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## GENERAL

1. US air rights into USSR believed unlikely--US Ambassador Smith in Moscow has proposed to Molotov the reopening of discussions for reciprocal air traffic between the US and USSR. Smith reports that while Molotov appeared interested and amenable to the idea of discussions, it is very doubtful whether the Soviets will "go further at this time" than an exchange of traffic outside Soviet territory.
2. US cautioned against precipitating action on Baruch proposal--The US Delegation to the UN reports that the UK Delegate has criticized the US draft resolution calling upon the SC to act on the Atomic Energy Commission report "as soon as received." Cadogan warned that immediate pressure might "rush head-on into a veto." The French and Australian representatives have recommended a three weeks' delay to afford the USSR full opportunity to consider the implications of the recent approval of the Baruch plan by the AEC sub-committee.
3. US urges negotiations for opening of Dairen--The State Department has instructed US Embassies Nanking and Moscow to urge the Chinese and Soviet Governments "promptly" to consider the current unsatisfactory situation with regard to the status and control of the port of Dairen and to implement the pertinent provisions of the Soviet-Chinese agreement of 14 August 1945. The Embassies are to state that this Government perceives no reason for further delay in reopening the port "under Chinese administration" to international commerce. They will also express the hope that agreement can be reached "soon" for resumption of traffic on the Chinese Changchun Railway (the major railway system in Manchuria).

## EUROPE

4. ITALY: US aid needed for Pola evacuation--The Secretary General of the Foreign Ministry has informed US Charge Key that the Italian Government is deeply concerned over the fate of approximately 25,000 Italians in Pola (which will pass to Yugoslav control after ratification of the Italian peace treaty). Key recommends US assistance in evacuating Italians from Pola, after the signing of the Italian peace treaty and before

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its ratification, because (a) the Yugoslavs can be expected to take "cruel and repressive measures" against the Italians remaining in Pola once Allied troops have been withdrawn; and (b) if the Italian Government has to remove these people in the coming weeks, it will be placed in the position of accepting the treaty before it is signed and submitted to the Constituent Assembly.

#### FAR EAST

5. **BURMA:** Burmese demands in forthcoming London talks--US Consul General Rangoon has been told by an influential member of the Executive Council that the Burmese delegation will go to London for talks in January and will present three demands: election of a constituent assembly; an interim government, and independence for the "hill areas" concurrent with independence for Burma. The official added that if these demands are not met, Anti-Fascist League members will resign from the Executive Council, and Burma will be in such turmoil that "nobody could govern it."
6. **INDOCHINA:** Military situation-- US Naval Observer Saigon reports that the French control the principal towns in the Hanoi area but little else. South Indochina has been stripped of troops, including some of the forces in the newly acquired border areas in Cambodia. High Commissioner d'Argenlieu, and the Commanding General of French Military Forces in Indochina are believed to be conferring in Hanoi on the possibility of dealing with some native group other than that of Ho Chi Minh, President of the Vietnam Republic, or of undertaking large-scale military action utilizing all French forces in the area.

#### THE AMERICAS

7. **BOLIVIA:** Higher tin prices desired--US Embassy La Paz reports that the Minister of Foreign Affairs has requested US support for a higher price for Bolivian tin on the grounds that (a) a "strong threat" to democratic government will develop if the miners do not get wage increases, which the companies cannot pay without higher prices,

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(b) continuance of democratic government in Bolivia is a US interest, and (c) Bolivia aided the Allied cause during the war at a monetary loss when it could have sold minerals to Argentina at higher prices. The Embassy comments that "no other solution is visible."

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## GENERAL

1. French Air Force training plans in North Africa--The Chief of Intelligence of the French Air Staff has "unequivocally" informed US Air Attache Paris that present plans for the increase of air stations in North Africa include transfer there of primary pilot training within two years. The Air Attache has previously reported that the British have suggested that the French build permanent air bases in Morocco and "man France only with trained, mobile, tactical units."

(CIG Comment: French plans for air developments in North Africa are probably concerned primarily with their retraining program rather than with the transfer of their entire Air Force to that area; see Daily Summary of 17 December, item 2.)

## EUROPE

2. ITALY: Admiral Stone's views on de Gasperi visit--Admiral Stone, Chief of the Allied Commission, has expressed the view to US Charge Key that Prime Minister de Gasperi's prestige and political position will be seriously impaired if he returns to Italy empty-handed. Stone therefore recommends full US support of the following: (a) a strong and impartial governor in the Free Territory of Trieste; (b) significant financial assistance for Italy; (c) the release by the British of former Italian cables and cable terminals; and (d) the French proposal for Italian trusteeship over Italian colonies.
3. RUMANIA: Government relaxes restrictions on US visitors--US Delegate ACC Bucharest reports "numerous indications" that the Rumanian Government (with Soviet approval) is relaxing its restrictions against US visitors. He notes that 60 out of 75 requests for entrance visas, many of them pending for months, have been approved since 19 December. The Delegate believes that this reversal cannot yet be interpreted as a real change in over-all Government policy, but suggests that the Government may be attempting to remove the "stigma of the November election" by openly demonstrating its desire to solve its economic problems by requesting outside aid.

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4. **CHINA: Chinese show concern over status of Tibet--US Embassy Nan-king reports that the Chinese Foreign Office has shown concern about a United Press report that a US good-will mission will leave soon from India to establish diplomatic relations with Tibet. The Foreign Minister assumes that the report is "erroneous, since Tibet is an integral part of China."**

**THE AMERICAS**

5. **BOLIVIA: Close election expected--US Military Attache La Paz reports that Hertzog, the Conservative coalition candidate for president, has been gaining steadily and that in the opinion of Bolivian observers the count in the election on 5 January will be close.**

**Argentina reduces pressure on Bolivia--The MA also reports that the Bolivian food shortage has passed its peak, that "some supplies" are now arriving from Argentina, and that "promised US" help has apparently caused Argentina to abandon its attempt to force economic concessions from Bolivia.**

6. **BRAZIL: Brazilian Communist leader attacks Vargas--US Military Attache Rio de Janeiro reports that the Brazilian Communist leader Prestes has publicly attacked the former dictator-president Getulio Vargas as a "despoiler of the people," and that Brazilian press commentators believe that the rumored rapprochement between Vargas and Brazilian Communists is consequently out of the question.**

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## GENERAL

1. US re-emphasizes need for broadened Greek Government--The State Department has informed US Ambassador MacVeagh in Athens that it would be unfortunate if Prime Minister Tsaldaris should attempt to distort US promises to "explore urgently possibilities of immediate as well as long-term economic assistance" in order to perpetuate his uneasy position in the Greek political world. The Department feels that in this critical time all loyal Greek political parties and leaders should unite to form a broadly based government "dedicated to moderation, all feasible conciliation to loyal opposition, and economic and fiscal reforms even though drastic in their nature." MacVeagh has been authorized to express these views to the King and responsible Greek leaders both in and out of the Government.

## EUROPE

2. FRANCE: Interest in German economic unity--Alphand, Director General of Economic Affairs in the Ministry of Foreign Affairs, has told US Ambassador Caffery that France has always been in favor of economic unity for Germany and is now enthusiastic about it. In reply to Caffery's skepticism, Alphand said that France is now preparing several papers for use in the London conversations on Germany. These papers will cover suggestions for a short-range and a long-range government for Germany and for economic unity; according to Alphand, they will be ready in a "week or so."
3. DENMARK: King's remarks on the Faroes--US Minister Marvel comments that the King's reference (in his New Year's Day radio address) to Greenland and the Faroe Islands as being among those problems which "will be solved in a way honorable to our country," while related primarily to administrative problems, may be significant in the light of an informal remark made to Marvel by the Foreign Minister during the Christmas holidays. "Any permanent arrangement with the US with respect to Greenland," that official said, "might prompt Russia to make demands on the Faroe Islands."
4. ICELAND: Anti-US activities--Following a confidential warning given some time ago that Icelandic Communists intend "to make life as uncomfortable as possible for (US) soldiers," US Legation reports acts

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of apparent sabotage at Keflavik Field and Camp Knox. These include opening fuel tank valves and removal of critical parts of heating equipment. As a result, weapons have been returned to US military police in warehouse areas but not at the gates where, as a result of the December shooting incidents, Icelandic police have been increased from three to only four. The Prime Minister agrees that some provocative incident may arise but considers possible negotiations to sell "all our fish" to the USSR of greater importance.

#### THE AMERICAS

5. BOLIVIA: US Embassy expects liberal electoral victory--US Ambassador Flack, commenting on Bolivia's imminent (5 January) elections, reports that (a) the Monje Gutierrez caretaker junta has ordered all "political prisoners" released from custody, and has reiterated its intention to "preside over the purest elections ever held in Bolivia," (b) the moderately leftist candidate Luis Guachalla enjoys, in Flack's opinion, the support of the "liberal elements" and thus of a popular majority, and (c) victory for Hertzog, candidate of the conservative coalition, would therefore mean "serious trouble sooner or later."

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## GENERAL

1. US asks three-power action on Polish elections--The State Department has instructed Embassy Moscow to notify the Soviet Government that the US is "especially perturbed" by the repressive pre-election measures employed by the Polish Provisional Government and believes that unless these activities cease immediately there is little likelihood of compliance with the Potsdam agreement for "free and unfettered elections." The US hopes that the USSR will join the US in reminding the Polish Government of its obligation to "enable all democratic and anti-nazi parties to take full part in the elections." The State Department is addressing a similar note to the British Government and plans, regardless of Soviet action, to reiterate to the Polish Government the US views on the elections.
  
2. US arms falsely alleged to be reaching Vietnam forces -- US Embassy Paris reports that the official newspaper of the MRP party has published a story from Hanoi stating that one of the most important sources of arms now in possession of Vietnam is US surplus materiel purchased from the US Government in the Pacific by buyers of all nationalities and sold by the latter to Vietnam. The Embassy has asked the State Department for the necessary information to refute the false statement that private buyers could obtain such arms.

## EUROPE

3. BULGARIA: Soviet troops move away from Greek border--US Representative Barnes has been informed by a "usually reliable source" that Soviet troops and material have moved from the Greek frontier area to camps in the Balkan mountains. Barnes reports that the Bulgarian Government now publicly welcomes the UN investigation of the border situation.
  
4. YUGOSLAVIA: Cooperation with UN predicted--Brilej, chief political secretary of the Yugoslav Foreign Office, has told US Charge Hickok of his belief that (a) Yugoslavia will soon join UNESCO; (b) a "large part of Yugoslav foreign policy will henceforth be produced

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through the UN;" and (c) the Yugoslav Government considers it "necessary, useful, and its duty" to collaborate with all UN organizations except the Food and Agriculture Organization which, Brilej explained, seems to conflict with the new Yugoslav five-year plan.

5. SPAIN: Significant dissension in the Cortes--US Charge Madrid reports a "large unexpected opposition" in the Cortes (Parliament) to tax and budget laws presented by the Government. Because the members of this parliamentary body were "hand-picked by the regime," the Charge considers their opposition "significant" and believes it "may precipitate a cabinet crisis."
6. FRANCE: Future Communist strategy--US Embassy Paris reports that the French Communist Party has decided to participate in the next Cabinet rather than vigorously oppose it because Moscow "undoubtedly" desires primarily that as many Communists as possible hold high Government posts. The Embassy believes that the Soviet intention is to influence French domestic and colonial policy in its favor, or at least to prevent the adoption of policies that would be "too unfavorable to Soviet world interest."

#### FAR EAST

7. CHINA: US position believed unchanged by demonstrations--Commander US Naval Forces Western Pacific believes that the current anti-US demonstrations in several Chinese cities, touched off by an alleged rape in Peking, reflect internal political turmoil and are largely Communist-inspired, but that the US position in China "has not been changed."

#### THE AMERICAS

8. CHILE: US position on Argentine trade pact--Pursuant to a State Department request for comment on a proposal to inform the Chilean Government that the US cannot reconcile the provisions of the proposed Argentine-Chilean trade agreement with prior Chilean commitments,

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US Ambassador Bowers has expressed the opinion that the US (a) should "make clear that this is a Chilean problem which Chile must decide;" but (b) is "frankly opposed to the discriminatory and exclusive aspects of the agreement," and (c) believes that Chile should wish to "clear up" the apparent conflict between certain points and Chile's existing commitments.

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GENERAL

No. 009

1. USSR agrees to abolition of ACC Italy--US Embassy Moscow has received a note from the Soviet Government agreeing to the US proposal that Allied Control Commission Italy be abolished and its remaining functions transferred to Allied Forces Headquarters.
2. Vyshinski satisfied with Polish election preparations--US Embassy Moscow reports that Soviet Deputy Foreign Minister Vyshinski, upon receipt of the US note proposing joint representations reminding the Polish Government of its obligation under the Potsdam Agreement to conduct "free and unfettered elections" (see Daily Summary of 6 January 1947, item 1), expressed the "personal opinion" that Poland had fully complied with the Yalta and Potsdam terms and any such interference in this "purely Polish affair" was unwarranted. Vyshinski promised, however, to inform the Soviet Government of the contents of the note.

## FAR EAST

3. INDOCHINA: Effect of Japanese on Vietnam resistance discounted--US Consul Hanoi reports that the French are explaining the bitter Vietnam resistance by the presence of Japanese in the Vietnam forces. Because the number of Japanese found dead or alive is insufficient to support this explanation, Consul O'Sullivan feels the opposition is due principally to the tenacity and courage of Vietnam forces in defending prepared positions and to French lack of infantry, and inexperience in handling armored units.

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## GENERAL

1. US mediation urged in French Indochina--Abbot Low Moffat, Chief, Division of Southeast Asian Affairs of the State Department, has urged from Singapore prompt US action aimed at terminating the war in Vietnam so that the position of the US and other democracies may be protected in Southeast Asia. In his opinion, a hands-off policy looks like US approval of a French reconquest of Vietnam, which, even if successful, would engender such hatreds as to defeat French civil objectives and to threaten all Western interests in Southeast Asia. Moffat believes that a permanent political solution can now be based only on an independent Vietnam, and that the alternative would be a "gigantic armed colonial camp." He stresses the deep need for US moral leadership in this increasingly critical situation.
2. Dutch-Belgian agreement on a common German policy--US Ambassador Kirk reports that discussions between the Belgian and Dutch Foreign Ministers resulted in "substantial agreement" on the basic policy objective of a "politically federated but economically united" Germany. The two Governments plan to submit "coordinated memoranda" to the CFM deputies.

## EUROPE

3. FRANCE: Opinion on Soviet foreign policy--US Ambassador Caffery reports that, according to informed French opinion, the Soviets have three main foreign policy objectives, and that every action presently taken is calculated to aid the USSR "in one way or another" in reaching these ends.

The first objective is the atomic bomb. The French interpret even Soviet "concessions" at New York as designed to that end. They feel that once the US has divulged its atomic secrets or destroyed its bombs, not only will the Soviets flout inspection and similar agreements, but will "go to town" on the second objective--Middle East petroleum--which the Soviets need themselves but also do not want the US to get.

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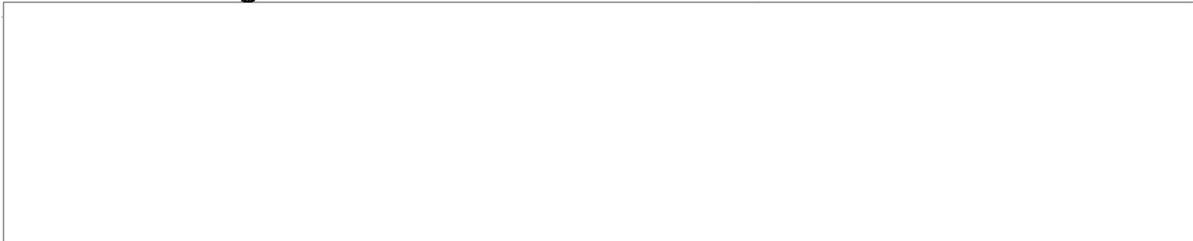
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The third objective, in French opinion, is Western Europe. The French, however, are now satisfied that the USSR is not planning "to move the iron curtain to the Atlantic" until the other two objectives have been accomplished.

