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GENERAL

1. Polish withdrawal of Spanish case from UN agenda --US Embassy Warsaw believes that the recent Polish attempt to withdraw the Spanish item from the General Assembly agenda is a Soviet-directed tactic. The Embassy considers that the Polish motives are to: (a) narrow the field of discussion in the General Assembly, thereby permitting concentration of propaganda attacks against the Atlantic Pact; and (b) preserve the present situation between Spain and the Atlantic Pact signatories. The Embassy further points out that if the western powers seize the initiative in the Spanish case, the USSR can claim that their motive is to pave the way for Spain's adherence to the Atlantic Pact and that such preparations reveal the aggressive and anti-UN character of the Pact.

CIA-5

NEAR EAST-AFRICA

2. PALESTINE: UN efforts seen blocked by Israeli attitude -- US Representative Ethridge concludes, in a review of the work of the UN Palestine Conciliation Commission to date, that Israeli cooperation with the Commission is unlikely unless the UN and its member states are willing to back the Commission as an agency for facilitating a settlement of all outstanding issues. Ethridge considers that the Israelis have no respect for either the Commission or the Arab states and are apparently convinced that Israel can progress only by military means. Ethridge comments that in view of Israeli intransigence the Commission has had as much success with the Arabs as might be expected.

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**FAR EAST**

3. **BURMA: Shift to extreme leftist government likely**--According to US Embassy Rangoon, the Burmese Government party (the Anti-Fascist Peoples' Freedom League) has publicly indicated its willingness to yield power to a "leftist" group. The Embassy believes that the insurgent Peoples' Volunteer Organization (PVO) will now either enter a coalition with the Government party or replace the present Government.

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(CIA Comment: CIA believes that the formation of a government strongly influenced or dominated by the PVO is quite likely. Such a government would be far more leftist than the present regime and would probably take a strong anti-US line.)

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**GENERAL**

- 1. Possible resignation of Secretary General Lie--According to the US Representative on the Economic Commission for Europe (ECE) in Geneva, UN Secretary General Lie recently told Gunnar Myrdal, ECE Executive Secretary, that he was contemplating offering his resignation at the forthcoming session of the General Assembly. According to the informant, Lie is depressed by what he regards as the decline in UN influence and by progress toward the Atlantic Pact. The informant believes that Lie's decision was not a firm one, but reflected "a mood of the moment."

(CIA Comment: CIA believes that although Lie is seriously concerned over the decline in UN prestige, he will probably not offer his resignation at this time.)

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GENERAL

1. Western Union request for military aid--The Department of State has transmitted to US Ambassador Douglas in London the terms of the request by the Western Union powers for US military aid and the US reply. The Western Union requests US material and financial assistance in a common defense program based on the principles of self-help, reciprocal aid, and common action in defense in accordance with the Atlantic Pact. In reply, the US has informed the Western Union that the President is prepared to recommend to Congress that the US provide military aid under the principles of the Atlantic Pact, with the understanding that the allocations of material and financial assistance shall be agreed upon between the Western Union powers and the US. The Department has also informed Douglas that discussions are now being held with Danish, Norwegian, and Italian representatives concerning the requests of those countries for US aid and the terms of the US reply.

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for a careful re-evaluation of US policy. According to Riddleberger, the unsatisfactory political situation in the western zones arises principally from the disunity of the western powers concerning Germany and is evidenced by mounting confusion, doubt, and disillusionment, particularly in connection with the slow formation of the west German government. Riddleberger points out that the strong desire for trade between west and east Germany, combined with a desire for political unity, produces a growing west German tendency to favor rapprochement with Communist-run east Germany. Riddleberger observes that west German responsiveness to Soviet peace and unity propaganda is much greater than it would have been some months ago.

(CIA Comment: CIA considers that the lack of agreement among the western occupying powers is the chief deterrent to progress on a west German state and that such disunity encourages German expectations of western concessions on the issue of centralization. Concerning the tendency to favor rapprochement with east Germany, CIA believes that even though west German conservative commercial circles desire eastern markets, the desire of west Germans as a whole for political unification on Soviet terms is weak. CIA does not believe that west Germans are very receptive to Soviet propaganda for "peace and unity.")

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GENERAL

1. Israeli thrust into Syria reported--US representative Ethridge in Beirut transmits reports from UN observers that Israeli forces made an incursion into Syrian territory on 5 April and that a general mobilization has been ordered in Syria. (Israeli-Syrian armistice negotiations had been scheduled to open on 5 April.) Meanwhile, Acting Mediator Bunche has made strong representations to the Israeli Government, pointing out that the Israeli incursion is "a most flagrant and dangerous violation" of the Security Council truce order and insisting that any Israeli forces beyond the Syrian frontier be withdrawn immediately.

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2. Embassy Moscow's views on the Soviet anti-Tito program--US Embassy Moscow expresses the view that the USSR will continue to use indirect methods in its anti-Tito program even though the Kremlin is committed to Tito's liquidation and must feel tempted to use direct military force. The Embassy expects widespread guerrilla activities on the Greek pattern to break out this spring and to be centered on, but not confined to, the Yugoslav-Macedonian frontiers. According to the Embassy, the Kremlin's objective in these activities would be to drain Tito's strength to such an extent that the western powers would not consider it feasible to give Tito enough assistance to continue resisting.

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(CIA Comment: Although the USSR will probably use every subversive device likely to increase opportunities for the overthrow of the Tito regime, CIA doubts that these tactics will include large-scale guerrilla warfare or that Tito will permit a war of attrition to develop against him without taking vigorous countermeasures.)

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**FAR EAST**

3. **KOREA: Plans for US troop withdrawals**--The Department of State has advised US representative Muccio in Seoul of its concern lest preparations now under way for evacuation of US occupation forces will result in premature publicity on withdrawal plans before either the Republic of Korea or the UN Commission on Korea has formally approved the move. The Department is anxious to avoid giving the impression that the US troop withdrawals from Korea are either contrary to the wishes of the Republic or in response to Korean pressure. Muccio has been asked to estimate whether formal establishment of a Military Advisory Group for Korea at this time would minimize the adverse effects of the eventual withdrawal announcement.

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regime in Syria should be granted full recognition as soon as the formation of the new government is officially announced to the diplomatic missions in Damascus. Keeley deprecates the unconstitutional means by which the new government has obtained power but points out that the government does exercise authority throughout Syria, has promised to respect Syria's international obligations, and has taken measures for re-establishment of a constitutional regime.

### FAR EAST

3. CHINA: Communist "ultimatum" to Li Tsung-jen--US Ambassador Stuart has been informed by Acting President Li Tsung-jen's principal adviser that on 5 April Li received, through a non-Communist emissary from Peiping, a message which Li interprets as an ultimatum from the Communists. Stuart was advised that the message requests a high-ranking Nationalist official (either Li or Premier Ho Ying-chin) to proceed at once to Peiping to serve as vice chairman of the Army Reorganization Committee, of which Communist leader Mao Tse-tung will be chairman. The message reportedly indicates that formal conversations in the Army Reorganization Committee are to be held from 9-12 April and that Nationalist failure to send a representative or to reach agreement by the specified date will impel the Communist forces to cross the Yangtze River promptly.

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(CIA Comment: CIA believes that this message is a Communist device to apply increased pressure on Li's Government in the current negotiations and is not a genuine Communist ultimatum. Although the Communists are capable of carrying out their threat of crossing the Yangtze, they probably do not want to force a breakdown of negotiations at this time.)

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GENERAL

1. Stikker agrees to suggestions for Batavia discussions--Secretary Acheson has emphasized to Dutch Foreign Minister Stikker that the withdrawal of Dutch forces from the former Republican capital is the critical issue at the forthcoming Batavia meetings. Stikker indicated his agreement with the Secretary's view that Dutch troops must be withdrawn from the Jogjakarta area and that Republican military police must be permitted to supplement available civil police; he also acquiesced to the stipulation that full responsibility for the security of the Jogjakarta area be put in Republican hands. Stikker implied his personal agreement to the suggestion that Dutch representative Van Roijen be sent to Batavia with instructions to do whatever is necessary to settle the Indonesian problem and without being circumscribed by detailed conditions.

CIA - 5

(CIA Comment: CIA believes that the Netherlands Cabinet will be most reluctant to agree to the restoration of Republican military control to Jogjakarta but may do so with reservations and conditions designed to prevent the functioning of more than a token force. If Van Roijen is allowed real initiative in the negotiations, however, a satisfactory agreement on Republican restoration is possible.)

NEAR EAST-AFRICA

2. PALESTINE: Israeli withdrawal from Syria--The US delegation to the UN transmits UN Mediator Bunche's confirmation of the withdrawal of Israeli troops from Syria. Bunche considers the issue now closed and has notified Secretary General Lie that Israeli-Syrian armistice talks will open on 8 April.

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GENERAL

1. US requests Czechoslovak release of US soldiers--The Department of State has instructed US Ambassador Jacobs in Prague to urge the Czechoslovak Foreign Minister informally but emphatically that he arrange for the immediate deportation of the two US soldiers who were recently convicted of espionage by the Czechoslovak Government. Jacobs has been told to point out to the Foreign Minister that he must be aware that no grounds exist for an espionage charge and that the trial was a travesty of justice. Jacobs has been advised to emphasize particularly to the Foreign Minister that the US Government and public could never countenance such a miscarriage of justice involving American citizens and that a marked deterioration of US-Czechoslovak relations is bound to ensue if this request is denied.

The Department of State has requested US Political Adviser Riddleberger in Frankfurt to discuss with General Clay the possibility of taking steps other than closing off the Czechoslovak-US Zone Germany border if the Czechoslovak Government refuses to release the two US soldiers. The Department has informed Riddleberger of its view that no steps should be taken at this time which might lead to a break in US-Czechoslovak diplomatic relations.

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GENERAL

1. Satellite purges believed Soviet encirclement of Yugoslavia -- US Ambassador Cannon in Belgrade, in pointing out the similarities in the purges of top Communist leaders in Albania, Greece, and most recently in Bulgaria, comments that the Kremlin apparently intends to establish, without regard for personal merit or popular following, a corps of loyal Moscow-trained satraps throughout the Balkans. Cannon believes that the Kremlin is determined to seal Tito off geographically and to turn Yugoslav propaganda for a united Macedonia against him by demonstrating the hostility of Yugoslavia's neighbors. Cannon considers that it should be made clear to the Kremlin that the US does not consider the Macedonian question to be merely an inter-orbit squabble over the disposition of remote territory by three Soviet Satellites. He recommends that the US impress upon the USSR that any overt or camouflaged aggression in Macedonia cannot succeed through the indifference of the world.

(CIA Comment: CIA agrees that the current purge of Balkan Communist leaders is motivated partially by a desire to isolate Tito. In a broader sense, though, the Soviet action reflects the current effort by the USSR to consolidate its hold on the Satellites.)

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GENERAL

1. Italian attitude concerning disposition of colonies--US  
 Ambassador Dunn in Rome, in expressing his view concerning a US suggestion that Ethiopia set up a special judicial system and special immigration privileges for Italians in Eritrea, declares that far from placating Italian public opinion regarding loss of the colony, such a proposal would only heighten resentment. After pointing out that all Italians regard Asmara and Massawa in Eritrea as Italian cities, Dunn adds that Italians cannot be expected to put faith in Ethiopia's ability to administer this area when Ethiopia is unable to administer its own territory. Meanwhile, Prime Minister De Gasperi has described to Ambassador Dunn the difficulty encountered by the Italian people in reconciling the reluctance of the US to support Italian trusteeships of the former colonies with the decision of the US to include Italy in the Atlantic Pact and the European recovery program.

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forces to maintain internal stability and defend the country. Rhee agreed that it was psychologically desirable that he publicly announce this conclusion shortly and in so doing indicate that he was therefore suggesting a review of the timing of US troop withdrawal. Muccio believes that Korean acceptance of the US withdrawal would be given impetus if he were enabled to make an early report to Rhee on the specific assistance to the Korean security forces the US expects to give.

(CIA Comment: CIA believes that Rhee's continued acquiescence to the US troop withdrawals will depend on his receiving firm assurances that the US will provide the equipment to maintain and expand Korean security forces. CIA believes, however, that there will be an adverse psychological reaction when the fact of impending US withdrawal becomes generally known in Korea despite any announcement that Korean forces are now competent to defend the country.)

