

WESTERN EUROPE

AUSTRIA

(See Volume II.)

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BELGIUM

Editorial Note

Documentation on United States policy with respect to procurement of uranium from the Belgian Congo and cooperation with Belgium in the field of atomic energy is included in volume I in the compilation on foreign policy aspects of U.S. development of atomic energy.

AGREEMENT BETWEEN THE UNITED STATES AND BELGIUM SUPPLEMENTARY TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

[For text of Agreement and Accompanying Letters rendering operative the Agreement of February 27, 1935, and supplementing the General Agreement on Tariffs and Trade of October 30, 1947, signed at Geneva, October 30, 1947, see Department of State Treaties and Other International Act Series (TIAS) No. 1701.]

AGREEMENT BETWEEN THE UNITED STATES AND BELGIUM CONCERNING AMERICAN DEAD IN WORLD WAR II

[For text of Agreement, effected by exchange of notes signed at Brussels, June 6 and July 23, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1672, or 61 Stat. (pt. 4) 3352.]

DENMARK

CONSULTATIONS WITH THE DANISH GOVERNMENT ON ARRANGEMENTS FOR THE DEFENSE OF GREENLAND AND ON DISPOSITION OF GERMAN REFUGEES IN DENMARK¹

811.24559B/1-247 : Telegram

The Secretary of State to the Legation in Denmark

TOP SECRET

WASHINGTON, January 2, 1947—6 p.m.

4. Top Sec for Eyes of Minister² only. Unless you perceive objections please call on Rasmussen in the very near future and say you have been informed of the substance of my conversation with him in New York.³

You may say you know your Government attaches highest importance to a satisfactory solution of Greenland problem and will, of course, be interested in learning Rasmussen's personal reaction to the possible courses of action which I outlined to him; that you are not in any sense pressing him to reply now but when he has had time to consider the matter further you will be glad to transmit his thoughts to me.

It might be well to take advantage of your visit to lay confidentially before Rasmussen the info re Spitsbergen contained in paragraph 5 of my tel 924, December 24.⁴ The subject might be introduced by your

¹ For the text of the Defense of Greenland Agreement, see Department of State Executive Agreement Series No. 204, or 55 Stat. (pt. 2) 1245; for documentation regarding the conclusion of the agreement, see *Foreign Relations*, 1941, vol. II, pp. 35 ff. For related documentation on U.S. policy with respect to military bases, see volume I, compilation entitled "United States National Security Policy".

² Josiah Marvel.

³ In a conversation with Danish Foreign Minister Gustav Rasmussen on December 14, 1946, in New York, Secretary of State Byrnes emphasized the vital importance of Greenland to the security of the United States. Secretary Byrnes suggested that American security needs might be met by an agreement giving the United States long-term rights to construct and maintain military facilities in specified areas of Greenland or by a treaty with Denmark under which the United States would undertake to defend Greenland from aggression and would secure the right to maintain such military installations there as would be necessary. Secretary Byrnes also suggested that possibly the best solution might be the outright purchase of Greenland by the United States under an agreement concluded in accordance with the principles and purposes of the Charter of the United Nations. Secretary Byrnes' suggestions were detailed in a memorandum handed to Foreign Minister Rasmussen at the close of the December 14 conversation. Foreign Minister Rasmussen appeared to regard the Secretary's proposals as more drastic than may have been anticipated, but he agreed to give them careful study. Secretary Byrnes indicated that the United States was willing to continue the *status quo* in Greenland while a solution was being sought. (811.24559B/12-1646)

⁴ Not printed; in addition to the information concerning Spitsbergen, it transmitted the memorandum handed to Foreign Minister Rasmussen on December 14, 1946, and described in the preceding footnote (811.24559B/12-1646).

saying that during your stay in Denmark you have gained the impression that some segments of Danish public opinion might be fearful of a definitive long-range solution along one of the lines I suggested lest such action inspire a Soviet initiative with respect to, for example, Spitsbergen.⁵ You might then proceed as outlined in paragraph 5 of my tel 924 and then go on to say that on the basis of this very confidential info which you have received from your Govt. the thought has occurred to you that Rasmussen might wish to defer taking any steps that might result in leaks and consequent publicity, which might make his own situation more difficult, until after Soviet-Norwegian negotiations re Spitsbergen materialize or at least until the possibility of such negotiations become public. You might say that this thought has come to you as a consequence of your understanding that I have not made formal proposals to him but have only expressed in an exploratory way thoughts re a possible solution which could be made the basis for later more formal discussions after Rasmussen shall have had an opportunity to express his personal reactions.

I think it advisable that at this time you not go beyond limits of foregoing instructions in your conversation with Rasmussen.

BYRNES

⁵ For documentation regarding the attitude of the United States concerning reported demands by the Soviet Union on Norway with respect to Spitsbergen and Bear Island, see pp. 1003 ff.

811.24559B/1-747: Telegram

The Minister in Denmark (Marvel) to the Secretary of State

TOP SECRET

COPENHAGEN, January 7, 1947—11 a. m.

9. Top Secret for the Secretary. Pursuant to Deptel 4, January 2 I conferred with Rasmussen last evening. Although I requested his personal views, he volunteered no reaction to the possible courses of action outlined by you except to state that this thinking came as a shock to him and that he believes US greatly over-emphasizes strategic location of Greenland. He was quite relieved to hear suggestion that he defer any action which might result in leaks and disclosure concerning your conversation with him, as he feels that such disclosure would not only be detrimental to Norway but also to Denmark. He agreed to take all steps necessary to prevent any leaks and specifically not to take matter up with Parliamentary Committee until Soviet-Norwegian negotiations materialized or became public. It is therefore important that I be kept advised as to these. He agreed that his understanding

of your conversation of December 14 was only an exploratory one and did not in any way constitute a formal proposal or demand.

In my opinion this understanding most satisfactory as if your suggested courses of action were made known to Parliamentary Committee prompt publicity would be given by Communist members.

MARVEL

859B.20/4-1847 : Telegram

*The Acting Secretary of State to the Embassy in Denmark*¹

TOP SECRET

WASHINGTON, April 22, 1947—6 p. m.

U.S. URGENT

219. Although Danes may consider Weather Agreement (TopSec urtel 238, Apr 18²) connected with settlement of question of our long-term military objectives in Green, in our opinion the two questions are totally unrelated. We hope that you will keep this clearly in mind and whenever the point is raised by Danes make every effort to bring Danes to our point of view. As matter of fact even if there were no 1941 Defense Agreement³ or if we had no long-term military interest in Green we would still have vital interest in continuing and amplifying our cooperation with Danes in Green weather matters not only as contribution to civil aviation generally, but also because of importance of extensive Arctic weather reporting to safety of our military aircraft operating in connection with fulfilment of our obligations in Germany.

It is quite possible that should you be unable thru persuasion to divert Danes from linking the two questions we may have to recommend to War Dept a revision of the desiderata set forth in Deptel 193, Apr 12.⁴ This is, however, one of normal hazards of any negotiation and question can be met if and when it arises. Please keep Dept fully informed as discussions proceed.

ACHESON

¹ On February 6, 1947, the United States and Denmark agreed to exchange Ambassadors and to raise their respective diplomatic missions in Washington and Copenhagen to the rank of Embassy. The Legation in Copenhagen was elevated to the rank of Embassy on March 18, 1947. Minister Marvel had meanwhile been appointed and confirmed by the Senate as the Ambassador in Denmark.

² Not printed; it reported that representatives of the U.S. Army and the American Embassy would shortly commence negotiations in Copenhagen with officials of the Greenland Administration regarding the renewal of arrangements for the operation of certain Greenland weather stations, some of which were owned and operated by the Danes and some of which were owned by the United States but operated by Danish personnel (859B.9243/4-1847). These negotiations were concluded on May 12, 1947, with the signing of memoranda of conversation entitled "Greenland Weather Activities" and "Operation of Thule Facilities". The memoranda, which are not printed, were transmitted to the Department as enclosures to despatch 137, May 16, 1947, from Copenhagen (859B.9243/5-1647).

³ See footnote 1, p. 657.

⁴ Not printed.

859B.20/4-2347 : Telegram

The Acting Secretary of State to the Embassy in Denmark

TOP SECRET

WASHINGTON, April 25, 1947—7 p. m.

230. For your TopSec info only, urtel 253 Apr 23.¹ In informal conversations here Dan Amb Kauffmann has given us impression (whether with authorization of Rasmussen or not we do not know) that (a) Rasmussen is fully aware that while reactions US Govt to his memo of Dec 5² are embodied in Mr. Byrnes' conversation and memo of Dec 14,³ these do not constitute formal US proposals; and (b) Rasmussen's press statements are not to be considered as Dan reply to Mr. Byrnes' suggestions but as a means of satisfying those segments of Dan public opinion which desire or claim to desire withdrawal of US from Green, while at same time protecting Dan bargaining position if and when formal negotiations eventuate.

Kauffmann has remarked that it is necessary for Rasmussen to give impression to Dan public opinion that discussions are under way although he fully realizes that such is not in fact the case.

ACHESON

¹ Not printed; in it Ambassador Marvel reported that since January 1947, Foreign Minister Rasmussen had made several press statements indicating that negotiations with the United States regarding the termination of the 1941 Greenland Defense Agreement were still going on and that Denmark considered the time ripe for such negotiations (859B.20/4-2347).

² Not found in Department of State files.

³ Regarding the conversation and memorandum under reference, see footnote 3, p. 657.

859B.20/5-2347 : Telegram

The Ambassador in Denmark (Marvel) to the Secretary of State

SECRET

COPENHAGEN, May 23, 1947—5 p. m.

347. In lengthy conversation at his request with Prime Minister¹ today Communist resolution (Embtel 344, May 22²) among other subjects was discussed. Prime Minister informed me major parties had indicated support of his or similar resolution. Consequently his Party would be obligated to do likewise. While he felt resolution was Moscow-directed he believed neutral position of Denmark must be maintained. Illness of Foreign Minister and recess of Parliament May 30 might delay Parliamentary action but Prime Minister of opinion some type

¹ Knud Kristensen.

² Not printed; it reported that the Danish Communists intended to introduce in the Folketing (Parliament) a resolution asking the Government to seek a termination of the Greenland Defense Agreement (859B.20/5-2247). Such a resolution was introduced in the Folketing on May 29. The resolution was, however, withdrawn after Prime Minister Kristensen made a statement of the Government's intention to bring about the termination of the Agreement.

resolution would be passed by Parliament within next week. He stated when such resolution adopted he would do all in his power to have Government move as slowly as possible in carrying out purport of resolution.³

MARVEL

³ Telegram 354, May 28, from Copenhagen, not printed, commented as follows regarding the position of the Prime Minister:

"Prime Minister's attitude continues consistently pro-American; but he is faced with lack of majority votes in Parliament; strict adherence to party discipline by each party; and fact each party's action is motivated by local political advantage. It is not acquiescence to Communist attitude but realistic approach to his own political survival which he will not risk by voting against such resolution when by later directing non action thereon he can effectively show his true feelings." (859B.20/5-2847)

859B.20/5-2447 : Telegram

The Ambassador in Denmark (Marvel) to the Secretary of State

TOP SECRET

COPENHAGEN, May 24, 1947—2 p.m.

348. Mytel 347 May 23. Purpose of conversation Prime Minister stated by him to discuss general problems. He emphasized his position re So[uth] Slesvig pointing out most important problem there was one of refugees, noting in that area largest concentration of refugees in Germany in relation to indigenous population. Removal of these, immediate separation governmentally from Holstein, and ultimate plebiscite are his aims. He believes Germany has good chance of becoming Communist and without adoption his plan, Communism, with greatly increased population, would beat Denmark's door and infiltration easily accomplished. He accordingly seeks US aid in writing these aims into peace treaty. He strongly reiterated his hatred of Communism and his belief in western democracies. While stating this was view of govt and majority of people, he pointed out he must maintain for Denmark neutral outward appearance.

I am of opinion (mytel 858, TopSec October 28, 1946¹) he would be receptive to arrangement whereby Greenland treaty termination would be delayed pending US active interest in So[uth] Slesvig evidenced by inquiry from Deputy Foreign Minister addressed to Danish Govt for clear cut Danish position re So[uth] Slesvig. He of course is unaware of this opinion and I hesitate to recommend such course of action. I am however satisfied he will successfully meet all immediate local political maneuvers and he and his govt will remain in office barring unexpected crisis until 1949 elections. Consequently sympathetic understanding and some outward recognition of So[uth] Slesvig

¹ Not printed.

problem by US, particularly by US Deputy Minister,² will go far in slowing down active affirmative action for 1941 treaty termination on party [*part?*] of present govt. This to me would be more advisable approach than attempt to make deal which in effect would be interference in local affairs, as to make it stick would require similar arrangement with other non-Communist parties.

While Prime Minister has already given word he will drag feet on treaty termination, our showing of interest in So[uth] Slesvig will aid him immeasurably in carrying out promise. If Department sees merit in such approach it might be advisable for me to proceed Berlin and discuss situation with Murphy. Such discussion would be helpful in any event as background for future conversations with Prime Minister which at his suggestion yesterday will take place frequently.³

Conference which lasted one hour and half otherwise related to mytel 347, May 23 and local political situation.

MARVEL

² The reference here is presumably to the United States Deputy for Germany of the Council of Foreign Ministers. The Deputies for Germany met in London, January 14–February 25, 1947, to hear the views of the governments of neighboring Allied States and of other Allied States which participated in the common struggle against Germany which wished to present their views on the German problem. Denmark was one of those states presenting its views to the Deputies. Summaries of the views of the Danish Government on the German problem, including the South Schleswig question, were included in the Report by the Deputies for Germany to the Council of Foreign Ministers, February 25, 1947, vol. II, p. 40.

³ Telegram 314, May 27, to Copenhagen, replied to Ambassador Marvel's proposal as follows:

"We appreciate PriMin's personal interest Slesvig but while benevolently disposed toward this and other Dan aims most important Green question not be allowed become linked with any other including Slesvig. To do so would introduce factors Green situation beyond our control unnecessarily complicating question which must be settled on own merits without relating it to *quid pro quo* which might prove impossible deliver." (859B.20/5-2447)

859B.20/5-2347: Telegram

The Secretary of State to the Embassy in Denmark

TOP SECRET
U.S. URGENT

WASHINGTON, May 27, 1947—4 p.m.

313. Dept concerned over developments reported urtel 344 May 22¹ and 347 May 23. Acquiescent attitude PriMin toward Communist resolution (urtel 347) seems inconsistent with attitude reported para 4 urtel 238, Apr 18.²

¹ See footnote 2, to telegram 347, p. 660.

² Not printed; it reported that Prime Minister Kristensen appreciated that Greenland could not be left a military void and that Denmark could not maintain the required facilities. Ambassador Marvel expressed the belief that the Prime Minister would support the maintenance of the Greenland Defense Agreement (859B.9243/4-1847).

May 24 Kauffmann informed public and official opinion in US would be profoundly shocked by passage Communist resolution and should Dan Govt acquiesce in passage we could not avoid conclusion such action carried implied charge US had in some way failed to live up to its international obligation or obligations to Den. He was informed we appreciated steps already taken by Dan Govt to prevent Green issue coming to a head publicly and felt sure it would find some means to move towards solution Green problem other than to fall in with Communist plan for passage above mentioned resolution.

Adverting to reports from various sources that Danes might consider bring Green matter before UN, Kauffmann was told that we were unable to understand what would be the purpose or basis of such action: If it were to be brought forward as question endangering international peace and security this would be tantamount to haling US before UN as guilty of threat to peace and as violating international agreements and accordingly such a step could only be regarded by US as matter of utmost gravity; it would inescapably carry with it conclusion on part US that Den had deliberately chosen associate itself with world forces presently striving in every way embarrass US in its efforts uphold UN and promote peace and security for all nations.

Foregoing is for your info and background use only in event PriMin should take initiative in further discussing matter with you as result of report he may receive from Kauffmann. As events may move rapidly, we do not wish run risk crossing wires by simultaneous conversations Copenhagen and Wash but will continue keep you fully informed content conversations with Kauffmann.

MARSHALL

859B.20/5-3147

Memorandum by the Associate Chief of the Division of Northern European Affairs (Morgan)

TOP SECRET

[WASHINGTON,] May 31, 1947.

CONVERSATIONS WITH AMBASSADOR KAUFFMANN

Subsequent to approval by the Secretary of Mr. Matthews' ¹ memorandum of May 28, 1947,² Ambassador Kauffmann, on the morning of May 29, informed Mr. Cumming³ that the Communist resolution introduced in the Folketing on May 21 would be called up for debate on the afternoon or evening of the 29th. In view of the six hours time differential between Copenhagen and Washington, it was obvious that it would be desirable for the Secretary to make some comment at his

¹ H. Freeman Matthews, Director, Office of European Affairs.

² Not printed.

³ Hugh S. Cumming, Jr., Chief, Division of Northern European Affairs.

press conference in order that the American point of view might reach the press simultaneously or in advance of the Danish statement. The Secretary's approval was accordingly obtained for the following statement:

"I am informed that the Danish Government will probably publish either today or tomorrow the text of a note requesting the United States to enter into consultations in connection with the agreement regarding the defense of Greenland concluded with the Danish Minister in Washington on April 9, 1941. This agreement, at a time when Denmark was powerless because of the Nazi occupation to act in its own behalf, made it possible to preserve Danish sovereignty over Greenland and prevent the Nazis from gaining a foothold in the Western Hemisphere. German detachments, which had already landed in Greenland were expelled and adequate defense installations were constructed by the United States on the hitherto defenseless island. In taking this step, the United States acted with scrupulous respect for Danish sovereignty and in the interest of Denmark as well as of this country. The 1941 agreement was unanimously ratified by the Danish Parliament following the liberation of Denmark in 1945. Greenland remains of the greatest importance as a link in the defensive system of the United States and of the Western Hemisphere.

"We have informed the Danish Government that, as stated by Secretary Byrnes, to the Danish Foreign Minister in December, 1945 [1946],⁴ we are ready actively to explore with his government at any time the basis of some new agreement in keeping with the letter and spirit of the Charter of the United Nations which would take fully into account Danish sovereignty over Greenland and legitimate United States and hemispheric defense requirements."

Ambassador Kauffmann was informally advised by Mr. Cumming of the remarks which the Secretary would probably make at his conference. Ambassador Kauffmann having objected to the reference to "some new agreement" in the last paragraph of the above quoted statement, clearance was obtained from the Secretary for a change in this paragraph so as to read:

" . . . Accordingly, we have informed the Danish Ambassador that, as stated by Secretary Byrnes to the Danish Foreign Minister in December 1946, we are ready actively to explore with his Government at any time the whole Greenland question with a view to finding a solution, in keeping with the letter and spirit of the Charter of the United Nations, which would take fully into account Danish sovereignty over Greenland as well as legitimate US and hemispheric defense requirements."

Mr. Cumming having obtained this approval advised Ambassador Kauffmann that we were not ready at this time to give a written reply

⁴ For a reference to the meeting of Foreign Minister Gustav Rasmussen with Secretary of State Byrnes on December 5, 1946, at New York, see *Foreign Relations*, 1946, vol. II, p. 1314, footnote 37.

to the Ambassador's note of May 27,⁵ but that we had no objection to the publication by the Danish Government of the Ambassador's note. Mr. Cumming then informed the Ambassador that the Secretary would make a statement to the press that afternoon which he was authorized to convey to the Ambassador in advance. This statement might be considered as the interim answer to the Danish Government's request for consultation. Mr. Cumming then read to the Ambassador the press statement as approved by the Secretary, including the alteration in the final paragraph which had been suggested by the Ambassador.

It was subsequently found that due to an inadvertency in the preparation of the material for the Secretary's press conference, the statement as actually read by the Secretary to the press representatives did not contain the alteration to the final paragraph but was read as originally drafted.⁶

The inadvertency was confidentially explained to Ambassador Kauffman by Mr. Cumming who pointed out that for purposes of communication to his Government the Ambassador was entirely authorized to transmit the corrected version as given to him by Mr. Cumming.

⁵ Ambassador Kauffmann's note referred to various conversations that had taken place during the past year concerning Denmark's desire to terminate the Greenland Defense Agreement and requested, under instructions from his Government, that consultations provided for under Article X of the Agreement be initiated as early as possible. The text of the note was made public in Copenhagen by the Danish Government on May 29, 1947.

⁶ For the text of the Secretary of State's statement as released to the press on May 29, 1947, see Department of State *Bulletin*, June 8, 1947, p. 1130.

859B.20/6-647

The Ambassador in Denmark (Marvel) to the Secretary of State

TOP SECRET

COPENHAGEN, June 6, 1947.

No. 182

SIR: I have the honor to refer to the Department's Top Secret telegram No. 318, May 29, 1947,¹ and to previous telegrams relating to the note presented by Ambassador Henrik Kauffmann on May 27, 1947, requesting the initiation of consultations as provided by Article Ten of the 1941 Treaty of Greenland. It may be helpful to the Department if I set forth below certain facts relating to this subject and certain observations made by me during the past months.

The Department has been kept informed of the increasing interest throughout Denmark during the past recent months regarding the

¹ Not printed.

status of the 1941 Treaty relating to Greenland. This interest has undoubtedly been accelerated by the present relationship existing between Denmark and Russia. Fear of Russia on the part of the Danish officials is not entirely confined to intangible possibilities. While the Prime Minister, in conversations with me, has often referred to the possibility of the Russians returning to Bornholm and the Foreign Minister has expressed the fear that the Russians might demand bases in the Faroe Islands—both statements being based upon American activities in Greenland—I am assured that no direct threats as to carrying out these possibilities have been made to any Danish official. There are, however, two important phases of Denmark's relationship with Russia which could be acted upon by the Russians immediately, and which would be most detrimental to Denmark. These two phases relate to (1) the debt owed by Russia to Denmark as the result of operations under the Danish-Soviet Trade Agreement and (2) the matter of German refugees in Denmark.

(1) Trade between Russia and Denmark has not materially changed since the situation was reported in the Embassy's despatch no. 871, February 28, 1947.² There is, at the present time, owed to Denmark by Russia a balance of approximately 45 million kroner. One effective method of retaliation against Denmark's acquiescence to American activities in Greenland would be the refusal or prolonged delay in making payment of this indebtedness. This is a matter which the Danes realize and is a large factor in their attempt to maintain friendly relations with Russia.

(2) The fear of the Russians' refusal to aid in the removal of the German refugees from Denmark is also a present and realistic reason for the maintenance of Danish effort to continue friendly relations with Russia. The presence of these refugees in Denmark places a large financial drain on the Government. The Russians now are in the process of removing from Denmark 36,000 refugees. Of these approximately 6,000 have already departed and the remainder are leaving Denmark at the rate of 2,000 per week. There is the constant fear on the part of the Danes that any unfriendly act on their part would result in the stoppage of the deportation of the German refugees by the Russians. Even though the commitment as to the 36,000 refugees above mentioned was not affected, the Danes believe no further aid would be forthcoming from the Russians as to the removal of the remaining German refugees.

As the Department is aware, Gustav Rasmussen, the Danish Foreign Minister, has never expressed to me his personal, or Government's reactions to his conversations with Secretary Byrnes on December 14,

² Not printed.

1946. . . . any negotiations with a view to exploring the basis for some new agreement relating to Greenland undoubtedly must be undertaken with the view that the political leaders of the Danish Parliament must be taken into consideration—a fact which, at times, the Foreign Minister appears to overlook.

As I pointed out in my despatch no. 372, September 4, 1946,³ it is my view that Ambassador Henrik Kauffmann's views on Danish-American relations carry much weight and will be followed by the Foreign Minister. At the same time, Mr. Kauffmann has considerable influence with Hans Hedtoft, leader of the Social Democratic Party in Denmark. Hedtoft's views were expressed in my Top Secret telegram no. 969, December 27, 1946,³ and, so far as I know, they have not changed. He then stated that, if Danish sovereignty over Greenland and its citizens were acknowledged by the United States, an agreement for bases for a long-term period could be arranged, so long as emphasis was placed on Greenland being a link between the United States and the United States Forces in Germany. The Prime Minister, Knud Kristensen, holds somewhat similar views but is less explicit and definite than Hans Hedtoft. The Prime Minister will rely almost entirely on the Foreign Minister, Gustav Rasmussen, for his final decision. In fact, he has so stated this to me.

It is, therefore, my view that the key man in the picture is Ambassador Henrik Kauffmann. His views will, in my opinion, be adopted by the Foreign Minister who, in turn, will pass them on to the Prime Minister. At the same time, Ambassador Kauffmann has decided influence with Hans Hedtoft, and the combination of the present Government forces in Parliament with the Social Democrats would assure passage of any agreement approved by these leaders. My view that Ambassador Kauffmann is the key man is fortified by a conversation I had with Director Hvass of the Foreign Office, in the absence of the Foreign Minister who is convalescing from a minor operation, on June 2, 1947. Director Hvass told me that he was awaiting a report from Mr. Kauffmann and that the Danish Foreign Office would take no steps with respect to consultations which were requested in the Danish note of May 27, 1947, until Kauffmann's recommendations were received. I, therefore, cannot stress enough the importance which I give to the manner in which this subject is handled with Ambassador Kauffmann. My own opinion is that he will be amenable to the American viewpoint. . . . I am advised that he expects to return to Denmark in July of this year and, undoubtedly, he will discuss the Greenland situation with me. I accordingly request that I be kept fully advised as to the Department's conversations with him as background in the event

³ Not printed.

he approaches the subject while here in Denmark, and I again emphasize that the approach to Ambassador Kauffmann must be made with the present Danish fears of Russian reaction in mind. They cannot be brushed aside.

Respectfully yours,

JOSIAH MARVEL, JR.

859B.20/6-1647

*Memorandum by the Deputy Director of the Office of European Affairs
(Hickerson) to the Secretary of State*

TOP SECRET

[WASHINGTON,] June 16, 1947.

DISCUSSION

Ambassador Kauffmann is seeing you to say good-bye before leaving June 18 for Denmark, and also in order to be able to say to his Government that he has spoken with you regarding Greenland. He saw Mr. Lovett on June 10.

After the release of your press statement of May 29, (attachment 1)¹ Mr. Kauffmann indicated a desire to have an off-the-record talk with officials of the Office of European Affairs. In the course of that conversation, which took place Friday, June 6, I reminded him that Secretary Byrnes outlined to the Danish Foreign Minister last December alternative possible solutions regarding Greenland (attachment 2²). [The alternatives outlined by Mr. Byrnes were: 1. A long-term arrangement for US military facilities in certain unspecified areas of Greenland, with Danish sovereignty unimpaired and Denmark recognizing the inseparability of Greenland from the defense system of the United States; or 2. A treaty whereby the United States undertakes the defense of Greenland in exchange for the right to maintain necessary military installations there, while reaffirming recognition of Danish sovereignty; or 3. US purchase of Greenland in full accord with the UN Charter and purposes.]³

Mr. Kauffmann has just told us that he believes sale to be out of the question but that it might well be possible to arrange for a joint base agreement. He believes Danish adherence to such an agreement would be facilitated by bringing Canada, or even the other American Republics, into the picture, with a view to making it a regional agreement in keeping with the UN Charter. We gave Mr. Kauffmann some

¹ The attachment is not printed here; for the text of the statement by the Secretary of State, see the memorandum by Morgan, May 31, p. 663.

² Attachment 2, not here printed, was the text of the memorandum which the Secretary of State handed to Foreign Minister Rasmussen at the close of their conversation in New York on December 14, 1946; see footnote 3, p. 657.

³ Brackets appear in the original.

indication that it might be possible to bring Canada into the picture in a new agreement. The Ambassador expressed the desire for additional information regarding the strategic significance of Greenland to the United States in order to enable him to interpret that significance properly to his Government.

In compliance with the Ambassador's request I arranged for him to meet General Lauris Norstad⁴ and Vice Admiral Sherman⁵ in my office on June 12. They emphasized to him the extreme importance of Greenland to the defense of the United States and of this hemisphere.

Ambassador Kauffmann expects to return from Denmark early in August.

He believes that for Danish domestic reasons consultations should begin shortly after his return here although those consultations need not be hurried after initiation.

RECOMMENDATIONS

It is recommended that the Secretary impress upon the Danish Ambassador the great strategic importance of Greenland to the United States and urge him to persuade his Government of the desirability of concluding with this country an arrangement for joint defense of Greenland.

⁴ Maj. Gen. Lauris Norstad, Director of Plans and Operations, War Department General Staff.

⁵ Vice Adm. Forrest P. Sherman, Deputy Chief of Naval Operations.

859B.20/6-1747

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] June 17, 1947.

Participants: The Danish Ambassador, Mr. Kauffmann
The Secretary of State
Mr. Hickerson

The Danish Ambassador came in to see me at 12:30 p.m. today. He said that he had asked for an appointment with me to say goodbye before leaving tomorrow to return to Denmark for about six weeks. The Ambassador added that he wished also to discuss briefly with me the Greenland situation.

Ambassador Kauffmann recounted the circumstances in connection with the conclusion of the 1941 Agreement. He said that one of the first acts of the Danish Parliament on the liberation of the country had been to approve that Agreement unanimously. He said that there is now a general feeling in Greenland that the war is over and that the time has come to terminate the 1941 Agreement. It was that state of

mind, he said, that led to his being instructed about ten days ago to send us a note proposing consultation in accordance with Article 10 of the 1941 Agreement looking to a termination of that Agreement.

The Ambassador went on to say that he understands fully the American position: That Greenland is physically a part of the Western Hemisphere and that its defense is a matter of vital concern to the United States and the Western Hemisphere. He said that he had been discussing this whole matter realistically with Mr. Hickerson in the Department and that it was his hope that it would be possible to work out a satisfactory solution of the matter. He said that he intended while in Copenhagen to discuss the whole question in detail with his Government and that it was his hope that he would receive instructions which would enable him actively to discuss the problem with the U.S. Government on his return to Washington in August.

Ambassador Kauffmann said that he had been much gratified at the assurances given him by Mr. Hickerson of the State Department, General Norstad and Admiral Sherman of the War and Navy Departments, that the U.S. interest in Greenland was exclusively in defense and that any U.S. installations in Greenland would be of a defensive character. He added that it would be easier for Denmark to deal with the Greenland question along the lines desired by the U.S. if Canada and perhaps the American Republics were to the extent possible brought into the forefront of any new agreement. He said that he had been assured that consideration would be given to this.

I told Ambassador Kauffmann that I had had a good bit of personal experience with the Greenland question and that I could tell him that it is of fundamental importance to the security of the U.S. to keep an enemy state out of Greenland. I told him that we had faced the problem of driving the Germans out of Greenland in World War II, adding that the weather information which they obtained in Greenland had been a material factor in German offensive operations in Europe against us and our Allies. I added that I had had some anxious moments over British naval losses on the Murmansk route and the possibility that the Germans might again be enabled to get into Greenland. I said that relations between the U.S. and Denmark are of course excellent and that our apprehension would be met if we could be sure that our friend, Denmark, was in a position adequately to defend Greenland. I added that the Ambassador would doubtless agree that Denmark is not in such a position. Ambassador Kauffmann readily assented.

I told the Ambassador that I was gratified at the satisfactory nature of his preliminary conversations with U.S. officials on the subject. I said that the U.S. Government would, of course, be glad to endeavor

to conclude an agreement along lines which would make it as easy as possible for the Danish Government to answer critics, some of whom would of course denounce whatever action was taken for their own selfish reasons. I said that we would gladly explore any ideas that might contribute to a satisfactory solution. I mentioned an idea which I had advanced for dealing with the Manus situation under which the U.S. would pay a certain sum of money annually to Australia and receive in return rights to use facilities maintained by Australia; the rights would include the rights to conduct maneuvers in peacetime and of course unlimited use in wartime. I said that I did not know whether this would be suitable at all in the Greenland situation.

I expressed my best wishes to the Ambassador for a pleasant trip and said I would look forward to seeing him in August.

840.48 Refugees/6-1947: Telegram

The Ambassador in Denmark (Marvel) to the Secretary of State

TOP SECRET

COPENHAGEN, June 19, 1947—5 p.m.

405. While I appreciate Dept's desire to keep Greenland problem separate and not involved with other Danish problems, nevertheless I feel situation referred to in mytel 403, June 19,¹ could be employed to advantage. There is no obligation upon US to accept additional refugees into US zone. However, as pointed out my Top Secret despatch No. 182, June 6, one effective threat Russians can use in retaliation to Danish acquiescence to American activity in Greenland is refusal to remove refugees in Denmark. If they do so, public reason given by Russians will be failure of other allies to accept 50% of refugees and real reason regarding Greenland situation will not be mentioned.

However, result will be to saddle Denmark with burden of one dollar per refugee per day.

If basis of Russian refusal to accept refugees can be removed, Russians will be faced with difficulty of explaining refusal to carry out Stalin's promise.² Consequently, I am of opinion that consideration should be given to receiving additional refugees, say up to 12,000 into US zone when approach is made by Danes.

¹ Not printed.

² In June 1946, Generalissimo Josif Vissarionovich Stalin, Chairman of the Council of Ministers of the Soviet Union, promised the Danish Foreign Minister that 100,000 German refugees in Denmark would be accepted into the Soviet Zone of Occupation of Germany provided the other three occupying powers agreed to accept a similar number of refugees. For additional documentation regarding the problem of the German refugees in Denmark, see *Foreign Relations, 1946*, vol. v, pp. 189-193, 196-197.

While Russian pretext for not accepting refugees would thus be removed, Danes would fear such retaliatory action on some other pretext until all refugees were actually evacuated. Hence, no announcement of agreement on Greenland bases could well be made before such covenant completed. However, gratitude toward US for aiding in solving this problem might well fail to outweigh other factors, e.g., fear of other Russian action, national pride, etc., militating against Danish acquiescence in our wishes unless our agreement to accept refugees were based on *quid pro quo* of Danish agreement to accept some settlement assuring our continued control Greenland airfields. Consequently, I believe any offer to accept refugees should be so conditioned.

With this as initial bargaining point, I believe we should emphasize to Danes that the airfields are necessary link in our communications with Germany just as continued Russian activity in Hungary and Rumania is defended as necessary to assure communication with her troops Austria. Moreover, I believe fact airports and alternates are needed for commercial air traffic, particularly in case of SAS as well as AOA, should be stressed, as in case of Iceland. Ultimate solution may then be US commercial aviation operation these fields which, on basis foregoing reasons, might be made palatable to Danish Govt, and which they might well have nerve enough to accept.

Refugees in Denmark present distinct problem from refugees in South Schlesvig, and while above thinking in some respects along lines expressed my Top Secret telegram No. 348, May 24, it does not involve British zone, peace treaty, and other factors which Dept has correctly pointed out might place barriers to effective performance of promises.

MARVEL

811.24559B/6-2647 : Telegram

The Ambassador in Denmark (Marvel) to the Secretary of State

TOP SECRET

COPENHAGEN, June 26, 1947—10 a. m.

425. After first hectic day here Kauffmann dined with me alone. He feels approach to Greenland problem must be made slowly, pointing out Communist resolution is out of the way, Parliament is in recess and General Assembly of UN meets in early fall. Consequently discussions on Greenland could appropriately come up thereafter. He suggested that I come to Washington in late fall and believed conversations with the Secretary or Under Secretary Lovett would result in a solution. He emphasized that there was no possibility of a sale. After

he has conferred with Danish officials he will give me more definite views as to Danish course of action.

Above recommendation for schedule of Greenland talks which undoubtedly will be followed by Danish Government makes it difficult to tie in refugees with Greenland problem as suggested my Top Secret telegram 405 June 19. However in view of Danish approach described mytel 422 June 25¹ it appears advisable to consider receiving immediately additional refugees into US Zone in order to capitalize on fact Russian removal of additional refugees (if such takes place) will be result of US initiative. Consequently urge US agree to accepting 12,000 additional refugees and that Berlin be so advised by direct order from Washington. Most important, if this is done, that it be ordered prior to any Russian commitments (which means immediate action) so that situation will not develop as it did in March when timing of American action largely diluted potential political capital.

Kauffmann departs July 15 and after tour of European capitals and Iceland will arrive back in US August 5.

MARVEL

¹ Not printed; it reported that the Danish Government hoped to obtain commitments from the American, British, and French Governments to accept additional refugees into their zones of occupation in Germany prior to requesting the Soviet Government to fulfill its 1946 promise to accept into its zone half of the German refugees remaining in Denmark (840.48 Refugees/6-2547).

859B.20/7-1447: Telegram

The Ambassador in Denmark (Marvel) to the Secretary of State

TOP SECRET

COPENHAGEN, July 14, 1947—10 a. m.

469. Kauffmann informed me July 11 he was to confer later that afternoon with FonMin regarding Greenland. As he was away over week end I have not seen him since conversation. However, FonMin had lunch with me *en famille* yesterday and took the opportunity to express informally his views on a variety of subjects. He feels most strongly in light of recent developments in Europe that Denmark should not now press for settlement of Greenland problem. While Kauffmann will go through motion in calling on the Secretary on his return, such action will be primarily for home consumption and with no thought of pressing matter. Rasmussen feels situation can remain dormant for six months or a year.

Rasmussen departs about September 10 so as to arrive US September 16 to attend UN General Assembly. His decision to be present is based on fact both Norwegian and Swedish FonMin will also be there. He will be in US approximately three weeks. Believe it most advisable

particularly for local reaction that Rasmussen not only see the Secretary but also the President. This view was expressed by former Secretary Byrnes in Paris Embtel 4528, September 10, 1946, repeated Copenhagen as 28.¹

Rasmussen confirmed Kauffmann's statement by Top Secret telegram 425, June 26 that there was no possibility of sale of Greenland. He expressed view that perhaps the solution lay in US control and maintenance of Greenland air fields on basis they are necessary link to communications in Germany and are needed for commercial air traffic (see my TopSectel 405, June 19). While such an arrangement would prompt some Russian reaction he admitted that Russians had only once discussed Greenland situation with him. At the time press carried story of proposed sale of Greenland, Russian Minister called on Rasmussen and requested information whether such sale was contemplated. Rasmussen answered inquiry referring to his press statement to effect that such proposal was absurd.

Emphasize local importance of arranging interview with President for Rasmussen and request Department advise of its concurrence therein.

MARVEL

¹ Not printed.

859B.20/7-2247 : Telegram

The Ambassador in Denmark (Marvel) to the Secretary of State

TOP SECRET

COPENHAGEN, July 22, 1947—11 a. m.

494. Last evening Kauffmann had confidential talk with me at residence. He stated that his recommendation for a policy of "going slow" regarding Greenland had been accepted by Danish Government thus confirming views of Rasmussen expressed my Top Secret telegram 469, July 14. Kauffmann feels that time should be taken to thoroughly acquaint Danes here and Americans in Washington as to all aspects surrounding Greenland problem. He feels that an understanding, appreciation and reconciliation of divergent views of Americans and Danes must and can be solved. While he thinks the solution may lie in US control and maintenance of Greenland airfields on ground they are necessary link to Germany and are needed for commercial air traffic he stated this would only be a temporary measure and that he was thinking for a solution along more permanent lines. He indicated that if Denmark could be assured that the Truman Doctrine¹ would

¹ For documentation regarding the Truman Doctrine, see vol. v, pp. 1 ff.

be extended so as to protect Denmark from any threatened aggression of Russia a permanent solution could be speedily reached. He felt that within six months or a year the European situation would be clarified to extent that Denmark could take a definite stand with the West. He agreed with me that Denmark was much more inclined this way than either Norway or Sweden but that until Denmark received assurance of protection from Russian aggression the present cautious policy would be pursued. He believes Greenland matter can drag on for some time and that the FonMin can answer, in generalities to effect that negotiations are proceeding, the Communists who in Kauffmann's opinion will be the only party to press the matter in Danish Parliament.

On his return Kauffmann will seek to see Secretary but as heretofore reported primarily for home press consumption. I again emphasize importance of conference with President by Rasmussen in September and recommend he be accompanied to Conference by Kauffmann. Word from the President to effect that Truman Doctrine extends to Denmark would in my opinion go far in laying ground for permanent solution of Greenland problem.

Kauffmann departs early July 23 and, with stops Paris, London, Iceland will return US on schedule August 5.

PrimeMin has invited me to dine with him alone July 24 and perhaps he then will confirm above views of Kauffmann.

MARVEL

859B.20/7-2547 : Telegram

The Ambassador in Denmark (Marvel) to the Secretary of State

TOP SECRET

COPENHAGEN, July 25, 1947—7 p. m.

510. At dinner last evening attended by Prime Minister, Minister Federspiel¹ and myself, Prime Minister confirmed Govt's policy of "Going slow" regarding Greenland (see my Top Secret telegram 494, July 22). Conversation lasted more than three hours, was most informal, and covered wide variety subjects but Prime Minister emphasized his interest in South Slesvig problem.

To my surprise he asked point blank whether a permanent arrangement regarding Greenland could not be tied into US active interest in South Slesvig problem (see my Top Secret telegram 348, May 24) pointing out both situations had common factor of defense of respective countries. I informed such proposal involved difficulties and added that [*sic*] the situation eight months hence, during which time the Marshall Plan would develop, the Foreign Ministers Conference in No-

¹ Per Federspiel, Danish Minister for Special Affairs.

vement would be held, and perhaps the world situation would be sufficiently clear for Denmark to come out more in siding with Western powers and that then a permanent arrangement regarding Greenland could be concluded. The Prime Minister stated all political parties with exception of Communists had strong and natural feeling for America and he believed tangible actions confirming this view would increase in future but that all-out expression of this view by Denmark was retarded by caution of Norwegians and more particularly Swedes.

As to local political situation he admitted attempt would be made to force elections in fall. He could not forecast now whether such attempt would be successful. In passing he noted that British Embassy here was taking more active interest with Socialists and remarked that currying favor with Socialists appeared to be present British program throughout Europe. I agreed with him that contact between British officials here and Danish Socialists had shown marked increase recently. The Prime Minister thought that while the Social[ist?] political power here would remain about the same it would suffer a setback in Sweden in the next election.

MARVEL

859.00/9-1947 : Telegram

The Acting Secretary of State to the Embassy in Denmark

TOP SECRET

WASHINGTON, September 29, 1947—6 p. m.

596. Dept appreciates interest and friendly attitude shown by Hedtoft (urtel 634, Sep 19¹) and appreciates also importance placing our point of view adequately before Parliamentary leader his standing. We believe, however, that this should be done orally as occasion offers and not in manner which he or his opponents could describe as supplying him with material for his use in coming political campaign.

Our thinking re Green problem, as you are aware, is based following points: (1) adequate defense installations in Green continue to be essential to peace and security of Western Hemisphere; (2) as cost of such installations is prohibitive for Den, US is prepared to undertake together with Den responsibility of defending Green and to assume necessary expenses; (3) US entirely willing in cooperation with Den to place defense installations at disposal of UN on request of

¹ Not printed; it reported that Ambassador Marvel had a conversation on September 19 with Hans Hedtoft, leader of the Danish Social Democratic Party, who expected to head the new government following Danish national elections in the autumn. Hedtoft thought his government would be able successfully to steer through the Danish Parliament an agreement with the United States under which American bases would be established in Greenland so long as American forces remained in occupation in Germany (863.00/9-1947).

Security Council; (4) as long as US has obligation to maintain control agencies in Ger, airports in Green constitute a necessary link in our communications with Ger; (5) a chain of weather and other navigational aid stations on Green is essential for safety above communications and international sea and air traffic over wide area; (6) US will continue recognize unqualified Dan sovereignty throughout Green and respect all Dan interests there. In reply to allegations that existence US defense installations in Green would constitute an invasion Dan sovereignty, it may be pointed out that Brit with its comparatively large resources has not feared for sovereignty Brit areas in Western Hemisphere which US is defending under 99-year leases.

Above viewpoints may be advanced informally to other Dan officials in your discretion as opportunities arise.

LOVETT

859B.20/10-1047

*Memorandum by the Director of the Office of European Affairs
(Hickerson) to the Secretary of State*

TOP SECRET

[WASHINGTON,] October 10, 1947.

PROBLEM

In the interviews which he desires with the Secretary and also with the President, Mr. Rasmussen, the Danish Foreign Minister, will undoubtedly wish to discuss the current consultations concerning the defense of Greenland. He will then be strongly tempted to release for Danish consumption a statement designed to give the impression of having come to grips with the problem. It is to our interest that any such statement by Mr. Rasmussen be couched in generalities.

BACKGROUND

Secretary Byrnes, in a conversation with Mr. Rasmussen on December 14, 1946,¹ emphasized the vital importance of Greenland to United States security and suggested three possible courses of action for Mr. Rasmussen's consideration. A memorandum which includes a brief account of the Byrnes-Rasmussen conversation and summarizes developments as of May 28, 1947 is attached.²

The Danish Ambassador, in a note of May 27, 1947, mentioned his Government's wish for termination of the Defense of Greenland Agree-

¹ See footnote 3, p. 657.

² The attachment is not printed.

ment and requested early consultations as provided in Article X. In the Secretary's press release of May 29, 1947³ this Government declared its readiness actively to explore with the Danish Government "at any time the basis of some new agreement in keeping with the letter and spirit of the Charter of the United Nations which would take fully into account Danish sovereignty over Greenland and legitimate United States and hemispheric defense requirements".

The Danish Ambassador stated on August 20 that he hoped that by the time of the visit of the Foreign Minister to attend the General Assembly, sufficient progress might have been made to enable the Danish Government to say without undue exaggeration that consultations under Article X of the Defense of Greenland Agreement had begun and were continuing.⁴

On September 12 I conveyed the following oral statement to the Ambassador:

"With reference to our recent conversation I wish to confirm to you that our current discussions concerning the Agreement of April 9, 1941, for the defense of Greenland are considered by the United States Government as having initiated consultations in the sense of Article X of that Agreement.

"The problems brought up in our discussions with you have been brought to the attention of the other interested agencies of this Government and are being given careful consideration in cooperation with those agencies."

The Ambassador confirmed by letter the receipt of my message and expressed satisfaction.

A committee composed of representatives of State, Army, Navy and Air Force has nearly completed a draft of a new agreement. In my opinion, no such draft should be broached to the Danes until the Danish United Nations Delegation, which includes a Communist member of Parliament, shall have left this country.

RECOMMENDATIONS

That in any conversation with Mr. Rasmussen the importance of Greenland as a link in the defense system of the United States and of this hemisphere be emphasized and that he be told that we are actively studying with the other interested Departments the views which have been put forward by Ambassador Kauffmann and that at a later date we shall pursue the matter further.

³ See the memorandum by Morgan, May 31, 1947, p. 663.

⁴ Ambassador Kauffmann's call at the Department of State on August 20, 1947, is reported upon in a memorandum of the same date from the Associate Chief of the Division of Northern European Affairs (Morgan) to Hickerson, not printed (859B.20/8-2047).

840.48 Refugees/10-1047

*Memorandum by the Director of the Office of European Affairs
(Hickerson) to the Secretary of State*

SECRET

[WASHINGTON,] October 10, 1947.

PROBLEM

The Danish Government has requested that 15,000 German refugees in Denmark be received in the US Zone of Germany in addition to 12,000 previously accepted. The request, presented in a Danish Embassy note of July 28, 1947,¹ is worded in a manner implying that our Zone will not be asked to take more than the total of both contingents, namely 27,000 refugees.

BACKGROUND

At the close of hostilities nearly 200,000 German refugees, mostly aged people, women, and children, remained in Denmark. The Danes claim to have spent the equivalent of \$80 million to support and guard these Germans, and regard them as an intolerable burden.

The British and Soviet representatives on the Allied Control Council in Berlin have never agreed with OMGUS that a decision of the ACC of November 20, 1945² should be construed as obligating the Soviet and British Zones to absorb the great bulk of the German refugees in Denmark.

Despite a promise which Stalin made to the Danish Foreign Minister in June 1946 to admit half of the refugees into the Soviet Zone providing the other three zones would accept the other half, the ACC was unable, because of the Soviet member's refusal to discuss the problem, to work out distribution of the refugees to the various zones.

At loss for a solution, the Danes then appealed to each of the three western zones to accept a contingent of 12,000, and to the Soviet Zone to take 36,000. Actually, the British Zone took 18,000, the French Zone 15,000, and the US Zone 12,000, making 45,000 to the three western zones as against 36,000 to the Soviet Zone. A second contingent of 15,000 has recently been transferred to the French Zone. The British have under consideration a Danish request that their zone take an additional 15,000, and have on their own initiative begun to receive from Denmark German refugees who have relatives in the British Zone to provide shelter. The Danes expect that if the US Zone accepts 15,000 as requested, the USSR will then raise its zone's acceptances to a total matching that of the three western zones. This would have the effect of removing all of the German refugees still in Denmark.

¹ Not printed.

² For a report on the November 20, 1945 meeting of the Allied Control Council for Germany, see *Foreign Relations, 1945*, vol. III, p. 852; and for the text of the plan approved at that meeting see *ibid.*, vol. II, pp. 1316-1317.

A prompt solution of Denmark's German refugee problem is of vital interest to the United States because of the current consultations regarding the defense of Greenland. If we are not willing to give what the Danes regard as reasonable assistance toward the solution of one of their most serious problems, they are not likely to consider objectively our need for long-term defense rights in Greenland.

ACTION TAKEN

Under Secretary Lovett addressed a letter³ on September 12 to General Draper, Under Secretary of War, urging compliance with the Danish request and stating that although we can not count on any direct benefits from acceptance of the 15,000 refugees we may be sure that failure to take favorable action will react against us in the Greenland consultations. General Draper departed for Korea before making a decision and has just returned. In the meantime we have learned that General Noce of Civil Affairs⁴ is opposed to the Danish request while General Norstad of Plans and Operations is in favor of accepting the 15,000 refugees.

RECOMMENDATION

That in any conversation with Mr. Rasmussen he be told that Denmark's request that the US Zone accept 15,000 German refugees in Denmark is receiving careful consideration.

³ Not printed.

⁴ Maj. Gen. Daniel Noce, Chief, Civil Affairs Division, War Department General Staff.

859B.20/10-2247

Memorandum of Conversation, by the Secretary of State

TOP SECRET

[NEW YORK,] October 22, 1947.

Participants: Mr. Gustav Rasmussen, Danish Foreign Minister¹
Mr. Henrik de Kauffmann, Danish Ambassador
The Secretary

In raising the subject of termination of the agreement of April 9, 1941 for the defense of Greenland the Danish Foreign Minister referred to an impression in Washington and London that his Government was subject to Soviet pressure for termination of the agreement. He said that no such pressure had been brought to bear by the Soviet Government, the only time the matter had even been mentioned was on

¹ Foreign Minister Rasmussen arrived in New York on October 17 to serve as head of the Danish Delegation to the Second Regular Session of the United Nations General Assembly, September 16–November 29, 1947. The Secretary of State headed the United States Delegation.

one occasion when the Soviet Minister at Copenhagen had asked him as to the truth of press reports that the United States Government was attempting to buy Greenland. He was then in a position to refer the Minister to the public statement Mr. Rasmussen had made a few days earlier to the effect that Greenland was not for sale. The Soviet press and radio had been critical of the United States for continuing to maintain forces in Greenland but had not yet criticized the Danish Government. I observed that the Soviet Government was too astute to use direct pressure when it had at its disposal local means of exerting influence and pressure. Mr. Rasmussen said that pressure for termination of the agreement came from various sections of Danish public opinion [in] addition to the Communists. I recognized that this was a subject on which the Communists could easily get general support. He hoped it would be possible for him to say that the consultations provided in Article 10 of the agreement were making progress, as for example to announce that the weather stations were progressively being transferred from American to Danish hands.

I developed to him forcefully and at some length the importance of Greenland as a vital and vulnerable link in the defense of the Western Hemisphere as a whole. If the Danes could defend it adequately that would be fine but they clearly were not in a position to do so. We could not afford to have it undefended. Enemy occupation of Greenland would not only endanger our whole system of hemispheric defense but would expose our vital industrial areas. I said I had hoped that the Danes would understand its importance to us and be able to make suggestions as to how our defense needs could be met in a form that would be politically possible for them. I had hoped that Ambassador Kauffmann would bring such suggestions on his return from Denmark.

Mr. Kauffmann stated that time was needed to solve the problem and that an improvement in the present international atmosphere would help. Three types of installations were involved: the weather stations, the air fields, and the proposed radar installations in the north. He liked the approach indicated in the Department's press release of May 29, 1947 in which we indicated readiness to explore with the Danish Government the basis of a new agreement "in keeping with the letter and spirit of the Charter of the United Nations which would take fully into account Danish sovereignty over Greenland and legitimate United States and hemispheric defense requirements". He also saw possibilities in a regional defense agreement to include Canada and possibly other countries of this hemisphere.

I indicated that this regional approach including Canada might be explored. Referring again to the imperative need for adequate defense of Greenland, I suggested that the Danish political problem might be

met by a formula similar to that which we had been prepared to offer the Australian Government in connection with Manus Island, namely that we would be prepared to make annual payments to the Danish Government to enable it to maintain installations which we had erected in Greenland during the war in return for the right to use those facilities as needed and to station a few men there to look after supplies. I pointed out that we would not be in a position to maintain substantial forces there in peace time.

