

1 JUL 1949

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GENERAL

1. US seeks British support of Austrian regiment plan--The Department of State has asked the US representative at the Austrian treaty negotiations to obtain the concurrence of the British Foreign Office in the plan for the formation of an Austrian gendarmerie regiment now. The Department states that the British oppose the plan for the present on the ground that such action would affect the treaty negotiations. The Department concludes that because the US and France feel that delaying the plan until after 1 September would adversely affect western security interests, they are prepared to launch the program in their zones about 15 July, regardless of British participation.

S/TS

FAR EAST

2. CHINA: Stuart receives veiled invitation from Mao Tse-tung--US Ambassador Stuart reports that he has received a veiled invitation from Communist leaders Mao Tse-tung and Chou En-lai to talk with them while ostensibly visiting Yenching. Stuart received the impression that whatever the motives of the two leaders may be, they are very eager for him to make the trip. Stuart points out that through such a meeting he could gain authoritative information regarding Communist intentions; make a step toward a better mutual understanding, possibly strengthening thereby the more liberal anti-Soviet element of the Communist Party; and describe US policy to Communist leaders. On the other hand, he points out that such action would: (a) constitute a second step toward recognition of the Communist regime; (b) possibly embarrass the Department of State both in China and the US; and (c) cause other western nations to feel the US has broken the diplomatic front concerning China.

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GENERAL

1. US views concerning British dollar crisis--The Department of State has informed US representative Willoughby in Ancecy that a US-UK "full dress meeting" to explore the implications of the dollar crisis is being planned for 1 August in Washington. The Department indicates that in his discussions with British officials in London Secretary Snyder will present the following US views: (a) general adjustment of European currency exchange rates, including the British, appears essential in order to raise European dollar earnings and put European products back on a competitive basis in hard-currency markets; (b) though the US recognizes Britain's necessity to reduce the importation of dollar goods drastically on a short-term basis, such British discrimination against dollar imports will in the long run perpetuate the "uneconomic trade pattern"; and (c) the US cannot realistically object under present circumstances to any reasonable British measures designed to curtail dollar imports but must, however, regard the resulting deviations from the 1946 US-UK financial agreement as emergency measures.

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1030

FAR EAST

s/s 

1. CHINA: Stuart not to visit Peiping--The Department of State has instructed US Ambassador Stuart that he is not under any circumstances to accept the veiled invitation received on 29 June from Communist leaders Mao Tse-tung and Chou En-lai to confer with them at Peiping. The Department indicates that the principal reasons for this negative decision are that Stuart's acceptance would: (a) constitute a second step toward recognition of the Communist regime; (b) possibly embarrass the Department of State both in China and the US; and (c) cause other western nations to feel the US has broken the diplomatic front concerning China.

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GENERAL

1. Israel reportedly considering pacts with Arabs--US Ambassador McDonald in Tel Aviv has been told by "a reliable private American" that Israeli President Weizmann is calling a conference of top Israeli officials to urge that Israel offer "qualified non-aggression pacts" to the Arab states. The Department of State has informed McDonald that it would be pleased to see the Arab states and Israel enter freely into non-aggression pacts, but that the Department cannot give the matter full consideration without clarification of such details as what is meant by the word "qualified" and whether Weizmann envisages the pacts as forming part of an over-all peace settlement. The Department expresses the opinion that the Arab states would hardly be inclined to take favorable action on such a proposal unless it were connected with an over-all settlement.

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GENERAL

1. British Cabinet possibly split over economic situation--US Embassy London expresses the view that the failure of Chancellor Cripps to enunciate a definitive policy concerning the British economic situation during his 6 July statement to Parliament may reflect disagreement within the Cabinet over what measures to take. The Embassy comments that it is not in keeping with the Cripps tradition to delay formulation of a comprehensive program for coping with an economic emergency. The Embassy believes that Cripps' emphasis upon the necessity for seeking some long-term solution to the dollar problem was motivated by a desire to thrash out fundamental problems with the US and Canada. The Embassy also interprets this emphasis as an indication of the great importance the British Government places upon the forthcoming comprehensive talks with the US.

S/S



2. British agree to support Austrian regiment plan--US Representative Reber in London has been informed that Foreign Secretary Bevin has agreed to authorize the British High Commissioner in Vienna to participate with the US and French Commissioners in carrying out the joint plan for equipping an Austrian gendarmerie regiment for the western zones.

S/S

3. US counters Israeli views on Palestine--The Department of State has informed US Embassy Tel Aviv regarding views recently expressed by Israeli officials that the US: (a) also desires stability in the Near East but cannot agree that this can be achieved on Israeli premises regarding territory and refugees; (b) does not believe that the Arab states are

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preparing to resume the conflict in Palestine; (c) has pointed out on numerous occasions the steps Israel might take to facilitate the establishment of peace in the Near East; (d) cannot agree that the repatriation of a substantial number of Arab refugees would accomplish "nothing"; and (e) rejects the apparent Israeli implication that the solution of the refugee problem is the responsibility of the US.

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1033

FAR EAST

1. CHINA: US pressure recommended to ease Shanghai situation -- S/TS

US Consul General Cabot in Shanghai, in an analysis of the disquieting pattern of recent events in Shanghai, reports that: (a) the only law in Shanghai is that of the Communist military authorities; (b) foreigners are often subjected to an invasion of their fundamental rights; and (c) on the basis of available information, events in Shanghai are believed part of a normal pattern of revolution rather than a deliberate Communist plan. Cabot points out that foreign firms are currently losing heavily but fears that if they try to close down, foreign nationals may find themselves virtually held for ransom, with the approval or acquiescence of Communist authorities. Cabot believes that if the US is to pursue an antagonistic policy toward the Chinese Communists, it would be better to get all Americans out of Shanghai (and if necessary pay them for their property losses) rather than leave them where they are subject to Communist retaliation and where their continued presence under such circumstances will lead to further incidents. Cabot therefore, in the hope of forcing the Communists to do something about the situation in Shanghai, recommends that the US request permission from Communist authorities in Peiping to evacuate by commercial ship or planes all Americans desiring to leave Shanghai.

(CIA Comment: CIA believes that the Chinese Communist Party, while officially committed to the protection of foreign interests, welcomes the opportunity provided in Shanghai for channeling the demonstration of popular dissatisfaction with present conditions toward foreigners rather than the new Communist regime. The Communists thus hope indirectly to warn the western powers that their future in China depends upon the establishment of friendly diplomatic and commercial relations with the new regime. Because the Communists do not wish US commercial interests to withdraw from China at this time, however, a withdrawal threat might well induce the Communist Party leadership to order local authorities in Shanghai to ease the situation.)

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1034

NEAR EAST-AFRICA

1. IRAN: Reaction to proposed US assistance --US Ambassador Wiley reports that, at the direction of the Shah, Ebtehaj (influential governor of the National Bank of Iran and, in effect, financial adviser to the Iranian Government) called at the Embassy to discuss the matter of US aid to Iran. According to Wiley, Ebtehaj considers the proposed US military assistance to Iran to be totally inadequate. He expressed the opinion that Iran might very well refuse the offer and that the government might have to consider changing its foreign policy, disassociating itself from the US and looking elsewhere for support of Iranian interests. Ebtehaj declared that the situation would be incomprehensible to Iranians if the US "gave liberal assistance to Turkey and treated Iran in such a shabby manner."

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EUROPE

CIA/S

1. FRANCE: Communist action against Atlantic Pact--US Embassy Paris has learned from a "trustworthy source" that the Kremlin has ordered the French Communist Party to stage "mass manifestations" against the Atlantic Pact on 14 July (Bastille Day) and on or about 29 July when the Pact comes up for ratification. According to source, Moscow has directed the incidents to be bloody, if necessary. Embassy Paris believes that if large-scale Communist demonstrations occur, they will spur rather than retard ratification of the Pact by the French Assembly.

FAR EAST

CIA/S

2. INDOCHINA: Revers' views on military situation--General Revers, French Chief of Staff, has expressed to US Ambassador Bruce in Paris his confidence that current French defensive measures on the Tonkin border in Indochina will enable the French to repel any attack except by a "massed and disciplined army operating as a unit." Although Revers expects guerrilla warfare to last at least "a couple of years," he believes French and native troops can cope with it. Revers also expressed the belief that the situation in Indochina has improved considerably in recent months and that Bao Dai's government has a good chance of succeeding if its development is not interrupted by the Chinese Communists. Bruce was disturbed, however, by Revers' view that the French military should have a predominant voice in Indochinese affairs.

(CIA Comment: CIA believes that General Revers' fairly optimistic views may encourage the French Government to implement liberally the 8 March agreements with Bao Dai. Consequently, Revers' desire for a return to predominance of the military will not be realized.)

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GENERAL

1. British view of Berlin traffic situation--According to US Ambassador Douglas in London, recent Soviet measures restricting truck traffic to Berlin are regarded initially by the British Foreign Office as merely another attempt by the USSR to throw its weight around. The Foreign Office believes once the USSR feels that the West has been "suitably impressed," traffic will be permitted to resume its normal flow. Douglas adds that the British consider the current restrictions illustrate the danger of any relaxation in western efforts to build up Berlin's stocks for the coming winter.

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(CIA Comment: CIA believes that the USSR will continue to impose sporadic obstructions on Berlin traffic in order to keep the western position in Berlin as weak as possible and to maintain pressure on the West during the present interzonal trade talks.)

2. Early four-power agreement on Austrian Army urged--General Keyes, US Commander in Austria, pointing out that the important question of the establishment of an Austrian Army prior to the withdrawal of occupation forces was not dealt with in the Council of Foreign Ministers, urges that the deputies take up this matter before treaty negotiations proceed too far. Keyes believes that: (a) it would be futile to attempt to secure Soviet approval in the Allied Council granting Austria permission to begin military planning before the treaty is ratified; and (b) the western powers would be inviting disastrous reprisals if they began organizing an Austrian Army in their zones without prior Soviet approval. Keyes expresses the opinion that in order to avoid grave risks to Austrian independence, this problem must be satisfactorily solved before the treaty is signed. Meanwhile, Keyes reports that 18 July has been accepted by the British and French as the date on which to commence the training program of the Austrian gendarmerie regiment in the western zones.

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(CIA Comment: CIA believes that the USSR will protest strongly separate western action in establishing the gendarmerie regiment and will attempt the maximum possible delay on both the Allied Council and deputy CFM levels in agreeing to permit the Austrians to begin military planning prior to ratification of the treaty. Meanwhile, the two major Austrian political parties have been engaged in secret high level discussions on military planning for more than a year.)

NEAR EAST - AFRICA

3. IRAN: Proposed US aid again criticized--US Ambassador Wiley reports that in a second discussion of the proposed US aid to Iran, Governor Ebtehaj of the National Bank of Iran was more vehement than during the first talk. Ebtehaj expressed the view that the US approach to Iran on this matter was not only "incomprehensible and unacceptable but also dictatorial in nature." He declared that if "this token and measly gesture" represented the final US word, he would most strongly recommend to the Shah that Iran disassociate itself from the US and, without going over to the Soviet side, either try to find help in other countries or stand on its own feet. Wiley believes that the Shah will be greatly influenced by Ebtehaj's reaction to the US offer and will not be satisfied unless US assistance to Iran equals that given to Turkey.

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FAR EAST

1. CHINA: Proposal for repatriation ship to Shanghai--US Ambassador Stuart, in concurring with the recommendation of the US Consul General in Shanghai that a means be provided for repatriating US nationals from Shanghai, expresses the view that "it is not too early" to take the preliminary steps to arrange for transportation and to obtain the necessary clearances from Chinese authorities in Canton and Shanghai. Stuart points out that the persecution of US officials and businessmen in Shanghai underscores the inability of the US to provide adequate protection for its nationals in Communist China. Stuart believes that the response among US citizens in Shanghai to a repatriation ship might well be enthusiastic.

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1038

EUROPE

S/S

1. YUGOSLAVIA: Analysis of Tito statements --US Ambassador Cannon transmits his belief that Tito's 10 July statements on foreign policy reflect the increasing deterioration in Yugoslav-Soviet relations and Yugoslavia's desire to improve relations with the West. In support of this view, Cannon points out that Tito directed the burden of his attack against the USSR and clothed his criticism of the western powers in "friendly terms." According to Cannon, Tito's speech revealed Yugoslav concern that a four-power agreement on Trieste might sacrifice Yugoslav interests there and implied that the Trieste question could be solved by Yugoslav-Italian agreement. Cannon attaches great importance to Tito's announcement that the Greek-Yugoslav border would be closed and believes it indicated a basic change in Yugoslav policy toward Greece. Cannon adds that Tito's more conciliatory attitude regarding Greece may be a bid for sympathetic western treatment on Trieste.

