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~~TOP SECRET~~**GENERAL**

1. Chinese Communist endorsement of Malik's speech does not guarantee modification of original terms:

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[Redacted]

An editorial in the official organ of the Chinese Communist Party, stating that the Chinese people "fully endorse" Malik's cease-fire suggestion, goes on to assert that if the US "is willing to stop the war, she

Should therefore fall in at once with the just and reasonable measures for peaceful settlement ... repeatedly proposed" by the Peiping regime.

Comment: The editorial does not explicitly reaffirm Peiping's original terms for any settlement of the Korean conflict; namely: withdrawal of all UN forces from Korea, admission of Communist China to the UN and US abandonment of Taiwan. The reference to earlier proposals, however, leaves it open to Peiping to bring forward its original terms after a cease-fire is achieved. The Peiping regime appears prepared to continue its commitment in Korea indefinitely.

2. Caution dominates Western European press reaction to Malik proposal:

[Redacted]

Leading non-Communist newspapers in West Germany, France and Italy received with caution the Malik proposal for a cease-fire in Korea, generally stressing that the statement should not be disregarded despite its obvious propaganda aspects.

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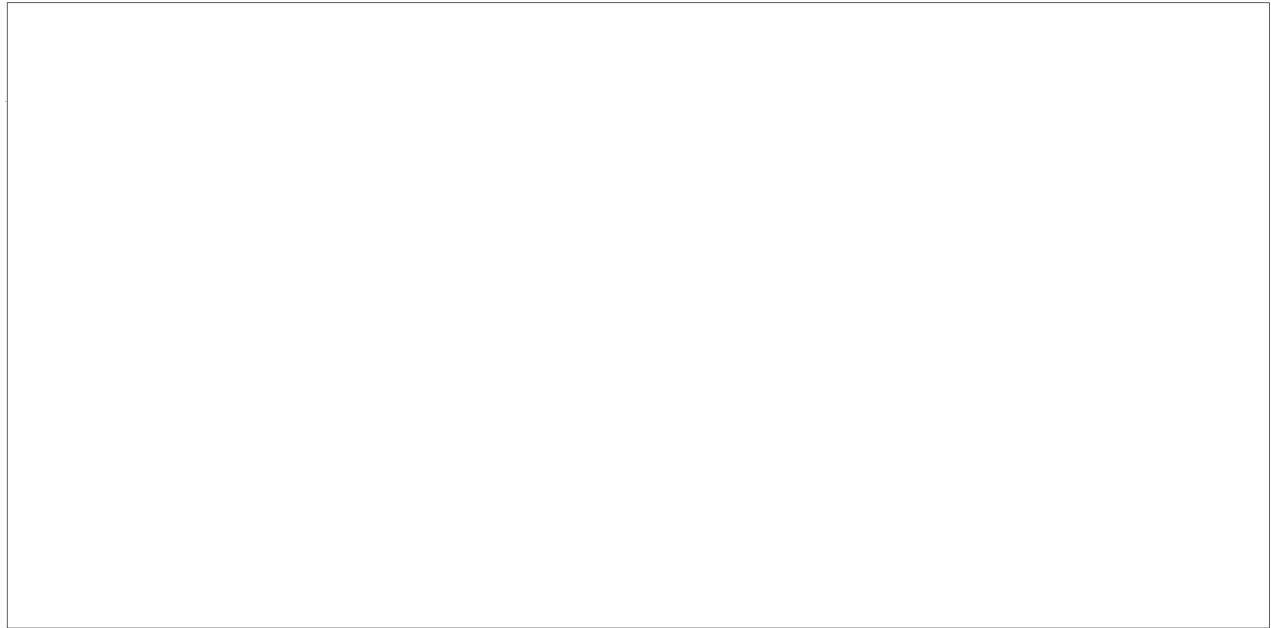
Although West German press comments were on the whole pessimistic, ranging from caution and distrust to outright rejection of the proposal as a propaganda trick, Berlin newspapers reflected a hesitant optimism. French newspapers tended to show a slightly more favorable attitude, emphasizing that it would be

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absurd to reject the Soviet suggestion just because of its origin, as long as there is a slight chance for a settlement of the Korean fighting. In general, non-Communist Italian press comment stressed that the move was not solely a propaganda expedient and that the door to peace should be left open. Several Western European publications saw in the proposal a Soviet recognition of military failure in Korea and a victory of the UN Korean policy. Paris newspapers generally agreed that the UN goal of discouraging aggression would be obtained by a settlement on the 38th Parallel.

