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OPERATIONS COORDINATING BOARD  
Washington 25, D. C.

March 3, 1955

PROGRESS REPORT ON NSC 164/1  
U.S. OBJECTIVES AND POLICIES WITH RESPECT TO AUSTRIA

(Policy approved by the President, October 14, 1953)

A. SUMMARY OF MAJOR ACTIONS

1. Despite a renewed Western offer to conclude an Austrian Treaty on the basis of the Soviet texts of the previously unagreed Articles, the negotiations remain stalemated. The Mendes-France UN proposal to extend the date for the evacuation of troops to two years after ratification of a treaty was made without concurrence of the U.S. or British, who considered it ill-advised, and it was promptly rejected by the Soviets. An analysis of the Molotov speech of February 8 indicates little basis for hope that the Soviets are prepared to conclude an acceptable treaty now. However, there are indications that the Soviets wish to seem more reasonable and to bring about renewed negotiations.

2. A tripartite report was submitted to the United Nations General Assembly on November 19, 1954, outlining Western efforts to conclude a treaty and the manner in which the Soviets have blocked these efforts.

3. Chancellor Raab's visit to the United States last Fall served to impress him with U.S. strength and vitality and to make even more binding the ties which unite Austria with the West, with particular reference to Austrian support of our treaty position and future covert military relations.

4. All U.S. and Western efforts in the Allied Council to remove four-Power impediments and expand the jurisdiction of the Austrian Government have been rejected by the Soviets.

a. In unilateral efforts to relieve Austria's occupation burdens, to further Austria's economic progress, to meet emergencies, and as good will gestures to strengthen our friendly relations with Austria, (1) the U.S. completed deliveries of corn as part of our flood relief program; (2) the U.S., through the army and activities of U.S. voluntary agencies contributed food and food packages to needy Austrians at Christmas; (3) a revised agreement is being negotiated under which substantially increased rates will be paid for transportation used by the U.S. in Austria; (4) in October the Camp

*NSC 164/1 Austria (3-3-55)*

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Roeder housing project at Salzburg, accommodating 444 family units, was completed at a cost of \$3,000,000, thus permitting the return of a substantial additional amount of requisitioned housing to the Austrians; (5) construction will commence in the Spring of dependent housing in Vienna under a \$1,000,000 appropriation to permit the return of additional requisitioned housing to Austrian control; and (6) \$200,000 has been approved for FY 1955 Technical Exchange and Productivity projects.

b. The U.S., in the mutual interests of the U.S. and Austria, is negotiating with the Austrian Government a 100,000-ton coal program and a PL 480, Title I program for Austria which will probably amount to approximately \$6.3 million. It is anticipated that at least one-fourth of the local currency accruing under the latter program would be available for Austrian uses as a loan, although this is still under negotiation.

c. The U.S. converted its Vienna newspaper, the Wiener Kurier, from a daily to a weekly.

5. U.S. assistance in negotiations between the Austrian Government and U.S. and British-owned oil companies has resulted in informal agreement which it is expected will soon be formalized. Under the anticipated agreement drilling for oil in the Western zones of Austria is expected to begin at an early date.

6. The International Bank has under active consideration a loan of approximately \$10 million to assist in the further expansion of Austria's hydroelectric power facilities.

7. Coincident with Soviet efforts to prevent ratification of the Paris agreements, Soviet pressures in Austria have increased in recent months. These pressures have been evidenced by kidnappings, threats, installation of roadblocks, increased Soviet interference in Austrian affairs, confiscation of newspapers, etc. The Soviets called an extraordinary meeting of the Allied Council on December 21 in order to charge that the U.S. is violating four-Power agreements by maintaining troops in the French zone and alleged the use of Western Austria for purposes of "the North Atlantic bloc". These charges were repudiated. Communist propaganda also charges remilitarization of Western Austria and its incorporation in the "NATO operations area".

8. Further efforts to reach agreement on specific plans for the emergency utilization of Austrian manpower have been unsuccessful but are being held in abeyance due to uncertainties about U.S. plans for its forces in Austria and the danger the Austrians see in leaks that would provide further Soviet excuses for not granting a treaty.

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9. USIA continued to provide information to selected recipients and audiences through personal contact, press and publications, films, radio, exhibits, book translations, presentations, etc. Special emphasis was placed on the peaceful uses of atomic energy, and cooperation with Austrian organizations was intensified.

10. In December Austria raised to 82.4 per cent the level of imports from EPU area which are not subject to quantitative restrictions. Tourist allowances have been increased and imports and exports of Austrian currency liberalized.

11. Arrangements are being made for U.S. participation in the Spring and Fall Vienna Trade Fairs.

B. OPERATIONAL CONSIDERATIONS BEARING ON POLICY

12. Despite the lack of progress toward the fulfillment of our major objective in Austria, i.e., conclusion of a treaty and the re-establishment of Austria's independence, NSC 164/1 remains effective, timely and capable of continuing implementation. The intransigence of Soviet policy is the sole impediment to the achievement of this objective and, under the circumstances, maintenance of the U.S. position is preferable to offering additional concessions which, even if made, would provide no assurance that the Soviets would evacuate Austria. It is hoped that developments outside Austria, such as ratification of the Paris accords, will in time provide more favorable conditions for negotiations on the Austrian Treaty. There may be eventualities requiring additional policy formulation but these eventualities are not now clearly apparent (see paragraphs 1, 13 and 14.)

