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GENERAL

1. US Ambassador in Moscow comments on Gromyko interview:

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US Ambassador Kirk in Moscow believes that Gromyko's specific on-the-spot answers to important questions indicate that the Soviet Government considers the Malik proposal a serious effort to achieve a Korean settlement, regardless of its propaganda implications. Kirk feels that the Chinese People's Republic is also behind the move.

Gromyko's insistence that cease-fire negotiations remain separate from political and territorial questions implies that such questions will be raised later in connection with the Communist terms for settlement. There is no evidence that these terms will not initially include Chinese Communist membership in the UN, control of Taiwan, Chinese and Korean participation in the Japanese peace treaty, as well as the evacuation of all foreign troops from Korea.

The US Ambassador is inclined to suspect that the Chinese Communists are unwilling to continue the costly campaign and that urgent requirements of the Chinese over-all program necessitate abandoning the venture, at least for the present. He speculates that the importance of China to the USSR constrains the Soviet Government to react with greater flexibility than is customary with the Eastern European Satellites. Considerations of face make the Chinese Communist Government prefer that the USSR initiate the advances.

In answer to British proposals for further soundings of Communist China, North Korea and possibly the Soviet Government, Kirk emphasizes that Gromyko carefully sought to avoid governmental discussions in favor of direct negotiations between military commanders. The Ambassador considers that the opening move should be made by General Ridgway and the South Korean commander.

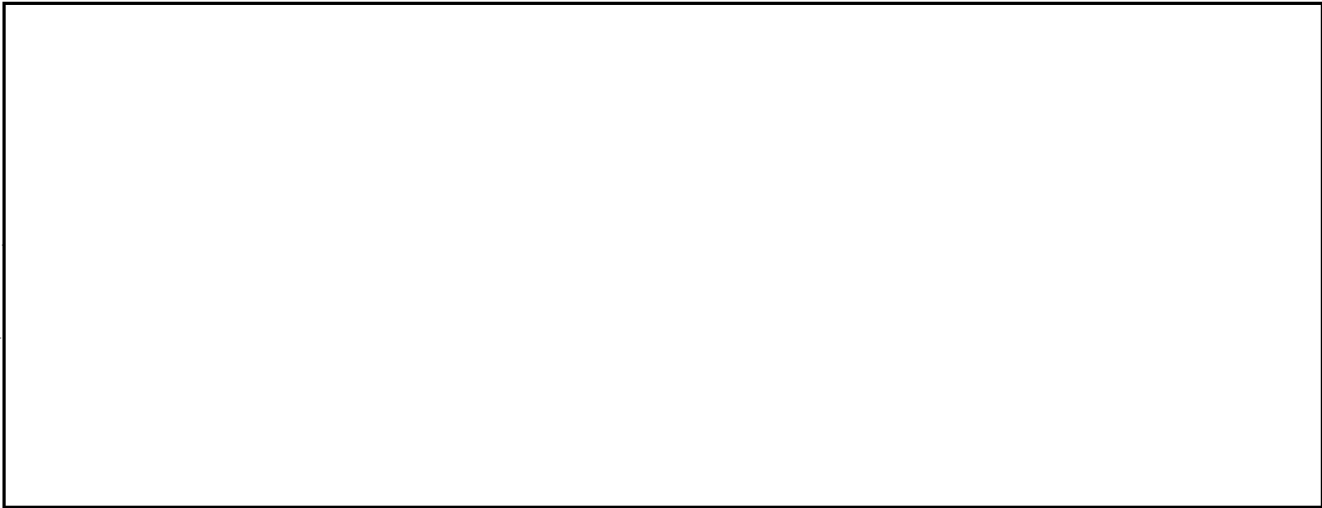
Comment: There is no evidence that the Peiping regime is anxious to sue for peace at this time. It is possible that the USSR's desire to avoid direct involvement in the war and increased material support for the Communist forces is the primary motivation underlying the proposals.

