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2 February 1961

CURRENT INTELLIGENCE WEEKLY SUMMARY



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T H E W E E K I N B R I E F

PART I

OF IMMEDIATE INTEREST

EAST-WEST RELATIONS Page 1

Bloc spokesmen and propaganda media, still conveying an impression of optimism over the prospects for improving Soviet American relations, have begun to stress the need for American actions. Khrushchev is holding open the possibility of returning to New York for the UN General Assembly session next month. Soviet reporting of Ambassador Stevenson's remarks on the possibility of a meeting at the UN between the President and Khrushchev omitted the ambassador's qualification that this was his personal opinion. Soviet accounts of President Kennedy's State of the Union message were composed of direct quotes with some significant omissions. [redacted]

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CUBA Page 3

Following the USSR, Communist China, Czechoslovakia, and Poland, which have already established embassies in Havana, most of the seven other bloc countries now recognized by Cuba are expected soon to open missions there. East Germany remains the only bloc country still not formally recognized by the Castro regime. Castro now has publicly acknowledged the threat of counterrevolutionaries in Las Villas Province. Cuban propaganda media have moved away from the earlier wait-and-see attitude toward the new US administration and now are asserting that the administration has adopted the "old Eisenhower-Dulles line." [redacted]

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CONGO Page 4

Fragmentation of the Congo continues as the leader of the northwestern province of Equateur negotiates with the President of the neighboring Central African Republic for military assistance in exchange for some form of merger of the two areas. Meanwhile, the UN Command is losing about a quarter of its military strength as a result of the withdrawal of troops by Guinea, the UAR, and Morocco. The Sudan's refusal to permit transit of its territory has been hindering efforts by the UAR and bloc countries to furnish aid to the pro-Communist Gizenga regime in Stanleyville. In Katanga, the Baluba tribesmen pose a growing threat to the administration of President Tshombé, for whom French support appears to be developing. [redacted]

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PART I (continued)

LAOS Page 7

The formal installation by Communist elements of a rival government in Xieng Khouang town makes a political settlement more remote. According to a Pathet Lao announcement on 2 February, Kamsouk Keola, a member of Souvanna Phouma's previous cabinet, has been designated acting premier pending Souvanna's "early" return to Laos. On 2 February Chinese Communist Foreign Minister Chen Yi pledged aid to the "legal" Laotian government if it is requested. Recognition of Peiping by the rump government in Xieng Khouang would provide the Chinese a pretext, such as presently enjoyed by the Soviets, for intervening more directly in the Laotian affair. On the military scene, government troops are continuing their slow advance on the enemy-held junction of the Luang Prabang - Vientiane road.

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PART II

NOTES AND COMMENTS

KHRUSHCHEV'S AGRICULTURAL TOUR Page 1

Khrushchev completed the Ukrainian leg of his current agricultural tour leaving the leaders of the Ukraine still holding their jobs but apparently much chastened after a three-day airing of their mismanagement of agriculture. On 30 January he arrived in Rostov to attend a conference of agricultural specialists from the North Caucasus and Lower Don areas of the RSFSR, and intends later to visit the Georgian Republic, Voronezh Oblast, and the New Lands area. Khrushchev's present tour differs from similar trips in the past in that he is accompanied by an entourage of top agricultural officials, some of whom are identified in their posts for the first time.

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USSR PUBLISHES RESULTS OF 1960 PLAN Page 2

Soviet industrial production continues to increase at an annual rate greater than needed to achieve the goals set by the Seven-Year Plan (1959-65). According to the official report of plan fulfillment, gross industrial production in 1960 increased 10 percent over 1959 instead of the planned 8.1 percent and, in the first two years of the Seven-Year Plan, increased 22.1 percent as compared with the 17 percent originally scheduled.

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PART II (continued)

SOVIET CONSTRUCTION Page 4

A shake-up has occurred in the administration of the Soviet construction industry following the industry's failure by 15 percent to meet the goals of the 1960 plan for urban housing. While the underfulfillment was probably due chiefly to a policy decision to cut back private housing, there are technical and administrative difficulties in the Soviet housing program which, if not solved, could jeopardize housing objectives set forth in the Seven-Year Plan.

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MANAGEMENT PROBLEMS IN CHINESE COMMUNES Page 5

In recent articles Peiping has expressed dissatisfaction with the operation of communes, and implied that mismanagement and general confusion in organizational authority have been the principal problems. It is ordering an almost complete transfer of communal authority back to the production brigades, in effect returning farming to the farmers.

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CHINA SEEKING LARGE QUANTITIES OF FREE-WORLD GRAIN Page 7

Faced with the tightest food situation in its history, Communist China is negotiating to buy large quantities of food grains in the West. If current negotiations with Canada and Australia are successful, total Chinese Communist grain imports in 1961 will reach as much as 2,500,000 tons--far surpassing that of any year since the Communists came to power. The heavy expenditure of foreign exchange to finance these imports may reach proportions which would nearly exhaust current holdings unless a drastic readjustment is made in China's trade patterns, possibly forcing Peiping to increase its sales to the West at the expense of its exports to the bloc.

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COMMUNIST CHINA'S SOUTHERN BORDER PROBLEMS Page 9

Peiping's display of generosity in arrangements to settle its minor border dispute with Burma and Nepal is intended principally to bring pressure on New Delhi to agree to a compromise settlement of the Sino-Indian border controversy. To the same end, the Chinese have recently renewed their offer to negotiate directly with Bhutan over the Sino-Bhutanese boundary and have also agreed in principle to the demarcation of a boundary with Pakistan, in the highly sensitive Kashmir area. The Chinese overture to Bhutan also included an offer of all aid needed if the Bhutanese were to break off their close ties with India.

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PART II (continued)

COMMUNISTS INTENSIFY ANTI-DIEM CAMPAIGN IN SOUTH VIETNAM . Page 10

The establishment of a "National Front for the Liberation of South Vietnam" is the latest move in North Vietnam's increasingly bold campaign to topple the Saigon government through a combination of political agitation and guerrilla terrorism. The number of Communist guerrillas has increased from about 3,000 in mid-1959 to about 10,000 at the present time. The intensification of subversive activities is indicative of the growing ability of the Communists to operate with relative impunity in South Vietnam. [redacted]

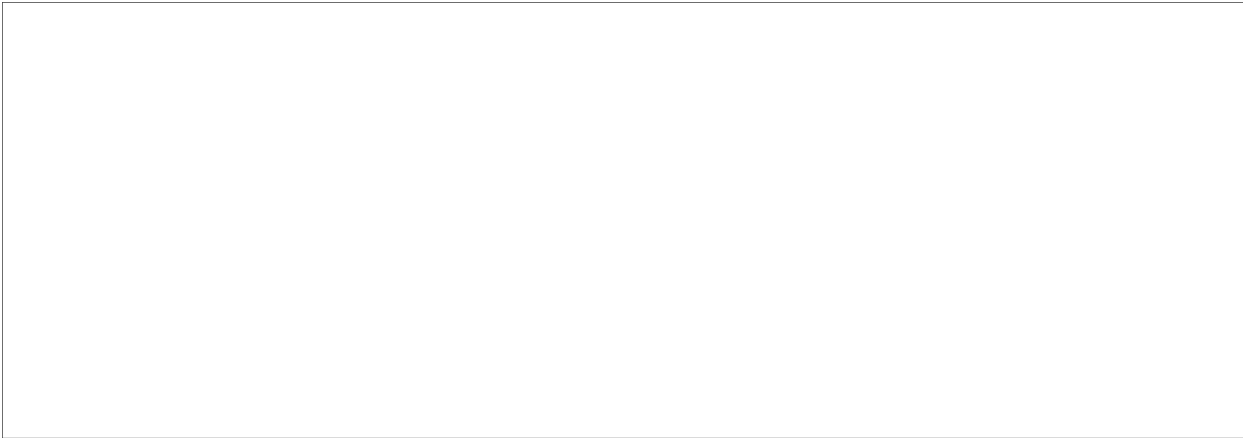
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THE NETHERLANDS NEW GUINEA PROBLEM Page 12

The ten-year-old Dutch-Indonesian dispute over Netherlands New Guinea has intensified in recent months as a result of the increasingly militant attitude of the Indonesians and of moves by the Dutch to strengthen their military position in the area. Efforts to mediate have so far been unproductive, and each side is undertaking diplomatic measures to strengthen its position with a view to seeking action by the United Nations. The Hague fears that Indonesia may attempt to block Dutch plans to set up an indigenous political administration for New Guinea in early April. Foreign Minister Subandrio recently stated Indonesia is determined to "regain" the area and claimed that Khrushchev had offered support "all down the line." [redacted]

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PLEBISCITE IN BRITISH CAMEROONS Page 14

The two sectors of the British-administered UN trust territory of the Cameroons in West Africa are to decide by separate plebiscites on 11 and 12 February whether to join the Federation of Nigeria or the Republic of Cameroun, until last year under French trusteeship. Observers predict the northern sector will opt for union with Nigeria, despite an intensive last-minute effort by Cameroun to

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PART II (continued)

win support in the area. The outcome in the southern sector may favor Cameroun but will probably be close; in any case there will likely be local instability and disorders which will pose new problems for the UK, as well as Nigeria and Cameroun.

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FRANCE-ALGERIA Page 16

The rebel Algerian provisional government continues to indicate a willingness to reach a negotiated settlement with the French, and rebel "premier" Ferhat Abbas has reportedly agreed in principle to meet De Gaulle on French soil.

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The changes in top French military posts, announced on 1 February, seem designed to assure that the French Army will be more responsive to De Gaulle's policies.

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PORTUGAL Page 18

While not immediately threatening the stability of the Salazar regime, the developments following the Santa Maria's seizure on 22 January have made Lisbon concerned over the security of its African provinces, and have renewed the Portuguese public's awareness that Premier Salazar has active opposition. The incident is likely to increase pressure even from regime supporters for some change in the status quo.

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AFTERMATH OF BELGIAN STRIKE Page 19

As a result of the recent prolonged strikes against the government's economic austerity bill, Belgium's ruling Social Christian and Liberal parties have agreed to hold elections this spring rather than wait until parliament's term expires in May 1962. They believe that Belgium's economic problems can best be attacked by a new government with a current popular mandate. The new government is likely to be a coalition of Social Christians and Socialists. Such an alignment is already favored by the labor wing of the Social Christian party, and will be increasingly acceptable to the rest of the party now that NATO Secretary General Spaak has decided to resign and head the Socialist slate.

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EL SALVADOR Page 20

The governing directorate installed by the Salvadoran armed forces on 25 January is consolidating its hold over the country and is taking steps toward early

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elections. The directorate is now turning to the economic grievances of the peasantry and has also taken measures to curb the Communist activity in rural areas that had reached an advanced stage before the coup. Communist-led students will probably try to provoke violence in the capital in an effort to turn public sentiment against the military.

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THE NEW BRAZILIAN GOVERNMENT Page 21

The inaugural address of President Janio Quadros on 31 January did not outline specific programs of his administration, but asserted the need for a "truly independent" foreign policy. Outstanding personalities in the generally conservative cabinet are Foreign Minister Afonso Arinos, who has been friendly toward the United States; Finance Minister Clemente Mariani, who seems capable of pushing needed economic reforms; and War Minister Denys, a holdover from outgoing President Kubitschek. Some pro-Quadros circles have criticized the cabinet as too conservative to accomplish the policy changes they seek.

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PART III

PATTERNS AND PERSPECTIVES

BLOC POLICY IN LAOS Page 1

The negative tone of the initial reaction by Soviet bloc spokesmen to Britain's compromise proposal of 21 January for reactivating the International Control Commission in Laos reflects the Communist leaders' belief that time is working to their advantage in the Laotian conflict. Recent bloc diplomatic tactics are designed to delay any international action or negotiations looking toward a settlement of the conflict and thus to give the Kong Le - Pathet Lao forces an opportunity to exploit their recent military successes.

The present Communist objective is to secure control of as much territory as possible before negotiations get under way. Bloc leaders are confident that such military gains will give them a strong bargaining advantage in pressing for a "neutralized" Laos with strong Pathet Lao representation in a reconstituted national coalition government. If the Communist powers fail to achieve this goal, they probably would then seek to obtain some form of international recognition of the de facto division of the country. Moscow probably feels that either result would have repercussions throughout Southeast Asia which would benefit the Communist bloc.

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PART III (continued)

THE ALBANIAN PARTY ON THE EVE OF ITS FOURTH CONGRESS . . . Page 5

Albania has given no sign of yielding to bloc pressures to abandon the positions which brought it into disagreement with the USSR in the Sino-Soviet dispute. Its defiance, facilitated by Chinese Communist support and by the unity of the top leaders behind party leader Hoxha, is motivated in part by fears of a hostile Yugoslavia, and centers mainly on Moscow's approach to "peaceful coexistence." While an open effort to force Tirana into line appears unlikely as long as Sino-Soviet relations continue in their present state, the USSR and its satellites probably will continue to show their displeasure and work behind the scenes to effect a change in Albanian policy or leadership.

[Redacted] 25X1

MIDDLE EAST OIL DEVELOPMENTS Page 10

Production of Middle East oil reached an all-time high in 1960 of about 5,250,000 barrels a day--up more than 15 percent from 1959. The annual rate of increase will decline over the long term, however, reflecting not only the slower growth in free-world oil demand but also the increase in competing production outside the Middle East. Output in North Africa--which produced no oil at all two years ago--may reach 500,000 barrels a day in 1961. In any event, prospects are that 1961 will be another record year for Middle East production. The Organization of Petroleum Exporting Countries set up by several Middle East oil-producing states and Venezuela last September is already weakened by the conflicting economic and political interests of the member states. Frictions also continue between individual Arab governments and the oil companies.

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PART I**OF IMMEDIATE INTEREST****EAST-WEST RELATIONS**

Moscow has continued to give relatively factual coverage to statements by President Kennedy and cabinet members. The Soviet press reported the main points of the President's news conference of 25 January and published summaries of the State of the Union message. There was also a marked reduction in Soviet jamming of the Voice of America's Russian-language broadcasts on 29 and 30 January.

Soviet accounts of the State of the Union message were composed of direct quotes with some significant omissions. The general effect of the editing was to emphasize economic and social problems and ignore the statements on intended corrective measures. While domestic issues were stressed, statements on foreign policy were more heavily edited. The TASS summary, for example, omitted several long passages including the references to Communist China, the need to maintain free world forces to deter aggression, the three defense measures the secretary of defense has been asked to initiate, and the remarks on foreign aid. Moscow did report, however, the President's offer to cooperate with the Soviet Union. Thus far Moscow has made no editorial comment on the address.

Soviet propaganda commentary on the press conference generally links the release of the RB-47 crew to the President's statement on U-2 flights and

interprets the steps as a case of reciprocal concessions initiated by Khrushchev personally. Top-level Soviet leaders have told Ambassador Thompson of their great satisfaction with the expeditious handling of the matter by both sides.

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the Soviet Union. Khrushchev is said to have acknowledged that the US could not change policy and tactics whenever it pleased and that changes in policy were the result of shifts in public opinion. He implied, however, that the election results reflected a desire for a change in policies. Khrushchev also forecast greater flexibility by the new US administration in its approach to world problems.

Soviet spokesmen have begun to stress that the next move is up to the United States. Marshal Bagramyan told Ambassador Thompson on 26 January that it was now up to the US which direction the world would go. Bloc propaganda has begun to emphasize that the US bears the responsibility for following words with deeds.

Khrushchev is apparently keeping open the possibility

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of returning to the UN when the General Assembly reconvenes on 7 March. Soviet propaganda has widely reported Ambassador Stevenson's press conference remarks of 27 January on the possibility of a meeting between the President and Khrushchev at the UN but has omitted any mention of the ambassador's statement that he was expressing a personal opinion. No bloc propaganda media have reported the comment by the White House press secretary on Stevenson's statement.

Some indication that Khrushchev was holding open March for a return to New York was indicated by the Soviet Foreign Ministry's discussions with the Ceylonese ambassador on arranging a visit to Moscow for Premier Bandaranaike in late March. The Foreign ministry could not agree on a specific date on the ground that Khrushchev's schedule for March was "vague."

Moscow has also reported without comment the US request for a postponement of the resumption of the Geneva nuclear test ban talks. A Soviet Embassy official in Vienna, who often expounds freely on Soviet policies, told an American official that the Soviet approach to inspection provisions would probably be more "realistic" in the future. As other Soviet officials have done, he spoke of

Soviet concern over Chinese acquisition of nuclear arms and stressed the common interest of the US and USSR is stopping the spread of nuclear weapons technology.

On the disarmament question Chief Soviet UN delegate Zorin, in a conversation with Ambassador Stevenson, maintained the standard Soviet position that agreement should be reached on total disarmament before there is any discussion on controls.

There has been no moderation in Chinese Communist skepticism regarding the new US administration. The Chinese published the President's State of the Union message in the official People's Daily--under the heading "An Olive Branch in His Right Hand, A Bundle of Arrows in His Left." The message was described as "setting the basic tone of US foreign policy --to strengthen arms expansion and war preparations and to step up economic and cultural aggression with some peace gestures." Peiping has made no mention of suggestions that surplus American foodstuffs be offered for distribution on the Chinese mainland.

