

1 JUL 1948

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## GENERAL

1. Tripartite protest to USSR considered--The Department of State has forwarded to London and Paris for official comment a proposed note of protest to the USSR concerning the present situation in Berlin, suggesting that consultations be held immediately for settlement of this issue. The Department indicates that although a three-power note would be preferable, the US plans to send a note or equivalent statement independently if the French and British fail to endorse the US note.

US Ambassador Douglas reports that the British have indicated agreement to the draft note but do not believe the note should suggest negotiations through the Conference of Foreign Ministers or reference of the dispute to the UN. US Ambassador Caffery in Paris reports that although French Foreign Office officials may differ as to the wisdom of the original western stand on Berlin, they are united in the belief that the western powers must now remain at all costs or suffer a shattering loss of prestige.

2. UK receives Sokolovsky reassurances with reserve--US Ambassador Douglas reports that UK Foreign Secretary Bevin feels very strongly that the US and UK should continue efforts to build up the air lift to Berlin as rapidly as possible, despite the apparent softening of the Soviet position in Marshal Sokolovsky's reply to the recent British protest. Douglas also reports that the British Military Governor in Germany recommends that the western allies continue efforts to build up air strength in order to demonstrate to the USSR that the crisis will not be over until full communications for allied and German personnel are possible and quadripartite administration of the city has been restored. The Military Governor believes that Sokolovsky's letter should be received "with the utmost reserve" because it does not provide an acceptable settlement of the situation in Berlin even though, in his opinion, it removes any likelihood that the USSR intends to starve out the German population of the western sectors.

Document No. 001

NO CHANGE in Class.  DECLASSIFIED

Class. CHANGED TO: TS S

Auth: DDA Memo, 4 Apr 77  
DDA REG. 77/1763

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(CIA Comment: CIA does not believe that Sokolovsky's publicized assurances necessarily signify that the USSR intends to relax its restrictions on food shipments to the western sectors of Berlin.)

3. French analysis of Cominform action against Tito--US Ambassador Caffery in Paris transmits from French sources formerly connected with the Comintern the views that the Cominform document on Tito frankly admits that: (a) the Cominform is essentially the same organization as the prewar Comintern; (b) the Kremlin regards the "popular democracies" as Soviet territory; and (c) Moscow does directly intervene in foreign countries and no Satellite enjoys any independence whatsoever in its relations with the Kremlin. The same sources also told Caffery that Premier Dimitrov of Bulgaria had recently lent a sympathetic ear to Tito's proposal for a Balkan federation and is consequently "in difficulties with the Kremlin." Caffery adds that the French Communists are obviously greatly embarrassed by this crisis in the Soviet sphere.

4. UK to exploit Yugoslav situation--US Ambassador Douglas has learned that the UK Foreign Office intends to "exploit the Yugoslav situation to the hilt" through information media directed particularly toward Poland and Czechoslovakia.

5. USSR reportedly shipping arms to Czechoslovakia--The US Military Attache in London transmits /

[redacted] that the USSR is shipping arms and ammunition to Czechoslovakia in lieu of the food called for by the Soviet-Czechoslovak agreement. [redacted] the "Russian timetable" calls for the outbreak of hostilities with the western European powers in August 1948.

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(CIA Comment: The majority of US observers in Europe are of the opinion, in which CIA concurs, that the USSR will not provoke an early armed conflict in western Europe. Moreover, the current rift between the USSR and Yugoslavia makes the present time inopportune for the USSR to wage war. Available evidence indicates that the rate of arms shipments from the USSR to Czechoslovakia does not indicate preparations for western European conflict in the near future. Such arms may be intended for transshipment to Palestine.)

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A N N E X

## COMMUNIST PROGRAM FOR CIVIL DISTURBANCES IN BERLIN

The Berlin Communists, under Soviet direction, have been expected to create a "revolutionary situation" if popular unrest in the city develops sufficiently during the present critical situation. Their objective presumably would be to furnish the Soviet military forces and police with an excuse (1) to occupy the western sectors of the city on the pretext that the western powers were unable to maintain order; and (2) to insist on confining representatives of the western powers to limited areas for "their own safety" until they could be removed from the city under Soviet "safe conduct." The Communists are now reported to have laid plans for the organization of "action squads" headed by Communist shop foremen and local district leaders. If the food situation in the western sectors becomes desperate, operation of public utilities is to be suspended by strikes, while city-wide demonstrations in the name of "unity" and against the currency situation are to be sponsored by the Communist squads, who would then incite the demonstrators to occupy the city government buildings by force and invite violence on the part of western police or troops. This information could have been "manufactured" by the German anti-Communists for propaganda purposes (as was "Protocol M") or by the Communists as a part of the current Berlin war-of-nerves. The information, however, apparently comes through reliable channels and is in general consistent with current estimates of Communist intentions.

Current Soviet tactics in Berlin, however, appear to be calculated in large part to force the western powers into local negotiations on the Berlin situation, in the expectation that such negotiations could be broadened to include Soviet demands on overall problems. The Communist "action" program probably has been formulated, as reported, but presumably would be put into effect only on a signal from Soviet headquarters and could be discarded at any time. Minor disturbances, within the framework of the program, may be authorized as an additional threat to the western position in Berlin. The USSR, however, will probably not set in motion the full program until the western powers have refused to negotiate on Soviet terms and then only if the logistic position of the western powers in Berlin has further deteriorated.

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## GENERAL

1. Further discussion of proposed note to USSR--The Department of State has proposed to the UK and France that the military governors representing the western powers in Berlin should ask Marshal Sokolovsky on 2 July whether his recent note means he is in a position to rescind Soviet blockade measures and when this might be done. The Department suggests that if Sokolovsky should promise an immediate lifting of the blockade, the US would reconsider whether the proposed note of protest to the USSR is necessary. The Department believes, however, that if Sokolovsky's reply indicates further delay, the note should be dispatched on 3 July.

The Department has agreed, following discussions with the British and French, to delete from the proposed note any mention of possible reference of the dispute to the Council of Foreign Ministers, but intends to retain the suggestion that the problem could be referred to the UN if the Allied Control Council should be unable to resolve the question in a reasonable time. The British and French have indicated their acceptance of the note in this form.

Clay expects Soviet puppet government for Berlin--US Commanding General Clay in Berlin reports that he expects an early Soviet declaration that the elected city government in Berlin has failed and will be replaced by a puppet government for the city. Clay feels that recent events indicate "a hardening in the Soviet position."

2. Soviet press minimizing Berlin impasse--US Embassy Moscow expresses the view that the mild treatment given the Berlin situation by the Soviet press suggests that the Kremlin expects no real crisis over Berlin. The Embassy believes this mild treatment is "probably of some significance in evaluating just how far the USSR is prepared to go in settling the present Berlin situation to its satisfaction." Document No. 002

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(CIA Comment: CIA agrees with the Embassy's interpretation that the USSR expects no real crisis over Berlin. CIA does not believe that the Kremlin intends to press the Berlin issue to an absolute showdown.)

### EUROPE

3. **YUGOSLAVIA:** Tito's ability to withstand USSR--US Charge Reams in Belgrade reports his belief that Tito seems to be the "master in his own Communist house" and that "Stalin cannot oust him quickly without war." US Ambassador Smith in Moscow, in recommending that the western powers encourage Yugoslavia, considers it "questionable" that Tito can hold out long against Soviet-Communist efforts which must now be made to cleanse the Yugoslav Communist Party.

(CIA Comment: CIA believes that the Kremlin is powerless to "cleanse" the Yugoslav Communist Party in the near future without resort to war. CIA doubts, however, that Tito can resist Soviet pressure indefinitely without support from the west.)

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3 JUL 1948

## GENERAL

1. Bevin's explanation for Robertson letter to Sokolovsky--US  
Ambassador Douglas reports from London that Foreign Secretary Bevin considers that his commitment to the House of Commons made necessary a reply from General Robertson to Marshal Sokolovsky. Douglas adds that after Robertson's letter has been sent the UK will be free to cooperate with the US "to the fullest extent."

The Department of State has informed Douglas that any additional delay after the dispatch of the British letter to Sokolovsky would be "most dangerous" and that the US could not agree to such delay. The Department expressed the view to Douglas that Britain's changes in position have given an impression of "vacillation and indecision."

2. UK suggests dispatch of B-29's be deferred--Ambassador Douglas also reports that, while the movement of US B-29's to Britain has the UK Government's full approval, the UK Cabinet believes that the transfer of the planes should be delayed in order not to give the USSR "an excuse for sending military reinforcements to the west."

## EUROPE

3. YUGOSLAVIA: Possible attempt to probe US attitude--US  
Charge Reams reports that he was approached by a Yugoslav Communist official who is close to Minister Djilas (top-ranking Cabinet officer who with Tito and two others was recently attacked by the Cominform). Reams believes that source may be a member of the Central Committee of the Communist Party. Reams is convinced that source was well briefed and had the blessing of the top authorities, although source professed to speak as a private individual. During the conversation, source said: (a) Yugoslav officials could not understand

Document No. 003NO CHANGE in Class. - 1 -  DECLASSIFIED

Class. CHANGED TO: TS S (C)

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

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why the US had not softened its attitude during the past six months since they had assumed it "would have been aware of increasing tensions between Yugoslavia and the USSR"; (b) the US press and radio should be careful not to offer glowing promises of future aid to Yugoslavia or not to make violent attacks on Tito, because either action would make most difficult "the steps which the Yugoslav Communist Party hoped to be able to take"; and (c) Yugoslavia was extremely anxious to "liquidate" the Greek situation and would give no more aid to the Greek guerrillas. Source also inquired as to the US attitude in the event that Yugoslavia asked to participate in the European recovery program.

4. BULGARIA: Attitude toward relations with Greece--Bulgarian Foreign Minister Kolarov has told US Minister Heath that, as a condition to the resumption of diplomatic relations between Bulgaria and Greece, Bulgaria would insist that Greece renounce all claims on Bulgarian territory. Kolarov categorically stated, however, that Bulgaria would not similarly renounce its claims to Greek territory, but would seek to realize them by peaceful means in the "atmosphere of friendliness which should develop from the resumption of relations between the two countries."

#### NEAR EAST-AFRICA

5. SAUDI ARABIA: Pan-Islamic war against Israel foreseen--US Minister Childs in Jidda has been told by the Saudi Arabian Deputy Foreign Minister that no Arab government will accept a Jewish state in Palestine. The Deputy Foreign Minister added that: (a) Pakistan had recently sent word it was prepared to furnish forces for the Palestine war; and (b) if the struggle continued, "it would develop from a Pan-Arab to a Pan-Islamic one, the consequences of which would be hard to foresee." (Preliminary steps have already been taken in Pakistan, Iran, and Afghanistan to send volunteers, supplies, and financial aid, respectively, to support the Arab cause in Palestine.)

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## GENERAL

1. Direct Soviet action now against Tito believed unlikely--US Ambassador Smith in Moscow expresses the view that the Soviet-Yugoslav breach is authentic and will grow wider rather than narrower. Smith considers it unlikely that the USSR will at this time take "overt direct action" against Tito, disavow the Cominform action, or make a face-saving offer. US Embassy Belgrade believes that a compromise can now be reached only through the personal intervention of Stalin.
  
2. Berlin issue reportedly cannot be settled separately--US Ambassador Murphy reports that the western governors are agreed that Marshal Sokolovsky is under instructions which permit him no latitude in negotiating the transport question unless there is a complete discussion of the German question. The western governors believe that the USSR intends now to settle the Berlin problem only as a part of the settlement of the entire German problem, and that further action in Berlin by the three western military governors would serve no useful purpose.
  
3. USSR attacks Iran's alignment with US--US Ambassador Wiley reports that on 2 July Prime Minister Hajir discussed with Soviet Ambassador Sadtchikov outstanding differences between Iran and the USSR. During the discussion Sadtchikov declared that these differences could be settled satisfactorily if Iran would change its "inadmissible policy of political and military unity with the US." Hajir replied that Iran was an independent and sovereign nation and felt itself free to turn wherever it wished. He also said that the Iranian Government would never dedicate itself to Communist revolution and that, if war should break out, Iran would be on the side of the US and the UK. Sadtchikov then raised the question of Iran's rejection of the Soviet oil concession in October 1947, saying that Soviet prestige had been gravely damaged thereby and that the situation must be remedied. Hajir has requested

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Class. CHANGED TO: TS S (d)

Auth: DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

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Wiley's advice as to whether Iran should: (a) follow a "fixed, clear, and definite" policy vis-a-vis the USSR; or (b) leave the door "half open" for further talks with a view to stalling for time. The Department of State has informed Wiley of its belief that leaving the door half open to the USSR would be dangerous and that Iran should follow a "fixed, clear, and definite" policy of standing up for its independence and of conducting its foreign relations on the basis of sovereign equality with other states, free from coercion.

4. US opposed to denunciation of Iranian-Soviet treaty--The Department of State has informed Ambassador Wiley that it disagrees with the Shah's recent suggestion that Iran should denounce the 1921 Soviet-Iranian Treaty of Friendship. The Department feels that: (a) the treaty contains certain provisions advantageous to Iran; (b) the treaty does not permit the USSR unilaterally to move its forces into Iran; (c) the USSR might, with some justification, interpret denunciation of the treaty as an unfriendly act; and (d) a public airing at this time of Iranian-Soviet differences might provoke, rather than deter, further Soviet interference in Iran.

#### NEAR EAST-AFRICA

5. PALESTINE: Prospects for Arab acceptance of truce extension--The US Military Attache in Beirut expresses the opinion that the attitude of King Abdullah of Transjordan will ultimately determine whether the Arabs will resume fighting in Palestine, although the expressed position of all of the Arab states is that they will renew hostilities unless Israel accepts their demands. The MA bases this opinion on the belief that the Arabs would be "practically impotent" without the Transjordan Arab Legion.

(CIA Comment: Although great pressure is being placed on Abdullah by the UK to accept an extension of the truce, it is unlikely that the Arabs will agree to such an extension because: (a) public pressure for a resumption of the war exists in all the

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Arab states; (b) the Arabs are convinced the truce is working in favor of the Jews; and (c) violations of the truce during the past few days have increased substantially. CIA considers it unlikely that the Arabs will agree to an extension of the truce except in the improbable event that Bernadotte accepts the Arab "counter-proposals" -- a unified Arab Palestine -- as a basis for further negotiations with the Jews.)

### THE AMERICAS

6. PANAMA: Flight of Arnulfo Arias - [REDACTED]

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[REDACTED] the police, subsequent to Arias' flight to the Canal Zone, "have the situation well in hand" and the position of the government candidate (Diaz) is "very strong."

(CIA Comment: If successful, the Panamanian Government's efforts to deny the Presidency to Arnulfo Arias, who received a plurality of the votes in the 9 May elections, would be a favorable development for US security interests in the Caribbean-Central American area.)

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## GENERAL

1. Arabs reserving decision on Palestine truce--US Embassy Cairo has learned from an Arab League official that the Arabs are reserving their decision on prolongation of the Palestine truce while awaiting UN Mediator Bernadotte's reply to the Arab counter-proposals for a permanent settlement. The Embassy reports the British Ambassador's belief that the bellicose Arab assertions should not be taken fully at face value and that the Arabs may prolong the truce despite statements to the contrary.

UK advises Arabs to accept truce extension--Foreign Secretary Bevin has told US Ambassador Douglas that he wishes to leave no stone unturned in British efforts to extend the Palestine truce. Douglas reports that the UK is advising the Arab governments of its views that: (a) the truce must be extended; (b) if the Arabs are responsible for the resumption of hostilities, Security Council condemnation is inevitable and future UK arms deliveries will be impossible; (c) a Jewish state is an established fact; and (d) the UN Mediator's proposals are more favorable to the Arabs than any suggested before and should be used as a basis for negotiations.

## EUROPE

2. YUGOSLAVIA: Reported reasons for Cominform action--The US Military Attache in Paris transmits from a completely reliable source an account of remarks made by Communist Leader Duclos, at a meeting of the French Communist Party Politburo, concerning the Cominform attack on Marshal Tito. According to Duclos, Zhdanov (Soviet Cominform representative) charged Tito with violating the principles of international Communism by: (a) supporting Bulgarian Premier Dimitrov's opposition to the Kremlin, presumably in connection with the Balkan Federation; (b) failing to support the Greek guerrillas and exploiting the Greek situation for Yugoslavia's profit; (c) making territorial demands on Trieste; and (d) opposing

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Class. CHANGED TO: TS S (c)

Auth: DDA Memo, 4 Apr 77  
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the proposal that the Balkan Communist parties give financial support to the western Communist parties. Source stated that, according to Zhdanov, the USSR had decided that formal condemnation of Tito was preferable to allowing Tito to permit leaks of information concerning his divergencies with the Kremlin, thus providing ammunition for foreign anti-Communist propaganda.

(CIA Comment: CIA believes that Tito primarily was prevented from obeying Kremlin orders by the problems arising from Yugoslav "nationalism" and internal economic and political difficulties.)

### FAR EAST

3. **INDOCHINA: French action held necessary**--The US Consul in Saigon reports that the situation in French Indochina has become so confused that it is essential for the French Government to take positive and prompt action both on the recognition of a change in the status of Cochin China (now a French colony) and the official acceptance of the Franco-Vietnamese agreement of 5 June 1948. The Consul adds that lack of action will confirm the Vietnam belief that the French Government refuses to acknowledge the agreement arranged by French High Commissioner Bollaert, thus leaving the Vietnamese with nothing to hope for from the accord or from future negotiations.

(CIA Comment: CIA believes that the present Xuan regime in Indochina has little chance for success because the Schuman Government is not likely to jeopardize its position at this time by risking debate over the liberal concessions necessary for the continuation of the regime.)

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GENERAL

1. Palestine truce not to be extended--UN Mediator Bernadotte reports through US Navy channels that the Palestine truce will not be extended. Bernadotte has requested water lift from the US Navy to evacuate UN equipment and personnel at Haifa. Bernadotte indicates that he will endeavor to obtain assurances from the belligerents that the UN evacuation will not be interrupted by either party.

UK proposes extension of UN Palestine arms embargo--US Embassy London reports that a high UK Foreign Office official has expressed informally the view that the US, the UK, and other "right thinking" Security Council members should be prepared to offer a new resolution extending the Palestine arms embargo and retaining UN observers in the war theater. The UK official suggested that because of British treaty obligations, the UK might be subjected to Arab pressure for the resumption of arms deliveries on the grounds that the Jews were the aggressors. The official believes, therefore, that maintenance of the UN arms embargo, thus relieving the UK of its treaty obligations, would be desirable.

EUROPE

2. GERMANY: Economic deterioration in Soviet Zone confirmed--US Ambassador Douglas in London believes that Marshal Sokolovsky's remarks to the western military governors concerning economic deterioration in Soviet Zone Germany confirm British information that the "messy" Soviet currency reform and the interruption of east-west trade are having an adverse effect on the eastern zone. At the meeting with the US, the UK, and French military governors, Sokolovsky reportedly said, "Before taking decisions of your own in London you should have asked yourselves what would happen in Berlin."

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NO CHANGE in Class.   
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Class. CHANGED TO: TS S (S)  
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JUL 1948

**GENERAL**

1. UK pressing Abdullah to block resumption of fighting--US Ambassador Douglas reports from London that the UK is putting strong pressure on King Abdullah of Transjordan, whom the British regard as the "only Arab leader capable of retrieving the situation" in Palestine. Abdullah is being urged to: (a) avoid being drawn into renewed war against Israel; and (b) seek a new meeting of the Arab League Political Committee to consider compliance with the Security Council's appeal for extension of the Palestine truce. Foreign Office spokesmen told Douglas that British representations regarding Transjordan's weak supply position had already "seriously frightened" Abdullah but stated that Abdullah had been unable to act in time to prevent Arab League rejection of Count Bernadotte's truce extension appeal. Douglas adds that the British stress the point that although the Arab League has rejected Count Bernadotte's proposal, the League has not yet considered the Security Council's resolution urging extension of the truce.
  
2. Recommended change in US policy on Danube conference--US Charge Reams in Belgrade reports that the new situation in Yugoslavia would seem to alter western strategy concerning the forthcoming Danubian conference. Reams has little doubt that the Soviet strategy will be to make the Yugoslavs "stand out in front" in opposing the US and UK. Reams stresses the importance to the US of preserving unimpaired the opportunity for influencing the future course of developments in Yugoslavia. He accordingly recommends that the US reconsider the previously expressed British and French preference for blocking the conference in advance through insistence upon unanimous agreement for all new decisions taken at the conference.
  
3. Embassy Belgrade analyzes Tito-Kremlin rift--According to US Charge Reams, the conflict between Tito and Stalin is now "irrepressible" and the USSR must inevitably exert its strength in an attempt to supplant Tito. Reams believes that: (a) Soviet

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pressure will eventually drive Tito to some form of accommodation with the non-Soviet world; (b) the Yugoslavs will play a waiting game until the USSR forces the issue; and (c) Yugoslavia will in the interim avoid open quarrels with the west and will attempt to expand trade with the US and UK. Reams considers that most probably the USSR will undertake a cold war against Yugoslavia, accompanied by implied threats of direct action. Reams believes that any threat of direct action by the USSR against Yugoslavia should "call for" quick and decisive US support of Yugoslavia.

4. CFM meeting on Italian colonies held inadvisable--The Department of State has instructed US ambassadors to the UK and France to enlist the cooperation of those countries in avoiding a meeting of the Conference of Foreign Ministers on the question of the former Italian colonies. The Department believes that such a meeting is not required by the terms of the Italian peace treaty and could be of benefit only to the USSR. The Department believes, moreover, that the agenda of the meeting could not be limited to the Italian colonial question and might thus lead to a discussion of the German question "through the back door."

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GENERAL

1. UK continues pressure on Arab governments--US Ambassador Douglas in London reports that Foreign Secretary Bevin has personally instructed British missions to impress upon all Arab governments the "grave danger" which the Arabs will face if they persist in refusing to extend the Palestine truce. According to Douglas, the British representatives are to express the view that because the Arab League decision to end the truce was taken before it knew of the 7 July Security Council resolution requesting a truce extension, the Arab leaders should be able to retreat without loss of prestige. The British maintain that by agreeing to a brief truce extension the Arabs would be given an opportunity for explaining to the Security Council their grounds for believing the truce one-sided and for proposing a modification of the truce terms.

