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GENERAL

1. USSR attempting to use POW issue to undermine Adenauer:


 The Soviet Union is reported to have offered to repatriate 40,000 West German prisoners of war if negotiations could be undertaken, on the German side, by members of the Social Democratic Party and the Free Democratic Party. The offer was made through a West German businessman who had raised the question with Soviet officials at East-West trade talks last year. Chancellor Adenauer has been informed through Free Democratic Party leaders.

The Soviet officials emphasized that Moscow wanted Adenauer's opposition to receive credit for the negotiations and flatly rejected talks with representatives of his Christian Democratic Party. HICOG believes Moscow is hoping to use the POW issue to delay ratification of the Paris agreements as well as to sow dissension among the political parties by enhancing Socialist prestige at the expense of the Christian Democrats.

Comment: This Soviet attempt to undermine the Adenauer government is not likely to be successful. The West Germans are likely to give much more credit to the individuals involved in the negotiations than to the party. Adenauer would run the risk of serious public disapproval, however, if he should attempt to interfere with such an opportunity to repatriate imprisoned Germans.

Moscow for years has insisted it held only 13,500 POW's and has recently said a majority of these were returned in 1953. The 40,000 figure--if accurate--may include many civilians. German officials believe it is impossible to estimate the number still held.

2. Soviet harassments in Austria expected to increase:

 The American embassy in Vienna expects increasing Soviet harassment of the Austrians. It believes, however, that the USSR is unlikely to take actual moves toward partition,

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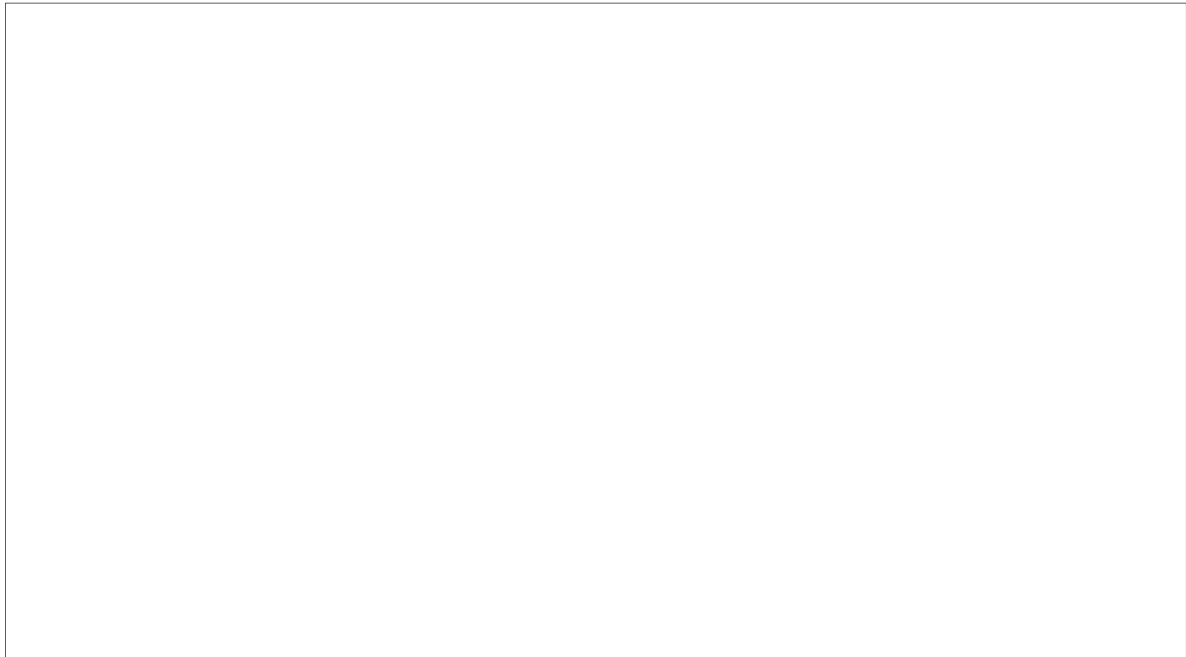
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even immediately after ratification of the Paris accords, because the resulting international crisis would conflict with over-all Soviet policy. The Soviet Union appears to be laying the groundwork for dramatic moves which would give the impression of an intention to partition Austria if the accords are ratified.

