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31 August 1961

CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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

EAST-WEST RELATIONS Page 1

The Soviet Government's announcement on 30 August of its decision to resume nuclear weapons tests reflects Khrushchev's extreme concern that the prospects for extracting Western concessions on Berlin have diminished, especially since the closure of the Berlin sector border. The Soviet leaders appear to recognize that the drastic measures to halt the refugee flow have heavily damaged their efforts to present the East German regime as a sovereign and respectable negotiating partner and that Khrushchev's objective of winning Western acceptance of a Berlin settlement implying de facto recognition of East Germany has been seriously jeopardized. In this situation, Khrushchev has resorted to nuclear intimidation in an effort to weaken the ability of the Western governments to resist Soviet demands. He probably also feels this announcement will place the bloc in the strongest possible position to carry out the long-threatened unilateral action to sign a separate peace treaty with East Germany in the event negotiations fail or do not take place.

East German spokesmen now are denying that Western civilian airlines have the legal right to use the Berlin air corridors--the only remaining civilian access routes not under East German control. Ulbricht declared on 25 August that his regime is abiding by the terms of the notes exchanged by the USSR and East Germany on 20 September 1955, calling for the USSR to retain control over Western military access to and presence in the city. On 29 August, however, Deputy Foreign Minister Winzer reiterated, in the strongest terms used to date by a bloc spokesman, the Soviet position that use of the corridors by Western civilian aircraft has no basis in quadripartite agreements relating to Berlin and that their use is exclusively for Western garrisons.

US Mission officials in Berlin maintain that West Berliners regard unrestricted air access as an essential

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25X1 element of their freedom and that subjecting air access to any kind of Communist control might set off an exodus from the city. [REDACTED]

BRAZIL Page 8

25X1 The sudden resignation of Janio Quadros from the Brazilian presidency on 25 August precipitated a constitutional crisis because of the adamant opposition of War Minister Denys and other military leaders to the assumption of Quadros' power by leftist Vice President Goulart. Goulart's right to succession has been supported on constitutional grounds by most political leaders and a minority of the military, particularly ex-War Minister Lott and the commander of the powerful Third Army in southern Brazil. On 31 August congress overwhelmingly passed a resolution to amend the constitution, transforming the presidency into a figure-head office in a parliamentary form of government with a prime minister appointed by congress. No party in congress has a majority, and the premiership might go to such a leader as ex-President Kubitschek of the Social Democratic party or Governor Carvalho Pinto of the National Democratic Union.

[REDACTED]

CONGO Page 11

25X1 UN troops have taken action to detain for repatriation approximately 500 white officers of Katanga's armed forces. Although they were largely successful in this immediate objective, Tshombé continues to resist UN pressure to reintegrate his province with the Congo and has stated that he will not negotiate with Premier Adoula under duress. In Stanleyville, Gizenga has continued to delay going to Leopoldville to take up his vice premiership. The manhandling of the US consul in Stanleyville and his subsequent ouster on 29 August appear to have increased unrest in Gizenga's stronghold. [REDACTED]

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BRIEFS

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BIZERTE Page 12

Tunisia does not plan to reopen the Bizerte problem at the regular UN General Assembly, but the Afro-Asian bloc may press for another airing. French refusal to participate in the special UN proceedings has drawn some criticism from conservative as well as liberal circles in Paris.

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FRANCE-ALGERIA Page 13

The reorganization of the provisional Algerian government (PAG), in which moderate, pro-Western Ferhat Abbas was replaced as premier by Ben Youssef Ben Khedda, reflects the rebels' dissatisfaction over the lack of results so far in negotiations with France. The new leadership will probably increase the PAG's contacts with the Sino-Soviet bloc. Although the rebel announcement of 27 August did not close the door to a negotiated settlement, it indicated that the PAG stand would be even less compromising than heretofore. De Gaulle, who wants progress toward a solution by the end of the year, can be expected to sound out the new PAG's position, but if the rebels are unresponsive or delay too long in resuming negotiations, he may proceed with the establishment of a provisional executive authority in Algeria without their participation.

LAOS Page 15

There have been further indications of the USSR's interest in reaching a speedy settlement of the Laotian problem. The opposing factions in Laos, however, still seem far apart on their respective terms for formation of a government of national union. Meanwhile, their military forces are continuing preparations for a possible resumption of hostilities.

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CUBA Page 16

Cuba's mounting economic difficulties were admitted by Che Guevara and other high officials during a "National Production Conference" in Havana. Colombian Foreign Minister Turbay is sounding out other Latin American governments to ascertain if there has been any "chipping away of resolve" for collective action against the Castro regime as a result of Guevara's efforts at the inter-American economic conference in Uruguay. President Dorticos will visit the USSR and Communist China after heading Cuba's delegation to the Belgrade conference.

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BLOC OIL EXPORTS TO THE FREE WORLD Page 17

Soviet bloc oil exports to the free world continue to rise sharply. These exports are Moscow's major source of foreign exchange. At the present rate, total exports

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for 1961 would reach 26,000,000 to 30,000,000 tons, an increase of about 15 percent over 1960. By 1965, the export total may rise to 50,000,000 tons. European countries, mainly members of NATO, now take more than three quarters of all bloc petroleum exports to the free world.

difficulties in the distribution of Soviet petroleum products in several widely separated areas apparently reflect internal Soviet transportation problems caused chiefly by a shortage of tank cars.

PEIPING ALLEGES US TRYING TO PROVOKE ARMED CLASHES Page 19

Peiping has been charging that the US is planning to provoke clashes with Chinese armed forces in an attempt to demonstrate Chinese bellicosity and aggressiveness prior to the coming UN vote on the Chinese representation issue. Whether Peiping's propaganda reflects real concern over potential US moves or is intended to cover a new military initiative of its own, the Chinese are laying the groundwork for blaming any armed clash on the US.

CONSTRUCTION SLUMP IN COMMUNIST CHINA Page 20

The slowdown in construction activity first noted in China during mid-1960 has continued through the first half of 1961, with little chance of a recovery this year. The difficulties stem from the cumulative effects of two successive years of poor harvests, from the excesses of the "leap forward," and in lesser degree from the withdrawal of Soviet technicians. This setback in Peiping's construction effort will adversely affect industrial production and economic growth over the next few years.

YUGOSLAVIA'S NEW CONSTITUTION Page 21

Yugoslavia's new constitution, intended to formalize the "advances" made since 1953, will be presented to parliament this fall and put into effect next spring. Although the regime has divulged few details, the daily press is beginning to devote more attention to the significance of the document. Certain provisions will be unpopular in government circles, such as one limiting elected terms of office. The Sino-Soviet bloc will probably take sharp exception to the new constitution, which formalizes certain features of the Yugoslav system which the bloc has already attacked.

CAMEROUN Page 22

Terrorism by extremists of the Communist-influenced Union of Cameroun People (UPC) is the most immediate problem which will face the Cameroun Federal Republic, to be

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formed on 1 October when the British trust territory of Southern Cameroons unites with the present Cameroun Republic. Federation talks between leaders of the two areas have been smoother than expected, but UPC terrorists, with outside African as well as Communist support, are showing increased confidence and greater coordination. The only effective military force in Southern Cameroons--a British battalion--is scheduled to pull out by 1 October, when a French-trained native force will take over.

CHILE Page 23

President Alessandri, faced with strikes involving about a fourth of Chile's total labor force as a result of the wage policies of his economic stabilization program, has strengthened his position by bringing the Radical party into his rightist coalition, thus obtaining a strong parliamentary majority. Santiago and other important industrial areas have been put under military rule. The Communists dominate the leadership of Chile's over-all labor confederation, which, while it has little influence over most individual federations and unions, affords a forum for exploiting general labor unrest. They also have some strength in Congress and have gained some cooperation from right-wing political elements in a nationalistic campaign against private foreign investment, particularly the US-owned copper companies.

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NORWEGIAN ELECTIONS Page 24

Norway's governing Labor party is expected to retain a majority in the parliamentary elections on 11 September, which are being fought mainly on the party's record on economic and social questions. A new Socialist People's party--formed by dissident leftist Labor party members--is seeking to capitalize on the widespread public concern over nuclear warfare; a strong showing by this new party would influence the postelection government toward more cautious defense policies.

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ITALY Page 25

The instability of Italian Premier Fanfani's minority Christian Democratic government has been highlighted by a new controversy which started in mid-August when Giuseppe Saragat, Social Democratic leader, threatened to withdraw support and thereby bring down Fanfani. Saragat, supported by the Republican party, called for formation of a center-left government dependent on parliamentary support from Nenni's Socialists. The conservative Liberal party has retaliated by asking for a full-scale parliamentary debate, but a vote of confidence is not likely before the 23-25 September meeting of the Social Democrats' central committee. President Gronchi might be tempted to force an early crisis to improve his chances for re-election.

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SPECIAL ARTICLES

RECENT TRENDS IN SINO-SOVIET RELATIONS Page 1

Although Moscow and Peiping have muted the open polemics which attracted world attention to the Sino-Soviet dispute last year and have managed to act harmoniously in most areas of foreign policy since the Moscow conference of world Communist leaders last November, the differences underlying the dispute remain unresolved. The USSR's conduct in such crisis situations as Laos, Congo, Cuba, and Berlin has not given the Chinese any pretext for renewing their charge that Moscow's attitude toward the West is not sufficiently militant. Sino-Soviet relations in the economic field have been correct but cool thus far in 1961; Soviet technicians have not returned to China. Moscow and Peiping continue to maintain conflicting positions on the key issue of authority within the world Communist movement. The next confrontation may come at the 22nd Soviet party congress in October; the congress is to approve the Soviet party's new 20-year program, which includes elements unacceptable to the Chinese. [redacted]

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ECONOMIC ISSUES IN THE COMMON MARKET Page 7

Britain's application for Common Market (EEC) membership coincides with preparation by the EEC for an early showdown on a number of economic issues of vital importance to its future. Before December, the member states must decide whether to double the next tariff reduction and whether to proceed to the second of the EEC's three four-year stages. Linked to these decisions is the necessity of reaching prior agreements on certain agricultural, transport, social, and anticartel policies in which major economic and political interests are involved. The talks with London, opening in October, may tempt the EEC countries to delay on these decisions, but they are aware that this would risk the loss of the EEC's present momentum. [redacted]

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WEEKLY REVIEW

EAST-WEST RELATIONS

The Soviet Government's 30 August announcement of its decision to resume nuclear weapons tests reflects Khrushchev's extreme concern that the prospects for extracting Western concessions on Berlin have diminished, especially since the closure of the Berlin sector border. The Soviet leaders appear to recognize that the drastic measures to halt the refugee flow have severely damaged their efforts to present the East German regime as a sovereign and respectable negotiating partner and that their objective of winning Western acceptance of a Berlin settlement implying de facto recognition of East Germany has been seriously jeopardized.

In this situation, Khrushchev felt obliged to resort to nuclear intimidation in an effort to weaken the ability of the Western governments to resist Soviet demands. He probably also feels that this announcement will place the bloc in the strongest possible position to carry out the long-threatened unilateral action to sign a separate peace treaty with East Germany, in the event negotiations fail or do not take place.

The Soviet statement linked the decision to test "new types of nuclear weapons" to other recent measures designed to "strengthen the security of the USSR." It attempted to justify this move by citing "threats and military preparations" by the US and other NATO powers and asserted that the USSR had no choice but to develop the "most effective types of weapons that can cool hotheads in the capitals of some NATO powers."

The statement condemned recent Western "demonstrations of strength," particularly US and British measures to strengthen the West Berlin garrison. It also charged that the US plans to resume testing in the near future to develop a "neutron bomb" and recalled earlier Soviet warnings that the USSR would be forced to resume tests if France did not halt its testing.

Moscow's statement seeks to counter Western defense measures and to generate heavy public pressure on Western governments to concede to Soviet demands by stressing that even a localized armed conflict "would inevitably grow into a universal rocket and nuclear war should the nuclear powers be drawn into it."

In the hope of containing the damaging impact of this decision on world opinion, the Soviet statement closed with the standard pledge that Soviet forces "will never be the first to resort to arms" and an appeal for increased efforts throughout the world to achieve general and complete disarmament which will put an end to nuclear tests.