East European Reaction

Although East European satellites blocked VOA and Radio Free Europe broadcasts of the President's State of the Union message, local propaganda media gave it extensive

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reportorial coverage--particularly those passages which dealt with the US economic situation, the state of American education and social medicine, and American foreign policy. All the East European satellites, with the

exception of Albania, have assumed a cautiously optimistic attitude toward the new US administration, while displaying varying degrees of skepticism concerning future US policy.

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CUBA

The Sino-Soviet bloc continues to increase and tighten its already close ties with the Castro regime. The four bloc embassies already established in Havana--those of the USSR, Communist China, Czechoslovakia, and Poland--are shortly to be joined by diplomatic missions from all or most of the seven other bloc countries now recognized by Cuba. East Germany remains the only bloc country still not formally recognized by Cuba.

A large number of visits are being made this month between Cuba and the bloc. The Cuban press announced on 26 January that a Soviet labor group headed by the secretary general of the USSR's Central Trade Union Council is en route to Cuba.

Travel between Cuba and the bloc has been facilitated by the weekly flights since early December between Prague and Havana by Cubana Airlines. The representative in Prague of a West European airline informed the American Embassy on 27 January that these flights generally carry about 80 persons to Prague and return to Cuba with about 50. Meanwhile, the Czechs are seeking Western

overflight privileges for their own planned flights to Cuba.

More than 250 bloc technicians--mainly Russians and Czechs--already in Cuba as of mid-December include a wide range of specialists from bankers to geologists and industrial engineers. Soviet technicians had earlier shown an interest in the Moa Bay and Nicaro nickel installations, which were seized last year from their American owners, and Cuban leaders have announced that production will soon resume at these plants with the help of Soviet bloc technicians.

Cuba's controlled press and radio, reacting to President Kennedy's first press conference and his State of the Union address, are moving away from the "wait-and-see" attitude adopted by Fidel Castro toward the new US administration in his 20 January speech. Cuban radio stations on 30 and 31 January declared that the new President has "taken off his mask" and seems to be following the hostile "old Eisenhower-Dulles line."

Ecuadorean Foreign Minister Chiriboga sent word on 23 January to all American republics

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except the United States, Cuba, the Dominican Republic, and Peru proposing joint conciliation of "the US-Cuban problem" by the Latin Americans acting outside the framework of the Organization of American States or the United Nations. Chiriboga's initiative is arousing little support, in part because the incumbent Ecuadorean Government lacks prestige in the hemisphere.

In a speech on 28 January in Las Villas Province, Castro for the first time publicly acknowledged the extent of the counterrevolutionary threat there. He claimed that anti-Castro guerrillas, which he said numbered over 500, in the Escambray Mountains are "fenced in to the point where they cannot escape. When these fences are strong enough, battalions of militia well and specially trained will advance on them."

Castro blamed the counterrevolutionary activity in Las Villas on the "bad" revolutionaries of the "Second Front of the Escambray," an independent group allied with Castro forces during the latter part of the anti-Batista revolution and then integrated into Castro's army. He said these "subversives have planted diversionist

seeds throughout this province" and were awaiting help in their plans for the US. Therefore, Castro went on, "We now have to clean out all our offices in this province."

Castro pledged that military operations in the mountains and the purges in provincial offices would convert Las Villas into "the most revolutionary province of Cuba." Two days before Castro's speech, the leader of the "Second Front of the Escambray," Eloy Guterrez Menoyo, and a number of other Cuban army officers arrived in Key West by open boat seeking asylum.

Che Guevara, architect of the regime's statist economy and the official chiefly responsible for negotiating last year's economic agreements with the bloc, may soon receive a formal cabinet post.

Guevara is expected shortly to resign as president of the National Bank to take the new post of minister of industries.

CONGO

The efforts of President Kasavubu and Colonel Mobutu to counter the activities of the pro-Communist Gizenga regime in Stanleyville face a growing trend toward fragmentation of

the Congo and are hindered by a shortage of military supplies.

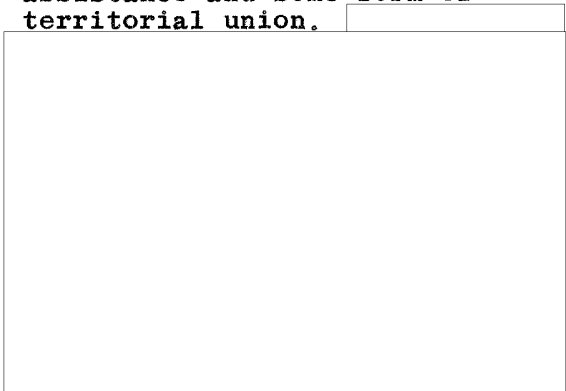
Jean Bolikango, Kasavubu's information minister and the leader of Equateur Province,

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in northwestern Congo, has been negotiating with groups in neighboring republics of the French Community for military assistance and some form of territorial union.



Bolikango,

has also discussed a possible merger of territories with groups in the French Community's Congo Republic.

Bolikango probably controls the Bangala tribe, which forms a sizable part of the Congolese Army. He plans to raise a force of tribesmen to protect Equateur Province and approached the American ambassador on 28 January for US arms for this purpose. Such activities illustrate the unwillingness of local Congolese leaders to submerge their aspirations in order to preserve unity.

The preparatory political conference at Leopoldville of Congolese factions--without participation of Gizenga's adherents--chose its officers and engaged in discussion of an agenda and precedural matters. Substantive discussions are

expected to take place at a later date in Elisabethville, but in view of the conference's unrepresentative nature and the continued disagreement between Kasavubu and Katanga President Tshombé, no significant decisions are expected. Meanwhile Kasavubu has rejected a military treaty with Tshombé and Kalonji, leader of the South Kasai state, but is expected to submit counterproposals. Tshombé and Kalonji have agreed to mutual recognition as autonomous states.

The military situation on the frontier of Equateur and Orientale provinces remains obscure. Kasavubu has made a plea to the United States for prompt, direct assistance--suggesting that Belgian arms be bought similar to those now in use in the Congo--so that the Leopoldville regime could take the initiative against Gizenga.

Gizenga's regime, too, is short of supplies and has looked to Cairo and the bloc for military aid. However, Sudan continues to refuse to allow aid material to move across its territory. TASS announced on 30 January that the USSR had asked Sudanese President Abboud to permit the Soviets to send food and medicine, in 20 trucks through the Sudan to pro-Lumumba areas of the Congo.

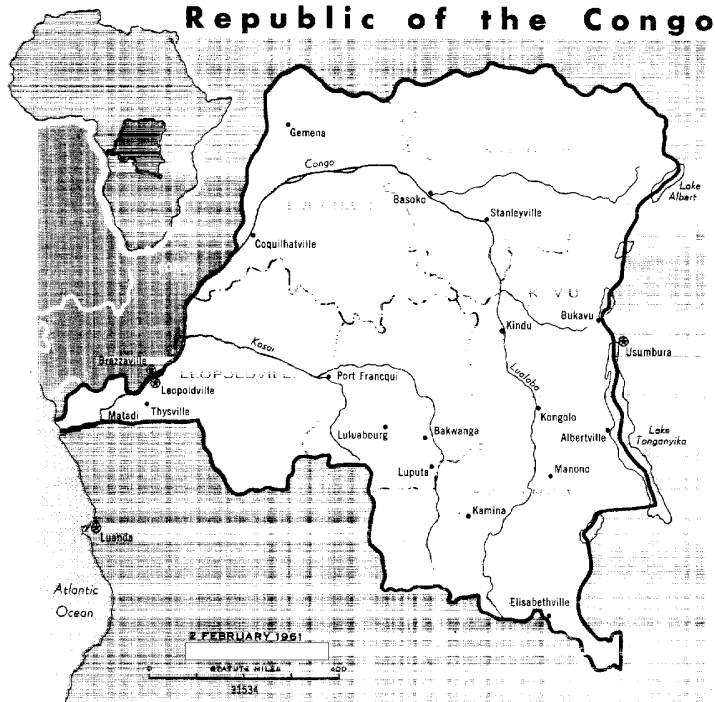
Sudanese officials fear that unless there is effective UN and Western action, the Congo situation may deteriorate to the point where the Sudan would be faced with a de facto Communist-supported government on its border. The Sudanese foreign

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administration is reportedly already collecting taxes--the Baluba tribesmen hostile to Tshombé, together with Congolese Army units loyal to Stanleyville, will be in a position to launch attacks against the mining complex and railroads which are economically vital to southern Katanga. On 30 January Katanga aircraft dropped bombs, probably improvised gasoline bombs or grenades, on Manono.

Tshombé's regime in Katanga may also be entering a difficult period in his relations with Belgium. The government has decided to replace the Belgian

commander of the Katanga armed forces with a French officer. This decision may cause a majority of the several hundred Belgian officers serving with the Katanga forces to resign and create a serious military problem for the state. In addition, Tshombé's own position apparently is under attack by his deputy premier, Jean Kibwe.

In Brussels, the Belgian foreign minister has won cabinet approval to enforce a law forbidding Belgian citizens to serve in or recruit for foreign 25X1 armies, which could lessen overt Belgian assistance to Katanga.

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minister has denied reports that trucks from the Sudan had entered the Congo with arms for Gizenga,

Gizenga's forces in Kivu Province have taken the offensive by launching an invasion of remote northern Kasai Province. One group reportedly is aiming at Luluabourg; the other is trying to reach pro-Lumumba territory in eastern Leopoldville Province.

The Gizenga-supported Baluba tribal state of Lualaba, centered at Manono in Katanga Province, appears to be developing into a serious threat to the Katanga government. As this regime becomes entrenched--its provincial

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The United Nations Command is beset with increasing difficulties as the African nations implement their threatened troop withdrawals. Guinea's 740 troops have embarked at Matadi, the UAR's 500 have been airlifted from Equateur Province, Morocco's 3,100 men expect to leave in early February, and Indonesia's 1,150 will leave in March. The remaining 13,000 troops are consid-

ered inadequate for policing the 900,000 square miles of the Congo.

Hammarskjold's appeals last month to Ethiopia, India, Iraq, and Sudan for additional troops have not elicited a favorable response. The problem is the more critical in the light of the possible expansion of the UN's security duties in the Congo, a policy step being advocated even by some Afro-Asians. [REDACTED]

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LAOS

A rival government to the Boun Oum regime has been formally installed by Communist elements in Xieng Khouang town, stronghold of the Kong Le - Pathet Lao forces. According to a Pathet Lao announcement of 2 February, former Premier Souvanna Phouma--now in Cambodia--has designated Kamsouk Keola, a member of his previous cabinet, to be acting premier pending his own "early" return to Laos.

Kamsouk is to be assisted in discharging his functions by two other leftist supporters of the former premier: Quinim Pholsena, appointed minister of defense, finance, and foreign affairs, and Tiao Sisoumang, named minister of social affairs, economy, and interior. Quinim, minister of information in the former Souvanna government, previously had been acting in Souvanna's name as the representative of the "legal" government of Laos; Sisoumang had been a secretary of state in both of Souvanna's post-coup governments.

This move apparently was coordinated with Souvanna Phouma in talks held in Phnom Penh last week when a high-level Pathet Lao delegation headed by Phoumi Vongvichit visited him en route from Hanoi to Xieng Khouang. [REDACTED]

While there is a possibility that Souvanna's name has been used with some liberty in connection with setting up the rump regime in Xieng Khouang, he must have at least given his tacit approval. [REDACTED]

Communist China's Foreign Minister Chen Yi, speaking at a Peiping rally on 2 February, promised aid to the "lawful Laotian government" of Souvanna Phouma if it is requested. Souvanna Phouma, who requested Soviet aid, has never recognized Peiping nor formally approached the Chinese for material assistance, but recognition of Peiping by the rump government in Xieng Khouang would provide the Chinese

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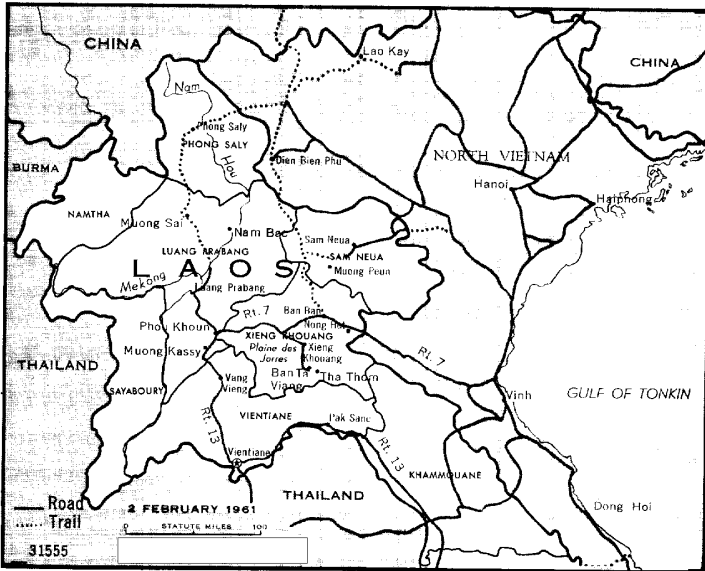
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a pretext for intervening more directly in Laos. There was no indication in Chen Yi's statement that Peiping is encouraging any appeal for "volunteers," but it implicitly warned that the Chinese were prepared to step up the scale of bloc assistance to the pro-Communist forces in Laos if necessary.

The Soviet Union apparently intends to delay its reply to the British proposal of 21 January that the International

Communist China has made it quite apparent that it does not favor any immediate return of the ICC. Speaking at a 31 January banquet for a North Vietnamese trade and economic delegation visiting Peiping, Communist China's Premier Chou En-lai said, "Even to reactivate the ICC, it will be necessary immediately to convene an international conference of all countries concerned."

The military offensive against the Chinese Nationalist irregulars in north-eastern Burma, launched by the Chinese Communists in November and then followed up by the Burmese, has caused most of the irregulars to retreat across the Mekong River into Laos at least three points following Burmese capture of their main base, Keng Lap, on 27 January. Although the Burmese at first denied Chinese Communist participation in the most recent action, they subsequently said that--at Burmese



Control Commission (ICC) take preliminary soundings, through its Indian chairman, to determine whether it could perform any useful role in Laos.

request--500 Chinese Communist troops made a "show of force" on one flank of the Burmese attack.

Should the irregulars now in Laos disregard Vientiane's request that they remain near the border, Peiping might feel it had a pretext for sending its troops into Laos.

Government forces are continuing to move toward the

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strategic Phou Khoun junction of the Vientiane - Luang Prabang road and the road leading eastward toward the Plaine des Jarres. The Kong Le - Pathet Lao forces, while fighting delaying actions, appear to be following the same defensive tactics of orderly withdrawal previously observed at Vang Vieng and Muong Kassy. They may be seeking to conserve their strength in this general area in order to provide maximum protection for the main base area at the Plaine des Jarres. However, they may be luring government forces into a trap along the Phou Khoun - Plaine des Jarres road, which passes through rugged mountain terrain well suited for ambushes. There were several reports during the week of the westward movement of enemy reinforcements from the Plaine des Jarres.

In southern Xieng Khouang Province, pressure on Tha Thom, the last government outpost in the area, appears to have subsided, and, for the moment at least, government forces appear to be on the offensive. Elements of the reinforced govern-

ment garrison are said to have pushed a few miles in the direction of enemy-held Ban Ta Viang. Meo partisans appear to be harassing the Kong Le - Pathet Lao forces throughout the province with increasing effect. The enemy in Xieng Khouang is strong, however, and its supply position is being improved daily by Soviet air support flights. It presumably could easily reverse the government's recent gains with sudden thrusts either southward or westward from the Plaine des Jarres.

In the Luang Prabang area, the Pathet Lao is reported to have begun probing government defenses at Muong Sai, to the north of the royal capital, although the pace of this activity seems slow for the moment. In southern Laos, sporadic guerrilla harassment has been reported by the numerous, small but effective Pathet Lao units scattered throughout the area. This activity may be intensified with the aim of causing General Phoumi to divert some of his forces now committed to operations in the north.

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PART II

NOTES AND COMMENTS

KHRUSHCHEV'S AGRICULTURAL TOUR

Khrushchev completed the Ukrainian leg of his current agricultural tour leaving the leaders of the Ukraine still holding their jobs but apparently much chastened after a three-day airing of their mismanagement of agriculture. On 30 January he arrived in Rostov for an agricultural conference, and intends later to visit the

of the Ukrainian leadership at the all-union central committee plenum in Moscow. At the earlier session he had accused Nikolay Podgorny, Ukrainian party boss and full member of the presidium, of deception and serious mismanagement of agriculture. Khrushchev's remarks about Ukrainian Premier Kalchenko were even more acid.



Khrushchev's Agricultural Tour

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"In the near future I shall leave for the Ukraine, spend some time in the Northern Caucasus, in Georgia; I am also thinking of visiting Voronezh and the New Lands of Siberia and Kazakhstan."

Georgian Republic, Voronezh Oblast, and the New Lands area. Khrushchev's present tour differs from similar trips in the past in that he is accompanied this time by an entourage of top USSR agricultural officials, some of whom are identified in their posts for the first time.

