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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

Polish plans to increase merchant ship production to new high levels by 1955 depend largely upon the availability of steel and skilled labor as well as upon improvement in economic relations between Eastern and Western Europe. (Item No. 1, A)

Turkey may now turn to the UK for a survey of its maritime industry, because US shipping interests, upon being approached, evidenced little interest in conducting such a study. The UK would probably recognize this as an opportunity to strengthen its merchant shipping position in that area. (Item No. 2, B)

The Canadian Government hopes to obtain additional traffic rights for Canadian airlines in US territory in connection with the probable renegotiation of US commercial air rights in Newfoundland, which will automatically terminate upon the impending federation of Newfoundland with Canada. (Item No. 1, A)

Air Traffic Inc., an obscure company with offices in Geneva, has attempted to purchase large quantities of aircraft parts and equipment through a US firm, ostensibly for a small, non-scheduled airline in Western Europe. In reality, however, this purchaser is a front for Czechoslovak Airlines. As the Western Powers increase their efforts to block such shipments to Czechoslovakia and other Satellite States, black market prices will skyrocket unless the USSR reverses its policy and actively supports the Satellite airlines by making available Soviet-manufactured DC-3 spare parts. (Item No. 2, B)

Egypt has succeeded in purchasing aircraft and military supplies in Europe by devious means which have involved violations of the UN truce resolution by both seller and buyer. (Item No. 3, B)

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SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. Realization of the ambitious Polish plan to construct 269,000 deadweight tons of merchant shipping by 1955 will require high priority planning in view of serious deficiencies in the post-war Polish economy. Shortages of requisite materials and labor in Poland will retard the projected rapid expansion of the shipbuilding industry.

Before the war, Poland depended upon foreign shipyards for most of its ocean-going tonnage. Domestic production, centered at Gdynia, consisted principally of small coastal craft and fishing vessels. When Poland received the former German yards at Danzig and Stettin (now Gdansk and Szczecin) at the end of 1945, about 75% of their equipment had been lost through Allied bombings and Soviet dismantling. Despite UNRRA's generous contributions of machinery and other equipment, and the Polish Government's allocation of substantial appropriations for rehabilitation of the shipyards, post-war shipbuilding has been confined to construction and repair of small coastal and fishing vessels.

In recent months, however, continued improvement in Polish shipyards has resulted in some output of consequence. For example, an ocean-going vessel (3200 deadweight tons) was launched in April 1948, the first such launching in post-war Poland. Several steel fishing outters have recently been produced and construction of five ore and coal carriers of 2500 deadweight tons is under way, with two of these vessels scheduled for launching before the end of 1948.

Poland now has four shipyards of primary importance, of which the largest is the Stocznia Gdansk (Gdansk Shipyard). Their present status is as follows:

<u>Yard</u>	<u>No. of Personnel</u>	<u>Capabilities</u>
Stocznia Gdansk (Gdansk Shipyard)	4000	Construction and repair of all types of merchant vessels. (1)
Stocznia Gdynia (Gdynia Shipyard)	1300	Major ship repairs. (2)
Odra Shipyard, Szczecin	-	Construction and repair of medium size vessels. (3).

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Stocznia Polnocna,
Gdansk
(Northern Shipyard)

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Construction and re-
pair of medium steel
or wooden vessels.

- (1) 3 berths, 2 floating docks, heavy duty cranes.
- (2) 2 medium floating docks.
- (3) 4 berths.

The projected construction of 269,000 deadweight tons by 1955 would more than double the present Polish-flag fleet. Although only 10,000 tons output is scheduled for 1949, the plan calls for 49,300 tons in 1952 and a peak of 66,000 tons in 1955. Since coal and iron ore, moving principally by water, are respectively Poland's most important export and import, bulk cargo carriers may be expected to account for more than 50% of the planned construction. The program also provides for construction of several medium-size cargo and passenger vessels, as well as a number of trawlers and tugs.

The ambitious shipbuilding program is being accompanied by active Polish competition for construction on foreign account, presumably reflecting confidence that Polish shipyards will have surplus capacity after satisfying domestic demands. Negotiations for construction of small vessels have been conducted with Turkey and several European countries, including Italy, Rumania and Sweden.

The emergence of a Polish shipbuilding industry of the proportions envisioned would be a considerable addition to the merchant shipping potential of the USSR. It would be of particular value to the USSR for production of ocean-going vessels. There are, however, several significant deficiencies in the post-war Polish economy which will retard such a development and which render attainment of the scheduled program doubtful. These are: (a) disruption of East-West trade, which prevents Poland from acquiring much-needed heavy machinery and other equipment in exchange for exportable surpluses of Polish coal; (b) a serious shortage of steel, in part a result of the loss of Western sources, as well as Czechoslovakia's failure to deliver steel in anticipated quantities; (c) a severe shortage of the essential skilled labor force, due to the loss of German technicians and inadequate training facilities in Poland. Although restoration of normal East-West political and economic relations in Europe could eliminate some of these problems, there appear to be no prospects of such a development soon enough to meet the shipbuilding schedule which Poland has established.