THE AMERICAS

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Class. CHANGED TO: TS S (C)

DDA Memo, 4 Apr 77  
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## GENERAL

1. US objectives in Palestine situation--The Department of State has informed the US delegation to the UN that the basic US objectives in the Palestine situation are: (a) an extension of the truce; (b) a negotiated final settlement; and (c) continuance of concerted action with the UK to the maximum extent consistent with US policy. Concerning possible Security Council action, the Department prefers an SC resolution ordering the parties to accept a truce under Chapter VII of the UN Charter, because of present indications that some action of this kind will be required to force Arab reconsideration.
  
2. British views on Palestine settlement--US Ambassador Douglas in London reports that the present British objectives in Palestine are: (a) to end the hostilities on conditions which will ensure as far as possible that the fighting will not be resumed; and (b) to work out by peaceful means a settlement approximating that proposed by Count Bernadotte but avoiding the idea of political union between Jewish and Arab states, which would be fatal to Arab acceptance. According to Douglas, UK Foreign Secretary Bevin regards as most crucial the fact that both King Abdullah and an intermediary of the King of Egypt have expressed fear lest the Security Council threaten the Arabs with sanctions. The UK Foreign Office consequently favors adoption of an SC resolution threatening sanctions but considers it essential that the resolution be so phrased as to diminish British influence over the Arab governments as little as possible.
  

Douglas also transmits a Foreign Office report that an intermediary for King Farouk of Egypt has declared that all the Arab states desire some means of stopping hostilities which would at the same time permit them to save face.

  
3. US to recognize Korean national government--The Department of State has informed US missions abroad that the US contemplates the issuance of a statement soon after the formation of the new

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DDA Memo, 4 Apr 77

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government in south Korea declaring that the US regards the new government as "the national government of Korea as envisaged by the General Assembly resolutions." The Department also contemplates announcing in this statement that the US intends to send a special representative to Korea to negotiate with the new government. The Department feels that any action by the UN Korean Commission, its member states, or the US which would imply a disavowal of the new Korean government would seriously jeopardize the very considerable progress that has been made in restoring freedom and independence to the Korean people.

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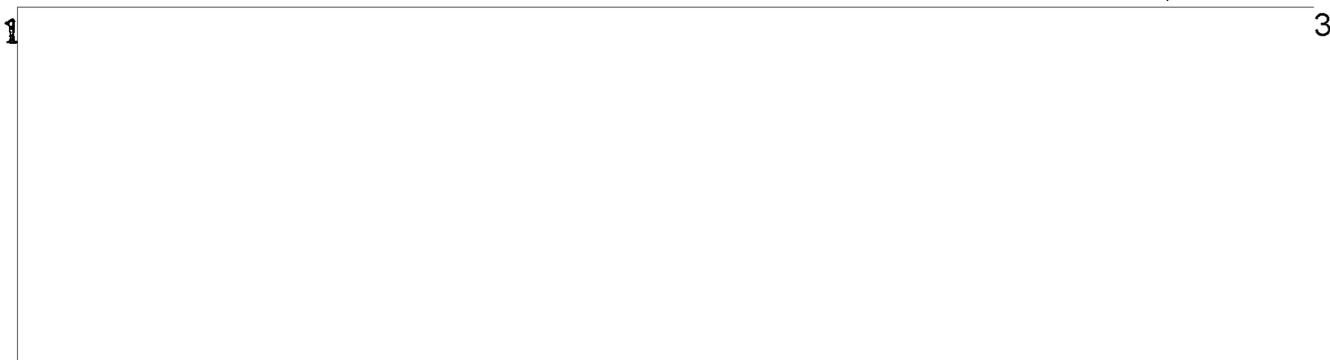
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EUROPE



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- 2. GREECE: Greeks may accept Satellite political refugees--  
 US Charge Rankin has learned from the Greek Foreign Office that the Greek General Staff is now prepared to accept all genuine political refugees from the Satellite states, provided that the financial problems involved can be met and adequate security can be established against further infiltration of spies. Rankin comments that discreet Greek offers of refuge to anti-Communists in the Satellite countries would bolster resistance groups in the Soviet bloc and would "keep the Kremlin and its satraps on tenterhooks" regarding the possible formation of subversive movements or of governments-in-exile. (Greece has refrained until now from encouraging the entrance of political refugees because of its fear that this might further complicate relationships with its northern neighbors. The new policy would be similar to Turkey's practice of accepting such refugees despite protests from the Satellite governments concerned.)

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FAR EAST

- 3. CHINA: Revolutionary move against Chiang--US Embassy  
 Nanking reports that the Hong Kong Kuomintang Revolutionary Committee (KMTRC) of Marshal Li Chi-shen expects to move to the mainland of China --probably prior to 18 July--to establish

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CLASS. CHANGED TO: TS S (C)

Auth: DDA Memo, 4 Apr 77

Date: DDA REG. 77/1763

Date: 15 MAR 1978

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## GENERAL

1. Reactions to projected US recognition of Korean government--  
US Embassy London has received a memorandum containing UK Government objections to recognition of the new government in South Korea as the "national government of Korea envisaged by United Nations General Assembly resolutions." US Embassy Canberra has been informed by the Australian Foreign Office that Australia will not recognize the new government until Korea has been admitted to UN membership. US Embassy Nanking has been told by the Chinese Foreign Minister that China will definitely join the US in recognition of the new government.

(CIA Comment: Present indications are that most UN member states will not follow the US plan to accord formal recognition to the new Korean government. These governments apparently prefer to delay action until the September session of the General Assembly when they will have an opportunity of deciding collectively whether the recent elections in South Korea adequately fulfilled the terms of the UN resolutions under which they were held.)

## EUROPE

2. GREECE: Communists called on to continue fight-- US Charge Rankin interprets a recent radio appeal by the KKE (Greek Communist Party) for civilian party members as well as the guerrillas to continue the fight in Greece as indicating that the guerrillas are cracking under the double strain of the Greek Army's Grammos offensive and the constant battering which the police have given the Communist Party during the past six months. Rankin considers it significant that this latest appeal was issued by the Central Committee of KKE (the political leadership of the party) and not the military leaders.

(CIA Comment: CIA believes that this broadcast and another on the same day, in which the "Provisional Democratic Government" announced its "readiness to accept a

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democratic solution which would bring peace to Greece," may indicate that under pressure of the US-supported Greek Army, the Greek Communists will be forced to abandon their present military campaign. The apparent transfer of rebel leadership from the military to the political is probably significant as part of the Communists' program to "legalize" their fight. The political leaders of KKE probably entertain little hope, however, that a negotiated peace can be concluded with the Greek Government. Meanwhile, there are no immediate signs of weakening determination on the part of the guerrillas in the Grammos struggle.)

### NEAR EAST-AFRICA

3. PALESTINE: Arab League seen forcing Abdullah into line-- US Representative Stabler in Amman expresses the opinion that Transjordan's continued desire for an "honorable way" out of the war in Palestine will not prevail at the Arab League political committee meeting which is considering the Security Council's truce order. Stabler believes that strong opposition by other Arab states will force King Abdullah to vote with the majority (presumably for rejection of the truce order).

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GENERAL

- 1. US participation in Brussels Pact talks--The Department of State has informed US Ambassador Douglas in London that the US Government is sending representatives of the armed forces "to participate, on a non-membership basis," in the military conversations now being held by the Brussels Pact countries.

*TS out 3861*

EUROPE

- 2. ITALY: Secchia to succeed Togliatti, if he dies-- source in Rome reports that Secchia, for some time reported to be an advocate of revolutionary action, took over political direction of the Communist Party when Togliatti was taken to the hospital. US Embassy Rome expects Secchia to assume permanent direction of the Party, if Togliatti should die. Although the Embassy believes that such a development might lead to another flare-up of violence, it considers Italy's forces of law and order capable of quelling any Communist revolt.

*5833 de Secret* 3.3(h)(2)

- 3. USSR: Reasons for Soviet replies on Berlin--US Military Attache Moscow advances the following probable reasons for the strong Soviet reply to the Western Power notes concerning Berlin: (a) the Politburo reasons that the Western Powers are not prepared to fight over Berlin and no other course will be effective in maintaining the western position; (b) the Kremlin is determined to extend its control in Germany as far as practicable by all means short of war; and (c) the Soviet Union feels the need of making a show of Soviet strength for propaganda purposes following its recent political reverses.

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(CIA Comment: CIA concurs with the analysis presented by the US Military Attache.)

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NEAR EAST-AFRICA

4. PALESTINE: Arabs facing dilemma--Glubb Pasha (British Commander of the Arab Legion) has informed US Representative Stabler in Amman of his belief that the Arab states will obey the Security Council's order as a face-saving way of ending the war in Palestine. Glubb added, however, that although Abdullah and the Transjordan Government strongly desire to end hostilities, they are afraid of the other Arab states and of public feeling in the Arab world. He said that all the Arab governments, in attempting to make decisions with respect to Palestine, are more concerned with popular reaction and internal security than with the military situation and the warnings of the Arab chiefs-of-staff that the war cannot be carried on.

Sl 5596 In Secret.

FAR EAST

5. CHINA: Soviet Ambassador urges end of civil war--US Embassy Nanking reports that Soviet Ambassador Roshchin and the Chinese Minister of the Interior recently held a six-hour conversation concerning the civil war, during which the Ambassador urged that the Chinese civil war be brought to an end for the sake of all concerned. The Embassy expresses the opinion that this approach by the Soviet Ambassador suggests: (a) the USSR is concerned that US aid may strengthen the National Government; (b) the Chinese Communists are weaker than they appear to be; and (c) Soviet officials may have relatively little respect for the Chinese Communists, and that the USSR will continue to propose Soviet assistance as mediator in the Chinese civil war.

5118 In Secret

(CIA Comment: While CIA is not in a position entirely to discount Embassy Nanking's explanation of the Soviet Ambassador's approach, CIA considers that the following considerations are pertinent: (a) the USSR may estimate that a continuation of hostilities would insure continued US aid and further extension of US influence over Nationalist China; (b) the USSR may reason

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that once hostilities had ceased, Communist political penetration could be accelerated, especially if a coalition government should take over; and (c) the USSR recognizes that it would reap substantial propaganda benefits from a successful Soviet mediation of the civil war.

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GENERAL

- 1. Bevin believes CFM meeting on Italian colonies required--  
UK Foreign Secretary Bevin has informally expressed to US Ambassador Douglas the view that the wording of the Italian peace treaty clearly calls for discussion of the disposal of the Italian colonies by the Council of Foreign Ministers unless all four members agree otherwise. Bevin believes that the USSR can be expected to press for a meeting and that it would be a mistake for the US and UK to attempt to evade it. Douglas expresses the opinion that Bevin can be persuaded to change his views only if US arguments on political grounds are strong.

*TS 5731 dn*

EUROPE

- 2. TRIESTE: Rival factions split Trieste Communist Party--  
US Political Adviser Joyce reports that the Cominform attack on Tito has caused a "definite and clear split" along nationalist lines in the Trieste Communist Party as well as the Communist-dominated labor union and other mass organizations. Joyce believes that two rival parties will emerge and that the pro-Cominform group, which will receive support from the Italian Communist Party, will be stronger than the pro-Tito group supported by the Yugoslav Communist Party.

*Secret 6165 bn*

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GENERAL

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S 6738

**1. UK desires negotiations with USSR on German situation--US**  
**Ambassador Douglas reports that Foreign Secretary Bevin believes the western powers should reply without delay to the Soviet note on the German situation in order to keep the initiative. Bevin takes the view that the US, the UK, and France should remain firm in setting forth their rights and rejecting the Soviet arguments but should not close the door to discussion of the outstanding differences with the USSR. Bevin believes that the Soviet Government would be willing to discuss the problems further and that the western powers are now in a position to contemplate the resumption of negotiations on a basis of equality if not superiority. Bevin is inclined to believe that these negotiations could include not only the German problem as a whole but also the "general situation." Douglas adds that Bevin insists that the western powers must maintain supplies to Berlin and keep up resistance to Communist infiltration.**

**Estimated food and fuel requirements for western Berlin--**  
**The US Office of Military Government (OMGUS) in Berlin estimates that minimum daily requirements for the western sectors in that city during the summer months are: food, 1178 tons; medical and maintenance supplies, 73 tons; military supplies, 160 tons; coal, 2380 tons; gasoline and diesel fuel, 20 tons (3811 tons total). OMGUS reports that on 17 July the reserve stocks of food for the entire population amounted to a 30-days supply, which was being maintained by the air lift; reserve stocks of fuel were estimated to amount to a 40-days supply. OMGUS further estimates that during the winter months of December, January, and February, the coal requirements will be increased by 620 tons, thus making a daily total of 4431 tons. OMGUS believes that although any reduction of this total would mean considerable hardship to the population of Berlin, if necessary the figure for coal could be lessened by about one half, thus reducing the average daily air lift to 3000 tons. (Air lift tonnage as of 19 July was averaging about 2400 tons daily.)**

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Soviet press and radio quiet on Berlin--According to US Embassy Moscow, the Soviet people are still uninformed regarding the Berlin crisis except for the texts of the US note of protest and the Soviet reply. In evaluating this unusual lack of Soviet propaganda treatment, the Embassy comments that: (a) it is wrong to interpret the continuing press silence as "any real indication" of Soviet intention to retreat on the issue; and (b) the Soviet leaders are probably awaiting further western power reaction to the Berlin blockade before committing themselves with their people to a definite course in the fluid Berlin situation.

(CIA Comment: CIA concurs in the foregoing explanation of the lack of Soviet press and radio comment on the Berlin issue.)

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**GENERAL**

- 1. Bevin considering oral approach to Moscow--A high UK Foreign Office official has informed US Ambassador Douglas that Bevin is considering "the possibility of an oral approach at Moscow" on the Berlin situation. The official indicated that Bevin's action would be simultaneous with the presentation of the three-western governments' notes to the USSR.

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Deteriorating situation in Berlin--US Ambassador Murphy in Berlin reports that the physical and economic plight of the western sectors of Berlin is worsening daily. According to Murphy, the air lift is providing the population with enough food to sustain life but not to sustain morale over an extended period, and the curtailment of industrial activities is leading to a great increase in unemployment. Murphy says that the current rate of industrial goods shipments by air lift from Berlin to the western zones can only dent the backlog of manufactured goods awaiting shipment.

(CIA Comment: CIA concurs in Ambassador Murphy's estimate of the increasing gravity of the Berlin economic situation.)

**EUROPE**

- 2. FRANCE: Caffery expects new coalition government--US Ambassador Caffery believes that the most probable solution of the French governmental crisis will be a coalition based on approximately the same elements as those of the Schuman government. Caffery observes, however, that such a solution is unlikely to inspire public confidence. Caffery believes that the downfall of the Schuman government was generally unexpected and undesired, even by the Socialists, and resulted primarily from electoral pre-occupations and an inability to control the momentum of party maneuvers. Caffery has little doubt that the present crisis, revealing so clearly the lack of unity of the democratic forces of the center, has hurt the prospects of a centrist political solution and has correspondingly strengthened the Gaullists and, to a lesser extent, the Communists.

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(CIA Comment: CIA agrees in general with Ambassador Caffery's estimate but believes that it may be necessary for the next French government, in order to command a sufficiently strong Assembly majority, to include more elements favorable to De Gaulle than did the Schuman government.)

**THE AMERICAS**

8. **ARGENTINA: ECA purchase agreement recommended--US**  
Ambassador Bruce suggests that the US negotiate with Argentina a general ECA purchase agreement at the time of the first ECA purchase from Argentina. Bruce expresses the view that Argentina is not considering sales to Soviet-dominated countries in order to embarrass the US but because of a commercial necessity.

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## GENERAL

1. Western European union endorses firm Berlin stand--US Embassy The Hague reports that the foreign ministers of the five western European union powers have agreed that the western powers should stand firm in Berlin but must not close the door to the USSR. The ministers reportedly agreed that from three to five years of peace at the present rate of recovery will be needed by their countries to build up their military and economic potential and that they would be unable to defend themselves if conflict broke out soon between the US and the USSR. The ministers expressed the hope that the US could make manifest its military support of the western union countries in a substantial way because this support is needed if those countries are to make the most of their potentialities. The western union representatives generally believe that a broader agreement, such as one covering the Atlantic area and including Greenland and Iceland, would be of questionable worth at this time because it might be considered provocative by the USSR.

## EUROPE

2. YUGOSLAVIA: Increased friendliness to Italy noted--The US Military Attache in Rome has been informed by the Italian Minister of Defense that during the past two weeks a marked change in Yugoslavia's attitude toward Italy has been revealed by: (a) the absence of all friction between Yugoslav and Italian troops on the border; and (b) friendly approaches to Italian officials by Yugoslav diplomats in Rome.

Analysis of Tito's position--US Charge Reams in Belgrade reports his belief that for the first time Tito may now actually enjoy the support of the majority of the Yugoslav people. Reams reasons that Yugoslavs now see in Tito: (a) their best defense against the USSR and further sovietization; (b) their only guarantee against forcible collectivization;

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and (c) vindication of their national pride and superiority over Bulgarians, Hungarians, and Albanians. Reams asserts, however, that to secure and use this new national support, Tito cannot merely reiterate answers already made to the Cominform but must move ahead in new and affirmative directions in order to reconcile his claims to Communist orthodoxy with nationalistic Yugoslav thinking.

(CIA Comment: Although CIA concurs in general with Reams' analysis, it is unlikely that Tito will make any new moves until he has abandoned all hope of a rapprochement with the Kremlin. Moreover, the popular support for Tito's stand against the Kremlin does not represent endorsement by the Yugoslav people of Tito's domestic policy. Regardless of the outcome of his disagreements with the Kremlin, Tito will have serious difficulties in winning popular support for his regime.)

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GENERAL

- 1. US-UK officials to block Soviet rail traffic in Germany--US Political Adviser Murphy in Berlin transmits a decision of US-UK Zone Germany officials that beginning 26 July no railway traffic starting from or destined for Soviet Zone Germany will be accepted. According to the decision, however, international transit rail traffic which begins and ends in countries outside Germany will still be allowed to cross the western zone, even when such traffic involves movement through the Soviet Zone.

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(CIA Comment: This extension of the UK embargo on barge and rail traffic of 24 June will have further adverse effects on the economy of the Soviet Zone, regarding which Marshal Sokolovsky has already expressed concern.)

NEAR EAST-AFRICA

- 2. IRAQ: Continuing opposition to cease-fire threatened-- According to US Embassy Cairo, Iraqi spokesmen in Cairo, have protested to the Egyptian Foreign Minister concerning statements that Arab League acceptance of the UN cease-fire order in Palestine had been unanimous. Iraqi representatives declared that they had not voted for acceptance and that they would continue to oppose the cease-fire even if such a course meant expulsion from the UN.
- 3. SAUDI ARABIA: Anti-US tension thought relieved--US Legation Jidda expresses the view that the tense situation over Palestine which caused grave apprehension that Saudi Arabia might break relations with the US has apparently passed. The Legation believes that unless the US takes unilateral action which is favorable to Israel and adverse to the Arab states, the possibility either of a break with the US or of cancellation of US oil concessions appears remote.

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4. INDIA: 10,000 Nepalese troops to be loaned to India--US  
Charge Donovan has been informed by the Nepalese Ambassador to India that Nepal is lending 10,000 troops to India. The Ambassador stated confidentially that the Indian purpose in obtaining the use of these troops for internal security duty in India is to release regular Indian Army troops for service in Kashmir. Donovan agrees that the use of these Nepalese troops will permit an increase in India's fighting forces in Kashmir or in possible military operations in Hyderabad.

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EUROPE

- 1. **GERMANY: Estimate on Berlin supply situation--US Representative Riddleberger in Berlin reports that the supply situation in western Berlin points more and more to the end of August or to early September as the crucial period. According to Riddleberger, the US Military Government estimates that the present stocks of gasoline, paper, and coal will be depleted by that time.**

USSR may close two Berlin air corridors--Representative Riddleberger quotes

that Soviet officials plan in the near future to declare two of the three air corridors closed and then to interfere with air traffic in the remaining corridor by carrying out large scale air maneuvers in the area west of Berlin. Riddleberger points out that this information may be a Soviet ploy to hasten acceptance of a conference on all German problems, but he believes that such action cannot be ruled out as a possibility.

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(CIA Comment: CIA agrees with Representative Riddleberger's estimate of this report.)

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GENERAL

- 1. US recognition of Transjordan urged--US Consul General Macdonald in Jerusalem strongly recommends that the Department of State consider extending recognition to Transjordan. Macdonald believes that such recognition would be timely in view of the fact that Transjordan accepted both Security Council truces, was mainly responsible (together with Egypt) for acceptance of the truces by the other Arab states, and continues to be the leading advocate of peace and moderation within the Arab League.

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US Representative Stabler in Amman has been informed by King Abdullah of Transjordan that he believes any final settlement of the Palestine problem will have to be imposed on both Jews and Arabs by the Security Council. Abdullah stated emphatically that he thought the Arabs would accept such a settlement. Abdullah also said that: (a) it would be necessary to have separate Jewish and Arab areas in Palestine; (b) the Arab areas should be attached to Transjordan; and (c) population shifts should be made to take care of minority problems.

- 2. US proposes delay in disposition of Italian colonies--The Department of State has expressed to the US delegation in London the view that postponement for another year of the final disposition of the Italian colonies appears to be the only solution which would meet US and UK strategic requirements and still be acceptable to the General Assembly. The Department is urging the UK Government to give serious consideration to postponement because of US, British, and French differences on the Italian colonial question and because of the unlikelihood that a proposal based on US-British ideas would be accepted by the General Assembly in September 1948.

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NEAR EAST-AFRICA

- 3. PALESTINE: Arab refugees seen as potential source of trouble-- A British Foreign Office official has informed US Embassy London that there are now some 250,000 Arab refugees from the Jewish

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part of Palestine. The Foreign Office believes that the concentration of these refugees in countries neighboring Palestine is beginning to have serious economic and social repercussions and that the refugees are likely to cause trouble for the local governments. The Foreign Office, which estimates that the number of Arab refugees in the Middle East is now greater than the number of Jewish refugees in Europe, is looking into the possibility that the International Refugee Organization can take some action in the matter.

