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SECURITY INFORMATION

8 September 1952

US OFFICIALS ONLY

OCI No. 8869
Copy No. 295

CURRENT INTELLIGENCE DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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GENERAL

1. Canada offers proposals for settlement of Korean prisoner-of-war question: The Canadian Government considers the time opportune to attempt to break the stalemate over prisoner-of-war exchange in the Korean peace negotiations, and thus forestall any Soviet intent to introduce the issue at the forthcoming UN General Assembly. The Ambassador to the United States may be instructed to urge that specific proposals for an armistice be made involving the immediate exchange of prisoners willing to be repatriated and leaving the question of those unwilling for future settlement.

The Canadian Government does not consider that any useful purpose would be served by the introduction of the Korean question in the General Assembly. (S Ottawa 66, 4 Sept 52)

Comment: A number of other countries contributing to the UN operations in Korea have advanced similar proposals in recent weeks.

EASTERN EUROPE

2. Czech pension system to be reorganized along Soviet lines: Czech Prime Minister Antonin Zapotocky complained recently that nine percent of the national income was being devoted to pensions and relief payments to the detriment of increased productivity. Warning that the state could not afford to pay pensions equal to wages, he indicated that the pension system would soon be "improved" by reorganization along Soviet lines. (S Prague Weeka 34, 22 Aug 52)

Comment: Zapotocky has spearheaded the Czech Government's attack on the extensiveness of the pension system. Last November he warned that social benefits must be adjusted

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in accordance with the rise in labor productivity. In May he condemned widespread pension and relief abuses and urged the voluntary relinquishment of social benefits.

The government now appears to be planning a sharp reduction in the number of people receiving benefits, as was done in Hungary last March.

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FAR EAST

3. North Korean Government concerned over civilian morale:
According to information [REDACTED]

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[REDACTED] the concentrated UN air attacks on North Korea brought a North Korean request for a greater air defense commitment from the Chinese, in order to prevent a complete collapse of civilian morale. The Chinese refused, arguing that the UN's real target was Manchuria. They agreed, however, to a joint approach to the USSR for additional aircraft.

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Comment: This is the first [REDACTED] report on the effect of the intensified bombing on civilian morale. Enemy propaganda, by its vilification of the attacks, had previously indicated some degree of effectiveness.

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4. Effects of intensified bombing weighed by FECOM: The UN's program of intensified bombing of North Korea, beginning with the raids against power plants in late June, has had a "substantial effect on the enemy," the Far East Command believes.

Reports from North Korea indicate that the loss of electric power caused considerable disruption of both military and civilian activities through early August.

Civilian morale, already lowered by the long and costly war, has been subjected to additional strains by the mass bombing. Rigid Communist control techniques, however, have counterbalanced them.

The military has not suffered any material lowering of morale. The enemy is still able to keep his front line units supplied despite destruction of some arms plants and supply areas. (S CINCFE Telecon 6121, 6 Sept 52)

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- Reported Chinese aims in Moscow talks: [REDACTED]

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[REDACTED] the Chinese at the Moscow conference will request extensive military and economic aid, including a long-term loan, and additional shipping. Some military items wanted by Peiping are equipment for more armored and airborne divisions, 500 jet planes, and 60 submarines.

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Peiping will request restitution of the Port Arthur-Dairen area, but will be satisfied with nominal control. It desires return of the Changchun railroad, but will agree to joint Sino-Soviet operation for a stated number of years.

The Chinese hope to obtain Moscow's agreement to a truce in Korea, to the timing of an invasion of Formosa, and to the loan of 50,000 tons of shipping as well as Soviet naval and air assistance for the invasion.

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Comment:

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comments cover the entire spectrum of Sino-Soviet relations except policy toward Southeast Asia.

The composition of the Chinese delegation to Moscow indicates that the talks will be concerned primarily with economic matters.

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6. Peiping allegedly seeks Soviet commitment to air defense:
asserts that, as of 9 August, Peiping had received no reply to its request for a statement of Soviet policy in the event of UN bombing of Manchuria.

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Comment: It is improbable that a policy has not yet been formulated.

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The Soviet Ambassador and the Soviet Counsellor in Peiping, on separate occasions in late 1950, told that the Soviet Air Force would "take action" if UN aircraft bombed Manchuria. No Soviet official has been known to make such an assertion since that time, and no reliable information as to Soviet policy in this matter has come to hand from any other source.