Khrushchev arrived in Kiev on 24 January to attend a plenum of the Ukrainian central committee, only a few days after his unusually sharp criticism

After recounting Kalchenko's gross mishandling of the 1956 harvest, Khrushchev wound up, "There he sits, a member of the central committee, and everything rolls off him as water does off a duck's back. It doesn't matter to him that he made a mistake."

Khrushchev decided to give these officials another chance, but not before exacting public confessions from them. Podgorny, addressing the opening session

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of the Ukrainian plenum on 27 January, repeatedly admitted that Khrushchev's criticism was justified, and aired in detail what emerged as a very sorry record of leadership in the Ukraine.

Khrushchev's trip to the Ukraine, however, had a more practical object than hearing Podgorny's "confession." On 26 January, Khrushchev met with Ukrainian leaders and examined their agricultural plans for 1961, suggesting a number of important changes.

Khrushchev was accompanied by a number of high-ranking agricultural officials who presumably assisted him in making such on-the-spot planning changes. The group included USSR Minister of Agriculture Olshansky, Chairman Korniyets of the USSR State Committee for Grain Products, and academician Trofim Lysenko. The list also included V. A. Karlov, identified as head of the Agriculture Department for the union republics. The previous incumbent had been reassigned

in May 1960; Karlov was apparently appointed to the post sometime late last September.

The Rostov agricultural conference was attended by representatives from the northern Caucasus and lower Don areas of the Russian Republic. The meeting was opened on 31 January by Gennady Voronov, one of the new candidate members elected to the party presidium at the central committee plenum in January, and was addressed by Dmitry Pol'yansky, presidium member and RSFSR premier.

Voronov, who gave up his post as Orenburg Oblast party boss on 26 January, was identified at the Rostov meeting as a deputy chairman of the central committee's important bureau for the RSFSR, headed by Khrushchev. Presidium member Aristov has been Khrushchev's only deputy on the bureau since 1958. Whether Voronov replaced Aristov or has been assigned as an additional deputy is not known at this time.

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USSR PUBLISHES RESULTS OF 1960 PLAN

Soviet industrial production continues to increase at an annual rate greater than needed to achieve the goals set by the Seven-Year Plan (1959-65). According to the official report of plan fulfillment in 1960, released on 25 January by the USSR's Central Statistical Board, gross industrial production in 1960 increased 10 percent over 1959 instead of the planned 8.1 percent and, in the first two years of the Seven-Year Plan, increased 22.1 percent, as compared with the 17 percent originally scheduled.

The Sixth Five-Year Plan, which was abandoned in 1953 in

favor of the Seven-Year Plan, was to have been completed in 1960. Comparisons of the actual record in 1960 with original targets of the sixth plan indicate near achievement of principal items and some overfulfillments in heavy industry, implying that most of the planning and material difficulties which were the basis for scrapping that plan have been solved.

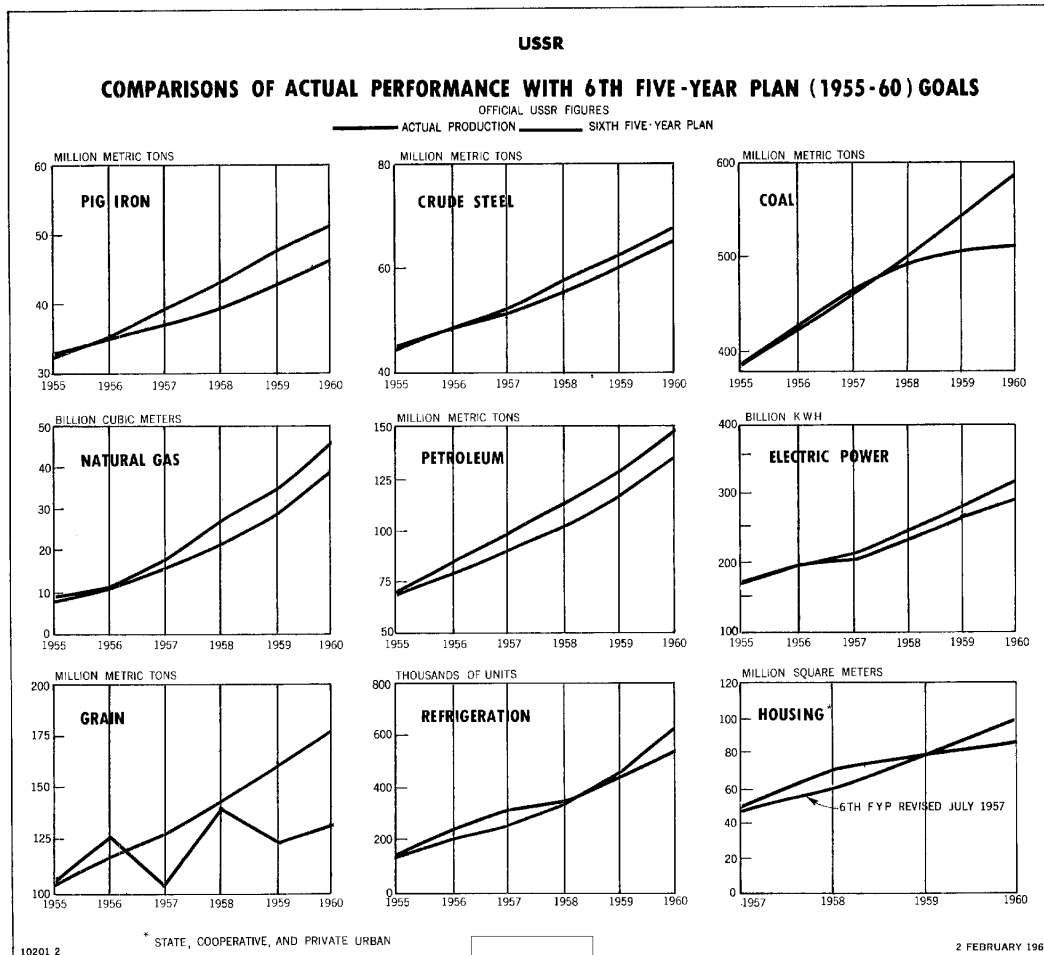
Overfulfillment of industrial goals is apparently not to be as great in the next few years. To balance over-all economic achievement, some investment will be shifted from heavy industry to support

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agriculture. Khrushchev in his speech to the recent central committee plenum on agriculture claimed that the Seven-Year Plan's steel target could be surpassed by as much as 10,000,000 metric tons but that this performance might be held back in order to increase agriculture's contribution to consumer industries.

There has been no progress toward achieving the 70-percent increase in gross agricultural output called for by the Seven-Year Plan. While 1960 grain production was reported as 133,000,000 metric tons, indications are that actual output was probably closer to 100,000,000

metric tons--about the same as the estimated 1959 harvest. Meat and milk production declined slightly from last year's level. Cotton production declined 7 percent from the record 1959 crop, but the output of other industrial crops, such as sugar beets and sunflowers, was well above last year's poor crops. Over-all agricultural production in 1960, as in 1959, remains at about the level of 1958, the base year of the plan.

The number of collective and state farms was not given in the official statement, but the approximate 25-percent increase in state farm sown acreage reported indicates a

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substantial increase in the total number of state farms.

Labor productivity was reported to have increased more than 5 percent over 1959; an increase of 5.8 percent was planned. Any slight underfulfillment can probably be attributed to the transfer of more than one third of all industrial workers to the seven-hour day in 1960. This completes the scheduled transfer of all of the state labor force --62,000,000 workers--to the 40- to 41-hour workweek which was initiated at the 20th party congress in 1956.

There reportedly was an increase in 1960 of 5,500,000 persons in the state labor

force (which excludes collective farms and producer cooperatives), in contrast with a planned increase of only 2,000,000. All but some 2,000,000 to 2,500,000 of the increase apparently resulted from the conversion of some collective farms into state farms and of many producer cooperatives into state industrial enterprises.

Total investment in 1960 was reported to have been 30.5 billion rubles. This represents a 97-percent fulfillment of the over-all plan for centralized investment and a 95-percent fulfillment of equipment acquisition plans, according to the report. Construction-installation plans were reported to have been 99-percent achieved. [redacted]
(Prepared by ORR).

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SOVIET CONSTRUCTION

There has been a shake-up in the Soviet construction industry. On 26 January Ivan Grishmanov, the party official in charge of construction matters, was appointed chairman of the State Committee for Construction Affairs. He replaced Vladimir Kucherenko, who had been in charge of the committee since 1955 and who will now head the Academy of Construction and Architecture. In a possibly related move, former construction minister Nikolay Dygay, who has been serving for the past year and a half in staff work in the construction field as minister without portfolio in the USSR Council of Ministers, was relieved of his post.

The official 1960 plan fulfillment report issued on 25 January disclosed that the urban housing plan for 1960 was 15 percent short of fulfillment rather than the 9 percent predicted by Gosplan chief Novikov in late December. There has been no indication, however, that the underfulfillment led

to the personnel changes in the construction administration.

Private housing accounted for virtually all of this shortfall. The government's attitude toward private housing has grown gradually cooler in recent years--Khrushchev, more than once, has disparaged it as wasteful and out of tune with the Communist way of life. In the latter half of 1960 it was disclosed that all state financial support for the construction of private housing had been withdrawn.



Large panel concrete structures such as this Soviet apartment house are to account for nearly two thirds of all state-built housing by 1965. [redacted]

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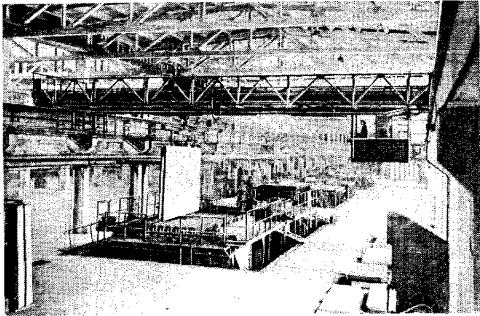
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Private housing may become an important issue in the USSR since it is scheduled to account for a third of the urban housing to be constructed under the Seven-Year Plan and has been eagerly sought by individual citizens. Continued shortfalls not offset by overfulfillment in the state housing sector could jeopardize the Seven-Year-Plan housing objectives



Factories such as this one in Leningrad for prefabricating concrete panels are not being built fast enough to satisfy growing demand.

and may cause the regime to overcome its antipathy to this form of construction.

State housing in 1957-59 substantially exceeded the plan, but the 1960 goal was slightly underfulfilled. The planners had difficulty in developing new methods of construction. The state housing program, for

example, is presently undergoing a changeover from brick construction to the use of large precast concrete panels.

By 1964, the volume of construction using this method is to be 50 times greater than in 1959 and is to comprise 63 percent of all new state housing planned for 1965. Last year, however, basic engineering was rushed and slipshod, and even the small amount of this type of construction planned was not completed. Should such deficiencies continue, there would be increases over the planned cost of housing construction during the 1961-65 period which could result in plan shortfalls.

On 25 January a Soviet official stated that the establishment of a new construction ministry was being considered to amalgamate all construction organizations. The chief construction agency is now the State Committee for Construction Affairs, which has as one of its main functions that of developing and testing new methods of construction and subsequently assisting in their adoption by republic and local construction organizations.

(Prepared by ORR)

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MANAGEMENT PROBLEMS IN CHINESE COMMUNES

In recent articles Peiping has expressed dissatisfaction with the operation of communes, and implied that mismanagement and general confusion in organ-

izational authority have indeed been the principal problems.

The abrupt creation of communes in 1958 with only the most

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vague guidelines of policy made management problems inevitable. Following the official injunction for politics to "take command," agricultural cooperatives were almost overnight merged into communes. While these units were fitted easily into Peiping's political organization, the economic structure of the communes involved new relationships which could have worked well only if there had been a large supply of able administrators with clear lines of authority and sufficient time for careful organization.

Lacking these, the communes almost immediately created social and economic problems that caused a retreat in December 1958 from the more radical aspects of the program. The original concept of the commune was further weakened in the "tidying up" phase that lasted until August 1959, during which the cooperatives--now termed production brigades--regained authority lost earlier to the communes.

The main economic motives for setting up the communes were to raise agricultural output and control consumption in order to maximize deliveries to the state. It was apparent to the regime throughout 1959 that the communes were not achieving these fundamental objectives, despite moderation of some of the more drastic elements of the program. Chou En-lai's criticism of the communes in August 1959 as over-centralized, extravagant, and too egalitarian is believed to be a fairly accurate description.

By shifting financial and accounting responsibilities and the "ownership of means of pro-

duction" from the communes back to the production brigades, the regime reduced centralization but left the commune a rather empty concept. The grandiose projects fostered by the communes were all but eliminated, and funds were applied to more immediate agricultural needs.

Material incentives were generally ignored by the original commune but have since been restored to their approximate pre-commune level. Peasants are again paid wages for labor performed, and this may occasionally be supplemented by bonus payments for exceeding the production quota. Welfare services, which were generally provided free by the early communes, now require payment. The communal mess hall is still supported, despite considerable evidence of its unpopularity and neglect in most areas. However, private plots, the raising of private livestock, and secondary occupations--all virtually eliminated in 1958--are now permitted by the regime.

Egalitarianism--equal distribution--was dealt a serious blow when the communes lost most of their authority over the production brigades, thus eliminating the common complaint against the commune that the more efficient production brigades were penalized by having to support the less efficient.

Statistical work in rural China has probably improved since its low point in the leap forward campaign, when statistical workers were ordered to serve political ends. There are still basic weaknesses in this area, however, and the lack of precise

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knowledge of local production and consumption has almost certainly complicated Peiping's problem of collection, distribution, and transportation of agricultural products.

Peiping has recently stressed that the production plans of the brigades are the most responsive to natural conditions in different localities, can best reflect technical requirements of specific crops, and can best arouse the initiative of the workers. By thus pointing up the advantages of the brigade over the commune, the regime is explicitly indicting the communes for failures in these important areas of production management.

In effect, Peiping is asking that farming be returned to the farmers. Available information suggests, however, that the brigades are still trying to adjust to the fluctuations of the political line and are not yet clear whether political or practical considerations should govern their planning.

The brigade is now clearly expected to exercise control over production and consumption in the rural areas, but its role has been made more difficult by the mediocre harvests of 1959 and 1960, when bad weather and rural mismanagement reduced the food supply. Having squandered most of the good will of the peasants in ill-conceived yet extraordinarily laborious projects during the "leap forward," the brigades now face the task of rebuilding morale without the wherewithal to offer incentives for renewed effort.

The heavy use of propaganda and political coercion during the past few years has almost certainly reduced the effectiveness of these techniques for meeting current problems. With food shortages expected to worsen throughout China during the winter, peasant dissatisfaction with the regime's rural organizations will probably increase.

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CHINA SEEKING LARGE QUANTITIES OF FREE-WORLD GRAIN

Faced with the tightest food situation in its 11-year history, Communist China has turned to the West for the purchase of very large amounts of food grains. Negotiations with Canada and Australia already have resulted in firm purchases of about 500,000 tons of wheat, flour, and barley. An additional order for 750,000 tons of Australian wheat is being discussed, and, while payment terms may be a stumbling block, the Chinese reportedly are seeking to buy a total of 1,000,000 tons of wheat and more barley from Canada. If concluded successfully, these

purchases, plus a 350,000-ton rice deal with Burma, would bring total Chinese grain imports in 1961 to more than 2,500,000 tons--an unprecedented level for Peiping.

The heavy expenditure of foreign exchange to finance these imports may reach proportions which would nearly exhaust current holdings unless a drastic readjustment is made in China's trade patterns. The Chinese are said to be pressing for a deferred-payments arrangement with Canada, but Ottawa apparently has rejected government credit backing for this purpose.

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In the absence of credit arrangements with free-world suppliers, or substantial financial support from the USSR, China will be forced either to cut back sharply on other non-bloc imports or to greatly increase its sales to the free world at the expense of exports to the bloc.

The composition of these grain purchases is in keeping with the probable pattern of damage to the domestic grain crop. The crop areas most seriously affected by adverse weather in 1960 were the major wheat areas in the north. Crop conditions in the rest of the country--especially in the important central and southern rice regions--were no worse and possibly a little better than in 1959--not a particularly good crop year, but one in which the regime did not complain so much about the weather and did not resort to grain imports. It is likely, therefore, that there was serious damage to the wheat crop in 1960, but that the rice crop--almost half of China's total grain crop--fared no worse than in 1959. Total grain output in 1960 is believed to have been about the same as in 1959.

As China exports only small amounts of wheat, nearly all of the Canadian and Australian imports, consisting chiefly of wheat, will be for internal consumption. However, the high-quality Burmese rice being purchased by China this year is probably chiefly for re-export.

Chinese export prospects for 1961 are far from clear, but it is likely that total grain exports, including re-exports, will fall well below

1,000,000 tons--an amount exceeded in rice alone during 1958 and 1959. Recent trade offers to the bloc probably have included limited amounts of rice, but no firm commitments have been disclosed. Chinese rice exports to the bloc amounted to more than 750,000 tons in 1959 and last year may have been scheduled to rise even higher. Shipments were up in early 1960, but by mid-year they began dropping off, probably falling well below the anticipated level. The current situation suggests that the downward trend will continue this year.

