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WESTERN EUROPE DIVISION
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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DATE: 10 January 1950

DOCUMENT NO. _____
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: _____
AUTH: HR 70-8
DATE: 10-29-79 REVIEWER: 372044

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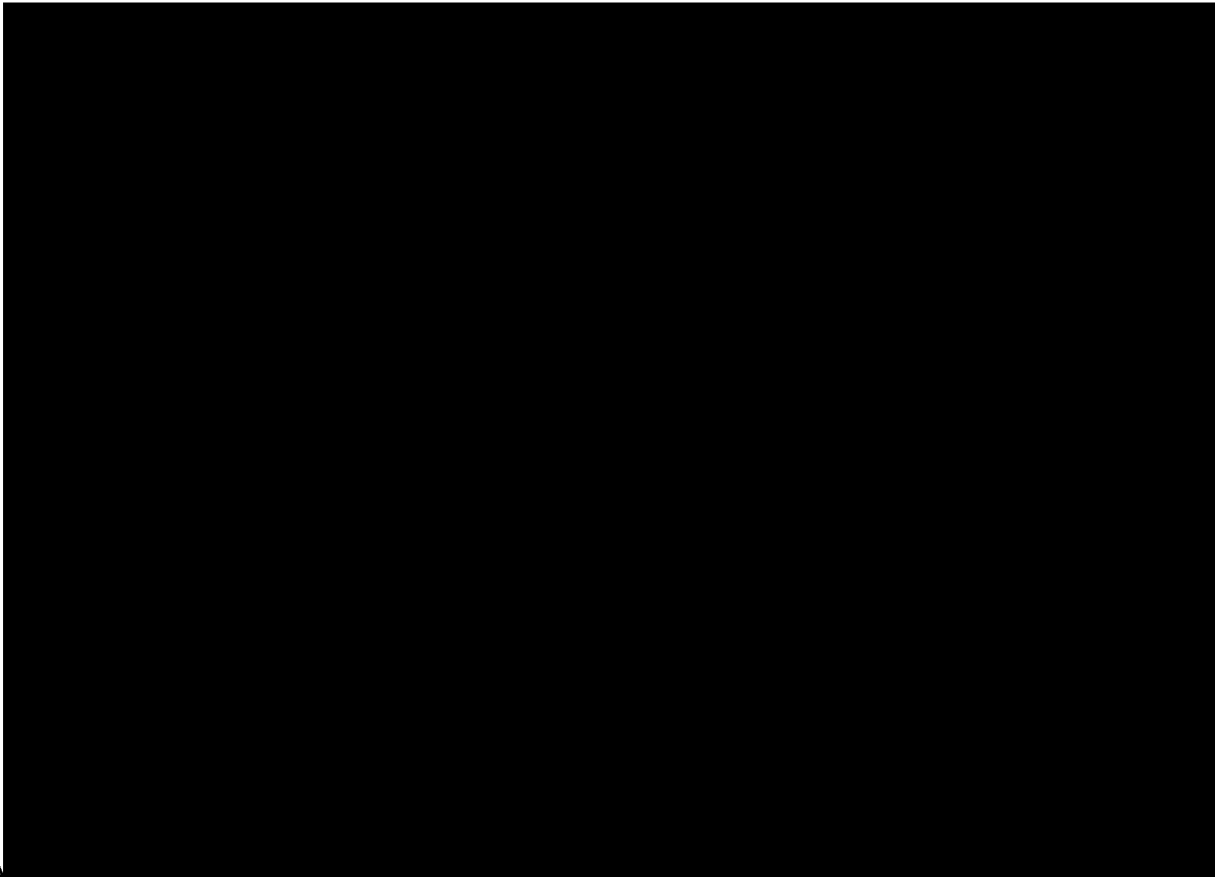
WEEKLY SUMMARY