Caffery notes that, while the French hold these opinions, they apparently do not "very often" have sufficient courage of their convictions to fight the Communists themselves.

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4. ITALY: Possible repercussions of De Gasperi's visit to US--US Embassy Rome considers as "exaggerated and alarmist" a view expressed by an official of the Foreign Ministry that the survival of the Christian Democratic Party depends on having Premier De Gasperi return from his current visit to the US "with something tangible to offer to the Italian people." The Foreign Ministry official also declared to an Embassy officer that Christian Democratic leadership afforded the best assurance that Italy would develop "along traditional European lines" (see Daily Summary of 3 January 1947, item 2).

(CIG Comment: The Christian Democrats probably cannot remain in power for an appreciable time after the withdrawal of Allied occupation forces, because the basic movement of Italian politics is away from the moderate parties. If, however, the Premier returns without "something tangible," the decline of his Party will be accelerated in the immediate future.)

Chetniks and Ukrainians a problem in Italy--Supreme Allied Commander Mediterranean reports that, although the disposal of 9,000 Ukrainians who were captured in Wehrmacht uniforms and of 11,500 Chetniks in Italy is a British problem (of 18 months standing), it must be solved prior to Allied evacuation lest Allied prestige suffer. SACMED urgently recommends that the Chetniks be transferred to DF camps, the Ukrainians to Germany.

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5. ICELAND: Withdrawal of naval personnel again recommended--US Legation Reykjavik, because of additional incidents involving Icelanders and US sailors, has reiterated its recommendation that US naval personnel be withdrawn (see Daily Summary of 30 December 1946, item 4).
6. BULGARIA: US-Bulgarian relations--Foreign Minister Georgiev has told US Representative Barnes that "all members of the Cabinet realize that economic rehabilitation of Bulgaria is absolutely impossible without materials from the US" and that the Bulgarian Government is anxious for "re-establishment of normal relations with the US."

## FAR EAST

7. CHINA: Embassy opposes sending Marine dependents--US Ambassador Stuart concurs with Consul General Smyth's opinion that sending US Marine dependents to Tientsin at this time is inadvisable because their arrival would give local Chinese the impression that US Marines were to be stationed in Tientsin indefinitely and would thus serve to increase growing Chinese resentment and hostility.

Report of US good-will mission to Tibet inaccurate--The State Department has informed US Embassy Nanking that a United Press dispatch, reporting the prospective departure of a US good-will mission to Tibet (see Daily Summary of 3 January, item 4), was inaccurate. The report was apparently based on the fact that eight Tibetan officials, visiting New Delhi 3 March, called on the US Commissioner with gifts and letters for the President. The State Department is disposed to send an officer to return this visit but has instructed Nanking to inform the Chinese Foreign Office that the US has no intention of establishing diplomatic relations with Tibet and would consult Chinese authorities before sending a mission to the area.

8. INDOCHINA: Position of Ho Chi Minh--US Consul Hanoi reports that French authorities have privately expressed a willingness to negotiate with Ho Chi Minh who, they believe, was opposed to the Vietnam attack of 19 December and is now a virtual prisoner of Vietnam extremists.

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The Consul states that Ho has neither made anti-French statements nor compromised his position regarding future negotiations, and that, if a Communist-dominated government should be formed in France. Ho may well form a new Vietnam ministry to negotiate with French authorities.

French and Vietnam Military strength--US Military Attache  
Paris now reports that, according to information received from official French military sources, present French strength in Indochina totals 94,000, including 63,000 white troops, 24,000 natives, and 7,000 naval and air personnel. In addition, 9,000 troops are scheduled for departure from France and 6,000 more when shipping can be obtained. These reinforcements are reliably reported to comprise the total regular army troops available.

Vietnam forces are estimated at 51,000 well-trained regulars plus approximately 100,000 guerrillas.

#### THE AMERICAS

9. BRAZIL: Pawley comments on US Latin American policy--US Ambassador Pawley, reporting on the opinions of high public officials and outstanding private citizens in Latin America as expressed to him through the period since 1945, comments that (a) "overwhelming sentiment" favors strengthening inter-American relations as opposed to "full and complete liquidation of past accounts"; (b) there is a "widespread desire" for adjustment of US-Argentine differences as an "essential step" towards hemisphere solidarity; (c) the former pro-Axis individuals within this hemisphere are "no longer considered generally to constitute a threat," and (d) Brazil and other countries are unable, "because of political considerations," to "repatriate their leading German citizens, many of whom have Latin American wives and children."
  
10. CHILE: Chilean official comments on new trade treaty--US Ambassador Bowers has been told by Jaime Larrain, head of the Chilean commission which negotiated the Argentine-Chilean commercial treaty now awaiting ratification, that (a) the treaty implies nothing unfriendly to the US, with which Chile wishes relations "to continue as

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before;" (b) the treaty is without political implications but will prove "mutually beneficial" to Chile and Argentina because each needs articles the other can supply, and (c) the US "is understood to have agreed," under the "treaty of Chapultepec," that the American nations should help each other "economically and financially" when possible.

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## GENERAL

1. Indochinese groups appealing for UN intervention--US Minister Stanton in Bangkok reports that representatives of the Free Laos, Free Cambodians, and Vietnam have drawn up a memorandum setting forth their hopes for ultimate independence and a federation of Southeast Asia states, and appealing for immediate intervention by the UN in the situation in Indochina. Stanton has told the representatives that he will endeavor to see that this document reaches the Secretary-General of the UN through the US Legation. Meanwhile, Free Laos and Free Cambodian leaders have left Bangkok for their respective provinces. Stanton expects that these leaders will take advantage of the opportunity afforded by French involvement in Tonkin to achieve their aspirations by attacking the French in their respective areas. Stanton feels that, because the sympathies of all other Southeast Asian countries lie with Vietnam, hostilities in Indochina directly affect the peace of Southeast Asia and create a situation definitely within the purview of the UN and the Security Council.
2. Czechs in Germany act as cover for Soviet intelligence--US Embassy Prague recommends as an additional condition for the proposed establishment of consulates in US Zone Germany by non-ex-enemy states that all Missions already operating in the Zone be withdrawn. The Embassy points out that (a) Czechoslovakia maintains a great many heavily staffed Missions in the US Zone, and (b) "it is no secret in Prague" that these Missions "have been and are being utilized as a cover for Soviet intelligence activities."
3. Embassy Moscow comments on Soviet objectives in Germany--In commenting on Soviet objectives in Germany, US Embassy Moscow notes that: (a) Germany, which has always loomed large in Communist plans, has been reduced by the war to a condition most favorable for the Kremlin's purposes; (b) Germany represents, for the USSR, the greatest potential threat or the most useful potential associate; (c) these considerations have convinced the Soviet Union that Germany must be included in the Soviet sphere; (d) Soviet control over Eastern Germany already has been partially effected; and (e) the USSR, therefore, will seek to maintain and strengthen its position in Eastern Germany, and to promote conditions in the western zones most favorable for the development of Communism and least favorable for orientation toward the West.

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The Embassy believes that the US (a) must be prepared to accept further separation of Eastern and Western Germany rather than agree to a "hollow unification" which would facilitate the accomplishment of Soviet purposes in Germany as a whole, and (b) must actively support and defend democratic and progressive forces in the US Zone against Soviet infiltration and subversion. In the Embassy's opinion, the issues are such that the US delegation should come to the Moscow CFM meeting prepared for a long and tedious struggle.

4. British to renegotiate air transport agreement--US Embassy London reports that the British will attempt to obtain an air agreement with Spain along the lines of the US-UK "Bermuda Agreement." (This is in accordance with US representations to the UK that Spain be given an opportunity to study the liberal Bermuda form of agreement and that appropriate provisions be incorporated in a revised UK-Spanish agreement.)
5. British Foreign Office view of Soviet "cooperation"--According to US Embassy London, British Foreign Office officials have not yet decided whether the recent, more cooperative attitude of the Soviets is "something that would endure or merely a maneuver." The British believe, nevertheless, that for the present, everything possible should be avoided which would appear to question Soviet good faith or mar the current "better atmosphere."

## EUROPE

6. ITALY: Allied recommendations for Fola evacuation--The Supreme Allied Commander Mediterranean has informed US Political Adviser Byington that, as SACMED definitely intends to retain troops in Fola until, but not after, the day when the Italian peace treaty is ratified, the Italians should begin any contemplated evacuation of Fola now. SACMED suggests that the Italians might use a Liberty ship acquired from the US, because the British forces do not have transportation facilities to assist the Italians (see Daily Summary of 2 January, 1947, item 4). He agrees that the Italian Government should be informed immediately of the extent of assistance available and of the length of time Allied troops will stay in Fola.

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Communists uneasy about central and southern Italy--US Consul Florence reports that, according to "authoritative sources," the Communists are sanguine of success in the next elections but are uneasy about the political attitude of central and southern Italy where their Party is relatively weakest. They are expected to send delegates to organize Communist propaganda in those areas.

(CIG Comment: The Rightist parties have long been strongest south of Rome; Communist propaganda probably will not succeed in weakening them.)

7. FRANCE: Communist concern over Blum's anti-inflation success--US Embassy Paris reports that the Communists are becoming "increasingly anxious" over the popular success which their "enemy number one, Blum" is achieving in checking price inflation. As a result, they seem determined to destroy the equilibrium apparently established by Blum between prices and costs, unless their demands regarding participation in the new cabinet are met. They plan to inaugurate a "vigorous campaign" through the CGT (General Confederation of Labor) for a "vital minimum salary."

The Embassy also reports that Duclos, a leading Communist, has discussed with Herriot support for the latter's presidential aspirations in return for his assistance in gaining for the Communists as many important ministries as possible.

Sales of US arms to France for use in Indochina refused--The State Department has informed US Embassy Paris that the US cannot approve resale of surplus US munitions by the Belgians to the French because the French apparently intend to use them in Indochina. The Department adds that US policy, which in general approves sales of "reasonable quantities" of military supplies to France, specifically forbids sales "in cases which appear to relate to Indochina."

#### FAR EAST

8. CHINA: Soviet officials in Dairen conciliatory toward US--US Consul General Dairen reports that Soviet officials seem inclined to consider the US courier ship incident of 20 December as closed; at a reception at his house, they referred "cordially" to the subsequent visit of the vessel.

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Sinkiang-Soviet trade to be facilitated--The Chinese Commissioner of Customs for Sinkiang has told US Consul Tihwa that the new Chinese import restrictions will not apply to Sinkiang, and has implied that China now considers resumption of the trans-border trade with the USSR essential for Sinkiang's economic life.

9. PHILIPPINES: Government not to open Legation in Spain--US Ambassador McNutt has been informed by President Roxas that the Philippine Government, in accordance with the UN decision against Franco, will not establish a Legation in Spain. The Philippine Government will inform the Spanish Minister, upon his arrival in Manila, of its decision and will give Spain an opportunity to withdraw him or to retain him with the understanding that no reciprocal action will be taken.

#### THE AMERICAS

10. VENEZUELA: President desires US action against plotters--US Embassy Caracas reports that President Betancourt has repeated previous allegations that a Venezuelan revolutionary expedition is being organized in the Dominican Republic with Dominican aid (see Dally Summary of 18 December, 1946, item 10) and has expressed his belief that the US should take steps to prevent ex-President Lopez Contreras and his followers (now in exile in the US) from conspiring against the Venezuelan Government.  
(CIG Comment: There is considerable evidence to support Betancourt's allegations. The Government's ability to put down a revolution has probably been weakened by unfavorable popular reaction to recent official revelations that it has been torturing political prisoners.)
11. BOLIVIA: Presidential candidates fail to attain majority--US Embassy La Paz has been informed by a high official in the Foreign Ministry that (a) it now seems apparent that neither Hertzog nor Guachalla will receive the absolute majority of popular votes required for election and (b) as a consequence the presidential election will revert to the new congress, the complexion of which is not certain.

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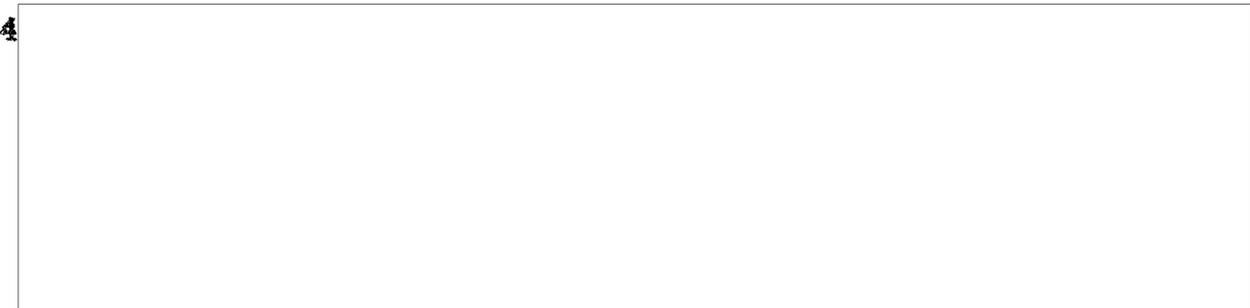
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## GENERAL

1. Request for UN intervention returned to Indochinese nationalists--The State Department has instructed US Legation Siam to return to leaders of the Free Laos and Free Cambodian movements the document requesting UN intervention in the situation in Indochina. The Department does not consider itself the proper channel for transmission of memoranda from such groups to the Security Council (see Daily Summary of 9 January 1947, item 1).
2. France declines US offer of good offices in Indochina--The Counselor of the French Embassy in Washington, has informed the State Department that his Government will not avail itself of US "good offices" but will continue to handle the Indochina situation "singlehandedly." The State Department has expressed to Embassy Paris the hope that this does not represent a definitive French intention to regard the problem as purely internal, and notes that "less dangerous situations have been raised in the SC in the past."
3. Priority for Baruch proposal lacks necessary SC support--Herschel Johnson, US representative to the Security Council, reports that the US resolution calling for immediate consideration of the Atomic Energy Commission report has no chance of obtaining the necessary support. The five representatives on the Security Council, who have already expressed their views, have indicated that they will "not oppose the proposal for a commission to discuss general regulation of armaments concurrently" with continued discussions in the AEC. The representatives consulted by Johnson unanimously feel that it is "politically impossible" to support the US position. The Columbian delegate believes that the USSR "could probably be brought to accept" the US concept of atomic priority, if the US yields on concurrent discussion.

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5. Consultation concerning Dominican-Venezuelan friction suggested--US Embassy Ciudad Trujillo reports that friction between Venezuela and the Dominican Republic has reached such a point that consultation among the American states signatory to the Act of Chapultepec appears justified, and that knowledge of the possibility of such consultation should deter extreme action by either country.

## EUROPE

6. GERMANY: Soviet Industries, A.G. production unsatisfactory--US Political Adviser Murphy has been informed by a well-placed German source that the Soviet military administrator is disappointed over the output of Soviet Industries, A.G. (see Daily Summary of 11 December 1948, item 5). Despite vigorous Soviet supervision, production has declined 5 to 10% in the 200 key industrial plants composing this Soviet joint stock company. The Soviet managers are under great pressure and are seriously worried over their failure, according to Murphy's informant, who adds that needs in the USSR itself appear to be desperate and that the USSR is not in a position generally to supply adequate raw materials for industry in its Zone.
7. FRANCE: Banker's comments on price reduction program--The Governor of the Bank of France, commenting on the Blum price-reduction program, has told US Embassy Paris that, in his opinion, (a) the benefits to date have been "entirely psychological"; (b) they will be "entirely dissipated" if there is another political crisis; (c) whether wage stabilization can be maintained depends on the attitude of the Communist Party; and (d) if the Communists are included in the new cabinet, there is a "good chance" that they will "go along" on maintenance of the present wage structure; but, if excluded, they will probably disrupt the labor situation through the CGT (General Confederation of Labor).

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## NEAR EAST-AFRICA

8. IRAN: British concern over opposition to Soviet oil concession--The State Department has advised Embassy Tehran that the British Ambassador will inform Qavam that it would be dangerous "to prepare" the Majlis (Parliament) to reject the Soviet oil concession. The Foreign Office apparently feels that a concession could be devised which would satisfactorily protect Iran's basic interests.

