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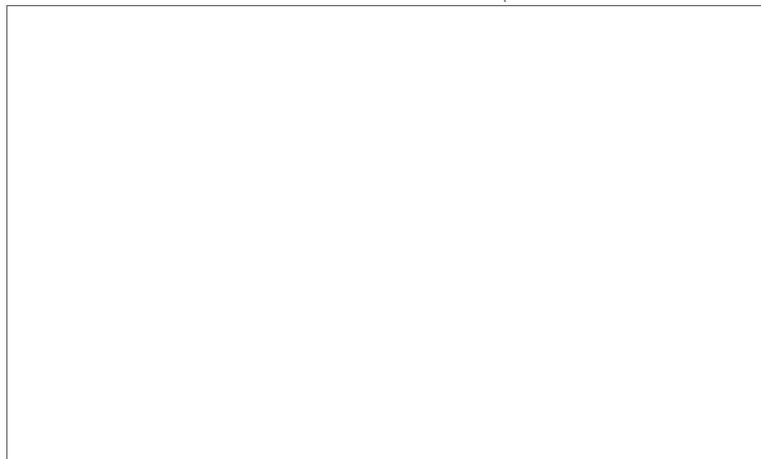
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1. KHRUSHCHEV ATTITUDE ON SOVIET MILITARY INTERVENTION IN EAST GERMANY

Comment on:

Khrushchev defined the "circumstances" in Hungary as having involved "outside intervention"--a reference to the official Soviet charge that "Western imperialists" instigated the uprising. He went on to contrast the Hungarian situation with the crisis in Poland, where Soviet intervention had not been necessary because developments there had been "entirely an internal affair"--meaning that Gomulka, unlike Nagy, did not intend to take his country out of the bloc.

Soviet leaders have made clear on a number of occasions in the past year--most recently at the Moscow conference of Communist leaders in November--that under present conditions, the USSR would not hesitate to intervene militarily to suppress a satellite rebellion.

2. SOVIET HIERARCHY MAY UNDERGO FURTHER CHANGES

Comment on:



A [redacted] diplomat recently stated that Kliment Voroshilov, chairman of the Presidium of the USSR Supreme Soviet, will retire after the March Supreme Soviet elections. He also said that Premier Bulganin may receive a new job.

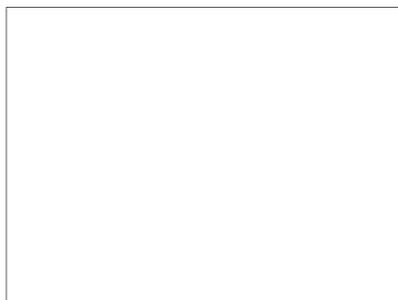
It has been frequently reported that Voroshilov, who will be 77 next month, is becoming increasingly senile. The election of a new Supreme Soviet Presidium after the general elections would provide an opportunity for him to retire with honor.

[redacted] did not specify what new job would go to Bulganin, who apparently was in political trouble last summer for failure to support Khrushchev against the Malenkov-Molotov group. Bulganin has weathered that crisis and in recent weeks has regained his former prominence. If he succeeds Voroshilov as titular president of the USSR, he will have been "kicked upstairs" to an honorific post of little political significance.

[redacted] considers Deputy Premier Mikoyan and Party Secretary Suslov the most important men in the Soviet Union after Khrushchev, an estimate consistent with other evidence concerning their relative standing. He also singled out Frol Kozlov, former Leningrad party boss who was named premier of the Russian republic last month, as a "man to watch." (NOFORN)

3. SOVIET BLOC EXPECTED TO MAKE LOW BID ON SAUDI RAILWAY CONTRACT

Comment on:



The Soviet bloc will probably underbid Western commercial interests on proposed reconstruction of the Hejaz railway. Although King Saud is not likely to approve awarding the contract to a Communist country, the problem of rejecting a low bid from the bloc would impose new strains on his relations with the West.

The Syrian chairman of the international Hejaz Railway Commission said on 5 January that he expected the Soviet bloc would offer any terms necessary to gain the contract for the railway, bids for which are due by 15 April. No bids have been received.