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6. Indonesia will embargo rubber to China:

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The Indonesian Cabinet agreed on 27 June that rubber should be included unconditionally in the list of strategic Indonesian exports that, in accordance with the UN embargo, will be denied to Communist China.

Comment: Indonesia abstained in the UN when the embargo was voted. Subsequently, the government prepared a list of strategic materials to be prohibited to China; this list, however, excluded rubber. [redacted] Indonesia historically has not shipped rubber to China [redacted]

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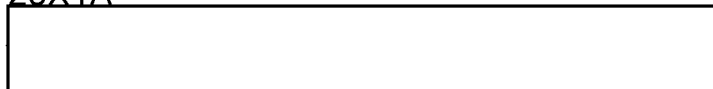
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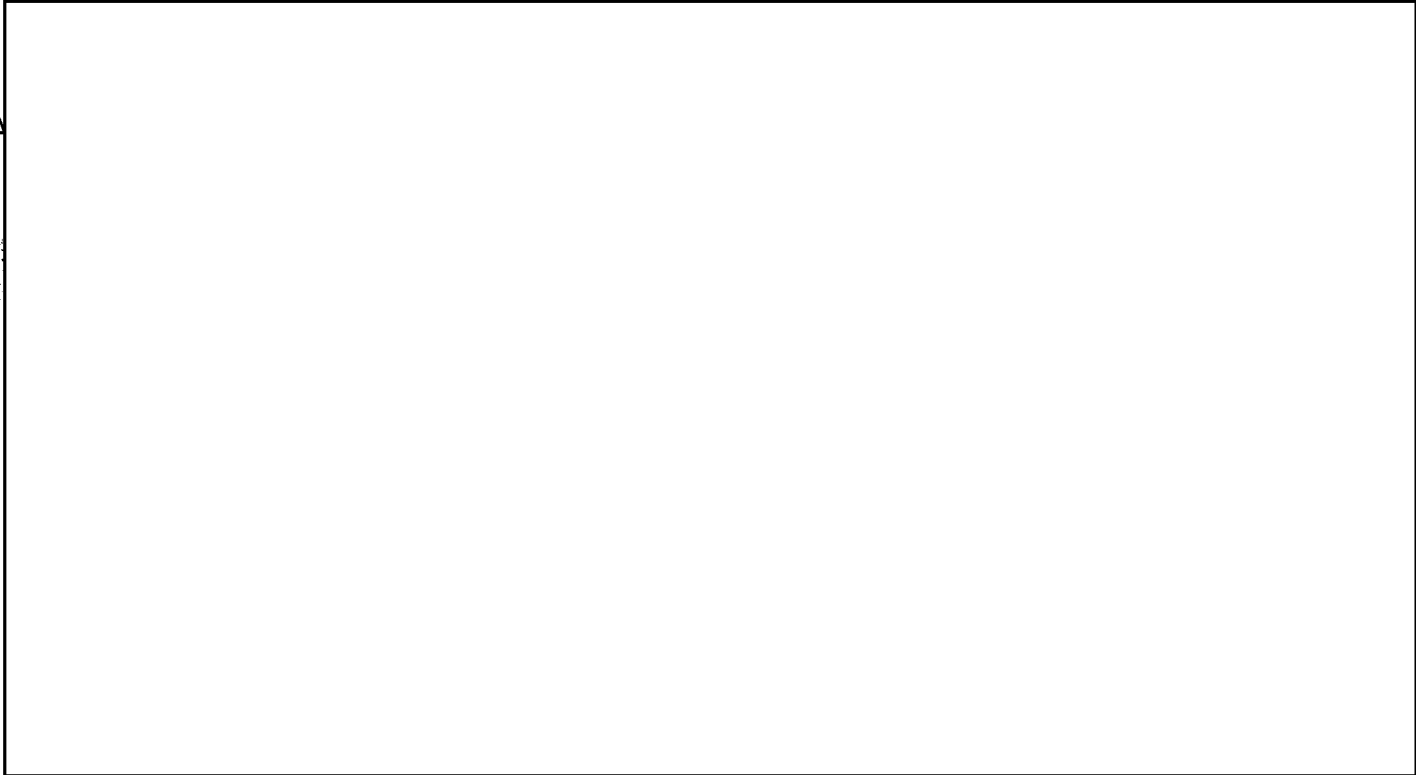
The reversal of Indonesia's position occurred after the US Ambassador in Jakarta had stressed that, under the Kem Amendment, Indonesia might not qualify for US aid if it omitted rubber from its strategic list. Prospects for the strict implementation of the embargo by Indonesia are limited, however, since the government lacks the administrative machinery to control adequately the destination of privately-owned rubber.

