

TOP SECRET

6 August 1951

CIA No. 49294

Copy No.

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9/1/51

DAILY DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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TOP SECRET

TOP SECRET

SECTION 1 (SOVIET)

1. USSR. Soviet propaganda advocates freer trade: An editorial in the second issue of News entitled "A Step in the Right Direction" considers the questions of raising living standards and improving economic relations under peaceful conditions as vital immediate problems. These objectives would contribute to a partial elimination of "the monstrous injustices and incongruities of the present economic structure in many countries." The editorial indicates that this is a problem affecting the non-Communist sphere only, although "vitalization" of East-West trade is conceived of as being a useful way of achieving improvement in all countries. An international economic conference to be held in Moscow is envisaged as a means of dealing with problems concerning living standards, economic questions, business and trade. Scientists, engineers, industrialists, businessmen, economists, trade unionists are urged to assemble not for political argument or to impose their individual social or political views, but to discuss economic developments in their own countries and devise practical measures to ameliorate depressed living standards wherever they occur. [REDACTED]

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[REDACTED] Comment: Embassy Moscow points out that the apparent sincerity of the appeal to freer trade and a rise in living standards through an international conference is negated by Soviet trade practices and Soviet behavior at international conferences. The Embassy also feels that this editorial is disarming in its insistence that radical solutions are not envisaged, even though it clearly implies that emphasis will be chiefly on conditions prevailing outside the Soviet bloc.

Comment: Soviet emphasis of this propaganda line is one of the new variations of the "peace" tactics designed to capitalize on the economic effects and popular discontents caused by Western, particularly US, rearmament and export control policies. The USSR utilized the June meetings of the UN Economic Commission for Europe for similar propaganda and will attend on August 20 UN meeting on improving East-West trade, which it may well exploit in similar fashion.

2. EASTERN EUROPE. ALBANIA. Resistance remains passive in Albania: [REDACTED]

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[REDACTED] although the majority of the population and army is against the Hoxha regime, the people do not realize their own strength and await foreign intervention to achieve the overthrow of the government. The few small nationalist bands who engage in resistance activity fear exposure by uniting in the common cause. [REDACTED] however, there is a "well supplied, largely nationalist army" passively awaiting the moment for action. Although Titoism is hated, it is followed by some for want of

TOP SECRET

TOP SECRET

better leadership. [redacted] the National Committee for Free Albania is the most highly regarded exile organization. [redacted]

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Comment: The Hoxha regime has intimidated the population completely by countering resistance with harsh terrorist measures. The Tito Government has achieved favor among dissident Albanian nationals in both Albania and Yugoslavia by using propaganda effectively, supplying small arms to the resistance bands, and forming an Albanian exile committee to counter the pro-Western activity of the Committee for Free Albania. The existence of a "well-supplied" anti-Communist army in Albania is considered highly unlikely.

3. YUGOSLAVIA. Government exerts pressure to check peasant withdrawal from cooperatives: US Embassy Belgrade reports that repressive measures are being employed by Yugoslav authorities on a local level to check the withdrawal of peasants from cooperatives. Peasants applying for withdrawal are being threatened with exorbitant taxes and offered poor marginal lands in place of the land which the applicants originally contributed. By these measures as well as by recent legislation designed to make cooperative farming more attractive, the Yugoslav Government intends to check the growing movement among peasants to leave the cooperatives. [redacted]

Comment: Yugoslav leaders, including Tito, have recently served notice that the government has no intention of abandoning the cooperative movement. Although the regime has adopted several reforms which constitute a compromise with Communist principles, the government apparently considers that the socialization of agriculture is so basic to a Communist state that the gains made in this direction cannot be sacrificed. Passive acceptance by the regime of the breakup of cooperatives would be difficult to explain to the already restive orthodox Party members. It would also seriously damage Yugoslavia's calculated international position as an independent socialist state and serve to justify Soviet charges that the regime had foresaken Socialism.