To this end, Soviet authorities have set up facilities for check points around Vienna, and may reimpose the zonal border controls and check points abandoned in June 1953, even to the extent of interfering with freight traffic. They may also increase their interference with the Austrian police.

The embassy expects the Soviet propaganda campaign to reach a new pitch of intensity in coming weeks, further emphasizing the Soviet threat first made at the Allied Council meeting on 21 December concerning the "danger to the integrity of the Austrian state" from American actions in western Austria. Communist propaganda on the threat to Austrian unity has been highlighted by a Communist-front call for a congress in Vienna on 13 March dedicated to Austrian "unity and independence."

3. Comment on British attitude toward Afro-Asian conference:

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[REDACTED]

These views on the Afro-Asian conference are in accord with the British campaign to rebuild good will on the Asian and African continents. Efforts along these lines, which will be aimed primarily at Nehru, will be continued at the Commonwealth conference later this month, as well as on Eden's extensive tour, after the Manila pact conference in Bangkok in February, of certain Southeast Asian and other capitals where British influence is strong.

SOVIET UNION

4. USSR offers to "report" on its atomic power station:

[REDACTED] The USSR has offered to submit a "report" to the forthcoming world conference on peaceful uses of atomic energy on the knowledge it has gained from the atomic power station it put into operation last summer, according to a TASS announcement. The Soviet representative, D. V. Skobeltsyn, has been instructed to present a proposal for the inclusion of this item on the agenda of the conference.

Comment: Moscow may hope through this announcement to regain the propaganda initiative it lost last fall when the UN supported the American "atoms-for-peace" plan.

The conference of scientists which will discuss peaceful uses of atomic energy is scheduled to meet in August. Moscow's move suggests that the Soviet delegation may introduce its own plan for "atoms for peace," which--unlike the US plan--would be subject to the Security Council veto and would include the participation of Communist China.

D. V. Skobeltsyn, scheduled to arrive in the United States on 15 January to prepare for the August conference, is a prominent atomic physicist and served as adviser to the Soviet delegation to the UN Commission on Atomic Energy from 1945 to 1949. [REDACTED]

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~~TOP SECRET~~**FAR EAST****5. North Korean units may replace Chinese on front line:**

[REDACTED]

North Korean units may be preparing to relieve the three Chinese Communist armies which remain along the demilitarized zone in Korea.

[REDACTED]

Replacement of front-line Chinese troops with Koreans would be consistent with the current North Korean political offensive which insists that peaceful unification can be achieved by negotiations among Koreans themselves.

The North Korean army could assume responsibility for the entire front by considerably weakening its reserve and coastal security positions.

6. Chinese Nationalist commander on Tachens "resigned to defeat":

[REDACTED]

[REDACTED]

Nationalist naval commander in the area had refused to obey several orders, with the result that casualties and losses of materiel, including urgently needed ammunition, were greatly increased.

Comment: General Liu, who is well regarded by American military advisers, has usually accepted reverses in good spirit. [REDACTED]

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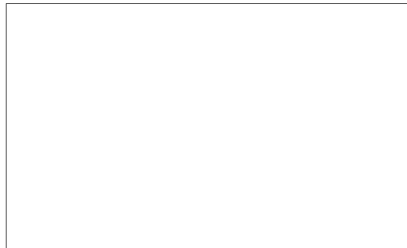
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disgust with rear area inefficiency and anger over repeated insubordination from Nationalist navy commanders--could be quickly communicated to his entire command.