C. EMERGING PROBLEMS AND FUTURE ACTIONS

13. Future treaty negotiations remain a major problem. Developments since Berlin have not required any change in the U.S. position which will be maintained in the absence of future developments requiring a modification. Indications have been received of Soviet desire for renewed negotiations on an Austrian Treaty prior to ratification of the Paris agreements, but the Soviets have failed thus far to give any positive indication that they are in fact prepared to conclude a treaty now on any acceptable basis. Current Soviet emphasis is on guarantees against Anschluss, which probably means, in their view, indefinite demilitarization and neutralization of Germany but could, remote as the possibility may seem, mean some Four-power guarantee regarding Austrian neutrality and integrity.

14. Increased Soviet pressures and mounting propaganda in Austria are believed to be part of the Soviet worldwide propaganda effort to further Soviet broad objectives and, in particular, to prevent



ratification of the Paris agreements and German rearmament. There is no evidence that the Soviets plan to take positive action in Austria and the best judgment of Austrian and Western observers is that Soviet action will not go beyond additional harrassing action against the Austrian people with the possibility of more stringent occupational controls in the Soviet zone. The Soviets could, however, at any time of their own choosing either before or after ratification of the Paris agreements, partition Austria along East-West lines, blockade Vienna, or both. The West possesses no legal means of preventing such Soviet actions should Soviet policy dictate such a course. While not anticipating drastic Soviet action of this character, the U.S., in consultation with the British and French are, nevertheless, reviewing existing plans to meet these contingencies and studies are being continued with a view to developing any additional planning which the situation may require.

15. Notwithstanding the progress being made in strengthening the Austrian gendarmerie (an increase of 800 during the period to a total of 6500 out of 8500 planned), Austrian reluctance to formulate specific plans for emergency mobilization and training, coupled with the small British and practically non-existent French forces available and the possibility of reductions in U.S. strength in Austria, give rise to increasing concern as to the practicability of existing Western defense plans for Austria, the maintenance of the U.S. position in the area and the protection and support of the southern flank of NATO.

16. A comparison of the periods of September-January, 1953-1954 and 1954-1955 indicates a deterioration of the Austrian EPU position of more than \$90 million, i.e., a change from a surplus of nearly \$50 million in the former period to a deficit of more than \$40 million in the latter. The first and most obvious cause of this change appears to have been a sharp rise in imports probably for rebuilding of business inventories, as well as temporary initial effects of liberalization. Secondary - and as yet unmeasured - causes may have been a decline in net invisible receipts and possibly some capital flight.

While internal price levels have been relatively steady in Austria in recent months, both bank credit and industrial production have risen to new high levels. If the EPU position has deteriorated as a result of "one time" additions to inventories, it is not likely to cause any serious problem in view of the healthy state of Austrian foreign exchange reserves. If, on the other hand, evidence accumulates that the deterioration stems from a renewal of inflationary pressures via high rates of public and private investment, increasing bank credit, and government deficit financing, then a problem is likely to emerge whose solution will require a tightening of internal fiscal policies.

17. U.S. participation in the Vienna Spring and Fall Trade Fairs.



18. The prospect of West German sovereignty has sharpened our interest in the possibility of formally disposing of German assets in Austria prior to a treaty. Under the draft treaty the three Western powers would turn over the German assets in Western Austria to the Austrian Government (many of these assets are vital to the Austrian economy) and in the meantime these assets are operated by the Austrians under trustee arrangements. It seems desirable to bring about a settlement between Western Germany and Austria while the Western powers are still in a position to assist the Austrians in obtaining a satisfactory settlement, a view which we believe the Austrian Government shares. The matter is under current tripartite study.

19. A problem of current importance concerns the effects on existing and future relations between Austria and West Germany of the coming into effect of the Paris agreements. Under four-Power agreements diplomatic and consular relations between the two countries may be established only with the approval of the Allied Council. This raises the question of whether the Soviets may seek as a quid pro quo four-Power approval for the establishment of similar relations between Austria and East Germany. The matter is currently receiving attention by the U.S., British and French Governments.

D. EXTENT OF AGENCY INTERESTS

20. The Department of Commerce has primary responsibility for U.S. participation in the Vienna Fall Trade Fair. The Department of Agriculture is working closely with the other interested agencies on the PL 480 program. These Departments do not, however, have a significant role or interest in other activities of the Working Group.



DETAILED DEVELOPMENT OF MAJOR ACTIONS

Para. 16 a. "Continue efforts to conclude a four-Power treaty providing for the re-establishment of Austria's freedom and independence."

The period under review was marked by a stalemate in the treaty negotiations, no four-Power meetings having been held to consider the Austrian problem. Despite references to the subject in numerous exchanges of notes and speeches, the positions of the interested powers, and of the Austrian Government, remain substantially the same as they were at the Berlin Conference in February, 1954.

