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GENERAL**USSR****2. Party dispute over farm consolidation continues:**

The US Embassy in Moscow reports its belief that a serious intra-party dispute is continuing over policies affecting the consolidation of collective farms. M. D.

Bagirov, Azerbaijan Party Secretary, in a 26 May speech demanded eradication of the "incorrect" idea that the most important task in the further collectivization of agriculture is the fusing of small villages into single collective farm settlements. Bagirov emphasized that it is necessary not to lose sight of the main objective, the raising of agricultural productivity. Embassy Moscow believes that such a strong stand by a regional party leader is another indication that Politburo member Khrushchev's radical approach to the current collectivization program is not meeting with high level approval and that, in any case Bagirov's remarks would not have been made without prior clearance from above.

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Comment: Subsequent to publication of Khrushchev's 18 January speech in Pravda, which outlined the program for consolidating collective farms, a notice appeared that the article was for discussion only. In March, Armenian party boss Arutyunov criticized the policies advocated by Khrushchev. This latest criticism of Khrushchev, who has been charged since early 1950 with the task of consolidating collective farms in the Soviet Union, probably indicates that fairly widespread dissatisfaction among the agricultural population has induced the Politburo to slow the tempo of the program.

FAR EAST

3. Koreans reported deeply perturbed at war settlement rumors:

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[Redacted]

Ambassador Muccio reports that South Koreans are "frightened, baffled and infuriated" by rumors that the UN may be considering a settlement of the Korean war

after the aggressors have been expelled from South Korea. The Ambassador believes it would be tragic if pressures for a peace settlement resulted in premature discussions, as it is apparent that the UN bargaining position improves daily. Muccio cautions that the attitude of the South Koreans in the post-hostilities period should not be overlooked, since their protests abetted by Communist propaganda could have serious repercussions on other nations in the path of Soviet imperialism.

4. Burmese report entry of Chinese Nationalist troops into Yunnan:

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[Redacted]

The Burmese Foreign Minister on 1 June informed US Ambassador Key that latest reports indicate that approximately 5,000 Chinese Nationalist troops have crossed

the Sino-Burmese border into Yunnan. The Foreign Minister also stated that a considerable number remain in Kengtung State (in eastern Burma), and indications are that they are still being supplied from Thailand.

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Comment: During the past few weeks there have been conflicting reports concerning the location and movements of Chinese Nationalist troops in Burma. However, other evidence now tends to confirm that the Burmese Foreign Minister's report of a crossing in force into Yunnan is substantially correct.

NEAR EAST

5. Ex-premier sees no Egyptian leader willing to compromise with British:

According to US Ambassador Caffery in Cairo, Sirry Pasha, an independent political leader and former prime minister, has expressed his belief (a) that the forthcoming

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British reply on the defense issue must "leave the door wide open" for future discussions if disturbances in Egypt are to be avoided, and (b) that Foreign Minister Salaheddin should proceed to London this summer for the talks. Sirry warned that the British should not entertain the idea that King Farouk might dismiss the Wafdist government, since no Egyptian leader would be able to form a government to carry on the Anglo-Egyptian discussions following a removal of Nahas from the premiership.

Comment: Sirry's estimate of the prospects facing future Anglo-Egyptian defense talks is significant in view of the fact that his name has been mentioned as a leading contender for the Egyptian premiership if Nahas were suddenly removed. In spite of the difficulties facing the government, the Wafdist still have such strong support in Egypt that the removal of Nahas would make more difficult, if not impossible, the problem of carrying on defense negotiations with the British.

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6. Greek army officers fail to promote military coup:

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Commenting on the recent resignation of Marshal Papagos, US Embassy Athens reports that the situation continues calm and that, although there was a certain amount of "ferment" among the armed forces following the Marshal's resignation, no further manifestations of any importance are expected if the government and the general staff continue to handle the situation carefully. Prime Minister Venizelos has informed the Embassy that the meeting of a number of ranking military officers on the morning following the Marshal's resignation was engineered by four high army officers, who are now confined to quarters.

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WESTERN EUROPE**7. Federal Republic cites arms production in Soviet Zone of Germany:** 3.3(h)(2)

The West German Government has published a report on armaments production in the Soviet Zone of Germany stating that, contrary to Soviet claims of continued demilitarization, a widespread arms industry has been re-established in the Soviet Zone.

Comment: It is an established fact that armaments are produced in the Soviet Zone, but the extent of this production is still not clear. Production is primarily for reparations to the USSR and consists chiefly of replacement parts for tanks, small arms and ammunition, and some specialized technical equipment, such as precision instruments from the Zeiss works.

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