(CIA Comment: CIA agrees with Ambassador Cannon that Tito, in view of his growing isolation from the Soviet bloc, is showing an increasing willingness to cooperate with the US in an attempt to obtain economic and political support.)



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1039

GENERAL

1. US views on Yugoslav-Greek relations --The Department of State has suggested that US Embassy Belgrade express to Yugoslav officials the satisfaction of the US Government regarding Tito's recent declaration on closing the Greek frontier, as well as the hope that this policy statement will be implemented immediately by concrete measures. In order to confirm the announced cessation of Yugoslav aid to the guerrillas, the Department also suggests that Tito be requested to allow a "routine" inspection trip of the Greek border by western military attaches in Belgrade. The Embassy may also indicate that the immediate advantages to Yugoslavia of a positive rapprochement with Greece include: (a) resumption of normal commercial relations; (b) re-opening of a Yugoslav Free Zone in Salonika; and (c) restoration of Salonika-Belgrade rail communications. The Department, in pointing out that the Greek Government has expressed its willingness to negotiate these matters with Tito, sees no objection to the Embassy's sounding out possible Yugoslav reaction to Greek overtures or to supporting a Greek demarche if and when it is made.

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FAR EAST

2. CHINA: Stuart thus far unable to obtain exit permits --US Ambassador Stuart reports that he is encountering difficulties in obtaining exit permits for himself and party and may not be able to depart from China on 18 July as planned. He states that Communist authorities insist on a guarantee from a local firm specifying that the departing foreigner has left no debts, unpaid taxes, or pending civil or criminal charges. Stuart expresses his growing concern over the difficulty of finding local guarantors for members of his party and fears that even in his own case the requirement may not be waived.

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1040

FAR EAST

CIA/S

- 1. CHINA: Stuart instructed to reject Communist demand--
 The Department of State has instructed Ambassador Stuart in Nanking to point out to the Communist authorities the unprecedented nature of their request that departing Embassy personnel obtain "shop guarantees" prior to receiving exit permits and to inform the Communist officials that under instructions of the US Government the Embassy cannot under any circumstances accede. The Department believes that a dangerous precedent would be set if such guarantees were provided, and informs the Ambassador that the matter is considered to be of sufficient importance to warrant postponing his departure until the requirements are waived for official US personnel.



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1041

GENERAL

1. Possible Soviet policy regarding Trieste--US Ambassador Kirk in Moscow expresses the view that Soviet policy toward Trieste will be influenced both by the Kremlin's commitment to overthrow Tito and by the effect any action regarding Trieste will have on the advancement of world communism. Kirk points out that over-all Soviet objectives could be achieved if the Kremlin: (a) continued its demands for the appointment by the United Nations of a neutral governor for the Free Territory of Trieste; or (b) suddenly accepted the western proposal of 20 March for restoration of Trieste to Italy. Kirk believes, however, that Soviet acceptance of the western proposal would constitute the greater blow against Tito and that, therefore, there is sufficient danger of the Kremlin's adopting this policy to warrant every effort by the US to promote a compromise agreement on Trieste between Italy and Yugoslavia.

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2. Syria to accept Israeli compromise armistice--Syrian Prime Minister Barazi has informed US Minister Keeley in Damascus that the Syrian delegation to the armistice talks with Israel has been instructed to accept the armistice agreement as modified by Israel. Barazi said that unless Israel raises new difficulties, the armistice agreement would be initiated on 18 July and signed later in the week.

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NEAR EAST-AFRICA

CIA-CONF

1. PALESTINE: Views on renewed Lausanne talks--US
 Ambassador McDonald in Tel Aviv expresses the belief that Israel's policy on the Palestine question is developing favorably, particularly with regard to the Arab refugee issue. The Israeli delegate to the Palestine Conciliation Commission (PCC), which resumed negotiations at Lausanne on 18 July, has informed McDonald that he is taking "a more elastic program" to Lausanne and that Israel's offer on the Arab refugees will be "more definite and larger." According to McDonald, Israel evidently feels the need to have the PCC present tangible evidence of progress in solving the Palestine problem to the General Assembly in September.

(CIA Comment: CIA believes that little substantial progress toward a final settlement of the Palestine problem will be made at Lausanne and that such limited concessions as Israel may make will not prove acceptable to the Arabs.)

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EUROPE

1. YUGOSLAVIA: Analysis of Yugoslav economic situation-- US Ambassador Cannon expresses his belief that, largely as a result of tightened economic sanctions by the Soviet bloc without a compensatory increase in Yugoslav trade with the West, the Yugoslav economic situation will be critical for the next year. Cannon adds that without moderate western credits the Tito regime may be weakened to the point where it cannot be effective in the role the US expects it to play. In pointing out that such credits would be insurance against the collapse of Tito's regime, Cannon believes that early conclusion of the British-Yugoslav negotiations involving a credit of eight to ten million pounds would help counteract the effects both of the reduction in Yugoslav trade with the East and the suspension or slowdown of Italian-Yugoslav economic negotiations.

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(CIA Comment: CIA has received no information which would indicate that economic conditions in Yugoslavia have reached the critical stage.)

NEAR EAST-AFRICA

2. PALESTINE: Egyptians bitter over Gaza strip proposal-- US Charge Patterson in Cairo reports that the Egyptian Foreign Minister and other high Egyptian officials have expressed bitterness, distrust, and a "very real intellectual and moral disdain" regarding the Israeli proposal that Israel be awarded the Gaza strip in exchange for accepting the Arab refugees in the area. Although Patterson believes that Egypt might take a more conciliatory attitude toward the proposal if the US were actually able to guarantee Egypt a land bridge to Jordan as compensation for the Gaza strip, he fears that "continued harping" on the merits of the Gaza plan might cause the Egyptians to regard the US as "an accomplice of an expansionist and aggressive Israel."

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1044

GENERAL

1. Norwegians favor strengthening Swedish defenses--The Norwegian Defense Minister has expressed to Admiral Conolly his belief that the US and UK should "build up" Swedish military strength by selling the Swedes, for cash, any available military equipment, with special emphasis on radar and fighter planes. The Minister considers that such sales would provide air defense in depth for Norway. He does not expect Sweden to join the Atlantic Pact "soon" because of Swedish-Soviet trade commitments and a desire not to provoke the USSR needlessly. The Norwegian Minister quoted the Swedish Prime Minister as "authority" for his confident belief that the Swedes would resist any invasion or "encroachments on her neutrality" from the east.

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1045

GENERAL

1. US views on Pacific union--The Department of State has instructed US officials abroad to avoid any public statements or actions which could be interpreted as supporting or opposing the recent Chiang-Quirino proposal for a Pacific union. The Department considers that inclusion of the Chinese Nationalist regime as a charter member saddles the embryo union with a hopeless military problem and is likely to alienate India and other south Asian nations. The Department declares, however, that if US officials are approached confidentially regarding an alternative plan for strengthening economic and political ties between Far Eastern nations, they may express general approval while pointing out that any such plan should have inherent strength in Asia and not appear to be merely an instrument designed to obtain and channel US aid.

S-5

EUROPE

2. GERMANY: British want Bonn as new German capital--US Military Governor McCloy reports that the British are lobbying actively in favor of locating the west German capital at Bonn, while the US and France have maintained a "hands-off attitude." McCloy adds that several German leaders have indicated their belief that one of the first acts of the new west German Government will be to reverse the decision in favor of Bonn and to establish the new capital at Frankfurt instead.

S-5

(CIA Comment: CIA believes that UK lobbying for the retention of Bonn (in the UK Zone) as the future German capital, despite German preference for Frankfurt, is one aspect of the British drive to obtain paramount influence in west Germany as well as over the west German Government.

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1046

GENERAL

1. US support for Libyan independence urged--US Ambassador Douglas in London reports that British Foreign Office officials generally favor early independence for Italy's former colony of Libya, but are apprehensive of the effect such a solution would have on Anglo-French relations as well as on French North Africa. Douglas believes the US faces the same dilemma, but points out that: (a) by opposing Libyan aspirations for independence the US might create a situation which would seriously prejudice the continued enjoyment of vitally important strategic facilities there; (b) if the US supports the French in delaying Libyan independence, the large bloc of states stretching from the East Mediterranean to the Philippines would accuse the US of sacrificing principle to political expediency; and (c) there is no assurance that agreement to delay Libyan independence would induce the French to speed the introduction of basic reforms in French North Africa. Douglas points out that the US views on French North Africa are known to the French, while the British have pursued a "hands off" policy. Douglas therefore recommends that the US approach the French emphasizing that early independence for Libya "represents the reality of the situation" and that the French should take immediate and effective steps leading to greater self-government in French North Africa.

2. Italian views on trade with Yugoslavia--Foreign Minister Sforza has informed US Ambassador Dunn in Rome that he is most anxious to conclude the economic agreement with Yugoslavia (negotiations were suspended by Italy following the establishment of the Yugoslav dinar in the Yugoslav Zone of Trieste). Sforza maintained, however, that in order to allay Italian public opinion and permit him to sign the accord he needed some public declaration from Tito emphasizing Yugoslavia's friendly intentions toward Italy.

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1047

GENERAL

1. Reber's views on Austrian treaty--US Representative Reber in London reports no real progress in the Austrian treaty talks during the past week because the Soviet representative continues to insist that the wording of the Paris communique be adhered to rigidly and that Soviet proposals be accepted as presented. Reber believes that if the Soviet stand is not relaxed, it will soon be necessary for the western powers to present their minimum treaty requirements and thus indicate the point at which the treaty will require further consideration by the Foreign Ministers. Reber suggests that while it is important to delimit the area of Soviet control in Austria, additional treaty provisions having this effect can be obtained only by granting new concessions to the USSR. Reber feels it is more material for the US to determine how Austria is to meet its payments obligations to the USSR than to discuss the consequences of Austrian default. Reber concludes, therefore, that solution of the payments problem, as well as the early establishment of an effective Austrian army, would obviate many difficulties in regard to the wording of the treaty. Meanwhile, the Department of State has asked US Embassy London to approach the British and French regarding the formulation of a common policy toward Austria after conclusion of the treaty.

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EUROPE

2. GERMANY: US position on location of new capital--The Department of State has advised US Military Governor McCloy in Berlin that the question of the location of the west German capital is a matter for the Germans to decide and that McCloy should maintain an attitude of strict neutrality. The Department does not consider it necessary to "counterbalance" British efforts to influence the Germans toward establishing the capital at Bonn.

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1048

GENERAL

- 1. US initiates tripartite talks on Austrian Army--The Department of State has instructed US Embassy London to raise with the British and the French the question of reaching a firm tripartite agreement on all aspects of the establishment of the Austrian Army. The Department feels that each western power, to the extent possible, should make physical contributions to the proposed army. Meanwhile, the Department is initiating tripartite representations to Austria to point out that the Austrians must assume basic responsibility for their own internal security and that any available funds cannot be allocated until the Austrian government has submitted a satisfactory plan for the army, which has been agreed to by both major political parties. The Department also believes that after four-power agreement has been reached on the military clauses of the treaty, an approach can be made to the USSR to secure four-power approval for implementing these clauses prior to the effective date of the treaty.

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NEAR EAST-AFRICA

1. PALESTINE: Single authority replacing PCC urged--US Ambassador McDonald in Tel Aviv expresses the belief that the three-nation Palestine Conciliation Commission (PCC), despite US Representative Porter's best efforts, will remain incapable of the "strong affirmative and united actions" needed to induce the Arab states and Israel to move beyond the present armistice agreements. McDonald considers it "vital" that the PCC be replaced by a "single-man authority" and recommends that the US initiate a campaign now to have the UN General Assembly take this step.

CIA-5

FAR EAST

2. CHINA: Plans for evacuation of US citizens--The Department of State, in view of the increasingly intolerable situation confronting US nationals in Shanghai, has recommended that the US Consul General take steps to urge US citizens desiring to leave Shanghai to apply for exit permits. The Department states that it will arrange suitable transportation facilities after receiving specific information regarding the number of Americans and other foreigners willing and able to leave. The Department is recommending that similar steps be taken in Nanking and Hankow.