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## GENERAL

1. Control of Berlin believed primary Soviet objective--US Ambassador Smith in Moscow detects no real evidence of an urgent Soviet desire to negotiate the overall German question and suggests that the USSR is at present primarily interested in liquidating Berlin as a center of western influence. Smith observes, however, that this does not imply that the USSR is abandoning its objectives in western Germany. Smith believes that the USSR might be induced temporarily to forego "the battle for Berlin" if sufficiently attracted by western power concessions on all of Germany.

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(CIA Comment: CIA remains of the opinion that concessions on western Germany are the primary Soviet objectives and considers that unilateral control of Berlin is a secondary aim of the USSR.)

2. Reaction to US proposal on Italian colonies--US Ambassador Caffery transmits a report that British representatives attending a US-UK-French conference on the Italian colonies are unfavorable to the US proposal that final decision on the colonies be postponed for another year. The UK delegates reportedly pointed out that such deferment would place upon their country another year of heavy financial and military burdens and would give nationalistic elements in the colonies a chance for further agitation. The French delegates expressed apprehension that the USSR might use this proposal as a means of gaining a share in a temporary administration of the former Italian colonies during the period of delay.

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EUROPE

1. **FRANCE: Reynaud asks "full economic powers"** --Finance Minister Reynaud has informed US Ambassador Caffery that Premier Marie has agreed to ask the French Assembly to grant Reynaud "full economic powers" for a period of 18 months. Reynaud told Caffery that he intends to resign if these powers are refused, because without such powers he "could do nothing constructive." Caffery has also been informed by a prominent Socialist that the creation of a "superior governmental committee," including leading Socialist members and possessing the right to pass on "decree laws," should be a sufficient guarantee to Socialists that government decrees would conform to the Constitution and would safeguard the rights of labor.

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(CIA Comment: Although the Socialists may not oppose the granting of decree powers to Reynaud at this time, their opposition to such delegation of authority can be expected to develop as Reynaud's program takes form.)

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Date: 15 MAR 1978 By: 028 GENERAL

1. Early decision on Italian colonies held necessary--US diplomatic representatives in London have expressed their agreement with the view of UK and French representatives that a year's delay in deciding on the disposition of former Italian colonies is undesirable. The US representatives urge that the US make an immediate decision as to whether it will accept trusteeship of Tripolitania or will attempt to persuade the UK to accept this trusteeship. These representatives add that the UK wishes the US to accept this trusteeship in order to assure western Europe and Mediterranean countries that the US is assuming a more positive role in the Mediterranean area. They further suggest that the US might inform the French that any possibility of Italian trusteeship of Tripolitania has been excluded from US thinking.

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## EUROPE

2. GREECE: Political leaders interfering in military affairs--US Ambassador Grady reports a recent conflict between Prime Minister Sophoulis and the US and UK military advisers concerning the removal of an inefficient Greek officer in the Grammos campaign. During the discussions, Sophoulis attempted to put pressure on the military advisers by threatening to resign. Grady cites this conflict as another instance of Greek political interference in strictly military affairs. Grady feels that the US should recognize that it may eventually be necessary to insist on a military solution of a military problem, even at the cost of causing the resignation of the government.

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## NEAR EAST-AFRICA

3. PALESTINE: Jews reluctant to demilitarize Jerusalem--US Consul General Macdonald reports that delay in demilitarizing Jerusalem is leading to a critical situation and that unless

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positive action is taken within a few days, demilitarization of the city may be impossible. Macdonald says that the Jews are opposed to demilitarization because they fear that it will lead to internationalization. He believes that if the expected trouble develops between Hagana (the Israeli Army) and the forces of Irgun Zvai Leumi (Jewish extremist group), the Government of Israel will insist on remaining in Jerusalem in order to "protect" it from dissident elements. In such an event, Macdonald feels that Israel would probably proclaim Jerusalem as part of the Jewish state and the Arabs would be given just cause to accuse the UN of assisting the Jews through the truce.

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15 MAR 1978

1. UK stresses need for SC action on Arab refugee problem--

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According to US Ambassador Douglas in London, Foreign Secretary Bevin is informing the British UN delegation that it may postpone action on the Arab refugee problem until 2 August, but not later. Bevin said that the matter could not be delayed longer because there is urgent need to: (a) show the Arabs that the UK and the UN are aware of Arab difficulties; and (b) convince the Arabs that the UN is not "a malignant instrument but one to which they can look for help when the need arises." (See attached Annex for a discussion of the Arab refugee problem.)

EUROPE

2. FRANCE: Serious threat to Government expected soon--US

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Ambassador Caffery believes that a new and serious threat to the French Government can be expected in the near future after Finance Minister Reynaud's program is known and measures to implement this program are submitted to the Assembly (presumably about 3 August). According to Caffery, most observers feel that the presentation of this program will bring about the first real vote of confidence in the Marie Government. Caffery believes that if Reynaud's program is turned down, Reynaud will probably resign and thereby precipitate a government crisis. Caffery foresees difficulties in the approval of the Reynaud program because the Socialist Party and the Popular Republican Movement (MRP) fear that this program will saddle the working classes with an unfair share of the financial burden.

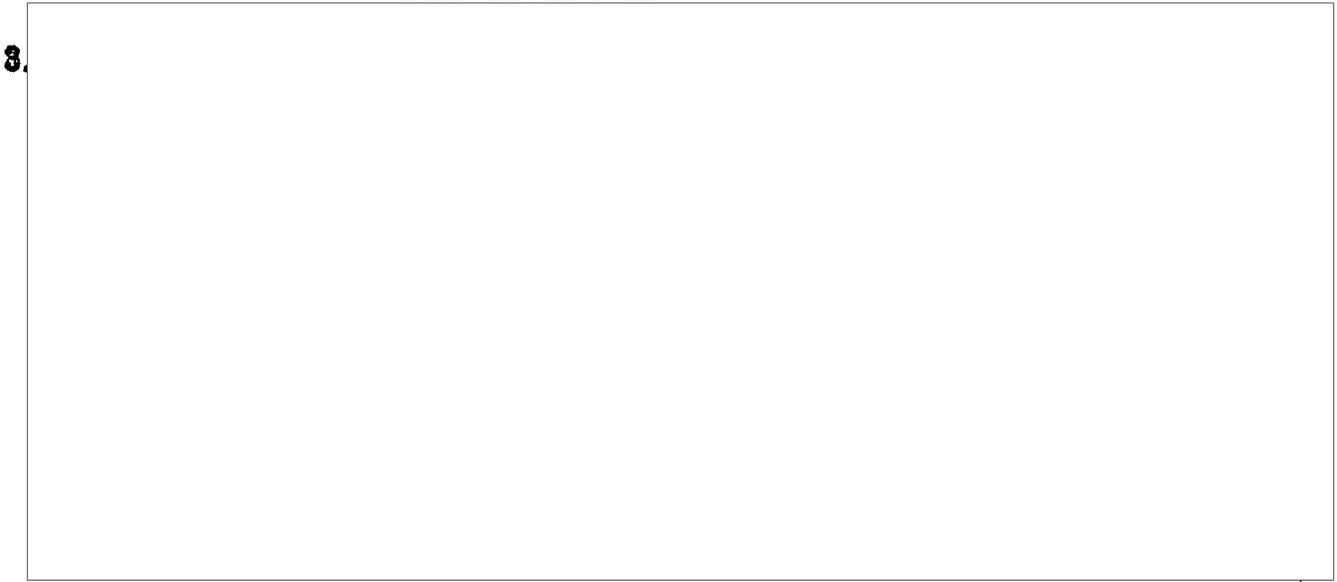
(CIA Comment: CIA believes that since only the Gaullists and the Communists, to a lesser extent, could gain from the fall of the Marie coalition Cabinet, the present Government has a reasonable chance to survive until the October elections.)

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**THE AMERICAS**



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## A N N E X

30 July 1948

**THE ARAB REFUGEE PROBLEM**

The war in Palestine has produced an Arab refugee problem comparable to the Jewish DP problem which the establishment of a Jewish state was partly intended to alleviate. Although Arab-Jewish hostilities have for the most part ceased, the problem posed by the Arab refugees from Israel now in neighboring Arab lands is threatening not only the truce and the possibility of a compromise solution in Palestine but also the stability of the entire Arab world. Unless these refugees can be swiftly and adequately cared for, they will swell the ranks of the Arab extremists and possibly prevent the establishment of an effective Arab-Jewish agreement for many years to come.

UN Mediator Bernadotte has estimated that the refugees number between 300,000 and 400,000. Approximately 100,000 are believed to be in Transjordan; 65,000 in Syria; 55,000 in Lebanon; 25,000 in Egypt; and the remaining 100,000 in the Arab-occupied areas of Palestine. The Provisional Government of Israel has stated that it will not permit any of the refugees to return to their homes until a definitive settlement of the Palestine issue has been reached and then only under such restrictions that few Arabs will qualify for repatriation.

The neighboring Arab states have neither the economic resources nor the political stability to absorb the Arab refugees peacefully. The poverty of arable land in the Arab states is chronic, and no state can afford to launch large resettlement projects involving land reclamation. An exchange of populations might solve the problem, but such a solution would raise other serious difficulties. The eviction of the Jews from the major Arab cities, in which they form sizable minorities, would entail further economic dislocation. If Israel were to receive the 200,000 Jews in Arab lands as well as the 200,000 Jewish DP's from Europe, its area would have to be expanded far beyond the UN partition

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boundaries. Such a development would still further exacerbate Arab feelings and would, therefore, contribute little to an ultimate solution of the Palestine issue.

Temporary relief for the Arab refugees can be facilitated through substantial assistance from the International Red Cross, the International Refugee Organization, and the Arab League. However, a permanent solution of the problem, involving the whole question of the future of Palestine, will probably require positive action by the UN.

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1. Soviet reaction to request for interview with Stalin--US Ambassador Smith reports that he has communicated to Molotov's deputy, Zorin, the request for an interview between Molotov and Stalin, on the one hand, and the US and French Ambassadors and the UK Charge, on the other, "in order to discuss the present situation in Berlin and its wider implications." (The French Ambassador and UK Charge were scheduled to take similar action.) Zorin received Smith's remarks and aide memoire in uncompromising fashion. Zorin replied that (a) Molotov's absence on vacation for the time being prevented granting the requested interview; and (b) the aide memoire indicated no change "in the position of the US or of any subjects which would make profitable a conversation with Generalissimo, Stalin and Mr. Molotov."

Smith declared that he had refrained from requesting interviews with Stalin in the past "except on a matter of first importance" and that he "considered the present situation the gravest which had arisen" since he came to Moscow two years and a half ago. Zorin replied that the position of the Soviet Government had been clearly defined in its 14 July note but said that he would transmit the US request to his Government for consideration.

2. US views on Greek use of Dodecanese airfields--The Department of State has transmitted to US Embassy Athens its opinion that use of the Dodecanese airfields by the Greeks against the guerrillas would probably elicit a Soviet protest and should therefore be avoided if not dictated by absolute military necessity. The Department recognizes that the Italian Peace Treaty which ceded the Dodecanese to Greece also prohibits their militarization. However, the Department feels that inasmuch as the Treaty allows defeated Italy to use temporary military installations to meet "requirements of an internal character," the Greeks have an equal right to use Dodecanese installations to maintain internal order.

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EUROPE

1. GERMANY: Importance of Berlin industrial production--US Ambassador Murphy has been informed by the US Military Government in Berlin that a strict embargo on the sales of industrial goods from western Berlin to the Soviet Zone is not in effect, and that the British are still allowing a certain amount of such trading to continue. Murphy says, however, that even the present loose controls are having a telling effect and that US officials expect these controls to cause a shutdown of critical industries in the Soviet Zone within 60 days. Murphy stresses the fact that the western zones also are largely dependent upon western Berlin for numerous critical industrial items, and that, since the imposition of the blockade, more than 400 tons of these items have been air-lifted back to the US Zone.

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French non-support of occupation forces--Murphy also reports that a major stumbling block to French participation in the Joint Export Import Agency results from the fact that the French Army of Occupation is "living off the land" in the French Zone while the US and the UK are maintaining their Forces of Occupation at their own expense. Murphy says that General Clay and General Robertson have taken the position that the US-UK Zone cannot supply the French Zone unless the French rectify this practice, but that the French seem unprepared to do so until 1 January 1949. Murphy says that both the US and UK delegations feel that a firm understanding with the French is now necessary to prevent an indirect subsidy of the French Army by US funds for an indefinite period.

2. YUGOSLAVIA: Poor prospects for agreement on Danube--US Ambassador Cannon, chief of the US delegation to the Danube Conference in Belgrade, thinks that there is only a slight possibility of any serious discussion of the US draft proposals for a Danube convention and that the conference may come to a breaking point "fairly soon." Cannon expects strong verbal clashes between the East and West, with the USSR and the US as the chief protagonists.

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Auth: DDA REG. 77/1763

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DDA Memo, 4 Apr 77

GENERAL

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Date: 15 MAR 1978 628

**1. Stalin's Proposals regarding Germany--US Ambassador Smith reports that in the course of the 2 August discussions with representatives of the US, the UK, and France, Stalin declared that the Soviet Union would agree to a joint statement covering: (a) removal of all transport restrictions, both those between the western zones and Berlin and those on transit traffic with the eastern zone; (b) exclusive use of Soviet Zone currency throughout Berlin; and (c) resumption of negotiations on Berlin and the scheduling of a four-power meeting to consider outstanding German problems.**

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Ambassador Smith comments that both Stalin and Molotov are undoubtedly anxious for a settlement. Smith believes that the USSR is primarily concerned with western power action regarding Berlin currency and the formation of the west German government. Although Smith is pessimistic over the prospect of any ultimate agreement on Germany, he feels there is some hope for a Soviet guarantee of a corridor into Berlin as a condition to acceptance by the western powers of Stalin's proposals.

**French view on Stalin conversation--US Ambassador Caffery reports that the French Government is convinced that the USSR will want to discuss three subjects with the western powers: (a) the monetary situation; (b) the London recommendations; and (c) the Ruhr. Caffery adds that the French are highly skeptical as to the possibility of reaching agreement with the USSR on the latter two subjects and have asked what steps the western powers will take in the event of disagreements.**

NEAR EAST-AFRICA

**2. PALESTINE: UN Mediator threatens to resign--UN Mediator Bernadotte has informed US Consul General Macdonald in Jerusalem that he is "very disappointed and discouraged with**

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the lack of support from the UN and particularly with the apparent noncooperative attitude of the US" which he believes has not provided him with the material support necessary to carry out his task. Bernadotte says he cannot understand why the US objects to lending Marines to the UN for special guard duties in demilitarized areas, in view of the fact that the US has no objection to supplying truce observers from both the US Army and Navy. The UN Mediator told Macdonald that he cannot continue at his post under present conditions and will feel forced to resign unless the required personnel and equipment are forthcoming at once. The US Consul General agrees that Bernadotte cannot hope to accomplish his mission with the small force he now has; Macdonald also expresses the opinion that Bernadotte's resignation would preclude any possibility that the UN will find a solution for the Palestine problem. Macdonald feels that under such circumstances the US would be blamed by both Jews and Arabs and he recommends that "every possible support" be given to Bernadotte.

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DDA Memo, 4 Apr 77

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Date: 15 MAR 1978 By: 028

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1. US agrees in principle to Stalin's proposals --The Department of State has informed US Ambassador Smith that the US accepts in principle, subject to clarification of the Berlin currency arrangement, the three-point agreement proposed by Stalin for settling the Berlin question. The US condition for acceptance of the Soviet Zone mark is an agreement providing for quadripartite control of the availability and use of the new currency in Berlin. Such an agreement, the US considers, should include the control of credit, uniform application of credit rules and currency issue within Berlin, availability of sufficient funds for occupation powers, and arrangements to cover trade between the western zones and Berlin.

2. US delegation will force consideration of vital Danube issues -- The Department of State has instructed the US delegation to the Danube Conference in Belgrade to set forth the US position promptly and to bring the vital issues to a head, in order to test Soviet willingness to negotiate an acceptable instrument. The Department believes that the paramount issue is the question of western power participation in a future Danube regime. The Department adds that the US will not recognize the jurisdiction of any new control body over the Austrian and German Danube unless the western powers are represented on such a body.

CIA - S

3. US urges postponing decision on Libya in UNGA --The Department of State has informed US Embassies London and Paris that the current three-power discussions on the Italian colonies have not, in the US opinion, taken sufficiently into account the political realities which the US, the UK, and France will have to deal with in the UN General Assembly and which will determine the final solutions. The Department feels that the only course is to advocate postponement in the GA of any decision on Libya, because strong GA sentiment for Libyan independence will virtually preclude agreement to UK trusteeship over Cyrenaica, to which the US remains committed. This view is to be strongly emphasized to Bevin and Schuman.

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The Department adds that the US will neither support Italian trusteeship for Tripolitania nor accept US trusteeship. The US agrees to Italian trusteeship over Somaliland but is strongly opposed to placing Italy once again on two of Ethiopia's frontiers; the US therefore urges that the UK agree to division of Eritrea between Ethiopia and the Sudan.

4. US unwilling to send Marines for guard duty in Palestine--  
 The Department of State has instructed US Consul General Jerusalem to inform Count Bernadotte that the US is not prepared to send Marines to Palestine for guard duty because:  
 (a) provision of such troops might require additional US commitments to preserve the security of the original detachments; and (b) there has been no Security Council action providing for armed contingents of member governments for police duty. The Department is concurrently seeking British support of the US position with Bernadotte.

CIA-5

## EUROPE

5. GERMANY: Currency reform damages Communist finances--  
 The Office of the US Political Adviser in Heidelberg confirms that currency reform in the Western Zones, by depriving the German Communist Party (KPD) of its previous large monetary resources, has left the Party in straitened financial circumstances. The Heidelberg Office reports that the Hamburg branch of the Party must restrict its expenditures to the most essential items and that members of the KPD student group in that city, hitherto supported by grants from Berlin, have been advised to "go and live in the Eastern Zone."

S-75

(CIA Comment: CIA believes that the Socialist Unity Party (SED) in the Eastern Zone will be able to furnish sufficient funds to a small group of KPD agents to maintain the core of the organization.)

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**CENTRAL INTELLIGENCE AGENCY**

**Special Evaluation No. 33**

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 Auth: DDA Memo, 4 Apr 77  
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6 August 1948

**PROBABLE SOVIET POSITION  
IN ANY NEGOTIATIONS ON GERMANY**

The immediate objective of the USSR, in agreeing to enter into negotiations on Germany, is probably: (a) to ease present international tension; and (b) to exploit the current dilemma of the western powers by seeking an agreement on terms which would offer the Kremlin certain strategic advantages in return for tactical concessions.

If the Soviet representatives become convinced that the western powers are unwilling to accept minimum Soviet demands, the USSR will probably proceed to utilize the proposed conference: (a) to retard the western program for "containment" of the USSR; (b) to promote dissension among the western powers; and (c) to provide a sounding board for Soviet propaganda which would seek to interpret Soviet willingness to negotiate as proof of Moscow's "peaceful intentions" and the failure to reach agreement as proof of western intransigence.

It is believed that in such negotiations the maximum Soviet objectives would be substantially as follows: (a) deliveries of German plant reparations and reparations from current production; (b) the Soviet concept of demilitarization of Germany; (c) the formation of a national German government; (d) a peace treaty for Germany; and (e) four-power control of the Ruhr.

Although the USSR would, during the early stages of the discussion, press vigorously for western concessions on all of the foregoing points in order to create for itself the strongest possible bargaining position, it is believed that it would be willing to settle for considerably more modest terms, because of its longer-range and more important objective of having a voice in the government of all of Germany as well as in the councils of the Western European nations. Such minimum Soviet terms will probably be governed by the following general aims: (a) to prevent the economic and political stabilization of Western Europe,

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of which western Germany is the key; and (b) to obtain for the Soviet sphere economic benefits from western Germany.

In the pursuit of the two foregoing objectives, the USSR may be expected to insist on the following minimum terms: (a) suspension by the western powers of final establishment of a west German government; (b) resumption of scheduled reparations deliveries from western Germany through the Inter-Allied Reparations Agency; and (c) some share in the production of western German industry, including some voice in the economic administration of the Ruhr.

In seeking agreement on the foregoing terms, the USSR may be expected to offer a number of concessions designed to conciliate the western powers and pave the way toward German unity. These concessions will involve some relaxation of Soviet controls in eastern Germany and probably will include a re-affirmation of western rights in and access to Berlin. Soviet negotiators, however, will take care to insure that such concessions do not impair the long-term capability of the USSR to dominate eastern Germany, including Berlin.

Western power acceptance of minimum Soviet terms would probably lead to a temporary agreement on Germany. This would give the USSR a breathing spell, enabling it: (a) to improve the economy of Germany's eastern zone as well as that of Eastern Europe; (b) to tighten political controls over the Satellite states; (c) to conduct peace-offensive propaganda; and (d) to exploit western power differences in order to weaken the present anti-Soviet western coalition. Western Europe in general would welcome an agreement which afforded a temporary relaxation in present East-West tension, while the USSR may hope to profit by agitation for national unity in Germany.

The US would thus be in effect gambling that the cumulative effects of the European recovery program and other measures that the western powers may take will more than

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**outweigh the consequences of the renewed opportunities that will accrue to the USSR for disrupting Western European recovery and for gaining economic benefits. Weighed against a continuation of our present dilemma, however, the gamble would appear to be worthwhile.**

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GENERAL

S-TS

1. UK preparing detailed Palestine recommendations--US

Ambassador Douglas reports that the British Foreign Office is preparing detailed proposals for a permanent division of Palestine along the lines of the present de facto Arab-Jewish frontiers and hopes for an early integration of US and British views on the subject. According to Douglas, the British provisionally think that the best Palestine solution under present circumstances would follow the lines of Count Bernadotte's previous proposals, but would omit, on grounds of expediency, any specific provisions for economic union. The plan would thus provide for: (a) an independent Israel including most if not all of Galilee; and (b) an Arab territory, including the Negeb, which would be governed as desired by the Arabs. In order to reassure both sides, specific frontiers would be subject to international guarantees. The plan would include some form of international responsibility for Jerusalem which might place the city under Arab sovereignty; Haifa would be either made a free port or placed under some form of international control.

