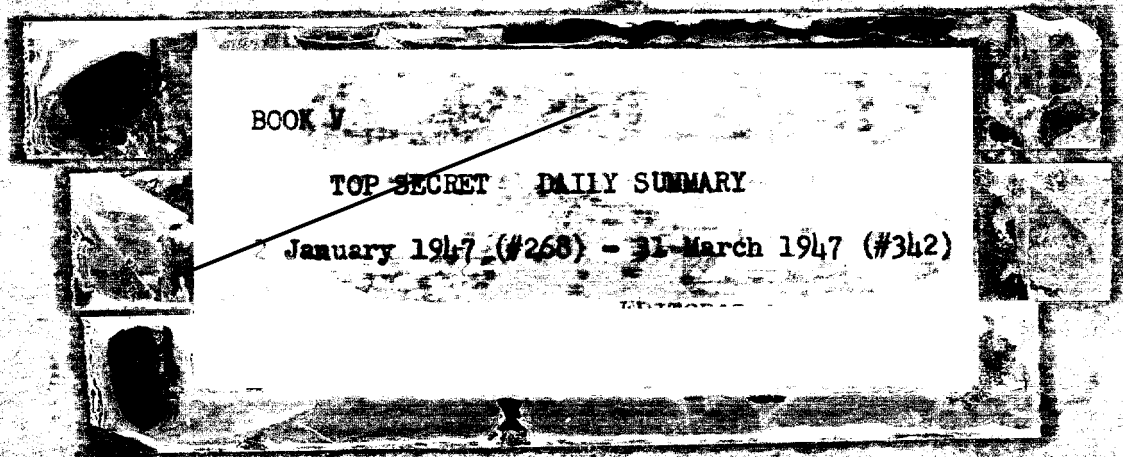


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GENERAL

1. Secretary Marshall's recommendations on Japanese peace treaty-- Secretary Marshall has approved the State Department's proposal for an eleven-power conference in Washington to discuss the preparation of a Japanese peace treaty [redacted] but he considers it inadvisable to raise the question of the treaty at this time in Moscow. He suggests that an approach be made through normal diplomatic channels to the nations represented on the Far Eastern Commission. 25X1
2. State Department suggests vigorous approach on Soviet lend-lease--The State Department, in a message to Secretary Marshall, notes the Soviet Government's failure to reply to recent US requests for negotiation of a lend-lease settlement and suggests "vigorous representations." The Department doubts the advisability of setting a deadline for a Soviet reply, which the USSR might consider an ultimatum involving its prestige.
3. UK to conclude monetary agreement with Spain--US Embassy London reports that the UK is "reluctantly" about to sign a bi-lateral monetary agreement with Spain. A Foreign Office official has emphasized that only the unfavorable economic and financial position of the UK "could bring Britain to enter into an agreement with Spain at this time."

EUROPE

4. GERMANY: Soviet forces predominantly mechanized-- [redacted] Soviet occupation forces in Germany are composed chiefly of mechanized and armored units and appear to be over-equipped. (CIG Comment: This confirms previous estimates that the USSR, while reducing the personnel strength of its forces at home and abroad, is seeking to maintain its military potential by increased mechanization.) 25X1
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5. RUMANIA: Expected US implication in new mass trials--US Representative Berry reports that the Rumanian Government now feels that it can proceed more boldly to eliminate its native and foreign opponents in Rumania. Berry adds that the Government, in its efforts to expose a new subversive plot, is attempting (a) to uncover a widespread reactionary conspiracy among members of opposition parties; (b) to link this 25X1

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conspiracy with the recent Hungarian plot; and (c) to accuse US Mission employees of direct relationship with the conspirators.

6. YUGOSLAVIA: UK observer discounts reported food shortage--Acting US Charge Hickok has learned from the UK Commercial Secretary, who has just returned from a trip through Dalmatia, Bosnia, Herzegovina, and Montenegro (where a serious food shortage has been reported), that there are no signs of starvation or of a serious food situation in those regions.
7. UK: Douglas believes attack on coal problem inadequate--US Ambassador Douglas reports that the UK appears to be making an "inadequately vigorous approach" to the coal production problem, but adds that "many social and political cross-currents" may account for this situation.
8. SWEDEN: Foreign Minister suggests conference on trade principles--US Minister Dreyfus reports that in its reply to the US note protesting Swedish restriction of imports from the US [redacted] the Swedish Government states that it is "prepared to send a delegation to Washington at the earliest convenient date for a discussion of the questions of principle involved."
9. ITALY: Communist Party membership not losing ground--US Ambassador Dunn reports that "in proportion to the total population, the Communist Party in Italy is the largest Communist Party in the world, even larger than the Party in the USSR." Dunn adds that, while Party membership in Italy apparently has not appreciably increased during the past year, it is likely that the Party has been "strengthened" by replacing "undesirable elements" with "more dependable" persons. (In the national election of June 1946 the Communists polled 18.9% of the total vote.)
10. SPAIN: Franco reported preparing a law on succession--[redacted] to be preparing a law on the succession which would make Spain a Monarchy, with Franco as Chief of State supported by a Council of the Realm; this law may be presented to the Cortes in April and later become the subject of a national referendum.
(CIG Comment: There is no evidence that any evolution contemplated by Franco would satisfy either the real Monarchists, who favor

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Don Juan, or the Leftist opposition. Nor is it likely to fulfill the conditions of popular government suggested to the Spanish people in the joint French, British, and US note of 4 March 1946.)

NEAR EAST-AFRICA

11. IRAN: Shah points to "discrimination" against Iran--The Shah has expressed to US Ambassador Allen "some uncertainty" over US insistence that the projected purchase of military supplies by Iran be on a loan basis with interest. Allen reports that the Shah appreciates US efforts to aid Greece and Turkey but cannot understand why Turkey appears "to be treated so much better than Iran," especially as "Iran's determination to fight for its independence had been amply demonstrated very recently." (The purchase by Iran of about \$30,000,000 worth of greatly needed military supplies from US surplus stock was initiated some four months ago after Iran had rejected a Soviet offer to furnish the needed supplies.)

FAR EAST

12. CHINA: Renewed interest in US aid shown by Generalissimo--US Ambassador Stuart reports that in a recent interview with Chiang Kai-shek, the Generalissimo showed an obvious interest in the prospects of US financial aid for China. Stuart informed him that such aid could not be considered "while there was civil war and unless there were clear indications of a trend toward democratic reform." Chiang explained that, while the Democratic Socialist Party had agreed to take part in governmental reorganization, this move was being delayed by new demands from the Youth Party. He also reaffirmed to Stuart his intention of permitting the Chinese Communist Party to join the Government once "the vital railway zones had been recovered."

Conclusion of military operations by September predicted-- Chiang told Stuart that military operations against the Chinese Communists could be concluded "by September at the latest, more probably by August." (The Nationalist High Command, according to another report from Stuart, is decidedly more optimistic. The Nationalist Chief of Staff claims that the main Communist armies will be defeated within two months.)

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Chiang favors US technical assistance for Formosa--The Generalissimo also heartily endorsed Stuart's suggestion that US technical assistance might be used to develop the economic resources of Formosa.

13. SIAM: Prime Minister's views on Phibul's return to politics--Prime Minister Dhamrong has told US Ambassador Stanton that, even if Luang Phibul Songgram (Siam's Prime Minister under the Japanese) should gain the support of the Parliamentary opposition, he would not have enough power actually to control Parliament and thus bring about his nomination to the Premiership. However, there is no constitutional obstacle to his election as Prime Minister. Dhamrong added that the Commander in Chief of the Siamese Army could be relied upon to prevent a coup d' etat headed by Phibul. The British Ambassador to Siam has told Stanton that he felt sure his Government would "view with consternation" Phibul's return to power.

14. FRENCH INDOCHINA: French military situation improving--US Consul Hanoi reports that there are increasing indications that the French military situation is improving and that the French apparently have succeeded in developing anti-Vietnam partisan groups among ethnic minorities. Meanwhile, Vietnam forces are experiencing an increasing ammunition shortage and are losing control over North Indochina communications.

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EUROPE

1. **ITALY: Conditions for accepting UK military mission-** [redacted] that the Italian Government will accept the British proposal to leave a military mission in Italy [redacted] provided that (a) the US is advised immediately and asked to participate; (b) the mission is "advisory only;" (c) Italian officers are permitted to train in the UK and US; and (d) Italy, thus tied to the "western bloc," is guaranteed protection of her "borders and integrity."

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2. **VENEZIA GIULIA: Situation deteriorating--**The State Department has informed Secretary Marshall that the situation in Venezia Giulia is again deteriorating and that serious disagreements between the Italians and the Yugoslavs have arisen in connection with the work of the boundary commission. The Soviet representative reportedly is supporting all Yugoslav contentions, regardless of their logic, including Yugoslav rejection of a proposal that the Four Power Boundary Commission arbitrate Italo-Yugoslav disputes over provisional delimitation of the frontier.

The Department adds that, while no reply has been received from the USSR to the US proposal for provisional delimitation of the boundaries of the Free Territory by the present boundary commission, indications are that the Yugoslavs (a) would reject such a proposal, if it were made to them; and (b) are not prepared to withdraw from those portions of Zone B to be incorporated into the Free Territory.

NEAR EAST-AFRICA

3. **PALESTINE: Difficulties between Jewish Agency and terrorists--**US Consul General Jerusalem has been informed by high officials of the Jewish Agency that "measures already taken" by the Agency against the terrorists have brought it very close to armed conflict with the Stern Gang. The officials also state that conflict may develop between the Agency and Irgun, which is aided by funds from US sources, and they point to the difficulty the Agency faces in "educating Jews of the US as to the destructive and unproductive character of terrorism."

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4. **IRAN: Barzani revolt reported Soviet-inspired--US Ambassador Allen reports that Sadr Qazi, a former Kurdish deputy to the Iranian Parliament, has sent word to the Embassy that the resistance of the Barzanis and other renegade elements is Soviet-inspired and "far more dangerous" than the Iranian Army admits. Sadr Qazi states that the resistance movement in Kurdistan represents a serious effort by the Soviets to regain influence among the northern Kurds, whose leaders have maintained continuous relations with the local Soviet Consulate.**

FAR EAST

5. **KOREA: Soviet effort to obtain food for electric power--General Hodge's Headquarters has received a letter from the Chairman of the Peoples Committee in North Korea which presents a bill for \$4,625,000 for power furnished South Korea from August 1945 to 31 January 1947. The letter states that payment may be made in such material as electric power equipment and foodstuffs. The letter warns that, if settlement is not made by 1 April, the electric power to South Korea will be stopped by midnight 15 April. (South Korea obtains two-thirds of its electric power from North Korea.) The US Army liaison officer in Pyongyang reports that he has been advised by a Soviet liaison sergeant that the communication is official and bona fide.**
6. **FRENCH INDOCHINA: Vietnam indicates willingness to negotiate--US Consulate Hanoi reports that, according to Radio Vietnam, the newly-designated Vietnam Minister of Foreign Affairs has declared his intention to carry on President Ho's policies and to accept the independence of Vietnam within the framework of the French Union. This statement is apparently designed to indicate that Vietnam is not opposed to negotiation and that the new Foreign Minister is "moderate" enough for the French.**

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EUROPE

1. **FRANCE:** Paris increasingly important as "Comintern" center--US Ambassador Caffery reports that, according to information which confirms previous data, the importance of Paris as a "Comintern" center is increasing constantly.

NEAR EAST-AFRICA

2. **EGYPT:** Premier intends to ask for US military advisers--Premier Nokrashy has informed US Ambassador Tuck that he will "terminate the services of the British military mission" in Egypt. Nokrashy states that he intends, "possibly in the beginning of 1948," to seek US military advisers who will serve in a consultative capacity only and not as members of a military mission.
3. **IRAN:** Shah does not intend to remove Qavam--The Shah has informed US Ambassador Allen that he does not intend to remove Premier Qavam at present, "despite charges of corruption" against the latter, which the Shah is receiving daily

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FAR EAST

4. **FRENCH INDOCHINA:** Bollaert's instructions regarding Ho--US Ambassador Caffery has been told by a French Foreign Office official that the signatures of Vietnam President Ho Chi Minh on recent peace proposals are believed by French handwriting experts to be forgeries, and that French authorities are puzzled by Ho's complete disappearance since 20 November 1946. This official further stated that Bollaert, the newly-appointed High Commissioner to Indochina, will be instructed to deal only with persons representing the "broad mass of people" in Vietnam, because France cannot condone the establishment of a Vietnam Government which does not follow Western democratic principles. If Ho should establish contact with Bollaert, Ho will be told to broaden the base of his government and to eliminate extremist participation.