## FAR EAST

9. INDOCHINA: Vietnam may seek Chinese intervention--US Consul Hanoi reports that the Vietnam Government apparently is working for Chinese intervention. Vietnam forces are taking every precaution to protect the lives and property of Chinese and other foreign nationals in areas of fighting. Moreover, the Chinese Consul General has become critical of the French inability to safeguard Chinese nationals in Tonkin. The tone of the Vietnam broadcasts has recently become conciliatory toward China, in marked contrast to the Vietnam resentment of Chinese occupying forces in 1945-46.
10. PHILIPPINES: Roxas reiterates position on US troops--US Ambassador McNutt reports that Mr. H.E. Beyster, who is under contract to the Philippine Government, has informed Roxas that President Truman and Secretary Patterson assured him that all US troops would be out of the Philippines in sixty days. Roxas desires it to be known that Beyster was not authorized to make any representations on this subject and that removal of US troops from all the Philippines does not correspond in any way to his (Roxas') wishes.

## THE AMERICAS

11. CHILE: Adjustments in Argentine treaty under study--The Chilean Finance Minister has informed US Embassy Santiago that discrepancies between the Chilean-Argentine trade agreement and the US-Chilean modus vivendi are under study and will be adjusted (see Daily Summary of 8 January 1947. item 10).

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## EUROPE

1. **POLAND:** Officials reluctant to receive US election note--US Ambassador Lane reports that, when he attempted on 9 January to deliver in person the US note regarding the Polish elections, he was informed that the Foreign Minister was ill and that the two Vice-Ministers of Foreign Affairs, and the Chief of the Anglo-American Division were all absent from their offices. Lane thereupon had the note delivered to the acting head of the American section.

Government line now "softer" toward US than UK--Ambassador Lane also reports that Polish Government officials have informed the British Ambassador in Warsaw that the Polish Government's "line now is to be softer to the US than to the UK."

2. **BULGARIA:** Absence of Soviet chairman of ACC--US Representative Barnes reports, without ascribing any authenticity to it, the following explanation for the continuing absence of General Biryusov, Soviet chairman of the ACC.

When Marshal Tolbukhin recently conveyed without objection the view of Bulgarian Government leaders that relations with the western powers should be improved in order to facilitate the economic rehabilitation of the country, Biryusov refused to go along with this policy. He was then ordered by Tolbukhin to leave Bulgaria.

Barnes comments that this story, whether true or not, fits in with Georgiev's recent emphasis on the necessity for improved relations with the western powers (see Daily Summary of 7 January, item 7).

3. **SPAIN:** Significance of Aranda's deportation minimized--US Military Attache Madrid reports that [redacted]

[redacted] the deportation of General Antonio Aranda to the Balearic Islands for two months was not for political reasons. [redacted]

(CIG Comment: Aranda, who has been active for several months as a middleman between Monarchists and elements of the Left, is well known as an intriguer and gossip. Franco has withheld active military command from him for several years.)

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4. GREECE: Premier's views on broader Government--Premier Tsaldaris told US Ambassador MacVeagh in an informal conversation on 1 January that while he feels the Government should be "broadened again," he fears that such a move might appear to Moscow as a "sign of weakness." MacVeagh advised the Prime Minister to disregard outside opinion and consider only Greece's pressing need for political unity. Tsaldaris declared his willingness to resign, if he could aid Greece by so doing, but said he would not welcome a government headed by the leftist Sophoulis. As an alternative, MacVeagh suggested that Tsaldaris' own Populist Party broaden its program and become "a genuinely middle-of-the-road party."

In view of the impending investigation by the Security Council Commission, MacVeagh also urged that the political amnesty be made effective so that the people invited to lay down their arms could do so with confidence. Tsaldaris countered that the bandit problem is a complicated one but agreed that only those relatively few people actively seeking to subvert the state "should be liable to imprisonment or deportation."

5. POLAND: Peasant Party will boycott ten districts in election--US Ambassador Lane reports that the Polish Peasant Party leader, Mikolajczyk, has declared that his Party will not participate in the ten electoral districts where their list of candidates has been invalidated. This move eliminates Peasant Party candidates from competing for seventy-six seats. The Party, however, will participate in the other forty-two districts.

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7. HUNGARY: Projected new tripartite commission--US Minister Schoenfeld suggests that the State Department give early consideration to the problems confronting the US in the organization of the proposed tripartite commission, which he assumes will be in operation in Hungary for 18 months following the signing of the peace treaty and abolition of the Allied Control Commission. Schoenfeld adds that the British Minister to Hungary is leaving for London to participate in discussions concerning the establishment of commissions in Hungary, Bulgaria and Rumania.

## NEAR EAST-AFRICA

8. INDIA: Moslem League considers participation in Assembly--US Charge New Delhi reports that as a result of the All India Congress Committee's qualified acceptance of the British-Moslem League interpretation of the grouping clauses of the British Cabinet Mission's plan, the Moslem League Council may convene in early February to discuss possible League participation in the Constituent Assembly. League participation is regarded as unlikely without further assurances from the Congress regarding Moslem rights, which Congress leaders will find difficult to give in view of the strong resentment expressed by the Congress Socialists, Sikhs, and Assam delegates over action already taken. The Congress and Moslem League, however, may be compelled, by common concern over the growing restlessness of left-wing Congress elements, to cooperate in the framing of a new constitution for India.

## THE AMERICAS

9. CHILE: Difficulties regarding Argentine trade pact--US Ambassador Eowers reports that: a senior Foreign Office adviser has expressed the hope that the US will suspend judgment on the Chilean-Argentine trade agreement until the final treaty draft is prepared, because it would be "unfortunate" if the impression were created that the treaty was being modified as a result of US representations (see Daily Summary of 10 January, item 11).

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The Chilean Minister of Defense has declared that Communist members of the Cabinet have cited an apparent break-down of negotiations for twenty-two US tankers desired by Chile as evidence of "Yankee" pressure resulting from US displeasure over the Chilean-Argentine treaty.

The Defense Minister, a member of the Liberal Party, has also asserted that the Chilean-Argentine treaty must undergo considerable modification before the Liberal Party would vote to ratify it.

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1. [Redacted]

- 2. Dairen issue reportedly hinges on Manchurian trade--The Far Eastern manager of TASS has told a US Embassy Nanking officer that the USSR will not agree to reopening Dairen to international commerce until arrangements are made to provide the USSR with controls on Manchurian trade. This attitude reflects Soviet concern lest all eastern Manchurian commerce be channeled through Dairen to the exclusion of Vladivostok. The Embassy adds that this Soviet attitude also is consistent with the apparent Soviet policy of tying Manchuria to the economy of the Soviet Far East. The Soviet informant indicated that the USSR would not release Dairen until the Changchun Railway was actually placed under joint operation and until an effective Sino-Soviet commercial agreement was arranged.
- 3. More reasonable Soviet attitude termed unlikely--US Embassy Moscow reports it does not consider that recent events in Azerbaijan and perhaps Greece indicate the possibility of a more reasonable Soviet attitude toward Turkey. Soviet policy toward Turkey is motivated both by considerations of security and by the urge to gain access to the Mediterranean, the Arab world and the Suez Canal. Thus, until it can dominate Turkey, the USSR cannot feel that it (a) is secure in the southwest or (b) has made any substantial advance in its policy of Near East aggression.

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Embassy further believes that the USSR would participate with the US and UK in any regional agreement for defense of the Straits, such as has recently been under consideration in the Turkish Foreign Office, only in order to gain an advantage in what it considers the inevitable forthcoming conflict with the Western Powers. If the US and UK refuse to grant such an advantage, the Soviets would probably not agree to participate, and Turkey would have to depend for its security upon the wider assurances of the UN guarantee.

4. Franco-British "alliance" may be negotiated soon--The British Embassy in Washington has informed the State Department that an exchange of letters between Bevin and Blum is leading to conversations concerning a Franco-British alliance. The British Ambassador in Paris has reported that Blum will probably go to London on 13 January.

Blum reportedly is interested "primarily" in a means to obtain more coal, while the British desire to explore the possibility of closer economic cooperation as well as an alliance. Caffery believes that Blum may hope to return with "a little something" for the French before Thursday's important election for the French Presidency. (Earlier Franco-British negotiations over an alliance foundered mainly because of disagreement on the future of the Ruhr; the French had insisted that the British support their views on the Ruhr issue in return for an alliance.)

5. Soviets obstruct resumption of Hungarian-Austrian relations--According to US Minister Schoenfeld, the Soviets have consistently refused to consider a Hungarian request (first made in February 1946) for permission to resume diplomatic relations with Austria. Schoenfeld recommends compliance with a request by the Hungarian Foreign Office that the US Delegate raise the question at the next meeting of the Allied Control Commission.

#### EUROPE

6. GERMANY: Progress toward currency reform--US Political Adviser Murphy notes that the USSR recently has become genuinely concerned over possible Western Power tripartite action in the monetary field as an extension of the US-UK bi-zonal accord, and has agreed in principle

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to quadripartite control of currency printing. Previously it had been assumed, Murphy adds, that the USSR, with its strictly controlled zonal economy, has had time on its side in considering the problem of currency reform.

(CIG Comment: Unilateral Soviet mass printing of currency at Leipzig has been reported in the past (see Daily Summary of 18 December 1946, item 4). US representatives therefore have been reluctant to accept other than a central and readily controlled printing establishment. The above report significantly implies an actual Soviet fear that the US-UK zonal merger in effect may "write off" the Soviet Zone, leaving it stripped by reparations and unable to profit from the rehabilitated Western zone economy.)

7. ITALY: Possible repercussions of Allied disposal of DPs--US Charge Key recommends that immediate steps be taken to care for the approximately 105,000 DPs now in Allied camps in Italy (see Daily Summary of 8 January, item 4). Key points out that "dumping" of DPs on the Italian Government by the US and UK would lead to most unfavorable repercussions on US and UK relations with Italy, and the inevitable return by Italy of these DPs to their countries of origin. The US and UK, Key adds, would be blamed for this Italian action and the subsequent fate of these DPs.
8. AUSTRIA: Soviet view of Austrian proposals--US Minister Erhardt reports that the acting Soviet Political Adviser recently characterized the Austrian proposals for settlement of the German assets question in Eastern Austria as "very naive" and not deserving "serious consideration".
- (CIG Comment: This attitude suggests that the Soviets will press for a settlement which will permit them to retain a measure of control over Austria's economy rather than reduce their grip on eastern Austria by a cash settlement.)

#### NEAR EAST-AFRICA

9. EGYPT: UK clarifies stand on Sudan--US Embassy London reports that the UK Ambassador in Cairo has informed Nokrashy Pasha that

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the UK Government stands by the Bevin-Sidky agreement but cannot accept Sidky's interpretation of the Sudan protocol (which would prevent the Sudanese from becoming independent of Egypt, if they elected to do so). The Ambassador offered Nokrashy two alternatives: (a) Britain will sign the present treaty text and evacuation protocol, and will subsequently attend a Sudan Conference with Egyptian and Sudanese representatives; or (b) Britain will sign the texts on the understanding that the Sudanese will be permitted to choose their own form of government later but that Egypt's vital interests in the Sudan will be fully protected. Nokrashy was noncommittal on both proposals and the talks are continuing.

10. PALESTINE: Arabs invited to London Conference--US Embassy London has been informed by the Foreign Office that the British Government has invited the Arab Higher Committee of Palestine to send a delegation to the London Conference and join the Arab League delegates there. The UK and the Committee have tacitly agreed that the Grand Mufti will not be a delegate.

(CIG Comment: The Committee has heretofore refused to attend the Conference unless the Mufti headed its delegation. The UK rejected this demand on grounds that the Mufti collaborated with the Nazis.)

11. IRAN: Soviet oil concession--In a comment on the British position that Iran would run "grave danger" if it refused to grant the Soviets an oil concession (see Daily Summary of 10 January, item 8), Allen asserts that (a) the Iranians would make a serious error if they flatly refused to grant the USSR petroleum rights under any conditions, but (b) the US would make an equally grave mistake if it made representations which could be construed by Iranians as pressure on them to grant such rights. Allen doubts that Iran can adequately safeguard the interests of its people, however carefully the agreement is drawn; he believes that some kind of UN supervision may be necessary.

#### THE AMERICAS

12. COLOMBIA: President "eager to collaborate" against Communists--President Ospina has told US Ambassador Wiley that he is convinced

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that (a) the Soviet Legation in Bogota has been involved in subversive activities; (b) Soviet anti-US policy in Colombia will be spearheaded by direct attacks on US oil companies, and (c) Latin America as a whole is now one of the most important areas of Soviet operations. Ospina added that he is "eager to collaborate" with the US Government and US companies in "anything that might check the Communist menace."

Negotiations for French military instructors--US Embassy  
Bogota reports that the Colombian Government is contemplating the employment of two French military instructors.

13. BOLIVIA: Hertzog probable choice of Congress--US Ambassador  
Flack reports that, if the presidential election is thrown into Congress, as provided by Bolivia's electoral law when no candidate wins a popular majority, the result will be a victory for Hertzog who has polled the largest popular vote. The Junta has not yet decided whether the electoral law applies.

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**GENERAL**

- 1. Soviet reaction to US reparations procedure for Japan--Soviet Ambassador Novikov in a recent conversation with General McCoy has expressed concern over the US plan to deal with Japanese reparations by issuing interim directives unilaterally. Novikov implied that serious consequences might ensue.

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- 4. US Naval personnel to leave Iceland--The State Department has informed US Legation Reykjavik that the Navy is preparing instructions for the immediate removal of its personnel from Camp Knox pending early transportation to the US.

**EUROPE**

- 5. GREECE: First 1947 large-scale bandit raid in western Thrace--US Military Attache Athens reports that in the first major bandit operation in western Thrace since December 1946, an armed band of 600-1000 captured the town of Kiriaki on 9 January. The town was retaken by the Greek Army after reinforcements had arrived.

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### NEAR EAST-AFRICA

6. IRAN: Opposition candidates attempt to force Qavam's removal--US Ambassador Allen reports that the "real purpose" of the twenty-five Opposition candidates who took "bast" (refuge) in the palace 12 January is to force the Shah to remove Qavam. This group, consisting mostly of reactionaries, realizes that it will not be elected under existing circumstances and is making a last desperate attempt to alter the situation. It is reported to be openly accusing Allen of interfering in Iranian affairs, alleging that Qavam would have been removed except for Allen's advice to the Shah.

### THE AMERICAS

7. MEXICO: Quarantine measures considered inadequate--US Ambassador Thurston reports that US Veterinarians believe the Mexican Government's quarantine measures will not prevent the spread of foot and mouth disease toward the US (see Daily Summary of 27 December 1946, item 4). He asserts that only "immediate and drastic" cooperative action by the US and Mexico can eradicate the disease.

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4. French protest requirement of dollar payment--Acting US Political Adviser Muccio reports from Berlin that the French member of the Allied Control Council has criticized the US and UK requirement that balances on exports from their zones be paid in dollars, and has contended this measure (a) changes natural trade currents between the Zones; (b) denies the principle of distribution of essential goods; (c) "disturbs" the German monetary statute; (d) creates a distinct economic unit, and (e) puts interzonal trade on the same plane as foreign trade.

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(CIG Comment: This French opinion appears to reflect not only the stringency of France's dollar position but also a possible feeling that the above requirement is being employed by the US-UK as a means of exerting pressure on the French to expedite the unification of their zone with that of the US-UK.)

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## EUROPE

9. USSR: Embassy comments on internal conditions--According to US Embassy Moscow, the USSR is experiencing serious economic and morale difficulties. The Embassy believes that, in drafting the current Five-Year Plan, the Kremlin misjudged the temper of the people and their ability to bear further sacrifice, and now is forced to revise its program by diverting a larger share of the national effort to the production of consumer goods. While this development has been accompanied by the adoption of a less aggressive Soviet foreign policy, the Embassy sees no sign of a change in the Kremlin's long-range external objectives. Recent moves are interpreted rather as a temporary retreat to gain time for the consolidation of present positions at home and abroad in order that full advantage may be taken of such future opportunities as may become available for the extension of Soviet influence.