VOL. VI - No. 1

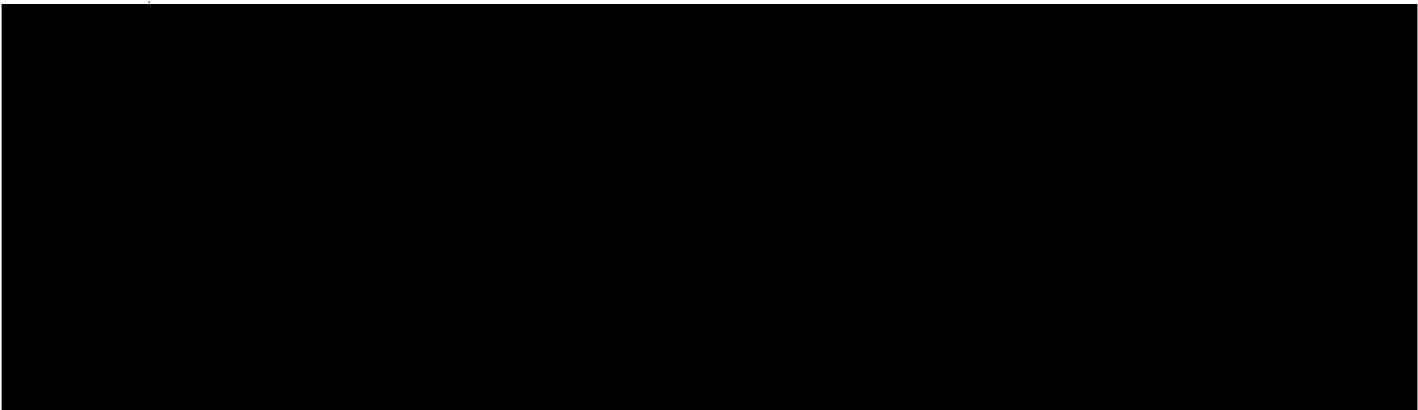
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Approved For Release 1999/09/02 : CIA-RDP79-01090A000400030001-4

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AUSTRIA

B There is likely to be a greater volume of Austrian trade with the Soviet Satellites and Yugoslavia. Despite the decline in Austria's trade with the West during the months preceding Austrian devaluation in November, Austrian trade with eastern Europe remained and has since remained, constant. The anticipated Austrian devaluation led to a reduction in western orders. Other factors influencing the trade decline have been the leveling-off of the demand for pig-iron, steel, pulp, and paper, and the continued low productivity of Austrian industry with its consequent high cost of production. In contrast, the quid-pro-quo basis of the barter arrangements with eastern Europe, and existence of complementary trade relationships, have militated against a comparable drop in trade. Austrian trade with the present Satellites and Yugoslavia is considerably below the prewar level (constituting about 20% of Austria's current imports and exports compared to the 1937 figures of about 39% for imports and 32% for exports). Austria, nevertheless, still takes considerable foodstuffs and solid fuels from eastern Europe, and will probably require even greater quantities of such goods in the future. Furthermore, as the Austrian industries continue to increase their production of metals, equipment, machinery, and textiles, it will be natural for Austrian businessmen to seek markets in the Satellites and Yugoslavia.

Recently, Austrian businessmen, for example, have entered a million-dollar trade deal with Hungary through Intrac, the Soviet-front export-import organization. Although this transaction, which the US is trying to get the Austrian Government to void, represents but a small fraction of total Austrian trade, it is the kind of arrangement that will slow down the tempo of Austrian recovery. It dissipates Austrian hard goods, by exchanging them for semi-luxury food items, when the hard goods can be traded elsewhere for hard currencies and goods more important to the Austrian economy. Furthermore, the success of Intrac as a middleman, at a time when the Austrian Government is seeking to undermine Intrac's incipient monopoly position, is particularly disturbing, and indicates that Austrian businessmen are willing to reap a profit regardless of overall Austrian economic needs.

