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OFFICE OF REPORTS AND ESTIMATES

TRANSPORTATION DIVISION

11 October 1949

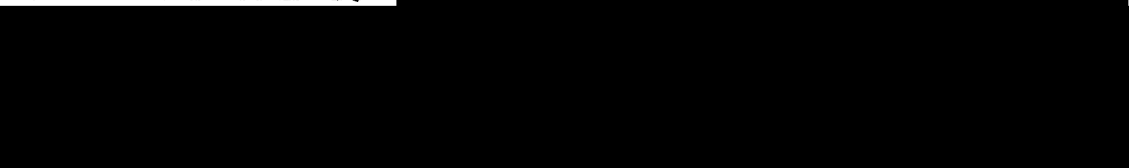
Weekly Intelligence Summary No. 83

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The Chinese Nationalist Government has not indicated whether it will take action against either the US Isbrandtsen Line vessel scheduled to depart from Shanghai shortly or another vessel of the same line which will soon leave Hong Kong with cargo consigned to this Communist port. In view of the rapid deterioration of the Nationalist Government's position, it seems probable that the question of further action against shipping to and from Shanghai will actually be decided by the capabilities and willingness of Nationalist naval units, even if the foreign policy of the Canton Government requires an aggressive enforcement of the "blockade." (Item No. 1, A)

The Department of State has instructed US Embassy, Moscow, to request the aid of the Soviet Government in locating the KIMBALL R. SMITH, a small US-owned cargo vessel loaned by ECA to the Republic of Korea. The vessel is reported by a Communist radio station to have arrived in Chinnampo. With two ECA officials aboard as advisers to the Korean crew, this ship left Pusan, Korea, for Kunsan on 20 September with a cargo of salt. (Item No. 2, B)

Continuation of Egyptian restrictions to prevent movements of petroleum through the Suez Canal consigned to the Haifa refinery may substantially affect the long-range petroleum logistic situation in the Eastern Mediterranean.



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~~DOCUMENT NO. 19  
NO CHANGE IN CLASS.   
 DECLASSIFIED  
CLASS. CHANGED TO: TS, S, C  
NEXT REVIEW DATE: 1980  
AUTH: HR 70-2  
DATE: 3 Dec 79 REVIEWER: 00657~~

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Previous Satellite opposition to a proposed international organization for the operation of refrigerated cars in Europe has been at least temporarily modified by Czechoslovakia's support of a French proposal in a recent ECE working party meeting to call a conference of European railway administrations for the formation of such a company. (Item No. 4, C)

It is evident that as soon as export restrictions on aviation equipment to Yugoslavia are lifted in accordance with the recent US-UK agreement, there will be keen competition in the Western aviation market to satisfy the requirements of this new customer in modernizing its civil air fleet. (Item No. 5, B)

Czechoslovakia is persisting in efforts to reopen an air route to the Middle East, but current overtures are not likely to influence Greece or Italy at this time to relax the effective containment of CSA to the European continent. (Item No. 6, C)

As the result of a successful Iranian air mission to Afghanistan, Iranair will now schedule two round-trip flights per month from Tehran to Kabul. (Item No. 7, C)

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## SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. The Chinese Nationalist Government has not indicated whether it will take action against either the US Isbrandtsen Line vessel scheduled to depart from Shanghai shortly or another vessel of the same line which will soon leave Hong Kong with cargo consigned to this Communist port. Release of two other Isbrandtsen ships which were detained recently on leaving Shanghai (see D/Tr Weekly No. 82) was apparently effected as a result of special circumstances, such as the presence of Korean refugees and cargo consigned to the US Army, which will not necessarily apply to future movements of vessels in and out of the port. The Chinese Nationalists, therefore, do not seem committed to refrain from interference with further shipping activity outside the harbor.

If the Nationalists consider it expedient to interfere further with the Isbrandtsen traffic, they appear to have a strong legalistic argument for the "closure". This position would be strengthened, furthermore, by the surreptitious entrance into Shanghai of the Isbrandtsen vessel now in that port, after it had been intercepted and "advised" not to enter. Contributing to such a Nationalist decision might be the fact that the US Government did not: (a) specifically request release of the two detained vessels; (b) take the position that their detention was illegal; or (c) indicate that it would oppose further Chinese naval interception of vessels which defy Nationalist instructions. In view of the rapid deterioration of the Nationalist Government's position, however, it seems probable that the question of further action against shipping to and from Shanghai will actually be decided by the capabilities and willingness of Nationalist naval units, even if the foreign policy of the Canton Government requires an aggressive enforcement of the "blockade." (Secret)

2. The Department of State has instructed US Embassy, Moscow, to request the aid of the Soviet Government in locating the KIMBALL R. SMITH, a small US-owned cargo vessel loaned by ECA to the Republic of Korea. The vessel is reported by a Communist radio station to have arrived in Chinnampo. With two ECA officials aboard as advisers to the Korean crew, this ship left Pusan, Korea, for Kunsan on 20 September carrying a cargo of salt. The vessel is believed to have fallen victim to a mutinous crew and fears have been expressed for the safety of the two US citizens.