The Foreign Minister did not reply but the Ambassador repeated that time would be needed to work out an agreement. In the meantime the 1941 agreement continued in effect and the conversations would continue.

(After the conversation had ended Mr. Achilles² asked the Foreign Minister whether he considered the suggestion of annual payments in return for the right to use the installations a promising one from the Danish point of view. He replied that he must necessarily speak personally since he was not even sure that he would be in the new government to be set up following the elections on October 28, but that he personally thought the approach a very good one.)

² Theodore C. Achilles, Adviser to the United States Delegation to the General Assembly.

840.48 Refugees/10-2247

Memorandum of Conversation, by the Secretary of State

SECRET

[NEW YORK,] October 22, 1947.

Participants: Mr. Gustav Rasmussen, Danish Foreign Minister
Mr. Henrik de Kauffmann, Danish Ambassador
The Secretary

The Danish Foreign Minister reviewed the problem of German refugees in Denmark and left the attached memorandum.¹ He emphasized particularly his Government's desire that the western zones agree to take an additional 30,000 refugees in order that he might be in a position to ask the Soviets to fulfill Generalissimo Stalin's agreement to take half the refugees in Denmark provided the western zones would take the other half.

He stated that since the memorandum had been written he had discussed the matter in London with Mr. Bevin who had indicated willingness to receive additional refugees in the British zone but suggested

¹ Not printed.

that the 30,000 be distributed equally between the three western zones. Mr. Rasmussen planned to take this up with the French.

I told him that the matter was under active consideration by the Departments of State and Army and that I hoped it would be possible to work out something along the lines he desired.

840.48 Refugees/11-547

The Under Secretary of the Army (Draper) to the Under Secretary of State (Lovett)

SECRET

WASHINGTON, 5 November 1947.

DEAR MR. LOVETT: We have given careful consideration to your letter of September 12¹ with reference to the Danish request that 15,000 additional Germans from Denmark be received by the U.S. Zone.

I have discussed this matter with the Theater Commander² who advises me that the U.S. Zone is unable to accept additional refugees. It was on this basis that the additional expellees from Czechoslovakia were refused admittance since conditions of both housing and food are such that for humane considerations no other decision could be reached. This decision could not be justified if an exception were now made in favor of Denmark. General Clay also advises me that Mr. Byrnes, when Secretary of State, personally assured him that if the 12,000 in question at that time were accepted by the U.S. Zone, the State Department would not ask that any more be taken. General Clay's recollection is that Denmark was advised at that time that it would be understood that the 12,000 in question represented the maximum that could be accepted by the U.S. Zone.

One of the considerations at the time the decision to accept the 12,000 Germans from Denmark was made was the desire for U.S. military base rights in Greenland. However, these rights have not been obtained, and there is no assurance, as I understand it, that they would be obtained by acceptance of the 15,000 additional Germans now in question. If definite assurance [were given?] that the base rights would actually be obtained as a result of favorable action on this request, we would be prepared to reconsider the whole question.

The Theater Commander advises me that the American Zone, under the various quadripartite agreements concerned with the acceptance of German refugees and expellees, has already received more than its

¹ Not printed.

² Gen. Lucius D. Clay, United States Commander in Chief, Europe, and Military Governor for Germany.

proportionate share and more in numbers than any other zone. In view of the present deficit in the U.S. Zone which is being made up by American appropriated funds, acceptance of the Danish request would simply mean that the present costs of supporting these people, which is now being borne by Denmark, would be shifted to our shoulders. Actually, it is indigenous Danish food which they now receive; if they were transferred to the U.S. Zone, they would have to be fed by imported food which we would pay for.

The letter³ which you enclosed from the Danish Chargé d'Affaires points out that these refugees should no longer be separated from their relatives in Germany. This is, of course, true, but the American Zone has already received all who originally came from that zone so that acceptance of these people would not return them to their families or homes. Under the quadripartite agreement the Russian and British Zones were to receive the residents of the Polish-administered area which formerly was part of Germany. It is my understanding that the German refugees now in Denmark came from this area and the obligation to receive them would therefore rest on those zones. Certainly, as you say in your letter, there is no contractual or other obligation on the U.S. Zone of Germany to receive them.

General Clay informs me that the German authorities in the U.S. Zone were advised at the time arrangements were made for receiving the 12,000 refugees from Denmark that they would not be asked to accept more than that number, and it is obvious what the effects would be if this understanding were now disregarded in view of the present economic conditions in the Zone, particularly with respect to housing and food. We must take into account the effect of any such action on our democratic objectives in Germany.

Therefore, I regret that the Department of the Army cannot concur in complying with the Danish request.

Since writing the above, your letter of November 1⁴ on the same subject has been received, and I have, therefore, taken the occasion to discuss this matter thoroughly with the Secretary of the Army.⁵ He has asked me to advise you that he fully agrees with the contents of this letter.

Sincerely yours,

WILLIAM H. DRAPER, JR.

³ Under reference here is a note dated July 28, 1947, from the Danish Chargé, not printed, setting forth Denmark's urgent desire to be rid of the German refugees brought into Denmark shortly before the German surrender (840.48 Refugees/7-2847).

⁴ Not printed.

⁵ Kenneth C. Royall.

859.00/11-1547 : Telegram

The Ambassador in Denmark (Marvel) to the Secretary of State

TOP SECRET

COPENHAGEN, November 15, 1947—6 p. m.

772. Hedtoft¹ lunched with me *à deux* today and conversation of two hours covered variety of subjects.

As to local political situation, his policy will be to concentrate on upbuilding Danish economy. No schemes of nationalization of industry or breaking up large estates will be undertaken. Effort will be made to enlarge social reforms such as old-age pensions, workman's compensation et cetera, but with an eye to what budget will bear. In short, policy of prewar Social Democrats will be followed.

As to foreign affairs, immediate announcing of pro-western policy is prevented (1) by present antipathy of Danes towards British and (2) by attitude of Norwegians and Swedes. As to (2) Hedtoft cited cautious and neutral position taken by Swedish and Norwegian Prime and Foreign Ministers at Oslo Conference of Social Democrats last summer. He hopes to persuade them into American viewpoint, but admits difficulties.

In view of Department's decision not to press Greenland treaty here (Department's top secret 665, November 7²), I asked him his views on Greenland generally and whether matter could drag on for some time. He reiterated that joint defense particularly as long as US in Germany was still best solution and pointed out my points on subject (following suggestions of Department's top secret 596, September 29) had been supplied all Social Democrat candidates and uttered by them during campaign. He stated, however, since it was obvious I was not pressing matter, it could be arranged for discussions to be slowed down by taking it up piecemeal, namely, discuss weather stations first, then navigational aids, then air bases, et cetera, which could consume one or two years. This delay he thought could be plausibly explained in Parliament. In fact, he thought this approach would be helpful to Norway and its Spitsbergen problem.

My opinion is government will be favorably inclined towards America and approachable on all problems.

MARVEL

¹The Kristensen government resigned in October 1947 after a vote of no confidence in the Folketing. Following the election in late October, a new government was formed by Prime Minister Hans Hedtoft.

²Not printed. Its operative portion read as follows:

"Green treaty is being negotiated by Dept with Dan Emb here and probably discussions will be accelerated after Kauffmann returns from UN meeting late this month.

"Meanwhile you can assist by evaluating attitude new Dan Govt to problem, and views set forth Deptel 596 Sep 29 [ante, p. 676] can be advanced as opportunities arise." (859B.20/11-447)

840.48 Refugees/12-1947

The Acting Secretary of State to the Secretary of Defense (Forrestal)

SECRET

[WASHINGTON,] December 19, 1947.

MY DEAR MR. SECRETARY: I should like to bring to your personal attention a matter which may seriously impede our negotiations with Denmark for base rights in Greenland.

The Danish Government has requested the United States to receive in the U.S. Zone of Germany some 8,000 Germans who are refugees in Denmark. The Department of the Army has indicated that it cannot concur in complying with the Danish request. The Danish Government has firmly indicated to the Department of State that Danish feeling in this matter is so intense that refusal by the U.S. to meet the Danish request is likely to make it impossible to obtain the base rights in Greenland which I understand is a matter regarded as highly important from a national security standpoint. In these circumstances I believe the problem is essentially one of weighing the inconvenience and burden which receiving these refugees would place upon the administration of the U.S. Zone against the danger to our negotiations for the Greenland bases which would result from refusing the Danish request. Although it is my own view that the greater interests of the U.S. will be served by agreeing to the Danish request, I feel that the question is one of primary concern to the Department of National Defense. I should, therefore, appreciate your guidance. Because of the interest of the Army, Navy and Air Force in this matter, I am sending copies of this letter to Messrs. Royall, Sullivan¹ and Symington.²

The German refugees in question are among some 70-75 thousand who remain from some 200,000 Germans who fled to Denmark during the war. The maintenance of these refugees has been a heavy and distasteful burden upon Denmark, which has repeatedly urged the Occupying Powers to absorb them. The Department of State has been informed by the Danish Ambassador that the Soviet Zone will absorb half of the refugees if the Western Zones will absorb the remaining half. The Western Zones have thus far absorbed some 62,000, of whom 12,000 were taken by the U.S. Zone, although no obligation rested on the U.S. to do so. Of the 70-75 thousand remaining, Denmark regards the Soviet Zone as obligated to take 50,000 and has requested the three Western powers to take 20-25 thousand, the U.S. Zone's share being approximately 8,000.

The Danish Government has stated that the other Western powers are willing to take their share, conditioned upon our agreement to take

¹ John L. Sullivan, Secretary of the Navy.

² W. Stuart Symington, Secretary of the Air Force.

our share. The British Government has made a proposal in the Coordinating Committee in Berlin³ to complete the solution of this problem. This matter is now before a subcommittee of the Coordinating Committee and the U.S. must take a position on it in the near future.

This matter has been discussed thoroughly with representatives of the Army Department here and by Ambassador Douglas and Assistant Secretary Saltzman with General Clay in London.⁴ The Army's position is based upon the acute housing and food situation in Germany; the effect which affirmative action would have upon the Germans in our zone and upon other countries such as Czechoslovakia and Hungary which have been anxious to send their German population into our zone; the lack of obligation to accept the refugees; and the fact that the U.S. Zone already had accepted the previous group without such obligation. These objections are valid and understandable from the point of view of the administration of Germany. They must be weighed, however, against the effect of U.S. rejection of the Danish request.

The Department of the Army has suggested that if definite assurance can be obtained from Denmark that the base rights would actually be obtained as a result of possible action on the Danish request, it would be prepared to reconsider the whole question. We have considered this suggestion but have concluded that under the circumstances it should not be attempted since its effect would probably be adverse rather than favorable.

Our position will be considerably improved if we are able to give the Danes a favorable reply promptly. I should, therefore, appreciate hearing from you as soon as possible.

Sincerely yours,

ROBERT A. LOVETT
Acting Secretary

³ An agency of the Allied Control Authority for Germany. For documentation on the problems of quadripartite control in Germany, see vol. II, pp. 831 ff.

⁴ Lewis Douglas, the Ambassador in the United Kingdom, Charles E. Saltzman, Assistant Secretary of State for Occupied Areas, and Gen. Clay were serving as advisers on the United States Delegation to the Fifth Session of the Council of Foreign Ministers, held in London, November 25-December 15, 1947.

FRANCE

CONCERN OF THE UNITED STATES WITH POLITICAL AND ECONOMIC DEVELOPMENTS RELATING TO FRANCE; MEASURES UNDERTAKEN BY THE UNITED STATES TO ASSIST IN THE PRESERVATION OF DEMOCRATIC GOVERNMENT IN FRANCE¹

851.00/1-2347: Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, January 23, 1947—7 p.m.

318. My 308, January 23.² A most reliable source close to Marcel Paul³ informs me that latter told him several days ago that the French Communist Party had received instructions from Moscow to get as many Cabinet posts as possible but to enter the Government "even if it only obtained two Cabinet posts".⁴ According to Paul the two posts in question were National Defense (this for prestige reasons because of the strong stand the Communists took in December) and Labor. Anything else they could get would be gravy. Paul added that it was of great importance for the Communists to be in the Government during the period preceding the Moscow Foreign Ministers Conference⁵ since the results of this Conference would have a vital bearing on the evolution of events in western Europe.

My informant was also told by a Left-Wing Socialist who has very close relations with Pierre Hervé⁶ that the latter told him much the same story but added that Moscow has instructed the French Communist Party to behave with moderation in the next several weeks but to be prepared if necessary to create a major political crisis at the end of February or the beginning of March preceding the Moscow conference in case it becomes necessary to "neutralize" French foreign policy

¹ For previous documentation see *Foreign Relations*, 1946, vol. v, pp. 399 ff. For documentation on the interest of the United States in nationalist opposition to the restoration of French rule in Indochina, see volume vi.

² Not printed.

³ A leader of the Communist Party in France.

⁴ Vincent Auriol, elected President of the French Republic on January 16, selected Paul Ramadier to form a new cabinet after Léon Blum retired. On January 22 Ramadier announced formation of a coalition cabinet that included five Communists, among them Maurice Thorez (as one of two Vice Premiers), François Billoux (National Defense), and Ambroise Croizat (Labor).

⁵ For documentation relating to the Moscow Conference, March 10–April 24, 1947, see vol. II, pp. 139 ff.

⁶ A leader of the Communist Party in France.

at that juncture. When asked how such a crisis could be provoked Hervé reportedly replied that "the Communists could always find some pretext to withdraw from the Government but in addition could through the CGT create an impossible situation for the present Government".

To protect source I have classified this telegram top secret and request that it be treated with utmost secrecy.

Sent Department as 318, repeated to Moscow as 22.

CAFFERY

851.00/1-2847: Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, January 28, 1947—7 p. m.

372. Bidault¹ told me this morning that the new government is not getting off to a very good start due to the intransigence of the Communist Ministers who are already fighting the other Ministers at every step. "Unless Moscow changes their directives to the Communist Party here," he said, "this Government is not going to last very long."

He then indulged in a violent diatribe against the Communist Party here; how he has always tried to get along with them even having been occasionally criticized as being too conciliatory; how for a long time he believed it would be possible to live alongside of them but he is doubtful about that now. He has become convinced that the Communists are out to eradicate western civilization as we know it from western Europe. He is particularly worried about Billoux in National Defense. Billoux he considers an extremely able, very likable and extremely dangerous Communist militant. His presence in National Defense bodes no good for the French Army (I agree with Bidault about Billoux).

While on the one hand I believe that Bidault was sincere when he was talking to me about the Communists; on the other hand, I am perfectly aware that for reasons of personal ambition he has frequently "compromised" with them in the past and he will do so in the future when it happens to suit his purpose of the moment. In other words: while Bidault's principles are basically anti-Communist, at the Moscow Conference the Secretary will by no means always be able to count on him; and it is difficult to know in advance when he is going to "compromise" on one of those principles.

CAFFERY

¹ Georges Bidault, French Minister for Foreign Affairs.

851.51/1-3047: Telegram

The Ambassador in France (Caffery) to the Secretary of State

CONFIDENTIAL

PARIS, January 30, 1947—9 p. m.

411. Embassy informed that at Finance Ministry meeting this afternoon under chairmanship Finance Minister Schuman, decision was made for Baumgartner, President Crédit National, to proceed immediately to Washington in connection French application International Bank loan. He is scheduled to take plane this Sunday.¹

Meeting was reportedly called as result of telephone call this morning from French alternate director International Bank, who reported that McCloy² appointment presidency [*as president*] was imminent.

Mendès-France, French executive director International Bank, is planning to leave for Washington some time next week.

CAFFERY

¹ February 2.² The election of John J. McCloy as President of the International Bank for Reconstruction and Development was announced on February 28, 1947.

851.00B/2-1947: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, February 19, 1947—1 p. m.

741. Remytel 719, February 17, 6 p.m.¹ Viewed from the vantage point of Paris, the "Comintern" gathering at London,² timed as it is upon the eve of the Moscow Conference, reflects the highly complex nature of Soviet policy so well orchestrated here through the vast network of the French Communist movement, as well as various Comintern organizations and auxiliaries such as the WFTU, Women's International Democratic Federation, World Youth Federation, and similar groups. The long hand of the Kremlin is increasingly exercising power, or at least influence, in all European countries, largely through its principal lever, the French Communist Party and its fortress the CGT. All these organizations function primarily as public pressure machines designed to promote Soviet aims and ambitions, while attacking the "imperialism" of the Anglo-Saxon "capitalist" powers, and undermining French authority in the colonies.

Posing to the average Frenchman as the strongest defender of his fatherland, especially against the German "menace" and "international

¹ Not printed.² The 19th annual conference of the British Communist party was held in London on February 22, 23, and 24, with representatives of various foreign Communist parties present. It was followed by the 1st conference of Communist parties of the British Empire, February 26-March 3.

capital", the Soviet Trojan horse in France is so well camouflaged that millions of Communist militants, sympathizers, and opportunists have been brought to believe that the best way to defend France is to identify French national interests with the aims of the Soviet Union. Accordingly, Moscow is taking the initiative all along the line in utilizing its own auxiliaries like the WFTU and Women's International Democratic Federation for purpose of raising a hue and cry about British and American "imperialism", racial discrimination, promotion of "international trusts", et cetera, and thus diverting attention from the extremely ugly aspects of the Soviet brand of "socialism" in the Soviet Union and its surrounding satellites. Owing to the fact that Paris has become the center of these activities, this city now resembles a veritable hive of Comintern agents with their swarm of followers and dupes, of whom the already large number almost daily increases, and who are endeavoring to "bore from within" international pacifist and idealist organizations like UNESCO and International United Nations Association.

The Comintern "brain trust" here is more active and bolder than at any period since the liberation. One of the Comintern's spokesmen here, Courtade, openly proclaims that Stalin continues to pursue the strategy laid down by Lenin in the aim of exploiting all weaknesses and contradictions arising within the "parliamentary and bourgeois democracies" and asserts that it is absurd to accuse the Soviet Union of pursuing imperialist policies, since imperialism is the outgrowth of "capitalism" and consequently cannot exist in the "socialist" Soviet Union. Courtade insists that the "steps and efforts of a socialist state in the aim of assuring its defense and augmenting its authority are legitimate", and divulges that "even when a conflict arises between a progressive state and one which is not so progressive, it appears normal to us in all cases to support the demands of the progressive state". Basing his thesis on the myth that Soviet Union is really socialist and democratic, Courtade has the effrontery to announce that, "We do not separate our patriotism and the defense of French interests from the defense of the positions already conquered by the socialist revolution."

Courtade's Soviet patriotism and that of other French Communists, such as Thorez, was well tested and found loyal by the Kremlin in 1940, when in support of the Hitler-Stalin pact,³ he engaged in secret Communist activities designed to disintegrate the French army at a time when his own country was at war with Germany.

³ For text of the Treaty of Non-Aggression between Germany and the Union of Soviet Socialist Republics, signed August 23, 1939, see *Documents on German Foreign Policy, 1918-1945*, series D, vol. VII (Washington, Government Printing Office, 1956), pp. 245 ff.

The real nature of the Soviet advance in Europe is cloaked under the Stalinist doctrine of the unequal development of "socialism", that is, the thesis that the extension of Soviet power depends upon the gradual and uneven breakdown of "bourgeois democracy" in countries situated on the perimeter of the Soviet Union. This thesis is well reflected in the recent remark of the chief spokesman of the Communist parties for western Europe and America, Jacques Duclos, to the effect that "Frenchmen can sleep more tranquilly over the thought that Silesia is no longer in the hands of the Germans". This remark, made on the occasion of the Polish elections on January 19, gave the signal for the French Communists to take an ostensibly French nationalist position on the western frontiers of Poland. Last Saturday, the weekly organ of central committee of Communist Party *France Nouvelle* condemned former Secretary Byrnes' "generosity" at Stuttgart "in proposing the return to Germany of western Polish lands contrary to Potsdam decision",⁴ insisted that Silesia should "never" return to Germany.

This publication added that this attitude is based on the "simple principle which should not be forgotten a single moment at Moscow Conference," namely, that "everything which weakens Germany reassures us, so true is it that Germany becomes more or less dangerous according to whether it is strengthened or weakened."

In view of implications of this latest outburst on part of French Communists, it will be interesting to see whether a German delegation will attend the "Comintern" Conference in London, and if so how it will present there the highly "nationalist" line of the German Party. In any event, treatment of German problem at this conference should evoke the greatest possible attention.

Viewed from here, Germany appears as the pivot of power in Europe, and so long as we do not fully exploit the contradictions and weaknesses arising from the fundamental conflict of interests between the Soviet Union and its "fifth columns" in Germany, France, and other countries, the Kremlin will remain in the position simultaneously to pursue its own ends (including demand for heavier reparations) without essentially endangering the position of the French, Polish, and other "nationalist" Communist parties in Europe.

Repeated London 143, Moscow 80, Berlin 61, Rome 41, and Vienna 14.

CAFFERY

⁴ For text of Secretary Byrnes' speech of September 6, 1946, at Stuttgart, see Department of State *Bulletin*, September 15, 1946, p. 496.

851.00/3-647

The Ambassador in France (Caffery) to the Deputy Director of the Office of European Affairs (Hickerson)

SECRET

PARIS, March 6, 1947.

DEAR JACK: Prior to the Secretary's arrival in Paris this morning I prepared a brief and rather general memorandum on the present French picture as we see it at this juncture. I am enclosing for your information a copy of the memorandum. As I said above, it treats the general aspects of the French situation and represents a symposium of the views of a number of officials and political observers of different political orientation.¹

With all good wishes,

Very sincerely yours,

JEFFERSON CAFFERY

[Enclosure]

Memorandum by the Ambassador in France (Caffery)

SECRET

[PARIS,] March 6, 1947.

Although the present Government by nature of its broad coalition basis enjoys the appearance of a large parliamentary majority, nonetheless there are a number of critical questions which could lead to serious dissension within this uneasy parliamentary majority. Questions such as wages and prices, revision of the press laws, balancing the budget, French overseas colonial policy (particularly in Indo-China), strictly controlled economy versus economic liberalism, are among the more acute problems on which different elements within the Government are in basic disagreement. A knockdown-dragout fight on some of these issues could easily result in the withdrawal of support by elements which at present are participating in the Government, thus causing a serious political crisis.

For the moment, and particularly until the termination of the Moscow Conference, it is generally believed that none of the political parties participating in the Government will wish to precipitate a serious political crisis because such action would greatly weaken the hand of the French Delegation at Moscow, when critical discussions on Germany, involving French security, are occurring. After the termina-

¹The memorandum was prepared for use by Secretary Marshall as background for his conversations at Paris en route to a meeting of the Council of Foreign Ministers at Moscow. For the record of the Secretary's conversation on March 6 with Vincent Auriol, President of the French Republic, mostly with regard to the forthcoming meeting at Moscow, see vol. II, p. 190.

tion of the Moscow Conference, however, the situation will again become fraught with possibilities, particularly if French economy deteriorates further.

Insofar as the general public is concerned, there is uneasiness and a lack of confidence in the present Government. Reports from many prefectures in France, particularly from those areas where food is scarce and living conditions difficult, indicate that while at present there appears to be no danger of any disorder or trouble originating in such regions, there is considerable discontent, and should there be trouble in Paris there would probably be rapid repercussions in these areas. There is also general discontent with the Government because it seems incapable of governing effectively. This has led in some cases to the development of an unhealthy state of mind to the effect that since democracy as it is practiced in France does not seem to be effective, an authoritative Government is needed.

In this connection it is interesting that de Gaulle² has decided to take the initiative and actively reenter the political arena. He has announced that he will make several speeches during the month of March. This decision has resulted in a series of rumors among his opponents of the extreme Left and his supporters of the Right that some form of manoeuver looking to the establishment of an authoritarian Gaullist régime is in the offing. Actually the present Gaullist game is to break down the party discipline of the parties of the Center and Right so that the membership thereof will desert the group to which they now belong and form a coalition headed by de Gaulle which will be anti-Communist in fact but not in name. His chances of succeeding in such a manoeuver in the immediate future do not appear bright but he has unquestionably gained support for the idea recently among the ranks of parliamentarians belonging to the Rassemblement des Gauches, the MRP and the Independent Republicans. Should a situation arise where the French people are given a choice *only* between de Gaulle and the Communists, a majority would certainly back the General. On the other hand, should a crisis of the first magnitude develop it seems probable at this juncture that Blum (who is holding himself on the sidelines) might, because of his recently increased prestige, first be called back to try to solve it, and there is little doubt that Blum and certain elements of the Center have such a possibility in mind. Should Blum fail, the choice might necessarily be between de Gaulle and the Communists.

The Communists, for the moment, are behaving themselves. Apparently on instructions from Moscow they entered the present Gov-

² Gen. Charles de Gaulle had temporarily withdrawn from public affairs in January 1946.

ernment with a view to influencing the French Government's foreign policy, particularly during the Moscow Conference. While maintaining the outward fiction of being a "Government Party" they continue their undermining and infiltration tactics. What the Communist position will be after the Moscow Conference is not certain and may depend to a considerable extent on what actually transpires at Moscow as well as in France itself.

From the foregoing it should not be assumed that there will be serious trouble or disorder in the period of the next several months. The French people tend to be either over-optimistic or over-pessimistic, and with the advent of Spring, with warmer weather and easier living conditions, their present feeling of pessimism may undergo change. However, this will depend to a great extent on the Government's ability to solve the most critical economic and financial problems in such a fashion that the French people believe that although living conditions are difficult, the Government has a sound financial and economic program through which French recovery may be effected. At this juncture it seems evident that the possibility of adopting a sound economic program depends on gaining real support of the Communist Party and its auxiliary, the CGT. Failing this, it is difficult to see how a serious political crisis can be avoided.

851.00/3-3147 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, March 31, 1947—8 p. m.

1371. Without question the Socialists as well as the MRP are vastly relieved that the Communists did not leave the government at this juncture because they feared that if they left the government they might make all government impossible by virtue of their control of the CGT which they might launch into a series of strikes all over the country.

This is leading up to say that the CGT is the key to the mystery and while some effort has been made in the direction of removing CGT levers of control from Communist hands a great deal more has to be accomplished before non-Communist labor leaders will be in a position to take hold of the situation. In other words: Non-Communist parties are not yet ready to stage a fight with the Communists over the CGT. While I repeat that much remains to be done I have noticed some encouraging signs of late: For instance a new courage which we now find in non-Communist labor and also the endeavor which is now being made to organize non-Communist groups to confront the presently

well-organized, well-disciplined, well-financed Communist groups which will take to the streets in the event of disorder of [or?] serious labor difficulties.

In brief: A year ago I was discouraged about the possibility of preventing the Communists from eventually taking over this country; now I have come to believe that they will not take it over; but the process of organizing the genuine democratic forces into an effective machine will be long and tedious; and without a doubt the Communists if they don't take it over will struggle hard to keep it weak and divided.

Sent Department 1371, repeated Moscow for Delegation 202, and London 270.

CAFFERY

851.00/4-347: Airgram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, April 3, 1947.

A-622. André Philip, Minister of National Economy and moderate Socialist, commented to Embassy today that political situation in France was "primarily a battle between the United States and the Soviet Union", and that "before the Socialists could successfully kick the Communists out of the Cabinet" it would be necessary for economic conditions in France to be substantially better than they are today.

CAFFERY

851.5018/4-847

The French Embassy to the Department of State

[Translation]

WASHINGTON, April 8, 1947.

AIDE-MÉMOIRE

On instructions from the French Government, the French Embassy sent to the Department of State on March 31, 1947,¹ a note by which it called its attention to the very precarious situation of the supplying of cereals to France and to the urgent need of obtaining a quick and substantial increase in American shipments, since the United States is the only source of imports on which France can count at the present time.

The reports which have reached the Embassy very recently confirm the gravity of this situation. In spite of the saving realized in North

¹ Not printed.

Africa, thanks to the use of a high percentage of barley, and in spite of the energetic measures taken in Metropolitan France to speed receipts, the supplying of flour is already beginning to cause great difficulties, especially in the south of France. For that reason, it has been necessary to draw on the limited stocks of Paris and Lille to assure the supplying of Marseilles and Nice.

These disruptions, which will increase and become more extensive in the course of the coming weeks, are due to several causes: the decrease in receipts in proportion to the resumption of agricultural work; the impossibility, owing to the lessening of the reserve supplies, of assuring the distribution of the available resources throughout the country; and the insufficiency of imports.

It is to be expected that these difficulties will increase considerably at the beginning of May, when shipments within the country will be completely halted as a result of the progressive exhaustion of the supplies.

This situation, the gravity of which was not equaled even in the hardest years of the occupation, imposes upon the French Government, in spite of the weighty political consequences which such a measure involves, the obligation of reducing the bread ration, beginning May 1, to a level which it has never before reached.

This decision, however, will not suffice to solve the problem. It is, in addition, indispensable that France receive, from now until May 31, large supplementary deliveries, and that it receive advance shipment of its June quota if it is desired to prevent, in the great urban centers, the mining areas and other regions, the occurrence of interruptions in the supplying of a ration which has already been diminished and which concerns a type of bread which includes an abnormal proportion of corn.

The French Government has the firm hope that, under these grave circumstances, the Government of the United States will be so good as to lend it its effective and immediate assistance.

851.00/4-1147: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, April 11, 1947—2 p. m.

1493. De Gaulle's recent political activity, particularly his Strasbourg speech¹ and the threat of more to come, have served further

¹ Speech made at Strasbourg on April 7, 1947, commemorating the second anniversary of the liberation of Alsace. In the speech de Gaulle appealed for national unity and spoke on the political, economic, and external problems facing France. The speech was followed by formation of the Rassemblement du Peuple Français (RPF).

to agitate the already troubled French political waters and have created acute uneasiness in all political parties of the Center and Left. This "malaise" stems in large part from the fact that every party (except the Communists) realizes that De Gaulle represents a powerful role of attraction to a substantial part of its membership, and that De Gaulle is actually out to divide and destroy the individual parties as now constituted. (The MRP is particularly vulnerable to De Gaulle's attack because of the basic cleavage between pro-Gaullist and pro-Bidault factions. The Rassemblement des Gauches is equally vulnerable because whereas the leadership of the UDSR is ardently Gaullist, a majority of the Radical Socialist elements would at present probably only support De Gaulle in the event they were given a choice only between him and the Communists). Furthermore there is anxiety concerning the steps by which he intends to seek to return to power and the possible "chain-reaction" his activity may cause.

De Gaulle has not yet decided on his strategy but his general aim is, as indicated above, to destroy the hold of the political parties on their followers so that large parts of their membership, including their parliamentary representatives, will transfer their allegiance to him. Counting on the disintegration of the political parties and his own very considerable public prestige, De Gaulle apparently believes that in the ruins of the present political party system he can rally a substantial majority and construct a strong coalition grouping all anti-Communist forces.

While such a plan of campaign may appear sound to De Gaulle's ardent supporters, its practicality at this particular juncture is open to doubt. In the first place, in order for De Gaulle to succeed in forming a broad and successful anti-Communist coalition, he must have the support of working class elements and particularly of substantial elements of the vitally important trade union movement. As things now stand only Socialists can bring such support to De Gaulle. But the latter by his Bruneval² and Strasbourg speeches has served notice on them that he is out to destroy the present government, which is, of course, essentially Socialist (my 1415, April 3³). To defend themselves against this onslaught even strongly anti-Communist Socialists who under certain circumstances would work with De Gaulle have felt obliged for the present at least to make common cause with the Communists (who are determined to fight De Gaulle tooth and nail) on this issue. Thus the Communists who three weeks ago were isolated because of their stand on Indochina (and had in fact pushed the Socialists toward the center parties) now find the Socialists have been driven back into their embrace by De Gaulle's action.

² The speech at Bruneval on March 30, 1947, marked de Gaulle's return to the political arena in France.

³ Not printed.

Certain Socialists and a few political leaders of the Center who have been working to establish a strong anti-Communist coalition are unhappy over the results of De Gaulle's recent activity and believe it premature and ill-considered. They think it may set back their work of uniting anti-Communist forces and point out that actually De Gaulle's activity may serve to divide anti-Communist opinion thus strengthening the relative position of the Communists who are not only united but can count at this time on Socialist support on at least this issue. They also fear that if De Gaulle accentuates his present activity the present Communist line of "moderation" may undergo brusque change and the Communists may react forcefully when anti-Communist forces will be not only still unprepared for a final show-down but (as a result of De Gaulle's drive) will be perhaps more divided than ever. They point out that given De Gaulle's deep hostility to both the French Communist Party and the Soviet Union the interests of both would best be served by doing everything possible to prevent him from again taking up the reins of government.

Sent Dept 1493; repeated Moscow for the Delegation 234 and London as 287.

CAFFERY

851.00/4-1847: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, April 18, 1947—6 p. m.

US URGENT

1623. Mytel 1601 April 17¹ Discussing the Cabinet session day before yesterday at which the Communists were reported to have walked out because of opposition to rest of Cabinet's stand on the Malgache deputies who were arrested for implication in Madagascar revolt a high Interior Ministry official stated his belief that "although the Malgache are not tied to Moscow as is the Viet Nam in Indo China,² there is not the slightest doubt that the Communists prior to the revolt urged the Malgache representatives to resort to illegal insurrectionary action".

My informant said that in leaking to the press what transpired at the Cabinet meeting yesterday "certain Cabinet Ministers including Teitgen"³ exaggerated somewhat the "menacing" attitude of the Communists with the view of placing the latter in the most unfavorable possible light before French public opinion. For example, the press

¹ Not printed.

² For documentation on the situation in Indochina, see vol. VI, pp. 51 ff.

³ Pierre-Henri Teitgen, Vice-President of the French Council of Ministers.

story implied that the Communists walked out in the middle of the meeting threatening quit the government. My source says this not strictly accurate. When the meeting was almost over they withdrew with veiled but not open threats, but Thorez subsequently attended the restricted Cabinet meeting in the afternoon.

Nonetheless it is now clear that the Madagascar problem has become an issue which could lead to the fall of the Ramadier government. While Interior Ministry does not expect a ministerial crisis before the Assembly reconvenes on April 29 it believes that matters will rapidly come to a head immediately thereafter when the debate is opened on the status of the arrested Malgache deputies. My informant believes that if Communist deputies (in opposition to the other parties) do not actually vote against withdrawal of Parliamentary immunity of Malgache deputies they will, as in the case of Indo China, at least abstain. In light of behavior of Communist Cabinet Ministers day before yesterday he believes it possible that they also may abstain or even vote against the government. Such action could entail collapse of Ramadier's government should either the Communists refuse to accept the majority's will or should Ramadier or any of governmental parties refuse to remain in government because of this further violation of the principle of ministerial solidarity. In many respects there is therefore a close analogy between the new impending crisis and that which occurred recently over Indo China.

Speaking of the Communists present tactical position resulting from their stand on the arrested Malgache deputies my informant said that "they are in the difficult position in which they always find themselves when Moscow's orders force them to adopt an anti-nationalist line". He recalled that when Malgache deputies were arrested the Communist Cabinet Ministers did not protest and that for several days thereafter and "pending instructions from Moscow the Communist press played this whole story down and contended itself with simple announcements of the arrest. Subsequently when they received their orders openly to attack the government's stand they obeyed loyally if somewhat unhappily since they know it will hurt them with the French public." He explained their position as follows:

On the one hand Moscow, one of whose cardinal policies is the disintegration of existing colonial possessions not only so that Communists can fill the vacuum but also because it enfeebles the colonial power and makes it an easier prey to ultimate Communist domination, has ordered them to support at all cost colonial independence movements etc., which lead to unrest and weaken France's hold on her overseas empire;

On the other hand by obeying these orders Communist Party (French) tends to isolate itself from the other parties which are firmly behind the present government's policy and weakens its position

with the average Frenchman, who although generally apathetic is nonetheless a flag waver insofar as the French Empire is concerned. Furthermore, in this particular instance since the present colonial policy is directed by Socialist Minister Moutet⁴ attacks against his policy tend to force the Socialists away from Communists at the very time when the latter have drawn closer on the De Gaulle issue. Such action of course strengthens De Gaulle's hand since the latter has always maintained he is the only one who can save the French Empire.

In summarizing my informant expressed opinion that in the light of this most recent development re Madagascar and the possibility of other important developments in the colonial field (for example when the Algerian statute is debated next month) it is impossible to predict how the internal situation will evolve. This will depend largely on whether or not the French Communist Party receives orders (as he believes it will because of vital importance to Moscow) to support independence movements in French overseas areas even if it means breaking with the government. He said that while the French Communists have a certain liberty of action in choosing tactics to be employed in dealing with internal French problems, "on colonial questions they must follow Moscow's orders to the letter regardless of the immediate damage it may do them with the French public".

I concur with the foregoing estimate of the broad lines of Communist strategy which is shared by other qualified observers (including a former Comintern agent) having intimate knowledge of Communist policy and strategy.

Sent Dept 1623, repeated London 308, Moscow for delegation 257.

CAFFERY

⁴ Marius Moutet, Minister for Overseas France.

851.6131/4-2347: Telegram

The Under Secretary of State for Economic Affairs (Clayton¹) to the Acting Secretary of State

CONFIDENTIAL
PRIORITY

GENEVA, April 23, 1947—6 p. m.

156. For Acheson and Stillwell² from Clayton. At Ambassador Caffery's request I saw here today Messrs. Durand, Director of National Cereal Board and Bou, representing Ministry of Agriculture of

¹ William L. Clayton was also Chairman of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment at Geneva, April 10-October 30, 1947.

² James A. Stillwell, International Resources Division.

France. These gentlemen were accompanied by Thibodeaux our Agricultural Attaché Paris.

France is in a rather desperate position regarding grain supplies. Bread ration reduced from 300 to 250 grams effective May 1st, although not yet published. If unable to get additional help from US they will be compelled to reduce this ration to 200 grams.

French representatives stated that when Tanguy-Prigent, Minister of Agriculture, was in Washington he obtained a promised allocation of 553,000 tons of bread grains for shipment from the US,³ February, March, April, May and June. However, present program is for shipment only 423,000 tons during this period. France urgently requires shipment of remaining 130,000 tons and in addition 160,000 tons to arrive in July. They could, in case of necessity, take these 290,000 tons in corn and would like to have it shipped half each May and June: in other words, 145,000 tons of corn each in May and June to arrive in France in June and July.

Being convinced of the extreme urgency of this matter I wish to strongly recommend that you go to the President and ask him to request Agriculture to renew the procurement of wheat in the north-west to apply of course against our total export program. I understand Agriculture discontinued the purchase of wheat because of the inflationary effect of further government purchases. This present situation, however, is so critical and the grave social, economic and political consequences which will almost certainly flow from our failure to provide this aid to France seem to me to be compelling reasons for continuing procurement program in spite of inflationary aspect.

Will greatly appreciate your early advice so that we can inform the French.

Sent Department 156, repeated Paris.

[CLAYTON]

³ Pierre Tanguy-Prigent came to Washington in early February 1947 to discuss the cereal situation in France.

851.00B/4-2547 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, April 25, 1947—3 p. m.

1719. Qualified observers here of the world Communist movement, especially those formerly connected with the Comintern, are increasingly inclined to believe that the French Communists are being directed to accelerate their agitation in the French colonies to the extent even that they may not be able to remain in the government. In this connection the Resident General of Tunisia recently expressed to

intimate friends in Paris that he is gravely concerned over the mounting native agitation backed by Communists in Tunis and expects trouble there in the near future.

In the meanwhile the debate continues between the group in the Communist Party leadership favoring passing to opposition to the government and the group which defends remaining therein. My 1364, March 31, 7 p. m.¹ According to a reliable source the real head of the CGT, Frachon, who has remained more or less neutral in this debate up to the present is now tending to join the Mauvais-Fajon block in favor of opposition. Frachon attended the Political Bureau meeting held on April 17 where he stated that an increasing number of Communist militants in the CGT, particularly in the Paris region, no longer willingly accepted the thesis that the Communists should remain in the govt. Frachon insisted that "working class opinion should be taken into consideration, particularly since membership in CGT is falling off owing to the workers failure sometimes to understand Communist trade union policies." This remark probably alludes to recent developments in Paris region where workers and even Communists have revolted against trade union leaders in a few factories.

Great importance is attached by Communists here to Marty's visit to Algeria where he is attending congress of Algerian Communist Party and they expect his report on the situation there to furnish them material in support of the new statutes on Algeria proposed by the Communist Party for discussion in the Assembly.

Sent Dept 1719, repeated Moscow 290, Berlin 146, London 337.

CAFFERY

¹ Not printed. It cited "trustworthy evidence available to Embassy" to the effect that the dispute in the French Communist party between the majority opposition group led by Léon Mauvais and Etienne Fajon and the minority led by Thorez, Billoux, and Jacques Duclos concerned tactics and in no way involved "the question of a revolt against Moscow". The telegram reviewed the history of the party since 1920 and concluded as follows: "It must again be emphasized that the very Communists who are now being described in the press as 'Nationalists' have personally performed all the backbreaking somersaults which subservience to Moscow has required of their party in the past. In the circumstances stories to the effect that certain Communist leaders are opposing Moscow; that they are Frenchmen first and Communists second; that Moscow is no longer guiding the general lines of French Communist policy, should all be viewed with the deepest skepticism." (851.00B/3-3147)

851.6131/4-2647 : Telegram

The Acting Secretary of State to the Embassy in France

RESTRICTED
U.S. URGENT

WASHINGTON, April 26, 1947—1 p. m.

1530. The French claim that the U.S. Govt promised shipment of 553,000 tons of grain to France in the period February-June 1947

arises from a misunderstanding on the part of the French dating from the time of the visit of Minister Prigent to Washington in February. The misconception was threefold, namely, (a) combining of recognized import requirements of Metropolitan France and French North Africa and applying the resultant total to Metropolitan France alone, (b) failure to understand that the IEFC recommended figure for shipments to France or any other country applies to total shipments from all sources and does not include specific recommendations concerning the source of such shipments, and (c) ignoring of the fact that the United States as a supplying country member of that Council has during the present half-year announced its export programs month by month, not singling out any countries for special consideration by allocation of grain covering longer periods.

The figure 553,000 was combined by Monsieur Prigent himself in a letter of February 18 to the Secretary of Agriculture as follows:

Seed wheat to be shipped from the U.S. in February	17, 000 tons
March program from the United States	68, 000 tons
Balance to be shipped April, May and June	<u>277, 000 tons</u>
Total for Metropolitan France	362, 000 tons
Total to be shipped to French North Africa	191, 000 tons
Total to France and French North Africa	553, 000 tons

There is therefore no basis whatever for the French to talk of a promised total of 553,000 for France itself when they themselves stated that the figure applying to France in this connection was 362,000 which was in harmony with IEFC figures for shipment to France from all sources.

In connection with the Minister's visit the IEFC made an upward revision of the French requirement from 450,000 for the crop-year July 1946-June 1947 to 877,000 which took into account the wheat frost-kill in France and made allowances for 100,000 tons imported for feed use.

In calculating balance still due to France from February forward, IEFC found that known shipments from all sources plus the U.S. March and April programs totalled 600,000 tons (about 500,000 of which had moved during last half of 1946) leaving balance of 277,000 tons to move from all sources. This is balance referred to in Mr. Prigent's letter to Secretary of Agriculture as being expected by French to move to France from United States in addition to already announced February and March programs to make a total of 362,000.

In letter of reply addressed to French Ambassador on March 4, Secretary of Agriculture indicated that February and March pro-

grams and also an April program of 123,000 tons to France and French North Africa could be regarded as specific commitments from United States, but that no commitments were yet possible regarding quantities to be programmed from United States in months of May and June, although United States would do its best to furnish as much of balance as possible. Likewise letter made clear that no promise could be made with regard to North Africa.

In actuality the United States with programs as announced through June and including recent emergency allocations of 33,000 and 36,000 tons respectively expects to make available 359,000 tons to Metropolitan France as compared to the 362,000 referred to by Monsieur Prigent in his letter.

This is broken down as follows:

February	17, 000
Part of March program moved to France	35, 000
Part of April program being moved to France	56, 000
May program	100, 000
June program	82, 000
Emergency programs	69, 000
	359, 000

Meantime shipments to France from Argentina have brought total known shipments plus U.S. programs to France thru June to a total for the crop year of 960,000 tons, thus actually exceeding the IEFEC recommended total of 877,000 tons for France from all sources by 83,000 tons.

As for French North Africa, shipments to this area from United States in March and April will total 92,000 tons. 38,000 were shipped to French North Africa from other sources earlier in the year, making total shipment of 130,000 tons.

The requirement now recognized for French North Africa in IEFEC is 207,000 tons. The balance not yet covered is therefore 777,000 [77,000?]. However, this shortfall is more than made up by the excess shipped from all sources to France, namely 87,000 [83,000?] tons. Thus known shipments and U.S. programs through June to France and French North Africa taken together more than meet the total for these areas recommended by IEFEC without taking into account additional shipments which will continue to be made from Argentina.

Sent Paris as 1530 rptd Geneva for Clayton as 223.

ACHESON

851.5018/4-2947: Telegram

The Secretary of State to the Under Secretary of State for Economic Affairs (Clayton) at Geneva

SECRET

WASHINGTON, April 29, 1947—4 p. m.

236. For personal attention of Mr. Clayton. Since telephone conversation with you Apr 23 have been doing everything possible increase shipments grain to France.

No commitment of 553,000 tons from US ever made to French Minister. You will recall we talked with French Minister and Ambassador Bonnet in your office concerning French requirement. We both pointed out that under present demands on US for grain it was not likely we could even ship 423,000 tons referred to by French as now scheduled from US. Present schedule of shipments Jan through June for France now actually amount to approx 461,000 tons, which includes an emergency allocation of 33,000 tons flour for Apr and May shipment announced Apr 15. Also including emergency allocation 36,000 tons wheat and flour for May shipment announced by Secretary Agri Fri, Apr 25. We already had schedule of shipments amounting to 1,500,000 tons a month Jan through June. Our schedule of shipments now Apr through June for over 1,600,000 tons each month. This has created unusual pressure on shipping facilities and also continued pressure on grain market. Entire Cabinet and President are of opinion that any additional demands on grain market at this time will simply further inflate grain market and produce no additional grain for export. Continued pressure from foreign press, particularly claims by French concerning US commitment 553,000 tons, also has inflationary effect on market which tends to drive wheat and corn into hiding.

For your private information Agri officials believe additional corn can be procured for shipment to France in June, probably amounting to 50 or 60,000 tons.

French officials should be made to understand that we will come as close to the 553,000 ton figure as possible. It is not practical, however, to expect the total to reach more than about 500,000 tons by end of June. Early July shipments to France could more than make up the balance required. French officials also should recognize that further pressure through the press will react adversely and perhaps reduce the quantity of grain available for shipment. French officials should be told only of the 463,000 tons presently scheduled, as mentioned above. Any amounts above that will depend entirely on ability to procure additional corn in present unstable market and continuance of total

shipments of more than 1,600,000 tons monthly. Suggest you convey any information herein you deem advisable to Caffery.

MARSHALL

851.5018/4-2947

The Secretary of State to the French Ambassador (Bonnet)

[WASHINGTON,] May 7, 1947.

The Secretary of State presents his compliments to His Excellency the Ambassador of France and has the honor to refer to his note No. 125 of March 31, 1947, his *aide-mémoire* of April 8, 1947, and his note No. 153 of April 29, 1947,¹ referring to the serious situation which has developed in the effort to cover the deficit in bread grains in France and French North Africa.

The Ambassador specifically requested in his note of March 31, 100,000 tons in addition to the April and May allocations which had been announced at that time, and an allocation of 200,000 tons for June. Emergency allocations of 33,000 tons and 36,000 tons of flour wheat equivalent have now been added to the April and May export programs. The June export program also contains 82,000 tons of flour and corn for France. In addition, an emergency allocation of 36,000 tons of corn has just been added to the May-June program for France. These allocations constitute a total of 187,000 tons which have been added since the Ambassador's note was received.

In his *aide-mémoire* of April 8 and his note of April 29 the Ambassador also requested that grain be made available in excess of the present allocations for May and June, and that the June allocation be shipped in advance. Officials of the United States Government have borne constantly in mind the French supply problem and have sought to extend as much help as possible. Efforts are being made to obtain further quantities of grain, but it is not yet certain whether this can be done, and it is only fair to state that any such quantities would be very limited. With respect to the question of shipping the June allocation in advance, the Department is informed that all the flour and grain in that allocation is purchased and shipped through private commercial channels. This Government does not, therefore, make the arrangements for such shipments, but it has already authorized the French to move grain bought through the private trade as fast as contracts will allow and shipping facilities permit.

The Secretary of State wishes to express to His Excellency this Government's great concern with the French grain position and its

¹ Notes of March 31 and April 29 are not printed.

earnest desire to furnish as much help as possible. Every consideration will be given to the needs of France, and it is regretted that heavy emergency demands in other parts of the world, together with the limitation of supply and transportation, make it impossible at this time to give the Ambassador assurances of a more definite or extensive nature.²

² For text of a press release of May 15 on additional grain shipments to France, see Department of State *Bulletin*, May 25, 1947, p. 1042.

Press Release Issued by the International Bank for Reconstruction and Development, Washington, May 9, 1947

The International Bank for Reconstruction and Development announced on May 9 the granting of its first loan, totaling \$250,000,000, to Crédit National, a semi-public French corporation created to assist in financing the reconstruction and development of the French economy. The loan is guaranteed by the Republic of France. The executive directors of the International Bank, at a special meeting on May 9, voted their approval of the loan, which originated in a request for a \$500,000,000 loan by the French Minister of Finance in an application dated October 8, 1946. The loan agreement was signed for the Bank by John J. McCloy, president, and on behalf of the Crédit National by Wilfrid Baumgartner, president. The guaranty agreement was signed by Henri Bonnet, Ambassador of France.

The loan is being made to assist France in the reconstruction of its war-torn economy and to finance the import of specific goods and equipment necessary to its economic rehabilitation. A portion of the proceeds will be devoted to the modernization of the steel industry, including a modern strip mill. The transportation system is to be improved by the purchase of locomotives and freight cars, cargo ships and canal barges, and commercial airplanes. Coal and oil, essential to industry and transport, figure largely among the prospective purchases, as do industrial raw materials, including semi-finished steel products and nonferrous metals. Under the loan agreement, the Bank will obtain full information concerning the goods to be purchased with the proceeds of the loan and their utilization. France will be free to purchase in whatever markets are most advantageous.

Because of its size and productive capacity, France is pivotal in western Europe. The economic rehabilitation of France will speed the recovery of surrounding countries and, through an expansion of trade, be beneficial to the rest of the world.

The loan is for a period of 30 years and will carry interest at the rate of 3¼ percent. In accordance with its articles of agreement, the

Bank will also charge a commission of 1 percent per annum on the outstanding portion of the loan to build up a special reserve.

The French national recovery program calls for heavy imports during the next five years. Therefore, no repayment of principal is scheduled for this period. Thereafter amortization begins at a modest rate and increases gradually so that the loan will be completely amortized by its due date.

Mr. McCloy states that, although the Bank is not now prepared to make any commitments with regard to a further loan, it will be willing to consider an additional application from France later this year. Any new application will be considered in the light of the funds which the Bank will then have available for lending and of the progress made in carrying out the French economic and recovery program.

851.00/5-1247 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, May 12, 1947—5 p. m.

U.S. URGENT

1927. French political developments culminating in the recent governmental crisis which resulted in the at least temporary exclusion of the Communists from a Coalition Government for the first time since the liberation have brought us to a point where a thorough analysis of our general policy toward France, and more particularly toward the present Ramadier Government is required. The subject is of great complexity and offers no guaranteed solution. However, its immediate and vital importance in the light of future possibilities is such that I am transmitting my observations by telegram rather than despatch despite their length.

I think it clear that given existing political conditions the party composition of the present government is from our viewpoint the best that could be hoped for. In the first place it excludes the Communists on the extreme left and reactionary elements on the right, and combines the fundamentally democratic forces of the center and left which still represent the views and command the support of a majority of the French Parliament and people despite a general public feeling of disillusionment with governmental fumbling and incoherence. If a really strong democratic France is to be established such a coalition is not only desirable but in fact offers the best chance of success. Furthermore, its component elements are oriented toward us through mutual belief in the new basic conception of liberty and human decency and through deep fear and distrust of ruthless Soviet

imperialism. Most important is the fact that the present government is essentially Socialist and is headed by a Socialist. It has thus the support of substantial anti-Communist elements of the vital trade union movement and if it succeeds it will unquestionably gain increased working class support.

While the foregoing considerations lead inevitably to the conclusion that it is in our own very real interest that the Ramadier Government succeed, its chances of so doing without substantial outside support seem very doubtful. Ramadier is faced with crucial economic problems—both immediate and long-range—which must be held to manageable proportions if the economic and hence political situation is not seriously to deteriorate. Conditions of life for the average worker and salaried employee are such that there is very real hardship, with consequent discontent. This makes them vulnerable to exploitation by extremists, particularly the Communists who are artists in this line. Among the government's acutest problems is the food (particularly grain) shortage, which has led to a reduction in the bread ration with a natural deterioration in morale. The period until the harvest is crucial and although some temporary relief may be expected after the harvest the food situation will be critical for at least another year. Furthermore, the price index of foods has risen sharply in the last three months largely as an indirect result of the winter wheat freeze and grain shortage. Lack of coal and low labor productivity both tend to retard the imperative expansion of both industrial and vital agricultural production. The ever present threat hangs over the government of an uncontrolled inflationary spiral which will occur unless the wage level is held and production increased. Administrative inefficiency, unsound control mechanisms encourage a highly developed black market and the tendency to hoard food and consumer goods makes matters worse.