Support From Peiping

Communist China quickly supported the Soviet decision to resume nuclear testing, again demonstrating its readiness to endorse Soviet policy when it takes a militant stand against the West. The Chinese statement, issued on 31 August, describes the Soviet decision as a "cooling dose for the hot-headed war plotters and a powerful inspiration to all the

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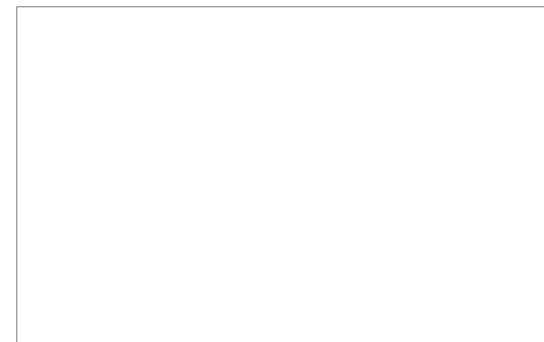
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people striving for world peace." It blames the US for fanning war hysteria and warns the West that the entire imperialist system will be swept from the earth in the event of a nuclear war.

Free-World Reaction

The Soviet decision will shock most of the leaders attending the nonaligned summit in Belgrade and will add a sobering note to their already scheduled debate on the subject of nuclear testing. India's Nehru, reflecting the view of most of his fellow conferees, stated, on his arrival in Belgrade, "I am against all nuclear tests--any time, any place, all the time."



The Geneva deadlock on the testing question must have convinced others too that a test resumption by one side or the other was just a matter of time. They are likely to be critical--at least in private--of the Soviet Union's decision and will probably go on record with a vigorous plea for renewed efforts to restore the test ban. At the same time, assuming that Western testing will also be resumed, the nonaligned leaders are also likely to resort, in their deliberations, to their more familiar "plague on both your houses" pose.

Elsewhere, Afro-Asian reaction is spotty and primarily press in origin at this point. Japanese officials have declined immediate comment but the leftist Committee Against Atomic and Hydrogen Bombs has termed the Soviet action "regrettable."

East German Actions

East German pronouncements on Berlin and the Western powers have taken on an increasingly arrogant tone. In line with the Soviet note of 23 August, the brunt of East German propaganda has been directed against West German ties with West Berlin, in an evident attempt to increase the sense of isolation among West Berliners and undermine morale with a view to softening them up to support "free city" status or flee to West Germany.

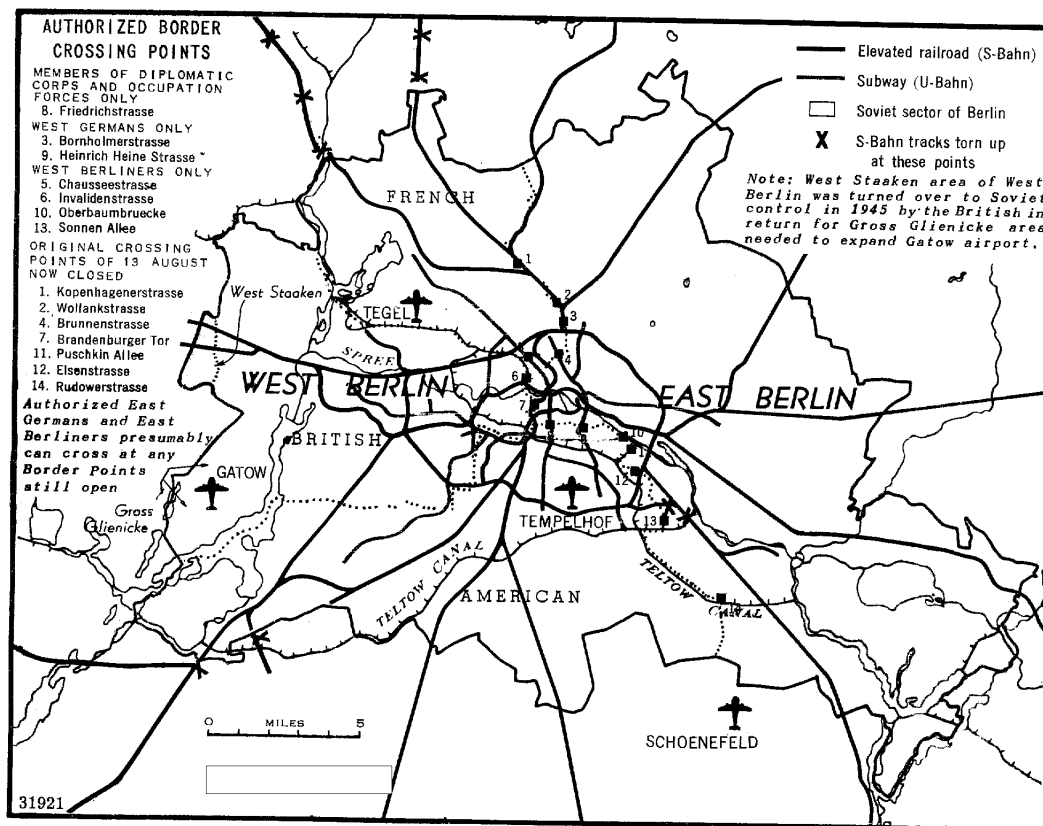
Echoing the allegations contained in the Soviet note that the Western powers are conniving in the use of the Berlin air corridors by West German "revanchists" and "militarists," Deputy Foreign Minister Winzer on 29 August spelled out, in the strongest terms bloc spokesmen have used to date, the Soviet position that "the profitable business of American, British, and French airlines in the air corridors is illegal." He asserted that "there is no single agreement in which the Western powers were granted the right to use the air corridors for civilian flights."

Winzer termed "complete falsification" Western claims that the exchange of letters between President Truman and Stalin on 14 and 18 June 1945 provided for free access to

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Berlin. The Truman letter, in fact, stipulates "free access by air, road, and rail from Frankfurt and Bremen to Berlin for United States forces." The right of civilian airlines to fly the corridors derives from this and other agreements. Winzer, however, declared that Stalin made no "concession regarding the communication links at all."

Walter Ulbricht, in a speech of 25 August, said that East Germany recognizes the continuing validity--until the signing of a peace treaty--of the Soviet - East German exchange of letters of 20 September 1955 (the Bolz-Zorin letters) under which the USSR re-

tained jurisdiction over Allied access to and within Berlin despite Soviet recognition of East German sovereignty. The Winzer statement included the observation that flights to West Berlin such as that of West German President Luebke on 29 August via a US military plane were a "renewed justification" for the Soviet protest note charging the Western powers with violation of quadripartite agreements. Winzer stated that "such flights" would end with the signature of a Soviet - East German peace treaty.

East German propaganda is seeking to picture West Berlin as a continuing "threat to

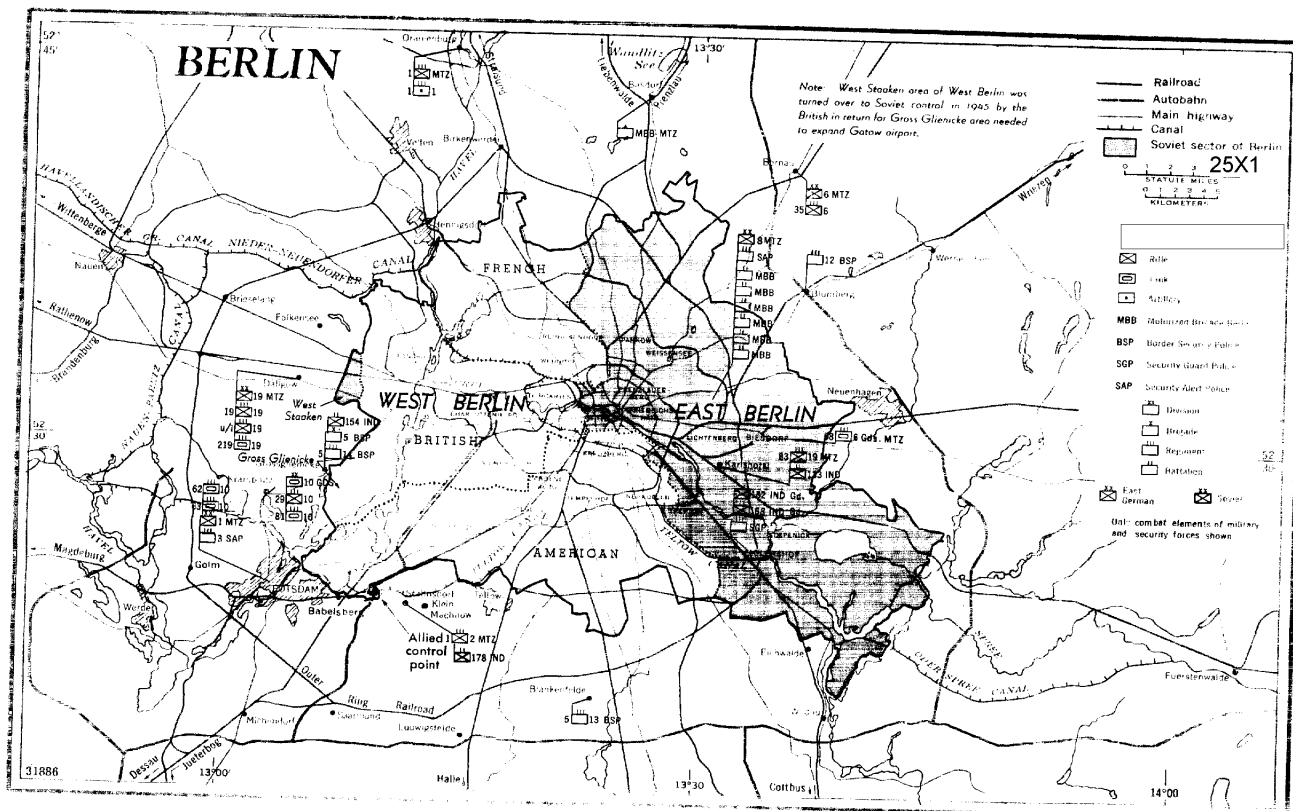
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peace." On 28 August, the East German news agency warned that the plan to hold a Homeland Day (Tag der Heimat) in West Berlin from 1 to 3 September was a "provocation directed against the entire socialist camp."

without incident despite Communist warnings that use of the air corridors for such purposes would not be permitted. This year, 100 to 150 West Germans are said to be planning to attend the rally.



Last year's Homeland Day--celebrations by expellee groups from former German territories in Poland and Czechoslovakia--furnished the excuse for East German interference with West German ground access to Berlin and for other measures to undercut the ties between West Berlin and Bonn. More than 1,000 persons planning to attend the rally at that time were turned back by East German police at the East - West German frontier, but some 700 persons were flown in by Western civilian airlines

The East Germans may be preparing to use the occasion this year to demonstrate their ability to effectively stop Western civilian air access to the city without resort to military measures. For example, if the Soviet controller in the quadripartite Berlin Air Safety Center (BASC) were to refuse air safety guarantees for flights scheduled to carry participants in the rally, pilots of the Western airlines would probably refuse to fly. Such a step--which would disrupt air service

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to the city--would probably be accompanied by steps on the part of the East Germans to interfere with ground access by West Germans to the city. Further moves to maintain pressure on the city--such as publication of the text of a peace treaty--may also be made in the near future.

Situation in Berlin

The East Germans meanwhile have somewhat reduced their military and security forces in East Berlin but are still maintaining a substantial show of force. Tanks have been withdrawn two or three blocks from the sector border, where they are parked in groups of 4 to 10. East German police have several times used tear gas or riot hoses to disperse crowds of West Berliners gathered in the city sector border area. There have been several minor brushes between Allied military personnel patrolling in East Berlin and East German security forces. Aside from this, Western personnel are continuing to enter the Soviet sector, generally without difficulty, through the only checkpoint open to them--at Friedrichstrasse.

Soviet reconnaissance vehicles now are appearing in greater numbers in West Berlin than in the past, evidently in an effort to underline the USSR's claim to a role in the occupation of the Western sectors. Soviet controllers at BASC, however, have protested the assignment of US Army vehicles to escort them to and from the sector border. This Western action was taken after West Berliners had demonstrated against the Soviets.

US Mission officials in Berlin believe that the Soviet note of 23 August has caused further apprehension among West Berlin-

ers, who regard unrestricted air access as an essential element of their freedom. Mayor Brandt and other leaders of the Social Democratic party (SPD) believe that despite the temporary improvement of morale resulting from the visit of Vice President Johnson and reinforcement of the Berlin garrison, a feeling of frustration and hopelessness is already beginning to spread through the West Berlin population.