The U.S., France and Great Britain, in notes transmitted to the Soviet Government on September 10, 1954, and again November 29, 1954, renewed the offer made by them at Berlin to conclude an Austrian Treaty on the basis of the Soviet texts of the previously unagreed Articles, specifying signing of the Treaty as one of the necessary pre-conditions to the convocation of a meeting of the Foreign Ministers to consider the remaining aspects of European security. This continues to be the official Western position, despite the Mendes-France antics referred to below.

The Soviets in notes and speeches have variously proposed meetings of the Foreign Ministers and separate meetings of the Ambassadors in Vienna to consider the Austrian Treaty along with the German and European security questions. In the most recent Soviet pronouncement on the subject, Soviet Foreign Minister Molotov, in a speech on February 8, 1955, restated the Soviet view that ratification of the Paris agreements would create an additional impediment to the conclusion of an Austrian Treaty, again cited the need for Austria's neutralization, and stressed the old Soviet line that the Austrian question cannot be examined independently of the German question because of the increasing danger of renewed anschluss. Hints in the Molotov speech that the Soviets might be willing to accept some sort of guarantee of Austrian neutrality and against anschluss outside of the Treaty itself and that they might be willing to withdraw all troops without awaiting a German peace treaty, appear to be more than offset by Molotov's other demands. The Soviets are, however, attempting to entice the Austrians to accept the speech as a basis for conference, but it is generally agreed among the Austrians and the Western occupying powers that the Molotov speech provides no basis for hope that the chances of obtaining an Austrian Treaty in the near future have improved. The Soviet desire for renewed negotiations on the Treaty appears to be no more than part of their effort to block ratification of the Paris agreements or their implementation.



French Premier Mendes-France, in a speech before the United Nations General Assembly (UNGA), on November 22, 1954, suggested the possibility of extending to two years after ratification of a treaty the date for the evacuation of troops from Austria (present draft treaty provides for a 90-day period). This proposal was made without concurrence of the U.S. or British, who considered it a break in the solid tripartite front on the Austrian Treaty. An abortive unilateral French attempt to follow up at Moscow on the Mendes-France proposal was termed a propaganda trick by the Soviets. The proposal was considered ill-advised by the U.S. and British and was concocted, according to the French, in an effort to gain domestic support for the Mendes-France effort to obtain ratification of the Paris accords. In the absence of any indication of Soviet willingness to conclude a treaty and withdraw their troops at some fixed date, and it was (and is) the U.S. view that there was no basis for or context within which to consider the French proposal. Moreover, we considered the proposal as enhancing the Soviet bargaining position, and reducing that of the West, in future four-Power negotiations.

Para. 16 b. "Propaganda exploiting Soviet intransigence on Austrian Treaty."

On November 19, 1954, the U.K. and France joined us in transmitting a tripartite report to the General Assembly of the United Nations setting forth our efforts to conclude an Austrian Treaty pursuant to the Assembly's resolution of December 20, 1952, and outlining the manner in which the Soviets have blocked these efforts. In agreement with the Austrians, British and French, it was decided not to inscribe the Austrian question on the agenda of the General Assembly at this time. Inscription of the item on the UNGA agenda at some future time will be dependent upon subsequent developments.

USIA continues to exploit, particularly through the Wiener Kurier (weekly newspaper), Red-White-Red (U.S. radio station), VOA and its news and feature services, every opportunity to make Austrians fully aware of Soviet obstructionism and encroachments in Austria's internal affairs.

USIA displayed an exhibit at the Vienna U.S. Information Center late in October 1954 which stressed the Soviet record of intransigence on the Austrian State Treaty issue, pegged to the Eleventh Anniversary of the Moscow Declaration. It showed, graphically, the number of times the Western Powers had tried to obtain a state treaty for Austria and the number of times that effort had been blocked by the Soviet "Nyet".

A new and intensified nation-wide campaign to convince the Austrian people of U.S. interest in applying atomic energy for peaceful purposes was begun on November 1, 1954, using two approaches: (1) maximum utilization of Austrian outlets, particularly the Austrian



League for United Nations, and (2) a direct USIA campaign, coordinating all media with the local-outlet effort. The campaign will climax with a large exhibit, jointly sponsored by USIA and the Austrian League for United Nations (USIA exhibit originally held in Berlin), at the Vienna Spring Fair, March 13-20. To date, activities, both direct and through Austrian outlets, have stimulated substantial interest among Austrians on the peaceful uses of atomic energy and, through the identification of such uses with American developments, has created a sense of recognition of U.S. leadership in this field. The first part of a "Before and After" opinion survey at the start of the current campaign showed 43 per cent of the Austrian public aware of the fact that the U.S. leads in this field, but only 5 per cent realize that President Eisenhower made the original United Nations Atoms for Peace proposal. The second part of this survey, planned for April 1955, is expected to provide some measure of the effectiveness of the campaign.