Douglas adds that the British doubt whether either the Arabs or the Jews would accept such a solution for some time to come, and that the Foreign Office consequently stresses the need for closely coordinated US-UK efforts in obtaining forceful UN action and in bringing pressure to bear on the two parties.

2. Israeli Governor of Jerusalem "uncooperative" with Mediator-- CIA-S

US Consul General Macdonald in Jerusalem reports that, in conversations with the UN Mediator, the Israeli Military Governor of Jerusalem was "unfriendly, uncooperative, and defiant." CIA-S  
According to Macdonald, the Military Governor: (a) concluded a vitriolic attack on the UN by stating that the Jews had no confidence in the UN and regarded it as a "laughing stock"; and (b) subsequently stated, on instructions from the Provisional Government of Israel, that he could not discuss with the Mediator the demilitarization of Jerusalem because Israel had not yet accepted demilitarization. In principle Macdonald believes, however, that "even at this late stage" both Arabs and Jews will CIA-S

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acquiesce in the internationalization of Jerusalem, if the city is first demilitarized by "concrete, energetic action" including the immediate provision of regular troops by the three Truce Commission members (the US, France, and Belgium). Macdonald adds that unless such forces can be provided, the whole demilitarization project should be abandoned as impractical.

### EUROPE

3. AUSTRIA: Renewal of treaty negotiations suggested--Austrian Foreign Minister Gruber has urgently suggested to US Legation Vienna that, if an agreement is reached to re-open quadripartite discussion on Germany, the US propose a concurrent renewal of Austrian treaty negotiations. Gruber believes that a "favorable climate" for negotiations on Austria may result from the recent diplomatic talks with Stalin, and that the USSR would be prepared to accept a proposal of further Austrian treaty discussions. Gruber says that Soviet Deputy Foreign Minister Vyshinsky has declared to a high-ranking Austrian diplomat that the USSR is eager for an Austrian treaty and that the only outstanding issue of direct concern to the USSR is that of the German assets in Austria.

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### NEAR EAST-AFRICA

4. IRAN: USSR again demands end of US military aid--The Iranian Chief of Staff has informed the US Military Attache that Soviet Ambassador Sadchikov, in two recent conversations with Prime Minister Hajir, demanded that the US Military Mission to the Iranian Army be removed and that the Iranians refuse to accept US arms. When Hajir rejected these demands, Sadchikov reportedly observed that Iran "absolutely refused" to cooperate with the USSR, announced that his health was bad, and declared that he was returning to the Soviet Union.

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GENERAL

1. Cannon's views on US withdrawal from Danube Conference--

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US Ambassador Cannon, chief of the US delegation to the current Belgrade Conference, believes that US insistence on non-riparian membership in any future Danube Commission will result in the termination of the conference for all practical purposes and the adoption of the Soviet draft convention. Cannon recommends that, in view of the "larger strategy" of the US with respect to prospective East-West negotiations, the US should sit out the conference to the end and debate each issue as it arises rather than force an earlier break. Cannon adds, however, that the French and British delegations are less determined to see the conference through.

2. US delegation to support British resolution on Danube--

CIA - S

The Department of State has instructed the US delegation to support the British resolution calling for reference to the International Court of Justice of the dispute regarding the status of the 1921 Danube Convention. The US will not, however, actually join in submitting this case to the Court, because it was not a party to the 1921 Convention.

3. UK shies away from Shah's hint at Anglo-Iranian alliance--

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According to US Ambassador Douglas in London, the Shah of Iran touched upon the possibility of an Anglo-Iranian alliance during his recent stay with the King at Buckingham Palace. Douglas adds, however, that the British consider such an alliance extremely undesirable, "because of the trouble it would cause with the USSR" and because it would not benefit either the UK or Iran. The British were thankful that the Shah, after receiving a noncommittal response from the King, failed to raise the question again.

4. Bevin fears shift in Soviet pressure to Middle or Far East--

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Ambassador Douglas reports that Foreign Minister Bevin fears that the USSR, when it finds itself unable to make

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Auth: DDA REG. 77/1763

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further gains in western Europe, will fairly rapidly transfer its point of pressure to either the Middle or Far East. Bevin believes that the Middle East, with Iran as a focal point, is the more likely area.

#### EUROPE

5. FRANCE: Assembly approval of economic program likely--  
An important official of the Interior Ministry has expressed to US Ambassador Caffery optimism regarding the acceptance of the Government's financial and economic program by the French Assembly. The Ministry official expressed confidence that Finance Minister Reynaud's program would make due allowances for the plight of French labor, thereby mollifying the hostility to Reynaud in Socialist, Popular Republican, and trade union circles.

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(CIA Comment: CIA believes that the Socialists will grant a reluctant vote of support to Reynaud's program, thereby insuring Assembly approval.)

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## NEAR EAST-AFRICA

1. PALESTINE: Israeli official says "sudden" operations imminent--  
According to US Ambassador Douglas in London, the British Legation Amman (Transjordan) has intercepted a Jewish broadcast in which the Israeli Minister of the Interior stated: (a) Jewish troops are about to undertake "sudden and unexpected" operations; (b) the Israeli Government is cooperating with Irgun in plans to annex Jerusalem; and (c) Israel is being reinforced by air with well-trained personnel and has recently received 40 combat aircraft and other materiel. US Representative Lippincott in Haifa concurrently reports the general impression of his informants that fighting may be resumed within the near future. Lippincott also reports that the Jews are resentful and uncooperative toward UN observers; the Jews believe that if the second UN truce had not been imposed, the Arabs would soon have been "on their knees begging for peace." According to Lippincott, many Jews justify their demands for Jerusalem with the argument that no outside state is willing to fight for it. Lippincott adds that the Jews, who initially accepted international control of Jerusalem because they feared that the Christian world would object to their control of it, now demand Jerusalem more vigorously because the Christian world has shown little interest in its disposition.

## THE AMERICAS

2. PANAMA: Arnulfo Arias arrives in Costa Rica--Commanding General USAF Caribbean and US Embassies Panama and Managua, Nicaragua, report that Arnulfo Arias has arrived at San Jose, where he is seeking aid for an early revolutionary effort against Panama. General Somoza of Nicaragua has told US Embassy Managua that he would invade Costa Rica if such an attack were launched against Panama from Costa Rica.

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GENERAL

1. Bevin stresses need for guards in Jerusalem--US Ambassador Douglas in London reports that Foreign Secretary Bevin, in a long discussion of the security of the Middle East, characterized the Jerusalem situation as the "most serious" facing the US and UK in that area and offered the British estimate that a re-opening of the Jewish military offensive in the next few days is not unlikely. According to Douglas, Bevin alluded to US unwillingness to supply the Jerusalem guards requested by the UN Mediator and then asked what the US proposes in place of such guards, inasmuch as the plan for "well-disciplined" Arab-Jewish police units in Jerusalem now appears impracticable. Bevin expressed the view that such guards could be supplied without the special Security Council action the US felt necessary. Douglas concludes by suggesting that the US seriously consider proposing to France and Belgium, its fellow Truce Commission members, that: (a) they supply the armed guards requested by the Mediator; and (b) the US undertake to transport the troops from Europe and to supply vehicles, communication equipment, medical facilities, maintenance men, and similar support for the French-Belgian force.

S-TS

2. Bunche reiterates Bernadotte's plea for UN token force-- Ralph J. Bunche of Count Bernadotte's staff, in a conference in New York with the US delegation to the UN, has reiterated Bernadotte's urgent request that a force of about 240 men be assigned him in Jerusalem by the three powers of the Palestine Truce Commission. Bernadotte feels that such a token force would indicate that he has UN support and would maintain order at three critical points in the Jerusalem area; he believes this force would therefore enable him to accomplish the demilitarization of Jerusalem which he feels is the crux of his whole problem in Palestine. Bunche emphasizes the Mediator's belief that he cannot succeed without a "token temporary UN police force." According to Bunche, Bernadotte plans: (a) to make a formal appeal to the Security Council, if the three Truce Commission members fail to supply his minimum needs; and (b) to resign, if the Security Council fails him.

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3. US delegation agrees with overall UK views on Palestine-- S-TS  
 The US delegation to the UN has informed the Department of State that it agrees "in general" with the UK proposals for a definitive Palestine settlement based upon the present Arab-Jewish "line-of-force" frontier. The US delegation believes that there is much to be gained and little to be lost by making a vigorous effort to arrive at a definitive solution in time for the coming UN General Assembly, instead of merely proposing to the GA a continuation of the Mediator's efforts. The US delegation hopes that it will be possible to avoid a situation in which the Mediator again makes unrealistic proposals which will be rejected by both sides. The delegation agrees with the British view that such a development can be avoided only by reaching a joint US-UK position which would be transmitted to the Mediator and backed by both governments.

4. Embassy Moscow agrees Soviet pressure may shift to Near East-- S-TS  
 US Embassy Moscow agrees with Foreign Secretary Bevin that when the USSR finds itself unable to make further gains in western Europe, it will transfer its pressure either to the Middle or Far East. Both Bevin and Embassy Moscow believe that the Middle East is the more likely area. The Embassy also believes that the Kremlin will pursue a covert rather than overt line of attack.

5. French views on Italian colonies-- French Foreign Minister Schuman has informed US Ambassador Caffery in Paris that France will support postponement of any final decision on the disposition of Libya. Schuman expressed the opinion that the former French policy of supporting Italian trusteeship for Tripolitania was a mistake but added that he cannot yet say what solution France will eventually favor. He believes that British trusteeship would be the best solution for Cyrenaica, and he warmly favors prompt return of Somaliland to Italy. Schuman believes that a part of Eritrea should be ceded to Ethiopia now and that a final decision on the northern portion of Eritrea should be postponed. S-TS

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**EUROPE**

6. **GERMANY: Currency situation in Berlin--US Ambassador Murphy reports that although non-Communist political leaders in Berlin are willing to accept quadripartite control of the Berlin currency, they fear that the acceptance of a currency identical with that of the Soviet Zone would not permit the four powers to exercise any real control. Murphy considers that the arguments of these leaders are still valid, because recent discussions in Berlin have not resulted in the release of enough marks to the inhabitants to solve the currency crisis.**

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## GENERAL

1. US delegation to UN concerned over Israeli intransigence--

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The US delegation to the UN in New York is increasingly concerned by reports of mounting Israeli intransigence with respect to: (a) the status of Jerusalem; (b) the UN Mediator and other truce enforcement authorities; and (c) the procurement of military supplies and personnel. The delegation believes that the reports, although exaggerated, have some basis in fact; it observes that if the reports are substantially true, they would indicate that Israel may damage its own cause irreparably and make the precarious peace in Palestine more difficult to maintain. The US delegation recommends that the US, "as Israel's best friend," call upon the Provisional Government of Israel: (a) to disavow such reports; (b) to demonstrate that its attitude is in fact peace-loving, through wholehearted cooperation with the Mediator, the Truce Commission, and the observers; and (c) to deal firmly with Jewish extremists.

2. Smith's views on US withdrawal from Danube Conference--US

- 5

Ambassador Smith in Moscow believes that a firm stand by the US delegation at the Danube Conference in Belgrade will help the current conversations in Moscow. Smith also believes that US withdrawal from the conference prior to the end of the Moscow discussions might help the US position in Moscow.

## EUROPE

3. ITALY: Migration as possible aid to colonial settlement--US

5-75

Embassy Rome suggests that in relation to discussions with the UK on the political settlement of former Italian colonies, the US consider the possibility of a broad plan to develop central Africa for emigration from Europe. The Embassy considers that, without an outlet for the surplus Italian population, US efforts to place Italy on a self-sustaining basis will not be adequate. The Embassy therefore suggests that the US propose to the UK, France, Belgium, and Portugal that a program of Italian

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emigration to central Africa be promoted as a contribution to general European recovery. The Embassy believes that relief from the pressure of surplus population might diminish the urgency of Italy's desire to regain its colonies.

(CIA Comment: CIA believes that this plan of migration to central Africa would neither satisfy Italian colonial aspirations nor contribute materially to the solution of Italy's overpopulation problem. Such a project, which could encounter opposition from the colonial powers, appears impracticable because: (a) there is a limited amount of land suitable for white settlement; (b) returns on capital investment necessary to increase the productivity of such areas would be slow and uncertain; (c) the discontent of natives pushed off their lands by additional white settlement would be exploited by nationalist agitators; and (d) the present white settlers would not welcome Italians.)

#### THE AMERICAS

4. **PANAMA: Activities of Arnulfo Arias**--The Panamanian Ambassador has informed the Department of State that, despite Arnulfo Arias' presence in Costa Rica, Panamanians now believe that Costa Rica has "no intention" of intervening in Panamanian affairs. - 5

The US Embassy in San Jose, Costa Rica, has informed the Department of State that there is no evidence in that country of an imminent Arias-inspired revolutionary movement against Panama.

(CIA Comment: CIA regards it as most unlikely that any of the Central American governments will either openly espouse the cause of Arnulfo Arias or lend him any significant clandestine support. Furthermore, CIA estimates that a successful coup by Arias against the established Panamanian government is unlikely so long as he remains in exile.)

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EUROPE

1. GERMANY: Land government resigns in protest--US Political Representative Mayer in Baden-Baden reports that the German Land Government of Wurttemberg-Hohenzollern (French Zone) has resigned in protest against French orders for further dismantling of industrial plants. To counter German allegations that these orders resulted from efforts of British and Dutch watchmaking firms to destroy German competition, Mayer suggests that the US confirm French public statements that the dismantling orders are not unilateral measures and have been sanctioned by representatives of the European recovery program. Mayer believes that this US confirmation would do much to calm present German agitation on this question and might prevent the spread of this unrest to other Laender and possibly other Zones.

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(CIA Comment: The German action is indicative of the longstanding and now increasingly overt German antagonism to Allied occupation measures which the Germans consider punitive.)

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GENERAL

- 1. UK advocates withdrawal from Danube talks prior to vote--  
US Embassy London reports the opinion of the British Foreign Office that the US, the UK, and French delegations should not be present when the final vote on the Danube Convention is taken at the Belgrade Conference. The Foreign Office believes it would be difficult subsequently to protest the legality of the Convention, if the west participates in the final vote on its adoption. Bevin has instructed the UK Embassy Washington to express these views urgently to the Department of State.

CIA - S

(CIA Comment: The UK probably intends to submit to the International Court of Justice the question of validity of the 1921 Danube Convention. This intention is apparently leading the British to give careful consideration to legal technicalities, because both the British and French were signatories to the 1921 Convention, while the US was not.)

- 2. Arab feeling against Transjordan seen as threat to UK--US  
Ambassador Douglas in London transmits a report from the British Minister in Amman expressing concern over the "precarious" position of the UK in Transjordan and pointing out that Syria, Iraq, and the Arab League's Secretary General are currently charging that the Arab Legion has been immobilized by "British treachery." The Minister feels that the main danger is the possibility of a Jewish attack, which would find the Arab Legion lacking artillery and mortar ammunition with which to resist. The Minister asserts that many Arab states would rejoice in the downfall of Transjordan as proof that a country loyal to the UK can hope for nothing. The Minister adds that, if disaster overtakes Transjordan while the UK withholds ammunition, the British might as well abandon their policy of building defensive alliances in the Near East.

S - S

(CIA Comment: If Israeli forces attack Transjordan, the UK will almost certainly honor its treaty obligations with that country. The UK is already considering stockpiling some armaments in Transjordan and Iraq which would be released to the governments concerned only in event of attack, apparently from any source.)

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DDA Memo, 4 Apr 77

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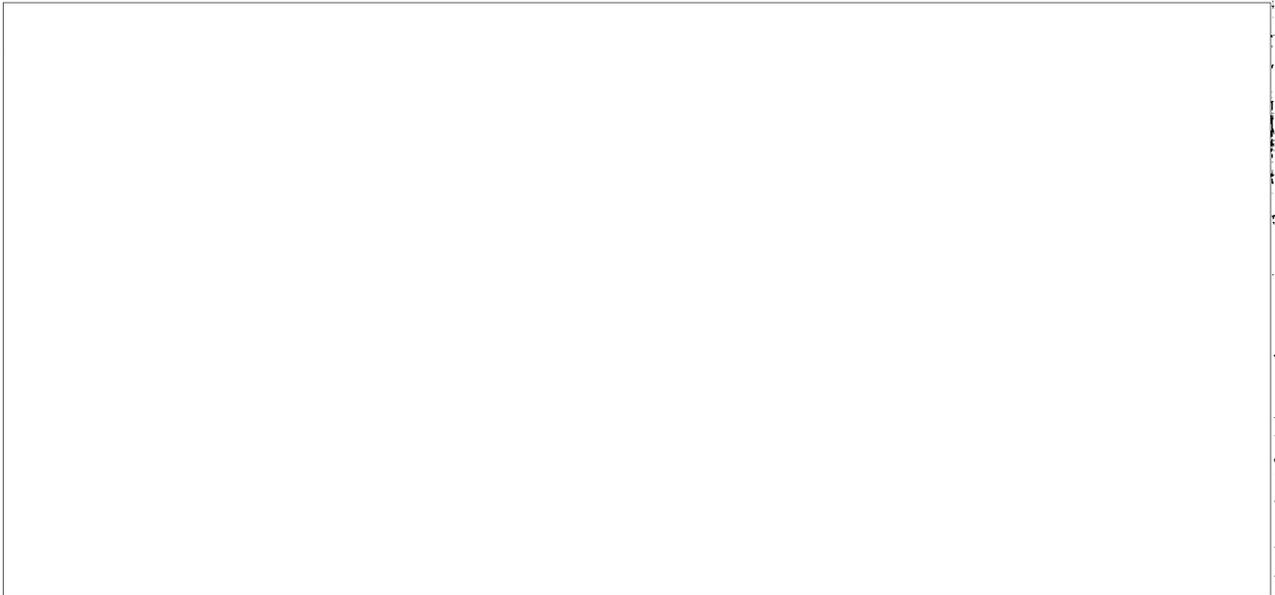
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**EUROPE**

4. **SOVIET UNION: Molotov protests "kidnapping" of teachers--** US Ambassador Smith reports that Molotov called him to the Foreign Office at midnight on 11 August to read a vigorously-worded protest on the alleged kidnapping of two Soviet school teachers. Smith replied that he had not been informed officially by the US Government of the purported incident, and he categorically denied the allegation that the US Government was involved in any illegal acts. Smith added that the man and his family mentioned in the Soviet note could return to the USSR if they so desired.

S - S

5. **FRANCE: Reorganization in Communist Party--**US Embassy Paris observes increasing signs that an important shake-up in the French Communist Party is in preparation. The Embassy says that it is not yet clear how drastic this shake-up may be or whether a major Party purge is taking place. The Embassy believes that the Communists are preparing to engage in "vigorous action" during the election campaign this fall.

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## NEAR EAST-AFRICA

6. **PALESTINE: Mediator's warning on truce violations**--US Consul General Macdonald reports from Jerusalem that UN Mediator Bernadotte has presented a strong letter to both Jews and Arabs regarding truce violations in Jerusalem and has threatened to refer the matter to the Security Council unless conditions improve. Macdonald agrees with Bernadotte that the Jews have been more aggressive than the Arabs in violating the truce. Macdonald suggests that because the Jews are sensitive to criticism and public opinion, they might be directed toward better cooperation in maintaining the truce if the UN, and especially the US, were to criticize them publicly for their failure to assist in finding a solution for the Palestine problem.

CIA - S

## FAR EAST

7. **CHINA: Major changes "not far off"**--US Embassy Nanking reports that the situation in China continues to deteriorate and that, even though there is a "faint glimmer of hope," the tide continues to run against the National Government. The Embassy observes that while Chiang Kai-shek is universally criticized for his ineffective leadership, no one can suggest any one to take his place, and that he is the one who holds the country together. Unless a "miracle" maintains Chiang in power, the Embassy expects some kind of accommodation with the Communists, or a regional breakup, or, most likely, a combination of the two. The Embassy cautions that the moment of crisis may not be far off.

- T S  
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(CIA Comment: CIA concurs in general with the Embassy's analysis; see Special Evaluation No. 32, 21 July 1948. However, CIA does not exclude the possibility that Vice President Li Tsung-jen might come into power in the National Government as head of an association of regional leaders who, with continued US aid, would probably be capable: (a) of staving off complete disintegration; and (b) of resisting the spread of Communism at least as effectively as the present National Government.)

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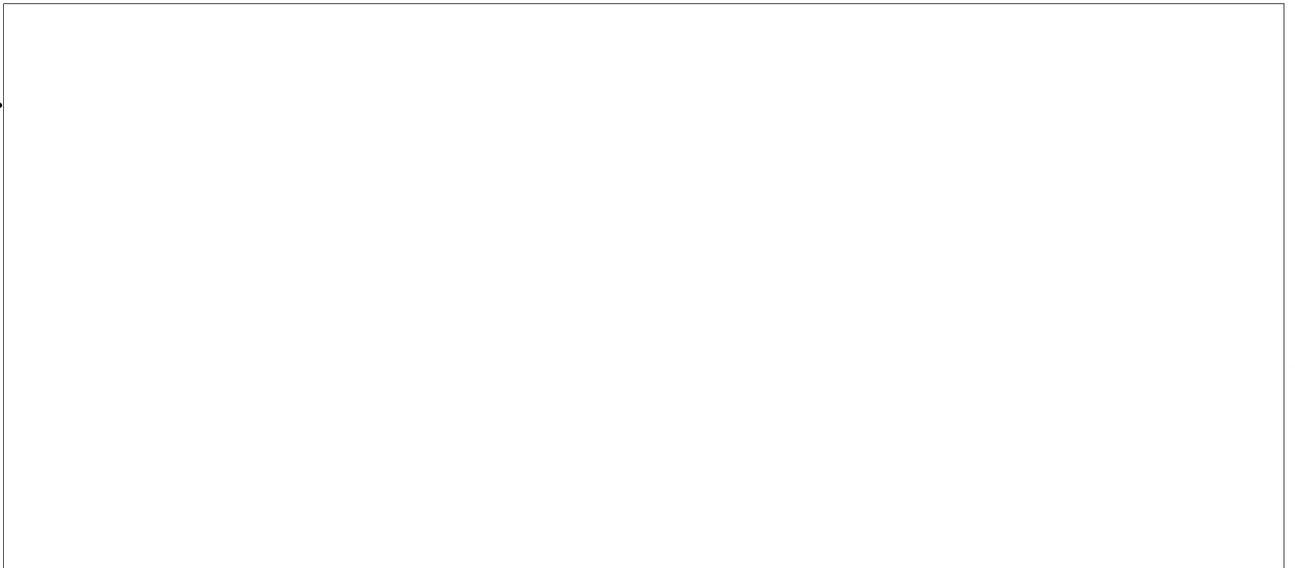
8. **BURMA: Attempt to overthrow government in progress--US**  
Ambassador Douglas reports from London the preliminary views of the UK Foreign Office that the march of two insurgent army battalions on Rangoon represents an unorganized attempt to overthrow the Thakin Nu Government. The Foreign Office believes, however, that the Communists may take advantage of the situation and join the rebels. Foreign Secretary Bevin has approved the dispatch of a cruiser to Burmese waters to protect British nationals, but he believes that, at this stage, the British Government should not intervene militarily, as suggested by the Burmese Government. US Embassy Rangoon reports that the Chief of the British military mission considers the Burmese troops in Rangoon and the reinforcements en route by air from northern Burma are adequate to hold the city, but the Embassy adds that Thakin Nu reportedly is "demoralized."

