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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Monnet and Clayton agree that no final settlement of the German problem can be made until after the November meeting of the Council of Foreign Ministers (see item 1).

GREECE

The announced withdrawal of the remaining British troops will probably have a slightly adverse effect on Greek morale and a correspondingly positive effect on guerrilla morale. Although the British troops have not participated in the fighting, their presence has been reassuring to the Greek Army and Government.

INDONESIA

The Dutch consider Australia's referral of the Indonesian situation to the Security Council as "an unfriendly act" (see item 2). The Netherlands Government had previously indicated that upon conclusion of its police measures, it intended to accept mediation by the US if it is offered.

KOREA

The Soviet delegation continues to block Joint Commission efforts to establish a Korean Government. The US proposal that the USSR consult with organizations in North Korea while US members consult with those in South Korea was rejected by Soviet representatives as "not worthy of consideration."

CHINA

In its continued efforts to enlist Chinese popular support and influence US opinion, the Chinese National Government and Kuomintang officials are currently charging that, during the recent war, Chinese Communists were secretly collaborating with the Japanese and did not fight the Japanese after 1937. The first charge has thus far been unsupported; the second is known to be false.

Document No. 026

NO CHANGE in Class.

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Class. CHANGED TO: TS S

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DIA AND DOS review(s) completed.

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GENERAL

1. Monnet's views on French economic recovery--Under Secretary Clayton has been told by Jean Monnet (head of French economic planning) that, in order to bring about a satisfactory understanding between France and the US, the German problem must be settled and France must put its financial and monetary house in order. Monnet declared that, while he agreed with Clayton that no final settlement of the German problem can be made until after the Council of Foreign Ministers meets in November, he was positive that the French Zone in Germany would be merged with the US and UK Zones. Monnet added that it was important that a part of the aid to be given to France under the Marshall proposals should consist of gold to be used as a stabilization fund. Clayton replied that such a step, while extremely difficult, would not be impossible if the French can devise a workable plan for giving order to their financial affairs.
2. Dutch reaction to Australian appeal on Indonesia--US Embassy The Hague has been informed by a high Dutch official that the Netherlands Foreign Office regards Australia's reference of the Indonesian situation to the Security Council as "an unfriendly act." Because the Australian statement indicates that action was taken after "closest consultation" with the British Government, the Dutch feel that the attitude of the UK is no longer neutral. The Dutch spokesman believes, however, that the case should be considered by the Security Council on the basis of the more moderate Chapter VI of the UN Charter as invoked by India, rather than under Chapter VII as invoked by the Australians. (The latter chapter applies to threats to peace, breaches of peace, and acts of aggression.)

EUROPE

3. BULGARIA: Speculation on Dimitrov-Tito meeting--US Military Representative Yatsevitch in Sofia believes that the purposes of Dimitrov's visit to Tito are: (a) coordination of Yugoslav-Bulgarian action toward Greece; (b) final negotiation and signature of a mutual assistance treaty; (c) coordination of economic collaboration, possibly including a special customs agreement and relaxation and reorganization

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of frontier controls; (d) coordination of internal security activities; and possibly (e) final agreements regarding incorporation of Pirin (Bulgarian) Macedonia into a Yugoslav Macedonian Republic. Yatskevitch believes the visit is another step in the formation of a system of political, economic, and military agreements that would bind together the Satellites, but he considers that an announcement of the formation of a formal Balkan or Danubian Federation is unlikely at this time.

4. POLAND: Hope expressed for continued US trade relations--Polish Industry and Trade Minister Minc has expressed to Under Secretary Clayton the hope that US-Polish trade relations will not be harmed by Poland's abstention from the Paris conference. Minc declared that he knows no reason why Poland's present western economic orientation cannot be continued and extended. Regarding Polish coal production, Minc stated that the Poles are unable to go further unaided and that the desired International Bank credit would make possible the expansion of production by 10 million tons in 1948 and an additional 10 million tons in 1949.

Clayton recommends, in view of the urgency of the European coal problem, that no objections be raised by the State Department to the extension of credit by the International Bank for use in augmenting Polish coal production, on the understanding that "no increase in the export of coal to the USSR would take place."

(CIG Comment: Minc is believed, along with several other leading Polish Communists, to have earnestly desired Polish participation in the Paris conference. Minc, who is Poland's economic dictator, will undoubtedly make a sincere effort to expand Polish trade with the West unless the Kremlin orders otherwise.)

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NEAR EAST-AFRICA

6. **PALESTINE:** UNSCOP reportedly unimpressed by Zionist claims-- US Embassy London reports the opinion of the UK Foreign Office that the UN Special Committee on Palestine (UNSCOP) has not been impressed by "extravagant Jewish claims and oratory." The Foreign Office believes that UNSCOP is now fully aware of the Arab view that: (a) Palestine Arabs are entitled to self-determination; and (b) Arab states would regard a Jewish state in Palestine as a threat to peace in the Middle East.

FAR EAST

7. **AUSTRALIA:** Reported Soviet submarine activity--According to US Naval Attache Melbourne, [redacted]

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[redacted] the USSR is obtaining submarine operating data in tropical waters and is requesting Australia to designate ports in Australia that may be visited by Soviet submarines.

(CIG Comment: This tends to support previous scattered but unconfirmed reports of Soviet submarine activity in southwest Pacific waters.)

THE AMERICAS

8. **ARGENTINA:** Foreign Minister's comments on Rio Conference--US Embassy Buenos Aires has been informed by Foreign Minister Bragaglia that Argentina: (a) understands the purpose of the Rio Conference to be political rather than military; (b) will send to Rio a delegation of political and economic experts "with only minor military representation"; and (c) is "determined" that the conference shall be a success.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

France will consider raising German steel production if Ruhr coal and steel are internationalized. US representatives report that self-aid in the recovery program is not receiving enough emphasis in the schedules now being drawn up at the Paris conference. The UK has indicated that it may soon have to institute drastic corrective measures in order to cope with its grave financial situation (see item 4).

GREECE

The Soviet veto of the US recommendation for a permanent border commission will have no immediate effect on the Greek situation. It indicates, however, that the USSR is determined not to abandon its objectives in Greece, and that stronger guerrilla attacks may be expected in the near future.

INDONESIA

Dutch authorities in Batavia estimate that their military objectives will be achieved within a few days. The Indonesians are expected to exert economic pressure on the Dutch through SOBSI, a large union of Indonesian workers which is believed responsible for the scorched-earth policy in West Java.

KOREA

As the stalemate in the Joint Commission continues, the Soviet radio station at Pyongyang and the 90 members of the Soviet delegation in Seoul are taking full advantage of the situation to breed unrest. General Hodge indicates need for immediate US action (see item 6).

CHINA

The Chinese press reflects disappointment that, concurrently with the dispatch of the Wedemeyer Mission, the US has not altered its policy toward China to include immediate military and economic aid.

Document No. 025

NO CHANGE in Class.

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Class. CHANGED TO: TS S

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 10 APR 1978 By:

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EUROPE

1. ITALY: No basis found for Sforza's view on Soviet ratification--US Ambassador Dunn received "a completely evasive reply" from Foreign Minister Sforza when he sought the basis for Sforza's recent statement in the Assembly that the USSR desired to ratify the Peace Treaty. Furthermore, the Foreign Office has confidentially informed the Embassy that no communication has been received from Moscow which could give a foundation for Sforza's highly-publicized statement.

2. USSR: US Embassy urges return of US exit visa requirements--US Embassy Moscow recommends the re-establishment of US exit visa requirements as a means of reciprocating Soviet detention of bona fide US citizens and of strengthening national security through increased control over Soviet nationals in the US. Under present conditions, the Embassy is unable to exert any real pressure on the USSR for the issuance of exit visas to properly documented US citizens (see Daily Summary of 28 July, item 7).

3. HUNGARY: Anti-Communists request US funds--US Minister Chapin in Budapest has again been approached by "bona fide" representatives of anti-Communist groups requesting American funds for use in the coming electoral campaign. Although Chapin feels that US funds could not now substantially affect the outcome of the 31 August elections, he suggests that the US should seriously consider using such unorthodox methods of aiding Hungarian anti-Communist forces in the future.

4. UK: Aide-memoire states need for immediate assistance--The UK has informed the Department of State in an aide-memoire of its doubts that assistance to Europe through the Marshall proposals will "come early enough or be large enough to meet the special difficulties" of the UK. The UK states that its critical financial situation will require far-reaching corrective measures early this autumn.

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NEAR EAST-AFRICA

5. GREECE: US considering advisability of increasing Greek Army--
The State Department has asked the American Mission for Aid to Greece (AMAG) whether the size of the Greek forces is adequate to put down increasingly grave guerrilla threats, such as the recent attacks in the Yannina-Konitsa area. The Department states that it cannot "at this moment" offer Greece any assurance that the UN or the US can provide protection against such attacks and therefore does not wish to be in the position of hampering the Greeks' efforts to defend themselves. (AMAG had previously refused to support any increase in the permanent size of the Greek Army; see Daily Summary of 24 July, item 5. More recently, however, the US Military Attache Athens has estimated that increases should be permitted, to enable the Army to contain the Communist forces.)

FAR EAST

6. KOREA: Hodge suggests immediate action by US--General Hodge reports that the USSR, by taking the fullest advantage of the trusteeship clause in the Moscow Decision, now has control of the most powerful single political group in Korea. In view of the increasing tension, General Hodge states he is "rapidly coming to the conclusion" that: (a) the US must cease negotiations in terms of the Moscow Decision at the earliest opportune moment and should review the entire Korean problem either at a high level with the USSR or in the UN Assembly; (b) the US must go ahead with the establishment of an elected interim government for South Korea immediately; and (c) "the US must stamp out the Comintern Communists even at the cost of bloodshed."

THE AMERICAS

7. PARAGUAY: Government willing to start mediation--The Brazilian Ambassador in Asuncion has informed US Charge Trueblood that the Paraguayan Government has agreed to the establishment of a mediation board by Argentina and Brazil, with the provision that the board determine the time for hostilities to end.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY: The urgent need of interim economic aid to the UK, France, and Italy has begun to overshadow the Paris economic conference in the minds of European leaders.

GREECE: With the nation engaged in civil war, political leaders in Athens (convinced that Greece will be saved by US aid or not at all) continue to place self-interest above national unity by jockeying for personal power.

NEI: The decision of the Indian Government to refer the conflict in Indonesia to the Security Council is an evident success for Indonesian efforts to get the Republic's case before the United Nations (see Daily Summary of 22 July, item 5). Inasmuch as it had been supposed that this action would most likely be taken by a Middle Eastern Moslem state, the assumption of leadership by the Government of India is a significant initiative.

KOREA: The Soviet delegation to the Joint Commission is attempting to goad Korean Rightists into overt acts which would eliminate them from consultation according to terms agreed upon by the US and the USSR.

CHINA: Nationalist forces in Manchuria appear to need troop reinforcements as well as materiel before they will be capable of launching a counter-offensive.

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 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1763
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GENERAL

1. Evatt's ideas on Japanese Peace Treaty--Australian Minister for External Affairs Evatt, in separate conversations with General MacArthur and US Political Adviser Atcheson, has suggested that an eleven-power settlement on Japan be reached as soon as possible. Evatt believes that the USSR would ultimately join such an arrangement in order to avoid being without a voice during the interim control period. As to a voting procedure, Evatt appeared to favor the rule of unanimity over the two-thirds majority suggested by the US. Evatt also declared that the US should be the sole trustee of the Ryukyus (Okinawa).
2. UK "advises" Abdullah against Greater Syria--US Legation Damascus reports that the UK has "advised" King Abdullah of Transjordan to cease agitating for a Greater Syria.

(CIG Comment: This action should block for the time being the scheme to federate the northern Arab states under Abdullah; see Weekly Summary of 14 February, page 7.)

EUROPE

3. HUNGARY: Concern over Soviet gains in Hungary--US Minister Chapin in Bucharest expresses deep concern over recent marked Soviet advances toward the isolation of Hungary from the west. Chapin states that the next ninety days, particularly the period before the 31 August elections, will be of decisive importance for US prestige in Hungary as well as for our whole position in Central Europe.
4. RUMANIA: Soviet control of the Danube--US Representative Melbourne Bucharest reports that the 16 July Rumanian-Bulgarian protocol (the text of which has just been received) provides that both signatories, "in conference with other Danubian countries and in agreement with USSR, will no longer admit any interference of non-riparian countries in establishment and administration of Danubian Regime."

(CIG Comment: This provision emphasizes Soviet determination to control all shipping on the Danube through Soviet-Danubian

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Shipping Co. Previous Soviet promises to allow participation by Western powers probably will be not fulfilled.)

