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3.5(c)

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3.5(c)

~~TOP SECRET~~

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3.5(c)

SUMMARY**FAR EAST**

1. New Communist jet aircraft reported in Korean theatre (page 3).

3.3(h)(2)

NEAR EAST

4. British hope to enlarge scope of oil negotiations (page 4).

EASTERN EUROPE

5. No unusual Soviet military activity in the Balkans noted by Yugoslavs (page 5).

WESTERN EUROPE

6. Sharing of Western economic aid to Yugoslavia still unresolved (page 6).

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3.5(c)

~~TOP SECRET~~

3.5(c)

3.5(c)

~~TOP SECRET~~

FAR EAST

1. New Communist jet aircraft reported in Korean theatre:

[Redacted]

A recent Air Force operational summary includes a delayed report of a 10 May sighting by a B-26 pilot of an enemy twin-jet fighter in northwestern Korea. The UN

3.3(h)(2)

pilot "definitely identified" the enemy fighter as very similar to the German ME-262 (which bears the superficial characteristics of the Soviet Type 8 jet). While inferior gunnery seemed to negate the possibility of air-borne radar, the enemy aircraft may have been vectored in by ground control. FEAFF speculates that this third sighting of an enemy twin-jet aircraft may indicate the presence of a new type aircraft in Korea "for combat testing, possibly with a view to adaptation for use as an all-weather night fighter."

Comment: While no confirmation of the type or performance of these new aircraft has been received, it is probable that the USSR is conducting operational tests of newer types of jet aircraft along the Sino-Korean border. Additionally, there have been two sightings of enemy jet aircraft of an unidentified type believed to be Type 15 Soviet fighters.

3.3(h)(2)

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

Comment: While the ROK Government has publicly pledged itself to achieve overall unification of Korea and expulsion of all Communists, the continuing flurry of rumors concerning a UN "cease fire" at the 38th Parallel has greatly upset the ROK Government and may have forced a softening of their unification policy.

3. Swedish Ambassador cites Communist China's vulnerabilities:

3.3(h)(2)

The Swedish Ambassador to Communist China has stated that (a) China's military and industrial potential has been "greatly overrated" by Western nations; (b) the Chinese Communists are in "critical need" of shipping and a "very effective squeeze" could be placed on China if UN members agreed not to permit their ships to call at Chinese ports; and (c) Communist materiel losses in Korea are more important than their casualties, as the Soviets would "affix conditions" for resupply of equipment.

Comment: Although the Ambassador seems to give too little weight to China's manpower resources, his opinion regarding the effectiveness of a shipping embargo in "squeezing" Communist China is supported by figures which show that most of the ships calling at China's ports are Western flag vessels. Regarding Soviet conditions for replenishing materiel losses in Korea, there are indications that such materiel has been and will be supplied on a cash or barter basis.

NEAR EAST

4. British hope to enlarge scope of oil negotiations:

3.3(h)(2)

In reporting the British decision to send representatives of the Anglo-Iranian Oil Company (AIOC) to Iran to meet with the Oil Commission, US Embassy London states that the Foreign Office envisages an effort to identify and clarify the problems involved in nationalization before proceeding to definite

~~TOP SECRET~~

~~TOP SECRET~~

proposals. In this way the British hope to wean Iran away from its narrow attitude that any discussion must be within the framework of the nationalization law.

Comment: The British decision was made in answer to the Iranian aide memoire handed to an AIOC representative on 30 May which outlined Iranian plans for implementing the nationalization law and which requested that AIOC comment on the plan within five days. Although Iranian Premier Mossadeq's reiterated willingness to receive company representatives suggests that the Iranians realize the magnitude of their problem and desire AIOC cooperation, the Foreign Office hopes that it will be able to weaken Mossadeq's determination to nationalize the oil industry seems unlikely to be realized. The arrival of the British mission, however, should provide Mossadeq with an excuse to postpone hasty action in implementing the law.

EASTERN EUROPE

5. No unusual Soviet military activity in the Balkans noted by Yugoslavs:

[redacted] Yugoslav officials have informed Embassy Belgrade that they are convinced there are no Soviet troop units in Bulgaria. They also do not believe that a Soviet armored division has arrived in Constanta, Rumanian Black Sea port.

3.3(h)(2)

Comment: The Yugoslav statement, as well as recent information from Western diplomats, tends to refute reports of unusual Soviet military activity in the Balkans. Recent reports of the arrival of Soviet troop units in northeastern Bulgaria have also been largely refuted [redacted]

[redacted] Constanta is known to be headquarters for the estimated 30,000 Soviet troops in Rumania and is an important port of entry for Soviet equipment destined for the Balkan Satellites.

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~~TOP SECRET~~

3.5(c)

WESTERN EUROPE

6. Sharing of Western economic aid to Yugoslavia still unresolved:

[Redacted]

UK Foreign Secretary Morrison, in an interview with US Ambassador Gifford and the chief US delegate to the US-UK-France talks on economic aid to Yugoslavia, stated that Chancellor of the Exchequer Gaitskill insists that the UK cannot provide the full 25 percent share being urged by the US. Morrison also expressed concern lest UK agreement to the 25 percent share set a precedent. He agreed, however, that official notification to the US of the maximum British contribution should be speedily forthcoming and agreement reached at the earliest possible opportunity.

3.3(h)(2)

Comment: The three countries have reached substantial agreement on the many vexing problems involved in the program for meeting Yugoslavia's substantial trade deficit and they hope to coordinate this program with a \$200 million investment loan from the International Bank. Throughout the talks, however, the UK Treasury has apparently remained unimpressed by Foreign Office reminders of the urgency of the Yugoslav situation, probably owing to a preoccupation with the UK's own economic difficulties. The UK decision will determine the share accepted by the French, who insist that their share shall not be more than half that of the British.

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3.5(c)