Soviet attitude toward disarmament--In commenting on the Soviet attitude toward armament reduction, US Military Attache Moscow observes that, although the people of the Soviet Union are more concerned with food than with arms, and although Soviet economic and manpower resources will be strained to support a large military force, Kremlin thinking continues to be dominated by a fear of "capitalist encirclement." For this reason, while Soviet leaders can afford to press for a general reduction in armaments, it is safe to assume that they will demand, for the USSR at least, a numerical military superiority over any possible combination of Western Powers.

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10. BULGARIA: -Immigration of Soviet families to Bulgaria-

according to officially registered figures in possession of the Militia Passport Directorate, more than 65,000 Soviet civilians, the majority

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without passports, have entered Bulgaria. In many cases the Militia finds billets for the Soviet immigrants and installs them, forcibly if necessary, in private homes. More than 15,000 of these persons reportedly are registered as applicants for Bulgarian citizenship and approximately 3,500 have already become naturalized.

11. NORWAY: Lange reportedly embarrassed by Lie's commitments-- US Legation Stockholm reports that the Swedish Foreign Office has gained the impression that Norwegian Foreign Minister Lange is now somewhat embarrassed by the extent of the commitments which his predecessor Trygve Lie may have made to the USSR in April 1945. The Foreign Office understands that Lange has "gone to the mountains" to try to think up some way out of the resulting impasse. (Norway submitted to the USSR in April 1945 a proposed draft of a joint Norwegian-Soviet declaration concerning the joint defense of Spitzbergen; see Weekly Summary of 6 December 1946.)

#### THE AMERICAS

12. BOLIVIA: Guachalla favors plurality decision-- US Ambassador Flack reports that Guachalla, who is running a close second in the Bolivian presidential elections, has declared publicly that Congress should "respect the popular will" by electing the candidate who received the largest number of votes. (With the count nearly finished, Hertzog, the conservative candidate, is leading by a few hundred votes, but the field is split so that no candidate can receive more than 50% of the votes cast.)

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GENERAL

1. Stalin hints at Anglo-Soviet alliance outside UN--The British Ambassador in Moscow has informed US Ambassador Smith that during the recent Kremlin dinner, Stalin remarked to Montgomery that all that was necessary to cement Anglo-Soviet friendship was an alliance. When it was pointed out that such an alliance already exists, Stalin replied that this was not what he meant, because the present alliance is within the framework of the UN.
2. Sweden establishes policy on Spitzbergen issue--A Swedish Foreign Office spokesman has informed US Legation Stockholm that Sweden will stand "on the letter and spirit" of the Spitzbergen treaty and insist that any abrogation or revision be effected within the framework of the United Nations.

(CIG Comment: Sweden is probably concerned not only about the Spitzbergen matter but also about the possibility of further Soviet "defense" demands on the Scandinavian mainland. Recent events may also have led the Swedes to conclude that the USSR will retreat diplomatically if faced with concerted international opposition.)

## EUROPE

3. FRANCE: General Juin may be relieved--US Embassy Paris reports the belief in official circles that General Juin will be relieved as Chief of the National Defense Staff (roughly equivalent to the US Joint Chiefs of Staff) should Le Troquer (Socialist) remain as Defense Minister.

3.3(h)(2) [redacted] told US Naval Attache Paris that Le Troquer threatened Juin not only with loss of his present post, but also with dismissal from the Army unless he "mended his ways." [redacted] Le Troquer claimed to have discovered some compromising documents regarding Juin's relation with certain extreme Right elements that wished an authoritarian de Gaulle Government.

3.3(h)(2) (Note: A CIG special evaluation of this report is in course of preparation.)

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French "unwitting" participants in US-UK arms standardization--  
US Military Attache Paris reports that, because the bulk of their Army and Air Force equipment is of US origin, the French "out of necessity" have begun some manufacture of standard US replacement parts, and "unwittingly" have partially fitted themselves into the US and British arms standardization program.

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Blum's predictions on composition of next government- [redacted]

[redacted] Blum's opinion that the next government of France will be a coalition of Socialists and Rassemblement des Gauches (largely Radical Socialists). Blum feels that the two largest Parties, the Communists and the MRP, each checked by the other, will prefer to remain outside the Government.

4. TUNISIA: Resident-General to be removed--A high French Foreign Office official has informed US Ambassador Caffery in Paris that "it had been decided" to remove General Mast. the Resident-General in Tunisia. [redacted]

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5. RUMANIA: Rumor of Communist withdrawal from Government--US Minister Berry has been told [redacted] that the Communist Party has decided (a) to withdraw from the Government to avoid responsibility for the "tremendous difficulties" caused by successive droughts and by the hostile attitude of the Rumanian people, and (b) to exploit its opposition to a puppet Government by creating public disorders through the trade unions to prove that only a Communist Government can maintain order.

Although Berry does not give "much credence" to a voluntary withdrawal from power by the Communists, he asserts that the persistence of such rumors is important as evidence of the popular will and of the increasing passive resistance to the administration. According to Berry, however, "there is some basis for the belief" that the Communists may be planning a shift of personalities in the Government without relaxing any of their control over it.

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## FAR EAST

6. CHINA: US seeks special rate for official currency purchases--The State and Treasury Departments have instructed US Ambassador Stuart and US Treasury Attache Nanking to make an immediate official request to the Chinese for a special exchange rate, approximating the current open-market US banknote rate, to apply to US Army and Navy purchases of CN dollars. (Purchases at the official rate, which greatly overvalues the CN dollar in terms of both the US dollar and the internal price structure in China, require abnormal appropriations of US dollars.)

In negotiating for a special rate, the US officials are instructed not to discuss the US \$500,000,000 Eximbank loan or a post-UNRRA grant, because the "status of these matters does not permit encouraging Chinese expectations."

Chinese tactics jeopardize US property rights--US Embassy Nanking believes that the Chinese Government, in setting time limits for the registration of real property rights in China by US nationals, is misinterpreting the Sino-US 1943 treaty which abolishes US extra-territoriality. Although the Embassy feels that the treaty provides that existing property rights cannot be rendered void, the Chinese Foreign Office has indicated informally that land in certain areas not registered before 31 January will be considered "theoretically ownerless and subject to nationalization."

7. INDOCHINA: Protracted military operations foreseen--The French Charge has told US Minister Siam that French military operations in Vietnam are likely to be protracted because French reinforcements en route to Indochina are insufficient to crush Vietnam military strength. The French Charge further declared that France could not afford to lose Indochina because that would hasten the loss of other French colonies, particularly in North Africa. The Charge also said that should Communists gain control of the French Government, they would carry on military operations against Vietnam "with utmost vigor."

## THE AMERICAS

8. ARGENTINA: Soviet views on US-Argentine situation--US Military Attache Buenos Aires reports that a press representative of the Soviet

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Embassy has declared that, in view of recent developments, the US must now choose between (a) loss of prestige in Latin America by coming to terms with Argentina "without further major concessions," or (b) further delay of the hemisphere defense pact, which would give the USSR "more time to combat it."

9. PERU: Foreign Minister advocates US assistance to Peru--The Peruvian Foreign Minister has told US Ambassador Cooper that Peruvian public opinion would welcome a Government effort to obtain credits from Argentina but that such credits would "tend to place Peru in the orbit of Argentina's influence." The Foreign Minister concluded that, in view of Peru's "difficult political situation," the US should support Peru's "democratic government," which along with Brazil he considers to be the "best South American friend" of the Hemisphere defense program.
10. HONDURAS: Foreign Minister favors Rio Conference--US Ambassador Erwin reports that the Honduran Foreign Minister believes the Rio Conference should be held without further delay.

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## GENERAL

1. Molotov increased Spitzbergen demands--UK Ambassador Collier in Oslo has informed the US Legation that Molotov indicated to Norwegian Foreign Minister Lange in New York that the USSR now expects more than jointly controlled Soviet-Norwegian air bases in Spitzbergen. Lange interprets this to mean that the Soviets expect to gain complete ownership and control of air bases in the Spitzbergen archipelago.
2. Preliminary steps for transfer of Bulgarian Macedonia--According to US Representative Barnes in Sofia, the Bulgarian Ministry of Interior has announced that in the recent census the people of Bulgarian Macedonia were given a choice of declaring their nationality as either Macedonian or Bulgarian. An opposition leader has charged that the Government seeks to use the census as justification for eventual transfer of Bulgarian Macedonia to Yugoslav Macedonia.  
(CIG Comment: This report is in line with current indications of a Soviet-sponsored plan for the creation of a larger Macedonian state within Federated Yugoslavia; see CIG Special Evaluation No. 9 of 16 January.)
3. Anglo-Egyptian treaty negotiations stalemated--US Embassy London reports that the Anglo-Egyptian treaty negotiations are virtually stalemated. Prime Minister Nokrashy Pasha informed the British Ambassador on 12 January that (a) neither of the British alternatives for a solution of the Sudan question is acceptable to Egypt (see Daily Summary of 13 January, item 9), and (b) Bevin "will not budge regarding freedom of choice for Sudanese."

## EUROPE

4. FRANCE: Effect on North African colonies of troop shipments--  
[redacted] US Naval Attache Paris  
[redacted] that the present program for troop shipments to Indochina is "scraping the bottom of the French military manpower barrel," and includes French, Moroccan, Senegalese, and Algerian troops.  
(CIG Comment: The sizeable withdrawals of troops from North Africa can materially affect the stability of that area, in which national-

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istic unrest is reaching serious proportions. Reduced troop strength required the shipment of troops from France to put down native riots in Algeria in May 1945.)

5. BULGARIA: Communists worried about Soviet withdrawal--US Representative Barnes believes that the current press campaign by the Communist-dominated Fatherland Front to eject the Opposition from the Assembly, coupled with strong Government threats to force peasants to deliver their food quotas, represents an attempt to frighten the people into submission before Soviet forces leave Bulgaria. According to Barnes, the Communists, realizing that the people fear Soviet troops more than they do the Bulgarian security police, have "important misgivings" about what will confront them when the Soviets leave. Barnes therefore expects an increase in political terror.
6. RUMANIA: Food shortages may lead to civic disturbances--According to the US Delegate to the Allied Control Council, "civic disturbances" may be anticipated as a result of increasing food shortages unless "relief is available soon." The Delegate reports that a 65% cut in rail transportation has restricted the transfer of persons from famine areas to those with more adequate stocks and has curtailed food shipments to urban areas. Food and transportation shortages are also causing serious labor difficulties.

#### NEAR EAST-AFRICA

7. IRAN: Government disturbed over election situation--US Ambassador Tehran reports that, in view of mounting public agitation against the manner in which the elections are being conducted, Qavam has presented three alternative suggestions to the Shah, that (a) opposition leaders be arrested; (b) the elections be postponed; or (c) the Shah order the government to resign. The Shah declined the first two but is examining the third which would permit a new, neutral government to conduct the elections.

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## FAR EAST

8. CHINA: Generalissimo seeks to resume peace negotiations--The Generalissimo has shown US Ambassador Stuart four points agreed to by Government leaders for reopening negotiations with the Communists: (a) renewal of negotiations, either bilaterally in Yenan or Nanking, or at an inter-party conference; (b) an immediate cease-fire order on both sides with a conference to provide for effective implementation; (c) discussion of practical plans for reorganization of the Army and restoration of communications; and (d) an agreement for a "just and reasonable" solution to the issue of political control of disputed areas.

The Generalissimo requested that Stuart find out whether the Communist Party would invite a Government delegation to Yenan, but asked him not to disclose the four points. Stuart was authorized to reply to possible Communist inquiries that the Government attached no conditions to the peace discussions and hoped that, through a discussion of all outstanding issues, unfettered by terms, a settlement could be reached. Ambassador Stuart conveyed the Generalissimo's message to the Communist representative in Nanking on 16 January.

## THE AMERICAS

9. ECUADOR: Galapagos base considered hemispheric-defense installation--The Ecuadoran Foreign Minister, en route to Ecuador from the US, told the Commanding General Caribbean Defense Command (purportedly upon instructions from President Velasco) that (a) Galapagos should be regarded exclusively as a hemispheric-defense installation in any future negotiations; (b) Ecuador will not seek an economic quid pro quo from the US; but (c) the US should recognize Ecuador's "urgent requirements" for US military equipment and technical advice.

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GENERAL

1. British views on Spitzbergen controversy--The British Foreign Office official charged with Norwegian and Soviet affairs has told US Embassy London that the UK intends to approach the US and Canada shortly to discuss the Spitzbergen situation. The Foreign Office understands that while the British military and naval staffs see no threat to UK security, the "strategic and guided missiles elements" hold a contrary view. The Foreign Office itself feels that the "political factor" demands firm opposition to Soviet demands; it will proceed along this line irrespective of the military-naval decision.

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[Redacted]

2. Recommendation for standing UN commission on Greek border--US Representative Barnes in Sofia reports his belief that "ultimate political and military upheaval" in the Balkans is inevitable unless the present regimes in Yugoslavia, Bulgaria, Albania, and Greece can be led "toward a common ground of more liberal political concepts." In order to gain time and in the meanwhile preserve maximum order along the Greek frontier, Barnes recommends the formation, after the withdrawal of the SC investigating committee, of some sort of standing UN commission on the spot as "the best promise in a very bad situation."

3. Soviets to withdraw from Allied Commission Italy--According to US Charge Key in Rome, the Soviet representative on the Allied Commission Italy (ACI) has told Admiral Stone, US chairman ACI, that the Soviet delegation will be withdrawn immediately. Key recommends that the US consider taking similar action, possibly after consultation with the British who may wish to consider simultaneous withdrawal. Admiral Stone comments on the possibility that this sudden move may presage Soviet pressure for US and UK withdrawal from Allied Control Commissions in Bulgaria, Hungary, and Rumania.

4. British views on Anglo-Soviet and Anglo-French pacts--US Embassy London reports [Redacted] a press

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article stating that when Bevin informed Molotov last summer of the possibility of an Anglo-French alliance, Molotov approved of "completing the union" of the three great European powers against future German aggression. The British Foreign Office official charged with Soviet matters has asserted that the UK regards the Anglo-Soviet alliance as "very much in force," although it is of "no real use" in Asia and the Near East "where Anglo-Soviet interests now meet." This official does not appear to feel that the USSR is angling for a new Anglo-Soviet treaty.

#### EUROPE

5. **FRANCE:** Offer of repatriation to German prisoners--US Ambassador Caffery reports that in the two hours between Blum's return from London and his departure for Versailles for the presidential elections he signed a note to the US, in reply to the US note informing France of the US decision to begin immediately the repatriation of German prisoners of war remaining in US custody or transferred by the US to liberated nations (see Daily Summary of 2 December, item 1). Blum's note asserts that France now intends to offer the German prisoners, who were transferred to French control by the US command, the choice of (a) repatriation to Germany or (b) remaining voluntarily in France with a status similar to that of French workers. France proposes to invite the International Committee of the Red Cross to designate representatives on the commission which will make the offer to these prisoners.

#### FAR EAST

6. **KOREA:** Growing unrest may lead to Korean revolt--In a summary of conditions in South Korea, General Hodge reports that "the rapidly growing unrest and impatience of all Koreans...may easily bring on a general revolution, with participation by both the Right and Left." The Koreans are abandoning hopes that US-Soviet negotiations for a Joint Commission will be successful, and the feeling is growing that Korea is being sacrificed "as a pawn in the international game."

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The economic situation, despite some improvement in the food outlook, is growing steadily worse, and any recovery depends on the importation of necessary raw materials, industrial equipment, consumer goods, food, and fertilizers. An electric power shortage may develop due to the steadily decreasing supply of power from the Soviet zone.

Hodge adds that, in the political field, a more moderate middle group may emerge as a result of US-endorsed efforts to obtain a coalition. The extreme Leftists and extreme Rightists, however, are becoming more active and more vocal against the occupation. Hodge doubts that the Soviets intend to reopen Joint Commission negotiations and urgently recommends that the US plan "a positive line of action."