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GENERAL

1. US approves Italian-Yugoslav air discussions--The Department of State has informed US Embassy Rome of its view that the US is now able, in the implementation of its civil aviation policy toward the USSR and the Satellites, to consider making a distinction between Italian-Yugoslav air operations and operations between Western countries and the other Satellite states. The Department has therefore authorized the Embassy to inform the Italian Foreign Office, if the British Ambassador concurs, that the US is mindful of Italy's special relations with Yugoslavia and would not object to Italian-Yugoslav discussions concerning an exchange of provisional commercial air rights on a limited basis. The Department suggests, however, that the Italians merely explore Yugoslav proposals and that no definite commitment to negotiate be made.

CIA-5

2. US opposition to Belgian-Polish air agreement--The Department of State has instructed US Embassy Brussels to reiterate in the strongest terms to the Belgian Government the dissatisfaction of the US with the tentative Belgian approval for commencement of Polish commercial flights to Brussels. The Department believes that it detects "serious soft spots" in the US-UK air policy toward the Satellites as evidenced by the Belgian-Polish arrangement for reciprocal flights between Brussels and Warsaw, by a British willingness to grant clearance for a special Hungarian overflight of British Zone Germany, and by Dutch approval of this flight. The Department expresses the hope that the Belgian Government will postpone a final decision on the Polish flights until the US has been given an opportunity to explain its views concerning Satellite aviation policy.

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## EUROPE

3. SPAIN: US willing to approve Export-Import credits for Spain--  
The Department of State has informed US Embassy Madrid that it will no longer object in principle to applications for Export-Import Bank credits intended to rehabilitate the Spanish economy. The Department desires the Embassy, however, to emphasize to the Spanish Foreign Office that no assurance can be given that the Export-Import Bank will act favorably on such loan applications and that the Bank will not grant credits unless there is a reasonable prospect of repayment. The Department expresses its serious doubts that Spain will be able to make repayment. The Department instructs the Embassy to make clear to the Spanish authorities that a general demonstration of Spain's capacity and willingness to make more effective use of its resources is prerequisite to obtaining financial aid from the US.

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US suggests commercial treaty with Spain--The Department has also advised US Embassy Madrid to suggest at its discretion to the Spanish Foreign Office that the Department is prepared to explore with the Spanish Government the possibility of negotiating a comprehensive treaty of the type the US signed with Italy in 1948. The Department says it will prepare a draft of such a treaty, if the Spanish reaction is favorable.

Franco reportedly holds reform decrees pending UN action--  
The US Military Attache in Madrid has learned from a usually reliable source that Franco holds three "liberalizing" decrees which he will release whenever the UN permits the return of ambassadors to Madrid. The three "liberal" decrees reportedly deal with the suppression of the Falange, a reorganization of the army, and plans for a freer economy. Source also reports that plans, said to have the blessing of don Juan, are afoot to restore the monarchy gradually, with a four-year transitional government headed by Franco.

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(CIA Comment: CIA believes that the prevalence of such reports as this in Madrid is symptomatic of the strong pressures within Spain which may eventually bring about substantial changes in the Government and its policies.)

FAR EAST

4. SIAM: Concern over US policy in Southeast Asia --US Embassy Bangkok has learned from a reliable source that the Siamese Ambassador to the US recently told the Siamese Cabinet and Army General Staff that the US Government is divided over what course of action to take in Southeast Asia and the Far East. The Ambassador reportedly predicted that the US would ultimately take the view that it is too late to save the Far East and Southeast Asia from being overrun by Communists. The US Embassy further reports a growing belief among Siamese that the US has pretty much written off Southeast Asia and Siam.

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The Department of State has replied that it is concerned over the destructive effect of the Siamese Ambassador's views and has instructed the Embassy to refute such views by referring to the specific economic and military assistance proposals which are under consideration for Siam.

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GENERAL

1. Swedish air chief suggests possible wartime assistance--  
 According to US Charge Cumming in Stockholm, the Commanding General of the Swedish Air Force recently told British Air Marshal Tedder that under certain circumstances he would evacuate the Swedish Air Force to "any point of combat assistance to Western defense forces." Cumming believes it to be very doubtful that the Swedish Air Force either could or would be ordered to leave Sweden in the event of Soviet attack and that the Commanding General's statement would be repudiated by the Swedish Government if it became known. Cumming interprets the real purpose of the Swedish statement to be: (a) to invite current assistance to the Swedish Air Force and the standardization of equipment along RAF and USAF lines; and (b) to initiate backdoor staff conversations with the US and the UK.

S-TS

(CIA Comment: CIA believes that the Swedish Air Force would not evacuate unless all further resistance was useless or unless the tactical situation required air operations from Norwegian or Danish bases in coordinated defense of Swedish territory.)



FAR EAST

2. KOREA: Rhee asks US guarantee of Korean independence--  
 According to US Representative Muccio, President Rhee is tarrying over his decision to issue a statement in which he will affirm the ability of the Korean security forces to defend the Republic and suggest a review of the timing of US troop withdrawal. Muccio reports that Rhee, who apparently hopes for more concrete confirmation that the US intends to send military aid, specifically asked whether the US might not

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issue a statement which would reaffirm the mutual defense aspects of the treaty of 1883. Muccio believes Rhee will make a statement soon, possibly at an anti-Communist rally on 16 April.

(CIA Comment: CIA believes that Rhee will utilize every possible device to obtain concrete assurances of US military aid.)

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EUROPE

1. YUGOSLAVIA: US clarifies trade policy-- The Department of State has informed US Embassy Belgrade that the US does not intend at this time to attempt to exact political concessions from Yugoslavia as the price for further relaxing trade restrictions. The Department adds that the US continues to regard Greece as the first possible exception to the present policy of not imposing political conditions as a part of trade relations.

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FAR EAST

2. CHINA: Acting President Li requests US issue statement-- Ambassador Stuart in Nanking transmits a request from President Li that the US issue a deterring statement to the effect that Communists crossing the Yangtze would be considered a threat to the security of the US and that, should such a military operation be undertaken, the US would have to give consideration to appropriate measures to be taken. The ambassador expresses the opinion that Li's appeal is further evidence of his desperate position and the small confidence he places in current peace negotiations. Ambassador Stuart recommends that no such US statement be made unless the US is prepared to back up the statement by some kind of effective assistance.

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GENERAL

1. Israel and Transjordan may bypass UN Commission--US Charge Stabler in Amman expresses his concern that Israel and Transjordan may conclude a separate peace settlement which will settle the future of Jerusalem without regard for international interests, thereby relegating the UN Palestine Conciliation Commission to a position of insignificance. After pointing out that the Israeli-Transjordanian armistice provides for a special committee to negotiate such a final settlement, Stabler expresses the view that King Abdullah is likely to accede to Israeli pressure to set up such a committee soon and that Abdullah would be inclined to accede "somewhat too rapidly and generously" to Israeli demands. Stabler suggests that the US advise Abdullah at least to await the outcome of the UN Commission's Lausanne Conference before proceeding far with direct negotiations.

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FAR EAST

1. CHINA: Li finds Communist terms not acceptable--Acting President Li has informed the US, British, French, and Australian Ambassadors in Nanking of the Communist peace terms, which amount to unconditional surrender. According to Li, the Communists demanded that reply be made to these terms by 20 April, but he has answered that the difficulties of reaching the various members of the Nationalist Government will require more time, though not beyond 23 April. Li told the Ambassadors that he felt certain the terms would not be acceptable to his Government and that he is now convinced no peaceful settlement can be reached with the Communists. Following Li's request for advice from the Ambassadors, the British Ambassador expressed the sentiment of the group that nothing could be done to aid the Chinese in settling what is essentially a Chinese problem. Stuart believes that despite the non-committal stand by the Ambassadors the National Government will not accept the Communist terms.

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FAR EAST

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1. CHINA: Breakdown of peace negotiations --US Ambassador Stuart reports that the National Government dispatched a message on 20 April to the Communists, rejecting their proposed peace agreement and requesting a continuation of discussions. According to Stuart, the Communists have meanwhile informed the Nationalist peace delegation in Peiping that if by approximately noon of 20 April (Washington time) a negative answer, or no answer has been received to their proposal, the Communists will consider negotiations to have been broken off and will begin crossing the Yangtze River. Stuart also reports that the Nanking Government is taking steps for immediate removal of its remaining agencies in Nanking.

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GENERAL

CIA - 5

1. British anticipate accelerated Soviet peace offensive--US Embassy London transmits the view of a British Foreign Office official that current vague "feelers" and rumors concerning the lifting of the Berlin blockade by the USSR should be regarded as preparation for an all-out Soviet "peace offensive." The British official reasons that because the Kremlin must realize that the blockade has boomeranged against the USSR and has actually strengthened anti-Communist sentiment both in Germany and among the western powers, a change of tactics is essential if the USSR is to regain the initiative. The official considers that a Soviet peace move is imminent and may be launched on May Day. He believes that such a peace gesture would consist of a proposal for: (a) the lifting of the blockade and counter-blockade; and (b) Four Power discussions of German questions, including the establishment of a single German government. Although the Foreign Office official believes that the British public would not be taken in by such a peace move, he fears it would strike a responsive chord in France, Italy, and elsewhere in Western Europe.

(CIA Comment: CIA agrees that the USSR is likely in the near future to make proposals for an East-West settlement involving the lifting of the Berlin blockade. Although it appears that a change of Soviet tactics is essential if the USSR is to regain the initiative, there is no specific evidence that Soviet strategy has changed sufficiently to permit the proposal of terms acceptable to the western powers.)

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GENERAL

1. US assurances to Arab states urged--The US Consulate General in Jerusalem suggests that, in order to restore peace in Palestine and long-term stability in the Middle East, the US should give assurances to the Arab states that the US is prepared to make strongest representations to Israel against the threat or use of force both during and after the 26 April peace negotiations at Lausanne. The Consulate believes that such assurances are necessary in order to restore Arab confidence and to free the Arabs from fear of the kind of military pressure they experienced during the recent armistice negotiations. The Consulate adds that postponement until September of the Israeli application for UN membership would demonstrate to Israel that it cannot continue to ignore world opinion with impunity.

S-75

2. Socialist stand on German constitution believed not final-- Acting US Political Adviser Riddleberger in Berlin expresses his view that the Socialist Party (SPD) resolution against the west German draft constitution, which at first seemed like an ultimatum, has in fact left the door open to further negotiation. Riddleberger believes that the resolution must be considered in the light of the SPD contention that it is the political party which stands most clearly for German ideas and rights. Riddleberger suggests that if the SPD does make concessions, the Christian Democratic Party may assume a more adamant position at Bonn.

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(CIA Comment: CIA agrees that the SPD will be willing to continue negotiations but believes that the SPD will now seek to gain more substantial concessions on the draft constitution than it demanded prior to the Party resolution.)

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EUROPE

1. GERMANY: Socialist Views on draft constitution-- According to Acting US Political Adviser Riddleberger in Berlin, the German Socialist Party (SPD) expects to continue the Bonn discussions on the basis of new proposals for the West German draft constitution. Riddleberger states that (SPD) moderate leaders as well as the SPD delegation at Bonn now expect ultimate agreement at Bonn on a text acceptable to the occupying powers, but that the SPD extremists who opposed the original draft still consider such an outcome unlikely.

CIA-CONF.

FAR EAST

2. CHINA: US Ambassador scheduled to return-- The Department of State has advised US Ambassador Stuart to remain in Nanking until the Communist regime is firmly established there. Stuart is then to return to Washington for consultation. Meanwhile, Stuart reports that Acting President Li and remaining top officials have fled Nanking and that all Nationalist troops deployed for defense of the Yangtze river have been ordered to withdraw south of Hangchow. According to Stuart, the ridiculously easy Communist crossing of the Yangtze was made possible by Nationalist defections at key points, disagreements in the Nationalist high command and the failure of the air force to provide effective support.

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NO. 628

Document No. 020

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EUROPE

- 1. CZECHOSLOVAKIA: Plans for obtaining release of US soldiers--  
The Department of State has informed Acting Political Adviser Riddleberger in Berlin that if the Czechoslovak Government cannot offer satisfactory proof that the two imprisoned US soldiers are guilty of espionage, General Clay will be instructed to inform the Czechoslovak mission in Berlin that he will have to revoke permission for Czechoslovak consular and other officials to remain in the US Zone of Germany unless the soldiers are released promptly. Meanwhile, if these steps fail to result in the release of the soldiers, the Department is considering the possibility of terminating the exchange of goods between the US Zone and Czechoslovakia and preventing transit traffic through the Zone.

S-TS

FAR EAST

- 2. CHINA: Stuart not to make precipitous departure--The Department of State, in response to an inquiry from US Ambassador Stuart, has informed him that it is not the Department's intention that he make a precipitous departure from China after the Communists seize power in Nanking. The Department considers it of the greatest importance that Stuart attempt, by informal contacts with Communist authorities, to regularize the status of US Consulates and communities in Communist territory.