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SOUTH ASIA

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NEAR EAST

8. US considers proposing a sixty-day moratorium in the oil dispute:

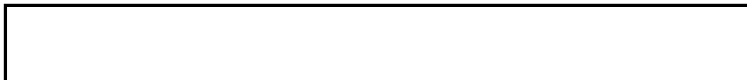
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The US Department of State is prepared to suggest a "moratorium" to Iran, and the adoption of interim arrangements for 60 days between Iran and the Anglo-Iranian Oil Company that would, without prejudice to the issues involved, permit operations and oil shipments to continue until a more permanent settlement could be worked out. When

this proposal was submitted to British Foreign Minister Morrison for comment, he indicated that the US proposal appeared both helpful and

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constructive, and expressed the UK's willingness that such an approach be made, Mr. Morrison urged, however, that it be made clear to the Iranians that operations of the oil industry must be under full AIOC management, and that interim financial arrangements must be along the lines already proposed by the AIOC.

Comment: While the new proposals offer a ray of hope, it is unlikely that they will be acceptable to the Iranians, especially in the form suggested by Morrison, unless Iran is willing to make a major change in its oil nationalization policy. In view of British experience with Iranian intransigence, the UK probably does not attach much hope to this current effort to break the impasse.

WESTERN EUROPE

9. British delivery of Polish tankers reviewed and delayed:

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Foreign Secretary Morrison expressed interest to US Ambassador Gifford in the idea that the Iranian oil crisis might justify delaying the delivery of the Polish Government-owned tankers being built in British ports. Meanwhile, the Foreign Office reports that the trials of the first two tankers, delivery of which had been expected by mid-July, have been postponed by two weeks, and are now scheduled to begin on 9 July.

Comment: Review of the issue in the light of the Iranian crisis and delay in the trials follow vigorous US representation along those lines. The stated UK position remains that the vessels will be delivered due to the legal principle involved and to fear of retaliation.

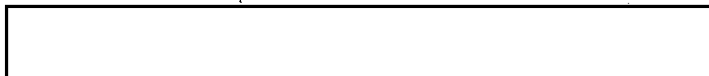
10. Interim interzonal trade agreement probably would release Berlin exports:

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US representatives in Berlin believe that the Soviet authorities in that city may resume clearing West Berlin export permits if a new

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interzonal trade agreement, or an interim arrangement, is concluded by the East and West Germans without delay and confirmed by Allied authorities. The Berlin trade repre-

sentative of the Bonn Government reports that the East Germans appear favorably disposed toward a two months' extension of the present interim agreement, which will expire 2 July. Meanwhile, the Soviets failed to pass any export permits on 28 June, and the backlog is now over 7,000.

US officials believe the USSR is determined to exert strong pressure for the early conclusion of a trade agreement. The chairman of the East German state planning commission said on 28 June that if all interzonal trade agreements, including interim arrangements, are allowed to lapse on 2 July, then complementary agreements will also become invalid, resulting in the stoppage of the delivery of electric current and coal to West Berlin.

Comment: The determination of the Soviet authorities and the East Germans to get an early trade agreement might prompt them to apply further pressure in the form of cutting off coal and electric power supplies to West Berlin. In that event, West Berlin could resort to its three months' stockpile of coal and its own adequate, though more expensive, sources of electric power.

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