7. CHINA: Split in Communist Party improbable--US Embassy Nanking reports that a split in the Chinese Communist Party is "most improbable" at present because failure to maintain a solid front would inevitably insure the Party's destruction. Reports of cleavages have recently been given US correspondents for their "confidential" information by Government officials and have appeared in the pro-KMT press. The Embassy comments, however, that the Central Government can be expected to foster this belief because Nationalist elimination of heterogeneous factions might be more palatable abroad than an all-out offensive to eliminate an organized opposition party.
  
8. INDOCHINA: Possibility of Laos and Cambodian uprisings--US Consul Saigon reports that French sources admit the possibility of an uprising by Free Laos and Free Cambodian groups, in view of the diversion of large numbers of French troops from southern and western Indochina to the area of fighting in the north. The French have failed to pursue the conciliatory conversations held with Free Laos groups last November before Siamese border territories were retroceded to Indochina. The chief French participant in these talks has said that this neglect may prove to be "disastrous."

#### THE AMERICAS

9. PANAMA: Ministers propose new defense sites plan--US Ambassador Hines reports a conversation with the Foreign Minister and two other

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cabinet ministers in which they proposed a plan for a new defense sites agreement which, they believe, would convince the Panamanians that the US does not wish to control Panamanian territory "unless it is mutually agreed to by the Panamanian Government," but would "in no way jeopardize the protection of the Canal."

The plan, announcement of which would be accompanied by a statement that the US "contemplates doing certain things that will be of assistance to Panama," would involve (a) occupation of the bases for one year under joint trusteeship of General Crittenger and a Panamanian cabinet minister; (b) returning the bases to Panama "symbolically," to mark supersession of the old agreement by the new, after a "short interval" during which neither agreement would be in effect; and (c) protection of US property and installations during the interval by "such detachments" as the Commanding General may deem "necessary."

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GENERAL

1. Soviets stress "permission" for courier ships at Dairen--The Soviet Consul in Dairen has told US Consul-General Benninghoff that, as Dairen is "still a closed port," a US "request" for clearance of a courier ship should be made to the Soviet Foreign Office by US Embassy Moscow "about a week" before expected date of arrival. Benninghoff notes that though the general situation has not changed in nine months, the emphasis is now on "permission" rather than "notification." The next courier ship is scheduled to arrive in Dairen 23 January. Admiral Cooke reports that US authorities in China are following the previous procedure of "notifying" the Soviet Embassy Nanking and Consulate General Shanghai only a few days in advance.
  
2. Gromyko seeks US publicity for Soviet atomic policy--Herschel Johnson, Acting US representative in the Security Council, reports that Gromyko, in a surprise move, called in NEW YORK POST correspondent Hohenberg in an apparent effort to obtain publicity for official Soviet views on atomic energy control and disarmament. Gromyko declared that the USSR desires two conventions on atomic energy: the first to prohibit the use of atomic weapons, and the second to formulate Molotov's views as expressed to the General Assembly, including inspection and control. Gromyko insisted that veto on punishment was irrelevant because "violations of this magnitude would mean war anyway." He indicated that while both conventions might progress simultaneously, "the first convention would and should be concluded first." Gromyko was confident that "everybody on the SC except the US" supported the Soviet position. Subsequently the POST correspondent received a telephone call from Lange, Polish representative to the UN, pressing him for an interview.
  
3. US view on reestablishment of relations with Bulgaria--The State Department has informed the US Mission in Sofia of its "tentative belief" that the US, for "political and practical reasons," should reestablish diplomatic relations with Bulgaria "either (a) without delay and before treaty ratification or (b) between the date of Senate ratification and exchange of ratifications, providing the situation in Bulgaria does not deteriorate in meantime."

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4. Argentina reported willing to replace US loans to Mexico--US Embassy  
Mexico reports that a US citizen, not likely to have been identified as such, heard the Argentine Ambassador to Mexico tell a group of "important" Mexicans at an official luncheon that Mexico need have no interest in a US loan, because Argentina would lend the Mexican Government "whatever sums of money it might desire."

## EUROPE

5. YUGOSLAVIA: Further withdrawal of US Embassy members to be asked--  
According to Embassy Belgrade, the Yugoslav Foreign Office, in a note rejecting a US protest against the December Belgrade espionage trial which implicated US Embassy personnel, has informed the US that "the Yugoslav Government agrees with the Government of the US that the members of the Embassy staff involved cannot in future carry on their functions in Yugoslavia. It will accordingly hand the Embassy a list of their names at a very early date."
6. POLAND: Embassy expects treason trial of Mikolajczyk--US Ambassador  
Lane reports that the death sentence meted out on 15 January to a Polish citizen for imparting information to a foreign ambassador has a "most sinister" aspect, when considered in relation to Mikolajczyk's personal safety. Lane believes that Mikolajczyk may be tried for treason--specifically for having imparted information to a foreign Embassy--and that the US "may expect another Mihailovich case." Lane asserts that, in view of the important role the US played in urging Mikolajczyk to join the Provisional Government, the US has far more than a humanitarian responsibility to endeavor to protect him. In the event of Mikolajczyk's arrest, Lane recommends that he be instructed to make a vigorous oral protest to the Polish Government.

Government expected to provoke post-election incidents--  
Mikolajczyk has told US Charge Keith that the Government, in order to furnish an excuse for "military or police" action, has ordered the "provocation of incidents" on 20 January, including attacks on Government supporters. The Opposition will then be charged with creating these disturbances.

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7. AUSTRIA: Government plans to send strong delegation to London--US Minister Erhardt has been informed that a strong delegation, headed by the Chancellor, Vice Chancellor, and Foreign Minister--and including representatives of all three political parties--will present Austria's views before the Council of Foreign Minister's deputies in London.

(CIG Comment: The Government's decision to include Communist representatives in the delegation indicates a determination on the part of Liberal leaders to preserve the three-party coalition, primarily in order to make the Communists politically co-responsible for the final treaty.)

8. FRANCE: MRP will probably enter coalition government--US Ambassador Caffery reports the "general opinion" that, although the MRP had previously hesitated to join with the Communists in a coalition government, it will now enter the new cabinet. Caffery adds that Bidault may have reassured his MRP colleagues that, with him as Foreign Minister, there would be "little to fear" regarding a change in French policy regarding Germany.

New French President pro-US, anti-Communist--US Ambassador Caffery reports that, while Auriol, the new President of France, is not a strong character, he is "very definitely" friendly to the US and strongly anti-Communist. Caffery adds that Auriol is very close to Blum and "unquestionably" will be greatly influenced by his views.

#### FAR EAST

9. FRENCH INDOCHINA: Strict censorship imposed--US Consul Saigon reports that French authorities now require all official "texts" on Indochina to be submitted to the High Commissariat for censorship. The High Commissariat is reported particularly hostile to the US press. The chief of the French press section has ordered all Indochina items cut from monitored Associated Press and other agency reports furnished to USIS, thus preventing correspondents from checking on censorship changes or delays in their stories. The French have also ceased furnishing the US Consulate with monitored Vietnam broadcasts.

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10. CHINA: Argentina reportedly negotiating for Hainan iron ore--US Embassy Nanking reports that an official of the Chinese National Resources Commission has told a "reliable source" that, as a result of negotiations about to be concluded in Buenos Aires, Argentina will acquire a stockpile of several million tons of iron ore from the Hainan Island mines and will purchase their total product during the current year.

### THE AMERICAS

11. BRAZIL: Decision to outlaw Communist Party reported--US Military Attache Rio de Janeiro reports that, according to "usually reliable high Brazilian sources," the Government has decided to declare the Brazilian Communist Party illegal on 22 January, before results of the 19 January elections are announced. The MA points out that the Government would then be in a position to: (a) find out the number of Communist votes cast in the elections; (b) keep this information from the public; and (c) prevent any successful Communist candidates from taking office.
12. NICARAGUA: US press to report elections--US Ambassador Warren reports that (a) President Somoza has told him the Government will arrange for US newspapermen to be present during the Nicaraguan election set for early February; (b) Somoza, in his opinion, intends to hold an "apparently free election," but (c) the Opposition, anticipating possible "fraudulent practices," has plans for "gathering information" on election day. Warren adds that President Somoza is "more worried now than he has been at any time in recent weeks," and would welcome an attempt by the Embassy to work out a pre-election "agreement" between himself and the Opposition. However, Warren notes that, in view of several recent events, including Assistant Secretary Braden's radio broadcast, the Opposition is "less disposed to conciliate" than formerly.

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## GENERAL

1. Embassy Nanking not to clear Dairen courier ships with Moscow-- Ambassador Stuart reports that US Embassy Nanking proposes to take no action to obtain clearance from Moscow for Dairen courier ships (see Daily Summary of 20 January, item 1). Stuart believes that Moscow clearance for courier vessels should not be lightly acceded to and that the isolation of US Consul General Benninghoff "should not again be tolerated."
2. UK policy toward Poland, Bulgaria, and Rumania unchanged--A UK Foreign Office official has told US Embassy London that the recent meeting in London of the Chiefs of its Eastern European missions did not result in any changes of policy. According to the official, the UK "will no doubt" inform the Polish Government, as it already has done in the case of Rumania and Bulgaria, that the UK does not consider it as "representative." The British will treat all three Governments "on a day-to-day basis with a close watch being maintained on their behavior."
3. Bevin reported ill--US Charge Gallman reports that Bevin became ill at the end of last week and is still confined to his home. The UK Foreign Office requests that his illness "be treated most confidentially."
4. US opposed to regional defense scheme for Straits--The State Department suggests that Ambassador Wilson inform the Turks that the US does not believe discussion of a regional defense agreement between the US, UK, USSR, and Turkey for defense of the Straits in time of war (as suggested by the Turkish Foreign Office) would serve to lessen Soviet pressure on Turkey. The Department feels that any such suggestion would be interpreted by the Soviets as an admission that the system founded upon the Montreux Convention and the UN does not provide adequate security. The USSR would then insist again that defense of the Straits should be by the Black Sea Powers only. The Department believes the Soviets would not accept any arrangement which prevents them from unilaterally assuming control of the Straits whenever they decide it is to their advantage to do so.

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## EUROPE

5. POLAND: US stand on possible Mikolajczyk trial--The State Department has instructed US Ambassador Lane to make a vigorous protest to the Polish Government if it institutes treason charges against Mikolajczyk (see Daily Summary of 20 January, item 6). The Department adds that, although no further financial assistance to Poland is contemplated, it would be inadvisable for Lane to make any reference to this subject in his protest.

UK Ambassador expects to be declared persona non grata--The British Ambassador to Poland has told US Ambassador Lane that, as a result of hints that have been made to the British Government, he expects the Polish Government to declare him persona non grata in the near future.

6. USSR: 1946 production of agricultural machinery disappointing--US Embassy Moscow reports that the Council of Ministers has issued a decree calling for greatly increased production of agricultural machinery during 1947. The Embassy comments that the order is the result of unsatisfactory work in several individual factories, poor organization of the industry as a whole, and the pressing need of Soviet agriculture for tractors and other machinery. The decree also indicates the Government's great concern over the agricultural situation.

Reorganization of Agriculture Ministry planned--US Agricultural Attache, Moscow, has been told by the Chief of the Foreign Division of [redacted] that a study is in preparation with the aim of placing responsibility for food and agriculture, now divided among "at least seven Ministries," under one Ministry. Minister of Agriculture Benediktov has ordered the preparation of a comprehensive report on the organization of the US system.

7. TURKEY: US envoy urges reconsideration of US arms policy--US Ambassador Wilson has urged reconsideration of US policy on supplying military equipment to Turkey. He reiterates his belief that Turkish morale will deteriorate, if the Turkish request for such equipment is turned down flatly and the US fails to indicate a willingness to furnish at least some support either in military equipment or additional economic credit. Wilson believes that more satisfactory results would be obtained, with regard to both Turkey and the USSR, if the US supplied the materiel direct to the Turks, instead of passing it to the UK for transfer.

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Wilson is therefore awaiting further word from the State Department before informing the Turks of its negative attitude toward their request for equipment.

### THE AMERICAS

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8. PANAMA: Embassy views on defense sites plan--Pursuant to the recent discussion of a new defense sites plan (see Daily Summary of 18 January, item 9), the Panamanian Foreign Minister has sent US Ambassador Hines an informal memorandum outlining the proposal. Hines comments that the Foreign Minister "has not departed far from his original point of view," and agrees with General Crittenberger that the plan is unacceptable.
  9. ARGENTINA: Brazilian invitation to Rio conference rumored--US Embassy Buenos Aires advises that the local press has reported the Foreign Office's receipt of an invitation from Brazil to attend the Rio conference "to be held in the near future, possibly in March." [redacted] the story was not based on an official release but was "allowed to leak" from the Foreign Office.

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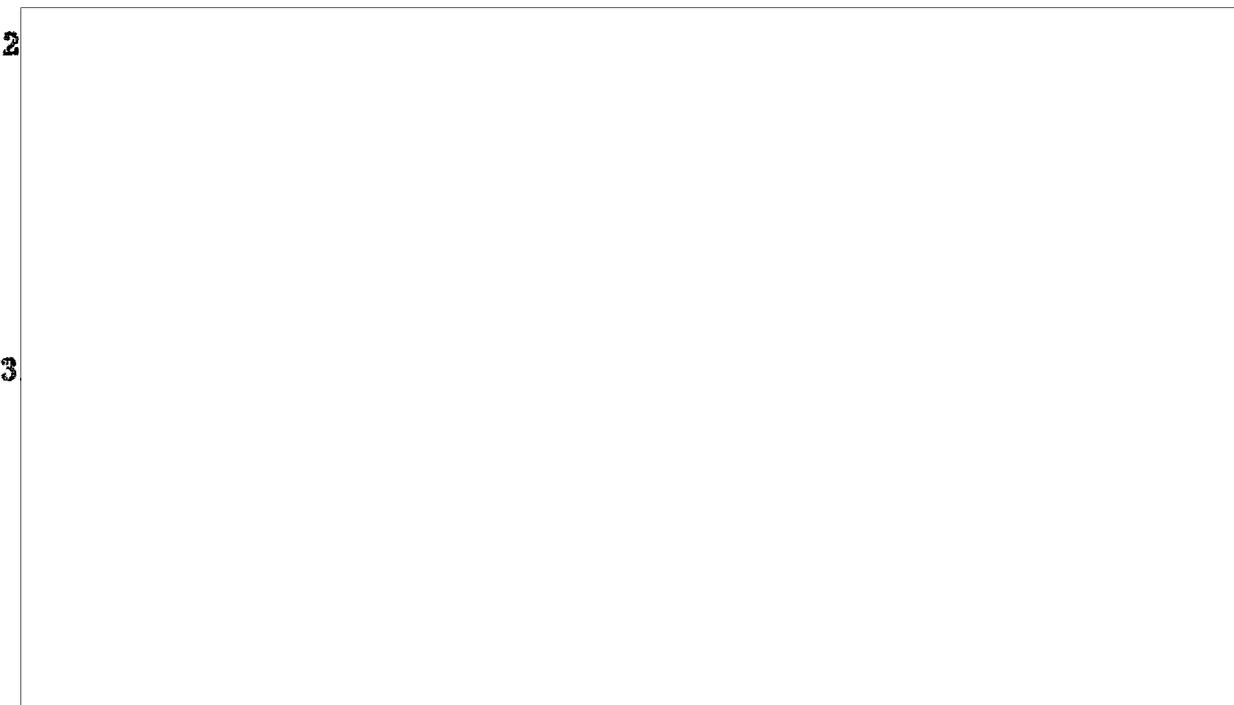
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GENERAL

1. Dairen courier ship test expected Thursday--US Ambassador Smith in Moscow agrees with Embassy Nanking that courier ship service to Dairen should remain on a basis of notification (to the Soviet Embassy Nanking and Consulate General Shanghai; see Daily Summary of 20 January, item 1) and strongly advises against transmission of either notification or request through Embassy Moscow. Smith points out that the US "consistently resisted pressure for such a procedure regarding the Balkans;" he is convinced that Soviet authorities should not be allowed to "get away with it" in the Far East where the US bargaining position is far stronger. He believes pointed tightening of restrictions on Soviet traffic into Japan will be far more persuasive than argument.