Firm Chinese rice commitments in the free world include at least 100,000 tons to Cuba and 230,000 tons to Ceylon; nearly all of this will be shipped directly from Burma. Indonesia--China's largest free-world rice customer in 1959--did not make any new purchase of rice last year and probably will not in 1961. Shipments to other destinations in Asia, Africa, and Western Europe will not exceed 200,000 tons.

Wheat is sold to meet special trade situations, usually with bloc countries, but it is not a major export commodity and sometimes is of third-country origin. The only known wheat commitment for 1961 is to Albania, which has received substantial quantities of wheat from China in the past. At least 40,000 tons of the wheat which China has purchased from Australia is being delivered to Albania and more probably will be shipped later. It is unlikely, however, that Chinese wheat will be exported in quantity to any other area. [redacted]

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COMMUNIST CHINA'S SOUTHERN BORDER PROBLEMS

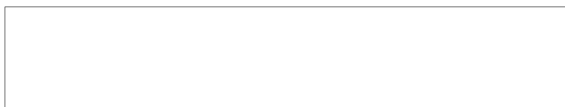
Peiping is continuing its efforts to pressure New Delhi into a compromise solution of their border controversy by arranging generous settlements of relatively minor boundary differences with other southern neighbors.

China failed to gain any concessions from India during the top-level talks between Chou En-lai and Nehru in March 1960 and several months of discussion by Foreign Ministry experts.

As evidence that only New Delhi's stubbornness continues to block agreement, the Chinese are flaunting their final border settlement with Burma and their preliminary agreement with Nepal. China appears also to have renewed an offer to negotiate directly with Bhutan over the border with that country, and has agreed, at least in principle, to demarcate the Sino-Pakistani boundary.

discuss historic Bhutanese claims to eight small exclaves inside Tibet near Mt. Kailas. Peiping reportedly claims about 300 square miles in eastern Bhutan and another slice in the northwest corner.

Direct negotiations between China and Bhutan would undermine Indian political influence in the border state. In a 1949 treaty, Bhutan agreed to be "guided" by India in its foreign affairs; New Delhi has interpreted this to mean exclusive control. Peiping has recognized New Delhi's "proper" rights in Bhutan, but the recent Chinese initiative reportedly included an offer of any aid needed should the Bhutanese decide to break their ties with India. Bhutan receives an annual subsidy of about \$150,000 from New Delhi and has also received more than \$1,500,000 in grants and loans. The Maharaja has reportedly decided to ignore the Chinese approach, but is attempting to "clarify" Bhutan's treaty relationship with India during current talks with Nehru in New Delhi.

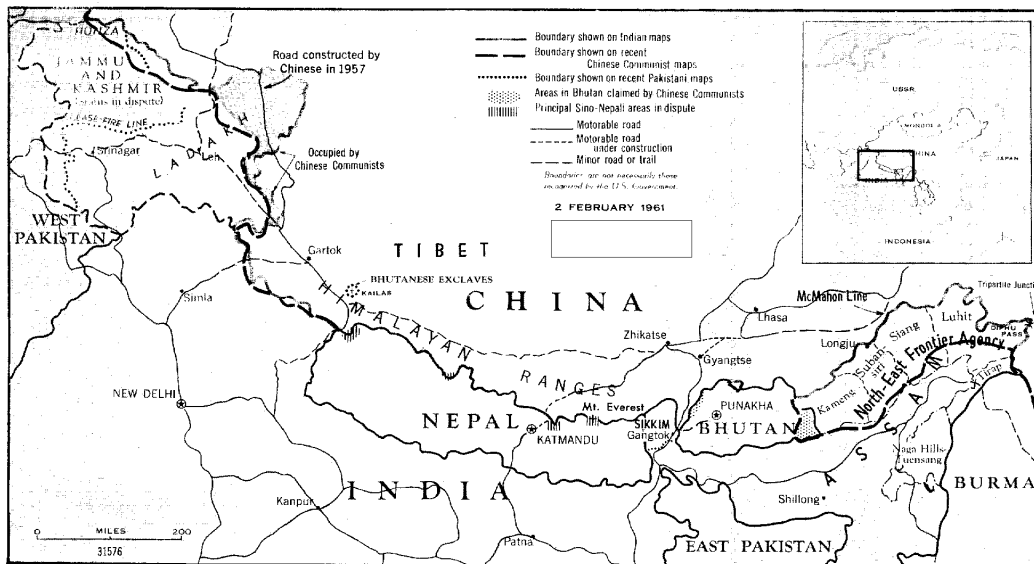


In 1959 the Chinese said they would be willing to

Peiping's willingness to reach a settlement with Pakistan

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is suggested in a recent statement by Pakistani Foreign Minister Qadir that Peiping had agreed in principle to demarcate the border and that discussion of a preliminary agreement was under way. Peiping has not shown any interest in such negotiations in the past, probably fearing they would further complicate the controversy with India.

Current Sino-Pakistani boundary negotiations may not have proceeded substantively beyond the point reached in early 1960. At that time the Chinese indicated they were willing in principle to discuss demarcation in the Hunza area and perhaps would be interested in negotiations over Pakistani-held Kashmir.

The Chinese probably feel that a bilateral boundary set-

tlement with Pakistan might prejudice Indian claims in the Ladakh area. The Karakoram mountain range, which could provide the basis for demarcating portions of the Sino-Pakistani border, also roughly divides the Indian-occupied sections of Ladakh from those portions claimed by India but occupied by the Chinese Communists.

The Sino-Nepali boundary discussions, under way for about six months, have entered a second round of talks between joint teams in Peiping. The Chinese are widely reported to be taking a very conciliatory attitude, and an agreement that the ownership of Mt. Everest will be left for future negotiations should clear the way for an early settlement of the minor areas now under negotiation.

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COMMUNISTS INTENSIFY ANTI-DIEM CAMPAIGN IN SOUTH VIETNAM

Encouraged by the deteriorating political and security situation in South Vietnam, North Vietnam has become increasingly bold in its effort to topple the Saigon government. The latest move in this campaign is the establishment in December of a "National Front for the Liberation of South Vietnam," publicized by Radio Hanoi on 29 January along with the front's manifesto calling on all South Vietnamese to work for President Diem's overthrow. Strong emphasis in the manifesto on a program of land reform,

expanded agriculture, and measures to settle rural grievances against Diem suggests that a major objective of the front is to consolidate political support in areas now controlled or actively penetrated by Communist guerrillas.

Although Hanoi's delay in reporting the front and its citing of foreign press dispatches as sources of its information are apparently intended to preserve the fiction of a spontaneous South Vietnamese movement, Saigon papers have carried stories

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that the Communists have openly created a "government" for "liberation" of South Vietnam.

Last September, Ho Chi Minh's chief lieutenant, Le Duan, publicly called for the formation of a broad united front in South Vietnam to include all elements opposed to President Diem. The North Vietnamese apparently hope through the front--the political side of their program for "reunification"--to organize anti-Diem sentiment and focus it on the effort to overthrow him. If successful, they would then seek to form a coalition government which would itself be only an interim measure designed to effect the eventual consolidation of the two parts of Vietnam under the Communists.

The other side of Hanoi's offensive against Diem is the intensified guerrilla warfare under way since late 1959. Nguyen Chi Thanh, the top political commissar in the North Vietnamese Army, spelled out this phase in an article for the North Vietnamese Communist party's theoretical journal last August. Extolling violence as a technique for achieving power, Thanh virtually pledged the Hanoi regime to intensify further guerrilla warfare in the South.

The number of active Communist terrorists in South Vietnam has increased from an estimated 3,000 in mid-1959 to between 7,000 and 10,000 at the present time. This increase is the result both of recruitment in the South and infiltration from the North, principally by way of mountain paths such as the famous "Ho Chi Minh trail" which winds through the rugged border country of Laos, Cambodia, and South Vietnam.

Extension of Communist control in Laos would greatly facilitate this movement. Despite repeated security sweeps by paramilitary forces and units of South Vietnam's 150,000-man army, the Communist guerrillas have gained effective control in a significant portion of the southern delta provinces as well as the outskirts of Saigon, and have recently intensified activity in the central highlands to the north.

The November coup attempt against Diem has undoubtedly encouraged North Vietnam in its assessment that the unsettled conditions in the South are ripe for exploitation, and the Communists are making a serious effort to cultivate unorganized opposition elements. Recent reports also indicate that the Communists are now working to organize peasant demonstrations--several have occurred since mid-December--partly to provoke military reprisals against civilians,

Over the past two months South Vietnamese security units have had few clashes with large guerrilla bands. Some reports suggest that the Communists are preserving their assets for a large-scale campaign this spring, and high-ranking North Vietnamese officials, [redacted]

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[redacted] have stated their belief that events in South Vietnam will follow the pattern in Laos, with Diem's downfall anticipated by April. Such timetables are boastful, but South Vietnam has scheduled a presidential election for April and the Communists may feel that the political situation at this time will provide further opportunities for stepped-up political and military action. [redacted]

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THE NETHERLANDS NEW GUINEA PROBLEM

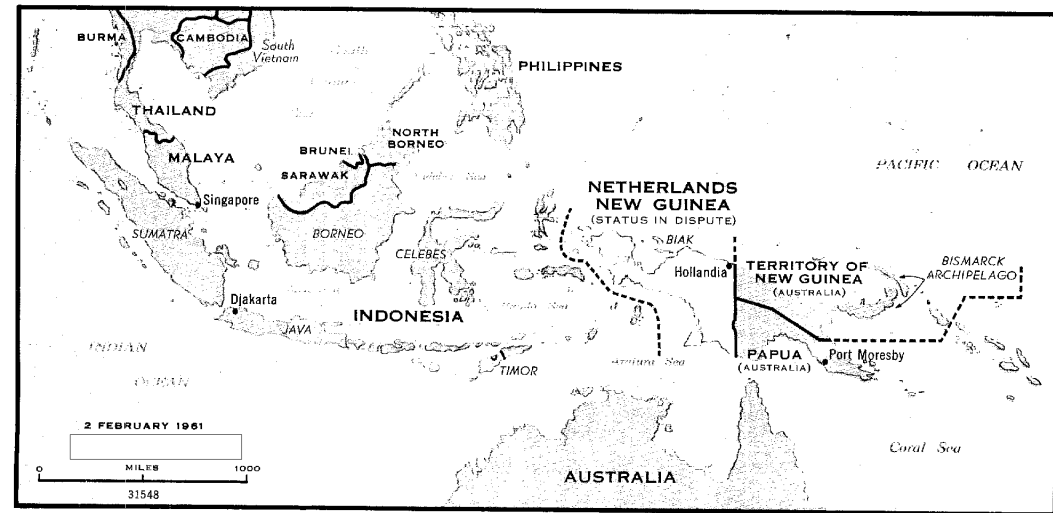
The ten-year-old dispute over Netherlands New Guinea has intensified in recent months as a result of moves by the Dutch to strengthen their military position in the area and of the increasingly bellicose tone of the pronouncements by Indonesian officials on the issue.

Indonesia severed relations with the Netherlands last August when the Dutch sent naval vessels to New Guinea. By emphasizing the threat to peace in the area, Djakarta now is seeking to increase international pressure on The Hague for a settlement. Djakarta is confident that it will be able to rally Afro-Asian and Communist bloc support in the United Nations if it decides to press charges of aggressive intent against the Netherlands.

The Dutch fear, however, that the Indonesians will shortly have a capability to launch more extensive operations and that they intend to provoke a clash with Dutch forces in order to focus international attention on the dispute.

The Dutch in late 1960 moved to bolster their forces in New Guinea, which now total some 4,000-5,000 troops. They have also planned tours of inspection by Defense Minister Visser and other high military officials during this winter and spring. The Indonesian Government charged in a 28 December letter to UN Secretary General Hammarskjold that these Dutch actions constituted an imminent threat to peace; the Netherlands countered by inviting Hammarskjold to send a personal representative to New Guinea to investigate.

On the same grounds Djakarta justified the recent high-level Indonesian arms-purchasing mission to Moscow. The mission, which negotiated substantial amounts of new equipment and received Soviet



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assurances of political support for Indonesia's claim, was probably intended to underline to the Netherlands and the West the seriousness of Indonesia's intent.

Foreign Minister Subandrio, who accompanied the arms mission, told the American ambassador in Djakarta that the New Guinea issue largely determines Indonesian foreign policy; that Indonesia is determined to "re-gain" the area and must turn for help wherever it is available. He claimed that Khrushchev had offered to support President Sukarno "all down the line--politically, militarily, economically, and psychologically."

Attempts to mediate the dispute have met with little success. The most recent, made by Malayan Prime Minister Rahman, is floundering as a result of Indonesian insistence that mediation from any quarter must seek the ultimate transfer of the territory to Indonesia, which claims that the area was an integral part of the former Dutch East Indies. The Dutch are equally insistent that any proposed solution must incorporate the basic principle of self-determination for the approximately 700,000 native inhabitants.

In the meantime, the Netherlands is proceeding with plans to develop an indigenous political administration for

New Guinea as the first step toward independence. The first elections held in the territory currently are under way to choose an electoral college which in turn will appoint representatives to its first legislative body--the council. The council's immediate function will be to advise The Hague on development plans and administrative matters, and within one year recommend steps toward self-determination.

Dutch officials believe it will take at least ten years to train enough natives to form a skeleton administrative and legislative body as envisaged in the council. The Dutch believe that unless New Guinea is given a sufficient transition period to develop its own leaders and political structure, the territory is certain to fall under Indonesian control.

Foreign Ministry officials in The Hague believe a critical period will exist until 5 April, when the New Guinea council is scheduled to meet for the first time. The Dutch reason that Djakarta recognizes that the body will overwhelmingly reject Indonesia's claim to sovereignty and endorse the concept of self-determination; consequently, the Indonesians must either prevent or discredit any action by the council.

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PLEBISCITE IN BRITISH CAMEROONS

The British trust territory of the Cameroons, administered by Britain since the first World War, is to decide on 11 and 12 February whether to join the Federation of Nigeria or to reunite with the Republic of Cameroun, a French trust territory until it became independent last year. Pursuant to UN

General Assembly resolutions, separate plebiscites are being organized by the UN in the northern and southern sectors into which the British territory was divided for administrative purposes.

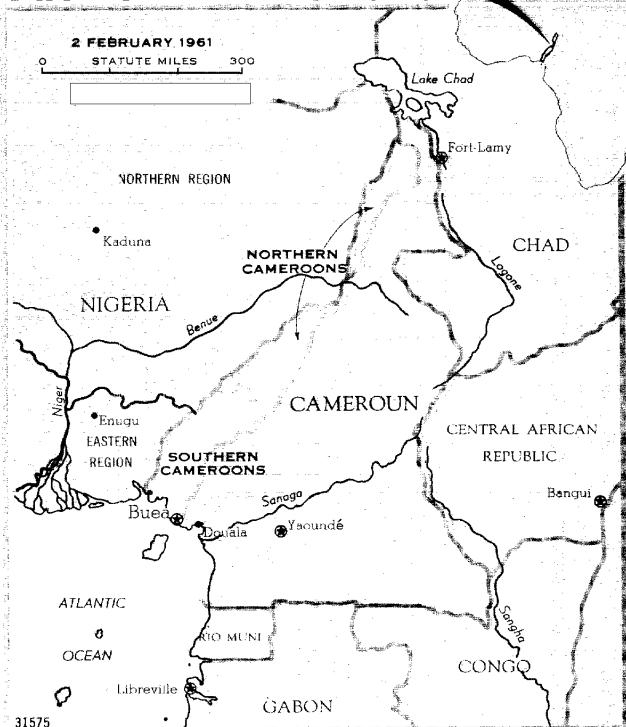
Present indications are that Northern Cameroons, governed as

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BRITISH CAMEROONS

In Southern Cameroons, which Britain has accorded considerable local self-government and has treated since 1954 as a potential fourth region of Nigeria, the outcome of the plebiscite is more uncertain and the potential difficulties are greater. The sector's governing party --by a very slim margin --favors federation with Cameroun; however, popular opinion is sharply divided, with major tribal groups opposing each other on the issue. Adherents of the defeated alternative may resort to violence, and this in turn could easily lead to the direct involvement of Nigeria and Cameroun--despite the fact that neither government is eager to acquire the southern territory.

an integral part of Nigeria's Northern Region prior to Nigerian independence last October, will vote to link itself permanently with Nigeria, despite an intensive last-minute effort by Cameroun to win support. All major political parties active in the area favor such a solution, as does the UK, which has been working quietly for some time to ensure it.

Although in 1959 a decisive majority of the northern electorate chose to postpone a decision on the future of Northern Cameroons rather than to agree then to retain ties with an independent Nigeria, reforms were subsequently introduced to redress at least some of the local grievances which motivated that decision. Should the forthcoming vote unexpectedly go against Nigeria, a severe crisis, possibly involving Nigerian intervention to nullify the plebiscite, could ensue.