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7. Sino-Soviet talks allegedly precede "general offensive":
alleges that the current Sino-Soviet talks in Moscow were undertaken two months ahead of schedule and that the Chinese Communists are "planning a general offensive shortly after" the talks are concluded.

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The offensive will "probably" take place in Korea and Southeast Asia and "may possibly" extend to "other areas." [REDACTED]

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Comment: Speculation of this type apparently derives from a presumed connection between the Sino-Soviet talks of early 1950 and the Korean Communist invasion of South Korea in June 1950.

Just as the 1950 Sino-Soviet talks culminated in the conclusion of the Sino-Soviet Treaty of Friendship, Alliance and Mutual Aid, so the current talks are expected to result, inter alia, in increased Soviet aid to China for long-range military and economic programs.

The Chinese Communists have long been capable of mounting a new offensive in Korea and of invading any or all contiguous areas of Southeast Asia. Although Chinese capabilities will presumably be enhanced by the current Moscow talks, there is no reliable evidence of a Communist intention to break off the Korean talks or to invade Southeast Asia in the near future.

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Chinese workers subjected to forced resettlement: A [REDACTED] told the American Consul General that he knew of workers being forced to leave Shanghai to work in the coal mines of North China. He also knew of persons being forced to move from Shanghai to the outlying province of Sinkiang and of workers on water conservation projects who reported that they were working under virtually forced labor conditions.

In this connection, the Consul General has recalled Communist references to expanding acreage in northern Manchuria cultivated by persons from southern Manchuria and China proper. Peiping authorities, furthermore, have provided for the resettlement of unemployed persons in a recent directive. The Consul General believes that many Chinese are scheduled for forced resettlement. (C Hong Kong 537, Joint Weeka 35, 29 Aug 52)

Comment: Peiping has stated that its measures to reduce unemployment will "fit into the pattern of the forthcoming large-scale national construction program." This program emphasizes the economic development of outlying areas, where

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there are now relatively few people. Unemployed persons in the cities are being given the alternatives of accepting "government-sponsored work" or of returning to their native villages.

9. Unexpected drop in Chinese orders for Ceylon rubber reported: Two Polish vessels, the Mickiewicz and the Kilinski, are due to load at Colombo in September a total of only 2,900 tons of rubber for China. The American Embassy in Colombo reports that a lack of other Chinese orders for rubber has forced down the local market price and left several dealers with an estimated 2,000 to 3,000 tons of unsold rubber. The Embassy believes that the Chinese may have suspended purchases until after discussions with the Ceylon rice-purchasing mission, now due to leave for Peiping on 11 September. (C Colombo 98, 5 Sept 52)

Comment: The Chinese, who have been paying premium prices for Ceylon rubber, have probably stopped buying in view of the early prospect that they will be able to barter rubber for rice rather than pay cash. These two shipments in September will raise to 17,700 tons the quantity of rubber shipped from Ceylon to China in 1952.

10. Peiping reaffirms confidence in Viet Minh victory: Radio Peiping, commenting on the seventh anniversary of the proclamation of the Democratic Republic of Vietnam, quotes the Viet Minh Ambassador to Peiping as declaring that the Communist movement in Indochina will "have to go through arduous times" but, backed by the Soviet bloc, "will undoubtedly win final victory."

Liu Shao-chi, vice chairman of both the Peiping regime and the Chinese Communist Party, is quoted as hailing the "friendly cooperation" of Communist China and the Viet Minh, and as expressing confidence that the Viet Minh struggle will "end in victory." (R FBIS [REDACTED] 2 Sept 52)

Comment: Peiping's comment provides no clue as to whether the Chinese Communists envisage a prolonged stalemate in Indochina, plan to increase their aid to Ho Chi Minh, or anticipate a negotiated settlement of the Indochina conflict.

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Current Communist propaganda, in connection with the forthcoming Pacific "peace" conference, calls for peaceful settlement of existing conflicts in Korea, Indochina and Malaya. There is as yet no convincing evidence that the Communists in Indochina or Malaya will follow the lead of the Korean Communists in seeking truce talks.

11. Chinese Nationalists apprehend 6,000 persons in August police raids: The 26 and 30 August police raids on Formosa have netted about 6,000 persons who are accused of vagrancy, desertion, or not possessing proper documentation. The purpose of the raids was to arrest vagrants and criminals who could be impressed into military service, to eliminate Formosan dissidents, and to apprehend Communists.