Admiral Cooke reports that he will send the courier ship as scheduled, and has instructed Commander Yates (a) to make every effort in a "friendly but firm manner" to complete the mission; but (b) if local Soviet authorities deny permission to land the diplomatic courier, the vessel shall remain in Dairen harbor or at the twelve-mile limit awaiting Cooke's instructions.

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6. Polish trade "ultimatum" to Sweden- [redacted]  
[redacted] that the Polish trade delegation in Sweden has told the Swedes that all Polish coal shipments to Sweden will stop at the end of March, if Sweden does not grant Poland a 500 million kroner credit over a period of five years for use in other countries.

7. Sino-French dispute over Paracel Islands--Assistant Naval Attache Canton reports from a usually reliable source that on 15 and 16 January a French ship called at one of the Paracel Islands (south of Hainan and east of French Indochina) and twice requested the Chinese garrison to leave, which it refused to do. (China and France both claim sovereignty over these islands.)

#### EUROPE

8. AUSTRIA: Possibility of a major food crisis--Headquarters, US Forces Austria reports that indigenous wheat reserves are being rapidly exhausted and that continued failure to make "timely delivery" of UNRRA and WD wheat will create a "major food crisis" about 1 March.

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9. **DENMARK:** Mission fails to conclude air agreement with USSR-- US Legation Copenhagen reports that the Danish Air Mission to Moscow has failed to conclude an air agreement and is returning home. A Danish proposal, with Finnish concurrence, for an exchange of traffic with the USSR at Helsinki was rejected, and permission for Danish aircraft to fly over Finland was denied by the Soviet Government. The Danes rejected a Soviet proposal for an exchange at Memel for east-bound traffic, with Copenhagen as the terminus for westbound Soviet aircraft.
- (CIG Comment: The Finnish Peace Treaty, scheduled to be signed next month, accords to all UN members the right to fly over and make non-commercial landings in Finland; it would therefore permit Danish planes to land at Helsinki.)
10. **CZECHOSLOVAKIA:** New elections reportedly scheduled for April-- US Military Attache Prague considers as "probably true" a report from a "completely reliable" source that all parties except the National Socialists have formally agreed to new elections in the Spring, probably in April. The MA adds that, according to the Czech equivalent of the Gallup Poll, if elections were held today, the Communists would lose 25 of their 114 seats in Parliament. The source believes that by April, the Communists might fall from first to third place, and that they agreed to new elections only after the Social Democrats threatened to oppose all forms of socialization unless new elections were held.
11. **GREECE:** US views on coalition Government--The State Department, in a new effort to bring about political stability in Greece, has elaborated to Ambassador MacVeagh its views as to how a desirable coalition government might be formed, and has empowered him to communicate these views to Premier Tsaldaris. The Department stresses that US public opinion will not favor extension of US aid to a Government which lacks wide popular support. The Department points out that, although the US cannot make specific suggestions, the dangerous situation resulting from extremist Left-Wing efforts to undermine Greek political independence and territorial integrity might be remedied by formation of a broad coalition government of patriotic groups willing to cooperate in face of national danger. Such a Government

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might be formed under the initial leadership of a non-partisan figure such as the former Regent, Archbishop Damaskinos. The Department's view is that this coalition should exclude "international totalitarian Leftists" or groups under their influence, as well as Rightist groups so reactionary that they reject cooperation with Center and Liberal elements whose sincere patriotism is not questioned.

#### NEAR EAST-AFRICA

12. INDIA: Soviet influence on Interim Government discounted--Embassy New Delhi, reporting denials by Nehru and Mrs. Pandit of John Foster Dulles' allegation that the Indian Interim Government is subject to strong Soviet influence, states that it has observed no indication of such influence. The Embassy further reports that the Interim Government is representative primarily of the conservative and propertied classes and fears Communist infiltration.

#### FAR EAST

13. CHINA: Soong favors special exchange rates for US armed forces--US Treasury Attache Nanking reports that T. V. Soong has agreed in principle to an arrangement whereby the US Army and Navy can purchase, at special exchange rates, CN dollars to meet expenditures in China (see Daily Summary of 16 January, item 6). Soong insists that the matter be kept secret.

(CIG Comment: Soong probably fears that this arrangement, if generally known, will (a) lead to pressure for similar privileges from all foreign business and governmental interests; (b) provoke criticism by anti-Government elements; and (c) further undermine confidence in Chinese currency.)

#### THE AMERICAS

14. BRAZIL: Government refuses to pay damages to USSR--US Ambassador Pawley reports that Rio de Janeiro newspapers have published the text of a note reportedly sent by the Brazilian Government to the USSR regarding the recent incident between Soviet authorities and a Brazilian

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diplomatic official (see Daily Summary of 23 December 1946, item 12). In the note, Brazil (a) admits the USSR's right to demand the official's removal; (b) refuses to pay damages the USSR had requested; (c) stresses the "precarious conditions of the Brazilian Embassy installations in Moscow," and (d) states that, failing improvement of these conditions, Brazil will not maintain its representation in the USSR "with the present category and composition."

15. ARGENTINA: Trade agreement signed with Switzerland--US Embassy Buenos Aires reports that Argentina and Switzerland have signed an agreement, subject to ratification, under which Argentina will send Switzerland stipulated amounts of grain and--if available--oils, hides, quebracho extract, and fertilizers. The Swiss Government will "provide all possible facilities" for Argentine purchases of communications devices and chemical and pharmaceutical products.

Trade agreement with Chile revised--US Embassy Buenos Aires reports that the Argentine and Chilean Governments have revised their recent trade agreement to exclude exceptions with regard to the most-favored-nation clause.

16. VENEZUELA: Officers corps declares loyalty to Junta--US Military Attache Caracas reports that the Minister of Defense has presented the caretaker Junta a declaration of loyalty signed by nearly half of Venezuela's army officers, who promise to obey and exact obedience to the Junta and the Constituent Assembly and condemn "individuals" who are "instigating the armed forces to revolt." The MA comments that signatures to the declaration were "obtained under pressure," that some of the signers are known to be opposed to the Government, and that the declaration "reveals Government concern regarding imminent dangers to stability."

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## GENERAL

1. South Africa to disregard GA resolution--US Minister to South Africa reports that General Smuts, in a public address, announced that South Africa will continue to administer Southwest Africa and will decline to submit a trusteeship agreement, notwithstanding the request made by the General Assembly last December. Smuts expressed himself as "a little afraid of the Trusteeship Council." Referring to South Africa's treatment of her Indian minority--which the General Assembly condemned at the same time--Smuts said that South African legislation restricting Indian land tenure must stand.  
(CIG Comment: This open disregard of the opinion of the General Assembly by a nation closely associated with the Western bloc has major implications regarding the future effectiveness of the UN, and might provide a precedent for similar Soviet action.)
2. Belgian and Polish views on UK Corfu complaint--Nisot, Belgian Representative to the UN Security Council, has informed the US Delegation that the British complaint against Albania on the matter of mining Corfu Straits should be referred to the International Court of Justice, either (a) as a whole, or (b) by way of requesting an advisory opinion. Nisot indicated that he favored the former alternative as "the only way a SC veto could be avoided." While the Acting Polish Representative did not commit himself, it was clear that he favored reference of the whole matter to the Court. (The US has previously urged the UK to refer the complaint to the ICJ; see Daily Summary of 31 December 1946, item 5.)
3. France and USSR discussing air agreement--US Ambassador Caffery in Paris reports that the Soviet Embassy has advised the Foreign Minister "suddenly and without warning" of Soviet willingness to undertake negotiations for an air agreement. As a result, a French Air Mission is now in Moscow. Caffery states that the Foreign Office, which desires a reciprocal agreement with the USSR, has inquired what the US attitude would be if the Soviets refuse French landing rights in the USSR and propose a connecting point at Berlin, Warsaw, or Prague.
4. Chinese views on French policy in Indochina--A Chinese Foreign Office official recently told US Embassy Nanking that French authorities in Indochina have sounded out Chinese opinion on the possibility of establishing a regime in Vietnam headed by the former Annamese Emperor, Bao Dai, and that a revival of the imperial idea in this area would be unsatisfactory to China.

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5. Soviets approve Austro-Hungarian diplomatic relations--US Delegate Allied Control Commission Budapest has learned from a high official in the Hungarian Foreign Office that the Soviet Chairman ACC, without informing the US or UK delegates, has notified the Hungarian Foreign Office that the ACC does not object to the resumption of diplomatic relations between Austria and Hungary. (The Soviets previously had been reported as opposed to such a step; see Daily Summary of 13 January, item 5.)
6. Developments concerning Rio Conference--According to US Embassy Bogota, the Colombian Foreign Minister has asked "other Latin American countries" to express an opinion regarding the advisability of holding the Rio Conference before the Pan American Conference, scheduled to meet at Bogota in 1947. The Minister has advised the Embassy that the only two countries submitting unequivocal replies to date favor holding the Rio Conference.
- According to US Embassy La Paz, the Colombian Minister to Bolivia has inquired officially whether Bolivia would attend the Rio Conference "at an early date" if invited to do so by "another power." The Bolivian Foreign Office has asked for an expression of US views.
- US Military Attache Rio de Janeiro reports that the Brazilian Government has denied a Buenos Aires press report which stated that the Rio Conference might be held in March (see Daily Summary of 21 January, item 9).

## EUROPE

7. FRANCE: Communist "packing" in French Veterans' Administration-- US Ambassador Caffery reports that the week-old strike by employees of the Ministry of War Veterans is a protest against a Socialist attempt to "purge" Communists holding key positions in various Socialist ministries and to eliminate the very large number of employees performing no useful work. Caffery adds that the War Veterans' Ministry is a flagrant example of Communist "packing" and that the Socialists hope an airing of this "crying scandal" may produce some beneficial effect and may embarrass the Communists. (In the new coalition cabinet a Radical Socialist heads the Veterans' Ministry.)

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8. ITALY: Yugoslavs may not sign peace treaty--According to US Charge Key, De Gasperi told Admiral Stone that on the basis of all the information he has, the Yugoslavs will not sign the Italian peace treaty. De Gasperi also expressed the opinion that Italy will probably not sign the treaty voluntarily.

(CIG Comment: The Yugoslavs, although reluctant, will probably sign under Soviet pressure. CIG believes that the Italians will sign because non-signature may jeopardize the continuance of foreign (particularly US) aid, may prolong undesirable occupational burdens, and may prevent Italy's reentry into the family of nations.)

3.3(h)(2) "Irregularity" of Italian note on peace treaty--Key has been informed [redacted] that the 20 January Italian note to representatives of the Big Four regarding possible revision by bilateral negotiation of the Italian peace treaty was drafted "in (the) name of Foreign Minister and not in (the) name of Italian Government." De Gasperi expressed the view that the action, coming after Nenni's resignation, was "somewhat irregular."

(CIG Comment: As the desire for revision of the terms of the Italian peace treaty is general among Italian officials, it is unlikely that there will be an official disclaimer of the note unless reaction to it proves seriously embarrassing to the Italian Government.)

UK reaction to Italian "principle" of peace treaty revision--US Charge Gallman in London reports that a UK Foreign Office under-official differentiated between two possible interpretations of the Italian note, described above, regarding peace treaty revisions. The first of these interpretations--"the waiving by separate states of certain rights granted under the treaty,"--would be acceptable to the UK; the other--"radical changes such as revision of frontiers or of armaments clauses,"--would not.

Significance of Soviet withdrawal from Allied Commission--Key also reports that the hasty Soviet withdrawal from both the Allied Commission and the Advisory Council for Italy may indicate prior knowledge of Italian opposition to signing the peace treaty (see Daily Summary of 18 January, item 3). It also may mean, Key adds, a Soviet attempt to avoid the responsibility of compelling Italy to sign the treaty through pressure on the part of the Advisory Council or the Supreme Allied Commander. Key therefore recommends that further pressure by the US on the Italian Government in this matter should be exerted only in conjunction with the other Big Four powers.

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**NEAR EAST-AFRICA**

9. **IRAN: Soviets seek airline monopoly in northern Iran--US Ambassador Allen reports that the Soviet Embassy is again pressing for an exclusive airline monopoly in northern Iran, where Soviet air traffic has recently increased.**

**FAR EAST**

10. **KOREA: SCAP's suggestions regarding Korea--General MacArthur fears that failure to break the existing deadlock between the US and the USSR on the Korean question will be disastrous, both for the Korean people and for US prestige and influence in the Far East. He has accordingly suggested alternative procedures for arriving at a solution: (a) to submit the entire Korean problem to the UN; (b) to request the establishment of a joint commission, possibly including representatives of disinterested nations, which would make a thorough survey and recommend action; (c) to hold a meeting of the US, USSR, UK, and China to clarify chapter 3 of the Moscow agreement in so far as it relates to the reestablishment of Korea as an independent state; and (d) to call a meeting on the highest level between representatives of the US and the USSR in order to plan Korean unification.**

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## GENERAL

1. Soviets "cordial" to US courier ship at Dairen--The Navy Department reports that the US courier ship has arrived at Dairen (see Daily Summary of 22 January, item 1) and has been given permission to remain 48 hours. The Task Group Commander describes the Soviet attitude as "noticeably cordial."

3.3(h)(2) 2. Soviet move to penetrate Finnish industry-- a Soviet proposal that one-half of the German assets, valued at six billion marks, which Finland owes the USSR be made available to the USSR in the form of stocks in Finnish industrial enterprises at their 1944 valuation (which is much lower than at present). The Finnish Government, according to source, will not agree to this proposal.

## EUROPE

3. USSR: Apparent stockpiling of foodstuffs--US Embassy Moscow reports that recently released Soviet figures indicate increased commercial production of meats, fats, fish, and bakery goods, but show 1946 grain and sugar beet crops as substantially below those of 1945. Soviet authorities blame this latter condition on the drought, and point to it as justification for the continuation of rationing. The Embassy suspects, however, that the true reason for the continuation of rationing is the Soviet desire to build up food reserves, and that the official policy of placing the blame on the drought is designed to offer a satisfactory explanation to the Soviet people and to support the Kremlin's desire for relief from abroad.
4. FRANCE: Investigation of thefts from Ministry of War Veterans' files--US Ambassador Caffery reports as "probably significant" that the Socialist Minister of War Veterans in the recent Blum Cabinet has taken legal action to investigate the "removal of official documents" from this Ministry's files. (Caffery previously reported that the War Veterans' Ministry was a flagrant example of Communist "packing," see Daily Summary of 23 January, item 7.)

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## FAR EAST

5. CHINA: Communists believe delay in negotiations advantageous--The Secretary-General of the China Democratic League has told US Ambassador Nanking that the Chinese Communists apparently expect the Government's military losses to be so serious within the next few months that the Government will be forced to seek a renewal of peace talks at which the Communist Party can make its own terms. They also count on further economic distress to weaken the Government's popular support, and they hope to derive some advantage from the Moscow Foreign Minister's conference.

## THE AMERICAS

- 3.3(h)(2) 6. BRAZIL: Communists lead in partial election returns- [redacted] early state election returns from Sao Paulo indicate that the Communist candidates for Governor, for seats in the Federal Senate, and for many seats in the State legislature have polled a large and possibly a winning vote. [redacted] in recent cabinet discussions regarding possible post-election legal action against the Communists (see Daily Summary of 20 January, item 11), it had been assumed, on advice from the Minister of Justice, that (a) the Communists would make a poor showing in Sao Paulo, and (b) the Government candidate for Governor was certain of victory.
- 3.3(h)(2) 7. MEXICO: Exchange of military students with Argentina--US Military Attache Mexico City reports that Argentina is to send two Army officers to Mexican military schools in exchange for three Mexican Army officers who will attend Argentine military colleges.

