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CENTRAL INTELLIGENCE AGENCY

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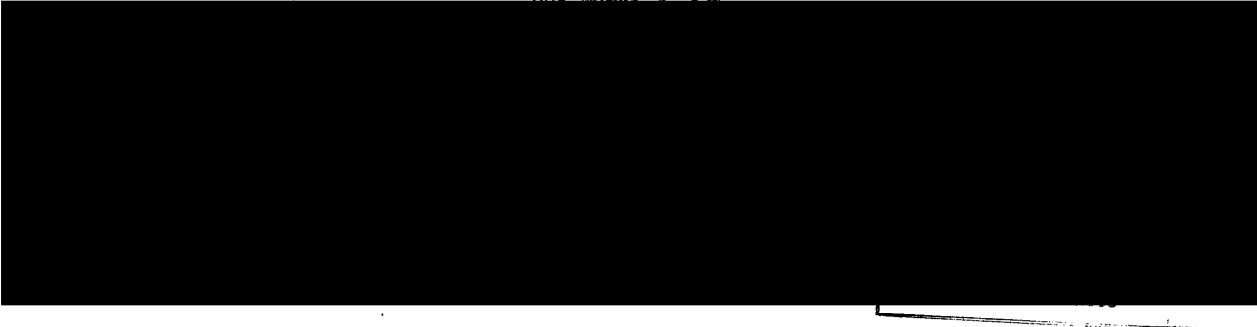
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1. The cause of the Tito-Cominform rift is primarily economic, according to source. Tito was dissatisfied with the preceding Yugoslav-USSR trade pact because the Soviet Union dictated prices and terms without granting the Yugoslavs any bargaining power. The Soviet Union has consistently failed to meet its trade commitments. The Soviet failure to deliver 8,000 truck tires promised for early 1948 resulted in a critical situation in the Yugoslav truck transportation system. The Croatian Minister of Traffic has stated that half the usable trucks in Croatia are immobile for lack of tires and repair parts. The food and fuel situation in Yugoslavia is catastrophic. Rationed goods are unavailable and prices on the free market are exorbitant.
2. Yugoslav-Czechoslovak negotiations for a new trade treaty were broken off abruptly during the first week of December by the Czechs. Source believes that negotiations ended because the Soviet Union agreed to supply the Czechs with commodities sought from Yugoslavia.
3. Tito had been reluctant to contact the West for trade assistance for fear of giving the Cominform a basis to confirm their accusations that he is a traitor.
4. The Yugoslavs continue to trade with the Soviets and UAIS in Vienna. No instructions to the contrary have been received from Belgrade. All Yugoslav shipments for sale in Austria are sent by rail addressed to Juschneschtrans in care of Soviet APO numbers. The Soviets drive hard bargains and dictate all sales conditions, paying in schillings. They never purchase the entire shipment and allow the Yugoslavs to sell the remainder on the Austrian black-market. The Yugoslav commodities offered are mostly food stuffs. The total Yugoslav sales in Vienna are about four million schillings monthly. The Yugoslavs utilize these proceeds from black market sales to buy tool steel, sheet metal, rolled iron and wire. The Soviets have allocated one D.D.S.G. (a Danube shipping firm) warehouse to the Yugoslavs for the storage of these purchases. The warehouse is guarded by Soviet troops. Each month about four barges come from Yugoslavia to receive merchandise. The Yugoslav Commercial Attache in Vienna must supply the Soviets with a monthly statement of items exported in this manner; the statement contains a clause stating that the products are for use in Yugoslavia. Source is aware, however, of several instances where lead and copper obtained in Vienna, were shipped to Yugoslavia and then sold in Trieste or Switzerland.

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5. Nikola Lubisic, the new Yugoslav Commercial Attache in Vienna, in early December 1948 failed to obtain a Soviet transport shipment and sent three or four barges to Yugoslavia under cover of fog without Soviet permission. The barges carried ball bearings of German and Austrian origin, wire and electric motors. According to Lubisic's deputy, the Soviets were annoyed at this incident, but the matter was settled and on 22 December Osipov of UAIS suggested to Lubisic that the Yugoslavs make all purchases in Vienna through UAIS and Osipov would guarantee a Soviet export permit.
6. Source thinks that the only effect of the Tito-Cominform rift on Yugoslav-Soviet commercial relations in Vienna is a Soviet coolness in personal relationships. Business continues as usual though the Soviets are now stricter in demanding prompt delivery and in making inspections. The business relationship is mutually beneficial although Soviets derive the larger benefit.