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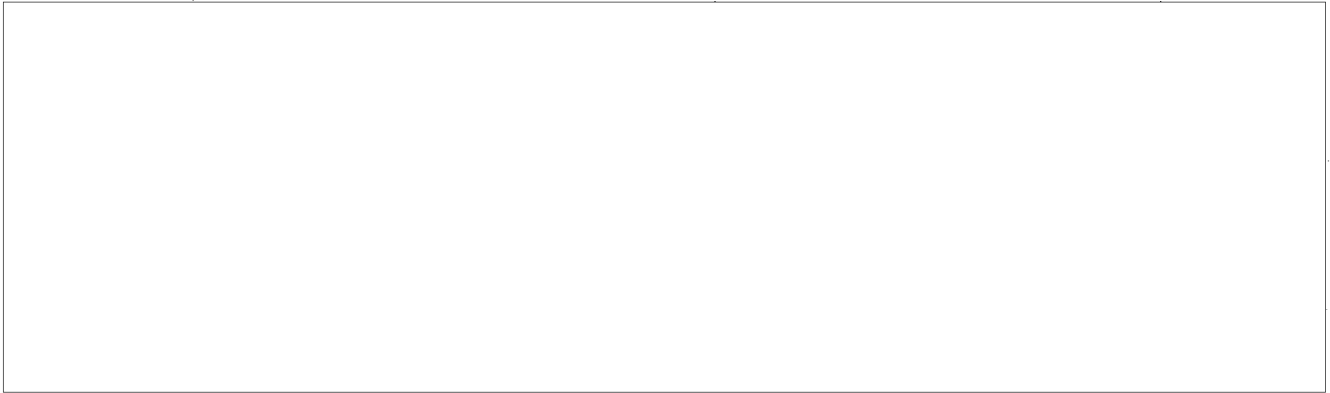
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GENERAL

1. French favor a new attempt to end Korean war:

3.3(h)(2)



Comment: The French have been extremely anxious to limit hostilities in Korea, particularly because of their fear of Chinese intervention in Indochina. The suggestion in this report, however, may have been prompted by the French desire to associate themselves with the UK and the US in a move which the UK had already made independently.

FAR EAST

2. German air tactics seen over North Korea:

An Air Force operational summary, reporting a 1 June air attack by 22 MIG-15s on friendly planes in north-central Korea, observes that the enemy pilots were "able to handle" the MIG-15s and "could have been Russian or German, as the tactics resembled those of the German Luftwaffe." 3.3(h)(2)

Comment: Germans have previously been reported present in the Far East, particularly in connection with an "International Volunteer Air Force" allegedly being formed in Manchuria.

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It is probable that the USSR has exploited the knowledge and services of ex-German Air Force personnel from the Soviet zone of Germany as air instructors, but there is no reliable evidence that Germans are in North Korea as pilots.

3. Peiping increases commitment to Korean conflict:

3.3(h)(2)

The Peiping regime has launched a new campaign calling for an intensification of the Chinese effort in Korea over the next seven months, and specifically for the purchase of heavy equipment for Chinese forces in Korea.

Government spokesmen state that Communist forces are superior in manpower resources but need "planes, tanks, guns and other military equipment," and that funds for the purchase of such materiel will be raised by increased production and taxes and "donations" of work-hours, profits and savings. The campaign is to be reviewed by the Party in January 1952.

Comment: The new campaign is a strong indication that Peiping is not prepared to abandon its commitment in Korea. Last week, the head of a Chinese Communist "people's delegation" to Korea stated publicly that Communist forces in Korea were determined to expel UN forces but needed heavy equipment to accomplish that mission. Peiping's propaganda in the past has exhorted sacrifices for such items as bullets and grenades. Recent pronouncements do not clearly indicate whether the Chinese Communists have made arrangements with the USSR for heavy equipment or whether they merely hope to do so.

4. Cotton shortage causes shutdown of Shanghai textile mills:

A shortage of raw cotton forced Shanghai authorities on 29 May to order a six-week closure of all textile mills in that city. This decision was followed on 1 June by a

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Peiping directive exhorting holders of raw cotton to sell their stocks to the government and blaming hoarders for the serious cotton shortage.

Comment: The present shortage of raw cotton is caused by insufficient output combined with reduced imports, rather than by hoarding. Reliable, independent estimates have placed the late 1950 cotton crop at 25 percent under the quantity necessary to insure operation of the mills through 1951. This shortage is now expected to cut back mill operations until late in 1951 when the new crop becomes available. The effects of this cutback in China's principal industry will be to increase urban unemployment significantly, particularly in Shanghai, and to reduce the supply of cotton cloth, which is in heavy military and civilian demand at present.

SOUTH ASIA

5. Passive Indian attitude toward Sino-Tibetan agreement continues:

3.3(h)(2)

 The Secretary General of the Indian Ministry of External Affairs has told Ambassador Henderson that India still had no information from Lhasa or from the Dalai Lama concerning the Peiping announcement of the signing of the Sino-Tibetan Treaty. Bajpai said he did not know what the attitude of India would be if the Dalai Lama repudiated the treaty. He also said that India continues to favor Tibetan autonomy, but would not press for it if the Tibetans did not.

Comment: Whether or not the Dalai Lama repudiates the treaty, India will not be prepared strongly to oppose the Chinese on the matter of Tibetan autonomy.

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NEAR EAST

6. Iranians consider destruction of oil installations in case British land troops:

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Comment: The Iranian Army in recent weeks has made plans to defend the Abadan area against a possible British troop landing. However, it has not been known that these plans included provisions for possible demolition of oil refineries. While demolition may never occur, the fact that Iranian Army commanders have considered destroying Iran's greatest and practically irreplaceable industrial installation indicates that the nationalization sentiment and anti-British feelings have reached a high not previously recognized.

WESTERN EUROPE

3.3(h)(2)

7. West Berlin officials yield to Soviet pressure, ignoring request of Allies:



German officials in West Berlin have yielded to recent demands by Soviet authorities that requests for interzonal trade permits for certain restricted goods be accompanied by certificates showing the origin of the raw materials used in the manufacture of the goods. In so doing, they have disregarded an official Allied

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request not to yield to the Soviet requirement since it violates earlier agreements. Approximately 1,800 permit-requests (of a back-log of 8,000) which fulfill the stipulated conditions have been forwarded to the Soviet authorities, who have already approved 1,100 of them.

Comment: The unexpected accession of Berlin city officials to Soviet pressure may have resulted from disappointment at the failure of Allied authorities to agree rapidly on effective counter-measures. This German action will increase the difficulties of the Allies in initiating counter-moves.

8. Comment on Spanish Ambassador's 5 June statement:

A 5 June press statement by Spanish Ambassador to the US Lequerica indicates that Franco apparently has decided to make no concessions, internationally or internally, regarding Spain's position in Western defense arrangements. This position is evidently taken in the expectation that US economic and military aid will soon be forthcoming despite the objections of Western European Socialists, and that this aid will resolve in his favor the political crisis brought about by the current popular strike movement. An additional reason for Franco's seemingly intransigent attitude is the apparent fact that able and influential men will not enter the government except under conditions which would undermine the policies and structure of the regime.

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