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16 Feb 1946

EUROPE ~~CONFIDENTIAL~~

1. AUSTRIA: Treatment of German assets--Embassy London reports that the British Foreign Office has submitted to the US and French Missions memoranda proposing a formula for the treatment of German assets in Austria, with a view to later submission to the USSR. The memoranda propose that (a) measures already taken against German assets in Austria constitute full satisfaction of reparation claims against such assets, (b) further removals of such assets as reparations be discontinued, and (c) the Austrian Government be required to examine the title of ownership of all German assets remaining in Austria and to take such action as might be required.
2. ITALY: Military maintenance scheduled to be withdrawn from Trieste--Ambassador Kirk reports that on 14 February General Morgan (Allied Commander in Italy) announced his decision to transfer "military maintenance from Trieste to Venice as of 1 April. Morgan has thereby reversed his position of 22 November; he justifies withdrawal now on the grounds of (a) British demobilization and (b) the unlikelihood of "serious repercussions". His decision was made over the protest of US and British political representatives, who are of the opinion that the present delicate situation in Venezia Giulia will become more critical in the next few months and should not be further disturbed by any suggestion of Allied military withdrawal from Trieste. Kirk recommends that the Combined Chiefs of Staff reverse Morgan's decision, and advises that the British representative is making a similar recommendation to the Foreign Office.
3. SPAIN: UK will not withdraw Ambassador--Embassy London has been informed that, despite demands in Parliament and the press that the British Ambassador be withdrawn from Madrid as a sign of displeasure, the Foreign Office considers it important that he remain there until the results of Don Juan's visit to Lisbon are known.

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4. EGYPT: Cabinet change--Despite Cabinet changes and the intensity of recent student demonstrations, Legation Cairo reports that local anti-British sentiment is not as widespread or bitter as in 1919 or the middle 1930's and that any Cabinet change will be the result of internal intrigues and unbalanced representation rather than mass anti-government sentiment.

FAR EAST

5. JAPAN: USSR requests division of Japanese shipping-- Embassy Moscow reports that the Soviet Foreign Office has requested immediate transfer of one fourth of the Japanese naval fleet to the USSR and early division of the Japanese merchant fleet among the USSR, UK, US and China. The Soviets argue that the use of these ships for repatriation of Japanese and other purposes connected with the Japanese surrender should be discussed after the division has been effected. In connecting on the Soviet note, Embassy Moscow points out that the Soviets are now operating 113 Lend-Lease vessels for their own use purposes, and have not replied to inquiries regarding Japanese shipping captured by them. In view of the fact that SCAP has the greatest need for shipping in implementation of the surrender, the Embassy suggests that the USSR be asked to what extent it would be willing to divert Soviet shipping for such purposes, in the event of a division of the Japanese fleet.
3. KOREA: Publicity on Seoul Conference--Gen. Hodge advises against releasing a full statement of Conference actions to the US or the Koreans. He would prefer such publicity "as a means of pressure in the future," after the Soviet commander has finally approved the agreement.

THE AMERICAS

7. Reaction to Blue Book on Argentina--US Embassies in Latin America report that press reaction to the Blue Book is generally favorable in Brazil, Chile, Columbia, Ecuador, Paraguay, Peru and Uruguay. In Cuba, however, there was considerable unfavorable press comment, though the most important paper strongly endorsed the Book.
- Embassy Peru reports that the Peruvian Foreign Minister has asked whether the US would give Peru economic aid, if relations with Argentina were severed and Argentine exports were shut off.

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