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FAR EAST

4. Prisoners of war report on attitudes of Communist military personnel in Korea:



Interrogations of recently-captured prisoners of war indicate that the morale of the Chinese Communist forces prior to the last offensive was good, and that such surrenders as did occur were due to the hopelessness of local military situations and

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to the lack of food. The prisoners revealed that during May a major source of troop discontent was the deterioration in the quality and quantity of rations -- a factor indicating a serious strain on Chinese Communist Army transportation facilities. It was further revealed that the majority of Chinese Communist troops in Korea are ex-Chinese Nationalist troops who may now be regarded as thoroughly indoctrinated in Communism. The prisoners regarded Soviet aid as coming from an ally and did not consider themselves as Soviet puppets. The prisoner of war reports agree that some of the best Chinese Communist armies have been "destroyed," but they believe that the CCF can and will continue to fight with somewhat lower quality replacements.

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5. Possible Soviet anti-aircraft elements reported in Pyongyang:

[redacted] According to the Far East Air Force,

[redacted] reports of the presence of substantial Soviet anti-aircraft artillery units in the Pyongyang area. [redacted]

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Soviet anti-air-
craft troops and weapons in Pyongyang in May. [redacted]

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[redacted] an automatic weapons group of 40 guns was manned by youthful Soviet soldiers wearing uniforms similar to those worn by Soviet Naval personnel assigned to AAA coastal defense units. Moreover, air photos reveal a slight increase in both heavy and light anti-aircraft guns in the Pyongyang area, where increasingly intense, accurate and heavy fire has been encountered.

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NEAR EAST

6. British Foreign Secretary believes no negotiations possible with present Iranian Government:

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[Redacted]

British Foreign Secretary Morrison has informed the US Ambassador in London that there is no prospect for productive negotiations with the present Iranian Government

ernment and that the British have done everything possible to reach a reasonable settlement. He commented that the Shah should dismiss Mossadeq and, with the support of the army, dissolve the Majlis, but felt that the Shah lacks the courage to take such action. Morrison repeatedly stressed the imminent possibility of violence in Iran, in the face of which he is unwilling to order British Anglo-Iranian Oil Company personnel to remain at their posts. He emphasized the Parliamentary difficulties with which he is faced, with the Conservatives consistently pressing the government to use force -- a recourse which the government realizes cannot be adopted except to protect British lives.

Comment: The UK evidently anticipates the early collapse of the Iranian economy, with the resultant political chaos, and has apparently decided that such a state of affairs will offer the best conditions for the establishment of a new British bargaining position for regaining control of the oil industry. The cabinet is undoubtedly aware of the serious consequences that may flow from political confusion in Iran, but nevertheless appears willing to risk these consequences.

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[Redacted]