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2. Reluctance on the part of US shipping experts to conduct a long-range planning survey of the Turkish maritime industry may result in closer contacts between UK and Turkey on shipping matters. Turkey's desire for US collaboration in such a survey stems from the fact that a substantial part of the Turkish merchant fleet was purchased in the US. After a year of unsuccessful attempts to interest the US, Turkey may now solicit help in the UK. There is a strong possibility that the UK would recognize this opportunity of strengthening its merchant shipping position in an area where British shipping has been somewhat overshadowed by US activity in recent years. [REDACTED]

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CIVIL AVIATION

3. The Canadian Government hopes to obtain additional traffic rights for Canadian airlines in US territory in connection with the probable re-negotiation of US commercial air rights in Newfoundland, which will automatically terminate upon the impending federation of Newfoundland with Canada.

US airlines were granted unrestricted traffic privileges at Gander (the only commercial airport in Newfoundland regularly served by US airlines) by a US-UK agreement in May, 1947. A provision in the agreement, however, renders it inapplicable in the event of any change in the constitutional status of Newfoundland which removes it from the jurisdiction of the UK. US commercial rights at Gander will therefore be terminated upon confederation unless agreement is first reached with Canada for their continuation.

On the other hand, recent expansion of Canadian-flag international air services has made the acquisition of additional commercial rights in US territory a matter of immediate interest to Canada. The Government airline, Trans-Canada, has inaugurated services to Bermuda and to the West Indies which probably cannot be profitably operated without commercial stops in the US. Furthermore, Canada's recent decision to authorize a private airline to develop the projected route to Australia has considerably advanced the date when a commercial stop in Hawaii will be required. It seems likely, therefore, that Canada will take advantage of its improved bargaining position vis-a-vis the US, arising out of confederation, to press for the early re-negotiation of its US civil air agreement.

The Canadians believe that the US will not be willing, as a matter of principle, to accept modified commercial rights through Newfoundland and that the US can therefore be induced to liberalize Canadian rights through US territory. [REDACTED]

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4. Czechoslovak Airlines (CSA), operates almost exclusively US-type aircraft, and is dependent on outside sources for spare parts. Czechoslovakia is therefore attempting to acquire US-manufactured aircraft parts and equipment in Western Europe. The US and Western European governments, however, oppose the sale of aviation materials to the Soviet-Satellites.

Air Traffic Inc., an obscure company with offices in Geneva, has attempted to purchase large quantities of aircraft parts and equipment through a US firm, ostensibly for a small, non-scheduled airline in Western Europe. In reality, however, this purchaser is a front for CSA. As the Western Powers increase their efforts to block such shipments to Czechoslovakia and other Satellite States, black market prices will skyrocket unless the USSR reverses its policy and actively supports the Satellite airlines by making available Soviet-manufactured DC-3 spare parts. The lucrative profits from black market deals in aviation components will attract the numerous speculators connected with the loosely regulated, non-scheduled airlines operating in Western Europe, many of whom are irresponsible and dishonest. If such black market deals become extensive they may seriously weaken efforts of the US and UK to block expansion of Soviet-controlled Satellite airlines.

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5. Egypt has succeeded in purchasing aircraft and military supplies in Europe by devious means which have involved violations of the UN truce resolution by both seller and buyer. Three separate consignments of machine guns destined for Karachi aboard Trans-World Airline (TWA) aircraft were recently reported to have been confiscated by Egyptian authorities upon arrival in Cairo from Rome. Since TWA has consistently refused requests of the Egyptian Government to carry contraband from Italy to Egypt during the Palestine Truce, it appears possible that consignment of the arms to Karachi, and their subsequent confiscation in Cairo, were part of an organized scheme prearranged by Egyptian authorities.

The Egyptians may well have been assisted in this plan by Italian nationals, for there is ample evidence elsewhere of Italian sales of military equipment to Egypt. The Fiat factory at Turin, for example, is producing nineteen G-55 fighter aircraft for the Egyptian Government, and is sending technicians to Egypt to assemble the aircraft and instruct the Egyptians in maintenance procedures. It has been reported, furthermore, that the Macchi Company has sold twenty-one reconditioned fighter aircraft to the Egyptians.

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Egyptian representatives, continuing their efforts to obtain aircraft and other military equipment elsewhere in Europe, are reported to be negotiating with a Swiss arms dealer. Moreover, unconfirmed reports indicate that a consignment of small arms, ammunition, rifles and machine guns, valued at \$4,500,000, will be shipped shortly from Czechoslovakia to Egypt via Gdynia, Poland. Egyptian agents have also attempted, though unsuccessfully, to place orders with American firms.

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