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**TOP SECRET**

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GENERAL

1. US delegation comments on Molotov speech at Geneva:

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The American delegation describes Molotov's 14 May speech as the most significant Communist pronouncement thus far in the conference. He employed the "familiar Soviet carrot and whip technique" in an effort to persuade the British and French that if they will dissociate themselves from American leadership, they will find the Communists not unreasonable regarding an Indochina settlement. The delegation believes the Communist price for a settlement is a political turnover to the Viet Minh.

By linking warnings against direct military intervention with an apparent disposition toward negotiations, Molotov hopes to hinder American efforts to organize a collective security system in Southeast Asia. In addition, the Communists believe that the atmosphere of military defeat will make it difficult for the West to build a security system.

The Communists may estimate that, with the present British and French attitudes and United States' concentration on a long-range effort to form a Southeast Asian security system, they now have an excellent opportunity to gain control of Indochina and perhaps other areas in this region without risking immediate American counteraction.

Comment: It is believed that the Communists have not as yet completely ruled out the possibility of separating cease-fire from political negotiations and that their insistence that these two phases are inseparable is mainly a negotiating tactic.

SOUTHEAST ASIA

2. French report Viet Minh movement toward Tonkin delta:

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[Redacted]

[Redacted] a Viet Minh movement eastward from Dien Bien Phu had been in progress for several days. [Redacted] major

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units could begin to arrive in the Tonkin delta area by 7 June, and that there was a strong possibility of a major campaign in the delta.

[redacted] in the event of a major attack, the French, even if reinforced by two mobile groups (six infantry battalions), would not have the capability of holding both Hanoi and Haiphong.

Comment: The only Viet Minh unit thus far specifically reported moving toward the delta is the 351st Artillery Division, and the latest estimate of the American army attaché in Saigon is that it can arrive by 30 May. The French also expect the 308th, 312th, and one regiment of the 304th Divisions to return to the delta vicinity, and the 316th Division to remain in northwestern Tonkin. The attaché believes that the main force can be redeployed by 6-15 June.

The French have at least 20 battalions elsewhere in Indochina which could be used for the defense of the delta without seriously jeopardizing security in other areas.

4. Burma believed unwilling to join collective security arrangement:

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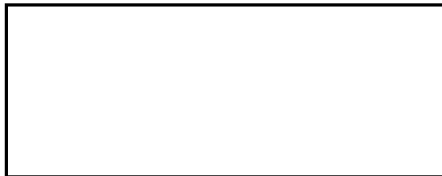


Ambassador Sebald in Rangoon believes that Burma would reject an American invitation to join a collective security arrangement for Southeast Asia. Leaders of the government would, in his opinion, defend their position by stating that Burma is a weak country which cannot afford to antagonize its powerful neighbor, Communist China. The Burmese appear convinced that the United Nations would come to Burma's defense in case of any overt aggression.

NEAR EAST - AFRICA

5. Iranian oil contracts with Italy and Japan complicate consortium negotiations:

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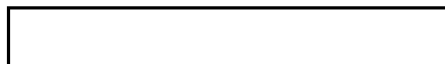


Iranian officials told consortium negotiators on 11 May that Iran has contracts with Italian and Japanese companies which provide for the annual export of about 2,900,000 tons of crude and refined oil for nine or ten years. The Iranian officials stated that they cannot cancel these contracts and indicated a desire to fulfill them outside any consortium arrangements.

The consortium's position is that it cannot be expected to market Iranian oil at world prices if Iran is selling independently at a discount. The consortium is willing to let Iran market up to eight percent of the exportable crude oil if it is sold at world prices and is considered part of Iran's royalties.

Foreign Minister Entezam expressed surprise when informed of these contracts and said he doubted they were firm commitments. He appeared to recognize the undesirability of such arrangements.

Comment: The National Iranian Oil Company (NIOC) apparently has been negotiating oil contracts without consulting other Iranian government agencies. It is not known whether any irrevocable contracts have been signed.



The American embassy in Rome reported last month that Iranian commitments to Italian companies totaled around \$65,000,000.

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6. Pakistani foreign minister reports on conversations in Cairo:

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Pakistani foreign minister Zafrullah Khan arrived in Cairo on 14 May on a surprise visit during which he hoped to allay Egyptian suspicions in connection with the Turkish-Pakistani pact. According to Ambassador Caffery, Zafrullah left on 16 May feeling that he had achieved some success and that Egypt might consider joining such a pact after a Suez settlement had been obtained.

Zafrullah told Caffery that Egyptian leaders used the occasion of his visit to criticize the British sharply for their delays in connection with settling the Suez issue. The Egyptians said they were ready to reach an agreement and had been led to believe that if they maintained order the British would act.

Comment: There has been sporadic hostility in Cairo to the Turkish-Pakistani pact. Zafrullah's visit may have been intended to win Egyptian approval of eventual Iraqi adherence to the pact.

Recent reports from Cairo have emphasized Colonel Nasr's desire to reach a settlement with Britain and his willingness to promote a favorable atmosphere. Continuing delay in reopening the Suez talks will make it increasingly difficult for him to maintain the present order.