The Hejaz railway, built in 1908 and destroyed in World War I, has primarily a political and religious significance. Its restoration has been a pet scheme of the King. A Polish survey bid which was 35 percent lower than the next lowest bid by an American company was accepted by the commission in December 1955, but the Poles were denied entrance into Saudi Arabia by Saud. The survey was completed in Saudi Arabia during 1957 by an American firm. The Saudi foreign exchange shortage, however, would now create added pressure to accept a low bid with easy financing. (SECRET)

4. THE SITUATION IN INDONESIA

Comment on:

[REDACTED] Former Vice President Hatta apparently is not yet prepared to push for a change in the Indonesian Government.

[REDACTED] he would take no part in any reorganization while Sukarno is out of the country. Hatta believes the Communists will undertake no overt action during Sukarno's absence, but fears that elements of the Darul Islam, a fanatic Moslem group, and right-wing youth groups might attempt some violence. [REDACTED]

[REDACTED] if Hatta were to return to power, it would not be by coup but through a formal agreement with Sukarno.

Prime Minister Djuanda, in a talk with American Ambassador Allison, echoed the fear that the non-Communist opposition was more likely to take some action than were the Communists and said he expected increased difficulty with the provinces. He was still hopeful of an eventual Sukarno-Hatta rapprochement.

On the economic scene, the American Embassy reports that practically all rubber produced by small-holders, which comprises two-thirds of Indonesia's total output, now is being bartered abroad by local groups who bypass the central government. This represents a substantial loss of revenue to Djakarta, as rubber exports comprise about 40 percent of Indonesia's total exports by value. Most Dutch estates in Java and North Sumatra have been or are being abandoned, thus sharply reducing production.

5. JAPANESE ELECTION NOT LIKELY BEFORE SPRING

Comment on:



Prime Minister Kishi will probably not hold the critical national elections before April, [REDACTED]

[REDACTED] Kishi is probably fearful that the Socialists would make gains in any election held within the next few weeks.

Powerful business and financial interests prefer passage of the budget before any elections so that the present government's economic program will be continued into fiscal 1958. The budget is to include certain welfare measures which would undercut Socialist criticism. The conservative party also wants more time to develop the charge that Communist China has supported Socialist candidates in previous elections.

Kishi is expected to make a definite decision about 20 January on the timing of a general election, which must be held by February 1959.

6. SOUTH KOREAN OPPOSITION PARTY LEADER RESIGNS

Comment on:



Cho Pyong-ok's resignation as titular head of the opposition Democratic party in South Korea may seriously jeopardize Democratic chances in the

National Assembly elections this spring and could permanently split the party.

Cho ostensibly resigned to appease newspaper critics who have been indignant over his support of an assembly election law containing severe press restrictions. Actually, supporters of Vice President Chang Myon, who dislike and distrust Cho and resent his pre-eminence within the party, have sought for months to weaken his influence. The election law controversy presented the Chang group with a convenient device to force him from his post while simultaneously placating the press, an important source of Democratic election support.

Although factionalism has rent the Democratic party since its organization in 1955, the party's bitter anti-Rhee policies have gained increasing public support. This is the most serious split to date and may greatly impede progress toward establishment of a two-party system in South Korea.

**7. EUROPEAN NATIONS REPORTED FAVORING
US-USSR TALKS**

Comment on:

[redacted] the French and West German governments now favor bilateral American-Soviet talks, [redacted] the Italian Foreign Ministry also tends to favor such a move.

The only previous hint that France might abandon its long-standing apprehensions over bilateral talks was a suggestion to this effect by the influential commentator Raymond Aron on 6 January. There have been no expressions of official German opinion on the subject, but Bonn is concerned that any negotiations in which West Germany is not represented could lead to an agreement perpetuating the division of Germany.

