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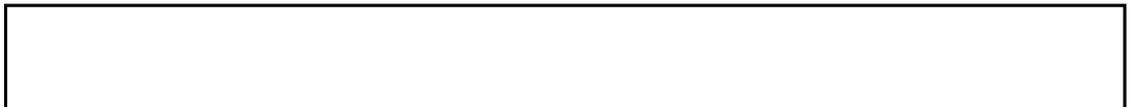
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**GENERAL****1. British outline objections to Greek-Turkish membership in NATO:**

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In an aide-memoire to the US Government, the UK has stated that it agrees the defense relationships between Turkey and the West should be strengthened, but is not convinced that full

NATO membership for Greece and Turkey is the only or the best way to achieve this objective. The UK does not take issue with the principle of the US proposal for including Greece and Turkey, but considers that "it would destroy the North Atlantic character of the alliance and extend it into the Middle East, which is an area with quite different defense problems." Recommending further study of the questions involved, the British Government specifically suggests an examination of the possibility of the US joining France and the UK in a security guarantee to Turkey; it comments that Turkey could then be associated with whatever joint arrangements the three powers devise for the Middle East. The UK also states that it would not regard the adherence of Greece and Turkey as paving the way for the admission of Spain to NATO. The memoire concludes with the assertion that the problem of NATO membership for Greece and Turkey "cannot be studied independently" of "the problem of command in the Mediterranean."

**Comment:** This is the most specific statement to date of the UK attitude toward including Greece and Turkey in NATO, though the general tenor of British participation in Council of Deputies discussions has hinted serious reservations about the proposal. In general, the British Government has welcomed the marked increase of US post-war interest in the Middle East, but has sometimes intimated that the US is not sufficiently aware of the need for long-term, coordinated planning covering the area as a whole. In particular, the British may feel that a regional pact that includes the Arab states is more realistic than an attempt to treat Greece and Turkey as part of the North Atlantic community.

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2. US gives Philippines new reparations formula for Japanese peace treaty:

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The US Department of State has requested the US Charge in Manila to inform Philippine Foreign Minister Romulo confidentially of the gist of a new reparations formula now being considered for the Japanese peace treaty. Under this formula, the Allied Powers would recognize that, although Japan should in principle pay reparations, it lacks the capacity to do so. Japan, on the other hand, would agree to enter promptly into negotiations with interested Allied Powers with a view to making available the skills and industry of the Japanese people in manufacturing, salvaging and other services as a means of partial compensation for war damages -- providing that such arrangements do not interfere with Japan's economic reconstruction, impose additional liabilities upon other Allied powers, or place any foreign exchange burden upon Japan. The Department indicates that Romulo should understand that the proposed clauses are the most he can expect, and suggests that he may wish to make advance political preparation for this fact

Comment: The Philippine Government has taken a consistently strong stand on the reparations question, insisting that Japan has the capacity to pay, over a considerable period of time, most of the Philippines' eight billion dollar claim. Since most of the Allied Powers have long since abandoned any hope of obtaining reparations, the Philippine Government may consider the proposed formula as a considerable concession to its demands. In view of its doubtful bargaining power vis-a-vis the Japanese, however, the Philippine Government may wish to negotiate a more specific settlement concurrently with the treaty.

FAR EAST

3. French officials show increasing alarm over US activities in Indochina:

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An official of the French High Commissariat in Indochina frankly described to a member of the US Legation in Saigon the hardly concealed

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French opposition to certain US programs in Indochina and plainly implied that the French suspect the US of intending to supercede France in Indochina. While emphasizing French gratitude for US military aid, this official strongly criticized the ECA program and particularly ECA publicity, which he felt depreciated French contributions to Indochina. He also inveighed against the US information and educational program, describing its publicity as impractical and incomprehensible "unless America expects Vietnam not to remain within the French Union." He stated that many of his associates could see no reason for the large number of Americans in Indochina except as a cover for an espionage organization or as a base for developing Indochina into a US zone of influence at the expense of the French.