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FRANCE

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The Bidault Government, narrowly sustained in the Assembly by six recent votes of confidence resulting in the passage of the budget, will enjoy a reprieve, at least through January. Parliament, in its ordinary session which opens 10 January, is primarily concerned in the first week with the formation of committees and the election of officers, and is not expected during the remainder of January to debate any new matter which could provoke a political crisis. Although labor is pressing urgently for a bonus, pending the final return to collective bargaining, the Right is not likely to threaten withdrawal from the coalition on this issue. Legislation for collective bargaining passed the first reading in the Assembly on 5 January. The Assembly's second reading of the budget and collective bargaining bills will probably be delayed by extended debate in the Council of the Republic (second chamber).

The Council is likely to amend both of these bills substantially, and the Government would then face a severe test when the budget bill undergoes the second reading in the Assembly. An absolute majority (311) will probably be necessary to override Council amendment of this bill, inasmuch as the Council itself is likely to pass the amendments by such a majority. Bidault was unable to obtain more than 306 supporters on any of the recent votes of confidence. The Government, moreover, apparently carried one of these votes over strong Rightist opposition only because Bidault promised to reconsider the tax-increase provisions when actual revenue-raising measures are debated. Hence, it is likely that opposition to the tax features of the budget bill will be strong both in the Council, where the Right is powerful, and on the second reading in the Assembly.

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The French Communist Party (PCF) will intensify its "peace" campaign in the coming months with the immediate objective of undermining French national defense. The PCF hopes to achieve this objective by directly obstructing defense production and by promoting widespread defeatism.

The PCF is already spreading "peace" propaganda by calling on workers, youth, and Communist front organizations to rebel against any plans for rearmament for an "imperialistic" war. One of the primary motives of this propaganda is to persuade workers to initiate strikes in all enterprises engaged in war production. Although the Communist-led General Confederation

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of Labor (CCT) has been relatively ineffective in creating extensive strike action during the past year, it remains the most powerful single organization of trade unions, and has a large following of workers in some key activities directly affecting defense production, where limited work stoppages are likely. Recent indications are that efforts by CCT longshoremen's unions to stop loading arms for Vietnam are not supported by the majority of dock workers. Communist pressure to persuade longshoremen not to unload MDAP equipment will therefore be intensified.

The PCF's attempts to provoke widespread defeatism among the French will probably not seriously impede US plans for the defense of western Europe. These attempts will include intensified dissemination of newspaper articles, pamphlets, etc., which will emphasize purported US designs to: (1) use the French as soldiery, (2) rearm Germany, and (3) dominate the French nation completely.

THE NETHERLANDS

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The Dutch will be more interested in strengthening a western-oriented and-controlled Germany, now that the Netherlands' almost complete preoccupation with Indonesia is ended with the granting of Indonesian independence. Before World War II, Germany was the Netherlands first supplier and second best customer, and was an important source of invisible income. With some loss in income from Indonesia expected, the Netherlands is seeking to renew prewar economic ties with Germany, with the important difference that through collective western control the Netherlands hopes to prevent the revival of the former German discriminatory practices.

The Netherlands seems determined to include Germany as soon as possible in the regional economic grouping of the continental western European powers which is currently under discussion among France, Italy and Benelux. While Belgium has joined the Netherlands in favoring German participation in such an organization, the Netherlands has been more insistent and vocal on this point. The Netherlands also insists that the Benelux countries participate in the discussions of the western occupying powers on the question of terminating the state of war with Germany. The Netherlands wants firm assurances that, if the state of war is ended, the German Federal Government will assume responsibility for prewar German debts and accept six-power decisions on the protection of foreign interests and the rectification of

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Germany's western borders.

Currently, the Netherlands is attempting to obtain: (1) increased use of Dutch ports, waterways, and inland craft for international shipments to west Germany, and (2) token utilization of Dutch craft in the west German inland waterway traffic, in preparation for more extensive operations, with complete freedom for Dutch shipping. The Dutch, furthermore, are opposed to German control of the currencies used in paying for inland shipments. The Netherlands probably will now concentrate on obtaining satisfaction on these points, because the trade agreement with the Federal Republic, concluded in September 1949, has made possible a large increase in Dutch exports, and has resulted within the past few months in a very favorable balance of trade for the Netherlands.

