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GENERAL**1. Molotov favors armistice negotiations between French and "Indochinese":**

In a conversation with British Foreign Secretary Eden on 5 May, Molotov agreed that the Indochina situation was inflammable and that an armistice should be sought. He reiterated that the important thing was for the French and "Indochinese" to work it out themselves and did not dissent from Eden's suggestion that political and economic problems should not be discussed until after an armistice with satisfactory safeguards had been arranged. At no time did he use the words "cease-fire."

Molotov indicated agreement when Eden observed that a continuation of the status quo in Korea was "not too bad."

Comment: It is believed that the Communists desire to arrange an armistice or a cease-fire in order to remove the danger of American or United Nations intervention. They also appear to prefer to keep a cease-fire or armistice separate from the question of a political settlement.

Molotov's reference to the "Indochinese" strengthens the expectation that a demand may be made to include the "resistance governments" of Laos and Cambodia in the Geneva talks. The Peiping and Viet Minh radios have broadcast statements by the heads of these two "governments" demanding that they be allowed to send delegations to Geneva.

The Communist position on Korea supports earlier indications that the bloc's principal aim is to confirm and stabilize the status quo.

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3. Copper cargo may be en route to Communist China:

A cargo of 6,000 tons of copper ingots may be en route to Communist China, according to a "reliable report." The copper is reported to be of Belgian Congo origin and is being shipped from Europe under a validated export license to Ceylon for diversion at sea to Communist China. A Swiss bank is acting for the consignor.

Comment: This shipment may be the culmination of one of several copper transactions between December and March. During that period

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[redacted] at least three Western European copper offers of 7,500 tons or more to Communist China without confirming that deliveries actually followed. The quoted prices were substantially higher than world market prices, reflecting the fact that all non-Communist copper producers and most non-Communist countries embargo the export of copper to Communist China.

Peiping's import requirements for copper are now believed to exceed 20,000 tons a year. [redacted]

SOUTHEAST ASIA

4. Viet Minh expanding organization inside Hanoi:

[redacted] The Viet Minh is continuing to expand its organization inside Hanoi. [redacted]

[redacted] All Viet Minh units in the city have a sabotage section. [redacted]

[redacted] but considerable quantities of weapons and explosives have been smuggled into the city during the past two months.

Comment: The Viet Minh has succeeded in keeping its organization inside Hanoi well concealed and estimates of its strength are not reliable. The general deterioration of the French position will considerably enhance the Viet Minh's recruiting capabilities.

French forces in and near Hanoi now total about ten battalions. It is therefore unlikely that the Viet Minh could capture Hanoi at the present time.

NEAR EAST - AFRICA

5. American and British relations with Iran threatened if oil settlement violates nationalization law:

[redacted] Any Iranian oil settlement which does not at least appear to fit into the framework of the nationalization law would cause a wave of

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anti-foreign sentiment and possibly lead to the rupture of diplomatic relations with the United States and Britain,

Such a settlement would also lead to the collapse of Prime Minister Zahedi's government and would weaken the shah's position.

Comment: Zahedi has made it clear that the nine-point oil nationalization law of 1951 cannot be set aside in order to reach an oil agreement. He might accept a settlement that does not obviously violate the law, hoping that it can be sold to Iranian public opinion.

Nevertheless, as any agreement probably must have Majlis approval, there will be ample opportunity for deputies opposing a settlement to examine it closely for any real or imagined violation of the nationalization law.

EASTERN EUROPE

6. East German youth rally planners disturbed by unreliability of participants:

 Evidence is mounting that only East German youth carefully selected for political reliability will be allowed to participate in the second all-German youth rally to be held in East

Berlin on 6-7 June. Certain Free German Youth (FDJ) groups have been told that because of the unreliability of their membership few, if any, delegates will be sent to the rally.

