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DOS review(s) completed.

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GENERAL

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1. Philippines still against proposed Japanese peace treaty:

[Redacted]

Publication on 10 July of the draft Japanese peace treaty has prompted a violent popular protest in the Philippines. Foreign Affairs Secretary Romulo told US Ambassador Cowen

that the US is losing all the good will built up during the past five years. At Cowen's suggestion, Romulo subsequently submitted a proposed revision of the reparations clause which he believes will satisfy Philippine objectives. His rewording provides for unqualified recognition of Japan's obligation to pay reparation for war damage and specifies that Japan enter into negotiations with interested Allied powers "with a view to assisting to compensate those countries for the cost of repairing the damage done." Ambassador Cowen urges serious consideration of Romulo's revision. He is convinced that the Philippine Government is more interested in establishing the principle of Japanese war guilt and responsibility for reparations payments than in the amount of reparations or the method of collection.

Comment: Romulo's revision differs from the current draft treaty in that (a) it omits the clause that "Japan lacks the capacity" to make adequate reparations -- a point that the Philippine Government refuses to admit -- and (b) it does not list the types of assistance that Japan could give war-damaged countries.

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FAR EAST

25X1A 3. Polish ships may carry Ceylonese rubber to China:

[Redacted]
The Colombo agent for the Polish Ocean Line has been informed by his principals that they wish to transport rubber from Ceylon to China. The agent is now soliciting trade.

Comment: The Ceylonese Government has announced that it would permit rubber exports to all countries, but officials have privately indicated their desire to cooperate with the US in preventing the dispatch of strategic materials to China. Furthermore, they have

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assured US diplomats that the problem probably would not arise, since the Chinese seemed unable to arrange for the payment and shipping of rubber from Ceylon. Both payment and shipping difficulties now seem about to be solved: the Bank of Ceylon has expressed its willingness to open a Chinese letter of credit for approximately 20, 000, 000 dollars, and the Polish Ocean Line apparently has vessels available for the China run. The Ceylonese Government may shortly be forced to take official or unofficial steps to control rubber exports, if its representatives are to live up to their reported desire to cooperate with the United States.

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LATIN AMERICA

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6. Guatemalan Government suppresses anti-Communist riots:

The Guatemalan Government has restored order and suspended constitutional guarantees after two days of rioting, during which anti-Communist demonstrators beat up alleged Communists,

burned cars and besieged the National Palace. The US Embassy in Guatemala City believes that the demonstrations were not part of a concerted plan, but resulted from pent-up anger over recent flagrant Communist activities. Specifically, they began in protest over the dismissal of Roman Catholic clergy and nuns from the staff of the National Orphanage by its director, an alleged Communist. President Arbenz subsequently announced that the director has been replaced and that the priests and nuns had been reinstated.

Comment: The current riots are indicative of widespread anti-leftist sentiment in Guatemala, which was responsible for serious demonstrations in July 1950 and an unsuccessful revolt in July 1949. There is no evidence, however, that the present anti-Communist groups

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are well organized or constitute a threat to the government; nor is there evidence that President Arbenz, who is politically indebted to well-organized Communist and far leftist elements, will consider it possible or desirable to take repressive action against the Communists during the period of martial law.