The task facing the Ramadier Government would be difficult enough if all parties, including the Communists, were solidly behind it. But not even this is the case. While the Communists now in the opposition are acting with great circumspection and are not expected in the near future to resort to extreme action which might serve to force the Socialists further away from them and which would lay them open to charges of seriously crippling French economic recovery solely for their own political ends, it goes without saying that beneath the surface they will do everything in their power to torpedo the Ramadier Government. (My 1883, May 8¹.) (Already the Communist press is warning against accepting any further aid from the US on the grounds that this would be at the sacrifice of France's independence.)

¹ Not printed.

They are counting, until after the US elections in 1948, on our following a policy of economic retrenchment with drastic budgetary cuts which will not permit adequate aid to our friends and subsequently on an economic collapse which will make later aid impossible. In other words, on our following an economic policy of "too little and too late". It is essential to the Communists that Ramadier fail so that they can prove that France cannot be governed without them and they can subsequently reenter the government with increased authority and influence.

Consequences of a failure of the Ramadier Government on the French internal as well as international situation are too evident to require detailed elaboration. Insofar as the Socialists are concerned, both Ramadier and Blum showed great courage and were largely responsible for the reluctant Socialist decision to head a government excluding the Communists. The fact that they were able to persuade the National Congress of their party, even though by a bare majority, to accept this decision is an encouraging sign and one which certainly would not have been possible six months ago. In this connection the President's policy toward Greece and Turkey was probably one of the decisive factors.² On the other hand, there remains a serious division in the Socialist Party on the question of participating in, let alone leading, a government without the Communists. If Ramadier's Government fails, the very strong and vocal left-wing Socialist opposition to the policy of the present leadership will be greatly reinforced. It is almost certain that in such an event the Socialist left-wing will take over the direction of the Socialist Party.

In addition to the lessening of influence of anti-Communist Socialists within the Socialist Party, the fall of the Ramadier Government would almost inevitably weaken the newly-forged ties which for the moment at least link the forces of the center and left in the present government, particularly since both the MRP and RGR would find it infinitely more difficult to cooperate with highly doctrinaire left-wing Socialist leadership. But the major disaster attending a collapse of the Ramadier Government would be the happening [*opening*] of a division of France into two hostile extremist camps—the Communists on the one side and De Gaulle on the other—with an inevitable struggle to the finish between them.

Too many unknown factors are involved to permit accurate speculation at this juncture on the ultimate outcome of such a showdown between De Gaulle and the Communists, but it is at least clear that the struggle itself would have the most far-reaching and dangerous reper-

² For documentation regarding the policy of President Truman toward Greece and Turkey, see vol. v, pp. 1 ff.

cussions and from our point of view could not lead to a happy conclusion. If the Communists won, Soviet penetration of Western Europe, Africa, the Mediterranean and Middle East would be greatly facilitated, and our position in our zone of occupation of Germany rendered precarious, if not untenable. If De Gaulle won, France would be headed into a new and unknown adventure which by the nature of the forces generated in such a struggle would make the practice in France of democracy as we understand it difficult if not impossible for some time to come.

It would appear vital to our security to do everything we can to prevent France from falling under Communist domination. Sooner or later we may have to extend such support and the danger of failing to give such support now if it is feasible and warranted is that if the Ramadier Government collapses and a showdown with the Communists follows, we may then be obliged to support French elements which represent infinitely less in terms of democracy and public backing.

With regard to the short range situation, I believe that it is in our interest to continue to make every effort to give material assistance to France (particularly wheat and coal) during this critical period when the Ramadier Government is very definitely on trial. Anything we can do along these lines during the next two months should help to postpone and thereby enhance the chances of preventing the collapse on which both the Communists and De Gaulle are counting.

Our long term studies should include a reappraisal of the Monnet⁵ Plan which has been accepted as the blueprint for French recovery. In this connection, it now seems fairly apparent that even if France's financial resources in the next few years held to the level on which the plan was based, the plan itself would not be more than 65% completed by the end of 1950. Actually some of the basic assumptions of the plans were unrealistic in character (notably with regard to labor, assets from immigrant remittances and tourist trade, and a too optimistic view of French agricultural recovery). There has also been an unanticipated deterioration in the economic situation since last October as a result of which important assets have had to be spent on increased wheat and coal imports, etc. In the circumstances, and granting the fact that for political reasons the Monnet Plan must be retained at least as a reflection of the aspirations of the French people which might conceivably be attainable in time, serious study should be given to the question of whether there should not be a complete readaptation of the Monnet Plan to place immediate emphasis on, for example, recovery of agricultural production; increase in production for internal use of goods essential to the masses including housing; and in-

⁵ Jean Monnet was Commissioner General of the Plan for Modernization and Reequipment of the French economy.

crease of winter coal allocations for household use. France's economic recovery is currently checked by extremely poor productivity. The present Monnet Plan places chief reliance on the remedy of technological improvement of the means of production. The new approach to which I have alluded would give at least equal consideration to greater productivity through the rehabilitation of the physical condition and psychology of France's laboring and small salaried groups. While such a program would further delay the achievement of the position envisaged by the Monnet Plan, it might well enhance the chances of ultimate success by bringing about an early improvement in living conditions which should in turn bring about an achievement in the political atmosphere so necessary if extremist solutions are to be avoided. Further details on this aspect of the program will be submitted by mail.

Sent Department 1927, repeated Geneva for Clayton as 30.

CAFFERY

751.60F/5-1447: Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

SECRET

LONDON, May 14, 1947—6 p. m.

2737. With reference to possible negotiation of French-Czech and French-Polish pacts, Under Secretary Warner¹ comments that French say that it is the Czechs and Poles who have taken initiative while Czechs and Poles say it is the French. "We have been using such influence as we have with the French", Warner says, "to discourage these pacts on the ground that they are unrealistic." Quai d'Orsay, however, takes position that when eastern European countries hold out a hand to the west they should not be discouraged. Warner surmises that Quai d'Orsay's readiness to undertake discussions with Czechs and Poles results from deal with French Communists at time of Anglo-French pact² signature.

To French here in London, Warner says, the unrealistic nature of bilateral pacts with Czechoslovakia and Poland has been especially emphasized. It has been pointed out that bilateral pacts, would be of little if any help against a resurgent Germany. Such a threat the French here have been told can most effectively be met by the Byrnes' draft treaty,³ which the French have said they favor and the promis-

¹ Christopher Frederick Ashton Warner, an Assistant Under Secretary of State in the British Foreign Office.

² Treaty of Alliance and Mutual Assistance between Great Britain and France, signed at Dunkerque on March 4, 1947.

³ During the Second Session of the Council of Foreign Ministers, Paris, April 25-May 15 and June 15-July 12, 1946, Secretary of State James F. Byrnes submitted a draft four-power treaty for German disarmament; for the text of the draft treaty, see *Foreign Relations*, 1946, vol. II, p. 190, or Department of State *Bulletin*, May 12, 1946, p. 815.

cuous negotiation of bilateral pacts serves only to lessen the chances of a treaty along the lines of the Byrnes' draft ever being realized.

Sent Dept as 2737, repeated to Paris as 296, to Praha as 14, to Warsaw as 44.

DOUGLAS

851.00/5-1847 : Telegram

The Secretary of State to the Embassy in France

SECRET

WASHINGTON, May 20, 1947—7 p. m.

1837. Callender *NY Times* story May 19 plays up official "French fears US loans might impair France's independence or sovereignty" with extensive quotations from alleged statements of Ramadier and Daniel Mayer¹ asking whether such future loans would be "dictated by political realities" (Ramadier) and whether "certain American capitalists might not oblige us to act against Russia" (Mayer). Moving into vaguer area Callender speaks of French fears that NY bankers and Pres Truman frown on nationalization and that bankers would demand concessions or trade rights within empire restricting French sovereignty there.

Granting possible erroneous emphasis (story omits Bidault statement on loans penultimate para Embtel 1987²) and traditional if unrealistic fear entertained by doctrinaire socialists of "American capitalism" Dept somewhat concerned effect of Socialist utterances and press stories arising therefrom. If any discreet corrective action appropriate please take it. Any case furnish comments.

MARSHALL

¹ French Minister of Labor.

² Not printed.

751.60F/5-1447 : Telegram

*The Secretary of State to the Embassy in France*¹

SECRET

WASHINGTON, May 21, 1947—6 p. m.

1847. Ref. London's tel 2737, May 14, repled Paris as 296. Dept agrees Brit views regarding unrealistic nature bilateral French-Czech and French-Polish pacts now being contemplated. Not considered desirable that you make formal representations to French Govt in this respect. You may however reflect this view in informal conversations with French officials adding in our opinion the proposed four power

¹ This telegram was repeated to the Embassies in Praha, London, and Warsaw.

disarmament treaty would afford far greater protection to French and such negotiations as contemplated might adversely affect possibility of securing agreement upon the treaty.

MARSHALL

851.6131/5-2247 : Telegram

The Secretary of State to the Embassy in France

WASHINGTON, May 22, 1947—6:28 p. m.

1874. Dept has released following to press:

"The Dept of State is today in receipt of a communication¹ from the French Embassy referring to the additional allocation of 150,000 tons of corn which was made to France on May 15, 1947, to assist the latter in meeting its critical grain shortage. The note states that this supplementary allocation added to more than 500,000 tons of grain already allocated to France within the last several months has been received by the French people with the greatest possible satisfaction, and the French Govt is most grateful for the sympathetic understanding demonstrated by the United States with respect to the situation in France and for the constant effort of American services to permit the delivery of the grains thus allocated."

Understand FrEmb issuing similar communiqué.

MARSHALL

¹ Not printed.

851.51/5-2347 : Airgram

The Secretary of State to the Embassy in France

CONFIDENTIAL

WASHINGTON, May 23, 1947.

A-809. Recent negotiations in Washington between representatives of the Governments of the United States, United Kingdom, and Canada have resulted in a final agreement on the financial settlement of the combined civilian supply program (Plan A).¹

As a result of this settlement, the Governments of the United States, United Kingdom, and Canada have presented memoranda to the Government of France, as well as other recipient governments, on May 15,

¹ Plan A related to the provision of civilian relief supplies for liberated areas by the combined Allied military authorities in Western Europe and the Mediterranean under financial arrangements agreed to by the United States, United Kingdom, and Canada. For documentation, see *Foreign Relations*, 1945, vol. II, pp. 1059 ff., and 1946, vol. V, index entries under "Plan A". Additional documentation on the settlement, not printed, is in Department of State file No. 841.24 for 1947.

1947,² setting forth the respective shares of the three supplying governments in the combined bills for supplies furnished under Plan A. In the case of France, and other northwest European governments, these shares have been determined to be as follows:

To the Government of the United States	62%
To the Government of the United Kingdom	33%
To the Government of Canada	5%

The memorandum from the United States Government to the Government of France states further that it will no longer be necessary for the French Government to maintain a reserve fund of 10% of the combined claim, which was stipulated as a condition of the waiver of the United States share of France's Plan A obligation at the time of the over-all settlement of war accounts between the United States and France in May, 1946.

The United States memorandum was presented to the French Embassy in Washington. It is the Department's understanding that the British memorandum was presented to the French Foreign Office by the British Embassy in Paris, and the Canadian memorandum was presented to the French Embassy in Ottawa.

MARSHALL

² Not printed.

Editorial Note

On June 10 the Secretary of State informed the Embassy in France that "We are greatly interested" in the "nature of long-range plans French are now contemplating for North Africa", and he described a possible line of action by the United States. For documentation on this subject, see volume V, compilation entitled "Interest of the United States in Communist and Nationalist Activities in North Africa".

851.5151/6-1947 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, June 19, 1947—6 p.m.

2438. It is now apparent that there is developing in France a recurrence of both the inflationary trends and lack of public confidence in the future of its currency, so noticeable last autumn. Government emphasis in economic policy has gradually been shifting from financial

"stabilization" under the Blum experiment to one of "retard the inflation". Symptomatic of these developments are the following:

(a) Continuous decline in quotations for government securities to a level so low that plans for a reconstruction flotation have been abandoned for the present.

(b) On the other hand, there has been an active demand for investments of the inflation "pegging" type. Common shares on the Paris Bourse advanced last week by 9 per cent. The franc on the black market has fallen in the past week from 225 to 268 per dollar.

The proximate causes of the foregoing appear to be:

(a) Government retreat on the wage stabilization front. Although it is not yet possible to measure precisely the impact on wage payments and labor costs, it appears that the government is prepared to permit increases in the neighborhood of 13-15 per cent and that it may be forced by labor organization pressures to even larger concessions.

(b) Continued large scale treasury deficit most of which has to be covered by additional note issue which has expanded by 66 billion francs since the end of 1946.

(c) Failure of agricultural output and food imports to meet minimum needs at reasonable prices in relation to current wages, especially in the cities.

Although it is hoped that the severe financial measures now under consideration by the Cabinet may prevent a runaway inflation, it is difficult to see how wage and price stabilization can be achieved in France until such time as the effective supply of essential consumers goods is adequate to meet the minimum needs of France's laboring and small salaried groups.

CAFFERY

851.50/7-1147

*Memorandum by the Director of the Office of European Affairs
(Matthews) to the Under Secretary of State (Lovett)*¹

TOP SECRET

[WASHINGTON,] July 11, 1947.

I. PROBLEM

To determine the probable course of developments in France and possible action by the United States in regard thereto.

¹ A routing slip from Matthews to Assistant Secretary Armour and to Mr. Lovett, who became Under Secretary of State on July 1, bore the following notations: "Is this the sort of paper you wanted[?] H. F[reeman] M[atthews]." "Yes L[ovett]." "U—Mr. Lovett: It seems to me this covers the field very well and it is an excellent paper to have on record and for discussion. N[orman] A[rmour]."

The paper was based in part on a memorandum of June 28 by Charles E. Bohlen, Special Assistant to the Secretary of State (851.00/6-2847).

II. DISCUSSION

1. Since the conclusion of the Bidault-Bevin-Molotov² discussions in Paris which strengthened the anti-Communist forces in France, there have been two developments which have enabled the Ramadier Government to survive the immediate crisis arising from discussions of the Government's economic program. The Prime Minister received his vote of confidence in the Assembly on July 4 of 331 to 247. The opposition was composed of the Communists and factions of the right-wing parties which are opposed to directed economy. This vote of confidence was followed by a similar vote in the Socialist National Council where Ramadier obtained a majority of 518 votes in his own party as compared with his previous party majority of 404 on May 7th. Even more significant, however, than this vote of confidence in Ramadier was the categorical position taken by the Socialist Council of opposing Communist reentry in the government. Socialists who had heretofore favored agreement with the Communists then stated that the attitudes of the Communist party and of the Soviet Union made the return of the Communists to the government impossible in present circumstances. The MRP has taken a similar stand against Communist participation in the government.

2. These developments have definitely strengthened the position of the present non-Communist government in France and it seems likely that it will hold together until after the parliamentary vacation commences, thus insuring its continuance in office until the municipal elections in September. Nevertheless the basic economic questions which brought on the crisis have not yet been solved and a way must be found to deal with threatened strikes and the chaotic state of wages and price levels. Furthermore, in spite of their setback in France and in the light of current general Communist offensive, it seems likely that the French Communist Party will continue its efforts to demonstrate that no economic stability is possible unless the party forms part of the Government and can utilize its presence there to achieve its ends. The foremost among these will surely be to sabotage the Bidault-Bevin program. Individual strikes in essential industries and services will no doubt continue to be encouraged by the party with little likelihood as yet, however, that they will resort to a general strike. Another possibility might be civil strife resulting from direct action on the part of either the Communists or the extreme Right to seize power. In present conditions these extreme measures are not yet considered likely but they cannot be precluded.

² Georges Bidault, French Minister for Foreign Affairs, Ernest Bevin, British Secretary of State for Foreign Affairs, and Vyacheslav Mikhailovich Molotov, Minister of Foreign Affairs of the Soviet Union, met in Paris for discussions relating to the European Recovery Plan on June 27, 28, and 30, and July 1 and 2, 1947. For documentation, see pp. 296-308.

3. Although as stated above the Ramadier Government will probably survive for the next few months it has not yet been able to assure economic stability for the country. It was able to weather the recent crisis largely because of the Soviet refusal to participate in the plan for European rehabilitation. This however, was somewhat fortuitous and Ramadier cannot count on other such circumstances in the future. In the event that the Communists are able through their utilization of strikes and similar tactics to bring on another crisis, it cannot be excluded that they would be successful the next time. In such circumstances their aim is clear and they would insist upon joining the government under conditions acceptable to them.

4. Although for the purpose of returning to the government they might be willing to accept fewer Ministries than they held previously, the fact that they would be able to force their return would give them increased power. Regardless of the individual portfolios they would demand, their influence would be exercised on national and foreign affairs not directly related to the Ministries they would hold. We can anticipate, however, that they will wish in particular to control the field of Industrial Production, Labor, Veterans, Agriculture and to have a voice in national defense, whether by claiming the Ministry itself or by seeking one or more of its components, such as War, Navy or Air. Further in accordance with the traditional Communist policy they will seek to obtain Interior and/or Foreign Affairs. In any event their influence within the government would constitute a veto over the conduct of foreign affairs insuring that France does not align itself in major foreign policy issues with the U.S. and Great Britain.

5. In such an eventuality, as previously, we would be confronted with a government in which Communist influence would be so strong as successfully to prevent the French Government not only from adopting an independent foreign policy, but from implementing the initiative which Bidault has taken in the plan for European rehabilitation.

6. This will mean that at international conferences France will be forced to assume positions which in the circumstances will be most advantageous to the Soviet Union. It would certainly restrict France's position and prevent it from participating in any constructive application of any plan in Western Europe. Under these conditions, it is obvious that any program of European reconstruction would be doomed to failure and a policy of piece-meal assistance to individual countries still free from Communist control might have to be followed.

III. RECOMMENDATIONS AS TO U.S. ACTION

A. *Measures to support a non-Communist Government.*

1. Faced with the economic difficulties outlined in this and previous memoranda, in addition to receiving its present allocations of bread

grain from the [*this?*] country, the Ramadier Government may well require further external assistance even before an overall European program can be formulated and implemented by action on the part of the United States. During the critical period of the summer months there are two possible steps which might be taken in support of the non-Communist forces in France. As regards both of these, however, the U.S. Government is not in a position to act alone but should use its influence to secure their approval. The first of these relates to the second installment on the World Bank loan. When the first installment of \$250 million was made available to France, the bank agreed to consider in October whether conditions in France would make possible the grant of an additional similar sum. These funds are urgently required by France and it would immeasurably strengthen the position of the government and enable it to withstand many attacks if the U.S. could assist France to obtain some assurance from the World Bank prior to September that its needs in this respect would be met before the winter.

2. The second relates to the question of coal and increased production in the Ruhr and particularly in the Saar coal fields. France has now proposed that Saar coal production be incorporated into the domestic production in France as a preliminary to the definitive incorporation of the territory. The details of this proposal and its relation to the supply of German coal both inside Germany and to other areas are not yet clear and we are endeavoring to ascertain in talks with the French and British experts the full effects of the present proposal. It is clear that no plan which would give France preferential treatment at the expense of other countries can be accepted by this country. It is to be anticipated that the minimum of any French proposal would be to increase the amount of coal France would take from the Saar, thereby reducing its share of Ruhr coal for which it pays dollars. Such an arrangement might cost the bizonal area \$20 million a year in export proceeds. Although this might mean a heavy charge upon one administrative budget, on the other hand far more dollars may have to be found by this government in its own interests to support non-Communist elements in France. Furthermore, conversations looking toward the level of increase in German industry are about to result in an agreement between the British and ourselves with benefit to the economy of Germany and may result in decreased coal exports. If France cannot derive some compensating advantage in the reorganization of German economy, it will become a serious political problem for the present government and in this respect add to the difficulties facing it.

3. In another field, U.S. action can be most helpful. In view of the increased distortion by the Communist propaganda machine of the principal motives and objectives of the U.S., it will be necessary to contemplate a highly selective American information program coordinated with a long-range information program from the U.S. by radio. This must be accomplished by intensive cultivation of French newspapers by direct or indirect means.

B. Action in face of Communist participation in the government:

1. Should the situation in France develop in such a way that in an effort to reduce economic pressure upon the Government and weaken the Communist hold over the trade unions, the Socialist and MRP Parties might reverse their present stand and agree to a limited Communist participation in the Government. In our opinion this would be a dangerous admission of weakness on the part of the non-Communist elements; but if it is accomplished in such a way as not to give the Communists the control they seek and a virtual veto over French policy, we would not necessarily be obliged to write off France completely just because one or two Communists were in the Government. The situation would however require constant watching and the extent to which our present program of aid should be continued would depend upon developing circumstances.

2. The U.S. would have great difficulty in taking any vigorous course of action since the reentry of the Communists into the government would be substantially a French internal matter and any positive action on the part of this country at that time would no doubt serve to raise the cry of direct interference in French internal affairs and turn large sections of French public opinion against the U.S. In short, the situation created in France, as serious as it would be for U.S. interests, would not be one that would be susceptible of treatment by open official U.S. governmental action. It is a very good illustration of the difficulties we face at present in dealing with the tactics of invisible penetration and eventual capture of a modern democratic state by a resolute and well organized minority.

4. On the other hand, should the Communists achieve their end and return to the government in such a way as to exercise complete control over its policies, the U.S. could not continue to afford assistance to a French Government which would be in a position to sabotage any coordinated plan of European recovery. It would in all likelihood be necessary to recommend to the President that no further funds or additional material aid from this country should be forthcoming to assist any such government.

C. Action in the event of civil strife or complete breakdown of French economy

1. There are two other possibilities which have not been covered in the foregoing discussions, namely, what should the U.S. do if the government by refusing to admit the Communists is faced with a complete breakdown of French economy induced by increased efforts on the part of the Communists to break the French parliamentary system and render any government incapable of exercising its authority, either through civil strife or complete collapse of French economy. It would be dangerous to state categorically in advance what should be the position of this government in such an eventuality. Should civil strife break out in France, however, as a result of direct action by the Communists in order to gain control of the government the degree of support and effective aid which the U.S. might afford the non-Communist faction would have to be governed by the circumstances existing at that time both in France and abroad. Whether we could afford to give a non-Communist government arms or military assistance which it might request can only be determined by the situation at the particular moment. Such aid should however not be precluded in advance.

2. The reverse of this situation might also occur if a Communist controlled government should be attacked directly by non-Communist elements probably under the leadership of General de Gaulle in a struggle to control France. The question of whether we should aid such a group and [to] what extent will similarly depend upon the circumstances of the conflict, the strength of the movement and popular support both in France and in this country.

3. In any event, consultation with the President, the Joint Chiefs of Staff and Congressional leaders, and in all likelihood, with the British Government should be undertaken immediately upon any such outbreak.

851.00/7-1847 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, July 18, 1947—5 p. m.

URGENT NIACT

2866. Last night I saw Maurice Schumann and several other prominent and decidedly friendly Cabinet Ministers and other French politicians. All said they were gravely concerned about effect of "Anglo-American proposals" for Germany¹ on French psychology and

¹ Reference is to revision of the level of industry plan for Germany. For documentation on the subject, see vol. II, pp. 977 ff.

on internal political situation; they said: "if the impression prevailing here about your intentions in Germany is not corrected, the Communists will walk away with the October municipal elections".

Yesterday morning André Colin, Secretary General, and Albert Gortais, Delegate General, of MRP, asked to see a member of my staff urgently. While they wholeheartedly back Paris conference and see prompt elaboration of European response to Marshall proposals and implementation of these as essential to preserve a democratic France, Colin and Gortais are extremely worried and alarmed over reports which they are now receiving from grass roots throughout France as to response which current Communist campaign is obtaining. Deploring the chauvinistic point of view of the average Frenchman vis-à-vis Germany, and admitting that they have occasionally catered to this same instinct in the past, they nevertheless point out how deeply it is grafted on average Frenchman after centuries of struggle against first Austria and subsequently Germany, and the consequent instinctive response of many non-Communist Frenchmen to the party's line.

They state that the Communist propaganda now having the most telling effect is not their well-worn saw of the United States desiring to "colonize France economically", but the story that the United States, as after 1918, has poured money into Germany and is interested primarily in rehabilitating Germany rather than France so as to protect American vested interests; that reparations are being abandoned, the Ruhr's resources lost to France, and French security placed in jeopardy. They stressed that the recent decision to increase German steel capacity gives an appearance of truth to the Communist charges, and add: "why was this necessary now, when German production is still well below five million tons?"

These MRP leaders declare that their party, as well as the majority of responsible French leaders, fully support and back the policy of maximum use of German industrial capacity for German reconstruction, as well as for European reconstruction, but beg, repeat beg, that no further measures for German rehabilitation be announced until European plan under Marshall proposals be prepared, when German program can be made to dovetail with it.

Colin and Gortais appeared convinced that should any further proposals on behalf of Germany be announced by the American authorities in the immediate future and prior to the elaboration of the European plan, the Communists would be able, without resorting to any new pressure tactics, to torpedo the Paris conference,² merely using the ancestral French hatred and fear of Germany, supported by the false appearances of primary American concern in her defeated

² For documentation on the conference of 16 European nations, see pp. 249 ff.

enemy rather than in her allies. "The French Government's position will thus be made untenable", concluded Gortais.

Independent newspaper *Combat* in article from London stresses British reluctance to go along with USA in "economic and industrial reorganization of western Germany" while describing Americans as being "very enterprising".

British were painted as reluctant, embarrassed, and as having succeeded in temporarily disengaging themselves "in view of necessities of Paris conference". Paris, thinking of the future and of the "fragility of American assistance to Europe", and London, "loath to close immediately certain doors leading to eastern Europe," are said to be anxious to slow the movement down, while Washington is "eager and insistent". Of course, should this line be followed by French press, it would definitely give the French the impression that the initiative and responsibility for German developments are wholly and only ours.

Politburo minutes published this morning in Communist *Humanité* include the following paragraphs under heading: "Defense of French Security".

"The political bureau has expressed its concern in the face of the new initiatives of American reactionary forces which aim to salvage German war industries and to liquidate the reparations policy, in other words, to endanger France's reconstruction and security.

The Political Bureau has stressed the necessity for our country to return without delay to a foreign policy defending France's security through a just settlement of the German problem and in accord with all her allies, France's independence being respected."

Humanité also features on page one an unsigned article with scare headlines "Washington takes the Ruhr and gives over its management to the men who served Hitler. France excluded from the control of the mines. 'I have come to Europe to reconstruct Germany' declares Averell Harriman".³

Article goes on to state Harriman on his arrival in Paris declared: "I have come to Europe to hasten the recovery of German economy. It is necessary that Germany by its exportations shall become an important artisan in European reconstruction". *Humanité* comments this shows clearly it is no longer question of reparations but exports, decided upon by Germans themselves with American advice.

Sent Department 2866, repeated London 555, and Geneva for Clayton via pouch.

CAFFERY

³ Secretary of Commerce.

851.6131/7-2547

The French Embassy to the Department of State

[Translation]

WASHINGTON, July 25, 1947.

AIDE-MÉMOIRE

During the meeting of the Cereals Conference in Paris,¹ the French Government had an opportunity to explain to the American Delegation headed by Mr. Clinton Anderson, Secretary of Agriculture, the gravity of the French cereal situation during the coming crop year of 1947-1948, particularly during the third and fourth quarters of 1947.

In fact, although it still is impossible to give exact figures on the collections that the 1947 harvest will yield, it may be stated definitely that the results will be late and far short of the needs for French consumption.

According to present estimates, the amount of grain for making bread that will be collected in August and September will not exceed 650,000 tons, 150,000 tons of which will have to be used as commercial seed. Since the discrepancy between resources and needs will thus be considerable, the French Government will have to contend with serious difficulties to assure the supplying of the French population even on the basis of a ration reduced to 250 grams of bread per day.

Mr. Tanguy-Prigent, Minister of Agriculture, has therefore submitted to the American authorities a memorandum reporting a deficit during August-September of 450,000 tons for Metropolitan France and 100,000 tons for North Africa. The French Government expresses therein the hope that, in view of this situation, the American Government will be good enough to furnish France, on an urgent basis, in addition to the quotas known at present, and taking into account the expected shipments, 200,000 tons in August and 300,000 in September. Furthermore, the need is there stressed of not in any case permitting to be interrupted the flow of supplies from the United States, which normally stops at the beginning of the month of August, except for urgent shipments.

As regards the fourth quarter, the American Government is requested to support with the Cereal Committee the French requests which will have as their objective a monthly quota for Metropolitan France and North Africa of 340,000 tons from all sources as a minimum, the largest part of which, furthermore, can come only from North America.

¹ The Special Cereals Conference at Paris was held July 9-12, 1947.

The French Government expresses to the American Government its thanks for the help which the latter may be good enough to give it.

840.50 Recovery/8-247 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, August 2, 1947—3 p. m.

3084. For Lovett from Caffery. Reference is made to my telegram 3064, August 1,¹ reporting the statement made by the French to Under Secretary Clayton that, in the event assistance from the United States under the European economic plan now being formulated could not become effective until March next, the exigencies of the situation would require France to curtail severely imports in the interim period and that a situation would certainly develop which would operate against any financial stabilization and which might result in serious political and social problems.

In view of the urgency of this matter, I submit the following comments:

My Agricultural Attaché has today given me a memorandum pointing out that the prospective food shortage in France arising from the winter freeze has been greatly intensified by drought conditions prevailing this spring and summer. I quote from this memorandum:

"The situation has seriously deteriorated since May. In many important agricultural regions there has been continuing drought since the freezes of last winter. The unprecedented heat wave in July has worsened the wheat prospects, and crops generally are now being affected. The wheat crop and other small grains may be said to be past redemption, but unless general rains are obtained in adequate quantities in the near future, reduced yields may be expected for crops generally. As pointed out to the Department in a recent telegram (Embassy's telegram 2988 of July 27¹) this would mean a reduced availability of domestic food and feed and consequently an aggravated food situation with the beginning of winter. In these conditions it may be expected that the French Government may find it extremely difficult to keep the bread ration at present low levels during this coming winter and spring.

"In short, France is faced with a situation of domestic food shortages during the coming season unless there is a material and timely improvement in weather conditions. The situation may be as difficult as that of the 1945-46 season following the widespread drought of 1945 when approximately 4,000,000 metric tons of direct consumption foods, oilseeds, vegetable oils, and wine were imported during the year beginning 1 July 1945. Of these imports 2,236,000 tons were cereals, including rice. The French are already requesting imports

¹ Not printed.

of 2.5 million tons of wheat for the 1947-48 season. If the drought continues, imports of other food items may easily have to achieve levels comparable to those of the 1945-46 season. The implications in terms of the effects of such a situation on French finances, on the economy generally, and on the politics of the country are evident."

In my despatch No. 9327, July 30² I have forwarded information regarding France's prospective international financial position for the balance of 1947 and the first quarter of 1948, which may be summarized as follows:

1. *Sterling area:*

French cash position has increased from sterling equivalent of \$51.2 million at end of 1946 to \$191 million on June 30, with a possible additional increase of \$30 million for second half of 1947. Actual cash position at end of year would be amount indicated above less any amounts of sterling made convertible.

Although trades statistics for franc zone as a whole are not yet available for first six months, it appears that trade of French overseas territories with sterling area was favorable enough to off-set any deficit of Metropolitan France with the same area. Increase in sterling holdings this year has arisen from

- (a) Transfer \$60 million in gold under 1946 agreement,
- (b) Liquidation \$72 million in French-owned sterling securities
[garbled]
- (c) Financing moderate amount of French imports, principally wool, through British banking credits.

The Finance Ministry here is of the opinion that with its cash position and prospective exports, it should be able to finance transactions with the sterling area throughout 1948 without recourse to gold or dollars, unless British financial exigencies require United Kingdom to drastically reduce imports of non-essential items from France.

2. *Payment agreement countries* (principally neighboring European countries):

France was in a net debtor position equivalent to \$197.7 million at end of 1946 and \$198.3 million on June 30, 1947. No material change in this item is anticipated for balance of 1947, and no net recourse to gold or dollars should be necessary.

3. *Dollar area:*

The July 15 forecast of 1947 current payments with this area: for expenditures \$1,819 million: receipts \$343 million: deficit \$1,476 million. This represents increase in anticipated deficit over April

² Not printed.

forecast of \$186 million due to shrinkage in export estimates and increased need for wheat imports.

The French assumption in approaching this problem is that it is necessary to maintain a minimum gold reserve of \$450 million, plus cash balance in exchange stabilization fund of \$30 million. On this basis all except \$212 million of \$1,476 million prospective deficit is accounted for by such items as:

1. Gold and foreign exchange \$335 million
2. Liquidation of private assets \$150 million
3. Restitution of German-looted gold \$90 million
4. Second Export-Import Bank credit \$400 million
5. International Bank credit \$250 million
6. Other credits \$130 million

The anticipated uncovered deficit of \$212 million should be adjusted upward by \$30 million to account for difference between estimate of receipts of German-looted gold and probable receipts this year, and reduced by \$75 million for Monetary Fund advances made to date and by \$60 million for the minimum amount of sterling which the French feel the British will permit to be converted into dollars.

These adjustments would bring prospective uncovered deficit balance of this year to an amount slightly in excess of \$100 million,³ but Finance Ministry estimates have been prepared on assumption of only one million tons wheat imports second half 1947. Such a program would probably in view of agricultural situation described above, require ultimate downward adjustment of bread ration to 200 grams. For the social, humanitarian and political reasons which I have outlined to you in previous telegrams, I would view such a development with concern.

The National Cereals Board, taking into account crop situation and need for 300 gram ration in five winter months, has estimated bread grains imports made second half 1947 at 1,630,000 tons. This approach would require an additional \$70 million, increasing 1947 uncovered deficit to neighborhood \$117 million.⁴ With reference to the first quarter of 1948 it appears that deficit with dollar area may, in view of continued need for heavy imports of wheat and coal, run at rate of \$100 million monthly, which might be reduced to neighborhood \$80 million if franc devaluation should take place early enough to stimulate exports to the western hemisphere.

My staff has reviewed the foregoing statistics in relation to France's provisions import program for second half 1947, and finds that the latter was reduced from 1.3 billion originally requested by interested ministries, to a sum slightly in excess of \$1 billion. Furthermore, a

³ Marginal note: "See despatch \$107-117 million."

⁴ Marginal note: "See despatch \$177-187 million."

prospective savings of \$100 million in dollar expenditures was achieved by transferring all possible procurement to sterling and payment agreement areas. The facts available indicate that the prospective deficit through March 1948 of \$350-470 million represents a range below which things cannot go without severe underconsumption of food in urban areas and disruption of industrial production.

Mr. Clayton informs me that he will discuss this matter immediately upon his arrival in the Department, but in the interim I would greatly appreciate it if the Department could study the foregoing in the light of the basic situation here with a view to exploring all possibilities. These would appear to include the following:

1. Further reduction in gold reserve of Bank of France, taking into consideration the psychological impact in terms of a further decline in public confidence in French currency.

2. Possibility of suggesting that the British increase the amount of French-held sterling to be made convertible in the event that French dollar problem is of more immediate urgency than is the case with Great Britain.

3. Possibility of requesting IARA, with aid of American occupational authorities, to arrange immediately a German gold distribution based on 80 or 90 per cent of claim, rather than projected percentage.

4. In spite of the disinclination of both the French and Monetary Fund people to utilize short term funds to finance a long term deficit, the emergency may be so great as to make advisable a consideration of possible additional advances by the Fund.

5. Consideration of possible additional credits by the Export-Import Bank or International Bank. It appears that credits from these agencies, to be effective in meeting the commodity import program, would have to be granted on a general purpose basis.

I am fully cognizant of the difficulties inherent in the possible alternatives mentioned above and I suggest their consideration only because of the magnitude of the French financial problem and because of its urgency and implications vis-à-vis the objectives of American foreign policy in this area.

CAFFERY

851.00B/8-747: Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, August 7, 1947—5 p. m.

3155. According to a source maintaining close and friendly relations with Communists here, a highly important meeting has just taken place in Paris which was attended by Fried,¹ Stalin's special represent-

¹ Eugen Fried, a Czech, had represented the Comintern in Paris in the period 1931-1939.

ative in France, a representative of the Soviet economic expert, Eugene Varga, and other high Soviet officials as well as the most important French Communist leaders. Their decisions may be summarized as follows, according to source:

1. American assistance to Europe, under the "Marshall Plan" will be "too little and too late" to assure effective economic recovery in Europe and accordingly French and other Communist parties must be prepared for "sharpening of conflict between working classes and bourgeoisie". Potential danger of Gaullist movement should not be underestimated and consequently "illegal apparatus" of Communist Party must be reinforced and the "trusted militants" of party should even actively prepare for period when it may become necessary again to "go underground" in the face of "legal persecution".

2. In view of foregoing analysis the Communist Party here must pursue "parallel" policy of building up "illegal" as well as "legal" party groups and accordingly "mass" recruitment of new members should continue.

3. Attacks against leadership of Socialist Party should be intensified, especially against Léon Blum who "persists in favoring American policies". These attacks should be accompanied by intense propaganda campaign aimed at proving that United States, "supported by Socialist leaders," is endeavoring to give top priority over France in assisting "Nazi" Germany to reconstruct its national economy.

4. By pursuing strategy outlined above, party will be prepared for "any emergency" as well as attain success at municipal elections in October.

Sent Department 3155, repeated Moscow 442, London 602, Berlin 288, Rome 201.

CAFFERY

851.00/8-3047 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, August 30, 1947—6 p. m.

3535. It is manifestly impossible at this juncture to predict with any degree of accuracy how the French political situation will evolve in the coming months—will depend on whether or not there is an economic collapse—but in the absence of unforeseen developments it is generally believed that the present state of latent crisis will continue until after the municipal elections, following which a major crisis may well develop. In such event one fact is increasingly evident and should be kept firmly in mind: namely, that recently De Gaulle's popularity throughout the country has steadily increased to the point where he now is playing one of the leading parts on the political stage.

The reasons for this growing prestige are several. In the first place there is little doubt that the French Communists have, for the moment at least, lost ground both because of their obvious efforts to paralyze French economic recovery by strikes and slow-downs for purely political reasons but even more important because Molotov's walkout from the Paris Conference made it plain to even the least intelligent Frenchman that Soviet Russia and its French Communist stooges do not want to see an independent and prosperous Europe reconstructed. De Gaulle capitalized on this sentiment in his July 27 speech¹ when he bitterly castigated Soviet efforts to "impose a dictatorship on Europe" and admitted that he (De Gaulle) had made a serious error (which by inference he would not again commit) in taking the Communists into the French National Committee in 1943. This declaration was certainly welcomed by the majority of the French who had heretofore held De Gaulle in part responsible for the Communists present position of strength and influence "because of his original sin in inviting them to participate in his govt". Typical of the evolution of a considerable sector of public opinion regarding the possibility of De Gaulle's return to power is the fact that whereas four months ago people often said, "he had his chance, made a mess of it and there is no indication he will do any better". Now the same individuals still criticize his past errors but add, "he has learned and will not make the same mistakes again".

A more important reason, however, for his increased stature than the positive statements he has made is a growing conviction among the public and certain political leaders that whether or not one approves or believes in De Gaulle and his policies, to survive France must have a strong govt. De Gaulle, they believe, is the only figure with sufficient prestige and authority to rally behind him, control and dominate the anti-Communist forces which at present are a definite majority but which are "incoherent and impotent" in govts not only because of the differences which divide them but because of the internal dissensions, jealousies and ambitions within the individual parties themselves.

As a result of the foregoing sentiment many Frenchmen in all walks of life who have thus far hoped for what they call "democratic" solution (that is, a competent, well administered and sufficiently strong coalition govt grouping together the parties of the center and left but excluding the Communists and extreme rightists) are becoming progressively discouraged and disillusioned over such a possibility. They are disgusted with what they consider governmental fumbling, incompetence and irresponsibility. The reduction of the bread ration,

¹ Speech at Rennes.

the impending financial and economic collapse unless credits are obtained to shore up the French economic structure and the fact that three years after liberation France is in a more critical position than ever before, have all tended to discredit in the public mind democratic govt in France as practised since the liberation.

To Frenchmen who tend to believe that the present governmental system is unworkable there are only two possibilities—De Gaulle or Communism. At this juncture if faced with such a choice the majority would opt unquestionably for De Gaulle, many with mental reservations but with the feeling that an unknown adventure with De Gaulle is infinitely preferable to the Stalinist police state.

As I stated above, there are too many unpredictable factors to forecast accurately how the situation will develop in the coming months, and what De Gaulle's chances are of returning to power. Nonetheless it is a very definite possibility and will depend primarily on the economic, financial and food situation in the coming months. If an economic and food collapse occurs De Gaulle's chances [*chances?*] should be considerable despite all the Communists may do to oppose him.

In the absence of some unforeseeable event, I do not believe that De Gaulle himself has any intention of trying to return to power by other than legal means. Persons close to him tell me that from now to the municipal elections it is his intention to concentrate on enlarging and perfecting his RPF machine, naturally keeping himself in the public eye. Subsequently he will base his strategy on the conclusions he draws from the municipal elections and the way the economic situation evolves.

In reporting the foregoing I do not wish to convey the impression that De Gaulle's return is either a certainty or that it is in any way the answer to France's problems. It is [*is?*] however a possibility which we must bear in mind insofar as the future is concerned.

CAFFERY

851.6131/8-1647 : Telegram

The Acting Secretary of State to the Embassy in France

SECRET

WASHINGTON, September 2, 1947—6 p. m.

3294. Urtel 3298 Aug 16.¹ Figures thousands of tons. US export availability estimated at IEFEC Cereals meeting Aug 18-19 Winnipeg 13,500 with reservation allowing for possible further decrease because of reduced corn crop estimates. Latest estimate corn crop made public

¹ Not printed.

since Winnipeg meeting 2,436,699,000 bu or about 850,000,000 bu less than last year. This may reduce US availability still farther below last year's approximate export of 15,000. While recognized that greatly reduced indigenous crop France this year compared last year makes larger contribution US necessary, reduced US availabilities and increased requirements other countries such as Germany, Italy, Austria and Greece severely limit volume shipments possible provide for France. Even if were possible make extraordinary shipments France prevent cut rations Sept 1 as suggested by Emb, would appear impossible continue shipments such magnitude remainder year. In fact in view large monthly export programs during early part crop year shipments from US expected taper off strongly last mos year.

In view reduction US availability mentioned above and recently announced great reduction Canadian availability, world exports of grain now estimated IEFEC at 29,000 as compared 32,000 at Paris Cereals Conference July. Of this, 7,900 are from non-IEFEC sources which considered less certain. For strictly confidential info Emb, pending formal IEFEC screening all requirements for year, combined judgment IEFEC Secretariat that based on total availability 29,000 share metro France from all sources 1,900, of which 1,100 from US and that Fr No Afr 430 of which 200 from US.

For Emb confidential info also, preliminary computation representing joint judgment IEFEC Secretariat indicates 32,250 total shipments needed maintain present rations in world as compared availability 29,000. Consequently reductions rations many countries appear inevitable.

Re total required by France from all sources 1947-48 officials Dept and Agri and some members IEFEC Secretariat made preliminary study questionnaire reply French Govt to IEFEC with view noting possible savings which might reduce stated requirement of 2,600. Following noted:

Reduction set-aside for wheat seed	150
Reduction wheat for feed	40
Increased use rye for food	100
Increased use barley for food	350
Use corn, buckwheat and other grains for food	100
Saving by increased extraction	100
Reduction final stocks	100
Total reductions	950

Noted from urtel 3293 ² planned increase barley utilization for food and industry over that indicated in IEFEC questionnaire of about 220 and use oats for food about 160 plus some use oats processed foods.

² Not printed.

Presumably these changes from plan as submitted IEFEC questionnaire reflect effect Paris Cereals Conference resolutions on collection coarse grains. Is there also prospect French may use most indigenous rye for food? Emb comments on other savings suggested above invited. It is of course not implied that it is Dept judgment that all savings suggested above will be found possible but seriousness situation requires that no means increasing availability indigenous grain for food be left unexplored.

Sent Paris repeated Clayton FAO Geneva.

LOVETT

851.61311/8-2947: Telegram

The Acting Secretary of State to the Embassy in France

TOP SECRET

WASHINGTON, September 3, 1947—5 p.m.

3304. In light reports from Paris and Moscow likelihood Soviet offer grain to France at politically propitious moment and suggestions Moscow's 2741,¹ Department planning moves to anticipate such offer. Your comments and additional suggestions requested.

General outline of plan follows: (1) Secretary or Under Secretary will make statement at Press Conference of our grave concern at natural disaster which has made French harvest worst in recent history and of efforts which we are making and will continue to make to alleviate to the greatest degree possible its consequences in light exportable grain surpluses which are expected to be available from this country. He will note that while crop conditions are bad in western Europe, the reverse is generally true in eastern Europe and this led IEFEC to estimate that USSR would export two million tons grain in current crop year. He will add that our own estimates indicate even larger Soviet exportable surpluses. He will express hope that in this emergency USSR will share with us burden of feeding western Europe.

(2) OIE will use this statement through all media not only to bring out fact that USSR now enjoys significant exportable surplus but to review in some detail relative contributions US and USSR have made to feeding western Europe since liberation and timing of these contributions.

(3) Full background on US contributions will be supplied to American Press and to Embassy Paris with suggestions to Paris for full and continuing publicity re statistics, ship arrivals and possible ceremonies to be arranged in connection docking of vessel which brings total US shipments to particularly significant or impressive figures, etc., etc.

¹ Not printed.

Belief here that if in face this campaign USSR does not offer (or refuses possible French request for) grain, French Communists position will be weakened. If on the contrary Russian grain is offered, US will be in position to take credit for forcing this grain into open while comparative figures for USSR-US contributions will weigh heavily in our favor, whether Russian offer is large or small.

Sent Paris as 3304; Repeated Moscow as 1678.

LOVETT

851.61311/9-447 : Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

TOP SECRET

Moscow, September 4, 1947—6 p. m.

2776. Concur fully in proposed moves to smoke out Soviets and publicize US grain shipments France as outlined Deptel 1678, September 3. Only suggestion is whether advisable to state our own estimates indicate even larger Soviet exportable surpluses than two million tons. Question of Soviet exportable surpluses is very elastic since all grain produced could readily be used domestically. On other hand surpluses could be made available whenever authorities deemed it advisable. Therefore, although perceive no objection indicating may be two million tons surplus this year, statement that they have more to export might boomerang propaganda-wise. They could make countercharge our information not based on facts and was "capitalist trick" to try discredit them.

Since all indications point to fact bread will be derationed here shortly probably in connection with 30th anniversary celebration,¹ advisable prepare to point out in this eventuality either:

1. Soviet indifference and lack of cooperation if they do not offer grain to France and other needy western countries, or

2. If they offer comparatively small amount grain to west play up picture Soviets derationing while western countries, because of adverse weather and other circumstances, still live on very short rations and need extraordinary help which we giving for long time and in large quantities.

Since Communists most adept at rolling with the punch, boasting about black eyes and accusing others of ulterior motives in propaganda campaign, believe it essential to spike French and other Communist guns that we bolster our propaganda offensive with concrete acts. Therefore strongly recommend that in connection propaganda cam-

¹The Bolshevik Revolution of November 1917.

paign we make at least token increase French grain allocations as suggested third paragraph mytel 2741, August 29.²

SMITH

² Not printed.

851.61311/9-647 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, September 6, 1947—2 p.m.

3621. Our latest information just obtained confidentially from responsible French official is that French Government has submitted an urgent request for bread grains to Soviet Government through Russian Embassy in Paris and French Embassy in Moscow. Reported Russian answer is that request will be studied. Prevailing feeling privately expressed by French officials and implied in Communist press comment is that Russia will send wheat to France only if Communist Ministers are again included in French Government, but there is no confirmation that any such condition has been laid down as yet. An alternative possibility is that USSR may prefer to use wheat as a political weapon later in the season when food situation will be vastly more aggravated than now and when political stakes may be for a complete takeover of power by Communists rather than to use wheat at present for purpose of influencing French municipal elections in October.

Whether or not offer is made, and regardless of its timing, I heartily endorse plan as outlined in your 3304, September 3, and believe that it should be carried out at once.

Sent Department 3621, repeated Moscow 476.

CAFFERY

851.00/9-947 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, September 9, 1947—11 a.m.

3650. During four-hour evening conversation MRP leaders, André Colin and Albert Gortais, appeared more harassed, tired and worried than ever before. They stated reports were reaching them from their federations throughout France that Communist Party is increasingly major beneficiary of recent disintegration of public morale. They added that quasi-unanimous reaction against our German policy had been and remained important contribution factor to upswing in Communist Party's popularity.

According to them, De Gaulle's RPF is gaining rapidly in Paris and large cities where it is winning over vast majority of bourgeois vote which had supported MRP in past elections. However, in rural areas, villages and small towns, they reported little increased interest in the General.

Requesting complete secrecy, they admitted that MRP had so far failed to attain the fundamental objectives which they and other MRP founders originally set: More efficient government and, generally speaking, a reaction against demagogic and sterile political mores of French Third Republic. Referring to the possibility of an MRP-RPF alliance, they said it was "unthinkable" and explained that "such a group led by staff now surrounding De Gaulle and imbued with its present social philosophy would find itself completely cut off from the world of labor and could not form a popularly accepted government. Furthermore, it is inconceivable that De Gaulle or his entourage would permit any MRP leaders to exert influence in establishing policies."

At present the MRP has not decided on its electoral strategy. Only concrete statement made was that in some areas and more particularly in and around Paris there would doubtless be "many joint MRP-Socialist lists". It was also learned that instructions have been given to local MRP organizations to postpone establishing their lists and making commitments until the last minute.

Throughout talk there ran recurring theme of intense fear of situation now moving so fast that showdown between De Gaulle and Communists could not long be postponed and that at all costs a reprieve had to be given to Center, "to the forces of sanity" so that France could get through the winter "without the irreparable having happened". They literally begged that we be sufficiently magnanimous to overlook the shortcomings of European planning and implement in part or at least confirm in unequivocal terms some stopgap measures of assistance to France and to Europe following lines of Lovett press statement.¹ "Without this breathing spell, anything can happen", they repeated several times.

Furthermore, they declared it essential the US act quickly before October municipal elections, to help scotch present anti-American campaign: "This growing anti-American feeling throughout country

¹ In a statement to the press on September 3, 1947, Under Secretary of State Robert A. Lovett warned that if the United States waited until the Marshall Plan could be worked out and put into operation it would be too late to save Europe. Mr. Lovett indicated that he favored the calling of a special session of Congress to deal immediately with the rapidly-deteriorating economic situation, and he suggested that the International Bank for Reconstruction and Development or the Export-Import Bank should extend temporary aid. For additional information on the statement, see the *New York Times*, September 4, 1947.

is serious for reaction to US German policy is based on deep-ingrained traditions and not merely result of Communist and fellow-traveling press campaigns". They hoped that US would stage a real "coup de théâtre" by offering to submit bi-zonal plans to conference of sixteen for study and comment: "Thus the US would prove their good faith, set an example of give and take, and would take essential step towards acceptance of new standards of international negotiations and relations needed for inception of real plan of European cooperation, customs union, et cetera."

In purely domestic field, they said situation could also be saved should Ramadier accept to change a few ministers and "start governing, inaugurating immediately overdue fiscal and administrative reforms". For last two weeks they said some MRP leaders had been unsuccessfully attempting to convince Ramadier to replace doctrinaire André Philip, Tanguy-Prigent and Jules Moch, sacrificing an MRP Minister if necessary to save Socialist face. Both were pessimistic, however, about chance of such energetic and decisive government.

CAFFERY

851.6131/8-2247

The Department of State to the French Embassy

MEMORANDUM

The Department of State acknowledges the receipt of the *aide-mémoire* from the Embassy of France dated July 25, 1947 and the memoranda of August 14 and August 22, 1947¹ in which supplementary allocations totalling 500,000 to 550,000 tons are requested for August and September, and the support of the United States is sought in the Cereals Committee of the International Emergency Food Council for a monthly allocation during the fourth quarter of 340,000 tons for metropolitan France and French North Africa. The Embassy's memorandum of August 22 states an import requirement for France and French North Africa for the half-year period July-December 1947 of 1,450,000 tons as compared to 825,000 tons recommended by the International Emergency Food Council.

The difficulty which France faces by reason of greatly reduced indigenous supplies is fully appreciated and the United States is therefore making relatively large allocations to France beginning in September, whereas allocations from the United States were not made during the previous crop-year in any considerable amount before March. Unfortunately, reduced availability from the United States

¹ Memoranda of August 14 and 22, not printed.

and increased requirements in many other countries also afflicted by reduced harvests have not made it possible to meet the French request for large supplementary shipments in August and September.