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NEAR EAST-AFRICA

1. PALESTINE: Outlook at Lausanne not hopeful--Paul Porter, US representative on the Palestine Conciliation Commission (PCC) at Lausanne, reports that he can find little reason for hoping that the resumed Arab-Israeli negotiations will produce an agreed settlement of the Palestine issue. Pointing out that the delegates are apparently willing to continue "endless and aimless discussions," Porter believes that the PCC should be prepared to make equitable proposals to Arabs and Israelis. Porter therefore requests that the Department of State send him specific instructions on such matters as territorial boundaries and the refugee problem.

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1051

FAR EAST

- 1. CHINA: Nationalists may not move to Chungking--US Counselor Clark in Canton reports that the Communist threat to Szechuan Province has led the National Government to reconsider its plans to move to Chungking and that the move may actually be cancelled. Clark points out that most government bureaus are sending files and some personnel to Taiwan. He adds that although some ministries still talk of sending a few top personnel to Chungking, none seriously considers setting up an establishment of any size there.

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NEAR EAST-AFRICA

1. PALESTINE: Developments in Israeli-Arab negotiations --
 Although Foreign Minister Sharet has informed US Ambassador McDonald in Tel Aviv that Israel is prepared to receive 100,000 Arab refugees, US representative Porter on the Palestine Conciliation Commission (PCC) reports from Lausanne that Israel's representative Shiloah, in stating that Tel Aviv would accept a specific number of refugees, failed to mention a specific figure. Porter adds that Shiloah also made it clear that actual repatriation must await: (a) preparation of an overall repatriation and resettlement plan plus assurance of its implementation, and (b) convincing evidence of progress toward a final peace settlement between Israel and the Arab states. On the territorial issue, Porter reports that Shiloah indicated Israel would stubbornly oppose any PCC plan involving reduction of any territory now held by Israel. Porter comments that he is not encouraged by the Shiloah conversations, but that he will press on in his attempts to discover if the possibility of an agreement exists.

Meanwhile, the Department of State has informed Porter at Lausanne of its considered opinion that the PCC should continue in its capacity of a "go-between" for the disputants and that anything resembling "a PCC plan" should be avoided at this time. While urging Porter to avoid committing the US to responsibility for sponsoring a specific number of Arab refugees for repatriation, the Department adds that Israel should absorb 250,000 more refugees than the 150,000 presently estimated by Israel to be within its boundaries.

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FAR EAST

1. CHINA: US businessmen in Shanghai wish to leave--US Consul General Shanghai has forwarded a message from the American Chamber of Commerce which expresses the view of responsible US business leaders in that city that their present difficulties are "incomparably more hazardous and disturbing than those faced on 8 December 1941" and that the time for liquidating their affairs and leaving China is overdue. The US business leaders therefore request the Department of State to: (a) intercede with the home offices of US companies operating in China so that positive instructions for evacuation may be issued; (b) arrange for their evacuation from Shanghai and obtain assurances against Nationalist attack; (c) sever relations with the Nationalists, or in any case withhold further support, until US residents in China are no longer targets for Communist reprisal; and (d) order the evacuation now of Americans in Nationalist-held areas to avoid the predicament currently faced by US nationals in Shanghai.

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GENERAL

- 1. Yugoslav-Italian relations improve--Italian Foreign Minister Sforza has informed US Embassy Rome that he is pleased with Tito's 30 July communique stressing the need to improve relations between the two countries, particularly in the economic field. Sforza added that as a result of the communique Italy is now ready to sign the trade agreement with Yugoslavia, negotiations on which had been suspended following Tito's moves toward incorporating the Yugoslav zone of Trieste into Yugoslavia.

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CIA-PLAIN

Meanwhile US Ambassador Cannon in Belgrade reports that in an interview between Tito and the Italian Minister in Belgrade Tito referred to the question of the Yugoslav zone of Trieste as "a little matter if other things could be worked out." Cannon believes that Yugoslavia's economic straits are responsible for Tito's attempt to obtain an immediate Italian trade agreement, while Yugoslav fears of a Soviet sellout on Trieste are impelling Tito to leave the way open for broader negotiations with Italy.

EUROPE

- 2. AUSTRIA: Agreement reached on plan for army--General Keyes, US Commander in Austria, reports that the two major Austrian political parties have reached agreement on a plan for the future Austrian army. According to Keyes, the army will be based on universal military service and will have an initial strength of 20,000 to 30,000, composed mainly of men with German army experience. (Four-power agreement has been reached to allow Austria an army of 53,000 under the proposed treaty.) Keyes says that the two major parties have agreed to seek permission from the occupation powers to

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begin the organization of the army as soon as the treaty is signed, so as to be able to put the full initial force in the field when occupation forces are withdrawn. Keyes adds that the Austrians are now preparing a list of materiel requirements, which will be ready by the time the US Joint Chiefs arrive in Austria.

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1055

GENERAL

1. US favors removing Berlin case from SC agenda --The Department of State has instructed the US delegation to the UN to seek British and French agreement to early withdrawal of the Berlin case from the Security Council agenda. Citing a virtual western commitment to the USSR last May to strike the item from the SC agenda once the blockade had been lifted, the Department believes that such action would be helpful as an expression of three-power assumption that Soviet agreement to end the blockade had been made in good faith and will be carried out. The Department concludes that if the USSR reimposes the blockade, the western powers could bring the matter before the SC a second time with greater political effect than if they merely revived a dormant item.

s/s

2. Imminent Rhee-Chiang talks on Pacific pact --Commenting on the imminent arrival of Chiang Kai-shek in Korea, President Rhee informed US Ambassador Muccio in Seoul of his belief that a broad grouping of Asian nations, established primarily to oppose Communist aggression, could not fail to win eventual US support. Rhee explained, however, that he would not commit himself to a narrow pact with the Philippines and Nationalist China and would exercise care in his conversations with Chiang. Muccio believes that the Rhee-Chiang talks probably will not extend beyond the exploratory stage.

s/ts

THE AMERICAS

3. BOLIVIA: Union of anti-government factions - [redacted] the two militant political parties in Bolivia (the nationalist MNR and the leftist PIR)

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3.3(h)(2) have signed a formal agreement to join forces and are planning to instigate nation-wide disorders from 4 to 6 August. [redacted] the PIR is not anxious to stage a coup now, but may be forced to accede to MNR's desire to seize the government as soon as possible.

(CIA Comment: Effective cooperation between the MNR and PIR would represent a real threat to the present government, which has been gaining strength slowly since the MNR's abortive coup in May. Although it appears unlikely that these extremist parties can stage a successful coup at this time, the disorders planned for 4 August could be the first skirmish in an eventually successful effort to overthrow the existing moderate government. Both the MNR and the PIR are strongly anti-US.)

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1056

GENERAL

1. French views on Italian colonies---US Ambassador Bruce in Paris, in commenting on the French attitude toward the Italian colonies question, expresses his belief that it is "illusory" to hope for French support in the General Assembly of any formula granting Libya independence within a two or three year period. Bruce points out that the French, fearing repercussions in French North Africa: (a) strongly oppose a united Libya under the Senussi, whose religious influence they fear; (b) are only slightly less concerned over early independence for Tripolitania; and (c) might "resign" themselves to Cyrenaican independence if Tripolitania could serve as an insulating cushion between Cyrenaica and Tunisia.

Bruce stresses the advantages of attempting to delay independence, at least for Tripolitania, in return for concrete French assurances to use the time thus gained in preparing French North Africa for "something approaching dominion status." According to Bruce, such a proposal, by permitting a "parallel evolution" of the various components of North Africa, would provide the best means of solving the area's basic problem of nationalism. Bruce points out, however, that it would be useless to approach the French with anything less than a ten-year transition period.

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1057

GENERAL

1. Spaak anxious to be OEEC director general--Former Belgian Premier Spaak has indicated to US Charge Millard in Brussels that he is anxious to accept a post as director general of the Organization for European Economic Cooperation (OEEC). Spaak said he would rather have the OEEC post than resume his duties as Belgian Foreign Minister, because as Foreign Minister he would be dragged into numerous internal political squabbles with which he has no sympathy. Pointing out that the OEEC has made no progress, particularly in the important matters of foreign investments, tariff reductions, and the establishment of healthy currencies, Spaak believes a good case can be made for creating the post of director general and that he could do useful work in this post.

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EUROPE

1. BELGIUM: Spaak pessimistic over political situation--
 US Charge Millard reports that Foreign Minister Spaak takes a very pessimistic view of the Belgian internal political situation and believes that for a year or more a number of "weak governments" will be formed and will fall every few months. Spaak referred to "little men" in Belgian politics who lack the stamina and courage for real statecraft. Millard believes that Spaak desires to "get out from under the impending mess" in Belgium and hopes that after much disorder, uncertainty, and incompetence in Belgian politics he will be able to return relatively untarnished as the "one really big man."

FAR EAST

2. CHINA: Communist problems in Shanghai--US Consul General Shanghai has learned from a reliable source that at recent meetings of the Shanghai Planning Committee Communist officials indulged in heated controversial discussion over their inability to solve Shanghai's critical economic situation. The Consul General believes this report substantiates other evidence that the disastrous Communist position in Shanghai and its hinterland is panicking the Communist leaders and straining their tempers and solidarity. The Consul General describes the atmosphere as one of "great confusion and desperation" and believes the Communist leaders in Shanghai are indulging in increasing recriminations among themselves and with officials in Peiping.

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Fear of Communist Reprisal--US Charge Nanking reports that "there is considerable speculation" among members of the diplomatic corps concerning the possibility of new Communist transgressions against foreign officials and nationals following the departure of US Ambassador Stuart. The Charge points out that Stuart's mere presence in Nanking "undoubtedly extended a certain mantle of protection to all foreigners" in the city. The Charge believes the trend of developments points toward an increase in such Communist persecutions in Nanking as radio censorship, arbitrary arrests, exorbitant labor demands and arbitrary taxation maneuvers.

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GENERAL

1. Views on Soviet policy regarding Berlin--US Embassy C/A - 5
 Moscow expresses its belief that the Kremlin remains uninterested in restoring a unified democratic government in Berlin and intends to continue its Berlin offensive designed to discredit and undermine the position of the western powers. The Embassy also expects further harassment of western communications to Berlin, particularly next winter if the airlift is deactivated. Embassy Moscow therefore fears that the western powers may play into the Kremlin's hands if they fail to maintain the western Berlin economy adequately and insist on applying the same standards of financial self-sufficiency to western Berlin as to the Western Zones.
2. Italian and Austrian reaction to possible ECA cuts--According to US Embassy Rome, Italian Premier De Gasperi has directed a personal appeal to Secretary Acheson regarding the proposed reduction in the 1949-50 ECA allocation to Italy. The Embassy transmits the view of Italian officials that the extreme danger point would be reached for Italy if its allocation fell below \$470 million and that the government would be forced to resign. De Gasperi further believes that disregard of Italy's minimum requirements under ECA would greatly strengthen the Communists in their campaign against the government, ECA, and the Atlantic Pact. S - 75

Meanwhile, US Legation Vienna views with grave concern the possibility that Austria's ECA allocation may be reduced to \$66 million. The Legation expresses the view that such a cut would threaten existing cooperation between the Austrian political parties and impair the prospects of saving Austria from Communism and Soviet domination.

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(CIA Comment: CIA believes that the Italian Government is exaggerating the economic consequences of the proposed ECA cut, but that any substantial reduction would weaken the stability of the government and cause a shift to the right in its composition. CIA concurs in Legation Vienna's analysis of the effects of the proposed reduction in the ECA allocation to Austria and also believes such a cut would: (a) jeopardize Socialist control of labor; (b) precipitate panic conditions; and (c) make it virtually impossible for Austria to fulfill its treaty obligations.)

3. US advises against Greek military action in Albania--The Department of State has informed US Embassy Athens of the receipt of recent reports indicating that the Greeks may still be planning military intervention in Albania. The Department has instructed the Embassy "to make unmistakably clear once again" to the Greek authorities that the US is opposed to any rash military action, such as attempted encirclement of the guerrillas through Albanian territory or mass pursuit of the guerrillas into Albania. CIA - 5

(CIA Comment: As the Greek Army's summer offensive develops, guerrilla violations of the frontier, such as artillery fire and attempted counteroffensives from within Albania, will probably increase. CIA believes that under these circumstances the Greek Army may take matters into its own hands and dispatch units across the border in order to neutralize the most immediate sources of irritation.)

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1060

GENERAL

1. Berlin city officials approached by Communists -- According to Acting Political Adviser Gantenbein in Berlin, several Socialist officials in the city government have been approached by persons presumably in contact with the Communist-run Socialist Unity Party (SED). Gantenbein reports that some of those approached fear the overtures may lead to a proposal to unite the Soviet and western sector governments under the leadership of the SED. Gantenbein reports that the western officials have thus far rebuffed the overtures but fear that they may have the tacit approval of the US. Gantenbein recommends that the US reassure the Berlin city officials by telling them that the US will not encourage any political rapprochement which is opposed by the western sector government and that it is up to the Germans to treat Communist overtures as they see fit.