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Meanwhile, two Korean patrol ships have reported that according to the British master of a small Panamanian-flag cargo vessel, he has seen the KIMBALL R. SMITH in Chinnampo, where it is being fitted out with armament of an unspecified type. The Assistant Naval Attache in Seoul, who transmitted the foregoing report, believes that the KIMBALL R. SMITH will be employed by North Korea in trade between Chinnampo and Hong Kong, and that it may be receiving armament in anticipation of interference with these operations on the part of South Korean navy patrols. It seems unlikely, however, even if the KIMBALL R. SMITH has "defected" or been confiscated by North Korean authorities, that the latter would allow the vessel to trade with a British-controlled port or even permit the vessel to traffic in waters where it could be easily intercepted by US naval units as illegally seized US property. (Confidential)

3. Continuation of Egyptian restrictions to prevent movements of petroleum through the Suez Canal consigned to the Haifa refinery may substantially affect the long-range petroleum logistic situation in the Eastern Mediterranean. If these restrictions and the present obstructions to the supply of Haifa by pipeline are of long duration, the US, UK and Western European powers will be obliged to consider their consequences in any strategic planning with respect to the supply and distribution of petroleum in that area.

The sensitiveness of Egypt vis-a-vis the other Arab States makes resolution of the question difficult for the Egyptian Government.

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4. Previous Satellite opposition to a proposed international organization for the operation of refrigerated cars in Europe has been at least temporarily modified by Czechoslovakia's support of a French proposal in a recent ECE working party meeting to call a conference of European railway administrations for the formation of such a company. If the conference, which is to be held in Copenhagen in the spring of 1950, results in the establishment of a new organization, the Inter-frigo company now being tentatively formed by six Western European nations will probably be absorbed into the permanent organization (see D/Tr Weekly No. 80).

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Czechoslovakia's support of the forthcoming conference may be at least partially attributable to the fact that the meeting will be held at a technical rather than political level. Active Satellite participation in a future international organization for the rail transport of perishables would indicate, moreover, that the Satellites will probably be unable for some time to provide adequate service with their own facilities and therefore will continue to derive an advantage from maintaining working arrangements with the West. (Confidential)

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CIVIL AVIATION

5. The recent US-UK agreement to exempt Yugoslavia from export restrictions on aviation equipment imposed on the Satellite States, and to approve limited air transport agreements with that country, will be noted by the aviation industries of Western Europe. The Yugoslavia airline, JAT, expects soon to initiate scheduled services to the principal Western centers and to this end is desirous of modernizing its civil air fleet. It is evident that there will be keen competition in the Western aviation market to satisfy the requirements of this new customer.

The Dutch are prepared to sell DC-3 transports and undertake the major overhauling of JAT aircraft on a contract basis. The French, likewise, are eager to conclude a deal involving 4-500 million francs for the sale of ten jet trainers equipped with French-made Rolls Royce Nene engines, and believe that this would pave the way for Yugoslav purchase of the new French medium transport, Bretagne, which is designed to compete with the US Convair.

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[REDACTED] In consequence, Yugoslavia will be in a position to shop around for the best that Western Europe has to offer in the expansion of its international services.  
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6. Czechoslovakia is persisting, as yet without success, in efforts to reopen an air route to the Middle East. Using its present equipment, the Czechoslovak airline, CSA, requires one landing point between Rome and Tel Aviv. It has been confronted, however, not only with the denial of landing rights on Greek territory in retaliation for Czechoslovak aid to the Guerilla cause, but also with Italian refusal to discuss restoration of transit rights for CSA en route to Israel, on the grounds that there is no quid pro quo for Italy.

Czechoslovakia's latest overtures have attempted to sweep aside Greek-Italian objections. To Greece, Czechoslovakia has offered important trade concessions, while publicly announcing that Greek children held in "protective custody" by Czechoslovakia will now be returned to their homes. To Italy, the Czechoslovaks are offering transit rights for the Italian airline, LAI (40 percent US-owned), through Prague to Copenhagen in exchange for similar rights for CSA through Rome to Israel. These propositions, however, are not likely to influence Greece or Italy at this time to relax the effective containment of CSA to the European continent.  
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7. As the result of a successful Iranian air mission to Afghanistan, Iranair will now schedule two round-trip flights per month from Tehran to Kabul. A formal bilateral air agreement will not be concluded, however, until the establishment of an Afghan airline (see D/Tr Weekly No. 82). The new air service, though not expected to be particularly profitable for Iranair, will serve to strengthen ties between the two countries and to improve Iran's political position in the area.  
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