NEAR EAST-AFRICA

5. INDIA: Viceroy determined for States to join Hindustan or Pakistan--
The Viceroy's Aide has informed US Embassy New Delhi that: (a) the Viceroy is determined to have all the Princely States join Hindustan or Pakistan before 15 August and has threatened sanctions (such as withholding arms, ammunition, and other supplies) against States not agreeing to accede; (b) all the States, with the possible exception of Travancore and Hyderabad, are expected to sign instruments of accession before 15 August; and (c) Travancore will probably follow suit although Hyderabad may hold out.

THE AMERICAS

6. CUBA: Dominican revolutionaries--US Ambassador Norweb, transmitting new developments regarding Dominican revolutionary activities in Cuba (see Daily Summary of 28 July, item 10), rates as highly accurate reports that: (a) an advance guard of fifty Dominican exiles is already enroute to the Dominican Republic; (b) thirty American-manned planes will participate in the projected air operations, which call for attacking Ciudad Trujillo with incendiary and demolition bombs; (c) five air transports from Venezuela have been procured for use by the revolutionaries; and (d) approximately 5,000 well-equipped troops now being assembled in eastern Cuba will participate in land operations. Norweb also reports that lack of funds may delay the expedition's departure from Cuba--that Cuba's Chief of Staff, now "incensed" that Cuban officials are involved in the plot, has alerted elements of the Cuban Army--and that President Grau has stated that the revolutionaries must leave Cuba by 30 July. Norweb has been informed by President Grau that "energetic measures" have already been taken against the expedition.

(CIG Comment: CIG estimates that it is improbable that: (a) as many as 5,000 persons are involved in any expedition now mobilizing

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in Cuba; (b) a force of such size could be transshipped to the Dominican Republic; and (c) even if shipping could be provided, the expedition could land on the Dominican Republic's closely-guarded shores. If, however, the expedition were to coincide with either a substantial revolutionary movement inside the Dominican Republic or the assassination of President Trujillo, its chances of success would be greatly enhanced.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY: The US considers that the European reconstruction program should be directed primarily toward short-term recovery (see item 1).

GREECE: Public resentment against the indiscriminate political arrests recently carried out by the Greek Government appears to be increasing. Meanwhile, as guerrilla activity continues unabated, Greeks in the north appear increasingly to assume that US aid will improve the military and economic situation without help from them.

NEI: The US is not prepared to join with the UK in offering to arbitrate the Indonesian dispute at this time (see item 3). Following the capture of ports in West and East Java, the Netherlands Navy has lifted Dutch trade controls which have been in effect since January. The Republican forces have been forced to the tip of western Java where they threaten to destroy valuable plantations.

KOREA: The Department of State has informed the US delegation to the Joint Commission that urgent study is being given to US course of action in the event of a breakdown or indefinite prolongation of the present stalemate in the Joint Commission. The Department directs the delegation to use all appropriate measures to insure continuance of negotiations for the present.

CHINA: A reliable report that Chiang Kai-shek is personally directing military activity in Shantung Province provides further evidence of the continued stifling of local command initiative--a major source of weakness in the Nationalist military structure (see item 9).

Document No. 023

NO CHANGE in Class.

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Class. CHANGED TO: TS S ✓

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 10 APR 1978 By:

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GENERAL

1. US views on development of European recovery--The Department of State has informed Under Secretary Clayton in Geneva that US aid in European reconstruction would be directed toward: (a) increasing production in bottleneck areas; and (b) maintaining minimum essential consumption. The Department adds that while it desires to see longer-term reconstruction, such measures should be developed through the International Bank rather than through direct US aid.
2. US military rights in the Azores--US Ambassador Wiley in Lisbon has been informed that the Portuguese Government is prepared to grant rights of transit to US Air Transport Command aircraft in the Azores after expiration of the present agreement. These rights would permit operations for servicing US occupation forces in Germany and Japan. The Portuguese, however, have proposed that all facilities in the Azores shall be completely Portuguese-operated and controlled, with no US military personnel present. Wiley has replied that, in his opinion, this proposal would be "utterly unacceptable" to the US.
3. US position on Indonesian dispute--The State Department has informed UK Embassy Washington, in response to the UK request for collaboration in a plan to arbitrate the Indonesian dispute, that the US considers that the Dutch would not accept arbitration at this time.

EUROPE

4. UK: Bevin's comment on critical UK financial situation--Bevin has told US Ambassador Douglas that the UK needs some temporary relief in order to continue to play its present international role, and has informally suggested the possibility of an International Bank loan of one billion dollars as sufficient to carry the UK over the hump.
Douglas agrees that the UK situation is critical. However, he suggests that relief, if feasible, should not be such as to make it possible for the UK to avoid "grappling in earnest" with its problems.

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5. ITALY: De Gasperi may risk vote of confidence on ratification issue--
US Ambassador Dunn has been told by Premier De Gasperi that he is determined to take immediate action on his formula for ratification of the Treaty. De Gasperi states that, while he hopes that a vote of confidence over the issue may not be necessary, he feels so strongly on the issue that if it becomes necessary he is prepared to put it to such a test (see Daily Summary of 24 July, item 4).

6. SPAIN: Franco's views on his own position--During an informal interview with US Charge Madrid, General Franco made it clear that he will not lightly relinquish his position to anyone, unless he is convinced that whoever takes over will maintain stability and order and will continue what he considers to be the present progressive evolution and education of the Spanish people.

7. USSR: New US protest on claimants to US citizenship--US Ambassador Smith plans to present a new protest to the Soviet Government regarding detention of claimants to US citizenship. Smith will maintain that only the US can decide who is or is not an American citizen, and that the mere assertion by the Soviet Government that a person is a Soviet citizen cannot deprive the individual of US citizenship. Smith will further insist that, contrary to Vishinski's allegations, the claimants to US citizenship are guaranteed the right of access to a US consular officer by the US-Soviet agreement of 16 November 1933.

Smith also plans to protest the USSR's refusal to issue exit visas to four US citizens whose claims to citizenship are recognized by both the US and Soviet Governments.



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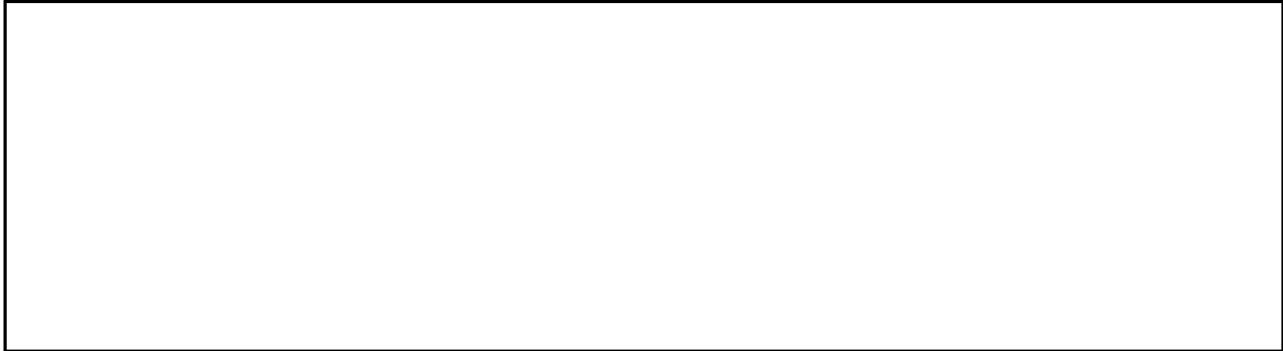
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FAR EAST

9. CHINA: Generalissimo directing Shantung operations--A high-ranking Nationalist officer close to Chiang Kai-shek has told US Embassy Nanking that the Generalissimo is personally supervising Nationalist operations in Shantung Province and that the Nationalist position there is "hopeless." US Ambassador Stuart has no information justifying extreme pessimism about Shantung. Stuart comments that the officer's remarks are indicative of the continued stifling of the initiative of Nationalist field commanders and of growing defeatism among Nationalist leaders.

THE AMERICAS

10. CUBA: Dominican revolutionaries



several hundred armed Dominican revolutionaries are preparing to sail from ports in eastern Cuba to participate in a combined land, sea, and air attack looking to the overthrow of the Trujillo Government.

US Military Attache Caracas transmits a report of undetermined reliability that: (a) the instigators of the nascent revolt are Communists; and (b) the Venezuelan Government has given it financial support. US Ambassador Norweb reports from Havana that a Cuban Government official is assisting the revolutionaries and that President Grau is "well informed of what is going on."

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(CIG Comment: While reports of an imminent revolutionary move against Trujillo have become too numerous and widespread in recent days to be ignored, CIG estimates that the obstacles to such an air, land, and sea attack from bases in nominally friendly neighboring countries are insurmountable. This is the more certain because the Dominican Government is undoubtedly aware of the preparations and may be encouraging the rumors to distract attention from its own involvement in current plotting against the Venezuelan Government. CIG further estimates that the above report from Venezuela exaggerates the degree of Communist responsibility for the current plot, because: (a) the Venezuelan Government would not be likely to finance a Communist-instigated revolt even against Trujillo; and (b) Trujillo's regular practice is to use such plots as evidence of his role as an anti-Communist champion.)

11. PARAGUAY: Government objects to Brazil's mediation formula-- US Ambassador Pawley in Rio has been informed by the Brazilian Foreign Office that the Paraguayan rebels have accepted Brazil's mediation formula (see Daily Summary of 26 July, item 6), but that the Paraguayan Government: (a) objects to the formula's implicit recognition that the rebels are "belligerents"; (b) insists that mediation should precede the interruption of hostilities; and (c) stresses the necessity of a complete military victory over the rebels.

12. BRAZIL: Soviet arms-smuggling story discounted--US Naval Attache Rio reports that Brazilian aerial reconnaissance flights have produced no evidence of the smuggling of Soviet arms along the Brazilian coast. US Embassy Rio also discounts the arms-landing story.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY: The UK-Soviet trade talks have broken down because the USSR continues to insist upon elimination of the requirement in the 1941 agreement that 40% of the Soviet obligations be paid in gold or dollar exchange (see item 1).

GREECE: Foreign Minister Tsaldaris has indicated his belief that any full parliamentary coalition would fail with the result either that new elections would place many Communists in Parliament, or that power would return to the Populists (rightist) with himself as Prime Minister.

NEI: Dutch officials in Batavia hope to speed formation of a new Government as military operations on Java near completion. Dutch armored columns have reportedly pushed eastward along the north coast of Java. In northern Sumatra, Dutch forces appear to be meeting some opposition around Medan.

KOREA: US delegates to the Joint Commission are convinced that new lines of action must be adopted to overcome the present deadlock and Soviet delaying tactics (see item 3).

CHINA: Current statements by liberal Chinese Government officials to the effect that the Generalissimo has little freedom of political maneuver and that US pressure for governmental reform is therefore unrealistic are indicative of Chinese intentions to emphasize to General Wedemeyer the Soviet threat to China and the resulting need for US aid on political grounds.

Document No. 022

NO CHANGE in Class.

DECLASSIFIED

Class. CHANGED TO: TS S ✓

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 10 APR 1978 By:

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GENERAL

1. UK-Soviet trade talks break down--UK Embassy Moscow has informed the US Embassy Moscow that agreement on all controversial points in the UK-Soviet trade negotiations actually had been reached when the USSR reopened its demand for revision of the 1941 UK-Soviet financial agreement and sought extension of the period for payment of its obligations and elimination of the requirement that 40% be paid in gold or dollar exchange. The USSR in turn offered to make available to the UK even more than the one million tons of grain sought by the UK. The US Embassy adds: "The result was the absurd picture of the Soviet Union with its under-nourished population offering ever greater quantities of foodstuffs and at the same time demanding that a Britain strapped for dollar exchange should relinquish its legal claim to considerable quantities of that alarmingly short commodity." The UK Embassy still believes that the door is open to resumption of negotiations. The US Embassy, however, considers that Soviet intentions will become more apparent on 1 August when the next foreign exchange payment is due under the 1941 agreement.

NEAR EAST-AFRICA

2. IRAN: Shah's view on Soviet oil concession--The Shah has told US Ambassador Allen that Prime Minister Qavam believes the Iranian Government should prepare counter-proposals in connection with the Soviet oil agreement. The Shah fears that the USSR might accept any terms no matter how favorable to Iran in order to get a foothold or to preclude development of Iran's northern oil resources by anyone else. The Shah wants to refuse existing Soviet proposals and leave the initiative to the USSR. He believes that Qavam favors giving the USSR some kind of oil concession. (Qavam had previously stated that he did not intend to present the Soviet agreement to Parliament, which has just convened, because Parliament would probably reject it; see Weekly Summary of 11 July, page 6.)