Meanwhile, American military observers on Formosa have a report that a concentration of Communist landing craft and other vessels was sighted on 12 January near Communist-held islands north of the Tachens (see map, p. 8). The lift-capacity of these vessels is estimated at about 23,000 troops, whereas Nationalist forces in the Tachens number about 10,000 regulars and 2,700 guerrillas.

A successful Chinese Communist invasion of the Tachens is possible at any time.

7. Chinese Communists reported resurfacing airfields in Fukien Province:



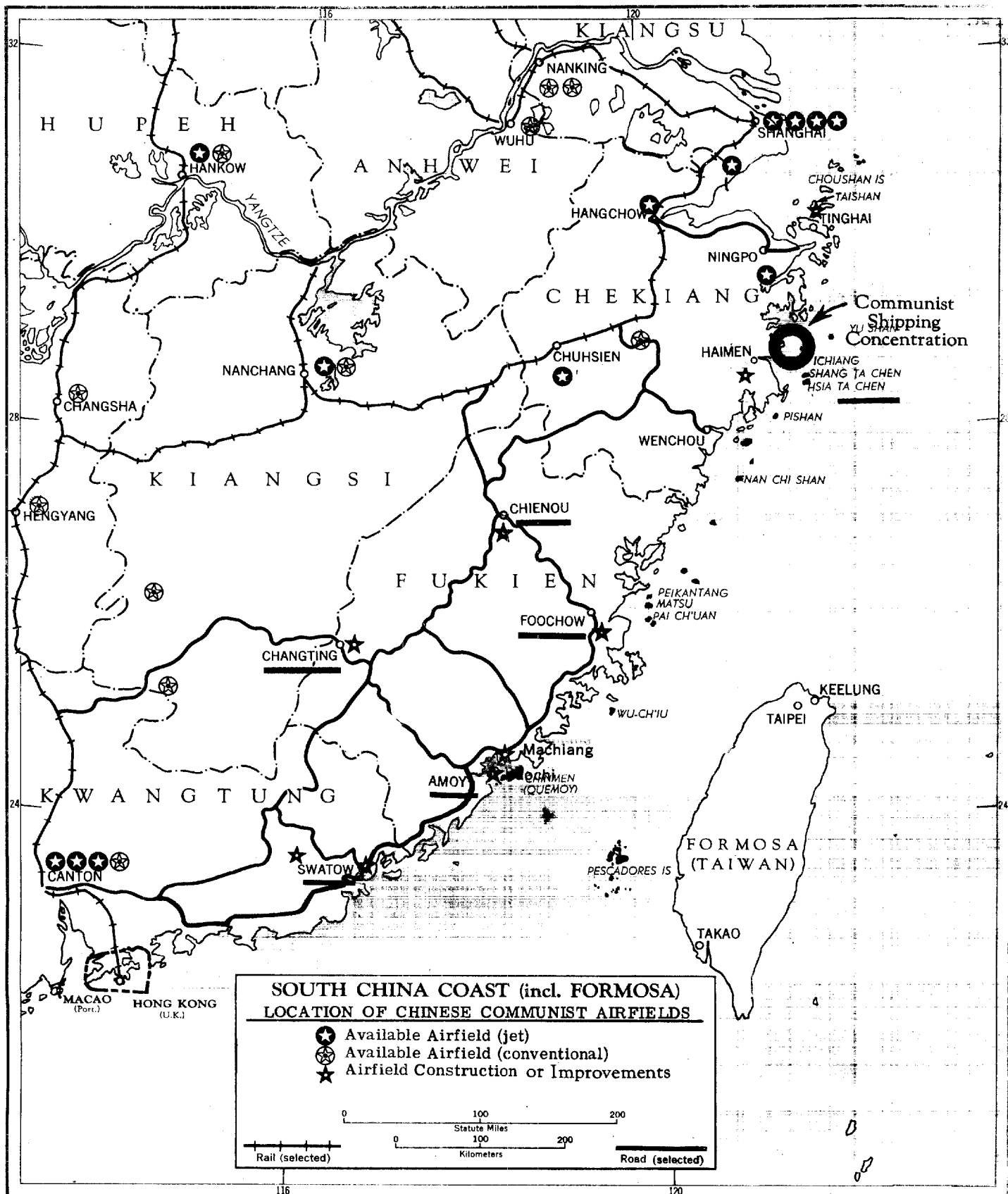
as many as six airfields may be under repair in the coastal areas directly opposite Formosa (see map, p. 8).