4. Tito orders officials to turn over military data to US: Marshal Tito has instructed Yugoslav officials to cooperate "to a reasonable and feasible extent" in supplying detailed data on the Yugoslav armed forces requested by ECA. This authorization was made following US Embassy assurances that the information requested was primarily for economic planning purposes and in particular to show the impact of the Yugoslav defense effort on the general economy. [redacted]

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TOP SECRET

Page Denied

TOP SECRET

SECTION 2 (EASTERN)

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1. ISRAEL. Moderate Leftist coalition is possible election outcome: Incomplete returns from the 31 July general elections give Prime Minister Ben-Gurion's Mapai Labor Party 45 seats in the new Knesset (Parliament). He is expected to form a coalition government with four compatible, smaller parties--Hapoel Hamizrachi, the Arab parties, Agudat Israel Workers, and the Progressives-- which would control 64 of the 120 Parliamentary seats. The returns give the other major parties the following number of seats: General Zionists, 20; the pro-Soviet Mapam, 15; the ultra-nationalist Herut, 8; and the Communists, 5. 25X6

2. Iran. Iranian Government increasingly concerned over public order: The Tehran police announced on 3 August that no permits for public meetings would be granted until further notice. Fearing a recurrence of disorder, Parliament's lower house on 2 August cancelled its annual Constitution Day reception, usually held on the Parliamentary grounds. 25X1

Comment: Both the Communists and the extremist nationalists have warned the Prime Minister that they will not tolerate any deviation from the oil nationalization laws. The Prime Minister, as well as other government officials, are showing an increasing awareness of the dangers posed by mob action and terrorist assassination. The government's action suggests that it is aware that any compromise settlement of the oil dispute increases the possibility of violence.

3. INDIA. Labor's role in the national elections: The Indian National Trade Union Congress (INTUC) on 29 July committed its 1,500,000 members to vote

TOP SECRET

TOP SECRET

unconditionally for the Congress Party in the forthcoming national elections in spite of vigorous opposition from West Bengal INTUC leaders Deven Sen and Suresh Chandra Banerjee. The expected resignation of these two men from INTUC may lead to a coalition of their West Bengal unions with the freer elements in the Hind Mazdoor Sabha. [redacted]

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Comment: INTUC was founded at the behest of the Indian government to oppose the Communist-dominated All-India Trade Union Congress (AITUC), which now has a membership of about 700,000. The Hind Mazdoor Sabha, whose greatest strength is in the Bombay area, is financed and run by the Socialist Party of India and has a reported membership of approximately 686,000.

A coalition of Hind Mazdoor Sabha elements and INTUC's West Bengal unions, which represent a third of its total membership, could very nearly equalize the strengths of Congress Party, Socialist, and Communist factions in Indian labor. 300,000 additional members of the All-India Railwaymen's Federation, the largest independent trade union federation in India, are also currently in conflict with the Congress-dominated government. It therefore appears that the Congress Party may not attract more than a third of India's vote in the forthcoming national elections.

4. India and Burma may not sign the Japanese peace treaty: Within the last week, both the Indian High Commissioner in London and an influential member of the Burmese Foreign Affairs Advisory Committee, who accompanied the Burmese Foreign Minister on a recent trip to India, have expressed the opinion that India and Burma would not sign the multilateral Japanese peace treaty. The Indian official has suggested the possibility that India might sign a separate bilateral treaty. The Indian press has supported this view. [redacted]

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Comment: Prior to the end of July, all indications were that India would sign the multilateral Japanese peace treaty after commenting for the record on subjects such as the removal of foreign troops from Japan and the return of Formosa to Communist China. Indian opinion then apparently began to shift toward refusal to sign the treaty. This shift may have resulted from India's success in demonstrating its capabilities for independent action vis-a-vis Pakistan and the UN in Kashmir. It may also be a manifestation of the need of the Congress-Party-dominated government to take the public's mind off serious pre-election weaknesses within the party by displaying once more the government's independence and prestige as a "third force" in world affairs.

Despite its recent protestations, Burma has never seriously expected to receive reparations from Japan. It has seized upon this issue to avoid indicating its real reasons for rejecting the multilateral--fear of Communist Chinese reaction. Burma has not indicated an intention to sign a separate treaty with Japan, but it is strongly influenced by India in making important diplomatic decisions.

