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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The eagerness shown by Yugoslavia to conclude air agreements with the US, UK and other Western powers, even though they be of an interim or provisional nature, may be attributed in part to Yugoslavia's desire to insure direct air outlets to the West in advance of placing new curbs on transit flights through Yugoslavia by airlines of the USSR and Cominform countries. (Item No. 1, A)

The Soviet-built IL-12 air transport, which was designed to replace the DC-3, is apparently still operationally disappointing. (Item No. 2, B)

A plan to transfer to US-flag registry the merchant vessels of the China Merchant Steam Navigation Company has been agreed upon by the Nationalist Ministers of Foreign Affairs and of Communications, according to a recent unconfirmed report. In the meantime, a Nationalist representative has admitted that Communist authorities have requested company officials to abstain from defection and to concentrate as many vessels as possible at Hong Kong in anticipation of early British recognition. (Item No. 3, B)

The Italian railroads have made a remarkable comeback since their days of partial paralysis following the war and are now close to prewar efficiency. As a result of a recently approved program involving the expenditure of 57 billion lire (\$91,200,000) from the ERP lire fund, the system will probably be able to meet the needs of the Italian economy while handling the several million pilgrims expected during Holy Year, which begins in December 1949. (Item No. 4, C)

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A majority of the General Managers of European railways who met in Brussels recently to discuss the question of unification and coordination of the international organizations on rail transport were satisfied to maintain the status quo of existing organizations and simply moved to create a committee on coordination. Although a formula for the committee was agreed upon, the minutes of the meeting have not as yet been released and the committee's exact terms of reference are not known.  
(Item No. 5, C)

Chinese Nationalist determination to discourage foreign trade with Communist ports has led to the shelling of a second US-flag Isbrandtsen Line vessel engaged in trade with Shanghai in defiance of the Nationalist "closure" of that port. The vessel, SIR JOHN FRANKLIN, which has now arrived at Shanghai, was reportedly hit twelve times by Nationalist fire, although there was no injury to its personnel and damage inflicted on the vessel itself was apparently superficial. (Item No. 6, A)

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## SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

1. The eagerness shown by Yugoslavia to conclude air agreements with the US, UK and other Western powers, even though they be of an interim or provisional nature, may be attributed in part to Yugoslavia's desire to insure direct air outlets to the West in advance of placing new curbs on, or even prohibiting, transit flights through Yugoslavia by airlines of the USSR and Cominform countries. Restrictive measures by Yugoslavia against the airlines of these countries would result in retaliatory action against JAT, the Yugoslav airline. Czechoslovakia, for example, could deny JAT access to Prague, which is at present Yugoslavia's only point of direct contact with Western airlines.

The air traffic from Eastern Europe through Yugoslavia to Albania has long irked the Yugoslavs. Aeroflot and Mazovlet transports, in addition to their scheduled services, have increased considerably the number of special flights to Tirana. That the Czechoslovak Airline (CSA) is anticipating a move on the part of the Yugoslav Government to limit or prohibit Eastern European flights beyond Belgrade is possibly evidenced in the recent unsuccessful attempt by CSA to obtain transit rights for regular services through Rome or Brindisi en route to Albania.

CSA is the only Eastern European airline with air rights into Italy. Although it has not served Tirana on a scheduled basis in the past, CSA now seeks to establish a route to that city, probably because it could serve Satellite purposes in the event that the shorter route through Belgrade is closed by the Yugoslavs to Aeroflot and Mazovlet. (Secret)

2. The Soviet-built IL-12 air transport, which was designed to replace the DC-3, is apparently still operationally disappointing. (The aircraft is supposed to have a range of 1,240 miles and a cruising speed of 200 m.p.h. carrying 27 passengers and five crew members.)