The matter of the amount of total programs of shipment to France and French North Africa and the share from the United States during the second half of 1947 is related to the recommendation regarding world grain distribution in that period as developed in the International Emergency Food Council's Cereals Committee. The total availability with reference to which that body has to develop its recommendations on distribution has unfortunately been reduced not only because of greatly lowered production of corn in the United States but also by a most serious curtailment of the Canadian wheat crop. It is hoped that the objections or reservations of the French representative as expressed at the Cereals Committee meeting in Winnipeg, both concerning quantities indicated for France and those indicated for military zones of occupation, will be modified as requirements are more fully analyzed and possibly modifications effected in the distribution pattern which has been put forward. The Department understands that the French representative on the Cereals Committee as well as representatives of other countries not sitting in the Executive Committee may be invited to attend hearings held in that Committee on requirements which are recognized to be of especial importance and interest to such representatives. In this way it is expected that the membership of the Cereals Committee will more generally achieve a sense of participation in the important work of evaluating requirements and a more complete understanding of all the factors which must be considered in working out the most equitable distribution which can be realized.

WASHINGTON, September 10, 1947.

851.51/9-1047

*Memorandum by Mr. Ridgway B. Knight of the
American Embassy in France*¹

MEMORANDUM OF CONVERSATION BETWEEN MR. ROBERT SCHUMAN²
AND MESSRS. WOLVERTON, MACY, KEOGH, AND MONRONEY³

SECRET

[PARIS,] September 10, 1947.

Mr. Schuman, after welcoming the committee, stated that in addition to answering with complete frankness any question which the

¹ Transmitted to the Department as enclosure 1 to despatch 9585, September 10, from Paris.

² French Minister of Finance.

³ Members of the Sub-Committee for France and the Benelux Countries, Select Committee on Foreign Aid, House of Representatives, United States Congress.

committee members might care to ask, he would see that complete data and written answers would be supplied on any subject that might be of particular interest to his visitors.

Mr. Wolverton thanked Mr. Schuman for his welcome and indicated the committee's hope that it might be of assistance in helping France in solving the present difficult situation. He reminded the Minister of Finance of American democratic institutions, of the necessity of Congressional approval of any Presidential policy, and also of the fact that in their turn the various Congressmen were answerable to their constituents. With a view to any possible assistance to France, certain major French factors were of particular importance to American public opinion. After consenting to heavy financial sacrifices, the United States had balanced its budget, and the average American would not view with favor aiding a foreign country which had not stabilized its currency and achieved a sane budgetary balance.

Mr. Schuman answered that since he became Finance Minister fourteen months ago, his primary objective has been the balancing of the French budget. He said that considerable efforts had been made and material results obtained, adding that had it not been for the increases in wages and prices, such an equilibrium in France's public finances would have already been attained. As it was, it appears that France's normal budget is "within a few billion francs of being balanced". He then reminded the committee that France had been invaded three times within the span of a single life, and insisted on the vastness of France's losses between 1940 and 1945: destructions, systematic exploitation and pillaging by the Germans, and the less spectacular but important losses due to the fact that French equipment of all kinds could not be maintained properly during those six years. While it was the French Government's policy to achieve a balance of the normal budget, the reconstruction of France, representing capital expenditures, had to be covered by an extraordinary budget. He indicated that such reconstruction budgets would have to cover total capital expenditures of about ten thousand billion francs over the course of the reconstruction period which he mentioned as twelve to fifteen years.

Mr. Schuman went on to declare that while France had made great efforts within the last two years and rebuilt her railroad and road system and her industries so that they were now approaching French pre-war level, the French economy had now reached a point where it was "in neutral" and could not proceed without outside assistance.

Mr. Macy referred to past American aid and said that it was essential that any new assistance not constitute "just another palliative" but lead to a real and constructive solution of the problem. Mr. Schuman expressed his full accord as well as the French Government's agreement with this position.

Mr. Monroney, after commenting favorably on certain results of France's reconstruction efforts which he had been able to witness personally, drew attention to the vital necessity of France's exerting herself to help herself in order to make possible any American assistance. As an example, he raised the wheat problem and the necessity for France to put back under cultivation the same acreage which was planted before the war. Also referring to wheat, he drew attention to the great difficulties of convincing American farmers not to feed wheat to livestock—in view of the short corn crop—if these same farmers could not be assured that this practice had been done away with in France. Mr. Schuman answered that the French Government was fully alive to these problems, that premiums had been offered in the past year to farmers who sowed wheat, but that it had not been possible to accomplish much in this field in view of the low tax receipts from peasant sources. He added that more effective measures—both inducements and penalties—would be added but that, of course, they belonged within the province of his colleague, the Minister of Agriculture. As to the problem of feeding wheat to animals, it was stated that severe penalties had been enacted, but as farm property was over-divided in France (three million farms), measures of control and enforcement were exceedingly difficult.

Answering a question as to the French citizen's willingness to tighten his financial belt and accept heavier taxes, Mr. Schuman said that it had been decided yesterday morning to form a committee of several Ministers in order to reduce Government expenses as much as possible and see to it that these decisions were implemented. Furthermore, Mr. Schuman declared that the entire fiscal policy and tax structure as well as methods of financial administration were under review, and that a bill of complete reform would be introduced into the French legislature in November, doubtless pass before the end of the year, and come into force on January 1, 1948. Mr. Schuman said that in France it was not a question of raising tax rates, which were already so high as to discourage initiative. On the contrary income tax rates had to be revised downward to take into account the devaluation of the franc since 1940 and the [ten-fold]⁴ increase in living expenses. However, French tax receipts must and will be increased. At present there are vast sectors of French economic life which pay little in the way of taxes: farms, black market operators, the liberal professions, small shopkeepers who are able to dodge taxes. Mr. Schuman said that the French Government's principal objective in the financial field was to plug these holes by simplifying the fiscal set-up dating back to the days of Napoleon and which since then has "grown like Topsy" to a complicated and unrelated whole, impossible to enforce.

⁴ Brackets appear in the source text.

Answering a question as to the possibility of efficiently administering France's large colonial Empire and thus obtaining assistance for the mother country, Mr. Schuman briefly answered that this was the intent and hope of the French Government.

Mr. MacChesney⁵ expressed his pleasure at being once again back on French soil and working on the solution of France's problems. He also drew the Minister's attention to the necessity of France's doing the maximum to help herself in order to convince American public opinion that France should be aided.

Again, while thanking the members of the committee for their interest in France, Mr. Schuman placed his services at their disposal to supply any additional information in writing which they might desire.

RIDGWAY B. KNIGHT

⁵ Brunson MacChesney, consultant to the Select Committee on Foreign Aid, House of Representatives.

851.51/9-1047

*Memorandum by Mr. Ridgway B. Knight of the
American Embassy in France*¹

MEMORANDUM OF CONVERSATION BETWEEN MR. LACOSTE, MINISTER OF INDUSTRIAL PRODUCTION, AND MESSRS. WOLVERTON, MACY, KEOGH, AND MACCHESNEY

SECRET

[PARIS,] September 10, 1947.

Mr. Lacoste started by defining briefly the scope of his Ministry, which he said was the Ministry of and for industry. Its primary interests are the basic power generating industries: coal, electricity, gas, motor fuels; but, he added, his Services were also interested in iron and steel, light industries, and even the manufacture of luxury products. He said that domestic commerce also fell within his realm while of course foreign commerce came within the field of the Ministry of National Economy.

Answering a question by Mr. Wolverton as to the measures taken by France to increase her coal output, Mr. Lacoste drew the attention of the Committee to the fact that during the pre-war period French production was never adequate for her needs and that she had had to rely constantly on imports of coal to satisfy one-third of her needs. He said that during the German occupation coal production had been reduced very materially but that since France's liberation production has increased from about 70% of the 1938 figure, to a quantity now slightly in excess. He said that as both financial resources and time

¹ Transmitted to the Department as enclosure 2 to despatch 9585, September 10, from Paris.

had so far been lacking to re-equip the mines, the simplest solution had been used: man-power. Miners had been given special food rations and various other incentives. Now, he said, the French miners' output was 75% of the pre-war per capita production "which compares favorably with that of other countries". "Now, unfortunately," said the Minister for Industrial Production, "our available man-power will be seriously reduced. The Polish Government has called upon Polish miners in France to return to Poland, and France is about to lose her German prisoners of war. To counterbalance this state of affairs, the French Government has launched a recruiting drive to obtain additional miners in France. The results have been fairly encouraging, but now France has reached the point where, in order to increase production, she must at last re-equip her mines."

Speaking about equipment of all kinds, Mr. Lacoste drew attention to the fact that France's industrial plant had not only suffered severely during the war when, in addition to destructions, maintenance was impossible; but also that even in pre-war France equipment had a tendency to be antiquated and in poor repair. He said that this unfortunate condition also prevailed throughout the rural areas where the peasants lacked not only modern mechanical agricultural equipment but also chemical fertilizers. "It has been my personal experience," declared Mr. Lacoste, "that French businessmen, workers, artisans and peasants are anxious to work and just as capable as before the war, whenever they have the equipment to do so. What is lacking is this very equipment."

Answering various questions about France's electricity production and requirements, the Minister stated that France had long had a program to increase her generating capacity and that this program was being pushed with the utmost vigor. He drew attention to the new Genessia dam, the largest in Europe, which will start operating this year. In addition to this very large undertaking, he said that the current phase of this program largely centered on the development of a number of hydro-electric sites in the Massif Central and in the Pyrenees. Mr. Lacoste said that now that France's power companies had been nationalized, the various companies were being integrated together for more efficient production. He mentioned that this year it would be possible to release 20% of the personnel. Along technical lines, he said that old plants were being modernized and more particularly that steam generators were being rebuilt to supply more power from the same amount of coal consumed. He mentioned that the peak daily load in 1946 had been 84 million kwh; that in 1947 this had increased to 90 million kwh; and that if capacity could be increased to 100/120 kwh, this would take care of all of France's needs, based on her present industrial and other electric equipment.

With reference to nationalization of French industries, Mr. Lacoste emphatically stated that the French Government's policy was merely to nationalize basic industries considered throughout Europe as "public services": coal, electricity, gas, railroads; and that on the contrary it was French policy not to nationalize all fields calling for competition.

Mr. Keogh then asked whether France's fiscal and tax policies might not be retarding her industrial come-back. Mr. Lacoste answered that for the time being he did not think so, as France's available coal, iron and foreign exchange did not permit re-equipment at a faster rate than the present one. However, he also said that he was sure that these fiscal and tax policies would exert such a retarding influence if the wherewithal was available. "I favor a complete overhaul of the entire fiscal and tax set-up, and, gentlemen, this may be close at hand." Mr. Keogh also asked whether the French Government's wage and price policy did not exert the same influence. Not answering the point directly, Mr. Lacoste said that of course it had been found necessary to increase wages periodically, which put additional masses of paper money into circulation at a time when there weren't sufficient consumer goods to absorb the supply of currency. This in turn resulted in increased prices and in the vicious circle which all have noted in France's economy.

Answering a question by Mr. Macy as to hoarded money, including gold, the Minister said that while of course this was out of his field, it was his belief that gold as well as paper currency was being hoarded throughout the country, and to a large extent by the peasants. "If we manage to stabilize our currency, this will of course result in the return to circulation of these hoards both in paper and in specie."

RIDGWAY B. KNIGHT

EUR/WE Files¹

Memorandum of Conversation, by the Director of the Office of European Affairs (Hickerson)

SECRET

[WASHINGTON,] September 12, 1947.

Participants: M. Bonnet, French Ambassador
 The Secretary of State
 Mr. John Hickerson, Director, Office of European Affairs

The French Ambassador came in at 11:30 today by appointment made at his request. The Secretary left the Department for New

¹ Files of the Division of Western European Affairs, Office of European Affairs; Lot 53 D 246, File "Rhineland-Ruhr".

York before this memorandum of conversation could be dictated. I am therefore preparing this memorandum in order that it may be distributed without being forwarded to New York for the Secretary's approval.

M. Bonnet said that he had just returned from Paris and that he had wished to give the Secretary some of his impressions on the general situation. First of all, he said that he had been very much pleased to see that the French Government seemed to be pretty well in agreement with the position of the U.S. Government concerning the work of the CEEC in Paris.² He called attention to the fact that on three of the most important aspects of this conference the French Government fully supports what it understands to be the position of the U.S. Government. These are:

1. *Emphasis on production.* The French Government recognizes the full importance of setting production goals and attaining these goals.

2. *Financial reform.* The French Government fully agrees that the countries of Europe must in their own way put their finances in order.

3. *Removal of trade barriers.* The French Government recognizes fully the importance of trade barriers and is prepared even to agree to a European customs union although the French Government recognizes that there are numerous difficulties in the way of a customs union at this time which probably cannot be surmounted.

The Ambassador said that against this background he wished to raise with the Secretary and discuss briefly with him three topics: (1) The French dollar position (2) Wheat and (3) The Ruhr.

The Ambassador said that the French Government was handing to Mr. Caffery a note setting forth their acute financial situation.³ This boils down to the unpleasant fact that France will run out of US dollars some time between October 15 and October 30. He said that there had been much talk in the US of an interim period in which financial assistance to certain countries in Europe would be necessary. This interim period had been understood to cover that time between the opening of Congress and the voting of funds for a program, presumably about March. The Ambassador said that as regards France there are therefore two interim periods: October 15 until the end of December and January to March. He said that he hoped that if possible consideration would be given by the U.S. Government to this French note.

Next the Ambassador said that France is desperately short of bread grains and must have more wheat if the present inadequate ration

² For documentation on the Conference of European Economic Cooperation, July-September 1947, see pp. 249 ff.

³ The note is included in telegram 3725, September 12, from Paris, *infra*.

is to be maintained. He said that he was conscious of the difficulties involved in getting more wheat but that it would have the most serious consequences in France, political and social, if the government found it necessary to reduce the present insufficient ration.

Finally the Ambassador mentioned the French interest in the Ruhr. He recalled the discussions which took place in Paris recently between the French officials and Messrs. Caffery, Clayton and Douglas.⁴ At that time he said Mr. Clayton had suggested that the French security apprehensions might be met by a provision in the peace settlement for the establishment of an international board on which Germany would be represented along with France, the UK, US and Benelux to allocate the German production of coal, coke and steel; this board would see to it that enough production was allocated to Germany for a peaceful economy and that the remainder was allocated for export in a fair and equitable manner. The Ambassador said that he frankly felt that this device would not be sufficient to satisfy France's security apprehensions. He said that a control board was all right but that it must be more fully integrated with the economic life of the Ruhr and play a more effective role vis-à-vis management of the mines. He did not elaborate on this.

By this time the Secretary's next caller, the British Ambassador, was waiting to fill an appointment with the Secretary. The Secretary said that he did not have time to do more than comment briefly on the third topic the Ambassador had mentioned, that is, the Ruhr. He said that he must point out to the Ambassador that he is deeply concerned over this whole question and the varying points which are emphasized in the policy of France, the United Kingdom and the United States in regard to the Ruhr question. The Secretary said that he can understand a natural French desire to see to it that adequate security measures are taken to prevent Germany from again menacing France but that he must say that he does not understand how in the present crisis the French can emphasize this to the exclusion of other important factors. The UK Government, a Socialist government, seems to feel that the most important matter in connection with the Ruhr is the early nationalization of the coal mines. The Secretary went on to say that the U.S. Government is frankly interested in achieving at the earliest possible date the maximum production of coal in the Ruhr and favors concentration on the solution of that question now and deal-

⁴For reports on the conversations under reference, see telegrams 3239, August 13, 3263, August 14, 3316, August 19, and 3319, August 19, all from Paris, vol. II, pp. 1029, 1031, 1039, and 1041.

ing with the other questions in a fair and equitable manner as soon as the coal begins to roll out of the Ruhr in adequate volume.

The Secretary said that adequate quantities of coal are indispensable to the revival of industry and thus the reattainment of the financial solvency of Europe. The Secretary went on to say that shortage of coal was in the final analysis back of most of France's difficulties including the shortage of dollars. The Ambassador indicated agreement with the Secretary's comments.

JOHN HICKERSON

851.51/9-1247 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, September 12, 1947—6 p. m.

3725. I have been given the following memorandum by the Minister of Foreign Affairs:

"The Ministry of Foreign Affairs believes it useful to furnish to the Embassy of the United States the following precisions on the dollar situation of France and on its perspectives:

1. In the same way as it follows from the attached technical note, (summarized in Embassy's 3661, September 9¹), the reserves in gold or in dollars of the French Treasury will be probably exhausted between the fifteenth and thirty-first of October next. With regard to the gold reserves of the Bank of France, at present reduced to \$445,000,000 it is impossible to deduct again a portion of these reserves for the benefit of the Treasury, because these reserves have fallen to a level very much below the security minimum, and they are besides necessary to cover a certain number of short-term engagements in foreign exchange or abroad. [If?] the French Government could not procure between now and October 15 new resources, it would be obligated to stop the dollar purchases which it has maintained up to the present; namely, purchases of cereals, coal, and fats.

2. On the supposition that France obtains, within the framework of a European program, external assistance permitting it to assure its imports beginning April 1, 1948, the external assistance of which it would have need until that date in order to maintain its current purchases in the American continent would be in the neighborhood of \$600,000,000.

In default of assistance of this magnitude, it would be necessary for France to sacrifice a part of its essential imports in raw materials and foodstuffs in the American continent which are indispensable to the functioning of its economy."

CAFFERY

¹ Not printed.

851.00/9-1347: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, September 13, 1947—noon.

3734. A high official of Interior Ministry reviewed for me today in confidence the internal French political situation as he sees it. He began by stating that the French Parliament had not recessed one day too soon and that had it remained in session much longer the Ramadier Government would probably have fallen. He said that Parliamentary nerves and tempers were getting very frayed; "with Parliament in session there was the ever present possibility of some incident capable of precipitating a major crisis particularly in view of the stresses within the Socialist Party resulting from the Lyon Congress coupled with the difference of views between the various parties which compose the present government".

Commenting on Ramadier's position (my informant is close to both Ramadier and Auriol) he said that while several days ago there had been considerable pressure from certain Socialist elements for Ramadier to resign, Ramadier strongly supported by Auriol and Blum is determined, in the absence of some unpredictable development, to continue on until after the municipal elections. He will use this period to try to work out a governmental plan looking to establishment of internal economic and financial stability (balancing budget, adoption of a sound fiscal and tax policy, stabilizing wages and prices, et cetera) for presentation to the Assembly when it reconvenes in November.

My informant believes it is impossible at this juncture to predict what will happen in the period following the elections. While the results of the elections will certainly influence the situation, what happens will in reality be determined almost entirely by the economic and food situation. If France should fail by that time to have the certainty of obtaining sufficient credits (International Bank loan and US credits) to tide over the hiatus period from November until next spring, when the French hope the Marshall Plan will go into effect, the social and political situation will rapidly deteriorate and the Ramadier government will assuredly fall. In such event my source was unable to forecast what would follow but expressed the conviction that while initially the immediate result of such a crisis might appear to strengthen De Gaulle "whose influence and prestige have increased in the past two months, in the final analysis it will be the Communists who profit most". He went on to express the view that if a collapse occurs with an apparently insoluble political impasse it is possible that Auriol "who is as determined as Ramadier to keep the Communists out of the government" might ask De Gaulle to form a government. In such event my source does not believe that the Communists would oppose De Gaulle with insurrectionary action, but would redouble

their efforts to paralyze every phase of French national economy with the firm and probably correct belief that if De Gaulle fails again a Communist government would inevitably then take over.

The foregoing possibilities are, of course, based on an economic collapse or serious deterioration of the present situation. On the other hand, if France obtains the necessary credits to stabilize the situation in the interim period prior to the Marshall Plan taking effect, my informant believes that despite very serious difficulties and grave problems the Ramadier government (possibly with a few Cabinet changes) has a reasonable chance to continue on in office, particularly if a realistic and sound fiscal, tax, wage, and price policy is adopted. He said: "In other words, if we can get sufficient help to prevent the situation from breaking down the chances of either extreme (De Gaulle or the Communists) coming into power will be certainly postponed and there will be a real chance of seeing the present coalition evolve into a reasonably strong democratic government with sufficient prestige and authority to govern. In so far as resisting Communism is concerned, the attitude of both the political leaders and the public has never been better since the liberation. On the other hand, the economic, financial and food outlook has never been blacker. (I agree with this last statement). If a collapse can be prevented it should be possible to maintain and even strengthen resistance to the Communists. If on the other hand, the situation disintegrates, the Communists alone will profit."

While the foregoing opinions are naturally speculative and are in fact more optimistic than the views of some other political observers, I report them at length because of the past reliability of the source and the information to which he has access. I concur with the view that if before the October elections the French see no immediate hope of credits to tide them over the winter months, the Ramadier government is most certainly doomed and grave social and political troubles appear inevitable. I am also inclined to agree that while such a situation might initially appear to benefit De Gaulle, in the long run it would be the Communists who would profit most and who might succeed in coming to power.

Sent Department as 3734, repeated London for Clayton as 734, to Moscow by airmail.

CAFFERY

851.61311/9-1647 : Telegram

The Acting Secretary of State to the Embassy in France

TOP SECRET

WASHINGTON, September 16, 1947—1 p. m.

3496. A leak which is being rigorously investigated is responsible for the appearance in Sept 15 issue *Newsweek* (published Sept 11) of

article by Edward Weintal revealing Dept's plans outlined Deptel 3304.¹ Consequently it now appears inadvisable to base the plan in first instance on statement by US Govt official. It is thought however that you might inspire in French press (perhaps one of Chipman's² friends might be helpful in this regard) an editorial or the statement of some prominent Frenchman calculated to be as arresting and newsworthy as possible in order to receive widest initial coverage in French and world press and provide sound basis for exploitation by Dept and field.

While we shall leave final decision as to theme, medium and exact timing to you it is suggested that theme be centered on surprise and/or indignation that French wheat shortage has not already been alleviated by Russian grain with suggestion that USSR is withholding its wheat until it can be used to greatest political advantage in municipal elections as it did in 1946 when it shipped 500,000 tons of grain largely in American bottoms etc. This performance could be contrasted with American shipments which have been constant and as large as possible based solely on purpose to aid France as much as possible. This could be bolstered with appropriate statistics.

While exact timing is left to you we believe no time should be lost. Please cable us date as far in advance as possible and text as soon as it appears. Dept is furnishing you statistical and background data by separate cable.

Newsweek leak will have alerted Moscow. We must bear this in mind if we proceed in this matter. If in all the circumstances you have doubts about advisability of going ahead with this, telegraph us.

LOVETT

¹ Dated September 3, p. 734.

² Norris Bowie Chipman, first secretary of Embassy and consul at Paris.

851.00/9-1647: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, September 16, 1947—7 p. m.

4005. My 3756, September 14.¹ As municipal election campaign swings into high gear it becomes obvious that as usual the Communist Party is by far the best prepared with money, press, films, trained personnel, et cetera, as compared with all other parties, to gain the votes of the masses. Study of this party's "internal" bulletins, as well as public speeches of its leaders, reveals that for the first time since the liberation the Communists have posed France's attitude towards US as one of the main electoral planks. Whether Communist discus-

¹ Not printed.

sion touches upon internal or external affairs, our country is constantly accused of menacing France's "independence" and the essential point which is most frequently stressed, as for example in Thorez speech delivered last Sunday at Saint Quentin, is that present government has revealed its complete incompetence by its "gambling on Am aid which will not be forthcoming".

Bread, wheat and coal are the principal subjects of discussion on part of Communists. They portray the US as overflowing with wheat, coal, foodstuffs, etc., which we are withholding until France "capitulates" and becomes completely dominated. *Humanité* harps on "hold-up" prices of American wheat and coal and describes the "rage" with which Thorez spoke at Saint Quentin of necessity of "plying [*paying?*] dearly in precious dollars for Ruhr coal". While carefully avoiding discussion of specific aid from Soviet Union, Communists are insisting that American assistance in any event "will be too little and too late" and consequently France should turn to the East. In demagogic fashion they assert that if Thorez had been permitted to head a cabinet "in conformity with will of people" or even if Communists had not been expelled from Cabinet, the present "drift towards abyss" would not be taking place. They are also pointing out that one of the greatest penalties of tying France's fate to American "trusts" will be that Washington will "prevent any extension of nationalization as it has already done in England" and will "impose its investments in our overseas territories".

Appeals to American people to undergo voluntary rationing in order to furnish cereals to Europe such as that made on Monday by our Under Secretary of Agriculture,² should prove helpful. Unfortunately, however, that portion of his statement which indicated that large quantities of grain are being fed to livestock in United States was given prominence in this morning's *Herald Tribune* and is sure to be thoroughly exploited by Communists.

To summarize, in their propaganda there is no doubt whatsoever that Moscow and the French Communists are counting heavily on their belief that prior to the October elections there will be no clear and unequivocal indication that the US will supply sufficient help in the coming critical months to prevent famine and cold in France. I feel it of greatest importance that we do everything we can to counteract this propaganda line in the most important pre-electoral period.

Sent Department 4005; repeated Moscow as 487, Berlin 363, London 752.

[CAFFERY]

² Norris E. Dodd.

851.6131/9-1747: Telegram

The Acting Secretary of State to the Embassy in France

RESTRICTED

WASHINGTON, September 17, 1947—noon.

U.S. URGENT

3526. Follows background material on French grain situation.

Great concern being expressed throughout US over bad French harvest. US own grain supply greatly reduced because of poor corn crop. 1947 US production all grain together estimated at 10 percent less than 1946. Despite reduced US supply calendar 1947 shipments cereals this country to continental France expected exceed appreciably shipments during calendar 1946 and 1945. First ten months of 1947 US has already delivered or programmed 820,000 long tons of grain and grain products. We tentatively plan shipments for last two months which will bring year's total to nearly 1,100,000 long tons. This compares with US deliveries to continental France of 860,000 long tons 1946, and 758,000 long tons 1945.

In addition to US grain shipments to continental France, large quantities have gone directly to French North Africa. For three year period, 1945-1947, direct French North Africa deliveries amounted to almost 1,000,000 long tons.

Altogether, US has already since beginning 1945 supplied or programmed a total of almost 3,500,000 long tons of grain for France and French North Africa. If tentative plans for last two months of this year are carried out, total will be raised to some 3,740,000 long tons.

US has also been exporting substantial amounts of mixed dairy and poultry feed to France. It will be remembered that before the war France was not dependent on US for wheat and other grains. Less than 30,000 long tons of wheat were imported from US in each of four years 1937-1940. And France's pre-war wheat flour imports from US were even less than wheat. Same was true of other grain.

US shipments, despite their increased volume, will not alone be adequate to offset the bad French harvest. Therefore, all countries which can make grain available for export ought to join US in its efforts to relieve acute shortage of bread in France this winter.

While harvests in western Europe have been unusually bad this year, in eastern Europe, particularly USSR, they have been good. Cereal Committee International Emergency Food Committee estimated at its Aug meeting in Winnipeg that USSR should have an exportable surplus of 2,000,000 long tons from 1947 crop. Reports from Soviet press indicate estimate is probably conservative. Soviet acreage under cereals was substantially increased this year, and average yield per acre is reported much above both 1945 and 1946. A Soviet paper

recently stated that "the outlook for grain yields in principal regions is incomparably better than last year."

Beginning April last year, with a relatively poor crop, USSR shipped, partially in American ships, some 544,000 metric tons of bread grains to France. This grain was sold to France for dollars at prevailing world price. In view bountiful 1947 harvest, it is felt that USSR can this year greatly increase its shipment of bread grain to France.

Soviet shipments to France last year were effected principally during the months of April, May and June. This was first Soviet shipment after war and none has been made since. Total Soviet deliveries of grain to France during post war period thus amounts to date to approximately 544,000 metric tons. This compares with US deliveries of approximately 3,500,000 long tons (3,557,000 metric tons). 1946 Soviet grain was sold to France for dollars and at prevailing world price.

Estimate of a 2,000,000 ton Soviet surplus was arrived at by IEFCA after allowance was made for derationing of bread and substantial increase in per capita consumption of bread in USSR.

LOVETT

851.61311/9-1747: Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET
US URGENT

PARIS, September 17, 1947—6 p. m.

4021. Deptel 3496, September 16. I fully appreciate force of the considerations which make the Department reluctant, following the unfortunate leak in *Newsweek*, to have the initial statement on Soviet wheat delivered by a US Government official.

I have given careful thought to the Department's alternative suggestion and my personal conclusion is that in spite of the *Newsweek* story the best method of accomplishing our aim is to ignore it and proceed with the original plan. In brief, this conclusion is based on the following considerations:

1. The French press today is almost exclusively a party press and practically all prominent journalists are first and foremost party men. Even if we could persuade a newspaper or an individual Frenchman of sufficient influence for our purpose to lend his name to such a statement, it is by no means certain that other papers would pick up and develop the story.

2. On the other hand, a statement of this kind coming from an important official of the US Government would carry much more weight here and the task of getting a wider range of French political leaders and writers to comment on it would be greatly facilitated.

3. *Newsweek* has a circulation in France of 7,000 and in Europe as a whole of 50,000. It is possible that Weintal's story will receive little publicity here. In my opinion the effect of the *Newsweek* story in France (and I take it that our main objective is to influence French public opinion) should not be important.

4. I believe that the facts contained in our statement would be sufficiently arresting to outweigh any charges that we were indulging in a political maneuver.

CAFFERY

851.5018/9-847: Telegram

The Acting Secretary of State to the Embassy in France

SECRET

WASHINGTON, September 19, 1947—6 p. m.

3594. Dept appreciates gravity French food situation as presented your 3649 Sept 8¹ and earlier telegrams. Govt agencies here have made and are still making every effort to improve exports, but we cannot offer assurance of shipping sufficient grain to restore and maintain French ration 250 grams this winter. While you are already familiar with nature of difficulties in allocating and procuring grain, following offered as possible help to you in understanding situation here. Deptel 3526 Sept 17 was concerned with public info aspects of French grain situation.

1. As already indicated Depts 3294 Sept 2 volume US grain exports will be greatly reduced by small size of domestic corn crop. While wheat crop is 6,782,000 tons more than preceding year, corn crop is 21,250,000 tons less. This deficiency in corn alone is greater than total US exports of all food grains for crop year 1946-47. Result may be that total availability for shipment abroad will not exceed 12,000,000 tons all types grain as opposed to 14,500,000 predicted earlier in summer.

2. Shortage of corn may unfortunately mean excessive increase in use of wheat to feed livestock. Average Aug price corn last year was 1.91 per bu. Average price Aug this year 2.35. Price Sept 17 2.63. Corresponding figures wheat 1.95; 2.31; 2.69. Only Govt procurement agency is Dept Agri which is obliged to purchase competitively in open market with advance notice. Its buying activities therefore tend to raise prices, and procurement for export has recently been somewhat inhibited by reluctance to stimulate price increases further. There is already widespread concern over food prices, and Dodd and Harriman have spoken publicly of need for voluntary meat rationing

¹ Not printed.

to conserve grain. Cabinet Food Committee will meet Sept 22 to consider effect on domestic prices of procurement for export, and decision on policy should be made soon. Govt officials will also consider conservation measures, but obviously doubtful whether they are politically feasible, whether voluntary restrictions would be effective, or whether legislative controls could be established in time to avert food crisis in France this winter.

3. Mentioned above that procurement for export has been inhibited by fear of raising prices. However, while current shipments to all destinations could be larger than they are, they could not be maintained at higher level, or even at present level. Exports at current rate would amount to approximately 7,500,000 tons for period July-Dec 1947. This would leave for export Jan-June 1948 only 4,500,000 tons or more, depending on total availability mentioned Para 1.

4. US is committed to system of allocation through mechanism of International Emergency Food Council. This means that import requirements of all countries are examined and target allocations established by international action. Export programs of participating countries are then planned to meet allocations with which reps of participating countries have agreed in IEFEC. System obviously results in comparatively light allocations to many claimants rather than heavy allocations to a few. While US exerts great influence in IEFEC, it does not determine allocations single-handed, and it is bound to give some weight to IEFEC allocations in its export programs. This makes it more difficult to concentrate large shipments in one area.

5. US exports to other areas cannot easily be reduced in favor of France, aside from considerations relating to IEFEC. Estimated here that France would need approximately 50,000 additional tons grain each month from US to restore and maintain 250 gram ration, assuming that domestic supplies and current imports would be sufficient to maintain present 200 gram ration. But France is already largest importer of US grain except occupied areas and Italy. To divert 50,000 tons a month from other destinations would necessitate serious reduction of several smaller allocations, or complete elimination of two or three, such as those to countries participating in CEEC, or to areas in South America or Far East. Such allocations are already limited, and there would be political difficulties in cutting them to extent necessary to satisfy needs of France and Italy. Allocations to eastern Eur have already been shipped, and there are no further allocations to that area which could be cancelled (last para urtel 3593 Sept 4²). With respect to bizonal area it is accepted here that 3,600,00 tons from

² Not printed.

US will be required to support ration level of 1550 calories, and that this level must be maintained in order to increase Ruhr coal production. Accordingly Dept has joined with War Dept in requesting Dept of Agri allocate 3,600,000 tons produce weight from US to combined zone during current crop year. Best we can do with allocations to other destinations than France is hold shipments to minimum. For example, we are shipping no grain to UK in Nov, and quantities assigned to several Eur countries in US Nov program may result in early reduction of their rations. Already contemplated in IEFC allocations July-Dec this year that rations many countries would inevitably fall, and US programs from Nov on may produce this effect.

Purpose of foregoing is merely to give you background on inability to meet French requirements adequately. We shall continue doing everything to maintain shipments and to increase them if at all possible. Meanwhile will appreciate further info and suggestions from you.

LOVETT

851.51/9-2347: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, September 23, 1947—midnight.

US URGENT

4135. For State and Treasury from Embassy and Tomlinson.¹ Secretary of Treasury requests following message be brought to immediate attention of Wiggins² and Southard:³

In conversation on September 22 Finance Minister Schuman listed specific steps in which we might be of immediate assistance in alleviating French dollar payments crisis. I informed Schuman of the sympathy and concern of the Administration with regard to the present situation and assured him that I would do everything possible to expedite attention already being given to these matters.

1. Unutilized balance of Ex-Imbank loan now amounts to 200 million earmarked for purchase of equipment. Schuman suggests terms of loan contract might be changed to permit as close as possible to 100 million of this balance to be used for purchases of coal, cotton, petroleum products and other supplies. Schuman states his relations with Ex-Imbank are excellent but feels that if France negotiates question directly with Ex-Imbank no modification of contract will be possible, at least with necessary speed. He urged that US Administration

¹ William M. Tomlinson, representative at Paris of the Department of Treasury.

² Archibald L. M. Wiggins, Under Secretary of the Treasury.

³ Frank A. Southard, Jr., Director of the Office of International Finance, Department of the Treasury.

participate in negotiations to reach favorable solution before October 15.

2. Question of expediting and arranging advance payment on settlement of French claims arising from US Army procurement in France was also raised. Schuman states possibly 50-60 million could be made immediately available from claims outstanding. (Embtel 4088⁴)

3. Schuman urged prompt distribution of "looted" gold recovered to date. He suggested gold be delivered to an Allied central bank to be inventoried, weighed and assayed and that Tripartite Commission in Brussels⁵ be directed to go ahead with temporary distribution until technicians could settle exact claims of each country. Question was also raised of approximately 33,000 kg. of fine gold blocked in Bank of Japan and belonging to French Union (Indochina). Schuman asked for assistance of Treasury in reaching favorable solution as promptly as possible.

4. Final question raised by Schuman was problem of mobilization of private French assets abroad, particularly those held in US through Swiss banks and not declared by their owners to French Government. Schuman referred to estimate of 500 million. He expressed hope that Treasury could find some indirect means of assisting his Government in getting these undeclared assets. He acknowledged delicate position of US because of undertakings given to US banks at time of TFR 300 census.⁶ Schuman said he did not wish to take strongly punitive measures against French owners but felt some means other than voluntary program would have to be used to obtain desired results. He referred to plan whereby US would announce date for vesting of uncertified assets by Office of Alien Property and expressed view that if concerted with French Government program, such action might bring owners to declare their assets to French. Schuman also referred to plan under consideration by French which would involve certification of assets belonging to French owners without French Government actually learning identity of individual owners. He argued that in most cases such detailed information not necessary to establish non-enemy character of assets involved since largest part of such assets have been held by same owners for long period before the war. He suggested that present certification procedure might be modified to take account of this fact if owners let dollars be used to finance French purchases. [Snyder.]

CAFFERY

⁴ Not printed.

⁵ The Tripartite Commission for the Restitution of Monetary Gold was established by the Governments of the United States, United Kingdom, and France on September 27, 1946. For a statement of the functions of the Commission, see Department of State *Bulletin*, September 29, 1946, p. 563.

⁶ A census of foreign-owned property subject to the jurisdiction of the United States was announced by the Department of the Treasury on June 14, 1941. The returns, prepared by banks, corporations, and individuals, were submitted on Report Forms TFR-300.

851.5018/9-2447

*Memorandum of Conversation, by the Associate Chief of the Division
of Western European Affairs (Wallner)*

SECRET

[WASHINGTON,] September 24, 1947.

Participants: The Acting Secretary
The French Ambassador
Mr. Wallner

In a conversation lasting over an hour, the Acting Secretary and the French Ambassador discussed the food and financial crisis in France and the possibilities of meeting it within the next few months.

Food was the first subject, and Mr. Bonnet spoke of the absolute necessity for France to obtain further allocations of wheat and his intention to ask the IEFEC for 500,000 additional tons. He said that every avenue was being explored but that it had not yet been discovered where the wheat was coming from. Mr. Lovett said he did not know how or where the French could obtain extra allocations of wheat by December. Mr. Bonnet suggested that one place it could be found was in the large amount of wheat earmarked for the British and American zones of Germany, adding that the French people could never understand how it was that the German people were getting larger bread rations than they. Mr. Lovett replied that bread now formed a larger part of the German ration than it did of the French, that the total German ration was much lower than the French and, in his opinion, it would not be feasible to reduce the wheat allocations for the combined German zones. The French Ambassador did not insist further on this point, but he did indicate some skepticism that the Germans would really be worse off this winter than his own people.

Mr. Lovett then referred to the intensive studies now under way in this Government for determining what substitute foods, such as dried fruits, etc., could be procured to take the place of wheat. He offered the information in confidence to the Ambassador that the President was giving serious consideration to calling on the American people for voluntary restrictions, such as two meatless days a week, for the purpose of lowering the prices of meat and poultry and freeing for export the grain that might otherwise be used to feed stock. He assured the Ambassador that the latter's concern over the food crisis in western Europe did not exceed the Secretary's and his and that every means was being looked into to meet the emergency. He added that he could say nothing further at this time since the President had just returned and final decisions had not yet been taken.

Turning to the financial crisis, the French Ambassador reviewed the perilous situation which France would face when she ran out of dollars next month. He said that France had stopped importing raw materials and was using all her remaining dollars for wheat and coal. He said

he was hopeful that dollars might be found to continue these essential imports but pointed out that unless the importation of raw materials, such as cotton, etc., could soon be resumed, French industrial production would slow down to almost nothing before the Marshall Plan could be implemented and so affect, as far as France was concerned, the production assumptions upon which the Marshall Plan was based. He said that by adding together all the bits and pieces of dollar assets France might, if she could get an Export Import Bank Loan, be tided over and be able to resume purchase of raw materials before the Marshall Plan came into effect.

Among the bits and pieces he mentioned the German looted gold, unpaid items owed by the US Army to the French Government on procurement account, and finally the earmarked Japanese gold now in Tokyo. Mr. Lovett replied that he thought the first two items were on the way to rapid settlement but that the complications involved in the latter might delay matters so that a decision could not be reached in time to be of any assistance during the interim period. Mr. Bonnet pointed out that the Tokyo gold amounted to more than \$37 million and that he must press the Acting Secretary for a rapid decision on this problem. Mr. Lovett promised that the matter would be looked into immediately and requested Mr. Wallner to see that this was done. Mr. Lovett then referred to the Ambassador's suggestion concerning an Export Import Bank Loan and said that to his regret he would be obliged to disappoint him. He explained that he had called upon the directors of the Export Import Bank only last week with the same thought in mind and that he had been turned down. The directors had told him that under the present franchise and their agreement with the Appropriations Committee of Congress they could make no further loans to France, which had received a large amount already from the Bank and which simply had no further collateral to offer.

Mr. Lovett took pains throughout the conversation to impress upon the Ambassador the Secretary's and his awareness and deep concern, which they had set forth at length to the President, regarding the implications for the US and for the world of the food and financial crisis in western Europe.

851.61311/9-2547 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET
US URGENT

PARIS, September 25, 1947—10 a.m.

4152. Many of our best informed friends, among them publishers-editors of *Ouest France*, largest provincial daily in France, right wing of MRP, Gaullist tendencies, 430,000 circulation, covering 12 depart-

ments Brittany and west with 28 regional editions; *Le Maine Libre*, Le Mans daily, Socialist, 80,000 circulation; *L'Ouest Republicain*, Rennes daily, Socialist, 20,000 circulation, are deeply concerned over extremely violent Communist Party propaganda, in view October municipal elections, in rural districts heretofore predominantly anti-Communist, and over danger of Communist gains there as result of this propaganda. Communist campaign is based largely upon current 200 gram French bread ration. Arguments most frequently advanced are:

1. US has sent less cereals than promised;
2. US is now sending less than it could send, in order to aggravate French shortage and at critical moment to send more on condition that France submit to American anti-democratic imperialistic conditions;
3. US sends mildewed corn to France keeping wheat and good corn for German civilians of American zone;
4. US allows German civilians daily bread ration at least double that of France;
5. Ramadier has sold out to Americans and will not procure wheat from Russia although stocks are available there;
6. Severe crop fires in August and September are acts of arson, fires being set by Fascist agents, ex-Vichy militia and Gestapo men, working for reactionary clique, De Gaulle and American interests with Truman's blessing in order to further deplete French stocks and thus the more easily to force France to submit to American conditions.

The journalists mentioned above have all volunteered the opinion that a statement by a high ranking official of US Government re shipments which have been made to France would be most helpful in counteracting Communist efforts in rural areas. They have also expressed the opinion that to obtain the maximum usefulness such a statement should have a "newsworthy peg" and that repetition would greatly strengthen its impact.

These unsolicited views have served to strengthen my own conviction that we should proceed at once with the plan outlined in Deptel 3304, September 3 and that, as indicated in mytel 4021, September 17, the statement should be made by a high American official. My own view is that the statement would carry great weight if made by Under Secretary Lovett who has received excellent press in France in recent weeks as result of his sympathetic approach to question of interim aid.

It is reported in today's press that Ambassador Bonnet has recently made representations to our government for additional allocations of wheat. It seems to me that Bonnet's representations might serve as a suitable "peg" for a statement focused on the French situation, and that he might be called in and given the statement after which it could be given to the press. The statement itself might begin with a reference to Bonnet's representations which would have the advantage of

making it appear that the whole matter resulted from French initiative, thereby tending to counteract the Weintal story.

If this is done it would seem best to limit the part of the statement concerning the relative contributions of the US and USSR to France itself rather than have it cover "western Europe" as contemplated in the Dept's original plan. The inclusion of western Europe might also give the Communists here an opportunity to point up their argument that we were sending much more grain to Germany than to France.

An alternative possibility would be to await Clayton's return to Washington and have the statement emanate from him. In my opinion, however, the time element alone is sufficient to favor the first alternative.

CAFFERY

840.50 Recovery/9-3047 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, September 30, 1947—midnight.

US URGENT

4240. A source close to Ramadier tells me that the latter and other members of the coalition government are deeply disturbed over the news from Washington in regard to the prospects for immediate aid for France. He said that the present government has been progressively orienting its policy toward the US and has continued to oppose heavy Communist pressure to re-enter the government counting largely on the Marshall Plan and interim aid until Marshall Plan can go into effect next spring.

The Communists, who wish at all cost to re-enter the government so that they can further their penetration and influence French foreign, colonial, and domestic policy, have reacted by increasing the violence of their attacks against the present government "for selling out to the US in every field including Germany". The Communist refrain orchestrated by its magnificent propaganda machine, is that the Ramadier Government has been "gambling on the possibility of American aid for France and that France will not only be left in the lurch by the US, but that it also is burning its bridges with eastern Europe which could help it". (The Communists actually believe that we will eventually extend some assistance but are counting heavily on its being too late.)

As reported in mytel 4221, September 30¹ the Communist press referring to the President's meeting day before yesterday² is gloating that "no American aid will be furnished to France and the European countries until next spring at the earliest". We may expect this campaign to continue with growing intensity both prior to and following the elections with a view to completely discrediting the Ramadier Government and demoralizing the French public already discouraged by the prospect of one of the worst winters France has ever had to face.

My informant believes that unless France receives clearer indication that interim aid will be forthcoming the Ramadier Government will probably collapse shortly after French Parliament reconvenes following the municipal elections and that then there will be little, if any, possibility of excluding the Communists from the next government. He said: "Once the Communists get back into the government it is difficult to see how they can again be ejected".

On the other hand, he believes that if the promise of American interim aid is forthcoming the Ramadier Govt has a good chance to survive, since all the parties represented therein (with the possible exception of a few radicals close to Herriot³) still "wish with all their hearts to keep the Communists out of the govt" and will, therefore, hesitate to cause a crisis the outcome of which would be uncertain and which probably would benefit the Communists.

CAFFERY

¹ Not printed.

² For a record of the President's news conference following a meeting with congressional leaders, September 29, see *Public Papers of the Presidents of the United States: Harry S. Truman, 1947* (Washington, Government Printing Office, 1962) p. 445.

³ Edouard Herriot, President of the French National Assembly.

711.51/10-247

*Memorandum by the Under Secretary of State (Lovett) to
President Truman*

TOP SECRET

[WASHINGTON,] October 2, 1947.

Subject: Call of Mr. Georges Bidault, French Foreign Minister

Mr. Bidault's advisers have indicated that he wishes to talk with you principally about the food and financial crises in France and the prospects for, and extent of, American aid to alleviate them, both immediately and in connection with the European Recovery Plan. He will probably explain their impact on the French political situation, with particular reference to the future of the Government to which Mr. Bidault belongs. It is possible that the French Foreign Minister may also touch on the German question,¹ including the uni-

¹ For documentation on the German question, see volume II.

fication of the three western zones and the future status of the Ruhr and the Saar as well as on the November meeting of the Council of Foreign Ministers.²

In essence, the several questions which Mr. Bidault will speak to you about resolve themselves into one: the growing split between east and west and the side on which France will find herself. Mr. Bidault will come to you as a member of a Government which represents the middle of the road democratic elements and which in the next few months may well be unable to withstand the pressures from right and left unless the problems of food and coal can be solved.

Recent reports from Ambassador Caffery indicate growing concern on the part of Prime Minister Ramadier and other members of his coalition Government that unless American aid is forthcoming within the next few weeks the Government will collapse and will be replaced by one from which it will be impossible to exclude the Communists. His own political future being at stake it seems likely that Mr. Bidault will paint a grim picture in terms of the alternatives of increased American aid or a Communist France.³

ROBERT A. LOVETT

² For documentation on the fifth session of the Council of Foreign Ministers, at London, November 25–December 15, 1947, see *ibid.*, pp. 676 ff.

³ No direct record has been found of the conversation between President Truman and M. Bidault on October 2. Telegrams 4293 and 4312 from Paris, October 3 and 5, not printed, review comment in the French press (851.9111 RR/10-3, 10-547).

851.00/10-647: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, October 6, 1947—7 p. m.

US URGENT

4322. There is no doubt that De Gaulle scored a spectacular success yesterday in his speech at Vincennes. (I understand full text has been cabled by American news agencies.) An impressive crowd estimated at between 400 and 500,000 gathered to hear him. While the great majority were middle or lower middle class and white collar workers there were nonetheless a surprising number of workers. The crowd was orderly and it was obvious that it had come to hear what De Gaulle had to say rather than simply for an outing. The applause when he attacked the "Soviet dictatorship", called the French Communist Party "separatists" working in the interest of another country, and paid tribute to the United States, stating that with its strength intact it was opposing Soviet world ambition, was spontaneous and sustained. He said "and there is not a free man in the world who does not think that American policy healthy".

Qualified political observers, including anti-Communist labor leaders, agree that the meeting yesterday was impressive evidence of De Gaulle's popular prestige and that if the present polarization of Communist and anti-Communist forces continues to develop De Gaulle's following may rapidly snowball.

It is interesting that the Communists (as in the case of De Gaulle's Lyon speech last month) endeavored to keep down attendance and destroy effectiveness of speech by resorting to different forms of sabotage including scattering nails on roads approaching Vincennes, sabotaging the loud speaker system (which was rapidly repaired prior to the General's speech) and arranging for "mechanical" interruptions in the service of the only subway which runs to Vincennes.

Copies by pouch to Moscow and London.

CAFFERY

851.00B/10-747 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, October 7, 1947—1 p. m.

4323. Highly qualified observers here, including one who is close to Duclos,¹ state that the Kremlin's choice of Communist Parties participating directly in new Comintern indicates that latter's battle formation counts on "decisive parties" of Europe. They consider that while designation of French and Italian parties reveals that Moscow regards France and Italy as falling within its "zone of immediate influence", this decision, rather than augmenting Communist prestige in these two countries, is more likely to injure it especially if both France and Italy survive the winter without collapsing economically. Informants explain, and in this I heartily agree, that one of the main sources of Communist strength in France resided in widespread belief on part of general population and even some political circles that the Communists since 1941 were no longer subservient to Kremlin. Consequently, it is believed in anti-Communist circles on the right and left that the "open" operation of Comintern will aid them in providing sufficient evidence during electoral campaign that Communist militants were never anything but Soviet patriots.

The selection of Belgrade rather than Praha as the "transmission belt" leading from Kremlin to Paris strikes these observers as convincing proof that the Soviets feel somewhat isolated and prefer to operate from a "sure GPU and military base". Absence in France of "United Front with Socialists and Radical Socialists" as during pre-

¹ Jacques Duclos, a leader of the French Communist Party.

war Popular Front period will greatly handicap, according to same informants, Communists task of convincing people that Moscow stands for peace and anti-imperialism while United States is the bulwark of the "camp of warmongers and imperialists".

Source close to Duclos remarks that "mass Communist Front organizations" will now be directed to reorient their policies by shifting "line" from "anti-Fascism" to anti-Americanism and to stress more than ever view that Moscow is the "bearer of peace".

Source also believes that absence of German party from "open" participation in new Comintern indicates that German question, especially in France, is still too delicate in view of French chauvinism but they firmly believe that even here a new orientation is beginning to take place (reference my 4296, October 3²) and they point to participation of Georges Roucaute at recent Berlin Conference of United Socialist Party.

Socialists militants here also believe that Comintern's attacks against Blum and Bevin are designed "to oblige all Socialists, especially those behind Iron Curtain, to side with Moscow or with 'Social Fascists' like Blum with all the consequences that this decision now entails in Soviet satellite states".

Finally, trustworthy source states that French Communist Party was given task at Warsaw Conference to "direct the Belgian, Dutch, English, Spanish and Swiss Communist Parties". Italian Communist Party will be directed by Moscow via Belgrade. As for North American Continent party work will be entrusted to a "special representative under Manuilski's³ immediate guidance".

Sent Department 4323, repeated Moscow 495, Berlin 383, Belgrade 49, Rome 254, London 791.

CAFFERY

² Not printed; it reported that the French Communist press was beginning to extol the administration of the Soviet Zone of Germany and to view sympathetically the efforts of Germans there to create a "new democracy" (740.00119 Control (Germany)/10-347).

³ Dimitri Zakharovich Manuilsky, Minister for Foreign Affairs of the Ukrainian Soviet Socialist Republic.

851.51/10-847 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

CONFIDENTIAL

PARIS, October 8, 1947—1 p. m.

4338. Independent *Combat* states today that according to well-informed circles Bidault has already obtained formal assurances from Washington "to assist France before October 19". Paper adds that

Bidault will probably make known results of his Washington visit at public MRP rally Saturday night.

CAFFERY

851.61311/10-1047 : Telegram

The Acting Secretary of State to the Embassy in France

TOP SECRET

WASHINGTON, October 10, 1947—5 p. m.

US URGENT

3880. Deptel 3873.¹ Secretary of Commerce Harriman plans to issue Russian wheat statement on Oct. 13 or 14 in course of meeting of Inland Press Association in Chicago. Exact text of statement may not be available in advance but he plans to use following draft as a guide:

This Govt is greatly concerned over the French grain situation. Because of a natural disaster, the French cereal crop this year is the worst in over a century. The US is doing the utmost which circumstances will permit to offset the dire consequences in human suffering of this harvest failure. In spite of our own greatly reduced grain supply, because of the poor corn crop, shipments of cereals from this country to France during 1947 are expected to exceed shipments during 1946. But shipments from this country, despite their increased volume, will not alone be adequate to offset the bad French harvest.

The press has carried statements of an official French spokesman to the effect that the French Government asked the Soviet Government several weeks ago to send wheat to France and that the Soviet Govt has not yet replied to this request. We all know that while harvests in western Europe have been unusually bad this year, in eastern Europe they have been good. Statements in the Soviet press concerning the Russian harvest have lead the Cereal Committee of the International Emergency Food Committee to estimate that the USSR should have an exportable surplus of two million tons from the 1947 crop. Under the circumstances it is hoped that the Soviet Govt will respond favorably to the request of the French Govt and will be willing to share with us the task of relieving the acute shortage of bread this winter both in France and in western Europe generally.