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FAR EAST

3. **KOREA:** Suggested action regarding deadlock--In view of the current Joint Commission deadlock and delaying tactics employed by the Soviet delegation, US delegates are convinced that new lines of argument must be advanced for settlement of the question of Korean party consultation. If these new arguments fail, and if the USSR subsequently refuses to pass over the consultation issue temporarily in order that the Commission may consider other aspects of the Korean Provisional Government question, the US Delegation feels that the only remaining course of action will be for Secretary Marshall to propose to the USSR a review of Joint Commission progress on the Foreign Minister level.

4. **CHINA:** Threat of rebellion in Sinkiang--According to the US Consul Tihwa, Central Government military commanders in Sinkiang Province are disturbed over the threat of another open rebellion by the Hsi group that dominates northwestern Sinkiang. (The Hsis led the "Ining rebellion" in 1944, and were promised virtual autonomy after an uprising in 1945-46; Hsi leaders now claim that native groups are being "oppressed beyond endurance" by the Chinese provincial regime.) One Government commander, who believes that the Hsis could muster more than 60,000 troops, has received reports that these troops are now being mobilized.

5. **BURMA:** U Saw termed guilty of assassinations--A high Burmese official has informed the US Consul General Rangoon that U Saw is undoubtedly guilty of the murder of U Aung San and other prominent members of the Anti-Fascist League. This official believes that U Saw expected, following a short period of chaos and a few months of military government control, to present himself as "the only logical candidate for Premier." U Saw's error, the official believes, was to underestimate the strength behind Aung San and the Anti-Fascist League.

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THE AMERICAS

6. **PARAGUAY: Brazil's mediation formula--US Ambassador Pawley reports that the Brazilian formula for mediation in Paraguay's civil war includes maintenance of the military status quo while negotiations proceed, amnesty for the rebels, and "respect" for Morinigo's position. Pawley has been told by the chief of the Brazilian Foreign Office's political division that: (a) it is up to the Paraguayan Government to take the initiative as regards including the US among the mediators; and (b) Brazil will abandon mediation attempts if its formula is rejected.**

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CRITICAL SITUATIONS

EUROPEAN RECOVERY: Bevin's delay in agreeing to send a delegation to discuss Ruhr coal production in Washington appears due to opposition from some UK Cabinet members who suspect US motives in calling the conference (see item 1).

GREECE: The reported dismissal of two general officers from the Greek Army is indicative of the political and personal differences in the High Command which are hampering operations against the guerrillas. Jealousy between the Army and the gendarmerie already has hampered the anti-guerrilla campaign.

NEI: Unchecked Dutch advances have severed the Indonesian Republic from nearly all of East and West Java and most of the north coast of Central Java. Dutch authorities believe operations will soon be completed. The Dutch oppose any British move to mediate or offer good offices.

KOREA: The Soviet delegation is pressing aggressively for consideration by the Joint Commission of a list which excludes 24 rightist parties with a total claimed membership of over 15,000,000 from consultation in the formation of the Korean Government.

Document No. 021
NO CHANGE in Class. ~~TOP SECRET~~
 DECLASSIFIED
Class. CHANGED TO: TS S
DDA Memo, 4 Apr 77
Auth: DDA REG. 77/1763
Date: 10 APR 1978 By:

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GENERAL

1. UK Cabinet appears divided on Ruhr coal talks--Bevin has told US Ambassador Douglas that some members of the UK Government suspect the US of intending to use the proposed Washington coal talks to obtain a UK commitment in regard to postponing nationalization of the Ruhr mines. However, Douglas assured Bevin that the US wished to discuss whether uncertainty as to the final status of the mines is affecting their output, and Bevin indicated that he would send a delegation to Washington. Ambassador Douglas suspects that on this matter, as on others, there may be "a real schism within the Cabinet."
2. US position regarding Poland--The State Department has instructed US Ambassador Griffis that, because the Paris Conference was the result of European initiative, it is not appropriate for the US Government to intervene or urge Polish participation. The Department further states that the US hopes a recovery plan will be evolved eventually in which all European nations can join to their mutual advantage.
3. Soviet radio facilities in Iran--US Ambassador Allen reports from Tehran that although Soviet air operations in northern Iran have now ceased (see Daily Summary of 24 July, item 1), Iran is not pressing the USSR to close down the Soviet radio facilities at Tehran, Tabriz, Meshed, and Pahlavi.

(CIG Comment: Although the USSR claims that the stations are needed to furnish weather information, they undoubtedly can be useful to the USSR as radio fixes in Caucasian and Trans-Caspian navigation and will facilitate covert intelligence activity.)

EUROPE

4. CZECHOSLOVAKIA: Recommended US policy--US Ambassador Steinhardt believes that the USSR will seek to strengthen Communist control over Czechoslovakia's internal affairs but at the same time will permit continued Czechoslovak trade with the West. The USSR would permit such trade as insurance against a noticeable deterioration in

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the Czechoslovak economy that might otherwise result from the USSR's failure to meet its commitments under the recently expanded trade agreement. Steinhardt recommends that the US: (a) should avoid any contribution to the Czechoslovak economy as long as Czechoslovakia stakes its economy on Soviet promises to deliver the necessary raw materials; and (b) should provide the maximum encouragement to the moderates in Czechoslovakia to resist further Communist domination. Steinhardt believes that such a policy will fix blame on the USSR for any disintegration of the Czechoslovak economy (which Steinhardt expects within one year) and will demonstrate to Czechoslovakia the danger of economic dependence upon the USSR. As positive steps to encourage Czechoslovak moderates, Steinhardt proposes that the US conclude a cultural convention with Czechoslovakia and bring the Hungarian coup before the UN.

5. BULGARIA: Opposition may go underground--The Acting US Political Representative reports that the Opposition Agrarian Party will probably go underground in order to avoid anticipated Communist reprisal against the Party's recent resolution condemning the present regime. (The Communists had hoped by terrorist means, such as the arrest of Petkov, to force the Agrarians to participate in a bogus "loyal" Opposition.)

6. FRANCE: Implications of foreign affairs debate--US Ambassador Caffery warns that Bidault and Ramadier may be forced "to go considerably further than they would like to" in the 25 July Assembly debate on French foreign policy. Caffery fears that such statements may render difficult further negotiations with the US and UK on the subject of Germany in relation to the European recovery plan.

Possible crisis over colonial electoral procedure--Embassy Paris reports that a demand for a vote of confidence in the Ramadier Government may arise from the fight between the Left and the Right over the question of electoral procedure for overseas territories.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY: Despite Soviet opposition to the US relief program in Austria, the US will make every attempt to obtain Soviet agreement to the entry of US relief supplies into the Soviet Zone; if the USSR fails to agree, the US will operate its relief program in the three Western Zones (see item 3).

GREECE: In Athens, center and liberal elements continue to explore the possibility of replacing or liberalizing the Government; in the north, the Army is alerted for further attacks from guerrilla units reportedly massed in the border areas of Yugoslavia and Bulgaria. AMAG will not permit an increase in the Army (see item 5).

NEI: Dutch forces continue to advance and occupy major towns; they reportedly have entered the largest Republican seaport, Cheribon. Dutch officials estimate that limited "police" operations will be completed within 14 days in certain areas. The Dutch, however, may be unable to maintain their rapidly extended communications in the face of Republican guerrilla tactics [redacted]

KOREA: The deadlock in the US-USSR Joint Commission continues because of Soviet refusal to permit consultation with parties and organizations affiliated with the Rhee-dominated Anti-trusteeship Committee.

CHINA: Distribution of UNRRA supplies to Chinese Communist areas has been blocked by an official Central Government decision that the lower Yellow River and Shantung areas are "no longer safe" for UNRRA-CNRRA personnel.

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GENERAL

1. Soviet airline suspends operations in Iran--According to US Military Attache Tehran, the Soviet commercial airline has terminated operations in northern Iran following formal representations by the Iranian Government. The Iranian note demanded this suspension until the USSR had granted reciprocal privileges to Iran. Iranian officials are surprised at the "humble" Soviet attitude, as evidenced by the Soviet request for permission for one final flight to Meshed to evacuate Soviet personnel.

(CIG Comment: This prompt and unexpected reaction to Iran's recent threat to impound Soviet aircraft operating illegally in northern Iran apparently reflects: (a) Soviet unwillingness to satisfy Iran's demand for reciprocal air rights; and (b) a Soviet desire to avoid further irritation of Iran pending the Iranian Parliament's action on the proposed oil treaty with the USSR.)

2. British press prepares public for breakdown in Soviet trade talks-- Ambassador Douglas reports that Government-inspired articles in the British press are preparing the public for a possible breakdown in Anglo-Soviet trade negotiations. The official attitude is that, while the USSR undoubtedly has cereals available for export, the distribution will be guided by political expediency and preference will go to the Satellites. The UK Foreign Office feels that the trade talks can be suspended without endangering Bevin's popularity or support.

EUROPE

3. AUSTRIA: US to press for relief in Soviet Zone--The Department of State has instructed US representatives in Austria to exhaust all possible means to reach with the USSR an agreement to permit relief supplies to enter the Soviet Zone Austria. The Department considers it most important that relief supplies continue to enter eastern Austria in order to strengthen the Austrian Government, to avoid having the USSR withhold supplies from their Zone to the Western Zones, and to forestall a division of the country. The US is prepared, however, to operate the relief program in the three Western Zones in Austria if the Soviet Zone is excluded.

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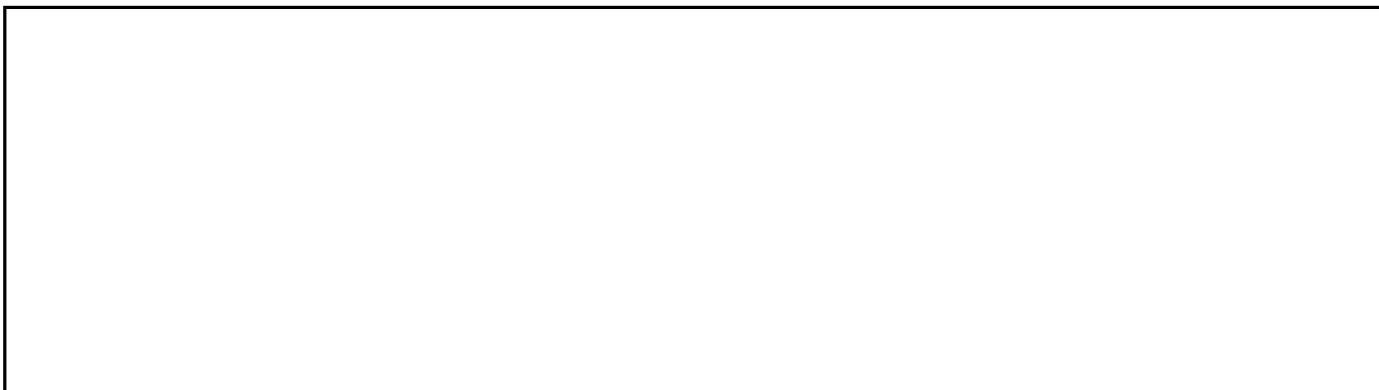
4. **ITALY: De Gasperi to press his ratification formula**--US Ambassador Dunn has been informed by Premier De Gasperi that he intends to present to the Assembly the Government's new formula for ratification of the Peace Treaty. De Gasperi states that he will present the formula in such a way that its rejection would not require the resignation of his Government.

5. **GREECE: AMAG refuses Army increase**--Dwight Griswold, chief of the American Mission for Aid to Greece (AMAG), reports that AMAG will permit no further increase in the size of the Greek Army and gendarmerie. (The Greek General Staff had hoped to raise the permanent strength of the Army from 120,000 to approximately 180,000.)

FAR EAST

6. **BURMA: UK agreement with Burmese mission**--US Embassy London has been informed that the UK will shortly announce an agreement with the Burmese Goodwill Mission to London by which the UK Government is pledged: (a) to the earliest possible transfer of powers to the Burmese Government; and (b) to introduce legislation for Burmese independence at the beginning of the next UK Parliament session. According to the agreement, the present interim government in Burma will be known as the Provisional Government and the Executive Council will become a Cabinet (see Daily Summary of 22 July, item 6).