The disposition of these prisoners has not been determined. The commander on Chinmen has already registered an official objection to having any assigned to his command, fearing that they would create a disciplinary problem.

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Comment: Another report stated that the Nationalists executed over 200 Communist agents in early August. These are the first such raids conducted on Formosa this year, and they may have been occasioned by the reported arrest on 15 August of a lieutenant general and his brother for espionage.

12. Chinese Nationalist Overseas delegates may remain for meeting of National Assembly: The Chinese Nationalists hope that many of the overseas delegates to the Seventh National Congress of the Kuomintang scheduled for 10 October and the conference of Overseas Chinese immediately following will remain for the National Assembly meeting in January. The lack of a quorum has previously deterred the Nationalists from convoking a National Assembly meeting and no official announcement has been made; Chiang Kai-shek, however, does not appear to be concerned with this problem at this time.

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_____ states that Chiang intends to use the National Assembly to consolidate his control over the government prior to the outbreak of World War III, which he expects in 1953. _____

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Comment: The Seventh National Congress of the Kuomintang is expected to call for a meeting of the National Assembly, which would have power to institute impeachment proceedings against Vice President Li Tsung-jen.

13. Macao obtains strategic goods from Portugal: The Hong Kong government has given the American Consul General a copy of the manifest of the Portuguese vessel India, which arrived in Macao from Lisbon on 24 August.

As in past instances, the cargo included several strategic items. Quantities of ball bearings, chemical products, auto parts, analine dyes, and steel wire in most cases obviously exceeded Macao's own requirements. (C Hong Kong 537, Joint Weeka 35, 29 Aug 52)

Comment: The authorities in Lisbon insist that the prosperity and security of Macao require the continuation of strategic shipments to China. The recent border incidents have stiffened the Portuguese in this attitude, since they fear that stopping the strategic trade might provoke further clashes with the Chinese Communists.

14. British may refuse Hong Kong visas to "peace" delegates: A British official in Tokyo has "indicated" that Britain has decided not to grant transit visas through Hong Kong to persons desiring to attend the Pacific "peace" conference in Peiping this month. (C Tokyo 812, 4 Sept 52)

Comment: About 500 persons from more than 30 countries have been invited to attend the "peace" conference. British refusal to permit transit through Hong Kong would discourage many of the delegates from attending, particularly those of Southeast Asian countries.

SOUTHEAST ASIA

15. Reports of Viet Minh hardships increase: The American Embassy in Saigon reports that recent accounts of conditions in the Viet Minh zone dwell increasingly on the deterioration of the enemy economy, the shortage of food, and the dissatisfaction of the people with the onerous taxation and police measures. The Embassy also notes lowered morale among

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military units, but warns against drawing too optimistic conclusions from these reports. (C Saigon 523, 5 Sept 52)

Comment: The bulk of evidence suggests that civilian morale in the Viet Minh zone is poor, but that this factor has been largely neutralized by the impossibility of organized opposition and by the widespread conviction among Vietnamese that in relation to the Bao Dai regime the Viet Minh is the lesser evil.

The morale of Viet Minh troops in general is fair and in some cases, notably those divisions which have been resting and regrouping since February, it is probably good to excellent.

16. British suspect French proposal for tripartite statement on Southeast Asia: The American Consul General in Singapore reports that British officials there suspect that the French are preparing to propose an Anglo-American-French declaration of aims regarding Southeast Asia which will primarily disregard British problems. The Consul General believes the British would resent American approval of the French statement as an indication that the United States is also unconcerned with British problems. (C Singapore 266, 4 Sept 52)

Comment: The French reportedly favor a tripartite pledge to help Southeast Asian nations "realize, maintain and defend their independence." They probably believe that it would be popular in Indochina. Such a statement would be embarrassing to British officials in Malaya as it would draw attention to the fact that Malaya is the only Southeast Asian country not nominally independent.