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GENERAL

1. British to grant Polish overflight of Germany-- US Embassy (14-5)  
 Brussels has learned from the British Embassy that the UK is willing to grant the Polish airline the right to overfly UK Zone Germany, in connection with the setting up of a Warsaw-Brussels air service, provided such services are truly reciprocal and a Belgian airline can begin simultaneous operations. The British Embassy, which has been authorized to inform the Belgian Government of this view, indicated that it had previously raised with the UK Foreign Office the question of the advisability of proceeding unilaterally with the Belgians, thus breaking the US-UK common front on Satellite aviation policy. Ambassador Kirk adds his opinion that until basic agreement has been reached with the UK on an interpretation of the common Satellite aviation policy, the US probably cannot influence Belgian and western European air policy.

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GENERAL

NO. 628

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CIA-3

1. Jessup-Malik talks -- The Department of State, in commenting on the Jessup-Malik talks, has informed US missions in the field that Soviet Representative Malik has raised the question of the formation of a west German government but has not made a specific condition of the point. US Representative Jessup has indicated in reply that preparations would continue on the government but has pointed out that the question of establishing the government does not arise in making plans for a CFM meeting in the near future. (The Department explains that there is ample time for a CFM meeting before the west German government could actually be established.) The Department has further advised its missions that, although the 26 April TASS release apparently accepts the US position, there are indications that the USSR may attempt to interpret Jessup's statement as a firm commitment that a west German government would not be established either prior to, or during, a meeting of the CFM. The Department considers that this issue must be definitely clarified in further talks between Malik and Jessup.

US Embassy Moscow, in commenting on the TASS release, expresses the view that the reference to the Kingsbury Smith-Stalin exchange does not actually remove the specific condition that removal of the blockade is dependent upon postponement of a west German government as well as convocation of a CFM meeting. The Embassy believes, however, that the Kremlin might drop this condition in view of the potential effect of an ostensibly serious peace offer combined with a lifting of the blockade and a meeting of the CFM.

(CIA Comment: CIA believes that, although the USSR may attempt to make the postponement of a west German government a specific condition for lifting the blockade, the Kremlin may estimate that the effect on the Germans of removal of the blockade will alone halt or postpone the establishment of a west German state.)

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2. US policy on Austrian treaty negotiations --The Department of State has instructed US representative Reber at the Austrian treaty talks in London that if the current discussion on un-agreed articles should fail to facilitate general agreement, the discussion should be returned to the question of Austrian frontiers and reparations. The Department advises Reber that if the Soviet delegation does not at that time relax its support of the Yugoslav claims, he may seek adjournment of the conference, which would be resumed at a later date. The Department asserts that US objectives in the current review of unagreed articles should be to obtain the maximum possible agreement and to test Soviet intentions in regard to the ultimate conclusion of a treaty.

C/A-S

3. British views concerning MAP legislation --US Embassy London expresses the view, concerning US congressional legislation on the Military Aid Program (MAP), that there would be a strong adverse reaction in the UK if MAP were financed through cuts in ECA. The Embassy considers that despite British confidence in the US and the current assumption that US-UK unity is fundamental to British foreign and defense policy, a linking of MAP with ECA or the attaching of onerous or unilateral conditions to MAP would bring a strong British reaction. The Embassy believes that failure by Congress to pass MAP legislation would create grave doubts in the UK concerning US reliability in international affairs and would cause serious British concern over the psychological effect on the French.

S-S

## FAR EAST

4. CHINA: Widening rift in Nationalist China --US Counselor Clark in Canton transmits a letter from Acting President Li Tsung-jen expressing the decision of his government to

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defend China's southwest and resist the Communists "to the last ditch." Clark reports that Li plans to have a showdown with Chiang Kai-shek over his insistence that Chiang and his followers recognize Li's supreme authority. Failing this, Li reportedly intends to remain in Kwangsi Province and direct from there the defense of the southwest, where he claims he has the support of local military leaders. Li requested that remaining ECA funds not be obligated without his prior approval and asked in particular that no ECA funds be used in Taiwan or other areas under Chiang Kai-shek's influence.

(CIA Comment: CIA believes that Li and Chiang will not find any amicable settlement for their differences, which are presently permitting the Chinese Communists to concentrate against one and then the other nationalist group, thus facilitating their conquest of all China.)

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GENERAL NO. 028

1. UK insists on sole control over Cyrenaica -- The US delegation at the UN has been informed by the chief of the British delegation that British Foreign Secretary Bevin has personally instructed him to: (a) press for sole UK trusteeship over Cyrenaica; (b) express willingness to accept in principle the suggested preliminary arrangements for achieving multilateral trusteeship of Libya, but only insofar as they pertain to Tripolitania; (c) urge the US to accept trusteeship over Tripolitania, if no other solution seems feasible; and (d) settle for postponement of the Cyrenaica question if everything else fails. Bevin indicated that if such postponement occurs, the UK will go ahead with an agreement with the Cyrenaica leader and with measures for self-government. Bevin directed the British delegate to remind the US of its 1947 firm pledge to support UK trusteeship over Cyrenaica.

CIA-5

(CIA Comment: British insistence upon sole trusteeship over Cyrenaica sharply reduces the prospects for any compromise agreement on multilateral trusteeship for all Libya and thus diminishes the likelihood of any decision on Libya at this session of the General Assembly.)

2. US not to press Israeli UN membership -- The Department of State has informed the US delegation to the UN that the US is not yet in a position to sponsor a resolution for Israel's admission to the UN. The Department indicates that the US awaits Israeli assurances concerning the status of Jerusalem, the Arab refugee problem, and territorial settlement, so that a favorable atmosphere will be created for Israel's admission. The US will still support the Israeli application, whenever the General Assembly actually considers it.

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FAR EAST

3. CHINA: Li reportedly sending emissary to US--US Counselor Clark in Canton reports that the principal political adviser to Acting President Li Tsung-jen intends to come to the US bearing a letter from Li to President Truman. Clark adds that the Li group claims the support of various South China military leaders and will attempt to remove Chiang's appointee, Chen Cheng, from the governorship of Taiwan. In addition, Li's advisers have outlined to Clark a program of military and administrative reform through which they hope to revive Nationalist fighting spirit, produce victories, and thus persuade the US to grant further aid.

CIA-5

(CIA Comment: CIA believes that in view of the Communist crossing of the Yangtze and the conflicting interests of Li and Chiang Kai-shek, there is even less reason than heretofore for any optimism regarding Nationalist rejuvenation.)

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GENERAL

NO. 028

- 1. Belgian and French views on German situation--According to US Ambassador Kirk in Brussels, Belgian Premier Spaak's initial satisfaction over recent developments concerning Berlin has been tempered by "a note of caution." Spaak warns that the western powers must not relax their efforts to achieve collective security. Spaak feels that if the blockade is lifted in accord with the stated Soviet conditions, the western powers will have gained a real diplomatic advantage and the USSR will save face through western willingness to hold a CFM conference on Germany.

S-S  
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US Ambassador Caffery reports that the French Foreign Office is apparently thinking in terms of a CFM meeting on Germany in the latter half of May. The Foreign Office, which reportedly anticipates that the Soviet proposals will be very liberal, believes that the most desirable solution would be to maintain east and west Germany as they are but with commercial relations restored. The Foreign Office considers that if the USSR presses for the establishment of an all-German government, an extension of the Bonn Constitution to all Germany might be possible.

- 2. Views of US delegation on Italian colonies issues--The US delegation at the UN recommends that US Embassy Rome be informed the US has no alternative but to support the British position on the Italian colonies question. (The British are insisting upon sole UK trusteeship for Cyrenaica and upon limiting any arrangements for multilateral trusteeship to Tripolitania and the Fezzan.) The delegation recommends that the Embassy not only express the hope to the Italian Foreign Office that Italy will urge its supporters in the UN not to oppose the US-UK position but also point out that: (a) apparently the only alternative is failure by the UN to

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agree on any aspect of the colonies problem, which would certainly bring about a deterioration of the situation prejudicial to Italian interests; (b) the preservation of Cyrenaican security, which the British believe is endangered by postponement, is of paramount importance to all western powers; and (c) separate prior settlement on Cyrenaica would not seriously prejudice Italian interests, which would be taken into account in any final decision on the rest of Libya.

The US delegation also reports that a Latin American caucus has agreed unanimously both to vote against the British proposal and to insist on simultaneous disposition of all Libya. The delegation points out, however, that this position may change, particularly if the US strongly supports the UK, and that some Latin American delegates have indicated that their final attitude would depend on whether Italy concurred. The delegation reports that the Arab delegates also reacted unfavorably to the UK proposal and expresses the belief that other Asiatic states too would be opposed.

US concern over possible unilateral action in Cyrenaica--  
The Department of State has advised the US delegation to express to the British delegation the view that it would be unwise for the UK, in case UN disposition of Cyrenaica should be postponed, to take such hasty and unilateral action as to extend recognition to the Emir of the Cyrenaican Senussi tribes and set up an autonomous state. The Department considers that in such an event the US might have to take a public stand critical of the UK, despite US understanding of the needs of the UK and British concern over the internal situation in Cyrenaica.

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FAR EAST

3. CHINA: Problem of continued US recognition of Nationalists -- US Counselor Clark in Canton expresses the view that the widening rift between Li Tsung-jen and Chiang Kai-shek will so fragmentize anti-Communist China politically that the National Government will become little more than a regional authority. (Li plans to continue resistance to the Communists with a bloc of local Southwest China military leaders, while Chiang reportedly plans to make a last stand on Taiwan while awaiting war between the US and the USSR.) Clark believes that the US will have to scrutinize the situation carefully at that time in an effort to determine whether continued recognition of the National Government will make the US look ridiculous in the eyes of the world.

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GENERAL

- 1. Strained relations between Syria and Transjordan--US Charge Stabler in Amman reports that, following Syrian radio attacks on King Abdullah and Transjordan, the Amman press and radio have begun a campaign of criticism against Syria. Stabler considers it likely that the propaganda battle will become intensified and that Abdullah will make ill-advised statements concerning the Greater Syria issue "which will only add fuel to the flames."

S-S

FAR EAST

- 2. SIAM: New coup attempt--The US Military Attache in Bangkok reports that Siamese Premier Phibul has broadcast an appeal, urging all Siamese to avoid civil war, and indicates that the capital has been shut off from highway communication with the rest of the country. Latest radio reports suggest that Phibul has proclaimed a state of emergency in the capital and that all public buildings are being closely watched.

ARMY - CONF

(CIA Comment: CIA believes that a new attempt at a coup is now in progress. In view of Phibul's evident forewarning, CIA believes that the attempt probably will be effectively forestalled.)

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Date: 20 MAR 1978 By: 028

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GENERAL

1. Prospects for Austrian treaty talks--The Department of State has informed US representative Reber at the Austrian treaty talks that it does not desire to discuss the problem of Austria at any forthcoming CFM meeting until substantial agreement is reached on German issues. The Department does not wish to link the Austrian treaty to a possible deadlock on Germany, thus prejudicing future Austrian talks, and understands that the British and French concur in this approach. The Department desires that discussions of the Austrian treaty be continued in order to clarify secondary issues and to ascertain Soviet intentions, that a recess be obtained shortly before a CFM meeting, and that negotiations be resumed simultaneously with the CFM meeting.

OIA-5  
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Austrian Foreign Minister Gruber has expressed the hope to US Minister Erhardt in Vienna that, if no agreement is reached on Austria either at a CFM meeting or during the London talks, the western powers will make a sweeping proposal advocating that occupation of Austria be terminated within six months or a year and that, in the meantime, occupation controls be relaxed and the Austrian army be built up. Erhardt agrees substantially with Gruber, despite the fact that Gruber's proposal would take western forces out of Austria while the USSR retained German assets in Austria and the frontier issue remained unsettled.

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FAR EAST

NO. 028

2. CHINA: Communists seek trade with Japan--US Consul General Clubb in Peiping reports that the Chinese Communists have solicited the help of a private US firm in promoting trade between North China and Japan on a barter basis. The firm's representative has asked whether the State Department

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and SCAP would approve in principle of such trade. Clubb requests authorization to inform the Communists, when they inquire about such trade, that the US would be ready to give sympathetic consideration to its facilitation provided US consular establishments in Communist-controlled areas were permitted to function normally. Clubb transmits his firm belief that such an opportunity to insert an opening wedge between Communist China and the USSR should be promptly and fully exploited.