USIA participated directly in the U.S. flood relief effort by raising substantial relief contributions over its Vienna radio station, Red-White-Red, and through other activities, as well as presenting to the Austrian public and the world-wide press and radio an impressive picture of the help being given by the U.S. Army and other U.S. agencies in flood control work, and later, in relief activities.

The state visit of Chancellor Raab to the U.S. and Canada offered a news peg for helping to generate additional Austrian support for the U.S. and its policies. A check showed that 80 articles published in the Vienna press and 101 in provincial papers were based on USIA-supplied material. Red-White-Red broadcast news items and commentaries on Raab nearly every day during the visit. Other media promotion included news releases, posters, displays, the Wiener Kurier, and a weekly picture supplement which featured a 12-picture photo album of Raab's trip in a full 2-page spread.

During UN Week in October, a special effort was made to promote United Nations themes and to help Austrians become more aware of the UN as a moral force. Whenever possible, activities were carried out in cooperation with the Austrian League for the United Nations.

The occasion of the November 1954 U.S. elections provided an opportunity to emphasize the bipartisan nature of U.S. foreign policy and to promote confidence among Austrians in U.S. foreign policy and the U.S. political system.

Full coverage was given to the Interparliamentary Union (IPU) Conference held in Vienna in August, emphasizing the international aspects of the Conference and building stories around the U.S. delegates to stress U.S. cooperation, and U.S. identity of interests, with the free world.





Under the Book Translation Program, copies were published of Mark A. Tennien's "No Secret is Safe" and other anti-Communist titles. Through the presentation program and extension library service, other titles exploiting similar themes were circulated throughout the country. The Information Centers circulated books such as Petrow's "Soviet Gold" and the Kravchenko exposes. Pamphlets, press features, and copies of publications such as HICOG's "Ost-Problem" were distributed to key editors, opinion leaders, and other selected individuals.

A series of seminars was organized, attended by a total of about 265 teachers, featuring lectures on American literature, history, culture and geography. Book kits and English teaching materials were made available.

An extensive effort was made to "humanize" the American soldier in Austrian eyes. Wide publicity was given to: (1) the dramatic and effective work performed by American troops in flood control and rescue operations; (2) contribution of substantial relief funds by American soldiers and civilian employees in Austria; (3) the Army's prompt donation of anti-typhus serum to inoculate 10,000 flood victims in the Linz area; (4) the voluntary rebuilding of 12 flood-destroyed bridges by U.S. Army troops; (5) the numerous concerts and other benefit events given by U.S. Army musical groups to raise funds for flood victims. Other "good will" projects publicized included the distribution of some 28,000 gift food parcels by the U.S. Army; Christmas parties given for Austrian orphans by American soldiers and Marines; and after-duty voluntary work on Austrian reconstruction projects by American soldiers stationed in the Innsbruck area. USIA cooperated with the U.S. Army in presenting, jointly with Austrian performers, the "On the Town" show in Linz, Innsbruck and Vienna.

Para. 16 c. "Discourage bilateral negotiations between Soviets and Austria."

Despite strong Soviet pressures and efforts of intimidation, the Austrian Government has stood firm in support of the Western position on the Treaty. In reply to an earlier Soviet note, the Austrian Government, on October 12, 1954, stressed the necessity of withdrawing all occupation forces and the restoration of Austria's complete freedom. In a note of November 27, 1954, the Austrian Government rejected a Soviet invitation to participate in a Soviet-sponsored conference on European security in the absence of the U.S., Great Britain and France. In a joint communiqué issued at the conclusion of the Washington visit of Austrian Chancellor Julius Raab on November 26, 1954, Raab joined us in stating a determination to work for a State Treaty which would provide for the withdrawal of all occupation troops from Austria at an early and fixed date.

Para. 16 d. "Resist the neutralization of Austria as contrary to U.S. interest."

Austria has maintained without relaxation the firm position on neutrality adopted by it at Berlin, U.S. efforts have been directed toward assuring that there is no weakening of the Austrian, British or French positions in this respect.



Para. 16 e. "Favorable revision of the long draft treaty, especially on Soviet control of so-called "German assets" (Article 35) "

As indicated under Para. 16 a. above, there have been no negotiations during the period covered in this report which would have provided an opportunity to seek a treaty in less onerous terms than those contained in the long draft State Treaty.

Para. 17 a. "Efforts to obtain alleviation of Soviet burdens and pressures on Austria."

(1) All U.S. and Western efforts in the Allied Council to remove four-Power impediments and expand the jurisdiction of the Austrian Government have been rejected by the Soviets. After a long period of Austrian and Western pressures, the Soviets unilaterally announced in December the abolition of film censorship in their zone but it is not anticipated that this action will prevent the Soviets from prohibiting the showing of any film considered by them to be undesirable.

Some instances of Soviet film censorship have, in fact, been reported since the Soviet announcement. The Soviets rejected U.S. efforts in the Allied Council to formalize abolition of film censorship on a four-Power basis. There has been no film censorship in the Western zones for many years.

