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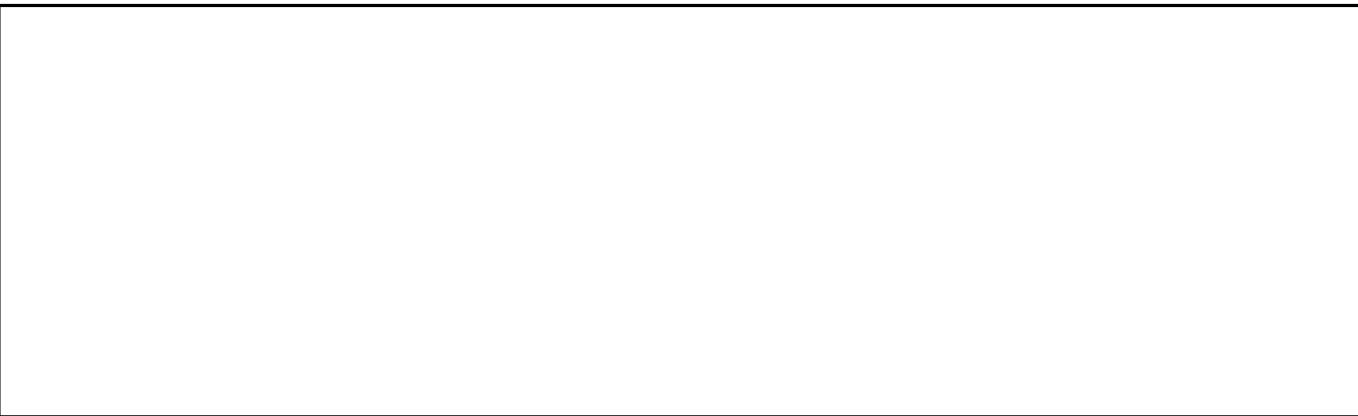
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4. Differences foreseen between US and UK over possible next move in Iran:

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US Embassy London emphasizes that the Anglo-Iranian Oil Company still has no definite plans to close the refinery at Abadan and impose a boycott on Iranian oil following the breakdown of negotiations. Nevertheless, the Embassy agrees with the Department of State that the UK Government should immediately be informed that the US would question the wisdom of such moves. The Embassy is disturbed by the Department's suggestion that the US tell the British that, if it is forced to choose between Iranian expropriation of AIOC installations and an internal revolution in Iran with the possible loss of that country to the West, the US would favor the former and hopes that the UK would also.

The Embassy, in reply to the Department's message, offers the following observations:

- a) No British Government could afford to risk the public criticism that would be leveled at it if it yielded to Iranian pressure;
- b) The US and the UK would not be able to agree on a course of action in Iran. In particular, there would be a difference of opinion on the use of force in the case of a Communist coup, with the UK favoring military action to protect its interests;
- c) Should the British yield to US pressure on the oil issue, US-UK relations would suffer from a British conviction that

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they could have obtained more favorable results by following their own inclinations.

The Embassy suggests the initiation of talks with the UK to work out an interim arrangement whereby an international board of trustees would impartially administer the industry until such time as a final settlement could be arranged between the UK and Iran.

EASTERN EUROPE

5. Tito Government seeks to expand its role in Albanian resistance:

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Yugoslavia indicates that there are now approximately 7,000 Albanians there who have been organized into a National Committee, with a 25-man council representing the various regions and religions of Albania. These refugees have prepared a pamphlet, which is being distributed in Albania, proclaiming "a new era of partisan collaboration between Albanian nationalist liberators and their Yugoslav brothers." The pamphlet simultaneously attacks the Soviet Union and the Western-oriented exiles.

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Comment: Current efforts to organize the Albanian refugees in Yugoslavia into an effective force are handicapped primarily by the lack of Albanian leaders. The Yugoslav regime is apparently attempting to overcome this obstacle by seeking the cooperation of Albanian resistance leaders inside Albania and by overtures to Albanian exiles in the West. By utilizing the five to seven thousand Albanian refugees in Yugoslavia and an Albanian minority of approximately 750,000, the Yugoslavs have a large reservoir of manpower for operations against Albania.

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WESTERN EUROPE

6. Soviet officials indicate desire to reach settlement of Berlin trade situation:

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Allied officials believe, after talks with the chief Soviet representative in Berlin, that the recent Soviet interference with the West Berlin export trade represented a pressure tactic

to obtain a new interzonal trade agreement between East and West Germany, even at the risk of serious retaliatory measures. In his talks with the Deputy French Commandant, the Soviet representative tried to ignore or play down the Soviet restrictions, and agreed to negotiations on the restrictions between Allied and Soviet experts. The Allied commandants now desire, in view of the strong Allied position, to avoid any sign of over-eagerness in these negotiations or in permitting the resumption of trade talks. They also want to be ready to implement countermeasures as originally planned, if the situation fails to develop favorably.

Comment: The Soviet restrictions on trade had resulted in the stoppage of an estimated 75 percent of West Berlin's vital exports to the Federal Republic, and might, if continued, have necessitated a limited Allied air lift. Soviet anxiety to conclude a trade agreement on favorable terms reveals the weakness of the East German economy and the continued need for strategic imports from the West. The USSR's harassing measures in Berlin should be viewed as a recurring attempt to exert maximum pressure on the Allies without provoking serious retaliation.

7. Portuguese Prime Minister agrees to Army's electoral wishes:

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Defense Minister Santos Costa has informed the US Embassy in Lisbon that General Craveiro Lopes has been selected to run as the government-sponsored candidate in the forthcoming presidential elections. The Embassy comments that Craveiro Lopes, a deputy of

the National Assembly, is generally regarded as the Defense Minister's choice.

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Comment: A public announcement of this decision will probably be made shortly, since the government coalition party caucus held on 18 June agreed on both the election date and the party presidential candidate. The selection of an Army general overrides the group of Assembly deputies who have been advocating government by civilians alone. The Army, however, remained adamant in presenting a military candidate as the only acceptable alternative to Prime Minister Salazar, who refused to run and apparently thinks it expedient in the interests of stability not to press the issue of civilian control.