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## EUROPE

1. **CZECHOSLOVAKIA: Communist popularity on decline**--According to US Embassy Prague, Czech Communists are gradually but definitely losing popularity. Slovak Communists, weaker but more militant than their Czech comrades, are facing a similar loss of support and are becoming increasingly aggressive and obstructionist in an effort to forestall this trend.
2. **HUNGARY: US concern over Communist tactics**--The State Department has informed US Legation Bucharest, of its concern over present Communist tactics, which seem aimed at replacing the present democratic Government before the Peace Treaty becomes effective and Soviet troops consequently are withdrawn. The Department therefore desires to give support to the democratic elements through economic aid to Hungary, and requests the Legation's suggestions as to political steps which would prevent further deterioration of the situation.
3. **FRANCE: New coalition cabinet**--Premier Ramadiers' wide Coalition Ministry includes 9 Socialists, 5 Communists, 5 MRP members, 5 Radical Socialists and 2 Independent Republicans. Billoux, a Communist, has become Minister of National Defense with the restriction that he must leave effective measures of control to the Premier and the three separate service Ministries. US Military Attache Paris comments that, with the formation of this Cabinet, the French Government ceases to be "Provisional" and becomes the Fourth Republic. Although the general political situation is unstable, the MA points out that no Party wishes to take responsibility for precipitating a crisis and that the new Constitution, now operative, provides against hasty decisions likely to provoke ministerial crises.

US concurs in proposal on POWs--The US State Department has concurred in the French proposal (see Daily Summary of 18 January, item 5) that the International Red Cross participate in the plan whereby prisoners of war (transferred by the US to the French) be given the opportunity of remaining in France. The US stipulates that (a) those waiving repatriation do so in writing attested to by representatives of the French Government and the Red Cross and that true copies of these waivers be made available to US authorities, and (b) each POW be informed of his exact status (that of a worker) while remaining in France.

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4. **ITALY: Allied troops assist Pola police**--The Supreme Allied Commander in the Mediterranean reports that uncertainty about the future has reduced the morale of the Italian population of Pola to a level which may turn to panic and has necessitated the use of Allied troops to assist civil police. SACMED adds that the pro-Slavic element is hindering the removal of property of Italians and the Italian Government has so far failed to take steps to evacuate its nationals.

#### FAR EAST

5. **CHINA: Soviets still desire Moscow clearance of Dairen courier ship**--US Embassy Nanking reports that the Soviet Embassy there on 22 January "took the initiative" to recommend orally that future courier trips to Dairen make use of commercial vessels, and added that it was "desirable" that US Ambassador Moscow "inform" the Soviet Foreign Office "from one to two weeks" in advance of departure date. (US Ambassador Moscow recently advised strongly against agreement to this procedure; see Daily Summary of 22 January, item 1.) Embassy Nanking informed the Soviet Embassy that, if a change was desired, the matter should be raised formally in Washington or Moscow.
6. **N.E.I.: Dutch official's pessimism over Cheribon pact**--A member of the Dutch Commission General has told US Consul General Foote in Batavia that he believes the Cheribon agreement between the Dutch and Indonesians is doomed to failure, because he is convinced that the Indonesian Republicans do not intend to honor it and will "violate it as flagrantly as they did the truce agreement." Though the official had initialed the agreement, he declared that he ought not to sign it. Among other members of the Commission, he said only Van Mook was "optimistic."

The official added that even the Indonesian leaders who favor an agreement with the Dutch regard it only as a step towards a successful revolution and eventual Republican domination of all of Indonesia. He expressed the belief that the "influence of Soekarno and moderates like Sjahrir has greatly declined," while that of irreconcilable militarist leaders opposed to any agreement is increasing.

He said he shared with an increasing number of Dutch in Batavia and in the Netherlands the belief that swift Dutch military action and the

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capture of Djocja (capital of the Republican territory) would be a more "honest and effective" means of restoring order and prosperity than an agreement which is "certain to be sabotaged by the Indonesians."

### THE AMERICAS

7. **ARGENTINA: Views on liquidation of German firms**---US Embassy Buenos Aires expresses the opinion that "the action provided for in" the Argentine Government's recent decree regarding liquidation of enemy firms "constitutes reasonable and substantial compliance with the Act of Chapultepec, insofar as enemy property is concerned."
  
8. **BOLIVIA: Effect of tin price on Bolivian economic and political stability**--US Ambassador Flack reports that the Bolivian Junta Government is depressed at the slim prospect for any increase in the price of tin, and adds his belief that (a) the question of the tin price is inescapably tied up with Bolivia's internal economy and public order; and (b) unless a sufficient increase is granted to offset the increased cost of imported foodstuffs, the new Bolivian Government (recently elected, to take office soon) will be faced with a "difficult situation" particularly with regard to "mining labor." Flack recommends that the tin question be considered in the light of over-all US relations with Bolivia and the US desire to stimulate the democratic institutions which have emerged since the revolution of July 1946.

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## GENERAL

1. Embassy Moscow warns of Soviet domination of German unions--US Embassy Moscow regards the current campaign of the World Federation of Trade Unions to seize exclusive guardianship of German trade unions as a Soviet maneuver designed to create one of the conditions under which the USSR could accept the establishment of a central German Government. (For the Embassy's views on Soviet objectives in Germany see Daily Summary of 9 January, item 3.) The Embassy warns that US failure to resist this "transparent Soviet tactic" would have "far-reaching implications."
2. Soviet forces in Poland reduced--US Military Attache Warsaw reports that, according to "completely reliable" sources, there has been a further sharp reduction in the number of Soviet troops in Poland. Only skeleton garrisons remain in the southern and southeastern parts of the country; while in eastern, northeastern and central areas, the number of troops is "small." The greatest concentration is still in the west and northwest. The MA now estimates total Soviet strength in Poland at 100-120,000 men. (The previous estimate was 200,000; see "Strength and Disposition of Soviet Occupation Forces in Europe," Weekly Summary of 29 November 1946.)
3. Substantial agreement in London talks on Burma--US Embassy London reports that, according to the British Undersecretary for Burma, considerable progress has been made toward a Burmese-British agreement. The British have agreed that the April elections shall be for a Constituent Assembly rather than for a Legislature, while the Burmese have accepted a British proposal that the Executive Council shall become an interim government with full responsibilities regarding defense, finances, and other affairs. The British Governor will have power of veto, but it will be used only as a last resort.
4. Repatriation from Southeast Asia Command--SCAP has reviewed the British request for assistance in repatriating Japanese POW's in the SEAC, and proposes to furnish necessary shipping to complete repatriation before 1 June 1947, provided the British agree to furnish fuel and emergency supplies as in the past. (The POW's in SEAC, numbering about 90,000, constitute the largest group of unrepatriated Japanese prisoners outside the Soviet areas.)

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## EUROPE

5. HUNGARY: Attempt to involve political leaders in conspiracy--US Delegate Allied Control Commission reports that, according to "reliable reports and his own observations," the Communists are now attempting to use the conspiracy case (see Weekly Summary of 17 January, p. 6) to implicate: Bela Kovacs, Secretary General of the Smallholders' Party and close political friend of Premier Nagy; Bela Varga, President of the National Assembly; Karoly Baranyos, Minister of Agriculture; and Imre Kovacs, leader of a National Peasant Party faction which advocates fusion with the Smallholders.

(CIG Comment: The Communists have thus far implicated relatively minor members of the Smallholders' Party in their conspiracy investigations. The men mentioned above are among the most influential in Hungarian politics, and, if the Communists succeed in involving them in the plot, disintegration of the Smallholders' Party might result.)

Soviet attitude toward conspiracy-

General Sviridov, Soviet acting chairman of the Allied Control Commission, recently reproached Hungarian Communist leaders for exaggerating the importance of the alleged conspiracy.

Nagy may be ready to take stand against Communists--Prime Minister Nagy has told US Minister Schoenfeld that his policy of appeasement toward the Communists during the past year was "justified because of the opportunity it afforded in the economic field," but he realizes that such a policy cannot be continued indefinitely. Nagy said that a "stand would have to be made at some point," and it would probably be against the current Communist attempt to use the conspiracy investigation to destroy the Smallholder majority in the National Assembly.

6. RUMANIA: Food situation--Coincident with Rumania's appeal to the International Emergency Food Council for emergency shipments of 1,000,000 tons of corn, a "well-placed Communist" has told US Representative Berry that between 1 September and 1 December the Rumanian Government exported 50,000 carloads of cereals which were shipped via Poland to the USSR. Information available to US Delegate ACC confirms the belief that the Soviets have collected food in Rumania for use by the Soviet troops outside the country.

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7. **CZECHOSLOVAKIA:** No indication of arms exports--Embassy Prague reports that, according to available information, Czechoslovakia has exported no arms since the war, except for small shipments of abandoned German armored vehicles to Sweden and Switzerland. The Embassy emphasizes that there is no indication of any transactions or plans for sale of Czechoslovak arms or munitions to any of the American Republics. Considerable research is under way aimed at future integration with the Soviet arms industry, but production plans are still in a "very early stage."
8. **ITALY:** Foreign pressure to sign peace treaty sought--US Charge Key reports that Admiral Stone gained the impression during a recent interview with Provisional President Enrico De Nicola that De Nicola was seeking pressure from abroad which would offer the Italian Government an excuse to give the Italian people for signing the peace treaty. Key has been informed by other sources that De Gasperi is finding it difficult to form a new government, because the "majority of the political Parties" are unwilling to participate in a government which will have to sign the treaty. Key again recommends that any US pressure in this matter should be exerted only in concert with the other Big Four powers. (See Daily Summary of 23 January, item 8.)

## NEAR EAST-AFRICA

9. **IRAQ:** Cabinet grants rights to US airlines--US Charge Baghdad reports that the Iraq Cabinet has passed a resolution granting to US airlines in Iraq rights identical with those they enjoy in Lebanon. (In August 1946 the US concluded a Bermuda-type air agreement with Lebanon.)

## FAR EAST

10. **PHILIPPINES:** Supreme Court decision on collaborationists--The Commanding General of the Philippines-Ryukyus Command reports that the Roxas administration is attempting to persuade the Philippine Judiciary to make decisions leading to amnesty for Filipinos charged with collaboration with the Japanese. The General adds that, according

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[redacted] the Supreme Court will rule this week that "collaborators were traitors," because US sovereignty was not suspended or changed during the Japanese occupation.

11. NEI: US Consul-General's views on Indonesian Republic--US Consul General Foote reports that he concurs with the views [redacted] member of the Dutch Commission-General in Batavia (see Daily Summary of 25 January, item 6) that the Cheribon Agreement cannot be carried out unless the present attitude of Republican leaders is reversed and military extremists brought under control. Foote asserts that leadership in the Republic appears to be passing to the extremists, whom he believes responsible for most of the truce violations that have occurred. In view of the increased strength of Dutch forces, Foote believes a Dutch military victory would be "easy." However, he considers a Dutch offensive against Republican extremists unlikely except as a last resort, because of the restraining influence of world opinion now directed against the French in Indochina, and the presence of at least 190,000 internees in Republican territory.

Foote feels that US attitude on the Indonesian question should be re-examined in view of the increased terrorism, bad faith, and authoritarianism of Republican authorities. A further weakening of European influence in Java and Sumatra, he believes, would facilitate Chinese economic control of the area with resulting Indonesian reactions capable of jeopardizing US interests and general security in Southeast Asia.

12. KOREA: Anti-trusteeship resolution passed by Assembly--General Hodge reports that the Interim Legislative Assembly of South Korea has passed, by a vote of 44 to 1, a resolution "on behalf of 30 million people" condemning the trusteehip clause of the Moscow Decision. The opponents of the resolution walked out of the Assembly rather than go on record as voting against the measure.

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## GENERAL

1. Embassy Moscow sees "ineptitude" in Soviet tactics toward UK--US  
Embassy Moscow believes that Stalin's efforts to isolate the US and "high-pressure" the British into a new treaty with the USSR were characterized by a "surprising ineptitude." PRAVDA's charge that Bevin had been unfaithful to the present treaty is viewed by the Embassy as a clumsy and obvious appeal to the opposition in the British Labor Party to force Bevin out and demand that he be replaced by someone who would "get along with the USSR." These tactics, according to the Embassy, suggest that the Kremlin may be prompted by a sense of anxious urgency to split Anglo-US solidarity prior to CFM consideration of the crucial German problem.
2. UK may release Polish gold--The British Foreign Office official charged with Polish affairs has informed Embassy London that consideration is now being given to the early release of Polish gold and other assets held in the UK. According to Embassy London the Foreign Office apparently feels that, although political reasons for retaining these assets remain unchanged, the elimination of this issue from Anglo-Polish relations will strengthen Bevin's general policy in eastern Europe.
3. Soviet attitude on Austrian peace treaty--General Clark reports from London that Austrian Foreign Minister Gruber has been told by Soviet Deputy Gusev that (a) "no reference could be made to German assets in the Austrian Treaty," because the USSR regards the matter as settled by the Potsdam Agreement; and (b) the USSR refuses to discuss the "entire question" of German foreign assets in Austria at the meeting of the CFM's Deputies. Clark adds that, in Gruber's opinion, the Soviets will not withdraw their forces until this question is solved on a "purely bilateral basis."

## EUROPE

4. HUNGARY: Legation's views on US economic and political aid--In reply to the State Department's request for suggestions regarding possible US political and economic support of democratic elements in Hungary (see Daily Summary of 25 January, item 2), US Minister Schoenfeld observes that (a) a mere expression of US concern is not likely to

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induce permanent resistance to Communist encroachment; (b) economic aid on a scale large enough to contribute materially to general rehabilitation is highly desirable; (c) public announcement of such an offer to the Hungarian Government would temper any Communist plans for "taking over" between the signing of the treaty and the withdrawal of Soviet troops; and (d) issuance by the US of a political statement at this time might complicate Premier Nagy's task of combatting the current Communist conspiracy charges.

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5. ITALY: Nenni allegedly refuses to join new government--US Charge  
Key has learned [redacted] that Pietro Nenni (leader of the Italian Socialist Party) will "not participate in the new government," because he does not wish his Party "to be associated with the signature of the peace treaty." While Key finds it "difficult to evaluate the true import of this statement," he suggests that it "may have been made for bargaining purposes with the Christian Democrats."

Navy may scuttle ships--US Naval Attache Rome reports a conversation between Admiral Maugeri, Chief of Staff of the Italian Navy, and Captain C.G. Mentz, USN, in which the Admiral expressed the opinion that the Italian Navy would scuttle its ships regardless of the consequences if the transfer involved a formal ceremony and hauling down of colors. (On 9 November 1946 US Naval Attache Rome recommended that the Italian ships should be de-commissioned prior to their transfer in order to safeguard against this danger; see Daily Summary of 12 November 1946, item 6.)

6. GERMANY: Possible economic unity among French-US-UK Zones--US Political Observer Mayer reports from Baden-Baden that the Political Chief of General Koenig's staff "intimated" on 22 January that the French would soon take steps "to unite their zone economically with the US-UK zones."

French desire independent Saar--Acting US Political Adviser Muccio reports from Frankfurt his impression that the "belief is growing" among French officials that the "best solution of the Saar problem would be to establish the Saar as an independent state linked to France by ties similar to those between Luxembourg and Belgium." The French profess a belief that "no serious opposition" to this plan will be offered at the Moscow Council of Foreign Ministers, and that it will be possible to carry out their plans immediately thereafter.

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## NEAR EAST-AFRICA

7. IRAN: Leftists may favor outside protest on elections--US Military Attache Tehran reports that the leftist press continues to complain of the lack of freedom in the Iranian elections, and that there is an "under-current of agitation" for an outside power, presumably the USSR, to protest the elections just as the US protested the Rumanian and Polish elections.