TOP SECRET

TOP SECRET

5. THAILAND. New indication of anti-Communist sentiment among Chinese noted: On 29 July a normally pro-Communist Chinese newspaper in Bangkok published a story about a local Chinese who committed suicide because his lands in China, obtained by his own "hard labor," had been confiscated and his family executed by the Communists. The US Embassy in Bangkok comments that this is the first time that a news item depicting the harsh effect of Communist policies upon overseas Chinese has been published in any Chinese paper in Bangkok other than those which are outright pro-KMT publications. [redacted]

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6. Police and Army chiefs reported working to undermine Premier: US Embassy, Bangkok, transmits reports that General Phao, Director of Police, and General Phin, Army C-in-C, while ostensibly supporting Premier Phibun are cooperating to bring about his ultimate downfall. Tension is also reported between Phao and the Deputy C-in-C of the army, who commands the First Army, with Phao desiring to deprive him of his troop command. The position of the Air Force commander in this jockeying for power is not clear.

The Embassy comments that the clear inability of the military commanders to work together is a factor working to the long-run advantage of Phibun. [redacted]

Comment: Cooperation among the four military commanders cited was responsible for the failure of the attempted coup d'etat in June 1951. Phibun's authority suffered at the time and his success in recovering it depends upon the maintenance of a careful balance among the generals. The forces at the disposal of Phin and Phao are sufficient to enable them, if they cooperate, to determine Phibun's fate.

7. CHINA. Movement of Communist 2nd Field Army elements to Yunnan reported by Nationalists: Elements of four Chinese Communist armies are moving toward Yunnan province, according to a report from the Chinese Nationalist Ministry of National Defense. The armies are identified as the 13th, 14th, 15th and 16th, with a total strength of 100,000 men. The numbers involved in this movement are unknown. [redacted]

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Comment: The reported movement of these units, ascribable perhaps to a Chinese Nationalist desire to create a face-saving explanation for the possible failure of Li Mi's Burma-based "invasion" of Yunnan, has received no substantiation. To the contrary are the fairly reliable indications that the Chinese Communist forces (principally 14th Army troops) now deployed in the general area under attack have more than adequately contained and rendered ineffective the Nationalist forces committed. While the movement of additional troops into this area is not precluded, the figure of 100,000 is believed improbable.

TOP SECRET

TOP SECRET

The 2nd Field Army has long been charged with the responsibility for Yunnan and has maintained garrisons of the 13th and 14th armies for this purpose within the province. [redacted] a major part of the 13th may now be in the Nanning area of Kwangsi. Two divisions of the 15th Army have been identified in Korea, while the 16th has been carried in the Kweichow-Kwangsi region.

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9. Chinese students dissatisfied with Communist policy: An editorial in the People's Daily, official party organ of the Chinese Communists, admonishes students that they should accept without question the jobs assigned to them by the government. The US Consul General in Hong Kong observes that the newly-adopted state policy of allocating students to jobs has met with some disapproval. [redacted]

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Comment: Dissatisfaction among students in Communist China with the recently established government policy of assigning them to jobs is

TOP SECRET

TOP SECRET

indicated by recent reports. In early July the Communist press revealed that a "very small number" of students attempted to obtain employment directly but were later "won around" to take jobs assigned by the state.

10. Petroleum being smuggled from Macao to China: An investigation of smuggling from Macao has convinced the US Consul General in Hong Kong that the Portuguese colony is an important source of petroleum products for Communist China. An investigator from the Consulate General found excess petroleum stocks in Macao totalling some 7,500 drums; he personally observed a cargo of petroleum manifested for the mainland, and was told that a large syndicate had been formed to ship petroleum from Hong Kong to the Communist mainland, both directly and via Macao. Chinese employees of the major British and US oil companies in Hong Kong reportedly are participating in the syndicate's operations. The assurances of Macao officials that only negligible quantities of petroleum were reaching the Communists via the colony are labeled by the Consul General as glaring misrepresentations. [REDACTED]

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Comment: With Macao officials--particularly Director of Economics P. J. Lobo--involved in the smuggling traffic, the Portuguese colony serves the Chinese as a secure base of operations. Fishing junks from Hong Kong and Okinawa, vessels loaded with excess bunkers at Hong Kong and other ports, and the addition of extra drums to legitimate shipments from Hong Kong appear to be the principal supply sources for Macao smugglers. Macao's current prosperity is clearly attributable to its trade with Communist China, and little effective cooperation can be expected from the colony's authorities in curbing this traffic.