The West Berlin leaders told a US official there is a growing public expectation that, despite Allied assurances, a compromise will be reached between the Allies and the USSR concerning the future status of West Berlin which will inevitably act to undermine the long-range viability of the city. These leaders claimed that further blows at the Western position--such as Communist interference with civilian air access, which they fear the Allies will be unable to prevent--will cause many Berliners to leave the city permanently for West Germany.

On 24 August West Berlin police closed and sealed the thirteen West Berlin offices of the East German Socialist Unity party (SED) in retaliation for the closing of the eight SPD offices in East Berlin. West Berlin officials refused to permit the opening of two East German "tourist offices" at the Zoo and West Kreuz stations of the elevated railway (S-Bahn), and instructed West Berlin police to obstruct attempts to use the stations to issue permits for West Berliners to visit East Berlin. The East German regime had announced on 22 August that passes for entering East Berlin would be issued at such offices.

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Elevated trains have been subject to some vandalism, and East Berlin authorities have threatened to discontinue service entirely.

Situation in East Germany

The Ulbricht regime is steadily hardening its attitude toward antiregime elements in East Germany. On 26 August Neues Deutschland published a decree under which, "in special cases, on the basis of a judicial sentence or at the request of local government organs, restrictions on residence can be pronounced." This provides a legal basis for removing suspected antiregime elements from restricted areas along the East - West German frontier or from the outskirts of Berlin. It also will enable the regime to resettle East Germans and East Berliners who formerly worked in West Berlin in districts where their labor is needed. Persons removed from frontier areas may be subjected to "educational labor." Another decree authorizes district and town officials to declare local "states of emergency" in order to impress laborers for the 1961 harvest. Further measures to tighten up work norms in industrial plants may be in store.

The regime has tightened security along the East - West German frontier over the past three weeks.

Military Developments

No significant change occurred in either the Soviet or East German military situation in the Berlin area during the past week. There was some evidence of the presence of Soviet and perhaps East German elements in the Letzlinger Heide training area on 24 August. There are also indications of increased tactical reconnaissance at various points near the East - West German border.

The announcement that the active duty tours of Soviet military personnel are being extended appears merely to formalize a decision taken some time ago. The long-term effect of

this will depend on the future rate of induction, but a net increase in Soviet military manpower is to be expected.

Bloc Gestures Toward West

Khrushchev, before Moscow's statement on nuclear testing, continued last week to reassure the West of his interest in arranging negotiations on Germany and Berlin. In an interview on 24 August with columnist Drew Pearson, he presented a written statement, which Moscow published on 28 August. The most significant aspect of this pronouncement was Khrushchev's reference to his readiness to meet "at any moment with leaders of the Western powers" and to come to a "round table for peaceful negotiations" if the Western powers--"notably President Kennedy"--want a "peaceful settlement." Khrushchev's designation of Western leaders as the participants and his special reference to the President suggest that he has a summit-level meeting in mind, or possibly bilateral discussions with Washington.

Rumanian Premier and party First Secretary Gheorghiu-Dej last week told an American Embassy official that he plans to visit New York this fall. This was apparently a hint that he might attend the opening of the UN General Assembly on 19 September. Since he probably would not attend unless other bloc leaders came, as was the case last fall, the Rumanian leader's remark may have been intended as a trial balloon to determine US reaction to a possible visit by Khrushchev. Moscow would probably assume that Khrushchev's presence at the UN would lead to a meeting with President Kennedy and provide an opportunity to arrange subsequent four-power negotiations. Gheorghiu-Dej stressed in his private remarks that Moscow was "entirely flexible" in its approach to negotiations and that a solution could be reached which would protect the prestige of both sides.

A third move by Moscow was Khrushchev's letter of 24 August to Italian Premier Fanfani.

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According to press accounts, Khrushchev confirmed his previous statements during Fanfani's visit to Moscow that the USSR was prepared to negotiate with the Western powers on Berlin and Germany.

While the bloc may hope to sustain the momentum of recent East German actions and continue to tighten controls in Berlin, the Soviets have made a point of stating that Western interests have not been touched. Colonel Solovyev, the Soviet commandant in Berlin, adopted a friendly tone in his discussion with General Watson on 26 August, stating that he had taken an interest in the matter of free passage of US personnel into East Berlin and had been "informed" that there were no obstacles.

Ulbricht's reaffirmation of the validity of the Bolz-Zorin letters and Winzer's subsequent remarks indicate that Allied air access will not be affected prior to the signature of a peace treaty. In addition, the Soviet Embassy in Bonn has issued a statement that the USSR is "in favor of normal communications" between West Berlin and the Federal Republic. This was apparently intended to soften the earlier remark by Ambassador Smirnov to an American audience in Bonn that the "best solution" for the Berlin air corridor problem would be to transfer all civilian flights from Tempelhof and Tegel airfields in West Berlin to Schoenefeld on the outskirts of East Berlin.

West German Position

Last September, Bonn, citing the interference with the refugee meeting and an East German decree of that month imposing controls on West Ger-

man access to East Berlin, served notice that it would not extend the interzonal trade agreement expiring in December. The agreement was renewed only after East Germany gave assurances of free movement for all persons and goods to and within Berlin.

Bonn now would consider any interference with West German access to Berlin a violation of these guarantees. Chancellor Adenauer warned in a speech on 14 August that Bonn was considering cancellation of its interzonal trade agreement with East Germany and that there would be a complete trade embargo of the Communist bloc if the Berlin issue could not be settled. The East Germans answered Adenauer by threatening on 15 August to cut off West German freight traffic to West Berlin if Bonn interrupted interzonal trading, and Adenauer warned again the following day of economic sanctions "in the case of a (future) move against Berlin."

Although West German officials regard the intensified controls imposed by the East Germans in Berlin as a violation of the assurances of freedom of movement given last December, Bonn remains undecided on what to do about it. For the time being it does not plan to authorize its interzonal trade representative to take up the matter with his East German counterpart.

Fritz Berg, president of the West German Federation of Industries (BDI), stated on 22 August his organization believes cancellation of the interzonal trade pact now would be dangerous to Berlin's security. He said, however, that West German firms were giving over-all support to the BDI-recommended boycott of the East German Leipzig Fair.

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BRAZIL

The sudden resignation of Janio Quadros from the Brazilian presidency on 25 August has precipitated a constitutional crisis because of the adamant opposition of War Minister Denys and other military leaders to the assumption of Quadros' power by leftist Vice President Joao Goulart. Goulart's right to succession has been supported on constitutional grounds by most political leaders and a minority of the military, particularly former War Minister Lott and the commander of the powerful Third Army in southern Brazil. On 31 August, Congress overwhelmingly passed a resolution to amend the constitution, transforming the presidency into a figurehead office under a parliamentary form of government with a prime minister appointed by congress.

Quadros' resignation followed a period of growing tension with the military over his policy of closer relations with bloc countries, and an outburst of public criticism for having given Brazil's highest decoration to Che Guevara. The precise motivations of his impulsive resignation are, however, still unclear. If he was counting on being swept back quickly into the presidency by a wave of public protest, he greatly misjudged public opinion. There were a number of initial expressions of dismay, but the widespread subsequent reaction was criticism of Quadros for acting irresponsibly in the face of admitted difficulties. A statement reportedly made by his ex-

justice minister as Quadros sailed for Europe on 30 August suggested that Quadros plans an effort to swing public opinion in his favor by attributing his resignation to US pressure. Such a statement might touch off anti-US demonstrations on a larger scale than those immediately following his resignation.

Goulart's Career

The 43-year-old "Jango" Goulart comes from a well-to-do background in the state of Rio Grande do Sul, of which his brother-in-law, Leonel Brizola, is currently governor. From the beginning of his national political career in 1950, Goulart was a protégé of President Vargas and was generally regarded as his political heir when Vargas committed suicide in August 1954. Goulart had tried particularly to build up labor support for himself, cooperating in a number of ways with the Communists for this purpose. Military resentment of his leftist views and varied activities as minister of labor had caused his forced resignation from Vargas' cabinet in February 1954.

Supported by his own Brazilian Labor party and several others, and accepted as running mate by the popular Kubitschek, Goulart won the vice presidency in the 1955 election and further strengthened his political organization during Kubitschek's presidency. In the 1960 election both he and his presidential running mate, ex-War Minister

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Lott, received Communist endorsement. He defeated Quadros' running mate by a considerably smaller margin than Quadros' edge over Lott.

Quadros as president tended to keep Goulart at arm's length politically but sent him to the USSR and Communist China a few weeks ago on an official visit. During his Chinese visit, Goulart went out of his way to praise the successes of Mao Tse-tung and the Chinese Communists. While in Peiping he completed a pact calling for trade of \$28,000,000 each way annually.

Concern for Constitutionality

The reaction of Denys and the two other service ministers to the prospect of Goulart's wielding Quadros' powers was a natural consequence of Goulart's past career and general reputation as a political opportunist, as well as the growing concern in Brazilian military circles over Quadros' policy on closer relations with the Communist bloc. Much of the support as Goulart has received since Quadros' resignation must be attributed not to his personal political appeal but to the general feeling--much stronger in Brazil than in most Latin American countries--that constitutionality should be respected in times of crisis.

Military leaders first sought a legal solution whereby Congress would amend the constitution to bar Goulart from office and provide for an

acceptable successor. A constitutional amendment can be proposed by one fourth of either chamber and becomes law if passed in two successive votes by two thirds of the total membership of each house of Congress. Congressmen apparently felt, however, that barring Goulart would offend the popular Brazilian feeling for legality.

Moreover, the Brazilian constitution provides that if both the presidency and the vice presidency should be vacated during the first half of a presidential term, elections must be held within 60 days. While such elections would normally appeal to many of Brazil's political leaders, most of the ambitious men with a good chance at the top post now hold posts which would bar them from becoming presidential candidates within the next several months. Constitutional provisions bar from candidacy those who have been governors or cabinet ministers within six months of the election, as well as "a President who may have exercised the office for any time in the term immediately preceding."

Reactions Abroad

Latin American public reaction to Quadros' resignation has reflected almost universal surprise, accompanied by a number of parallels drawn by the press between this event and President Vargas' suicide in 1954. Except from Cuba, there has thus far been little commentary on the question of the presidential succession.

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Ecuadorean President Velasco, who has faced growing moderate-rightist opposition to his pro-Castro, leftist foreign policy in recent weeks, including some military plotting against his regime, is reportedly alarmed by Quadros' action and fears that similar circumstances in Ecuador might force him out of office. The intelligence chief of the Ecuadorean armed forces advised the American army attaché in Quito on 28 August that Brazilian developments could have a pronounced effect in Ecuador because of the analogous political-military relations in the two countries. The Argentine Government, which recently confronted sharply adverse reactions from its military leaders when Cuba's economic czar Che Guevara visited President Frondizi immediately after his visit with Quadros in Brazil, has maintained a cautious reserve on the Brazilian situation. One official characterized Quadros' retirement and its aftermath as primarily an internal Brazilian affair. The Mexican Government, which along with Ecuador and Brazil has followed policies favorable to the Castro regime, has limited its comments on Brazilian developments to vague generalities.

The Castro regime has attributed Quadros' resignation to pressures from the US and branded it as part of the US "imperialist" plot to encircle and isolate Cuba. The Cuban reaction reflects considerable concern over the loss of one of its principal friends in the hemisphere. In a public

address on 29 August, Castro urged the Brazilian people to "take up arms...and take to the mountains and jungles" to fight the military leaders who are trying to keep Vice President Goulart from becoming president. The Brazilian Communist party, which has often collaborated with Goulart, has generally kept in the background during the past few days

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Both Moscow and Peiping, following a line similar to that of Cuba, have placed the responsibility for the Brazilian situation on "imperialist" US machinations designed to oust a statesman who was attempting to free his country from the US "monopolistic" and "colonialist" yoke, and have also denounced the efforts of "reactionary" elements to block Goulart.

Local Situation

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Many aspects of the situation in Brazil are still fluid and confused. Denys on 30 August relieved the Third Army commander, General Machado Lopes

Early on 31 August a government communiqué announced that the Second Army, with air and naval support, had undertaken an "action in force" against Rio Grande do Sul, but as of 1200 EDT on 31 August there were no confirmed reports that there has actually been any fighting.

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CONGO

UN troops over the past week detained for repatriation approximately 500 Europeans, most of them Belgians serving in the Katangan armed forces. The evacuation of mercenaries is part of a stepped-up UN campaign to force Tshombé to drop his claims of Katangan independence and to enter into negotiations with Premier Adoula aimed at reintegrating Katanga with the Congo.

