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GENERAL

7 MAY 1948

1. Harriman's views on British loan--Ambassador Harriman reports his conviction that failure to grant the British loan would have far-reaching political consequences. He believes that a shift to the left would result which would (a) entrench Socialist principles in England and (b) weaken British support of the US on issues with the USSR.

EUROPE-AFRICA

2. IRAN: British attitude toward Azerbaijan negotiations--Charge Ward reports that the British Ambassador in Tehran, acting on instructions from Bevin, has advised the Shah that the British (a) feel that the Iranian Government and the Azerbaijani "should be able to reach an amicable agreement," but (b) hope that Qavam will not conclude such an agreement while an Azerbaijan Army continues to exist.
3. IRAN: Report on Schwarzkopf mission--In response to Acheson's recent request for an estimate of the present usefulness of the Schwarzkopf mission, Charge Ward states that the Embassy would recommend terminating the mission "only if it is felt imperative to appease the Soviets at the cost of Iran." Both the Embassy and Schwarzkopf believe that the anti-mission campaign now conducted by the leftist press "is dictated directly from Moscow and designed to secure for Soviet-dominated groups the only Iranian security force capable of maintaining order."
4. FRANCE: Views on rejection of Constitution--Caffery reports that French observers attribute the referendum results to the success of the Center and Right in "getting out" the vote and to the defection of many Socialists from the Party position. According to Harriman, the British Foreign Office considers that the vote indicates "the underlying health of French democracy" and reflects the average Frenchman's feeling that the Constituent Assembly was more concerned with partisan politics than with the future government of France.
The British Foreign Office also believes that (a) the results will aid the Parties of the Left-Center, Center, and Right in the 2 June elections; (b) the Socialists will lose votes to both Right and Left; and (c) the Communists will retain "substantially" their present strength.

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(The French parties which opposed the Constitution concur with this view, except that they believe the Communists will also lose strength.)

5. FRANCE: Agreement with US trade proposals--During the recently completed commercial policy talks in Washington the French concurred in the "fundamental ideas" of the US trade proposals and agreed to make a strong statement in their favor, the State Department reports. The French (a) do not intend to increase their tariff protection over pre-war figures; (b) have disavowed use of import quotas, except as required by balance-of-payment difficulties during the "reconstruction period;" and (c) have stopped subsidizing exports.
6. POLAND: US reaction to delay in fulfilling credit conditions--Secretary Byrnes, after conferring with Ambassador Lane, has agreed that negotiations for the sale of US surplus property to Poland should be suspended until Poland has fulfilled the conditions attached to the Export-Import Bank credit to that country (see Daily Summary for 24 April, item 3). The Secretary (a) feels that, if Poland does not fulfill the conditions, consideration should be given to withholding the credit, and (b) has asked Acheson to arrange for stopping the delivery of US surplus supplies presently authorized.
7. AUSTRIA: Soviet attacks on US aircraft--Minister Schoenfeld in Budapest, commenting on recent Soviet attacks on US aircraft, notes a "tightening Russian attitude toward our air objectives" and concludes that these incidents are part of a deliberate plan to render air operations "most difficult." General Clark, however, does not believe these attacks signify a change in Soviet policy, but rather are irresponsible acts by undisciplined Soviet personnel.
8. USSR: Soviets make formal case of "Ruess incident"--Embassy Moscow considers that the Soviets have been prompted to make a "formal case" of the "Ruess incident" (which they would normally have passed over) by (a) a desire to retaliate for "their Canadian and Seattle espionage wounds," and (b) their embarrassment over the March 3 attack on Wallace. In view of the aggressive Soviet position, the Embassy raises the questions as to whether (a) recourse to diplomatic immunity is likely to prove effective, and (b) US retaliatory action might not be advisable.

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9. USSR: Press attacks halted on French in Indochina--Charge Smith reports that Soviet press criticism of the French in Indochina recently has practically disappeared, while attacks on the British and Dutch in Indonesia have continued. Smith believes that the Soviets have discontinued their attacks on the French because (a) continuation would presumably require the French Communist press to follow suit, thus alienating a number of Communist Party followers and weakening the Communist position in France, and (b) if France were Communist-dominated, Indochina could be more useful to the USSR within a French administrative union, since it would offer a base which the USSR now lacks for Communist activities in Southeast Asia.

FAR EAST

10. KOREA: Joint Commission adjourns sine die--General Hodge reports that at the 6 May Joint Commission meeting the Soviet delegation (a) declined to consult with any party affiliated with the Democratic Council, whose chairman recently voiced opposition to trusteeship; and (b) "brushed aside" the US proposal to discuss the removal of the 38th Parallel barrier. The meeting was adjourned sine die pending clarification of the consultation issue.
11. KOREA: Delay in Pauley clearance--General Hodge reports that as of 5 May no reply had been received from the Soviet commander in Korea to the request for authority for Mr. Pauley and party to proceed to North Korea. Hodge believes that if a definite answer is desired prior to Mr. Pauley's arrival, a request must be forwarded by headquarters higher than his own. He notes that a similar request, which he forwarded to Soviet authorities in North Korea last November, is still unanswered.
12. USSR: Amphibious training at Port Arthur--Commander 7th Fleet has learned from a usually reliable source that the Soviets are conducting amphibious training at Port Arthur under experienced instructors.
13. JAPAN: Chinese to send occupation troops--Embassy Nanking reports that the Chinese Government has decided to send 15,000 occupation troops to Japan.

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