(2) The U.S. Information Agency, in October 1954, made the decision to cease publication of its daily newspaper, the Wiener Kurier. Since October 16 USIA has published the paper as a weekly. While this move was stated by the U.S. to have been made pursuant to our desire to withdraw from fields inconsistent with Austrian sovereignty, many Austrians, both official and unofficial, have expressed regret that we have ceased publication of this daily newspaper which was well liked by the Austrians and generally considered to be Austria's leading newspaper.

(3) Negotiations with property owners and tenant gardeners have delayed progress on the construction of dependent housing in Vienna designed to permit the return of requisitioned properties to Austrian control. Progress is being made, however, and actual construction is expected to commence in the Spring under the \$1,000,000 appropriation provided by the 83d Congress.



(4) Negotiations are still in progress between the U.S. occupation authorities and the Austrian Government on transportation rates in Austria. It is anticipated that substantially increased rates will be paid to the Austrians under the new agreement.

(5) U.S. troops conducted Christmas festivals for the Austrians and distributed 260 tons of food to orphanages, homes and institutions, in addition to the large distributions of food and clothing by U.S. private relief organizations.

(6) In October the Camp Roeder housing project at Salzburg accommodating 444 family units, was completed at a cost of \$3 million, thus permitting the return of a substantial amount of additional requisitioned housing to the Austrians.

(7) An additional step toward the liquidation of the extra-territorial features of the occupation was taken in January when USFA signed leases with 21 individual fishing stream owners in the U.S. zone covering fishing rights for occupation personnel. A portion of the funds derived from the license fees will be used to re-stock the streams. This action, which puts occupation force members on the same basis as Austrians with respect to fishing rights was well received in the press and should serve to eliminate charges from indignant owners of fishing violations by occupation personnel. The procedures for hunting licenses is the same for occupation personnel as for Austrians and there is no friction on this score.

(8) Coincident with Soviet efforts to prevent ratification of the Paris agreements on German rearmament, Soviet pressures in Austria have increased in recent months. These pressures have been evidenced by kidnappings, threats, the installation of new roadblocks, increased Soviet interference in police and other domestic Austrian affairs, the confiscation of Austrian newspapers, etc. The Soviet Government in its note of December 17, 1954, warned Austria that the Paris plans for Germany's remilitarization "would unavoidably augment the danger of annexation" and raise "new impediments for the final settlement of the Austrian question".

In an extraordinary meeting of the Allied Council (the first such extraordinary meeting since 1947) called by the Soviets on December 21, the Soviets charged violation of four-Power agreements through maintenance of U.S. troops in the French zone. The Soviet High Commissioner termed this action "an endeavor to extend illegally the U.S. zone of occupation in Austria and to use the territory of Western Austria for purposes of the North Atlantic bloc". He demanded the immediate withdrawal of U.S. forces and installations from the French zone, stressing the "extraordinary importance" of the question and the "serious consequences for the integrity of the Austrian state"



if the Allied Council did not accept his proposal. These Soviet charges and demands were made just a few days before the Paris agreements were to be voted on in the French parliament. The charges were rejected by the U.S., U.K. and French representatives who denied any violation of four-Power agreements. The U.S. High Commissioner pointed out that we have less than 300 troops in the French zone and that these are there for the sole purpose of maintaining lines of communication with U.S. forces in Austria. The U.S. High Commissioner was joined by the British and French High Commissioners in denouncing the Soviet action as an abuse of Allied Council procedures for propaganda purposes. It should not be overlooked, however, that the Soviets in their propaganda campaign have laid a basis which could be utilized by them as claimed justification for more drastic action such as partition or blockade, or for less drastic actions such as the re-imposition of border controls and harsher treatment of the Austrians in the Soviet zone.

Another factor, difficult to judge at this time, is the relationship between Soviet announced plans to formalize an Eastern European military bloc and the Soviet attitude toward Austria.

While there is no present evidence that these Soviet actions are other than propaganda moves, three lines of action appear to be open to the Soviets should their policy so dictate (1) gradual re-imposition of strict occupational controls in the Soviet zone, with or without eventual partition; (2) partition at the Western border of the Soviet zone; and (3) blockade of Vienna. Soviet action could, of course, encompass all three of the available actions, any of which might, among other things, be designed to overthrow or force out of power the present Austrian Government and to replace it with a puppet regime. Soviet justification, if one is needed, would probably be camouflaged as the exercise of legal rights under four-Power agreements to protect Austrian or Soviet security interests.

The weakness of the Western position is that we possess no direct peaceful means of preventing such Soviet actions should the Soviets be determined to take any or all of the actions referred to. Aside from protests directly to the Soviets or in the UN, and the mobilization of world opinion, the possibilities for Western action in the event of blockade or partition would appear to be limited. Future actions, not presently authorized by NSC 164/1, might include (1) insistence upon Western rights under four-Power agreements, including the use of force if necessary to maintain those rights; (2) use of a limited airlift to supply at least Western personnel in Vienna; (3) assist the Austrian Government in establishing itself in Western Austria, recognize it as the sovereign Government of Austria, and provide economic assistance if necessary.