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CONFIDENTIAL**GENERAL**

1. Secretary Marshall reluctant to allocate coal to UK--Secretary Marshall, in regard to the UK request to the European Coal Organization (ECO) for the allocation of US coal, recommends that the State Department reply that it is "reluctant" to allocate the coal because the UK's availabilities from its own production are closer to normal than is the case with continental countries. Secretary Marshall points out that transport difficulties will probably prevent the US from shipping any more coal to Europe in the third quarter. He, therefore, believes that allocations of US coal to the UK, unless supported by ECO-importing countries, would lead to "misunderstanding and bitterness."
2. Lie ready to expedite UN session on Palestine--Secretary-General Lie has informed US Deputy Representative Johnson that the best method of procedure on the Palestine question is for the UK to request a special session of the General Assembly. Lie would then immediately notify member nations.
3. Eire prepared to deliver German spies to US--US Legation Dublin reports that the Irish Government is ready to deliver to US authorities on 15 April the remaining German spies in Eire, presumably eight in number. (The US and UK have been negotiating with Eire over these German spies for many months.)

EUROPE

4. FRANCE: May support US on Germany in return for coal settlement--US Ambassador Caffery has been told by Acting Foreign Minister Teitgen that the French Government is "still exceedingly worried" about the Ruhr coal situation. Teitgen said that the entire Cabinet, except the Communists, "basically" desires to cooperate with the US, and that if France can obtain a solution on Ruhr coal it would be much easier for his Government to support the US "on a number of other points at Moscow." According to Teitgen, his Government (a) considers the Four Power pact "essential"; (b) would go along with the US in regard to the economic unity of Germany and also in raising certain production levels; and (c) believes that a provisional German government based on the

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Laender, but with certain delegated powers to a central authority, should be set up without delay; and (d) considers that the unification of the French zone with the UK-US zones could be effected "little by little on an informal basis" and thus avoid the complications with the Communists which would result from public notice of unification. Teitgen added that "we do not feel that we can contribute to any of these matters until we have the coal matter settled . . . If we have an economic collapse because we don't get coal, the Communists will probably be the gainers."

5. **HUNGARY: BBC fails to support US policy--US Minister Schoenfeld reports that, according to the US Information Service local radio monitor, a "distressing discrepancy" appears to exist between recent BBC Hungarian language broadcasts and what is believed to be the official British policy regarding Hungary. Schoenfeld stated that BBC treatment of the recent US notes on political conditions in Hungary and of President Truman's speech (a) left the impression that the UK gave only lukewarm support to the new US policy; (b) intimated that US, UK, and French public opinion opposed US aid to Greece; (c) considerably weakened the impact of the US notes on Hungarian public opinion; and (d) confused and disheartened many Hungarians.**

6. **RUMANIA: Mass deportations to USSR threatened--According to US Representative Berry, "responsible sources with disturbing frequency" report that the Groza Government will soon supplement its current mass arrests of Opposition members [redacted] with deportation to the USSR of (a) some of those already arrested; (b) many Rumanians who believe themselves cleared of accusations arising from their activities during the Antonescu regime; and (c) Bessarabians and Germans still in Rumania.**

7. **GREECE: US hopes Ministers will not resign--The State Department has advised US Embassy Athens that the resignation at this time of the liberal Ministers, Venizelos and Kanellopoulos [redacted] would create an unfavorable impression in this country, thereby impeding the Department's efforts to secure US aid for Greece. The Department accordingly hopes that the two Ministers will remain in the cabinet until this matter is settled, "doing their best meanwhile to keep the Greek Government's policy in line with the principles outlined in President Truman's statement."**

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NEAR EAST-AFRICA

8. **TURKEY:** US supervision of expenditures considered feasible--Foreign Minister Saka has informed US Charge Bursley that he believes a plan can be formulated for US supervision of Turkey's use of any funds advanced by the US, without provoking "domestic and foreign criticism of Turkey as allegedly controlled by a foreign power." He suggests that projects could be supervised by US experts employed by the Turkish Government. (The Bill now before Congress providing financial aid to Greece and Turkey calls for "free access of US Government officials for the purpose of observing whether such assistance is utilized effectively . . .")

FAR EAST

9. **CHINA:** Concern expressed over drift of Sinkiang into Soviet orbit--The US Embassy Nanking is apprehensive about "the drift of Sinkiang . . . into the Soviet orbit, which so far remains unchecked," but adds that there are relatively few ways by which the US can counter this trend, because of the remoteness and isolation of the Province from outside influence. One form of counter-pressure which the Embassy strongly recommends is the immediate establishment of a US Information Service office in the provincial capital.

THE AMERICAS

10. **ARGENTINA:** Government will follow US policy in Paraguay--The Foreign Minister has assured US Ambassador Messersmith that the Argentine Government is not taking sides in Paraguay, and intends to follow the US lead.
11. **BOLIVIA:** Cabinet approves Argentine-Bolivian treaty--US Ambassador Flack reports that the Bolivian Cabinet has approved the revised Argentine-Bolivian commercial treaty; it must subsequently be approved by the Bolivian Congress.

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GENERAL

1. Acheson urges agreement on Czech transit charges through Germany-- Acting Secretary Acheson has urged US Political Adviser Berlin to do everything possible to reach a satisfactory agreement with Czechoslovakia concerning transit charges through the US Zone Germany. (US authorities have refused Czechoslovakia's offer to pay its transit charges in German reparations rather than in dollars on the grounds that such a procedure would in effect amount to subsidization of the Czechoslovak economy by the US). Acheson points out that failure to reach an agreement would (a) turn a technical question into a diplomatic and political issue; (b) have serious repercussions on US diplomatic relations; (c) in time raise a political issue between Moderates and Communists in Czechoslovakia; and (d) result in making Czechoslovakia completely dependent on Eastern Europe for its foreign trade facilities.

2. Acheson suggests eleven-power conference on Japanese Treaty--The State Department has proposed for Secretary Marshall's approval that a new international body composed of the eleven nations represented on the Far Eastern Commission meet at Washington in the near future to discuss the preparation of a Japanese peace treaty. The Department points out that the Far Eastern Commission has no authority by its terms of reference to deal with the Japanese Peace Treaty, and the Council of Foreign Ministers does not have a sufficiently broad membership. The Department suggests that Secretary Marshall make such a statement, outside the CFM, to the Foreign Ministers of the USSR, the UK, France and to the Chinese Ambassador at Moscow. (Secretary Marshall had been prepared to suggest at Moscow that the CFM discuss at a meeting in the near future procedural questions regarding the preparation of a Japanese Peace Treaty)

3. Resentment of US success in ECOSOC--Stinebower, US Delegate to the UN Economic and Social Council, reports that the "complete success" of the US in electing its slate for the two subcommissions of the Human Rights Commission has aroused widespread "resentment" among other delegations. Stinebower adds that this resentment jeopardizes the further attainment of US objectives.

4. US rescinds invitation to Spain for conference--The State Department has informed the US Embassy Madrid that, in view of the resolution passed on 12 December 1946 by the UN General Assembly (recommending

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- that the Franco Government be barred from membership in UN international agencies), the US must rescind its invitation of 19 September 1946 to Spain to participate in the World Telecommunications Conference (to be held in the US).
5. UK official to visit Antarctic bases--US Embassy in London reports that the UK has sent the Governor of the Falkland Islands on a "routine tour of Antarctic bases."

EUROPE

6. GERMANY: USSR arrests Berlin youths friendly to US--Acting US Political Adviser Heath reports that the recent arrests in Berlin of German youths by the Soviet Military Authority and German police are believed by the local US military intelligence to have resulted from the fact that the youths "were almost all" US informants on conditions in the Soviet Zone. All of those arrested were connected with the (Catholic) Christian Democratic Union.
7. FRANCE: Communists lose 10% of adherents--US Ambassador Caffery reports, on the basis of decreases in dues payments, that the Confederation of Labor (CGT) and the Communist Party itself have lost "at least 10%" of their adherents during the past six months. Caffery adds that (a) even the workers are beginning to perceive that the Communist Party is more concerned with "politics" than with a militant defense of the workers' interests; and (b) "many observers" feel that the Communists are faced with an increasingly urgent need to recapture the initiative and "manifest their power."

Communists might accept Bidault to form government--US Ambassador Caffery reports that he has been told by "two reliable and independent sources" that prior to the solution of the recent crisis on 22 March, the Communists let President Auriol know that, if the Ramadier Government should fall, Auriol should ask Bidault to form a government. The Communists made this suggestion on the understanding that the Socialists might refuse to try to form a government. Caffery comments that the Communist proposal of Bidault as head of a coalition government "appears logical" because the Communists believe Bidault would offer "less resistance" to them than any other non-communist candidate.

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FAR EAST

8. **CHINA: Import requirements cut to conserve foreign exchange--**The Governor of the Central Bank of China has informed the US Treasury Attache Nanking that, in an effort to conserve the Government's foreign exchange holdings, he is trying to limit China's 1947 import requirements to US\$ 300,000,000 -- which he believes can be covered by current foreign exchange receipts and by the use of some privately held foreign assets. The Governor said he "was not in favor of China's approaching the US for the US\$ 500,000,000 Exim Bank loan now," but that small Exim Bank loans to finance about US\$ 40,000,000 worth of railroad and industrial rehabilitation would ease his foreign exchange problem considerably.

(CIG Comment: The Governor's estimate for 1947 import requirements is substantially lower than the estimate made by the Chinese last December. The revised level of imports, while alleviating the Government's acute foreign exchange problem, will probably not permit any substantial relief to Chinese industry and communications.)

THE AMERICAS

9. **BOLIVIA: Treaty with Argentina in final stages--**US Ambassador Cooper reports that the Argentine-Bolivian economic treaty is in the final stages of negotiation and will probably provide for (a) the sale of 8,000 tons of tin annually to Argentina, leaving a balance of 12,000 tons for purchase by the US; (b) a customs union; and (c) a loan agreement substantially as provided in the original draft of the treaty (see Daily Summary of 21 March, item 8).
10. **PARAGUAY: Brazil refuses aid to Government--**The State Department has been informed by the Brazilian Ambassador that Brazil has refused Paraguay's request for arms but has offered to join with neighboring countries in mediating the Paraguayan civil war, provided the contending parties desire mediation and agree to elections.
11. **PERU: Navy seeks US equipment--**US Ambassador Cooper recommends that Peru be permitted to use Peruvian currency to purchase surplus US naval vessels for the US-trained Peruvian Navy which, in Cooper's opinion, is influential in maintaining friendly relations with the US. (The

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US Foreign Liquidation Commission has ruled that US combat equipment must be paid for in US dollars. Peru is short of foreign exchange.)

US unable to supply Peru's wheat and fat needs--The State Department has informed US Ambassador Cooper that the US cannot make Peru a long-term commitment for the supply of wheat, fats and other items included in the proposed Argentine-Peruvian commercial agreement

It has instructed Cooper to state on a personal basis to the Peruvian Government that he assumes that Peru has investigated Argentina's ability to meet its heavy wheat commitments.

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GENERAL

1. SC Border Commission will not leave team in Salonika--Mark Ethridge in Salonika reports that, as the result of opposition by the Soviet and Polish delegates, the SC Investigating Commission has abandoned the idea of leaving a team in Salonika while the Commission is writing its report in Geneva [redacted] Supporters of the idea, including the US and UK members, decided not to press the matter as they feel that a showdown at this time (in the absence of full evidence and documentation) might seriously jeopardize the establishment by the SC of a semi-permanent border commission. 25X1
2. USSR will not participate in Trusteeship Council session--Krasilnikov, adviser to the Soviet Delegation to the Security Council, has informed the US Delegation in New York that the USSR will neither name a representative to nor participate in the first Trusteeship Council session which opens on 26 March. He based this action on the objections raised by the USSR in the General Assembly that approval of the eight trusteeship agreements was not in accordance with the UN Charter.
3. Huxley unlikely to check Communist infiltration of UNESCO--US Embassy London reports that UK Foreign Office official Gladwyn Jebb feels that it might be "fruitless" to expect assistance from Julian Huxley, Director General of UNESCO (United Nations Educational, Scientific and Cultural Organization), "in efforts to prevent Communist infiltration into UNESCO." US Ambassador Smith in Moscow finds it "disturbing" that the Communist infiltration of UNESCO has "progressed so far" and suggests that the Executive Board of UNESCO has either been "caught napping" or is "strongly influenced by elements not unreceptive" to Communist ideology.

EUROPE

4. GREECE: Possibility of resignations in Cabinet--US Embassy Athens has been informed by a Greek deputy and former minister that two influential centrist Cabinet Ministers, Venizelos and Kanellopoulos, are seriously considering resigning, if the Government fails to prosecute "relentlessly" all those responsible for recent political lynchings in the

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Peloponnesus of leftists by rightists. The Embassy adds that both Ministers realize that their resignations at this time would precipitate a crisis and impair Army morale; but they consider they will have to resign eventually because of the "selfish party-line being pursued by Tsaldaris."

Anti-British terrorist campaign planned for Cyprus--A well-placed CIG source in Greece reports that KKE (Greek Communist Party) is organizing a terrorist movement against the British in Cyprus similar to that in Palestine, and for this purpose has obtained the cooperation of Jewish terrorists and the collaboration of the leading Greek Communist organization in Cyprus.