CIA - S  
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(CIA Comment: CIA believes that, while the situation is serious, the Burmese Government, unless it becomes completely demoralized, should be able to hold Rangoon. The Government's best military units still remain loyal, but their utilization will be delayed because they are widely scattered. If Rangoon falls, it is probable that remnants of the Government will flee to neighboring Moulmein, and that a Communist-dominated coalition government will be set up in Rangoon.)

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## GENERAL

1. US will neither mediate nor encourage coalition in China-- Secretary Marshall has instructed Ambassador Stuart that the US: (a) must not give any indication of support or encouragement for a coalition government in China with Communist participation; and (b) has no intention of again offering its good offices as mediator in China. At the same time, Ambassador Stuart is directed to avoid overt or even secretly expressed opposition to a compromise settlement, because this might: (a) provide ammunition in China for propaganda allegations that the US is prolonging and encouraging the war; and (b) mislead the National Government to anticipate unlimited aid, which cannot be forthcoming under the existing world situation and, in any event, would require action by Congress.

S-TS

2. US delegation to remain until final Belgrade vote taken--The Department of State has advised the US delegation at the current Belgrade Conference that a firm US decision has been taken to remain at the Danube Conference, regardless of British and French actions, until the final vote in plenary session has been taken on the Soviet draft for a new Danube Convention. The US wishes to demonstrate its willingness to continue negotiations, even when it is in a minority position, in order that it may not be compared to the USSR in connection with Soviet tactics in walking out of UN and other conferences. The US delegation is instructed to hasten, as far as possible, final action in plenary session, and is directed to make blunt statements on basic issues but to avoid detailed discussions. The US delegation is also instructed to support British and French claims regarding the continuing validity of the previous treaties.

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3. Informal US reactions to UK views on Palestine--The Department of State has transmitted to US Embassy London its "informal reactions" to the UK's provisional views on a settlement of the Palestine problem. The Department is in general agreement with the British view that, in seeking a settlement, the current military situation in Palestine (as well as other factors) must be taken into consideration. However, it believes that the UN's partition resolution should be retained as the basis for a settlement and that a continuing effort should be made to improve the resolution in order to make it more acceptable to both Jews and Arabs. The Department believes that, within the framework of this principle and with the guidance of the US and UK, the resolution could be modified "as a result of informal Arab-Jewish negotiations." (The UK had expressed the view that pressure by the UN, the US, and the UK on Jews and Arabs would be more effective in achieving a settlement than Jewish-Arab negotiations.)

S - TS

## FAR EAST

4. KOREA: Views of Political Adviser on US troop withdrawals--US Political Adviser Jacobs expresses the view that, because US-Korean actions have been based on the terms of a UN General Assembly resolution, the US stands to lose all it has gained thus far if it begins and publicly announces troop withdrawals before the General Assembly has again considered the Korean problem and has come to some decision on it. Jacobs believes that the US should stand firm everywhere on the Soviet perimeter, including Korea, until it knows more clearly what actions will be taken in the General Assembly and what the result will be of the negotiations on Berlin and the rest of Germany.

C/A - S

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5. INDONESIA: Netherlands Government proposes action--US Embassy The Hague reports that it has received belated notification from the Netherlands Foreign Ministry of a Dutch decision to take action in Indonesia. The Foreign Ministry declared that "an announcement would shortly be made in Batavia regarding the possibility of taking measures against Communist activities." The Foreign Ministry officer stressed that although no action would be taken against the Republic of Indonesia per se, action would be taken against "Republican Communist organizations," if they were found in areas under Dutch control.

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(CIA Comment: Although the Dutch Embassy in Washington has communicated this information to the Department of State, the projected announcement has not yet been made in Batavia. There have, however, been persistent reports that both the Dutch and the Republicans are preparing for military action. This apparent approval by The Hague of renewed and determined Dutch effort to achieve by force their objectives in Indonesia apparently presents a serious threat to a successful conclusion of the mission of the UN Good Offices Committee in which the US now occupies the key position.)

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## GENERAL

1. Two Benelux leaders support firm western stand--Belgian Premier Spaak has expressed to US Ambassador Kirk his approval of the US handling of the Moscow negotiations. Spaak feels that the western powers hold two trump cards: the Ruhr and the West German Government; Spaak hopes that the West realizes the necessity of hanging on to these trumps. Spaak believes that penetration into control of the Ruhr is the major objective of Soviet diplomacy and that defeat or delay of the formation of a west German state is a close second.

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Kirk reports that Luxembourg Foreign Minister Bech has expressed a similar view of Soviet objectives. Bech advises the western powers to be cautious and not let considerations of prestige in Berlin or compassion toward the Berliners to lead them to make even slight concessions on the Ruhr or a west German state in order to obtain a temporary easing of tension. Bech's view is that "continued Allied firmness" will eventually result in a shifting of Soviet pressure toward a different weak point, probably eastward.

2. US expresses its position on colonial question to Italy--The Department of State has informed the Italian Government that after consideration of Italian views as to the disposition of former Italian colonies and in recognition of the importance which the Italian people attach to this question, the US is now prepared to take a final decision only as regards Italian Somaliland and the southern portion of Eritrea. The US will support Italian trusteeship for Italian Somaliland and will support the cession of southern Eritrea to Ethiopia. Because of the complex factors involved in the disposition of Northern Eritrea and Tripolitania, the US has concluded that decision on these colonies should be postponed to permit further study by the UN. In the case of Cyrenaica, the US feels obliged to respect the British pledge to the Senussi and to support the UK in carrying out this pledge.

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## NEAR EAST-AFRICA

3. **PALESTINE: Immediate aid urged for Arab refugees--US** CIA-S  
 Consul General Macdonald in Jerusalem expresses the opinion that the Palestine Arab refugees currently constitute the most important political question in Arab Palestine; he considers immediate action to alleviate their plight essential. Macdonald says that the UN and the US are widely blamed for the situation. He suggests that effective assistance would be the best means of demonstrating continued US friendship for the Arabs and would also tend to arrest the deterioration of the US position in the Middle East.

## THE AMERICAS

4. **NICARAGUA: Invasion by revolutionaries-** CIA-S 3.3(h)(2)  
 [redacted] a band of guerilla-revolutionaries, "apparently" armed by plane from Guatemala, have crossed the Honduran frontier into Nicaragua and sacked a nearby town. General Somoza of Nicaragua has already flown reinforcements to the area and believes the invasion "can easily be contained."

(CIA Comment: CIA concurs with General Somoza's estimate. However, the Presidents of the Dominican Republic, Nicaragua and Honduras--the "dictator" countries--on the one side and Cuba, Haiti, Venezuela, Costa Rica and Guatemala on the other are informally committed to support one another in the event of revolutionary attack. The invasion will further embitter the relations between these opposing groups. In the unlikely event that it touches off a formal conflict, with Guatemala and Nicaragua as the principal contestants, the superior air strength of the "dictator" countries will be a decisive factor.)

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EUROPE

Date: 15 MAR 1978 By: 028

C/A-S

1. UNITED KINGDOM: General election forecast for late 1949--  
 US Embassy London predicts that the UK Labor Government will call the next general election (which must be held by July 1950) sometime following May 1949, possibly between June and December when the Embassy believes that domestic economic conditions will be most favorable to Labor. Leaders of both Parties believe that, while Labor has lost popular support, there is no strong trend to the Conservatives. The Embassy considers that an election today would return a Labor majority but adds that the Conservative Party machine is now in excellent condition.

S - Sec

2. FRANCE: Views on Moscow talks--US Ambassador Caffery reports that officials in the French Foreign Office are currently confident that the Moscow talks will result in an accord, but doubt that an agreement for four-power control of Germany will follow. According to Caffery, the French Foreign Office believes that the USSR would be satisfied to reach an agreement on the basis of a Germany divided in two parts. The Foreign Office, therefore, considers that any future four-power conference should not be allowed to break down if no agreement is in sight but that the western powers should instead try to bring about an agreement for maintaining orderly relations between eastern and western Germany until an arrangement embracing all Germany appears feasible. The Foreign Office does not consider that such a limited agreement would exclude the western powers from Berlin, but believes that they would remain in the city with powers restricted to their own sectors and without any instrument of four-power control.

NEAR EAST-AFRICA

3. PALESTINE: US favors return of some Arab refugees--The Department of State has informed the US delegation to the UN of its belief that a substantial number of Arab refugees could

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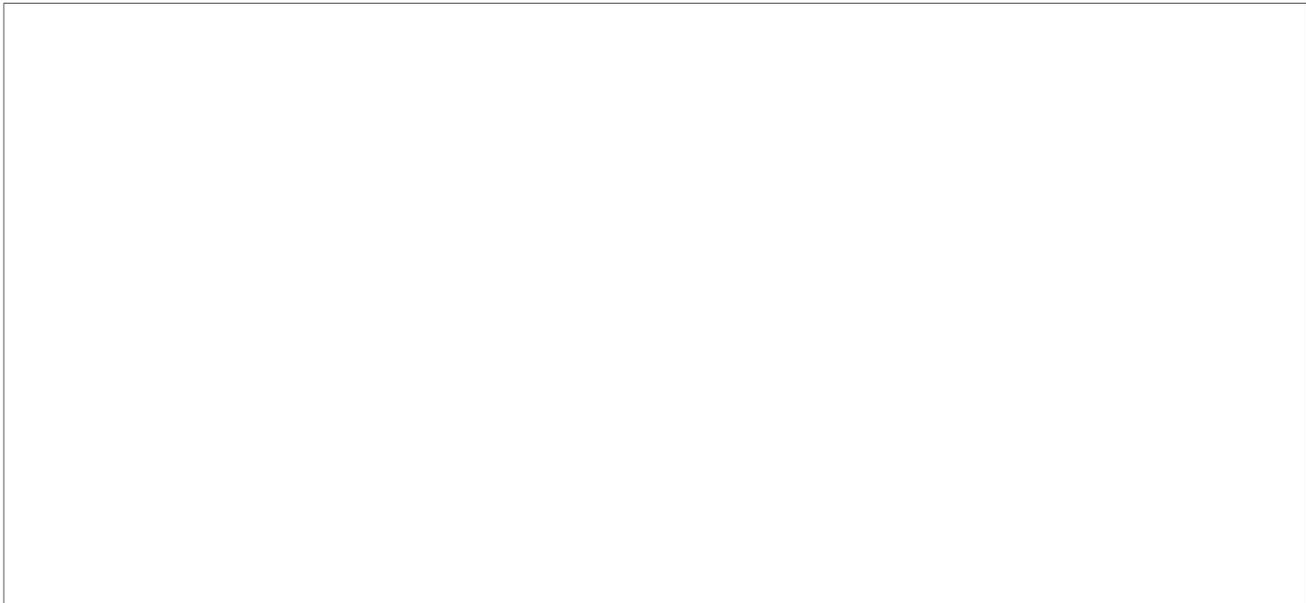
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be permitted to return gradually to their homes, under the supervision of the UN Mediator, without prejudicing the maintenance of Israel's internal security. Although the Department considers that an over-all solution of the refugee problem must be sought as an intrinsic part of a final settlement of the entire Palestine issue, it believes that the increasingly critical nature of the refugee situation makes some prior repatriation of refugees essential. The Department adds that Israeli assistance in alleviating the refugee situation would facilitate a peaceful solution of the Palestine problem as a whole, while Jewish refusal to accept any refugees might adversely affect "the 700,000 Jews permanently residing in the Arab states."

THE AMERICAS

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EUROPE

- 1. FRANCE: Special powers bill viewed as constitutional change-- S - Sec.  
Premier Marie has expressed to US Ambassador Caffery his personal view that the Government's special powers bill now being debated by the French Assembly in fact constitutes an amendment to "the constitution of the fourth republic where it was weakest."

(CIA Comment: Marie's special powers bill would strengthen the executive without causing a drastic change in the present structure of the French Government. Granting of increased powers to the executive long has been a major plank in De Gaulle's platform. If Marie succeeds in putting through such a measure, he will have reduced the effectiveness of one of De Gaulle's main arguments.)

- 2. GREECE: US policy on military assistance-- CIA - S  
The Department of State has informed US Embassy Athens that US policy: (a) contemplates assistance to the Greek armed forces sufficient to eliminate the guerrilla threat to internal security and to provide reasonable assurance against its reappearance; but (b) does not aim at building up Greece's military strength to resist an armed invasion "or for any other purposes." The Department points out that, in determining the reduction in future US military assistance to Greece, care must be taken that neither the Greeks nor the rest of the world gain the impression that the US has weakened in its determination to assist Greece in maintaining its independence and territorial integrity.

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DDA Memo, 4 Apr 77

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Date: 1. Iran allegedly conspirating arms deal with USSR--US

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~~15 Embassy Tehran has been informed~~

[redacted] Soviet Ambassador Sadchikov, in a recent interview with Prime Minister Hajir, complained about the American arms credit program, Hajir remarked that if the Soviet Government could offer similar arms on the same terms, Iran would cancel its agreement with the US and buy from the USSR. Hajir also is alleged to have made a commitment to Sadchikov that, while prime minister, he would sign no further agreements with the US or UK. Ambassador Wiley comments that while this account of the Sadchikov-Hajir interview sounds "pretty accurate," it probably reflects nothing more than Hajir's worried eagerness to be all things to all people simultaneously.

(CIA Comment: CIA is inclined to doubt that Hajir made the bald commitments attributed to him in the account given above. However, it is probable that, in an effort "to be all things to all people simultaneously," Hajir implied that in the future Iran would be more amenable to Soviet suggestions. It is also probable that Hajir will attempt to use this new "attitude" toward the USSR as a means of obtaining more aid from the US.)

2. US and UK concerned over Palestine situation--The Department of State has expressed to US Consul General Macdonald in Jerusalem its "increasing concern over evidences of new and potentially aggressive" Israeli intentions and has instructed Macdonald to obtain the private views of US General Riley (now serving as Military Observer to the UN Mediator) regarding the military situation in Palestine. Macdonald has concurrently reported his conclusion that, for all practical purposes, the truce in Jerusalem has already broken down, at least temporarily. Citing the "large and organized scale" of recent fighting as a basis for this view, Macdonald adds that the UN observers are being obstructed by Jewish restrictions on their movements and that their moral authority has

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"practically evaporated." Meanwhile, US Ambassador Douglas reports Foreign Secretary Bevin's concern over the "grave possibilities" suggested by the latest Jewish military action. Bevin urges that the US consider "immediate and forceful steps" to halt the "Jewish mailed fist," lest a determined Jewish attack completely change the balance in Palestine and bring about the ultimate disintegration of Transjordan.

3. US UN delegation urges speedy Arab refugee relief--The US delegation to the UN has advised the State Department of its belief that "as a matter of cold-blooded, political realism" in terms of US short- and long-range relations with the Arab states, the US should take the promptest and most vigorous steps, regardless of difficulties, to comply with the UN Mediator's request for Arab relief supplies. The US delegation also believes that the US should promptly take all other possible action to alleviate the desperate situation of the Arab refugees.

C/A - Sec

## EUROPE

4. USSR: Soviet trend toward economic integration--US Embassy Moscow reports trend toward greater centralization of economic control in the USSR as indicated by recent integrations in several ministries. The Embassy considers that unsatisfactory Soviet progress in meeting current Five Year Plan production goals in certain important industries, plus the need for increased industrial and strategic reserves, has probably influenced the Kremlin to move toward greater centralization of economic control in the USSR.

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

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5. **DENMARK: Views on military cooperation**--The Danish Ambassador to Washington, temporarily in Copenhagen for official discussions, has informed US Ambassador Marvel that: (a) the Danish Government is satisfied with the present arrangement regarding the Greenland bases; (b) the Danes are "most disappointed and discouraged with the small amount of arms offered by the US"; and (c) he believes that the majority of Danes and the Government favor alliance with the western European union but that no action will be taken before the Swedish elections (12 September) nor before the west produces a "tangible" program of assistance.

S - TS

## FAR EAST

6. **KOREA: UN Commission to consult with new government**--US Political Adviser Jacobs reports that the United Nations Temporary Commission on Korea (UNTCOK) has informed President Rhee Syngman that it is now ready to consult with the government of the Republic of Korea pursuant to the terms of the UN General Assembly (UNGA) resolution on Korea of 14 November 1947.

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(CIA Comment: This move will enhance the prestige of the new government and increase its chances for obtaining official UNGA recognition, since UNTCOK has now, in effect, tacitly recognized the Republic of Korea as the "national government" envisaged in the UNGA resolution.)

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## GENERAL

1. US requests use of French North African airfields--The Department of State has instructed the US Embassy in Paris to ask the French Government to permit unrestricted use of French naval airfields at Bizerta, Oran, and Port Lyautey by planes from US aircraft carriers. In return, the US Navy is prepared to consider favorably the expansion, modernization, and rehabilitation of these installations.
2. UK offer disappoints Norway's Defense Minister--A high UK Foreign Office official has informed US Embassy London that the Norwegian Defense Minister is "very disappointed" that the UK can supply so little equipment to Norway for military needs. The official observed that the UK recognizes the importance of meeting Norwegian defense requirements, but that: (a) practically no surplus of the desired equipment exists; (b) the Norwegian request competes with Britain's own defense needs; and (c) increased production of military equipment would interfere with the export drive. The official expressed the hope that the US would "let the Norwegians down as easily as possible," because it would be "unfortunate" if Norway should conclude that the US and the UK are unable or unwilling to supply its military needs.

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## GENERAL

1. USSR disapproves certain US flights to Vienna--General Keyes, Commanding General US Forces Austria, reports that he intends to permit Pan American Airways to make eight flights directly from Prague to Vienna, although the Soviet Air Division in Vienna has disapproved four of these flights. Keyes will invoke the 1946 quadripartite agreement permitting "urgent flights" into Vienna.

WAR - Sec

(CIA Comment: The Soviet occupational authorities have repeatedly contended that the 1946 agreement does not cover flights by civil air lines. The USSR, therefore, is likely to exert pressure in Prague to block the disapproved flight schedule. Failing this, it may use these increased "violations" as an excuse for attempting to impede all US air access to the Vienna area.)

## EUROPE

2. AUSTRIA: Soviet kidnaping of Austrian officials--US Legation Vienna notes that US officials in Austria have no effective means to prevent the kidnaping of Austrian officials in the Soviet Zone, or in the international zone during those months when the USSR has the chairmanship of the Allied Control Council (ACC). The Legation believes, therefore, that if western protests to the Council on this subject prove fruitless and if there are further Soviet kidnapings of important Austrian officials, the matter should be presented to the UN. The Legation points out that further kidnapings would so undermine the morale of the Austrian administrators in the Soviet Zone that all of their power would pass to the Soviet authorities--a development which in effect would establish a partition of Austria.

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(CIA Comment: Further Soviet seizure of important Austrian officials would also reduce the effectiveness and the prestige of the Austrian Government and the ACC.)

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## NEAR EAST-AFRICA

3. PALESTINE: Jews believed attempting to provoke hostilities--  
 US Consul General Macdonald reports from Jerusalem that the Jews have made every effort to build up a case against the Arabs as violators of the present truce. He considers that the Jews are actually attempting to provoke an incident which would permit the resumption of hostilities but which could not be conclusively attributed to them. Macdonald believes that because of the current East-West division in the Security Council and in view of "past fluctuations in US policy," the Jews discount the possibility of punitive action by the UN, particularly against the state of Israel.

CIA - Sec

## FAR EAST

4. CHINA: Chiang makes new plea for US aid--US Ambassador Stuart, in summarizing several recent talks with Chiang Kai-shek, reports that Chiang reaffirmed his determination to fight Communism to the last with or without US aid. Chiang also told Stuart that the USSR is "more realistic in appraising Chinese conditions" than Americans who predict that his Government "will fall in three or six months"; Chiang believes that the Kremlin therefore favors a peaceful settlement on terms which would advance Communist infiltration. The Generalissimo admitted that his Government was corrupt and inefficient and declared that it was for this very reason that he had repeatedly requested US aid, especially in the form of civil and military advisors. Chiang maintained that such help is essential to undertaking the reforms which alone would justify material assistance. Chiang added that he could not believe that US leaders are fully aware of what he is trying to achieve or what "the US interest in this struggle really is," and he proposed that Stuart go to Washington to present China's "real case."

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(CIA Comment: Chiang's latest approaches to Stuart concerning US aid are indicative of the precarious position of his Government which probably would disintegrate without US support. CIA doubts that the present National Government would ever give more than lip-service to US advice concerning reforms.)

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GENERAL

1. Jews reported influenced by economic factors--According to US Consul Lippincott in Haifa, many observers believe that both the current drain on the Provisional Government's financial resources and the economic disruption of the country caused by the maintenance of a large body of armed forces have created an impossible situation for the Israeli regime, necessitating immediate action despite the truce. Lippincott also reports the unanimous conviction of neutral observers that the Jews are about to make a determined attempt to take all of Jerusalem and may succeed within a week.