LOVETT

¹ Not printed.

851.00/10-1047

The Second Secretary of Embassy in France (MacArthur) to the Associate Chief of the Division of Western European Affairs (Wallner)

TOP SECRET

PARIS, October 10, 1947.

DEAR WOODIE: In view of both international and internal French developments of the past two months, it seems to us that the time has

come when a review of the French political situation in the light of future possibilities may prove useful.

You will recall that in my letter of last March 26¹ we were encouraged by indications that the anti-Communist leadership of the Left and Center was at last beginning to show signs of life and cohesion. We nonetheless felt that the democratic leadership in France still had a long way to go to win the battle against Communism, and among other things we believed that a leader with very considerable prestige and authority was needed if a strong and effective coalition of the democratic forces of the Left, Center and moderate Right was to be formed. Our view that there were encouraging signs in the psychology and outlook of the anti-Communist political leaders was in part justified on May 7 by the exclusion of the Communists from the Government for the first time since the Liberation, by the right wing Socialist leadership supported by the political forces of the Center and moderate Right. Such a development had been considered politically impossible only two or three months earlier.

With the expulsion of the Communists a new phase began. As the Ambassador reported (in his telegram No. 1927, May 12, 1947) the difficulties faced by the Ramadier Government were serious. Nonetheless, given existing political conditions, the composition of the Ramadier Government after May 7 was the best that could be hoped for under the circumstances and, in theory at least, seemed then to offer the best chance of an eventually viable democratic solution.

What has happened since May 7, and where does the Ramadier Government now stand? There is no doubt that Ramadier made a courageous and very real effort to succeed, but in retrospect the task which faced him was, I am afraid, beyond his capacity. There are, of course, a number of good reasons for Ramadier's lack of success and the resultant progressive disillusionment of the French public in his Government.

1. In the first place, the Communists—as had been anticipated—threw the weight of their powerful organization against the Government with a view to overthrowing it and thus proving to the other political parties and to the French people that whether or not they liked the Communists, France could not be governed without them. They unleashed and encouraged a series of so-called “spontaneous” strikes, exploiting the very real hardships and dissatisfaction of the entire working class. While many of the strikes, particularly the railway strike in June, were not an unqualified success from the Communist viewpoint, particularly since they did not succeed in re-entering the Government, nonetheless they forced Ramadier, in his effort to keep his ship of state from capsizing, to jettison ballast in the form of so-

¹ Not printed.

called production bonuses, which were in reality nothing more than increased wages. This coupled with the reduction in industrial production caused by the labor stoppages, automatically led to price increases which worked further hardships on low-salaried groups, thus increasing their dissatisfaction.

2. Another important factor in Ramadier's failure could be described as an "Act of God". I refer to the heavy freezes of last winter coupled with an unprecedented drought this summer which greatly reduced the agricultural yield and has resulted, particularly in the past four weeks, in a very serious spiral in French food prices. This is, of course, most keenly felt by small-salaried workers who are at present in a position where it is difficult—in fact almost impossible—for them to obtain sufficient food for themselves and their families for the wages they earn. This situation will unquestionably result in increased pressure (which the Communists will exploit) for increased salaries, which in turn would lead to further inflation.

3. Failure of the Government to achieve budgetary and monetary stability and the ever-expanding note circulation, together with the belated knowledge that France is bankrupt insofar as dollars and gold which are needed to finance vital food and coal imports, have badly shaken the confidence of the entire country in both French currency and in the Ramadier Government.

4. Aside from the foregoing economic and financial considerations there have been important political factors which have worked against Ramadier. The split in his own Socialist Party, as emphasized by the Lyon Congress, as much as any other political development has served to make his task almost impossible. In addition, the differences which divide the various political parties in the present Government—particularly "dirigism versus liberalism"—have tended to make it almost impossible for the adoption of a sound and effective program which all parties will loyally and honestly support before the French public. Such compromise agreements on programs and policies as have been arrived at were often neither fish, flesh nor fowl, and were not based on a meeting of minds but on a common desire to keep the Communists from returning to the Government. To keep the Communists out of the Government is laudable, but once the compromise agreement was reached the political leaders of the different governmental parties at once began publicly and privately to blame another party or the other parties in the coalition for the unpopular features of the program. Such action, of course, served further to discredit the Government in the eyes of the public which progressively began to feel that in reality the present coalition is unable to cope with the task of Government and is devoting its time to political maneuvering rather than to governing France.

5. Finally, the French people themselves are not without blame. There is fatigue, lassitude and apathy which too often lead many of them to prefer to drift along rather than to make any real effort to help themselves by increasing production thus contributing to getting France back on its feet. They criticize the Government for failing to govern but at the same time there is reluctance to support any necessary measures which require some sacrifice but are indispensable for French recovery. In addition, it must be admitted that there has been some corruption and some moral disintegration.

As the prestige of the Ramadier Government has declined, a growing conviction has been developing that the anti-Communist elements, which are the majority in France, will be unable to submerge personal and party differences and ambitions unless they are led by someone with sufficient prestige, authority and popular support to impose on them the discipline and sense of national duty which thus far they have apparently failed to manifest and which is imperative if France is to survive Moscow's drive to take over the country. It is a sad but incontestable fact that France lacks leaders of such stature. At the present time, whether one likes it or not, the only person who stands head and shoulders above the crowd and who could conceivably fill the role is de Gaulle.

De Gaulle, whose prestige as we have reported has continued to increase in the past two months as a result not only of the activity of the French Communists but also because of increased disillusionment with the present Government's ability to cope with the situation, and the growing cleavage between the United States and the Soviet Union, is counting on his popularity snow-balling. He believes the point will finally come when a majority of the French population will flock to his banner. When this time comes, he apparently thinks that he will also be backed by a majority of the Parliament and that his public support throughout the nation will be so strong that the Communists may not resort to insurrectionary action since they would recognize that they would certainly be doomed to failure. While he does anticipate the possibility of a Communist-inspired general strike and localized disorders, he appears to feel that should such a strike be called it will also fail because of lack of public support, even though Gaullists now admit that the General has thus far made little real effort and hence little progress in obtaining any real working class or syndicalist support. Some of them claim, however, that they are giving this aspect of the problem increasing attention.

With the foregoing background in mind, the \$64 question is posed—what is going to happen next? Insofar as the Ramadier Government, as now constituted, is concerned there is almost unanimous agreement among the political leaders of the different parties that it

has expended its credit and is, as the French put it "used up". Such observers admit that the reluctance of all governmental parties to instigate a crisis, whose outcome is uncertain, works in Ramadier's favor. Nonetheless they believe that shortly after the Parliament reconvenes Ramadier will fall, probably not by an adverse vote of confidence but by the withdrawal of one or more of the component elements of the present coalition. The Socialists themselves might withdraw but their action will to a considerable extent depend on the outcome of the extraordinary session of the Socialist National Congress which has been called for November 22 and 23. The RGR, particularly the Radicals, may withdraw because as you know they are fed up with the "dirigiste" policies of the Socialist left-wing as enunciated by their exponents in the present Cabinet, such as André Philip and to a lesser extent Tanguy-Prigent.

If the Ramadier Government collapses it is difficult to forecast with any degree of accuracy what Government will succeed it. Some observers believe that there will be a further attempt at a "republican solution" in the form of a coalition Government excluding the Communists and having more or less the same composition as the present Government (possibly excluding some or all of the Socialists) but headed by an MRP such as Bidault or Teitgen, or possibly by a Radical. Other observers believe that there may be a new attempt for a non-Communist coalition Government headed possibly by Blum. (At present this is not considered probable.) Still others are thinking in terms of a homogeneous minority Government—MRP or Radical—which would have the limited support of the anti-Communist Parliamentary majority (a formula not unlike the di Gasperi Government in Italy). Should any such Government be formed its life would in all probability be of relatively short duration. It would simply be another interim stopgap.

Our reason for fearing that any "center of the road" coalition is almost certainly doomed and cannot last long is the increasing evidence that until some means is devised of preventing the Communists from sabotaging French economic recovery through their control of the CGT, etc., no Government can succeed in re-establishing economic equilibrium which is a prerequisite of political health and stability. Yet by its very composition no coalition Government that groups the Left, Socialists, Center and moderate Right will dare to adopt the measures which alone can put an end to Communist sabotage and treason. Such measures could amount to imprisonment for sabotage—direct or indirect—and necessarily would seriously infringe on many basic liberties in which we and all other democracies believe. It is painful for me, whose social and political views are considerably to the

left of center, to have reluctantly to confess that until France has a more authoritarian regime, with greater power and prestige, it is difficult to see how the Communists are to be prevented from successfully preventing French recovery. In other words, until such time as the Communists can be dealt with by a strong Government, France will almost fatally remain weak and divided.

As things now stand, should such an interim Government be formed and then fall, it would almost inevitably lead to a test of power between de Gaulle and the Communists. Exactly when such a test would come would seem to depend largely on the speed with which the increasing division of France into pro and anti Communist camps proceeds. If this polarization is very rapid as a result of a number of developments, including possible trends evinced in the coming municipal elections (which will not in themselves be decisive), Moscow's recent decision to supplement the Comintern by an "Information Bureau", and an acceleration in the activity of the French Communist Party, the struggle between de Gaulle and the Communists could come to a head in the relatively near future. If on the other hand the polarization occurs more slowly, such a test might take place sometime during the next year. Our feeling is that it is not many months off.

Regardless of whether or not future events develop along the above lines, the time has come when we must face the possibility of the French people and ourselves having to choose only between de Gaulle and the Communists. If the French people are given this *sole* choice the majority will most certainly back de Gaulle, even though many may have doubts and reservations. Under such circumstances, I assume that in our own interest we would make a similar choice. Should de Gaulle come back to power it would certainly be in our interest for him to succeed, for should he fail every possibility of an anti-Communist solution would have been exhausted and the Communists would hold all the cards.

I hope that from the foregoing you will not gather the erroneous impression that we are encouraging de Gaulle or the Gaullists, for this is most certainly not the case. We believe, however, that there is a possibility, and indeed a likelihood, of his return, and it does not seem too soon to give some thought to such an eventuality and to exactly where we stand and what line we would take with him.

De Gaulle has never been and will never be an easy man with whom to deal. On the debit side of his ledger we might list that temperamentally, psychologically, as well as in the realm of practical dealings with people, he is far from the ideal leader. He has had relatively little political experience and lacks a financial and economic background. He is convinced that he alone knows what is best for France,

and he has in the past surrounded himself with a small group of advisers, many of whom are not up to their job, and some of whom are extremely ambitious. One reason for his failure after the Liberation was that he lacked able advisers, with real experience and judgment. When he was offered sound advice by men of experience not in his immediate entourage he often not only failed to heed them but gave them a cold brush-off which tended to alienate them from him.

On the credit side it can be stated that he is a patriotic Frenchman who firmly believes that his sole desire is to see France restored. He has more personal prestige than any other leader. He has burned all bridges with Moscow and the French Communist Party, and is their sworn enemy. As such, his orientation is now and at long last definitely toward the United States, for he believes that we are the only country which has the material resources and the will to prevent Soviet world domination. Despite this fact, should he come back to power he would not always be an easy person for us to deal with.

If the situation here evolves into a struggle between de Gaulle and the Communists we do not entirely exclude the possibility that prior to the final culmination of such a test of strength we may be approached directly or indirectly by de Gaulle to ascertain where we stand and what we may be prepared to do in the event he has a real showdown with the Communists. This is all, of course, very hypothetical, but we feel that in these parlous times we should give consideration to the line we may take if we should be faced with such an eventuality. If de Gaulle comes back to power and is to succeed, he will obviously have to make use of more capable men than the limited entourage with which he has in the past been surrounded. For example, perhaps such persons as René Mayer, Mendès-France and other individuals with more common sense and economic and financial background than are presently in the "old entourage". Furthermore, such persons are perhaps more democratically inclined than some of his former *équipe*, and possibly could aid in giving to a de Gaulle Government a less authoritarian slant than it might otherwise have.

In conclusion, I apologize for the length of this epistle. I have perhaps let myself wander far afield and may have taken up a lot of your time in summarizing a situation with which you are as well acquainted as are we. Once I got started on this, however, I found it difficult to be as succinct as I would have liked. If you, Sam² and Jack³ have any thoughts about all this do let us know.

Yours ever,

Doug

² Samuel Reber, Deputy Director of the Office of European Affairs.

³ John D. Hickerson, Director of the Office of European Affairs.

P.S. From what de Gaulle's entourage has let drop it is evident that there are among other things two questions in his mind concerning U.S. policy, etc.:

1) If he comes to power will he (de Gaulle) receive almost immediate "massive" economic and financial aid from us?

2) In the event of a U.S.-Soviet war is our military planning aimed at defending France against Soviet invasion?

Incredible questions but interesting as indicative of the mentality!

851.61311/10-1147 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET
US URGENT

PARIS, October 11, 1947—noon.

4396. Mytel 4395 October 10.¹ Following is translation Foreign Office communiqué on Russian wheat.

"The French Government had inquired of the Soviet Government whether it would be possible to receive 1,500,000 tons of Russian wheat from the USSR.

On October 8 Mr. Mikoyan, Minister for Foreign Commerce of the USSR, informed M. Pierre Charpentier, French Chargé d'Affaires at Moscow, that the Soviet Government had no objections to the inauguration of negotiations on this subject. He added that the Soviet Government would like to know what products France would be in a position to deliver to the USSR in compensation for the grain furnished. The French Government will examine the list of products which might be of interest to the USSR."

In commenting on above this morning *Figaro* refers to Franco-Soviet commercial accord of December 29, 1945 pursuant to which a list of products was proposed to Soviet Union including notably phosphates, rubber, electrical equipment.

In view of this development Secretary Harriman will doubtless wish to amend statements which he had planned to make on October 13 or 14 (Deptel 3880, October 10).

As was to be expected, this morning *Humanité* headlines event with photo of smiling Russian peasant girl surrounded with sheaves of Russian wheat. *Humanité* stresses point that transaction will not involve need of obtaining dollars. It refers to realization in US of French need for wheat and accuses US of employing French shortage of dollars to strangle France. It is in this situation that "great Soviet Union" comes to aid of France asking nothing in return which could

¹ Not printed.

disrupt French finances. Article concludes: "Once again it appears that Communists were right in pointing out that recovery of France cannot be based upon commercial relations which exclude anyone. It must be based on practice of commercial exchanges with all countries. A great hope has now arisen for the French people. It is up to the government to expedite the matter."

Other papers report communiqué without comment.

CAFFERY

851.61311/10-1147: Telegram

The Acting Secretary of State to the Embassy in France

TOP SECRET
US URGENT

WASHINGTON, October 13, 1947—6 p.m.

3901. Reurtel 4396, Oct. 11. Following, subject minor changes, will form part Sec. Harriman's speech at Chicago, Oct 14.¹

"Both during and since the war the US has been helping to feed hungry people. During the war we shipped large quantities of food to our allies, including Russia. Last year, for example, we exported nearly 15 million tons of grain and flour alone. Other countries with food surpluses have made important contributions. It is now reported that as a result of favorable weather Russia has an exportable surplus of at least two million tons of grain. I am pleased to note reports in the press that Russia has entered into negotiations to deliver a part of her substantial wheat surplus to France and other countries. The food crisis in all of Western Europe, and particularly in France, is grave. All help that can be given by countries with a surplus is urgently needed.

["]The announcement of the Russian readiness to negotiate for shipment of grain to France has of course been accompanied with great fanfare and Communist activity within France.

["]It therefore should be noted that, as in the case of the last offer of Russian wheat to France, it comes significantly just at the time of an election. Last year they actually delivered wheat. This year they have so far only offered to negotiate. France it appears can entertain the hope of eating some Russian food only at election time.

["]American wheat and other food has been delivered regularly to France throughout the period since the end of the war, as well as to the other needy countries of Europe and the world.

["]In view of the great capital being made by the Communists about this latest demonstration of Russian cooperation, the relative quantities of food which have come from the US and from Russia should be clearly stated. Russia has shipped about 540,000 tons of grain to France, whereas beginning in 1945 we have shipped nearly seven times that amount, or about 3,600,000 tons."

LOVETT

¹ For the substance of Secretary of Commerce Harriman's speech, see the *New York Times*, October 15, 1947, p. 22.

851.51/10-1447 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

PARIS, October 14, 1947.

4423. Today's French press gave prominence to following news reports from Washington:

1. *Pre-interim aid.*

a. US agreement to French request that \$93,000,000 second Exim Bank loan, be transferred from equipment expenditures to purchase coal and raw materials.

b. Consideration being given by US Government to other sources immediate financial aid, including restitution German and Japanese looted gold, payment for US military expenditures in France and assistance in locating French hidden assets in US.

2. *Committee of European Economic Cooperation.*

Reports quoted an authorized source as stating American Government desired that CEEC conference be reconvened to approve changes in its report regarded by US as necessary before it could be submitted to Congress.

Despatch from London quotes Foreign Office spokesman as saying that other means existed for clarifying the points of the plan which gave rise to the difficulties.

CAFFERY

851.5151/10-1547 : Telegram

The Acting Secretary of State to the Embassy in France

SECRET

WASHINGTON, October 15, 1947—6 p.m.

U.S. URGENT

3941. For Emb and Tomlinson from State and Treas.

1. The President today authorized Army to purchase \$50 mil in francs from French Gov. Francs will be used in payment of procurement obligations of Army or for other expenditures of US Gov.

2. Dept of the Army is cabling EuCom info MA Paris directing that purchase be made and transmitting copies of draft letters to be exchanged with French authorities providing that these francs may be used by Army in payment of any of its obligations in France and North Africa and may be transferred by Dept of the Army to any other dept or agency of US for subsequent use in payment for any expenditure of US Gov. In addition French Gov is asked to agree that it will at any time at request of US Gov repurchase against dols at same rate of exchange at which they were acquired any of such

francs held by US. Letters will also provide that this repurchase guarantee will accrue to any agency of US Gov which subsequently acquires any of these francs from US Army.

3. It is assumed that letters will be exchanged between Minister of Finance and appropriate official of EuCom. Dept of the Army requests your assistance in completing details necessary for this purchase. Suggest you communicate at once with EuCom regarding this matter.

[STATE AND TREASURY]

LOVETT

851.51/10-1747

The French Embassy to the Department of State

[Translation]

WASHINGTON, October 17, 1947.

MEMORANDUM

The exchange of views which is taking place in Washington¹ permits the hope that it will be possible to release for the benefit of France the necessary resources in dollars:

- (a) to meet the expenditures connected with all contracts concluded prior to September 1, 1947;
- (b) to pay for current purchases of cereals, coal and fats, up to January 1, 1948.

However, the existing credits do not allow the French Government to authorize at present any new purchases of other essential products, such as raw materials for textiles, petroleum products, nitrate fertilizers, siderurgical products, etc.

Unless a remedy is quickly found for this situation, that is to say if imports of these essential raw materials were to cease completely, extremely serious effects would result therefrom for the French economy. Such effects would last for many months, whatever measures might subsequently be taken, the results of which would only be felt much later.

The table enclosed herewith,² the figures of which are amounts in round figures, shows the consequences of the stopping of those imports where new contracts could not be concluded before the end of the year.

¹ Reference here is to the conversations which took place in Washington between United States officials and the CBEAC delegation headed by Sir Oliver Franks, pp. 445-470.

² Not printed.

This table is to be understood in the following manner :

—Column (1) indicates the monthly consumption on the basis of the first semester of 1947.

—Column (2) indicates the amount imported monthly from the dollar zone, on the basis of the first semester of 1947.

—Column (3) comprises the total reserve, that is to say the inventory on hand in France and the orders concluded but which have not yet reached their destination.

—Column (4) indicates the minimum requirements below which it is impossible to continue production in the branch being considered.

—The other columns show the development of available amounts in relation to the average consumption of the industries considered, in the first semester of 1947.

Thus, in fields as important as the petroleum, cotton and rubber industries (which latter industry is strictly dependent on imports of carbon black), the repercussions of the stopping of imports will have a catastrophic character as early as the month of November and of December 1947.

The result thereof, beginning with the month of November 1947, will be a lowering of the total of French industrial production which will reach 25 percent at the beginning of 1948, thus taking that production back to the level of the beginning of 1946. Such reduction would have the following principal consequences :

—Reduction of the continuance of work and large-scale unemployment not only in the industries engaged in the conversion of imported raw materials, but also in those industries utilizing semi-finished or finished products (for example, cotton spinning and weaving, working up of fabrics, etc. . . .)

—Necessity for a return to governmental allocations in branches freed from control,

—Appreciable diminution of agricultural production, resulting from the stoppage of imports of certain raw materials, such as nitrate fertilizers,

—General lowering of the standard of living, which would be particularly dangerous in view of the present social climate.

It might seem possible, with a view to maintaining production at the level of the first semester of 1947, to utilize for a certain time the margin between the present inventory and the minimum requirement.

As a matter of fact, this solution is impracticable. Industrialists would naturally tend to equalize their production and, for so long as they had no assurance of a resumption of imports, to make economical use of their inventories by reducing their activity. Furthermore, even before reduction of inventories to their minimum level, serious disturbances would be produced in the process of production.

The repercussions of the stopping of imports of equipment can only with difficulty be stated in detail: Certain articles of equipment would be found to be useless, due to lack of complementary matériel or spare parts. The result thereof might even be the complete shutting down of certain factories.

This is why it is indispensable that as soon as possible and, in any case, before the first days of December, the French Government should be able to be sure of having at its disposal, until the voting of more extensive credits as a result of the Marshall Plan, sufficient sums in dollars to cover not only its purchases of cereals, wheat and fats, but also the resumption of interrupted contracts for the importation of the principal raw materials.

As has been pointed out above, the sums which are indispensable to France amount in 1948 to a monthly figure of 120 million dollars.

H[ENRI] B[ONNET]

851.00B/10-1747: Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, October 17, 1947—5 p.m.

US URGENT

4485. A number of reliable sources of different political orientation (some having definite reservations about De Gaulle) have separately expressed to me in the past several days their belief that while the Communists would, of course, like to return to the government in order better to prevent French recovery, particularly by sabotaging the Marshall Plan, the Communists are now convinced that because of the rapid hardening of anti-Communist sentiment resulting from the recent open reactivation of the Comintern and their all-out efforts to sabotage French economic recovery, the other political parties will not in the near future permit them to reenter a coalition government. Therefore to carry out Moscow's orders to sabotage at all costs French recovery the Communists are necessarily obliged to adopt more "open and revolutionary" tactics than they previously employed regardless of whether or not such action may harm their standing throughout the country at large.

In speculating on what line the Communists may follow after the municipal elections, the above mentioned sources believe that in view of De Gaulle's growing strength "which will be obvious to all from the election results" the Communists are now convinced that a final show-down with the General is inevitable. The question for the Communists

is therefore: "When, tactically, is it most advantageous to the Communist cause for the showdown to occur?"

My informants state they have information which indicates that the Communists now feel that the sooner they join battle with De Gaulle, the greater will be their chance of success. That is, they believe that De Gaulle's RPF, although now solidly established in the country, is still not well organized. Furthermore, the Communists know that at present a considerable number of Frenchmen as well as a number of political leaders of the left, center and moderate right, have certain misgivings about De Gaulle and believe that a middle-of-the-road coalition government (such as now exists) is not only the most desirable formula but still has a chance of succeeding. The Communists reason that no such government can solve France's problem chiefly because no such government has the prestige or authority to take the necessary steps to end Communist sabotage. Therefore they feel that persons who now still prefer a center coalition solution will become progressively disillusioned and several months hence will all flock to De Gaulle. In view of these factors, the Communists have come to the conclusion that the showdown with De Gaulle should come now rather than some months hence when the Gaullist organization will be much more firmly established and the General's following and public support throughout France so great that the Communists would not be able successfully to oppose him.

My sources believe that should this estimate of the Communist views be correct, soon after the elections the Communists will increase the tempo of their already violent attacks against the government (particularly through the use of the CGT in fomenting strikes, etc.) with a view to causing the collapse of the Ramadier Government and creating a situation—"not excluding public disorders"—where De Gaulle will make a "premature" attempt to return to power, an attempt which the Communists (posing as "defenders of the Republic") believe they will be able successfully to oppose through use of the general strike, mass demonstrations of force, disorder, intimidation, etc. By defeating De Gaulle now, the Communists would, of course, eliminate from the political picture the one individual who, because of his prestige, represents the most dangerous rallying point of French anti-Communist forces.

While it is possible that events will not bear out the above predictions on Communist tactics, it would be dangerous at this juncture to discount the possibility of such developments particularly in the light of the very definite hardening of the position the CGT has recently taken against the government. While this CGT action is in part for electoral purposes—particularly to permit the Communists to go on

posing as the "sole defenders of the working class"—the Communists know that the CGT action such as the present subway and bus strike is alienating the *petits bourgeois* and middle class. It is possible therefore that the present stiffening of the CGT is designed not only for electoral purposes but is also the prelude to stronger action after the elections to bring about a situation which the Communists believe may favor the destruction of the Socialists and the elimination of De Gaulle.

The Gaullists are of course alive to the dangers inherent in this situation and can be counted on to do everything possible to avoid having their hand forced. It is by no means a foregone conclusion that the Communists would be successful in eliminating De Gaulle even if they were able to force a showdown in the immediate future. Nor is it a foregone conclusion that the present coalition government or one like it, will be unable to cope with the Communist tactics. In this connection the strong and successful stand taken by Ramadier in dealing with the metro strike has strengthened his prestige and consequently his position in recent days. If the Communists overplay their hand an increasing part of the population, which thus far has been rather apathetic, may turn actively against the Communists and by less support enable the government to adopt measures to deal with the Communists which thus far have been deemed politically inexpedient.

I need hardly add that hope of American financial and moral support—and the degree of certainty with which that support can be anticipated—will continue to constitute probably the most important force in strengthening the will to resist among all non-Communist Frenchmen whatever their political persuasion.

Sent Department 4485, repeated Moscow 504, to London by pouch.

CAFFERY

851.51/10-1847 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, October 18, 1947—8 p.m.

US URGENT

4496. Mytel 4493, October 18, 2 p.m.,¹ regarding France's dollar position for the October 1947–March 1948 period raises a number of policy problems concerning which I submit the following comments:

1. The last quarter of 1947. On October 1 forward exchange contract of the Bank of France totalled \$627,000,000, of which \$232,000,000 represent contracts which come due before January 1, 1948, and therefore must be met from the dollar resources of the exchange stabilization

¹ Not printed.

fund before that date. The balance of anticipated expenditures during that period of \$333,000,000 represent either spot commitments or non-commercial payments which are made on a spot basis. As reported mytel under reference, funds are available or in sight to meet all of these obligations excepting the sum of \$104,000,000. According to the Finance Ministry, the forward exchange contracts and other commitments are so spaced that the exchange stabilization fund can now continue operations until the first of December, assuming that potential assets actually become available before that date. This, therefore, narrows the 1947 problem to a sum of \$104,000,000 to be expended in the month of December.

The first alternative approach to this problem would be for the Bank of France to cede to the French Treasury an additional sum in the amount mentioned. This would bring the remaining govt resources down to \$340,000,000, or approximately 4% of the bank's note circulation. Such a measure is regarded by observers as dangerous, not only because of the low ratio of reserves to note issue but also because such accession, combined with other inflationary factors, would create an adverse psychological reaction which would make more difficult the avoidance of a runaway situation. It is therefore most desirable to avoid this stopgap solution if at all possible. The psychological impact of this measure would, however, be somewhat tempered if its announcement were to come after the French people were informed that actual Congressional consideration in the US was being given to interim assistance.

The other alternative would appear to be an effort to bridge the gap existing to the end of 1947 thru a combination of decrease of dollar expenditures and increase in dollar revenues. As previously mentioned, possibilities savings this year on imports are negligible because commitments have already been made and must be met. This narrows the expenditure problem to the "other payments" category. Opportunities here seem to be limited to (a) continuation moratorium, transfer blocked US motion picture funds and US bank balances (\$15,000,000), (b) possible reduction deficit overseas territories (possible by \$5,000,000 or \$10,000,000), (c) moratoria on transfer to Belgium under payments agreement, on transfer of dollars to UK Government and on additional contribution to International Monetary Fund, the three totaling \$75,000,000. It is believed that to obtain the consent of the other parties to such moratorium arrangements (to continue until long-term assistance became available) would require the firm diplomatic support of the US. If the measures mentioned were successfully employed, the remaining balance of the 1947 gap would be closed either through the transfer of all or part of the Japanese-held gold which France claims (\$37,000,000) or possibly through other sources of which

the Department may be aware. I believe this short-term problem should be given immediate consideration and, in the event it does not appear possible to meet the December financial requirement through the stop-gap measures indicated, the French Government should be informed prior to the convening of the National Assembly the middle of November. This would give the French Government the opportunity to prepare the necessary draft legislation for an additional gold transfer.

2. First quarter of 1948 as reported mytel under reference France's anticipated uncovered deficit first quarter 1948 is \$355,000,000. In conversations the past week, Bidault has emphasized to me the necessity of assuring a continuous flow of imports into France this winter. I concur in this for both economic and political reasons. As the Department will recall, France's productive effort has been disrupted the past three winters: in 1944-1945 because of the transport bottleneck and war ops; in 1945-1946 because of shortages in raw materials and coal; and in 1946-1947 because of the coal bottleneck. Cumulative effect of these periodic disruptions in industrial activity has been (a) that unemployment, or employment uncertainties, have contributed to social unrest; (b) that the supply of goods available to urban consumers or to farmers to be exchanged for their food products has been very limited; and (c) that France's export program has been handicapped. It appears to me that from an economic standpoint, a disruption in the tempo of production this winter may well cost us more dollars over the period of long-term financial assistance. In the political field, a sub-normal level of production and employment would facilitate the work of the Communists and help them to capitalize on dissatisfaction. I do not mean to imply by this that we are not faced, under the best of circumstances, with a trying period in the French labor situation this winter. I am convinced, however, that a continued high level of employment, coupled with a 250 gram bread ration, which I am pleased to note the Department has included in its calculations, will minimize the possibilities of success of the Communists' direct action activities.

Furthermore, achievement of the foregoing would provide a firmer basis than presently exists for the French Government to adopt a stronger, more effective economic program.

The conclusion reached from mytel under reference is that France will need external assistance in the neighborhood of \$350,000,000 in the first quarter 1948. In order to assure a continuous flow of essential imports, it would be highly desirable for the French Government to know what assistance we are going to provide before beginning of that period. (I know only too well the difficulties in the way of this.) This would permit (a) the Bank of France to engage itself in forward exchange contracts with the knowledge that the dollars would be available when payments became due, and (b) create enough confi-

dence among the New York banks and large commercial companies in the US so that they would provide the credit lines and short-term credits which are the actual dollar counterpart of the Bank's forward contracts.

3. Reciprocal French obligation. From my numerous conversations the past two months with members visiting Congressional committees, I have reached the conclusion that they view with some scepticism the French will or ability to stage an economic comeback. I anticipate that in Committee hearings and on the floor of the House and Senate, French assertions regarding their recovery program will be subjected to close scrutiny and analysis. It seems to me, therefore, that we are entirely justified in arranging here in the near future a series of informal talks with the French Government, at both the policy and technical levels, to review in some detail the current and prospective plans which the French Government has in mind to meet its commitments under the initial report of the Conference on European Economic Cooperation. Such exploratory talks can serve the triple purpose of (a) obtaining precise information of the recovery program for Departmental and Congressional use, (b) to make the French realize that we are serious in expecting the highest possible standard of performance and (c) to provide a factual basis for such friendly suggestions as the Department might want to make. It is my thought that this exploration would be concentrated in the four fields which are essential to French economic delivery [*recovery*] and to a progressive reduction in France's dollar deficit; i.e.

- (1) Return to prewar levels of agricultural production.
- (2) Internal financial stabilization.
- (3) Rapid expansion volume of French exports to dollar areas.
- (4) Increase in coal production.

I would appreciate the receipt by telegram of the Department's views in regard to the foregoing.²

CAFFERY

² No reply to this message has been found.

851.00/10-2147 : Telegram

The Acting Secretary of State to the Embassy in France

RESTRICTED
US URGENT

WASHINGTON, October 21, 1947—7 p.m.

4001. Press reaction here on the whole sympathetic to de Gaulle's "victory"¹ and anti-communist aspect of vote invariably stressed.

¹ On October 19 the Rassemblement du Peuple Français (RPF), headed by General de Gaulle, won 40 percent of the votes in nationwide municipal elections and displaced the Communist Party as the largest in France.

N.Y. Times calls it "a victory for the western world as opposed to Russian totalitarianism and its communist fifth columns". Much concern reflected over effects of de Gaulle's return on French production, possibility of labor unrest, etc. Allegation that U.S. Govt "not happy" over de Gaulle vote frequently appears. Some editorial speculation over effect of vote on Marshall plan.

LOVETT

851.51/10-2247: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, October 22, 1947—5 p.m.

4532. The Finance Ministry today conveyed to me the following additional information regarding France's dollar crisis, reported in my telegrams number 4493¹ and 4496, October 18:

1. Meeting of the Council of the Bank of France was held this week at suggestion of Finance Minister Schuman to consider problem finding dollar exchange to finance additional coal imports during November and December. Coal import program second semester 1947 provided for shipments from US 7.2 million tons, of which 1.7 million to be shipped November and December. French supply ministries have now learned it might be possible to ship 3 million tons under available allocations during those two months. Problem is where to find the additional dollars 26 million required for FOB plus freight costs this additional quantity.

2. No decision has been reached regarding foregoing and decision will probably not be made until beginning of November. This decision will be a part of broader policy question whether to cede additional gold to stabilization fund from remaining reserve Bank of France.

3. Both Finance Ministry and Bank of France are inclined to believe that additional cession, other than the technical one [that?] will be necessary to transfer restituted German looted gold from Bank of France to stabilization fund, would be extremely dangerous, vis-à-vis inflationary trends. They are, therefore, exploring all possibilities stopgap measures mentioned section one my telegram 4496. If combination of measures proves sufficient to meet existing anticipated gap, additional coal imports probably will not be made. Latest information available to Finance Ministry from Washington indicates only remote possibility of obtaining any Japanese-held gold this year. Finance Ministry is exploring, however, possibilities (α) of obtaining increase in ceiling Belgo-Franco payments agreement, which would automatically eliminate need additional dollar payments to Belgium this

¹ Telegram 4493 not printed.

year and (b) possibility UK waiving dollar settlement item five, section three, my telegram 4493. Finance Ministry remarked that if UK would go ahead with earlier tentative commitment to make convertible into dollars 15 million pounds of French-held sterling, this measure, combined with others mentioned above, would just about bridge the December dollar gap.

4. Finance Ministry concerned over prospective hiatus in commodity arrivals first months 1948 due to inability to place orders closing months 1947. It believes, however, that gap can be reduced once there is definitive affirmative knowledge concerning US financial assistance first quarter 1948. Such knowledge would permit Bank of France to resume issuance forward exchange contracts even though at the moment no dollars were actually earmarked in the exchange stabilization fund for their liquidation.

Tomlinson has seen this telegram and requests that Treasury be informed.

CAFFERY

Editorial Note

For documentation relating to the convening by President Truman of a special session of the Congress to deal with the problems of rising prices and the economic crisis in western Europe, see pages 470 ff. In an address broadcast on October 24 the President stated that the "most imminent danger exists in France and in Italy".

851.51/10-2447 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, October 24, 1947—3 p.m.

4569. With reference my telegrams 4532, October 22, 4496 and 4493,¹ October 18, Finance Ministry has informed me that Cabinet has made following decisions regarding revision import programs:

1. Coal import plan for November and December will remain at 1.7 million tons from US November and December, but 1.3 million of total will be concentrated in November shipments with hope that December shipments can be expanded if external assistance is forthcoming by that time.

2. At insistence of Ministry of Industrial Production that measures were necessary to keep refineries and industries operating, additional imports of \$13.6 million were authorized for crude petroleum and \$12.4 million additional imports variety of industrial materials, medical supplies and certain essential supplies for overseas territories.

¹ Telegram 4493 not printed.

3. Above decisions raised prospective December [?] ² deficit to \$129 million. Finance Ministry is exploring or negotiating on following possibilities for meeting deficit: (a) Continuation moratorium motion picture payments; (b) deferral monetary fund payment; (c) deferral dollar payment to UK Government; (d) increase credit ceiling Belgo-Franco payments agreement to avoid further dollar transfers to Belgium; (e) possibility UK might agree to make small amount of French-held sterling convertible into dollars; (f) additional stopgap administrative assistance from US including availability \$37 million Japanese-held gold, Exim Bank assistance and Commodity Credit Corporation assistance.

4. Finance Ministry has been informed by French banks that New York Banks are increasingly restricting their credit lines, which further complicated situation.

5. Finance Ministry and Bank of France continue to hope that new transfer of gold may be avoided but it appears that a large number of the possibilities listed above would have to become realities if this were to prove to be the case.

CAFFERY

² Query appears in source text.

851.51/10-2447

The Ambassador in France (Caffery) to the Secretary of State

CONFIDENTIAL
No. 9801

PARIS, October 24, 1947.

SIR: I have the honor to transmit herewith a summary of the conversation between Foreign Minister Bidault and members of the Senate Appropriations Committee and of the Revercomb Sub-Committee, on October 17, 1947.¹

Respectfully yours,

JEFFERSON CAFFERY

[Enclosure]

SUMMARY OF CONVERSATION BETWEEN FOREIGN MINISTER BIDAULT AND MEMBERS OF THE SENATE APPROPRIATIONS COMMITTEE AND OF THE REVERCOMB SUB-COMMITTEE

FRANCE'S TWO PROBLEMS

(a) *The Immediate Financial Crisis:*

Mr. Bidault said that he was the first to deplore the lateness of France's SOS appeal to the USA, and that it had not been possible

¹ Chapman Revercomb, of West Virginia, was chairman of a subcommittee of the Judiciary Committee, United States Senate, to study problems of immigration and displaced persons.

to give more warning. "Nevertheless," he added, "it is essential that we not be allowed to be asphyxiated." He said that, while he had "no signed documents or positive promises" to this effect, he was "morally certain" that the United States would find means to assist France during the immediate crisis, and thus permit her to reach the second stage when Congress shall decide on the nature and extent of long-term assistance, based on Secretary Marshall's proposals and on the findings of the 16-power conference.² "At the present time," said Bidault, "we are being literally strangled, and I am very specially grateful in this emergency to all the Americans of both political parties whom I saw in Washington, and who were kind enough not to make me feel the humiliation of my position as a beggar for my country."

(b) *Longer Term Assistance to Cover the Three or Four Years Necessary for France's Rehabilitation:*

Mr. Bidault said that the fundamental situation in Europe could be compared to a huge wager between the Communist and anti-Communist forces. The non-Communists, including France and himself, have bet that the Marshall Plan will succeed, and that it will not mean "Germany first", Germany of course to be included but "not first". On the other hand, the Communists have wagered that Germany would "come first" and that the overall plan would be a failure. "I am sure we will win", said Bidault, "but, of course, we can't do so alone."

Referring to the long-term assistance which France will need and to the important sums which this will involve, the Foreign Minister reminded the Senators that France in the past had made considerable loans to other nations and that she had not been repaid. Without giving any assurances of repayment, he said: "This time I hope the United States can make their effort with complete peace of mind that we will do our best." Referring to the plan of European cooperation as an integral part of any long-term United States plan of assistance to Europe, Mr. Bidault declared that France had agreed on her own behalf to the necessary "production commitments", as well as to the other commitments necessary to European and to her own rehabilitation. He mentioned in particular France's efforts to arrive at a customs union with Italy and added: "We and the other 15 nations (of the CEEC) have done what we could and we shall continue to do so."

The Economic Rehabilitation of Germany and Its Achievement "hand in hand" with Europe's

Mr. Bidault said that he understood full well the necessity of rehabilitating Germany's economy "which was an essential part of Eu-

² For documentation relating to the Marshall Plan and to the 16-power conference held in Paris in July to draw up a cooperative program of European recovery, see pp. 197 ff.

rope's". Nevertheless, he said he could not quite subscribe to the "hand in hand" theory. Germany has coal, France has iron ore. "I think it more appropriate that Germany's coal come first to France's iron ore rather than vice versa." He pointed out that the granting of a priority to Germany's blast furnaces would make it necessary for the Germans to purchase iron ore abroad, be it French or Swedish, and that this will be either a commercial (foreign exchange requirement by Germany) or a sentimental detriment (unfavorable effect on French public opinion). Mr. Bidault begged his listeners to trust the French and "not assimilate them to Germans".

With stop-gap assistance, together with eventual Congressional action on interim funds, can France maintain herself in a sound position free of Communist domination, so that she would be able to participate actively in any Marshall Plan?

The Foreign Minister answered that he wanted to be completely frank, and that the Senators "had come at the worst possible moment". Without wanting to minimize the Communist peril in any way, he did, however, express his personal conviction that regardless of the means which they might have to employ, the anti-Communist forces in France were bound to come out on top: "I don't know what will happen. I have no idea as to the form which coming events shall take. I don't know whether I will long be at this desk. As a matter of fact, I don't think it will be for very long, but, of one thing I am certain, and that is that France shall not be governed by the Communist Party. With reasonable assistance from the United States, and with the help of the mistakes which the Communists make on the internal French level as well as on the international plane, the French anti-Communist forces shall triumph."

Are not the campaigns waged by France in Indochina and Madagascar serious drains on France's manpower, as well as on her national economy?

Mr. Bidault answered that, of course, these campaigns were painful in every respect. "However", he added, "if France's pacification efforts do not succeed, Indochina will have a Communist government, and perhaps Madagascar as well." He added that the Madagascar campaign was "finished" but did not attempt to minimize the difficulties facing France in Indochina, "where we will be very generous with those who deserve it but where it is difficult to be generous with assassins". He concluded with the following statement: "Don't forget, gentlemen, that it is our main desire to finish with these costly and distasteful campaigns."

What incentive is there for the workers to produce as much as possible?

The Foreign Minister answered that in France, as elsewhere, the workers' output was not wholly dependent on governmental decisions.

He did, however, point out that, to his knowledge, France was the only "truly democratic country with a 48-hour work week". He added that other conditions were necessary, such as confidence in the national currency and confidence in general. Concerning short-term confidence, this was dependent on the internal political situation which "is rapidly coming to a climax. Concerning long-term confidence, this is largely dependent on foreign aid and on the willingness of foreign friends to help pull France out of a temporary quagmire. With confidence re-established, the time might come when France might have the wherewithal to pay back."

As one of France's major difficulties seems to be due to the farmers' lack of confidence in the currency, what is the French Government doing to induce the farmer to part with his surplus crops? Are goods being offered instead of cash?

Mr. Bidault said that while "farmers always complain", this year their complaints were justified in view of an exceptionally bad crop year (see Mr. Ramadier's full explanations on this point). He added that the black market had "probably shocked his visitors", but asked them to remember that during the long years of German occupation, non-compliance with the laws of the land had been preached as a patriotic duty: ["We disobeyed the laws upon advice from London and from the United States. To re-establish a reign of law is difficult when people have become used to disobedience and to do so rapidly we would need a dictatorship". As to payment for farm produce in kind, Mr. Bidault said that it was difficult, in view of the general shortage "of everything". He also pointed out that often "when 10 percent is lacking, it is just as if everything was lacking". Nevertheless, he said that the French Government had made a great effort to earmark as large a percentage as possible of consumer goods for the peasants and that, as a matter of fact, industrial workers and the white-collar classes were jealous of the peasants, feeling they were unduly favored.

Is it correct that, if the United States agrees to help France now, France would be willing to work out conditions leading toward repayment?

Mr. Bidault agreed that he had said "something of the kind", but did not answer the question directly. He indicated that there should be "a business basis for the deal which would be mutually advantageous for both parties". He, furthermore, asked that in making this deal, i.e.—aid to France, "which of course would have political implications", there be no political conditions imposed in view of the unfavorable psychological reaction of the French public.

If Italy goes Communist, what effect will it have on France?

The Foreign Minister refused to admit that Italian political developments could have influence in France. "On the contrary", he said, "I

believe that political events in France will have an influence in Italy." "In any event," added Bidault, "I have reasons to believe that the fate of the Communist Party will be the same in both countries."

With the world divided into two blocs, shouldn't Germany be rehabilitated, so that instead of joining the Russians, she will join the Western bloc?

Bidault answered that we should have a better idea of German developments towards the end of 1947, after the London conference³ and said: "After all, when you think of the numerous times we have been invaded by the Germans, we haven't treated them so badly." He stressed the fact that, because of these invasions and of the Frenchman's traditional fear of Germany, France "needed to be reassured on this point".

What consequences do you think the recent re-establishment of the Comintern will have?

Bidault answered that, in his opinion, this development was only superficial and that, in fact, "it changes nothing".

Would France be satisfied if American aid was in the form of goods instead of an unrestricted loan in dollars?

Mr. Bidault answered that France only wanted dollars to spend in the U.S., and that these dollars would "not stick to France's fingers". He said: "As long as we can have the goods which we need, it doesn't matter what form the transaction takes."

Mr. Bidault concluded not only with an expression of thanks for the Senators' interest but also with the plea that his frankness should not be misunderstood: "I am convinced that ours is a just cause, and it is whole-heartedly that I entrust it to you."

³The reference is presumably to the 5th session of the Council of Foreign Ministers, at London, November 25-December 15, 1947.

851.00/10-2447 : Telegram

The Acting Secretary of State to the Embassy in France

TOP SECRET
US URGENT

WASHINGTON, October 25, 1947—3 p.m.

4071. Personal for the Ambassador from Armour¹ and Hickerson. We are dismayed by implications Palewski's² remarks contained your

¹Norman Armour, Assistant Secretary of State for Political Affairs.

²Gaston Palewski, member of the RPF and close associate of General de Gaulle.

4576 Oct 24.³ We appreciate that Palewski may in this conversation have been expressing only his own views but should these represent the motivating forces underlying any return of de Gaulle group to power in France, we fear the consequences. The press comment in this country while welcoming the anti-Communist polarization of political forces in France has nevertheless expressed extreme concern lest dictatorial methods imputed to de Gaulle will mean the substitution of a dictatorship of the Right for parliamentary methods. Should de Gaulle insist on constitutional changes and concentration of executive powers in his hands alone under the form of full powers as a condition to return to the govt, this will be interpreted here as the first step in this direction, gravely increasing the dangers of civil war and be so reflected widely by the American press thus further complicating the question of assistance to France.

The following represent our preliminary views with regard to the situation created by the municipal elections in France. You may use these in your discretion to persons close to Gen de Gaulle including André Malraux⁴ who we hope may be helpful in this connection.

It is vital to the interest of the US that the non-Communist polarization which may have to be centered around Gen de Gaulle succeed. While it is too early to determine the parliamentary and constitutional devices by which the Gen can translate his plurality at the municipal elections into the leadership of a govt, there is little doubt that he will be under increasing pressure from his adherents to return to power in the near future. Assuming the Gen takes power, it is well to review the principal obstacles to his governing effectively.

1. The first and most important of these is French organized labor, which is Communist dominated and even whose non-Communist elements have been in the past flatly anti-de Gaulle. It is not yet known here how many working class votes went to the Gen, but he has made no overtures to that class. A great deal depends on his success in persuading or as a last resort compelling French organized labor, which holds the key to France production and hence to the success or failure of the European Recovery Program. The position of the Socialist Party in this connection is of the greatest importance.

2. To French Communists, whose assigned target is the sabotage of the European Recovery Program, inflation represents a means to that end less dangerous than, if not an alternative to, a halt in production.

³ Not printed; it reported that Palewski had stated that if de Gaulle were asked to form a new government he would insist that the Assembly vote him "full powers" for a specified period to allow him to proceed immediately with the administrative, financial, and economic reforms that were necessary for the welfare of France (851.00/10-2447).

⁴ Chief of the press section in the de Gaulle movement.

The Communist dominated CGT has just announced demands for a new round of substantial wage increases for labor, which can only give new impetus to the inflationary spiral, and yet which in less extreme terms all French labor must regard as legitimate in the face of a retail price rise of 26% since July.

3. The promise to maintain public order is one of Gen de Gaulle's strongest appeals, yet production stoppages arising out of Communist inspired or supported strikes for increased wages may bring about disorders not easily suppressed and which if seized upon by either the Communists or Gen de Gaulle as a signal for a showdown, may lead to bloodshed.

It has been clear since the liberation that the isolation and ostracism of the French Communists was essential if France was to remain in the Western orbit. It was equally clear that politically speaking the break must come to the left of or at the very least in the middle of the Socialist Party. Translated into labor terms, the healthy elements of organized labor must be kept in the non-Communist camp. Otherwise the tiny production margin of the fragile French economy would vanish and the ensuing civil disturbances would take on the aspects of class war.

De Gaulle's plurality reflects a thirst to be governed which has caused many of his new followers to abandon their moderate leaders. This thirst undoubtedly penetrates deep into the Socialist and labor union camp but has not been translated into downright adherence because of traditional and doctrinal reservations concerning basic social and political rights. It would seem clearly the part of wisdom for the Gen in the first instance to allay the susceptibilities and suspicions of this vital section of the French public by accepting power, if power is offered him, within the imperfect framework of the present constitution, leaving for the future the decision to insist on constitutional reform in the event that pressures for such reform do not spontaneously develop.

It seems certain that public and congressional opinion here will judge the Gen in the above light. [Armour and Hickerson.]

LOVETT

851.00/10-2647 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, October 26, 1947— 2 p.m.

4598. Palewski told me last night that De Gaulle has no desire whatsoever to become President of the Council of Ministers until next spring and hopes he will not be forced to do so by Communist maneuvers in

the meantime. I warned him that any steps on the General's part headed for anything approaching a dictatorship or looking like they were approaching a dictatorship would be very badly received indeed in the United States and might put an end to our efforts to come to the relief of France. He professed to be in agreement. He declared that De Gaulle understands that it is extremely important for him to capture the goodwill of non-Communist labor, and that he will try to do so.

Palewski said also that when De Gaulle does come into power he will probably offer the Finance Ministry to either Reynaud¹ or Mendès-France;² he will ask Ramadier to remain in the government and probably Robert Schuman also. A Cabinet position will probably be offered to Giacobbi³ and Pleven⁴ must be taken care of also. Bidault and Teitgen will not be offered jobs.

I told Palewski that a good many people were apprehensive lest De Gaulle put an end to the present French government's efforts at democratic reform in North Africa. Palewski denied this vigorously. I said they were apprehensive also as to what his attitude to Indochina might be. Palewski alleged that De Gaulle is broadminded there too. I said they are apprehensive as to De Gaulle's attitude to Germany and that he might cause us a lot of trouble. Again Palewski alleged De Gaulle desired only to cooperate with us there too.

I am not inferring that Palewski meant everything he said, but it is interesting to note that he said these things.

CAFFERY

¹ Paul Reynaud, formerly French Premier.

² Pierre Mendès-France, formerly French Minister of National Economy.

³ Paul Giacobbi, formerly French Minister of Colonies.

⁴ René Pleven, formerly French Minister of National Economy.

851.00/10-2947: Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, October 29, 1947—4 p.m.

4635. For Armour and Hickerson from the Ambassador. I welcomed your 4071, October 25 which parallels so closely our own thinking here and which gave me authoritative backing for the things which I have been saying to some of De Gaulle's people. I shall hammer away at them at every opportunity.

I have not seen De Gaulle personally since the elections, because such a meeting would be publicized by the Gaullists for their own ends and misinterpreted by Ramadier, Bidault and other members of present government. I cannot therefore be absolutely certain that the views which Palewski has expressed to me are shared in full by the

General, but in view of their past relationship and the fact that Palewski's prognostications have usually been confirmed, I think we must go on the assumption that they are substantially correct in the present instance. The statement issued by De Gaulle also tends to bear them out.

I could not agree more with your analysis of the principal obstacles to De Gaulle's governing effectively. But I think that however dangerous the constitutional issue may be, it will continue to rank high on the list of his objectives, for this question lies at the very basis of his philosophy of government and is a matter on which he has repeatedly and publicly expressed the strongest views. For the accomplishment of the task which he will have to face if he assumes power, some revision of the constitution may, as a matter of hard fact, be necessary. I think too that De Gaulle would have some justification for recalling that the present constitution received the affirmative support of only 30 odd percent of the voters, many of whom now favor revision and in fact only voted "yes" last year because they felt that any constitution at that time was better than none.

To my mind the constitutional question as such is probably secondary, at least at this stage to the problem of De Gaulle's relationship with the Socialists, many of whom can be expected at this time to oppose at least such constitutional changes as strike at basic liberties. In this connection, the manner in which De Gaulle acts will be as important as what he does. As I have already reported, the Socialists are in a key position, although torn by the tremendous pressure now being directed against them from the right and from the left. If De Gaulle endeavors to destroy the Socialist Party he may succeed, but he would undoubtedly draw to his camp far fewer followers by such tactics (and would force the rest into an unwished for alliance with the Communists) than he would if he endeavored to reach a working agreement with them. For De Gaulle it is not merely a question of gaining the support of certain Socialist parliamentary leaders, but also the question whether those leaders would be in a position to swing their followers into line. In particular, he must obtain the support of Socialist leaders who are backed by anti-Communist trade unionists.