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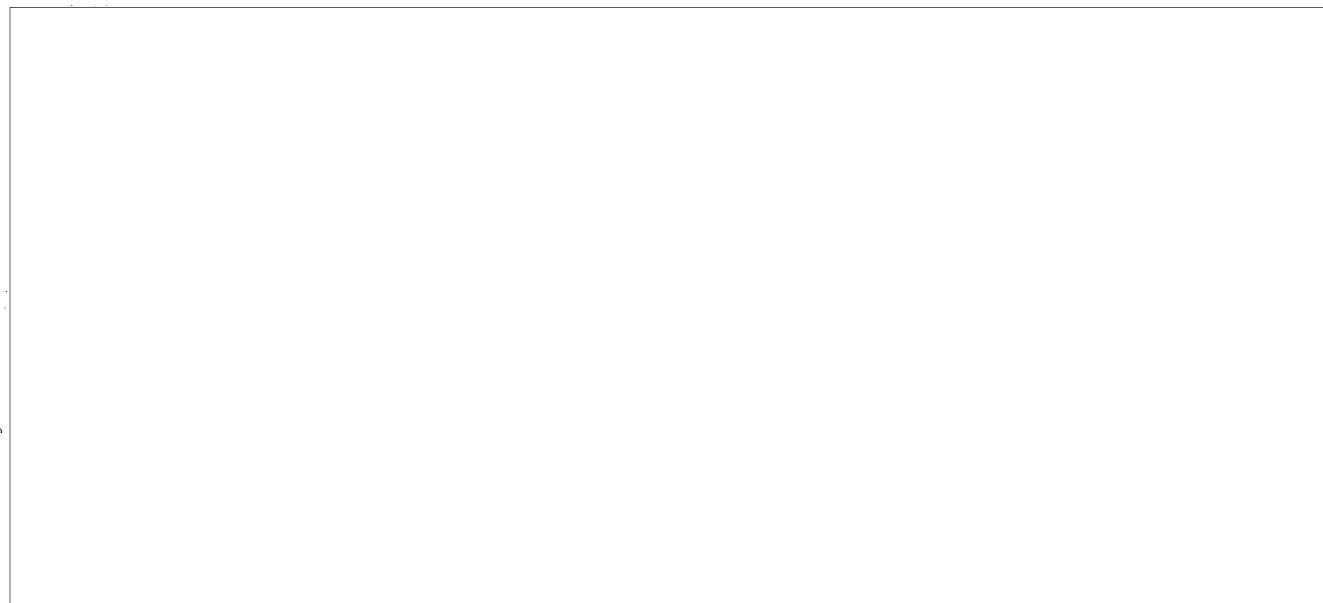
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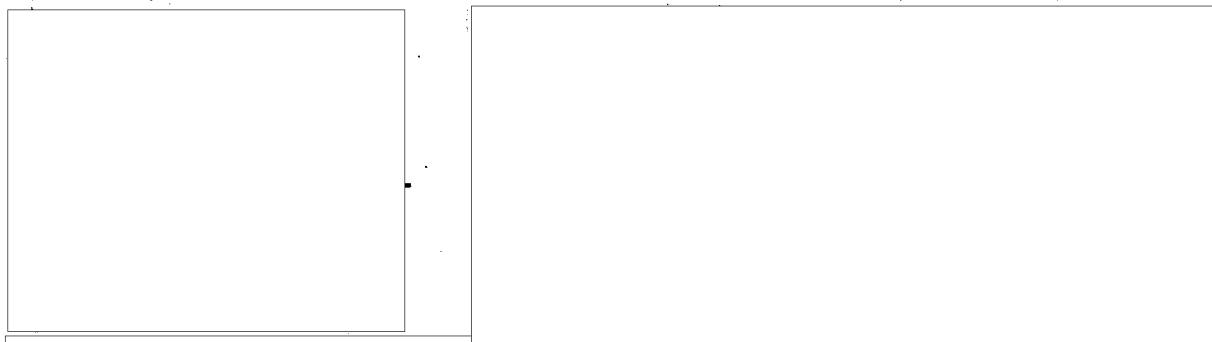
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India express concern over stoppage of Iranian oil:

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Meanwhile, the US Embassy in India states that according to reliable reports the Indian Government will probably re-introduce gas rationing on 1 July as a result of the Iranian oil situation.

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Comment: It is estimated that the loss of crude oil and refined products now exported from Iran could be made up in time from other areas by increasing crude production and by more fully utilizing available refining capacity. A stoppage in the flow of

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Iranian oil would cause considerable dislocation and hardship for the Anglo-Iranian Oil Company's previous customers, since severe transportation and financial problems would have to be solved.

EASTERN EUROPE

9. Tito evidences pro-American sentiment:

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In a farewell conversation with the [redacted] Minister to Yugoslavia, Tito reportedly referred to the US in the warmest terms, 3.3(h)(2) stating that the US alone was the champion

of liberty for the world. Contrasting US policy with that of the USSR, Tito remarked that, while Stalin was absolutely ruthless, he was clever enough not to let the USSR take an overt aggressive role. Tito felt that Molotov supports Stalin's views, but that Malenkov heads an aggressive Soviet faction that favors war before the Western world rearms.