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GENERAL

- 1. Iran advised to air Soviet threats in UN--The Department of State has expressed to US Embassy Tehran its concern that the current Moscow conversations, whatever their outcome, may be followed by an immediate focusing of Soviet attention upon Iran. The Department accordingly believes that Iran should be prepared to "publicize through the UN at the earliest appropriate moment the Soviet threat to Iranian independence." (The Department has particular reference to the threatening notes recently delivered to the Iranian Government by the Soviet Ambassador.)

S-7S

NEAR EAST-AFRICA

- 2. PALESTINE: Israel reported increasingly restive under truce-- Following conversations with Premier Ben-Gurion and Foreign Minister Shertok, US Special Representative McDonald in Tel Aviv estimates that: (a) Israel is not about to take deliberate overt action in violation of the truce; and (b) if an increasingly tense situation is to be relieved, there must be evidence of a "measurable progress toward peace" in the near future. According to McDonald, Shertok categorically denied reported Jewish plans for general military action in Jerusalem or northern Galilee but asserted that the indefinite continuation of the truce, without any move toward a final peace settlement, was creating an intolerable financial and manpower situation for Israel.

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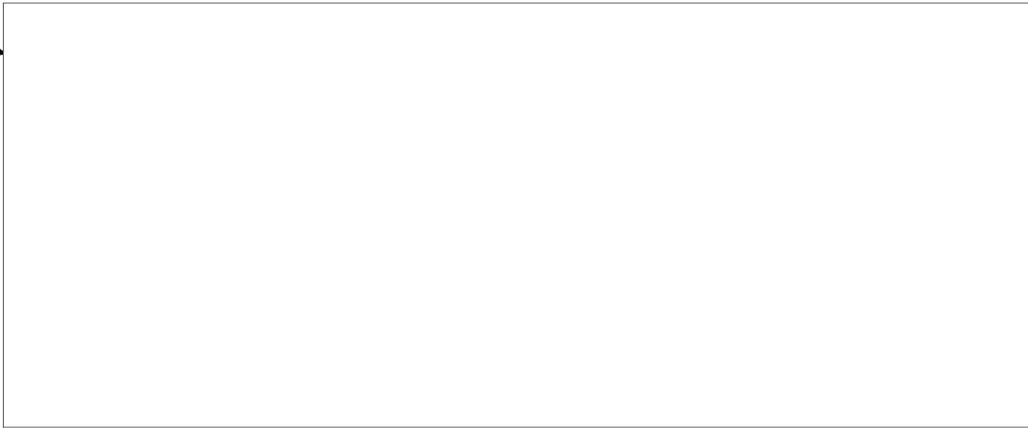
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771

GENERAL

1.



CIA - Sec 3.3(h)(2)



EUROPE

2. GERMANY: Germans believed carrying out London agreements--  
US Ambassador Murphy reports that developments of the past  
week have encouraged the US Military Government in Germany  
to feel that German implementation of the London agreements  
is proceeding in a generally satisfactory manner. Murphy notes,  
however, that a slight hitch has occurred on the question of  
territorial reorganization.

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## GENERAL

1. USSR reported not preparing for hostilities--Replying to a Department of Army query, certain US military attaches abroad report no indication in their areas of possible Soviet intentions to open hostilities. Military attaches at The Hague, Bern, Stockholm, Copenhagen, Warsaw, Athens, Ankara, Tehran, and Nanking concur in this opinion. The MA in Moscow, after considering available evidence, expresses the belief that the Kremlin is preparing for eventual rather than immediate war. The MA in Warsaw points out that Poland should be a good barometer of Soviet intentions to wage war in Europe but that no evidence is available of such intentions. The MA in Tehran states that the USSR seems to be interested in furthering its Iranian aims by covert means, with no apparent intention to open immediate hostilities. The MA in Nanking indicates that signs of aggressive Soviet policy in China are lacking but concludes that the Kremlin might easily devote its main attention to Europe and bypass the Far East. ARMY - TS
2. Iraq and Transjordan discuss unification of command in Palestine-- CIA - 5  
 US Representative Stabler in Amman reports that the Regent of Iraq and other Iraqi officials have arrived in Amman to discuss with King Abdullah of Transjordan the implementation of a unified command of Iraqi and Transjordan forces in Palestine. According to Stabler, Abdullah's principal aims in the current talks are: (a) to put Iraq in the position of having to assume at least some of the blame in the event of future adverse developments; (b) to give the Transjordan Arab Legion a freer hand in the defense of Jerusalem by persuading Iraq to take over some of the Legion's commitments elsewhere; and (c) to obtain additional financial aid from Iraq. Stabler feels that Abdullah will have difficulty accomplishing these aims because the Iraqis are aware of the trap he is setting and realize that they will gain nothing by accepting his plan.

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THE AMERICAS

3. **CHILE: Argentina may retain Soviet diplomats**--US Embassy Santiago has learned from the Chilean Foreign Office that the Argentine Government has agreed to retain Soviet diplomatic representatives (who are scheduled by mutual agreement to be returned from Chile to Russia through Argentina) if the Soviet Government fails to return Chilean diplomatic personnel via Finland.

CIA- Conf.

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GENERAL

1. UK favors postponement on Libya and Eritrea--UK Foreign Secretary Bevin has informed US Ambassador Douglas that he is most anxious that a common US-UK-French policy be worked out before the September General Assembly meeting. Bevin prefers a two or three-year postponement of a decision on Libya and Northern Eritrea but believes that agreement can be reached on giving the Danakil coast to Ethiopia immediately. Bevin indicates that during this postponement the UK would expect to be released from the restrictive obligations of The Hague Convention in order that a civil administration could be installed and internal reforms instituted. Although Bevin still hopes that at the end of this period the US would accept trusteeship over Tripolitania, he would not in principle oppose Italian trusteeship if he were satisfied by then that the return of the Italians would not cause serious disturbances which might involve British troops. US Ambassador Douglas agrees on the desirability of three-power accord but believes it improbable that the GA would agree to a long postponement.

CIA - S

EUROPE

2. GREECE: US observer says effective Satellite aid is continuing--US Embassy Athens transmits an estimate by the US military adviser to the Balkan Commission that General Markos is still receiving sufficient aid from Albania, Yugoslavia, and Bulgaria to maintain his present scale of operations. The US observer considers it significant that Yugoslavia has continued to cooperate with the guerrillas even after the Tito-Cominform break.

CIA - Conf  
CIA - S

Government considers firing on guerrillas in Albania--The Department of State has informed US Embassy Athens of the receipt of a note from the Greek Ambassador referring to alleged instances of the use of Albanian territory by the guerrillas and of firing from Albania into Greece. The Department indicates that

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in the note the Greek Government declared it has found it necessary to consider firing from Greece into Albania in order to prevent the repetition of such incidents. The Department informally advised the Ambassador that the Greek Government should continue to submit to the UN Balkan Committee all available evidence of Albania's cooperation with the guerrillas but should avoid any precipitate action which might compromise the previous excellent record of Greek forbearance and adversely affect the Greek case before the UN.

NEAR EAST-AFRICA

3. PALESTINE: Reported concern over Israeli UN membership--  
Concerning possible US support for Israeli membership in the UN, US Minister Keeley in Damascus comments that recent Israeli expansionist statements seem to indicate that Israel is neither peace-loving nor disposed to carry out the obligations of the UN Charter. Keeley relays the opinion of some of his diplomatic colleagues that such encouragement of Israel by the US will only further antagonize the Arabs and thus make more difficult any eventual compromise.

CIA-S

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774

## GENERAL

1. Bernadotte feels Palestine must come before General Assembly-- CIA - Sec  
 UN Mediator Bernadotte has informed US Embassy Stockholm that he believes the Palestine problem must come before the next UN General Assembly. Bernadotte is convinced that the Arabs will never recognize the Jewish state voluntarily because of public opinion in their countries, and he therefore feels that if the General Assembly passes some resolution similar to that of last November, the Arab leaders will be able to accept the Jewish state after pointing out to their people that world opinion is against them. Bernadotte prefers not to make his recommendations to the Security Council because the Jews, seeking greater territorial gains than his proposals provide, might oppose them and he fears the USSR would then use its veto. Meanwhile, an Arab representative has informed US Embassy London of his belief that Arab "acquiescence" in a Jewish state is the most that can be obtained from the Arab states for at least a year. The representative believes that the Israeli frontier will have to be defined by some UN agency and drawn up on the ground as an imposed boundary to which the agreement of both sides is demanded.

## EUROPE

2. FRANCE: De Gaulle annoyed with Reynaud-- US Ambassador Caffery reports that General De Gaulle and his supporters are concerned because they believe Finance Minister Reynaud's program to stabilize the French economy is an attempt to do for the Marie Government what the Gaullists had hoped he would do for them when they came to power. Caffery points out that if Reynaud succeeds, many voters may say "we don't need De Gaulle," and that Reynaud will be useless to De Gaulle if he fails. Gaullist irritation is mitigated, Caffery adds, by the possibility that failure of the Reynaud stabilization program could cause the downfall of the French Government and De Gaulle would then have a good chance of taking power.

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3. **GREECE: Early re-entry of guerrillas considered possible--** US Ambassador Grady, in transmitting US and British estimates that the guerrilla forces have capabilities for early re-entry into Greece from Albania, recommends strong US representations to the Satellites in order to prevent such action. Grady points out that several thousand members of the guerrilla Grammos force have apparently withdrawn into Albania in good order and generally good condition. Grady comments that a large-scale return of guerrillas would severely lessen the value of the Greek Army's Grammos victory and would have serious adverse affects on Greek morale and on the effectiveness of US aid. According to Grady, the Greeks are already discouraged over the prospect of having one Greek offensive after another nullified by temporary guerrilla withdrawals to Satellite soil.

CIA - S

## FAR EAST

4. **INDONESIA: Fall of Republican Government considered imminent--** The US Delegation to the UN Good Offices Committee doubts that the present Republican Government can last more than a few weeks unless it is presented an opportunity to resume negotiations with the Dutch on the basis of the Renville Agreement. The US delegation has been informed by a ranking member of the Dutch delegation that the next few weeks might bring a "nastier surprise" than the US delegation has yet experienced. Meanwhile, the Chief of the US Military Group in Batavia believes that a sudden and severe stiffening of the Dutch attitude probably means further provocative actions and greater estrangement; he considers that increased violence is likely and a complete break a distinct possibility.

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## GENERAL

1. France and UK considering demarche to Albania--US Ambassador Caffery reports that the French Foreign Office has drafted instructions to the French representative in Tirana to make a demarche to the Albanian Government on behalf of France and the UK concerning the importance of disarming and interning Greek guerrillas seeking refuge in Albania. According to Caffery, the French "understand" that the US is cool toward making representations on the ground that they would have no practical effect. The French and British, however, are inclined to make the gesture because of the importance attached to the matter by the Greeks. Caffery says that the French Foreign Office would be glad to speak in the name of the US also and will hold up its instructions until appraised of the US views. Caffery understands that, if the French representative in Tirana considers a demarche inopportune, the Foreign Office will not press the matter further.

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GENERAL

1. US missions to encourage integration of Europe--The Department of State has instructed US diplomatic missions in western Europe to press in all appropriate ways for: (a) the encouragement of European unity, and (b) the forming and carrying out of practicable proposals to bring about European integration. The Department has advised the missions that although the US will avoid premature endorsement of any specific proposals for the unification of Europe, it intends to encourage both publicly and privately the progressively closer integration first of free Europe and eventually of as much of Europe as possible.

S-CONF.

2. US to join France and UK in demarche to Albania--The Department of State has informed US Embassy Paris of its willingness to participate with the British and French Foreign Offices in a demarche to the Albanian Government concerning the Greek guerrillas who seek refuge in Albania.

CIA - Sec

EUROPE

3. FRANCE: Prospects for a stable government seem remote-- Concerning the political situation in France, the US Military Attache in Paris reports that the possibility of forming a stable government at present appears remote and that General De Gaulle's chances are tremendously strengthened. The MA adds that unless unforeseen changes occur in present national trends, a definite possibility exists that De Gaulle may be called to power within the next few months. Finance Minister Reynaud has advised US Ambassador Caffery that the "Socialists were the only cause of the Government's resignation."

WAR - sec

(CIA Comment: CIA believes that: (a) a new centrist government will be formed to deal with the present crisis; and (b) although De Gaulle's cause has been strengthened, he will not return to power in the near future.)

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**GENERAL**

- 1. US advises Greeks not to fire on guerrillas in Albania--The Department of State has instructed US Embassy Athens to advise the Greek Government that the US considers it important for the Greeks to continue their policy of withholding fire on guerrillas who have crossed the border into Albania. The Department believes that although the Greeks might be morally justified in returning guerrilla fire from foreign territory, such action could have extremely serious consequences, and could possibly create a situation where the UN or the western powers would have to intervene by force or "admit complete inability to control matters."

CIA - S

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**EUROPE**

- 3. FRANCE: Formation of new Government increasingly complex-- US Ambassador Caffery reports that the task of forming a government in France at present is more complex than ever because recent increases in intra-party cleavages have further fractionalized "a National Assembly already divided into numerous political parties." In addition, Caffery points out, extra-parliamentary formations such as farmers' and employers' groups, as well as labor organizations, are increasing in power.

CIA - C

(CIA Comment: CIA believes that despite the complexity of former Premier Schuman's task, he has a fair chance of forming a government.)

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4. **UNITED KINGDOM: Cabinet decides to retard demobilization**--  
The US Military Attache in London has reported that the British Cabinet has approved: (a) slowing down army demobilization; and (b) increasing production of certain critical military items, such as anti-aircraft ammunition.

ARMY. TS

(CIA Comment: In view of the British economic situation, this cabinet decision to divert men and materials to non-productive use was undoubtedly reached most reluctantly and indicates an increasing concern over British military preparedness.)

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## GENERAL

1. US explains Italian colonies proposal--The Department of State has informed US Embassy London of its view that British criticism of the US proposal for the return of Italian residents to the colonies would be dispelled by a frank explanation of US thinking on the subject. The Department explains that the US proposals were introduced because of a growing concern over unfavorable repercussions from Italian public opinion as a consequence of US failure to support Italian trusteeship of the colonies. The Department does not, however, wish to make more difficult British administration of these colonies and therefore suggests that the UK join the US in a joint recommendation which would be designed to meet British requirements concerning the return of the Italian residents. CIA - S
2. US concerned by Dutch attitude in GOC negotiations--The Department of State has expressed to US representatives in Batavia its concern over recent actions by the Netherlands Government which have not been conducive to the resumption of negotiations by the UN Good Offices Committee. The Department feels that the Dutch attitude, whether intentional or unintentional, appears to be hastening the fall of the present Republican Government as well as increasing the possibility that a successor regime will be strongly left-wing, if not Communist controlled. The Department desires to take all practicable steps to hasten the resumption of negotiations between the Republic and the Dutch and has asked for suggestions from the Batavia representatives before taking action. CIA - S

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GENERAL

1. USSR seeks CFM meeting on Italian colonies--According to C/A-S  
 US Embassy London, the Soviet representative at the meetings of the Deputy Foreign Ministers has expressed the firm view of his government that, in accordance with the Italian Peace Treaty, the Italian colonies question must go to the Council of Foreign Ministers (CFM) before 15 September. (By the terms of the treaty, the question is automatically referred on this date to the UN General Assembly.) In answer to a query whether the USSR would initiate steps to convene the CFM, the Soviet Deputy replied that further steps "are up to the Soviet Government."

(CIA Comment: CIA believes that the USSR will seek a CFM meeting on the Italian colonies if only for the propaganda potential of a possible western power refusal to meet.)

2. Quick decision on German reparations urged--US Ambassador Douglas in London strongly urges that there be no further postponement of a final decision on the question of the German plants to be made available for reparations. Douglas believes that such postponement, by accentuating suspicions regarding US intentions to honor obligations concerning reparations, might very seriously and adversely affect US ability to establish a united front among the western powers and might have very unfortunate consequences in France and Germany. C/A-S  
S-TS

British relations with OEEC--Ambassador Douglas observes that although the British may have given the impression of "dragging their feet" in the Organization for European Economic Cooperation (OEEC), it would be a mistake to conclude that British disagreement with US proposals indicates obstructionism. Douglas reports that ECA relations with the British in London are conducted in an atmosphere of mutual collaboration and confidence. However, Douglas considers that: (a) the development by the UK of a four-year economic program to achieve basic OEEC objectives has been slow; (b) the UK Government

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should exert more pressure on "timid and vacillating" British labor leaders to collaborate with US and European labor groups in a common program for Europe; and (c) the British representative at the OEEC in Paris should be replaced because of the friction he causes. The Ambassador expresses concern that US objectives in Europe may not have been clearly worked out so as "to take into account economic and other complexities of the European picture."

3. US favors simultaneous recognition of Israel, Transjordan--  
 The Department of State has requested US Ambassador Douglas in London to solicit Foreign Secretary Bevin's comments on the following position, as approved by the President, regarding recognition of Israel and Transjordan: (a) the US should plan for simultaneous de jure recognition of the two countries; (b) recognition should follow the election of a permanent government in Israel, which is scheduled to take place about 1 October; and (c) the intervening time should be utilized in discussing the question of recognition with the Provisional Government of Israel and with Transjordan. The Department expresses the view that US recognition of Transjordan might induce the UK to give favorable consideration to recognition of Israel.

S-TS

## NEAR EAST-AFRICA

4. IRAN: Shah bitter about "inadequacy" of US aid--US Ambassador Wiley reports that the Shah is extremely discontented over what he regards as the inadequacies of the US arms credit program. In a long conversation with Wiley, the Shah repeatedly contrasted US military assistance to Turkey with that provided Iran and asserted that the US had apparently completely ignored the strategic importance of his country. The Shah added that he considered US aid so inadequate that he was seriously considering abandoning his plans for organized resistance in the event of Soviet aggression. Wiley comments that the Shah's state of mind is "clearly something that should be taken seriously."

S-TS

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5. CHINA: Increased aid to North China armies--US Ambassador Stuart reports that Chiang Kai-shek has indicated both his desire and intention of supplying increased military aid to Nationalist armies in North China. Stuart indicates that Chiang hopes arrangements can be made for additional US aid or that at least savings can be made in transportation and initial costs under the China aid program. Stuart is sufficiently convinced by the argument that North China can be held with relatively small increase in expenditure to feel that the US should explore the possibilities of shipping supplies in unused naval vessels.

S-75

(CIA Comment: CIA believes that Chiang's apparent reversal of his previous attitude of withholding aid from North China is largely explained by his realization that: (a) the position of the North China forces is so precarious that without further material assistance, these forces will probably be unable to continue effective resistance for any length of time against the Communists; (b) US aid to North China may be a cheap way of forestalling a potential separatist movement in that area; and (c) if North China is lost to the Communists, the US may become more reluctant to continue assistance to the disintegrating Nanking regime.)

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GENERAL

- 1. Prompt tripartite agreement on Italian colonies sought--  
 The UK Foreign Office has informed US Ambassador Douglas of the British-French belief that prompt three-power agreement on the Italian colonies is desirable in order to secure Italian consent and cooperation in securing favorable votes in the UN. The UK and France favor: (a) Italian trusteeship for Somaliland; (b) cession of the Danakil coast to Ethiopia and postponement on the rest of Eritrea; (c) British trusteeship for Cyrenaica and French trusteeship for the Fezzan; and (d) postponement on Tripolitania, during which period the UK would work toward eventual Italian trusteeship. Douglas comments that the British, who fear an unfavorable UN vote concerning retention of Cyrenaica by the UK, hope by this policy to obtain any votes the Italians and French can swing.

CIA - Sec

(CIA Comment: Although the Italian Government would be receptive to this proposal, it would fear possible adverse public reaction on the score that the Government was helping the British without advantage to Italy.)

- 2. US prefers Norway for SC vacancy--The Department of State has informed US Embassy Oslo that the US considers Norway the best choice to succeed Belgium in the Security Council. The Department considers it desirable for the Belgium seat to pass to a western or northwestern European nation. US Embassy Oslo is instructed, if Norwegian officials are reluctant to accept the responsibility, to stress the duty of states such as Norway to undertake UN obligations.

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## EUROPE

3. **FRANCE: General strike feared**--US Consul Christensen at Marseille has been reliably informed that a Communist-inspired strike of port and dock workers is scheduled to begin 6 September. He expresses the fear that this may be a prelude to a general strike. Meanwhile, US Ambassador Caffery observes that the increasing number of work stoppages and demonstrations for higher wages have sometimes been joint affairs staged by the Catholic labor groups, the Communist-led General Confederation of Labor, and the non-Communist "Force Ouvriere" (FO). Caffery adds that because of the "widespread drive" for higher wages FO leadership is frequently unable to control local unions.

C/A - Conf

(CIA Comment: CIA believes that substantial wage increases will have to be granted in order to stave off nationwide strikes, even though any French government which grants labor's demands will face defection by its Rightist support and will weaken its own financial stabilization plan.)

## FAR EAST

4. **INDONESIA: Possible military action imminent**--The US Naval Liaison Officer in Batavia considers that because the Indonesians have lost faith in the power of the UN to procure a just settlement with the Dutch, large scale guerrilla action by the Republic is "almost a certainty" in the near future. He believes that in this event, the Dutch military force would be given carte blanche to suppress it.

C/A - Sec

(CIA Comment: CIA believes that although this danger must be considered, the Indonesian Republic will not initiate guerrilla action until current negotiations have definitely failed.)

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GENERAL

- 1. UK-Transjordan concern over activities of Mufti--The Liaison Officer in Amman for the US member of the UN Truce Commission has been informed by King Abdullah that the former Grand Mufti of Jerusalem is now organizing an irregular "Palestine Army" with active financial and material support from the Arab League. The King stated that because such an army would "seriously hamper" the regular Arab armies in Palestine as well as the administration of the Arab areas, the Transjordan Government has called on the League in strong terms to cease its support of the Mufti.

US Embassy London reports that the UK Foreign Office is seeking the views of all British diplomatic missions in the Middle East on "what might be done about the Mufti who appears likely to be a major obstacle to settling the problem of the Arab part of Palestine." The Foreign Office is considering the advisability of pointing out to the rulers of the Arab states the dangers which would arise from breaches of the truce by the Mufti irregulars and from the existence of a Mufti-controlled administration.