The UN move began on 25 August with the airlifting of a battalion of Indian troops from northern Katanga to Elisabethville. The airlift immediately triggered rumors that the UN, in support of Adoula, would attempt to disarm Katanga's 10,000-man army and 3,000-odd police. On 26 August, UN representative O'Brien delivered a virtual ultimatum to Tshombé, warning that if he did not go to Leopoldville the "situation would worsen," and emphasizing that the UN was prepared to assist Adoula in military action against Katanga. Tshombé replied that he would not negotiate with Leopoldville under pressure.

In a swift predawn maneuver on 28 August, Indian troops seized key points in Elisabethville and began the roundup of Belgians. Although Tshombé announced that he accepted the UN action and urged the populace to remain calm, the UN placed Interior Minister Munongo under detention, apparently as a precautionary measure. On 29 August the UN announced that most of the 500 white officers

of Tshombé's army were "controlled" by the UN, and O'Brien observed, "Katanga is in secession without the means of maintaining it."

Tshombé replied on 29 August that he had toured military camps in the past 24 hours and that "the army will not mutiny." A major disciplinary breakdown, however, might well lead to the collapse of his government. Even prior to the UN roundup there were periodic reflections of poor discipline and morale in army camps near Elisabethville. The Belgian consul general has stated that, as early as 28 August, there were several "incidents" between African soldiers and whites.

Belgian Foreign Minister Spaak has sent Secretary General Hammarskjöld an "energetic" protest over the UN measures against Belgian officers in Katanga. Initially he had indicated that his government would continue to cooperate with the UN and would remove Belgian officers from Katanga, provided such measures did not lead either to a panicky exodus of the European population or to a mutiny of the Katangan armed forces. However, the drastic action of the UN in taking Belgian officers into custody prompted the protest move. Spaak fears that large-scale humiliation of Belgian nationals would be exploited to the fullest by his right-wing critics at home.

In the Congo proper, attention has centered on the uncertain relationship between Adoula and Gizenga and on maneuverings

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concerning Congolese attendance at the Belgrade conference of uncommitted nations. Although Gizenga is believed to favor Congolese participation in the conference, his main preoccupation appears to be with securing agreement to various conditions he laid down for his support of the new government. In the meantime, he has refused to go to Leopoldville to take up his vice premiership.

A fifth Air Jordan charter flight to Stanleyville arrived on 26 August, reportedly carrying food, clothing, and six passengers. Unlike previous occasions, however, the cargo

was inspected by UN officials. When a US consul attempted to contact the plane's American pilot, he was threatened at the airport by Gizengist soldiers, who apparently blamed him for the UN's detention of the aircraft. The consul was placed under UN protection, and subsequently returned to Leopoldville after being "expelled" from Stanleyville on Gizenga's orders.

Jordanian King Husayn has indicated concern over the Stanleyville flight and has ordered the grounding of all Air Jordan aircraft pending the outcome of a court of inquiry. 25X1

BIZERTE

President Bourguiba, knowing that a majority of the United Nations supports him in his quarrel with De Gaulle over Bizerte, seems inclined to let the issue ride for the present.

Although the Tunisian Government would have preferred some modification of the Arab-Asian draft so that it might have secured wider Western support, it is satisfied with the action taken at the special UN General Assembly session. Present Tunisian plans are to avoid reintroducing the issue at the regular 16th General Assembly and not to bring the problem back into the Security Council unless there is substantial deterioration of the local situation in the Bizerte area. The Afro-Asian bloc, how-

ever, may press for another airing of the question if Paris continues to ignore the UN resolutions of 22 July and 25 August. In this case Tunisia probably would not resist the bloc's initiative.

In France, reaction to the outcome of the UN debate has included fairly sharp criticism in liberal and some conservative circles of the French Government for absenting itself and assuming a "stance of official amnesia" during the proceedings. Foreign Minister Couve de Murville on 29 August admitted that he did not know what France was going to do in Bizerte but acknowledged that the present situation could not continue indefinitely. 25X1

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FRANCE-ALGERIA

The reorganization of the provisional Algerian government (PAG) announced on 27 August, in which moderate pro-Western premier Ferhat Abbas was replaced by 51-year-old Ben Youssef Ben Khedda, reflects dissatisfaction over the failure of negotiations with France. The new leadership will probably be even less compromising than the former PAG regime; its composition is in effect a retort to French efforts to break the deadlock in negotiations by threats to set up a provisional Algerian executive or to partition the country. The new leadership will probably renew threats, soft-pedaled during the preparation for negotiations, to obtain increased diplomatic and material support from the Sino-Soviet bloc and to "internationalize" the Algerian war.

Ben Khedda is regarded as one of the more extreme Algerian revolutionaries, although his name is less well known among the Algerian masses than that of Abbas. He was instrumental in organizing the rebel fighting units within Algeria, where he several times narrowly avoided death or capture, and has a solid reputation among the younger members of the rebel army. His resignation as PAG minister of social affairs in January 1960 was apparently in protest against what he considered the PAG's failure to push a more vigorous guerrilla war against the French and to move the PAG headquarters from Tunis into Algeria. He has had a number of contacts with bloc nations, especially

Communist China, and is reported to be an admirer of Communist organization and an advocate of Mao Tse-tung's theory of guerrilla warfare. Ben Khedda is regarded as intelligent, shrewd, "hard as nails," and extremely able.

The 62-year-old Abbas, a rebel elder statesman, had been premier since the PAG was established in 1958, but his influence was limited by his French cultural background. His popularity within Algeria--which appears to have increased since the riots last December--along with his wide acquaintances and acceptability to the French made him useful in establishing an aura of respectability for the PAG, which may seek to utilize these traits in some other assignment.

In other changes, Ben Khedda also took over the Ministry of Finance, replacing Ahmed Francis, Abbas' brother-in-law, who performed effectively but shared Abbas' moderate views. Another moderate, Abdelhamid Mehri, was dropped as minister of social and cultural affairs, reportedly because he had done almost nothing with his ministry. Said Mohammedi, frequently identified as a supporter of Belkacem Krim, was removed as minister of state, and another vice premier--Mohamed Boudiaf--was added to the previous two, Krim and Mohamed Ben Bella. Both Boudiaf and Ben Bella are detained in France. Krim was shifted from minister of foreign affairs to minister of interior, replacing "hard-liner" Lakhdar Ben Tobbal, who was made a minister of state

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without portfolio. Saad Dahlab, formerly under Krim in the Foreign Ministry and a member of the PAG negotiating team, was moved up to foreign minister.

Krim and Ben Tobbal appear to have suffered demotions, which suggests that minister of armaments Abdelhafid Boussouf, a ruthless "hard-liner" reportedly feared by most of the rebel leadership, may have enhanced his already strong position. He has for some time reportedly been working to undercut both Krim and Ben Tobbal.

The PAG communiqué announcing the changes was careful to leave the door open for a resumption of negotiations with the French, although indicating that the rebels would take an even less compromising stand, especially in their demand for control of the Sahara. The replacement of Krim as foreign minister by Dahlab, whom the French consider more able and sophisticated than Krim, could be an effort to provide the PAG negotiating team with a spokesman linguistically and politically more able to cope with the French delegation. Reports indicate that contacts with the French are being maintained.

De Gaulle's press conference scheduled for 5 September will probably elaborate on his reported statement to the French cabinet on 30 August that the new PAG line-up does not alter France's determination to give Algeria its independence as soon as possible. The French press is interpreting the situation according to the pro- or anti-De Gaulle alignment of individual editors. Rightist papers call it a defeat for his policy of negotiating with the rebels, but some others profess to see prospects for a more realistic rebel negotiating team.

In view of De Gaulle's desire to have a solution under way by the end of the year, Paris can be expected to sound out the new PAG, regardless of the uncompromising posture of the new leadership. If the PAG is unresponsive, however, or if it delays too long in resuming

negotiations, he may proceed with establishment of a provisional executive authority in Algeria without rebel participation. This would be aimed at arranging an early referendum which could form the basis for any later moves to regroup or partition. Meanwhile, the chief straws in the wind are seen in the French cabinet reshuffle on 24 August, in which a secretary of state for repatriates was created and the former Ministry of the Sahara was downgraded to the status of a secretariatship. Secretary for Repatriates Boulin has already announced that when parliament reconvenes, the government will propose a "framework law" involving large credits for repatriates.

The American Embassy in Paris, in an assessment of De Gaulle's over-all position last week, commented that none of the chief opponents of his Algerian policy--the Algerian rebels, the army and European settlers in Algeria, and rightists in metropolitan France--had yet been won over to it; the embassy pinpointed the army as still the key element with which he must reckon as he continues pressing toward an early solution.

In this regard, the absence from recent Defense Committee meetings of the chief of staff for National Defense, General Jean Olié, has been linked to reports that he has disagreed with De Gaulle over Algerian policy.

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Should Olié resign or be relieved soon for any cause, De Gaulle would probably have difficulty replacing him with another senior officer both loyal to himself and acceptable to the army.

The US army attaché in Paris has also noted reports that military representatives at the Defense Committee meeting which decided to move a second division--the Seventh Light Armored--from Algeria to Europe not only opposed this

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move but recommended the return to Algeria of the division moved to Europe last month. The

Seventh Light Armored unit reportedly will be moving on 10 September.

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LAOS

The Soviet delegates at Geneva have referred to the drafting committee a number of controversial items over which the US delegation had expected more lengthy argument. There has been no indication, however, that the bloc will make any substantive concession on the basic issue of whether or not the International Control Commission (ICC) is to be given sufficient power to accomplish its mission. Moscow's attempt to appear reasonable on the matter of controls may be an effort to encourage the West to exercise a greater restraint on General Phoumi and any independent military action the Vientiane leader may have in mind. The USSR probably also feels that its flexible attitude at this time will make it more difficult for the West to refuse agreement on other matters of concern to the bloc; e.g., retention of Pathet Lao forces until elections are held.

The opposing factions in Laos still seem far apart. Souvanna Phouma, in an interview on 27 August with French Ambassador Falaize, proposed a list of seven individuals who, with himself, should constitute the "neutralist" center of any new government. The list included the extreme leftist Quinim Pholsena, the opportunistic Pheng Phongsavan, and five relative nonentities. There is some possibility that this list represents Souvanna's initial bargaining position, and that when and if serious negotiations begin on composition of a new government, he may be willing to consider substitutions drawn from stronger and abler moderates now giving nominal support to the Boun Oum government.

Phoumi, meanwhile, is becoming increasingly more open in his expressions of distaste for Souvanna and disinclination to serve under him in a coalition government. He reiterated to Ambassador Brown re-

cently that the Vientiane government had just about decided Souvanna would be unacceptable as premier, since it was felt a government under him would simply be an instrument of the Pathet Lao.

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The divergence of views among the opposing factions is reflected in the continuing impasse in the Namone talks on formation of a government and negotiation of a detailed cease-fire instrument. The question of who should be premier has been bypassed for future negotiations, in view of the irreconcilability of the government's position--that the King should have some freedom of choice in naming a premier --with the insistence of the Pathet Lao and the Souvanna group that only Souvanna's name should be submitted.

There has been a slow but steady increase in the number of incidents between the opposing military forces, which continue to prepare for the possible resumption of hostilities. Phoumi over the week end went to Hue for talks with South Vietnamese military leaders. The South Vietnamese authorities are said to have promised to make available immediately to Phoumi an infantry regiment and a 105-mm. artillery battery to help defend central and southern Laos. These troops would ostensibly be incorporated into the Laotian Army. South Vietnam promised to reconsider Phoumi's request for a whole light infantry division in January 1962.

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CONFIDENTIAL**CURRENT INTELLIGENCE WEEKLY SUMMARY****CUBA**

Cuban Minister of Industry Che Guevara, on his return from the inter-American economic conference in Uruguay, asserted that the US failed to achieve its major objective there, that of "providing the advance payment for support against Cuba." The conference, he concluded, "eliminated the possibility of isolating Cuba." Colombian Foreign Minister Turbay, a leader in Latin American consultations looking toward collective action to isolate the Castro regime, told the American ambassador in Bogota on 25 August that he is sounding out other Latin American governments to ascertain if there has been any "chipping away of resolve" for action against Castro.

President Dorticos left Cuba on 29 August as head of an 18-man delegation to the conference of nonaligned nations in Belgrade. After that meeting he is scheduled to make state visits to the USSR, Czechoslovakia, and Communist China.