Any incidents might also be exploited by radical elements in Southern Cameroons who want close integration with Cameroun. These elements are affiliated with the extremist wing of the Communist-influenced Union of the Cameroons Populations (UPC) in the Cameroun Republic. This wing continues to carry on terrorist activities in the southwestern area of the republic against the pro-Western government.

Even if immediate disorders are avoided in Southern Cameroons, outbreaks may well occur during the subsequent transition period, which promises to be especially trying for Britain if--as London anticipates--the vote favors "reunification" with Cameroun. Although Southern Cameroons Premier Foncha and Camerounian

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President Ahidjo have met on several occasions in recent months and apparently are in agreement on the broad outlines of a future federal relationship between the two areas, some time would be likely to elapse while detailed arrangements are being negotiated and finally implemented.

British officials are concerned that Britain's prestige in Africa may be damaged as a result of some incident, since British troops will continue to be charged with maintaining security in the area while the transition is made. [redacted]

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FRANCE-ALGERIA

The rebel Algerian Provisional Government (PAG) continues to indicate a willingness to reach a negotiated settlement with France, [redacted]

iterated rebel willingness to define guarantees for Europeans remaining in Algeria, but reports that the PAG is committed to rapid agrarian reform indicate that colons--French settlers--would be required to give up all land beyond a fixed limit. The PAG will reject any French proposal for partition, or for guaranteed participation of the colons in government. The rebels are reportedly willing to negotiate a phased withdrawal of French troops, and would probably agree to French retention, at least temporarily, of the large naval base at Mers el-Kebir, near Oran.

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The general atmosphere in Algeria is one of passive expectancy after the tension of the referendum and in anticipation of a resumption of French-PAG contacts. Rumors persist that colon groups, particularly in the Algiers region, are attempting to negotiate directly with the PAG on guarantees for European property. French authorities, however, are fearful that the PAG may attempt a new tactic of popular agitation

The PAG reportedly expects that the most difficult negotiations will concern the status and economic interests of the European population, military forces and bases, and the future control of the oil-rich Sahara. An article in the 27 January edition of El-Moudjahid, the official organ of the Algerian Liberation Front (FLN), re-

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designed to transform the war into a violent mass movement.

Abbas' visit to Indonesia, Malaya, and Ceylon does not appear to have resulted in much beyond assurances that these countries maintain "solidarity" with the rebels. Abbas was received as a state guest only in Indonesia, although he talked with the prime ministers in Malaya and Ceylon. A crowd of 4,000 that heard him speak in Kuala Lumpur on 27 January was described as more curious than enthusiastic.

Paris has made no public statements on the progress of contacts with the PAG. [REDACTED]

[REDACTED]

opposition to De Gaulle in France has been quiet, except that some leftist newspapers are beginning to criticize the government for moving too slowly in its attempts to open negotiations.

The changes in top French military posts announced on 1 February to become effective 1 March, as well as a number of reported shifts of other generals, seem designed to assure that the French Army will be more responsive to De Gaulle's policies as he moves toward negotiations with the PAG.

At the top of the military hierarchy, General Jean Olie replaces General Paul Ely as chief of staff of national defense. Olie is now personal military adviser to De Gaulle and has served as commander of the important Constantine Army

Corps. Ely, now 63, had been retained on active duty beyond the retirement age principally because there was no successor of sufficient stature to replace him.

In the other top-level change, General Fernand Gambiez, widely regarded as a liberal supporter of De Gaulle's Algerian policy, replaces General Jean Crepin as commander in chief in Algeria. Crepin has been described as a "narrow but obedient fighting man" whom De Gaulle may feel is not equipped to deal with the complex issues of the rapidly evolving Algerian situation.

These changes, together with the government's acceptance of the retirement request of Air Force General Maurice Challe, who had been NATO commander in chief for Central Europe, point up the continuing problem De Gaulle faces: the degree to which changes in the top commands can influence in his favor the numerous disillusioned and perplexed field- and company-grade officers. On this score, the departure of Ely, who might have been asked to stay on in his job at least until there was a cease-fire, removes a respected figure from a position he had repeatedly used to influence the armed services on De Gaulle's behalf. His loss, therefore, may cancel out many of the advantages which appear to be gained from the other command changes.

Meanwhile, French rightist political leaders are traveling about Europe seeking support from other rightist groups for their continuing machinations against De Gaulle. [REDACTED]

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PORTUGAL

While not threatening the immediate stability of the Portuguese Government, the developments following the seizure of the Portuguese liner Santa Maria on 22 January by Henrique Galvao and his followers have made Lisbon concerned over the security of its African provinces. Moreover they have renewed the Portuguese public's awareness that Premier Salazar has active opposition. The incident is likely to increase pressure from even regime supporters for some change in the status quo.

Security forces in Portugal are probably capable of suppressing any pro-Galvao disorders. The opposition is divided, and the great bulk of it is politically inexperienced as a result of more than 30 years of Salazar's rule. Lisbon is confident of the loyalty of the officer corps, but it appears less sure of the attitude of some noncommissioned elements. Ex-army captain Galvao, who is regarded by the government as a determined and capable adversary, has been held in high esteem among Salazar's opponents in Portugal and even, reportedly, among some high-ranking officers.

The government has been concerned lest Galvao reach some port on the West African coast and stir up trouble among disaffected groups in one of the overseas provinces. Humberto Delgado, in whose name Galvao is professedly acting, had substantial support in Angola and Mozambique when he ran for the Portuguese presidency in 1958. Lisbon's concern over possible defections by white Portuguese in Angola may stem from recent statements attributed to Delgado and Galvao demanding freedom for colonial territories. Many white Angolese are dissat-

isfied with the government's economic policies toward the provinces, and some extremists might even be tempted to enlist the support of African nationalists to work for the overthrow of the local administration.

The government recently sent one platoon of paratroopers to the Cape Verde Islands and another to Sao Tome in the Gulf of Guinea. In all the African holdings, including the Cape Verde Islands, there are over 20,000 troops, of which the great bulk is about evenly divided between Angola and Mozambique. On 25 January the government sent two destroyers and a frigate to the Cape Verde Islands.

The Santa Maria incident has encouraged opposition groups and even some proregime factions to offer their own candidates for the National Assembly elections next October. Their aim is to end the monopoly of the assembly's 120 seats hitherto enjoyed by Salazar's National Union, even if only by obtaining a few seats.

Since late 1958, there has, moreover, been a growing feeling even among regime supporters that the 71-year-old Salazar and his politically restrictive and economically conservative policies have outlived their usefulness. He has given no indication of plans for retiring before 1965,

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a forced retirement is possible either on grounds of health or from high-ranking military officers seizing some pretext to ease him out of office.

A likely successor is Defense Minister Botelho Moniz, who on two occasions since early 1958 intimated to US officials

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he might have to take over. Other possibilities are: former Defense Minister Santos Costa, a rival of Moniz who is said to have the loyalty of a substantial segment of army officers; former Minister of the Presidency Marcello Caetano, who is probably the most capable of the top pro-regime civilians; and former Minister of the Presidency Theotónio Pereira, who is the logical heir by virtue of his position but may not have the full support of the armed forces.

The US position on the Santa Maria incident has generated considerable adverse reaction among the Portuguese public--much of it no doubt government inspired. The possibility that the regime itself may take a tough stand in negotiations for an extension of the Azores bases agreement, which expires in December 1962, is suggested by the statement of the Portuguese ambassador in Washington to the State Department on 28 January that the US position on this incident could have "the gravest consequences" for US-Portuguese relations.

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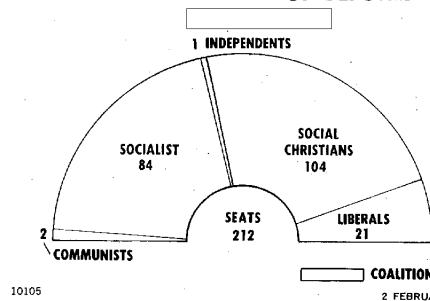
AFTERMATH OF BELGIAN STRIKE

As a result of the recent prolonged strikes against the government's economic austerity bill, Belgium's ruling Social Christian and Liberal parties have agreed to hold elections this spring rather than wait until parliament's term expires in May 1962. They believe that Belgium's economic problems can best be attacked by a new government with a current popular mandate. The new government is likely to be a coalition of Social Christians and Socialists. Such an alignment is already favored by the labor wing of the Social Christian party, and will be increasingly acceptable to the rest of the party now that NATO Secretary General Spaak has decided to resign and head the Socialist slate.

The nation's most pressing economic problems are governmental fiscal stability and economic expansion. The prospects for a balanced 1961 budget have been greatly diminished by the strike, which delayed imposition of new taxes as well as curtailing production and reducing income. The over-all cost of the strike has been estimated at \$180,000,000 to \$200,000,000.

Moreover, it will be necessary to stimulate investment and the rate of economic growth--currently one of the lowest in Western Europe--in order to provide more jobs for young people as well as for returnees from the Congo and for coal miners thrown out of work by the closing of marginal mines.

The Eyskens coalition, in power since November 1958, has

BELGIAN CHAMBER OF DEPUTIES

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not been conspicuously successful in stimulating the lagging economy. The Congo debacle and the strike have revived demands for a national government including statesmen of Spaak's caliber. His presence will tend

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to mitigate the bitterness engendered by the strike and by the dangerous split between the Walloon and Flemish segments of the population. The Socialists need him particularly to heal the rift in the party between the moderates and the Walloon radicals and to counteract the damage done by the left-wing

Socialist leader, André Renard. Renard's demagogic appeals for Walloon separatism and incitement to violence during the strike damaged the party's reputation.

Both the Social Christians and the Liberals are expected to gain in the upcoming elections. Spaak's return, however, increases the possibility for a Social Christian - Socialist coalition. His reputation reduces the opposition of right-wing middle-class elements within the Social Christian party to cooperation with Socialists. The powerful labor wing of the Social Christians already favors such cooperation as an alternative to the present alliance with the Liberals. If Spaak can hold the Socialist losses to a minimum, he is likely to become foreign minister in a coalition, probably headed by Social Christian party chairman Lefevre.

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EL SALVADOR.

The five-man civil-military directorate installed by the Salvadoran armed forces on 25 January has consolidated its hold over the country. Martial law was lifted on 30 January, and the directorate has promised an early return to constitutional rule.

The directorate, which is led by Col. Anibal Portillo and Lt. Col. Julio Rivera, has announced that the coup was necessary to prevent a Communist takeover and to remove the influence of former President Oscar Osorio, the directing power behind the coup that brought the desposed regime into

power last October. Many of the most active Communist agitators, some members of the former junta, and Osorio have been sent into exile. Representatives of five political parties have agreed to assist in drafting an electoral law permitting free elections in which non-Communist parties will be able to participate. They will, however, probably exclude Osorio's recently formed mildly leftist Social Democratic party.

The directorate has promised prompt attention to the economic problems stemming from a social system based on a very small wealthy class and a large

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impoverished peasant population. A prominent member of the new regime has insisted to the US army attaché that the strong measures being taken against Communists are only temporary means of maintaining order, and that necessary social reforms must follow or El Salvador "will lose its freedom to Communism." The new government, he added, believes that the wealthy must be made to pay equitable taxes.

The US Embassy reported on 28 January that the lower classes seem willing to permit the directorate to demonstrate its avowed democratic character, while the business community considers the new regime a change for the better. Military support is reportedly almost solid, but the detention of several high-ranking officers for their association with Oso-

rio could lead to dangerous cleavages in the future.

The directorate has taken measures against any continuation of Communist activity in rural areas which had reached an advanced stage before the 25 January coup. Communist and Castro sympathizers--particularly among students--will probably continue to agitate in an effort to provoke violence and turn public sentiment against the armed forces.

To date, only Guatemala, Nicaragua, and Spain have recognized the new regime. A Honduran Army officer sent to apprise the situation in San Salvador told the US army attaché on 30 January that he is advising recognition, but that his government may delay a few days pending US action. 25X1

THE NEW BRAZILIAN GOVERNMENT

In his inaugural address on 31 January President Janio Quadros avoided outlining specific policies of his new administration, but commented on his political philosophy and asserted that Brazil should have a "truly independent" foreign policy. He contrasted democracy--which he described as "a pragmatically dynamic system wherein varied interests may mingle with no great danger to the public"--and Communism, which he alluded to as the "transformation of a unanimous philosophy in principle into neoimperialism."

Despite a similarly allusive attack on Communist tactics designed to stimulate and "exacerbate hates within the

western hemisphere," Quadros voiced a defensive concern for Cuba, which he visited in March 1960. He said: "Recently from the disturbed Antilles there reached me the echo of voices of hope with which that fearless and proud people awaits the new US government inauguration..., in hopes of different policies of cooperation for all the continent." Quadros reportedly considers underdevelopment and dictatorship major factors behind the Cuban revolution and that Cuba has served to awaken the US to the seriousness of these problems.

Outstanding personalities in Quadros' generally conservative cabinet include Foreign Minister Afonso Arinos, who has

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QUADROS

served as chairman of the Senate Foreign Relations Committee; he is friendly toward the US and unsympathetic with Fidel Castro. Finance Minister Clemente Mariani is a strong personality considered capable of pushing needed economic reform and dealing with an impending balance-of-payments crisis. Labor Minister Francisco Carlos de Castro Neves was secretary of government under Quadros in Sao Paulo State and is one of the shrewdest politicians in his entourage. Some pro-Quadros circles have criticized the cabinet as too conservative to accomplish the "regenerative" policy changes they seek.

One of Quadros' campaign pledges was to legalize the Communist party--which supported the administration candidate, General Lott, in the elections--but this promise would not preclude Quadros' support for stronger anti-Communist measures if it suited his purposes.

While Quadros attracted electoral support from business and middle-income groups as a result of his sound-money policies while governor of Sao Paulo, he also bid for leftist support by such promises as the pledge of closer trade and diplomatic relations with the Soviet bloc. Quadros was probably referring to bloc trade when he said in his inaugural address that Brazil will welcome any vessel that arrives at its shores. Direct trade with the USSR was initiated after a trade agreement between the two countries was signed in December 1959. Trade with the entire bloc amounted to 4 percent of Brazil's total trade in 1959 but reached 5.3 percent by 31 August 1960.

Cardinal Motta of Sao Paulo, who is concerned over the rise in bloc commercial activities in Brazil, told the American consul general in Sao Paulo on 30 January that the USSR had offered a loan for the construction of a hydroelectric power development on the Sao Paulo border, and he urged the US to move promptly to counter this proposal.

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PART III

PATTERNS AND PERSPECTIVES

BLOC POLICY IN LAOS

The negative tone of the initial reaction by Soviet bloc spokesmen to Britain's compromise proposal of 21 January for reactivating the International Control Commission (ICC) in Laos reflects the Communist leaders' belief that time is working to their advantage in the Laotian conflict. Recent bloc diplomatic tactics are designed to delay any international action or negotiations looking toward a settlement of the conflict and thus to give the Kong Le - Pathet Lao forces an opportunity to exploit their recent military successes and expand the areas under their control.

The bloc leaders probably feel confident that their vigorous reaction to General Phoumi's recapture of Vientiane in mid-December has prevented the pro-Western government from establishing effective control and has placed pro-Communist forces in Laos in a stronger position than ever to insist on a "neutralized" Laos with strong Pathet Lao representation in a reconstituted national government.

Attitude Toward Laotian Crisis

The bloc leaders' decision to respond immediately and forcefully to Phoumi's assault on Vientiane probably rested on two main considerations.

In the first place, they viewed this attack by US-supported forces as a direct challenge to the power and resolution of the Communist world. Phoumi launched his assault only one week after the publication of the Moscow declaration of the 81 Communist parties--which cited Laos, along with the Congo, as an example

of a country in which "criminal actions by the imperialists" were being dealt "an increasingly decisive rebuff." The declaration proclaimed that Communist countries "consider it their duty to render every moral and material support to peoples struggling for their liberation from imperialist and colonial oppression."

In addition, Khrushchev and his Soviet colleagues probably felt that a vigorous intervention in Laos would effectively undercut Chinese Communist criticism that Soviet policy had not been sufficiently aggressive in supporting Afro-Asian "national liberation movements."

The second major consideration appears to have been the Communist leaders' belief that Phoumi's attack on Vientiane offered an excellent opportunity for intervention under the guise of supporting the ousted "legal government" of Souvanna Phouma. This made possible a more far-reaching action than was feasible in the 1959 hostilities, when the Pathet Lao forces were clearly in revolt against the legitimate government. Souvanna's insistence that he is still head of the legal government--a concept which has received considerable support among non-Communist governments--has strengthened the Communists' rationale and justification for intervention.

Bloc Reaction--First Phase

The bloc's initial reaction to Phoumi's attack was intended to make it clear to the world that the Communist powers were unwilling to accept the military and political

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setbacks represented by this action and that they were determined to take whatever measures were necessary to support and maintain the Kong Le - Pathet Lao forces. Moscow, Peiping, and Hanoi promptly initiated a concerted program of diplomatic, propaganda, and military action ranging from ostensibly constructive proposals for settling the conflict to private threats of military intervention. This program made use of political warfare techniques that bloc governments have used in almost every East-West contest since World War II.