## FAR EAST

8. JAPAN: FEC policy decision on "peaceful needs" of Japan--On 23 January the Far Eastern Commission unanimously decided that peaceful needs of Japanese people should be defined as substantially the standard of living prevailing during 1930-1934. This decision, however, does not commit the FEC to acceptance, in advance, of a specific level for any particular industry.  
(CIG Comment: This determination of the peaceful needs of Japan clears the way for the adoption of a definitive reparations policy.)
9. INDOCHINA: Policy of French government--In a conversation with US Ambassador Caffery, French Overseas Minister Moutet revealed that the Communist Ministers will support the Indochina policy of the new French Government. He stated that this policy would become more "supple" and conciliatory and that efforts would be made to find some meeting ground with Vietnam.
10. PHILIPPINES: Spanish Legation established in Manila--US Ambassador McNutt reports that the Spanish Government, despite official notification that the Philippine Government would not establish a Legation in Spain, has decided to maintain a Legation in Manila. (See Daily Summary of 9 January, item 9.)
- THE AMERICAS
11. URUGUAY: Effect of US-Argentine policy--According to US Ambassador McGurk, the Vice President-elect of Uruguay has asserted that, if present US policy toward Argentina is "radically changed and Braden

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removed," Uruguay will have no alternative but "humbly" to seek Argentine goodwill. (US Military Attache Montevideo, in a recent message, evaluated as "possibly true" a report from a "usually reliable" source that a primary purpose of President-elect Berreta's visit to the US in February is to "sell Peron to the US" because Berreta needs the political support of the pro-Peron Herrerista Party.)

12. **DOMINICAN REPUBLIC:** Effect of visit of Argentine battleship--US Military Attache Ciudad Trujillo reports a "noticeable swing away from the US and a tendency to publicize Argentine affairs" since the visit of the Argentine battleship Rivadavia.

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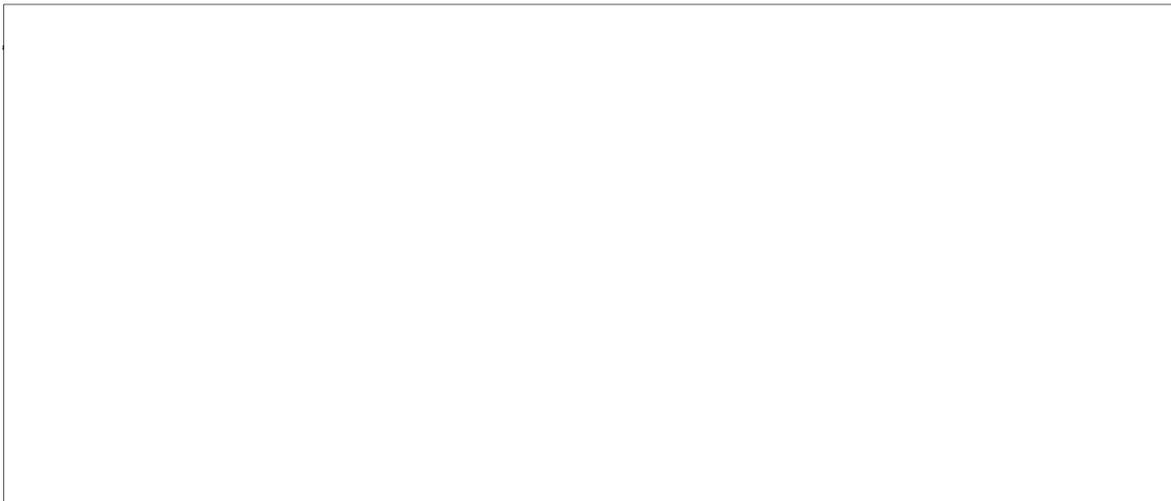
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**GENERAL**

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2. Sweden reported refusing credit to Poland--US Minister Dreyfus in Stockholm has learned from a "reliable informant" that the Swedish Government has decided not to grant the 500 million crown credit "demanded" by the Polish Government in connection with proposed coal deliveries (see Daily Summary of 22 January, item 6).

**EUROPE**

3. FRANCE: Bidault to support alliance with UK--Foreign Minister Bidault has told US Ambassador Caffery that (a) he will conclude the Anglo-French alliance, though he regrets that Blum agreed to the alliance before the UK agreed to support France regarding Germany; (b) the French Communists will offer to endorse the alliance provided they are given "concessions" elsewhere; and (c) he fears that at the Moscow Conference the USSR will make great strides in its plan for a central German government under Soviet dominance. (In Caffery's opinion, however, Bidault is primarily concerned that France may get nowhere in her own plans for the Ruhr and Rhineland.)

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Communist Ministers a threat to new Cabinet--Bidault also told Caffery that the Communist Ministers in the new Government are fighting the other Ministers at every step, and that unless the Soviets "change their directives" to the French Communist Party, the present Government will not "last very long." Bidault said that his efforts to work with the Communists had been useless, and singled out Billoux (Minister of National Defense) as an "extremely dangerous Communist militant" who "bodes no good for the French Army."

Caffery adds that "while Bidault's principles are basically anti-Communist," personal ambition may cause him to compromise. He warns that (a) the Secretary will by no means always be able to count on Bidault at the Moscow Conference; and (b) it is difficult to know in advance when Bidault is going to "compromise" on one of his anti-Communist principles.

4. ITALY: Probable three-party coalition government--According to US Embassy Rome, "present indications are that De Gasperi, Nenni and Togliatti are composing their differences, and the outlook for a coalition government of at least three of the largest parties has taken a sudden favorable turn."

Abolition of Allied Commission for Italy--The Allied Forces Headquarters, Caserta, reports that the Allied Commission for Italy will be abolished at 2359 hours on 31 January (see Daily Summary of 18 January, item 3).

5. GREECE: US understanding solicited for new Government--The political adviser to King George has asked US Ambassador MacVeagh for "understanding and support for" the new Greek Government. He declared that, although the Government is unlikely to survive long, because Greek coalitions "are always unstable," it may "tide the country over a difficult period and lead to better things." Later, Prime Minister Maximos asked MacVeagh to inform the US Government that his sole reasons for accepting the Premiership are to compromise as much as possible with the Opposition and to correct "certain measures taken in the contrary sense." MacVeagh believes that a statement by the State Department welcoming the "broad loyal coalition" would be helpful.

Former Regent discusses Greek problems--In a conversation with Ambassador MacVeagh and Paul Porter (Chief of the US Economic Mission to Greece) former Regent Damaskinos has declared that

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(a) Greece's greatest need is a coordinated economic program designed to utilize available assets augmented by such additional financial assistance as may be required; (b) outside financial assistance should be carefully and consistently controlled by the "donors;" (c) economic recovery depends on the pacification of the country, which can be achieved only through a policy of amnesty implemented by real tolerance and even protection for those who lay down their arms; (d) "the existence of organized subversive elements under international Communist leadership unamenable to amnesty necessitates temporary maintenance of an army on an uneconomic scale;" and (e) the new coalition Cabinet is a hopeful step forward rather than a solution for Greece's troubles.

#### NEAR EAST-AFRICA

6. IRAN: Views on Soviet oil concession--The Shah has informed US Ambassador Allen of "another urgent suggestion" from Ambassador Ala in Washington that the Government (a) propose international development of all Iranian oil (including the UK concession) under UN supervision; and (b) avoid a bilateral agreement with the USSR "under any circumstances." Allen believes that the Iranians would probably attempt an international settlement, if the US gave them encouragement. He has explained to the Shah that the US could not concur in any attack against established concessions.

The Shah, who would much prefer not to enter into any oil agreement with the USSR, favors limiting the territory to be specified in the Soviet agreement to a very small area to be defined after two years of exploration. The Shah considers it "unthinkable" to allow Soviet technicians to "wander freely" over the five northern provinces during the fifty-year life of the agreement.

#### FAR EAST

7. PHILIPPINES: Roxas' position on collaboration--President Roxas  3.3(h)(2)

He will take no overt action without obtaining prior approval of the Philippine Congress and of the people as expressed in a plebiscite.

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8. **CHINA: Chinese considering offer of sugar to SCAP--US Consul General Shanghai reports that the Chinese contemplate offering SCAP 50,000 tons of Formosan sugar at approximately 18½ cents per pound. As payment for this US\$20,000,000 transaction, the Chinese would be interested only in readily usable foreign exchange or possibly raw cotton. Otherwise, they indicated the sugar would be disposed of on the "more profitable" domestic market.**

**(CIG Comment: This offer, at a price well below the equivalent price in Chinese markets, reflects China's concern over its badly depleted official foreign exchange resources.)**

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**GENERAL**

1. Oak Ridge uranium salts reported offered for sale--US Military Attache Berns reports that

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University of Zurich, twenty grams of uranium salts were offered for sale to the University "about three months ago" for one million Swiss francs: the offer was refused because of cost and small quantity.

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Oak Ridge is the only place where such salts are made and that they were probably stolen; he believes the salts subsequently found their way into Soviet hands, in Switzerland.

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*Caffery*

- 5. US views on rights in France for Rumanian airline--The State Department has authorized US Ambassador ~~Evans~~ to point out to the French that if the request of the Rumanian airline TARS to land at Paris were granted, it would enable the Soviet Government (which controls the airline) to exercise air transport rights into France without conceding reciprocal rights into Soviet territory.
- 6. Rumanian predicts intensified "collisions" of East and West ideologies--Rumanian Foreign Minister Tatarescu has told US Representative Berry in Bucharest of his belief that "within the next six months there will be a headlong collision between Western and Eastern ideas that in intensity will eclipse the argument brought about by preparation of the Balkan treaties." The Foreign Minister believes that discussion of the Straits and the Danube questions will precipitate the clash.

EUROPE

3.3(h)(2) 7. SPAIN: Factors in resignation of Giral-

[Redacted]

3.3(h)(2) Qualified observers in Paris doubt that Martinez Barrio, Giral's successor, will be able to form a new cabinet because the strongest leaders in exile, "who represent real forces in Spain," believe that (a) any government abroad would be as "phantom-like" as was Giral's; and (b) "far more interesting developments are taking place within Spain" where it is possible that Franco may be displaced by a combination of generals, monarchists, and members of the Democratic Alliance.

3.3(h)(2) Strategy of USSR with Spanish exiles--Qualified observers have also told Embassy Paris that if Barrio does not yield to pressure from pro-Soviet exiles for a hand in the formation of a new government-in-exile, Moscow may sponsor a "government" in Prague headed by pro-Soviet ex-Premier Juan Negrin. The USSR, [Redacted]

[Redacted] prefers that Franco hold power "at least for another year," because any change at present would favor anti-Communist groups within Spain.

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8. **NORWAY:** Policy toward revision of Svalbard treaty--Foreign Minister Lange has told US Ambassador Bay that the Norwegian Government expects to inform the USSR that (a) in the light of the UN Charter, the situation (regarding Spitzbergen and the 1920 Svalbard Treaty) "is different today"; (b) in conformity with the Charter, Norway's policy is "opposed to bilateral military action" with any other power; and (c) though satisfied with the status quo, Norway would not oppose in principle any Soviet request that the treaty be submitted to the signatories.
9. **FRANCE:** Possible transfer of DP's from US Zone to France--Foreign Minister Bidault has told US Ambassador Caffery that he thinks it a sound idea for France to accept DP's from the US Zone Germany for permanent resettlement on a large scale. Although the Communists and the CGT will fight the plan, Bidault believes that with Socialist help he may be able "to do something about it."

## FAR EAST

10. **CHINA:** Government resists UNRRA distribution to Communist areas--According to the State Department's liaison officer to UNRRA in China, recent discussions between officials of UNRRA, CNRRA, and the Central Government indicate that the Government is determined to resist any substantial distribution of UNRRA supplies to Communist areas.
- Change in Sinkiang Government--US Embassy Nanking has been reliably informed that the Generalissimo has advised General Chang Chih-chung that he is to be replaced as governor of Sinkiang. The Embassy comments that (a) Chang, who has been outspokenly critical of Central Government policy in Sinkiang Province, has won the confidence of the non-Chinese population, and (b) his removal will only increase "bitter skepticism" of Chinese intentions even though he may be succeeded by the leading Chinese Mohammedan, Pai Chung-hsi (now Minister of Defense).
11. **BURMA:** Reactions to London talks--US Charge London reports that [redacted] the Burmese delegation was highly pleased with the success of the talks and would not have signed the agreement unless it

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had been confident of obtaining wide support in Burma. One member believes there is an excellent prospect of Burma's choosing Dominion status.

#### THE AMERICAS

12. PANAMA: President modifies defense-sites views--US Ambassador Hines reports that President Jimenez now favors the transition from the old defense-sites agreement to a new one without any "interim arrangement" (see Daily Summary of 18 January, item 9). Hines, quoting a US negotiator to the effect that the Foreign Minister is "the chief obstacle to progress on the negotiations," expresses doubt as to whether the President "has the courage and power to bring the Foreign Minister into line."

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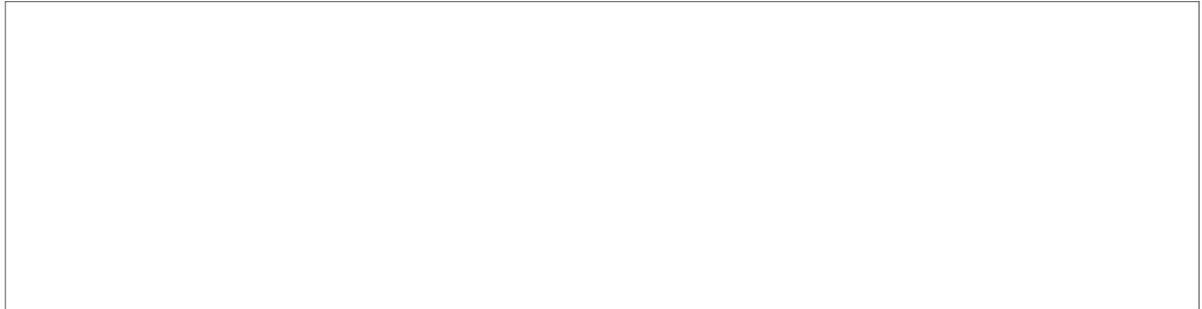
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**GENERAL**

1. Danes reluctant to discuss Greenland--US Minister Marvel in Copenhagen reports that the Danish Foreign Minister continues reluctant to discuss Greenland but has remarked to Marvel, when offered an opening, that "while we owe much to America, I do not feel that we owe them the whole island of Greenland."

2.



3. Soviets abandon penetration of Finnish industry--US Minister Hamilton reports that, [redacted] the danger is over that the Soviets will acquire German assets owed by Finland in the form of stocks in important Finnish industries, unless unforeseen developments occur (see Daily Summary of 24 January, item 2). Hamilton believes that early publicity in the British and Swedish press "had a salutary effect in causing the Soviets to retreat from their initial plans."

**EUROPE**

4. FRANCE: Cold wave increases new Government's difficulties--US Ambassador Caffery reports that a recent cold wave has (a) blocked deliveries of food to cities; (b) crippled industrial production; and (c) intensified the coal shortage by disrupting both rail and canal transportation. Caffery adds that the over-all result is to make the task of the new Government more difficult, and that "public confidence and morale, which showed signs of definite improvement during the brief interim of the Blum Government, is slipping again."

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## FAR EAST

5. **CHINA:** Press reports on five-year plan "misleading" --With reference to recent press reports that Chiang Kai-shek had approved a five-year economic reconstruction plan for China, US Embassy Nanking reports that the results of inquiries it has made thus far indicate that these allegations are "misleading and premature and that implementation of the plan is now impossible owing to political instability and financial chaos." Several Government officials were "evasive" in their replies; others frankly admitted that nothing could be done "until loans from abroad can be negotiated." Moreover, there are indications that the plan is incomplete, having been drawn up before V-J Day when account could not be taken of subsequent developments regarding reparations.

## THE AMERICAS

6. **BOLIVIA:** Effect of recent disorders --US Ambassador Flack reports that ten police officials and an "unknown number" of miners have been killed and fifty persons wounded in recent disorders in the tin-mining area of Potosi. He adds that (a) the miners reportedly were incited to attack the police by elements belonging to the Movimiento Nacional Revolucionario (the political party which was the chief support of the Villarroel dictatorship); and (b) this fact may consolidate popular support behind the present caretaker Government. The US Military Attache states that "conditions throughout the country are tense."
7. **PERU:** Status of trade negotiations with Argentina --A Foreign Office spokesman has told US Embassy Lima that, while no negotiations are under way for an Argentine-Peruvian commercial treaty, Argentina has advised Peru that it is "interested" in negotiating such a treaty. The Embassy adds that, according to Haya de la Torre, leader of the powerful Peruvian APRA party, Peru could now obtain an industrial loan of 100 million pesos from Argentina.

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