The regime's concern over growing shortages and economic dislocations was reflected in the three-day "National Production Conference" which opened in Havana on 26 August. The meetings were billed as sessions of "criticism and self-criticism" to correct the difficulties hampering the economy. Guevara delivered a characteristically frank address, admitting that "acute" shortages of spare parts have "adversely affected" production. He called for more coordination among the minis-

tries and criticized his own ministry for "too much bureaucracy."

Guevara also criticized waste in the armed forces and "the tendency to keep some of the militia under arms when they would be more useful in production," an issue which on at least one previous occasion had led to disagreement with Fidel Castro. Castro responded with a "clarification," explaining that the "constant threat of armed aggression" requires the mobilization of the people. He agreed, however, that "the military should take into account the problems of production."

The decree convening the "production conference" was the first to be signed jointly by the government and the national directorate of the Integrated Revolutionary Organization (ORI), the Communist-led mass "political party" being organized throughout the country. The ORI thus appears already to be evolving toward a relationship with the state comparable to that of Communist parties in the bloc.

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CONFIDENTIAL**CURRENT INTELLIGENCE WEEKLY SUMMARY****BLOC OIL EXPORTS TO THE FREE WORLD**

Soviet bloc oil exports to the free world--Moscow's major source of foreign exchange--continue to rise sharply. During the first half of this year they amounted to about 13,000,000 metric tons; if this rate continues, total petroleum exports for 1961 should reach 26,000,000 to 30,000,000 tons, an increase of about 15 percent over 1960.

The USSR supplied about 85 percent of the bloc's oil exports in 1960, Rumania most of the remainder. The ability of the USSR to expand production suggests it will continue both to meet domestic demand and to increase exports--particularly of crude oil--to the free world. By 1965, the bloc may have as much as 50,000,000 tons available for export annually--twice the amount shipped to the free world in 1960.

The composition of bloc POL exports continues to reflect the relative increase in the supply of crude oil over refined petroleum products, in keeping with the demands of the free world oil markets. In 1960, crude oil accounted for more than 40 percent of the bloc's exports; this year the figure should reach 50 percent.

Bloc oil is exported to about 30 free world countries.

FREE WORLD IMPORTS OF BLOC PETROLEUM 1960
(METRIC TONS)

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	Imported from Bloc (1,000 metric tons)	Percent of Total Consumption
NATO		
Belgium	452 *	6.2
Denmark	134	2.5
France	1,208	4.4
West Germany	2,826	9.5
Greece	930	40.4
Iceland	335	83.8
Italy	5,228 *	17.5
Netherlands	1,341 *	12.5
Norway	262	7.2
Portugal	49	3.1
United Kingdom	175	0.4
Total	12,940	
OTHER EUROPEAN COUNTRIES		
Austria	1,108	38.2
Finland	2,280	95.0
Sweden	1,900	15.7
Switzerland	50	1.2
Yugoslavia	335	na
Total	5,693	
MIDDLE EAST AND AFRICA		
Algeria	53	2.6
Guinea	16	na
Lebanon	93	10.3
Morocco	47	4.7
Tunisia	15	3.0
United Arab Republic		
Egypt	1,661	34.2
Syria	272	28.6
Total	2,137	
ASIA		
Afghanistan	50	na
India	22	0.3
Japan	1,218	4.2
Total	1,290	
LATIN AMERICA		
Argentina	10	0.1
Brazil	120	0.9
Cuba	1,970	43.3
Uruguay	87	6.0
Total	2,187	
GRAND TOTAL	24,267	

* Includes petroleum transhipped to other free world countries.

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Burma, Turkey, and Spain were added to the list this year. European countries, mainly members of NATO, take more than three quarters of all bloc petroleum exports. Only in Finland, Iceland, and Greece, however, do these imports account for a significant amount of domestic consumption. Bloc oil sales to the industrial countries of Western Europe and to Japan--about \$360,000,000 in 1960--are used primarily to finance purchases of capital goods and equipment required for the fulfillment of Moscow's seven-year economic development plan.

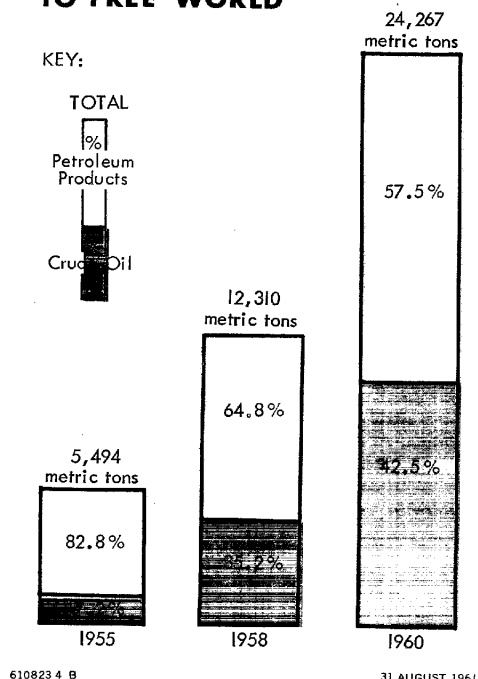
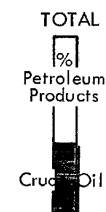
The bulk of bloc petroleum exports to underdeveloped countries goes to Cuba and the UAR. Since mid-1960, the bloc has been the sole source of Cuban imports of POL, with about 4,500,000 tons scheduled for delivery this year.

Recent reports concerning difficulties in the distribution of Soviet petroleum products to several widely separated areas apparently reflect internal Soviet transportation problems, caused chiefly by a shortage of tank cars. In addition, the oil supply difficulties probably were aggravated by the demands placed on the transportation system in order to meet the POL

**BLOC PETROLEUM EXPORTS
TO FREE WORLD**

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requirements called for by the Soviet harvest and shipping on the Northern Sea Route, both of which now are at their highest levels. (Prepared by ORR)

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PEIPING ALLEGES US TRYING TO PROVOKE ARMED CLASHES

The Chinese Communists have expanded their routine propaganda blasts against American "provocations" during the past two weeks into a concert of charges that the US is engaged in an intensive military build-up in the Far East and that it hopes prior to the UN vote on the Chinese representation issue to provoke Peiping into armed clashes in an effort to demonstrate Chinese bellicosity and aggressiveness. In its charges, Peiping has taken particular note of alleged US military deployments in the Taiwan Strait. American press reports that the strengthening of US forces in the area is designed to counter any Communist plans for a diversionary venture in connection with the Berlin crisis have been labeled "fantastic" by Peiping, which calls instead for "vigilance against the US plot."

The Chinese could well have anticipated some stiffening of American forces in the area in the wake of the Berlin crisis, and their current propaganda campaign may be an effort to capitalize on the US action in such a manner as to add considerable new "evidence" to their line that the US is engaged in "aggression" against them. Peiping may also be trying to lay the foundation for blaming the US for any Sino-American clash--either one that Peiping itself plans to initiate or one that it conjectures the US might provoke in order to capitalize on the current low morale and economic difficulties of the Chinese populace.

In its propaganda on the alleged US plot, Peiping is not

at present charging the Nationalists with complicity. The Communists even passed up a chance to include Taipei in their accusations following the downing on 2 August of a Chinese Nationalist reconnaissance plane by Communist antiaircraft fire.

To date, all of Peiping's allegations concerning US "provocations" have been tied to the alleged US hope of discrediting Communist China before the UN session, suggesting that the Chinese have given at least some thought to the advisability of avoiding aggressive displays prior to the UN vote. A Peiping broadcast of 24 August cited a number of American press reports on the US plans, among them a statement that US officials believe an intensive resumption in Communist shelling of the offshore islands would result in a "definite failure" for countries advocating Peiping's "immediate admission" to the UN.

Current Chinese Communist statements concerning the UN reveal a greater interest in the outcome of the vote than the regime usually displays--possibly because the Chinese feel the issue may be headed for a showdown at the coming General Assembly session and wish to do what they can to influence the outcome. Peiping doubtless hopes its demands for a UN seat will receive a boost on the eve of the General Assembly session in the form of an endorsement by the conference of nonaligned nations at Belgrade. In communiqués following their recent visits to China, both Indonesia's Sukarno and Ghana's Nkrumah called for Peiping's admission to the UN. 25X1

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CONSTRUCTION SLUMP IN COMMUNIST CHINA

The slowdown in construction activity first noted in China during mid-1960 has continued through at least the first half of 1961. Current delays and cutbacks suggest little chance of a recovery this year to the high levels of the "leap forward" period. Although there is considerable evidence that projects have been delayed or suspended, the lack of the usual economic statistics makes it difficult to estimate the magnitude of the retrenchment. This setback in Peiping's construction effort will adversely affect industrial production and economic growth over the next few years.

a marked downturn in the rate of construction, including the apparent cessation of work on many partially completed projects. Growing shortages of construction materials contributed to work stoppages and resultant failures to meet ambitious plans.

Accumulation of such difficulties in late 1960 was sufficient to cause the regime to retreat openly from its "leap forward" program and institute a policy of retrenchment for 1961. The central committee plenum in January ordered that the scope of capital construction be reduced and more attention paid to raising quality standards and filling gaps. There are indications that, shortly after this decision, work on a variety of projects throughout the country came to a virtual standstill.

The poor performance in agriculture in 1959 and 1960, reducing the ability of the regime to pay for imports of machinery and equipment for installation in new or planned projects, was an important factor in a reduction in capital investment for 1961. Poor harvests also led the government

to pull labor away from construction projects in order to boost efforts in agriculture.

The many construction projects of peripheral value started during the "leap forward" period put a heavy strain on Peiping's resources. Transport bottlenecks inhibited the smooth flow of materials; machinery in construction materials plants was not adequately serviced; and an acute shortage of raw materials, fuel, spare parts slowed construction work throughout the country. Shortages of building materials, noted as early as mid-1960, worsened during the balance of that year and continued into 1961. In addition the widespread food shortages reduced the efficiency of labor and, in some cases, impaired the physical ability of the workers to carry a full workload.

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The withdrawal of Soviet technicians probably had its most immediate effect on construction by disrupting the installation of machinery and equipment in some Soviet aid projects. The continued absence of these specialists will particularly affect the designing and installation phases of complex projects such as those in the defense industries, electronics, and atomic power. There is little doubt, however, that the Chinese would have had to cut back their construction program irrespective of the departure of the Soviets.

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YUGOSLAVIA'S NEW CONSTITUTION

The preparation of Yugoslavia's new constitution is apparently proceeding on schedule. According to Edvard Kardelj, the regime's top ideologist and chairman of the commission charged with writing the document, a draft will be submitted late this fall to parliament, which probably will approve it before dissolving prior to the national elections next April. Generally, the new constitution will formalize the changes made in the Yugoslav system since the present constitution was last revised in 1953.

Although Kardelj in an early August press interview attempted to limit discussion of the new constitution to general guide lines, he gave enough details to suggest that it is likely to engender some confusion and opposition. Representatives to parliament will no longer be elected on a geographic basis but on the basis of still undefined economic criteria. There will probably be resistance in some circles to a projected provision limiting elected terms of office. No one will be allowed to serve two consecutive terms in parliament or to be a member of the Federal Executive Council (cabinet)--with some exceptions not yet decided--for two consecutive election periods. To ensure some continuity, half the number of deputies will be elected every two years.

The regime apparently believes any immediate disadvantages will be offset by the long-run benefits derived from allowing more people to hold office. Such compulsory turnover would facilitate

the promotion of talented younger officials. The regime probably also expects to be able to exercise greater control over the selection of deputies, most of whom now will be chosen from candidates nominated by local government bodies. These local bodies are more vulnerable to federal economic and political pressures than SAWPY, the mass political organization which has nominated candidates in the past.

The new constitution will not be favorably received in either the East or the West. Kardelj has called the document "another big step in the implementation of the program of the League of Communists of Yugoslavia"--a program which Moscow only recently again attacked as the fullest existing expression of "revisionism." The constitution will touch on such concepts as "the withering away of the state," workers' councils, and economic planning, on all of which Belgrade and Moscow disagree. Kardelj also stated that there will be a chapter on the "relations which ought to evolve between socialist countries."

The West will find alien and unacceptable the basic concept of the Yugoslav constitution that man has rights, not by virtue of being a citizen, but only by direct participation in the economic life of the state. Westerners will also find repugnant Kardelj's assertion that "certain revolutionary restrictions of the so-called political rights are still indispensable"; i.e., the constitution will neither extend civil rights in Yugoslavia nor presage a weakening of the secret police.