(CIG Comment: Such a move would be in line with Greek Communist policy which seeks (a) to present the Party as nationalistic by appearing to support Greek territorial claims; and (b) to demonstrate that the Communist movement in Greece is widespread.)

5. GERMANY: Smith warns against merger of SED with KPD--US Ambassador Smith in Moscow comments that the proposed merger of the Soviet-led German Socialist Unity Party (SED) with the Communist Party in the western Zones appears to be a "significant step" in the Soviet program for extending the political influence of the USSR into those Zones [redacted]

[redacted] Smith states that "not to take active measures to resist this tactic would seem to me a failure in respect to our responsibility to protect democratic elements in the US Zone." According to Smith, the US would "play right into the hands" of the USSR, if it permitted this merger without "exactng substantial concrete reciprocal concessions."

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6. AUSTRIA: Winter economic crisis virtually ended--US Legation Vienna reports that Austria's "winter economic crisis has virtually ended" as a result of (a) the spring thaws which have increased the supply of hydroelectric power; and (b) the larger deliveries of coal from the Ruhr.

7. BELGIUM: Apparent shift in Communist tactics--US Ambassador Kirk reports that Belgian trade union leaders believe that the action of the Belgian Communists (in refraining from participation in Spaak's coalition Government; [redacted] indicates "the beginning of a swing in Moscow's tactics from seeking Communist objectives through participation in western European governments, to seeking them through militant trade union action."

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FAR EAST

8. CHINA: Nationalist capture of Yen-an termed politically significant--
US Ambassador Stuart believes that the recent capture of Yen-an represents a "significant psychological and political victory" for the Central Government that substantially meets the Government's need for "a striking victory to bolster its position." Stuart believes that an earlier decision not to attack Yen-an was changed because capture of the Chinese Communist capital appeared necessary both to bolster the prestige of the Government (and especially of the Nationalist Chief of Staff) and to frustrate any Soviet move at the Moscow Conference to accord recognition to the Chinese Communist regime. Militarily, Stuart indicates, the capture of Yen-an does not represent a substantial victory. Nationalist lines are now over-extended and logistic support will be difficult. In keeping with their usual tactics, the Communists had virtually evacuated Yen-an at the time of the Nationalist drive, and offered little resistance.

Soviets want only Nationalist "puppets" in Dairen--US Consul General Dairen, in a further report on Soviet plans to limit Nationalist control in the Dairen area [redacted]

states that the local Soviet Consul sees no basis in the Sino-Soviet Treaty for Nationalist troops even to enter Dairen. In the Consul General's opinion, the Soviets obviously want only "a handful of Nationalist officials" to carry on Dairen's administrative functions, without the backing of troops or even Chinese police. Such arrangements, he concludes, would place the Nationalists in a position similar to that of "the present puppets" in Dairen.

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GENERAL

- 1. Soviet members of SC Border Commission abandon stalling tactics-- Mark Ethridge reports from Salonika that, since President Truman's speech, the Soviet and Polish members of the SC Investigating Commission have abandoned their customary stalling tactics [redacted]

[redacted] Ethridge states that they have agreed to every proposal that would shorten the Commission's work, and have "facilitated acceptance by the Commission" of the schedule under which it will start writing its report in Geneva on 7 April (see Daily Summary of 15 March, item 1).

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- 2. Soviet penetration of Sinkiang follows Azerbaijan pattern--US Embassy Moscow, in an analysis of Soviet penetration of China's northwestern province of Sinkiang, comments that the Soviet strategy in that area is modeled on the Iranian-Azerbaijan pattern of 1946. Current Soviet tactics call for (a) consolidation of the influence of native puppets along the Soviet-Sinkiang border; and (b) political manipulation at Tihwa to undermine the authority of the provincial government. Simultaneously, the USSR is using economic tactics (similar to pressure for oil concessions in Iran) to insure economic penetration. The Embassy concludes that these combined pressures will result in absorption of Sinkiang into the Soviet orbit unless drastic counter-pressures, such as those used to regain Azerbaijan, are applied.

EUROPE

- 3. FRANCE: Dubious prospects of Ramadier Government--US Ambassador Caffery reports that "independent observers" agree that the crisis in the Ramadier Government has not been solved but "merely made permanent." In Caffery's opinion, the future prospects of the Ramadier Government appear "extremely dubious," although it may hold together through the Easter recess from 1-24 April.

Possible deal with USSR on Saar--US Ambassador Caffery reports that he has been told "in confidence" by a "reliable" Foreign Office official that when Bidault brought up the question of the Saar in his recent meeting with Stalin, the latter stated that the USSR would "go along with the French on the Saar business," if the French would go along with the USSR on the question of reparations, especially out of current production.

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4. ITALY: Treaty ratification may await action by US Senate--Foreign Minister Sforza has told US Ambassador Dunn that there is a "growing feeling" that the US Senate will either refuse to ratify the Italian Treaty or will insist upon modifications favorable to Italy. Sforza says that while the De Gasperi Government is "determined" to ratify the Treaty, it may be necessary to await action by the US Senate before pressing the Constituent Assembly to take favorable action.

FAR EAST

5. CHINA: Discrimination against foreign business apparent--The US Commercial Attache Shanghai believes that there is justification for many of the recent US press charges that the Chinese Government, in carrying out its foreign exchange and foreign trade regulations, is favoring its own business and purchasing agencies as well as quasi-governmental companies operated by high Chinese financial authorities. He feels that there is considerable evidence of a definite nationalistic trend toward "elimination of the foreigner" and that present Chinese tactics "do not augur well for the permanence of US business in China."

KMT factions engaged in "struggle for power"--US Ambassador Stuart reports that the "motif" of the current session of the Central Executive Committee (ruling body of the Kuomintang Party) appears to be "a struggle for power and position" among various KMT factions, principally between the right-wing "CC Clique" and the more liberal "Political Science Group."

Stuart adds, however, that much depends on how Chiang Kai-shek will "swing his influence" in balancing one faction against another.

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THE AMERICAS

6. PERU: Comments on proposed treaty with Argentina--US Ambassador Cooper reports his opinion that Peru would prefer to deal with the US rather than to accept the proposed Argentine commercial treaty terms
provided the US can meet Peru's requirements for fats, vegetable oils, and wheat. As the treaty terms "appear contrary to some American interests in Peru," Cooper recommends that the US assure Peru of such assistance.

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EUROPE

1. **FRANCE: MRP showdown with Communists probable**--US Ambassador Caffery reports that Albert Gortais, head of the MRP "brain trust," whose opinions have generally coincided with those of the party's majority, has declared privately that the MRP now realizes that it is impossible to postpone a "reckoning with the Communists," and that current developments "undoubtedly herald the crisis or series of crises which we have all been expecting." Gortais added that entering into a new Government with the Communists would be merely "abject abdication" in the face of "Communist blackmail;" a statement that Caffery considers may foreshadow a change in the MRP's policy of appeasement toward the Communists.

According to Gortais, the MRP executive committee considers that an "ideal solution" would be a broad coalition embracing Socialists, the MRP, and the Left Rally (primarily Radical Socialists); but Gortais fears that it would not be possible at this time to obtain Socialist participation in a coalition cabinet which does not include the Communists, though this might have been possible "in a few more months."

2. **BULGARIA: Soviet troops believed preparing for withdrawal**--General Robertson, US Delegate Allied Control Commission Sofia, reports that the movement of some Soviet forces from Sofia appears to have begun, but the direction and ultimate destination are not yet known. Robertson adds that, while these troops may possibly be destined for maneuvers or summer camps, general indications point to preparations for a withdrawal of Soviet forces from Bulgaria.

Motives behind monetary reforms--US Representative Barnes reports that the Government's new stringent control of all means of payment appears to be the first major step to complete the Sovietization of the Bulgarian economy. Barnes notes that the effect of the new monetary reforms apparently is to withhold means of livelihood from all except wage earners, agricultural producers, and salaried groups. For many Bulgarians, Barnes believes, life will in fact become a battle for existence. Several well-informed business men have expressed the belief to Barnes that the monetary reform presages actual plans for an early realization of a South Slav Federation as well as an increased rate of socialization. These business sources ascribe the suddenness of the recent bank note exchange and the stringency of new monetary regulations to complaints by Tito, in connection with the often-rumored Federation, that Bulgaria is lagging behind in the socialization of its economy.

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3. **RUMANIA: Success of US food relief in Moldavia--General Schuyler, US Delegate ACC Bucharest, on his return from an inspection trip through the famine areas of Moldavia, reports that the US emergency food relief effort in that region has been "an unqualified success."** Schuyler reports that the food (a) was distributed quickly, efficiently and impartially; (b) saved many thousands who would otherwise have died of starvation; and (c) evoked deep appreciation to the US among the people and local officials. Schuyler attributes the success of such an operation in a Soviet-occupied area (a) to the fact that it was carried out so swiftly that the Communist Party could not organize effective sabotage; (b) to the presence in the field of many US observers who gave necessary support to local Red Cross authorities in the face of Communist interference; and (c) to the recruitment by the Rumanian Red Cross of recently purged Rumanian Army Officers to plan the operation in detail and supervise its execution.

4. **HUNGARY: US notes strengthen democratic elements--US Minister Schoenfeld in Budapest believes that the US notes of 5 March and 17 March concerning Soviet interference in the Hungarian political situation are achieving their intended purposes of supporting democratic development as opposed to Soviet-supported Communist aggression, and of clarifying the US position with regard to such aggression.**

Schoenfeld believes that the US holds the initiative in this exchange and, in order to strengthen further the US position, recommends a reply along the following lines to General Sviridov's rejection of the US notes: (a) the US regrets Soviet refusal to accept US proposals; (b) before taking any further action in the matter, the US wishes to observe developments in Hungary during the immediate future; and (c) in the interim, the US renews its request embodied in previous communications to the Soviet Government that the Soviet authorities in Budapest be instructed to refrain from unilateral action in matters concerning Hungarian internal political affairs.

Prime Minister Nagy has informed Schoenfeld that US action to date has resulted in an unpublicized agreement of the coalition parties which includes (a) cessation of terrorism against non-Leftists; (b) prohibition of efforts by responsible Government officials to intimidate civil service subordinates into changing their party affiliations; (c) formulation of a joint stand toward political groups outside the coalition; and (d) agreement to support an increase in the Smallholders Party's allotment of civil service positions. Nagy believes that this agreement will probably produce

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a political truce which he hopes can be extended until withdrawal of the occupation forces. If this can be accomplished, Nagy feels that Hungary will have been saved from the fate of Poland, Rumania, Bulgaria, and Yugoslavia.

Soviet troop strength estimated at 40,000--On the basis of recent decreases in Soviet occupation troops and the closing of two or three large ground and air force schools.

[redacted]
[redacted] can be reduced from 55,000 to 40,000.

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EUROPE

1. **FRANCE: Government crisis may cause showdown with Communists--** According to US Ambassador Caffery, a prominent Socialist Deputy has "stated privately" that Premier Ramadier "now feels that the moment may be opportune to abandon the defensive and attack the Communists." However, Ramadier is also reported to fear opposition from provincial delegates who have not realized the "vital significance" of developments in the past few days. Caffery comments that in view of the world situation and the feeling that the tide has finally turned against the Communists in France, the Kremlin may have instructed the Communists to provoke this crisis and to withdraw from the Government. Caffery believes that the fall of the Ramadier Government, "whether it occurs within a few hours or a few months," will initiate a period of "real government crisis which will determine for a long time to come the political orientation of France" [redacted]

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Views on Communist defeat for President of Council--Caffery also reports that the election of Radical-Socialist Gaston Monnerville as President of the Council of the Republic is "another step" in the efforts of anti-Communist elements to neutralize the influence of the Communist Party [redacted] Caffery adds that he has been told by "leaders of the left-center, center, and moderate right" that President Truman's message to Congress was a "factor of major importance" in Monnerville's defeat of the Communist candidate.

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2. **SWEDEN: US action urged to reverse eastward trade trend--**US Minister Dreyfus reports that the Government's recent economic measures (including restrictions on imports from the US and new trade commitments with Poland), have caused the Opposition to demand new elections. While Dreyfus does not believe new elections will take place at this time, he emphasizes that this is a most propitious moment for the US to oppose the trend of Sweden's policy toward the East by suspending export licenses for Sweden pending clarification of the Government's policies and intentions.
3. **HUNGARY: Forced confessions in conspiracy trial--**US Minister Schoenfeld has been reliably informed that the confessions of two of the defendants in the current conspiracy trials were extracted under duress and as

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a result of "violent methods" which they could not withstand. One defendant expects to be forced to make further statements clearly involving US citizens in the conspiracy. Schoenfeld adds that several of the defendants who have not yet been brought to trial are reported to be held by the Soviet authorities.