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The groundwork being laid for future Dutch-Indonesian cooperation indicates that the Netherlands Government is accepting the new relationship with Indonesia and, at the same time, is determined to obtain the maximum political and economic benefits within the limitations imposed by the Netherlands Indonesian agreements. Preparations are underway for the organic establishment of the Netherlands Indonesian Union, which provides for consultation on matters of mutual interest. The machinery has already been utilized for discussions on foreign policy, particularly the question of the recognition of Communist China.

The appointment of Dr. Hirschfeld, former Dutch Government adviser on ERP affairs, as the first High Commissioner to Indonesia is a strong indication of the attitude of cooperation assumed by the Netherlands Government. A non-political appointee and an astute financial technician, Hirschfeld was on excellent terms with the Indonesians during The Hague Conference, and was instrumental in obtaining Dutch acceptance of economic and financial concessions. He has indicated that the Netherlands is willing to grant new credits if the Indonesians request them. An agreement has been reached between the Government of Indonesia and the Royal Dutch Airlines (KLM) to form an airline for inter-island traffic in Indonesia. According to reports, KLM will receive 50% of the profits from an operation which, until now, it monopolized. The advance in Amsterdam stock market prices for Indonesian shares at the end of December indicates confidence in the Indonesian Government's policy on foreign investments and the Government's ability to maintain order.

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ITALY

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The reluctance of the Italian Government to extend the visas of a group of US Protestant evangelists in Italy is not an isolated incident, but apparently reflects an Italian Government policy resulting from its readiness to accept the majority opinion of local communities against minority evangelist groups. In November, 1949, the Italian Government, despite repeated inquiries by the State Department, refused to permit a group of US Jehovah's Witnesses to extend their visit in Italy, and requested that they leave on short notice. At that time, the Acting Director General of Italian Political Affairs explained to US representatives that Italian authorities interpret religious freedom to mean that "everyone is free to worship in his own way", but that this policy does not extend "to allowing foreigners to enter Italy for indiscriminate religious proselytizing".

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The growing apprehension among many Italians as to the efficacy of US military aid to Italy could have more serious consequences than the extreme leftist campaign against MDAP. In an effort to counteract Communist propaganda that this military aid will eventually involve Italy in an "imperialist" offensive against the USSR, the Government-inspired press has declared that the relatively modest amount of assistance, together with limitations imposed by the peace treaty and the national budget, will restrict Italy's participation in the Atlantic Pact to strengthening its own defensive position, and will preclude a campaign of aggression. This explanation by the press may boomerang by making increasingly apparent to the Italians the precariousness of their position in the event of an East-West war.

Although Italy's vulnerability to invasion from the east cannot be overcome, the population's will to resist could be stiffened if the country's defense potentialities were developed to the maximum. Such a program, however, would involve violation of the peace treaty's military clauses, as, for example, by requiring the re-activation of war industries in north Italy. Furthermore, the psychological advantages accruing to the Italians from participation in the production of war materiel for MDAP may be outweighed by the Italian realization that north Italy would probably be quickly overrun, and its war plants captured intact, by an invading enemy.

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THE VATICAN

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Fear for the position of the Spanish Roman Catholic Church in the event of political changes in Spain is a major factor deterring the Vatican from working for the removal of Franco, despite dissatisfaction of important leaders in the Vatican over its present relationship with the Caudillo's Government. The Vatican is apprehensive lest Franco's fall would mean immediate loss of prestige for such organizations as Opus Dei (designed to exert a conservative influence on Spanish youth), which have been promoted as much by the Spanish Government as by the Spanish Church. More important, Vatican leaders are aware of the widespread hostility among the Spanish Catholic population to the alleged venality of the higher clergy. Many Spanish Catholics are afraid that a change in the Government would lead to serious popular attacks against the Spanish Church.