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TOP SECRET

TOP SECRET

12. Trouble in Sik'ang reported: Recent arrivals from Sik'ang report "unsettled conditions" in the southeastern part of that Far Western province. Scattered minor guerrilla activity is reported around Hueili and larger scale activity around Yenpien, and the Communists are said to have moved 10,000 troops into the Yenpien area to put down disturbances. The brutality of the Communist regime reportedly has caused some disaffection even among provincial government employees. [REDACTED]

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Comment: This report may be entirely true. The Communists admitted a month ago that they had embarked upon a policy of "out-and-out suppression" of dissident and "counter-revolutionary" elements in Sik'ang, and US Army G-2 estimated then that about 5,000 anti-Communist guerrillas were still active in the province. However, the Peiping regime can easily spare the troops required for putting down any large-scale rebellion in this thinly-populated and primitive area.

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14. KOREA. Offensive preparations noted in Korea during past 24 hours: According to a 4 August report from the US Far East Command, indications that the Communists may resume the offensive on the UN western flank have been noted in the past 24 hours. Enemy forces in this area have suddenly tightened

TOP SECRET

TOP SECRET

their counter-reconnaissance screen. They may also have moved armor into the Otan area 25 miles northeast of Kaesong, where aerial observers have sighted tank tracks and noted the filling-in of anti-tank ditches.

The Far East Command tentatively accepts a recent displacement of enemy units in this sector which would not indicate an enemy intention to mount an early general offensive. [redacted] 25X1

Comment: These hostile developments in the general area of the Kaesong conference may be designed only to exert pressure on the negotiations, but could be preparations to seize strategic positions for the launching of a general offensive.

15. JAPAN. New list of treaty delegates is selected: Central News reports that the Japanese Government, at a Cabinet session on 4 August, drew up its list of delegates to the San Francisco peace conference, but indicated that it would make additions if the Democratic Party decided to participate. The designated envoys are: Prime Minister Yoshida; Finance Minister Ikeda; Jiro Hoshijima, Liberal Party official; Muneyoshi Tokugawa, Upper House Independent Conservative; and Hisato Ichimada, Governor of the Bank of Japan. [redacted] 25X6

16. Communists planning series of peace rallies: The Japanese Communist Party and its front groups are holding almost daily meetings in preparation for a series of peace rallies, according to CINCPAC G-2. Rallies are scheduled for 5 and 6 August in Hiroshima, and on the 9th in Nagasaki, to commemorate the atom bomb anniversaries, while "peace protection" meetings will be held in various prefectures during 1 to 15 August, culminating in a national convention in Tokyo on 15 August. [redacted] 25X1 25X6

TOP SECRET

TOP SECRET

SECTION 3 (WESTERN)

1. GERMANY. Legal trade ends between West and East Germany: All legitimate goods traffic between West and East Germany has ceased, as a result of the decision by the Council of the Allied High Commission not to extend the interim trade agreement, which expired on 2 August. On 3 August, West German frontier guards turned back goods-carrying trucks and trains attempting to cross the zonal border in either direction. Josef Orlopp, chief of inter-zonal trade for East Germany, has threatened reprisals for the suspension of 25X1

Comment: The Western decision against renewal of the interim trade agreement was taken in retaliation for Soviet restrictions on Berlin exports. The principal counter-retaliation open to the East German government is the stoppage of electric power deliveries to West Berlin, which has more expensive sources of its own.

2. Western Powers reply to Bonn on the Saar: On 3 August the US, UK, and France answered Chancellor Adenauer's 29 May protest on the Saar by agreeing with him that final disposition of the territory can only be decided by the peace treaty with Germany, but rejecting his claim that the Saar had not been removed from the jurisdiction of the Bonn Government as a result of its economic union with France. The reply also expressed the hope that the Saar problem would not be allowed to become an issue compromising the close association of European nations.

The occasion of Adenauer's note had been the banning of a pro-German party in the Saar, to which he had objected, asking the three Allies to safeguard democratic rights and permit the will of the people to develop. Adenauer's chief interest is to assure that final disposition of the territory will be reserved for a peace treaty, and though the Allied vote gives satisfaction on this point, it will not eliminate the Saar as an outstanding issue between France and Germany.