EUROPE

- 2. UNITED KINGDOM: Demobilization suspended for three months -- The US Military Attache in London reports that the Cabinet has now decided to stop all releases from the armed forces for a three-month period, starting probably on 14 September. During this period, further study of the National Service Act (conscription), which becomes effective 1 January, will be made with a view to changing its provisions.

(CIA Comment: The National Service Act, which was passed by Parliament in 1947, presently specifies one year's service. The Government will probably ask Parliament this fall to extend the term of draft service by six months.)

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GENERAL

- 1. US considering resumption of Austrian treaty talks--The Department of State has requested US Embassies London and Paris to solicit the views of the British and French governments concerning the advisability of proposing that negotiations on an Austrian peace treaty be resumed. The Department considers that the issue of an Austrian treaty should be kept alive both for political reasons in Austria and in order to avert a Soviet squeeze on Austria. The Department further believes that Yugoslav difficulties with the Cominform may have created a situation which could be used to advantage in negotiations.

S - Sec.  
S - T.S.

Austrians desire reopening of treaty negotiations-- According to US Legation Vienna, Austrian Foreign Minister Gruber is willing to refrain from bilateral negotiations (with the USSR) if there is a reasonable prospect that quadripartite negotiations may be resumed soon. Gruber advised the Legation of the Austrian Government's deep concern that Austrian treaty negotiations be resumed concurrently with any future quadripartite discussions on a German treaty. Gruber emphasized that failure to discuss Austria concurrently with Germany would cause the Austrian people "great disquiet" and create grave difficulties for the coalition Government.

CIA - Sec.  
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(CIA Comment: CIA agrees with Gruber's analysis of the effect resulting from a failure to discuss Austria and Germany simultaneously.)

- 2. US and UK oppose CFM meeting on Italian colonies--US Embassy London has learned that the British Foreign Office proposes to reply to the Soviet note concerning a Council of Foreign Ministers meeting on the Italian colonies that the UK is ready to participate but doubts the usefulness of such a meeting in view of previous four-power disagreement on the subject.

The Department of State proposes to reply to the Soviet note that a CFM meeting is unnecessary and would serve no useful purpose because of existing differences. The Department suggests that the four powers inform the UN, either individually or collectively, of their recommendations.

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## EUROPE

3. **GERMANY: Demonstrations cost western powers prestige--** S-75.  
 US Ambassador Murphy observes that from the demonstrations in the Berlin Assembly two facts have become apparent: (a) the fixed Soviet intention to destroy the present city government; and (b) the inability of the city government to continue functioning at its present location and on a city-wide basis. Murphy remarks that the ineffectiveness of the non-Communist Assembly leaders in handling the situation has lost them prestige. He believes, however, that the prestige of the western powers may have been more importantly affected by toleration of disorderly and illegal interruption of Berlin's city government during the course of the present four-power negotiations in Berlin.

(CIA Comment: CIA agrees with Murphy's estimate of Soviet intentions in Berlin and believes that the Kremlin may hope to confront the western powers with a fait accompli in Berlin before the current East-West discussions are concluded.)

4. **FRANCE: Serious strikes unlikely--** CIA-S  
 US Embassy Paris transmits the views of qualified labor observers that, in the absence of a large Communist strike fund, the Communists will not be able to promote strikes similar in proportions to those of November and December 1947. The observers stressed the fact that despite the dissatisfaction of workers over the wage-price situation, they are reluctant to engage in more than "warning strikes" limited to a few hours.

(CIA Comment: CIA concurs in this estimate of the current labor situation in France.)

5. **YUGOSLAVIA: Possible Tito-Subasic rapprochement--** CIA-S  
 US Consulate Zagreb has learned from a reliable source that Marshal Tito CIA-S  
 recently conferred in Zagreb with Ivan Subasic (former Prime Minister of the Royal Yugoslav Government in Exile and leader

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of the Croatian Peasant Party). According to source, Tito refused Subasic's request that the Croatian Peasant Party be legalized but insisted that Subasic enter the Tito Government immediately.

(CIA Comment: The participation of Subasic in the Government, even on Tito's terms, would substantially improve the regime's position with the Croatian peasants and might foreshadow a rapprochement with other Yugoslav peasant groups. Through such a rapprochement, Tito would materially strengthen his internal position but would render even more remote his chances for a compromise with Moscow.)

#### FAR EAST

6. CHINA: Possibility of Chinese-Soviet understanding--US Embassy Nanking believes that Chinese-Soviet conversations now in progress could develop in the predictable future into a new general understanding between China and the USSR. The Embassy reports that high Chinese officials are largely convinced of the inevitability of a US-Soviet war and that an increasing number of Chinese hope to see China remain neutral in such a conflict. The Embassy believes that in order to obtain Chinese neutrality in the event of war the USSR might make fairly liberal concessions, including pressure to end the civil war on terms acceptable to the National Government. The Embassy believes it probable that most Chinese would look with less disfavor on an alliance with the USSR than with any other nation.

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GENERAL

- 1. Western powers willing to convene CFM--The Department of State intends to inform the Soviet Government on 8 September that the US is willing to participate, through a qualified representative of the Secretary of State, in a Council of Foreign Ministers' (CFM) meeting on the Italian colonies. The Department's communication will express the view, however, that because of the wide four-power disagreement on the colonies, such a meeting will be useless unless the USSR substantially modifies its position.

CIA - Secy.

The French Embassy in Washington has informed the Department that France is willing to participate in a CFM meeting. According to US Embassy London, Foreign Secretary Bevin has decided that the UK should express its willingness to participate also and has instructed that a note be sent to the Soviet Government.

- 2. British object to review of German plant reparations policy--The Department of State has informed US Embassy London that a note has been received which expresses Foreign Secretary Bevin's "profound disturbance" over the ECA proposal to investigate further the German plants scheduled for reparations. The British consider that reduction or interruption of the present dismantling operations would: (a) jeopardize the whole reparations program; and (b) "most seriously" affect nations which are expecting German plants as reparations. The British note declares that the Soviet Government would assume the measure to be directed against them, thus making the hope of reaching general agreement more remote. The British believe that the necessity to remove war potential from German industry is increased by the possibility that Germany may eventually be allied to or occupied by the USSR. Bevin considers security to be the overriding consideration in reparations and believes that the Combined Chiefs of Staff and the French Government should be consulted before present policy is changed.

S - Secy.

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**NEAR EAST-AFRICA**

3. **INDIA: US will order nationals to leave Hyderabad--US Charge Donovan in New Delhi has decided to order the evacuation of US nationals from Hyderabad. According to Donovan, similar action is being taken simultaneously by the High Commissioners for the UK, Canada, and Australia. Donovan adds that a high Indian official promised to facilitate the evacuation but indicated that the movement must be completed by the evening of 10 September. Donovan points out that this stipulation may indicate that Indian troops are scheduled to invade Hyderabad on 11 September.**

*O/A - C (2)*

**FAR EAST**

4. **INDONESIA: US plan to be presented in negotiations--The Department of State has informed the US delegation of the Good Offices Committee (USGOC) in Batavia of its general approval of the new plan formulated by USGOC for settlement of the Indonesian problem. The Department has requested that the plan be presented as soon as possible to the Dutch and the Republicans and to the Australian and Belgian GOC delegations. The Department believes that the time factor is now of the greatest importance and intends to ask the Dutch to withhold their new plan and give full support to the US proposal.**

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**GENERAL**

- 1. French believe Austrian treaty issue should be kept alive--  
According to US Embassy Paris, the French Foreign Office agrees with the Department of State that the Austrian treaty issue should be kept alive but prefers that the matter be held over pending the outcome of the present discussions on Berlin. The French feel that the treaty question might be placed on the agenda of any quadripartite meeting that results from the Moscow talks. S-S
  
- 2. UK to seek Cyrenaican trusteeship at September UNGA--The British Foreign Office has informed US Embassy London of its determination to seek trusteeship over Cyrenaica in the UN General Assembly this year. The Foreign Office reportedly considers that British chances of success would not be better next year than now. The Foreign Office suggested to the Embassy that a US-British campaign be worked out to ensure a maximum of GA votes. S-S

**FAR EAST**

- 3. INDONESIA: US to support Republic against Communists--  
The Department of State, in answer to a query forwarded from Premier Hatta of the Indonesian Republic, has authorized US Consul General in Batavia to reply that the US: (a) will assist in every practical way a democratic, non-Communist government of Indonesia to resist Communist tyranny; (b) will support the extension of financial assistance in which all the states of a peaceful Indonesian federation would share; and (c) believes that the stability of the Indonesian regime can best be assured through the acceptance by both the Dutch and the Republic of a just and practical settlement of their dispute. CIA - Conf.  
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EUROPE

1. GERMANY: Berlin leaders impatient with western powers--  
 Following the recent anti-Communist demonstrations in Berlin,  
 US Political Adviser Murphy declares it is "far from impossible"  
 that further incidents may bring "serious results" if the present  
 indeterminate status of affairs in Berlin is prolonged and Soviet-  
 Communist terror tactics continue. Murphy observes no signs  
 that German leaders in Berlin are losing their heads as yet, but  
 he notes indications that their mounting anger at the USSR is  
 combined with increasing impatience with the western powers.

C/A - Sec



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GENERAL

- 1. New Chinese-Soviet agreement held distinct possibility--US Embassy Moscow agrees with the view held by US Embassy Nanking that a new Chinese-Soviet agreement is a distinct possibility. Embassy Moscow believes that the Kremlin may threaten to recognize the Chinese Communists and to give them positive aid in order to force the Chinese National Government into an acceptable Chinese-Soviet agreement, including a National Government policy of benevolent neutrality toward the USSR. However, the Embassy is inclined to discount a report that Soviet recognition of the Communists is imminent.

CIA - Sec



Document No. 63  
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 Auth: DDA Memo, 4 Apr 77  
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NEAR EAST-AFRICA

1. PALESTINE: Arabs demand return of refugees --Secretary General Azzam Pasha of the Arab League recently told an official of US Embassy Cairo that the Arab countries would refuse to discuss a Palestine settlement until the right of the Arab refugees to return to their homes had been acknowledged by the UN and accepted by Israel. Azzam Pasha added that he had proposed to UN Mediator Bernadotte that the UN undertake to resettle 100,000 refugees in Haifa and Jaffa, which would become neutral zones under UN control. Azzam Pasha also mentioned to Bernadotte the possibility of achieving a settlement through the cantonization of Palestine into Jewish and Arab districts according to population.

C/A - Sec

(CIA Comment: It is extremely unlikely that the Provisional Government of Israel would agree to any of these proposals.)

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## GENERAL

1. US suggests that India initiate UN action on Hyderabad--  
 The Department of State has instructed US Embassy New Delhi to suggest informally to the Indian Government that significant advantages might be obtained by making proposals which would enable the UN to help solve the Hyderabad problem without passing on Hyderabad's legal status. The Department indicates that the US does not intend to sponsor Hyderabad's case before the UN, but points out that military events may encourage other UN members to do so, thereby prolonging the uncertainty over Hyderabad's status. The Department suggests that India might anticipate such a development by showing a willingness to subject itself to the "moral scrutiny of the world" through the proposal of a UN-supervised plebiscite in Hyderabad, or a comparable step.

CIA - Sec

2. US visit of Dutch Foreign Minister thought inadvisable--  
 The Department of State has instructed US Embassy The Hague to suggest to the Dutch Government that the proposed US visit of the Dutch Foreign Minister to discuss the Indonesian problem might be inadvisable at this time. The Department points out: (a) it is necessary that Batavia remain the place of negotiations; and (b) the Republic of Indonesia might view such a visit as evidence of US-Dutch complicity.

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GENERAL

- 1. British attitude on Korean problem--US Embassy London has been informed by the UK Foreign Office that the British can not accept the government of South Korea as the national government, but will oppose any Soviet attempts to put the North Korean government before the General Assembly as the national government. The UK would support the admission of South Korea into the UN but would oppose admission of the government of North Korea which it regards as not a "true government in any sense."

CIA - Sec

EUROPE

- 2. GERMANY: Disturbances expected over Soviet riot sentences-- US Political Adviser Murphy in Berlin expects further violent protests from Berlin non-Communists as a consequence of the severe Soviet sentences meted to alleged participants in recent anti-Soviet rioting. Murphy reports that at a 14 September meeting of non-Communist German leaders, great indignation was expressed following the presentation of a sworn statement that indicated the innocence of one of the men condemned and cast doubt on the guilt of the others.

CIA - Sec

(CIA Comment: CIA agrees with Ambassador Murphy's estimate of the consequences of the sentences.)

- 3. ITALY: Premier affirms western orientation--Prime Minister De Gasperi has assured US Ambassador Dunn that because the Italian people indicated in the national elections that their ideology and objectives are the same as those of the western powers, there need be no question of Italian neutrality under present circumstances. De Gasperi added, however, that some educational work would be necessary to show the Italian people the need of aligning their future with that of the West. De Gasperi believes that Italy could best be integrated with the western powers through the Paris Organization for European Economic Cooperation (OEEC)

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and suggested that consideration be given to developing that organization from a purely economic to a political and defensive group.

(CIA Comment: Despite the anti-Soviet attitude expressed in the national elections, a majority of Italians are strongly attached to neutrality, as indicated by De Gasperi's admission that Italy needs a pro-western educational campaign. Because Italians are interested primarily in the economic advantages of western cooperation, an expanded OEEC would attract them more than a purely political and military alignment.)

4. **BULGARIA: Possible preparations for war**--The US Military Attache in Sofia concludes that all evidence in Bulgaria points to a systematic military, economic, and psychological preparation for the possibility of war in the near but not necessarily the immediate future. The MA indicates that the Bulgarian army will be in a position to effect a rapid mobilization after early October. CIA - TS

(CIA Comment: Even though the Bulgarian Government is strengthening its military and economic potential, CIA considers these measures to be part of a long-range program and seriously doubts that Bulgaria--or any of the Satellites--is preparing for war in the near future.)

5. **YUGOSLAVIA: Modified US policy toward Tito recommended**--US Embassy Belgrade believes that Tito's present firm position requires a more active US policy toward Yugoslavia. The Embassy has concluded that: (a) Tito is now in full control, and will continue in power for six more months at least; (b) the USSR will probably not take overt action against Tito this year; and (c) a Soviet-Satellite economic boycott would probably not seriously weaken Yugoslavia. The Embassy believes that the US should now discard a policy of watchful waiting and adopt a more affirmative attitude, especially along economic lines. CIA - See

(CIA Comment: CIA concurs with Charge Reams' analysis.)

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6. **CZECHOSLOVAKIA: Moscow summons may indicate purges--**  
US Ambassador Steinhardt observes that the hasty departure of President Gottwald for Moscow has produced "extreme nervousness" among the highest Czechoslovak Communist officials. Steinhardt reports that these officials apparently fear an imminent purge of Communist leadership or possible instructions from Moscow to prepare for the incorporation of Czechoslovakia into the Soviet Union. Although he does not anticipate outward signs of unrest in the immediate future, Steinhardt thinks that the situation requires careful watching because of the steadily increasing tensions within the Communist Party and signs of unrest among the people.

CIA - Sec

(CIA Comment: Gottwald's visit to Moscow will probably be followed by far-reaching purges in the Communist Party and the Czechoslovak Government. However, CIA considers it improbable that the Kremlin contemplates an incorporation of Czechoslovakia into the USSR at this time.)

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EUROPE

- 1. **FRANCE: Communist comeback held possible--US Embassy**  
Paris reports that highly qualified labor observers in Paris are convinced that unless the Government immediately undertakes measures to pacify "legitimate working-class anger" over the increasing cost of living, the Communist Party is very likely to make a rapid comeback as a result of unified action "from below" within the labor movement. The Embassy reports the belief of a "trustworthy source" that the Communists are now likely to try to provoke police violence in order to intensify the class struggle.

S-TS

(CIA Comment: CIA concurs with these views.)

FAR EAST

- 2. **CHINA: Growing Nationalist sentiment for neutrality--US Embassy** Nanking has been informed by "a usually reliable source" that a new clique in the Nationalist Government has the objective of keeping China neutral in the event of an "inevitable" US-USSR war. The Embassy suggests that this information, combined with information that the Chinese Foreign Minister and the Soviet Ambassador have recently held several secret conferences, indicates that a Foreign Office group desires neutrality and is willing to appease the USSR considerably. The Embassy believes, however, that Chiang Kai-shek is basically pro-US in his orientation. The Embassy continues to believe that the USSR is seeking control of all of China via a Communist-Nationalist coalition.

CIA - Conf.

(CIA Comment: Although current reports from Chinese sources concerning the growth of pro-Soviet sentiment in the National Government probably have a basis of truth, they may be designed primarily to exert pressure for more US aid. CIA believes that the USSR favors a Communist-Nationalist coalition in China, and will attempt to mediate in the Chinese civil war and to establish such a coalition at a time when Chiang Kai-shek has suffered major military reverses or is faced with a new political-economic crisis.)

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## GENERAL

1. Reported Cominform strategy against ERP--US Embassy  
Paris has been informed by a reliable source that an important meeting of Cominform agents and trade union leaders recently took place in Prague for the purpose of deciding upon tactics to be used in undermining the European recovery program. According to source, the Communist group decided to instigate strikes in ports and the European transport system, in accord with the Kremlin view that transport is the most vulnerable point of the European recovery program.

(CIA Comment: CIA considers it highly probable that such a meeting has taken place. Port and transportation facilities offer logical targets for Communist efforts to interfere with the European recovery program.)

2. Cancellation urged for Swedish order of jet aircraft--US Ambassador Matthews in Stockholm urges the "strongest possible line of action be taken immediately with the British Ambassador" with a view toward cancelling the recent Swedish order for Vampire jet fighters. Matthews believes that this sale will dissipate Swedish anxiety about being isolated and that chances of eventually "getting Sweden into the western camp" are being sacrificed to the short-run interests of the British aviation industry.

The British Foreign Office has informed US Embassy London that it considers the sale of jet aircraft to Sweden justified on the following grounds: (a) if attacked, Sweden would defend itself, and it is desirable for Swedish defenses to be strong; (b) British aircraft contracts contain escape clauses to cover higher priority requirements; (c) deliveries will not begin until mid-1950; (d) orders of this kind are beneficial to the British aviation industry; and (e) the Swedish order is for airframes only.

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**( CIA Comment: CIA believes that the ability of Sweden to purchase modern aircraft abroad will tend to strengthen Swedish adherence to neutrality. Moreover, present indications are slight that the Swedes would soon abandon neutrality in any event.)**

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## A N N E X

18 September 1948

## THE ASSASSINATION OF COUNT BERNADOTTE

The assassination of Count Bernadotte, allegedly perpetrated by Stern Gang terrorists in the all-Jewish Katamon district of Jerusalem, increases the likelihood that a settlement will be achieved in Palestine. The revulsion of feeling throughout the world and the loss of prestige the UN would incur by failing to act may well galvanize the Security Council and the General Assembly into taking action which would not only strengthen its peace machinery in Palestine but also bring about a definitive solution of the entire Arab-Zionist issue. The Provisional Government of Israel (PGI), fearful of further antagonizing world opinion and of losing the decisive support which it has received from the US, will probably be more willing to keep the peace and to accept UN recommendations than in the past. Moreover, it will probably be compelled to attempt the immediate liquidation of the Stern Gang, and possibly Irgun Zvai Leumi as well, in order to ward off full responsibility for the crime. Such liquidations will cost the PGI the military and political strength which the Stern Gang and the Irgun Zvai Leumi have contributed to the Zionist cause and will also confront Israel with a serious internal security problem. Thus, Jewish military strength, which has motivated Jewish opposition to a genuine compromise settlement with the Arabs, will be sharply reduced.

Despite the strong temptation to seize Jerusalem while the Jews are embroiled in internal difficulties, the Arabs are not likely to take military action at this time. The reorganization of the Arab armies has apparently not advanced sufficiently to permit them to take immediate advantage of the situation. Moreover, the Arab governments are not likely to jeopardize the abundant propaganda benefits which will naturally accrue to the Arab cause as a consequence of Jewish responsibility for Bernadotte's murder.

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Because of these considerations, Count Bernadotte's official report to the Security Council, which will inevitably be endowed with greater significance because of its author's tragic death, may well constitute a basis for a definitive solution of the Palestine issue.

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GENERAL

1. US opposes removing Hyderabad from SC agenda--The Department of State has advised the US delegation to the UN meeting in Paris of its view that, despite the ending of hostilities in Hyderabad, it would be a mistake to drop the case from the Security Council agenda. The Department feels that to drop the case would encourage aggressive states to use force in inducing recalcitrant states to negotiate. The Department favors SC retention of the case until both parties report the outcome of their negotiations.

CIA - S

2. Satellite leaders reported to be meeting in USSR--According to US missions in Bucharest, Budapest, Prague, and Sofia, reports of unknown reliability are current in eastern Europe of a meeting within the Soviet Union of leading Satellite Communists. Czechoslovak President Gottwald, Bulgarian Premier Dimitrov, Hungarian Vice Premier Rakosi, and Rumanian Foreign Minister Pauker are reportedly present in the USSR.

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EUROPE

3. FRANCE: Communist outbreak thought unlikely during UN session--US Ambassador Caffery has been informed that General Revers, Chief of Staff of the French Army, has had no information to indicate that the Communists mean to create disturbances during the UN meetings in Paris, and feels that the army "has the situation well in hand"

CIA - S



3.3(h)(2)

(CIA Comment: Although the critical labor unrest and unstable political situation in France could be rapidly exploited by the Communists to create disturbances during the UN General Assembly meetings, CIA does not believe that the Communists plan to disrupt the meetings. CIA believes, moreover, that the French security forces would be capable of swift suppression of any disturbances.)