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GENERAL

- 1. Bevin to recommend UK representation at coal conference--Ambassador Douglas reports that Bevin has agreed to recommend to the Cabinet on 23 July that the British send representatives to Washington to discuss means of increasing the Ruhr coal production. Bevin asks, however, that the agenda of the conference be withheld from the press and that the meeting be publicly defined as dealing only with technical methods for the increase of Ruhr coal production. (The Department of State has agreed to Bevin's request.)

EUROPE

- 2. GREECE: Bulgarian aid to guerrillas reportedly increased--US Military Representative ACC Bulgaria considers that Bulgarian aid to the Greek guerrillas in both western Thrace and Aegean Macedonia is "at an all time high." He adds that there is a possibility of a Bulgarian-supported drive to detach western Thrace from Greece, if Greek Government forces appear too weak to conduct simultaneous operations against the guerrillas in western and eastern Greece.

Greek Navy's anti-guerrilla operations discounted--With reference to a report received by the Navy Department (on the participation of the Greek Navy in operations against the guerrillas; see Daily Summary of 22 July, item 3), US Naval Attache Athens reports that, although the Greek Navy plans extensive operations against the guerrillas, its means are inadequate, its efforts are probably ineffective, and its claims of results are not dependable. ALUSNA adds, however, that the Greek Navy is transporting several thousand alleged Communist sympathizers (recently arrested by Zervas) to certain Aegean Islands and maintaining patrols to prevent their escape.

FAR EAST

- 3. BURMA: British reissue evacuation plan--US Consul General Packer in Rangoon reports that UK authorities are reissuing emergency evacuation plans as originally established during the government crisis of January 1947. Packer is coordinating plans for the protection of US nationals.

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4. NEI: Dutch report native welcome--US Consul General Foote has been informed by General Spoor, the Commander in Chief of the Netherlands Indies Army, that Dutch forces have occupied many areas without resistance and have been "welcomed by masses of people and most intellectuals." General Spoor claims that a general air of relief can be noted among natives who are continuing to work in a normal fashion.

(CIG Comment: Indonesian resistance will be based on guerilla tactics rather than on frontal opposition to superior Dutch armor.)

5. SIAM: US views on UK pressure--The Department of State has instructed US Embassy Bangkok to inform the Siamese Foreign Office that the US: (a) considers as unwarranted UK pressure for the appointment of a UK comptroller for the Bank of Siam as a condition to sterling convertibility (see Weekly Summary of 18 July, page iii); and (b) will expect all sterling accruing after 15 July to be freely transferable on or before 15 September, regardless of supervisory mechanism adopted or the nationality of the supervisory personnel.

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GENERAL

- 1. Rumanian-Bulgarian secret military alliance reported--US Delegate ACC Bucharest has been informed by a most reliable source that the recent Bulgarian-Rumanian conference in Sofia was primarily concerned with arranging the detailed implementation of a secret military alliance. Source reports that the Spanish Civil War Veterans' organization in Rumania is to be used as a cover for Rumanians taking part in operations against Greece, and that personnel would be recruited from the Army's two Communist-trained Volunteer Divisions, the secret police, and other unspecified sources. The US delegate evaluates the report as probably true.

EUROPE

- 2. AUSTRIA: Legation fears partition of Austria--US Legation Vienna believes that the Soviet protest against the US-Austrian relief agreement may be a move to justify the eventual exclusion of the Soviet Zone Austria from the US relief program. The Legation fears that the USSR thus might effectively partition the country.

(CIG Comment: It is unlikely that a "partition" of Austria will cause, in the immediate future, a breakdown of either the Austrian Government or the quadripartite commission for Austria as presently constituted; see Weekly Summary of 18 July, page 1.)

Keyes' views on possible Soviet moves--General Keyes, Commander US Forces Austria, reports that tension between the USSR and the Austrian Government has been heightened by the Soviet protest over the US-Austrian relief agreement and Chancellor Figl's forthright reply. Keyes recommends a firm line be taken to indicate US intention of going through with the plan for relief and rehabilitation of Austria.

- 3. GREECE: Liberal Party may decide to cooperate with Government-- US Ambassador MacVeagh reports that there is a possibility that Sophoulis will sanction "some sort of integration of his party in the

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national effort." (Sophoulis is leader of the Liberal Party, the only non-Communist group represented in Parliament which has refused to participate in the present Government.) MacVeagh states that although Sophoulis holds the Government largely responsible for the situation in Greece, he has conceded that it is now necessary to cooperate with the Government "to some extent" for the national salvation.

MacVeagh expresses his hope that Secretary Marshall will make a strong statement on US hopes for Greek unity. He believes that such a statement, which would reach the Greek electorate over the heads of the politicians, would be effective in convincing the politicians of the necessity for common action.

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Premier will not outlaw Communist Party at present--Prime Minister Maximos has informed US Ambassador MacVeagh that he will not outlaw the Greek Communist Party "at present" because: (a) existing laws are sufficient to cover the situation; and (b) he wishes to prosecute for illegal acts only, not on grounds of "ideology."

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Greek Navy operations--The Navy Department has been informed by the British Admiralty Delegation in Washington that the Greek Navy has been taking part in operations against the guerrillas. Guerrilla positions along the east coast are being shelled by destroyers and submarines; the Gulf of Corinth and the west coast are also being patrolled to prevent guerrilla movements to and from the Peloponnese and escape of the guerrillas by sea. Three LST's are moving men and supplies to Macedonia and Thrace.

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4. ITALY: Dunn's views on Italo-Yugoslav boundary--US Ambassador Dunn recommends that the US not urge Italy to accept the provisional Italo-Yugoslav boundary set by the Four Power Commission. Dunn considers that it would be unwise for the US to be associated with any move to impose on Italy a provisional boundary more unfavorable than the line specified in the Treaty.

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FAR EAST

5. NEI: Probable UN consideration of Indonesian situation--US Ambassador Baruch reports that he has warned the Netherlands Foreign Minister of the probability that the Indonesian situation would be brought before the UN, thus permitting Soviet entry into the discussions. The Netherlands Foreign Minister replied that this possibility had been weighed but that his Government was fully determined on the present course of action.

(CIG Comment: The Foreign Minister of the Indonesian Republic recently visited several Moslem countries in the Middle East with the probable aim of arranging for the presentation of the Republic's case to the UN in the event of war with the Dutch.)

6. BURMA: New form of government for Burma--US Consul General Packer in Rangoon reports that a new form of government for Burma is shortly to be announced with Thakin Nu holding the post of Prime Minister. Packer adds that the Burma Office expects Burma to withdraw from the UK Commonwealth because Burma refuses to acknowledge allegiance to the King.

(CIG Comment: The new government may be a plenipotentiary cabinet which would replace the present Governor's Executive Council and, in preparation for independence early in 1948, assume more of the powers now exercised by the UK Governor.)

7. KOREA: Announcement of Wedemeyer mission utilized by Rhee--General Hodge reports that the rightist leader, Syngman Rhee, has convinced many Koreans that General Wedemeyer's visit indicates a change in US Korean policy which will favor Rhee's plans for establishing a government without Soviet agreement. Rhee also predicts the removal of General Hodge for having betrayed democratic ideals in reconvening the Joint Commission.

(CIG Comment: If the present deadlock in the Joint Commission persists and the US establishes a separate government for South Korea,

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Dr. Rhee's prestige may increase to such a degree that it would be difficult to gain popular support for a government without bowing to Rhee's desire to be president.)

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GENERAL

- 1. USSR proposes terms on cereals to UK--The UK Foreign Office has informed US Ambassador Douglas that at the UK-Soviet trade talks in Moscow the USSR has offered the UK greatly increased quantities of cereals: possibly one million tons for 1947 with options on a further one million tons each in 1948 and 1949. The USSR is asking payment at the rate of \$3.00 a bushel for the 1947 deliveries with no fixed price for the 1948 deliveries. The British, according to the Foreign Office, consider the price too high and are not hopeful that a satisfactory agreement can be concluded. The UK has asked for US views on the Soviet terms.
- 2. US and UK may suspend Ruhr announcement--In view of the alarm expressed by the French Government, Secretary Marshall has proposed to UK Foreign Minister Bevin that the US and UK separately inform Bidault that the US and UK will suspend further announcement on the plan for a new bi-zonal level of industry in Germany until France has a reasonable opportunity to present its views.

In the meantime, Caffery has learned that Bevin has instructed General Robertson (Military Governor UK Zone Germany) to make no further announcement on the level of industry agreement.

EUROPE

- 3. FRANCE: Bidault's reaction to new Ruhr agreement--US Ambassador Caffery feels he has dispelled any misunderstanding on the part of Bidault and other members of the French Cabinet concerning US objectives in Germany. Caffery believes that while Bidault is panicky about his personal political position, there is no doubt about his genuine concern over the possible effect of the US-UK level of industry agreement upon the stability of the present Government. Bidault states that France must eventually go along with the US policy for Germany, but he emphasizes the impossibility of the average Frenchman doing so at this time.

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Caffery has been told by Maurice Schumann and several other prominent and decidedly friendly Cabinet Ministers that, "if the impression prevailing here about US intentions in Germany is not corrected, the Communists will walk away with the October municipal elections."

Spaak fears difficulties from French in recovery talks--Premier Spaak of Belgium has told US Ambassador Kirk that while the preliminary meetings of the Paris conference were very successful, he believes that the French view of the whole recovery problem is too narrow. He fears that the French committee members may feel satisfied with a simple listing of needs and assets without taking the essential forward step of planned economic integration between nations.

FAR EAST

4. NEI: Dutch decision is "full military action"--The Dutch Foreign Minister has told US Ambassador Baruch that the Netherlands announcement of its decision to take "police measures of a strictly limited character" in certain Republican areas of the NEI means, for this purpose, "full military action."

Baruch was also informed that, following the restoration of Dutch authority in Java and Sumatra, the principles of the Linggadjati Agreement will be put into force. Further delay on this matter, according to the Foreign Minister, would jeopardize preparations for the 1949 sugar crop.

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GENERAL

1. Soviet-Albanian talks in Moscow--US Embassy Moscow believes that the real purpose of Albanian Premier Hoxha's presence in Moscow may be to discuss with Kremlin officials Albania's role in Soviet operations in Greece and Macedonia.

(CIG Comment: CIG concurs in this view. As Albania's limited foreign trade is now handled almost exclusively by Yugoslavia, it is unlikely that Hoxha's presence in Moscow would be necessary to discuss Albania's participation in Soviet-Satellite trade arrangements. Moreover, no evidence exists of internal difficulties requiring Kremlin review or assistance.)

EUROPE

2. ITALY: US statement on Trieste suggested--US Embassy Rome believes that the USSR may attempt to bolster the Italian Communist Party by offering to return Trieste to Italy. The Embassy suggests that the Department of State may wish to forestall the effects of such an offer by restating the US view that Trieste is clearly Italian.
3. GREECE: Main guerrilla effort may be in Macedonia--The US representative on the temporary UN border commission in Greece reports indications that the guerrilla attacks supported from Albania may be diversionary, with the object of drawing Greek Army forces out of the Pindus Mountains. He points to the present movement of the main body of guerrillas toward the northeast without giving battle as a possible indication that the main guerrilla effort will be made in Macedonia.

FAR EAST

4. CHINA: Stuart interview with Chiang--US Ambassador Stuart, pursuant to a State Department suggestion, recently informed Chiang Kai-shek of independent Chinese and US reports from Manchuria indicating the seriousness of the situation and Nationalist misrule in that area. Stuart remarked that discontent was rapidly spreading throughout China; the Generalissimo attributed this condition to economic conditions. Stuart replied that fiscal

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and economic deterioration was merely a symptom of the "general feeling of hopelessness and impending disaster." Stuart also pointed out that the Generalissimo in his recent mobilization speech had used Stuart's own language about a "new revolution" but without Stuart's emphasis on reform and constitutional liberties.

Chiang agreed "somewhat more heartily than usual" with Stuart's statements and admitted others could see developments more clearly than he.

5. KOREA: Reported program for Communist domination of Korea--G-2 CINCFE transmits a report evaluated as "probably true" that at a meeting on 15 March 1947 between Soviet advisers and representatives of the North Korean Government and the Peoples Army the following predictions were made: (a) the US-USSR Joint Commission for Korea would reconvene in May but would probably be unsuccessful and would adjourn in August; (b) if the Joint Commission failed to reach agreement, North Koreans would cooperate with Chinese Communists in building up the Peoples Army in anticipation of the withdrawal of US troops; (c) if, however, the Joint Commission succeeded in establishing a united government in Korea, the Peoples Army would retire to Manchuria with the expectation of invading South Korea following the withdrawal of US and Soviet forces from Korea.