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TOP SECRET

TOP SECRET

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4. ITALY. Cooperation in trade controls faces Soviet reprisals: As a result of the recent blocking by the Italian Government of shipments of non-ferrous metals in transit through Italy for Soviet Satellite areas, Eastern European countries are diverting to ports elsewhere in Western Europe shipments intended to transit Italy. Reprisals by the Soviet bloc may take the form of reduced exports to Italy of coal and bread grains. US Embassy Rome feels that if other countries in Western Europe cannot block critical material shipments to the East, the Italian Government cannot be expected to continue cooperating in the control of transit trade and prejudice its East-West trade relationship with no resulting benefit to collective security. Italy's trade with the Soviet bloc for the first five months of 1951 totals \$37.1 million worth of imports and \$25.4 million worth of exports.

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Comment: While Italy's trade with the Soviet bloc for the first five months of 1951 is only a fraction of its total trade for that period (imports are valued at \$845.1 million and exports at \$625.3 million), the coal and wheat imported from Eastern Europe are vitally needed. Italy can probably obtain sufficient wheat from the US at favorable prices. The lowered availability of European coal, however, has compelled Italy in recent months greatly to increase its imports of higher-priced US coal.

5. SWITZERLAND. East-West trade policy defined by the press: The Neue Zuericher Zeitung has reportedly stated that Switzerland's policy regarding East-West trade is based on the principles of non-participation "in any blockade between power groups" and the avoidance of foreign policy measures which might enable one group to thwart the policy of another group.

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Comment. Although the AFP has at times been inaccurate in its reporting, the statement agrees with other reports of Swiss neutrality. This view, expressed by the organ of one of the strongest Swiss political parties, reflects the intention of Swiss business groups in general to follow a policy most advantageous to their interests, despite US pressure on the Swiss Government for closer restrictions on trade with the East.

TOP SECRET

TOP SECRET

- 25X1
6. DENMARK. Government promises battalion for the UN: The Danish Foreign Minister has stated that Denmark intends to provide a special battalion (1000 men) for use by the UN in accordance with its "uniting for peace" resolution of 3 November 1950. The Danish Parliament at its October session will consider legislation to authorize and implement this plan. Although the Foreign Minister stated that Denmark's decision pointed to the future and "only indirectly touches upon the question of despatching forces to Korea", he implied that if the question of troops for Korea again becomes topical, the Danish UN contingent might well be available for service. [redacted]

Comment: The armistice negotiations in Korea have provided the Danes, as well as the Norwegians and Swedes, with an excuse to avoid an immediate commitment concerning the UN appeal for troops for service in Korea. The Danes, however, have now followed the initiative of the Norwegians in recognizing that the smaller nations must bear at least a nominal share of the military task of repelling aggression when the UN has duly called for such assistance.

7. ICELAND. Soviet fishing fleet makes annual appearance off Icelandic coast: Mid-July reconnaissance sighted a few Soviet fishing vessels, including one mother ship, off the north coast of Iceland. [redacted]

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Comment: Since 1948 the Soviets have participated in the north coast summer herring fishing, which commences in July. Last year their inordinately early arrival, with a fleet that was allegedly larger than usual, caused such consternation in Iceland that the Icelandic Government requested the US to send naval vessels to the area for protection. Because herring catches in the summer season have been extremely meager for the past few years, Icelandic fishermen have so far committed fewer ships to the north coast fisheries this year, and foreign fishing fleets are also reported to be smaller. Soviet vessels in the 1949 and 1950 seasons numbered between 40 and 50 ships, including as many as four mother ships.

8. URUGUAY. Proposed constitutional reform will abolish presidency: The two major political parties in Uruguay--the Colorados and the Herreristas--have agreed upon a draft for a constitutional reform bill, which provides for abolition of the presidential system in favor of a nine-man Federal Council similar to that which exists in Switzerland. The plan will be submitted to Congress soon, and if, as expected, it is approved by that body, it will be submitted to the people in November in a national plebiscite. It is anticipated that the Federal Council, which would be composed of six members of the majority Colorado Party and three Herreristas, would probably replace the president about March 1952. [redacted]

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TOP SECRET

TOP SECRET

Comment: The Batllista faction of the Colorado Party is the strongest advocate of the collegial system of government, a modified form of which was tried in Uruguay from 1919 to 1933. The Batllistas argue that this is a step toward greater democracy, since it eliminates the possible abuses which can arise when power is concentrated in the hands of one man. The restoration of the system has been one of their announced aims since their return to power in 1942, and President Martinez Trueba (whose four-year term would not otherwise expire until 1955) is one of the most enthusiastic supporters of the proposal. It is unlikely that the institution of the system would modify to an important degree Uruguay's friendly attitude toward the US.