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(CIA Comment: CIA believes that the attitude of the west Berlin officials reflects their growing fear that the US is losing both the political initiative in Berlin and control over the deteriorating economic situation.)

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GENERAL

1. Cochran opposes US-Dutch economic consultation--US Representative Cochran in The Hague recommends that Dutch ECA Commissioner Hirschfeld not visit Washington to discuss proposed Netherlands economic and financial policy at the forthcoming Hague round table conference on Indonesia. Cochran points out that such a move would have "disastrous" consequences, because the discussions could not be kept secret and would be interpreted by the Indonesians as US support of the Dutch. Cochran believes that such discussions would lead the Indonesians to feel the US had established a policy which Cochran as a US official would have to follow, thus impairing his usefulness as a completely objective UN representative at the Hague conference.

5 - 5

2. US views on division of ECA aid--The Department of State has instructed US representatives in the ECA nations that, in response to pleas for US aid in warding off proposed reductions in ECA allocations, they should point out that: (a) continued emphasis on European initiative and responsibility for the success of the European recovery program is of major importance; (b) the recovery program has been based on the principle that the participants themselves must make the initial recommendations for division of US aid; and (c) the success of the program will be prejudiced if individual countries are allowed to bypass the Organization for European Economic Cooperation (OEEC) or obtain special treatment through representations directly to the US. The Department adds that the current reductions are in line with the premise that US aid would be gradually reduced and that the US will follow OEEC recommendations to the fullest possible extent.

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1062

GENERAL

1. US views on Berlin unification--The Department of State has authorized the Acting US Political Adviser in Berlin to inform leaders of the western sector Berlin city government that the US has no intention of telling the Germans how to treat overtures from Soviet sector representatives. The Department, adhering to the position that the western city government is the only legal regime in Berlin, cannot encourage any political rapprochement with the so-called east sector government which would have the effect of weakening the legal or moral position of the western government. The Department, while constantly seeking a basis for the reunification of Berlin, can see no other approach than new, free elections, and the elimination of the east sector puppet government.

S-TS

2. Dutch ECA Commissioner will not visit US--US Representative Cochran in The Hague reports that Dutch ECA Commissioner Hirschfeld will not come to the US now to discuss the economic policies to be adopted by the Netherlands in the forthcoming Hague round table conference on Indonesia. Although agreeing to cancel Hirschfeld's visit, leading Dutch officials stressed their concern over the economic problems involved in an Indonesian settlement. Cochran informed the Dutch Foreign Office that when the propitious moment arrives, he will be happy to recommend the revival of ECA aid to Indonesia and help plan other measures of financial support.

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NEAR EAST-AFRICA

1. PALESTINE: US considers Israeli refugee offer unsatisfactory--
The Department of State has informed the Israeli Ambassador in Washington that the US does not consider the Israeli offer to repatriate 100,000 Arab refugees a satisfactory basis for contributing to an ultimate solution of the refugee problem. Although the US remains unwilling to assume responsibility for naming a final figure, the Department indicated to the Ambassador that 230,000 refugees, as suggested for repatriation under the Gaza strip proposal, would be considered the minimum number acceptable.

S-75

FAR EAST

2. CHINA: Canton expected to fall in immediate future--US
Counselor Clark in Canton indicates that the military situation is deteriorating so rapidly that the Embassy may be compelled to leave Canton before 15 August. Clark requests that a decision be expedited on his recent recommendation that the Canton consulate be closed, that all consular and diplomatic personnel be withdrawn from Communist-occupied areas, and that mission, business, and professional groups be advised to withdraw their personnel from China.

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1064

GENERAL

1. British suggest more attention to Soviet Zone--According to US Ambassador Douglas in London, high British Foreign Office officials believe that, with the heat off in Berlin, the western powers should take a more active interest in the affairs of the Soviet Zone of Germany in order to:
- (a) undermine the influence of the pro-Soviet Germans;
 - (b) encourage the pro-western Germans; and (c) worry the USSR. Douglas believes that the British intend primarily psychological measures, which involve cultural exchanges, encouragement to Soviet Zone Germans to visit the "show window" west sectors of Berlin, and increased broadcasts to the Soviet Zone on the democratic way of life in western Germany. Douglas indicates that the proposal will be presented to the British High Commissioner for Germany and to Foreign Secretary Bevin, upon whose approval it will be taken up with France and the US.

(CIA Comment: CIA believes that the limited psychological measures outlined might meet success in (b) and (c) above, but doubts that control by pro-Soviet Germans would be altered appreciably as long as Soviet forces remain. CIA also believes that in its present condition western Berlin could not serve as a "show window" with which to impress Soviet Zone Germans.)

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1065

GENERAL

- 1. US advises restraint in Middle East--The Department of State has instructed US missions in various Middle East capitals to emphasize to the governments concerned the desirability of exercising restraint following the Syrian coup d'etat.

C/A - S-out

(CIA Comment: The latest Syrian coup, the second in four months, is symptomatic of the current instability in the Arab world. Present reports, which are still meager, indicate that the coup was an internal affair engineered by dissatisfied officers of the Syrian Army. There is as yet no concrete evidence that elements in neighboring countries were involved in the coup although the governments of both Iraq and Jordan have frequently and openly expressed antagonism toward Zaim's regime. Even if such elements were not involved in Zaim's overthrow, these countries may feel that current dislocations in Syria present an opportunity for realizing Hashimite expansionist ambitions at the expense of Syria. The possibility also exists that other would-be "saviors" in the area may be inspired to imitate the Syrian coup as a direct method of obtaining governmental control. Pending the formation of a new government, the status of international commitments entered into by the Zaim Government--particularly the Trans-Arabian Pipeline Convention and the Syrian-Israeli Armistice--remains undetermined.)

- 2. Norway seeks surplus arms exchange with WU nations--US Ambassador Bay in Oslo reports that Norway, invoking the principle of mutual aid contained in the Atlantic Pact, will soon submit to the Western Union nations a proposal for a limited exchange of surplus war materials. Norway's most urgent need, according to Bay, is for certain types of ammunition which the Norwegians are seeking from the Western Union

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nations. Bay indicates that in return Norway will offer certain equipment left by the Germans. The Norwegian Government expresses the view that although the exchange of military equipment will eventually be taken up by the North Atlantic pact supply organization, a few exchanges should be undertaken as quickly as possible.

NEAR EAST-AFRICA

S-75

3. IRAN: Shah's concern over planned MAP aid--US Ambassador Wiley reports that the Shah is "extremely upset" over the proposed US military aid program for Iran and has spoken of cancelling his projected visit to the US. The Ambassador urgently recommends that the possibility of increasing Iran's share of aid under the military aid program be considered because he believes the present aid program for Iran will both: (a) fail to maintain Iranian confidence in US support; and (b) strengthen suspicion of Iranian leaders that a "secret US policy" exists designed to "sacrifice Iran in event of a crisis." The Ambassador points out that although there is presently some doubt regarding the will and ability of the Iranian Army to fight, increased US military aid and continued guidance might lead to the development of a military establishment capable of substantially contributing to US security interests in the Middle East.

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1066

GENERAL

1. Stalin-Kirk interview--In a preliminary report of his 15 August conversation with Stalin, US Ambassador Kirk in Moscow indicates that during a courteous interview lasting 35 minutes the only substantive matters discussed were Lend-Lease and the Voice of America. Stalin asserted that the USSR would live up to its responsibilities under Lend-Lease and expressed the desire, regarding VOA, that Kirk take up the matter with Foreign Minister Vishinsky.

S-TS

FAR EAST

2. PHILIPPINES: US "support" for Southeast Asia union urged-- US Embassy Manila transmits a report from Ambassador Romulo, Philippine representative to the UN, that he has succeeded in obtaining the support of all Philippine political parties for calling a conference in Baguio to organize a Southeast Asia union. Romulo adds that he is now "sounding out" the governments of India, Australia, New Zealand, Ceylon, Burma, Pakistan and Siam concerning this proposal. Romulo requests authorization from the Department of State to indicate to these countries that the US "regards with sympathy the efforts of the free countries of Southeast Asia to cooperate more closely with one another in promoting their common interests" and suggests that agreement to the proposal would be facilitated if the envoys of the interested countries in Washington were given some direct indication of such a US attitude.

CIA-CONF

(CIA Comment: Romulo's proposal, designed to achieve economic, political and cultural cooperation in Southeast Asia, represents a limited and regional alternative to the Pacific Union proposal which was advanced during the recent Quirino-Chiang-Rhee discussions and which anticipated mutual defense commitments.)

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1067

GENERAL

1. Stalin-Kirk interview--US Ambassador Kirk in Moscow has reported that in the 15 August interview Stalin declared the Soviet Union has no intention of failing to fulfill its obligations under the Lend-Lease Agreement, but "would not be discriminated against" in comparison with other governments with Lend-Lease obligations. Stalin indicated that the USSR may have counter claims which must be considered; he added that if current negotiations in Washington bog down, he is prepared to intervene. Kirk further reports that neither Stalin nor Vyshinsky challenged his reference to Soviet jamming of the Voice of America as an established fact. Stalin professed slight information on the subject and said he would ask Foreign Minister Vyshinsky to deal with this problem. Kirk indicates that the tone of the interview was cordial throughout and that toward the close of the interview Stalin became more expansive, concluding with an offer to receive Kirk "without formality" at any time when he may consider it desirable to raise specific matters.
2. Dutch concerned over reports of Indonesian military activity--According to US Representative Cochran in The Hague, Netherlands officials have expressed their concern over reports of Indonesian military activities after the effective date of cease-fire and have warned that continued infiltration will undoubtedly precipitate armed clashes. Indonesian Republican Premier Hatta has informed Cochran he is convinced the alleged infiltration was not ordered by the top Republican army command and has urged Republican President Soekarno to avoid any moves in contravention of the cease-fire orders. Cochran has counseled both sides not to lose their heads, expressing the view that the next few days may be critical for the prospects of the Hague Round Table Conference.

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1068

GENERAL

1. Soviet intentions concerning Tito--US Ambassador Kirk transmits the view, which he indicates is shared by his diplomatic colleagues in Moscow, that the USSR does not plan to sever Soviet-Yugoslav relations at this time but may be seeking to goad Tito into making this step. Kirk suggests that the vehemence of recent Soviet propaganda claiming that Tito, not the USSR, abandoned Yugoslav claims on Austria, reveals Soviet embarrassment over the Paris agreement. Kirk indicates that some diplomatic personnel in Moscow believe that the Kremlin has a definite plan for Tito's liquidation but that the US Embassy is not inclined to accept this theory. The Embassy believes the Kremlin may estimate that a combination of subversive guerrilla activities and Yugoslav economic difficulties will bring about Tito's fall at an early date.

CIA - S

(CIA Comment: CIA agrees in general with these views but is dubious that the Kremlin is trying to goad Tito into breaking off all diplomatic relations, which the USSR probably continues to find useful.)

2. Increased Dutch concern over Republican "infiltration"--US Representative Dow in Batavia reports that Dutch concern over a Republican "concerted plan" for infiltration of Dutch-held areas of East and Central Java has increased within the past few days. The Dutch commander in Indonesia states that his troops could not be restrained much longer in the face of Republican "provocation."

CIA - S

(CIA Comment: CIA believes that despite the sincere efforts of Republican leaders to implement the cease-fire agreement, the activities of the numerous Indonesian fighting units--including Communist and dissident forces as well as Republican--may provide an excuse for Dutch military action.)

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S - 5

3. China to place Soviet treaty violations before GA --US Ambassador Austin reports from New York that the Chinese UN representative has been instructed to place Soviet violations of the 1945 Sino-Soviet treaty on the agenda of the forthcoming General Assembly and has asked whether the US would actively support China's case. According to the Chinese representative, the Nationalist Government will delay filing the item until the opening of the GA in order to avoid tipping off the USSR and the Chinese Communists.

(CIA Comment: CIA believes that the long-contemplated Chinese proposal has been hastened by the US white paper and is designed to exert pressure on the US to support the Nationalist Government in the UN.)