Kaochi airfield on Amoy Island is being resurfaced and the field at Machiang, 12 miles northeast of Amoy, appears to be under repair. Shell craters in the runway of the field at Swatow, just south of the Kwangtung-Fukien border, are being filled and there is some evidence that work on three other fields in Fukien--at Chienou, Changting and Foochow--may be about to begin.

Comment: This is the first report of recent improvements at any of the Fukien fields. Runways of these fields, except the one at Swatow, are already long enough for jet fighters and jet light bombers, but improved surfaces are necessary before jets can be based at these sites for prolonged operations.

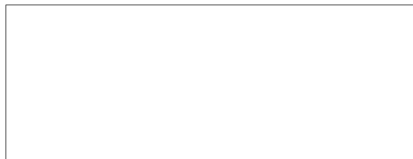
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~~TOP SECRET~~**WESTERN EUROPE****8. Luxembourg fearful of French-West German economic agreement:**

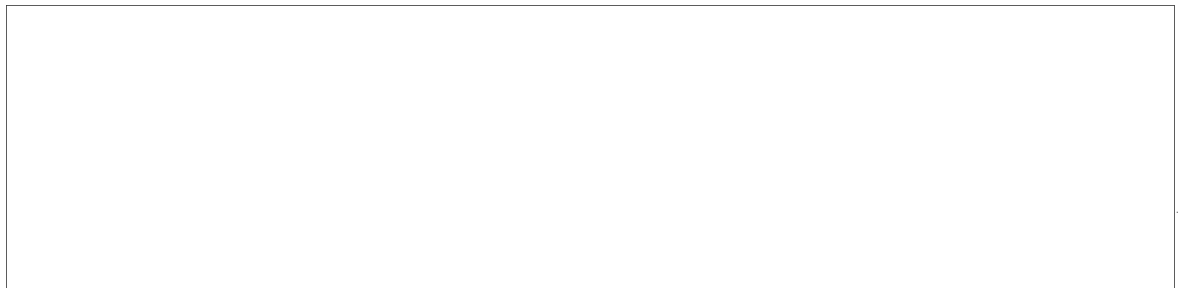
 Luxembourg foreign minister Bech fears that West German chancellor Adenauer and French premier Mendes-France may reach an economic agreement which would have adverse effects on the Benelux countries, according to the Belgian minister in Luxembourg. Bech has repeatedly urged Belgian foreign minister Spaak to discourage the Germans from making final agreements with the French without consulting the Benelux countries.

The Belgian diplomat said that West Germany had asked his country, Luxembourg, and presumably the Netherlands to make a demarche to France to permit Benelux representatives to sit in on the final economic discussions resulting from the 14 January meeting of Adenauer and Mendes-France.

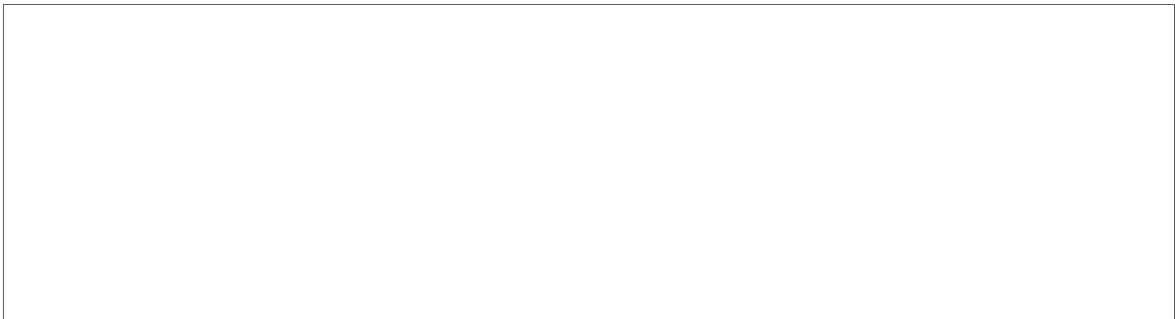
Comment: Belgian industrial circles fear adverse effects from the French-German economic collaboration which is already evident in the metallurgical field. They also suspect that the French proposal for an arms production pool is aimed at establishing armament industries in the south of France and in North Africa to the exclusion of the Benelux countries.