9. ARGENTINA. Peron invokes wartime powers to break railway strike: Peron has again invoked wartime emergency powers to mobilize railway workers throughout the country under the army. He took this action in an effort to break the strike of the railway engineers and firemen's union, La Fraternida, which struck on 1 August in protest at government intervention in its union. A similar decree to break the January railway strikes affected railway workers only in the greater Buenos Aires area. The present strike has been more effective in cities outside Buenos Aires, because in the capital workers were rounded up and ordered back to work under threat of court martial. Train service has apparently not been seriously disrupted by the several explosions which followed the strike call. Present indications are that the government is being successful in its attempt to suppress the strike.

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Comment: Peron's quick action in invoking wartime emergency powers indicates fear that the larger rank-and-file railway union, Union Ferroviaria, would join in a sympathy strike. While La Fraternidad's strike is based on a genuine trade-union complaint, it also promotes plans of the Communists, who have been agitating for further strike activity since the January railway walk-out, which they regard as their most successful undertaking

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The Communists will probably accelerate their efforts to exploit discontent among the workers in order to increase the threat to Peron's currently unstable regime

25X1

TOP SECRET

Page Denied

TOP SECRET

6 August 1951

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CIA No. 49294-A

Copy No. 39



25X1

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25X1

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TOP SECRET

TOP SECRET

SECTION 1 (SOVIET)

25X1

SECTION 2 (EASTERN)

2. IRAN. Ex-Prime Minister Qavam returns to Tehran. Former Prime Minister Qavam returned to Tehran on 31 July. Since his return, he is understood to have been receiving many visitors, including members of Parliament. The US Embassy in Tehran is reliably informed that the Shah did not discourage Qavam's return.

Comment: The Iranian Minister of Court, former Ambassador Ala, recently told W. Averell Harriman that the British were organizing Parliamentary and other support for Qavam with the aim of engineering his appointment as Prime Minister in place of Mossadeq. While this report is not confirmed, Qavam's presence in Tehran would obviously facilitate such an effort.

The Shah, who is anxious to settle the oil dispute, may hope that Qavam will provide a rallying point for the moderates in the oil issue and simultaneously put pressure on the Prime Minister and the extremists. The aged Qavam is admittedly one of the very few able figures on the Iranian scene; there is no indication, however, that the Shah, who holds a deep antipathy toward him, has wavered in his firm opposition to Qavam's appointment as Prime Minister.

TOP SECRET

Page Denied

TOP SECRET

confidence on the treaty and to permit pre-conference Diet interpellations, may still come around; however, the Socialist Party, dominated as it is by leftist leadership, is expected to remain intransigent.

SECTION 3 (WESTERN)

5. SPAIN. ECA technical survey team to study Spanish economic needs: A group of US technical experts will leave for Madrid on or about 12 August under joint ECA and State Department auspices to conduct a special study of Spain's economic needs. The functions of the group are outlined as follows:

- (1) To analyze the current status of projects already approved under the \$62.5 million Export-Import Bank loan.
- (2) To appraise the desirability and feasibility of existing and anticipated projects.
- (3) To determine the requirements and capabilities of Spain's economic development in the light of possible additional US aid.
- (4) To work under the guidance and general direction of US Embassy Madrid so as to insure a fully coordinated US position in all relations with the Madrid government.

Comment: The Madrid government will undoubtedly welcome US technical advice in meeting the problems involved in its ambitious program for farm and industrial development and for a general overhauling of Spain's run-down transportation system. If followed, the recommendations of the US experts should insure some degree of efficiency in the application of Export-Import Bank loans, without which Spain would be economically incapable of proceeding with its economic program.

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TOP SECRET