4. RUMANIA: Threatened split in Groza Government--Foreign Minister Tatarescu--head of the Dissident Liberal Party, which has 18% of the seats in Parliament and 22% of the Cabinet posts--has told US Representative Berry that, if the Communists insist on passage of the industrial offices bill [redacted] he will lead his party to "break openly with the Government Bloc." Tatarescu believes that the Communists would modify their stand before pushing him to this extreme. Berry comments that "if any group has to give in, it will be Tatarescu."

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FAR EAST

5. FRENCH INDOCHINA: Intentions of new High Commissioner--Emile Bollaert, newly appointed High Commissioner for Indochina, has assured US Ambassador Caffery in Paris that he is well aware that any attempt to return to previous colonial practice is inconceivable, and that he leaves for his new post "with the determined intention of carrying out all promises hitherto made by the French Government in regard to the independence of various countries within the French Union." Bollaert added that he intends to come to an agreement with "whatever authorities really represent the people of Indochina."
6. CHINA: Soviet attitude obstructs Nationalists control of Dairen--US Consul Dairen reported on 15 March that local Soviet officials will permit Chinese Nationalist troop activities only in Dairen City. The USSR apparently interprets the Sino-Soviet agreement on Port Arthur to mean that it has sole responsibility for the defense of the broad area surrounding Dairen and Port Arthur. The Consul believes, moreover, that when the Nationalists enter Dairen, the Soviets will attempt to induce the Central Government to retain the existing framework of police and civil administration, and will protect known Communists and aid in their escape.

(CIG Comment: Soviet limitations on the employment of Nationalist troops in southern Kwantung Peninsula would greatly impede Nationalist efforts to clear the area around Dairen of Chinese Communists

[redacted]

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Nationalist losses in Shantung reported not critical--In a comment on the reportedly grave military situation in Shantung [redacted]

[redacted] US Ambassador Stuart states that the military situation there cannot be regarded as critical. Stuart believes that Nationalist losses in the recent fighting, though serious, probably did not exceed five divisions (only one of which was US-equipped).

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THE AMERICAS

8. BOLIVIA: President favors study of Argentine pact--US Ambassador Flack reports, in connection with the Argentine-Bolivian commercial treaty now awaiting ratification by the two Governments, that a Bolivian Cabinet committee has made "substantial" changes in the draft terms which the Argentines may find unacceptable; and that President Hertzog, who has hitherto supported the treaty, now favors further study because "national and international interests" have directed his attention to its "far-reaching possibilities."

(CIG Comment: In view of Bolivia's desperate economic situation, and in the absence of comparable assistance from some country able to match Argentina's resources, Bolivia probably will not press its objections to the present draft to the point of endangering the treaty.)

9. PARAGUAY: Dissident army officers arrested-- [redacted]

[redacted] has arrested six US-trained army officers who "refused to fight against their brother officers." The MA comments that the incident is a further indication of "break-down within the armed forces."

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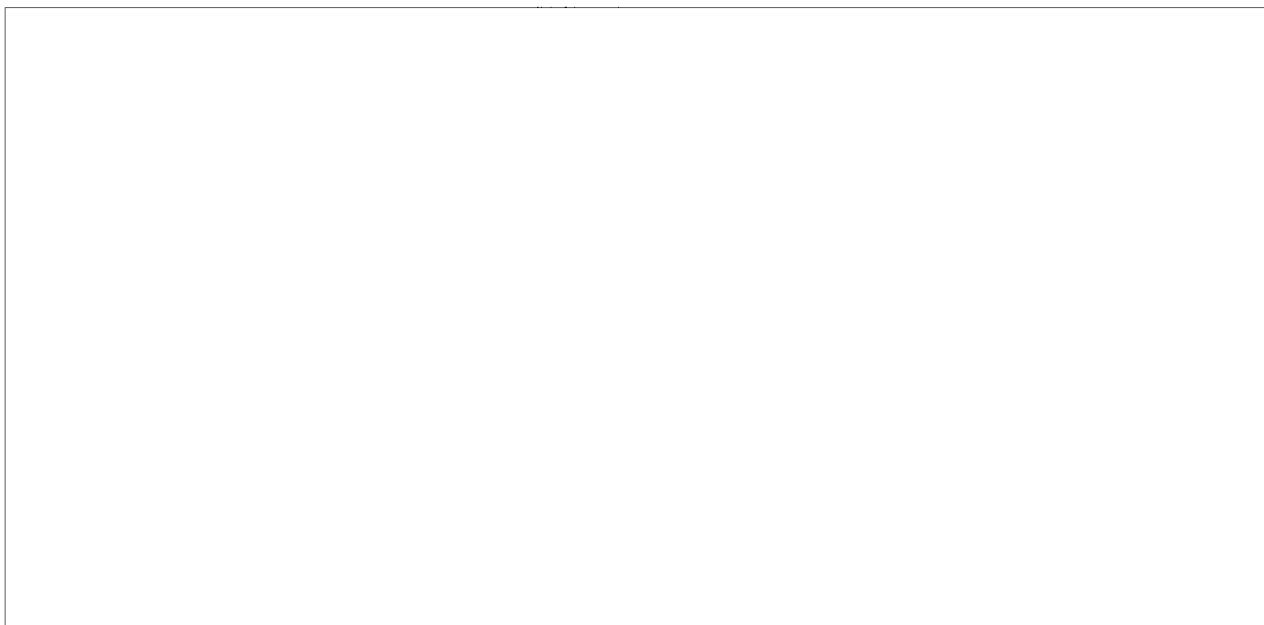
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GENERAL

1. **US urges early UN consideration of Palestine problem--The State Department has informed US Embassy London that the US would like to see UN give "fundamental consideration" to the Palestine problem "as soon as possible," and to do so in such a way as to avoid any question of the legality of UN consideration of the problem. The Department at present favors calling a special, brief session of the General Assembly for the purpose of creating an ad hoc committee which would report to the General Assembly at its scheduled session in September 1947.**



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FAR EAST

3. **CHINA: Nationalists plan to take over administration of Dairen--Foreign Minister Wang Shih-chieh has informed US Embassy Nanking that the Chinese Government, pursuant to the Soviet proposals on Dairen [redacted] will undertake military operations to clear the 30-40,000 Communists who are near Dairen and will land officials and police at the port without prior consultation with the USSR. Wang also observed that the Soviet proposal was not only timed**

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for the opening of the Moscow conference, but was delivered at a time when the Nationalists cannot spare troops from their operations in north central Manchuria to clear the Communists from the Dairen area.

Chiang reportedly unwilling to antagonize USSR--The Embassy also has been informed that Chiang Kai-shek ordered his Minister of Education to have the recent anti-Soviet demonstration by Nanking University students held to a minimum because he "did not desire at this time to permit any steps that might antagonize the Soviet Union." (Chiang is also reported to have refused to accept the resignation of his Foreign Minister, who has been under violent attack by extreme Kuomintang rightists for failing to take a firm stand against the USSR.)

4. KOREA: Food shortage poses serious problem to unification--The US Economic Adviser in Korea believes that Korea's food shortage might present a serious problem in any unification of the two zones of occupation. The Adviser adds that the food situation is now more acute in the Soviet than in the US Zone, largely because the USSR has requisitioned sizeable quantities of indigenous foodstuffs for its own use and uses discriminatory rationing while the US is importing substantial amounts of cereals to meet the shortages in its zone.

THE AMERICAS

5. COLOMBIA: Possible threat to Government stability--US Ambassador Wiley reports that (a) the US-owned Tropical Oil Company, Colombia's sole supplier of petroleum products, may soon be unable, because of transportation difficulties, to supply the country's urban centers with gasoline; and (b) President Ospina believes the resultant shortage will precipitate a popular uprising that will enable Eliecer Gaitan, leader of the left-wing Liberals, to seize power.

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EUROPE

1. **RUMANIA: Maniu wishes to overthrow Government--**Iliu Maniu, head of the National Peasant Party and recognized leader of the Opposition to the Groza Government, has told US Representative Berry that his Party desires to "overthrow" the present Government. Maniu said that his plan, which was "not revolution but might entail bloodshed," could be successful only with the concurrence of "the people, the King and the Great Powers." Maniu added that the King and the people were willing and that he desired to ascertain the attitude of the US and UK.

Labor opposition to Government--Berry also reports that industrial workers are "suffering from great economic misery under inflationary conditions," are showing increased "open hostility toward the Communists," and have forced the Government to meet their demands for increased wages. According to Berry, the revised Communist strategy will be to permit inflation to continue for the next few months until a permanent stabilization plan is prepared which would give the Communists complete control of the country's economy.

Government reaction to US food relief--Rumanian Foreign Minister Tatarescu has thanked US Representative Berry for US aid to relieve famine conditions in Moldavia, but added that "of course we could have managed from our own resources." Berry adds that the official Government line will be that it has the means to solve its own problems but tolerates US charitable action in the interest of friendly relations between the two countries.

2. **HUNGARY: Soviets prohibit publication of US note--**A Hungarian Foreign Office official has told US Minister Schoenfeld that the Hungarian Government, upon verbal orders from the Soviet military authorities, has been forced to rescind its order permitting publication of the second US note which protested Soviet interference in Hungary's recent political crisis

3. **BELGIUM: Two leading Parties may form coalition government--**US Embassy Brussels reports that former Premier Paul-Henri Spaak has "practically completed" agreement between the Socialist and Christian Socialist Parties for the formation of a bi-partisan coalition government. The Embassy adds that the Communists have refused to participate in the government in spite of their recently announced intention to do so.

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(CIG Comment: Such an agreement would mean that, for the first time since the liberation, Belgium's two leading Parties have been able to join in a coalition government.)

NEAR EAST-AFRICA

4. IRAN: Soviets offer to replace US interests in Iran Airways--Ambassador Allen has been informed by Director Kooros of Iran Airways that Soviet interests have offered to purchase the 10% stock interest held by TWA plus an additional 15% and "to provide all necessary technical supervision and maintenance" [redacted]
5. EGYPT: Possibility of improvement in Anglo-Egyptian relations--US Ambassador Tuck considers that the resignation of Sir Hubert Huddleston as Governor General of the Sudan and the appointment of Sir Robert Howe as his successor imply "policy shifts designed to improve Anglo-Egyptian relations." Huddleston has "resolutely" stood for the non-extension of Egyptian rule to the Sudan and for Sudanese self-determination, while Howe is a Foreign Office official without Sudan background or experience.

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FAR EAST

6. PHILIPPINES: Trade agreement with Japan opposed--US Ambassador McNutt reports that the Philippine Under-Secretary of Foreign Affairs has stated that the Philippines is willing to make ad hoc purchases from Japan but will not make any general trade agreement with the Japanese Government or with SCAP acting as representative of the Japanese.

THE AMERICAS

7. PARAGUAY: US refuses aid to President Morinigo--The State Department has instructed US Embassy Asuncion to inform President Morinigo that compliance with his request for US planes and tanks to be used against the Concepcion rebels [redacted] would be "wholly inconsistent" with US Hemisphere commitments.

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US Charge Trueblood reports from Asuncion that (a) the Paraguayan Government has also requested aid from Brazil and Argentina, on the grounds that the rebellion is "Communist-directed" and thus "dangerous to Hemisphere security;" and (b) that the Brazilian Charge has recommended favorable action on the request to his Government. Trueblood adds that the Government, which has already seen eight of its pilots and four of its planes go over to the rebels, is unlikely to order further planes off the ground.

8. BOLIVIA: Brazil offers financial aid--The Brazilian Ambassador has informed US Ambassador Flack that (a) his Government is offering financial assistance that would "free Bolivia from dependence" on the proposals of the Argentine Economic Mission; and (b) Brazil has informed Bolivia that it views with disfavor the clauses of the Argentine-Bolivian agreement that would result in the "entry of new influences" in the Amazon region.

(CIG Comment: This is apparently the first move by Brazil to counteract the current Argentine trade offensive. In view of Brazil's foreign exchange position, it is unlikely that it can outbid Argentina in negotiations of this kind.)

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GENERAL

No. 009

1. UK to give full support to US objectives in Greece and Turkey--US Ambassador Douglas recommended to top British officials that the UK do "whatever was possible" to show full support of US objectives in Greece and Turkey and avoid any action which might allow the inference that the UK had no further interest in the latter countries. In reply to Douglas' specific proposals, Attlee declared that (a) the Cabinet probably would agree to the retention in Greece of the British Military Mission; (b) all available information on Turkish military needs would be given the US at once; and (c) funds provided for Greek relief after 31 March and until a US financial commitment becomes effective would be extended as a gift.
2. Syria urged not to refer Hatay question to UN--The State Department has instructed US Charge Moose in Damascus to urge the Syrian Government not to refer the Hatay problem to the UN as a result of Turkey's allegedly persistent refusal to enter into direct negotiations (see Daily Summary of 1 March, item 1). The Department's position is that direct negotiations between Syria and Turkey could produce no satisfactory settlement at this time, and that submission of the problem to the UN would lead the USSR to assert its claims to the eastern provinces of Turkey.

