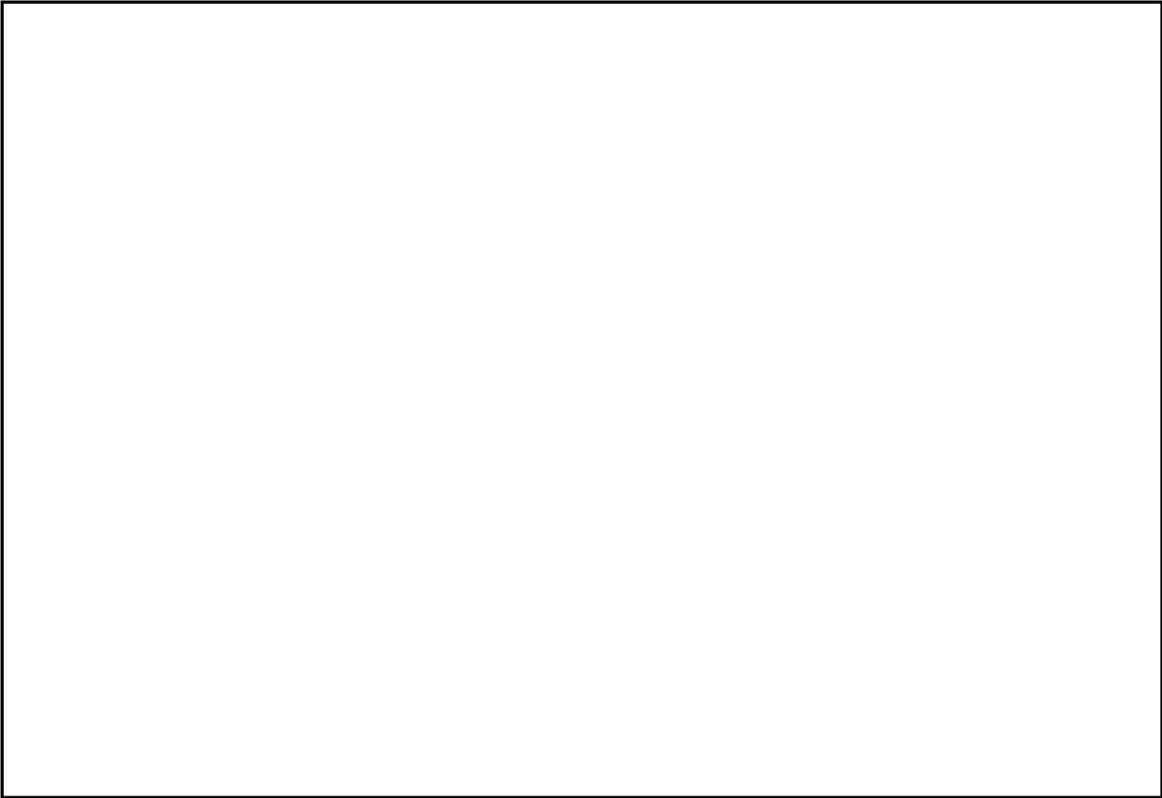
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not believe the US 7th Fleet could provide air defense for the island.

The American Minister at Taipei notes the possibility of additional demands. The Generalissimo is said to "feel keenly" the discrepancy between the Soviet buildup of the Chinese Communist Air Force since the Korean war began and the American delivery of "only 20-odd obsolete aircraft" to Formosa.

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WESTERN EUROPE

4. Austrians warn of internal pressures for Orbit trade:

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Austrian officials have warned American representatives in Vienna of the "imperative economic necessity" that Austria maintain its trade with the Soviet Orbit.

According to them, the agreements which have been under negotiation with Poland and Czechoslovakia not only involve an exchange of goods valued at \$90,000,000, but also would provide irreplaceable coal imports, essential employment of skilled Austrian workers, and an alternative market for manufacturers who cannot compete in the West.

Because of the forthcoming elections, Chancellor Figl is particularly anxious to conclude an agreement with Czechoslovakia in order to allay the concern of business and labor circles over the consequences of the break in negotiations with Poland.

Comment: American officials in Vienna have previously noted that political and economic problems in Austria were putting a severe strain on Austria's continued cooperation in the control of strategic materials.

Polish and Czech demands for bearings and aluminum are the primary obstacles to an agreement with these two countries. The Austrians are also anxious to complete various strategic metal processing agreements with Orbit countries, which would permit Austrian plants to maintain their production.