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GENERAL

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1. Yugoslav official expects Communist concessions in Korean cease-fire negotiations:

[Redacted]

Yugoslav UN delegate Bebler remains optimistic that current negotiations in Korea will result eventually in a cease-fire. He believes that the

Communists' desire for a cease-fire will induce them to give in as regards the 38th Parallel demarcation line and the withdrawal of foreign troops, but he is not optimistic about achieving UN observation in North Korea.

Bebler estimates that the Communists are insisting on the withdrawal of all foreign troops largely for its propaganda appeal in the Far East, while the USSR in fact will want to keep the US Army pinned down in Korea and to this end will make certain that negotiations for a general settlement are prolonged.

With regard to Soviet-Chinese Communist relations, Bebler believes that additional tensions will arise over whose influence should prevail in North Korea.

Comment: Communist agenda concessions regarding the question of troop withdrawal indicate a continued desire to negotiate a cease-fire. However, Communist demands for the withdrawal of foreign troops cannot be regarded solely as propaganda. It has been a persistent Soviet aim in all areas to secure Western troop withdrawals so as to remove a stabilizing factor and facilitate the advance of Communism.

2. Crashed MIG-15 recovered off Korean coast:

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[Redacted]

Salvage operations conducted by UN naval forces have resulted in the recovery of all the principal parts of a MIG-15 airplane that crashed

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offshore west of Pyongyang.

Comment: This will afford the US Air Force its first opportunity to conduct a technical study of the major components, accessories and equipment of the MIG-15, although several parts of an engine and tail have been examined previously. While the airplane will undoubtedly be in poor condition as a result of the crash and exposure to salt water, it is anticipated that many details heretofore unknown can now be determined.

FAR EAST

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3. Indonesia wants to abrogate Netherlands-Indonesian Union:

[redacted]

Indonesia has requested the Netherlands to open discussions looking to a revision of the Netherlands-Indonesian agreements signed in 1949. The official designated

to negotiate with the Dutch told the US Ambassador in Djakarta that he will try to persuade the Dutch to accept a bilateral treaty in place of the present Netherlands-Indonesian Union and to obtain the elimination of certain Dutch privileges.

The Indonesian official also anticipates approaching the Netherlands authorities on the question of Netherlands New Guinea. He feels that inevitably this area must pass into Indonesian hands and that the sooner this fact is recognized by the Dutch, the sooner amicable relations can be achieved.

Comment: There has been increasing agitation in Indonesia over the past six months to abrogate the Union and substitute a bilateral treaty negotiated by "two sovereign nations." The Indonesians are determined to break the Union unilaterally, if the Dutch fail to agree to such an arrangement.

Indonesian demands for sovereignty over Netherlands New Guinea have not ceased since negotiations over the issue broke down in December, 1950. Dutch-Indonesian relations will remain strained until a settlement of this problem is reached.

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NEAR EAST

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4. Prince Tallal rumored to be en route to Jordan:

[redacted]

Prince Tallal has disappeared from a sanitorium in Switzerland and may be attempting to return to Jordan, according to a report that has reached the US Minister in Amman. It is generally feared that his arrival in Jordan at this point would precipitate a serious internal crisis, as his name is being utilized as a rallying point for forces hostile to the British and the late King.

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5. Egyptians continue to discuss relaxing of Suez Canal restrictions:

[redacted]

The Egyptian delegate to the UN has mentioned in private conversations the desire of his country to drop the Suez Canal restrictions if it obtained adequate strategic, political and economic "compensation." The Egyptian Minister of Foreign Affairs has again told the US Ambassador in Cairo that Egypt could relax the restrictions considerably but could not abolish them.

Comment: One means of "compensation" that the Egyptians have suggested is the evacuation by Israel of the southern part of Palestine adjacent to the Gulf of Aqaba, where Israel has been planning to build a port. A guarantee that Israel would not use for aggressive purposes any of the oil that might transit the Suez Canal to the refinery at Haifa has also been mentioned. Neither of these proposals would be satisfactory to Israel. The Egyptians are searching for some face-saving formula, but to date they have only hinted at their willingness to remove the restrictions.