Despite the threatening atmosphere created by the bloc's effort to stem support for Boun Oum and to strain the Western alliance, bloc leaders have sought to avoid giving any pretext for military intervention by Western or pro-Western countries in Laos. Their initial decision apparently was to rely on the Kong Le - Pathet Lao forces, with whatever increased aid was required, in order to prevent Phoumi from consolidating effective control over the country. Their early moves followed a cautious, expedient line which avoided any commitments to specific countermeasures. Their initial pronouncements were confined to condemning the "aggressive actions" by the United States in Laos and calling for united international action to "protect the Geneva agreements and to restore peace in Laos."

Moscow took the lead with a note on 13 December to the United States charging direct American participation in "rebel" military operations against the "lawful" government and warning that the USSR could not ignore such a threat to peace in Southeast Asia. Peiping and Hanoi issued similar statements the following day.

The first private threat of bloc military counteraction

came on 14 December.

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The Soviet airlift which had been bringing in petroleum and food supplies at the request of the Souvanna government since 3 December shifted on 10 December to delivering weapons and ammunition.

The North Vietnamese on 17 December called for reactivating the ICC for Laos and reconvening the 1954 Geneva Conference participants. Peiping endorsed this proposal on 19 December, and Moscow, acting as one of the two cochairmen of the Geneva Conference, formally conveyed the proposal to Britain, the other cochairman, on 22 December.

The bloc leaders took pains to make it clear to the West that they did not want to see the conflict expand. At the same time, however, they served notice that the extent of bloc intervention would be determined by the scope of Western military commitments in Laos.

During the closing weeks of December, Radio Moscow commentary stressed the fact that the Communist bloc would continue to recognize the "legal government" of Souvanna Phouma and implicitly asserted that aid to his regime would continue. Bloc propaganda also emphasized the probability that the fighting in Laos would go on for some time. It stressed that the time had passed when the United States could arbitrarily have its way, and that Washington now must take into account the views of other countries, including the USSR, relative to Southeast Asia.

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Chou En-lai, in a speech on 18 December, implied that the Chinese Communists were seeking to avoid a major conflict in Laos. He declared that the crisis should be "solved by the Laotian people themselves" without foreign intervention.

The first days of January 1961 produced further private indications from bloc sources that the decision as to whether the Laotian war would be expanded rests exclusively with the United States.

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Moscow's desire to maintain freedom of maneuver and guard against any accidental expansion of the conflict was evident in Ambassador Menshikov's denial to American officials on 10 January that the USSR was operating an airlift into Laos. One of the USSR's purposes in this apparently is to be able to ignore officially the loss of any of its aircraft as a result of Laotian efforts to interdict the airlift. The official denial probably is also calculated to retain an avenue of retreat should unforeseeable developments dictate a termination of the airlift. In addition, the Soviet leaders may have intended their denial as a hint that the Soviet Union would halt its airlift if the United States discontinued assistance to the Boun Oum government.

The fact that the USSR rather than China has operated

the airlift stems from a Communist desire to maintain the fiction of nonintervention and to give the appearance of correct legal procedure. The airlift originated with Souvanna Phouma's request to the Soviet ambassador for petroleum and food supplies. It was Quinim Pholsena, leftist member of the Souvanna cabinet and self-styled "acting premier," who requested Soviet military aid. The use of Chinese aircraft would have been more difficult to disguise as nonintervention and to justify as a response to a request of the "lawful" Laotian authorities.

Second Phase

Two events on 1 January 1961 altered the Laotian picture in the eyes of the bloc leaders and gave them considerably greater freedom of action. The Kong Le - Pathet Lao forces captured the Plaine des Jarres and the town of Xieng Khouang, and Prince Sihanouk of Cambodia announced his plan for a 14-nation conference on Laos.

The military success greatly improved the strategic position of the pro-Communist forces and enabled them to pose a constant threat to Luang Prabang, Vientiane, Pak Sane, or southern Laos. Sihanouk's initiative provided valuable non-Communist support for the bloc's diplomatic position and gave the Communists an opportunity to delay any international action or negotiation by prolonging East-West exchanges over the timing, composition, and agenda of a conference.

The bloc attitude on negotiations stiffened at this point,

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and Communist spokesmen played down their proposal to reactivate the ICC--now favored by Britain, India, and other free world governments--and stressed the importance of convening an international conference. The bloc governments reacted strongly to the introduction of T-6 aircraft into Laos, again warning that US action tending to expand the war could lead the bloc to counter with similar measures. The threat of "volunteers" was raised in both private and public statements.

Sino-Soviet Relations and Laos

Soviet spokesmen in recent weeks have tried to turn the dispute with China to advantage in the Laotian crisis. In talks with Western representatives, they have deliberately planted the idea that there is a split between Moscow and Peiping over proper tactics in Laos.

[redacted] the USSR was obliged to deal on two fronts in Laos: the West on one side, and the Chinese on the other. These tactics are probably designed to increase pressure on the US' allies to urge it to refrain from any action that carries a risk of expanding the conflict.

Despite these calculated hints of a Sino-Soviet divergence of views, the weight of evidence points to close coordination and consultation between Moscow and Peiping. However, the possibility of disagreement on the question of timing and tactics in negotiations cannot be ruled out.

The Chinese are particularly sensitive about Khrushchev's past tendency to ne-

gotiate without consulting his bloc colleagues. They may feel that his interest in improving Soviet-American relations as a prelude to a new summit conference may incline him to agree to begin negotiations for a Laotian settlement before the Kong Le - Pathet Lao forces can fully exploit their military advantage.

Outlook

Khrushchev pointed out to Ambassador Thompson on 21 January that Laos had little importance to either the USSR or the US, but that it was of great importance to the Southeast Asian neighbors of Laos. He said the solution was to "put out the flames" and let the Laotian National Assembly choose the government, but not under duress. He reaffirmed Soviet support of Sihanouk's proposal for a 14-nation conference and claimed that Nehru and De Gaulle are favorably disposed to this idea and that even Britain is not opposed. 25X1

The present Communist objective in Laos is to secure control of as much territory as possible before international negotiations for a settlement of the conflict get under way. Bloc leaders are confident that such military gains will give them a strong bargaining advantage in pressing for a neutral government with strong Pathet Lao representation. If the Communist powers failed to achieve this goal, they would then seek to obtain some form of international recognition of the de facto division of the country.

The Soviet leaders probably feel that either result would have serious and far-

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reaching repercussions throughout Southeast Asia which would open up new avenues of exploitation for the bloc. The Communist bloc is probably confident that American influence in the area is being dealt a severe blow and that neutralist

sentiment thereby will be greatly encouraged.

In any event, bloc leaders regard the present hostilities as only the beginning of a new phase in a protracted struggle for control of Laos.

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THE ALBANIAN PARTY ON THE EVE OF ITS FOURTH CONGRESS

The twice-postponed fourth congress of the Albanian Workers' (Communist) party, now scheduled to convene on 13 February, will serve as the forum for an exposition of the regime's foreign and domestic policies. There is no indication that Tirana intends to alter these policies--which in the past nine months have brought it into close and open support of the Chinese in their political and doctrinal dispute with Moscow.

The Albanians differ with Moscow on basic foreign policy

issues, particularly those involving bloc relations with their old enemy, Yugoslavia, and with the West. Tirana would like the bloc to assume an uncompromisingly hostile stance toward Yugoslav "revisionism," but Moscow, it feels, prefers a policy of accommodation. Geographically isolated from the bloc and historically a victim of the ambitions of its larger neighbors, Albania also dissents from Khrushchev's "peaceful coexistence" policy, preferring, as does Peiping, hostility and tension.

In determining whether to continue with their dissident policies or to recant, the Albanians have to weigh three grave problems. In addition to agricultural difficulties and economic dependence on foreign assistance, the regime must contend with the uncertain loyalties of the people and of the party rank and file. Most importantly, if it persists in its heresies, Tirana must accept the probability of continuing disapproval from the USSR and its European satellites and the possibility of future retribution.

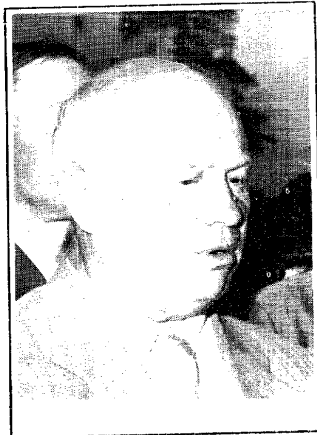
Political Course

Far from being chastened, the regime has shown no inclination to recant. On the contrary, it is attempting to make its deviationist policies fully respectable by finding justification for them in the declaration

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KHRUSHCHEV: "...We must not devote more attention to the Yugoslav revisionists than they are worth. The more attention we pay them, the greater will be their belief that they are playing a great part."
(Address of 11 July 1960 to East German party congress)



STARN: "Such an action [persistent struggle against Yugoslav revisionism] would not raise the authority of the revisionists, as certain people pretend. On the contrary, it would nullify this authority from the ideological point of view."
(Address of 25 October 1960 to Albanian National Assembly)

issued by the conference of world Communist parties in Moscow last November. In so doing, it undoubtedly hopes to forestall and undercut additional bloc criticism.

In a probable preview of the line to be presented at their congress, regime leaders addressed district party conferences which met in January to elect delegates to the national meeting. These speeches consistently emphasized the anti-Yugoslav and anti-Western fundamentals of Albanian foreign policy. The conferences have also been used to mobilize and express the party's unity around the leadership and its policies.

Party Unity

The decision of the party leaders to hold the congress this month--without first altering the internal or foreign policy line--reflects confidence in their ability to overcome any dissension within the party membership. The top party leadership is remarkably unified--this is the prime source of its

strength and is probably the keystone to the decision to maintain its policy positions. Only two leaders are known to have been removed in the last year--politburo member Liri Belishova and central auditing commission chairman Koco Tashko were ousted on 9 September.

This essential unity has been expressed in the statements made by various leaders both before and after the Moscow conference. Since the conference, eight of the top 13 leaders have publicly voiced their agreement with the party line, and

the remainder--except for two who are out of the country--will probably put themselves on record prior to the congress.

Party Opposition

On the other hand, district party and government officials are probably not as united, nor do they necessarily accord full support to the leadership. The regime's purge of these levels last summer probably was to stem local pressure for a pro-Soviet orientation of policy. Since March 1960, the chairmen of eight of the nation's 28 regional people's councils--the principal administrative organs of the state--have been replaced. Moreover, three regional party secretaries have been ousted. Among these was the head of the Tirana city party committee, Rrapo Dervishi, who was replaced by Premier Mehmet Shehu's wife, Fiqrete.

Numerous unconfirmed reports state that as many as 500 party members in all have been ousted since last summer. Many of these could have been

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connected with the abortive revolt attempt at that time involving military and "high" party officials, perhaps including Belishova and Tashko. This coup, probably Soviet oriented and perhaps Soviet inspired, apparently was quashed before it could assume major proportions.

Party opposition is not confined to the functionary level, and it goes beyond the question of following Moscow or Peiping. Pressure for a moderation of the regime's traditionally hard-line, Stalinist internal policies has come not only from the people but also from the party rank and file. The regime has withstood such pressures--practically no concessions to moderation were made in 1956 when the bloc "de-Stalinized"--and it has consistently labeled all pleas for moderation as "revisionist" inspired, thus linking reformers with traitors.

On the other hand, the regime's present pro-Chinese orientation may have been welcomed by those party members at all levels who have resented Tirana's subservience to Moscow and has advocated a greater degree of independence in Albanian foreign policy. The Yugoslav break with the Cominform in 1948 was welcomed by much of the Albanian party because it ended an artificial friendship with--and dependence on--the traditional Serbian enemy. However, particularly since the inauguration of Khrushchev's "peaceful coexistence" line, the exchange of Belgrade's overlordship for a similar relationship with Moscow may have

been viewed by many Albanians as a particularly bad bargain.

Bloc Disapproval

The USSR and its European satellites have exerted various, and to date unavailing, forms of pressure on Tirana in an attempt to force it back into line behind Moscow.

The most obvious forms of pressures have been snubs of various types. The Soviets informally withdrew their ambassador, V. I. Ivanov, late last summer, and a successor, Iosif Shikin, did not arrive in Tirana until 20 January. Moscow's New Year's greetings to Albania, omitting the usual introductory phrase "dear comrades," conveyed cordial greetings only to the "fraternal Albanian people" without the traditional reference to the party or government.

Similarly, on the 11 January anniversary of the proclamation of the "people's regime," the only official Soviet greeting--a cable from Leonid Brezhnev to Albania's titular head of state, Haxhi Lleshi--congratulated only the Albanian people on their successes. On



ULBRICHT: "At the meeting of the Communist and workers' parties [the Moscow conference],...the Albanian representative [Hoxha] developed a dogmatic and sectarian concept." (Report on Moscow conference to East German party central committee plenum, 13-15 December 1960)



HOKHA: "Our party has never made and will never make concessions on questions of principle.... Any concessions made to the enemies of principle lead to the weakening of the party.... There is no force which could divert our party from this path." (Address to 4-6 January 1961 meeting of Tirana party organization)

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the same day, an article about Albania in Bulgaria's chief party newspaper omitted the customary title "comrade" when referring to Hoxha.

Previously, East German party boss Ulbricht made an unprecedented attack on another bloc leader when on 18 December he publicly accused Albanian party leader Enver Hoxha of having maintained a "dogmatic and sectarian position" at the Moscow conference. This degree of public political pressure has never been exerted against a bloc member. The bloc used such tactics against Tito, but only after he had been ousted from the Cominform.

Ulbricht's public charges have not as yet been echoed by other Communist leaders.

Vulnerability Of the Economy

Evidence is inconclusive as to how much economic pressure the bloc may have exerted on Albania prior to the Moscow conference. It is known, however, that it was Communist China--not the USSR--that purchased grain for Albania from nonbloc sources in 1960 when Albanian domestic production fell short for the third consecutive year.

The past ten years of economic progress have not altered Albania's position as the least economically developed country in Europe. The regime has sought with some success to divert public attention from the low standard of living by instituting measures with a high propaganda value, such as highly publicized price cuts, exten-

sion of education to the countryside, and public health programs.

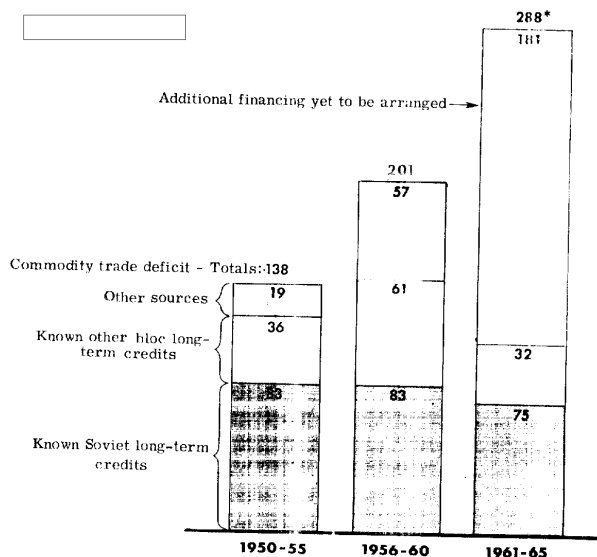
Albania has adopted a generally conservative Third Five-Year Plan (1961-65), probably because of the regime's doubts about the extent of foreign aid likely to be received during the plan period.

For over 40 years Albania has had a serious yearly com-

FINANCING OF ALBANIAN COMMODITY TRADE DEFICIT, 1950-1965

(ESTIMATES IN MILLIONS US DOLLARS)

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* Based on an assumed growth in imports of 25% (the estimated minimum increase needed to meet Third Five-Year Plan Goals) and the scheduled growth in exports of 55%.

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modity trade deficit--ranging since 1950 from about 50 to 75 percent of the value of imports--and has had to depend on outside help. Credits already promised for 1961-65 from the Soviet bloc--the main source of aid--are insufficient to achieve the 1965 goal of a 50- to 55-percent increase in Albanian exports to balance trade even at the 1960 level of imports. Without additional credits, further industrialization of Albania could be inhibited, although the

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population's simple level of living would not necessarily be lowered.

The Soviet bloc could create a very difficult economic situation in Albania by refusing to grant new credits, by withdrawing aid already promised, or by imposing an embargo on exports. Moscow, however, apparently is not contemplating using extensive sanctions at this time. Albania either has signed or is about to sign agreements with Moscow and its satellites for trade and possibly aid for 1961 and the ensuing four years--although not necessarily in the amounts needed to support even the modest Third Five-Year Plan.

Other Courses of Bloc Action

Moscow has already established the justification for any action it may take against Albania. Although the Moscow declaration is loose enough to permit varying interpretations, it explicitly condemned both dogmatism and sectarianism.

There are a number of levers--other than economic--with which Moscow could seek to affect a change in Albania. These include overt disapproval, direct encouragement of anti-Hoxha elements in the Albanian party, and military intervention. Nevertheless, Moscow has been--and, for the immediate future, apparently will continue to be--unwilling, if not unable, to utilize such measures fully.