[redacted]
[redacted]
American Embassy representative on 6 January that he believes such bilateral negotiations offer the best hope of breaking the "cold-war impasse." The Macmillan government, under fire for not sufficiently defending British sovereignty in regard to US bases in the United Kingdom, probably is not ready to advocate bilateral conversations, but this official's view reflects the spreading interest in new efforts to negotiate. [redacted]
[redacted]

8. LONDON MAY BE PREPARING ARMS LIMITATION ZONE PROPOSALS

Comment on:



The Macmillan government appears to be considering proposals of its own on special arms limitations in central Europe. The British representative to the North Atlantic Council insisted on 8 January that NATO countries should examine the Rapacki plan with an eye to devising a counterproposal which would help toward German reunification, 



Two statements by the British representative point to the likelihood that discussion of counterproposals is already under way in London. He argued that if the Soviet Union withdrew all its forces from central Europe, Moscow could not return them as readily as it did in Hungary, where some troops had remained. He also indicated that his government might favor some restriction on nuclear weapons in such a zone, because there are many different kinds of nuclear weapons, and the matter would require "long study."

Despite vehement opposition by Secretary General Spaak to any consideration of Rapacki's "insidious proposal," France and several other members indicated that the plan should be mentioned in replies, and not dismissed out of hand. 

9. RIGHTISTS AND LEFTISTS MAY AGAIN UNITE IN GUATEMALAN ELECTION STRUGGLE

Comment on:

[REDACTED]

Miguel Ydigoras Fuentes, rightist presidential candidate in Guatemala's 19 January elections, has made a deal with the Communist-infiltrated Revolutionary party (PR), [REDACTED]

[REDACTED]

The agreement, based on the belief that none of the three candidates can win a majority vote, calls for Mario Mendez Montenegro, PR presidential candidate, to drop out of the race and support Ydigoras in return for four cabinet posts including the Ministry of Interior, which controls the police and election machinery.

Such an agreement would be consistent with the objectives of Ydigoras, who wants to be president at virtually any cost, and with those of the Communists and certain other elements in the PR, who believe it tactically unwise to try for the presidency at this time. They believe the PR should concentrate on winning a strong representation in congress and then develop a solid position for a subsequent bid for power.

Even if a pre-election deal falls through, Ydigoras and the PR are believed prepared to join again in mob violence if center candidate Cruz Salazar wins the election. Similar action three months ago resulted in the ouster of the interim Gonzalez regime and the nullification of the 20 October elections.

[REDACTED]

10. **BONN CONFIRMS PARTICIPATION IN FRENCH
MILITARY RESEARCH**

Comment on:

[redacted] Bonn is furnishing German personnel for military research projects at the St. Louis Research Laboratory on the French side of the Rhine, and that the work is being jointly financed. The ministry denied reports in the German press that German military experts were working "at present" at the French rocket proving ground at Colomb-Bechar in North Africa. The ministry stated, however, that Bonn was "ready" to work with France in developing new weapons.

French-German cooperation in military research and development dates back to a January 1957 agreement for joint weapons development. [redacted]

[redacted] this cooperation would extend to the field of missiles; German military leaders who visited Colomb-Bechar were reported to have been extremely "impressed" with the possibility of using the facilities for testing German missiles.

Approximately 100 Germans are reported to be working at St. Louis in addition to the 200 French personnel. The research activities are reported to be concentrated in the ballistics and explosives field. It is believed that the type of work carried on at St. Louis could possibly be applied to the French nuclear weapons program. [redacted]

**11. BLANKENHORN APPOINTMENT TO HIGH BONN
POST IN DOUBT**

Reference:

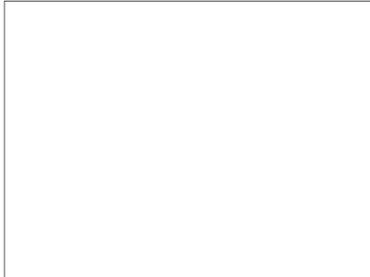


West German newspapers on 9 January indicate that a dispute has developed over the proposed appointment of Herbert Blankenhorn to succeed

Walter Hallstein in the second-ranking post in the Foreign Ministry, with Foreign Minister von Brentano objecting strongly to Chancellor Adenauer's desire to place Blankenhorn in the job. Previously it had been reported in the press that Blankenhorn was appointed to the post on 7 January. 