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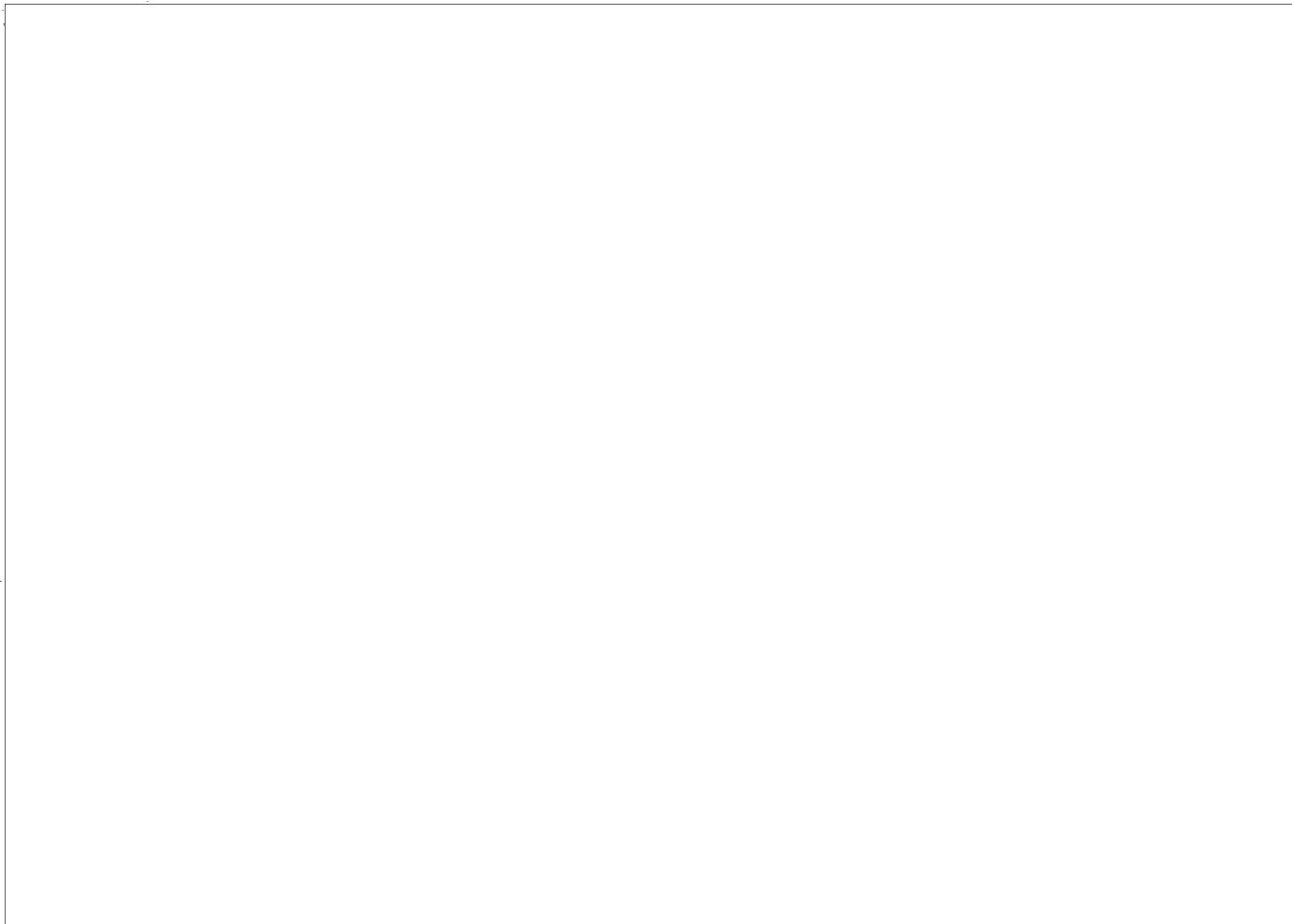
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EASTERN EUROPE**WESTERN EUROPE**

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7. Question of Germany's political status may delay defense contribution:

The French Government had not expected to consider the problems involved in the creation of a new political status for Germany until after a decision was reached on a German military contribution, according to the Political Advisor to the French High Commissioner in Bonn. The French expect that

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the German contribution to Western defense will be determined by early fall, thus permitting a decision on contractual relations with the Germans by the end of the year.

High Commissioner McCloy has pointed out, however, that it is essential to reach definitive political conclusions on Germany at the prospective meeting of US, UK and French Foreign Ministers in September and at the forthcoming NATO Council meeting.

Comment: The Germans are strongly opposed to concluding military agreements until they know fairly definitely what changes in their political status are proposed. Agreement could be reached on the military question prior to the conclusion of contractual agreements given a firm Allied declaration of intentions in regard to Germany's political status. The French Government seems increasingly convinced of German good faith with respect to the European Army, and can be expected to favor rapid agreement on political rights without, however, consenting to a restoration of complete sovereignty until the conclusion of a peace treaty.

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8. French consider cut-back in defense program:

French officials are increasingly skeptical of the fruitfulness of the current NATO hearings on sharing the defense burden and consequently believe French defense plans must be either cut back or programmed over a longer period. Any slow-down would affect production plans rather than French commitments regarding Indochina, bases, or manpower. These officials claim that none of the other NATO countries is undertaking an additional defense effort involving any real risk to its economy, and that therefore France is assuming a disproportionately large burden.

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The French still strongly prefer a multilateral NATO approach to rearment planning, including detailed figures on US assistance; they have consented to continue bilateral talks with the US only because no arrangements for multi-lateral discussions have been made.

Comment: Growing inflationary pressures in France, which the prospective weak coalition government is not likely to control, threaten the fairly ambitious French defense program. The last government warned the US that France would be unable to fulfill its commitments in Indochina and Western Europe without fuller cooperation from all the NATO countries. Both the US Embassy and the ECA Mission in Paris recently deplored the "serious misunderstandings" between the US and French administrations, which had already resulted in a "sharp deterioration" of the mutual confidence necessary for obtaining the desired level and effectiveness of French defense strength.

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