EUROPE

3. GREECE: "Broad results" of President Truman's speech--US Ambassador MacVeagh reports that the "broad results" in Greece of President Truman's speech include (a) a new tendency toward unity as shown by the striking similarity of statements by all political leaders except the Communists; (b) strengthening of the drachma in relation to the gold sovereign; (c) immediate resumption of real estate transactions and an increase in realty values resulting from the decision of owners to retain property in Greece; and (d) encouragement of Government forces and undermining of bandit morale. MacVeagh notes a general reaction among business circles that a clear assurance of political security is more important to Greece's recovery than economic aid.

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NEAR EAST-AFRICA

- 4. **IRAN: US participation in Iranair again urged--US Ambassador Allen reports that negotiations are under way to obtain local financial support for Iranian Airways and believes the situation can be saved if TWA will grant a few weeks extension in its schedule of withdrawing personnel. Allen has emphasized his view that it is "definitely in the US interest" for some US company to continue to operate the Iranian airline "because of the important political and strategic considerations involved"** [redacted]

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Rejection of Soviet oil concession believed likely--US Ambassador Allen reports that Prime Minister Qavam now believes the new Majlis (parliament) will probably not consent to any Soviet oil concession in Iran. According to Allen, Qavam is therefore endeavoring to find means of minimizing difficulties with the USSR when the concession is refused.

FAR EAST

- 5. **CHINA: Chiang worried over Nationalist military situation--A source close to the Generalissimo has informed US Consulate General Shanghai that Chiang is extremely worried over the military situation in Shantung Province and that the recent developments in Formosa are a source of irritation. According to the Consulate, the source "confirmed" reports that, in recent Shantung operations, seven US-trained and equipped Nationalist divisions were taken over almost intact by the Communists and that two others were similarly lost. The source did not see any possibility that the Nationalists would be able to liquidate Communist-held areas in Shantung.**

(CIG Comment: [redacted]

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[redacted] **These losses represent a major setback for the Nationalists in the very theater of conflict where they had the greatest hopes of winning a quick and conclusive victory.)**

THE AMERICAS

- 6. **ARGENTINA: Soviet envoy complains of Peron's policies--The Argentine Foreign Minister has told US Ambassador Messersmith that the Soviet**

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Ambassador has complained about (a) the fact that Argentina is considering taking DPs from the US and UK Zones in Germany and has not approached the USSR regarding DPs in the Soviet Zone; and (b) Peron's recent statements regarding Communism. The Minister says he told the Soviet Ambassador that it was for Argentina to decide where to seek immigrants and what to say or do with respect to the Communist Party in Argentina, and that he planned to inform Messersmith of their conversation.

Navy negotiating for cruiser from British firm - [redacted]

[redacted] Argentina is negotiating, with a local firm representing Vickers, for the purchase of a cruiser.

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7. COLOMBIA: Election returns--US Embassy Bogota reports that early returns from the 16 March congressional elections indicate (a) President Ospina's Conservative Party has gained strength in both houses and may control the Senate; (b) the disunited Liberal Party -- which dominated Colombian politics for many years prior to its defeat in last year's presidential election -- retained control of the lower house; and (c) the rising left-wing Liberal leader, Eliecer Gaitan, has notably increased his popular following. The Communist vote was smaller than in 1945.
8. PARAGUAY: Government seeks US arms--US Charge Trueblood reports that President Morinigo, "betraying the growing weakness of his position," has requested US planes, possibly pilots, and tanks to put down the Concepcion revolt. He adds that, according to persistent rumors, the Cavalry and Navy, which have so far remained loyal, may now throw Morinigo out and negotiate a settlement with the rebel group in Concepcion.

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GENERAL

No. 009

- 1. US reply to Soviet note on Hungary--The State Department, in reply to the 8 March refusal by the Soviet Chairman of the Allied Control Council to allow tripartite investigation of the current conspiracy case [redacted]

[redacted] denies that such an investigation would (a) "improperly impair the legal rights of the Hungarian courts"; or (b) constitute "an infringement on the rights of the Soviets . . . to take reasonable measures for the maintenance of the security of the occupation forces." The note adds that, under the terms of the Yalta Agreement "the need for such consultation and investigation becomes all the more imperative" because of US -Soviet disagreement on a matter of such basic importance to Hungary.

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EUROPE

- 2. FRANCE: Efforts to neutralize Communist influence--US Ambassador Caffery reports that "for the first time since the liberation," elements of the Center and moderate Left are making "significant efforts" (a) to "neutralize" Communist infiltration into the Government, and (b) "even to eject" Communists already in the Government. Caffery adds that the political leaders who have been carrying on such efforts say President Truman's address will do "more than anything" to encourage the liberal elements who, because they feared France would be abandoned, have "lacked the will and courage" to resist Communism.

Caffery also comments that Communist maneuvers in the National Assembly (which reached a climax on 14 March when Vice Premier Thorez, in the midst of the uproar occasioned by the debate on Indochina, temporarily left the government benches and took his old seat among the Communist Deputies) may constitute the "first warning reaction to internal anti-Communist trends." Caffery adds that these Communist tactics "may not be unconnected with President Truman's speech to Congress" and may also be designed as a "reminder" to Foreign Minister Bidault "to keep him in line."

- 3. GERMANY: Soviets plan spread of SED to western zones--Acting US Political Adviser Heath reports that "leaders of the German Communist Party in Hesse" have asked the local Military Government how the Party can change its "identity and name" to that of the Socialist Unity Party

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(SED). Should the change be allowed, Heath comments, it would open the way for extension throughout Germany of the Soviet-led SED. Heath believes that the position taken by Military Government on this request "may well be one of the major decisions yet made regarding political parties," because it now appears that the Communists have decided to try to spread the SED immediately to the western zones, "presumably with the objective of presenting the Council of Foreign Ministers with the fait accompli" of a national SED capable of playing a major role in the establishment of any central agencies or provisional government.

4. **RUMANIA: Arrest of Opposition members**--US Delegate ACC reports that the Groza Government has arrested several hundred members of the three leading Opposition parties and that the arrests are "continuing hourly." US Representative Berry comments that the arrests (a) were prompted by alleged instructions from Moscow to the Rumanian Communists to take firmer measures "to forestall the growing Government unpopularity;" and (b) reflect the Government's recently announced policy of coercion rather than reconciliation toward the Opposition. Berry believes that the Communists may justify the arrests by accusing the Opposition of "reactionary conspiracy" against the Government.
5. **BULGARIA: Reported request for US food shipments**--According to US Representative Barnes, the Bulgarian Minister of Commerce has recommended the Bulgarian representative in Washington request allocation by the US of 50,000 tons of corn and 30,000 tons of wheat for shipment to Bulgaria not later than May. Barnes is "by no means convinced" of the need for these shipments, and believes that if a food crisis actually develops its cause will be "primarily political."
6. **YUGOSLAVIA: US position on food relief**--The State Department plans to inform the Yugoslav Government, subject to Embassy Belgrade's comments, that (a) as the Yugoslav need for free relief is not as great as that of other devastated countries, no relief money appropriated by Congress will be utilized for Yugoslavia; and (b) several circumstances make impossible the allocation before May or June of any US grain to Yugoslavia, either through UNRRA or for direct purchase by the Yugoslav Government

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NEAR EAST-AFRICA

7. **TURKEY:** Need for economic development stressed--US Ambassador Wilson reports that many Turkish officials, including President Inonu, have expressed warm appreciation of President Truman's speech regarding aid to Turkey and Greece. As regards the form which such aid to Turkey might take, Secretary General Erkin of the Foreign Office said the Turkish Government earnestly hopes that credits for economic projects will be included, as economic development would help solve the general problem of national defense.

8. **IRAQ:** FBI investigation may jeopardize US-Iraqi relations--US Ambassador Wadsworth reports that recent "notably improved local relationships" between Iraq and the US -- which resulted from the elevation of the US Legation to an Embassy -- will be jeopardized by exaggerated press reports of the FBI search of the Washington Arab Office, unless prompt and frank explanations are forthcoming from the State Department.

THE AMERICAS .

9. **PARAGUAY:** Revolt spreads-- [redacted] that the defection of the garrison in the Chaco region, now confirmed, gives the rebels control of a large part of the country and its armed forces. 25X1

10. **PERU:** Argentine economic treaty negotiations--US Ambassador Cooper reports that the Argentine mission, now in Lima negotiating an economic treaty [redacted] is visibly impatient to reach "some sort of agreement," and Peru therefore considers itself to be in a strong bargaining position. 25X1

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GENERAL

No. 009

- 1. US opposed to Balkan non-aggression pact--The State Department has informed Mark Ethridge in Salonika that it does not believe a non-aggression pact would serve any useful purpose or be an important stabilizing factor in the Balkans

[redacted]

The Department does, however, strongly favor the SC Investigating Commission's leaving an eleven-man team in the area while the Commission is drafting its final report in Geneva and subsequently while the SC is considering the report. (The Commission expects to start drafting its report about 10 April.)

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EUROPE

- 2. UK: Labor dissension over economic crisis--US Embassy London reports that the Parliamentary Labor Party held a private meeting just before the recent Commons debate on the economic crisis. During this "stormy" meeting, many Labor MPs accused the Government of inefficiency and particularly attacked the Government's decision to keep 1,500,000 men in the armed forces and on munitions work despite the manpower shortage. Notwithstanding these developments, Embassy London believes that (a) the economic crisis and Opposition criticism are forcing all elements of the Parliamentary Labor Party to rally around the Party leaders; and (b) intra-Party criticism will not cause the Government to modify its general policy.

(CIG Comment: The continuation in power of the Labor Government will not depend entirely on solidarity within the Labor Party, because the decisive votes in the last General Election were cast by elements which had not traditionally been Labor supporters. These elements appear to be reserving judgment on the effectiveness of the Labor Government's economic policies.)

FAR EAST

- 3. CHINA: Attempt to float private US loan--An official of one of the US banks in Shanghai has confidentially informed the US Treasury Assistant Attache there that the new Governor of the Central Bank of China is attempting to arrange a loan of US \$40,000,000 from private US banks to finance cotton imports into China. The US bank official, having made inquiries among the local cotton firms, concludes that he "would not touch the proposal with a ten-foot pole"

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GENERAL

1. UK view on possible French pacts with eastern Europe- Under Secretary Warner of the UK Foreign Office has told US Charge Gallman in London that he was "disturbed" over the possibility that the French may sign treaties with Poland and Czechoslovakia and "perhaps with other eastern European countries." The official added that, while he could "appreciate how much pressure the French Communists were bringing to bear on Bidault" to enter into mutual assistance pacts with eastern European countries, he feared that, if such pacts were made, the main result would be to "pull France closer to Moscow."
2. New Zealand views on SC discussions of mandated islands--The New Zealand Secretary of the Ministry of External Affairs has told US Ambassador Warren that New Zealand has submitted to the Secretary General of the UN a request for participation in the discussions concerning the disposition of the Japanese-mandated islands. He explained for "very confidential information" that the purpose of the request is to ensure that all members of the Far Eastern Commission will be included in the negotiations for the Japanese peace treaty, which the New Zealanders fear will otherwise be a piecemeal arrangement between the major powers.

EUROPE

3. FRANCE: Left-Right cleavage increases--US Ambassador Caffery reports that recent violence in the Chamber "is another clear indication . . . of the increasing rift between the Right and Left." Navy Minister Jacquinet and Acting Foreign Minister Teltgen, both strongly anti-Communist, have told Caffery that certain elements of the extreme Right "are making a grave mistake to precipitate trouble with the Communists at this juncture." They added that such action is "premature" and enables the Communists to pose as "unjustly provoked by reactionary elements." Assembly President Herriot is reliably reported to be concerned over current violence because "there is as yet no solid coalition of anti-Communist parties which, at this juncture, could successfully cope with the Communists should the latter seriously go into opposition."

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Possible results of wheat shortage -- Minister of Agriculture Tanguy-Prigent has told Caffery that unless France receives an additional allocation of bread grains the Government would be forced to reduce the bread ration. Caffery comments that such a reduction would (a) "undoubtedly" result in general rises in food prices; (b) disrupt the Government's effort to stabilize prices; (c) jeopardize the rehabilitation efforts represented in the Monnet plan; and (d) seriously weaken the Government and the delicate balance of the economic system.

4. AUSTRIA: Communists fear USSR may yield on German assets -- US Legation Vienna reports that, according to a document purporting to be the minutes of the Austrian Communist Central Committee, the Austrian Communists fear that the USSR may yield to the US-UK on the issue of German assets in Austria. The document reveals further that Austrian Communists have urged the Soviet representatives in Vienna to retain German assets "at least" until the Communist Party in Austria is in a position to "take full advantage of such a step."

(CIG Comment: The Communist Party in Austria is so weak that, upon the withdrawal of Soviet forces from eastern Austria, it will be able to maintain its present political position only if it is given strong Soviet support.)

5. USSR: Ukrainian underground movement - [redacted]

[redacted] has been informed by Soviet contacts that (a) the Ukrainian underground has an important representative in the Kremlin; (b) the underground favors Zhukov to replace Stalin, and formerly maintained contact with Zhukov; and (c) the underground has carried out successful industrial sabotage and has burned the Odessa Communist Party headquarters.