(CIG Comment: Although the details of this report are as yet unconfirmed, it concurs generally with numerous other reports and analyses indicating that (a) the USSR is aiming toward the development of Korea and Manchuria as a Soviet satellite area, and (b) there has been close coordination of effort between North Korean and Chinese Communist forces.)

6. NEI: Dutch insist on "good faith" step by Republic--The State Department has instructed the US Consul General in Batavia to indicate to Lieutenant Governor General Van Mook its concern over the unilateral nature of Dutch demands upon the Indonesians. According to US Embassy The Hague, the Dutch Foreign Office feels that it cannot recede from its present position until the Republic gives some evidence of good faith such as removing the food blockade of Dutch-held areas and halting Republican attacks along the perimeter. The Embassy has been reliably informed that Catholic Party members in the Dutch Government are urging military action, if reports of a breakdown in negotiations are confirmed.

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GENERAL

1. Possible Satellite air expansion through Poland--The US Air Attaches in London and Paris conclude that: (a) the suspension of UK-Yugoslav air negotiations will effectively block Yugoslav commercial air outlets to the west; and (b) the Satellite efforts for air expansion now will probably be shifted to Poland. In view of the danger of an immediate resumption of UK-Polish air negotiations, the Attaches recommend that the US urge the British to agree for tactical reasons that the US and UK await Polish initiative rather than take further steps for a Polish air agreement. They feel that the existing Satellite air connections with western lines at Prague and Berlin lessen the likelihood that reciprocal air agreements with the Satellites can be obtained.

(CIG Comment: There is no convincing indication that the USSR has abandoned its policy of excluding UK-US air lines from the Satellites. Until this Soviet policy is reversed, western efforts to obtain reciprocal air agreements with the Satellites will fail, no matter how auspiciously such negotiations may commence.)

2. UK participation in Washington coal talks may be cancelled--Bevin has declared in an aide-memoire to the State Department that, in view of the disinclination by the US to agree to any widening of the scope of the proposed discussions in Washington, he does not feel justified in sending a delegation merely to discuss European coal production. Bevin also expressed disappointment that the UK would not have an opportunity to explain its inability to continue "the dollar drain" required to finance German imports. The State Department, in reply, has reiterated the urgency of the Ruhr coal question and has stressed the unfortunate implication of possible US-UK disagreement through the sudden cancellation of a conference which has already been publicly announced.

EUROPE

3. USSR: Soviet reaction to Marshall proposals--US Ambassador Steinhardt in Prague has been informed by a reliable source that the Czechoslovak delegation to Moscow was severely reprimanded by Stalin personally. Communist Prime Minister Gottwald reported that he had never seen the Soviet leader so angry. Stalin categorically told the delegation that Czechoslovakia must withdraw "immediately" from the Paris conference and that failure to do so would constitute a "hostile act" toward the USSR and a

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violation of the Czechoslovak-Soviet alliance of 1943. Stalin seemed unconcerned over the adverse effect of such a withdrawal on western opinion and minimized the importance of Czechoslovak trade with the west. Stalin seemed especially angered by the fact that prompt Czechoslovak acceptance of the invitation to attend the Paris conference may have contributed to persuading wavering Swiss and Scandinavians to participate. Source believes that the USSR will tighten its control over Czechoslovakia and that Gottwald, in an attempt to recover his prestige with the Kremlin, will willingly cooperate in such an undertaking.

(CIG Comment: This report is accepted as a more accurate account of the meeting than that in Daily Summary of 16 July, item 3, in which Stalin is represented as speaking with restrained reasonableness. Stalin's anger was probably genuine and a reflection of exasperation and discomfiture in the Kremlin. It is to be expected that the USSR will act to prevent any similar show of independence by any Satellite, Czechoslovakia especially, and that Gottwald will outdo himself in order to redeem his blunder.)

Czechs report Stalin in excellent health--Source also told Ambassador Steinhardt that the Czechoslovak delegation reported Stalin in excellent health and apparently more vigorous and self-confident than in 1945.

4. GERMANY: French report on Von Paulus--US Consul Mann reports from Stuttgart that according to the French Security Control it has been reliably reported that General Von Paulus (German commander who surrendered at Stalingrad) heads a new army of 700,000 former Wehrmacht members and is stationed in the USSR with the aim of founding a new free Germany.

(CIG Comment: The existence of such a Free German military force under Soviet Command has not yet been established, though it is the subject of recurring rumors.)

Views on reported division between SMA and Moscow--US Political Adviser Murphy has been told by the German Director of Industry for the Soviet Zone that there is dissatisfaction and alarm in some quarters of the Soviet Military Administration (SMA) over "the present Molotov line of opposition to cooperation with the western powers." The Director of Industry added that this was true especially of the Soviet Commander, Marshal Sokolovsky, and General Georgieff.

(CIG Comment: SMA officials have often found it difficult to reconcile Kremlin policy with the practical aspects of their administration in Germany. The present reported dissatisfaction is not considered of serious consequence.)

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5. **FRANCE:** Bidault protests agreement on German production--US Ambassador Caffery reports that Bidault has strongly protested the US-UK agreement on the revision of the level of industry plan in the US-UK Zones Germany. Bidault accused the US and UK of making the revision behind his back and stated that he would leave the French Government at an early date if the US and UK remain adamant. He believes that the new agreement on the level of industry will play into the hands of the Communists who claim that the US motive is to build up Germany at the expense of France.

Bidault declared in a written statement to the UK and the US Ambassadors that "in the event that the UK and US Governments confirm the plans that they have formed on these points, the French Government would feel obliged to protest solemnly and publicly and to make all reservations on the various consequences which would not fail to ensue."

(CIG Comment: Public announcement of the US-UK plan for an increase in the German level of industry is certain to benefit the French Communist party, and the subsequent reaction could compel the withdrawal of the French Government from participation in the Marshall plan.)

THE AMERICAS

6. **PARAGUAY:** US may be invited to participate in mediation--According to US Charge Trueblood, the Brazilian Ambassador has been informed by the Paraguayan Foreign Minister that Paraguay will probably invite the US to participate in the mediation of Paraguay's civil war. Trueblood recommends that the US accept the invitation if the US plans to continue its policy of active cooperation in Paraguay's development.

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GENERAL

1. Norway's views on the Paris Conference--US Embassy Oslo has been informed by Foreign Minister Lange of Norway's desire that any new economic plans formulated at the Paris Conference should not interfere with existing trade agreements, particularly the agreements between the Scandinavian countries and the USSR, Poland, and Czechoslovakia. Lange also expressed Norway's desire to preserve its relations with the USSR and not cut itself off from the East until absolutely necessary. He added that "these last few months have made it look as if cooperation was becoming more and more difficult."

EUROPE

2. BULGARIA: Trade agreement with USSR termed "onerous"--A high official in the Bulgarian Supreme Economic Council has told the Acting US Political Representative in Sofia that the terms of the recent Soviet-Bulgarian trade agreement are "extremely onerous," and that Bulgaria must export urgently needed manufactured goods to the USSR.

(CIG Comment: It is believed that any other trade agreements between the USSR and its Satellites will be equally burdensome to the latter, but nonetheless will be advertised as proof that Eastern Europe can do without western aid.)

3. ITALY: US ratification views received with "relief"--US Ambassador Dunn has informed the Foreign Ministry of the US attitude in regard to delay on ratification of the Treaty (see Daily Summary of 16 July, item 4), and Under Secretary Brusasca was "very relieved" to learn that the US does not wish to urge immediate ratification.

Bevin concurs with US views--Ambassador Douglas reports that Bevin defers to the US view that De Gasperi should not now be urged to push for ratification (see Daily Summary of 14 July, item 5), and has instructed the British Ambassador in Rome accordingly.

4. FRANCE: Views on threatened civil service strike--US Embassy Paris believes that the threatened strike by the civil service has been temporarily abandoned because of: (a) the lukewarm attitude of government workers

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NO CHANGE in Class.
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throughout the country; and (b) Communist fear that the strike might not be successful. The Embassy adds that it had become clear to the majority of the nation that the Communists were promoting the strike for political purposes.

5. GERMANY: Food shortage in Soviet Zone causing emigration--Headquarters European Command Frankfurt reports that illegal border crossings from the Soviet Zone to the west continue at previous high rate. There is, however, an apparent change in motive. The accent is now on a search for food rather than the avoidance of military and labor registration (see Daily Summary of 23 June, item 7).

(CIG Comment: The serious food situation in the Soviet Zone has been verified by other sources.) 25X6

THE AMERICAS

7. PARAGUAY: Government launches new offensive--US Charge Asuncion reports that on 15 July Paraguayan Government forces launched a new drive against Concepcion, the rebel stronghold, in an apparent attempt to demonstrate their military superiority before mediation proceedings begin (see Daily Summary of 14 July, item 8).

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GENERAL

1. Possible Soviet stock interest in Iranair--Ambassador Allen reports from Tehran that Afshar, President of Iranian Airways, has questioned an Iranian subject named Issaef concerning the latter's reported acquisition of Iranian Airways stock. Issaef, who is said to be acting for the USSR, admitted having purchased 400-500 shares but claimed they were his private investment. Allen adds that, at Afshar's insistence, Issaef has given Afshar power of attorney to vote for him.

(CIG Comment: The acquisition by a Soviet agent of one-fifth of the 2,500 shares of Iranair stock would represent a step toward the Soviet objective for ultimate domination of the airline. The power of attorney, presumably not irrevocable, would not stand in the way of later Soviet action through the Issaef minority interest.)

EUROPE

2. FRANCE: May ask US help on colonial problems--US Ambassador Caffery has learned from a very high Foreign Office source that "a recommendation may shortly be made to Foreign Minister Bidault that the French" ask the US for its views and its help in solving French problems in North Africa and Indochina.

Bevin willing to defer nationalization in Ruhr--Bevin has told Caffery that he is willing to "put in cold storage" nationalization of the Ruhr coal mines, in order to increase coal production and to strengthen Bidault's position in France.

3. USSR: Soviet views on Marshall program--US Embassy Moscow has been reliably informed that Stalin told the Czech delegation which recently visited Moscow (see Daily Summary of 7 July, item 5) that Czechoslovakia might participate in the Paris Conference if it wished, but to do so would be a grave mistake because: (a) US resources were inadequate to make the Marshall Plan a success; (b) Congress would not authorize the necessary credits; (c) even if the Plan should gain congressional support, it would be rendered ineffective by an imminent US economic crisis; and (d) increased Soviet production insures that Czech economic needs can be met by the USSR. The Embassy's source, a high-ranking member of the Czech Embassy, has strong pro-Western sympathies and deplores his Government's action; he believes the Kremlin is convinced that such arguments are valid.

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4. ITALY: US does not wish to urge immediate ratification--The Department of State concurs in US Ambassador Dunn's opinion that the De Gasperi Government should not attempt to push Italian ratification of the Peace Treaty at this time (see Daily Summary of 14 July, item 5). The Department hopes that when the Constituent Assembly reconvenes on 20 August the USSR will have ratified.

Harriman's talk with the Pope--US Embassy Rome reports that the Pope remarked to Secretary of Commerce Harriman that the Communist menace is "much more insidious than the Nazi menace because of Soviet shrewd and tricky tactics and penetration elsewhere." Harriman noted that the Pope seemed especially preoccupied by the Yugoslav situation and feared that the Yugoslavs might break off diplomatic relations with the Vatican (see Daily Summary of 3 July, item 1).

FAR EAST

5. SIAM: Possible coup by junior Army officers--US Military Attache Bangkok reports that the Commander-in-Chief of the Siamese Army, General Adul, recently warned Prime Minister Dhamrong and other high government officials of the possibility of a revolt by junior Army officers unless governmental inefficiency were corrected. The MA believes that the junior officers may plan to install General Adul as head of the government, and that the latter made this warning in an effort to bring about an improvement which would forestall the contemplated coup.

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EUROPE

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- 1. PORTUGAL: Salazar anticipates war this year--Ambassador Wiley reports that Premier Salazar believes the US and USSR will engage in open warfare before the end of the year. Salazar reportedly is prepared to have Portugal enter the war as an independent ally of the West and has made plans to move the capital to Luanda in Angola, if necessary.

FAR EAST

- 2. KOREA: Hodge may arrest Rhee Syngman--General Hodge reports that it may become necessary to arrest Dr. Rhee Syngman, Kim Koo, and other rightist leaders because of the violence of their anti-American activities. Hodge declares that because Rhee "apparently wants to become a martyr" and might become a "storm center" in jail, he will await some overt action before making such an arrest.