Shanghai near economic collapse--US Consul General Cabot in Shanghai reports that Shanghai faces catastrophic conditions. According to Cabot, public confidence in the Nationalist currency has practically vanished, employers are unable to meet their payrolls, and foreign businessmen fear that conditions will become so bad that the people of Shanghai will welcome the arrival of the Communists. Cabot considers it essential that the US continue the present ECA program for Shanghai because its curtailment at this time would lead to such serious food and supply shortages that economic collapse would be complete. Cabot believes, however, that ECA stocks in Shanghai should be kept at prudently low levels.

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GENERAL

NO. 028

CIA - [REDACTED]

1. Suspension of Austrian talks suggested--According to US representative Reber in London, the positions of the four powers with respect to the Austrian treaty are "sinking further into a deep freeze," and the USSR has made it clear that, pending a decision to hold a CFM meeting, it does not intend to change its stand on any of the Austrian issues currently being reviewed. In order to facilitate separation of the Austrian and German questions, Reber proposes that the present negotiations be suspended before agreement is reached on the agenda for a CFM meeting. Reber recommends that a date for resumption of the talks be fixed far enough ahead to allow time for a CFM meeting, thus assuring continuity in the Austrian discussions, regardless of any action on Austria by the CFM.

2. Department favors new plan to internationalize Jerusalem--The Department of State has informed the US member of the Palestine Conciliation Commission (PCC) that it approves the plan for internationalizing Jerusalem prepared by the PCC Secretariat. This plan provides for: (a) an international authority exercising actual governing power only over the Holy Places, reserving all other powers to the Jewish and Arab authorities in their respective zones; (b) demilitarization of the area; (c) an administrative council, composed of Arabs, Jews, and neutrals, responsible for matters of common concern to both zones; and (d) an international tribunal with jurisdiction over disputes regarding the competence of organs and courts within the area.

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GENERAL

1. Views on CFM discussion of Austria --US Legation Vienna transmits the opinion of Austrian Foreign Minister Gruber that failure to include Austria on a CFM agenda would have a deeply discouraging effect on the Austrian public. The Legation concurs in this view and recommends: (a) that Austria be included on the agenda of a CFM meeting or that, at least, informal assurances be obtained that Austria will be discussed at some time during the meeting; and (b) that when the present London talks are suspended, the deputies agree to reconvene, after a brief period, at the site of a CFM meeting.

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NO. 028

GENERAL

1. US views on suspension of Austrian talks--The Department of State has instructed US representative Reber in London to obtain agreement on suspending the Austrian treaty talks and on reconvening the negotiations at an unspecified place about 1 August, with the understanding that an earlier meeting can be convoked at the request of the participating governments. Meanwhile, Reber reports that Foreign Secretary Bevin prefers not to fix a date for reconvening the deputies, but would simply have them adjourn and hold themselves at the disposal of the Foreign Ministers.

CIA-S



The Department has instructed US Legation Vienna to explain to the Austrian Government that: (a) in case of a German stalemate, the US desires to preserve its freedom of action on the Austrian treaty; and (b) a formal request now by the Austrian Government that the Austrian treaty be given priority in the CFM negotiations would destroy this freedom and might postpone conclusion of an Austrian treaty indefinitely.

2. US position on Italian colonies--The Department of State has instructed the US delegation to the UN, regarding possible proposals on the disposition of the Italian colonies, that the US should: (a) strongly support the British resolution which provides for UK trusteeship over Cyrenaica and refers the question of the disposition of the remainder of Libya to a five-power group which would make recommendations to the next General Assembly; (b) vote for any other resolutions which agree with prior US commitments to the UK, Ethiopia, and Italy on Cyrenaica, Eritrea, and Italian Somaliland; (c) propose, if the GA rejects the British resolution or a move for immediate Libyan independence develops, that the UK or the

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UN Trusteeship Council be authorized to study the matter and recommend means for attaining independence to the 1950 General Assembly; and (d) abstain from voting on any proposal for immediate independence for Libya. Regardless of the disposition of Libya, the Department considers it highly desirable that Eritrea and Somaliland be disposed of at this session of the GA.

### FAR EAST

3. BURMA: Commonwealth plans renewed aid--US Embassy London has been informed by the British Foreign Office that an agreement reached at the recent Commonwealth Prime Ministers' Conference to extend military and financial aid to the Burmese Government will be announced in the near future. The Foreign Office indicated that the UK would probably bear the brunt of such assistance but that Pakistan, India, and Ceylon would also contribute. Conditions attached to the agreement specify that the Burmese Government: (a) conclude an armistice with the Karens and other non-Communist insurgent elements; (b) effectively rehabilitate government finances; and (c) permit supervision of these actions by the British, Indian, and Pakistani Ambassadors to Burma. The Foreign Office believes that the plan has a "fifty-fifty" chance of restoring Burmese internal stability.

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(CIA Comment: CIA believes that the plan has a reasonable chance of success provided the Commonwealth conditions are observed, but seriously doubts the ability of the present Burmese Government to comply with these conditions.

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GENERAL

NO. 628

- 1. USSR reportedly planning action against Iran--US Ambassador Wiley transmits information, which is unconfirmed but from a good source, that the USSR plans an "important action" against Iran on 10 May. According to Wiley's information, Soviet intentions "exceed a mere frontier incident but are short of a warlike move." Wiley's informant mentioned the possibility of a movement affecting the Kurds.

S-TS

(CIA Comment: CIA does not believe that the USSR contemplates a military invasion of Iran at this time. The USSR, however, may plan to stir up trouble not only among the Kurds in Iran but also among those in northern Iraq and Syria. The Kremlin may also plan to use members of the former autonomous government of Iranian Azerbaijan to create disturbances. Iran would be able to cope with such disorders, unless the insurgents are provided with strong overt support from the USSR.)

- 2. Israeli intransigence at Lausanne--According to US representative Ethridge, the Israeli delegation's statement on the Arab refugees before the Palestine Conciliation Commission at Lausanne indicates that the Israelis are as intransigent as ever. Ethridge considers Israel's failure to appreciate the importance of a conciliatory approach toward outstanding problems as "particularly disheartening" in view of the increasing disposition of the Arabs "to come to grips with the situation."

CIA-S

FAR EAST

- 3. CHINA: British plan to defend Hong Kong--The US Naval Attache in London reports that the British Joint Chiefs of Staff have just decided on an all-out defense of Hong Kong in the event of a Chinese Communist attack. The British Joint Chiefs estimate that such an attack is "very probable."

NAVY-TS

(CIA Comment: CIA believes that the Chinese Communists are not militarily capable of a successful assault on Hong Kong in the near future.)

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4. KOREA: Republican troops desert to Northern Korea --  
According to US Army Forces in Korea, 8 officers and 519 men of the South Korean Army crossed the border to North Korea on 5 May with substantial quantities of arms, ammunition, and equipment.

ARMY 69

(CIA Comment: In addition to demonstrating that the efforts of Korean officials to screen Communist sympathizers from the security forces have been less effective than generally believed, this disaffection will undermine the confidence of the South Korean Government in the ability of its security forces to resist Communist pressure from North Korea. The Government may therefore request that the scheduled US troop withdrawal be delayed indefinitely.)

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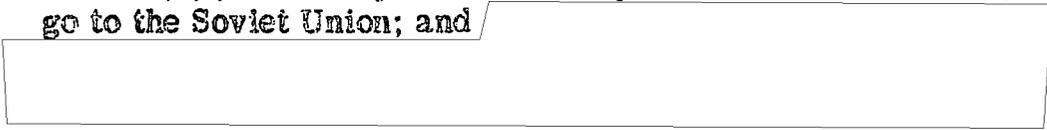
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GENERAL

- 1. French atomic scientist may work for USSR--US Ambassador Caffery has learned from a "trustworthy source" that Joliot-Curie expects to be dropped in the near future as head of the French High Commission for Atomic Energy and that he has consented in this event to give his services to the USSR.

(CIA Comment: CIA believes that: (a) Joliot-Curie's services would bolster Soviet propaganda more than Soviet science; (b) it is very doubtful that Joliot-Curie will actually go to the Soviet Union; and



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GENERAL

1. Possible Soviet tactics at forthcoming CFM meeting --US Embassy Moscow, in commenting on possible Soviet tactics at the forthcoming meeting of the Council of Foreign Ministers, expresses the belief that a drastic and dramatic shift in Soviet strategy may well develop even though no specific indications have been noted. The Embassy points out that the Kremlin must be strongly attracted at present by the potentialities of an accommodation which would prevent the USSR from being completely excluded from western Germany while awaiting the development of the expected crisis in the capitalist world. In view of this, the Embassy believes that although the Kremlin will probably attempt at first to achieve the aims outlined in the Warsaw Declaration of 1948, the USSR quite possibly may be prepared to accept nearly the same terms recently agreed upon by the western allies. The Embassy considers that primary Soviet aims will be: (a) the location of the central German government in Berlin; (b) an early peace treaty; and (c) either withdrawal of occupation forces or, as a compromise, drastic reduction of those forces and withdrawal to specific border areas.

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The Embassy believes that such a Soviet approach would "clearly shake western foreign policies to the very bottom," by confusing western public opinion at a crucial period of western consolidation and by creating practical problems of the first magnitude and of incredible complexity, particularly in connection with current restrictions on East-West trade and with Germany's relation to the political and economic rehabilitation of Western Europe.

(CIA Comment: CIA agrees with Embassy Moscow's analysis of possible Soviet tactics in the CFM.)

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GENERAL

- 1. Commission's views on Israeli application for UN membership--  
According to US representative Ethridge, the Palestine Conciliation Commission at Lausanne feels that, if Israel gains admission to the UN at this session of the General Assembly, the Israeli delegation at Lausanne will become "hopelessly intransigent" in the peace talks with the Arabs. The Commission believes that if Israel's application is rejected, the Israelis will maintain their present position as best they can, pending the September General Assembly session, but that the Arabs will be more confident in negotiating with the Israelis.

G/A - S

FAR EAST

- 2. CHINA: US Navy withdrawal from Tsingtao urged--US Ambassador Stuart suggests that the continued use of Tsingtao by US naval forces should now be reviewed in the light of the steady southward advance of the Communist armies. In Stuart's view, the maintenance of the present Nationalist position at Tsingtao will not possibly affect Nationalist capabilities for resistance in South China. Stuart believes that it would be more politic to withdraw US naval forces from Tsingtao immediately rather than do so in a few more days or weeks when faced by a determined Communist attack.
- 3. KOREA: Decision concerning withdrawal held urgent--The Department of State has informed US Ambassador Muccio in Seoul that a clearcut decision concerning the implementation of the scheduled US troop withdrawal is urgent. The Department believes that President Rhee should be disabused of an impression that the US is willing to "pay any price" for his concurrence with US intentions concerning the withdrawal. It should be made clear

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to Rhee, in the Department's opinion, that US capabilities to provide military aid to the Republic of Korea are severely limited. The Department further believes that Rhee should be informed at once of US intentions to complete the withdrawal of occupation troops by 30 June. The Department indicates, however, that if Ambassador Muccio has fundamentally revised his previous estimates regarding the feasibility of troop withdrawal, a complete reappraisal of US policy concerning withdrawal may be justified.

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GENERAL

NO. 028

1. US favors support of Bao Dai in Indochina--The Department of State has advised the Consulate General in Saigon that no effort should be spared by the western powers and the non-Communist nations in Asia to assure the success of the Bao Dai government in Indochina, inasmuch as there appears to be no other alternative to the established Communist pattern in Vietnam. The Department adds that when France has offered all necessary concessions to make the Bao Dai solution attractive to Indochinese nationalists, the US will be prepared to recognize the Bao Dai government and will explore the possibility of supplying it with US arms and economic assistance.

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2. Possible ratification of Atlantic Pact by French Assembly--French Foreign Minister Schuman has told US Ambassador Caffery that he intends to submit the Atlantic Pact to the National Assembly when it reconvenes on 17 May.

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(CIA Comment: CIA believes that after a period of discussion marked by the usual Communist delaying tactics, the French National Assembly will ratify the Atlantic Pact when it comes up for a vote. Prompt French ratification would be likely to encourage other signatories to ratify more quickly.)

3. Iran foresees no Soviet military attack--US Embassy Tehran transmits the recently expressed opinion of the Iranian Chief of Staff that the USSR has no intention at present of attacking Iran. The Chief of Staff expressed the belief, however, that Soviet subversive tactics will continue and that it is therefore essential that Iran prepare counter action by organizing units for guerrilla action and by making needed social and economic reforms.

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(CIA Comment: CIA continues to believe, despite reports on 10 May of a Soviet border incursion, that the USSR does not contemplate military invasion of Iran at this time. CIA anticipates that the USSR will continue to incite disorders within Iran but believes that Iranian security forces will be able to cope with such disturbances in the absence of strong overt support by Soviet units.)