17. Philippines may soon ratify Japanese peace treaty: A high official of the Japanese Foreign Office has confidentially informed the American Embassy in Tokyo that his government has tentative assurance that the Philippine Nacionalista Party will soon support ratification of the Japanese peace treaty. The official indicated that Japan would be willing to discuss reparations only within the terms of the treaty. (C Tokyo 779, 2 Sept 52)

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Comment: The opposition Nacionalista Party, which controls the Philippine Senate, has blocked ratification since President Quirino submitted the treaty in March. By insisting on larger reparations and expressing fear of a resurgent Japan, the Nacionalistas have hoped to gain popular support for the 1953 elections.

NEAR EAST - AFRICA

18. Mullah Kashani reportedly ready to act against Mossadeq: Mullah Kashani notified Prime Minister Mossadeq before his departure for Mecca that he will take matters into his own hands if the government does not take measures "to remedy the present situation," [REDACTED]

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[REDACTED] Kashani expects Majlis support and will probably also have Tudeh cooperation. The timing of the plan is not known but it is believed to call for action shortly after Kashani's return.

Kashani wishes to become the next prime minister. His ultimate aim is to oust the Shah and become president of an Iranian republic. [REDACTED]

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Comment: An anti-Mossadeq group in the Majlis, composed of conservatives and followers of Kashani, sought American support in August. Kashani also apparently has the support of several street organizations which, combined with the Tudeh, could have a powerful effect. Kashani's acceptance of Tudeh cooperation is probable, since he has always maintained that he could easily control the Tudeh once he has used it.

- 25X1X 19. Iranian Cabinet reportedly incompetent and anti-American: [REDACTED]

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[REDACTED] told [REDACTED] that most of the cabinet members are anti-American. He added that they probably would change their attitudes if United States policy were more favorable to Iran.

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Only the Minister of Interior and the Minister of Health are reported as friendly to the United States. The rest of the cabinet is characterized as opportunistic [REDACTED]. Moreover, the Minister of Education is accused of being a leftist. [REDACTED] (Aug 52)

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Comment: Mossadeq's cabinet was hand-picked and has been characterized as a "rubber stamp" with incompetent members. When Foreign Minister Navab was Minister to The Hague, he was described by [REDACTED]

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[REDACTED] as "not overly intelligent" and a man who "if he had deep thoughts, certainly keeps them hidden."

20. Britain to permit jet aircraft exports to Middle East states: The British Foreign Office has decided to notify the governments of Iraq, Israel, Syria, and Lebanon that they can each purchase a maximum of 12 combat and 2 training jet aircraft. Deliveries will be phased over a period of several years. The French and Turkish Governments are being informed of this decision, which stems from increased efforts to expand the arms export program to help Britain's economic situation.

In view of the concern expressed by the American Embassy in London over the suddenness of this decision, the Foreign Office agreed to try to delay the instructions to its missions until the State Department could offer its views. (S London 1264, 4 Sept 52)

Comment: This decision relaxes the British position taken in September 1950 to halt all high-priority arms exports except to NATO and Commonwealth countries. The Middle East states are very eager to obtain jet equipment, and this policy change comes at a time when Britain is seeking a friendly Arab attitude toward its proposal for a Middle East Defense Organization.

21. General Nagib may visit Sudan: The British Foreign Office reports that General Nagib and Prime Minister Ali Maher intend to visit the Sudan within the next month or two. The Foreign Office feels that in some ways such a visit would be advantageous but that the question of timing should receive careful consideration. (S London 1305, 5 Sept 52)

Comment: Maher's forced resignation will obviously change these plans, but there is no reason to believe that Nagib, despite his new duties as Prime Minister, will abandon them or lose interest in the Sudan. Nagib's few cautious statements on this issue do not clearly indicate what his position will be.

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The new constitution, bringing almost complete self-government to the Sudan, will go into effect in November unless the two condominium powers agree on changes. Past British efforts to secure Egyptian cooperation on the Sudan have been rebuffed.

22. French alarmed over implied American support of Tunisian nationalists: The Acting French Resident General in Tunis has expressed grave concern over an alleged statement by UN delegate Gross that the United States hopes the "consultations between France and the true representatives of the Tunisian people will result in an agreement prior to the UN General Assembly."

The Resident General stated that the Neo-Destour Party will interpret the word "true" as full American backing for their thesis that Baccouche is not a Tunisian representative. (C Tunis 076, 4 Sept 52)

Comment: France may now request clarification of the alleged statement in the hope that an American reply might indicate more positive support for the French position.