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GENERAL

1. Bevin's support of Italy in Paris talks--In response to urgent US recommendations that Italy be given full status in the Paris talks on the European recovery program (see Daily Summary of 30 June, item 3), Bevin has informed US Ambassadors Douglas and Caffery that he will use his "utmost endeavors to insure that Italy will be one of the three or four powers to compose the Executive Committee charged with the main direction of affairs." Bevin said, furthermore, that as soon as Italy ratifies the Peace Treaty he hopes to declare in the House of Commons that the state of war with Italy is ended. Bevin added that he had been attempting to find some method by which the Italian Ambassador Designate in London could be officially recognized prior to such ratification.

2. UK suspends air negotiations with Yugoslavia--US Embassy Belgrade reports that the British Ambassador has suspended UK-Yugoslav civil air negotiations upon learning from the UK Foreign Office of the US diplomatic representations. (The Department of State on 9 July instructed US Embassy London to express to the UK Government its grave misgivings concerning the UK-Yugoslav air negotiations and to urge the UK not to facilitate Yugoslav air expansion into the Near East unless the Satellites are prepared to grant air rights to both the UK and US.)
 (CIG Comment: It appears unlikely that the USSR would permit implementation of a UK-Yugoslav air agreement. This view is supported by the Yugoslav insistence on an escape clause to the effect that the UK should not actually begin flights into Yugoslavia until reciprocal Yugoslav operations to London could be instituted.)

3. Postponement of Soviet withdrawals from Bulgaria--General Robertson, US Military Representative ACC Bulgaria, believes that the withdrawal of Soviet troops from Bulgaria -- begun in mid-May -- was suspended in mid-June. Robertson attributes the suspension to a presumable change in Soviet policy in response to a change in the international political situation.

EUROPE

4. USSR: Embassy's views on Soviet reaction to Paris Conference--US Embassy Moscow believes that the Soviet-dictated withdrawal of Czechoslovakia from the Paris Conference constitutes "nothing less than a

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declaration of war by the USSR on the immediate issue of the control of Europe." The Kremlin, according to the Embassy, appears convinced of its ability to defeat the purposes of the US proposals, either as a result of Western withdrawal in the face of Soviet opposition, or through "an open struggle if necessary." The Embassy attributes this conviction to a Soviet assumption that Bevin or Bidault will not gain sufficient financial support from the US Congress or that the US will eventually be forced to withdraw, because of an "inevitable" economic depression.

5. ITALY: Dunn advises against ratification now--US Ambassador Dunn believes that, in view of the great risk that De Gasperi's Government might be overthrown by an adverse vote on the Italian Treaty, it would be advisable for the US not to press for ratification at this time.

Current Communist tactics--Dunn reports that the increased political disturbances and violence in Italy have been directed mainly against the Christian Democrats and extreme rightist parties. Dunn adds that the Communists are trying to conciliate the right-wing Socialists and make a common front of all the leftist forces in a drive against the De Gasperi Government. This situation, Dunn observes, may change at any time, especially if the right-wing Saragat Socialists should enter the Government or refuse to cooperate with the Communists. Dunn nevertheless believes that the Italian Communists will intensify their attacks on the Government by all possible means in order to force it out.

6. FRANCE: Threatened strike may bring crisis--US Embassy Paris reports that Premier Ramadier has reacted vigorously to the threat of a strike by the Government workers and has placed the case before the nation in a radio appeal. The Communist-led General Confederation of Labor (CGT) has broken off negotiations, and the Embassy believes that, if the Government capitulates to CGT demands, several Cabinet Ministers would resign and thus bring on an extremely difficult crisis. The Embassy cites the opinion of an "able" political observer who regards the threatened strike as a Communist attempt to torpedo the Paris Conference.

FAR EAST

7. CHINA: Nationalist commander foresees critical period in Manchuria--General Sun Li-jen (deputy Nationalist commander in Manchuria, regarded by US observers as one of China's most capable tactical leaders) has told

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US Embassy Nanking that Chinese Communist strength in Manchuria has not been materially reduced, and that the next three or four months will be a "critical period."

Sun implied that he does not believe Central Government charges of large-scale Soviet military assistance to the Communists in Manchuria. (The editor-in-chief of TA KUNG PAO, one of the two prominent independent newspapers left in China, also told an Embassy official that its careful, on-the-spot investigation in Manchuria had failed to reveal any evidence of Soviet technical participation or active assistance, or any grounds for concluding that captured Koreans and Japanese had been trained or equipped by the Soviets.)

Chou's presence in Moscow not confirmed--US Embassy Moscow reports that the Chinese Ambassador, source of the previous report that Communist leader Chou En-lai was in Moscow (see Daily Summary of 10 July, item 4), now declares that the report is not confirmed; the Chinese Ambassador believes that effective liaison between the Kremlin and the Chinese Communists is not maintained inside Moscow.

THE AMERICAS

8. PARAGUAY: Government willing to accept mediation plan--The Brazilian Charge in Asuncion has informed US Charge Trueblood that President Morinigo and the Foreign Minister, on behalf of the Paraguayan Government, have agreed to a plan for an immediate armistice in Paraguay's civil war to be followed by mediation of the issues.

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GENERAL

1. US urges UK support of Italy--The Department of State has instructed US Ambassador Douglas to present the following views concerning Italy to Foreign Minister Bevin: (a) recognition should be given to extent of Italian support of the European recovery plan; (b) the need for some immediate aid may be as great for Italy as Bevin feels it is for France; (c) the Italian political situation, "roughly analogous to that in France," intensifies the need for interim assistance; and (d) both economic and moral support from all Western powers are necessary to prevent a Communist "rise to power in the spring elections." The Department therefore emphasizes that support of the Western Powers must be made clear to the Italian people, "if any democratic Italian government is to have a reasonable opportunity to prove itself."
2. Preliminary UK and French views on Italian colonies--The director for Africa and the Near East in the French Foreign Office has told US Embassy London that France's chief interest in the Italian colonies question is to ensure "the restoration of Italy to its rightful position in world affairs." The Embassy interprets this to mean that France still advocates the placing of former Italian colonies under Italian trusteeship. The UK Foreign Office, however, fears that if a decision were reached to return the colonies to Italy there might be bloodshed, especially in Libya. The Embassy believes that the major preoccupation of the French is fear of nationalist propaganda and disturbances in Libya which might spread to French North Africa.



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EUROPE

3. AUSTRIA: Keyes expects critical situation in August--The Commanding General US Forces Austria, General Keyes, expects that "a most critical political situation" will develop in Austria this August when the USSR will have the chairmanship of the Allied Commission. Keyes reports that since the last potato crop was exhausted he has been maintaining the ration in Vienna out of his small and diminishing reserve, and he declares that it is mandatory that two flour shipments now in Europe or European waters be diverted to meet the flour shortage. Keyes points out that any reduction in the Vienna food ration will cause new demonstrations to overthrow the government.

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Keyes warns that, in view of Austria's agreement to participate in the Paris economic reconstruction conference and the recent Soviet attack in the AC on US relief measures in Austria, failure of the US to meet its food commitments in the country will adversely affect US policy in Europe and Austria in particular.

4. GREECE: Separate Communist government reported likely--US Embassy Athens reports that, according to the best recent information, a serious intensification of the internationally supported bandit movement, aided by Communist agents and cells throughout Greece, has been planned and may still be expected as a counter to the US aid program.

The Embassy has been reliably informed that a separate Communist government is likely to be established within the next few days. The Embassy's informant adds that such a move, and the use by the Communists of an international brigade, would result in greatly increased arrests by the present Greek Government.

5. USSR: Soviet views on Japanese and Satellite Treaties-- US Ambassador Smith reports that when he presented to Molotov the US views regarding an early conference among members of the Far Eastern Commission on a Japanese Peace Treaty (see Daily Summary of 8 July, item 5), Molotov inquired whether it was not the US view that the Japanese Treaty should be prepared by the CFM rather than by the eleven powers in the FEC. Molotov also declared that the USSR favors simultaneous ratification of the European Satellite Treaties by the four powers concerned.

Smith therefore concludes that the Soviet Government will advocate preparation of the Japanese Treaty by the CFM, and will seek to delay ratification of the Satellite Treaties.

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EUROPE

1. RUMANIA: Soviet-inspired rehabilitation program--Acting US Political Representative Melbourne has been informed by a "usually reliable source" that the Cabinet is considering a comprehensive Soviet proposal for economic rehabilitation of Rumania. The framework of the plan includes: (a) a four-year economic project based on Soviet "assistance"; (b) nationalization of the petroleum industry, credit institutions, and navigation facilities; (c) the acquisition by the USSR of majority interests in all joint Soviet-Rumanian companies; (d) a billion-ruble loan by the USSR for state railways, which will be mortgaged to the USSR along with other nationalized industries; and (e) the cancellation of further reparation payments. Melbourne believes that such a plan is the logical outcome of the economic developments of the past year.

(CIG Comment: The nature of such a plan suggests that the Soviet method of counteracting the effect of the Marshall proposals on Eastern Europe will be to increase economic assistance to the Satellites, but only in return for complete control of the major aspects of Satellite economies.)

2. CZECHOSLOVAKIA: Benes' tactics regarding Paris invitation--According to US Ambassador Steinhardt, President Benes was primarily responsible for the initial Czechoslovak acceptance of the invitation to the Paris conference. Steinhardt believes that Benes has thus outmaneuvered the USSR and the Czechoslovak Communists and is now able to prove to the Czechoslovak public that the Government's foreign policy is dictated from Moscow.

FAR EAST

3. KOREA: Anti-trusteeship feeling growing in South Korea--General Hodge reports that political unrest in Korea is "becoming more violent as the meeting of the Joint Commission goes on." The anti-trusteeship group of the Right has now rallied its forces behind Syngman Rhee and may attempt once more to set up an "unrecognized government" in the US Zone. Hodge adds that "political terrorism and intensified hatred" are even affecting Koreans in Military Government and the police. Hodge concludes that there is slight prospect of getting any Koreans "except Communists and their followers" to cooperate with the Joint Commission "so long as 'trusteeship' is in the picture."

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THE AMERICAS

4. **PARAGUAY: US blamed for internal chaos--US Charge Trueblood believes that anti-US sentiment is sharply increasing in Paraguay. He quotes the Chilean Ambassador as saying that many Paraguayans feel that the US is responsible for Paraguay's present "chaotic" condition because it has "allowed" the Chapultepec Declaration to "flouted" in the country.**

Brazil insists on negotiated peace--The Brazilian Charge has informed Trueblood that unless the Morinigo Government agrees to accept a negotiated peace the Brazilian Government will "wash its hands of the situation," and that Brazil has asked the Argentine Government to adopt a similar position.

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GENERAL

1. Dutch-Indonesian rapprochement expected--US Embassy The Hague reports that the Netherlands Foreign Office believes: (a) that the margin of disagreement between the Dutch and Indonesian positions has been greatly reduced; and (b) that the Netherlands Government may now "close the deal" without obtaining a joint gendarmerie, but also without accepting Indonesian demands for independent foreign representation. According to US Consul General Batavia, Lieutenant Governor-General Van Mook believes that the remaining points of disagreement can be settled by conferences between Dutch and Indonesian representatives.
2. Dutch may coordinate air schedules with USSR--The Netherlands Foreign Office has indicated to US Embassy The Hague that the Netherlands Government may permit its airline (KLM) to negotiate for a coordinated-scheduling arrangement for Berlin with the Soviet airline (Aeroflot), but has decided not to sign an air agreement with the USSR on the governmental level (see Daily Summary of 28 June, item 1).

US Embassy London reports that the UK will protest any type of air agreement with the USSR which provides for an exchange of air traffic at Berlin.

EUROPE

3. FRANCE: Cot to urge Wallace to form third party--US Ambassador Caffery reports that, according to a trustworthy informant, the admitted principal objective of pro-Soviet Deputy Pierre Cot's "mission" to the US is to convince Henry Wallace of the "necessity of building a strong third party, which would not only represent democratic forces in the US, but also would be capable of understanding the new democratic forces in Europe."

FAR EAST

4. CHINA: Chinese Communist leader reported in Moscow--US Embassy Moscow has been reliably informed that Chou En-lai is now in Moscow. The Embassy notes that Chou's visit coincides with the return to the USSR of the Soviet Ambassador to Nanking.

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(CIG Comment: Chou En-lai, long recognized as one of the most influential Chinese Communists and an extremely skillful negotiator, has served effectively as the Communists' "foreign minister." He was last reported by the Communist radio to be in northern China on 29 June. Chou En-lai's reported visit to Moscow coincides with such developments as: (a) an apparent growing friction in Soviet-Chinese relations; (b) the announced US sale of ammunition to the Chinese Government; and (c) the Chinese Government's mobilization plan, which in effect outlaws the Chinese Communist Party. If he actually has gone to Moscow, Chou En-lai can be expected to make a determined bid for direct and immediate Soviet assistance to the Chinese Communists, at a time when the Soviet Government may be seriously considering the opportunities of expanding its influence in Asia.)