In view of De Gaulle's temperament and past record, I fear that in spite of these considerations he will favor a frontal attack on the Socialists. The victory which he has just achieved has unquestionably gone to the heads of his followers and cannot be expected to have been without effect on his own thinking.

At any rate this is, I think, the key question at the moment and the one on which I am exerting every particle of influence I can.

I think we have all shared the view that if it could succeed in establishing its authority a coalition government made up of middle of the

road parties, such as we have had under Ramadier, guaranteed the best hope for working out in the long run the enormous economic and political problems of France on a democratic basis. For reasons which it is useless recapitulate here, it is now inescapable that this experiment has failed. When faced with the dilemma of De Gaulle or Communism, there is no doubt that the majority of the French people will pick De Gaulle. I assume that in our own interest we will do the same, even though that choice must boil down to the lesser of two evils, since after elimination of middle parties failure of De Gaulle would leave road open for Communists. I think that we should do everything in our power to lessen the shock and to eliminate or reduce the very real dangers which will accompany the return of De Gaulle to power, whether next week or six months hence, and which are a matter of grave concern to many Frenchmen as well as to ourselves. Not the least among the things which need to be done in this connection is for De Gaulle to separate himself from reactionary rightists who have climbed on his bandwagon.

In conclusion, I feel it necessary to add that while De Gaulle may have learned some lessons during the past two years, I think we would be indulging in wishful thinking if we concluded that he had undergone any fundamental change. In the circumstances, I think we must be prepared to anticipate very real difficulties in dealing with him on specific questions; almost certainly in respect to Germany, and very probably in respect to Indochina and North Africa.

CAFFERY

851.00/10-3047: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, October 30, 1947—7 p.m.

4656. Today's *Humanité* publishes full text of Thorez speech yesterday at meeting of Communist Central Committee (my 4646, October 30¹). Speech openly announced CPF transition from tactics employed when it posed as a "government" party to new sharpened methods of struggle and indicates as well abandonment by Communists of serious pretense of patriotism except "defense of France against American imperialism". Speech may be considered as a declaration of loyalty toward Soviet Union and of intention to fight for democratic Government mentioned in party appeal of October 28. Thorez surveys international situation along lines set by Zhdanov² and

¹ Not printed.

² Andrey Alexandrovich Zhdanov, member of the Politburo of the Central Committee of the Communist Party of the Soviet Union.

nine-party conference³ and in particular savagely condemns American drive for "world domination for which they fought the last war" and the policy of "imperialistic aggression" which the US opposes to the "traditional policy of peace of the Soviet Union which is based on the coexistence of capitalism and socialism for a long period to come". Discussing the situation in France he emphasizes (a) "consolidation of labor and democratic forces around CPF" and (b) disturbing progress and regrouping of reactionary forces around RPF". Main thesis advanced by speech is "American intention to colonize France" which is statedly being accomplished with aid of Socialist leaders (Blum and Mollet) by means of American penetration into French industry and intervention in French domestic affairs. Thorez cites as examples American efforts to oust Communists from Government, aid to parochial schools and establishment in Paris of a bureau "especially entrusted with organization of struggle against the CGT".

Serious self-criticism is likewise prominently featured in speech which dwells on "errors committed by party militants" including failure of Central Committee sufficiently soon "to note and define regrouping of imperialist and anti-democratic forces under direction and for profit of US". According to Thorez, such Central Committee errors have led to "indecision and vacillation" in National Assembly Communist group which opposed "electoral law" with insufficient vigor and failed to vote negatively on questions where such vote was imperative. The hesitations and indecision of the Central Committee and Communist Parliamentary group "retarded the rapid mobilization of the Democratic and Workers masses against the Ramadier Government and its nefarious policy".

Condemnation by Thorez of "sensitiveness of party members toward Socialist and other accusations" that Communist party is prejudicing French recovery, particularly the possibility of obtaining American credits, is of considerable interest as indicating existence of discontent of followers and members with line Communists have been ordered to take. Thorez allusion to opportunist tendencies manifested within party "underestimating labor forces and fearing mass movement" while fully in accord with Zhdanov's report is a clear indication of a planned intensification of "mass" tactics.

³ At a conference held at Wilizia Gora, Poland, September 22-23, 1947, representatives of the Communist parties of Yugoslavia, Bulgaria, Rumania, Hungary, Poland, the Soviet Union, France, Czechoslovakia, and Italy agreed to establish the Communist Information Bureau (Cominform), which was to organize the exchange of information and the possible coordination of activities of the various Communist parties. For documents regarding the founding of the Cominform, see Margaret Carlyle (ed.), *Documents on International Affairs, 1947-1948*, issued under the auspices of the Royal Institute of International Affairs (London, New York, Toronto, Oxford University Press, 1952), pp. 122 ff.

Speech discusses failure of Front Populaire and errors in resistance movements and presupposes creation of a massive Communist led front composed of the forces of the working class, democracy and peace supported by "committee to defend the republic" in all towns and villages (my 4657⁴) and by unions of workers in all branches of industry to safeguard the republic and protect such industry against American "enslavement plans".

Sent Department 4656, repeated London 820, Moscow 515 and by pouch to Rome, Berlin.

CAFFERY

⁴ Not printed.

851.00/11-347: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, November 3, 1947—6 p.m.

4699. According to sources exercising influence in Socialist and Trade Union movement here "mea culpa" report delivery by Thorez to Central Committee of his party (mytel 4656, October 30) may be regarded as culminating point in series of recent European events which have shaken non-Communist left to extent that even some fellow-travellers and few rank and file Communists (not militants) not to speak of naive and opportunist Socialists, are beginning to take open position against Communist Party. This attitude is in keeping with character of majority of French who are fundamentally nationalist and sincerely patriotic. Thorez' most recent confession of complete Communist Party subservience to Kremlin, as set forth in his statement, has caused many Frenchmen to recall signature of Molotov-Ribbentrop pact in 1939 and Communist efforts, immediately thereafter, to sabotage French war effort against Nazi Germany.

While this latest case of "betrayal of France" is not so obvious and while thus far no prominent Communists have denounced their party, sources under reference insist that Thorez' speech already has produced important repercussions in leftist circles, especially Socialist Party and hesitant elements in CGT. In completely isolating itself on parliamentary, resistance and political level Communist Party is also incurring risk of furnishing ample ammunition to growing anti-Communist resistance in labor movement, particularly among miners, railway and TT[PTT] workers. Now, as never before, explain sources, is the moment for independent Trade Unionists to strike hard on labor front and they claim that if existing network of labor opposition within as well as without CGT were adequately financed the isolation and

eventual defeat of Communists in labor movement could be effected probably within next year. As indication of way wind is now blowing trustworthy informant reports that last week 400 resignations from France-USSR (Friends of Soviet Union) took place in fourteenth Paris *arrondissement* alone.

According to above sources, Moscovite leadership of party here anticipates that many fainthearted members will fall by wayside as in 1939. Even prior to Warsaw conference it had begun to replace, especially in provinces, hesitant secretaries of cells, sections and federations by hardened Stalinists dispatched from Paris headquarters. Now on defensive the party is tightening its ranks and falling back on its solid core of members who operate directly under guidance of "illegal bureau and who probably do not exceed more than 10,000 militants". Should these Soviet patriots lose the machinery of CGT they would be deprived of their greatest weapon.

Sent Department 4699, repeated to Moscow as 517 and by pouch to London, Berlin and Rome.

CAFFERY

851.5151/11-847: Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, November 8, 1947—1 p.m.

4797. Martin, President Exim Bank, summarized to me as follows talks I arranged for him with Ramadier, Schumann [*Schuman?*], Monnet,¹ Monick:²

1. French indicated intention withhold change in franc rate until interim aid in hand (Embtel 4568³). (Prospective rate not mentioned but Martin indicated to me that 300 francs to dollar would seem reasonable at this time.)

2. French made half-hearted query whether Exim Bank would consider loan 300 million dollars against 104 million dollars from gold pot⁴ and unliquidated securities formerly held by French nationals as security. (Embassy's information indicates value latter far short necessary amount make total security sufficient cover 300 million dollar loan.) Martin replied such operation not normal to his bank, indicated

¹ Jean Monnet of the French Planning Commission on October 2, 1947, was made chairman of a special "balance sheet commission".

² Emmanuel Monick, Governor of the Bank of France.

³ Not printed.

⁴ The "gold pot" principle "recognizes that the countries whose gold was wrongfully taken by Germany" during World War II "are entitled to its restitution". For explanation of the principle, see *Foreign Relations, The Conference of Berlin (The Potsdam Conference)*, 1945, vol. II, p. 938, footnote 4.

would not consider request favorably if made formally and suggested gold and securities be used to meet current French dollar needs. Schumann indicated French would so use gold and securities when liquidation feasible.

3. French intend meet end December obligation to Exim Bank.

CAFFERY

851.51 FC 51/11-1747

The French Ambassador (Bonnet) to the Secretary of State

[Translation ¹]

WASHINGTON, November 17, 1947.

MR. SECRETARY OF STATE: For some time now, the French Government has been seeking to mobilize all the resources at its disposal in order to use them in reviving the French economy. It desires to take every measure that will enable it to effect this mobilization as completely and quickly as possible, so as to make its full contribution at this time when the sixteen nations represented at the Conference of Paris have just submitted their proposals for a program for the economic recovery of Europe and for assistance from the United States during the next few years.

Under present French law all French citizens, whether private individuals or companies, residing in France or in the French overseas territories, must declare to the French Government all their assets abroad, including assets in the United States.

Under an agreement between the French Minister and the United States Secretary of the Treasury, a procedure has been set up whereby these assets may be exempted from the restrictions imposed by the Foreign Funds Control Office upon presentation of a certificate issued by the French Government. Unfortunately these arrangements have resulted in the declaration of only part of the assets in the United States that are thought to be owned by French citizens, and supplementary measures must be taken to mobilize these assets completely and make the corresponding dollars available for the recovery of the French economy.

It is possible that the United States Government may not have considered itself in a position to give the French Government the names of French citizens owning assets in the United States, because this would violate the confidential nature of the information obtained on this subject.

¹ Translation made by the Division of Language Services, Department of State.

Consequently, the French Government has carefully examined various plans whereby the mobilization of the assets in question might be effected without disclosing any confidential information. As the first step toward that end, the competent departments of the French Government have prepared and are about to issue a supplementary decree providing for the immediate, automatic transfer to the French Government of title to foreign assets consisting of current accounts receivable, claims, securities, gold, and bank notes, in a number of foreign countries, including the United States, and now belonging to French citizens residing in France or in the overseas territories. The French Government thinks that the mobilization of these assets could be greatly facilitated through joint action of the Government of the United States and the French Government, and to that end it proposes a program of joint action that would comprise the following principal measures:

(1) Under this proposal the President of the United States, acting through the competent United States government department and by virtue of the Trading With the Enemy Act,² would order any person in the United States holding assets that belong to French citizens residing in France or in the French overseas territories to transfer those assets to a representative of the French Government. It is understood that this order could be carried out without revealing the names of the present owners of the assets, thereby preserving the confidential nature of the operations which made the preparation of the list of assets possible. It was pointed out to me that the Presidential order could be put into effect through simplified procedures which would make its prompt execution possible.

(2) The French Government would agree with the Government of the United States to take such measures as might be considered necessary for the protection, if need be, of the United States interests by reason of the possible portion of enemy interest in such assets.

(3) The present owners could claim an indemnification in francs under French law now in force. The French Government would also agree to pay in dollars such legitimate claims to these assets as might be submitted by creditors of the present owners in the United States.

I wish to stress two aspects of this proposal which seem particularly important. In the first place, the proposal relates only to assets in the United States owned by French citizens residing in France and does not affect other assets which any other persons might possess in the United States. Furthermore, the proposal would not result in the seizure or confiscation of assets without compensation, since the present owners could claim reimbursement in francs under the provisions of the French laws in force.

I am informed that the implementation of the foregoing joint-action program would result in quickly placing the dollar assets of French

² Approved October 6, 1917; 40 Stat. 411.

nationals at France's disposal, so that they might be used in reviving the French economy. The rapidity with which the full benefit of this program could be obtained would, of course, be increased if arrangements could be made to open a credit through the Export-Import Bank or some other competent American governmental department on the basis of security or a pledge relating to the assets that would be transferred to the representatives of the French Government.

I have the honor to submit this program for joint action to the Government of the United States for examination as a group of practical measures designed to aid French recovery and help to re-establish French production in such a way that France may make its most effective contribution to the expansion of a free world economy, which is one of the common objectives of our two Governments.

I am happy to have this opportunity to renew to Your Excellency the assurances of my very high consideration.

H. BONNET

840.50 Recovery/11-1547 : Telegram

The Acting Secretary of State to the Embassy in France

SECRET

WASHINGTON, November 24, 1947—5 p.m.

4319. Reur 4905 and 4927 and Depts. 4206.¹ French presentation of interim aid requirements was based on plan for Oct 1947-March 1948 period which, if completely implemented, would have had triple effect of eliminating Bank of France's "short" position of \$260 million, operating all new purchases for period on cash basis, and of enabling France to reduce some of her obligations to neighboring countries.

Although this program had much merit from the standpoint of improving France's international financial position, it was clearly impossible for Dept to request an emergency grant-in-aid from Cong on such basis. This approach would have required thorough exploration of France's overall balance of payments situation, and of basic policies

¹ None printed. Telegram 4206 to Paris, November 10, informed Ambassador Caffery that the Department of State had found helpful his recent telegrams on France's requirements for interim aid and that \$328 million was the amount proposed for France; Caffery was instructed to review the detailed allocations with French officials. Their reaction at a meeting on November 13 was described in telegram 4905 from Paris, November 15, as follows: "In general French merely reiterated requirements previously submitted by them. . . ." Then in telegram 4927, November 17, the Embassy transmitted the text of a note from the French Foreign Ministry confirming statements made at the meeting of November 13, including the necessity of solving the problem of an uncovered deficit of \$140-\$150 million beyond the \$328 million, for "any half-measure . . . would run the risk of compromising the success of the Marshall Plan by creating unfavorable economic conditions in France before the general plan for aid to Europe gets under way." (840.50 Recovery/11-1047, -1547, -1747)

related thereto. Importance of time element, for both France and Italy, dictated approach based on assistance in alleviating conditions of "intolerable hunger and cold and to prevent serious economic retrogression . . ."

Dept has noted French experts are in substantial agreement with estimates commodity import requirements as submitted to Cong. Broader framework of France's balance of payments will, of course, be considered in detail in connection with Congressional examination in coming months of European Recovery Program.

Dept does not believe interim aid estimates presented to Cong are properly subject for diplomatic negotiation. You may, however, in your discretion, use foregoing background material in informal discussions with French Govt at Cabinet levels concerning this matter. Following specific observations may also be of use as background for such observations as you may wish to make concerning the necessity for French authorities to deal with any deficit which they feel may remain.

1. Action by Cong on Interim Aid Bill will not constitute commitment to supply quantities listed in program presented to Cong. Actual supplies wld depend on total funds appropriated by Cong, relative needs of countries included and actual availabilities as determined by US supply authorities from time to time. Dept has assured Congressional committees financial request does not constitute supply commitment. This point being made with other countries concerned.

2. Departmental presentation to Cong was based on assumption obligations already due and payable to Belgium, Brazil and Eximbank should be met. On other hand, future commitments should either be avoided for emergency period or friendly countries should be willing under principle of mutual aid to defer liquidation of such dollar commitments. Latter assumption regarded as applicable to UK war contract problem, particularly in view large French sterling holdings. (Opinion in this country strongly opposed to US assuming entire burden of Western Europe's balance of payments problem.)

3. Any potential deficit remaining after two above could be further reduced or eliminated for the period if France adopts trade policy designed to meet its CEEC target to export from French Union in 1948 \$1.56 billion in goods, \$325 million of which are projected for dollar areas. If exports in first quarter 1948 only reached 80 percent of this level, extra receipts beyond those anticipated in France's interim aid request would go long way toward meeting any remaining deficit. Methods to be adopted to meet or approach these targets are primarily French internal matter.

4. Finally, Bank of France's forward exchange contracts (uncovered by dollars in Stabilization Fund) are being reduced from \$260

million on Oct 1 to estimated \$35 million at end of this year. This substantial strengthening of Bank's position would appear give it flexibility needed to deal with any remaining dollar problem for interim period, pending full Congressional consideration of longer-term recovery program.²

LOVETT

² On November 28 Ambassador Caffery reported in telegram 5119 that he had handed to Robert Schuman, the new Premier, an informal memorandum embodying pertinent portions of telegram 4319.

851.00/11-2947 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, November 29, 1947—11 a.m.

5120. My 5020, November 22.¹ I had a long conversation with Léon Blum last evening. He began by saying that when [he?] took such a strong stand against De Gaulle before the Assembly last Friday he knew it would probably cost him the Prime Ministership but that he had felt obliged to do so for the following reasons. He said France's possibility of staging an economic, social and political recovery, and at the same time remaining democratic depends to a very great extent on the non-Communist left and, in particular, on the anti-Communist trade unionists. Blum believes that the situation has evolved to the point where it will be possible in the not too distant future to break the Communist control of the CGT, "the Communists' one great weapon". He does not feel, however, that the time is yet ripe, and said it is now of vital importance to support and encourage non-Communist trade unionist elements. In his Assembly speech he had castigated the Communists on the one hand and De Gaulle on the other because had he attacked only the Communists, anti-Communist labor elements would have been profoundly "deceived" and would have gained the impression that Blum's govt had made a deal with De Gaulle looking to the latter's arrival in power. Such an impression, he said, would have seriously compromised the efforts of himself and others to break Communist hold on organized labor. He expressed the strongest possible disapproval of De Gaulle, whose tendencies he believes are not "democratic" and whose action "has seriously hampered the efforts of the real democratic elements in France".

He also referred to the recent visit of Carey of CIO² and said that the latter's visit and his statements at CGT and WFTU meetings

¹ Not printed; it reported on Blum's failure to win a majority in the National Assembly on November 21 (851.00/11-2247).

² James B. Carey, Secretary-Treasurer of the Congress of Industrial Organizations.

coupled with the results of the recent CIO Congress had been "very helpful in strengthening the determination of French non-Communist labor elements".

Referring to the strike situation Blum said he did not have the latest news but his general impression was that the general situation remained about where it had been the last two days. He remarked that while it is serious and the next few days are of critical importance he is not unduly pessimistic and believes a settlement [can be reached?] of this "generalized strike fomented by the Communist influence in the working class, thus aiding the work of liberating French trade unionism from Communist domination". He described the present strike situation as being one of great complexity. He said that on the one hand he believes that for the first time since the liberation a majority of French labor desires to be "liberated from Communist domination". On the other hand, traditional observance of trade union discipline is still an important factor and many workers are now on strike not because they believe in it but because of their habit in observing strike orders from union headquarters. In other cases workers are striking who while opposed to Communist control of the CGT, are either too apathetic to oppose them actively or fear future Communist reprisals if they do not follow the consign of the union leadership.

Despite such circumstances Blum expressed the conviction that the opposition to the Communists in the trade unions is growing daily and said that "for the first time since 1945 the situation is such that there are now good hopes of liquidating Communist control". He mentioned that trade union friends of his who until recently had not believed it possible to break the Communist control of the CGT and who were even opposed in principle to the idea of an ultimate split in the French trade union movement now believe that the Communists can be placed in a minority position and are also now willing to face the possibility that at some future date a split may be necessary.

Sent Dept as 5120; repeated London for Secdel as 878.

CAFFERY

851.00/11-2947: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, November 29, 1947—2 p.m.

5125. The following observations may be of help in evaluating present situation in France.¹ Moscow and the Communist leadership in

¹ On November 24 Robert Schuman took office as President of the Council of Ministers, succeeding Paul Ramadier, who had resigned on November 19 during a wave of strikes.

Paris would of course like nothing better than to be in the position to effect a general strike leading to the complete collapse of the government and the formation of a Communist dominated cabinet that would be subservient to the will of the Kremlin; but it is the opinion of those best qualified to judge these matters i.e., the trade union opposition to the Communists, that as things now stand the French Communist Party is not sufficiently strong successfully to carry out a general strike. First, strong opposition groups are now well organized among the miners, railway workers, PTT, civil servants and even metal workers as well as among other workers of lesser importance. This in itself may well prevent the Communists from fully developing and maintaining the present strikes on a national level in the most crucial sectors of the national economy, especially among the medium sized and small enterprises of which there are so many in France.

The most disturbing factor at the present time arises from the fact that the labor leaders who are resisting the Communist grip on the CGT have not been able (mostly from lack of funds) to organize effective opposition groups within several highly important trade unions, notably among the building trades, dock workers and Merchant Marine. The result is that although a considerable number of persons in 3 unions would prefer to work and perceive in the political nature of the strikes [apparent omission], they do not enjoy a medium of expression, cannot vote secretly for or against the strikes and cannot pass the picket lines.

Most qualified observers here hold the view that the Communists will not succeed in putting over a general strike but unquestionably will succeed in obtaining to a considerable degree their general objective, namely the exertion of great nuisance value at least to the extent of creating disorder, lowering production and in general harming but not completely paralyzing national economy. (In this connection Communist circles here are discussing the visit of Thorez and Dimitrov² to *Sochi* [*Sochi*] where they are believed to have received instructions from Stalin. These circles state that Stalin has ordered the French Communists to endeavor to sabotage the Marshall Plan as far as it is possible to do so without resort to armed action. They add that within a few days an important meeting of Cominform will take place at Belgrade at which the Italians in particular will be represented in force, and which Thorez may attend.)

Government intervention here against the strikes, especially the use of the army and police, raises a number of delicate problems and should governmental forces be utilized indiscreetly might well act as a

² George (George) Dimitrov, a leader in the international Communist movement, at one time Chairman of the Presidium of the Communist International.

boomerang against both the government and the anti-Communist forces in the trade unions. Where the opposition to the Communists is strong (as in case of the miners and railway and postal workers) the government may be able to act energetically on the side of the workers who desire to stay on the job; where the opposition is nil or hardly organized the result might be less happy as, for instance, among the dock workers and Merchant Marine. Many observers feel that, apart from providing for secret ballot and strike votes and providing protection for workers who wish to carry on, government should gain time and let the strikers get fed up as is usually the case in France, particularly when as at present general public opinion is strongly against the strikes. Consequently at present juncture indiscreet use of the army might prove as damaging as absence of forcible measures. The Communists in any case are preparing for any eventuality as evidenced by the formation, announced yesterday morning by Political Bureau, of National Strike Committee which is calling upon all party organizations to give moral and material support to the strikers. Qualified observers state that this strike committee is being run behind the scenes by Comintern-NKVD (Soviet) agents who are determined to create the utmost disorder short of armed insurrection.

In reporting the above I do not wish to minimize the extreme seriousness of the situation or to rule out the possibility that the present government may lack the strength and ingenuity to cope with it.

Sent Department as 5125; repeated to Secdel London as 881.

CAFFERY

851.00/12-147 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, December 1, 1947—5 p.m.

5144. In the course of a conversation with General de Benouville, one of De Gaulle's close advisers, we impressed on him the importance of strengthening the non-Communist left and our apprehension that by his action De Gaulle may alienate this important element which at present is endeavoring to break the Communist control of the French labor movement. Benouville professed to be in complete agreement and while he alleged De Gaulle was working hard to gain the support of the non-Communist left he admitted that the General was by-passing the Socialist leadership. He also claimed that De Gaulle had now made contact with important reformist trade unionists and that under certain circumstances there appeared "a good possibility of De Gaulle reaching agreement with such men as Jouhaux and Bothereau"¹

¹ Léon Jouhaux and Robert Bothereau, French labor leaders.

without having to come to any agreement with political leadership of the Socialist Party. We expressed to Benouville doubt as to the effectiveness of De Gaulle's efforts if he tries to by-pass or crush Socialist leadership.

We also expressed view that what we have heard of De Gaulle's so-called German policy seems very unrealistic. We pointed out that the basic objectives of the US and France insofar as Germany is concerned are identical, and that it would be unfortunate if De Gaulle, as so often had been the case in the past, should begin beating the drums for the benefit of French public opinion with a view of posing as the "defender of France against a resurgent Germany which is being rebuilt stronger than ever by the United States". We pointed out that if De Gaulle publicly takes such a line he will inevitably maneuver himself in a position where, should he come to power, he will have no liberty of negotiation and where not only will he be rendering his country a disservice but he will also be playing the Communist game.

Benouville professed to agree with our line of reasoning and indicated he would speak to De Gaulle. He admitted frankly, however, that De Gaulle was not an easy person with whom to deal and disregarded the advice of even his closest and most intimate advisers. Furthermore, he said that while on many occasions some of De Gaulle's close advisers had talked about how they were going to tell the General that he must do this or that, when actually confronting the General "they seem to freeze and are afraid to say anything which disagrees with his ideas".

Sent Dept as 5144, repeated London for Secdel as 894.

CAFFERY

800.48 FAA/12-247

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

TOP SECRET

LONDON, December 2, 1947—6 p.m.

URGENT NIACT

6277. For Lovett from Douglas. Please transmit following to John Vorys,¹ House of Representatives:

"I am sending you this secret message, which you may show Eaton, Chris Herter, Joe Martin,² to tell you of Secretary Marshall's grave

¹ John M. Vorys, of Ohio, a member of the Select Committee on Foreign Aid, House of Representatives.

² Charles A. Eaton, of New Jersey, and Christian A. Herter, of Massachusetts, chairman and vice chairman of the Select Committee on Foreign Aid, House of Representatives; Joseph W. Martin, Jr., of Massachusetts, Speaker of the House of Representatives.

concern over the critical state of affairs in France. This concern is held also by Bevin with whom Marshall privately discussed the matter today.

There is in France a very real struggle for power. Thorez, the French Communist leader has just returned from Moscow, probably with a promise of wheat, which he may make public in the near future at the proper time, in an effort to throw the balance of weight against US.

If we are not to run the serious risk of losing France, we should act promptly. Therefore, if the House is favorable to interim aid, it should approve it at once. Time is of the essence. Hardly a day can be lost. This is not, I promise you, a cry of "wolf, wolf". This we firmly believe is a brute reality.

The situation has moved dangerously far during the last two weeks. Prompt action by the Congress would so encourage and strengthen the favorable forces in France that, in our opinion, they will be able successfully to prevent what is a flagrant attempt to seize power.

You know the far-reaching significance to Germany, Italy, the Mediterranean, North Africa, and to other areas, were France to fall.

Marshall feels the situation is self-evident, and that a message from him might be regarded as a routine administration appeal. Because of the urgency of speed, I disagree, and hope you will use your great influence to expedite action by the House.

I trust you will understand that this intrusion is the result of firm conviction that time cannot be lost if we do not want to run an undue risk of losing the stakes".

DOUGLAS

851.51/12-247

Memorandum by Mr. Ivan B. White of the Division of Western European Affairs

[WASHINGTON,] December 2, 1947.

Subject: French Dollar Position Through March 31, 1948

As projected in its presentation to Congress, the Department estimated that \$328 million in assistance, coupled with the complete utilization of France's available resources, would meet France's minimum dollar requirements for the period December 1, 1947 to March 31, 1948.

The French Government, in commenting on this estimate, has informed our Embassy, Paris, that assistance in the amount estimated would still leave France with an uncovered dollar deficit for the period of \$143 million.

Examination of the French justification for this estimate indicates that they have included in their expenditures certain items which the Department believed should be deferred. Nevertheless, it appears that

there will be some uncovered deficit for the period, arising from the following:

1. *French dollar resources on December 1, 1947.*

The "Blue Book" estimate on this was \$153 million. The French Government (Embassy's telegram No. 4905 of Nov. 15¹) stated that its actual balance on December 1 would be only \$137 million, pointing out that Department's projection made no provision for actual October–November expenditures for administrative and miscellaneous purposes, which in practice amounted to about \$16 million.

2. *Expenditures for French zone for other than food imports.*

On grounds the French Government had not given adequate explanation of expenditures for French zone in Germany (other than food), the Bureau of the Budget reduced Department's request by \$17 million. In view of the fact that these goods are in course of procurement, France will actually be spending dollars for these items and the amount mentioned will not, therefore, be available to meet other expenditures projected in the Department's presentation as coming from French dollar resources.

3. *Minimum Working Balance.*

The Department's projection assumed that all available French dollar resources would be utilized during the period and that the stabilization fund balance at the end of March would be zero.

The French Embassy here has pointed out that US relief expenditures, other than for Commodity Credit items, are handled on a reimbursement basis and that in the initial step the French must make purchases with their own dollars. This means that during the aid period the French must maintain a revolving fund, estimated at \$40 million, to finance initially certain imports included in the US procurement program.

4. *Conclusion.*

The conclusion reached is that, assuming French ability to defer liquidation of certain obligations, there will still remain a minimum need for new money during the interim aid period of \$70–75 million if economic retrogression is to be avoided. This uncovered deficit would be increased by the amount that Congress might reduce the interim aid appropriation.

It is suggested that all avenues of possible financing be explored, including a second gold pot distribution and plans to obtain for liquidation French-owned assets in the United States, previously undeclared.

¹ Not printed.

851.00/12-347 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, December 3, 1947—5 p.m.

US URGENT

5186. A high official of the Interior Ministry in strictest confidence expressed last evening very grave concern over Moscow's purpose in inciting the French Communist Party to its present line of action. He said that the Communist generalized strike "ordered by Moscow's Cominform" is not only a failure in that the majority of the French working class is now opposed to it, but that as a result thereof French public opinion is daily crystallizing against the French Communist Party. This, insofar as the French internal picture is concerned, is all to the good and a most desirable and satisfactory development.

"On the other hand," he said, "what deeply worries the French Government is the fact that although the French Communists now know they have lost the strike battle in France, not only are they not modifying their tactics but are in fact hourly taking a more intransigent and uncompromising stand." Reports from the Prefectures throughout France indicate that flying squads of hardened Communist shock troops (my 5132, November 30¹) are being shuttled about to combat the police. In the last 24 hours Interior Ministry reports indicate they have not just tried to prevent the authorities from taking over strike-bound factories and services but are deliberately "provoking" the police to fire on them and the crowds they encourage to demonstrate.

(In this connection our source stated that Interior Ministry has information it believes is entirely accurate that when on Sunday certain Communist labor union leaders reported that "the strike battle is lost and a policy should be followed to make a tactical withdrawal which would avoid loss of face", Thorez himself told them that they must not retreat but should step up the tempo of their action.)

A further disquieting sign to the Interior Ministry is not only the action of the Communist group in the Assembly but the fact that in the past three days in many regions of France where previously only Communist labor leaders have been inciting strikers, political leaders including deputies have suddenly injected themselves and have replaced trade unionists as mob inciters.

Our sources said that foregoing developments tend to point to the conclusion that "cost what it may" the French Communist Party has orders to follow a line of action which if carried much further will inevitably call for governmental action against the party not ex-

¹ Not printed.

cluding "in extremis" the possibility that the party will be declared "illegal", which would inevitably drive it completely "underground" as in 1939. (In this connection Interior states that in Marseille and at least two other cities, Communist headquarters have received instructions to liquidate their files so that there will be no evidence or lists if the police should seize the headquarters.)

As a result of the foregoing the Interior Ministry, which heretofore has not believed that war between Soviet Russia and the western democracies would occur in the next few years "because Moscow needs at least five to ten years to prepare and the United States would not launch a preventive war", has a very severe case of jitters. Our source said that it is inconceivable to French Government officials who are following closely these developments that Moscow would at this point force the French Communist Party into illegality with all the attendant disadvantages unless it intended to make use of it in the comparatively near future, "say within the next year or two, as an instrument to aid the Soviet Army in an international conflict". He said that the French are baffled as to Moscow's real motives and while they are not entirely certain that "Moscow intends to launch a war in the immediate future, they fear that the tactics pursued by the French Communists may mean that Moscow now intends to adopt a policy, perhaps in Italy and Germany, which involves certain 'risks' —risks which could easily result in war if there is a positive reaction against such a policy by the US and UK."

I report the foregoing at some length not only because of the position the source occupies and his proven sincerity but also as an indication of the line of thinking in the important Interior Ministry.

Sent Department, repeated London for Secdel 909, Moscow 546, Rome 291.

CAFFERY

851.6131/11-1747

The Acting Secretary of State to the French Ambassador (Bonnet)

The Acting Secretary of State presents his compliments to His Excellency the Ambassador of France and has the honor to refer to his note No. 320 of September 23, 1947 and to the Embassy's memoranda of October 24, 1947 and November 17, 1947¹ requesting that increases be made in the allocations of grain from the United States to France and French North Africa during the present half-year period.

¹ None printed.

The Embassy's memorandum of November 17 refers to the monthly allocations as announced from July to December as totalling only about 530,000 tons, as compared to a quantity of 606,000 tons recommended by the International Emergency Food Council for shipment from the United States in this period. While it is true that the total of new programs as announced for these six months is the figure indicated in the Embassy's memorandum, all shipments actually made within the new crop-year, that is, liftings from July 1 forward, must be counted as belonging to the crop-year 1947-48 and are consequently counted against the International Emergency Food Council figure applying to that year. International Emergency Food Council allocations for any period of time are made on a shipment basis. The total of shipments to France from the United States, representing the sum of the carry-over from allocations made before July 1 and the regular six monthly allocations announced for July-December, and allowing for some overage in landings, is expected to be about 620,000 tons. This calculation leaves out of account the considerable imports arriving in France after July 1 but which were lifted before that date.

The American Embassy in Paris has clarified this matter for officials of the French National Cereals Board and reports that there is no disagreement on this basis with the above estimate of 620,000 tons for France and French North Africa as against the International Emergency Food Council recommendation of 606,000 tons.

The Department of State is greatly concerned about the low stock position in metropolitan France which is in prospect by January 1 as the result of heavy diversions of United States exports of grain to French North Africa and the failure to secure a larger flow of imports from other sources to supplement imports from the United States. Conferences in Paris between French officials and American Embassy representatives indicated that stocks might sink to 245,000 tons by January 1. As soon as this position was clarified an emergency allocation of 54,000 tons of wheat and flour (wheat equivalent) was made to supplement the December program of 130,000 tons. It is understood that the four cargoes of wheat can be scheduled at the beginning of December and that the flour, while subject to fumigation because of long storage, is in export position.

While it has not been found possible to assist France at this time to the extent requested by the Embassy, it is considered that the above-mentioned supplementary allocation will give France stocks at least equal to a month's consumption and thus prevent any breakdown in distribution of the present ration.

WASHINGTON, December 4, 1947.

851.00/12-547 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

TOP SECRET

PARIS, December 5, 1947—6 p.m.

5231. The official mentioned in my 5186, December 3, stated in confidence this morning that as a result of information which the Interior Ministry had obtained in the past three days its views on the reasons for Moscow pushing the French Communists to its present line of militant action have undergone considerable clarification since his last conversation on December 2. The Interior now has a report which it believes accurate that Thorez, upon his return from Moscow, outlined the Soviet position along the following general lines:

Moscow is convinced that the Marshall Plan to aid European recovery would serve to promote the formation of a western European bloc which would permit the US under cover of economic aid to expand and organize its zone of influence in western Europe to the point where this zone would prevent extension of Communist influence and would serve as dangerous jump-off place for attacking Soviet Russia. Faced with such menacing possibility Soviet policy requires bold action to neutralize capitalist assistance to France and Italy and to prevent establishment in these two key countries of prosperous regimes and therefore under American influence. Tactics of "legality" followed by French Communist Party since liberation are hopelessly inadequate to cope with the new situation resulting from the Marshall Plan and this is the reason for the adoption of a plan of revolutionary activity which is aimed at destroying American hopes of economic stability in western Europe, thus preparing the way for ultimate Communist control of this area.

According to Interior Ministry reports, the Soviet leadership believes that the reaction of the democratic governments of western Europe (in particular France and Italy) would be too slow and too weak to counteract the revolutionary action of a small group of determined Communist militants and that the US Government would not intervene directly in France or in Italy to prevent or suppress the illegal action of the Communist militants. Therefore the Communists would only be opposed by the existing weak and indecisive governments which are incapable over long period of resisting continuous action against them in the economic, financial, industrial and social fields. Thus the present action of the Communist parties in France and Italy is designed not to grab power by a *coup d'état* at this time but rather to cause the present democratic governments in western Europe to collapse one after another under strong Communist blows against their national, economic and social structures, thus precipitating the abandonment of Europe by the US and leaving the door finally open

to Communism. While, according to the report, the Communists realize course of action they have been ordered to take in France and Italy runs the risk of leading to the outlawing of the party, they feel this is not a certainty in view of their parliamentary and electoral strength in both countries. Against the possibility of being outlawed, however, it is necessary to prepare for going underground and such preparations are now in course. Furthermore those services which will engage in sabotage and illegal action must go underground now.

With the foregoing in mind, Thorez reportedly stressed necessity for stepping up the tempo of the party's revolutionary action in the coming period. He also is said to have emphasized that for the time being Communist shock troops should not resort to the use of firearms.

In discussing the implications of the present situation with the militant Communist labor leadership in the CGT Thorez reportedly explained that while Moscow fully realizes that the present tactics might cause serious disaffection among working class elements which have heretofore supported the Communists, such losses must be accepted since if the militant Communists do their job of sabotaging French economy effectively, living conditions of the working class would so deteriorate and there would be such widespread misery that a new and desirable situation would be created which the Communists could exploit and recapture the masses which temporarily had deserted them.

I have reported the foregoing at some length because the Interior Ministry, including Minister Jules Moch, believes it to be an accurate resumé of Thorez explanation of the French situation as viewed from Moscow.¹

Sent Department 5231, repeated to London for USDel as 930, to Moscow as 552, Rome as 299.

CAFFERY

¹ In telegram 5252, December 6, 6 p.m., Caffery added that he had "discussed the present situation in France at length last evening with Interior Minister Jules Moch. He expounded at length his views of Communist reasoning and tactics along the precise lines set forth in my 5231 December 5. Prime Minister Schuman was present and concurred in Moch's analysis." (851.00/12-647)

800.48 FAA/12-1047

The Secretary of State to the Acting Secretary of State

SECRET

LONDON, December 10, 1947.

Martel 57. For Lovett from Marshall. Please give following message to Speaker Martin from myself and Dulles¹ with copy to Vandenberg:²

¹ John Foster Dulles, special adviser, U. S. Delegation, Fifth Session of the Council of Foreign Ministers, at London, November 25-December 15, 1947.

² Arthur H. Vandenberg, of Michigan, chairman, Foreign Relations Committee, United States Senate.

"Certain reported provisions of House Interim Aid Bill give grave concern to French Government and to us. These are particularly: (1) Right to use freely franc equivalent after next June; (2) right to supervise French domestic production of products similar to interim aid. First provision would give United States power to direct or destroy any French fiscal program, and, second would be offensive to national dignity and both would seem to confirm Soviet thesis that US attempting reduce France to status of American colony. Another reported provision is total prohibition export similar goods. This in main unobjectionable but there is small border traffic particularly with Switzerland where coal exchange for food very advantageous for France. Would greatly appreciate your bringing this matter to attention of House conferees. We believe Senate bill in these matters better avoids embarrassing precarious situation in France where struggle by no means ended by initial government victory."

MARSHALL

840.51 FC 51/11-1747

The Acting Secretary of State to the French Ambassador (Bonnet)

[WASHINGTON,] December 10, 1947.

EXCELLENCY: I have the honor to acknowledge the receipt of your note of November 17, 1947, containing the French Government's proposal for mobilizing the assets in the United States owned by French nationals resident in France.

In its present form, the proposal raises certain difficult questions for my Government. However, I fully appreciate the urgency and merit of the underlying purpose of your Government's proposal. I can also assure you that my Government is giving careful consideration to the basic problem for which your Government's proposal seeks to provide a solution, and I will inform you promptly when a decision has been reached.¹

Accept [etc.]

For the Acting Secretary of State:
WILLARD L. THORP

¹ In a note of March 11, 1948, the Secretary of State informed Ambassador Bonnet that the United States Government had recently formulated a plan that should ultimately achieve the results he sought in his proposals (840.51 FC 51/11-1747).

851.51/12-1447: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, December 14, 1947—1 p.m.

5379. As soon as Schuman heard of the decision to grant an advance of 150 million dollars for immediate aid, he asked me to express his high appreciation thereof to the Department.

Sent Department as 5379, repeated USDel London as 985.

CAFFERY

851.51/12-1647 : Airgram

The Ambassador in France (Caffery) to the Secretary of State

CONFIDENTIAL

PARIS, December 16, 1947.

A-1742. For State and Treasury. Certain comments by Mr. de Margerie, Assistant Director, Division of Foreign Finance, Ministry of Finance, in a conversation on December 13 may be of interest:

Mr. de Margerie said that he had just surveyed the immediate requirements of the French Treasury for dollars and the balance available in the Stabilization Fund. On the basis of this survey his previous estimate that a payments crisis would be faced soon after December 20, if interim aid did not become available before that date, was not changed. De Margerie said he was encouraged by the reported decision of the House and Senate permitting RFC funds to be used immediately to furnish \$150 million of interim aid requirements and the decision making the interim aid program retroactive to December 1. Because of the retroactive aspect it would be possible to release funds earmarked for certain imports as soon as interim aid funds were received. After the interim aid bill is passed De Margerie said they would draw up their requirements for the next few months. At that time he would be glad to review with us the dollar payments picture.

De Margerie stated that he was not in a position to comment on the press reports that Minister Mayer¹ planned to seek agreements with the United States, Canada, Argentina and other western hemisphere countries to bring about an immediate increase of food imports in France. In his opinion, however, all possibilities to achieve the goal would certainly be explored. Many of the officials in the French Government were very concerned over the necessity of increasing availability essential consumption items, particularly food. The necessity of an upward adjustment in wages was acknowledged but it was also recognized that unless there was an accompanying increase in food availabilities the wage increases would soon be merely nominal. The success of any stabilization program obviously hinges on bringing about an increase in the "real income" of the working classes. This can only be done by the maintenance of agricultural prices which in turn depends upon food availabilities.

De Margerie continued that it was a general view that the recent success of the Government in meeting the social crisis has brought

¹ René Mayer, French Minister of Finances and Economic Affairs.

about an unusually favorable political situation to lay the groundwork for a solution to the economic and financial difficulties that had long evaded the French Government. The Government, however, must take an immediate advantage of this opportunity. Without doubt, unless there is improvement in economic and financial conditions, it will soon disappear and when it does, conditions may deteriorate very rapidly. For this reason it could be expected that the Government will make every effort to find the resources to take advantage of its opportunity. De Margerie was not certain what form efforts to obtain food imports would take but suggested shifting interim aid funds to obtain a greater proportion of food imports, trade agreements, or perhaps additional credits.

(On the other hand, a high official of the Monnet Plan states that the French Government is under no illusions regarding the possibility of finding additional food imports, in view of world short supply, but he confirmed that everything possible would be done to maximize food availabilities and suggested that something might be done to increase supplies of meat.)

De Margerie was quite alarmed over the newspaper reports that the Senate-House Committee had agreed on amendments providing that not more than ten per cent of the interim aid funds could be used for purchases outside of the United States and that none of the funds could be used for purchases at prices above prevailing U.S. prices for similar commodities. He noted another proposed House amendment which provided that petroleum products should be purchased outside of the U.S. if at all possible.

When asked for a breakdown of sources of imports to demonstrate the difficulties that may arise, de Margerie submitted later the following:

Wheat	—85 percent from US; 15 percent from Argentina;
Fats and Oils	—50 percent from US; 50 percent from Philippines;
Coal	—88 percent from US; 12 percent from Ruhr;
Petroleum	—35 percent from US; 40 percent from Venezuela; 25 percent from Middle East;
Fertilizer	—60 percent from US; 40 percent from Chile.

CFM Files : Lot M-88 : Box 104 : Anglo-US-French Conversations

*Memorandum of Conversation by the British Foreign Office*¹

[Extract]

TOP SECRET

[LONDON, undated.]

Mr. Marshall paid a farewell call on the Secretary of State² at the Foreign Office at 6 p.m. on December 17th. The situation resulting from the breakdown of the recent meeting of the Council of Foreign Ministers and other subjects concerning Anglo-American relations were discussed in a conversation lasting 1¼ hours.

ANGLO-FRENCH MILITARY CONVERSATIONS

The SECRETARY OF STATE said he wished to inform Mr. Marshall that he had already arranged for General Reveres [*Revers*], the Chief of the French General Staff, to come here soon, probably in the New Year, for military talks. He had always wanted to forward the military rehabilitation of France but had been unable to do anything as long as communists were in the French Government. M. Bidault had now assured him that we could talk with absolute confidence. He was doubtful whether we could go so far with the French as we were able to do with the Americans, with whom our military conversations were like those between members of one country. But we must see just how far we could go. France was proud of her Army but it was too big and wrongly equipped for modern needs. It required recasting and reorganizing. He wished, with Mr. Marshall's approval, to test out General Reveres in conversations with Field Marshal Montgomery and Air Chief Marshal Tedder. There would be no publicity, but the possibilities of so far as possible coordinating the French Army with our own air and naval power would be elucidated. We already knew exactly where we stood in this regard both with Holland and Belgium, but they were both nervous of the French. His general idea was to build up a real force in western Europe. These military talks would, however, be kept quite separate from the other official conversations dealing with all the social and economic questions which could be summarised under the heading of Marshall Aid. But France could not be given real confidence unless all facets of French life were brought into play. But he emphasized that these were still his own personal views and subject to Cabinet approval.

MR. MARSHALL said that his idea was that it was not so much normal staff discussions which were wanted with the French. The French desire, and indeed necessity, was for more equipment.

¹ This memorandum was presumably prepared by Frank K. Roberts, personal secretary to the British Secretary of State for Foreign Affairs. For other sections of the memorandum, see vol. II, p. 815.

² Ernest Bevin.

The SECRETARY OF STATE said that he was not so much concerned with the equipment side as with the need of shaking up the traditional French conception of a land army which was now out of date. We should of course keep the United States informed, although he presumed they would agree that it was better not to bring the French into our Anglo-American military talks.

MR. MARSHALL said that he took no exception to such Anglo-French talks and fully agreed with the Secretary of State's last point about keeping them separate from Anglo-American talks.

Editorial Note

On December 17 the interim aid program, cited officially as the "Foreign Aid Act of 1947", 61 Stat. 934, was approved. On December 19 President Truman sent to the Congress a special message on the European Recovery Program. Funds for the interim aid program were voted in the supplemental appropriation act of December 23, 1947, 61 Stat. 941. For documentation relating to these developments, see pages 470 ff.

851.00/12-2047 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, December 20, 1947—1 p.m.

5482. From the point of view of our general interests in Europe as well as from the point of view of our interest in the survival of democracy in western Europe, the *scission* yesterday in the CGT is the most important event that has occurred in France since the Liberation.¹ It is all the more important because it follows on the heels of the failure of the Communist-inspired political strikes; strikes which from an economic point of view were fully justified in view of the prevailing low wages and high prices.

The Department is aware that at the time of the Liberation the Communists seized the levers of command of the trade unions and have been running the unions with a high hand ever since. Some of the non-Communist labor leaders did not support the *scission* mainly because they held comfortable jobs in the CGT, had comfortable offices in the CGT headquarters and money to spend. The leaders of France [*Force*] Ouvrière will not have comfortable jobs, will not have comfortable offices and now have no money to spend.

¹ Léon Jouhaux and five other non-Communist labor leaders resigned from the executive committee of the CGT to form a rival group, the Force Ouvrière, also known as the CGT-Force Ouvrière, or CGT-FO.

No one could have foreseen this break a few months ago and a few months ago the young militants who forced the break could not have done so.

They had the courage to do so yesterday for two reasons: The failure of masses of workmen to follow the Communist leadership in the strikes and growing appreciation of what the "Marshall Plan" means to France.

For the past three years non-Communist workmen had been bemoaning their fate to us in the Embassy. They did not like what was going on in the CGT but they were doing nothing about it.

CAFFERY

851.00/12-2347: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, December 23, 1947—4 p.m.

5514. The friends of De Gaulle in the Assembly are bent upon making trouble for the Schuman government. As I reported in my telegrams 5480, December 20 and 5487, December 21¹ they have been asking for early new elections and they will not be helpful to René Mayer in his attempts to pull France out of the economic morass where she is now floundering.

As I have frequently pointed out, the De Gaullist tactics have been based on the belief that no French Government could succeed this winter in view of the prevailing hardships and that after the inevitable collapse towards the end of the winter De Gaulle would be called back by public acclaim to power. However, they have never allowed themselves to be pinned down as to exactly how they expect this to come about.

Schuman's unexpected success against the Communist strikes amazed them and at this juncture even the bare possibility that René Mayer might succeed fills them with concern.

It is satisfactory to be able to say that I have found recently that some supporters of De Gaulle are becoming disgusted with these tactics.

CAFFERY

¹ Neither printed.

800.48 FAA/12-2447: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, December 24, 1947—2 p.m.

5532. Afem No. 13. Re Mefa No. 1. From informal conversations which we have had with French officials it appears that in govern-

mental circles there is apprehension that if the French Government simply signs a draft aid agreement¹ without some explanatory or preparatory statement, it may be vulnerable to attacks that it has supinely agreed to conditions imposed by a foreign power to the detriment of "French National Sovereignty". While the government naturally expects a continuation of bitter Communist attacks along these lines, it is also concerned over the possibility that the Gaullists (who in the past several days have been evincing open hostility) may also be tempted to criticize some provisions of the agreement. With this in mind the French are contemplating drawing up some form of French statement intended to make the point that the aid agreement is being freely entered into by the French and is not being imposed by US.

My initial and very preliminary reaction on the basis of what we have heard is that if such a statement by the French is in no way out of harmony with the foreign aid act and the bilateral agreement and will not introduce any questionable interpretation of the conditions laid down by the American Congress, in principle such a statement would not appear to be objectionable and might even be helpful in cutting the ground out from under elements which are hostile to the United States and to the Schuman government. On the other hand, I believe that any French statement or public comment by French officials which is not in harmony with the letter and spirit of the agreement or which could be interpreted as placing any limitations on any of the provisions of the agreement would be most unfortunate and could create serious complications.

CAFFERY

¹ On December 20 the Acting Secretary of State sent to the Embassy in France the draft text of an interim aid agreement with France (telegram 4555, Mefa No. 1, December 20, 800.48 FAA/12-2047, not printed). Similar texts were sent to the Embassies in Austria and Italy.

851.00/12-2647: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, December 26, 1947—5 p.m.

5558. Mytel 5327 December 11.¹ I have been emphasizing to Deputies and members of the Council of State as well as to Cabinet Ministers that it was essential to do something constructive at an early date about the wage price problem because if nothing constructive were done the government's recent victory over the Communists would be nullified and the next strikes would be supported not only by Communists but by non-Communist workers as well. I pointed out also that

¹ Not printed.

if nothing were done about wages and prices the main idea behind the Marshall Plan would have no practical application here at all. Everyone agreed; even several supporters of De Gaulle.

Along these lines it is at least encouraging that René Mayer's two projects (one authorizing the issuance of a loan and the other instituting an exceptional levy in the battle against inflation) were voted by the Assembly, for it took courage on the part of the government to force those essentially necessary but fundamentally unpopular bills through. However, those are only first steps and there is much more to be done.

CAFFERY

800.48 FAA/12-2647: Telegram

The Acting Secretary of State to the Embassy in France

SECRET

WASHINGTON, December 26, 1947—8 p.m.

US URGENT NIACT

4603. During past few days discussions have been held with Fr Emb concerning the terms of the bilateral draft aid agreement, and minor amendments have been made in an effort to meet the Fr views. Bonnet however informs us that his Govt feels that it must insist upon dividing the nature of the undertakings which it is prepared to assume. Those which deal with mutual arrangements between France and US would be embodied in the agreement and the others that are obligations which France is assuming in respect to its own economy would be contained in an exchange of letters. Bonnet explained his Govt attaches greatest importance to this as indicating the latter arrangements have been freely entered into by France and are not being imposed upon it. There would be no question however that France has assumed these undertakings without reservations.

Although most careful consideration has been given to this proposal, the present situation in this country and the specific terms of Sec 5 of the Foreign Aid Bill¹ are such that we cannot accept this method of handling these undertakings. It would be interpreted as an attempt to make a distinction between the nature of the conditions which Congress considered were essential to the provision of aid. We could of course agree to some preliminary or explanatory statement of the nature described in urtel 5532 Dec 24 and had suggested to Bonnet that his Govt might write preliminary letter stating that it had noted the passage of the bill and reaffirmed its willingness to take these measures which could be then incorporated in the agreement. This letter

¹ 61 Stat. 934.

could of course be published before actual signature takes place but the agreement must contain all of the conditions which Congress has attached.

Until this question is resolved we cannot proceed further with aid provisions respecting France. Moreover, it is likely that the agreements with Italy and Austria can be signed without delay. You are requested to urge upon Bidault the urgency of reaching settlement of this problem.

