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2. Attitudes of Latin American delegations to the Japanese treaty conference:

Each of the twenty Latin American republics plans to send a delegation to sign the Japanese treaty at San Francisco, according to Department of State cables. Each supports the US in principle although some, particularly Peru and Venezuela, have expressed concern that the wording of the treaty does not make absolutely clear their right to retain Japanese property which was seized during World War II.

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Following the Department of State's assurances that all points raised are covered by the treaty, the Peruvian Foreign Minister told the US Ambassador in Lima that he had instructed the Peruvian delegate to sign "with no reservations." The US Embassy in Caracas reports that the Venezuelan Foreign Office seems satisfied with the Department's comments, although the possibility of a declaration of interpretation at the conference still exists. Until specific assurance to the contrary is received, it must be considered that Peru also might make such a declaration.

USSR

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3. East-West trade meeting concludes with few prospects:

 According to US observers at the recent East-West trade meetings in Geneva, Western European delegations did not receive any firm indication of a Soviet desire to trade on a mutually advantageous basis. Consequently, no Western delegation would agree to another multilateral meeting. None is optimistic about future bilateral talks with the Soviet Orbit, with the exception of the UK, which is currently negotiating a new bilateral agreement.

In the opinion of the Western European delegations, the motivations of the USSR were both commercial and propagandistic. Many delegations believe that the USSR is seriously interested in promoting increased trade or at least in maintaining the present level, which is already jeopardized by the general rearmament program and Western trade controls. Soviet participation also obviously bolstered the current peaceful coexistence line and may generate pressure against East-West trade controls. At no point did the Communist representatives launch into the usual diatribe against Western European trade restrictions or the US.

A US observer concluded that the Soviet delegation had instructions to press for a broader trade meeting. The Soviet delegation, however, would not specify any details or indicate willingness to reach ultimate agreement on increased East-West trade.

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Comment: The USSR has not reduced its demands for strategic materials in exchange for Orbit grain, timber or coal, in order to obtain new trade arrangements. The Soviet delegation has, however, obtained information about Western European needs which may improve the USSR's bargaining position in future bilateral talks.

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FAR EASTJapan reluctant to discuss bilateral treaty with Chinese Nationalists:

The Department of State considers it highly desirable that Isao Kawada, prewar Japanese Minister of Finance, or some other suitable person proceed to Formosa for exploratory talks with the Chinese Nationalists regarding a bilateral treaty of peace.

When approached on this matter, a Japanese Foreign Office official told the US Political Adviser in Tokyo that the Japanese Government would not be willing to entrust discussions of a possible bilateral treaty to Kawada, who has been invited by the Nationalist Government to become its financial adviser. The Political Adviser comments that it is apparent the Japanese Government is intent on postponing any action toward a bilateral treaty until after the signing of the multilateral treaty at San Francisco.

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NEAR EAST

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6. Iranian army morale may face test:

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An Iranian [redacted] spokesman has told the US Military Attaché in Tehran that while the Iranian Army is still being paid promptly, there is a possibility that pay may have to be suspended if Iran's critical financial condition does not improve. The spokesman believes that such a suspension would impair the army's morale and efficiency, but not to the point where mutiny or other disloyal activities would be likely.

Comment: Although Iran's financial situation is serious, current estimates indicate that the government will be able to maintain its current rate of expenditures for several months.

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WESTERN EUROPE

Italy objects to conditions for postponement of Trieste elections:

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[Redacted]

Italy objects to making the two-month postponement of the Trieste elections conditional on the assurance that Italy will take the initiative with Yugoslavia regarding the disposition of the Free Territory. This objection was voiced by the Italian Charge in Washington in response to the US and UK decision to permit the postponement until December. Italy feels that such a provision constitutes pressure on Italy with no equivalent pressure on Yugoslavia. Previously the British had urged even stronger measures, i. e., that postponement be permitted only after assurance that the Italian and Yugoslav Governments had already agreed to resume negotiations.

Comment: The Italians feel their bargaining position vis-a-vis Yugoslavia is deteriorating in the face of Yugoslavia's increased strategic importance to the Western powers. There has been a recent rise in the ever present anti-British feeling in Italy due to the impression that the UK is championing Tito at Italy's expense.

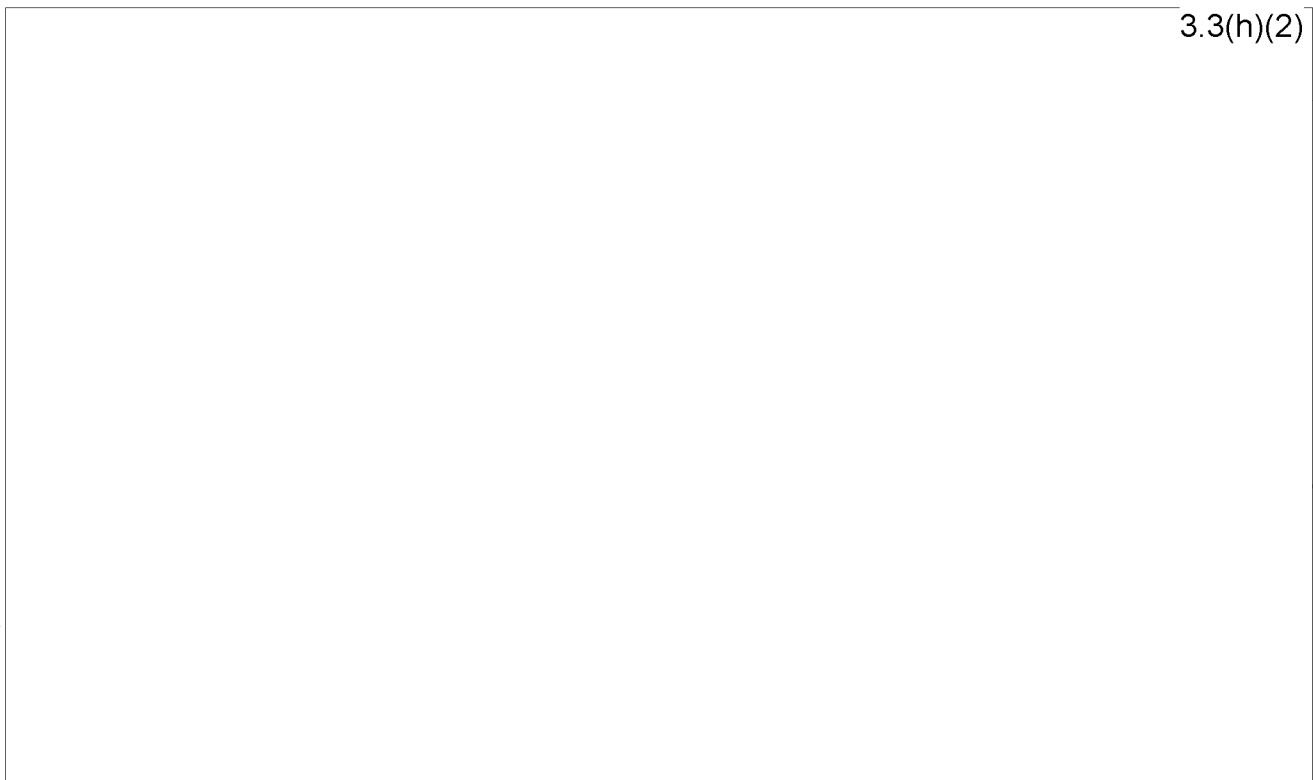
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