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GENERAL

CIA-5

1. British view concerning Soviet tactics at CFM--US Embassy  
 Moscow transmits the view of the British Charge that although the possibility of a major shift in Soviet tactics at the forthcoming meeting of the Council of Foreign Ministers cannot be excluded, the Kremlin is not likely to risk its grip on eastern Germany in exchange for a weaker position in all Germany. The British Charge estimates that at the CFM meeting the USSR will present vague and unacceptable proposals which can be exploited by Soviet propaganda, thereby seeking to delay the integration of western Germany into the political and economic system of the West and to weaken the resolution of the western peoples to carry out the North Atlantic Treaty. US Embassy Moscow reiterates its view, however, that a major Soviet tactical shift may develop at the CFM meeting and declares that in any event the western delegations must be prepared for such an eventuality.

(CIA Comment: CIA agrees with the estimate of US Embassy Moscow concerning the possibility of a Soviet tactical shift.)



2. Reaction of Soviet public to lifting of blockade--US Embassy  
 Moscow observes that the reaction of the Soviet public to the lifting of the Berlin blockade is decidedly restrained and not at all comparable to the popular reaction to the Smith-Molotov exchange of a year ago or the Stalin-Kingsbury Smith correspondence of last February. The Embassy believes that this reaction is chiefly caused by: (a) the paucity of information available to the Soviet public on the Berlin blockade and a consequent ignorance of the seriousness of the situation; and (b) the lack of attention given the recent agreement by Soviet propaganda, combined with a continuation of anti-US propaganda and the recent jamming of US and British broadcasts.

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FAR EAST

3. KOREA: Approval of US troop withdrawal expected--US  
Ambassador Muccio at Seoul indicates, in reply to a Department of State query regarding a re-appraisal of US policy on the withdrawal of occupation troops from the Korean Republic, that his recent requests for military equipment do not imply any need for a fundamental revision in policy. Muccio believes that although recent border incidents and troop defections, as well as Communist successes in China, have made the Rhee Government increasingly apprehensive, Rhee's approval of the scheduled 30 June withdrawal can be facilitated by favorable US action on the modest request for a few coast guard vessels and several observation and transport planes.

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GENERAL

NO. 028

1. Possible Soviet intentions in CFM meeting--In reply to queries from the Norwegian and Swedish Embassies in Washington, an official of the Department of State has declared that the US has no clear indication of what has impelled the USSR to suggest the lifting of the Berlin blockade and the reconvening of the Council of Foreign Ministers. The Department official suggested as possibilities, however, that: (a) the USSR has been suffering from the counterblockade, as well as the adverse political effects of the Soviet blockade and the successful airlift; (b) the Soviet Union is attempting to retard progress on the establishment of a western German government; and (c) the Kremlin may be preparing for a major change of tactics and may put forward far-reaching proposals at the CFM meeting. The US official expressed his personal conviction that there is no possibility at this time of a change in basic Soviet objectives. He made it clear that although any Soviet proposals would be carefully examined, the preparations for the western German government will continue to go forward unless full agreement is reached on a government for Germany as a whole.

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FAR EAST

2. INDOCHINA: Plans of Bao Dai for personal appeal to US--US Consul Gibson at Hanoi has been informed that ex-Emperor Bao Dai intends to return to France about one month after the French Assembly has taken the action necessary for establishment of his regime in Indochina. According to the informant, Bao Dai then expects to visit the US in order to "establish contact" and probably to request US arms for the new Vietnamese army.

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(CIA Comment: The French National Assembly will convene on 17 May and fairly prompt action on the Vietnam problem is anticipated. Bao Dai's absence during a period when the new government is being established may indicate that he lacks confidence in his personal ability to rally non-Communist nationalists in Vietnam and suggests that he is unwilling to assume governmental responsibility without assurances of support.)

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GENERAL

1. Spaak's views on CFM meeting--Belgian Premier Spaak, in commenting on the forthcoming CFM meeting, has expressed his opinion to US Charge Millard that if the USSR proposes the unification of Germany under a federal system the western powers could not assume the onus of preventing a united Germany even if they wished to do so. Spaak himself believes that a united federal Germany, with adequate democratic safeguards, would be preferable to the present situation. Spaak also: (a) trusts that the western powers will not withdraw their occupation troops but does not seem to think that the number of troops retained is of primary importance; and (b) believes that the USSR should at all costs be excluded from the Ruhr.

FAR EAST

2. CHINA: US Navy to leave Tsingtao when Shanghai falls--The Secretary of State has advised US Ambassador Stuart in Nanking that the Navy and State Departments, on the assumption that Shanghai will fall in the immediate future, are in agreement that US naval forces and activities should be withdrawn from Tsingtao at the time of the Communist capture of Shanghai.



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GENERAL

1. US, British, and French views on CFM meeting--US Ambassador Jessup in Paris reports that substantial agreement was reached in the first talks with the British and French representatives regarding the forthcoming meeting of the Council of Foreign Ministers. Jessup indicates it was agreed that: (a) unification of Germany is desirable under the proper conditions; (b) a united Germany should be free to associate itself with the West; (c) there should be no delay in implementing the west German government; (d) a boundary commission to study Germany's eastern frontier is desirable; and (e) Austria should be discussed sometime during the CFM meeting. According to Jessup, the French specify as conditions for the unification of Germany the extension of the Bonn Constitution and free German elections. The French representative believes that if the CFM does not achieve concrete results, there may be a recurrence of international tension; he therefore considers it may be necessary to come to a limited solution involving some degree of coordination between the east and west German systems and a temporary arrangement for Berlin. Jessup made it clear that the US does not favor the withdrawal of US forces from Germany or any disposition of those forces which would weaken US influence in Europe. Jessup indicated that the US intends to insist that the USSR relinquish ownership of property in the Eastern Zone before there can be any unification of Germany.

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FAR EAST

2. CHINA: Early fall of Canton predicted--US Counselor Clark at Canton expresses the belief that Canton will fall to the Communists about mid-June. Clark regards as "largely wishful thinking" the current talk among Nationalist officials on the possibility of

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rallying northwest and southwest China behind a government removed to Chungking or elsewhere. Clark believes that Acting President Li Tsung-jen may attempt to move the National Government from Canton but will eventually go abroad and attempt to rally overseas Chinese support for anti-Communist resistance in China. Clark requests guidance on whether to follow any National Government which might be set up elsewhere than Canton.

(CIA Comment: CIA believes that although Communist forces are capable of greatly accelerating present military operations and of reaching Canton within a month, the Communists will continue their tactics of methodical absorption and will probably not take the city before August.)

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GENERAL

1. US views on trade agreement between east and west Germany--The Department of the Army has informed the US Military Governor for Germany, with regard to trade between the Soviet and Western Zones of Germany, that the Departments of Army and State believe: (a) the 1948 trade agreement between east and west Germany has legally lapsed and nothing in the Jessup-Malik agreement calls for the reestablishment of those parts of the agreement which are no longer suited to present conditions; (b) east-west trade should be resumed before completion of a new trade and payments agreement; (c) this trade could include the export to the Soviet Zone of limited quantities of items contracted for under the old agreement even if they are on the US prohibited and discretionary lists; and (d) in any new trade arrangements, the prohibited items should be excluded and the discretionary items subjected to the normal quantitative test.

Army/TS

2. US, UK, and France shape views on Germany--US Ambassador Jessup in Paris reports that in preparation for the forthcoming CFM meeting the delegations of the US, the UK, and France have reached tentative agreement on: (a) the political conditions for the reestablishment of German unity including freedom of political parties and supervised elections; (b) the western response to a Soviet proposal based on the Warsaw communique or the concept of making Germany a neutral buffer state; and (c) the manner in which the Bonn Constitution can be extended to all of Germany. According to Jessup, the delegations agreed that the procedure for bringing about the unification of Germany must be adjusted to plans for the establishment of a west German republic. Jessup also reports that the delegations generally favor the principle of majority rather than unanimous vote under a possible four power occupation statute, but are considering whether to apply the principle of unanimity to the subjects of disarmament and demilitarization in order to reassure the USSR on security matters.

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GENERAL

1. US, UK, and France extend area of agreement on Germany--  
US Ambassador Jessup in Paris, preparing for the 23 May  
meeting of the Council of Foreign Ministers, reports that  
agreement among the delegates of the US, the UK, and France  
now includes the rejection of any Soviet proposals for a new  
all-German constituent assembly or for an all-German plebis-  
cite on unification. The delegates are agreed that the unifica-  
tion of Germany is conditional upon the recognition of civil  
liberties and political freedom for all German Zones, the  
denial of representation for para-political organizations, and  
the abolishment of the eastern zone Volkspolizei.

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Concerning economic conditions for the unification of  
Germany, the delegates agreed that the essential prerequisites  
are: (a) the termination of reparations; (b) the relinquishment  
by the USSR of the companies it owns in the eastern zone; and  
(c) a four-power agreement on occupation costs. In concurring  
that the 1948 Ruhr agreement must not be scrapped, the US and  
UK delegates expressed the view that the USSR should be ad-  
mitted to participation in the Ruhr authority only if this point  
were the one obstacle to a final settlement.

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The delegates agreed that any Soviet proposal for a  
total troop evacuation must be rejected. The British and  
French delegates are opposed to any regrouping of forces  
until a German government exists which is capable of maintain-  
ing order. The French delegate stressed that this is a vital  
security question for France in relation to both Germany and  
the USSR.

US opposes any unanimous vote arrangement--The  
Department of State has meanwhile informed Jessup, in  
response to his report that the western delegations have been  
considering whether to apply the principle of unanimous four-  
power vote to the subjects of disarmament and demilitarization,



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GENERAL

1. Western delegations reach substantial agreement in Paris--  
 In summarizing progress made to date by the delegations of the US, the UK, and France in preparing for the 23 May meeting of the Council of Foreign Ministers, US Ambassador Jessup in Paris emphasizes that substantial agreement appears to exist on most points. Jessup cites as agreed upon: the conditions for political and economic unification of Germany, and the attitude to be taken toward anticipated Soviet proposals. Among differences that have emerged, Jessup reports: (a) the French are extremely reluctant to admit any Soviet representation on the Ruhr authority, though the British seem prepared to accept such representation if it appears to be the last point blocking agreement on German unity; (b) the UK and France are less willing than the US to permit Soviet participation in the Military Security Board and suggest instead a quadripartite body to supervise separate security agencies in the Western and Eastern Zones; and (c) the US has proposed that the western powers try to obtain the municipal unification of Berlin and the introduction of a third currency, while the French are inclined to favor a split city with two currencies, and the British suggest that two currencies could circulate in a unified Berlin.

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2. US attitude concerning renewal of German trade--The Department of State has advised US Representative Riddleberger in Berlin that because the CFM meeting may not resolve the Berlin currency issue, the pattern for interzonal trade arrangements now being worked out may last some time and will in any case be an important precedent in further negotiations. The Department therefore deems it essential that the arrangements being made assure that: (a) the Soviet Zone gives counter-value for what it receives; (b) the shipment to the Soviet Zone of prohibited and discretionary items be limited and temporary; (c) Soviet buying does not cut into goods needed by the Western Zones or by ECA; and (d) Berlin does not provide a channel for escaping controls in the Western Zones.

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## EUROPE

3. **GERMANY: Soviet set-back in Volkskongress elections--** *Army - 5*  
 According to the Office of the Director of US Army Intelligence in Berlin (ODI), the adverse results of the Volkskongress elections in eastern Germany apparently took the Socialist Unity Party and other Communist front organizations by surprise. ODI indicates that US observers in Berlin estimate that falsification of returns did not exceed 10%. Pointing out that the Soviet platform appeared foolproof in its appeal to the Germans and was energetically propagandized prior to the elections, ODI expresses the view that ability of the voters to see through this Soviet maneuver speaks well for the political acumen of the Germans. ODI reports that despite the Soviet defeat, the Soviet Zone press has been citing the results as a mandate for peace, German unity, and troop withdrawal and therefore claims they should be considered as a fair cross-section of all German opinion.

(CIA Comment: CIA believes that although Soviet-controlled propaganda will undoubtedly continue to hail the results as a "mandate" to the Four Powers, the poor showing of the Soviet-backed parties will actually be a liability to the USSR at the forthcoming CFM meeting.)

