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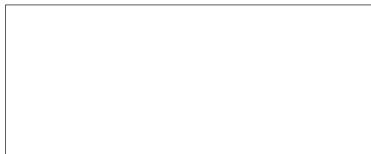
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## SOVIET UNION

1. Price of Soviet oil products reduced by lowering turnover tax:

Deputy Finance Minister Uryupin issued instructions in January permitting the Chief Directorate of Petroleum Sales to postpone the payment of up to 18 percent of the turnover tax due for each payment period. This exemption was to prevail until new tax rates were issued by the Finance Ministry.

3.3(h)(2)

Comment: The turnover tax, a levy placed on sales of virtually all commodities, amounts to as much as 150 percent on some consumer goods. The major part of Soviet revenues is derived from this tax.

The Soviet Union claimed that reductions in industrial wholesale prices, which were decreed on 1 January, were made possible by lowered production costs. Prices for petroleum products, however, were decreased largely because of lower turnover tax.

## SOUTH ASIA

2. Pakistani Government bitter over failure of latest Kashmir mission:

The Pakistani Government is bitter over the failure of UN Representative Graham's latest effort to further a settlement of the Kashmir problem, according to Foreign Minister Zafrullah Khan.

3.3(h)(2)

The Foreign Minister, who communicated this information to both the British High Commissioner and the American Ambassador in Karachi on the instructions of the Pakistani Cabinet, also pointed out that his government felt it had been "tricked" by the British into permitting Graham's present visit to the subcontinent.

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He said that the cabinet discussed withdrawal from the Commonwealth and that the United States was sharply criticized for favoring India over Pakistan on the question of Kashmir. Zafrullah stated that a grave situation threatening the security of the present government might arise in Pakistan when the people were informed of Graham's failure.

Comment: The Pakistani Government has made similar representations to British and American representatives on several previous occasions when it wished to influence the outcome of the Kashmir negotiations.

#### NEAR EAST - AFRICA

##### 3. Turkish official advises delay in Middle East Command meeting:

The Turkish Assistant Secretary General for Foreign Affairs has cautioned against giving Egypt the impression that it is being left out of the Middle East Command at the moment when negotiations with Britain are in prospect.

3.3(h)(2)

He told a member of the French Ambassador's staff in Ankara that while his government in principle approved of a meeting in London to discuss the Command, he thought it "not advisable to go forward too rapidly in this matter." There will be time to hold such a meeting, he said, when Anglo-Egyptian negotiations fail or drag on.

Comment: Turkey's concern stems from its belief that an effective Middle East Command cannot be established until the Anglo-Egyptian problem has been solved, progress has been made toward an Arab-Israeli peace, and Turkey's command relationship in NATO has been clearly defined.

##### 4. Comment on King Farouk's dissolution of the Egyptian Parliament:

King Farouk's dissolution of the Egyptian Parliament on 23 March, his scheduling of general elections for 18 May, and the reconvening of Parliament for 31 May give Prime Minister Hilali approximately the maximum time available under the Constitution to work toward a settlement with Britain unhampered by parliamentary opposition.

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While the action and the attitude of the Wafdist opposition may determine the government's next move, the primary factor still is the concessions Britain is willing to offer Egypt on the Suez and Sudan issues. The announcement of the election date may be aimed at inducing Britain to offer concessions before an election is held. Unless there are prospects of a genuinely acceptable settlement on the current dispute, the intransigent Wafd party will almost certainly be returned to power.

The King may still suspend the Constitution and attempt to rule by decree for a time in order to prevent the Wafd from regaining power. Hilali has insisted, however, that lack of sufficient concessions from Britain would induce him to hold the elections on schedule.

**5. French reform program for Tunisia awaits Bey's approval:**

3.3(h)(2)

The French Cabinet has approved an "evolutionary and generous" reform program for Tunisia which the Resident General may soon present privately to the Bey. Presentation of the proposals presupposes that the Bey will dismiss Prime Minister Chenik and his cabinet.

According to the French Foreign Office, the proposed reforms include the formation of a two-house legislative assembly; reduction of cabinet posts to eight, with four to be held and completely controlled by Tunisians; and opening all civil service positions to qualified natives. France would reserve absolute control over finances, defense and foreign affairs, but after five years may allow the Tunisians to administer public works and education.

Comment: This program probably will be acceptable to most Tunisians. Personal antipathy between the Resident and the Prime Minister, however, remains the principal stumbling block to negotiation. If the Bey does not dismiss Chenik, France may have to replace the Resident to obtain acceptance of its program.

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## WESTERN EUROPE

6. Italy requests British aid in dealing with Trieste situation:

3.3(h)(2)

[Redacted]

Italian Premier de Gasperi has asked the British Commander in Rome to assist in easing the situation in Trieste, where pro-Italian nationalists demonstrating for the return of the Free Territory to Italy have twice clashed with the civil police. This assistance would be exerted through the Allied Military Commander, General Winterton, who is a British national.

The American Political Adviser in Trieste states there is clear evidence that the Italian Government not only gave financial and moral support to the demonstrations on 20 and 22 March, but did little to quiet the resultant disorders.

Comment: Demonstrations in support of Italy's position on Trieste have now spread to Rome. The government is likely to continue unofficially to sponsor further demonstrations in both Trieste and Italy in order to strengthen its position before the forthcoming elections.

7. Allied Commander recommends postponement of Trieste elections:

3.3(h)(2)

[Redacted]

General Winterton has recommended the postponement of communal elections scheduled for this spring in Trieste on the grounds that announcement of an election to be held under the Italian electoral law would be interpreted as a concession to pro-Italian pressures and would only serve as an incitement to further disorder.

Comment: An official announcement setting an election date concurrent with Italian local elections in May and the adoption of the Italian electoral law which would favor a joint list of pro-Italian parties in Trieste is scheduled to be released by the Allied Military Government before the end of March.

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**8. New French financial program considered inadequate:**

[Redacted]

fear that his entire effort may collapse from inadequate planning.

After a joint assessment of Premier Pinay's 3.3(h)(2) chances for solving French financial and balance of trade difficulties, both the American Embassy and Mutual Security Agency Mission in Paris

Although Pinay succeeded initially in creating the indispensable "climate of confidence," he came to office without sufficient understanding of what steps were necessary to solve France's economic problems. His popular price-reduction campaign is likely to end in disillusionment unless speedily buttressed by adequate fiscal, credit, and monetary measures.

While the Premier now admits the need for some additional taxes, he is likely to pad his estimates of possible economies and loans and thus induce a new crisis later this year under even less favorable circumstances. The Treasury will again be critically short of operating funds within a week, and unless the government within the next two months adopts the strong measures necessary for balancing the budget, a new Treasury crisis will be inevitable.

Pinay has shown little interest in the deterioration of France's balance of payments position. While the Embassy and the Mission believe that a devaluation of the franc is necessary to reverse the trend, this would be ineffective unless made part of an over-all stabilization program and unless Britain and Germany relax their recent trade restrictions.

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