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1. US urges UK to suspend arms shipments to Arab states--Under Secretary Lovett has informed the British Ambassador in the most urgent terms that continued British arms shipments to the Arab states will make it almost impossible to withstand organized US public pressure for lifting of the US embargo on shipment of arms to Palestine. Lovett asked the Ambassador to suggest to his Government that the UK: (a) make a flat statement that it will continue its embargo on shipment of arms to Palestine except for maintenance of internal security; and (b) suspend all shipment of arms to Arab states pending a clarification in the UN of the "present confused situation."

EUROPE

2. FRANCE: Devaluation measure believed likely to pass--US Ambassador Caffery comments that although the current parliamentary debate on the Government's devaluation program will subject the Schuman Government to serious stress, most observers believe the Government will probably "squeak through with a slender majority." Caffery believes that because the Communist bloc and most of the Gaullist parliamentary group will solidly oppose the Government, the Government's ability to win a majority vote will depend primarily upon the support of the Center. He observes that the support of the Socialists is uncertain because of their concern over present differences with the British Labor Party and with the International Monetary Fund.

(CIA Comment: CIA concurs in this analysis of the current situation in the Assembly and believes that the Government's measure for a free market in gold will pass by a small majority.)

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3. AUSTRIA: Austrians optimistic on Soviet treaty proposals--US Minister Erhardt reports that Austrian officials are optimistic concerning the pending Austrian treaty because of their belief that initial Soviet demands for German assets indicate a willingness to bargain. According to Erhardt, Austrian officials feel that US interest in attaching Austria to the western orbit is strong enough so that some way will be found to provide the dollars necessary for the settlement of the Soviet claims. Erhardt comments that Austrian disillusionment and corresponding political repercussions would be very great if such a settlement should fall through.

(CIA Comment: CIA believes that the USSR will almost certainly seek to extract additional concessions from the Austrian Government before agreeing to any final settlement.)

4. GREECE: Guerrilla radio reports order for hostage-taking--According to US Embassy Athens, the guerrilla radio has announced a "democratic" guerrilla army order for the taking of hostages. The Embassy further quotes the guerrilla broadcast as offering the release of a Liberal member of Parliament captured last week, if four specified leftist leaders are released by the Greek Government and allowed to leave the country.

(CIA Comment: The guerrilla announcement presages the return of a period of bitterness and harsh treatment of prisoners by both sides, such as characterized the civil war of 1944-45 when hostages were taken, and in many cases killed, by both Government forces and ELAS.)

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