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GENERAL

1. Continued Soviet restrictions on Berlin--US Representative Riddleberger in Berlin reports, in reviewing the present status of Soviet restrictions on transport, trade, and communications between Berlin and the western zones, that "Berlin remains today in a state of semi-blockade." According to Riddleberger, the USSR may be having "second thoughts" on lifting the blockade because the Soviet action has failed to: (a) retard progress toward the establishment of a west German government; (b) produce a "crack" in over-all western trade policy vis-a-vis the Soviet bloc; or (c) release a flow of western zone goods essential to the Soviet Zone and to the continuation of the Soviet reparations policy. Riddleberger therefore raises the possibility that the USSR may have intended to lift the blockade only enough to permit reconvening the CFM while simultaneously retaining a favorable bargaining position in the event that no over-all settlement on Germany is reached and it later becomes necessary to negotiate some provisional arrangement for Berlin. Riddleberger believes, in view of continued Soviet restrictions on Berlin trade, that the Department of State should decide whether Soviet implementation of the Jessup-Malik agreement has been sufficient to warrant the convening of the CFM.

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(CIA Comment: CIA agrees that the USSR may be attempting to preserve the most favorable position possible in the event of a breakdown of the CFM negotiations. CIA further believes that the USSR will attempt at Paris to exploit certain remaining transport restrictions in bargaining on the over-all problem of German trade and its relation to western export policy. CIA believes, however, that the Kremlin's strong desire to hold the CFM meeting would impel the USSR to modify its restrictions on Berlin trade if confronted by a western refusal to convene the CFM under present conditions.)

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2. Western delegates plan tactics for CFM meeting--According to US Ambassador Jessup in Paris, the US, British, and French delegates preparing for the 23 May CFM meeting have agreed that, because the Soviet Union is the initiator of the meeting, the USSR be asked at the outset to state its proposals on Germany. The delegates believe that western conditions for the unification of Germany should be presented after the Soviet proposals have been dissected, thereby avoiding any appearance of presenting the USSR with an ultimatum at the opening of the meeting.

S - TS

3. Soviet press treatment of the German question--US Embassy Moscow considers that the Soviet press treatment of the German question indicates the Kremlin not only had hoped that convening the CFM would effectively delay development of the west German government but had even believed that the mere announcement of four-power agreement would accomplish this purpose. The Embassy further notes that the emphasis of the Soviet press on economic unification suggests that the Kremlin is primarily interested in the removal of the counter-blockade, interference with Germany's growing contribution to the European recovery program, and breaching the western restrictive trade policy.

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(CIA Comment: CIA concurs with Embassy Moscow's analysis.)

## EUROPE

4. GERMANY: British suspect Soviet Zone vote falsified--US Ambassador Douglas in London transmits the view of the British Foreign Office that the recent elections in Soviet Zone Germany were "rigged" to produce only two-thirds

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support for Communist policy. The Foreign Office estimates that Soviet control over the electoral machinery is adequate to have secured a 90% vote. The Foreign Office believes that the USSR may have hoped to: (a) create optimism among the western foreign ministers concerning the possibility of an agreement with the USSR; (b) make the Germans believe the western powers are being needlessly cautious and are delaying Germany unity for their own advantage; and (c) enable Soviet propaganda to assert that the elections were free.

(CIA Comment: CIA doubts that the Soviet Zone elections were "rigged" in the manner suggested but agrees with the Foreign Office interpretation of the way in which the USSR may attempt to exploit the results.)

5. GREECE: Government fears big-power deal on Greek issue--  
The Greek Foreign Ministry has informed US Embassy Athens of its concern about recent Soviet advances to US and British representatives regarding the Greek issue and of its desire that every effort be made to keep the Greek question out of the CFM. The Greek Cabinet reportedly feels strongly that: (a) the Greek-Communist dispute must be kept before the UN where Greece is represented; and (b) the Greek issue should be left alone until the rapidly improving military power of the Greeks puts them in a position to settle the disputes with their northern neighbors on the most favorable terms.

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The Department of State has advised Embassy Athens that the US is not negotiating on Greek matters without Greek participation and that Greece has not been mentioned as a subject for consideration in the CFM. The Department expresses the hope that the matter will not come before the CFM and indicates that in any case the US will not engage in substantive talks without Greek participation.

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GENERAL

1. Israelis make known their territorial demands--US representative Ethridge in Lausanne has been told by Israeli delegate Eytan that Israel will not only present to the Palestine Conciliation Commission a demand that it retain all territory now under its control (with possible minor rectifications), but will also demand additional territory in north-central Palestine now occupied by Jordan. Eytan also told Ethridge that Israel will do nothing more about the Arab refugees now. Ethridge comments that: (a) the Lausanne Conference is likely to break up when the Arabs know Israel's position; (b) neither side seems ready for peace; (c) there seems little likelihood that Israel's demands will be modified; and (d) unless Israel modifies its demands, there is no possibility of peace on any basis heretofore envisioned by the US.

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## GENERAL

1. Soviet motives as indicated by Vishinsky speech--Secretary of State Acheson in Paris comments that Vishinsky's statement in the 24 May session of the Council of Foreign Ministers seems to reveal the fundamental Soviet purpose to recapture a voice in Western Germany, particularly in economic matters. The Secretary believes this interpretation to be supported by Vishinsky's emphasis on the standard Soviet position regarding the Ruhr, his comparative neglect of political questions, and his failure to include anything calculated to attract any support in Germany. The Secretary adds that his reply to Vishinsky, insisting on the maintenance of the progress already made in Western Germany, was fully supported by the British and French Foreign Ministers, so that a unified western position is clearly on record.

The Secretary believes that Vishinsky's proposal that the CFM deal with the Japanese peace treaty reveals a Soviet desire to: (a) obtain participation for the Chinese Communist government, thus involving western recognition; or (b) embarrass the western powers by forcing them to refuse recognition. The US delegation in Paris expresses its "first impression" that the US should hold to its policy that the CFM is a highly undesirable forum for consideration of the Japanese peace treaty.

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### THE AMERICAS

3. COLOMBIA: Political disorders expected--According to a CIA source, President Ospina of Colombia has rejected demands recently made upon him by the Liberal Party and has replaced Liberal Party ministers in his Cabinet with Conservatives, three of them Army officers. Source indicates that the Liberal Party directorate is undecided as to retaliation it should take. Meanwhile, the Government has alerted the police and the Army to expect disorders.

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(CIA Comment: Sporadic violence will continue in Colombia but it will probably not reach the proportions of a civil war.)

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EUROPE

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1. FRANCE: US views on political crisis--The Department of State has expressed to Embassy Paris its concern over the possibility of a French governmental crisis. The Department suggests in view of the coming critical debates in the French Assembly on nationalized industries and social security that the Embassy at its discretion continue to impress on French political leaders the danger of engaging in political maneuvers which might have profoundly adverse effects on both French and European stability and recovery. In these conversations, the Department advises the Embassy to explain that the recent period of governmental stability in France has done much both to gain sympathy in the US for France's problems and to repair the damage to French prestige resulting from the chaotic period of political crisis during the summer of 1948.

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GENERAL

1. Possible Sforza resignation over UK statement on Cyrenaica --  
According to US Ambassador Dunn in Rome, Italian Foreign Minister Sforza has expressed to the British Ambassador there his strong objections to the British statement supporting Cyrenaican independence and has declared he regards it as a breach of faith on the part of Bevin. The British Ambassador reports he had difficulty persuading Sforza not to resign immediately and still does not know whether or not Sforza will resign shortly. The British Ambassador commented to Dunn that Sforza's resignation at this time would be unfortunate because of the forthcoming Italian debate on the Atlantic Pact.

(CIA Comment: CIA believes that Sforza's resignation would broaden the political opposition from both left and right to the Government's foreign policy, particularly concerning its commitments with the western powers, and would also intensify current anti-British feeling in Italy. CIA estimates that although Sforza's resignation would not prevent ratification of the Atlantic Pact, it would probably hamper effective implementation of the Pact in Italy.)

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but will do nothing to prejudice the eventual unification of Libya (Cyrenaica, Tripolitania, and the Fezzan).

(CIA Comment: CIA believes that this proposed declaration indicates that the British at the September session of the UN General Assembly will support independence for Cyrenaica with the expectation that British strategic interests would be safeguarded through a treaty relationship.)

### NEAR EAST-AFRICA

3. INDIA: US views on Kashmir dispute--The Department of State has instructed US Embassy New Delhi to inform the Indian Government that the US is deeply concerned about the lack of progress toward a peaceful settlement of the Kashmir problem and hopes for an early end to the present impasse regarding a truce. The Embassy is to point out that: (a) the considerable progress made toward tangible US cooperation with India following the establishment of a Kashmir cease-fire has been jeopardized by this lack of progress; and (b) the "hard fact remains" that, although the US has scrupulously avoided pressure on India, the subcontinent could not be regarded as a suitable area for economic assistance projects if the resumption of hostilities should become a strong possibility.

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3 JUN 1949

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GENERAL

1. Spaak concerned over British attitude in OEEC -- Belgian Prime Minister Spaak has informed US Charge Millard that "things are going badly" in the Organization for European Economic Cooperation because of British opposition to the US proposal that 10% of ECA funds for 1949-50 be placed in a pool for multilateral use in stimulating intra-European trade. Spaak said frankly that the British were doing their utmost to defeat the proposal which they claimed would force them to increase their purchases in gold or dollars. Spaak, who considers the US suggestion sound in principle, indicated he feels some embarrassment in supporting the proposal because it is obvious Belgium would be the chief beneficiary.

SS - S



FAR EAST

2. INDOCHINA: Bao Dai's views on US assistance -- US Embassy Paris has been informed by Vietnamese representatives in Paris that the optimum US assistance program Bao Dai hopes for in support of his new regime in Indochina includes: (a) a US statement welcoming the Vietnam state and indirectly endorsing Bao Dai himself; (b) de facto and later de jure recognition; and (c) economic and military assistance. The Embassy recommends that the US make a general statement in support of a state of Vietnam, rather than of Bao Dai or any specific government, and suggests that the question of formal recognition be studied with the UK, India, Siam, and the Philippines.

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5 JUN 1949

**GENERAL**

1. Sforza submits resignation-- Prime Minister De Gasperi has informed US Ambassador Dunn that Foreign Minister Sforza, before leaving on 31 May to receive a scholastic degree in France, insisted upon submitting his resignation on the grounds that recent British action on Cyrenaica and Libya without giving previous notice of abandoning the Bevin-Sforza agreement has "completely undermined" his position before the Italian people. De Gasperi added that he had told Sforza he would take no action on his resignation until his return from France and that he was keeping it secret until that time. De Gasperi also told Dunn that he would make every effort to persuade Sforza to withdraw his resignation, as his departure from the Cabinet now would have a very grave effect in Italy.

S/TS

(CIA Comment: Although the Cabinet stands solidly behind Sforza, many political groups hold him responsible for the failure of the UN to arrive at a colonial solution favorable to Italy. His resignation would: (a) broaden political opposition to the Government's policy; (b) intensify Italian anti-British sentiment; and (c) hamper the implementation of the Atlantic Pact in Italy.)

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GENERAL

S-TS

1. Vishinsky uncompromising on Berlin--Secretary of State Acheson reports from Paris that on the question of four-power control the Soviet Government is apparently no more prepared to compromise on Berlin than on Germany as a whole and that the Council of Foreign Ministers is deadlocked on the question of the veto. The Secretary comments that the foreign ministers are so far apart on Berlin that it is difficult to see how any agreement can be reached for the reunification of Berlin, no matter what may develop in other aspects of the Berlin question. He adds that Vishinsky showed no inclination in a private meeting to compromise on his adamant stand in the CFM.



2. French desire US arms to defend Chinese frontier in Indochina--French Chief of Staff Revers has informed the US Consul in Hanoi of recent decisions regarding French military strategy in Indochina and has indicated that an entire regiment in French Zone Germany is being stripped of certain types of arms to make a defense of the Chinese frontier possible. Revers also indicated that French forces in North Africa are already being called upon to furnish men and materiel at a rate which will reduce units there "beyond a minimum regarded as prudent." In reiterating the pressing need for US arms, landing craft, and aircraft, Revers implied he believes it unnecessary that US permission be obtained for the dispatch of US-built aircraft from North Africa to Indochina.

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7 JUN 1949

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GENERAL

1. Harriman and Douglas voice concern over delay in MAP--  
 US Ambassadors Harriman and Douglas in London express their deep concern over reports that the US Congress will delay consideration of the Military Aid Program until the next session. Harriman and Douglas point out the seriously adverse effects of such a delay would be to: (a) create suspicions in Western Europe that the US is lukewarm in its determination to give effective support to the Atlantic Pact; (b) resurrect doubts about the dependability of US foreign policy and encourage groups favoring appeasement of the USSR; and (c) revive old fears that the US does not intend to help defend Europe but only to accept the necessity of liberating it again. Harriman and Douglas believe that such delay would result in loss of the momentum created in Europe by past US efforts and would bring on retrogression which would be immensely costly to reverse. The ambassadors urgently recommend that every effort be made to secure passage of the MAP legislation at the earliest possible time.