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CAMEROUN

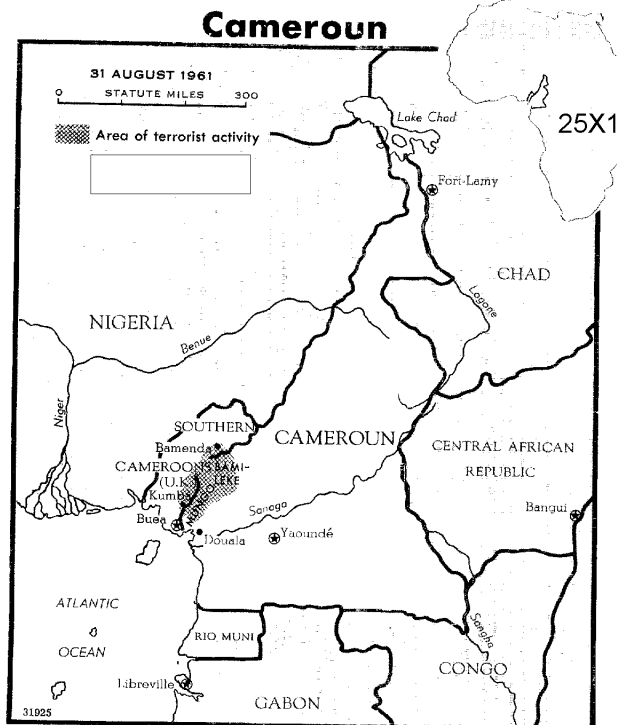
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The federation on 1 October of the British trust territory of Southern Cameroons and the adjoining former French trust area, now the Cameroun Republic, will at first be only a paper union in many respects. The integration of many normally federal activities will be delayed because of the great difference in the two areas, and the two existing governments will continue to function. President Ahidjo of the former French area will become federal president, Premier Foncha of Southern Cameroons vice president.

A federal assembly will include 40 deputies from the Cameroun Republic and 10 from the smaller British area. Control of police is to be a local function; control of the armed forces and responsibility for security, however, will fall to the federal government. The talks between leaders of the two areas on details of the federal operation have been smoother than expected.

The principal question mark is whether the Cameroun security forces, which become the federal army, can successfully combat the long-standing terrorism of the Communist-influenced Union of Cameroun People (UPC), which sees Ahidjo as a French "puppet" whom it hopes to overthrow. Ahidjo now has two French-trained light infantry battalions totaling 1,500 men; a third is to be ready by 1 October. He also has a gendarmerie of 3,500 and a special militia of 2,000 raised to control the troublesome Bamileke tribal area, where the UPC has been active. There is a French force of 1,200 in the Cameroun Republic, but Ahidjo and the French are reluctant to use it.

The only military force in Southern Cameroons--a British battalion--is scheduled to pull out by 1 October, and be replaced in the area by one of the three Cameroun battalions.



UPC terrorist activities, endemic in the area since 1955, have recently been stepped up in both the republic and the trust territory; a further upsurge may occur even before 1 October. Recent forays by the British forces against the terrorists, who form the so-called Kamerun Army of National Liberation (ALNK), have revealed greater coordination between bands, the presence of Peiping-trained leaders, some Czech arms, local armories producing crude firearms, and eight to ten ALNK camps along the border. Total ALNK strength is estimated at 1,000-3,000, and UPC exiles are active in Conakry, Accra, Casablanca, and Cairo.

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CHILE

President Alessandri, faced with strikes involving about a fourth of Chile's total labor force as a result of the wage policies of his economic stabilization program, has at least temporarily strengthened his position by bringing the Radical party, the country's large center party, into his rightist coalition government. The government has placed Santiago and other important industrial areas under military rule.

The Radicals received the cabinet posts of foreign relations, economy, agriculture, and public health. In announcing the new cabinet on 25 August, the President said he wanted to start immediate and drastic reforms in the agrarian, tax, and educational fields as laid out in the Punta del Este conference. Until recently Alessandri had been unable to win Radical support because Conservative and Liberal backers of his government were opposed to the projected reform measures.

The Radical party's entrance into the government coalition gives Alessandri the strong parliamentary majority needed to hold down wages, although it is likely that compromise wage increases may be granted in an effort to conciliate the workers. He may still, however, face concerted and violent opposition to the stabilization plan. The Communist-dominated leadership of Chile's principal labor confederation, although it has little influence with most individual unions and federations, can be

expected to exploit the present unrest.

Communist spokesmen in Congress and elsewhere have also been campaigning increasingly against private foreign investments, particularly the US-owned copper companies, and have been joined in this by various nationalistic right-wing elements. Proposed government legislation for the exploitation of copper, Chile's principal export, is apparently designed to accommodate these political pressures.

This apparent shift in government policy seems to stem chiefly from a rise in nationalism, frustration over the lack of economic progress, rightist resentment over US stipulation that socio-economic reforms are a prerequisite for participation in the Alliance for Progress, and heightened interparty rivalry. The minister of mines suggested to US Embassy officials in Santiago on 21 August that the companies should reorganize to become Chilean rather than US companies in the interest of their public and political relations. The next day the Chamber of Deputies voted unanimously to appoint a committee to determine whether the US companies' methods of doing business serve "the best interests of Chile."

In a separate development, the American copper companies may be forced to fill a Chilean Government contract now under negotiation to sell 60,000 tons of copper--about 10 percent of Chilean production--to the USSR.

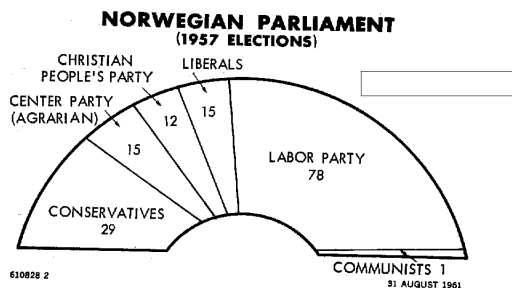
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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****NORWEGIAN ELECTIONS**

Campaigning for Norway's regular quadrennial elections on 11 September has centered on the domestic record of the Labor party, which has governed without interruption since the war. It may suffer some losses but is expected to retain its majority in the 150-seat chamber.

The country is generally prosperous, and most Norwegians appear reasonably satisfied



with the government's social welfare and economic expansion programs, despite high taxation and extensive governmental regulations. There also appears to be widespread support for the government's policy of combining NATO membership and a modest defense effort with exclusion of foreign troops and atomic weapons from Norwegian soil. Labor's prospects are further enhanced by the inability of the divergent opposition parties to agree on any alternative program or to cooperate, except in a few instances, in electoral alliances.

There is, however, latent neutralist and pacifist sentiment in Norway which is being exploited by the new Socialist People's party, a left-wing group which was formed in

April largely by dissident Labor party intellectuals and is attracting some support among Liberals in the Oslo area. The new party is seeking to capitalize on the widespread concern over an atomic war involving Norway and has denounced as equivocal the the government's position of reserving the right to review its declared policy against nuclear weapons in Norway. The Communists, who received about 3.4 percent of the popular vote and one mandate in parliament in the 1957 election, are not expected to improve this position.

Prime Minister Gerhardsen, in his initial election speech on 20 August, implicitly recognized the strength of pacifist sentiment in Norway by stressing the need for negotiation on the Berlin issue. Gerhardsen's subsequent statement that Norway's joining the European Economic Community would be considered after the elections reflects in part a desire to pacify those Norwegians who dislike close association with Germany and France.

In view of the proportional representation system and Labor's slim margin in several electoral districts, the governing party might lose its absolute majority, but it would still be the dominant element in any postelection government because of the disunity among its opponents. Should the Socialist People's party make a strong showing--indicating a resurgence of neutrality and pacifist sentiment any post-election government, whether Labor or coalition, would be influenced to proceed more cautiously in defense questions, and even modest increases in defense appropriations would probably be precluded.

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ITALY

The instability of Italian Premier Fanfani's minority Christian Democratic government has been highlighted by a new controversy touched off in mid-August by Giuseppe Saragat, Social Democratic leader. Saragat on 18 August threatened to withhold his support and thus bring down Fanfani. He demanded formation of a center-left government dependent on the support of Pietro Nenni's Italian Socialist party (PSI).

Only a month earlier, Saragat, in debate over a vote of confidence forced by the PSI, had argued that it was not mature enough to participate in a coalition government. His about-face is probably in part a tactical move to quiet dissatisfaction in his own party over his mid-July statement, as well as a bid for broad Socialist support in next April's presidential election.

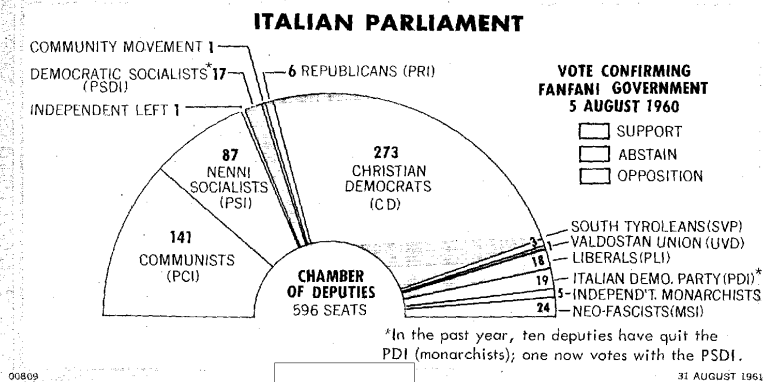
His more basic concerns may be that continuing to support a government of the center might reduce his party's chances in the next general elections, and that the Christian Democrats, unless he takes the initiative, might bypass him and

seek their own modus vivendi with the PSI--as hinted in a recent speech by Aldo Moro, secretary general of the party.

For the first time Saragat has rejected the Christian Democrats' argument that the international situation requires the parties supporting the Italian Government to remain loyal, and he cites the similarity of Nenni's and the Italian Government's positions on Berlin as indicating the eligibility of the Socialists to broaden the government's majority.

The small Republican party supported Saragat's call for accommodation with the PSI. However, Liberal party leader Malagodi, who periodically threatens to withdraw support from the government, responded quickly to Saragat by asking for a full-scale parliamentary debate--which could well lead to a vote of confidence--probably hoping either to call Saragat's bluff or to push him and Fanfani into a precipitate attempt--like that of April 1960--to form a center-left government.

The US Embassy in Rome believes that the "situation will



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be calmed." Parliament, now in summer recess, is not scheduled to reconvene until late September or early October. In any case, a vote of confidence is not likely before the 23-25 September meeting of the Democratic Socialists' central committee. Fanfani would probably like to avoid such a vote until after the Nenni Socialists' central committee meeting on 1 October and the Christian Democrats' own party congress this December.

President Gronchi, however, may be tempted to cite the current uncertainty as an excuse to dissolve Parliament. National elections are not mandatory before 1963, but Gronchi probably believes that a new parliament might be more likely than the present one to re-elect him next spring. Unwillingness to face national elections or aid Gronchi, however, has thus far kept all the government's supporters in line.

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SPECIAL ARTICLES

RECENT TRENDS IN SINO-SOVIET RELATIONS

The meeting of world Communist parties in Moscow in November 1960 closed one phase of the Sino-Soviet dispute--that of open and violent recriminations. However, the decisions reached there and the resolution adopted have not led to any fundamental resolution of differences. The relationship between the two powers since November has been an uneasy and erratic one, cooperative at some times and places, competitive at others.

The Ideological Argument

Immediately after publication on 6 December of the Moscow Declaration which emanated from the November meeting, Soviet and Chinese media began to offer tendentious interpretations of it. By late January both Moscow and Peiping, without resorting to polemics, had reaffirmed their positions on virtually all the issues of strategy which had been in dispute before and during the conference.

The principal role in reaffirming, amplifying, and clarifying Soviet positions was played by Khrushchev himself, in his report on 6 January to a party audience in Moscow. He is reported to have criticized the Chinese heavily--to have said that they were "stupid" but that it was necessary to reach an agreement with them. The published version contained only a defense of Soviet views without vituperation.

Since then, the Soviet party has been restrained in its treatment of disputed questions of strategy. In the first seven months of 1961, Moscow's line

has continued to differ significantly from Peiping's in references to the destructive consequences of nuclear war and the possibility of averting it, in maintaining the need for "peaceful coexistence," in reiterating the view that negotiations with the West can be fruitful, in agitating for "universal disarmament" and a "world without arms and without wars," in holding to the doctrine that Communist parties throughout the world should cooperate with "democratic" forces for limited "democratic" aims. However, none of these subjects has been treated polemically. The trend during this period, moreover, has been toward a more militant propaganda stance toward the West.