Soviet shipping activity between Manchuria and Shantung--US Consul General Dairen reports that, for the first time, he has received reliable information that a Soviet vessel has sailed from Dairen for Chefoo, Chinese Communist-held port on the north side of Shantung Peninsula. The vessel reportedly carried trucks, tires, and auto parts. (US Navy observers in China have also received reports, which they consider "probably true," that a Soviet merchant ship was in Chefoo on 7 and 24 June. Chefoo dock workers, moreover, have noted the presence in Chefoo of a Soviet-manned vessel that allegedly brought munitions from North Korea.)

(CIG Comment: These reports lend weight to recurrent Chinese Government claims that Soviet vessels have been facilitating the movement of Chinese Communist troops and supplies between Manchuria and Shantung.)

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GENERAL

1. UK view on Soviet action at Paris--According to US Embassy London, high Foreign Office officials have speculated that the Soviet withdrawal from the Paris Conference may have been motivated principally by prospects for a good harvest in the USSR, a conviction that Western Europe is going bankrupt anyway, and a belief that the USSR would hasten the collapse by refusing to participate in a European economic reconstruction program.

2. UK may suggest US-UK border commission for Greece--US Embassy London reports, as the official British appraisal of the Greek situation, that: (a) no progress has been made in suppressing the rebels in Greece; (b) the resultant continued uncertainty has made the economic situation even worse than it was last year; and (c) US aid will be ineffective unless the rebels can be suppressed and the flow of arms and supplies from the border countries can be stopped. The UK Foreign Office expects Soviet obstruction in the UN to the establishment of a permanent border commission; the UK accordingly is thinking of asking the US to join it in bringing about a Soviet veto of this recommendation. "In the light of such obvious Soviet refusal to permit the only action which would be calculated to remedy the situation," the Foreign Office believes that the US and UK would be justified in setting up a border commission of their own in disregard of the UN. (Gromyko has expressed his disapproval in the Security Council of establishing a permanent border commission but has not yet indicated whether he will veto the recommendation included in the majority report of the Investigation Commission. The US has already expressed its determination not to compromise on this recommendation; see Daily Summary of 27 June, item 1.)

3. Turks fear USSR will set up dissident Greek Government--The Turkish Ambassador in Paris (Numan Menemencioglu, astute wartime Foreign Minister) has informed US Ambassador Caffery of his fear that the USSR is about to establish a "stooge" dissident Greek Government outside Greece with the intention of setting up this government eventually in Greek Macedonia.

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EUROPE

4. **POLAND:** Reported Polish participation in Paris meeting--On 7 June, Poland's Communist Foreign Minister Modzelewski told US Ambassador Griffiths that, although a final decision had not been made, he was certain the Polish Government would accept the UK-French invitation to the Paris meeting.
5. **CZECHOSLOVAKIA:** Economic difficulties anticipated--US Ambassador Steinhardt has been informed that President Benes and Foreign Trade Minister Ripka anticipate economic difficulties in Czechoslovakia later in the year. Benes believes that many high Communists in the Government are living in a "fool's paradise" and fail to recognize the latent weakness of the Czechoslovak economy, now that it is no longer bolstered by "very large" UNRRA contributions. Ripka told Steinhardt that he anticipated a substantial decline in Czechoslovak exports as a result of the inferior quality of Czechoslovak goods, labor's low productivity, and skilled-labor shortages.

THE AMERICAS

6. **NICARAGUA:** Recognition of Somoza puppet regime--US Embassy Managua reports that the Argentine Charge has delivered to the de facto Nicaraguan Government a note which is being interpreted in Managua as implying recognition.

(CIG Comment: Unless the Argentine Government promptly repudiates any Nicaraguan contention that its note implies recognition, this new turn of events will strengthen the hand of those who, wishing to keep recognition problems off the Rio agenda, would like Nicaragua to be invited. Brazil is reportedly about to "consult" the American Republics on whether to issue the invitation.)

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GENERAL

- 1. Views of Polish delegate to ECE on economic program for Europe--US Ambassador Douglas reports from London that Rudzinski, Polish Vice-Chairman of the Economic Commission for Europe, has told a high UK official that, if Poland and Czechoslovakia do not accept the UK-French invitation to the 12 July conference on the economic rehabilitation of Europe, "the Council of Foreign Ministers in November might as well not meet, Europe would be divided, and collaboration inside UN organizations would become an unreality."

EUROPE

- 2. USSR: Early ratification of peace treaties improbable--US Embassy Moscow reports that the Soviet Foreign Office registered obvious displeasure recently when queried by the Rumanian Ambassador in Moscow concerning Soviet ratification of the Rumanian Peace Treaty. Embassy Moscow interprets the incident as an indication of Soviet inclination to avoid early ratification of the Italian and Satellite treaties. (US Embassy Rome reports that Foreign Minister Sforza's advisers fear that the USSR may indefinitely delay ratification of the Italian Treaty. Sforza's advisers believe that the USSR is no longer interested in solving European problems according to last year's formula.)
- 3. RUMANIA: Terms of payment for grain from USSR--US Political Representative Melbourne has been reliably informed that the Rumanian Government is paying for Soviet grain by transferring Rumanian gold in Switzerland to the credit of the USSR. According to source, two tons of gold are already in the process of being transferred; a total of slightly more than six tons will be involved in the transaction.

(CIG Comment: The USSR, which has agreed to supply Rumania with 80,000 tons of grain, thus appears to be charging a price approximately equal to that which Rumania is paying for US grain. The announcement of the grain transaction by the Rumanian Government stressed that the USSR was supplying the grain to Rumania on far more advantageous terms than those demanded by the US; see Weekly Summary of 3 July, page 3.)

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FAR EAST

4. **KOREA: Conditions in Korea and Balkans compared**--Following a four-day visit to North Korea, US Political Adviser Jacobs reports that the Soviets have established north of the 38th parallel a Communist state comparable to, though not yet so well-organized as, the Balkan satellites. Jacobs foresees an inevitable clash between Right and Left, if the US and Soviet Zones are merged. In this conflict, he adds, the organized Communists in the North will be joined with fellow travelers in the South and will have the backing of the Soviet-trained North Korean army and security police, while the rightist opposition will be divided and relatively unarmed.

5. **JAPAN: US urges conference on Treaty**--The State Department has instructed US Ambassador Smith in Moscow to convey to Molotov the US desire that a conference be held as soon as possible on a Japanese Peace Treaty. The US wishes that all eleven members of the Far Eastern Commission be represented, and that an initial conference be convened as soon as possible. It suggests that a conference of deputies and experts be opened in Washington or San Francisco on 19 August.

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GENERAL

1. Bevin agrees to coal conference in US--Bevin has informed US Embassy London that he accepts the US invitation to send top-level UK representatives to Washington to confer on the European coal problem with particular reference to Ruhr production (see Daily Summary of 30 June, item 1). Bevin indicated that because of the "extreme importance" of German production, he may attend personally.
2. Embassy Moscow's comments on Soviet withdrawal from Paris conference--US Embassy Moscow believes that the USSR's withdrawal from the Paris Conference is the result of the Kremlin's confident assumption that the US will, within the next year, be overtaken by a severe economic crisis. Such a crisis, according to Soviet calculations, would force the US to withdraw from participation in European affairs thereby causing an economic collapse in Europe which could readily be exploited by the USSR. The Embassy believes that, while the USSR may permit Czechoslovakia, Poland, and even Rumania to participate in a European economic program, such a development "would have its own dangers" for the program. The Embassy points out that the withdrawal of Polish coal could be used to jeopardize the success of the program, and that European recovery plans will probably be sabotaged by Comintern-inspired strikes. (Top French Foreign Office officials have given a similar analysis to US Embassy Paris.)

Embassy Moscow urges a vigorous US program to counteract the success of Soviet propaganda concerning a US depression and the unhappy consequences to Europe of reliance on US aid. The Embassy suggests that such a program should emphasize US economic achievements and the fallacies of past Soviet predictions concerning the collapse of capitalism.

3. UK attitude toward USSR reported hardening--US Embassy London considers that the UK attitude toward the USSR and Communism "is beginning to take on the character of the British attitude toward Hitler and Nazism after Munich." The Embassy believes that Molotov's "threat" has served to stiffen rather than frighten the British. The Embassy adds that the UK would support any action to combat the sabotage of European reconstruction by the Communist Parties in France, Italy, Greece, or in the Ruhr.
4. Bidault expects difficulties with UK over Ruhr--Foreign Minister Bidault has told US Ambassador Caffery of his fears that France will encounter difficulties in reaching agreement with the UK on Germany, as the French interests which own certain Ruhr mines will oppose the UK desire to "socialize" the mines.

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5. Czech officials to discuss Marshall proposals in Moscow--US Ambassador Steinhardt in Prague reports that Prime Minister Gottwald, Foreign Minister Masaryk, and Foreign Trade Minister Ripka are leaving for Moscow on 8 July "to clear with the USSR" Czechoslovak participation in the Marshall plan and to discuss the Franco-Czechoslovak treaty of alliance (see Daily Summary of 5 July, item 3). The Czechs will argue that without economic assistance from the West it will be impossible for them to carry out the Two Year Plan and to fulfill their economic obligations to other Eastern European countries. Steinhardt adds that the Czechoslovak Government -- including most Communist members -- is keenly disappointed by the failure of the USSR to participate in the Marshall proposals.
6. Secretary Marshall replies to Generalissimo--Secretary Marshall has requested US Embassy Nanking to inform Chiang Kai-shek orally, (in answer to Chiang's request for advice, see Daily Summary of 20 June, item 2) that "in the final analysis the fundamental and lasting solution of China's problems must come from the Chinese themselves" and that the US "can only assist as conditions develop which give some assurance that the assistance will have practical beneficial results."

EUROPE

7. RUMANIA: Economic negotiations with US reported stalemated--Rumanian Foreign Minister Tatarescu has indicated to Acting US Representative Melbourne that the USSR is permitting no action by Rumania on such matters of US concern as the proposed civil aviation agreement and the settlement of the petroleum and the looted gold questions. Melbourne believes other US-Rumanian negotiations are likewise being blocked.
8. PORTUGAL: Talks on Azores resumed--US Ambassador Wiley reports that his conversations with the Portuguese Foreign Minister on the Azores apparently have begun favorably. The Foreign Minister has said that the US would obtain what it "needs," but he warned that there must be no infringement of Portuguese sovereignty. However, Wiley believes he may still "encounter serious difficulties" in reaching a formula.

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GENERAL

1. Bevin's views on the European economic program--According to US Ambassador Douglas, Bevin considers that: (a) Bidault has acted with great courage in the face of all possible Communist pressure on him and Ramadier; (b) France will support the program firmly in the immediate future, and some US assistance in advance of Congressional action would assure continued firmness; (c) Molotov's "warning" means that the Soviets will use every device to prevent other European nations from joining in the program; and (d) if no US action is taken on the European aid program until late fall or winter France and most of Europe will be "lost."
2. French Communist reaction to Bidault's stand--Ambassador Caffery reports that the French Communist reaction to Bidault's unexpectedly courageous stand has been bitter. Bidault intends to go ahead as rapidly as possible, but he anticipates that the Communists will do their utmost to frustrate French efforts to work out a realistic plan and that they may cause very serious internal difficulties in France.

EUROPE

3. CZECHOSLOVAKIA: Moderates pessimistic after Paris Conference--Ambassador Steinhardt reports that influential Czech moderates are discouraged by the failure of the Paris Conference and by the apparent stalemate in the negotiation of a Franco-Czech treaty of alliance. They believe that: (a) the Soviet Union will veto participation of any Satellites in the Marshall proposals; (b) the Communists are in such control of Czech foreign policy as to prevent Czechoslovak participation in any event; and (c) the probable failure of the moderates to negotiate a Franco-Czech alliance will be interpreted at home and abroad as decisive evidence of Soviet control of Czechoslovak foreign policy and thus aid in further strengthening of that control.

Ambassador Steinhardt comments that this pessimism, the immediate reaction to the failure of the Paris Conference, may be somewhat relieved in the future, particularly if the moderates manage to negotiate the French treaty. If this feeling persists, however, Ambassador Steinhardt doubts the ability and courage of the moderates to oppose the Communists effectively on these two issues.