S-TS  
CIA-CONF



Meanwhile, US Ambassador Bruce in Paris indicates that Premier Queuille and Foreign Minister Schuman are disturbed over the decision of Congress not to give first priority to the Atlantic Pact and by reports that MAP may not be dealt with during the present session. Bruce declares that only affirmative action on the Pact and MAP will really allay French fears.

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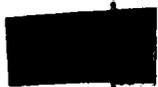
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1008

GENERAL

1. Importance of Military Aid Program urged--US Embassies Brussels, Copenhagen, and Oslo express their wholehearted concurrence in the view of Ambassadors Douglas and Harri- man that serious effects would result in Europe from the failure of the US Congress to act on the Military Aid Program at the current session. Norwegian Foreign Minister Lange has emphasized to Embassy Oslo that such a delay would embarrass his Government in its relations with Sweden. Em- bassy Copenhagen points out that the decisive factor in Den- mark's decision to enter the Atlantic Pact was the imperative necessity to acquire arms and equipment available only through US facilities.

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GENERAL

1. Israeli incursion in Jerusalem neutral zone--US Consulate in Jerusalem regards the Israeli seizure of the western portion of the UN neutral zone in Jerusalem and subsequent repudiation of the agreement neutralizing the zone as a serious and carefully planned Israeli maneuver. The Consulate reports that: (a) the Arabs have refused to attend further Mixed Armistice Commission (MAC) meetings until Israeli troops are withdrawn; and (b) a UN protest to Israel was withdrawn following an Israeli threat to boycott further meetings of the MAC. The Consulate declares that the situation is "most explosive" and that the strongest measures should be taken to force Israeli withdrawal from the neutralized area.

CIA - S

2. Possible preparations for invasion of Dominican Republic--  
the Caribbean

NAVY - S  
CIA - S

Legion, in joint action with the governments of Costa Rica, Guatemala, and Cuba, is completing plans for an invasion of the Dominican Republic and the overthrow of Trujillo.

(CIA Comment: Recent reports of an imminent revolutionary move by the Caribbean Legion, either against Trujillo in the Dominican Republic or Somoza in Nicaragua, have apparently been set off by an unusual amount of activity among Central American-Caribbean revolutionary circles, including a regrouping of forces and materiel in Guatemala. CIA estimates, however, that the superior strength of both Trujillo and Somoza will continue to deter the Caribbean Legion from taking precipitate action in the immediate future.)

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GENERAL

1. French and Dutch views on importance of MAP--US Ambassador Bruce in Paris, in expressing his concurrence with the view of other US diplomatic representatives that prompt passage of the Military Aid Program is essential, declares that the average Frenchman regards MAP as the "indispensable armature" for the Atlantic Pact. Bruce believes that without MAP, Frenchmen will be more susceptible to Communist propaganda that the Atlantic Pact is "a dangerous piece of paper" which provokes the USSR without supplying the means to resist a reaction to the provocation. US Ambassador Baruch at The Hague considers that failure to receive early assurances of military aid will support those Dutch groups who want the Netherlands to adopt a minimum defense program on the ground that the country cannot possibly secure an adequate means of defense.

S-TS  
S-TS  
S-S

Exclusion of Germany from current MAP planning urged--  
US Embassy London recommends that the US refrain at present from suggesting the eventual participation of western Germany in MAP. The Embassy believes that such a suggestion would arouse doubts and fears among Western European countries, particularly France, regarding US policy toward Germany.

2. Possible danger in raising Palestine arms embargo--The US delegation at the UN reports from New York that the Security Council will probably end the Middle East arms embargo by adopting some resolution based on Mediator Bunche's proposals for terminating existing truce arrangements. The delegation considers that it would be most unwise to lift the embargo suddenly and completely. The US representatives fear that unless prior agreement is reached among potential arms suppliers for limiting arms traffic, the removal of controls by the Security Council will set off a dangerous armaments race in the troubled Middle East area.

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GENERAL

1. Imposed SC compromise on Israeli-Syrian armistice urged--  
 The US delegation at the UN, in commenting on possible lines of action if discussions break down on the Syrian-Israeli armistice, notes that the chief stumbling bloc in the negotiations is the intransigence of the Israelis and that the problem therefore is one of exerting sufficient pressure to make the Israelis accept a solution which a "reasonable majority opinion" believes best. The delegation considers that in the event of a breakdown it might be preferable to have UN Mediator Bunche report this failure to the Security Council and make a compromise proposal which, in his judgment, would meet the legitimate interests of both parties. The US representatives believe that if the SC called on both parties to accept such a proposal, Israel as a new UN member would find it difficult to refuse and Syria would probably be glad to accept.

CIA/Conf.

2. Israelis to withdraw troops from neutral zone-- According to UN Mediator Bunche, the Israeli representative on the Mixed Armistice Commission has declared there has been a "misunderstanding" concerning the Israeli incursion into the western portion of UN neutral zone in Palestine and that the troops will be withdrawn. Bunche comments that he does not understand Israeli motives in seizing the neutral area, since such action obviously endangered their broader objectives, but expresses the view that it was "deliberately planned."

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GENERAL

1. US favors liberalizing Austrian occupation policy--The Department of State has recommended to the US Delegation to the Council of Foreign Ministers meeting that, in order to avoid an undermining of the western position in Austria, an agreement be reached with the British and the French on liberalizing the four-power occupation policy. The Department suggests particularly that: (a) an effort be made to convince the British and the French of the necessity to relieve the Austrians of occupation costs; and (b) a tripartite program be presented for Vishinsky's concurrence, possibly including such proposals as the appointment of civilian high commissioners, the abolition of many of the present controls over the Austrian Government, and the reduction of military forces to the size needed for policing. The Department recommends that action along these lines be initiated informally in Paris, distinct from negotiations on the Austrian peace treaty, and that if the USSR refuses to cooperate, the three western powers should act on their own as far as possible.

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NEAR EAST - AFRICA

2. [redacted] CIA-5  
 [redacted] has been informed by a reliable military source that there has been greatly increased Israeli military activity in the Latrun and Jerusalem areas and along the entire Jordan-Israeli front recently. According to [redacted] local authorities in Jerusalem and Arab Legion troops at Latrun believe that the Israelis are planning further operations in both areas. [redacted] recommends that the US make

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immediate representations to Tel Aviv, without awaiting action by the UN Mediator, on the ground that protracted attempts at mediation would only give the Israelis time to prepare further aggression.

FAR EAST

3. CHINA: US to continue diplomatic contact with Nationalists -- CIA - S  
The Department of State has advised US Counselor Clark in Canton that it would be desirable to continue diplomatic contact with the National Government in the event of its withdrawal to Chungking. The Department is therefore detailing an officer with rank of First Secretary to Chungking.

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GENERAL

CIA/S

1. Resumption of ECA aid to Indonesia held unwise--US Representative Cochran in Batavia has commented, in reply to a Department of State query, that the adverse Republican reaction to the resumption of ECA aid to Indonesia would not in any way be counterbalanced by the limited economic benefits which Indonesia as a whole would receive. Cochran believes that the resumption of ECA aid would undermine Republican Premier Hatta's influence because it would be viewed both in Indonesia and abroad as a weakening of US support for the position taken by the Security Council. He emphasizes that restored aid would be regarded by the Republic as a reversal of US policy in favor of the Dutch, just prior to the critical period of the Republicans' return to Jogjakarta and the convening of The Hague Conference.

NEAR EAST - AFRICA

2. PALESTINE: Bunche to confront Israel with resignation threat-- Acting UN Mediator Bunche has informed the US delegation in New York that he plans to tell the Israeli representative bluntly that unless Israel withdraws completely from the demilitarized zone in Jerusalem, he will submit his resignation to the Security Council, citing Israeli violation of the armistice agreement as his reason. Bunche told the US delegation that Israeli representatives on the Mixed Armistice Commission had vetoed a proposal, backed by Jordan and the UN representative, calling for withdrawal of both sides from the demilitarized zone. The US delegation adds that Bunche is "thoroughly disgusted" with Israel's policy concerning Jerusalem and has characterized it as "criminally crooked."

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15 JUN 1949

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GENERAL

1. US policy on recognizing a Chinese Communist regime--The Department of State has informed US Embassy Canberra that the US currently intends to follow a policy of avoiding haste in recognizing a new Communist central government, when such a government is established. According to the Department, this reflects the view that recognition is a valuable lever for obtaining any new Chinese government's acceptance of international responsibilities. The Department believes the extent of Communist cooperation with the West will be determined by the Communists' need for such cooperation rather than by the promptness with which recognition is extended and that overeagerness in extending recognition probably would encourage the Chinese Communists' high-handed disregard of foreign interests.

CIA/S

NEAR EAST-AFRICA

2. PALESTINE: US urges Israel to refrain from military action--The Department of State has informed US Ambassador MacDonald in Tel Aviv that the Israeli Charge in Washington has been informed of US concern over recent reports of increased Israeli military activity. According to the Department, the Charge was told that: (a) the US would be "deeply disappointed" if Israel should undertake any new military action; and (b) no one could foresee the consequences which such action might have. The Department has also indicated to MacDonald its assumption that he is doing everything possible to head off a new Israeli military venture.

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16 JUN 1949

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GENERAL

1. US approves plan for training future Austrian army--The S/Ts  
 Department of State has requested US Embassies London and Paris to inform the British and French Foreign Offices that the US has granted Austrian High Commissioner Keyes authority to: (a) carry out plans for training an Austrian gendarmerie regiment as a basic cadre for a future army; and (b) provide the regiment with appropriate equipment. Pointing out that British and French approval for the plans must be given before the equipment can be issued, the Department also requests the support of the UK and France in obtaining Austrian agreement on a satisfactory plan for a future army.

2. Vishinsky expresses personal disapproval of strikes--Secre- S/Ts  
 tary of State Acheson reports from Paris that Soviet Delegate Vishinsky, when asked at the 16 June meeting of the Council of Foreign Ministers whether he could suggest a solution to the Berlin railway strike, expressed irritation that the question had been raised and declared that, speaking for himself, he did not approve of strikes. Expressing the view that the strike was organized in the US sector and was not a Soviet responsibility, Vishinsky said he had no authority to negotiate on this subject but would refer the matter to Moscow. The Secretary comments that the incident reveals the exceedingly narrow latitude enjoyed by Vishinsky in the Paris negotiations.

FAR EAST

3. INDONESIA: US concerned over Dutch inflexibility--The Depart- CIA/S  
 ment of State has expressed to US Representative Cochran CIA/S  
 in Batavia its concern over Dutch delegate Van Roijen's

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insistence that Republican Premier Hatta guarantee that no alterations will be made in the cease-fire agreement when it is submitted to the Republican Parliament at Jogjakarta. The Department regards as entirely valid the Republican position that "the door must be left slightly open" for possible revisions in the agreement because it believes the Republican Government cannot be expected to make binding commitments prior to its return to authority. The Department considers that Security Council directives obligate the Netherlands to restore the Republican Government to Jogjakarta before agreements for the cessation of hostilities are negotiated.

Renewed ECA aid to Indonesia favored--US Ambassador Baruch and ECA Representative Valentine at The Hague have indicated their approval of the Department of State's suggestion for the renewal of ECA aid to Indonesia. The US representatives suggest that by securing the participation of Republican Premier Hatta in the program and possibly that of other Indonesian groups, the possibility would be removed that the renewal of aid would be regarded as an effort to help the Dutch.

(CIA Comment: CIA disagrees with this estimate concerning the effects of the renewal of ECA aid at this time and concurs in the view expressed by US Representative Cochran in Batavia that such action would be construed by most Indonesians as a pro-Dutch change in US policy, weakening to the position of US-oriented Premier Hatta. CIA believes further that any attempt to identify Hatta with distribution of ECA aid under Dutch auspices would expose him to charges of pursuing an unduly conciliatory policy.)

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17 JUN 1949

GENERAL

S/s

1. Partial agreement reached on Austrian treaty -- Secretary of State Acheson reports from Paris that at the 16 June session of the Council of Foreign Ministers, Vishinsky agreed to the following terms for an Austrian treaty: (a) Austria's frontiers shall be those of January 1938; (b) the Austrian Government shall guarantee protection of the minority rights of the Slovenes and Croats; (c) reparations shall not be exacted from Austria, although Austria shall lose its right to its assets in Yugoslavia; (d) certain oil rights in Austria shall be transferred to the USSR; and (e) the USSR shall relinquish the German assets in Austria, in return for the payment by Austria of \$150 million in six years. Vishinsky, however, was rigid in his insistence not only that the USSR must receive all Danube shipping properties in eastern Austria, including the Vienna docks, but that these properties be exempt from nationalization and that all disputes between the USSR and Austria be settled through bilateral negotiations. The Secretary indicates that when the western powers suggested that shipping properties be studied further by the Deputy Foreign Ministers, Vishinsky declared he would seek further instructions from Moscow. The Secretary reports that the British and French delegations, as well as Austrian Foreign Minister Gruber, are doubtful whether outstanding issues should prevent agreement on a treaty.