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1069

GENERAL

1. US moves to end Austrian treaty discussions -- The Department of State has instructed US Representative Reber in London to bring the Austrian treaty negotiations to a close as near the 1 September deadline as possible, making an effort meanwhile to obtain the maximum agreement. The Department warns that further western concessions are undesirable and that the deputies must not arrive at final agreement on points in which the Soviet demands exceed the terms of the Paris agreement and adversely affect Austria or the western occupation powers. The Department expresses the view that the outstanding issues can be discussed in Moscow by the western ambassadors and the Soviet foreign minister. The Department advises Reber to seek British and French concurrence on future procedure concerning the treaty.

THE AMERICAS

- 3.3(h)(2) 2. CHILE: General strike may cause government fall [redacted]
 [redacted] President Gonzalez Videla's position may become untenable if a general strike culminates the rioting of the past several days. [redacted]
 3.3(h)(2) the President might then retire in favor of a junta, probably including the present Minister of National Defense and the Minister of Interior. US Ambassador Bowers in Santiago expresses the view that it is too early to determine whether the present strikes will create a trend toward a general strike.

(CIA Comment: The weakness of Gonzalez' political position is increased by his dependence on a coalition which has already shown signs of disintegration in the face of the worsening economic situation. Although a junta representing the armed forces could probably control any efforts at uprisings, it could not improve the basically bad situation.)

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1070

GENERAL

C/A - S

- 1. British favor acceptance of Soviet terms for Austria --
 US Representative Reber in London, in replying to Department of State instructions to bring the Austrian treaty discussions to a close without making further concessions to Soviet demands, reports that the British Foreign Office wants to conclude an Austrian treaty at this time even though it means further concessions to the USSR. According to Reber, the British feel that the importance of completing a treaty by approximately 1 September outweighs the disadvantages of accepting present Soviet terms which they believe do not create sufficient hardship to warrant the risk of indefinite postponement of the Austrian treaty. British officials consider that western failure to reach agreement with the USSR now would have a depressing effect internationally whereas an Austrian agreement would bring real improvement and would benefit Austria by freeing the country from occupation costs and Soviet exploitation of eastern Austria. Reber comments that in reaching this decision the British have certainly been influenced by Austrian pressure for an early agreement.



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1071

GENERAL

- 1. Soviet military move against Tito held unlikely--US Ambassador Kirk reports that foreign diplomatic observers in Moscow continue to discount the probability of direct Soviet action against Tito at this time despite the ominous tone of the latest Soviet note to Yugoslavia. According to Kirk, the US Embassy is in general agreement with the view of most observers that the Kremlin is counting on the liquidation of Tito as a consequence of the serious Yugoslav economic situation and a Soviet "war of nerves" accompanied by harassing measures short of hostilities.

CIA-S
CIA-S

US Embassy Belgrade reports, concerning current rumors of Soviet troop movements along the Yugoslav border, that although the Yugoslav Government is believed fully aware of such rumors, there is no evidence that new security measures are being taken.

(CIA Comment: CIA agrees that overt Soviet military action against Yugoslavia remains doubtful. CIA considers the rumors from Hungary and Rumania regarding Soviet troops movements along the Yugoslav border to be a part of the Soviet "war of nerves" rather than an indication of imminent military action by the USSR.)

- 2. British policy on Italian colonies--The British Foreign Office has informed US Embassy London that as a basis for settling the Italian colonies problem, the UK now favors: (a) independence for Libya within two to five years, with interim administration by present occupying powers; (b) incorporation into Ethiopia of all Eritrea except the western province which would go to the Sudan; and (c) either Italian trusteeship over Somaliland or, if this is not acceptable to the UN General Assembly, postponement of the question to the 1950 GA session. According to the

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Foreign Office, the UK could not accept trusteeship over Somaliland at this time because of possible repercussions on British-Italian relations. The UK also opposes an independent Eritrea on the grounds that it would be a weak state and open to undesirable influences. The UK believes that the question of unifying Cyrenaica and Tripolitania should be decided by the Libyans themselves after their independence has been granted and that meanwhile nothing should be done to prejudice eventual unification.

3. British and French views on future handling of Austrian talks-- *CIA-S*
US Representative Reber in London expresses the view that the Soviet deputy at the Austrian treaty negotiations is clearly not authorized to accept at this time any compromise on major outstanding issues but that the USSR expects further discussions at the ministerial level later. Reber indicates that the British, who favor the conclusion of a treaty by the 1 September deadline, believe this can be accomplished by accepting the Soviet terms on the German assets question. Reber explains that both the French and British wish to avoid a meeting of the Council of Foreign Ministers before settlement of the Austrian treaty because they fear that the USSR might insist upon discussing Germany as well as Austria.

4. US views on Southeast Asia union--*CIA-CONF*
In reply to the request of Philippine UN Representative Romulo for active US support of a non-military Southeast Asia union, the Department of State has reiterated that the US will view sympathetically any efforts by the peoples of Asia to cooperate in pursuit of common economic and political objectives but will avoid taking any steps at this time which could be misinterpreted as US maneuvering behind the scenes. The Department believes that the formation of a viable Asian association can come about only through the discovery of common purposes and mutual needs by the Asian nations themselves.

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EUROPE

5. **UNITED KINGDOM: Pound devaluation unlikely before election--** French Foreign Minister Schuman has told US officials in Paris that he does not expect the British to devalue the pound before holding a general election and that Churchill has indicated he expects an election in October.

S-75

(CIA Comment: CIA believes that there is increasing reason to expect a British general election in October or November. However, Prime Minister Attlee will probably not make a decision concerning the election until after the September economic and financial conference in Washington.)

3.3(h)(2)

NEAR EAST-AFRICA

6. **SYRIA: Skirmishes with pro-Zaim troops reported-**

CIA-5

(a) the new Syrian Government's forces have been involved in several minor skirmishes with troops loyal to the late President Zaim; and (b) Kurdish elements have sworn vengeance for the execution of Prime Minister Barazi. US Legation Damascus comments that these reports, the accuracy of which cannot be confirmed at present, reflect the uneasy atmosphere now prevailing in Syria.

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1072

GENERAL

1. US proposes new air policy regarding Yugoslavia--The Department of State has instructed US Embassy London to inform the UK Government that the US proposes, in view of the breach between Tito and the Kremlin and evidence indicating that Soviet control of Yugoslav air operations has been eliminated, to exempt Yugoslavia from the US-UK restrictive air policy toward the Satellites. The Department indicates that the US proposes to regard favorably the export to Yugoslavia of aviation equipment and the exchange of reciprocal air rights between Yugoslavia and nations friendly to the western powers. The Department advises Embassy London that although the US perceives no danger to the interests of the US in dealing with Yugoslavia on such a basis, it does not desire that friendly states pursue such a policy unless they derive positive benefits from the exchange.

CIA-S

2. Embassy Belgrade's views on Soviet note to Tito--US Embassy Belgrade, in commenting on the 18 August Soviet note to Yugoslavia, points out that the appeal to "healthy elements" in Yugoslavia to revolt against Tito indicates that the Kremlin either: (a) misjudges the Yugoslav character and the internal situation; or (b) estimates that Cominform agents have built a network which justifies a reasonable expectation of a successful revolt. The Embassy indicates that a re-examination of the evidence has not altered its contrary estimate concerning such a network. The Embassy suggests that the note was timed so as to profit by this critical moment in Yugoslavia's economic situation and specifically to coincide with the arrival in Belgrade of a survey mission from the International Bank. The Embassy estimates that the Yugoslav Government will use restraint and do nothing to aggravate the situation but will not back down.

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3. Austrian view on treaty negotiations--Austrian Foreign Minister Gruber has expressed to US Representative Reber in London his view that despite Austria's strong desire for a treaty without delay, a better settlement might be obtained if the major economic issues were reserved for consideration by the Foreign Ministers at the New York meeting of the General Assembly. Gruber is convinced that the USSR will not permit final agreement by the deputies in London but stresses the importance of clearing up minor questions prior to the 1 September deadline for drafting the treaty.

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GENERAL

WA-5

1. US views on Austrian treaty terms--The Department of State has informed US Representative Reber in London that the US does not share the British view concerning the desirability of promptly accepting Soviet terms on the German assets problem in order to reach agreement on the Austrian treaty in the near future. The Department considers the substance of the treaty and its long-range effect to be more important than its prompt completion and expresses the view that acceptance of the present Soviet terms would greatly increase the possibilities of future Soviet pressure, intensify Austria's need for direct aid, and make US ratification of the resulting treaty exceedingly difficult. The Department suggests that a western diplomatic approach to the USSR might clarify issues for future settlement, possibly by the Foreign Ministers.

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GENERAL

1. Tito's reply to USSR held "unyielding"--US Embassy Belgrade characterizes the 23 August reply of the Yugoslav Government to the USSR as "dignified and unyielding" on the real substance of the Yugoslav-Soviet controversy. The Embassy considers that the reply cannot be called conciliatory because it uncompromisingly restates Yugoslav sovereignty and declares concerning the treatment of Soviet citizens that such citizens may leave Yugoslavia if they wish. The Embassy regards the intent of the Soviet note to be an effort to intensify nervous pressure on the Tito Government and particularly to suggest to the western powers that Tito is a poor economic risk. The Embassy expects this campaign to continue and indicates that Yugoslav officials believe their reply will gain them time but not a relaxation of the pressure.

S - S

2. UK considers ways of getting Tito-Kremlin issue before SC--US Embassy London reports that the British Foreign Office is giving serious consideration to the possibility of getting the Yugoslav-Soviet controversy before the UN Security Council. The Embassy indicates that the Foreign Office, which would hope by such action to thwart possible Soviet intentions to take decisive action against Tito, believes the preferable course would be for Yugoslavia to take the issue to the SC.

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(CIA Comment: CIA estimates that Tito, fearful that an appeal to the Security Council at this time would be an admission of weakness which might have bad repercussions internally, would consider such a move premature. In any event, Tito would probably prefer to take the initiative himself in requesting SC action because he has already been accused by the Kremlin of being a tool of the West.)

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1075

GENERAL

1. British oppose taking Berlin case off SC agenda --US Representative Ross at the UN transmits a British memorandum which opposes withdrawal of the Berlin question from the Security Council agenda at this time and expresses the view that the western powers are under no formal obligation to take such a step. According to the memorandum, the UK Government believes it is too early to assume that the western powers will have no further trouble over Berlin. The British believe that Soviet intentions to force the western allies out of Berlin remain as firm as ever, notwithstanding the present friendly attitude of Soviet authorities there, and suggest that withdrawal of the case would imply western satisfaction with the present state of affairs in Berlin.

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EUROPE

1. BULGARIA: Clash reported along Greek border--The US Legation in Sofia transmits a report

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[redacted] that "a major skirmish" occurred on the Greek-Bulgarian frontier 23 August between the Greek National Army and Bulgarian troops supporting guerrillas fleeing into Bulgaria. [redacted] 43 Bulgarian soldiers were killed and an indeterminate number were wounded.

3.3(h)(2)

(CIA Comment: Although the report of this skirmish has not yet been confirmed by Greek Army sources, incidents are likely to occur along the Greek-Bulgarian border as the guerrilla command attempts to divert the attention of the Greek Army from the current major offensive along the Albanian border.)

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GENERAL

1. Bevin's views on joint US-UK problems--US Ambassador Douglas transmits the views of British Foreign Secretary Bevin on subjects scheduled for discussion during the forthcoming US -UK conference in Washington. According to Douglas, Bevin feels that a concerted US-UK-French policy should be developed concerning the new West German Government, on domestic German matters, as well as external relations. Bevin reiterated his belief that it would be wise for the western powers to maintain trade relationships and western establishments in China in order to influence the Chinese Communists in favor of the West. Bevin implied that although he would not press for a prompt conclusion of the Austrian treaty if the US disagrees, he considers the quick conclusion of a treaty, even though relatively unsatisfactory, to be more advantageous for the US and the UK than a return of the question to the Council of Foreign Ministers.

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British Foreign Office views on Austrian treaty--US Embassy London reports that the British favor the conclusion of an Austrian treaty in the near future because they: (a) have little hope that the Foreign Ministers could arrange better terms; (b) believe that another opportunity for concluding a treaty may be a long way off; and (c) consider it important to get Soviet forces out of Austria before the Yugoslav situation comes to a head, thereby bolstering the Yugoslav will to resist Kremlin pressure. Meanwhile, US Commanding General Keyes in Austria reports the belief of Austrian Foreign Office circles that the USSR will soon have to deal with Tito one way or another and that the Kremlin is vacillating on the Austrian treaty while deciding what to do about Yugoslavia.