US Ambassador Allen in Belgrade comments that the increasing Yugoslav friendliness to the US has been promoted by the US policy of rendering prompt and effective assistance to Yugoslavia. Allen notes the special importance of continuing this policy of winning Yugoslav confidence, in order that the new Yugoslav pro-US orientation will overcome the remaining opposition in the middle and lower ranks of the Yugoslav Government. In Allen's opinion, although Tito will find it necessary to remove additional officials in his government, his position in the country as a whole has been strengthened by the new orientation.

^{the} Comment: The current pro-US campaign being carried on in Yugoslav Army and Communist Party is probably aimed at overcoming some latent resistance to the Tito government's pro-US orientation in the organizations on which Tito's support rests. Other reports within recent months have indicated differences of opinion within the government and party, and extending even into the politburo, regarding Tito's growing pro-Western leanings.

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WESTERN EUROPE

10. British Foreign Secretary explains intention to deliver Polish tankers:

Foreign Secretary Morrison told US Ambassador Gifford on 26 June that the scheduled delivery of two Polish government-owned tankers must be related to the general British dependence upon Eastern European sources for timber and grain. Morrison felt that there was a definite risk of losing supplies essential to the

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British economy if the tankers were requisitioned. He also referred to resentment in some quarters because of US pressure for further restriction of trade. Morrison agreed to look into the possibility of deferring the date of delivery, though he gave no assurances on this matter. He expressed full awareness of the probable adverse US reaction. A Foreign Office note delivered the same day explained that since Polish ownership of the vessels is unquestionable, the UK could requisition the tankers only as an "emergency" action that would probably provoke damaging Polish retaliation.

Comment: The two vessels in question were ordered in 1948 by Poland, and are similar in size to those now used by the USSR to carry petroleum products to the Far East. Current Polish petroleum requirements are such that these vessels would not necessarily be required for regular shipments between the USSR and Poland.

11. British support for early German rearmament seen:

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The head of the British Foreign Office's German political department was observed that (a) as a result of the breakdown of the Deputies' talks in Paris, the Western powers should press for German rearmament, (b) the British Joint

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Chiefs of Staff are of the same view, and (c) Foreign Secretary Morrison is "sold" on the need for an early German contribution to Western defense.

Comment: Previously, responsible British officials appeared to see no urgent need for German rearmament, despite the government's agreement in September 1950 to a German contribution to Western defense. The British counseled caution, especially during the many months when consideration of the subject at a possible Foreign Ministers' conference seemed likely. Another retarding factor has been considerable public opposition to German rearmament, especially in Labor circles. Recently, however, the failure of Aneurin Bevan's resignation to cause a serious Labor Party rift on foreign policy and the apathetic public reaction to the termination of the Deputies' meetings may have instilled some new confidence into government leaders.

12. New French Government faces an urgent problem in Indochina:



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The over-all availability of funds for the conduct of operations in Indochina is one of the urgent problems facing the new French Government and National Assembly.

Indochina was not an important issue in the 17 June National Assembly elections and there is now no basic difference of opinion among non-Communist parties on this subject. A decided swing to the right in the composition of the French Government, however, might result in a less liberal interpretation of the position of the Associated States within the French Union.

Comment: Although the strengthened Right in the new Assembly probably will be inclined to reinforce commitments in Indochina, it is not expected that operations there will receive a greater portion of the 1952 than the 1951 military budget (slightly less than 25 percent). France's anticipated defense expenditures for 1952 are estimated at \$4 billion, an increase of 50 percent over the 1951 defense costs; this will increase the over-all budget

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deficit to more than \$3 billion, and draw strong criticism, especially from the Communist deputies. In the event that the Gaullists gain power, a less liberal interpretation of the position of the Associated States would dangerously increase the anti-French sentiment already prevalent in Indochina and weaken support for the Bao Dai government. In his press conference on 22 June, De Gaulle stated that once France is put back in order (i. e. after he returns to power), 10 divisions (possibly doubling the 150, 000 men now on duty) could be supplied to Indochina. De Gaulle made clear, however, that the defense of the metropolitan area would be his first consideration.

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