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GENERAL

1. US export policy in Far East--The Department of State has informed US Embassy Seoul that the US plans in the near future to require that a validated export license be obtained for the shipment of all commodities from the US to China, Manchuria, Taiwan, Hong Kong, Macao, North and South Korea, and possibly other Far East areas. According to the Department, the proposed controls are designed to prevent both the transshipment of strategic items to the USSR and the supply of goods to the Chinese Communists for military purposes. The Department also hopes to maintain control over key exports to China and Manchuria in order to influence to some extent the orientation of the Chinese Communists and to protect US commercial interests.

CIA/S

FAR EAST

2. CHINA: Nationalists plan to blockade Communist ports--The Nationalist Vice Foreign Minister has informed US Counselor Clark in Canton that the Nationalist Government has drawn up a definite plan for the closure of all Communist-held ports to sea and air traffic in the immediate future. Clark doubts, however, that the Nationalists can establish an effective blockade.

CIA/conf.

(CIA Comment: CIA believes that, with the possible exception of Shanghai, the Nationalist Government is currently incapable of establishing an effective blockade on Communist-held ports. CIA further believes that the Nationalists are probably making a desperate attempt to force the US to grant them further aid in return for lifting or not imposing the blockade.)



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GENERAL

1. US views on Austrian occupation forces -- Secretary of State Acheson in Paris expresses the view that no action need be taken by the Council of Foreign Ministers concerning occupation forces in Austria. The Secretary emphasizes that only main issues of the Austrian treaty are being dealt with by the Council of Foreign Ministers, and that the Deputy Foreign Ministers will resume work to complete the draft treaty by 1 September. The Secretary points out that ratifications of the treaty will require about six months and that afterwards there are 90 days in which to withdraw occupation forces. The Secretary favors four-power agreement on the creation of an Austrian army and suggests that if the USSR does not agree, the western powers might consider going ahead in their zones. The Secretary points out that if delays occur in establishing adequate Austrian forces, ratification of the treaty could be postponed to avoid creating a military vacuum in Austria.

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GENERAL

- 1. CFM conclusions on Germany and Austria -- Secretary of State Acheson, reporting from Paris that the Council of Foreign Ministers reached agreement on a modus vivendi for Germany and on most of the Austrian treaty issues, points out that the question as to whether the settlement of disputes between Austria and the treaty powers should be bilateral or not was left to the consideration of the Deputy Foreign Ministers. The Secretary reports that Austrian Foreign Minister Gruber gave the written agreement of his Government to the CFM solution on Austria.

S/S  
CTR/S

US Representative Jessup in Paris comments that the eleventh-hour instructions from Moscow to Vishinsky to modify the Austrian agreement were obviously embarrassing to Vishinsky, who did not wish to abandon the agreement. Jessup believes that the Kremlin's eagerness to add a paragraph protecting the right of the USSR to export unspecified income from Austria indicates the importance which the Soviet Union attaches to this matter and points to the possibility that the USSR may refuse to define this income when the deputies resume negotiations.

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GENERAL

1. French request US statement on MAP-- French Foreign Minister Schuman has given Secretary of State Acheson an aide memoire expressing the concern of the French Government in connection with the submission of the Atlantic Pact to the French Assembly. The aide memoire declares that the Assembly debate would open under more favorable circumstances if the US had already clarified the "military and strategic consequences" which France may expect from the Pact. The Government fears that in the absence of such clarification the Assembly may attach reservations which would greatly limit the scope of the Pact.

S/TS  
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The French Foreign Office has advised US Embassy Paris that Schuman would be greatly aided in his effort to get the widest possible support of the Pact if the Military Aid Program were introduced into Congress before the French Assembly begins its debate. The Foreign Office emphasizes that Schuman hopes to obtain US permission to make use publicly of assurances previously obtained in Washington that: (a) US strategy contemplates the defense of Western Europe; and (b) the US intends to establish, within the organization envisaged by the Pact, a combined staff representing the US, Canada, the UK, and France.

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24 JUN 1949  
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GENERAL

CIA/S

1. Analysis of Soviet attitude at CFM meeting--US Embassy Moscow, in commenting on the line taken by the USSR at the Paris meeting of the Council of Foreign Ministers, expresses the view that some basic change may have taken place in the Soviet attitude not long before the meeting. Pointing to Vishinsky's "defensive attitude and apparent improvisation," as well as his failure to build up a consistent propaganda pattern, the Embassy suggests as possible explanation the impact upon the USSR of the May elections in Soviet Zone Germany, combined with recent indications in the Satellites of difficulties and weaknesses. The Embassy reasons that because of these evidences of weakness, the Kremlin found it inadvisable to permit any real progress toward a German settlement and will probably place obstacles in the way of further progress on the Austrian treaty unless the USSR is successful in tightening its control in the Satellites and the Soviet occupation zones. The Embassy explains that although any "last minute shift" in Soviet tactics can be accounted for by this analysis, the willingness of the USSR to mark time at present probably is based more fundamentally on the Kremlin estimate that a crisis of capitalism is approaching much faster than previously anticipated.

(CIA Comment: CIA concurs in this analysis.)

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GENERAL

1. French urge US "defense on Rhine" statement--An important member of the French Assembly has informed US Ambassador Bruce in Paris that the Assembly Committee on the Atlantic Pact plans to bring the Pact before the parliamentary group as soon as it has been ratified by the US Senate. The French official urges that at the time of Senate ratification, a strong declaration be made that US strategy contemplates the defense of Western Europe on the Rhine, not at the Pyrenees. The parliamentary leader explains that the French consider it of paramount importance to locate the headquarters of central military planning under the Pact in Washington rather than in London, in order to overcome traditional differences in policy between the UK and the continental powers.

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GENERAL

- 1. Austrian Army planned for "earliest possible date" -- US Embassy Vienna has been informed by Austrian Foreign Minister Gruber that the Cabinet has set up a committee under Chancellor Figl to complete plans for the establishment of the Austrian Army at the "earliest possible date."

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EUROPE

- 1. GERMANY: Berlin strikers accept western terms--US Representative Murphy in Berlin reports that although the Berlin city administration and the railway workers appear to be quietly satisfied with the initial terms of the rail strike settlement providing for full payment in west marks for three months, their satisfaction is tempered by a very real fear of possible reprisals by the Soviet-controlled authorities. Murphy comments that the key question is whether the railway administration will be permitted to cooperate and adds that a brief period may be necessary before the Soviet Military Administration "graciously" assents to such cooperation. Murphy points out that the Soviet attitude cannot be ascertained until the morning of 28 June when the crews will try to put the intra-city rail system back into operation.

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NEAR EAST-AFRICA

- 2. PALESTINE: Israeli claim stalls Syrian armistice--US Consulate-General Jerusalem has been informed by Brigadier General Riley of the UN staff that the Israelis are now interpreting Acting UN Mediator Bunche's latest Syrian armistice proposal as giving them administrative control over the projected demilitarized zone. According to the Consulate-General, Riley feels that the Israeli interpretation, which was confirmed to Riley by Foreign Minister Sharett, would be "completely unacceptable" to Syria and that there is thus little chance for the successful completion of an armistice. The US delegation to the UN in New York, meanwhile, reports that Bunche is taking a "stiff line" against the Israeli attempt to modify his proposal and is insisting that his proposal be accepted by both parties as it stands.

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A N N E X

27 June 1949

## POLITICAL CONSEQUENCES OF SOPHOULIS' DEATH

The death on 24 June of the Greek Liberal Prime Minister, Themistocles Sophoulis, probably means the end of the Liberal-Populist coalition and the beginning of sharply intensified party and personal rivalry. It may even result in a move toward authoritarian government. There appears to be in Parliament no potential successor to Sophoulis possessing the required ability to command approval and restrain political factionalism. Populist chief Tsaldaris, Foreign Minister under Sophoulis and himself an ex-Premier, has been given the first opportunity to form a new cabinet. With 37% of the seats in Parliament, the Populists may find it easier than any other group to muster enough minor-party support to carry Parliament. Continued Liberal-Populist cooperation of the kind achieved by Sophoulis is unlikely, however, because leading elements in both parties will welcome an occasion for a test of party strength. Furthermore, a slate headed by Tsaldaris will probably encounter considerable high-level friction, inasmuch as he has, at least until very recently, been out of favor with the King and has also irritated Army Commander in Chief Papagos.

If, as seems quite possible, Tsaldaris fails in the initial attempt to form a new cabinet, the second chance may fall to the 74-year-old Diomedes, Liberal Vice Premier under Sophoulis, or to some similar figure without strong political coloring. Diomedes is a highly respected financier who might be able temporarily to preserve the old coalition cabinet, but his task would soon become much more difficult because of his relative inexperience in politics and his lack of a stabilizing force comparable to Sophoulis'. One or two minor politicians may also be invited to try their luck at forming a cabinet, but with diminished chances of success. The King, rather than endure prolonged political bickering and maneuvering,

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may then be tempted to adjourn Parliament and to appoint an interim government designed to exercise strong powers in close collaboration with the military command under General Papagos. Such a development, although likely to remove the friction between political and military leaders which has been detrimental to the effectiveness of the Greek Army, would have sharp political repercussions in Greece and would expose the US to further Soviet charges of lending support to non-democratic governments.

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GENERAL

1. Views on Soviet policy in Far East and Europe--US Embassy Moscow, in commenting on reports that the Soviet representatives in China, Stam, and India have departed for Moscow, expresses the view that the Kremlin may embark on a period of more intense activity in south and east Asia. The Embassy anticipates a continuance of Soviet demands for an early Japanese peace treaty, propaganda efforts to exploit US-British differences in the Middle and Far East, and direct action to take advantage of existing tensions in Southeast Asia. In this connection, the Embassy warns that, despite Chinese Communist efforts to obtain trade concessions from the West, the Chinese Communists are unlikely to be "weaned away" from Communist orthodoxy at this time. The Embassy points out that the USSR will make a strong attempt to aid Communist China in the event that the Communists do not obtain aid from the West and that only after this Soviet attempt has failed will there be any hope that the Chinese Communists will consider following a path independent of the Kremlin.

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Meanwhile, Embassy Moscow anticipates no relaxation in tension in Europe but believes that the next phase of the East-West struggle will center increasingly on the economic field. According to the Embassy, the Kremlin will seek every means to obtain restoration of East-West trade and to exploit any economic conflict between the western powers.

(CIA Comment: CIA concurs in this analysis.)

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NEAR EAST-AFRICA

1. GREECE: Reduction in army strength urged--US Ambassador Grady, commenting on General Van Fleet's recent recommendation that Greek armed forces be maintained at their present strength through fiscal year 1950, stresses the importance of effecting a substantial reduction of Greek Army strength in advancing Greek economic rehabilitation and declares that responsible Greek leaders are becoming increasingly insistent on such a shift in emphasis from the military problem to reconstruction. Grady feels that there is every present indication that the army's summer campaign will eliminate organized guerrilla operations in the interior of Greece, thus permitting reduction of the Greek forces to begin. Grady adds, however, that the US should attempt to maintain its present military aid appropriations and should not consider a reduction of the army's strength before next fall.

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(CIA Comment: CIA believes that, although guerrilla activity in the heart of Greece will probably be virtually eliminated by autumn, the concentration of the main guerrilla strength in areas along the Albanian frontier will require all available Greek Army strength.)

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GENERAL

S/TS

1. Consideration of Italian claims in North Africa urged---  
Italian Foreign Minister Sforza has told US Ambassador  
 Dunn that he has not yet decided whether to resign over the  
 African colonies issue. Sforza declared his resignation will  
 be forced, however, if it becomes apparent to the Italian  
 public that the US and UK have no regard for Italy's desire  
 to participate in North Africa. Sforza indicated that follow-  
 ing recent unsuccessful conversations with the British he  
 has begun to suspect the UK of wanting to exclude Italy from  
 North Africa. Dunn expressed his conviction that the US  
 would be gravely mistaken in supporting a solution for  
 Eritrea and Tripolitania that excluded Italy. He suggests  
 that the Department of State publicly declare that some ar-  
 rangement should be made whereby the Italian people can  
 continue to play a role in the development of North Africa.

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