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2. Soviet military move against Tito still held unlikely--US Embassy Belgrade reiterates the view that the Kremlin would prefer to accomplish the liquidation of Tito by methods ostensibly internal rather than by the open use of external force. The Embassy believes that the two recent Soviet notes and the rumors of Soviet troop movements fit this pattern. Pointing out that the Kremlin may, however, regard Tito's elimination important enough to justify the risks involved in direct action, the Embassy declares that the only way to deal with this possibility is for the US to make unmistakably clear to the Kremlin that it will not stand idly by and see the sovereignty of any small country violated by the USSR. The Embassy believes that if it becomes appropriate to refer the Tito-Kremlin issue to the Security Council, the matter should be kept to the basic issue of Soviet determination to replace the Tito regime with one subservient to the USSR and that in any event only Yugoslavia should take the issue before the UN.

British views on referring Tito-Kremlin issue to SC--
According to US Embassy London, the British Foreign Office has concluded that the Tito-Kremlin dispute has reached the point where all possibility of Soviet military intervention cannot be ruled out and where consideration of preventive measures can no longer be deferred. Concerning the possibility of referring the dispute to the Security Council, the Foreign Office believes that such action would have the merit of bringing the situation before world opinion and might not only deter Soviet action against Yugoslavia but would also be useful against the Soviet "peace offensive." The British Ambassador in Belgrade has reportedly been instructed to sound out Deputy Foreign Minister Bebler concerning the official Yugoslav view on the possibility of referring the dispute to the SC, either by Yugoslavia or some other country.

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THE AMERICAS

3. BOLIVIA: Bolivian Government asks US aid- [redacted]

[redacted] Acting President of Bolivia has: (a) requested that fighter and bomber planes be made available from the US immediately; and (b) declared that the Bolivian armed forces are insufficient to control the entire country in the present revolutionary situation. The US Embassy in La Paz reports that violence has broken out between miners and troops in the Catavi area and that US personnel are being evacuated.

(CIA Comment: If miners in other areas act in support of the National Revolutionary Movement (MNR) revolts, the Bolivian Government will have great difficulty in re-establishing order and its survival will be entirely dependent on the continued loyalty of the army leaders.)

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GENERAL

1. No evidence of impending Soviet military activity against Tito--
 In response to requests for evidence regarding Soviet plans to take military action against Yugoslavia, US military attaches in the Soviet orbit countries report that they have found no evidence of Soviet preparations to invade Yugoslavia in the near future. US military authorities in Germany consider that an intensified campaign of Soviet-inspired incidents on the Yugoslav borders will probably be motivated by a Soviet desire to sharpen the war of nerves against Tito and to enhance the chance of successful internal Yugoslav disturbances. The US military attache in Moscow believes that only as a last resort will the Kremlin attempt to remove Tito by Soviet-Satellite military action of a guerrilla nature.

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(CIA Comment: CIA believes that although the USSR may intensify the current war of nerves against Tito, the Kremlin is unlikely to resort to direct military aggression against Yugoslavia in the near future.)

US thinking on referring Yugoslav-Kremlin dispute to UN--

The Department of State has informed US Embassy London of its belief that it would be unwise to force Tito's hand either by appealing the Tito-Kremlin problem to the UN or by urging Tito to lodge a complaint. The Department adds that recourse to the UN at this time would have the disadvantage for the Yugoslavs of substantiating Soviet charges that Tito is bidding for support from the West; however, should Yugoslavia decide the situation warrants reference to the UN, the US would support appropriate UN action to safeguard Yugoslav independence. Regarding future Yugoslav-Soviet relations, the Department expresses the view that if the Soviet campaign against Tito develops into an imminent threat to peace or acts of aggression, referral of the problem to the UN would be both logical and necessary.

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2. Possible US-UK-French approach to Albania --The Department of State has instructed US Embassies London and Paris to determine if the UK and France are willing to join the US in another communication to Albania expressing the desire that the Albanian Government will not allow its territory to be used as a base for guerrilla attacks on Greece. The Department believes that if the guerrillas could be prevented from reorganizing and rearming in Albania and then returning to Greece, the whole problem of the guerrilla war would be largely solved. The Department also expresses the opinion that, although previous approaches to Albania have had little effect, another attempt is warranted by such changing circumstances as: (a) the isolation of Albania from direct contact with the Cominform; (b) the recent successes of the Greek armed forces; and (c) the possibility that the Cominform is becoming discouraged over the Greek situation.

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GENERAL

1. Estimated effects of US aid for southwest China group--In response to a Department of State query regarding the military requirements and potentialities of the Nationalist group in southwest China headed by Li Tsung-jen and Pai Chung-hsi, US Embassy Nanking has replied that the military capabilities of this group to organize and continue resistance against the Communists must be considered limited. The Embassy considers that the forces of Pai and Li, if given sufficient US assistance, could maintain themselves against superior Communist strength for a maximum period of one year, but that the Communists are capable of cutting off Pai's access to coastal ports, thus making an airlift the only channel of supply for these forces.

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The Embassy points out that the considerations favoring a US plan to bolster this group include: (a) the southward sweep of Communism would be obstructed by continued resistance in southwest China, even if only for a year, which would give Southeast Asia more time to strengthen defenses; and (b) effective defense of the southwest would encourage potential resistance groups within the Communist areas of China and generally weaken Communist authority. The Embassy includes among unfavorable considerations that: (a) an openly hostile attitude by the US toward the Communists would unquestionably prevent the establishment of diplomatic relations with the new government of China for some years to come; (b) renewed military aid to the Nationalists would mean the rapid extinction of all American interests in Communist China; and (c) such action probably would strengthen rather than weaken Chinese Communist ties with Moscow. The Embassy concludes that even by the most optimistic estimate of the benefits to be derived from maintaining Nationalist resistance for a year, the adverse effects would outweigh the advantages.

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2. Possible break in Bulgarian relations with Tito--US Embassy
London transmits a British report from Sofia that Bulgaria will shortly break off diplomatic relations with Yugoslavia. The British minister in Sofia has observed that such a move would be undertaken as part of a general Cominform plan.

CIA-CONF.

(CIA Comment: CIA believes that although the present rapid deterioration of Cominform-Yugoslav relations makes such a Bulgarian move likely, it is probable that some Cominform diplomatic representation with Yugoslavia would be retained in any event in order to provide the Kremlin with continuing channels of intelligence and subversion within Yugoslavia.)

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1080



GENERAL

1. US agrees to recess Austrian treaty talks in London--The Department of State has advised US Representative Reber in London that the US does not object to the British proposal that the deputies suspend the Austrian treaty talks and reconvene in New York about 21 September. The Department has instructed Reber that when this suspension is proposed, the unreasonable demands of the USSR should be blamed for the lack of agreement at the talks. Reber is to express the hope that future negotiations will enable the terms of the Paris agreement to be carried out.

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Representative Reber has informed the Department meanwhile that the British are agreeable to the US proposal of a tripartite diplomatic approach to Moscow once it has been decided to reconvene the deputies in New York. Reber believes the French will also accept this suggestion.

2. French pleased by invitation to Washington talk--US Ambassador Bruce in Paris reports that Premier Schuman and the French Cabinet have been greatly relieved by Secretary of State Acheson's recent message inviting the French to consult on financial and strategic matters in advance of the forthcoming US-UK talks in Washington. According to Bruce, French Foreign Minister Schuman had cancelled his previous plan to be in Washington during the US-UK discussions because of increasing British chilliness toward the idea. Bruce considers the French to be apprehensive that in the Washington talks the British will rely on "strategic blackmail" to secure gains for the UK at the expense of the Continent.

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(CIA Comment: CIA considers that French apprehension largely springs from the fear that British gains resulting from the forthcoming monetary talks may have adverse effects upon the intensified French price stabilization program.)

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1081

GENERAL

1. USSR possibly seeking Berlin reunification--US Political Adviser Riddleberger in Berlin expresses the view that recent indications suggest the USSR may be on the verge of proposing a reunification of Berlin. Riddleberger points out that unstable conditions in the western sectors may be encouraging the Kremlin to think favorable terms can now be gotten on a Berlin settlement. Riddleberger suggests, on the other hand, that hints at a change in Berlin's status--all emanating from Soviet sources--may merely be attempts to foster the uneasiness which many west Berliners feel about the city's future.
2. French views on Tito problem--US Ambassador Bruce in Paris transmits the view of the French Foreign Office that France should not take the lead in efforts to deal with the Tito problem. The Foreign Office believes that the Kremlin will not for some months have to decide whether to engage in open warfare and regards the stand of the US and its willingness to back that stand with the atom bomb as the determining factor in that decision. The Foreign Office recommends that the western powers employ "cautious and supple tactics" during the present period when the USSR is likely to attempt to unseat Tito by all methods short of war.

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3 SEP 1949

1082

EUROPE

1. NORWAY: Foreign Office concerned with proposed NAP grouping--
US Embassy Oslo reports that, in response to a proposal to create a north European planning group composed of Norway and Denmark, the Norwegian Foreign Office has expressed the strong feeling that full membership by either the US or the UK and preferably both is essential because of the manifest weakness of a group composed of only the two Scandinavian countries. The Foreign Office fears that such a small northern unit without complete backing by at least one major power would emphasize its isolation and draw immediate attention to itself as the weakest link in the Atlantic Pact. The Embassy expresses the view that there is some merit to the Norwegian attitude because of psychological considerations.

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GENERAL

1. US proposes demarche on Austrian treaty--The Department of State has instructed US Representative Reber in London to obtain the concurrence of the British and French in a plan to work toward completion of the Austrian treaty. The Department proposes that, following the dispatch to Moscow of parallel diplomatic notes by the western powers, the three western ambassadors make representations at the highest level in Moscow with the purpose of: (a) obtaining Soviet consent to the reconvention of the deputies in New York on 22 September; (b) presenting proof to the USSR that agreement has been prevented by the Soviet demands which go beyond the principles decided upon at Paris; and (c) putting the decision to conclude a reasonable treaty clearly up to the USSR. The Department believes it should be emphasized that the western powers have made their maximum concessions and that conclusion of a treaty in line with the Moscow declaration and the Paris agreement requires a modification of the Soviet position.

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1084

GENERAL

1. Italy asks US action in Trieste situation--US Ambassador Dunn in Rome has received from Italian Foreign Minister Sforza a memorandum calling attention to the "seriously worsening situation" in the Yugoslav Zone in Trieste and expressing confidence that the US will take corrective action in the situation. The memorandum describes "systematic violations of authority" by Yugoslav officials and cites instances of religious persecution, expulsion of Italians from their homes, arbitrary arrests, and virtual prohibition of interzonal traffic. Sforza informed Dunn that if Yugoslav policy is not changed, he will feel obliged to dispatch a note to the four powers which negotiated the Italian peace treaty, a move which he would make reluctantly because of its possible effect on international relations with the USSR. Dunn indicates that Sforza is giving this memorandum to the UK and France as well.

CIA-5



NEAR EAST-AFRICA

2. ISRAEL: Government reportedly planning move to Jerusalem-- The US delegation to the Palestine Conciliation Commission (PCC) in Lausanne transmits a report from the PCC representative in Jerusalem that the Israelis intend to move all their ministries to Jerusalem and establish the government there before the fall session of the General Assembly. The US delegation believes that if the Israelis take this step, the possibility of reaching an Israeli-Arab modus vivendi, based on findings of the Economic Survey Group, will be gravely endangered.

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GENERAL

1. US views concerning role of Trieste in Tito situation --

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The Department of State has informed US representatives in Trieste of its preliminary views concerning the future of Trieste in relation to the current Soviet-Yugoslav dispute. Concerning the possible effect upon Trieste of a swift collapse of the Tito regime, the Department indicates its present estimate to be that even if he is attacked Tito will probably be capable of prolonged resistance in substantial areas of Yugoslavia. The Department declares that the US has no intention of abandoning its support for the eventual return of all the Free Territory of Trieste to Italy, even if a Cominform regime is established in Yugoslavia. The Department indicates that tentative consideration is being given the possibility that the Yugoslav attitude may eventually make possible the establishment of a joint US-British-Yugoslav board to consider common problems in the administration of Trieste. The Department advises the representatives that in general the US considers the initiative for solution of problems in Trieste should come from Yugoslavia.

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GENERAL

1. India rejects, Pakistan accepts UNCIP proposal--Prime Minister Nehru has informed President Truman that India cannot accept the Kashmir arbitration proposal as presented by the UN Commission for India and Pakistan (UNCIP). The Secretary General of India's External Affairs Ministry, however, has expressed the personal opinion to US Ambassador Henderson that the door is still open to arbitration, although he considers no good purpose could be served by further attempts at arbitration under the auspices of UNCIP. Meanwhile, Prime Minister Liaquat Ali Khan has informed President Truman of Pakistan's acceptance of the UNCIP arbitration proposal.