LOVETT

800.48 FAA/ 12-2747 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, December 27, 1947—4 p.m.

5572. Bidault began by praising in highest terms the recent Congressional action of voting aid to France. He said furthermore he has no basic objection to any of the terms of the bilateral draft aid agreement, but he does have objection to the manner of implementing some of them.

After I described Department's position, he said he would endeavor at once to persuade the government to accept the agreement as it is adding, "I shall almost certainly sign it but that may be the last official act of my career. I am not at all concerned as to what the Communists will do and say, but I am very much concerned about possible attacks from the friends of De Gaulle and other very nationalist elements".

He will study the possibility of writing the preliminary letter suggested by the Department to Bonnet.

CAFFERY

851.00/12-2947 : Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET

PARIS, December 29, 1947—7 p.m.

5594. My telegram 5558, December 26. I do not question Robert Schuman's determination to find a solution for the wage-price problem. From everything I hear he is endeavoring to concentrate all his available forces in that fight. Every time I see him he asks my personal opinion as to the possibilities of success of the efforts of his Minister of Finance. He has asked me also personally if I think René Mayer is a competent man for the job and I replied that I have a very high regard for Mayer's ability.

On the other hand the hostility which both the Communists and Gaullists have evinced towards the Schuman government in the Parliament, coupled with the opposition of special interest groups (particularly deputies representing agrarian constituencies) severely limits the government's possibilities to stabilize the situation.

CAFFERY

800.48 FAA/12-3047: Telegram

The Ambassador in France (Caffery) to the Secretary of State

SECRET
NIACT

PARIS, December 30, 1947—7 p.m.

5606. Bidault informs me that the Council of Ministers authorized him this morning to sign the bilateral foreign aid agreement in the form agreed upon between the Dept and Bonnet at Washington. Bidault showed me the exchanges of telegrams between him and Bonnet in that connection which indicate that original plans for signing the text set out in Deptel 4555, December 20¹ have been changed. Bidault asked me if the Italian agreement is to be signed at Rome and the Austrian at Vienna. He intimated that he would prefer to have the French agreement signed at Washington, preferring, I assume, not to sign it himself for purely internal political reasons.

As the Dept is aware, in the past we have had difficulty in getting the French press to give adequate coverage to aid received from the United States. If the agreement is signed at Washington it will be extremely difficult to get adequate coverage here (we had made plans in agreement with Foreign Office for unusual coverage by press, radio and newsreels).

Whether agreement is signed in Washington or here, I should appreciate being advised whether the substance of the statement which I had proposed to make, transmitted in mytel 5564, December 26,¹ meets with the Dept's approval. In either event I would appreciate receiving urgently text of revised draft annexes and letters to be exchanged as agreed upon in Washington.²

Bidault told me that the entire Cabinet and especially the Minister of Finance were most appreciative of the Dept's sympathetic attitude

¹ Not printed.

² For text of Agreement Between the United States of America and France, Assistance to the People of France Under Public Law 389, 80th Congress, signed at Paris, January 2, 1948, see Department of State Treaties and Other International Acts Series (TIAS) No. 1690.

in connection with the signing of this agreement and were especially grateful to the Acting Secretary of State for his understanding of the domestic political difficulties of the present French Government.

CAFFERY

**ARRANGEMENTS FOR CONTINUED USE BY THE U.S. NAVY OF AIR
BASE AND COMMUNICATIONS FACILITIES AT PORT LYAUTEY,
FRENCH MOROCCO**

Editorial Note

On September 15, 1947, the French Minister of Foreign Affairs (Bidault) and the American Ambassador (Caffery) signed at Paris an agreement providing for the return to French sovereignty of the airfield and seaplane base at Port Lyautey, French Morocco. The construction and maintenance of this base had been provided for in the agreement between Maj. Gen. Mark W. Clark and Adm. François Darlan, signed at Algiers, November 22, 1942 (*Foreign Relations*, 1942, volume II, pages 453 ff.). The new agreement, which was to remain in effect for the period of the occupation of Germany, provided for continued use by the United States of certain facilities, including a radio communication installation operating under the American flag. The text of the Agreement and related documentation, not printed, are in Department of State file No. 811.2351.

**AGREEMENT BETWEEN THE UNITED STATES AND THE FRENCH
REPUBLIC RELATING TO AIR SERVICE FACILITIES IN FRENCH
TERRITORY**

[For text of Agreement effected by exchange of notes signed at Paris, May 8 and 17, 1947, amending Agreement of June 18, 1946, see Department of State Treaties and Other International Acts Series (TIAS) No. 1853.]

**AGREEMENT BETWEEN THE UNITED STATES AND THE FRENCH
REPUBLIC SUPPLEMENTARY TO THE GENERAL AGREEMENT ON
TARIFFS AND TRADE**

[For text of Agreement and Accompanying Letters rendering operative the Agreement of May 6, 1936, and supplementing the General Agreement on Tariffs and Trade of October 30, 1947, signed at Geneva, October 30, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1704.]

**AGREEMENT BETWEEN THE UNITED STATES AND THE FRENCH
REPUBLIC WITH RESPECT TO AMERICAN DEAD IN WORLD WAR II**

[For text of Agreement concerning the interment in France and in territories of the French Union or the removal to the United States of the bodies of American soldiers killed in the war of 1939-1945, signed at Paris, October 1, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1720.]

**AGREEMENT BETWEEN THE UNITED STATES AND THE FRENCH
REPUBLIC CONCERNING THE RESTORATION OF CERTAIN INDUS-
TRIAL PROPERTY RIGHTS AFFECTED BY WORLD WAR II**

[For texts of the Agreement and a Supplementary Agreement extending certain periods provided for in the former, signed at Washington on April 4 and October 28, 1947, respectively, see Department of State Treaties and Other International Acts Series (TIAS) Nos. 1667 and 1725.]

GERMANY
(See Volume II)

827

GREECE

(See Volume V)

ICELAND

CONCERN OF THE UNITED STATES OVER ECONOMIC AND POLITICAL CONDITIONS IN ICELAND

859A.50/4-1847: Telegram

The Chargé in Iceland (Trimble) to the Secretary of State

SECRET

REYKJAVIK, April 18, 1947—4 p.m.

174. I had long talk with FonMin¹ yesterday afternoon re present economic situation which he indicated is causing govt great concern. He said tentative agreement had been reached with British at end of last week whereby latter would purchase 12,000 tons frozen fillets—slightly less than one-half estimated production—and substantial quantity of herring oil (40% according to reliable source) at prices somewhat lower than those sought by Iceland delegation London. By a “curious coincidence” news of proposed terms reached Russians within three days. Latter who have been dragging their heels in current Moscow trade negotiations for over two months immediately offered to purchase most of remaining fillets and unspecified quantity herring oil including part of that earmarked for UK. Russian prices lower than those offered by British. They flatly refused to buy any wet salted fish on grounds that no demand for commodity exists in Soviet market where they allege it is practically unknown. Refusal caused consternation among Iceland authorities as government had been counting on Russia buying upwards of 20,000 tons wet salted fish or roughly two-thirds anticipated production. Decision whether or not to accept offer will be taken by cabinet within 48 hours. Iceland reluctant to agree to Russian terms but sees no other alternative as prospects sale of fillets in US highly uncertain. According to report made to Thors² Cabinet by former Communist Minister Aki Jakobsson Russian trade representative Semenov had assured him last fall that Soviet Union would buy all wet salted production at high price and was also prepared to purchase all other exportable surpluses. Counting on this govt had therefore guaranteed fish producers price of 17 cents per pound. Efforts by present Iceland negotiators Moscow to communicate with Semenov and obtain a verification of his commitment have been fruitless as he is invariably “indisposed”.

¹ Bjarni Benediktsson, Icelandic Minister for Foreign Affairs.

² Olafur Thors.

Local Communists according to Benediktsson are preparing to attack govt for its failure to follow through on Semenov's "promises". Fon-Min feels cabinet can weather this particular storm by citing true facts in case but must find outlet for wet salted fish in near future, for if economic conditions continue to deteriorate, as seems likely unless fish can be quickly disposed of, general dissatisfaction will inevitably lead to demand that present "weak" govt be replaced by "strong" one capable of solving problems. In this connection Benediktsson pointed out that even certain members of his own party harbor view that present govt lacks strength while Herman Jonasson is becoming increasingly vociferous in his opposition. If a "strong" govt should be formed it would almost certainly include Communist members.

In view of above possibility Benediktsson who appeared extremely worried inquired as to prospects for sale wet salted fish to Army for use in feeding civilian population US zone Germany. I said we had little info on subject but would be glad to inquire into the matter adding however that since cost of feeding Germans is borne by US taxpayers Army must naturally place its orders where prices are lowest. Benediktsson replied he thought price question could be settled satisfactorily but urged preliminary investigation be instituted as soon as possible in view of uncertainties present politico economic situation.

As we see it Russians have been stalling on Iceland negotiators since they are counting on continued deterioration economic conditions which would eventually result in fall of govt and replacement by one having Communist representation and were spurred into making foregoing limited offer only because of fear that British would acquire herring oil which Soviet Union apparently needs. Their failure to bid for wet salted fish however seems to indicate that their present offer is an exception to rather than change in policy. Should Soviet tactics be successful local Communists will undoubtedly seek two portfolios in the govt, aviation in order to hamstring AOA operation Keflavik³ and possibly foreign affairs. If Olafur Thors forms a new govt he would probably refuse to give Communists latter post but might be compelled to let them have aviation portfolio. It is conceivable how-

³ In the Legation's Note 727, April 2, to the Minister for Foreign Affairs, not printed, Trimble informed Benediktsson that "the American Overseas Airlines has been designated under contract to the United States War Department to maintain, either directly or through its subsidiary, the Iceland Airport Corporation, on behalf of the United States Government the services and facilities at the Keflavik Airport extended thereto by the Agreement of October 7, 1946, after the United States military forces have been withdrawn from Iceland." (859A.20/4-2347) For text of Agreement, see Department of State Treaties and Other International Acts Series (TIAS) No. 1566, or 61 Stat. (pt. 3) 2426. Related documentation on the operation of Keflavik airport, not printed, is in Department of State file 859A.7962.

ever that if Herman Jonasson should become PriMin he would be willing to let Communists head both ministries.

Considering implications present situation I strongly recommend Dept and War Dept examine possibilities for purchase wet salted fish by Army for use in Germany or in connection with Greek relief program and furnish me with such preliminary data as may be readily available in order that I may follow up yesterday's conversation with Benediktsson. Prospects for continuance present govt are favorable provided we can help Iceland to dispose of fish. If we cannot and economic conditions continue to deteriorate as they have every likelihood of doing probability is that cabinet will eventually fall. I fully realize course of action Legation advocating corresponds in certain respects with economic warfare practices but consider it necessary from standpoint strategic interests involved.

TRIMBLE

862.5018/8-247 : Telegram

The Chargé in Iceland (Trimble) to the Secretary of State

CONFIDENTIAL

REYKJAVIK, August 2, 1947—6 p.m.

298. Department's telegram 200, August 1.¹

1. With view to increasing Icelandic fish production so as to augment fish content German diet Acheson² made following proposals in behalf bi-zonal authorities:

(a) Negotiation of residual or open-end contract in which minimum delivery be guaranteed and market established for all possible fish at any time delivered at any German or continental port.

(b) Contract renewable annually with reconsideration of prices and terms.

(c) Partial payment in terms dollars or sterling with balance reimbursable at such time bi-zonal exports exceed imports on *pari-passu* basis with other participants in German food program including US and UK.

(d) Down payment percentage and prices to be discussed upon Acheson's return in two weeks. Latter necessarily conditioned by cost alternative sources of food.

(e) Scheme must coincide with any decisions made under Marshall plan.

2. Advantages to Iceland of above:

(a) Participation in preview of Marshall plan.

(b) No need to alter present trade channels or allocate to US any of Iceland's presently disposable production.

¹ Not printed.

² Edward C. Acheson, detailed as special emissary from the State Department with the personal rank of Minister to discuss purchases of fish in Scandinavian countries for the bi-zonal German population.

(c) Contract would give "support price" or "floor" to price of fish which would enable Iceland's authorities to develop plans for increased production and at same time provide unique opportunity for long range economic planning i.e. measures to combat inflation.

(d) No intention of bidding up prices thereby enhancing inflationary difficulties.

(e) Opportunity immediately to reestablish normal and natural trade channels with Germany which were of primary importance to Iceland's economy in pre-war period.

(f) Possibility of applying for International Bank loan to finance that part of credit Icelanders feel that they themselves cannot carry.

3. Except for observation regarding bank loan which was based on McCloy statement³ summarized July 29 radio bulletin foregoing understood to be in line with instructions Acheson received from General Clay⁴ and bi-zonal authorities although I did not see their text.

4. As gesture of good-will Acheson offered to negotiate immediate contract for 1,000 tons wet salted fish for early fall delivery to Greece, reserving balance of funds available for Mediterranean relief for bargaining purposes in connection with bi-zonal discussions upon his return here. However Iceland's negotiators who had been advised by Thor Thors⁵ as to amount at Acheson's disposal showed tendency to wrangle over price with result that agreement could not be reached during two and one-half days he was in Reykjavik.

TRIMBLE

³ John J. McCloy, President of the International Bank for Reconstruction and Development, stated that the Bank would correlate its resources for the general stimulation of production, thus supporting the aims of the Marshall Plan.

⁴ Gen. Lucius D. Clay, Commanding General, United States Forces, Europe; Military Governor for Germany.

⁵ Icelandic Minister in the United States.

Editorial Note

Negotiations for the fish purchase agreement continued through 1947. In October, Trimble was instructed to inform the Icelandic Government that the United States and Great Britain proposed to purchase jointly from Iceland through the British Ministry of Food during calendar year 1948 approximately seventy thousand tons of fish for the bi-zonal area of Germany (telegram 265, October 18, not printed, 862.5018/10-1847). On November 14, Trimble was instructed to inform the Icelandic Government that the British Government had agreed to purchase terms of 100 percent cash sterling, rather than the 75 percent proposed and not accepted in October (telegram 280, November 14,

not printed, 862.5018/11-1447). Texts of the purchase agreements are in this same file.

859A.50/9-147

The Chargé in Iceland (Trimble) to the Secretary of State

CONFIDENTIAL

REYKJAVIK, September 1, 1947—6 p.m.

323. Benediktsson indicated this morning that government will shortly issue statement showing extremely serious financial situation Iceland now finds itself as result of inflation. This will probably be followed by appeal for voluntary reduction in production costs including wages. Assuming Communists will encourage labor to reject proposal, we "will then have to decide whether to attempt reduction through legislation or take Communists into all-party government on condition that they will induce followers to accept lower standard of living." Latter alternative is in line with Einar Olgeirsson's trial balloon in Saturday's *Thjóðviljinn* in which he called on all producing elements—labor, farmers, fishermen, shipowners, et cetera—to join together in seeking solution to current economic problems. Principal objection to it according to Foreign Minister is fact that nearly all non-Communist party leaders distrust Communists. Legislative action on other hand would present material difficulties from standpoint of implementation. . . . Thus it is questionable whether it could enforce legislation in face of strong opposition on part Communist-controlled union. In addition Social Democrats are fearful that enactment legislation while Communists remain in opposition would create serious disaffection among their followers.

There is also third alternative at which Benediktsson merely hinted today (Legation's despatch 979, August 29¹) but of which he as a Conservative leader continues to be keenly aware, namely formation progressive-Communist-left wing SD coalition. Such an aggregation could be expected to include in its economic program a measure providing for establishment state-controlled import monopoly, the very thought of which is anathema to the import-wholesale firms which are among the staunchest supporters of Conservative Party.

As soon as he had finished I said inclusion of Communists in reorganized government could not help but have adverse effect on our efforts to assist Icelandic economy, as for example purchase of fish for relief purposes and employment Icelanders by IAC and airport contractor. Furthermore, in my opinion such action would only postpone

¹ Not printed.

and thereby render more difficult eventual showdown between Communist minority and overwhelming majority Icelandic people. Cabinet, I said, appeared to have overestimated strength of Communists in labor movement as indicated by its groundless fear that Dagabrun walkout last June would be followed by wave of sympathy strikes.

Foreign Minister said he appreciated validity my observations which tended to coincide with his own views and inquired whether I thought we would stand idly aside in event Communists seize power by *coup d'état*. I replied it was my personal opinion that we would not. Benediktsson concluded conversation with remark that alternative or alternatives he had outlined were still possibilities and any change in government extremely unlikely before Althing at beginning October.

TRIMBLE

ITALY

THE VISIT OF THE ITALIAN PRIME MINISTER, ALCIDE DE GASPERI, TO WASHINGTON IN JANUARY 1947

740.00119 Council/12-946 : Telegram

*The Secretary of State to the Acting Secretary of State*¹

TOP SECRET

NEW YORK, December 9, 1946—3:10 p.m.

Delsec 1102. From the Secretary. Department please relay to Am-Embassy, Rome.² As the final work in connection with the treaty of peace with Italy draws to a close and arrangements for the signing of the treaty are being made, it would seem to be of great value to have a discussion with Mr. De Gasperi on matters of mutual interest to our two governments.

Would you, therefore, extend an invitation on the part of the Government of the United States to Mr. De Gasperi as Prime Minister of Italy to come to Washington in the early part of January with a view to discussing the renewal of normal commercial relations between Italy and the United States and also other relevant matters of interest to the two countries. You might tell Mr. De Gasperi that I would be most happy if he could find his way to accept this invitation.³

Please also say that if Mr. De Gasperi can accept, I would suggest that any announcement to that effect be delayed until we have worked out a time when there could be simultaneous announcement of his acceptance both in Washington and Rome.

BYRNES

¹ Secretary of State Byrnes was in New York for the Third Session of the Council of Foreign Ministers, November 4–December 11, 1946.

² Repeated to Rome, December 9, 3:50 p.m. In telegram 2141, December 12, not printed, the Chargé was instructed to inform the Italian Foreign Minister, Nenni, in general terms of the invitation after it had been extended to the Prime Minister (740.00119 Council/12-1246).

³ In telegram 4369, December 12, from Rome, not printed, Key reported that De Gasperi was most grateful for the invitation which he hoped to be able to accept; he expected to give a definite decision by December 16 (740.00119 Council/12-1246).

711.65/12-1746 : Telegram

The Chargé in Italy (Key) to the Secretary of State

SECRET

ROME, December 17, 1946—6 p.m.

US URGENT

4406. We have received the following reply through Prime Minister's private secretary ¹ (see my 4369 Dec 12 ²) :

Begin translation.

De Gasperi agrees to leave January 3. He considers it best to defer any public announcement until the last possible moment. Text and date communication will be previously agreed upon and publication will be simultaneous. Better to avoid premature leaks. He will make every effort to keep his appointment but given the upset condition (*stato febbrile*) of country it is not to be excluded that at last moment some postponement or modification departure date may be imposed. (*End of translation*)

Prime Minister hopes begin discussions with Secretary Monday, January 6. He will remain in US for forum of Council of World Affairs at Cleveland (see Dowling's letter to me of November 1³) returning Italy immediately thereafter.

We said we would transmit communication to Department as received but asked Canali to convey to De Gasperi our feeling that public announcement of visit should be made as soon as possible; that such news was bound to leak if postponed any length of time. We also asked that we be given as much time as possible regarding announcement for coordination Rome Washington. Foreign Minister has already been informed of visit of Prime Minister by Tarchiani (see Deptel 2141 Dec 11 [12] ⁴).

If Department approves our view regarding publicity we should appreciate being authorized to point out to De Gasperi need for urgency in making early announcement to ensure that first news of visit is not presented in unfavorable light by unfriendly elements.

Prime Minister has been upset according to Canali by press despatches from Washington regarding postponement Export Import Bank of consideration Italian application for loan and new unfavorable development in payment \$50,000,000 non-troop pay account (see my 4394 Dec 15 ³). We said that so far as we knew application for loan was still before Bank and that we had had no indication that it was receiving any more or less favorable consideration than formerly. Regarding troop pay we expressed view that it could only be tech-

¹ Paolo Canali.

² See footnote 3, p. 835.

³ Not printed.

⁴ See footnote 2, p. 835.

nicalities between War and Treasury Department holding up final transfer of \$50,000,000 to Italian account assuring Canali that there could be no doubt that Secretary's assurance to De Gasperi of October 12 would be honored.

KEY

Lot 54-D 328

*Memorandum by the Deputy Director of the Office of European Affairs
(Hickerson) to the Secretary of State*

CONFIDENTIAL

[WASHINGTON,] January 6, 1947.

According to the Italian Embassy, De Gasperi will want to talk with you on the following matters:

1. *Italian Colonies*: De Gasperi will again ask US support for the original French plan of an Italian trusteeship over the former colonies when the CFM Deputies meet to discuss this problem.

2. *Surplus Italian Naval Units*: De Gasperi is most anxious that we permit the Italians themselves to scrap the surplus naval vessels allocated to the US.

3. *Yugoslav Attitude on Italian Treaty*: The Prime Minister will endeavor to explain why the Italians feel they can sign the treaty only if the Yugoslavs also sign, and will ask your opinion of the probability that the Yugoslavs will accept the treaty.

These are all questions which have a great influence on Italian public opinion, and De Gasperi feels that favorable answers to them will go far towards pacifying the political uneasiness in Italy, and thus strengthen the moderate element.

In addition, the Prime Minister will probably mention some of the economic matters which he will take up in greater detail with Mr. Clayton:

A. *Eximbank Loan*: To the Italians, this much discussed subject has become a barometer of American confidence in Italy. When the press reported some weeks ago that the loan was off, lira quotations suffered their worst break to date, and rose again only after your statement that the loan was still under consideration. De Gasperi feels that the loan has now acquired an importance far beyond its financial significance, and is therefore the greatest single factor in what we do for Italy.

B. *Purchase of More Liberty Ships*: Italy now desires to buy another 50 Liberty ships, in addition to the 50 already contracted for.

C. *Return of Italian Assets in US*: We are committed to the return of the major part of Italian assets in the US, and there remains only to work out the method by which this will be done, possibly in a general financial settlement between the two governments. It is hoped that we can tell De Gasperi while he is here that we intend to cancel Italian indebtedness for the civilian supply program; that an addi-

tional \$50 million in the non-troop-pay account is now available for the Italians; and that arrangements have been completed for the use by Italy of the two *Conte* ships for repatriation of prisoners of war and the emigration of displaced persons from Italy to places of re-settlement in South America.

You may wish to suggest to De Gasperi that he discuss with Mr. Clayton the negotiation of a new commercial treaty to replace the *modus vivendi* of 1938 [1937].¹ An outline of our proposals can be given to the Italians now, and our draft of a treaty can be presented to them in a few weeks.

Finally, the Prime Minister can be expected to talk to everyone in sight about wheat and coal, which are of prime importance to Italy. Fortunately, the prospects for increased shipments of both commodities seem somewhat brighter, and of course we will do the best we can to meet Italian essential requirements.

JOHN D. HICKERSON

¹ See *Foreign Relations*, 1937, vol. II, pp. 435 ff. and 1938, vol. II, pp. 557 ff.

865.50/1-647

*Memorandum of Conversation, by the Appointed Ambassador to Italy
(Dunn)*¹

[WASHINGTON,] January 6, 1947.

Participants: Secretary Byrnes
Mr. Alcide de Gasperi, Prime Minister
Ambassador Tarchiani
Mr. James Clement Dunn

The Secretary received the Prime Minister of Italy, Mr. de Gasperi, today at 12 noon. Also present were the Italian Ambassador, Mr. Tarchiani, and Mr. Dunn. The Prime Minister expressed the grateful appreciation of the Government and people of Italy to the Government of the United States for an invitation for the Prime Minister to come to this country. He said it was a source of great encouragement to the Italian people to see the friendly attitude displayed by the American Government toward Italy. He said he hoped his visit would result in assistance to Italy as that country was now in the throes of an economic as well as a political crisis. He said the recent disturbances in southern Italy were partly political and partly based upon economic difficulties,

¹ Throughout 1946 Mr. Dunn had served as Deputy in the meetings of the Council of Foreign Ministers and in the meetings of the Deputies in the negotiations of the treaties of peace with Italy, Rumania, Hungary and Bulgaria. Although he had been designated Ambassador to Italy on July 25, 1946, he did not present his credentials in Rome until February 6, 1947.

and that the greatest political pressure was being brought at this time by the Communist Party to bring Italy within the orbit of Russian influence. Mr. de Gasperi said that of course his entire effort was to combat this movement as he was of an entirely different opinion.

The Prime Minister then spoke of the need for an increase of 150,000 tons of wheat in the allocations to be granted Italy from now until June, when the new crop in Italy would pick up the slack. He said this would mean an increase in the allocation from 1,450,000 tons to 1,600,000 tons. The food situation in Italy was most precarious; they had no stocks and no reserves, and the delay of one ship in arriving in Italy meant that they were faced with semirevolutionary riots and disturbances in the country.

The Prime Minister also spoke of the need for an increase in the coal shipments from 600,000 tons per month to 700,000 tons per month. He said that formerly coal was obtained from British and German sources but that since the war it had not been possible to obtain them from these sources. There were, he said, about 30,000 tons a month coming from Poland but the deliveries were so tardy that this coal never arrived on time. The Secretary said with reference to both the wheat and coal shipments that of course one of the difficulties was connected with transportation, inland transportation within the United States in the case of wheat as well as ocean transportation, and in the case of coal, ocean transportation and of course strikes we had had in this country. Mr. Byrnes asked Mr. Dunn to call the attention of Mr. Clayton to these matters, and asked that the Prime Minister take these questions up with Mr. Clayton when he saw him; that he was sure this Government would do all it could to assist, but the difficulties were in some respects not entirely subject to our own control.

The Secretary then said that it would be possible to assure Mr. de Gasperi while he was here that Italy would be granted \$50,000,000 more of the sum held in suspense account by the Treasury for the payment of supplies and requisitions for the U.S. Army in Italy and that there would possibly be some more on this account which would be made available later but could not be granted at this time. Mr. de Gasperi received this news with satisfaction and gratitude.

The Prime Minister then said that they would like to arrange to secure about 50 more Liberty ships. The Secretary said that Mr. de Gasperi and the Ambassador appreciated the situation regarding the sale of our ships as controlled by U.S. law. He said this was a matter which was subject to the existing conditions, whereupon Mr. de Gas-

peri said that the Italian Government would be prepared to subscribe to the same conditions under which they made the previous arrangements for ships last autumn. Mr. Byrnes said that in that case that if they were prepared to comply with the same conditions he would see that this matter was gone into with a view to facilitating the arrival at such arrangements as could be worked out for this purpose. He also asked Mr. Dunn to have this matter looked into and a report made to him upon it.²

Mr. de Gasperi then spoke of the gold which was captured by the U.S. and British Armies in northern Italy.³ He said this was Italian gold which he thought should be returned to Italy in much the same manner as Hungarian gold had been returned to Hungary. Mr. Dunn explained that the situation was rather different in the two cases as the United States had no right to retain the Hungarian gold which was found in Germany because any rights to this gold had been waived under the arrangements made at Potsdam. With regard to the Italian gold captured in northern Italy, however, while this Government was very anxious to see this gold returned to the Italian Government, it was understood that there were certain claims against this gold which had to be taken into consideration. Mr. Dunn said that he knew this matter was being looked into and that we would be able to inform the Prime Minister while he was here with respect to the status of this gold.⁴

Mr. de Gasperi then spoke of the post-UNRRA relief program. The Secretary said that a request was being presented to Congress for the allocation of certain funds for the direct relief of countries which were in need of such relief, among which Italy was included. He said that of course no man could say [anything?] now with respect to this request. The present situation was that we had a Republican Congress with a Democratic Administration, and that while there had been full and complete cooperation between the two Parties with respect to foreign affairs, it was not possible at the present time to tell how economic and other matters would be dealt with in the new Congress. He said, however, that it was his hope that this relief would be granted to take the place of the UNRRA program which was expiring and that he would continue to hope so until he found reason to the contrary.

The Secretary had to leave for the White House at this moment because of a request by the President to the Cabinet to assemble at

² See p. 841.

³ Discovery and seizure of the gold at Fortezza was reported by Ambassador Kirk in despatch 1885, July 11, 1945, from Rome, not printed (865.515/7-1145).

⁴ See telegram 5466, p. 987.

the White House preparatory to proceeding to the Capitol for the delivery of the presidential message to the new Congress.⁵

⁵ In Ambassador Tarchiani's account of this meeting he states that Secretary Byrnes was cordial but preoccupied, and kept turning to Dunn for confirmation or information. The Italian Prime Minister and the Ambassador remained quite puzzled regarding Byrnes' attitude until they learned on the next day, January 7, of Byrnes' resignation and the designation of General Marshall to succeed him. (Alberto Tarchiani, *America-Italia: Le dieci giornate di De Gasperi negli Stati Uniti* (Milan, Rizzoli, 1947), pp. 36-37, 55.)

865.5018/1-647

Memorandum by the Adviser in the International Resources Division (Stillwell) to the Under Secretary of State for Economic Affairs (Clayton)

URGENT

[WASHINGTON,] January 6, 1947.

Subject: US Shipments of Grain and Flour to Italy

In December we loaded at US ports approximately 98,000 tons of grain and flour for Italy.

For January, allocation has been made to UNRRA sufficient to give Italy approximately 125,000 tons of grain and out of a total of 100,000 tons of flour allocated to UNRRA, UNRRA has agreed to ship 75,000 tons to Italy making a total of 200,000 tons wheat equivalent for Italy in January.

We still are having some difficulty with the Department of Agriculture in getting them to actually purchase flour. They have scheduled none of the above-mentioned flour for actual shipment yet. I am working on this at the present time but may need your help in calling on Secretary Anderson to take immediate and direct action to see that these flour allocations are actually translated into procurement and shipment.¹

¹ In a subsequent memo of the same day, not printed, Stillwell reported that he had learned from the Department of Agriculture that its procurement of flour had been so slow that it was likely that Italy would get no more than half of what had previously been indicated; that total shipments of grain and flour to Italy in January would probably be no more than 160,000 tons. He mentioned that: "It now appears that Agriculture's wheat procurement program is at a complete stand-still because the Secretary of Agriculture has placed a ceiling of \$2 a bushel at Kansas City on Government purchases." (865.5018/1-647)

Lot 54-D 328

Memorandum by the Appointed Ambassador to Italy (Dunn) to the Secretary of State

[WASHINGTON,] January 6, 1947.

I am told that the Italians should make formal application to the Maritime Commission for the purchase of an additional 50 Liberty

ships.¹ As soon as the application is in, Mr. Clayton can talk with Admiral Smith and let him know of our support for the Italian application.²

You may wish to tell De Gasperi the foregoing when you see him tonight.

JAMES CLEMENT DUNN

¹ For the purchase by Italy of 50 Liberty ships in 1946, see the bracketed note, October 31, 1946, *Foreign Relations, 1946*, vol. v, p. 941.

² A letter sent by Vice Admiral W. W. Smith, Chairman of the U.S. Maritime Commission, to Under Secretary Clayton on January 21, not printed, refers to Clayton's meeting with the Commission on Friday, January 10; to his urging "that the sale of additional vessels to the Italian Government at this time was of prime importance"; and to the action of the Commission on January 14 approving the sale to Italy of 50 additional ships. (195.2/1-2147)

Editorial Note

According to the account written by the Italian Ambassador, Alberto Tarchiani, *America-Italia: Le dieci giornate di De Gasperi negli Stati Uniti* (Milan, Rizzoli, 1947), page 40, he and the Italian Minister of Commerce, Pietro Campilli, had a meeting on January 6 at 3:30 p.m. with the Secretary of Agriculture, Clinton P. Anderson. No American record of this meeting has been found.

Tarchiani further records (*ibid.*, page 49) that he accompanied De Gasperi and Campilli to a meeting at 9:00 a.m. on January 7 with the Secretary of the Treasury, John W. Snyder, at which it was arranged for Campilli and Donato Menichella, Director General of the Banca d'Italia, to meet next day with experts of the U.S. Treasury Department. No American record of this meeting has been found.

Tarchiani further records (*ibid.*, page 50) that after meeting with Secretary Snyder, he and De Gasperi went at 10:00 o'clock to the Department of State to see Under Secretaries Acheson and Clayton, at which time De Gasperi explained the situation in Italy to Mr. Acheson. No record of the discussion with Acheson has been found in the files of the Department of State.

De Gasperi also conferred with the Secretary of Commerce, W. Averell Harriman, at some time prior to 5:00 p.m. of January 7 at which time Harriman's records indicate that he left Washington for a speaking engagement in the mid-West. This meeting with Harriman is not mentioned in Tarchiani's book, but De Gasperi himself referred to it during his meeting with Secretary Byrnes on January 8 (see

page 851) and it is also mentioned in the official communiqué of January 15 (Department of State *Bulletin*, January 26, 1947, page 165).

Tarchiani records a second meeting with Secretary Snyder on January 8 at 4:00 p.m. (*America-Italia*, page 65); a second discussion with Secretary Byrnes on January 14 at 11:00 a.m. (*ibid.*, pages 123-124); and a third meeting with Mr. Snyder on January 14 at 12:30 p.m. (*ibid.*, page 125), but no American record of any of these three discussions has been found.

865.51/1-747

Memorandum by the Director of the Office of Financial and Development Policy (Ness) to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] January 7, 1947.

Subject: This Morning's Meeting with Premier de Gasperi

You asked on Saturday¹ that I inform you briefly of the status of the matters to be discussed with Premier de Gasperi during his visit here. There are six such major items:

1. *Eximbank loan*. When asked yesterday (Monday) morning whether this credit might be included in the NAC agenda for this afternoon, Mr. Martin said that he wished to think the matter over some more. Accordingly, it is not likely, unless there be a last minute change of thinking, that the application will appear specifically among the agenda items. I have asked the NAC staff to be prepared, however, to bring it up upon our request as "Other Business". As you will recall, Mr. Thorp, Mr. Dunn and Mr. Dowling agreed that it would be better if this credit were not announced during the time the Premier is in this country but that it should be announced on the fifteenth of this month, by which time the Premier would have just returned to Italy.²

2. *Post-UNRRA relief*. Here, as you know, we can only assure the Premier of this Government's intention to request funds for food relief from the Congress. The introduction of the legislation during his presence would be a reminder of this intention. We will not, of

¹ January 4.

² See *Foreign Relations*, 1946, vol. v, p. 942 for the memorandum by the Staff Committee to the National Advisory Council on International Monetary and Financial Problems of November 15, 1946, recommending a loan of \$100 million to Italy by the Export-Import Bank. See p. 859 for the approval of this recommendation on January 13, 1947.

course, be able to talk to him about specific sums, but he may wish to have as much assurance as is possible within the foregoing limits.

3. *Emergency revision of UNRRA.* Mr. Wood is now thinking in terms of the second of the two alternatives presented to us last Saturday. This, if finally agreed upon, would involve a net reduction of the allotment to UNRRA on the score that Italy is presently able to finance its emergency needs. You may, at some time during the Premier's visit here wish to acquaint him with this possibility. I would suggest, however, that this "bad news" be held for your meeting on Wednesday afternoon, by which time de Gasperi will have talked to the press.

4. *Non-troop pay account.* The certification of a second \$50 million has been completed, and Treasury will be able to effect payment on Wednesday.³

5. *Plan A waiver.* Following conversations with the Canadians and British we are now free to announce to the Italians that we are prepared to cancel the American share of the Italian debt for civilian supplies (Plan A).⁴ This announcement should, however, be couched in terms which link such cancellation on our part to an over-all settlement with the Italians of war accounts which would be made in conjunction with or after the Italians had signed the peace treaty. This is necessary because, should the Italians fail to ratify the peace treaty, this Government might remain technically subject to claims on the score of requisition by the U.S. armed forces.

6. *Italian assets in the United States.* Italian assets in the United States have been in part vested by the Alien Property Custodian and in part blocked by the Treasury. In Paris Mr. Thorp announced that the United States would return to Italy all such property over and above that needed to meet certain relatively small American claims against Italy. While the Italians would welcome a public statement at this time promising the return of Italian assets in the very near future, it does not appear advisable to go beyond the statements made in Paris for the reason that certain technical difficulties remain to be worked out by the Treasury and also because we will not want to return Italian property until we have secured from the Italians certain commitments respecting our claims against them and possibly respecting Italian pre-war debts, these all to be taken care of in the over-all Italian settlement.

³ For previous documentation on this subject, see *Foreign Relations*, 1946, vol. v, pp. 899-946 *passim*.

⁴ Regarding Plan "A", see p. 715, footnote 1.

033.6511/1-747

Memorandum of Conversation, by Mr. George C. McGhee, Special Assistant to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] January 7, 1947.

Subject: Meeting between Mr. Clayton and the Italian Prime Minister, Alcide de Gasperi.

Participants: His Excellency Alcide de Gasperi, Prime Minister of Italy
 Mr. Donato Menichella, Director General, Bank of Italy
 Mr. Carli, Director, Office of Foreign Exchange, Italy
 Signor Alberto Tarchiani, Italian Ambassador
 Mr. Egidio Ortona, First Secretary, Italian Embassy
 Mr. Vincenzo Vogliolo
 UE—Mr. Clayton
 American Ambassador to Italy, Mr. Dunn
 A-T—Mr. Thorp
 OFD—Mr. Ness
 UE—Mr. McGhee
 SE—Mr. Dowling
 A-T—Mr. Wood
 IR—Mr. Stillwell
 CP—Mr. Moore
 FN—Mr. Reinstein

After preliminary formalities, the following topics were discussed:

1.) *Grain*

The Prime Minister stated that the availability of grain in Italy had become a political issue of the first order. Italy urgently needed both an increase in grain allocations and better timing of shipments. With the present short stock position, any delay in arrivals creates a serious distribution problem.

Mr. Clayton explained to the Prime Minister that the availability of grain from this country is entirely a question of internal transport. There are adequate supplies of grain and adequate ships to take the grain to Italy, but there was an insufficiency of freight cars and handling equipment. Mr. Clayton pointed out that the United States is not normally a great grain exporting country and that the current rate of grain exports exceeds anything ever before attempted here. He then described measures which this country has taken to alleviate the transportation difficulties, explaining that priorities for grain shipments had been established on the railroads and that an expediter (Captain Conway) has been appointed by the President to coordinate

all phases of the transportation problem. Since the same expediter moved 11 million tons of wheat from last year's crop, the movement having been completed only 10 days later than its June 30 deadline, Mr. Clayton expected improvement in present rate of shipment. Mr. Clayton stated that Italy has an allocation of 200,000 tons for the month of January and that although he could not make any commitment, in his judgment this rate could be maintained through June. He advised that he was calling the Secretary of Agriculture by phone later in the day in the Mid-West, to explain the urgency of the situation and to urge that all necessary steps be taken.

The Italian Ambassador stated that Italy was desirous of obtaining an increase in its IEFEC grain allocation for the current crop year from 1,450,000 to 1,600,000 tons. He pointed out that supplies available from sources other than the United States are meager. Italy expected only 40,000 tons from Turkey and a small amount from Canada. Supplies from Argentina were very uncertain, there being no assurance that there would be any arrivals from this source before June. The Ambassador pointed out that with elections in Italy coming in June, it would be embarrassing for the present government to cut the bread ration before this time. The ration is already reduced to 200 grams. The Ambassador further pointed out that February and March are expected to be the most difficult months for grain arrivals in Italy. He repeated that Secretary Anderson had advised that he hoped to ship 230,000 tons in February and 250,000 tons in March. The Ambassador said that although Italy would continue her efforts to buy grain in the Argentine and elsewhere, she could rely only on the United States.

Mr. Clayton repeated that he had every expectation that 200,000 tons a month would be shipped from the United States to Italy for the next six months, which, with shipments to date of 400,000 tons, should equal the 1,600,000-ton figure which the Ambassador had requested. He assured the Italians we will do the best we can.

2.) *Coal*

The Prime Minister advised that Italy was currently receiving approximately 600,000 tons of coal per month from this country, but needed an additional 100,000 tons a month in order to achieve a reasonable level of industrial output. He reported that Poland was now furnishing very little coal to Italy, and that both Germany and UK furnished some, although both had in the past been large suppliers.

Mr. Clayton agreed that the problem of coal was a serious one both for Italy and for other European countries. He predicted that this would be one of the most difficult of present problems to effect permanent solution. Mr. Clayton asked whether Italy would not prefer coal from other sources than the United States, in view of the high price of

our coal. The Ambassador replied that US coal was now actually cheaper to Italy than European coal. Whereas US coal was delivered to Italy for \$22.00 a ton, Belgian coal cost \$24.00 a ton and Polish coal even more.

Mr. Stillwell advised that a temporary shortage of ships available for coal would make it difficult for the US to fulfill all commitments during the next two months. Mr. Clayton concluded that although he was not in complete possession of the facts and could make no commitments with regard to specific amounts of coal which can be furnished Italy, we understood the gravity of the Italian situation and will do the best we can.

3.) *Additional Liberty Ships*

The Ambassador stated that although Italy has not as yet made application to the Maritime Commission, they would like to have 50 Liberty ships in addition to the 50 already obtained. At the present, their merchant fleet aggregates only 900,000 tons, which is less than one-third of their pre-war fleet of 3 million tons. The 50 additional ships would still give them only 1,300,000 tons. The Ambassador said that the Italian government would purchase the additional ships, in the same way that they had purchased the original 50.

Mr. Clayton promised that he would take this matter up personally with the Maritime Commission on Friday, at which time he would support the Italian request for the 50 additional ships. He suggested that in the meantime applications for purchase of the ships be filed with the Commission. Mr. Clayton observed that he considered it desirable for the Italians to attain their pre-war shipping tonnage level as quickly as possible, in order to alleviate the drain on their foreign exchange.

4.) *Post-UNRRA Relief*

The Ambassador referred to the fact that Secretary Byrnes had indicated to the Prime Minister that the Department would request Congress to appropriate funds for post-UNRRA Relief for Italy and certain other countries. The Prime Minister understood that this represented the policy of the Executive Branch of the US Government only and hoped that the American people, through their Congress, would approve the granting of this relief, which was badly needed in Italy.

Mr. Clayton replied that the Department would give full support to the bill providing for this relief, which he hoped would go forward to the Congress within the next few days. He assured the Prime Minister that he personally and, he hoped, Secretary Byrnes, would appear before Congress in behalf of this bill.

5.) *Export-Import Bank Loan*

The Ambassador stated that a loan from the Export-Import Bank was vitally needed to assure economic stability in Italy during the year 1947. The Prime Minister observed parenthetically that the loan had attained very great significance in Italy, because of the widespread discussion which had taken place concerning it. The Ambassador continued that the loan had become a political issue. Recent news that the loan would not be forthcoming had produced very serious repercussions in Italy. Particularly because of the large loans which the US has made to the UK and France, the Prime Minister's position would be seriously jeopardized if he should return to Italy without a loan.

Mr. Menichella stated that although the Italian Government had not yet called on the Bank of Italy to issue additional currency to finance its expenditures, the Government may be forced to take this drastic measure at an early date. The Italian people were anxiously awaiting the decision as to whether or not the US would aid in the reconstruction of Italy in addition to their assistance in providing relief for Italy.

Mr. Menichella observed that the Italian people had made a great contribution to their own economic recovery through increased production and through foregoing consumption. He explained that almost everything Italy made was exported, that there was no buying power within Italy. In the opinion of his government, the Italian export prospects justified an Export-Import Bank loan. The loan was of such importance to Italy that he was willing to discuss it on any basis, whether for short, medium, or a long term, if this was necessary to obtain it. He pointed out that technical financial circles in Italy are convinced that Italy deserves the loan, and will be disappointed and puzzled if the loan is not forthcoming. Obtaining the loan is an absolute necessity for the success of the de Gasperi Mission.

Mr. Menichella continued that he had heard informally in Washington that the Export-Import Bank had taken the position that they could not loan money to a country that was at the same time receiving a relief grant. He offered his opinion that there was no relationship between the grant, which was intended to make up for the deficit in food supplies in Italy, and the loan, which could be guaranteed by existing export contracts now held by Italian firms.

Mr. Clayton explained some of the background of the Export-Import Bank, pointing out that although it was enacted under the law of 1934 it is currently operating under an amended charter enacted in 1945, when its capital was raised from \$700 million to \$31½ billion. As currently constituted, the Bank has five directors, four public directors and the Secretary of State, who is represented by Mr. Clayton. Mr. Clayton explained that the directors are governed by the provisions of

law pertaining to the Bank. He stated that although a short-term loan in the order of eighteen months or two years would be easier to negotiate, he did not think such a loan would meet the Italian needs as he understood them. He questioned that the Italian balance of payments position would permit repayment of a short-term loan. Mr. Ness suggested the possibility of making a portion of the loan on a short-term basis, for commodities that could yield foreign exchange quickly, with the remainder of the loan on a longer term basis.

Mr. Menichella replied that he had attempted both to obtain a larger loan than that under discussion and a long-term loan, and that he is willing to discuss a short-term loan only as a matter of necessity. He would, he indicated, be glad to discuss the type of loan mentioned by Mr. Ness involving both long-term and short-term commitments. He pointed out the great psychological boost which would result in Italy, if the Italians could feel that an independent US Agency considered Italy worth a credit risk of \$100 million.

Mr. Clayton repeated that he believed the loan must be related to the Italian future balance of payments position, and that he could not disassociate in his own mind any short- and long-term aspects. If short-term proceeds are derived they should probably be reinvested as a method of securing more long-term proceeds. He felt that the directors of the Bank in making their decision as to the loan should be realistic in their approach. He urged that the Italians bring to the attention of the Bank any information not in possession of the Bank which might facilitate a favorable decision on the loan application. It was pointed out that arrangements had already been made for the technicians in the Italian delegation to confer with the staff at the Bank.

Both the Prime Minister and Mr. Clayton agreed that it would be better for all concerned if an attempt were made to secure the loan on a long-term basis. Mr. Clayton, in conclusion, stated that he would do the best he could for the Italians, but that he represented only one of the five directors of the Bank. He added that in the event a long-term loan is secured for Italy, he saw no reason why short-term loans for cotton or other raw materials providing quick returns could not also be made. The Prime Minister expressed appreciation for the consideration which Mr. Clayton and other American officials had shown.

6.) "*Hermitage*" and "*Monticello*"

In closing, the Ambassador raised the question of certain former Italian ships, the *Hermitage* and *Monticello*, which were currently subject to negotiation between the Italians and the Maritime Commission. These ships are to be operated by the Italians on agreed terms under the Panamanian flag. Mr. Clayton advised that he was not fully informed as to the status of these negotiations, but that he would take the matter up with the Maritime Commission on Friday.

The Ambassador stated that there were two points still at issue between the Italians and the Maritime Commission to which he would appreciate Mr. Clayton's giving special consideration. The Italians thought it extremely important from the standpoint of morale of the Italian people that the ships fly under the Italian flag. The Italians also felt that the split of earnings between the Maritime Commission and the Italians should be on a net and not on a gross basis as proposed by the Commission.

In closing, the Ambassador expressed appreciation to Mr. Clayton for the consideration he had shown the Italians in numerous instances, both in connection with his duties as Under Secretary of State and as a United States representative on UNRRA.

033.6511/1-747

*Memorandum of Conversation*¹

WASHINGTON, January 7, 1947.

The Prime Minister and the Ambassador of Italy called at 12:00 noon at the White House to pay their respects to the President.

President Truman reaffirmed the American Government's sympathy and full faith in Italy's ability to rehabilitate herself. The President said that it is because of its faith in Italy that America has extended aid in the past and will do what it can in this present critical situation of the Italian people.

Mr. Truman said that he knew the Italians and the situation which they are in and he recalled that one of his beloved war buddy [*buddies*] of World War I was an Italian-American. The interview was general and the President again expressed his sympathy for the Italian people and the Italians in this country.²

(The President referred to the remarks that the Secretary of State made at the dinner last night at the Mayflower.)

¹ The authorship of this memorandum is not indicated, but presumably it was prepared by Ambassador Dunn or another officer of the Department of State.

² Tarchiani's account of this meeting is in *America-Italia*, pp. 51-52.

FW 865.61311/1-1447

The Prime Minister of Italy (De Gasperi) to President Truman

WASHINGTON, January 8, 1947.

MR. PRESIDENT: I was deeply gratified and much comforted by the assurances you kindly gave me in our interview of yesterday regarding the increase of shipments of wheat to Italy.

Unfortunately, this morning an appeal which reached me from my departments in Rome shows that by the 15th of January five or six regions in Italy with dense urban population will be left without stocks.

The inquiries that my officials here have made all day long on the question have brought out so far the following information:

a) no diversion of ships is so far being contemplated in order to satisfy the needs of those areas;

b) while the domestic availability of wheat in the United States would allow the execution of the agreed upon schedule of shipments, in fact:

—out of the 200,000 tons to be loaded in January ships have been named only for about 50–60% of that quantity;

—there exists considerable uncertainty concerning the execution of the planned shipments for February and March in the amount of 230,000 tons and 250,000 tons, respectively, as it has just been outlined to my mission.

I am confident, Mr. President, that you will fully realize the extreme anxiety with which I view these disquieting developments and the keen anticipation with which I am looking forward to receiving the firmest assurances which your departments will be able to give me.

While thanking you wholeheartedly for whatever action you will deem suitable to take in the matter, I wish to renew to you, Mr. President, the expressions of my highest esteem and consideration.

[ALCIDE] DE GASPERI

865.51/1-847

*Memorandum of Conversation, by the Appointed Ambassador to Italy
(Dunn)*

[WASHINGTON,] January 8, 1947.

Participants: Secretary Byrnes
Prime Minister De Gasperi
Ambassador Tarchiani
Mr. James Clement Dunn

Mr. De Gasperi came in to see the Secretary this morning to express his deep appreciation of all that Mr. Byrnes had done for him and for all the Department of State and the Government were doing to be helpful in connection with his visit here. The Prime Minister expressed his deep regrets at the news of Mr. Byrnes' resignation as Secretary of State.

Mr. De Gasperi then reviewed the subjects he was interested in while here, stressing particularly the importance of obtaining the \$100,000,-000 loan from the Export-Import Bank. He spoke of a new plan he was

studying which would support the loan by pledging certain of the Italian industries to the repayment of the loan as well as the Italian Government, thus creating a rather direct relationship between the furnishing of raw materials to these industries and the granting of the loan for industrial purposes rather than reconstruction purposes. Mr. Byrnes then spoke to Mr. Clayton on the telephone and discussed this new plan with him. Mr. Clayton said that he was doing everything he could to promote the loan with the Board of Directors of the Export-Import Bank and with the NAC (National Advisory Council). Mr. Byrnes said that Mr. De Gasperi would be able to go into this matter more fully with Mr. Clayton at the meeting arranged between them for 3:30 this afternoon.¹ Mr. De Gasperi then said he had had satisfactory interviews with Mr. Snyder, Secretary of the Treasury, and with Mr. Harriman, Secretary of Commerce.² He said that he was leaving for Cleveland tonight or tomorrow morning but would leave his technical assistants here to continue conversations with the Export-Import Bank, with Mr. Clayton, and with the Treasury, on purely financial matters.

Mr. Byrnes and Mr. De Gasperi then both agreed it would be preferable not to have a communiqué issued today, the last day of the Prime Minister's official visit to Washington, but that it would be better to wait until the end of his visit after he had been to Cleveland and returned to New York, perhaps next Monday or Tuesday, and that if necessary Mr. De Gasperi could come to Washington in order to issue a final communiqué, or it might be arranged by him in New York through the Embassy here. In any event, no communiqué will be issued until Mr. De Gasperi is about ready to leave the United States.³

On taking leave, Mr. De Gasperi then again thanked Mr. Byrnes for all he had done and the Secretary expressed his confidence that the results of the Prime Minister's visit would be even better than he had hoped for.

¹ *Post*, p. 854.

² See the editorial note, p. 842.

³ For text of the communiqué, released to the press on January 15, see Department of State *Bulletin*, January 26, 1947, p. 165.

611.6531/1-847

Memorandum of Conversation, by the Assistant Chief of the Division of Commercial Policy (Moore)

[WASHINGTON,] January 8, 1947.

Subject: Commercial Policy Discussions with Italian Officials

Participants:

Mr. Campilli, Minister of Foreign Trade

Mr. Menichella, Director General of the Bank of Italy

Mr. Carli, Director, Office of Exchange Control, Ministry of Foreign Trade

Mr. Vogliolo, Commercial Counselor

Mr. Sacerdoti, Chief of Italian Technical Delegation

Mr. Ortona, Italian Embassy

A-T - Messrs. Thorp and Reinstein

OFD - Mr. Ness

SE - Mr. Dowling

FN - Messrs. Spiegel and Stibravy

LE - Mr. Boskey

CP - Mr. Moore

Mr. Thorp opened the discussion by outlining in general terms the present status of the program for expansion of world trade through reduction of trade barriers. He explained that it was not possible for the Italian Government to participate in the work of the Preparatory Commission in view of the limited membership of this body as established by ECOSOC. Although the determination of the countries which will participate in the world trade conference and the organization of the ITO has not yet been decided, the United States Government will support the extension of an invitation to Italy. Consequently, the United States Government would be interested in the present view of the Italian Government on the trade program.