This estimate may be supported by the fact that Czechoslovak Airlines (CSA) has been forced to ground its IL-12's lately introduced on international routes after many months of testing. During recent Italian-Czechoslovak discussions concerning rights for CSA to overfly Italy en route to Nicosia and Lydda, a CSA official admitted that the IL-12 failed to measure up to expectations. When asked why CSA, using the IL-12, could not fly directly through the Balkans to the Middle East, this official is reported to have indicated that CSA is "not enthusiastic" over IL-12 performance compared with that of the DC-3.

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Evidently it is not expected that the reported difficulties connected with the IL-12 will be soon overcome, as CSA is continuing its efforts to obtain DC-3 aircraft and parts by either legitimate or illegitimate means. Following the futile attempt of CSA to involve Swiss Air in a clandestine deal (see D/Tr Weekly No. 85), Greek official sources report that a Soviet commercial attaché formerly stationed at Prague is now in Zurich for the purpose of "supporting" CSA's endeavors to purchase four DC-3 aircraft. The Greek Government does not suggest how the Soviet representative might be able to accomplish his purpose, but evidently gives some credence to the report and has asked the US to investigate.

The reasons motivating the recent withdrawal of IL-12's utilized by Aeroflot on the Moscow-Helsinki route and the re-establishment of services with the Soviet-type DC-3 are not known, but operational difficulties may well have been responsible for this decision. (Secret)

#### SURFACE TRANSPORTATION

3. A plan to transfer to US-flag registry the merchant vessels of the China Merchant Steam Navigation Company (CMSN) has been agreed upon by the Nationalist Ministers of Foreign Affairs and of Communications, according to a recent unconfirmed report. (See D/Tr Weekly No. 87.) The Nationalist objective is to ensure continued operation of the vessels under their control, while preventing further CMSN defections to the Communists.

About half of the CMSN ships are under mortgage to the US Maritime Commission, to which the Nationalist Government is heavily indebted. Under the plan, the vessels would be turned back to the Maritime Commission for transfer under US registry to the commercial organization of William Hunt and Company in Hong Kong. This company would retain the CMSN organization and properties intact, operating the vessels in return for a fixed fee. (Hunt performed a similar service for the Nationalist Government during the war.) Any other revenue in excess of operating costs would be applied to the Maritime Commission debt.

Since the logistic capabilities of the Nationalist forces on Taiwan are heavily dependent upon the continued operation of the CMSN vessels, which constitute the major portion of the ocean-going shipping now available to the Nationalists, the latter have an urgent interest in acquiring any added protection which a foreign flag might afford to their shipping. The Communists, on the other hand, are critically deficient in ocean-going tonnage. If the Communist regime is recognized by major Western powers, its claim as the legitimate Chinese Government to the remaining properties of the Nationalist-owned CMSN would be strengthened. In the meantime, a

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Nationalist representative has admitted that Communist authorities have requested company officials to abstain from defection and to concentrate as many vessels as possible at Hong Kong in anticipation of early British recognition. (Confidential)

4. The Italian railroads have made a remarkable comeback since their days of partial paralysis following the war and are now close to prewar efficiency. As a result of a recently approved program involving the expenditure of 57 billion lire (\$91,200,000) from the ERP lire fund, the system will probably be able to meet the needs of the Italian economy while handling the several million pilgrims expected during Holy Year, which begins in December 1949.

The program calls for the immediate expenditure of 47 billion lire, including 31.2 billion lire for construction and repair of rolling stock and 15.7 billion lire for 97 projects involving reconstruction of rail lines and buildings. The balance consists of projects which are in course of screening by the Ministry of Transport and the ERP Mission, Italy.

Although emphasis is placed on freight cars as more essential to national reconstruction and economic rehabilitation, the program will authorize repairs and new construction providing seating space for an additional 75,229 passengers per day. As a result, passenger service for both regular Italian travelers and the anticipated visitors during Holy Year will be improved. The vast labor requirements for fabrication and installation in coming months will total more than 14 million work days, and a considerable permanent increase in employment for the operation and maintenance of the expanded inventory of plant equipment and rolling stock will result. (Restricted)

5. A majority of the General Managers of European railways who met in Brussels recently to discuss the question of unification and coordination of the international organizations on rail transport were satisfied to maintain the status quo of existing organizations and simply moved to create a committee on coordination. Although a formula for the committee was agreed upon, the minutes of the meeting have not as yet been released and the committee's exact terms of reference are not known.