S-TS
CIA-5
CIA-5

2. US view on Yugoslav-Italian situation in Trieste--The Department of State has instructed US Embassy Belgrade to express to the Yugoslav Foreign Office the gratification of the US that the Yugoslav Government is taking active steps to investigate reports of recent oppressive actions against Italians by Yugoslav military officials within the Yugoslav Zone. The Embassy is to point out that because of the gravity with which these reports are viewed in Italy, the Italian Government has found it difficult to go further in its efforts to establish cordial relations with Yugoslavia. The Embassy is to urge that the Yugoslav Government find it possible and desirable, in the light of its own investigation, to take corrective measures as soon as possible.

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GENERAL

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GENERAL

1. USSR wants Rumanian troops moved from Yugo border --
 US service attaches in Bucharest transmit a report from a "completely reliable" source that the USSR has asked the Rumanian Minister of National Defense to evacuate all Rumanian troops from the Banat, a Rumanian province adjacent to Yugoslavia. In surveying possible implications of this action, the attaches indicate they consider it "possible" that: (a) Soviet forces require use of the area for maneuvers; or (b) the Kremlin wants to concentrate Soviet troops in the area as an encouragement for internal revolt in Yugoslavia.

ARMY-5

(CIA Comment: CIA believes that the Kremlin intends to move Soviet replacements into this area in order to further the war of nerves against Tito.)

NEAR EAST-AFRICA

2. ISRAEL: Plan to move ministries to Jerusalem denied--
 The Israeli Foreign Office has informed US Charge Ford in Tel Aviv that rumors indicating Israel's intent to move all government ministries to Jerusalem either prior to or following the fall session of the General Assembly are "utterly without foundation."
3. IRAN: Return of Soviet-kidnapped Iranian soldiers demanded--
 The Iranian Minister of War has informed the US Military Attache in Tehran that the Iranian Government has set a 15 September deadline for the return of the fifteen Iranian soldiers recently kidnapped by Soviet troops and held as hostages for three Soviet soldiers who escaped to Iran. Accord-

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ing to the Minister of War, the Iranian Foreign Minister has informed the Soviet Embassy in Tehran that unless the deadline is met, Iran will close both the Soviet cultural relations society and the Soviet hospital in Tehran and will transmit a dossier to the UN on Soviet-Iranian border incidents. The Soviet Attache reportedly indicated that the Iranian soldiers would be returned as requested.

4. INDIA: Possibility of broader approach to Kashmir question-- US Ambassador Henderson reports that the British High Commissioner has impressed upon Prime Minister Nehru the necessity for making some "constructive suggestions" regarding the Kashmir problem now that he has rejected the arbitration proposal of the UN Commission for India and Pakistan. Nehru reportedly agreed that he could not take a negative attitude on the matter and indicated that on two other issues currently disturbing India-Pakistan relations--the refugee property question and the dispute over the use of the Punjab Canal water--he would probably accept arbitration. Henderson suggests that Nehru's "present trend of thought" may create possibilities for joint US-British cooperation toward settlement of the Kashmir question and points out that simultaneous consideration of the Kashmir dispute, the refugee property issue, and the water rights question might be useful.

C/A-5

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1089

GENERAL

1. Western commandants to shift tactics in Berlin--According to US Political Adviser Riddleberger, the US and French commandants in Berlin have agreed to the suggestion of the British commandant that the three western representatives should adopt a "more receptive attitude" toward Soviet proposals in quadripartite meetings. The western commandants reportedly will try to go further than before to meet Soviet suggestions for bringing together German technical experts from both sides of the city but they will not grant even indirect recognition to the illegal Soviet Magistrat. The western commandants indicate that although they see little chance that this change of tactics will result in normalization of Berlin life, they want to present "as good a record of endeavor" as possible to any new meeting of the Council of Foreign Ministers; the military officials express the view that western commandants have formerly been too prone to reject Soviet proposals on procedural grounds.

C/A - 5

(CIA Comment: CIA agrees there is little chance that Berlin life can really be normalized as a result of local discussions with the Soviet commandant. CIA believes that if the western commandants convene German experts from both sides of the city, the apprehension and pessimism of west Berliners over Allied policy in Berlin will be increased.)

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1090

GENERAL

1. Vishinsky to be Soviet representative at GA -- Soviet Foreign Minister Vishinsky has told US Ambassador Kirk that a last minute decision was taken to send him to New York as head of the Soviet delegation to the UN General Assembly. Kirk suggests that the change in Soviet plans may have been caused by the current impasse in Austrian treaty negotiations and expresses his suspicion that the Kremlin is interested in a Council of Foreign Ministers meeting during the coming GA session. Kirk further reports that during an informal conversation Vishinsky expressed the hope that the session would be productive, perhaps effecting an extension of the Paris CFM meeting, and remarked that he would welcome some private talks because "diplomacy cannot be conducted under floodlights."

S-TS

(CIA Comment: CIA believes that the USSR may have sent a top-level delegation not only in anticipation of a possible CFM meeting but also for dealing with the Greek problem. The Kremlin may also wish to be prepared for the possible raising of the Tito dispute during the GA session.)

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1091

GENERAL

CIA-5

- 1. McCloy favors cessation of German dismantling--US High Commissioner McCloy in Frankfurt believes that the western powers should immediately announce the cessation of all dismantling except war plants, possibly making such cessation conditional on speedy German acceptance of the Ruhr agreement. McCloy expresses his opinion that dismantling has little value to the US and has a "great abrasive effect" on the Germans, whereas abandonment of the process might give solid support to the new German Republic and provide a "breathing spell of cooperation." McCloy points out that many aspects of dismantling are economically incongruous; he also expresses the conviction that present agitation against dismantling is not inspired by former Nazi elements.

(CIA Comment: CIA considers that although a cessation of the present dismantling program would somewhat improve the prestige of the Bonn Government, such action would probably not increase German cooperation with the western powers.)

FAR EAST

- 2. CHINA: Chiang to suspend support of Canton Government-- According to the Assistant US Naval Attache in Canton, Acting President Li Tsung-jen has received notification from Chiang Kai-shek that all funds coming from Taiwan for support of the Canton Government would cease on 1 October. Li indicated that the cutting off of funds from Taiwan would cause the collapse of the mainland Government. Li told the Assistant NA that Chiang has again been intervening in direct military command recently and cites

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Chiang's withdrawal of air support from Pai Chung-hsi and the removal to Taiwan of vitally-needed ammunition and bomb reserves in the Canton area. The Assistant NA comments that although Li did not make threats or demand US aid, he obviously considers immediate financial or military aid "in whatever amount" the only hope for saving the present Government from the Chinese Communists and freeing it of Chiang.

(CIA Comment: Although Li may have over-emphasized his own predicament in an effort to obtain direct US aid, Chiang's continued refusal to relinquish funds or stockpiled materiel on Taiwan indicates that Chiang is leaving the Canton Government and the anti-Communist mainland forces to their own resources.)

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1092

EUROPE

1. FRANCE: Pro-Tito groups reported breaking with Communists --- e/A-S
 US Embassy Paris has learned from a trustworthy source that pro-Tito splinter groups in Paris are beginning to break away from the Communist Party. According to the same source, the Yugoslav Embassy in Paris has become very active in promoting leftist heresy among the working class. The US Embassy attaches considerable importance to these reports because it feels that even though these groups do not as yet have any particular program or organization, the spread of Titoism among workers would constitute a serious threat to the French Communist Party.



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GENERAL

1. Greek fears over coming GA session--US Ambassador Grady reports that, as the General Assembly session approaches, the Greeks are beginning to fear that they have much to lose and little to gain. They are particularly anxious lest any formal conciliation talks sponsored by the Big Four result in a compromise which: (a) might provide an opportunity for the USSR to intervene in such Greek internal affairs as elections and the treatment of the guerrillas; and (b) thus enable the USSR to continue, through political means, to promote unrest and disorder that would require the expenditure of US aid largely for non-productive purposes. Grady feels that any consultations between Greece and its northern neighbors should therefore be under UN rather than Big Four auspices, unless there are concrete indications of a change in the Soviet attitude. Grady also urges that the US concentrate its efforts on the heart of the problem, namely Albania and Bulgaria, and endeavor to secure strong GA recommendations which would provide some hope of at least interfering with the return of the guerrillas to Greece from those countries.



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GENERAL

S-73

1. Austrian treaty talks to resume in New York--US Ambassador Kirk in Moscow reports that Acting Foreign Minister Gromyko has agreed to the resumption of the Austrian treaty negotiations in New York on 22 September. According to Kirk, Gromyko was not surprised when the three western ambassadors approached him jointly, and he immediately accepted the proposal for the meetings of the deputies. Kirk describes the interview as "amicable" and reports that Gromyko expressed the hope that remaining unagreed items on the Austrian treaty might be settled in New York.

S-TS

2. Italian Government reportedly threatened by NAP issue--Italian Premier De Gasperi has informed US Ambassador Dunn that a breakup of the Cabinet has been threatened on the issue of Italian representation on the regional committees of the North Atlantic Pact organization. De Gasperi maintains that because of the strong feelings of the Socialists and Liberals in the Government, he does not see how anything can be done if acceptance is not given the Cabinet's minimum formula, which provides for Italian representation on a military coordination committee in order to assure the cooperation of the regional Atlantic Pact groups.

(CIA Comment: CIA believes that Premier De Gasperi is exaggerating the threat to the coalition for bargaining purposes and considers that this issue alone is not likely to lead to the breakup of the Government. However, CIA estimates that this issue, if combined with unfavorable decisions on the former Italian colonies and on ECA aid, might bring some Cabinet changes.)

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GENERAL

1. Joint administrative board favored for Trieste--US Embassy
Rome comments favorably on the Department of State's suggestion concerning the creation of a joint US-British-Yugoslav administrative board for both zones of the Free Territory of Trieste. Expressing the view that Italian participation in such a board would seem to be essential, the Embassy observes that a joint board could not go beyond consultation because it would not be based on a specific treaty provision. The Embassy further remarks that such a board would suggest a reversal of the trend toward rigid separation of the two zones, which has alarmed the Italians, and would provide Italy and Yugoslavia with a potential means of discussing a final settlement of their differences.

S-TS

2. US concerned by Israeli reaction to internationalization plan--
The Department of State has expressed to US Embassy Tel Aviv its concern over Israel's reaction to the proposals of the Palestine Conciliation Commission (PCC) for a permanent international regime in Jerusalem. The Department, observing that the Israelis have apparently rejected these proposals without giving them thorough consideration, instructs the Embassy to point out to the Israeli Foreign Office that the PCC plan represents the Commission's considered views on the most practical approach to the problem of internationalizing Jerusalem. The Department expresses the hope that whatever objections the Israeli Government has will be presented to the General Assembly in a conciliatory spirit.

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GENERAL

1. Yugoslavia seeks Security Council seat--The US delegation to the UN reports that Yugoslav representatives have approached a number of delegations, including the US, seeking support for election to the Security Council. According to the US representatives, the immediate response of other delegations to this overture was mixed, but a general trend toward favoring the Yugoslave appears to be forming.

CIA-S

(CIA Comment: CIA estimates that despite the propaganda advantages resulting from a General Assembly election of Yugoslavia as successor to the Ukraine in the SC, such action would not improve the US position vis-a-vis the USSR in the UN and would diminish chances for Soviet cooperation during the present General Assembly session.)

2. Indian views regarding recognition of Far East regimes--US Embassy New Delhi has been told by a high Indian official that India's attitude toward establishing relations with new regimes in China and Indochina will be determined primarily by the internal situation rather than the Communist issue. The official expressed the belief that India would in due course have to recognize the authority of the Chinese Communist government--which he understands will be proclaimed in early October--because not to do so would strengthen the Chinese Communists who insist that the new regime cooperate only with the USSR. Concerning the Bao Dai-Ho Chi Minh rivalry in Indochina, the official implied that India's attitude will be determined more by the degree of genuine popular support each possesses than by evidence that Ho Chi Minh is a Soviet puppet.