The Netherlands has likewise expressed strong opposition to the French arms pool proposal, negotiations on which are scheduled to start on 17 January.

9. Soviet ambassador reported supporting Togliatti against party rivals:



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Comment: Togliatti has for some time been reported under attack by militants, including Longo, for his conciliatory tactics. However, Longo allegedly delivered a speech at the CPI conference supporting the present line of the party. It has been rumored that party vice secretary Secchia, who has been reported absent from the Senate and party activities, would be dropped from the party after the conference. According to the latest press dispatches from Rome, however, Togliatti is retaining Secchia for the time being.

The Communist parties of Western Europe have in general been using conciliatory tactics as part of the united front strategy of combating West German rearmament. The reported instructions suggest that for the present the strategy will not be changed, but that following ratification the possibility of a change is being held open.

LATIN AMERICA

10. Costa Rican rebels appear to be slowing down:



A Costa Rican government patrol penetrated to within 20 miles of the Nicaraguan frontier on 13 January but was unable to contact the rebel force which had invaded the extreme northwest section of Costa Rica late on 12 January, [redacted] The invading force, part of which came by land and part by sea, is estimated to number 550 men and reportedly has heavy machine guns and mortars.

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The government is reported to have approximately 1,000 men of its Civil Guard in this sector, based at Liberia about 40 miles from the border.

[redacted] Costa Rica believe that rebel planes have been operating from Nicaragua, although the F-47's observed over Costa Rica on 12 January may be based in Guatemala or Honduras.

Comment: The rebels appear to have lost the initiative upon which they probably depended for quick victory. They seem to have attempted to emulate the successful revolution last summer in Guatemala, where wide domestic unrest permitted a relatively few men to achieve victory.

In Costa Rica, however, the rebels' psychological weapons are weakened by government jamming of their clandestine radio and by their inability to use air bases in Nicaragua without danger of detection by the Organization of American States committee now in Costa Rica. Furthermore, the Costa Rican armed forces are loyal and the people have been angered by the "invasion" of their country.

The recapture by government forces of the airstrip at Villa Quesada appears to have been a serious blow to rebel plans. There is, however, an airport in the small area under rebel control near the Nicaraguan border, on which rebel planes are now reported to be based.

10. Comment on ouster of Panamanian president Guizado:

[redacted] Panamanian president Guizado was ousted early on 15 January. He had been implicated in the 2 January assassination of President Remon [redacted]

[redacted] Guizado earlier in the day was confined to his residence by the National Guard, which announced that a

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[redacted] solution to the murder was near. Also arrested were Guizado's son, one of his business associates, his minister of agriculture and commerce, and many followers of former president Arnulfo Arias.

Guizado's removal because of implication in the crime would not necessarily involve a break in the constitutional order. Ricardo Arias, vice president and foreign minister, would legally become president.

[redacted] certain National Guard officials distrusted Guizado because of his previous association with ex-president Arnulfo Arias and would place Ricardo Arias, whom they considered their friend, in the presidency should they deem it necessary to oust the president.

Ricardo Arias, a member of one of Panama's wealthiest and most influential families, has been considered friendly toward the United States. He has not distinguished himself in politics, but is reportedly a capable administrator.

Colonel Saturnino Flores, second commandant of the National Guard, is apparently assuming control of the situation and is emerging as the "strong man" of Panama.

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