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4. **GREECE: Increased wage strikes threatened--US Ambassador MacVeagh reports that the Communists are actively agitating for wage increases and that the continued discrepancy between wages and the high cost of living may cause wage strikes of indefinite duration, thus seriously retarding the recovery program.**

NEAR EAST-AFRICA

5. **CYRENAICA: British consider bases in Cyrenaica essential--According to US representatives conferring in London on the disposition of Italian colonies, the UK General Staff is insisting that bases in Cyrenaica are absolutely essential to their strategy in the Eastern Mediterranean, since British troops will have to be withdrawn from Egypt and very possibly from Palestine. The UK, therefore, may still seek trusteeship over Cyrenaica.**
6. **IRAN: Shah likely to seek Prime Minister Qavam's removal--US Ambassador Allen reports that the Shah continues to maintain his animosity toward Prime Minister Qavam, partly because of Qavam's attempts to gain political support among the armed tribes. Allen believes that the Shah will endeavor to dismiss the Prime Minister as soon as possible after the Majlis meets and the Soviet oil question is disposed of one way or another (see Weekly Summary of 3 July, page 11).**

FAR EAST

7. **NEI: Dutch military action likely in Java or Sumatra--US Consul General Batavia expresses the opinion that some military action may occur in Java or Sumatra, either as a Dutch operation against the Republic in the event of an unsatisfactory Indonesian reply to the Dutch note of 29 June, or as police action, in the event of Dutch-Republican agreement, to curb irresponsible elements and protect lives and property. Consul General Foote warns that even police action may be exaggerated by press correspondents on the scene into a "full-blown war."**

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GENERAL

- 1. Possible break in Yugoslav-Vatican relations --Yugoslav Vice Foreign Minister Bebler has informed US Charge Belgrade that the Yugoslav Government has requested the Vatican to repudiate an article in the Vatican newspaper which charged the Yugoslav Government with the massacre of 400,000 Catholics. Bebler stated that "otherwise the Yugoslav Government will take further measures, not excluding a break in relations."

(CIG Comment: Yugoslavia is the only Soviet satellite which still maintains relations with the Vatican. In view of the Yugoslav Government's failure to eliminate Catholic influence by intimidation, it may now consider attainment of this goal impossible without a break in relations. Moreover, the Vatican is not expected to moderate its attitude so long as the Tito regime continues its terrorist campaign against Yugoslav Catholics.)

- 2. Afghan interest in North West Frontier --US Embassy London reports a recent borderist claim by Afghanistan in the area between the Durand Line (along part of the India-Afghan border) and the Indus River which may constitute a serious threat to the peace of the border. The Indian Government has suggested to the UK Government that the US be invited as a friendly third party to warn the Afghan Government against adoption of a "policy of adventure" which, in the present state of international tension, may have repercussions extremely harmful to Afghanistan as well as to others. The correspondence adds that, inasmuch as the US is concerned with Afghan security vis-a-vis the USSR, the US may feel that it has a direct interest in the matter.

EUROPE

- 3. GREECE: Communist arrests in Athens likely --Prime Minister Maximos has informed US Ambassador MacVeagh that it will probably be necessary to arrest prominent Communist leaders and organizers in Athens in order to prevent some from leaving the country to join Zachariades (ex-leader of the Greek Communist Party now in France) in promoting a separate Greek government and others from launching a series of crippling strikes in Greece. Maximos added that he did not wish to place the matter solely

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in the hands of Minister of Public Order Zervas and would probably appoint a small unofficial committee to handle the problem. MacVeagh suggested that, in order to insure wide support for Maximos' policy, the committee be made as "broad" as possible.

4. **FRANCE: UK views on Communist plans**--According to the US Embassy London, the UK Foreign Office believes that the French Communists will attempt to enter the Government now and, failing that, will attempt to oust it. The Foreign Office, however, doubts that the Communists will cause general strikes in the immediate future, as such action would be "too transparent" and would cause popular resentment.

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FAR EAST

5. **KOREA: Hodge reports situation precarious**--General Hodge reports that the Korean situation "is more precarious today than at any time since the occupation began" and "becomes more explosive daily." Hodge states that the USSR has succeeded in developing a strong Communist fifth column in South Korea and has tightened its control in the North. Moreover, many Liberals in South Korea have been driven into Communist-controlled groups by the abortive efforts of the extreme Right to seize power and by the latter's agitation against trusteeship.

If the Joint Commission fails, General Hodge expects an immediate outbreak of terrorism approaching "an oriental-style civil war" between the Right and the Left and an early attempt by the Communists to instigate "spontaneous" mass uprisings. He adds that, as tension mounts, the extreme Right is apparently trying to provoke widespread disturbances in order to break up the Joint Commission and provoke Hodge's recall from Korea. The Communists welcome this activity in the hope that the US will become disgusted and withdraw all troops from Korea. In the meantime, the USSR continues to pursue its goal of making Korea a loyal Communist satellite, thus insuring Soviet control of the warm water ports of Wonsan and Chinnampo.

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6. **CHINA: Soviet repatriation plans**--The US Naval Attache Nanking reports that Soviet authorities in China probably were compelled to announce their plans to repatriate Soviet citizens from China prematurely because Chinese police in Shanghai refused to recognize the assumption of Soviet citizenship by many Russian political refugees. The Attache believes that the Soviet move, while adopted partly to save face, may be the first of several actions in line with a "new tough Soviet policy towards China." He adds that there is no immediate likelihood of a violent rupture in Sino-Soviet relations, although some observers expect that a complete breakdown will eventually take place. Current repatriation plans apply to about 60% of all Soviet families in major Chinese cities, but will not include many older Soviet citizens such as those engaged in Soviet intelligence activities.

Chinese reaction to Soviet repatriation--The Naval Attache also reports that the Chinese describe the Russians who have assumed Soviet citizenship as a "fifth column" and therefore favor their removal from China. Moreover, the Chinese appear to be eager for a Sino-Soviet breakdown, possibly in the belief that a militant stand against the USSR would encourage US support to China.

THE AMERICAS

7. **ARGENTINA: Foreign policy on eve of Conference**--US Embassy Lima reports that, according to a reliable source close to President Peron of Argentina, Argentine foreign policy on the eve of the Rio Conference is based upon the following concepts that, during the inevitable future war between the US and the USSR: (a) Argentina's role will be to defend South America and "maintain it economically"; (b) the implied Argentine hegemony in South America will be established with US "tacit consent" and with US material and technical assistance; and (c) Argentina will maintain relations with the USSR and its satellites as a bargaining point pending negotiations with the US at Rio.

(CIG Comment: This statement of Argentina's intentions is confirmed by CIG's analysis of the trend of Argentine policy since V-J day, and it helps explain Argentina's sudden change of heart with respect to its Chapultepec commitments.)

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EUROPE

1. FRANCE: Molotov reported urging Communists re-enter Government-- US Ambassador Caffery has been reliably informed by a high official in the Ministry of Interior that Molotov has upbraided French Communist leaders for their lack of skill in permitting themselves to be excluded from the Government and has urged them to re-enter the Government at all costs.

Ramadier success in crisis viewed likely--A high official close to Ramadier has told Caffery that he is more optimistic concerning Ramadier's ability to hold together the Government and obtain a vote of confidence on 4 July.

Political significance of rightist plot arrests--Caffery has been informed by a high official of the Interior Ministry that the arrests made in connection with the "rightist plot" were based upon evidence amassed during the past several months, and that the arrests were made at this time in order that the pro-Government Socialists may be able to declare that republican institutions will be imperiled by a clash between the extreme Left and extreme Right, if the present Government is allowed to fall.

2. POLAND: Possible participation in Marshall proposals--According to US Ambassador Douglas, the Polish representative to the ECO believes that Poland might cooperate, at least on a limited scale, with the Marshall proposals for European economic reconstruction, regardless of the Soviet position. The representative added that: (a) Poland's need for capital equipment and Western markets makes economic isolation from the West impossible; (b) Polish and Czechoslovak participation in ECO demonstrated that these two countries might be able to engage in limited cooperation with the West, even if the USSR remained aloof; and (c) conversations are taking place in Prague concerning the possibility of independent Polish-Czechoslovak participation in the plan.

(CIG Comment: If the USSR permits these countries to participate in the plan, the local Communist Parties can be expected to use every possible means to exploit Western aid for the benefit of the USSR.)

Fighting between Ukrainian underground and Polish troops--US Military Attache Warsaw reports that, according to a fairly reliable eyewitness, the Polish Government is employing 3 divisions plus several thousand security troops against the Ukrainian underground (UPA) in

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southeast Poland. Source adds that the UPA is well-supplied with German and new Soviet automatic weapons and that, although most of the fighting is between small units, engagements of battalion size have occurred. The MA, who in general confirms these statements, believes that the Government forces will score considerable successes but will be unable to eliminate the Ukrainian underground.

3. **HUNGARY:** Nagy's popularity said stronger than ever--According to US Charge Budapest, Communist attempts to discredit ex-Prime Minister Ferenc Nagy in the eyes of the peasants have failed. The Charge is assured on good authority that Nagy's standing with the bulk of the rural population is better than ever, and that he is assuming the stature of a national hero. (The UK Foreign Office had previously expressed the belief that Nagy had lost his following in Hungary; see Daily Summary of 28 June, item 3.)

FAR EAST

4. **NEI:** Effect of US aide-memoire of 26 June--US Consul General Foote reports that the US aide-memoire of 26 June prevented "unfortunate incidents" in the NEI during the past weekend. According to Foote, President Soekarno is hoping to obtain control over extremist Republican leaders in order to be able to comply both with the Dutch note of 27 May and with the US aide-memoire. In addition, the left-wing groups, which forced Sjahrir's resignation by refusing to support his proposed concessions to the Dutch, have withdrawn their formal opposition to Sjahrir's policies. Foote believes that, if Soekarno gains control of the left-wing groups, agreement with the Dutch may be expected.

THE AMERICAS

5. **ARGENTINA:** Incitement of Panama against US--According to US Consul General Troutman in Geneva, the Panamanian Charge in Bern quotes the head of the Argentine delegation to the International Labor Office Conference as saying that Argentina considers that US "imperialistic and capitalistic activities" have placed Panama in an extremely difficult position, and that Argentina, as the "big brother of all Latin American countries," will give Panama full support. Troutman comments that the Argentine delegation to the conference is engaged in an aggressive attempt to drive a wedge between the US and the Latin American countries.

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EUROPE

1. FRANCE: Ramadier faces critical period--US Ambassador Caffery believes that the next ten days will be the most critical period yet faced by the present Government, as Ramadier must: (a) find a compromise economic policy on which the Parties in the Government can agree; (b) obtain a vote of confidence on 4 July; (c) win the approval of the Socialist National Council on 5 July. Caffery adds that the Socialist Labor Minister is said to be on the point of resigning because he cannot agree to the compromises of economic policy which Ramadier must make.

Strasbourg Communist Congress--Caffery also reports that qualified observers note evidence in the declarations made at the Strasbourg Congress of the French Communist Party that Comintern operations are being revived. He cites the speech of the President of the Control Commission of the Greek Communist Party as tending to confirm French reports that the international Communist movement has not only sent arms to Greece but recruited men from the Netherlands, Belgium, Italy, and France for the International Brigade in Greece.

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2. GERMANY: Reported Soviet plans for Central Government-- [redacted] the Soviet Military Authority on 26 June discussed with the German officials who head the Central Administrations in the Soviet Zone the formation of a unified government in that Zone. Ministers Presidents in the Soviet Zone attended a similar meeting on 27 June. [redacted] the Soviet Military Authority in the near future may announce a plan for a central German government in its Zone.

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NEAR EAST-AFRICA

3. TURKEY: US discourages Turkish appeal to UN on minority question-- The State Department has informed US Ambassador Wilson that a Turkish appeal to the United Nations at this time, concerning persecution by guerillas of Turks living in Greek Thrace, would not serve any useful purpose (see Daily Summary of 26 June, item 3). The Department believes that such an appeal might complicate consideration of the Balkan Investigation Commission's report and proposals by the Security Council, and also might divert attention from the responsibility of Greece's three northern neighbors for the unstable situation in Greece.

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FAR EAST

4. CHINA: Weakening of Nationalist position in North China--US Assistant Naval Attache Peiping reports deterioration of the North China situation and increasing Communist interdiction of the lines of communication, apparently because the Nationalists are unable to garrison all rail lines. The US Assistant Military Attache Peiping suggests that popular disapproval of the present Nanking government may develop into a movement to overthrow the Generalissimo, "if the Chinese Communists do not do it first."

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BOOK VII - TOP SECRET DAILY SUMMARY
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