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EUROPE

3. **UNITED KINGDOM: Political effects of devaluation--** US Embassy London comments that devaluation of the pound has been well received in most responsible British quarters except the trade unions, explaining that labor leaders fear they will not be able to restrain new wage demands as a result of the higher cost of living. The Embassy estimates that the cost of living will increase by some 5% in the next six months and that general pressure for higher wages will not become serious before next spring. The Embassy considers that devaluation has increased the odds in favor of a fall election but points out that Labor Party leaders are at present divided on the question. According to the Embassy, if the Government does not receive a new mandate this fall, it will have a "very rough time" during the next six months trying to impose the unpopular decisions which are necessary if Britain is to benefit fully from devaluation.

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GENERAL

1. US position on Yugoslav candidacy for Security Council--

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The Department of State has instructed the US delegation to the UN to vote for Yugoslavia as successor to the Ukraine in the Security Council so long as there is a strong sentiment in the General Assembly favoring Yugoslavia's election. The Department adds that if a GA majority does not favor Yugoslavia, the US delegation should vote for the Eastern European state which receives Soviet support. The Department indicates that this position is based in part on the fact that US relations with Yugoslavia would be injured if the Yugoslavs knew that their candidacy was not supported by the US. The Department believes, however, that it is of utmost importance to avoid any impression that the US is sponsoring or is a prime mover in promoting Yugoslavia's election to the SC.

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EUROPE

1. YUGOSLAVIA: Tito confident of Yugoslav stability--
 Marshal Tito has told US Ambassador Cannon in a recent conversation that he is confident of the continued loyalty of the Yugoslav people to his Government. Tito admitted to Cannon that some minor sabotage had occurred in Yugoslavia but asserted his confidence in the Government's ability to keep it under control. Concerning frontier incidents, Tito declared "we shall get every one who comes over, but we won't go into reprisal operations; they may try to make us break relations, but we won't take that step either." Cannon reports that Tito's "chief concern" is that the Greek Government may take precipitate action against Albania, thus creating "a most difficult" situation for Yugoslavia. Tito urged Cannon that the Greeks be told to leave Albania alone.

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GENERAL

1. Queuille fearful concerning his Government's position--
Premier Queuille has informed US Ambassador Bruce that his Government's position is less favorable at present than it was even during the crucial period of a year ago. Queuille indicated that besides the immediate difficulties of the 1950 budget and French worker demands for increased wages, the present Government has greatly lost prestige because of "political considerations of an international character." Queuille reportedly cited three "major incidents" which had caused questioning and bitterness in France: (a) the division of ECA aid, which he believes made the UK "the most favored nation"; (b) the devaluation of the British pound, which he feels was handled in such a way as to demonstrate a "complete lack of loyalty" to the continental countries; and (c) recent US moves concerning "drastic devaluation" of the German mark, which he regards as "obviously both to the advantage of Germany and the disadvantage of France." The Premier declared that he cannot rely on maintaining his Government in power if France is subjected to further disappointments and shocks. Bruce comments that Queuille unquestionably regards the situation as being of the utmost seriousness for France and for the position of his Government.
2. British labor reaction to pound devaluation--US Embassy
London reports that "notable features" of the recent meeting of the General Council of the British Trade Union Congress, which postponed the decision to endorse the devaluation of the pound, were: (a) a tendency to blame the US for Britain's difficulties; and (b) the absence of confidence in US economic policies. According to the Embassy,

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some Council members strongly pressed the view that the UK should abandon the objective of multilateral trade and seek to create a trading area independent of dollars. The Embassy expresses the opinion that devaluation may represent the last attempt that a considerable number of the British people would be willing to make in cooperation with the US to resolve the problem of unbalance between the dollar and non-dollar world.

3. Removal of Berlin from SC agenda not favored--US High Commissioner McCloy in Frankfurt, in commenting on the possible removal of the Berlin issue from the UN Security Council agenda, points out that the USSR has not lived up to its agreements concerning Berlin and that a "critical situation" exists regarding the payment of western railway workers in West marks. McCloy indicates that the western powers may soon be forced to take definite action to relieve the railway workers and expresses the view that such action, coming simultaneously with the removal of the Berlin issue from the SC agenda, could be "most embarrassing" to the western powers. He therefore requests that a thorough check of the Berlin situation be made before removal of the issue from the agenda is undertaken and stresses that the US should not be "under any illusions that the situation in Berlin is now normalized."

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GENERAL

S-TS

- 1. French attitude on German devaluation--US High Commissioner McCloy in Berlin reports that the French Government has rejected his proposals on devaluation of the German mark. McCloy adds that it is the impression of the French High Commissioner that the French Government desires to take the issue of devaluation out of the hands of the High Commission. McCloy expresses the view that it would constitute a "disaster of the first order" to the administration of Germany if the High Commission on its first test were forced to refer the matter back to the three governments.

EUROPE

- 2. YUGOSLAVIA: Cannon favors Yugoslav SC membership--US Ambassador Cannon reports that he is inclined to favor Yugoslav membership in the Security Council. Cannon points out that US support for Yugoslavia might adversely affect US-USSR working relationships, but he considers it likely that Yugoslav membership in the SC would contribute to the healthy development of the UN as a truly representative body. Cannon emphasizes that despite the Yugoslav-Kremlin quarrel, Yugoslavia is still a "Communist, Eastern European and Slavic" nation and thus its election to the SC would be consistent with the existing principle of geographic and political representation. According to Cannon, a US attempt to exclude Yugoslavia would smack suspiciously of power politics and would help maintain the rigidity of two political blocs. Cannon concludes that although Yugoslavia could scarcely be expected to follow the West out of spite to the Kremlin, the middle-of-the-road policy it may follow in the UN would be a salutary influence.

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GENERAL

1. French reject German mark devaluation proposal--US High Commissioner McCloy reports from Paris that the "nervous" French political situation was an important factor in the French Government's refusal to agree to a 20% devaluation of the German mark. According to McCloy, the French are insisting that agreement be reached simultaneously on German devaluation and on the establishment, not later than 1 January 1950, of parity between German domestic and export prices, especially for coal. McCloy, on the other hand, considers it impractical and unwise to attempt to remedy the consequences of a new mark rate before the results of German devaluation are known. McCloy recommends that the High Commission proceed with a 20% devaluation of the mark, even without French concurrence; he points out, however, that if the French then appeal the action of the High Commission, the results in Germany would be most unfortunate, if not disastrous.

S - 75

FAR EAST

2. CHINA: Sinkiang goes over to Chinese Communists--
 The US Vice Consul in Tihwa has been officially informed that the government of the northwest border province of Sinkiang on 26 September severed all connections with the Canton Government and accepted the authority of the Chinese Communists in Peiping. According to the Vice Consul, the question of when Chinese Communist troops will enter Sinkiang has not yet been settled.

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GENERAL

1. UK-France favor Austrian treaty on Soviet terms--The British and French representatives at the Austrian treaty talks in New York have taken the line with US Representative Reber that the conclusion of an Austrian treaty at the present time, even on Soviet terms, is better than no treaty at all. The British-French view is that if negotiations break down now, the treaty will be indefinitely postponed and the Soviet occupation prolonged, a development which will more effectively wreck the Austrian economy than will the treaty terms which the USSR now demands. The three representatives agreed, after Reber had pointed out that the US approach to the question is basically different from the British and French, to refer the matter to their respective foreign ministers in order to determine a common approach for the next meeting.

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US views on Austrian treaty--The Department of State has advised Secretary Acheson in New York that present British and French views regarding the Austrian treaty raise serious questions regarding the whole western position toward the treaty. The Department believes it should be strongly pressed upon Bevin and Schuman that any further concessions to Soviet demands would endanger the basic US objective of creating an Austrian state capable of independent existence. The Department believes that Vishinsky's present position indicates that the USSR does not at this time want a treaty which would require military withdrawal from Austria, Hungary, and Rumania, except on terms which would permit subsequent Soviet repossession of all Austria. The Department stresses that to yield to Soviet demands following the atomic announcement would have more serious repercussions in Europe generally than failure to conclude an Austrian treaty.

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The Department declares it could not ask the US Senate to ratify a treaty involving greatly increased US aid to an Austria which would at best constitute a definite security risk.

2. US support of Yugoslav SC candidacy favored--US Embassy
Moscow believes that the US should give quiet but firm and unwavering support to the Yugoslav candidacy for the UN Security Council, inasmuch as "the promotion of Titoism, and nationalism everywhere, will advance US interests generally." Expressing the view that the Yugoslav candidacy reflects Yugoslavia's firm intention to stand on its own feet in international affairs, the Embassy argues that there is no need for the US to bend over backward to avoid offending Soviet sensibilities in the matter.

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GENERAL

1. Views of four foreign ministers on Austrian treaty--
 According to the US delegation at the Austrian treaty talks in New York, Soviet Foreign Minister Vishinsky revealed no change in the Soviet position concerning the treaty in an informal meeting with foreign ministers Acheson, Bevin, and Schuman. Secretary Acheson has advised the Department of State that the meeting with Vishinsky was held in order to review the entire range of unagreed issues on the Austrian question, thus enabling the western ministers to determine on what points, if any, they might offer to bargain. The Secretary indicates that at an earlier meeting of the western ministers Bevin again made a plea for the early conclusion of a treaty, which he believes should not be held up by the present points of disagreement. Schuman, while agreeing with Bevin concerning the urgency of a treaty, is not prepared at present to agree to all the Soviet demands. The Secretary expressed the view that the USSR is pressing the western powers as far as possible for the purpose of weakening Austria and eventually establishing a permanent hold through control of the Austrian economy.

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2. Spaak regards British devaluation as divisive step--US
 Embassy Brussels transmits an account of a confidential interview with ex-Premier Spaak by two US newspaper correspondents in which Spaak described the "precipitant British devaluation" as a disastrous step that will emphasize the divisive forces in Europe. Spaak is reported to be very dubious that devaluation will achieve its goal of narrowing the European dollar deficit because he does not believe Europe can produce sufficient extra goods for sale in dollars to reduce the present deficit. Spaak's general attitude was reportedly one of genuine gloom, although he "wryly" admitted that "an ex-Prime Minister is by nature inclined to be critical."

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GENERAL

1. British to take position on European unification--According to US Embassy London, the British Foreign Office will probably soon make important policy decisions concerning the British attitude toward the unification of Europe. High Foreign Office officials have indicated that the key questions in determining the British position are: (a) how far the UK is willing to restrict its freedom of action and impair relationships with the Commonwealth; and (b) how far the US actually wants the UK to go in involving itself irrevocably on the Continent. The officials declared that there is no thought of altering British military obligations under the Brussels Treaty but that the UK has no intention of stipulating in advance the number of troops it would commit to a given area.

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2. Estimated effect of atom developments on Soviet aims--US Embassy Moscow, in making a tentative comment on the probable effect on Soviet policy of recent developments concerning the atom bomb, expresses the view that the basic US estimates concerning Soviet intentions need not be altered. The Embassy considers that even though the unanticipated Soviet progress in the atomic field might advance the date on which the Kremlin would be prepared to begin hostilities, this date would by no means be in the near future. The Embassy estimates, however, that the Kremlin will consider its hand strengthened in current foreign relations, will be inclined toward increased firmness in negotiations, and will try to exploit popular fear throughout the world. Concerning the problems of atomic energy control, the Embassy believes that the USSR will try to stampede the West into acceptance of the Soviet proposal.

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3. Bevin to sound out Vishinsky on Austrian treaty--According to the US delegation at the Austrian treaty talks in New York, the foreign ministers of the three western powers have agreed that British Foreign Secretary Bevin will approach Foreign Minister Vishinsky informally to ascertain whether the Soviet stand on the treaty is as inflexible as it now appears to be. Bevin will reportedly attempt to learn whether the USSR really wants a treaty at this time and what the minimum Soviet position is. Bevin has submitted to the US and French delegations a set of proposals on the outstanding issues which could be used as a basis for a comprehensive settlement, but he will not commit the western powers in his talk with Vishinsky.

CIA-S

4. Chinese Nationalist-Korean military negotiations--US Ambassador Muccio at Seoul verifies the recent persistent rumors concerning Chinese Nationalist negotiations for Korean base privileges in exchange for arms aid to President Rhee's Government. Muccio reports that the initiative in these negotiations, which began during the Chiang-Rhee conference in late August, has been wholly Chinese, and the Korean Government has been reluctant to commit itself to any agreement which would risk involvement in the Chinese civil war. According to Muccio, the Chinese wanted Korean bases for carrying out the Nationalist air and sea blockade of the north China coast as well as permission to establish intelligence installations in Korea; they were unwilling to assure Chinese naval assistance in the event of war with the northern Korean regime, offering only a Chinese fighter-bomber group. Rhee is reportedly seeking a means of terminating the discussions and has assured US Embassy Seoul that no concessions will be made.

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