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CENTRAL INTELLIGENCE AGENCY

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## GENERAL

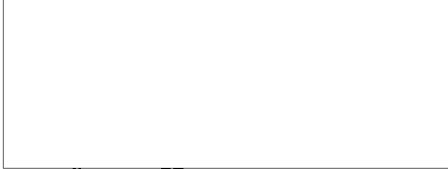
1. Comment on resolution of Supreme Soviet Presidium of the USSR:

The stereotyped nature of the proposals contained in the Soviet reply to the US Congressional resolution transmitted on 7 July suggests that the answer sprang primarily from a necessity to refute the previous, well-publicized US communication. Even though the resolution contributes to the campaign to portray the USSR as cooperative and non-aggressive, it contains no indication of any forthcoming Soviet concessions which could add substance to the peace campaign.

The resolution follows the standard two-pronged argumentation of Soviet propaganda. The denunciation of US policy centers on allegedly discriminatory practices such as the export control system, but contains only relatively mild criticisms of US-initiated policies such as rearmament and the creation of NATO. The "peace" policy of the USSR is buttressed with references to proposals like the Five-Power pact twice put forward in the UN since 1949, but the UN is not mentioned by name. This evasion may result from a Soviet wish to identify objectives such as disarmament with Communist "peace" organizations rather than with the UN, which has rejected Soviet proposals for prohibiting atomic weapons, for arms limitation and for a Five-Power peace pact.

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2. Anglo-American disagreement over Far East policy seen as probable in event of Korean armistice:

 Korean armistice is achieved.

The US Embassy in London predicts that British differences with the US over Far East policy, now held in check in order to preserve a united UN front in Korea, will probably revive if a

The embassy indicates that the British see an armistice as the first phase in "step-by-step" negotiations leading eventually to a general settlement in the Far East, and expect the Chinese Communists to demand admission to the UN as a pre-requisite to an over-all Korean

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settlement. The embassy estimates that the present government would find great difficulty in trying to dodge such a demand in the face of UK public opinion on the issue.

On the Formosa issue, the embassy reports the increasing conviction of many senior military and civil officials, including Foreign Secretary Morrison, that the island would be of strategic importance to a hostile power, but estimates that the Cabinet nevertheless might be led to over-rule Foreign Office support of Formosa's continued neutralization should it appear expedient to promote a general Far Eastern settlement.

Regarding the future of Korea once a cease-fire had been negotiated, the embassy foresees that Britain might for a time resist pressure for a total withdrawal of UN forces, but probably would eventually prove willing to accept some face-saving solution. This would relieve the UK of unwelcome responsibilities in Korea and, though it might leave South Korea vulnerable to eventual political absorption by the North Korean Communist regime, Foreign Office circles regard such a development as probable in any event.

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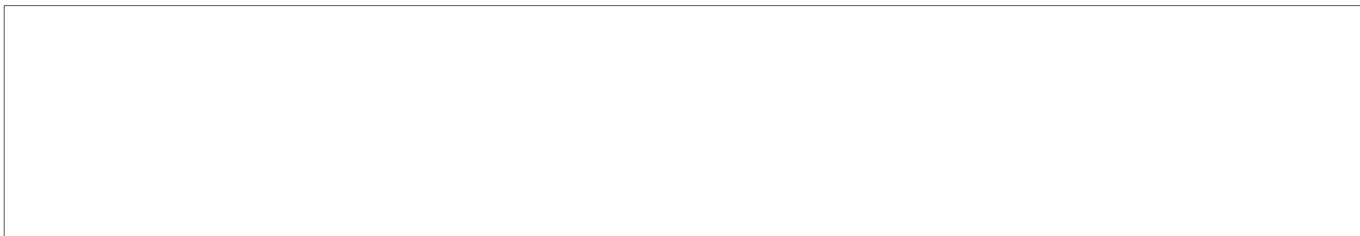
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## WESTERN EUROPE

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4. Further progress is made on East-West export controls:

[Redacted] Recent meetings of Western powers participating in East-West trade controls have, in the opinion of the US delegation, led to "significant further progress toward parallel action" among all countries represented. More than 60 per cent of the critical items on which the US had previously been unable to obtain agreement for a strict embargo have now been accepted. In addition, "advantageous" proposals for handling quantitative controls and exceptions have been adopted, and further progress is likely to be made by obtaining at least partial controls over the remaining items proposed by the US for strict embargo.

On the other hand, the American delegates were impressed with the "very firm position" taken particularly by Britain and France against a further extension of the embargo on basic industrial exports. These countries showed "grave concern" with their domestic political problems and rejected what they probably viewed as a US effort to impose its will on export controls.

Comment: Further substantial progress toward a general embargo on critical items is not indicated. Furthermore, the other participating countries have accepted less than 40 per cent of the 250 items that were proposed for quantitative restrictions only, although in practice the US denies these items totally to the Soviet Orbit.

The Western European countries are increasingly apprehensive over inflationary pressures, which some leaders want to combat

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in part by encouraging imports. These countries insist that they can obtain urgently needed Eastern products, such as coal, only by offering some critical items in exchange. Furthermore, the Western European countries are increasingly resentful of US leadership.

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5. French fear aviation gasoline shortage is imminent:

A severe aviation gas shortage is expected in France by October if the Abadan refinery shutdown continues. The French Government is trying to borrow enough gas from SHAPE to tide it over, but they fear that they will not be successful once the freight airlift from Berlin is in full swing.

A French official believes that the new Soviet blockade of Berlin is timed to take the greatest possible advantage of the growing Western European shortage of aviation gas resulting from the Iranian dispute.

Comment: The Abadan shutdown has deprived Western Europe of 31 per cent of its processed petroleum imports. Iran supplied only a slight portion of total French petroleum imports, but a relatively high proportion of this was aviation gasoline, and current stocks cannot be entirely replenished from domestic plants.

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