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GENERAL

1. USSR may offer Yugoslavia "atomic energy" and seek joint statement on German neutrality and disarmament:

The USSR will offer Yugoslavia "atomic energy" for peaceful purposes during the Belgrade conference and will endeavor to obtain Yugoslav approval in principle for a neutral Germany and for the latest Soviet disarmament proposals.

Comment: In addition to the announced Soviet intention of building atomic reactors in countries of the Sino-Soviet bloc, the USSR has hinted willingness to lend similar assistance to non-Orbit countries. Such an offer would appeal to the Yugoslavs, who, claiming that atomic energy will usher in the age of Socialism, strongly subscribe to the principle of international co-operation on atomic matters as an aid to their own program.

Belgrade, while never fully explicit on the subject, has in recent months strongly favored a reunified, uncommitted Germany. Likewise, it has reacted favorably to the latest Soviet moves on disarmament. The Soviet and Yugoslav leaders can probably find enough common ground on both subjects to issue statements of agreement on basic principles.

(Concurred in by OSI)

2. USSR apparently made large purchases of copper in Western Europe recently:

T. T. Ivanov, a leading official of a Soviet foreign trade agency, told [] that the USSR no longer had any interest in buying copper because of purchases "this past week" in Europe. []

Comment: This information suggests that Soviet trade officials, fearing a tightening of Western export controls, have contracted for large quantities of copper very recently. The Soviet Union has taken advantage of the relaxation in controls last August to make substantial purchases of copper wire in Western Europe. (Concurred in by ORR)

3.

SOUTHEAST ASIA

4. Burmese defense minister reportedly providing arms to Communists:

[Redacted]

Comment: Ba Swe exhibited strong pro-Communist inclinations before he became a cabinet minister in April 1952, but since his assumption of the defense post, the army has continued its campaign against the Communists. The defense minister and his family have often been rumored to be engaged in various profitable transactions with the insurgents, and this report would appear to lend substance to these charges.

SOUTH ASIA

5. Pakistan conditionally agrees to five-nation investigation of Peshawar incident:

[Redacted] A senior official of the Pakistani Foreign Ministry told Ambassador Hildreth on 19 May that although Pakistan had rejected Saudi mediation efforts, it would nevertheless agree to investigation of the Peshawar incident of 1 April by Egypt, Saudi Arabia, Turkey, Iraq and Iran if Afghanistan would first make adequate amends for the Kabul outrages of 30 March.

The official, who said Pakistan would abide by the recommendations of this group, said Egypt and probably Saudi Arabia would favor Afghanistan while Turkey, Iraq, and maybe Iran would side with Pakistan.

Comment: The Pakistanis are apparently confident that Turkey, Iraq, and Iran will produce a three-to-two decision in their favor on the Peshawar incident. Such a decision would serve to re-emphasize whatever prior Afghan admission of guilt might have been made regarding the Kabul affair and to intensify the pressure on the Afghan government to remove Prime Minister Daud or give up agitation on the Pushtoonistan issue.

WESTERN EUROPE

6. Italy concerned over possibility of Austria's admission to UN:

[Redacted]

The Italian UN observer told Ambassador Lodge on 18 May that he believed it would create a very bad impression in Italy if Austria were admitted to the United Nations and Italy were not.

Lodge comments that there would be a setback to Communism in Italy if the USSR vetoed Italy's admission to the UN after approving that of Austria.

Comment: The Italian peace treaty and the new Austrian state treaty both affirm the desirability of UN membership for these countries. UN membership for each has been vetoed by the USSR.

Ambassador Thompson in Vienna reported on 18 May that Soviet officials had indicated to the Austrians that they would not treat Austria's application for UN membership any differently from other applications--that is, only as part of a "package" deal. The USSR may propose Austrian UN membership as part of a package similar to its 1953 proposal which called for the simultaneous admission to the UN of five countries whose peace treaties favored such admission, namely, Bulgaria, Hungary, Rumania, Finland, and Italy.

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7. Bonn diplomat suggests bluffing Moscow on German neutrality:

The newly arrived West German ambassador in London, Hans von Herwarth, told the American embassy on 18 May that in his opinion the West, confronted by more flexible Soviet tactics, should seize the initiative and run the risk of offering German unification even on an alliance-free basis. He considered that such a bold proposal would stump Moscow, which would "never" accept it, lest a unified Germany be as much tied to the West as Sweden, if not more so.

Herwarth, an expert on Soviet affairs, also said that West Germany should proceed at "full steam" to create its 12 army divisions, because Soviet objectives remain unchanged.

He maintained that the Germans must be made to realize that the real issue is not the division of Germany, but of Europe. He thought that Soviet demands for the withdrawal of American forces from Germany should be met with insistence that the USSR withdraw its troops from the Satellites.

Comment: Chancellor Adenauer too has been talking of the necessity for more "flexibility" in dealing with the USSR. The "flexibility" Bonn has in mind, however, apparently would not go beyond an offer to set up a collective security system to which the Soviet bloc countries could belong. Adenauer reportedly is telling his ambassadors to take a rigid position against German neutrality.

LATIN AMERICA

8. Ouster of Ecuadoran president reported imminent:

Supporters of former Ecuadoran defense minister Varea Donoso are planning to overthrow President Velasco in the next few weeks and have the support of virtually every Ecuadoran army unit,

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The plotters allegedly are waiting for the president to discredit himself by assuming dictatorial powers but will not wait beyond 5 June.

Comment: Other reports have suggested that Velasco plans either to set up a dictatorship or to hold a rigged plebiscite to extend his term. Should Velasco attempt such action, a coup to oust him would be probable. He has twice before been forced from the presidency and into exile because of dictatorial methods.

During his current term, however, which would normally expire in September 1956, Velasco has conditioned virtually every move on the consent of the military and apparently has kept most of the armed forces on his side.