A major Soviet consideration is, of course, Chinese Communist support of the Albanian position. Sterner Soviet strictures against Albania might lead to a worsening of already poor Soviet-Chinese relations, with China viewing any severe crack-down on Albanian "dogmatism" as a challenge to its own position.

During the January visit of an Albanian economic mission, the Chinese assured the

Albanians of continued political support. However, only in the expectation of reaping further major political gains would the Chinese be likely to give large-scale economic aid to Albania. Despite the small size of the aid that would be involved in relation to China's total economic capabilities, a significant additional burden would be imposed on its already strained balance of payments. Either a substantial increase in its total aid program or a considerable cut in its aid commitments to other countries would be required.

Other deterrents to conclusive Soviet action against Tirana include the lack of responsible, pro-Soviet Albanian leaders as replacements for the Hoxha leadership and the resulting possibility that any change in the Albanian leadership might bring forth even greater problems. Moreover, the image Moscow wishes to project before the world, particularly before the emergent nations--already damaged by suppression of the Hungarian revolution--would be further blackened by any overt move against Albania.

Given these considerations, the USSR for the time being will probably seek to demonstrate its displeasure with Tirana overtly with words rather than dramatic deeds. It will, however, probably work covertly within the Albanian party to force an eventual change in Albanian policy or a shake-up in the Tirana regime. Moscow will probably maintain a veneer of normal party relations by sending a delegation to the Albanian congress, but the level of the delegation is likely to be so low as to constitute a snub.

The Soviets would almost certainly feel considerably less restraint in taking more forceful forms of actions against Tirana should Sino-Soviet relations worsen or should Peiping somehow be persuaded to cease support for Albania.

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MIDDLE EAST OIL DEVELOPMENTS

Production of oil in the Middle East--Kuwait, Saudi Arabia, Iran, Iraq, Qatar, and the Neutral Zone--reached an all-time high of about 5,250,000 barrels a day (b/d) in 1960--up more than 15 percent from 1959 --and prospects are for another record year in 1961. The annual rate of increase will decline over the long term, however, and future increases will fall far short of the 23-percent yearly average for 1949-59.

This reflects the slower growth in free world demand for

oil--especially in Europe--but more importantly the growing competition of oil produced outside the Middle East. By the fall of 1961, at least 500,000 b/d of North African oil could be competing--with substantial advantages--with Persian Gulf crude.

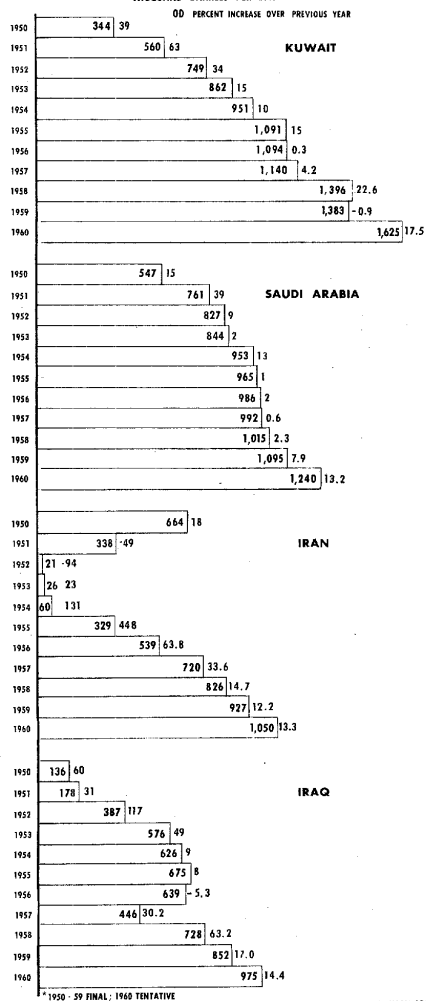
The production pattern within the Persian Gulf remains relatively constant. Kuwait is the dominant producer, followed by Saudi Arabia, Iran, and Iraq; this year Kuwait will certainly retain leadership, although Iran might outproduce Saudi Arabia. The Shah recently stated that Iran must regain the position of leading producer, which it held from 1913 to 1950, when the Mossadeq nationalization fiasco shut down the country's oil industry.

OPEC

Arab plans to set up a regional organization of oil-exporting states were realized in September 1960 when Saudi Arabia, Kuwait, Iraq, Iran, and Venezuela announced the formation of the Organization of Petroleum Exporting Countries (OPEC). The leaders of the scheme were the Saudi oil minister, Sheik Abdullah Tariki, and Venezuela's minister of mines and hydrocarbons, Juan Perez Alfonzo. Its members have about 80 percent of the free world's known oil reserves and account for almost two thirds of the oil moving in international trade. However, OPEC has serious structural and conceptual weaknesses which reduce its threat to the international oil industry.

A major scheme of Tariki and Perez calls for international prorationing--a plan whereby Iran, Venezuela, and the major Arab producers would limit production, share markets, and thus maintain high prices. However, international prorationing would be extremely difficult, if not impossible, without the cooperation

MIDDLE EAST CRUDE OIL PRODUCTION
THOUSAND BARRELS PER DAY



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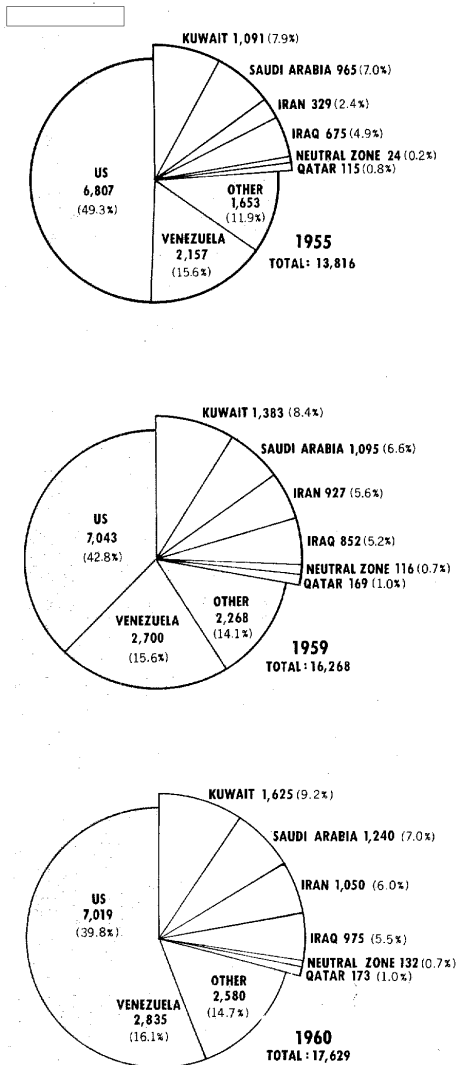
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FREE WORLD OIL PRODUCTION

THOUSAND BARRELS PER DAY



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of the Western oil industry and the major consumers.

For the Middle East, the principal consumers are Western European countries, which also take a sizable portion of Venezuelan petroleum exports. They are not as dependent on Middle East oil as the Arabs believe. Europe is plagued with a coal surplus, partly because of the heretofore cheaper price of oil.

Proration implies at least stable and possibly increased oil prices. Under such conditions the continuing shift from coal to oil might be slowed down and perhaps even reversed.

In addition, the Algerian and Libyan oil fields will provide Europe with increasing quantities of crude oil. France already has cut its imports of Middle East crude sharply. Neither Libya nor Algeria was represented at the Baghdad talks, and neither is likely to subscribe to a prorationing scheme. France sees Algerian oil as a means to end the potential danger to its economy which could result from an Arab denial of oil. Libya is planning to increase output as quickly and to as large an extent as possible, because without oil revenues it remains dependent on foreign aid for survival.

Since September the apparent unity of the OPEC members has been eroding. The Shah of Iran already has characterized prorationing as "a nice theory but unrealistic in practice." Rather than calling for a slowdown in Iran's rate of growth, the Shah demanded that his country return to its pre-1951 position of accounting for 60 percent of the area's output. He also demanded that Iran receive at least half of the annual increase in Middle East production. Iran currently accounts for slightly more than 20 percent of the total.

In Venezuela, Perez' oil policies are coming under severe criticism. Caracas, facing a financial crisis, appears to be in no mood to voluntarily restrict its potential for increasing its oil revenues. Oil activity in that nation has dropped sharply since 1958. Influential Venezuelan business groups, citing substantial production increases in the Middle East, and noting that Venezuela is losing oil markets even in

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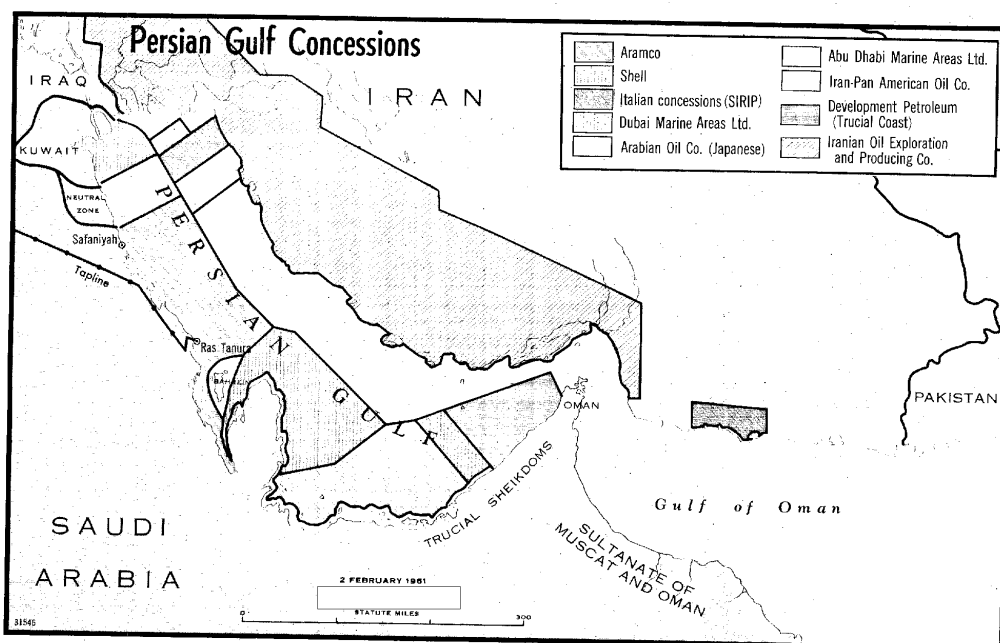
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Latin America, are urging the government to create an atmosphere more favorable to the oil industry.

Sayid Ahmad Said Omar, a prominent Kuwaiti oil official, recently said: "The more I look at it, the less I see how prorationing could work in reality. To be effective it would have to be joined by every single producing country. Otherwise OPEC would only lose markets to any of the sources of supply that failed to participate."

in installments--the largest ever made in the area. Although Kuwait's offshore territory is still unproven, it is almost certain that the geological Magwa trend--the source of much of Kuwait's oil--extends offshore. Bidding for this concession--the last significant unleased area in the Persian Gulf--was intense. Italy's government-owned oil company, the National Hydrocarbons Enterprise (ENI), offered a 75-25 split in favor of Kuwait but was turned down because it



Nevertheless, efforts to widen the area of control and the leverage which the producing countries can exercise are certain to continue and to exacerbate periodically relations between Middle East governments and the oil companies and their governments.

Kuwait

In early December 1960 the Ruler of Kuwait awarded the Royal Dutch Shell Company the country's offshore concession in exchange for a standard 50-50 profit-sharing formula plus an \$84,000,000 bonus--payable

lacked assured international markets.

The basic reason for awarding Shell the concession was the company's international marketing facilities. Also, other major bidders already had access to more Persian Gulf oil than they could currently use, and the government felt they would have less incentive to increase production rapidly.

According to the Kuwaiti Government, Shell's bid offered almost the smallest share of the profits; with all "fringe benefits" included, it amounted

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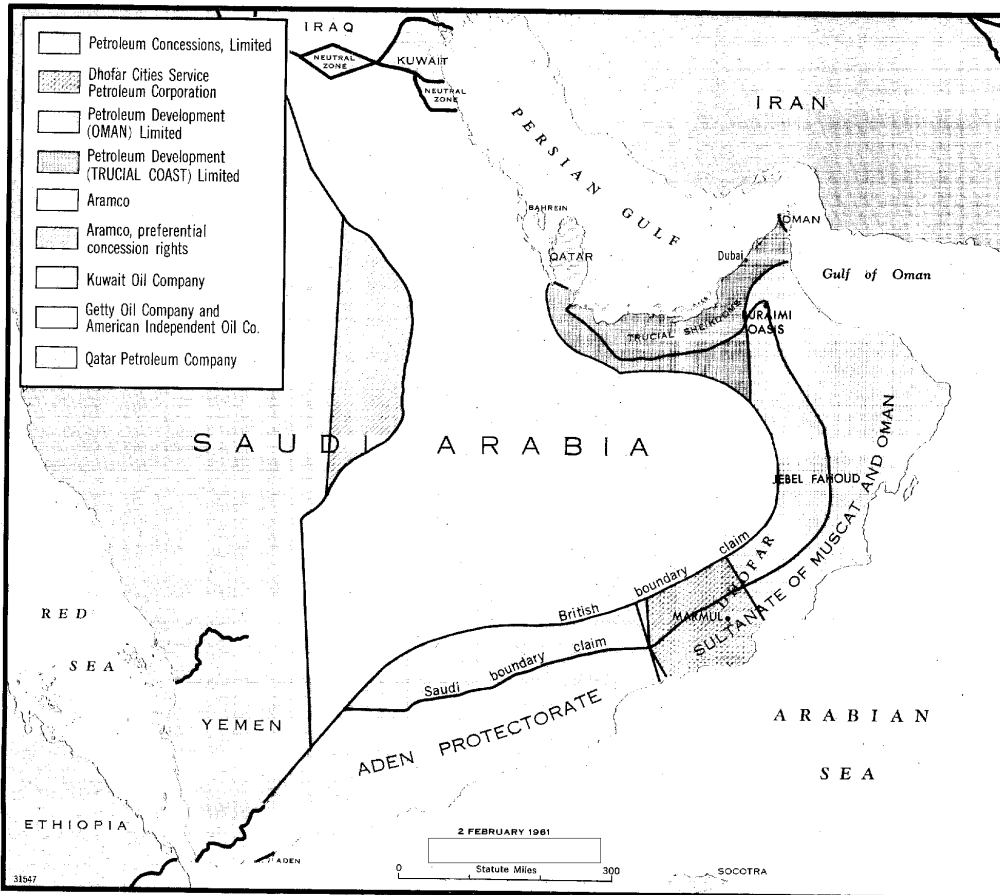
to only 66.3 percent, as compared with the Italians' 78.9 percent and 82.8 percent from a Japanese company. However, the Shell contract offered the prospect of by far the greatest volume of total sales and thus profits.

The Shell concession includes a provision granting Kuwait the right to buy a 20-percent participation in the company exploiting the oil--to be paid for when a deposit of commercial quantity is found. The government will probably assign this right to the Kuwait National Petroleum Company (KNPC), formed on 9 December 1960. KNPC will be held 60 percent by the government and 40 percent by Kuwaiti citizens.

The Kuwait Oil Company (KOC), which holds the onshore concession, during 1960 produced

a record 1,625,000 b/d of the lowest cost crude oil in the world--an increase of 17.5 percent over 1959. Oil revenues reached about \$418,000,000, including relatively small payments from the Japanese-owned Arabian Oil Company (AOC) and the American Independent Oil Company (Amnoil). AOC holds the concession for Kuwait's--as well as Saudi Arabia's--half-interest in the neutral zone offshore area, and Amnoil has that for Kuwait's onshore half-interest in the Neutral Zone. Kuwaiti officials, anticipating revenues of \$460,000,000, were concerned when the August cut in posted crude oil prices reduced that amount by more than \$30,000,000. They readily joined in setting up OPEC.

Subsequent claims by OPEC members that Kuwait agreed to



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cut production have been denied. It appears, however, that Kuwait would be willing to consider increasing production at a rate slightly less than that of the annual increase in the world demand for oil. Even this vague position is well qualified. The government apparently would insist that AOC, Amnoil, and Royal Dutch Shell be excluded from such market restraints.

Production in 1961 might exceed 2,000,000 b/d. Physical capacity--wells already drilled and transportation facilities already in operation--would enable KOC to increase output to more than 4,000,000 b/d on very short notice.