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**FAR EAST**

4. **INDONESIA: Dutch believed to be increasing unrest--The US delegation of the UN Good Offices Committee reports its belief that recent provocative actions by Dutch officials in Indonesia strongly suggest that the Dutch are purposely aggravating the political situation within the Republic of Indonesia in order to make it harder for Premier Hatta's government to negotiate or even to survive. (The US delegation also reports that the Republican delegation has voted 7 to 1 in favor of the US draft agreement for settlement of the Dutch-Indonesian dispute.)**

C / A - S

**(CIA Comment: The Communist-led insurrection against the Republic in central Java, the development of which has been strengthened by the Dutch attitude, may now very likely be the excuse for Dutch military action against both the Republic and its Communist opponents.)**

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21 SEP 1948

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## GENERAL

1. Vatican thinks outlook in Spain is encouraging--  
 Acting Vatican Secretary of State Tardini has expressed the view to the US representative at the Vatican that the general outlook in Spain is more encouraging following the recent meeting between Franco and Don Juan. Tardini feels that this meeting brought together the only two people whose collaboration is "necessary and essential" to effect a peaceful evolutionary change in the present Spanish regime. Tardini believes that a republican government in Spain would cause another revolution and considers that the recent meeting will allay the fears of the Spanish people of grave internal disorders. Tardini expressed the view, however, that "Franco's ultimate fate is still unpredictable."

S - 75.

(CIA Comment: CIA is inclined to accept the Vatican's impression that there has been fear among the Spanish people of internal disorders. Concerning the meeting between Don Juan and Franco, CIA reports indicate that the meeting took place on Franco's initiative and that Don Juan made no concessions.)

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22 SEP 1948

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## E U R O P E

1. FRANCE: Increased Socialist pressure expected--US  
Embassy Paris believes that the Socialists will probably demand further concessions from the Government in return for their support in the Assembly of the unpopular taxes of the Queuille economic program. Concerning the attitude of French labor toward this program, the Embassy considers the action taken by the non-Communist labor unions in ordering a general strike on 24 September to be "only the most serious of many indications" of strong working-class dissatisfaction with the program.

CIA - 3

(CIA Comment: CIA believes that because the Socialists are fearful of facing the electorate next month with a record of support of various unpopular government policies, they will either obtain from the Government a general wage increase or will, by working against Queuille's economic program, risk the downfall of the cabinet.)

2. GREECE: Reduction in armed forces considered impossible--  
US General Van Fleet reports from Athens that in the Vitsi area (north of Grammos) the guerrilla forces have been built up to a strength of 6000-7500 by replacements from training camps in Yugoslavia, by forced recruiting in Greece, and by remnants from Grammos. Van Fleet says that Vitsi has taken on the aspects of a second Grammos, with the added disadvantage that the guerrillas can withdraw into Yugoslavia as well as Albania. He adds that these factors and guerrilla terror raids throughout Greece have decreased the likelihood of an "early suppression of banditry," and that it is accordingly impossible at present to reduce the size of the Greek armed forces.

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23 September 1948

**THE COMMUNIST THREAT IN INDONESIA**

The strategic interests of the United States are seriously jeopardized as the result of the emergence in Indonesia of a militant Communist movement, the announced intention of which is the overthrow of the present Republican Government. The impasse in the United Nations Good Offices Committee (UNGOC) negotiations, resulting from the inability and unwillingness of the Dutch and Republican governments to come to terms, has had the effect of strengthening the Communist movement. The Dutch Government, which emphasizes the Communist threat as proof that the Republic is unable to cope with its internal difficulties, now appears prepared to undertake a settlement by military action directed against both the Republic and its Communist opposition.

The US Delegation of the Good Offices Committee has formulated a draft agreement which is now opposed only by the Dutch. This draft agreement represents an attempt to recognize the minimum requirements of the Republic, which are shaped by its strong national aspirations, and to protect Dutch interests in the area to as great a degree as is feasible.

If UNGOC fails to obtain Dutch acceptance to the US compromise proposal, or if the Dutch take advantage of the situation within the Republic and resume police action, the present moderate Republican Government will not be able to stay in power and the Indonesian nationalist movement will be vulnerable to seizure by the Communist extremists. Because the Communists have taken the initiative and precipitated this crisis, a majority of the Republic's armed forces and its population are backing the Government. The Communist threat, however, has serious potentialities; the Republic has already lost control of two seaports and an oil refinery which supply the Republican capital. The gravest threat to the Republic at this time would develop from the movement of Dutch military

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**Special Evaluation No. 34**

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23 SEP 1948  
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GENERAL

1. US and UK urge acceptance of UN Mediator's plan--The Department of State has instructed US representatives in Tel Aviv and the Arab capitals to urge acceptance of Count Bernadotte's recommendations for Palestine. The Department instructs the representatives that even though acquiescence in the recommendations may be all that the US can hope for, it would be a tactical mistake to urge less than acceptance to the Near East countries.

CIA-S  
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US Ambassador Douglas in London transmits a message sent by the UK Foreign Office to British representatives in the Arab capitals strongly urging Arab acceptance of UN Mediator Bernadotte's recommendations for Palestine. The Foreign Office endorses the Mediator's proposal that Arab Palestine be incorporated in Transjordan because of the British view that Arab Palestine: (a) could not maintain itself as a separate state militarily, economically, or politically; (b) would be "a most uncomfortable neighbor" for the other Arab states because of the irresponsible elements who adhere to the Mufti and who would have prominent positions in the new state; and (c) would be so weak and inefficient that it would very shortly be subject to Jewish penetration. The Foreign Office declares that existing British guarantees to Iraq, Transjordan, and Egypt will be valid against any unprovoked aggression by the Jewish state.

UN officials press demilitarization of Jerusalem--US Consul General Macdonald in Jerusalem reports that Acting UN Mediator Bunche and the UN Truce Commission will attempt to negotiate the demilitarization of Jerusalem as soon as possible, on the ground that the conciliatory attitude displayed by Israeli officials following the assassination of Count Bernadotte may be only temporary. Macdonald suggests that the Department of State might find it helpful to express informally to the Israeli representative in Washington its interest in the Jerusalem situation.

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~~TOP SECRET~~**EUROPE**

2. **GERMANY: Soviet move against Berlin leaders feared--US Political Adviser Murphy in Berlin reports that observers there fear that recent Soviet propaganda attacking Berlin's democratic leaders as instigators of "fascist" violence means that the USSR will either: (a) arrest these leaders; or (b) defer their arrest while building up a Soviet case before the UN, possibly even for demanding their extradition from the western sectors of the city. Murphy believes that, although the immediate consequence of such arrests would be acts of violence by Berlin's population rather than a weakening of the city's resistance, the loss of leaders might in the long run cripple this resistance.** CIA-5

(CIA Comment: CIA believes that because of the Soviet desire to weaken the Allied position in Berlin, the USSR will not be deterred from further acts of provocation by a regard for the Soviet position in the UN or the reaction of Berliners. CIA believes, therefore, that the arrest of these leaders is a definite possibility.)

**FAR EAST**

3. **CHINA: Possible collapse of new currency--US Embassy Nanking believes that China's new currency may "collapse with spectacular and explosive suddenness within the next month or two." The Embassy reports that superficial price stability has been achieved during the past month largely by means of a stringent enforcement campaign, particularly in Shanghai. The Embassy points out that underlying inflationary forces have continued at work and no progress has been made in reducing the budget deficit. The Embassy observes that the reliability of the Government's armies will be questionable if the currency again becomes worthless paper.** CIA-5

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**GENERAL**

1. Israeli representatives comment on Bernadotte plan--US  
 Embassy London reports that Israeli representatives in London and at the UN have expressed the feeling that Count Bernadotte's plan represents a great advance over his previous proposals for Palestine. Both representatives, however, stressed Israel's "strong sentimental attachment" for the Negeb (awarded to the Arabs under the Bernadotte plan). Embassy London received the impression from the Israeli representative that Israel was confident of obtaining sufficient backing in the UN to modify the plan with respect to the Negeb and to provide the Jews with a corridor to Jerusalem or at least "an enforced guarantee of access." The representative appeared optimistic about gaining US support, hinting broadly that because of "its political repercussions in the US" Secretary of State Marshall's statement in support of the plan might not be the final US word on the subject.

CIA-5  
S-TS

2. Possible Communist coup in Paris reported--US Minister Chapin  
 in Budapest has been informally told by the Hungarian Acting Minister of Finance that the Communists are planning a "Bogota" coup to take place in Paris during the UN General Assembly sessions. Chapin points out that the Acting Minister is not a Communist but is "on close terms with Communist members of the Government."

S-TS

(CIA Comment: According to all information available, the French army and secret police have been alerted to the possibility of a Communist coup during the UN sessions but have no information suggesting such an event. CIA believes that large-scale Communist uprisings are possible but distinctly improbable, and concurs with an estimate made by the Chief of Staff of the French Army that French forces could suppress such a coup.)

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FAR EAST

3. **CHINA: New US dollar black market in Shanghai--US Consul General Shanghai has confirmed the reappearance (since the recent Chinese currency reform) of a US dollar black market in Shanghai. The Consul General reports that trading reached sufficient strength during the week to get beyond police control.**

S - Conf.  
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(CIA Comment: This break in the currency is a serious threat to the National Government's economic reform program and may set off the predicted collapse of the new currency. Further development of currency weakness, combined with the deteriorating military situation, may shortly result in the most severe crisis the Government has yet experienced.)

Fall of Tsinan appears imminent--Commander US Naval Forces West Pacific reports that the Nationalist-held Shantung capital of Tsinan will probably fall to the Communist attacking force in a "few days." The naval officer indicates that observers are divided as to whether the Communists will then move east toward Tsingtao or south toward the Government stronghold of Hsuchou. The US officer believes a Communist attack on Tsingtao is a distinct possibility and may be preceded by internal disorders and incidents in that city.

(CIA Comment: Although the eventual capture of Tsinan appears inevitable, Nationalist General Wang Yao-wu will undoubtedly make a determined stand and may be able to hold out for some time if he can prevent the defection of his ill-trained, provincial troops. CIA believes that the most likely Communist objective, following the fall of Tsinan, is Hsuchou rather than Tsingtao.)

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GENERAL

1. Possible Soviet boycott of UN discussion of Berlin-- US Embassy Moscow believes it possible that the Soviet bloc may boycott all "unpalatable issues" in the UN General Assembly. The Embassy further believes that the Soviet and Ukrainian delegations may refuse to discuss Berlin or German problems in the Security Council. The Embassy considers, however, that a formal withdrawal of the Soviet bloc from the UN is unlikely because the UN could then develop into an alliance of non-Soviet nations.

S- sec

(CIA Comment: CIA concurs in Embassy Moscow's analysis of Kremlin intentions regarding the UN. Withdrawal from the UN would deprive the Soviet bloc of an excellent propaganda sounding board and would place the guilt for splitting the UN on the USSR.)

EUROPE

2. ITALY: Italian position on colonial problem--US Embassy Rome has learned from the Italian Foreign Office that the Italian Government is proposing to each UN member that the UN General Assembly should return Italian Somaliland to Italian trusteeship now and postpone decision on the disposition of the other former Italian colonies. The Italian Government reportedly believes this course of action is desirable because four-power agreement had previously been reached on Somaliland's return to Italy and because such action is the most favorable that Italy could expect at the present time.

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(CIA Comment: CIA believes that Italy's position is influenced especially by fear of adverse Italian public reaction to: (a) the loss of all its former colonies, possibly

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through General Assembly approval of a direct UN trusteeship (as proposed by the USSR), or (b) postponement of UN decision on all three colonies.)

**THE AMERICAS**

3. **ARGENTINA: "Threat" against Peron thought hoax--**  
[redacted] the recently publicized  
"threat" to the lives of President and Mrs. Peron was  
a hoax contrived by Peron to frighten the opposition.  
Source also reports that the 24-hour work stoppage of  
24 September was engineered by the Government to permit  
a mass solidarity demonstration. US Embassy Buenos  
Aires concurs in this version of the affair.

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(CIA Comment: These tactics by Peron may be designed to bring about a situation which would appear to justify the use of authoritarian controls recently enacted by the Peronista-dominated Congress.)

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## GENERAL

1. Possible reopening of Austrian treaty negotiations--According to US Minister Erhardt in Vienna, Austrian Foreign Minister Gruber has informed the Soviet Political Representative that Austria is prepared to request the western powers to reopen negotiations toward an Austrian treaty immediately after the USSR has indicated that a change in Austrian frontiers is not an indispensable condition of Soviet agreement in such a treaty.

S - sec

(CIA Comment: CIA believes that the Kremlin may be willing to resume four-power negotiations on these terms. The USSR is unlikely to allow the Yugoslav claims on the Austrian frontiers, which it never seriously sponsored in the past, to block a reopening of treaty discussions now.)

## FAR EAST

2. CHINA: Serious repercussions from fall of Tsinan expected--US Embassy Nanking believes that the fall of Tsinan on 24 September will have serious repercussions on the National Government. The Embassy observes that public confidence in the ability of the Government to survive will reach a new low and that this loss of confidence will almost certainly have immediate and severe economic effects.

CIA - Conf.

(CIA Comment: CIA concurs with Embassy Nanking's view and believes that the National Government is now entering a military, economic, and political crisis of unprecedented severity.)

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## GENERAL

1. Dutch conditions for Indonesian discussions--US Ambassador Baruch reports that the Netherlands Cabinet has approved a reply to the US proposals for an Indonesian settlement. Baruch has been informed the Dutch will insist, as conditions for a resumption of negotiations with the Indonesian Republic, that the US plan be modified in order to: (a) ensure that Dutch and Indonesian foreign policy be in harmony; and (b) provide that Indonesian elections will be held only after a restoration of law and order. According to the Dutch Foreign Office, Foreign Minister Stikker regards these terms as indispensable both to the negotiations and his own participation in the Dutch Cabinet.

CIA-S  
CIA-S

## EUROPE

2. AUSTRIA: US position on renewing Austrian treaty negotiations-- The Department of State has informed US Legation Vienna of its view that a reopening of Austrian treaty negotiations will not be feasible until the Berlin situation is further clarified. The Department indicates, however, that the US is prepared to renew these negotiations at the first favorable moment and that the UK and France agree in principle with this view.

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## GENERAL

1. UK pleased with prospects for Palestine settlement--A high UK Foreign Office official has informed US Embassy London of his belief that the UN General Assembly has made a "splendid start" on the Bernadotte plan and that preliminary soundings of some non-Arab delegations show "a strong disposition to go along with the US and UK." The British official believes that strong Arab and Jewish opposition is inevitable throughout the UN discussion but considers this a necessary prelude to acquiescence.

CIA  
Sec.

## EUROPE

2. SPAIN: Socialists announce agreement with Monarchists--US Embassy Paris has been informed by the exiled "Prieto group" that an agreement has been reached between the Spanish Monarchists and the exiled Spanish Socialist Party (representing various non-Communist groups in exile) for political collaboration designed to replace Franco with a "caretaker regime" preparatory to the creation of a new Spanish constitution. The Embassy's informants state that both the Socialists and the Monarchists will present copies of this agreement to the US and western European governments on 6 October. According to the informants, this new coalition intends by grouping all Republicans and Monarchists and excluding the Communists and the Falange to comply with US-British-French demands for a broadly-based substitute government.

CIA - Sec

(CIA Comment: This agreement is the first concrete step taken jointly by the opposition groups inside and outside Spain to produce a workable formula for replacing Franco. The effectiveness of the agreement will depend largely on the approbation of the US and western European nations and on the active support of Spanish financiers and industrialists.)

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DDA Memo, 4 Apr 77

Auth: DDA REG 77/1763

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EUROPE

1. **FRANCE: Communist tactics against Gaullist units--US Embassy Paris reports that the French Communist Party has apparently directed its militants to attempt to break up every Gaullist meeting. The Embassy conjectures that the Communists hope to provoke gunfire from the strong-arm groups of De Gaulle's Rally of the French People (RPF). Communist propaganda has reportedly portrayed such incidents as attempts to bring about the dissolution of the armed groups of the RPF. An RPF representative has informed the Embassy, however, that De Gaulle's firm order against Gaullist interruptions of Communist meetings still stands.**

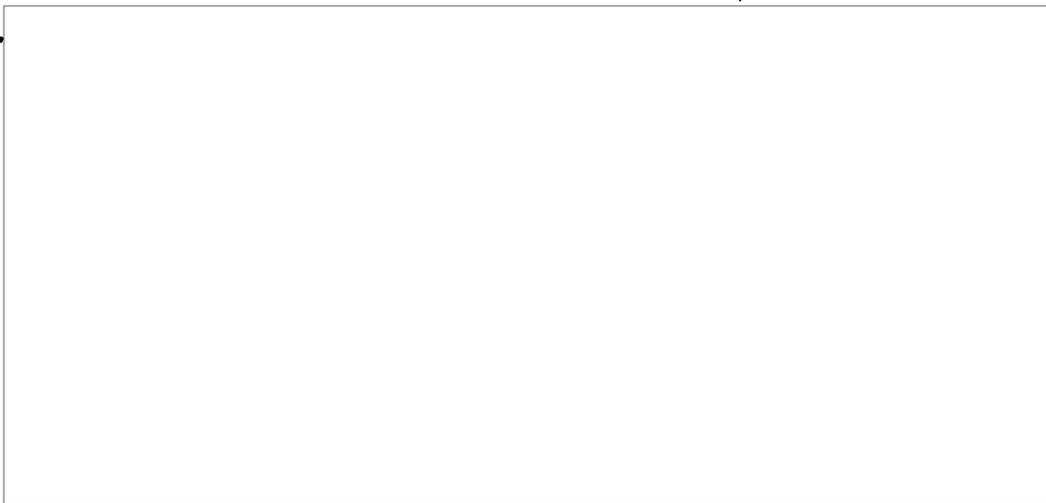
CIA - Conf.



(CIA Comment: CIA believes that the Communists would welcome further provocation by RPF groups as an incentive for the Government to outlaw these groups. It is unlikely, however, that the Government could effectively disband these semi-clandestine units, although stronger governmental measures against further encounters between Communist and Gaullist militants can be expected.)

THE AMERICAS

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Auth: DDA Memo, 4 Apr 77  
DDA REG. 77/1763

Date: 15 MAR 1978 By:

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A N N E X

30 September 1948

### THE BERLIN DISPUTE IN THE UN

As a result of the breakdown of direct negotiations on Berlin, the western powers have been forced to refer the key issue dividing East and West to the UN, an organization not designed to cope with such problems. Because of the Soviet veto in the Security Council and the limitations upon General Assembly action, the UN will be unable to take complete action on the Berlin dispute unless the USSR modifies its present adamant stand. Although a Security Council demand upon the USSR to lift the blockade prior to resumption of negotiations, perhaps followed by a similar Assembly recommendation, would mobilize world opinion behind the West and provide moral justification for further action, such a demand could not, in the face of the Soviet veto, have anything more than a moral effect. Moreover, public UN debate, if so skillfully handled by the USSR that doubt is cast on the legal position of the western powers, can weaken the western case. The realization that recourse to the UN removes one more means of peaceful settlement and brings nearer a possible resort to force may shake the resolution of France and the UK as well as the smaller nations for the strongest possible UN action.

The Kremlin may, in recognition of the critical stage reached in Berlin, make some surprise conciliatory proposal which will be designed, if not to settle the issue, at least to pave the way for further negotiations. However, unless the Kremlin makes some such offer before the UN has taken what action it can on the case, the western powers will still be faced with these three choices: (1) withdrawal from Berlin; (2) maintenance of the increasingly difficult air lift; and (3) a resort to force. Moreover, UN inability to resolve the issue will result in a catastrophic loss of UN prestige.

Although the Kremlin may utilize the UN deliberations as an opportunity to compromise gracefully, it seems more likely that the USSR will stand firm, confident that the western position in Berlin is basically untenable and that Soviet UN representatives can make a good case. Initially, the Soviet Union will probably contest the right of the SC to deal with the issue, contending that matters concerning the peace settlements are the province of the

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**Big Four.** The USSR may furthermore seek to forestall SC consideration by maintaining that the question of whether the Berlin dispute is a threat to the peace is not a procedural but a substantive matter, hence subject to veto. It seems unlikely, however, that the USSR can succeed in barring Council consideration.

If the Security Council should handle the dispute, the USSR has two basic choices: to fight the issue in the SC, or to boycott the discussions, claiming that SC consideration is illegal. However, the Kremlin probably will contest the issue because a walk-out would prejudice the world against the USSR and because Soviet representatives can build a fairly strong case by alleging that western violation of the Potsdam agreements in building up western Germany has forced the USSR to retaliate. Besides continuing to deny that the Berlin dispute is a matter for the UN, the USSR probably will seek to blame the West for the whole dispute and for breaking off negotiations and will try to widen the area of discussion to cover the whole German question. In its efforts to broaden the issue and facilitate resumption of direct negotiations, the USSR may introduce some surprise proposal, such as immediate four-power withdrawal of troops from Berlin and eventual withdrawal from all Germany.

Because the Soviet case is in many respects a strong one, the western powers may have some difficulty in convincing a SC majority of the necessity for strong action. Syria is likely to abstain in protest against UN handling of Palestine; China may hesitate to antagonize the USSR too strongly; and Argentina may seek to play an independent role. These nations, holding the voting balance-of-power and conscious of the critical nature of the Berlin crisis, may seek the role of mediators and will be quick to seize upon any conciliatory Soviet gesture as a basis for urging renewed negotiations. However, the western powers will probably procure at least a bare majority for a strong resolution, thus forcing the USSR to use its veto. In such event, the West must seek outside means of settling the dispute, or carry the case to the General Assembly whose powers are limited to recommendation and mediation. Moreover, a number of smaller states in the General Assembly may be fearful of taking sides in the East-West conflict and will likely abstain, thus limiting the possibility of a clear-cut stand against the USSR.

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Although Soviet propaganda has already hinted that unfavorable action on Berlin might lead to the withdrawal of the USSR from the UN, such action seems highly unlikely at present because: (1) the UN is tremendously useful to the USSR as a propaganda forum; (2) UN membership permits Soviet participation in the settlement of global issues and provides a means of obstructing the development of international cooperation; (3) the Soviet veto prevents any concrete anti-Soviet action; and (4) withdrawal would permit the western states to develop the UN as a strong anti-Soviet organization, thus isolating the eastern bloc. Consequently, veiled Soviet threats to withdraw appear more of a propaganda maneuver to weaken the resolution of the western powers for the strongest possible UN action and to intimidate smaller nations. If the UN should strongly condemn the Soviet Union, however, and if it should appear that world opinion were united against the USSR, Soviet withdrawal would become an increased possibility. Even then, only an overwhelming vote to modify the veto, which would deny to the Kremlin its main defensive weapon, would seem likely to induce the USSR to consider withdrawal seriously.

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