Most of the General Managers appeared reluctant to sponsor any drastic step in the direction of endorsing one over-all body to replace the existing international non-governmental rail organizations, and seem

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to look to ECE in Geneva to assume the initiative with respect to this proposal. Only the representatives of France, Portugal and Italy expressed support for the formation of a central organization. On the other hand, while Luxembourg, Switzerland, Germany and Austria concurred with Belgium, Netherlands, Sweden, Norway and Hungary in favor of the status quo, it was indicated that the former group of countries would perhaps have been willing to go further toward unification, if a less drastic solution of the problem had been presented. (Restricted)

6. Chinese Nationalist determination to discourage foreign trade with Communist ports has led to the shelling of a second US-flag Isbrandtsen Line vessel engaged in trade with Shanghai in defiance of the Nationalist "closure" of that port. (See D/Tr Weekly No. 89.) The vessel, SIR JOHN FRANKLIN, which has now arrived at Shanghai, was reportedly hit twelve times by Nationalist fire, although there was no injury to its personnel and damage inflicted on the vessel itself was apparently superficial.

The following circumstances surrounding the incident have been reported from the vessel to Isbrandtsen's Shanghai agents. The SIR JOHN FRANKLIN, proceeding up the Yangtze in shallow waters on 28 November, replied to a Chinese naval order to stop and anchor by requesting that the vessel be boarded by the Chinese either under way or at an anchorage in deeper water. According to the Isbrandtsen version, two Chinese warships thereupon opened fire without warning from a point-blank, broadside range of 500 yards, maintaining a "constant barrage" for about an hour. When the US vessel reached deep water and signaled a pursuing warship that it was anchoring, the latter continued firing, causing the SIR JOHN FRANKLIN to proceed further up the river.

This incident entailed several factors which were not involved in previous instances of Nationalist interception of Isbrandtsen vessels. At the request of the Isbrandtsen Line, for example, the Department of State instructed the Consulate at Hong Kong on 26 November to advise the Nationalist Foreign Minister of the vessel's itinerary. In doing so, however, the Consulate was to make it clear that the Department assumed no responsibility for giving similar notification in future cases. It is not yet clear whether this notification reached either the Foreign Office or the Nationalist Navy prior to the shelling of the SIR JOHN FRANKLIN. In contrast to previous instances, the Master of this Isbrandtsen vessel was reportedly under instructions to "obey all Nationalist signals and take no chances." In this incident, moreover, according to the Isbrandtsen report, there was no warning shot fired by the Nationalists across the US ship's bow.

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Meanwhile, the US is still awaiting a reply from the Nationalist Foreign Office to official representations regarding the shelling earlier this month of the FLYING CLOUD, and the consequent endangering of the lives of US citizens. As in the case of the FLYING CLOUD, however, preliminary information concerning the SIR JOHN FRANKLIN incident indicates that there was no Chinese intention either to damage seriously the vessel or to injure its personnel, in view of the ineffective shelling at extremely close range.

The circumstances surrounding the naval attacks on US vessels indicate that the Nationalist Navy is prepared to resort to direct military action in order to terminate foreign shipping movements into Communist ports. The protestations of the Nationalist Foreign Office that the closure and subsequent threats of force were directed primarily against British shipping and that US shipping would be relatively unmolested may have been sincere. Apparently, however, the Nationalist Navy, controlled directly from Taiwan by Chiang Kai-shek, is carrying out his policy regardless of the nationality of vessels, although it may not desire to go to the extreme of sinking or seizing US-flag vessels. By limited military action, Chiang Kai-shek may believe, for example, that he can make marine insurance prohibitive and thus attain his objective without unnecessarily inflaming US public opinion. (Confidential)

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