US Minister Heath in Saigon comments that these "essentially groundless and unreasonable complaints" represent the attitude and opinions of the majority of French civil officials and very probably those of General de Lattre himself. He adds, however, that because US concern in Indochina is primarily with the country's defense and because that defense is borne solely by the French, concessions should be made to French sensibilities. Otherwise, he states, US-Franco-Vietnamese relations in Indochina will become harmfully embroiled.

4. Anti-bandit campaign in Malaya makes slight progress.

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Disagreement exists in Singapore over the High Commissioner's recent report claiming that the anti-bandit campaign in Malaya is reaching a "turning point." The favorable comparison

that the report draws between the periods from December through February and March through May is based on increased surrenders, on the greater number of bandits killed and on improved intelligence

The British Defense Coordination Committee for the Far East asserts, however, that there is little ground for the report's optimistic conclusion, and points out that the total number of bandits continues to be between 3,500 and 5,000. The Committee believes that the statistics on bandit surrenders and casualties are misleading and that intelligence has improved only by virtue of the fact that it was previously non-existent.

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Comment: Although information from Malaya does not yet support the estimate that the turning point in anti-terrorist operations has been reached or is imminent, there are reliable indications that British security forces are making some progress in their efforts to choke off the bandits' sources of food and ammunition.

5. Airline service between India and "Red" China under consideration:

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[Redacted]

New Delhi reports indicate that air service between India and China may be established soon. According to the plan now under consideration, an Indian company (either the Bharat or Himalayan Airline) would operate the air service and receive subsidies from the Chinese Communist Government to cover expected deficits. The Government of India is reportedly favorably inclined to this plan. The US Embassy in New Delhi nevertheless believes that the Government of India might be induced to withhold its approval if prompt representations were made by the US.

Comment: Either of the Indian companies mentioned has limited capabilities, and would need considerable support and subsidy from the Communists in order to operate over the difficult air route between the two countries. The Chinese Communists' willingness to subsidize the proposed airline indicates the value that they attach to the facilitation of air traffic between the two countries.

NEAR EAST

6. Anglo-Iranian Oil Company willing to suggest resumption of royalty advances:

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The spokesman of the Anglo-Iranian Oil Company's mission that is now negotiating the oil dispute with Iran has informed US

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Ambassador Grady that he believes the time is ripe for the AIOC to agree to advance the five million pounds recently requested by the Iranian Finance Minister. He would also favor the resumption of royalty payments, which he feels should never have been discontinued. He has informed Ambassador Grady, however, that the Iranians have now indicated that any such advance must be 20 million pounds and not five million. Grady comments that this is merely an attempt to bargain on the part of Iran.

Comment: The Iranian Government badly needs the money. The AIOC's monthly advance of two million pounds, made in accordance with an agreement with ex-Prime Minister Razmara, was discontinued in April when the Iranian Finance Minister informed the company that the sums already advanced under this agreement were considered by Iran as a settlement of past claims against the company. The Iranians may hesitate to accept the British offer unless the sum is larger than five million or unless it can be defined as a settlement of past debts.

#### WESTERN EUROPE

7. US Ambassador's estimate of Spanish Army opinion:

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US Ambassador Griffis regards as misleading an American labor leader's report that Spanish Army circles are ready for constitutional monarchy and that Spanish generals possibly regard Franco as a hindrance to the development of Spanish military strength and participation in NATO. He comments that despite undoubted monarchist sentiments among some Army elements, no active support for a change of regime is believed to exist. Furthermore, while some officers probably are aware that Franco has been a hindrance to Spain's receipt of military aid and participation in NATO, it is extremely doubtful that any group of influential officers is plotting to remove him. Because of their doubts as to the effectiveness of NATO and of the French army in particular, the Ambassador believes that Spanish officers would prefer a bilateral military arrangement with the US.

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Comment: The Spanish Army's preference for a special bilateral pact probably stems chiefly from its reluctance to undertake the commitments involved in NATO membership and its desire to reserve any Spanish military effort solely for the immediate defense of Spain. While Spanish officers' expressions of distrust of French military capabilities are undoubtedly genuine enough in the light of World War II events, they may also be motivated in part by sensitivity regarding the Riffian wars, when French military intervention (in 1925) saved the Spanish Army from a complete debacle.