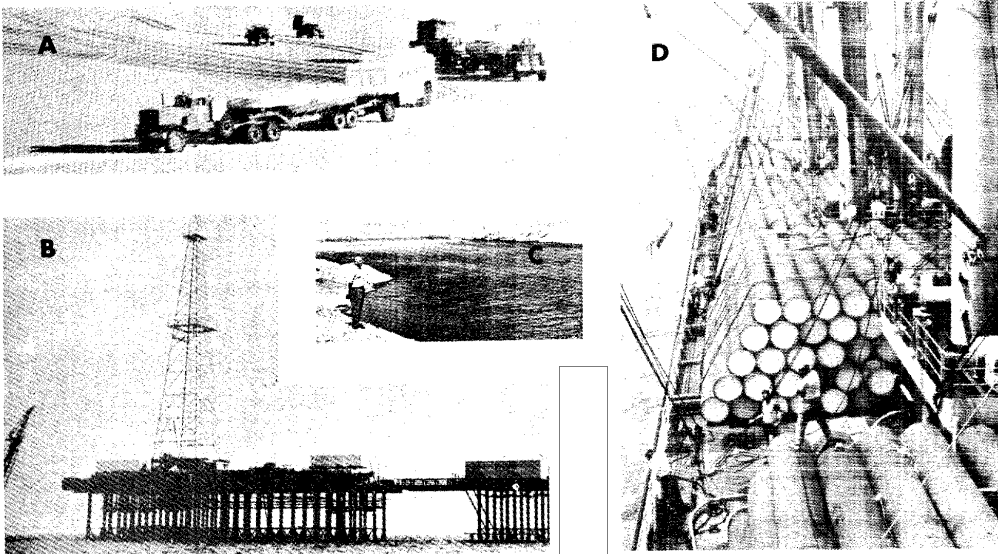
Saudi Arabia

Saudi crude oil output in 1960 was 1,240,000 b/d--up 13.2 percent over 1959, the first sharp increase in four years. Most of the 145,000-b/d increase came from the Arabian American Oil Company (Aramco) field at Safaniya. Demand for Safaniya heavy crude, which has a high fuel-oil content, is increasing--especially in Europe. In Oc-

tober Aramco completed construction of an \$11,000,000, 73-mile, 30-inch pipeline connecting the Safaniya field to the Persian Gulf oil port of Ras Tanura. With this line, plus the existing 22-inch line, Safaniya output can be increased to 215,000 b/d.

While Saudi petroleum exports as a whole increased substantially in 1960, shipments through the American-owned Trans Arabian Pipeline (Tapline), which carries Saudi oil to the Mediterranean, were down. Tapline operated at 242,000 b/d in 1960, or about 52 percent of capacity.

The decrease reflects the Saudi Government's insistence on pressing its so-called Sidon claim, a demand for half the profits of Tapline retroactive to December 1950--amounting to more than \$200,000,000 in back royalties and charges. Tapline officials now are operating the line at about the break-even point to avoid a further build-up of the Saudi claim. Under the terms of the present Tapline agreement, which the company is attempting to change, operation



- A An Aramco seismograph party in Empty Quarter of Saudi Arabia.
 B SIRIP drilling platform under construction in Persian Gulf.
 C Oil "lake" formed by blowout at Qom, Iran.
 D Esso pipe being floated ashore along Libyan coast.

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of the line would cease to be profitable beyond 1964 in any event.

Aramco on 13 July opened a new 17.5-mile, 34-inch pipeline from the Qatif field to Ras Tanura. This line would make it possible for the oil now going through Tapline to be diverted to the Persian Gulf port for marketing.

Relations between Aramco and the government were correct if not cordial during 1960. None of their disagreements were settled, but neither side pressed hard for a solution. Instead, Saudi oil boss Tariki, with the backing of Crown Prince Faysal, devoted most of his efforts to winning approval of the other Arab oil producers and Iran for a common front against the oil companies. Largely out of these efforts sprang the OPEC.

The reassumption of power by King Saud on 21 December probably presages some improvement in the Saudi Government's relations with Aramco. Although Tariki's title has been elevated from director of petroleum affairs to that of minister of oil and mineral resources, he will probably no longer have so powerful a voice in formulating government oil policy. On 6 January, Mecca radio announced the formation of a Higher Council for Planning and Petroleum which will be presided over by King Saud or, more usually, by Prince Talal, minister of finance and economy. Members include the ministers of trade, communications, agriculture, and oil.

The council will probably concentrate on achieving short-run increases in oil revenue--which in 1960 was more than \$320,000,000--in order to finance the government's new development program and the anticipated increase in the King's expenses. Thus, the Sidon dispute might be settled for a substantial cash payment, and other issues outstanding between Aramco and

and the government might be resolved in similar fashion.

Iran

A sharp increase in crude production in the last half of 1960 lifted Iranian output to 1,050,000 b/d for the year. As a result, revenues are expected to total about \$287,000,000, at least \$25,000,000 more than the government expected. Production from the fields of the Consortium--the group of Western companies operating most of the country's oil industry--reached a record 1,214,192 b/d in October 1960 and might average 1,300,000 b/d in 1961, a level not previously expected before 1962.



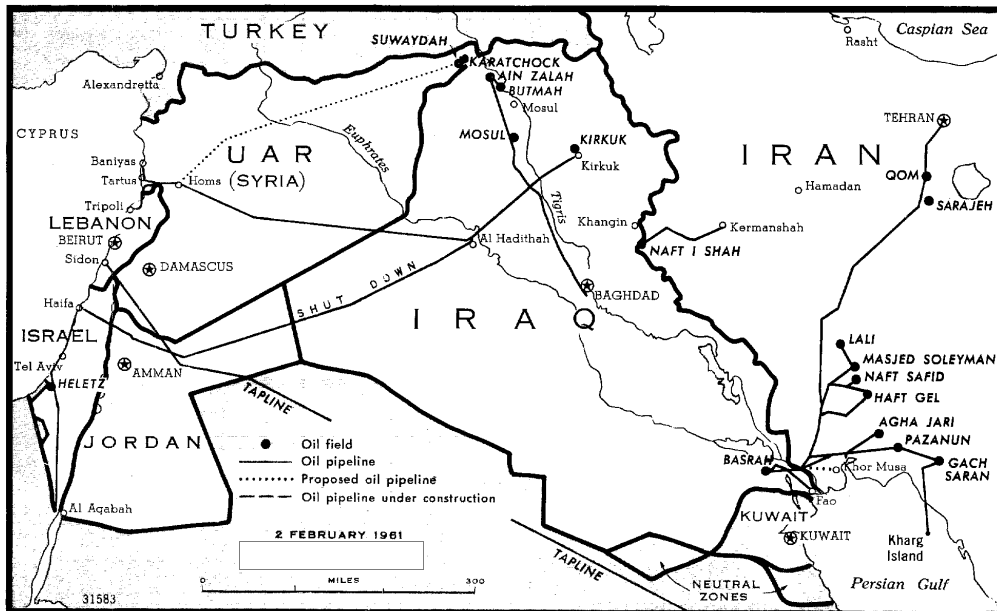
TARIKI

The Consortium-built Kharg Island oil terminal was opened on 8 November 1960 and will be a major factor in increasing Iranian output. The new 100-mile, 26- to 30-inch pipeline from the Gach Saran field to Kharg Island, 26 miles offshore, has a capacity of 390,000 b/d. Production at Gach Saran--discovered in 1928 and considered by some the world's largest oil field--had been limited to about 57,000 b/d until 1960, chiefly because there was little demand for the field's relatively heavy crude. With the switchover from coal to fuel oil, however, Gach Saran is assuming more importance.

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In addition to the Consortium, three other groups are active in Iran. The Societé Irano-Italienne des Petroles (SIRIP), jointly owned by the Iranian Government and ENI, reportedly has a major discovery in the company's offshore Persian Gulf concession. While reports are conflicting, it now appears probable that the capacity of the test well is 16,000 b/d, large even by Middle East standards. SIRIP's onshore activities have been singularly unsuccessful. ENI was the first company to break the standard 50-50 profit-sharing formula by giving the government a 75-percent share of the profits.

The Iran Pan American Oil Company (IPAC), a joint Iranian Government and private American venture, after months of offshore drilling failed to find oil in commercial quantities. According to last reports IPAC's test well was down nearly 12,000 feet--almost a mile deeper than SIRIP's test--but prospects for success are slight. IPAC also agreed to a 75-25 split with Tehran.

The Iran Oil Company (IOC)--the exploration arm of the government-owned National Iranian Oil Company (NIOC)--after nine years' effort has successfully tapped the 30-mile-long Alborz field near Qom in north-central Iran 100 miles south of Tehran. In 1956, Alborz 5--the fifth well drilled on the structure--blew wild for 82 days at a rate of 60,000 b/d before it collapsed. Alborz 8, however, has been confirmed as a production well in excess of 20,000 b/d. Exploitation of this field is certain to be slow, since it is handicapped by its great distance from the Persian Gulf oil terminals.

IOC has also announced that the Sarajeh field, discovered in 1958, has proved reserves of 7 trillion cubic feet, making it one of the world's largest gas fields. One test well produced at the rate of 2,800 barrels of crude and 40,000,000 cubic feet of gas daily.

The Shah has warned the Consortium not to make further price cuts without consulting

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the government. He also demands a change in the 50-50 formula and an all-out effort by the companies to re-establish Iran as the leading producer in the Persian Gulf. If the SIRIP find is fully confirmed, pressure on the Consortium for a more favorable deal will increase.

Iraq

The Iraq Petroleum Company (IPC) has been negotiating intermittently with Baghdad since Prime Minister Qasim came to power in mid-1958. At almost every bargaining session Qasim has put forth new demands, and the company has ultimately--albeit reluctantly--acceded to them in some degree. Last July, IPC refused to pay new Basrah port dues--increased unilaterally about 1,300 percent--and halted production from Iraq's southern fields, which normally account for about 25 percent of the country's total output. However, the company eventually capitulated, paid the new fees under protest, resumed production on a reduced scale in August, and by September was producing a normal 240,000 b/d.

Last year IPC produced about 975,000 b/d--14.4 percent more than in 1959--and this year, barring political problems, will exceed 1,000,000 b/d. Work continues on expanding the capacity of the pipelines which carry oil from Iraq's northern fields to the Syrian port of Baniyas and the Lebanese port of Tripoli. By the end of 1960, capacity had been lifted to 700,000 b/d--up 200,000 b/d over 1959; plans call for 960,000 b/d by 1962.

Construction of a tanker terminal in the Persian Gulf 24 miles off Fao has been slowed by technical problems but is expected to be completed later this year. Export capacity from the southern fields will then

increase from the present 240,000 b/d to about 440,000 b/d.

Under concession terms, the government is entitled to 12.5 percent of IPC crude production either in cash or kind; last year this amounted to more than 120,000 b/d. The Baghdad regime, however, failed in its efforts during 1960 to market any of its share of crude and probably will never succeed until it is willing to take less than the going market price or accept payment in soft currency.

Partial French ownership of IPC continues to muddy government-company relations. The Iraqi press is calling on Baghdad to nationalize the 23.75-percent French share in IPC as a gesture of solidarity with the Algerian rebels. Qasim would be reluctant to jeopardize oil revenues, which in 1960 approximated \$270,000,000, but he might make such a move in an emotional moment.

Neutral Zone

Kuwait and Saudi Arabia share half-interests in the Neutral Zone, which was established by the Uqair Boundary Convention of 1922. Kuwait in 1948 assigned its onshore interest to the American-owned AmnOil, and Saudi Arabia gave the concession for its share onshore to the Getty Oil Company. Recently the two countries have been attempting to abolish the zone by dividing the area between themselves.

The American companies increased output almost 14 percent last year over 1959 to 132,000 b/d. The Neutral Zone, however, probably will never become a major oil producer. It is the only Persian Gulf oil area which must pump some of its oil.

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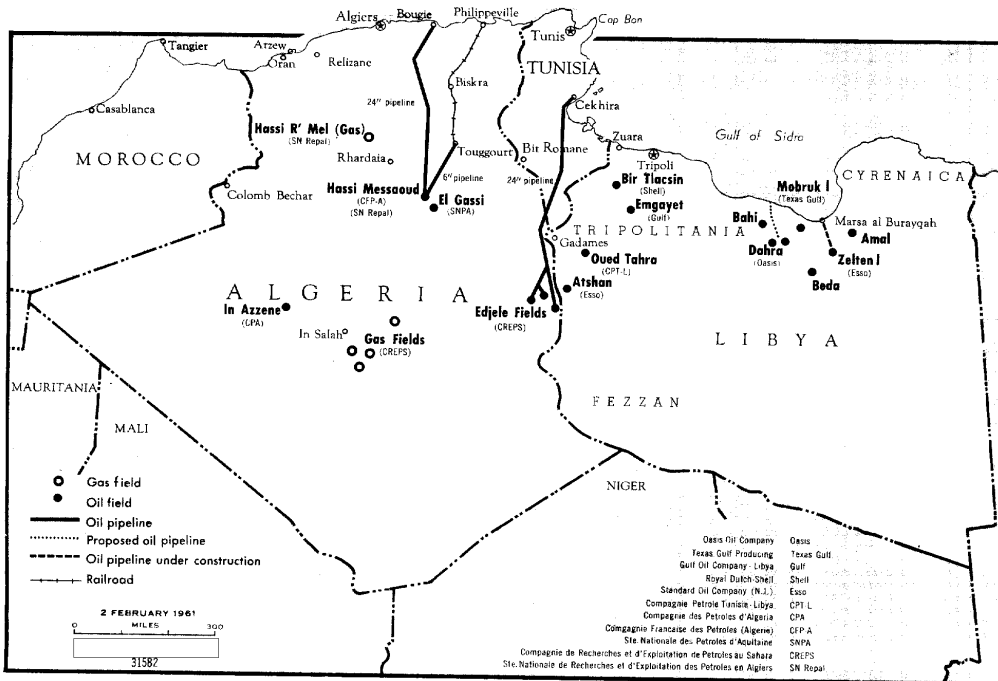
The Japanese AOC secured both the Kuwaiti and Saudi interests in the Neutral Zone's offshore territory in late 1958 and early 1959. Using American drilling companies, it discovered oil quickly, and now has six producing wells rated at a total of about 32,500 b/d. The AOC's plans call for drilling 30 wells this year and 36 wells each year in 1962, 1963, and 1964. Exports to Japan are expected to begin in either January or February this year. To begin production as quickly as possible, the company will use five old tankers as floating storage tanks.

Libya and Algeria

Libya and Algeria soon will become important world suppliers of crude oil. Algerian crude is already flowing to European markets through two major pipelines. The 412-mile, 24-inch pipeline, from the Hassi Messaoud fields to the Mediterranean, which opened in October

1959, is expected to average about 180,000 b/d this year; plans call for increasing output to 500,000 b/d by 1963 or 1964. A second 24-inch line from Edjele to the Tunisian port of Cekhira, 460 miles away, was inaugurated on 10 October 1960, and also is expected to average about 180,000 b/d throughout 1961; in 1962 the French hope to increase this to 220,000 b/d.

Although Algerian rebel activity interrupted early French efforts to move oil to the coast, there has been no appreciable difficulty with either of the 24-inch lines, and the French apparently expect none. Paris has been seeking favorable treatment for Algerian crude within the Common Market, thus far without success. In 1958, the six members of the European Community imported about 1,600,000 b/d of crude oil, of which 1,200,000 came from the Persian Gulf. By 1965-67 Common Market demand is expected to reach



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2,500,000 b/d, of which Paris hopes to supply about 1,000,000 b/d.

Even without special treatment, Algerian crude could compete with that of the Persian Gulf because of its close proximity to the European market. The recent activities of OPEC might also lead Europeans to seek to limit dependence on Persian Gulf crudes.

By mid-1961 the Standard Oil Company (N.J.) probably will have completed construction on its 100-mile 30-inch pipeline from the prolific Zelten fields in north-central Libya to a newly constructed oil port at Marsa al Burayqah. Initially the line will have a capacity of 100,000 b/d by gravity flow, but this can be increased substantially through the addition of pumps. Another American group, the Oasis Oil Company, is also planning to construct a pipeline this year.

Libyan oil, found relatively close to the surface, and generally between 100 and 150 miles from the coast via a flat plain should have a substantial competitive edge--a saving of 40 cents per barrel in transportation costs alone--over Persian Gulf crude. Operations should be highly profitable, as they avoid the high cost--as well as possible interference--of the Suez Canal and intercountry pipeline routes.

The UAR

When the OPEC was established, Cairo lost part of its voice in Arab oil affairs, at least temporarily. Technically the UAR was excluded because it

is not a net-exporting country. Actually, Iran, whose membership was considered vital to the OPEC, would not have joined if the organization included the UAR, which has severed diplomatic relations with Iran.

This year Cairo will buy 11,250,000 barrels of crude oil from the USSR and an additional 9,375,000 barrels of Saudi oil from the American-owned Caltex company. Egypt will also have to import more than 4,000,000 barrels of refined petroleum. Local crude production amounted to only 62,000 b/d in 1960 and much of this had to be exported, largely to Italy, since it was unsuitable for Egyptian refineries. Expansion of local refineries this year with Soviet bloc aid should enable Cairo to refine most of its own output.

In Syria, a West German firm continued to expand its modest oil discovery at Suwaydah in the northwestern corner of the country. The eighth well at Karatchok reportedly tested at 3,500 b/d of very heavy crude oil. The Karatchok field, discovered by an American firm, was taken over by the government in 1958. The 20,000 b/d Czech-built refinery at Homs continues to supply most of the region's needs. Crude for the refinery is supplied by the Iraq Petroleum Company and Tapline.

The UAR has not pressed its claim for increased transit fees from Tapline pending a solution of the closely related Saudi Sidon claim. If the Saudi claim remains unresolved, however, the UAR might make good on its still outstanding threat to force a shutdown of the line.

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