The Chinese party in the same period has also found occasion to reaffirm--also without argumentation--all of its own positions. Several articles have explicitly reaffirmed the validity and continuing importance of Peiping's Lenin Anniversary articles of April 1960, which set forth systematically its differences with Moscow on world Communist strategy. Chinese views on the balance of power were reaffirmed in a much-advertised article on "not fearing ghosts," in comment on the failure of the Cuban venture as showing again that the United States was a paper tiger, and in assurances to various visitors that the "east wind" was prevailing. The Cuban venture and the anniversary of the Korean war were used to argue that the Chinese party had been right in the full range of its positions on local wars. The fighting in Algeria and Angola served as texts on the importance and example of "liberation" wars and the need to support them.

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Peiping's audience has often been reminded of the immutably evil character of the United States and of Mao Tse-tung's estimate that the Kennedy administration is "even worse" than its predecessor. In joining the Soviet quarrel with Nasir in May and June, Peiping in effect reminded Moscow that the Chinese had for two years been contending that the UAR leader was a bad risk and that aid to him would harm the cause of the deserving Arab Communists. The anniversary of the Paris Commune was the occasion for emphasizing the need for armed struggle in gaining and keeping power, and Japanese Communist visitors were praised for their role in leading violent mass actions in the past two years.

In its latest pronouncement --the draft of the new Soviet party program, released on 30 July--Moscow has followed the recent pattern of standing firm on most of the positions earlier disputed with Peiping while retreating somewhat on others. Despite the minor modifications which bring the Soviet viewpoint closer to Peiping's in certain instances, the Soviet program poses a dilemma for the Chinese leaders. They have not yet originated any comment on it, although they have reprinted a TASS summary.

Foreign Policy Coordination

In addition to this basic one, the Chinese apparently made

two other decisions during or soon after the Moscow conference which are of importance in judging bloc foreign policy since that time. Having been heavily criticized at the conference for openly attacking the Soviet conduct of foreign policy (rather than attempting to negotiate differences in bilateral meetings), the Chinese apparently agreed not to resume such attacks. Although there is evidence that some of Moscow's foreign policy initiatives in 1961 have not had Peiping's wholehearted approval, there has been no recurrence of its vitriolic comment on Soviet moves.

Further, the Chinese seem to have agreed at Moscow to another attempt by Khrushchev to probe the intentions of the West--particularly those of the new US administration--through personal confrontations. This is not to say that the Chinese were agreeable to the kind of unorthodox activity that characterized Khrushchev's approach to President Eisenhower, or even that they endorsed a new initiative, but they apparently promised not to attempt to scuttle any new negotiations while they were being launched.

Although the concept of "peaceful coexistence" was held high in the Moscow Declaration and the way was left open for new negotiations with the West, Khrushchev's flexibility in operating within these general policy lines was constrained by the bitter condemnations of Western (particularly American) "imperialism" and the emphasis on the need to support anticolonial actions in underdeveloped areas.

The contradictions inherent in Moscow's support for revolutionary situations while it attempted to carry forward negotiations with the West became apparent almost immediately. During December 1960 and January 1961, the Soviet Union, through propaganda and diplomatic feelers, advocated an early meeting between Khrushchev and the new US President. At the same time, however, the rapidly developing situation in Laos gave the Soviet

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Union an opportunity it could not afford to miss. By aggressively pursuing common bloc aims in Laos, the Soviet Union deterred the Chinese from charging Moscow with departures from the December 1960 declaration (as Peiping had persistently done with regard to the November 1957 declaration), but at the same time it reduced the possibility of early and friendly meetings with the United States.

The Soviet Union's tough tactics continued through the next six months. In February, Patrice Lumumba's death brought increasingly violent propaganda attacks on UN policy and on Secretary General Hammarskjold. In March, the USSR virtually ended any chance of agreement in the nuclear test ban talks by introducing its "troika" concept. In April, in the wake of the Cuban invasion which found Khrushchev offering to support Castro "with all possible aid," the latest phase of the Berlin crisis developed. By the time Khrushchev met with President Kennedy in June, there was little possibility that the result would be a "spirit of Vienna."

Thus, while the Soviet Union has continued throughout this period to maintain in abstract doctrinal terms that the horrors of nuclear war are such that "peaceful coexistence" is the only answer, that war is not inevitable, that the peaceful road to power is preferable to the violent, its specific actions have given the Chinese little to complain about.

The Chinese, while similarly maintaining their doctrinal positions, have generally supported all major Soviet diplomatic moves during 1961. In Laos, the bloc's principal offensive during the first half of 1961, there have been some indications of possible Sino-Soviet disagreement over the timing and terms for a settlement, but both sides have been able to make adjustments in the interest of a coordinated bloc policy.

The Chinese have also welcomed Khrushchev's challenge to the structure of the UN. Last fall, they not only failed to endorse his activities at the General Assembly but chided him for being pushed around by the United States. During 1961, however, Peiping has supported the Soviet line at the UN and has described it as "fruitful" in exposing the aggressive nature of imperialism. Khrushchev's conduct of the Berlin crisis has particularly pleased the Chinese, who have consistently supported the Soviet deadline on a Berlin settlement and have emphasized the militant features of the Soviet premier's statements.

The only Soviet initiative in 1961 to which the Chinese have been cool was Khrushchev's meeting with President Kennedy. Peiping has remained concerned about such approaches; last January's Foreign Ministry briefing noted that the USSR was "anxious" to improve its relations with the US and that China must be particularly on guard against a Soviet-Western "detente." Peiping's public response to the talks at Vienna, therefore, was quite reserved.

Relations in Other Fields

Thus far in 1961 the Sino-Soviet economic relationship has seemed correct, but decidedly cool. Apparently content with the damage done by the withdrawal of its technicians last summer, Moscow is not known to have taken additional measures to contribute to China's economic difficulties. Nor has it done anything, on the other hand, to assist.

The withdrawal of Soviet technicians disrupted a program of Chinese industrialization for which the USSR had promised the necessary machinery, blueprints, and experts to build and equip 291 major industrial plants by 1967. Only half of these plants had been completed when the technicians left. Since then, the program has been seriously slowed down, especially in the fields of military industry and atomic energy, which depended heavily on the Soviet technicians.

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The Soviet aid program-- or what remained of it--was the chief topic of the "economic" and "technical-scientific" agreements signed in Moscow on 19 June 1961. The talks leading to these agreements had been going on since February, apparently with meager results. Neither the communiqué signed by both parties nor Chinese commentary on the agreements mentioned Soviet aid projects or acknowledged that Soviet aid still exists in any form. Soviet officials insist that aid continues, but they have not elaborated.

There is a paucity of indications of Soviet military deliveries to China thus far in 1961. Although the USSR has continued to deliver petroleum products, no shipments have been noted of major equipment, such as military aircraft, naval vessels, army trucks, tanks, or artillery.

Apparently many of the Soviet scientists in China were withdrawn along with the economic and military specialists but in proportionately fewer numbers. Soviet assistance in scientific research and development activities appears to have continued at a reduced level. The program for training Chinese science students in the USSR (which had shifted to graduate students only in 1957) is still going on, as is that for purchasing bloc scientific and medical instruments for use in China. Both programs, however, have been limited by foreign exchange problems.

With respect to the military research programs, however, Soviet aid has been drastically reduced if not halted. Moscow's assistance to Peiping's atomic energy program apparently has not been resumed, in terms of either engineers or material aid.

Chinese weapons development and production programs have apparently bogged down in 1961 for lack of Soviet cooperation.

Eastern Europe and the Dispute

The Sino-Soviet competition for influence among members of the bloc has continued to be best illustrated in Albania, now privately described by Eastern European leaders as "Moscow's Cuba." Immediately following the Moscow conference, East German party chief Walter Ulbricht publicly criticized Tirana's delegation for its behavior at Moscow, and Albanian party boss Enver Hoxha soon replied that he would not bow on "matters of principle."

During the Albanian party congress in February, Hoxha beligerently reaffirmed the party's pro-Chinese positions, and the congress was the occasion for another confrontation of the parties along the lines of the Moscow conference. In March, the same month that the Chinese agreed to provide Albania with \$125,000,000 worth of economic aid, an Albanian trade delegation obtained credit in the European satellites but apparently did not even approach the USSR.

An Albanian show trial of "spies and traitors" last May was in fact an anti-Soviet demonstration. It was followed by Soviet evacuation of the important submarine base at Vlone and by indications that all Soviet military forces might be leaving Albania. Moscow also ordered the Albanian military attaché and certain Albanian students to leave the USSR, and Tirana expelled the Soviet military attaché and some military advisers. Albania may not be fully participating in the activities of the Warsaw Pact or of the bloc's Council for Mutual Economic Assistance (CEMA).

The leaders of all other Eastern European states have continued to support the Soviet party in the dispute, have taken measures against factionalism in their own parties, and have exerted pressures on the Chinese and especially the Albanians.

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These pressures have included attacks by party leaders on Chinese and Albanian positions, censorship of news about China and Albania, restrictions on both official and unofficial contacts, and a reduction--but not a cessation--of trade and technical aid.

The Asian Satellites

Sino-Soviet competition for influence in the three other Asian Communist states--two of which, North Korea and North Vietnam, were equivocal at the Moscow conference--has seemed to increase since the conference. Although Soviet and Chinese policies toward these states have complementary as well as competitive aspects, the impression has been that each side is acting quickly to match the initiatives of the other.

Last December, Moscow provided North Vietnam with \$112,000,000 in loans and grants for the new economic plan. The following month, Peiping gave Hanoi a loan of \$157,000,000. In late 1960, Moscow had topped a Chinese credit of \$100,000,000 to North Korea by canceling \$190,000,000 of Pyongyang's debt to the USSR.

On 6 July 1961, Moscow and Pyongyang concluded a mutual defense pact. In an apparently hasty decision, the Chinese invited Kim Il-sung to stop over on his way home from the USSR; he was given a lavish welcome, and on 11 July Peiping and Pyongyang signed a mutual defense pact virtually identical to the one Kim had just signed in Moscow. Like the latter accord, the Peiping-Pyongyang pact mentioned economic aid, suggesting a possible Chinese intention to match the aid Kim was promised in Moscow.

The Chinese have not attempted to match the most recent (April 1961) Soviet aid to Outer Mongolia. A Chinese credit of \$50,000,000 to Ulan Bator in 1960 was soon topped by a Soviet offer three times

as large, and the Mongolian party lined up solidly with the Soviets at the Moscow conference and has continued to do so; the Chinese now may feel that Mongolia is a bad investment.

Nonbloc Parties and Fronts

The Chinese challenge to Soviet authority in the world Communist movement was a principal reason for the convocation of the Moscow conference in November 1960. Prior to that conference, both Moscow and Peiping lobbied strenuously for support among other Communist parties. In contrast, thus far in 1961 there has not seemed to be an acute competition for influence with the nonbloc parties. The Soviet and Chinese parties have appeared instead to be strengthening their positions with the parties which they already dominated, rather than moving aggressively to try to capture the followers of the other.

The Sino-Soviet dispute on the proper use of the world Communist fronts has apparently continued, however, in the early months of 1961. The Chinese insisted, particularly in meetings sponsored by the World Peace Council, the International Union of Students, the World Federation of Democratic Youth, and the Afro-Asian Solidarity Organization, that the fronts should openly charge US imperialism with the prime responsibility for all current crises and should work primarily to promote militant anti-imperialist, national liberation struggles. They wished to de-emphasize those front campaigns which promoted disarmament and publicized the benefits non-Communists might gain from peaceful coexistence.

Soviet and pro-Soviet participants in meetings of these organizations tried to maintain a certain moderation in the language of resolutions, to avoid undue emphasis on anti-American formulas, and to give priority to appeals for

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struggles for disarmament and peaceful coexistence. However, the Soviets have given greater attention than before to expressing solidarity with anti-colonial and national liberation struggles along lines long advocated by the Chinese.

The clearest evidence of continuing Sino-Soviet rivalry in the fronts has been in organizational developments. In the World Federation of Trade Unions, steps were taken to set up a three-man presidency--a Soviet, a Chinese, and an Italian known to be anti-Chinese. A similar but larger "collective presidency" has for some time existed in the World Peace Council, assuring pro-Soviet control of the organization's programs. In the World Peace Council and the Afro-Asian Solidarity Committee, Chinese members--perhaps frustrated in efforts to dominate the organizations--have avoided participating in the work of the secretariats.