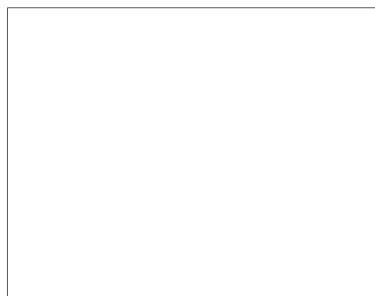
Comment: Apparently as a result of a Socialist Unity Party report of serious political shortcomings in the youth movement, FDJ leaders have been forced to change earlier plans to send 400,000 members to Berlin. It has also been disclosed that FDJ morale has dropped dangerously low, with large numbers of youth leaving the organization.

Planners for the forthcoming youth rally undoubtedly desire to prevent a repetition of unforeseen events which took place during the first all-German youth rally in 1950. At that time, thousands of the participants swarmed into West Berlin. Control of this year's rally would be simplified by limiting attendance to a relatively small number of hard-core members.

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LATIN AMERICA

7. Honduran strike continues to spread:

With the sending of Honduran troops from Tegucigalpa, the capital, to the strike-bound north coast region, order has been restored in two cities. Violence is reported, however, in the port of Tela and the number of strikers has reached a reported 25,000. The strike is spreading to other north coast cities and students in Tegucigalpa are said to be planning a demonstration of sympathy for the strikers.

The government believes that the disturbances are Communist-inspired and has ordered troops to patrol the Guatemalan border. The cabinet appears divided on whether to declare martial law; the foreign minister believes Guatemala would provoke disturbances and "profit from the ensuing bloodshed."

Comment: The strike is evidently the result of effective planning by undercover agitators to exploit local grievances. It appears to be a strong opening move by Guatemalan Communists in connection with next October's presidential elections in Honduras.

Ex-dictator Carias will be encouraged to seize the government if the Galvez administration does not take decisive action. Such a coup would probably provoke counter action by strongly anti-Carias military leaders.

LATE ITEMS

8. Comment on new Paraguayan Government:

The Paraguayan national assembly on 8 May elected Tomas Romero Pereira, head of the ruling Colorado Party, as

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[redacted] provisional president to succeed ousted President Chaves.

His election, and agreement on a compromise cabinet, are steps toward resolving the personal rivalries within the governing party which were largely responsible for the rebellion of 5 May. The ten-man cabinet includes two ministers retained from the Chaves cabinet and three close military associates of General Alfredo Stroessner, commander in chief of the armed forces. In the American embassy's view, it cannot be considered a strong cabinet; no significant change in domestic or foreign policy is indicated.

[redacted]
elections are to be held on 15 August with Stroessner the only presidential candidate. Stroessner's position is, however, still somewhat delicate, since various army officers backed him, not to establish a government dominated by the military, but only for the purpose of putting down the rebellion in the cavalry division.

9. Comment on the Laniel Government's prospects:

[redacted]
French reactions to the fall of Dien Bien Phu further emphasize that Premier Laniel's tenure of office probably depends on the speed with which Foreign Minister Bidault reaches an arrangement at Geneva to satisfy the National Assembly's overwhelming desire to end hostilities in Indochina. The assembly is, however, unlikely to overthrow Laniel when it returns on 11 May, since the problem remains essentially the same as on 6 May when it gave him a vote of confidence as the best way of getting out of Indochina through negotiations at Geneva. In addition, the patriotic appeal to reject enemy pressure may strengthen Laniel's hand.

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De Gaulle's one-man parade on 9 May is unlikely to bring any startling change in the current political situation. Anti-Laniel demonstrations in Paris on 8 May were counterbalanced by anti-Communist disturbances elsewhere. Even spokesmen for the opposition Socialists have stated that this is not the time to bring on a government crisis.

Nevertheless, anti-American feeling in France seems to be growing as a result of the Dien Bien Phu campaign, and any suggestion of American pressure on Laniel might not only hasten his downfall, but also have serious consequences for EDC.

At Geneva, Bidault's freedom of maneuver has been considerably narrowed as a result of Dien Bien Phu's fall. Under Secretary Smith reported on 9 May his concern over the vagueness of Bidault's 8 May proposal on Indochina. Smith fears that the French may accept a simple cease-fire without insisting on adequate supervision. He sees a danger that the United States might be put in the position of underwriting a settlement which at best would be highly unstable.

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