[redacted] evaluates the foregoing as "doubtful", he comments that it is "somewhat" confirmed by other sources, and concludes that, while food conditions are bad and dissatisfaction apparently is widespread, the situation is being kept under control by stern police measures.

(CIG Comment: [redacted])

[redacted] the existence of an underground movement in the Ukraine is accepted, [redacted]

[redacted] Drastic counter-measures may be foreshadowed by the recent appointment of Kaganovich, reputedly one of the Kremlin's most ruthless trouble-shooters, as First Secretary of the Ukrainian Communist Party.)

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6. **GREECE: Strikes and gold shortage threaten economy**--US Ambassador MacVeagh reports that the US and UK members of the Currency Committee are unwilling to consent to any further diversion of scarce dollar exchange for purchase of gold supplies for resale, and have strongly urged the Greek Government to stop gold sales promptly. MacVeagh agrees but feels that (a) it is essential first to provide a basis for business confidence in the stability of the drachma by establishing adequate monetary and trade controls and assuring sufficient foreign exchange resources; and (b) the gold crisis emphasizes the importance of speedy Congressional approval of President Truman's economic program.

MacVeagh also reports that the Currency Committee has appealed to the Government to refuse higher wage demands of striking workers; these strikes, coinciding with the gold crisis, threaten to produce serious political and economic effects.

FAR EAST

7. **CHINA: Military and political situation uncertain** -- US Ambassador Stuart, in a summary of recent developments in China, reports that the present tempo of military activity exceeds "anything seen in many months." As yet, there are no definite indications of gains by either side. [redacted] that reluctance to fight is growing among high-ranking officers as well as troops on both sides, but particularly among Nationalist forces. Stuart cites the increase in repressive police activities all over Nationalist China as evidence of the Central Government's determination not to "loosen its control as long as it is engaged in a life-and-death struggle."

Communists exhibit confidence -- Stuart also reports that.

[redacted] leaders (a) are strikingly confident of their ability to make substantial headway against the Central Government on the military, economic, and political fronts; (b) are "completely irreconcilable" and can be expected to increase their demands, if (as they anticipate) the Central Government progressively weakens; and (c) would not be deterred under present circumstances by a threat of US assistance to the Nationalists but only by substantial military defeats.

(CIG Comment: Defeats that the Communists would regard as "substantial" are not in prospect.)

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GENERAL

1. Unauthorized Polish flights over US-UK German Zones--US Civil Air Attache, Bern, urges that the flights made by the Polish airline (LOT) from Warsaw to Paris be investigated without delay on grounds of security in US Zone Germany. He adds that to ignore unauthorized Polish transit over the US-UK Zones would be likely to encourage other Soviet satellites to follow suit.

(CIG Comment: Similar unauthorized flights over the US Austrian Zone may result from the Bucharest-Paris flights proposed by the Soviet-controlled Rumanian airline, TARS.)

EUROPE

2. GREECE: Military campaign against guerrillas to start soon--
 is training and re-organizing for a strong offensive against the guerrillas, which will begin about 10 April and will last an estimated five months. General Rawlins (British Commander-in-Chief in Greece) has that the Greek Army may be expected to regard US assistance as an "easy" source of supply, because the Greeks believe that the US is inexperienced in "applying brakes or correctly appraising requirements."
 should rely heavily on British guidance in allocating and controlling Army supplies.

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FAR EAST

3. CHINA: Nationalist withdrawals in Manchuria anticipated--US Consul Clubb in Changchun considers that there is little likelihood of Nationalist reinforcements being sent to Manchuria at this time. He suggests that if the Nationalist military position in North China should deteriorate further, the Nationalists might even abandon Manchuria completely in an effort to save their position in China proper.

No signs of Soviet withdrawal from Dairen--The Commander of US Naval Forces in the Western Pacific reports that as late as 7 March there was no general dismantling of Dairen factories or harbor installations, and no indication that the Soviets intend to withdraw from Dairen

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in the near future. (On 8 March, the USSR invited the Chinese Government to take over administration of Dairen;

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4. **FRENCH INDOCHINA:** French more optimistic--Acting French Foreign Minister Tietgen has told US Ambassador Caffery that the French have no intention of returning to "any outmoded colonial arrangements" and that there would be no French objection to "internationalized outposts" of the UN in Indochina, after peace and order are restored. Tietgen also said that the French Government is "for the first time optimistic about the Indochinese situation in view of French military successes," although it does not know with whom to deal.

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GENERAL

1. US to propose future discussion of Jap treaty at CFM--Acting Secretary Acheson has informed the US Political Adviser in Tokyo that at some time during the Moscow Conference Secretary Marshall is expected to suggest that the Council of Foreign Ministers "discuss at a meeting in the near future, questions of procedure with regard to the preparation of a peace treaty with Japan."

2. US protests treatment of its oil companies in Rumania--The State Department has instructed US Representative Berry in Bucharest to protest the Rumanian Government's action in granting the joint Soviet-Rumanian oil company "domestic" legal status, thereby placing it in a preferential position vis-a-vis US oil companies [redacted]

[redacted] The note demands that, in view of rights granted US companies in the Rumanian Act of 1942, in the armistice terms, and in the peace treaty, the Rumanian Government grant US companies no less favorable treatment than that accorded the joint Soviet-Rumanian company, particularly in such matters as prices and rights of export and exploration.

3. Uruguay advocates Rio Conference--According to US Ambassador McGurk in Montevideo, the Uruguayan Foreign Minister has stated publicly that in Uruguay's opinion the Rio Conference should be held as soon as possible, and that, in view of Uruguay's "special situation of geographical closeness and fraternal friendship with Argentina as well as close ties with the US," Uruguay would endeavor to bring about a "rapid and total clarification of relations between the US and Argentina."

In a subsequent conversation with McGurk, the Foreign Minister expressed (a) fear that Communist and Nationalistic groups opposed to a Hemisphere defense pact might combine forces and prevent general agreement, and (b) his conviction that continental unity must be restored without either the US or Argentina appearing as the victor.

4. French Communists preventing US-UK-French zonal merger in Germany--In reply to a suggestion by Secretary Marshall in Moscow that France could work out its coal shortage by joining the US-UK bi-zonal agreement in Germany, French Foreign Minister Bidault declared that the Communists in his Government were reluctant to permit France to join. He added that French action in this matter "would depend on how the whole picture develops."

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EUROPE

5. **YUGOSLAVIA:** Further comments on food situation--US Embassy Belgrade has been reliably informed that Yugoslavia, despite its promises to UNRRA that no more food would be exported, has offered to send 30,000 pigs to Poland. The Embassy comments that diversion of Red Cross rations to Government-sponsored youth organizations further emphasizes the need for controls to assure that Yugoslavia will abandon political and export programs in order to feed its needy [redacted]

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6. **ITALY:** Premier asks Treaty amelioration--US Ambassador Dunn reports that Prime Minister De Gasperi has sent a telegram to Senator Vandenberg asking that consideration be given to ameliorating provisions in the Peace Treaty. The telegram includes specific requests for (a) the return to Italy for demolition and use as scrap of some of the surplus naval vessels which the US would receive from Italy; (b) further liberalization of the treatment of Italian assets in the US; (c) support of Italian aspirations for trusteeship of colonies; and (d) alleviation of economic clauses of the Treaty.

7. **GREECE:** Troubles within SC Commission growing--Mark Ethridge reports from Salonika that the Acting Brazilian delegate to the SC Investigating Commission "requests urgently" that the State Department use its influence with the Brazilian Government to obtain the recall of General Anor Santos, principal Brazilian delegate, on grounds that Santos has feigned sickness to avoid responsibility of the chairmanship, and is pro-German, anti-US, and anti-Communist. Ethridge favors "Santos' continued absence from the work of the Commission."

(CIG Comment: In the light of the pro-Soviet bias of the Commission Secretariat, the continuing opposition of the Soviet and Polish delegates, and a lack of experience on the part of several other members of the Commission, it is clear that Ethridge's task is becoming increasingly difficult.)

NEAR EAST-AFRICA

8. **EGYPT:** US loan may be requested--US Ambassador Tuck recommends that the US give "serious consideration" to a contemplated Egyptian request for a loan of \$80,000,000 in order to provide backing for Egypt's

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currency issue and thereby enable Egypt to break its relationship with sterling. Tuck feels that such a loan "would contribute much to the termination of sterling area discriminations."

FAR EAST

9. **FRENCH INDOCHINA: Negotiations with Free Laos groups--US Minister Stanton in Bangkok reports that Baron Surcouf, who negotiated with Free Laos groups in November 1946 concerning the French-Laos modus vivendi, has again held inconclusive conversations in Bangkok with Free Laos leaders. These leaders are believed to have been dissatisfied with French offers of a vague independence in return for cessation of Laos aid to Vietnam and of opposition to the French-sponsored Laos regime, and to have warned that guerrilla activities may increase unless real autonomy is given Laos. Stanton comments that Surcouf undoubtedly reflects the thinking of some French officials that "certain concessions" may be necessary to prevent Free Laos groups from joining the Vietnamese against the French.**

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EUROPE

1. **YUGOSLAVIA: US Embassy's comments on food situation--US Embassy Belgrade, in answer to an UNRRA request for its opinion as to whether UNRRA should supply Yugoslavia with additional grain shipments, reports that a serious shortage exists in certain areas and that without outside relief "people will go hungry." The Embassy adds, however, that (a) the Yugoslav Government has grossly mismanaged the food situation; and (b) there are "many evidences that some food supplies are still available in the country." The Embassy recommends that the US agree to an immediate token allocation by UNRRA of one shipload of grain and that further allocations be made as needed up to 100,000 tons (as previously recommended by UNRRA), provided the Yugoslav Government give full publicity to the UNRRA shipments and agree to full utilization of available local food resources, compliance to be checked by UNRRA and the US Embassy. Although the Embassy believes that these stipulations will reduce the danger of Yugoslavia's exporting or using UNRRA food supplies for political or military purposes, it fears that "if the situation is serious, the Yugoslavs might, like the Soviets under similar circumstances, let people starve rather than abandon political, military, or export programs."**
2. **GREECE: Balkan non-aggression pact considered--US Embassy Athens reports that the British, French, Australian, Colombian, Chinese, Belgian, and Syrian members of the SC Investigating Commission accept in principle (a) the idea of a Balkan non-aggression pact "with the 1933 definition of aggression;" (b) the creation of a supervisory commission to enforce the pact; and (c) the re-establishment of a free zone at Salonika. (The 1933 definition of aggression as laid down in the pact signed by the USSR and the Little Entente includes "support to armed bands formed on the territory of a state and invading the territory of another state." The port of Salonika is probably the most important Soviet satellite objective in Greece. In 1929, after years of negotiation and a variety of treaties, a Greek-Yugoslavian pact was drawn up providing a satisfactory free-zone arrangement for Yugoslavia in Salonika. Although the pact was to be effective for fifty years and has never been abrogated, it has not been in operation since the war.)**
(CIG Comment: UN action to reactivate the free zone at Salonika would remove one of Yugoslavia's grounds for anti-Greek agitation.)

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NEAR EAST-AFRICA

3. **IRAN:** Support for Iranian Airways urged--US Ambassador Allen reports that strict adherence to the 13 March deadline for settlement of Iranian Airways debt to TWA "would probably result in the liquidation of Iranian Airways." Allen adds that such liquidation would be an "unfortunate blow" to US prestige in Iran because "Iranians regard Iranair as virtually an American line."

(CIG Comment: Liquidation of Iranian Airways would give the USSR an opportunity to renew its efforts to gain exclusive air rights in northern Iran. Moreover, Iranian Airways, in which TWA has 10% interest, is an important link in a US-operated air network extending from Cairo to Kabul;

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FAR EAST

4. **CHINA:** Inclusion on Moscow Conference agenda opposed--The Chinese Foreign Minister, Wang Shih-chieh, has asked US Ambassador Nanking to inform Secretary Marshall that "China would strenuously object" to having its "internal affairs" placed on the Moscow Conference agenda.

USSR invites Chinese administration of Dairen--Wang also told Ambassador Stuart that on 8 March the Soviet Ambassador to Nanking had proposed that (a) the Chinese take over the administration of Dairen and Port Arthur (it is doubtful whether the Soviet proposal includes the naval base at Port Arthur); and (b) joint operation be undertaken of the southern leg (Dairen to Changchun) of the Chinese Changchun railway. Wang's informal response to the Soviet official was that the area around Dairen would have to be cleared of Chinese Communist forces before the Soviet proposals could be carried out.

(CIG Comment: The timing of these proposals suggests the USSR's intent to clear its own record prior to international debate on the Chinese problem.)