Possible deterrent and preparatory actions which might be taken in the case of gradual Soviet action might include (1) a tripartite declaration making clear Western intentions to protect their rights in Austria and the integrity of Austria as provided under four-Power agreements; (2) re-stocking of emergency food and fuel supplies in Vienna; (3) construction of an airport in Vienna; (4) evacuation of Western and selected Austrian personnel from Vienna. The U.S. High Commissioner believes that the temper of both the Austrian Government and people is such that they could be counted upon to resist promptly and vigorously any Soviet attempt to bring about a creeping paralysis. He believes that, in so far as the Western powers are concerned, our best defense would be to convince the Soviets that a serious attempt to bring about partition would involve a real risk of hostilities and that, under these circumstances, our most effective action would be (1) troop reinforcement in the British and French zones and Western garrisons in Vienna; and (2) evacuation of dependents. Any such actions, however, would have to be carefully timed so as not to prejudice actions by the Austrians themselves. It is believed that the British and French would not be receptive to any proposals for troop reinforcements in the absence of clear indications, not now present, that the Soviets are intent upon serious action in Austria. The study of this problem is continuing and planning to meet the foregoing contingencies is under review by USCOA and USFA.

Para. 17 b. "The promotion of a free and competitive economy."

Little direct progress has been made in reducing monopolistic practices in Austria during the period under review. However, the satisfactory operation of the Technical Exchange and Productivity Programs in Austria are likely to have had at least an indirect impact on these practices.

\$200,000 have been approved for FY 1955 Technical Exchange projects in Austria. One half of this amount has been approved for Plant Level Productivity projects which are designed directly to reinforce and strengthen the Productivity Program. The money will be used to conduct a number of small demonstration projects, and one industry, can manufacture, has agreed to this approach.

The Austrian Productivity (115k) Program appears to be under way after having been subject to numerous delays in the 18 months since the signing of the project agreement. A total of Austrian schillings 213.2 million was made available for this program and loans for projects have already been approved for a total of about Austrian schillings 50 million. With the recent agreement with the Austrian Government on interpretation of criteria for industrial loans and the institution of Plant Level Productivity Projects, the Industrial Loan Program is expected to show marked progress.

No significant progress has been made toward either reform of the banking system or the restoration of a capital market.



USIA cooperated with the Austro-American Society in giving a series of lectures on various phases of U.S. industry and management.

Arrangements are being made for U.S. participation in the Spring and Fall Vienna Trade Fairs.

Para. 17 c. "Reduction of barriers to Austria's international trade with free countries."

Intra-European trade was further liberalized by Austria to 82.4 per cent in December and it is anticipated that additional liberalization to 84.1 per cent will occur by July 1955. Further reduction of intra-European trade restrictions is possible, in principle, but difficulties will be encountered because many of the items not now on the free list are those involved with East-West trade controls.

Invisibles have also been liberalized with respect to intra-European payments. Tourist allowances have been increased. The amount of Austrian currency which can be taken abroad has been raised, imports of schilling bank notes are now free and decentralization of foreign exchange transactions has taken place with the U.K., France, Germany, Switzerland, and Sweden. Further foreign exchange decentralization vis-a-vis other European countries is expected in early 1955.

No substantial dollar liberalization has yet occurred. It appears that strong internal pressures stemming from a protectionist attitude in many quarters of Austria have been too much to overcome. U.S. trade policies are often cited in those quarters as justification for Austria's protectionism.

The Austrian authorities have continued to cooperate in the application and enforcement of East-West trade controls during the period under review.

Para. 17 d. "The requirements of Austria for economic assistance."

No new U.S. economic aid has been required during the period under review or in fact since December 1952. Although Austria's gold and dollar reserves declined slightly in November and December 1954 her foreign exchange reserve position continues to be satisfactory. Flood relief corn deliveries were completed during the period under consideration. Negotiations are under way for a 100,000-ton coal program and a \$6.3 million PL 480, Title I program; approximately one-fourth of the local currency accruing under the latter would be available for Austrian uses (loans for economic development) but this is still under negotiation.

The International Bank is now actively considering a loan to assist Austria in the construction of the Luenersee power project. The project has already been inspected by IBRD representatives and



the loan may be as high as the equivalent in foreign currencies of \$10 million. The Austrian Government plans to send a delegation to Washington for further discussions with the IBRD.

Para. 17 e. "Four-Power troop withdrawal in advance of a treaty."

No negotiations have taken place with respect to a four-Power withdrawal of troops.

Para. 17 f, g, h. "Efforts to forestall Soviet action to partition Austria, action to be taken in event illegal Soviet use of armed forces or blockade of Vienna."

Studies are continuing and plans to meet possible contingencies are under review by the U.S. High Commissioner and CG, USFA (see comments on paragraph 17 a above).

Para. 18 a. "Insure that Austrian internal security forces are reasonably adequate in the pre-treaty period."

See e. below.

Para. 18 b. "Insure, prior to the withdrawal of occupation forces, that Austrian armed forces are reasonably adequate to maintain internal security in the post-treaty period."

See c. below.

Para. 18 c. "Utilization of Austrian manpower and other measures to increase effectiveness of Austrian forces and facilitate organization of an Austrian army in the event of war."