In a UN information program on 1 September Ambassador Gross stated that the United States hoped Tunisian difficulties might be solved by "fair and friendly consultations between the French and the Tunisians -- by that I mean representative Tunisians."

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WESTERN EUROPE

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23. Russians reportedly see little hope of blocking EDC: [REDACTED]

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[REDACTED] East German Prime Minister Grotewohl informed his party leaders in mid-August that the then forthcoming Soviet note on Germany assumed that little chance remained of preventing a European Defense Community. He allegedly stated that the Soviet note would serve primarily as proof of Russian desires for German unity, and that the Kremlin did not expect a four-power talk to result.

In East Germany, the Soviet Union would respond to the American system of Western European alliances with a "completely new policy" featuring accelerated socialization and a closer control over East German parties and other organizations heretofore tolerated because of their West German connections. [REDACTED]

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Comment: Grotewohl's remarks, if accurately reported, may well have been designed to reassure his subordinates that their positions would be secure despite Soviet proposals for all-German elections. This suggests that the East German parliament's recent nomination of delegates to an all-German electoral commission is primarily intended to further the Soviet propaganda line rather than to lead to serious negotiations.

24.

West German Socialist forecasts ratification of treaties: Carlo Schmid, a leader of the opposition Social Democratic Party and chairman of the Foreign Affairs Committee now considering the Bonn and Paris treaties, believes that final Bundestag action cannot be completed before early November, but that ratification is certain. Since he did not mention his party's case against the constitutionality of the treaties during his talk with American officials, he apparently assumes that Chancellor Adenauer will win on this issue as well.

Neither the Bonn coalition parties nor the cabinet have yet seriously discussed the timetable for ratification. Adenauer and his party continue to favor speedy action, but the minor coalition parties, dissatisfied over the war criminal and Saar issues, are showing less eagerness. (C Bonn 974, 4 Sept 52)

25.

France considering new plan for Saar voting: The French Foreign Ministry is working out a plan for holding a referendum in the

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Saar as soon as a French-German agreement on the broad lines of a settlement has been reached and other interested countries have been consulted. If the Saarlanders approve the proposed settlement, details will be worked out with the Saar Government.

No final decision on this plan will be made, however, before the 8 September meeting between Chancellor Adenauer and Foreign Minister Schuman. (S Paris 1397, 4 Sept 52)

Comment: Saar government leaders agreed on 3 September that elections must be held, under the Saar constitution, not later than December. They recommended that a prior referendum be held on the question of Europeanization.

Chancellor Adenauer is strongly opposed to a referendum before a French-German agreement has been reached. He hopes to get French agreement to a postponement, failing which he plans to raise the "human rights" issue in the forthcoming Council of Europe Assembly.

26. Soviet blast against Austrian Government believed tied to treaty negotiations: American Embassy officials in Vienna report that available evidence indicates that the recent Soviet blast against the Austrian Government for alleged failure to carry out Allied democratization directives was concocted for use in future Austrian treaty negotiations. A high Soviet representative is reported to have informed an Austrian official that the Soviet statement was prepared some time ago and that no "positive results" were anticipated in the Allied Council. (C Vienna 656, 4 Sept 52)

Comment: The Soviet Union appears to have been more disturbed than heretofore believed by the introduction last March of the short treaty draft and subsequent Austrian moves to appeal to the United Nations. Charges aimed at the democratic character of the Austrian Government may lead to Soviet demands for prior Austrian guarantees not to enter "aggressive Western alliances."

27. NAC considers political implications of military exercises: Referring to forthcoming NATO exercises in Germany, NAC Secretary General Ismay recently suggested advance discussion of future large-scale maneuvers which might be accompanied by political repercussions. The British, French, Norwegian and Danish representatives expressed full agreement, the latter two citing recent experiences in connection with this month's NATO

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naval exercise. The Standing Group is aware of the need for working out a procedure for the future, according to its liaison officer. (S Paris POLTO 259, 4 Sept 52)

28. France seeks three-power MEDO Standing Group: France wants a Middle East Defense Organization Standing Group composed of the United States, Britain, and France, as in NATO, according to preliminary Foreign Ministry views. The French hold that their agreement last year to support Turkey's NATO membership and to join in the first approach to Egypt on the so-called Middle East Command was based on a definite three-power understanding of this Standing Group concept.