Outlook

Both powers apparently recognized the dangers inherent in the intemperate and open exchanges of last year, and the limited agreements which were reached at the Moscow conference have served to keep direct attacks to a minimum. However, the fundamental problem--that of authority within the world Communist movement--remains unresolved, and each side is apparently determined to maintain its ground. As a consequence, competition can be expected to be most marked in each party's activities within the Communist movement, as each seeks to maintain and expand its support in and among the other parties. This competition will probably be keenest within the Asian par-

ties, where both Soviet and Chinese influences are strong.

The Chinese view the parties of the underdeveloped areas as their natural allies against the developed, European Communism of the USSR and will probably work hard to mobilize this potential on their behalf. China will almost certainly continue its support of Albania--support which may have to be increased if Khrushchev takes further measures open to him to weaken that satellite.

The next big test within the movement will probably come in October, when delegates from all the parties attend the 22nd Soviet party congress, which is to approve the party's 20-year program. The published draft pays a certain deference to "national peculiarities," but it is infused with an authoritarian spirit and is clearly meant to reassert and project forward the proposition that Soviet experience is universally valid. The model of socialism, it says, is to be found in the history of the USSR, and the detailed definition of Communism can be found in the Soviet program itself.

These are propositions the Chinese cannot accept. Their response at the congress may be moderate, but they will try in various ways to limit the applicability of the congress pronouncements to the Soviet party. The Soviets, for their part, will of course seek to have as many parties as possible endorse the theses in a way which stresses their universality. If either the Chinese protest or the Soviet insistence is too strong, it is possible that another international meeting, along the lines of the November 1957 and November 1960 conferences, will take place during or after the congress.

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CONFIDENTIAL**CURRENT INTELLIGENCE WEEKLY SUMMARY****ECONOMIC ISSUES IN THE COMMON MARKET**

When the negotiations open in October on Britain's application for membership, the European Common Market (EEC) will already be facing other issues of vital importance to its future. Ostensibly economic, most of these problems have far-reaching political implications, and several affect basic objectives of the organization. While the EEC has been making notable advances in the last four years, particularly in the field of tariff reductions, these other measures of nearly equal importance have been delayed, and some now have become the subject of major dispute. Should the present six member countries be tempted to delay further because of the impending talks with London, they would risk losing the momentum which is an essential element in the drive for European union.

The Agricultural Problem

The most complex and potentially most disruptive of all these problems is the question of a common agricultural policy. The EEC, unlike the Outer Seven, provides for full coverage of the farming industry, including gradual creation of a single market for farm produce, regulation of competition, and eventual replacement of national with community marketing organizations. Article 43 of the EEC treaty gives the EEC Commission the task of drafting a common policy to achieve these general objectives, but implementation is subject to specific directives issued by the council. Until 1966, such directives require the unanimous approval of the council's national representatives--thereafter, a prescribed weighted majority is sufficient.

Since 1958, Commissioner Mansholt, the responsible EEC official, has been trying to produce a program which would reconcile conflicting national interests with the facts of European agriculture--characterized by wide variations in efficiency, major differences in

price levels, and a panoply of protective devices. The result is a complex plan which, while varying from product to product, relies heavily on the mechanism of variable import levies--in effect, protective tariffs.

These levies would eliminate the difference between import and domestic prices, or, in some cases, differences in producers' costs. In intra-EEC trade, the levies would be progressively reduced and ultimately abandoned as EEC prices became harmonized. For imports from abroad, however, they would be the principal device for supporting EEC prices and maintaining a measure of preference for the Common Market producer. If these prices are supported at a high enough level, competition from abroad could be eliminated--but at the risk of encouraging overproduction within the EEC.

Status of the Mansholt Plan

Despite the initial criticism which greeted it, the Mansholt Plan was endorsed in principle at a council meeting last December, and the commission has drafted detailed programs for many of the products to which it applies. None of these programs has yet been authorized, however, and several basic decisions--such as the criteria for minimum prices--are still outstanding.

The impasse is largely a reflection of the differing interests of the major exporters and importers of foodstuffs within the EEC. The exporting countries--France, the Netherlands, and Italy--have long insisted on principle that, if the EEC established free trade for industrial products only, West Germany would have intolerable commercial advantages. Moreover, as the discontent of the French farmer has flared into violence, De Gaulle has had increasingly pressing political reasons for demanding immediate access to the German market for French farm products.

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Thus far Bonn has done little to meet the demands of its EEC partners. The Mansholt plan would mean an ultimate reduction in German farm prices and willingness to rely on less rigorously protective devices than heretofore. Especially during the campaign for West Germany's national election on 17 September, Chancellor Adenauer has been anxious to mollify his own farmers, who, politically powerful themselves, are supported by commercial interests which feel that a reduction of Germany's food imports from non-EEC countries might lead to a corresponding reduction of German industrial sales outside the Common Market.

Observers generally agree that the only answer in sight is an eventual retreat by Bonn, and the other EEC countries are counting increasingly on a post-election breakthrough. This possibility, however, now has been complicated by the uncertain impact of Britain's and Denmark's bids for EEC membership. The EEC-Danish talks are likely to center on continued access of Danish foodstuffs to the German market. In Britain's case, one of the major obstacles to EEC accession is the problem of amalgamating the Continental system of farm price supports with London's system of deficiency payments. Curiously, both Bonn and Paris are apparently counting on Britain's support. The French feel that London shares their interest in a moderate level for farm prices, while the Germans see Britain as a potential new outlet for French surpluses.

Transitional Problems

Adding both heat and urgency to the farm issue is its close connection with the EEC's problems in moving next January to the second stage of the transitional period. The EEC treaty provided for the establishment of the Common Market over a period of 12-15 years, divided into three stages, each with a "coordinated group of activities which must be undertaken and pursued concurrently." Passage

to the second stage is contingent on unanimous agreement that the "main aims" of the first stage have been effectively achieved. In the absence of such agreement, the first stage would be automatically extended for as long as two years, after which majority opinion could prevail.

Major psychological, political, and economic importance now attaches to the advance to the second stage. At the end of this stage, the EEC becomes "more supranational" through the extension of the majority rule to a greater number of council decisions. Even more important, much of the success of the EEC has been due to its provision of a timetable and to the probability that the actual transition time would be shorter than the minimum period provided for. Reversal of this expectation might well arrest the rapid adjustment of industry to a larger market--one of the most important consequences of the EEC.

This danger is especially real, because in the last few months the EEC's program for accelerating the implementation of the Common Market has become increasingly enmeshed with the same problems which have arisen over the transition to the second stage. Under this program, approved in 1960, the 10-percent reductions in EEC internal tariffs scheduled for last January and next December were both to have been doubled. Added to the 10-percent reductions effected in January 1959, this would mean a 50-percent reduction in intra-EEC tariffs by the end of this year--rather than at the end of 1964 as provided by the treaty.

After considerable controversy, the first doubling has been carried out, but approval of the second now is deadlocked in the EEC Council, with Bonn again a minority of one. West Germany contends that since business conditions are favorable, the 20-percent reduction in tariffs should be carried out as planned--provided it is confined to industrial items. None

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of the other countries is prepared to do this, however. Acceleration, like transition, they say, is contingent on equivalent sacrifices and opportunities--in other words, on common agreement that all the "main aims" of the EEC are being achieved at an approximately equal pace.

Obstacles to Transition and Acceleration

As might be expected, the list of such aims is headed by the agreement on a farm policy, but there are a number of other items also of considerable importance and delicacy.

For example, the EEC treaty confers a general obligation on its members to foster improvement in working and living conditions of labor, harmonize their social systems, and collaborate generally in the "social field." These provisions are so vague and far-reaching that none of the members really expects--or probably wants--their early implementation. Paris, however, which has long maintained that its more costly system of "social legislation" places French industry at a competitive disadvantage, has insisted on the enforcement at least of Article 119, which specifically obliges the EEC countries to "apply the principle" of equal pay for men and women. A working group has been set up to see what can be done to meet the French demand, but agreement seems far from certain.

Italy, too, has cited as "main aims" certain provisions initially placed in the EEC treaty at Rome's behest and intended to provide an outlet in the Common Market for surplus Italian workers. Last March, the EEC instituted a special program to train some 9,000 Italians for work in West Germany and the Netherlands, and in June, after months of debate, regulations were approved looking toward freer movement of workers and eventual creation of a single market for labor. Important though they are, Rome considers these measures

insufficient and is pressing for early agreement on the social security rules--for example, for frontier, migrant, and seasonal workers.

With strong support from the Netherlands, Italy also attaches special importance to the EEC provision for a common transport policy. Rome is primarily interested in easing national restrictions on highway transport, and its demands can probably be met by next December. The Netherlands, however, with its favorable geographic location and its already extensive transport services throughout the EEC, is more concerned with the rules for the general regulation of transportation, the chances for which are probably nil. The relevant treaty provisions in this case are vague; their coverage (e.g., of pipelines) is disputed; and the government interests involved are deeply entrenched.

Monopoly Practices and Cartels

Finally, within the last few weeks Bonn has requested that by the end of the year the EEC reach an agreement on regulations for the control of cartels and the abuse of monopoly positions--rules which have been overdue since last January.

Much of this delay is again attributable to the EEC treaty, which combines a strong statement of anticartel principle with a major loophole and a complete absence of enforcement machinery. For example, the treaty "prohibits" enterprises from taking "unfair advantage" of dominant positions and declares null and void any agreements among them which have as their object the restriction of competition. Mergers and concerted practices are permitted, however, if they contribute to an improvement in the production or distribution of goods or promote technical or "economic" progress. Moreover, pending the issuance of implementative regulations, enforcement is entrusted to the member states--some of which do not have anti-cartel laws.

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As a result of these contradictory provisions, which reflect the equivocal attitude Europeans have traditionally taken toward cartels, discussion of enforcement machinery during the past year has tended to be a dialogue of the deaf. In general, West Germany and the Netherlands support the EEC Commission's proposals which require enterprises to notify the EEC of existing cartels and to seek prior authorization of new ones and which give the commission powers of investigation and enforcement. France leads the opposition, charging that the notification system is unworkable and proposing instead a complaint procedure. Paris wants a wider participation of the member states in the enforcement procedures and apparently also fears that the commission's plan would bear down harder on French cartels than on the "giants of German industry."

The EEC Assembly is scheduled to debate these issues at a meeting in October, and the council will make another attempt to reach a compromise in mid-November. Prospects for any advance at that time are probably still poor, although there have been some signs lately of increased appreciation of the importance of the cartel problem to the EEC. France's influential *Le Monde* recently wrote that what is really at stake is whether "the new world of the Common Market, freed from its customs barriers, now is to be cut up by the frontiers of cartels."

Conclusions and Prospects

The growing conviction of the EEC countries that the Common Market is in fact an attempt to create a kind of new European world may in fact be the basic reason for the relative optimism among EEC observers that in the long run there may be no alternative to agreement on most if not all these issues, difficult though this may be. While the eventual creation of a full customs union is a key feature of the Common Market, its authors fully recognized that it is difficult in a modern industrial

society to operate such a union without proceeding to full economic (and political) unification. In a number of instances, it was impossible to agree in detail on the steps to be taken, so the treaty drafters had to resort to vague statements of objectives.

As tariff barriers have fallen, however, it has become not only more imperative to put flesh on the treaty's bones, but also more difficult for any one member to block an agreement indefinitely. Thus, possibly at midpoint in its transition period and before its central institutions have yet become established, the EEC is already being compelled to grapple with problems which have been among the most difficult in American history--regulation of interstate commerce, enforcement of antitrust legislation, and control of competition in agriculture. However, the creation of new agencies to accomplish these ends would in turn enhance the need for more effective central institutions to control them.

The last few weeks have produced another significant example of this cumulative effect of the EEC and of its importance to the objective of European union. The monetary provisions of the EEC treaty are perhaps among its weakest, no doubt because control over money is the last bastion of national sovereignty. However, only four years after the treaty became effective, EEC Commissioner Marjolin has succeeded in placing on the agenda of the 8 September meeting of the EEC finance ministers Jean Monnet's recent proposal for the pooling of the Common Market's monetary reserves. In Marjolin's view, moreover, a "financial and monetary understanding" should accompany Britain's entry into the European communities. As he and Monnet have noted, the EEC's total monetary reserves now are roughly five times as large as Britain's, the EEC's external liabilities are small compared with London's, and the EEC is now in a position to ease the periodic pressure on sterling by assuming some of its burden of financing world trade.

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