(1) Chancellor Raab's letter of April 1, 1954, to the U.S. High Commissioner requesting that equipment be provided for a full-strength Treaty army of 50,000, has not been answered; nor has the Austrian Government answered the tripartite oral communication of June 11, 1954, concerning the effective use of Austrian manpower in the event of a major emergency prior to the coming into effect of an Austrian Treaty. The U.S. High Commissioner and the CGUSFA were of the opinion that the tripartite proposals of June 11 would not be accepted by the Austrians unless we were prepared to -

- a. give some assurance concerning the provision of equipment for the entire Austrian army;
- b. give assurance that Austrian sovereignty would be recognized on the outbreak of hostilities; and



- c. agree that, as rapidly as the military situation warranted, Austrians would be organized into units under their own commanders, the long-range objective being to have an Austrian army in the field.

It was felt, on the other hand that, if the U.S. was to provide the assurances desired by the Austrians, we should, in turn, seek certain assurances from the Austrian Government. These would include prompt Austrian agreement to plans along the lines of the tripartite proposals of June 11, 1954, and assurances that Austria would (i) stand firm against inclusion in the treaty of any provision imposing neutrality on Austria; (ii) create an army (as distinct from gendarmerie forces) at the full strength authorized by the treaty as speedily as possible following conclusion of the treaty and accept Western assistance in the formation thereof; and (iii) cooperate in Western defense efforts in the event of localized hostilities in Europe and fight on the side of the West in the event of an attack on Austria or general hostilities.

Since there may be some future reduction in U.S. troop strength in Austria and in view of Raab's attitude set forth below, the matter of seeking agreement along the foregoing lines is not being further pursued at this time.

Austria has maintained a firm position on neutrality (para. 16 d.) and Chancellor Raab has given oral assurance of Austria's intention to raise a full Treaty army when authorized by treaty and of Austria's full cooperation with the West in the event of an emergency. Raab is reluctant, however, to agree on any firm plans now for Austria's mobilization, fearing possible leaks (primarily through the French) and Soviet retaliation. Under these circumstances, the CGUSFA will proceed with his own planning for the utilization of Austrian manpower in an emergency.

(2) Coupled with their charges of growing militarism in Austria, the Communists have charged that Western Austria must already be regarded "as a NATO operations area". On February 5, Johann Koplenig, in the name of the People's Opposition deputies, sent a letter to Nationalrat Chairman Hurdes alleging the existence of plans developed by the Austrians with U.S. military collaboration to recruit 150,000 Austrians for use with NATO forces. The letter charges that recruiting is taking place under the code name "Levy" for units of battalion strength. Extremely accurate details concerning the militarization of the gendarmerie are given and the letter concludes by stating that "this is a serious danger for Austria's unity and existence". Chairman Hurdes has refused to submit the letter to Parliament but has instead forwarded copies to the three leading political parties for consideration. It is believed that the Austrians are inclined to ignore the letter although the political parties may feel obliged to make some kind of public statement. The U.S. Embassy, if pressed





for a comment on the letter, would deny the allegation concerning the plans for recruiting Austrians and would repudiate the other charges.

Para. 18 d. "Retention of Western garrisons in Austria."

British troop strength decreased from 2,600 to 2,100 while French strength remained stable at about 500. U.S. forces in Austria were increased from 15,000 to 17,000 in November, partially as a result of redeployment from Trieste, and will phase back to a 30 June '55 strength of 15,872. There has been no significant change in Soviet troop strength in Austria which remains at approximately 42,000.

Para. 18 e. "Planning and equipment for additional pre-treaty Austrian forces."

The Special Austrian Gendarmerie has attained a current strength of approximately 6,500, an increase of 800 during the period. Equipment for this force has been issued from Stockpile "A" which is currently deployed along the line of communications, represents a total value of \$52,000,000, and is based on support for the post-treaty army of 28,000. Training of the Gendarmerie was expanded to include infantry heavy weapons' training in the U.S. zone, beginning 17 September 1954, in accordance with a tripartite agreement, and in keeping with the mission of the Gendarmerie to form the cadre for the post-treaty army.

Paras. 19 and 20. "Tripartite declaration at time of troop withdrawal and commitments from Austria on her post-treaty forces."

In the absence of any indication of the imminence of conclusion of a treaty or withdrawal of occupation troops, no further action is being taken at the present time to seek agreement on the form of a tripartite declaration or to seek Austrian agreement for the maintenance of military forces (prohibited by four-Power agreement at the present time). (See 18 c.).

Para. 21. "Seek Austrian agreement to cooperate in Western defense efforts in event of war." (See 18 c.)

Food Stockpile

The liquidation of the food emergency stockpile established in 1947 has been completed, except for the horsemeat with substantial U.S. budgetary savings. Negotiations are now under way for the liquidation of this small item, by sale or other means for tarrage or dog food. A review of the legal aspects of an important stockpile



transaction (flour was exchanged for wheat in the early days of the stockpile) has changed the ratio between the share financed by the Army (Tom A) and the share financed by ECA/FOA (Tom B). As a consequence, slightly over two-thirds of the proceeds may be utilized for Austrian uses; this will allow the U.S. to fulfill satisfactorily the commitments undertaken under the agreement reached with the Austrian Government in the spring of 1953. A recommendation to the Secretary of State for authority to negotiate with the Austrians an additional agreement under Circular No. 25 in order to dispose of the balance of Tom A proceeds is being drafted.