The French oppose any approach to the Arab states until the establishment of MEDO is announced. The Foreign Ministry still desires an early tripartite meeting in London on MEDO. (S Paris 1394, 4 Sept 52)

Comment: The preliminary British MEDO draft makes no provision for a Standing Group at this stage. The French, who have no forces to contribute at present, see the Standing Group concept as their only means of retaining any top-level control.

29. Schuman Plan members oppose outside control: According to the American Embassy in Paris, the German vice-president of the coal-steel pool's High Authority believes that the governments and parliamentarians already favoring an independent Schuman Plan Assembly are more determined than ever to keep the Assembly free of outside control. Their determination has been stimulated by the administrative difficulties between Jean Monnet, president of the High Authority, and the secretary general of the Council of Europe. (C Paris POLTO 252, 3 Sept 52)

Comment: Monnet has taken vigorous action to ensure the independence of the Schuman Plan Assembly. His bickering with the secretary general of the Council of Europe over procedural matters, however, has aroused criticism which may be voiced at the forthcoming meeting of the coal-steel pool Assembly.

30. Belgian Cabinet weakens: The resignation of Belgian Minister of Justice Pholien over the government's "leniency" toward two wartime collaborators has not mollified public opinion. The government has failed to explain that its policy remains unchanged, and the Socialist opposition has reaped an electioneering advantage by exploiting the question. (C Brussels 245, 4 Sept 52)

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Comment: The present Social Christian cabinet commands only a slim parliamentary majority. Any cabinet overturn would result more from domestic than from foreign policy issues, and the successor cabinet would probably also be dominated by the Social Christians.

31. Principal anti-Franco organization disintegrating: During its congress at Toulouse last month, the Spanish Socialist Party voted to end the 1948 pact with the pro-Don Juan monarchists. The resolution, which reportedly resulted from objections by party members in Spain to agreements that "compromise" their actions, places future cooperation with anti-Franco groups on a project-by-project basis.

According to the American Embassy in Madrid, this move may lead to a radical reorientation if not the complete dissolution of the clandestine monarchist-led Coordination Committee of the Interior (CIC). (S Madrid Joint Weeka 35, 29 Aug 52)

Comment: The CIC, which is based on the 1948 pact, has been Spain's most important non-Communist anti-Franco organization.

Monarchists were recently ordered by the Conde de los Andes, Don Juan's personal representative in Spain, to cease all clandestine activity. The Socialist resolution appears as a reaction to this decision, and conforms to a similar step taken last year by Spanish Socialist exiles in Mexico.

LATIN AMERICA

32. Chilean Congress will probably name Ibanez president next month: Since no candidate has obtained the necessary majority in the Chilean election, the naming of a president rests with Congress, which must choose between the top two candidates, Ibanez and Matte. Although the Ibanez forces have little strength in Congress, as against Matte's approximate 40 percent control, there are indications that Congress will respect Ibanez' 47 percent plurality and select him.

The very recent "go easy on Ibanez" attitude on the part of the administration, in strong contrast with its previous desire to smear him as linked with Peron, lends credibility to a reported deal between Ibanez and the administration forces, which also control 40 percent of Congress.

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The Congress probably will not act until 24 October. Should it not proclaim Ibanez president, a revolt can be expected. (Factual data from: C Santiago 77, 5 Sept 52; La Prensa (NY), 5-7 Sept 52)

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33. Opposition to Batista regime in Cuba reported growing: A [REDACTED] reports that opposition to the Batista government has increased to where an armed revolutionary attempt may be made in the near future. He states that ever since the 10 March coup, rapidly increasing numbers of small groups have been organizing and preparing for revolt, and that efforts to unite them under the major opposition groups are well under way. It is believed that aggressive action will be taken when the opposition is properly organized.

Reportedly the leading forces in the movement are the Authentic Party group under Antonio Varona, the Orthodox Party group led by Emilio Ochoa, the pro-Prio (deposed president) group now in exile, and a group of army officers deprived of their positions by the coup. [REDACTED]

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Comment: Reports concerning impending revolutionary attempts against the Batista regime have been received periodically. One attempt is reportedly scheduled for 10 October. Batista is said to know of all such plans and has instructed the military to take extraordinary precautionary measures.

A counterrevolutionary effort, probably involving the assistance of Cuban exiles and other Caribbean revolutionary elements, is considered a definite possibility, particularly between now and the promised November 1953 presidential elections.

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