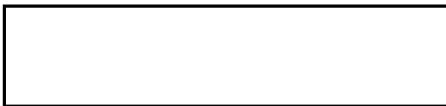


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16 January 1954

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CENTRAL INTELLIGENCE AGENCY

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State Department review
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GENERAL

1. Molotov regards Berlin meeting as certain:

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In an interview with French ambassador Joxe on 12 January, Foreign Minister Molotov treated the Berlin conference as a certainty and said that the differences of views regarding the site presented no great difficulties. Molotov expressed no new thoughts on substantive issues, but stressed that the USSR's chief preoccupation was with security, disarmament, and a desire to see a reduction in international tension.

2. India may move to placate Peiping after POW release:

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American representative Kenneth Young suggests that after 22 January, New Delhi may attempt to make amends to Peiping for the Indian decision to return the Korean war prisoners to the two sides. A senior member of the Indian NNRC staff has repeatedly mentioned to Young the problem of compensating the Communists for their "psychological defeat" on the prisoner question. Such a move might be made either in the UN General Assembly or in a Korean political conference.

Comment: The Indians are expected to continue, in the UN and in any Korean political conference, to use the technique they adopted at Panmunjom of siding alternately with the UN and the Communists. They are not likely on their own initiative to raise new problems in an attempt to placate Peiping, but may re-emphasize their earlier theses, such as the UN Command's responsibility for the failure of POW negotiations or the necessity of admitting Communist China to the UN as a precondition to a general settlement in Asia.

NEAR EAST - AFRICA

3. Iran informally requests additional American financial aid:

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Foreign Minister Entezam and Finance Minister Amini asked Ambassador Henderson informally on 11 January whether the United States would give Iran additional dollar aid

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to meet its budget problems. The ministers suggested that the government cannot obtain Majlis approval for an unbalanced budget without assurances of American aid to tide Iran over until an oil settlement is reached.

Henderson reported that the Iranian government seemingly hesitated to make a formal request because it did not want to be rebuffed.

Comment: Iran has been operating at a monthly budget deficit of \$3,000,000 to \$5,000,000, which has been met by American emergency financial aid totaling \$45,000,000. When this aid is exhausted in April, Iran will have no means to meet a continued deficit.

The financial condition of the country will be a major problem before the new Majlis, and Prime Minister Zahedi must show economic progress if he is to maintain control for any length of time.

4. Iranian officials seriously concerned over Zahedi's illness:

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Iranian cabinet ministers are becoming increasingly concerned over the health of Prime Minister Zahedi, who has been suffering with a high fever. They have been unable to see him for several days. Because of an old wound he is subject to pulmonary complications.

Ambassador Henderson points out that Zahedi's illness is particularly unfortunate when Majlis elections are about to begin and oil discussions with the British are pending.

Henderson adds that if Zahedi is compelled to retire from public life because of continued illness, there appears to be no one in sight with the qualifications to take his place.

Comment: Should Zahedi be unable to continue in office, his successor would be subject to eventual Majlis approval. Possible candidates would be Minister of Court Ala, a former prime minister, or Foreign Minister Entezam.

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EASTERN EUROPE

6. Riddleberger comments on Djilas affair:

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Ambassador Riddleberger reports that many, but not all, foreign mission chiefs with long experience in Yugoslavia believe the crisis over Vice-President Djilas will be "plastered over," perhaps with a reprimand. Riddleberger thinks that the decision will be made only after Tito, who returned to Belgrade from vacation on 13 January, has personally studied the case.

This study is presumably being made in the light of Djilas' increasing popularity, his party record, and particularly his relationship with important fellow Montenegrins, many of whom are

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generals in the army. Riddleberger notes that however much some of the inner circle may agree with Djilas' ideological views, Tito faces a difficult political problem since pressure has been brought on top leaders by party workers who are alarmed at the favorable reception of Djilas' views in many communities.

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WESTERN EUROPE

8. Austrian intentions for the Berlin conference revealed:

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Ambassador Thompson reports that Austria has developed no firm plan for the Berlin conference, but plans to ask in general terms

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for revision of Article 35 of the long draft treaty and for a settlement of all Soviet claims to former German assets in eastern Austria for a sum not exceeding \$200,000,000. The Austrians have indicated, however, that if the four powers agreed they would accept the current text of Article 35, under which the USSR would retain some properties.

If the neutrality question is raised by the USSR, Austria will reiterate its intention to avoid all military alliances. Austria would not accept a neutrality clause in the treaty unless accompanied by an ironclad security guarantee by the four powers.

Comment: Although the Vienna government issued an informal statement last summer expressing its unwillingness to join post-treaty military alliances, the West has been emphatically against any commitment by Austria which would inhibit its freedom to enter into associations compatible with the UN charter.

Moscow has not yet replied to Vienna's note of 5 January requesting Soviet agreement to Austrian participation in the Berlin conference.

LATIN AMERICA

9. President Arbenz asks El Salvador to curb plotting against Guatemala:

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President Arbenz told the Salvadoran ambassador on 12 January that the Guatemalan government was threatened with a revolution led by exiles in El Salvador, Honduras, and

Nicaragua, and by "certain Guatemalan army officers."

Arbenz asked that the Salvadoran government curb the activities of these exiles.

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The Salvadoran ambassador, who replied that his government was not aiding the exiles, countered with a request that Arbenz withdraw his support from Salvadoran Communists in Guatemala.

Ambassador Peurifoy comments that this incident is indicative of extreme nervousness in high Guatemalan government circles.

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