12. AUSTRIAN CHANCELLOR AND VICE CHANCELLOR SCHEDULE MOSCOW VISIT

Comment on:

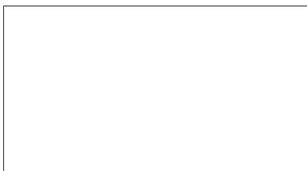


The Austrian Government has announced that the chancellor and vice chancellor plan to visit Moscow after the Easter holidays to discuss a reduction in Austrian reparations payments. The Soviet Union has been asked to set a date.

This decision has been the subject of months of intragovernment controversy. Chancellor Raab wanted to make the trip last year, but was delayed by illness, doubts over timing, and strenuous Socialist objections to his making the trip alone. Since Raab will be accompanied by Socialist Vice Chancellor Pitterman as well as State Secretary Kreisky, Socialist fears that Raab might be outmaneuvered will be moderated. The Socialists will also be able to claim partial credit for any concessions gained.

With the exception of oil shipments, Austria's reparations bill (\$150,000,000 in goods and 10,000,000 tons of oil) has not proved particularly burdensome. The Austrians are not likely to make major political concessions in return for any reduction, but they might be willing to improve relations with the Kadar regime in Hungary, and to be more tolerant toward international Communist meetings in Vienna. Some Austrian officials have long believed that Moscow will not ask for specific concessions but will be content to establish another instance of Soviet "generosity." (SECRET)

13. PREMIER BULGANIN RENEWS BID FOR SUMMIT TALKS

Comment on:

The principal purpose of Premier Bulganin's letters of 9 January to the heads of government of 19 states, including all NATO members, is to maintain the momentum of the Soviet campaign for a new summit conference. The messages apparently were timed to offset major Western policy statements in speeches by President Eisenhower and Prime Minister Macmillan and in the forthcoming replies of NATO governments to Bulganin's letters last month.

The new round of letters goes beyond the December messages by issuing a definite call for a conference in the next two or three months of the heads of government of the NATO and Warsaw Pact countries, together with "certain countries not belonging to these groups of powers." Bulganin asserted, however, that the USSR would not object to a more restricted number of participants, and proposed that the conference be held in Geneva.

The Soviet premier reiterated the earlier rejection by Khrushchev and Gromyko of the NATO proposal for a foreign ministers' conference on disarmament. He insisted that "it is a matter of prime importance" that the heads of government must participate in the proposed talks, and suggested that a foreign ministers' meeting would only "create additional obstacles to agreement" in view of the "prejudices which certain possible participants. . . would bring to the negotiations."

The agenda proposed by Bulganin for a summit conference would include the USSR's measures for easing international tension set forth in his December letters. These include a suspension of nuclear tests, a ban on the use of nuclear weapons, a non-aggression pact between NATO and Warsaw Pact powers, the creation of a nuclear-free zone in Central Europe, and a renunciation of the use of force and interference in the Middle East.

Bulganin's letter to President Eisenhower repeated in more explicit terms his previous overture for bilateral talks. He stated that the USSR "does not reject the idea of disarmament negotiations between individual states--for instance, between the Soviet Union and the United States." (CONFIDENTIAL)

ANNEX

Watch Report 388, 9 January 1958
of the
Intelligence Advisory Committee

NSC 75 No. 8-014

Conclusions on Indications of Hostilities

On the basis of findings by its Watch Committee, the Intelligence Advisory Committee concludes that:

- A. No Sino-Soviet bloc country intends to initiate hostilities against the continental US or its possessions in the immediate future.
- B. No Sino-Soviet bloc country intends to initiate hostilities against US forces abroad, US allies or areas peripheral to the orbit in the immediate future.
- C.
 1. A deliberate initiation of hostilities in the Middle East is unlikely in the immediate future. However, tensions in the Middle East continue to create possibilities for serious incidents.
 2. There is no evidence of Sino-Soviet intention to become militarily involved in the Indonesian situation. However, previously ordered military vehicles continue to be delivered, and the Soviets appear to be urging increased bloc military and other aid for Indonesia. The Indonesian Communists are exploiting political instability and economic deterioration. Developing conditions continue to provide opportunities for an expansion of Sino-Soviet bloc influence in Indonesia and for a Communist take-over of government on Java.

(TOP SECRET)