THE AMERICAS

5. **BOLIVIA:** Brazil concerned over Argentine-Bolivian treaty--US Ambassador Flack reports that the Brazilian Ambassador in La Paz has been instructed to express Brazil's concern over the provisions of the Argentine-Bolivian economic treaty signed on 8 March which calls for the production of rubber and iron in Bolivia near the Brazilian frontier.

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GENERAL

1. Soviets reported on defensive in Hungarian conspiracy case--US Minister Schoenfeld in Budapest reports that "the unaccustomed haste and timing" with which the Soviet Delegate ACC has refused the US request for tripartite investigation of the current conspiracy case [redacted] suggests that the Soviets are on the defensive. (US Delegate ACC, moreover, reports that the Soviet Ambassador to Budapest has left for Moscow to discuss the US note.) Schoenfeld recommends, therefore, that the US make a prompt reply in order to follow up its advantage. He adds that, unless the US handles the controversy in a conclusive manner, little help can be expected from the Hungarian Government, which is obviously "intimidated by direct and indirect Soviet pressure."

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EUROPE

2. FRANCE: Removal of key army officers temporarily blocked- [redacted] that the "recent furor" over the proposed replacement of Generals de Lattre de Tassigny and Revers (see Daily Summary of 24 February, item 5) has died down, and that political pressure brought to bear by the generals' following has "blocked the move for the time being."
3. RUMANIA: Commercial agreement with USSR--According to US Representative Berry, the recently signed Soviet-Rumanian commercial agreement [redacted] contains a secret annex which eventually will make the joint Soviet-Rumanian oil company "an entirely Soviet enterprise with vast exploration and exploitation rights" in clear violation of the legal rights of US oil interests. [redacted] the terms of the secret annex will be made known only to Premier Groza and two leading Communists in the Cabinet.
Also not released to the public is the Soviet agreement to reduce reparations payments from 300 to 100 billion lei and to grant Rumania a \$10,000,000 four-year credit to pay for Soviet exports. [redacted] these concessions may be nullified by Soviet-imposed prices and exchange rates which are still being negotiated in Moscow.

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- 4. **GREECE: MacVeagh advises Zervas be dropped from Cabinet--US Ambassador MacVeagh has privately advised Prime Minister Maximos, the King, and other political figures that, in view of the recent mass arrests by Minister of Public Order Zervas [redacted] the Government would do well to remove Zervas. Maximos attempted to justify Zervas' actions on grounds of the national emergency and denied that danger of dictatorship was implied.**

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FAR EAST

- 5. **CHINA: Formosan situation remains tense--US Consul Taipei reports that Governor General Chen Yi has apparently accepted in principle a list of eight demands for political reform prepared by a committee of Formosans. The demands include: (a) an increased participation by Formosans in the local Chinese administration; (b) severe restrictions on the administration's monopoly control over the economy of the island; and (c) protection of the peoples' rights. The Consul also reports that "about 2,000" troops landed on 8 March; and that two divisions are expected from the Chinese mainland.**

(CIG Comment: The importation of troops by Chen Yi will probably increase the tension in Formosa; however, [redacted] the Central Government may remove Chen Yi himself and [redacted] a more conciliatory policy may result.)

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THE AMERICAS

- 6. **PERU: Arrival of Argentine economic mission in Lima--US Ambassador Cooper reports that an Argentine mission has arrived in Lima to negotiate an economic treaty with Peru [redacted] Cooper believes that the current offer of the Peruvian Government for settlement of its US dollar debt should not be refused, as failure to accept the offer would drive Peru into the Argentine economic bloc [redacted]**

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- 7. **BOLIVIA: Argentine-Bolivian trade treaty--US Ambassador Flack reports that Bolivia reversed its previous stand, apparently as a result of Argentine pressure, by signing a trade agreement with Argentina on 8 March [redacted]**

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EUROPE

1. **GREECE: Arrests approved by Greek cabinet--** [redacted] **has unanimously approved the recent mass arrests by Minister of Public Order Zervas** [redacted] **(a) doubt exists whether the Cabinet had any foreknowledge of the arrests; (b) while the move was contrary to the Government's stated amnesty policy, the "Greek mentality" would not permit an amnesty at this time even though the Government sincerely attempted to implement one; (c) the arrests, coupled with reports of "more active US interest in Greece," have improved Army morale; and (d) had the prisoners engaged in similar activities in the US, the majority of them would probably have been arrested "at an earlier date."**

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FAR EAST

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3. **CHINA: Situation deteriorating in Formosa--US Consul Taipei, Formosa has informed US Embassy Nanking that the trend toward civil strife in that island** [redacted] **is developing rapidly. He cites continuing reports of secret evacuation of families of high Chinese officials, and of imminent military reinforcement from Fukien.**

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GENERAL

1. Dutch views on proposed alliances--A Netherlands Foreign Office official has told US Embassy The Hague that (a) he personally does not favor a network of alliances such as Belgium has proposed [redacted] and (b) his Government "still strongly favors" the four-power pact supported by the US. The official added that his country believes "no network of alliances" could be "really useful" without US participation.
2. USSR will accept 36,000 refugees from Denmark--The Danish Foreign Minister has told US Minister Marvel that he has "just received assurances" that the USSR would accept 36,000 German refugees from Denmark.
(CIG Comment: Each of the Big Four had previously agreed to accept 12,000 such refugees. This new Soviet offer probably is intended to be a gesture of good will on the eve of the Moscow Conference.)

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NEAR EAST-AFRICA

3. IRAN: US approves employment of oil expert--US Ambassador Allen, upon instructions from the State Department, has informed Qavam that the US has no objection to Iran's employing a US expert for advice on oil matters [redacted]
4. INDIA: Possibility of a limited Pakistan--US Charge Merrell reports that "an impressive number" of Congress Party leaders appear resigned to the prospect of Jinnah's obtaining a "truncated Pakistan" if he wants it. Merrell believes, however, that many Congress members assume that (a) Jinnah would not be satisfied with such an arrangement; and (b) in a showdown, the Congress Party would, with superior economic and possibly military strength, be able eventually to crush Moslem League opposition in most parts of India.

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FAR EAST

5. CHINA: Formosan civil war likely in absence of US intervention--US Consul Taipei, Formosa, in a report on the serious civil disturbances [redacted]

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there, [redacted] states that civil war will develop if the US does not immediately intervene in its own right or "on behalf of the UN." Responsible Formosans believe that (a) direct UN intervention is justifiable because the island is presently under Japanese de jure sovereignty; and (b) the Chinese Government could receive assurance that, once the island was stabilized on a democratic basis, it would be returned to Chinese administration.

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Foreign Minister's views on reoccupation of Dairen--Chinese Foreign Minister Wang Shih-chieh, on his return from a trip to Manchuria, told a US Embassy official that (a) he had emphasized to Soviet authorities the "high desirability" of removing the "de facto obstacles" to Chinese occupation of Dairen; (b) the presence of "some 30,000" Chinese Communists between Nationalist lines and the Soviet-controlled Dairen-Port Arthur area would necessitate "special measures" on the part of the Government to hold Dairen in case of reoccupation; and (c) if unverified reports that the Soviets in Dairen are removing locomotives--joint assets of the Changchun Railway--prove to be correct, the Central Government intends to file a protest.

THE AMERICAS

6. BOLIVIA: Resistance to Argentine agreement increasing--US Ambassador Flack in La Paz reports that the Bolivian Junta Government has decided that any trade agreement with Argentina [redacted] [redacted] should be signed by the new Government (which will take office shortly), and that additional time is necessary to study the complex problems posed. Flack reiterates that an increase in the price paid by the US for Bolivian tin would "aid Bolivia's freedom of action."

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GENERAL

1. USSR reported unfavorable to Treaty revision--US Ambassador Dunn in Rome reports that he has it "on good authority" that the USSR has replied to the Italian demarche on revision of the Treaty and refused to favor "any such proposal."

(CIG Comment: The US, UK and France have unofficially expressed sympathy with the principle of revision. A Soviet refusal to consider revision would increase the anti-Soviet trend in Italian public opinion.)

2. USSR abetting Yugoslav economic penetration of Trieste--The US Treasury Representative in Rome reports that the US, UK and French delegates to the CFM Commission of Inquiry on Trieste estimate that there will be a 4.6 billion lire deficit in the Trieste budget for the fiscal year 1947-48, while the Soviet delegate estimates the deficit will be only 48 million lire. The Representative adds that, in order to provide "Yugoslavia an opportunity for economic penetration as the basis for subsequent political control," the USSR is apparently taking the position that the Free Territory will not require external aid.

EUROPE

3. FRANCE: Proposal for dispersal of German population--US Ambassador Caffery has been told by a Foreign Office official that Foreign Minister Bidault is taking to Moscow a plan for the dispersal of the German population, "primarily males of military age," among other countries of Europe.

The source stated that French interest in recruiting "voluntary laborers" in Germany is based not only on the need for manpower in France but on the fact that adjustment of frontiers has reduced Germany's territory while the return of German nationals from other parts of Europe has increased the density of population in Germany.

4. GREECE: UK to withdraw troops from Greece on schedule--The British Ambassador in Washington, in an aide-memoire to the State Department, has stated that British troops will be withdrawn from Greece according to the schedule "drawn up long ago." The schedule calls for the reduction of troops to one brigade by 31 March; this last brigade will be withdrawn

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during the summer. The aide-memoire adds that in any event British troops could not be kept in Greece after the withdrawal of Soviet troops from Bulgaria, which is scheduled to take place ninety days after the Bulgarian Peace Treaty becomes effective.

Political mass arrests by Zervas--US Embassy Athens reports that Minister of Public Order Zervas has arrested 571 persons charged with "supplying and recruiting for bandits." The arrests, which include several high officers of the Greek Communist Party (KKE) Central Committee, were made without the knowledge of British military and police missions. The Greek Police Chief informed the Embassy that he had no foreknowledge of the arrests and that he considered the timing poor in view of pending US decisions on Greece. He added, however, that the action corresponds to the "unanimous demand" by army officers, who find it "intolerable" that they should risk their lives fighting the rebels while the real guerrilla leaders direct the movement safely from Athens. (Zervas became Minister of Public Order on 23 February despite protests by the US and UK Ambassadors. The latter objected to his inflexible extreme rightist tendencies, which they believed would alienate the people from the Government and cause unnecessary bloodshed. KKE has complete plans for going underground should it be forced to do so by mass arrests.)

NEAR EAST-AFRICA

5. TURKEY: Turks disturbed by reported UK withdrawal from Middle East-- Foreign Minister Saka has informed US Ambassador Wilson that the Turkish Government is "seriously disturbed" by press reports that the UK is asking the US to assume all political commitments in the Middle East. Saka said that if these reports are true, Turkey must turn to the US for the military assistance it had formerly sought from the UK. Wilson pointed out to Saka that (a) Greece is in a much more serious situation than Turkey; (b) Greece should be given priority, if the US is called on to furnish military equipment "anywhere;" and (c) "if Greece should fall under Communist domination, Turkey's position would be greatly weakened." The State Department has instructed Wilson to tell the Turks that (a) the US and UK have been holding high-level discussions of a general nature; (b) the US hopes to take a more active part in meeting the economic

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and military needs of Greece and Turkey; (c) Greece will necessarily be given first consideration; and (d) no immediate international crisis is expected.

FAR EAST

6. **CHINA: Chiang to intensify war on Communists--US Ambassador Stuart believes that the Generalissimo intends to "chasten" the Chinese Communists within three months by launching an all-out military campaign to free as much of North China as possible from their control. Stuart adds that Chiang has become increasingly concerned over the rate of China's financial deterioration and the ability of the Communists to "prolong the struggle and create havoc." While the Generalissimo makes a point of telling Chinese visitors that "China must stand on its own feet . . . without US assistance," Stuart believes that Chiang actually has hopes of US aid.**

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GENERAL

1. Temporary closing of Bulgarian-Turkish frontier--US Representative Barnes in Sofia reports that local Soviet military authorities have ordered the Bulgarian-Turkish frontier closed from 6 March to 17 March. Barnes is uncertain as to whether this action is related to future Soviet troop withdrawals under the Peace Treaty or to a projected redeployment of troops in anticipation of an early arrival of members of the Security Council's Investigation Committee.

2. Anglo-Egyptian sterling discussions end in stalemate--US Embassy Cairo has been informed by Sir Wilfred Eady, UK Treasury representative, that the Anglo-Egyptian discussions on sterling balances have ended in a complete stalemate on substantive issues, particularly on scaling down balances. The official communique, however, will state that the discussions were exploratory. Egyptian officials have indicated that further discussions (between Egypt and the UK) will await the outcome of future Iraqi and Indian negotiations with the British.

3. Stalin reportedly asks for immediate Czechoslovak-Polish treaty--US Embassy Prague has been informed by a reliable Government official that Stalin has sent a personal message requesting the Czechoslovak Government (a) to conclude a treaty of alliance with Poland similar to those Czechoslovakia has with the USSR and Yugoslavia; and (b) to do so before signing the projected Czechoslovak-French treaty. The USSR maintains that Czechoslovakia needs such a treaty in order to obtain foreign trade outlets through Poland, in view of possible US restrictions on Czechoslovak trade through Germany. The Embassy notes, however, that the USSR's extreme haste in pressing the matter actually indicates a desire to bring about Czecho-Polish alignment before the Moscow Conference, thus strengthening Poland's bid for retention of its western frontier. The Embassy adds that the Soviet request constitutes the "most glaring example of Soviet intervention in Czechoslovak affairs since the cession of Ruthenia."