#### Oil Agreement

The long-disputed oil concession contract between the Austrian Mining Authority and Rohoelgewinnung, A.G. (jointly owned by Socony and Shell) has been informally agreed and is reported to be about to receive formal Austrian Government approval. Under the contract RAG will not be required to deliver oil from the Western zones to Soviet-controlled refineries. A further agreement which permits a new non-nationalized RAG to operate in the Western zones is also about to be concluded. These two agreements appear to clear the way for the early beginning of full-scale drilling operations in Western Austria. The U.S. has provided continuing assistance to the American oil interests concerned in their negotiations with the Austrian Government. If oil should be found in Western Austria in appreciable quantities, as a result of these drillings, it could have considerable effect on the future of the Austrian economy and may also affect the Treaty negotiations by reducing the importance of the oil properties in Eastern Austria allocated to the Soviets under Article 35 of the draft State Treaty.

#### Austrian Atomic Energy Advisory Commission

The Austrian Government announced on January 11 the appointment of an Atomic Energy Advisory Commission for the purpose of laying the groundwork in Austria for utilizing atomic energy for peaceful purposes within the spirit and framework of President Eisenhower's proposals of December 8, 1953. The Commission, which is of Cabinet rank, has been entrusted with the following tasks:

- (a) To prepare Austria's participation in the 1955 Atomic Energy Conference of the United Nations;
- (b) To study the opinions of Austrian experts on the question of the usefulness of the purchase of an atomic reactor for research purposes and, if advised to do so, to assess the probable costs of the purchase and the operation of such a reactor;
- (c) To consider the question of Austria's participation in foreign instruction courses on peaceful uses of atomic energy.



The Austrian Government has also announced its intention to attend the International Conference to be held in August 1955 under the auspices of the United Nations to study ways and means for the peaceful development of atomic energy and its application in the fields of biology, medicine, radiation protection and science.

The Austrian Government has also indicated its interest in obtaining one of the library sets on the subject of atomic energy being made available by the U.S. Government for free distribution.

Visit of Chancellor Raab

Austrian Chancellor, Julius Raab, came to the United States on an official visit, at the invitation of the President, arriving in the United States on November 21, 1954. He proceeded to Washington on the same date where he remained until November 26. Following his official visit in Washington, Chancellor Raab, made a brief private trip through the South and Midwest, arriving in New York on December 1 to resume his official visit. His official visit ended on December 4 when he departed for Canada. He returned to New York from Canada on December 9 and sailed for home on December 10.

Chancellor Raab had previously visited Paris and London but this was his first trip outside of Europe. Although he is considered the most important figure in current Austrian affairs, his outlook was narrowly provincial and it was believed that a trip to the United States would broaden his perspective and provide a better understanding of this country. Although completely anti-Communist, Raab had previously given indications of a belief that he might be able to deal separately with the Soviets, and it was hoped that the occasion of his visit could be utilized to impress upon him the need for Western solidarity. It is probable that the visit did serve this purpose and that Austria's position on the side of the West has been strengthened thereby. Prior to his departure from the United States, Raab referred to the tremendous strength and vitality of the United States and stressed the role of Austria as a Western bulwark against the East, denouncing Soviet tactics in strong terms.

Due to the coalition character of his Government, Raab was not authorized to commit his Government on specific issues while in this country. Official conversations were, therefore, for the most part general in nature, friendly exchanges of views. In talks on the Austrian Treaty we stressed the importance of Austria's making no move until after ratification of the Paris accords when the Soviets might be in a more conciliatory mood. Raab agreed that it would be wise to avoid any move which might be misinterpreted as weakness under these circumstances. In talks between the Chancellor and representatives of the Defense Department, Raab made the significant statement that

~~TOP SECRET~~



the gendarmerie is intended to serve as the cadre for the Austrian post-Treaty army, adding that there would be no question about Austria's fighting on the side of the West.

The joint communiqué issued at the conclusion of the Chancellor's visit in Washington is set forth in Annex B.

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CYS TO # 2 & 3 Mr. Richard B. Freund State Dept.

4 - 13 Capt. Innes Defense

14-16

17-18 Mr. Lawrence Myers FOA

19-23 Mr. Roland Perusse USIA

24-25 Mr. Thayer

2 OCB Files

FOIA request regarding the release of records concerning the activities of the Central Intelligence Agency (CIA) and the Defense Intelligence Agency (DIA) in the area of counterintelligence operations. The records sought include internal communications, reports, and other documents that may contain information regarding the activities of the CIA and DIA in the area of counterintelligence operations.

The records sought are believed to be in the possession of the CIA and DIA and are being requested for release under the provisions of the Freedom of Information Act (FOIA). The records are being requested for release in order to provide information regarding the activities of the CIA and DIA in the area of counterintelligence operations.

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