4. French Views on Moscow Conference--On the basis of talks regarding the Moscow Conference with high French Foreign Office officials, Matthews (Director of the Office of European Affairs in the State Department) reports that the French (a) attach "considerable importance" to

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the Austrian Treaty and feel there is a "fifty-fifty chance" of completing it at Moscow; and (b) believe the USSR "really wants" a treaty with Austria provided a "satisfactory formula" can be found on German assets. Matthews adds that the French do not expect much agreement regarding German problems at the Conference.

NEAR EAST-AFRICA

5. **TURKEY:** Suggested considerations in giving US aid--US Ambassador Wilson suggests that, in any projected program of providing material US assistance to the Turkish armed forces, the following are among the factors which should be considered: (a) because the USSR will continue its present pressure on Turkey and compel the Turks to maintain large and costly forces under arms, the US would be playing the "Soviet game" if it encumbered the Turks with too heavy a financial burden; (b) recommendations must depend upon whether, in the event of aggression, the Turks would be expected to fight a strong delaying action or to serve as guerrillas; (c) modernization of the Turkish Army would be a long, slow process, and the men best capable of being adequately trained are those most needed to increase Turkey's productive capacity.
6. **PALESTINE:** Terrorists intend forcing martial law--US Consul General Jerusalem reports that, according to a well-informed Jewish Agency source, the present aim of the terrorists is to force the British to establish martial law throughout Palestine, thereby inciting the entire Jewish population to open combat with the military.

FAR EAST

7. **KOREA:** Re-examination of Soviet reply to General Hodge--A re-examination of the Soviet reply to General Hodge's letter of 24 December indicates that, while the reply was friendly in tone and ostensibly accepted General Hodge's proposals as a basis for reconvening the Soviet Commission, the USSR has not abandoned its insistence on excluding from consultation all Koreans who have actively voiced opposition to the Moscow decision. Such a program would exclude from consultation virtually all Korean leaders except Communists and "fellow travellers."

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THE AMERICAS

8. **BOLIVIA: Argentina offers proposal for trade agreement--US Ambassador Flack reports that a Bolivian negotiator has informed him "in strictest confidence" that the Argentine Trade Mission now in La Paz** **has made proposals identical with those in the Argentine-Chilean agreement, except for the designation of amounts for public works and industrial development in Bolivia.**

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GENERAL

- 1. US views on UK Greater Syria policies--The State Department has informed US Embassy London that, according to numerous reports from the Near East, the Arab governments take a serious view of increasing rumors of British support for the establishment of Greater Syria. The

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[Redacted] The Department feels that these rumors are having a disruptive effect on the Arab world which is not to the advantage of the UK or of the US.

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(CIG Comment: Although the formation of Greater Syria in the long run might deter Soviet infiltration of the Near East, agitation for its implementation at the present time only increases the instability of the area and thereby serves Soviet policy.)

- 2. US asks tripartite study of Soviet interference in Hungary--The State Department has instructed US Delegate ACC Budapest, US Legation Budapest, and US Embassies London and Moscow to request joint US, UK, and Soviet examination of the USSR's recent unilateral intervention in Hungary's internal affairs through the arrest of Bela Kovacs, Small-holder member of Parliament, [Redacted]

[Redacted] The Department believes that this "direct Soviet intervention in support of the Communist minority appears to preclude a possible local Hungarian resolution of the crisis and, in threatening to render impossible the functioning of democratic processes in Hungary, to raise the question of the future exercise by the Hungarian people of democratic sovereign independence as envisaged in the peace treaty."

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EUROPE

- 3. AUSTRIA: Soviet policy on oil industry--US Legation Vienna reports that Soviet Oil Director Rjabinin has told Brandon Grove (the representative of local US and UK oil companies) that the USSR is in the Austrian oil business "to stay" and will not be moved out by "any peace treaty agreements." Rjabinin added, however, that the USSR recognizes that US-UK oil interests are also in Austria "to stay," and accordingly wishes to reach a working agreement with them. It is Grove's impression that

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Rjabinin has received a "new policy" from Moscow and will try to obtain through company agreements maximum advantages for the Soviet Petroleum Administration in advance of a peace treaty.

4. ITALY: "Consultation" favored in African territorial issue--The State Department does not agree with US Embassy Rome that an Italian should be permitted to accompany the Quadripartite Committee of Investigation which is to be sent to Italian colonies [redacted]

[redacted] However, in view of the importance of reconciling Italian Government and public opinion to any decision regarding the ultimate disposition of these colonies, the Department favors an arrangement by which the Italians may be given an "opportunity to consult" with the Quadripartite Commission of Investigation, provided that a similar opportunity is given to such other interested countries as Egypt and Ethiopia.

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NEAR EAST-AFRICA

5. IRAN: Qavam desires to employ US oil expert--Qavam has informed US Ambassador Allen that he would like to employ a qualified US petroleum expert as adviser, especially as regards the Northern provinces. Allen believes that Qavam is inclined to favor granting the USSR a straight oil concession rather than a mixed company, and desires to have an expert to "share the responsibility" when he attempts to persuade the Soviets to give up the idea of a mixed company.

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GENERAL

1. Belgium to propose alliances with UK, France and USSR--Paul-Henri Spaak, Belgian Foreign Minister and President of UN General Assembly, has told US Ambassador Kirk that he has received a "favorable reaction" from French Foreign Minister Bidault to his proposals for a "Belgian network" of alliances with France, the UK, and the USSR. Although the USSR has not replied to a Belgian offer of alliance made two years ago, Spaak wishes to include the USSR in the proposed network of alliances in order to avoid the criticism that he is developing a western bloc. Spaak said that his offer to the USSR "would be sincere," but "developments would depend on the Soviet attitude."
2. Bevin's views on the German and UK-Soviet Treaties--Foreign Minister Bevin has told Matthews (Director of the Office of European Affairs in the State Department) that he is prepared to support the US in such eastward revision of the Polish-German boundary as can be justified on economic grounds.

Bevin added that the revision of the Anglo-Soviet Treaty would be limited to "excluding the obsolete portions." Matthews observes that Bevin is "unhappy" to find himself "compelled" to proceed with "some treaty revision." Matthews adds his belief that the permanent Foreign Office officials are "fully aware of the dangers ahead and regret that domestic politics have forced this course."

EUROPE

3. FRANCE: Bidault professedly undecided on German issues--Foreign Minister Bidault has told US Ambassador Caffery that he has made no "commitments" to Molotov on either the eastern frontier of Germany or reparations from current production. Bidault stated that he has not yet taken "any definite position" on these matters and that his final decision will depend upon the course of events at Moscow. Caffery concludes that "no deal has been made with the Soviets in these matters." (Caffery previously reported his "impression" that the French Ambassador to Moscow had been instructed to tell Stalin that France would support the Soviet position on the Polish-German frontier and reparations in return for Soviet support of French desires regarding the Ruhr and Saar;

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Monick optimistic on price level--Emanuel Monick, Governor of the Bank of France, has told US Ambassador Caffery that he is "optimistic" about the government's ability to hold prices at the present level but does not believe that any reductions of consequence will be effected by the price-reduction campaign. Monick believes that, if prices can be held at the present level, France will be able to "work herself out of the present near-crisis."

4. GERMANY: Propaganda suggests future Soviet policy on Germany--US Political Adviser Murphy reports from Berlin that recent Socialist Unity Party (SED) propaganda includes two proposals "suggestive of possible Soviet moves" at the Moscow Council of Foreign Ministers: that (a) a people's referendum be held throughout Germany on the country's future political structure; and (b) any central German agencies or provisional government should be set up not by Laender Presidents, but as representing existing political parties and trade unions. Murphy believes that the first proposal, if adopted, might result in a vote for a centralized rather than a federal Germany and that the second would "greatly over-value the political power of the Left and in particular help the Communists."
5. RUMANIA: Economic agreement with the USSR--According to US Representative Berry, a preliminary examination of the recently concluded Soviet-Rumanian economic agreement reveals that it "brings no material benefits to Rumania and places the country further under the economic domination of the USSR." The agreement (a) does not provide for imports to revive any industry, including oil, except those under Soviet-Rumanian ownership; and (b) offers no solution for Rumania's currency and food problems.

FAR EAST

6. KOREA: Soviet Commander offers to reconvene Joint Commission--General Hodge's HQ reports that a reply (dated 28 February) to General Hodge's letter of 24 December 1946 has been received from General Chistiakov, Commander of the North Korean zone. The reply is friendly and indicates that Hodge's proposals have been accepted.

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7. **CHINA: Shanghai labor official fears worker unrest--**According to US Consul General Shanghai, the Secretary of the Shanghai General Labor Union believes that the Government plan to fix wages at January 1947 levels and grant certain supplementary rations will not satisfy Chinese workers, because prices continue to rise despite Government efforts to fix ceilings. The Secretary predicted that such measures might result in "grave unrest" and may lead to a "general strike attended by mass violence and bloodshed."

THE AMERICAS

8. **PERU: Economic relations with Argentina--**US Embassy Lima reports that (a) [redacted] Peru is now foremost on Argentina's list for further extension of its economic influence; and (b) the powerful left-wing APRA Party is probably responsible for the delay in the conclusion of a Peruvian-Argentine Treaty which provides for a 200 million peso loan.

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US debt settlement law passed by Peruvian legislature--US Ambassador Cooper considers that the law passed by the Peruvian legislature on 28 February, providing for a settlement of Peru's US dollar debt, constitutes a reasonable offer. (Previous Peruvian dollar debt settlement offers have been unacceptable to US creditors; [redacted])

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9. **BRAZIL: Hemispheric action against Communism suggested--**According to US Ambassador Pawley, the Brazilian Foreign Minister has stated his opinion that the US must take the initiative in calling an early inter-American conference to discuss action against Communist activities in the Western Hemisphere.

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GENERAL

1. **Syria may reopen Hatay question--**A British Foreign Office official has informed US Embassy London that the Syrian delegate to the UN Security Council, during a recent visit to London, sought British influence "to get talks going" between Syria and Turkey on the Hatay question. (Syria refuses to recognize Turkish sovereignty over the Hatay, a Turkish province on the Syrian border.) The Syrian delegate stated that Syria does not wish to take the matter to the UN but will be forced to do so if the Turks are not "reasonable." The British official feels that to make any changes in Turkey's frontiers would be playing into Soviet hands and considers that it would be "most undesirable" to have the Hatay question brought up in the UN. [redacted]

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EUROPE

2. **USSR: Estimated 25% of national budget for military purposes-** [redacted] believes that the 1947 Soviet budget is aimed at "developing the nation's military potential to the utmost," and that a number of expenditures for military purposes are concealed in the budgets of supposedly non-military agencies. [redacted] that the actual military expenditures this year will be approximately 100 billion rubles (about one fourth of the government income) rather than the officially-announced figure of 67 billion rubles. These conclusions are shared by the Economic Section of the Embassy.

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(CIG Comment: Even this figure may fail to give a true picture of the extent to which the Soviet economy serves military purposes. For example, the armed forces obtain supplies from Soviet industrial organizations at prices which, in many cases, are so low as to bear no relation to the cost of production. Furthermore, Soviet occupation troops abroad are quartered, subsisted, and to a large extent supplied by the occupied nations.)

3. **GREECE: Plastiras feels he may soon head government-** [redacted] General Nikolas Plastiras feels that Greece will soon recall him to head a temporary government. Considering himself the only person who can inspire fear and confidence among both extreme Rightists and extreme Leftists, he believes that he could restore internal order in [redacted]

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one month. He would then prepare the country for truly free elections, after which he would step down as he did twenty-three years ago.

(CIG Comment: Nikolas Plastiras, a retired general and confirmed democrat, was the first Prime Minister after liberation, but was forced to resign under Royalist and British pressure. CIG believes that Plastiras might well be the man behind whom the country could rally in a political-military crisis, though he is probably unsuited to lead a long term political-economic program.)

4. SPAIN: Monarchist-Leftist negotiations to be carried on in Lisbon-- US Charge Madrid reports that Tomas Peire, a representative of the clandestine National Alliance of Democratic Forces, has informed the US Embassy that negotiations between Leftists and Monarchists "will be carried on henceforth in Lisbon between the Pretender's advisers and representatives of (Republican President) Martinez Barrio and the Llopi's government-in-exile." Peire told the Embassy, apparently at the request of Monarchist General Beigbeder, that Don Juan has ordered Beigbeder and Kindelan (leading negotiators inside Spain on the Pretender's behalf) to withdraw entirely from such activities. Peire anticipates less risk and greater freedom of action in Lisbon.

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