In reply Mr. Campilli stated that the Italian Government had studied the proposed charter for the ITO and was in accord with the principles upon which it was based. The importance for Italy of a program to reduce barriers to world trade is greatly increased by reason of such factors as the great dependence of the Italian economy on imports of raw materials. The Italian Government is hopeful that the program for limiting international restrictions can be extended to international movement of man power, as well as trade in view of the difficult problem of unemployment confronting Italy. The Italian Government has entered into eight bi-lateral compensation agreements with other countries because of the difficulties of developing European trade by any other means under present conditions. It hopes that the use of such bi-lateral machinery will be eliminated in the near future by the adoption of the world wide multilateral trade program sponsored by the United States.

Mr. Thorp pointed out that the last treaty of commerce and navigation between Italy and the United States was concluded in 1871. Consequently, there is a need for modernization of the arrangements under which trade between the two countries can be carried on. In the near future the United States Government would like to submit for the consideration of the Italian Government, through our Mission in Rome, a proposed text of a treaty of friendship, commerce and navigation. Mr. Campilli replied that the Italian Government would welcome an opportunity to negotiate such a treaty, especially since it appears

that trade with the United States will constitute such a large proportion of Italy's total trade in the future.¹

Mr. Thorp stated that he wished to take this opportunity to call to the attention of the Italian Government the provisions of the proposed ITO charter dealing with international cartels and combines. Mr. Campilli replied that the Italian Government opposed restrictive national business practices, especially in view of its dependence on foreign sources for its raw materials. Mr. Thorp stated that he would also like to take the occasion of the present discussion of commercial policy matters to inquire of the Italian Government as to its plans for the Italian Technical Delegation presently procuring supplies in the United States. Mr. Campilli replied that the Italian Government was in complete agreement with the desire of the United States Government to return trade between the two countries to private channels at the earliest possible opportunity and that he expected the procurement activities of the Italian Technical Delegation to be gradually reduced and eventually eliminated.

¹ A new treaty of friendship, commerce, and navigation between the United States and Italy was signed at Rome, February 2, 1948; for text, see Department of State Treaties and Other International Acts Series (TIAS) No. 1965.

033.6511/1-847

Memorandum of Conversation, by Mr. George C. McGhee, Special Assistant to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] January 8, 1947.

Subject: Second Meeting Between Mr. Clayton and the Italian Prime Minister, Alcide de Gasperi

Participants:

His Excellency Alcide de Gasperi, Prime Minister of Italy (in part)
 Mr. Campilli, Italian Minister of Foreign Commerce
 Mr. Donato Menichella, Director General, Bank of Italy
 Mr. Carli, Director, Office of Foreign Exchange, Italy
 Signor Alberto Tarchiani, Italian Ambassador (in part)
 Mr. Egidio Ortona, First Secretary Italian Embassy
 Mr. Vincenzo Vogliola
 UE - Mr. Clayton
 Ambassador Dunn
 A-T - Mr. Thorp
 OFD - Mr. Ness
 UE - Mr. McGhee
 SE - Mr. Dowling
 IR - Mr. Stillwell
 FN - Mr. Reinstein

The Italian representatives stated that as a result of a suggestion made by the staff of the Export-Import Bank, they wished to offer for discussion a new plan for the proposed \$100 million Export-Import Bank loan to Italy. They wished to discuss this loan in terms of its being made to a private Italian banking institution, the Istituto Mobiliare Italiano (IMI), which is an investment banking house supported by the leading banks, insurance companies and investment trusts in Italy. IMI has a total capitalization of one billion lira and outstanding loans of eight billion lira. This institution has been selected as the most suitable of all institutions of its class in Italy, because it is engaged in financing both big, medium, and small sized manufacturing businesses of all types. IMI has a good technical staff, has no political associations, and is not dominated by any one industry or group of industries. The Italian representatives explained that this new proposal was being made in order best to comply with the requirements of the Export-Import Bank. The obligation would be undertaken directly by IMI, with the entire loan including the necessary foreign exchange provisions being guaranteed by the Italian Government. It was explained that loans would be made by IMI from the borrowed funds only to firms engaged in the manufacture of goods for export and only for purchase of raw materials. The foreign exchange derived from these exports will be strictly controlled by IMI, so that funds would be available for repayment of the Export-Import Bank loan as required.

Mr. Clayton replied that this was the first time that he had heard of the Italian proposal, and that he would like to explore it a little more fully before making any final decision. He said that there still remained the question of the Italian balance of payments, and he asked when Italy would be in an exchange balance with the rest of the world. Mr. Clayton also asked what the average length of the loan was expected to be.

Mr. Campilli replied that Italy was now producing at 60% capacity and that she expected to be in balance on foreign exchange within five years. If Italy can pay only the interest on the Export-Import Bank loan for the first three years, she can finance the remainder. Mr. Campilli assured Mr. Clayton that all the funds received from the Export-Import Bank would be allocated to purchase of raw materials by firms manufacturing goods for export. He stated that the firms themselves would make the purchases. Although the loan would include both short and long term commitments, depending on the rapidity of turnover of the product derived from the raw materials purchased, the Italians expected the average length of the loan to be between eight and nine years.

Mr. Clayton observed that this loan was not a straight raw materials loan pledged by production derived from the raw materials, as it appeared on the surface to be. Particularly in view of the 3-year delay in starting repayment, there was no assurance that the exchange derived from the sale of the products produced would be used to liquidate the loan. The \$100 million was small in comparison with the total amount which would be spent by Italy each year for imports. Mr. Clayton asked whether or not it would be possible for the Export-Import Bank to, under the proposed plan, specify the raw materials to be purchased and to obtain a guarantee that they would go to firms engaged in manufacture for export. The Italian representatives replied in the affirmative.

Mr. Campilli explained that the loan in question was not for the purpose of rehabilitating Italian industry, but for facilitating importation of raw materials. The remainder of the help which Italy will require in reconstruction must come from increased world trade resulting from the International Trade Organization, and from loans from the International Bank. The Italian financial position will be much improved when foreign exchange derived from her exports will be freely convertible, particularly the sterling which she earned from her trade with the United Kingdom, who is one of her best customers. The Italians are placing every emphasis on exports at the expense of internal consumption.

Mr. Clayton observed that after July 15, the United Kingdom will be obligated in accordance with her loan agreement with this country to convert into dollars all sterling earned currently. Mr. Campilli replied that the United Kingdom had indicated that this would not in fact be the case, but that they wished to negotiate with Italy a Trade and Payment Agreement effective July 15, which would provide for use of sterling earned by Italy for raw material purchases in the sterling area. Mr. Clayton stated that this arrangement would, in his opinion, be a clear violation of the British loan agreement. In answer to question as to whether or not the recent British-Argentine Trade Agreement did not also constitute a violation, Mr. Clayton replied that it did, but in a different way. The violation in the case of the Argentine is a theoretical one, since it would occur only in the event of the Argentine's having a favorable balance of trade with the United Kingdom, which is highly improbable. Mr. Clayton promised that he would give consideration to the new Italian proposal before the next meeting of the Directors of the Export-Import Bank. It was pointed out that the Italian representatives planned to discuss this matter further with the staff of the Bank on the day following.

During the preceding conversation, the Italian Prime Minister and Ambassador withdrew from the meeting.¹ Before they withdrew, Mr. Clayton handed to the Ambassador an *aide-mémoire* dated January 8, with regard to transfer of the former Italian ships *Hermitage* and the *Monticello* to the Italian government.² Mr. Clayton stated that the *aide-mémoire* did not cover the two questions raised by the Italians in the meeting of the preceding day with regard to this transfer, but that he would take these matters up with the Maritime Commission on Friday.

Mr. Clayton then asked Mr. Thorp to take up any points arising out of his earlier meeting at 2:30 p.m. with certain of the Italian representatives.³ Mr. Thorp reported essential agreement with the Italians on commercial policy matters. He stated that both sides recognized the need for an over-all financial agreement between the two countries, which he hoped could be ratified at the same time as the proposed Treaty of Friendship, Commerce, and Navigation. It had been agreed that both sides would present a complete list of their claims and counterclaims against the other government in preparation for the over-all agreement.

Mr. Thorp explained that the Italian property in this country which had been seized during the war was still held against claims against Italy. The release of this property was complicated administratively since it involved the Alien Property Custodian, the Department of Justice and other agencies of this Government. Mr. Thorp had assured the Italians, however, that the bulk of their property would be returned except for a small amount to be held against certain limited claims. He added that the United States' claim against Italy for "Plan A" supplies was a substantial one, and that it would be necessary to arrive at some procedure for the settlement of this claim.

Mr. Clayton suggested that this claim be considered along with other claims between the two governments, and that both sides should get together and draft a joint communiqué covering all points under discussion except the Export-Import Bank loan for issue early next week. He suggested that the communiqué constitute a statement of agreements reached so far in the present discussions, and steps to be taken in the future.

¹ According to Tarchiani (*America-Italia*, pp. 63, 65), at 4:00 p.m. De Gasperi and he went to see Secretary of the Treasury Snyder who gave them a check for \$50 million for the suspense account.

² The substance of the *aide-mémoire* was embodied in a press release of January 10, Department of State *Bulletin*, January 19, 1947, p. 136.

³ See memorandum by the Assistant Chief of the Division of Commercial Policy, January 8, *supra*.

Mr. Dunn reported a conversation between the Prime Minister and the Secretary with regard to an economic survey of Italy. Mr. Campilli added that his government wished the United States to cooperate with the Italians in making such a survey. Mr. Clayton replied that he assumed that the financing for any large-scale reconstruction of Italian industry would come from the International Bank and that the Bank was setting itself up to make the surveys required. He questioned the desirability of the United States and Italy making the survey on a bilateral basis. Mr. Clayton asked the Italians whether or not they had made application to the Bank for a loan. Mr. Campilli replied that the Italians wished to discuss their application with the United States prior to submission to the Bank. Mr. Clayton took the position that this was a matter between the Italian government and the Bank, although we would, of course, be glad to provide such technical assistance as we could. Mr. Clayton stressed the importance of proper documentation of loan applications made to the Bank.

Mr. Menichella expressed appreciation to the United States government for efforts it had made in assisting the Italians in recovering their gold which had been taken over by the Allies during the war. Mr. Thorp summarized the existing situation which he stated was well known to the Italians. First, the gold which was taken by the Germans out of Italy and seized by the Allies in Germany had now become a part of the Gold Pot.⁴ Although Italy may be allowed to share in the Pot, decision as to the method of sharing remains to be determined, in fact the procedure for making such a decision has not yet been determined. Secondly, the disposition of the gold seized by the US-UK forces in Northern Italy is a matter for decision by the US-UK governments after consideration of claims put forth by other countries, including France, Yugoslavia and Albania. It is hoped that agreement as to disposition of this gold can be reached at the CFM Deputies Meeting to be held shortly in London.⁵

Mr. Menichella expressed the hope that the 73 tons of gold taken over by the Allies in Germany could be returned directly to Italy, in the same manner that the Hungarian gold had been returned to Hungary. He reported that the Italian government was already in negotiation with the French government in an effort to clear up French claims. Mr. Reinstein commented that there was no possibility of the Italians receiving 100% of the 73 tons of gold taken in Germany, since the most they can expect is to share this with other countries devastated by Germany. Mr. Thorp explained the distinction between the Hun-

⁴ For an explanation of the "gold pot" principle, see *Foreign Relations, The Conference of Berlin (The Potsdam Conference, 1945)*, vol. II, p. 938, footnote 4.

⁵ Documentation regarding the Council of Foreign Ministers in 1947 is printed in volume II.

garian gold, which had been seized by the United States forces directly from the Hungarians, and the Italian gold, which had been taken over from the Germans in Germany. The Italian representatives pointed out that they considered the distinction to be in their favor, since the Hungarian gold was taken from the Hungarians while they were still fighting the Allies and was restored to Hungary in an effort to bolster up their currency. The Italians would greatly appreciate the same friendly treatment, since their currency would also be greatly strengthened by an increase in their gold reserve.

Mr. Campilli expressed final appreciation to the American representatives for their consideration. He expressed the hope that the communiqué which would be drafted jointly by the two governments would indicate that positive economic assistance is to be furnished to Italy by the United States government and that the United States will have a continuing interest in the future of Italy. He stated that this was urgently needed in order to give the Italian people hope for the future. Mr. Clayton concluded by assuring the Italians that our heart was in the right place and that we would do all that we could for them under the circumstances.

Lot 60-D 137 : Box 1

Minutes of Fiftieth Meeting of the National Advisory Council on International Monetary and Financial Problems, Washington, January 13, 1947

TOP SECRET

PRESENT

Secretary John W. Snyder (Chairman), Treasury Department
Mr. William L. Clayton, State Department
Secretary W. Averell Harriman, Commerce Department
Mr. Marriner S. Eccles, Board of Governors, Federal Reserve System
Mr. William McC. Martin, Jr., Export-Import Bank
Mr. Orvis A. Schmidt (Acting Secretary)

1. *Reconstruction Loan to Italy*

After discussion, the Council accepted the Staff Committee's recommendation that consideration by the Export-Import Bank of credits to Italy not exceeding \$100 million be approved (NAC Document No. 269¹).

¹ See *Foreign Relations*, 1946, vol. v, p. 942.

Action:

The following action was taken:

The National Advisory Council approves the consideration by the Export-Import Bank of credits to Italy not exceeding in the aggregate \$100 million.

033.6511/1-1447

Memorandum of Conversation, by Mr. George C. McGhee, Special Assistant to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] January 14, 1947.

Subject: Third Meeting Between Mr. Clayton and the Italian Prime Minister, Alcide de Gasperi

Participants: Alcide de Gasperi, Italian Prime Minister
Pietro Campilli, Minister of Foreign Trade
Donato Menichella, Director General, Bank of Italy
Alberto Tarchiani, Ambassador of Italy
Egidio Ortona, First Secretary, Italian Embassy
UE-Mr. Clayton
UE-Mr. McGhee
SE-Mr. Dowling

The Italian representatives proposed certain changes in the draft communiqué covering agreements reached during their present visit.¹ Mr. Clayton suggested they bring these suggestions up in their meeting with the Export-Import Bank later in the day.

Mr. Clayton advised that action on the 50 additional ships requested by the Italians would probably be favorable, although formal approval had not been given either by the NAC or the Maritime Commission.² He pointed out that it might not be possible in all cases to obtain the precise type of ships requested, since a few types might not be available.

Mr. Clayton reported that January wheat sailings now appear more unfavorable than had hitherto been expected, and that Italian sailings would probably not exceed 100,000 tons. In view of the difficult Italian supply position, the War Department had, however, diverted to Italy six vessels destined to Germany which carried an aggregate of 50,000

¹ The communiqué, released to the press on January 15, is printed in the Department of State *Bulletin*, January 26, 1947, p. 165.

² On January 14 the Maritime Commission formally approved the sale of 50 additional ships to Italy (Memorandum by A. J. Williams to James L. Pimper, Acting Director, Large Vessel Sales Division, Maritime Commission, January 15, not printed; File "Application No. 2155: Italian Government," U.S. Maritime Administration Records).

tons of wheat. These ships would arrive as follows: Palermo on the 17th of January; Naples on the 19th; Bari on the 27th; Genoa on the 28th; Naples on the 29th; Genoa on the 1st of February. Mr. Clayton pointed out that the War Department had consented to this diversion only on the assurance that it would be made up from other wheat earmarked for Italy. Although there would result no increase in total supplies going to Italy, there would be an increase in January and early February arrivals. Mr. Clayton promised that we would ship to Italy in February all the wheat we had previously agreed to, and that we would make every effort to pay the Italian diversion back to the War Department in January.

The Italian representatives asked for United States support in the ECO for an increase in their coal allocations to 900,000 tons per month, in the expectation that they would be able to receive 200,000 to 300,000 tons a month from Germany and other sources in addition to the 600,000 tons a month from the United States. Mr. Clayton stated that the Italian request would be given careful consideration and would be taken up with the United States representative on the ECO.

Editorial Note

For text of a letter from President Truman to Enrico de Nicola, Provisional President of the Italian Republic, upon the occasion of De Gasperi's departure from the United States, see *Public Papers of the Presidents of the United States: Harry S. Truman, 1947*, page 105. The letter, dated January 20, was released on January 25.

CONCERN OF THE UNITED STATES WITH RESPECT TO THE MAINTENANCE OF STABLE, DEMOCRATIC GOVERNMENT IN ITALY

Defense Files : Telegram

*The Supreme Allied Commander, Mediterranean Theater (Morgan)¹
to the Combined Chiefs of Staff*

TOP SECRET

CASERTA, 28 December 1946.

URGENT

FX 73997. Naf 1253. 1. In view of the progress that is being made on the Peace Treaty it is now necessary for me to plan the rundown of

¹ Lt. Gen. Sir William D. Morgan, Supreme Allied Commander, Mediterranean Theater of Operations, 1945 to mid-April 1947.

Allied Force Headquarters, so that final evacuation may be achieved by "R" plus 90 days.

2. In Naf 1242² I recommended that my operational role should be modified on "S" day and confirmation of this is urgently required.³ For planning purposes I have assumed that this modified role will be approved.

3. My plan, based on the assumption that "R" day may be as early as 1 March 1947 is therefore:

a. The Allied Commission should be abolished immediately, its functions being taken over by the G-5 Section of my Headquarters.⁴ See Naf 1250.² The Service sub-commissions however will have to continue to function under my direct control.

b. By "S" day the G-2 Section Allied Force Headquarters MTOUSA will be reorganized on a national basis, the necessary information being exchanged between Headquarters MTOUSA and General Force Headquarters Central Mediterranean Forces. I shall retain a very small Coordination Section at Allied Force Headquarters until "R" day.

c. By "R" day an Allied Liquidating headquarters on similar lines to Liquidating Agency for SHAEF (CALA) will be established in Rome. A further cable on the detailed organization follows.

d. By "R" day Headquarters MTOUSA will move to Leghorn.

e. By "R" day the Trieste Free Territory Forces must be in position and functioning.⁵

f. On "R" day Allied Force Headquarters should be abolished.

4. Request that approval of my plan be confirmed as soon as possible.⁶

² Not printed.

³ R—Ratification; S—Signature.

⁴ In telegram FX 74612 (Naf 1272), January 28, from Caserta, not printed, General Morgan reported to the CCS that he was ordering the abolition of the Allied Commission, effective midnight, January 31; cf. *Foreign Relations*, 1946, vol. v, p. 874.

⁵ For documentation on Trieste, see vol. iv, pp. 51 ff.

⁶ In telegram 3, January 3, from Caserta, not printed, Homer Morrison Byington, Jr., Deputy United States Political Adviser on the Staff of the Supreme Allied Commander, Mediterranean Theater, asked for guidance as to the advice he should give the military, and suggested that a purely national agency for the American forces, and a similar national establishment for the British, each attached to its respective embassy, would be preferable for the intermediate period (740.00119 EW/1-347).

FW 865.24/1-347 : Telegram

*The Combined Chiefs of Staff to the Supreme Allied Commander,
Mediterranean Theater (Morgan)*

SECRET

[WASHINGTON,] January 3, 1947.

WARX 88909. Fan 708. This answers Naf 1219.¹

1. We confirm that you may hold surplus equipment as an interim measure for issue to Italians at later date when suitable governmental agreements have been made, subject to the following conditions:

a. Items held must be of such nature and quantity as to give reasonable assurance that they will, in fact, be desired and required by the Italian Government for the post-peace treaty Italian Army.

b. Equipment held must be from global surpluses and not merely excess to theater requirements. You have already been requested to give the War Office details of main British equipments involved as there may be complications over supply of certain items; e.g., provisions for further maintenance. You should also give the War Department details as to main United States equipment involved in order that necessary concurrence to intended disposition may be expeditiously secured.

c. With regard to British equipment of lend-lease origin, action must be taken without delay, through the War Office, to obtain necessary United States clearance for future transfer to the Italians.

d. No equipment now surplus or which may become surplus, for which sales agreements have been consummated, will be considered as available for retention under this authority.

2. We also agree that this equipment should be held in a depot manned and maintained by Italian Army under supervision of Military Mission Italian Army, but only under the following conditions:

a. In placing stocks in the depot, a definite understanding must first be reached with the Italians that the equipment will remain property of, and subject to withdrawal by, His Majesty's Government and United States Government until suitable agreements have been made, and that final disposal will be made only through normal disposal agencies.

b. Prompt action must be taken, through the War Department and War Office, to secure governmental concurrences for the storing, without demilitarization, in Italian depots of specific items of equipment

¹ Naf 1219 (FX 72443), dated September 30, 1946, from Caserta, not printed (FW 865.24/1-347).

and supplies for the purpose of probable future transfer to the Italian Government.

c. Agreement must be reached between the responsible agencies of the owning government and the Italian Government at the time of storage as to quantities of items being stored in order to assure that responsibility for losses rests with the Italian Government.

Lot 60-D 137: Box 1

Minutes of Fifty-first Meeting of the National Advisory Council on International Monetary and Financial Problems, Washington, January 21, 1947

[Extract]

TOP SECRET

PRESENT

Secretary John W. Snyder, Chairman	Mr. August Maffry, Export-Import Bank
Mr. James H. Rorke, Maritime Commission, Visitor	Mr. Walter C. Louchheim, Jr., Securities Exchange Commission
Mr. Walter M. Day, War Assets Administration, Visitor	Mr. Harry D. White, International Fund
Mr. William Clayton, State Department	Mr. George Luthringer, International Fund
Mr. John P. Young, State Department	Mr. John Hooker, International Bank
Mr. J. J. Stenger, State Department	Mr. Joseph J. O'Connell, Treasury Department
Mr. Chester M. Carré, Office of Foreign Liquidation Commissioner, State Department	Mr. Andrew N. Overby, Treasury Department
Mr. Thomas C. Blaisdell, Jr., Commerce Department	Mr. William W. Parsons, Treasury Department
Mr. Clarence I. Blau, Commerce Department	Mr. Joseph B. Friedman, Treasury Department
Mr. Marriner S. Eccles, Board of Governors, Federal Reserve System	Mr. Orvis A. Schmidt, (Acting Secretary)
Mr. J. Burke Knapp, Board of Governors, Federal Reserve System	Mr. Andrew M. Kamarek, (NAC Staff)
Mr. William McC. Martin, Jr., Export-Import Bank	Mr. Allan J. Fisher, (NAC Secretariat)

1. *Maritime Commission Credits for Ship Sales*

(a) *Request of the Italian Government for Increased Credit.*

Mr. Schmidt recalled that the Council had earlier approved consideration of a credit amounting to \$24 million and that a request had been received that this be raised to \$51 million to cover the purchase of 104 war-built vessels instead of the 50 originally contemplated. The Staff Committee's study pointed out that a saving of foreign exchange expenditures for freight charges is important to Italy and that the Maritime Commission would not only have a claim on the Italian

Government but also a mortgage on the ships. The Staff Committee, therefore, recommended that the Maritime Commission be advised that the Council had no objection to consideration of the increased credit (NAC Document No. 336).

The Council approved the recommendation without objection.

Action.

The following action was taken:

(a) The National Advisory Council has no objection to consideration by the Maritime Commission of increasing the credit to Italy from \$24 million to \$51 million to provide for the purchase of 104 vessels, in lieu of 50 as originally proposed.

(b) The Council approves sending a copy of NAC Document No. 336 to the Chairman of the Maritime Commission.¹

¹The minutes of the 53d meeting of the National Advisory Council, held on February 10, not printed, record that it authorized the Export-Import Bank to take action on a \$5 million loan to Italy to finance the purchase of leaf tobacco in the United States (Lot 60-D 137: Box 1).

865.5018/1-2347

Memorandum by Mr. James A. Stillwell of the Division of International Resources to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] January 23, 1947.

Subject: January Shipments of Grain and Flour to Italy

I have been needling the Department of Agriculture almost hourly on shipments to Italy this month and now have a firm schedule as follows: 60,899 tons of wheat; 42,099 tons of corn; 38,900 tons of flour. Total 141,898 tons. We must add to this the 50,000 tons which we diverted from Germany, making the total 191,898 tons.

I have contained in this schedule only those ships that have actually been named and loading dates scheduled, but in order to provide some lee-way for possible delays in this schedule I have informed Mr. Ortona of the Italian Embassy that I am confident that at least 118,000 tons of wheat, corn and flour will be loaded and sailed this month, in addition to the 50,000 tons already diverted. I would not like to inform the Italians of the total outlined above until a little later in the month when we can be more certain of the actual sailings.

Defense Files : Telegram

*The Supreme Allied Commander, Mediterranean Theater (Morgan)
to the Combined Chiefs of Staff*

CONFIDENTIAL
PRIORITY

CASERTA, 11 February 1947.

FX 74908. Naf 1277. Subject is liquidation of allied functions after R plus 90 days.

1. Residual allied functions will exist after abolition of AFHQ. As long as MTO and CMF are functioning these allied duties can be performed by integrating the G-5 sections on a cooperative basis.

2. All residual allied functions cannot be completed by R plus 90 days. The Allied Financial Agency (AFA), the Allied Supply Accounting Agency (ASAA), the Allied Forces Record Administration (AFRA) and the Historical Section AFHQ must complete their jobs after R plus 90 days. In addition, it is anticipated that, for an unspecified period after R Day, a considerable volume of residual allied business, which cannot be decentralized to Embassies or other National Agencies, will have to be transacted with Italian Government. Greater part of such business will be connected with Civil Affairs matters.

3. It is proposed that a Military Liquidating Agency (MILA) be organized upon disbandment of AFHQ to ensure the early completion of these functions. Although tentative agreement has been received that AFRA may function under the US/UK Embassies, believe that more effective and expeditious results will obtain if all residual functions are consolidated within a military organization under experienced supervision. Propose that MILA shall be comprised of separate US and UK military units integrated where necessary and maintaining close liaison under Co-equal Commanders who will report directly to War Department and War Office. Direct and intimate contact to be maintained with respective Embassies and their advice and guidance sought on all policy matters. It is clear however, that Embassies are not equipped to take over supervision and control of these residual Allied functions and can in any case do so only if complete self-sustaining staffs are furnished for the various jobs.

4. If MILA is approved, administration, status of individuals vis-à-vis Italian Government and maintenance of personnel will be taken up with US War Department and UK War Office on National basis. There may, however, be certain expenses such as office space, civilian employees, signal services and heat and light which are joint in nature and should be paid on a proportional basis. Excluding housekeeping personnel the combined initial strength of MILA will approximate 40 officers, 90 EM/or and 25 WD civilian employees. Of this total ap-

proximately 8 officers, 45 EM/or and 20 WD civilian employees will be engaged on AFRA duties.

5. Probable all functions MILA except archives and microfilming will be completed within six months after R plus 90 days. Time to complete excepted tasks depends on CCS decisions.

6. The proposal to organize MILA is agreed by CG MTO, GOC in C CMF, and by the US and British Embassies, Rome. Early approval is requested in order that administrative details of national nature may be settled in time for MILA to come into existence at time AFHQ is abolished.

FW 865.248/2-2647

Memorandum by the Commanding General of the Army Air Forces (Spartz) to the Assistant Secretary of War for Air (Symington)

TOP SECRET

WASHINGTON, February 17, 1947.

Subject: Provision of Equipment for the Italian Air Force

1. The State-War-Navy Coordinating Committee (SWNCC) notified the Joint Chiefs of Staff in SWN-5044, dated 9 January 1947, that it had re-examined its views on the matter of the source of equipment for the Italian Air Force and considered that it was desirable, subject to the approval of the Joint Chiefs of Staff, for the U.S. to press for full responsibility to furnish aircraft, together with replacement aircraft, parts and spares, for the modernization program of the Italian Air Force. It was stated that the State Department would take steps, after approval by the Joint Chiefs of Staff, to effectuate an understanding with the British Government to facilitate arrangements for agreement between the United States and Italian Governments on the assistance program.

2. On 22 January 1947, the Joint Chiefs of Staff in SM-7448 advised the SWNCC that no objection from the military point of view was perceived to the views of the SWNCC contained in SWN-5044. The Joint Chiefs pointed out the following: "There is, however, an urgency for reaching an early decision since there is a question as to the capability of the Commanding General, U.S. Forces, European Theater, to meet a delivery schedule which will be politically acceptable. With the passage of time, his capacity to do so continuously decreases".

3. Brigadier General H. Q. Huglin, formerly A-3 of U.S. Air Forces, Europe, has just returned to Hq, AAF for reassignment and on this date, in reviewing the problem of providing the equipment of SWNCC's proposed plan, stated that the major task of placing suffi-

cient aircraft in commission and delivering them to the Italians would necessitate halting all other functions of U.S. Air Forces in Europe and turning all attention to that task. He emphasized the fact that additional delay in reaching a decision reduces the capability of U.S. Air Forces, Europe to meet such a commitment.

4. Working level personnel of the War Department General Staff and Hq, AAF have repeatedly attempted to bring about prompt action by State Department on this matter without apparent success. Further delay in the resolution of diplomatic discussions may place the AAF in the awkward position of being unable to implement a U.S. commitment initiated by the SWNCC.

5. In light of the above, it is suggested that you might wish to bring this matter to the attention of Mr. Petersen¹ with a view toward pressing the State Department for an early resolution.

CARL SPAATZ

¹ Howard C. Petersen, Assistant Secretary of War.

740.00119 Control (Italy)/2-547

Memorandum by the State Member (Hilddring) to the State-War-Navy Coordinating Committee

SECRET

[WASHINGTON,] 19 February 1947.

Subject: Military and Civil Affairs Agreement Between the United States and Italy.

The Department of State has considered the memorandum of the Joint Chiefs of Staff regarding the draft military and civil affairs agreement with Italy, enclosed with SWNCC 271/15 of 5 February 1947,¹ and has concluded that the proposed agreement is unnecessary to ensure to U.S. forces in Italy the facilities necessary for their withdrawal within 90 days from the coming into force of the Treaty of Peace with Italy. Moreover, it is considered from the political point of view that it would be unwise to press the Italian Government to accept an agreement which would undoubtedly be regarded by them as an extension of the armistice regime.

As is known, all functions of the Allied military forces in Italy cease upon the coming into force of the Treaty. From that date, U.S. forces in Italy will require, and will be entitled to, only those facilities which are necessary for their withdrawal within 90 days in accordance with Article 73 of the Treaty. While the primary obligation under this Article falls upon the Allied and Associated Powers, i.e., to withdraw

¹ For previous draft, see *Foreign Relations*, 1946, vol. v, p. 849.

their armed forces from Italy, an obligation is also placed upon the Italian Government by implication and through international comity, to cooperate in the withdrawal of the Allied forces by furnishing for due compensation the services and facilities necessary for such withdrawal.

It is the opinion of the Department of State, therefore, that all facilities which may be required for the withdrawal of U.S. forces in Italy are ensured under the Treaty. Upon the request of the War Department, however, the Department of State is prepared to endeavor to arrange for an exchange of notes with the Italian Government which would provide general assurances that the Italian authorities will cooperate in the orderly withdrawal of U.S. forces from Italy and will make available to them all facilities necessary therefor upon due compensation.

It is understood that the Government of the United Kingdom is also of the opinion that a military and civil affairs agreement is not necessary for the period during which Allied forces will be withdrawing from Italy.

J. H. HILLDRING

865.248/2-2647

The Secretary of War (Patterson) to the Secretary of State

TOP SECRET

WASHINGTON, February 26, 1947.

DEAR MR. SECRETARY: The question of modernization of the Italian Air Force, considered in SWNCC 320/5,¹ has become precarious due to the lack of determination as to whether the U.S. or the British shall have the responsibility. The difficulty hinges on ever-decreasing capabilities. It is now apparent that, if the U.S. is to be responsible for equipping the combat element of the Italian Air Force, the determination will have to be made now, or the capability for implementation will no longer exist.

The War Department considers that this matter should be resolved as soon as possible. The earmarking of the equipment has had a disturbing effect on routine operations as well as other considered assistance programs. It appears that we might be seriously embarrassed in many ways if a determination be made that the United States fur-

¹Dated December 12, 1946, not printed; it was an enclosure in a memorandum for the Secretary of State, SWN-5083, January 22, 1947, not printed (865.248/1-2247).

nish the equipment and we find ourselves unable to implement the program.²

Sincerely yours,

ROBERT P. PATTERSON

² Secretary Marshall's letter of March 3, 1947, not printed, acknowledged Secretary Patterson's letter and explained that a reply from the British was being studied by the State and War Departments (865:248/2-2647).

865.00/3-447 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, March 4, 1947—midnight.

463. Now that third De Gasperi govt has received its vote of confidence as was anticipated from Constituent Assembly, it can turn its attention to business of govt and implementation of its program (my A-360, February 28 and telegram 428, February 28¹). Normal opposition extreme right wing and Liberals was supported in this latest test of strength by Republicans and Saragat Socialists. Opposition of latter two groups, however, may be considered more symbolic than real since (1) they could have participated in govt and (2) are not in principle opposed to declared aims and policies of parties comprising present tripartite govt.

On balance we believe De Gasperi emerged from most recent crisis in stronger position though not to degree he had expected when he precipitated crisis. In outgoing govt, ratio was eight Democrat Christians, four Communists, four Socialists, and two Republicans. With elimination and consolidation of ministries, present ratio is Christian Democrats six, Communists and Socialists three each and two Independents. While similar balance between Christian Democrats and Socialists-Communists has been preserved, importance of two Independents positions in Cabinet has been increased by reduction in portfolios. Latter, Sforza² and Gasparotto,³ are most [*more*] amenable to Prime Minister than were Republicans in previous Cabinet and may be expected to vote with him on important questions. Furthermore, Communists have been eliminated from powerful Finance Ministry and combined portfolio of Treasury and Finance allotted to energetic capable Democrat Christian Minister Campilli. Also in new Ministry of Defense headed by Independent Gasparotto, Democrat Christians have two of four Under Secretaries (my A-272, February 18⁴).

¹ Neither printed.

² Count Carlo Sforza, Italian Minister of Foreign Affairs in the third De Gasperi cabinet, February 2-May 31, 1947.

³ Luigi Gasparotto, Italian Minister of Defense in the third De Gasperi cabinet.

⁴ Not printed.

While new Cabinet is more compact and, therefore, more manageable political lines therein are most clearly drawn since Socialist representation now comes only from Nenni-Basso remnant of party with its unwavering policy of close cooperation with Communists.

Finally the most recent crisis has had [*had?*] stabilizing effect on political life of country in that it has brought needed clarification in restless and speculative political atmosphere, (see Embtel 4273, November 25 and 110, January 14⁵) which had reached its climax on Prime Minister's return from US and proved if nothing more that there is no other workable basis for govt than coalition cabinet comprised of three mass parties. It is, therefore, improbable that there will be any further serious basis for govt crisis during this final interim period leading up to elections for Parliament under new constitution which are obviously predicted between June and October although the continued force[d] cohabitation of the Social[ists,] Communist[s] and Democrat Christians still contains elements for polemics and distrust which existed before.

DUNN

⁵ Neither printed.

FW 865.248/3-1247

*Memorandum by the Joint Chiefs of Staff to the
Combined Chiefs of Staff*¹

TOP SECRET

[WASHINGTON, March 7, 1947.]

MODERNIZATION OF THE ITALIAN AIR FORCE

The United States Chiefs of Staff have considered the latest British proposal for equipping the Italian Air Force submitted by the Foreign Office to the State Department.

The United States Chiefs of Staff recognize the desirability of assisting the Italian Government in attaining the most effective air force practicable within treaty limitations. The advantages of equipping the combat element of the Italian Air Force with a single type of aircraft make it highly desirable that one country have the responsibility for furnishing such equipment. The United States Chiefs of Staff would like to see the British assume full responsibility for the entire program. They have reconsidered their former position on this matter and are prepared to accept the British proposal as submitted by the Foreign Office provided that the British Government will assume full responsibility for this program.

¹ This memorandum, bearing the date March 7, was the enclosure to SWN-5217 of March 12, 1947, not printed. (865.248/3-1247).

The United States Chiefs of Staff do not consider that 136 fighter aircraft would constitute an adequate force. Therefore, if the British are not in a position to augment the 136 Spitfires presently available in Italy, the United States Chiefs of Staff can undertake to make available to the Italian Government up to a total of 60 P-51 aircraft at nominal cost to supplement the British capability.

It is recognized that an immediate decision on this matter is now mandatory if the Supreme Allied Commander, Mediterranean is to accomplish the modernization of the Italian Air Force prior to the withdrawal of the Anglo-American forces from Italy.

It is requested that advice as to any British requirement for supplementation of their capability be communicated to the United States Chiefs of Staff as soon as practicable.

FW 865.24/7-847: Telegram

*The Supreme Allied Commander, Mediterranean Theater (Morgan)
to the Combined Chiefs of Staff*

SECRET

CASERTA, 8 March 1947.

FX 75414. Naf 1292. 1. In view of possibly imminent ratification of peace treaty with Italy ¹ I forward this review of the situation regarding the equipment of the Italian Army.

2. In accordance with proposals in Naf 1135 ² we have endeavored to equip Chai [*Italy?*] as far as has been possible from globally surplus British equipment, a force of 5 combat divisions, 10 independent infantry Brigades and 3 Internal Security Brigades. However, when presently earmarked British globally surplus stocks have been turned over to the Italian Army there will still be a deficiency of the following items which cannot be found from British sources in this theater or B.T.A.:

(a) Items	(b) Amounts
rifles .303	35,000
light machine guns Brens	2,300
17 pounder anti-tank guns	25
25 pounder guns	80
25 pounder ammunition	400,000 rounds
300 Browning ammunition	5,000,000 rounds

3. I appreciate that the equipment of the Italian post treaty Army will not be my responsibility. I consider that I should point out, however, that the pre-treaty Army, which was intended for employment, if

¹ See pp. 515 ff.

² See *Foreign Relations*, 1946, vol. v, footnote 53, p. 917.

necessary, with Allied formations, is lacking in certain essential supporting arms and when Allied Forces withdraw from the country, the Italian Army will be entirely unbalanced with regard to heavy weapons. A certain amount of this equipment is already earmarked and is being held in temporary depots, as authorized in Fan 708. Nevertheless, in order to balance the force referred to in paragraph 2 above, it is considered that the minimum requirements both in addition to those listed above and to the equipment held in temporary depots would be:

(a) Items	(b) Amounts
Piats	400
17 pounder anti-tank guns	40
25 pounder guns	150
40 millimeter anti-aircraft guns	100
3.7 anti-aircraft guns	130
medium artillery (any type)	50
self propelled anti-tank artillery	24
medium tanks	56
light tanks	200
tanks transporters	25
1st and 2nd line ammunition for these items.	

4. It was expected that the 56 medium tanks, 26 of the light tanks and the medium artillery listed in paragraph 3 above, together with certain ammunition, all of which were excess to United States requirements in this theater might be made available for turnover to the Italian Army. However, the United States Joint Chiefs of Staff have agreed that Commanding General Mediterranean should proceed with shipment of the tanks to the United States. Commanding General Mediterranean is reporting to AGWar availability in MTOUSA of surplus and excess equipment and maintenance spares which will include the medium artillery.

5. I consider that the above equipment requirements are the minimum if the Italian Army is to be capable of standing on its own feet when the Allies withdraw. I am informed that no further British globally surplus stocks are available in this theater or BTA and that any further equipment required by the Italians, from the British, must be obtained through their civil import programme.

6. I request to be informed whether any of the foregoing equipment or appropriate substitutes, including maintenance therefor, especially medium or light tanks can be made available without delay from United States sources. I propose, based upon your reply, to inform the Italian Government of the allied position regarding provision of equipment for their Army.

865.48/3-847

*The Italian Ambassador (Tarchiani) to the Under Secretary of State
for Economic Affairs (Clayton)*

No. 2173

WASHINGTON, March 8, 1947.

MY DEAR MR. CLAYTON: I understand that, in connection with the pending authorization bill for \$350,000,000 for relief purposes in 1947,¹ the State Department has prepared its own tentative estimates of the extent of the relief needs of various countries.

I have also learned the results of the work of Post-UNRRA relief needs published by the United Nations Special Technical Committee on January 24, 1947.

In this study, the Special Technical Committee estimated Italy's relief needs in 1947 as of the order of \$106,900,000. In our opinion, this estimate is far below Italy's actual relief needs in 1947, even if those needs are computed on the basis of the principles employed by the Special Technical Committee.

I have felt that it might prove useful to the Department especially in connection with the discussions pending in Congress on the Post-UNRRA relief, to be acquainted with the study that this Embassy has made on the U.N. Committee Report. I am therefore enclosing a memorandum on Italy's relief needs² prepared on the identical principles employed by the Special Technical Committee, with adjustments based on factual information which has become available since the Committee prepared its study. Such memorandum shows a substantial difference from the conclusions reached by the U.N. Committee.

I hope that it will be possible for your staff to give it attention and I thank you in advance for your kind interest in the matter.

Sincerely yours,

ALBERTO TARCHIANI

¹ On February 21 President Truman addressed a "Special Message to the Congress Requesting Appropriations for Aid to Liberated Countries," stating: "I recommend that the Congress authorize the appropriation of not to exceed \$350 million to assist in completing the great task of bringing relief from the ravages of the war to the people of the liberated countries." He further recommended "that this relief assistance be given directly rather than through an international organization, and that our contribution be administered under United States control." *Public Papers of the Presidents of the United States: Harry S. Truman, 1947* (Washington, Government Printing Office, 1963), p. 149.

By Public Law 84 (Post UNRRA Relief) approved May 31, 1947, the 80th Congress, 1st Session, authorized the appropriation to the President of "not to exceed \$350 million for the provision of relief assistance." (61 Stat. 125)

The actual appropriation of funds to enable the President to carry out the purposes of Public Law 84 (\$332 million) was not made until the approval by the Congress on July 30 of Public Law 271 (61 Stat. 610).

See also *First Report to Congress on The United States Foreign Relief Program* (For the period ended September 30, 1947), Department of State publication 2985 (Washington, Government Printing Office, 1947), p. 1.

² Not printed. It estimated Italy's dollar relief needs in 1947 at approximately \$457,098,000.

740.00119 Control (Italy)/3-1047: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, March 10, 1947—6 p.m.

509. F 75419 dated March 9 from ComGenMed to War Department¹ transmits new proposed text of detailed agreement to provide necessary facilities for withdrawal of US Forces during 90 day period after R Day (see Embassy's 480, March 6²). General Lee proposes that this agreement might best be effected by exchange of notes between US and Italian Governments. I have informed him that I have no objection to undertaking necessary negotiations should Department so direct me.

Department will note that under paragraph 12 of proposed text it is contemplated that Italian Government will continue to make available all facilities requested by US Forces during 90 days on same basis as in part [*past?*]. Our and British preliminary conversations with Italians indicate that we may be able to reach an agreement of this sort with Italian Government without too much difficulty. It is my personal opinion that we should endeavor to do so. (Reference Department's 281, February 27.³) US military authorities make a very good point when they say that not only do they not have appropriated funds to pay for facilities that they now receive gratis, but also if funds were appropriated they have not necessary personnel to revise their account procedures at this late date. The only remaining solution would be appropriation of a lump sum to be handed over to the Italian Government for dispersal to claimants and it is open to question whether this would be desirable or practical.

DUNN

¹ Not printed.² Not printed; in it Dunn reported that the British had submitted to the Italians a draft agreement which Dunn had discussed with General Lee who considered it a suitable basis for a U.S. draft agreement (841.2365/3-747).³ Not printed; it reviewed the problem and suggested further informal discussions with the Italians (811.2365/2-2447).

865.5018/3-1347: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

US URGENT

ROME, March 13, 1947.

552. All figures thousand metric tons. High Commissioner Cerreti¹ visited Embassy today and urgently requested US immediately furnish 80 wheat or flour by diversion or borrowing from other destinations. Of this 25 should arrive before 1 April. Italians borrowed 15

¹ Giulio Cerreti, Italian High Commissioner for Alimentation in De Gasperi's third cabinet.

from AC this week and must repay with first arrivals April. In addition to 80 now requested will need following arrivals to continue present ration until harvest: April 230 US plus 150 Argentina; May same as April; June 100 US and 50 Argentina. Cerreti also asks maximum possible be wheat since US corn difficult.²

From 28 February to 20 March, 120 cereals exclusive corn (wheat equivalent) will have arrived according official forecast.

Revised but provisional stock position; (a) wheat and minor cereals and (b) corn follow: February 1 stock, (a) 231 (b) 135; amassing February 18, 16; arrivals February 145, 35; apparent February consumption 246, 71; February 28 stock 148 and 115 (Embtel 432 February 28³).

Foreseeable supplies should permit distribution ration 200 grams bread but no pasta normal consumers plus issue bread and pasta for supplements and special classes for average of 29 days from March 1 but because of uneven distribution some places will exhaust supplies by 18 March.

Foreseeable supplies for bread ration at 200 grams including stocks plus shipments en route sufficient to following dates: Sardegna, April 18, Emilia, March, Umbria, Abruzzi, Lucania, March 31, all other regions, March 18-23.

After March 20 no wheat expected for 8 or 9 days and many regions may be forced suspend bread ration. Arrivals from non-US sources will increase late April or May and could be used to repay any wheat that may be diverted now.

Has been widespread unrest from failure to meet ration and from issuance corn in south. Also strikes of millers and demonstrations of unemployed pasta workers. Cerreti says more serious events likely if bread ration has to be reduced.

Embassy urges all assistance possible.⁴

DUNN

² In despatch No. 319, March 14, from Rome, not printed, a translation of the memorandum which Cerreti left with the Embassy was forwarded to the Department (865.5018/3-1447).

³ Not printed.

⁴ In telegram 427, March 26, not printed, the Department replied that because of insufficient wheat in relation to corn, it was impossible to divert wheat or flour to Italy (865.5018/3-1347).

865.5018/3-1547: Telegram

The Acting Secretary of State to the Embassy in Italy

CONFIDENTIAL

WASHINGTON, March 15, 1947—11 a.m.

364. In view of tight food situation it seems doubtful that sufficient supplies can be obtained to permit Italian imports at a rate which would require \$200 million of relief financing by US. It might be

pointed out to De Gasperi that although amount of funds which US can allocate to Italy from \$350 million may be substantially below \$200 million we are hopeful that it will be sufficient to permit procurement of such part of essential supplies as are available in US which Italy itself cannot finance from other resources. In meantime every effort should be made by Italians to secure help from other countries such as Argentina, Switzerland, Brazil and Canada. Further comments on other questions ur 514 Mar 10¹ will follow shortly.

ACHESON

¹ In this telegram, not printed, Dunn reported on his first official call on Prime Minister De Gasperi who among other things mentioned "that the \$350,000,000 requested by Congress would not seem to provide for Italy the \$200,000,000 which had been discussed with him in Washington." (740.0011 EW (Peace)/3-1047)

740.00119 Control (Italy)/3-2147: Airgram

The Ambassador in Italy (Dunn) to the Secretary of State

ROME, March 21, 1947.

A-458. Reference Embassy's secret A-404, March 7, 1947.¹ Effective 2359 hours, March 15, 1947, Italian Military Affairs Section, AFHQ, was abolished. The Land, Naval and Air Forces Sub Sections have now become Italian Land Forces, Italian Naval and Italian Air Forces Branches of AFHQ, respectively.

Admiral Stone terminated his official connection with AFHQ as Chief of the Italian Military Affairs Section on March 15, 1947.

DUNN

*

¹ Not printed.

865.00/4-147: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, April 1, 1947—6 p.m.

696. While fears of violence on Sunday, reported in my 683 of March 29,¹ did not materialize, (see mytel 692, March 31¹) Vatican's concern is a reflection of general preoccupation over increase in political violence and disorder in Italy during last few weeks, especially after Togliatti's reference on March 11 in the Constituent Assembly to the possible need of "direct action" on the part of the Communist Party if certain Communist demands were not met (see mytel 692 of March 31). It is also recalled that on February 16 Basso,² Secretary of the Socialist Party, violently added that the Basso Socialists were

¹ Not printed.

² Lelio Basso.

not above resorting to illegal action in order to further their ends if the elements of reaction should force the issue (see my A-288, February 18³). More recently Saragat's organ *L'Umanita* on March 29 charged that "Red Squadristi" were conducting a campaign of "ideological and physical terror" [to?] prevent the growth of Saragat's party, especially in the region of Emilia and urged its members to defend themselves and their organizations energetically. *Umanita* stated that the Saragat socialists had decided to abandon their policy of passive resistance because the situation had become intolerable. (The Embassy has received from reliable source information to the effect that the Italian police had intercepted orders from Moscow directing Italian Communists organizations to commence disorders immediately in Italy.)

To give the Dept a few isolated examples of recent act[s] of political violence the following incidents are set forth:

(1) A Chamber of Commerce building was burned down several days ago in Bari. The suspected perpetrator was lynched and mobs forthwith devastated the UQ, Demochristians, Monarchist Union and other premises in Bari. *Corriere Della Nazione* and other newspapers labeled the Bari incident as result of direct action.

(2) About a week ago a monarchist meeting in Rome was forcibly broken up by a gang of thugs generally suspected of being Communists or Communist sympathizers.

(3) On March 14 Franco de Agazio, Milan editor of a weekly described in the press as pro-Fascist, was assassinated. The Rome press also linked this murder with Togliatti's direct action. (See my A-445, March 19³).

(4) See Embassy's 582, March 18³ relative to acts of violence against certain deputies of the Constituent Assembly.

Repeated Moscow 35.

DUNN

³ Not printed.

FW 865.248/4-747

*Memorandum by the United States Chiefs of Staff to the Combined Chiefs of Staff*¹

TOP SECRET

WASHINGTON, [April 4, 1947.]

MODERNIZATION OF THE ITALIAN AIR FORCE

1. The United States Chiefs of Staff have considered the memorandum (C.C.S. 536/12²) by the Representatives of the British

¹ This memorandum, not dated, was an enclosure to SWN-5294, April 7, 1947, not printed (865.248/4-747).

² Not printed.

Chiefs of Staff wherein the latter agree that the Air Ministry will assume entire responsibility for the Italian Air Force program except for the supply of fifty (50) P-51 aircraft and the associated aircraft maintenance equipment and spares.

2. The United States Chiefs of Staff agree that the plan set forth in Appendix "A", C.C.S. 536/12 should be presented to the Italian Government as an agreed Anglo-American plan, and that the Italians should be invited to discuss details, including finance, with the British and United States authorities in Rome.

3. With regard to the draft message proposed by the British Chiefs of Staff to the Supreme Allied Commander, Mediterranean, in Appendix "B" to C.C.S. 536/12, the United States Chiefs of Staff generally approve the message, but desire to insure that the message will not be construed as a commitment for United States equipment other than the fifty (50) P-51 aircraft, and the specific-to-type aircraft maintenance equipment and spare parts for three (3) years for the P-51's. They further desire the inclusion of a paragraph outlining the cost of the United States equipment to the Italian Government and propose, therefore, that the draft message to the Supreme Allied Commander, Mediterranean be amended as indicated in the Appendix.³

4. Subject to the amendments proposed in the Appendix the United States Chiefs of Staff approve the dispatch of the message to the Supreme Allied Commander, Mediterranean, in Appendix "B" of C.C.S. 536/12.

³ Not printed.

865.48/4-947 : Telegram

The Acting Secretary of State to the Embassy in Italy

RESTRICTED

WASHINGTON, April 9, 1947—6 p.m.

504. Preliminary conversation held with representatives Italian Govt. March 27 re U.S. relief assistance.

Memo of conversation will be forwarded.

Have delivered tentative draft agreement Italian reps. containing terms operation U.S. and Italy and including restrictions and requirements bill in Congress.¹ Ital. reps. probably will forward Rome draft. Copies draft agreements dispatched today ur info. Send comments immediately.

No agreements will be signed until final passage Congress end April.

Ital reps. asked submit tentative relief import food needs May June, July.

ACHESON

¹ The draft text of the proposed agreement was sent to Rome in the Department's telegraphic instruction 895, June 11, not printed (865.48/6-1147).

865.00/4-1247: Telegram

*The Ambassador in Italy (Dunn) to the Secretary of State*SECRET
URGENT

ROME, April 12, 1947—midnight.

797. Recent conversations with officials Foreign Ministry reveal their grave concern over present financial crisis and economic prospects of nation in immediate future (see mytel 763, April 9¹). In an informal talk with member my staff some officials of Sforza's cabinet brought up question of US aid to Greece and Turkey. They advanced the view that loans of 100,000,000 to 200,000,000 dollars for Austria, Greece or Turkey, on the basis of relative populations, would indicate that a loan of around 800,000,000 would be needed to ensure similar stability for Italy. A substantial loan of that character would they said enable Italian Government to establish sound basis for recovery (they suggested a 2-year program) which would have a healthy psychological effect upon the Italian people and their cooperation and confidence in making the program work, at the same time providing infinitely more effective propaganda for the US than we now obtain from our present policy of aid in various forms and doses, which, while admittedly lifesaving for Italy and a heavy sacrifice for the American people, has only succeeded in maintaining local economy on a hand to mouth basis year after year.

Implications for Italy of proposed US aid to Greece and Turkey have of course not been lost upon government here. From conversations with Sforza's young men we have impression Italian Government will take every opportunity during next few months to point out similarity of Italian economic and political problems with those of Greece and Turkey and that Tarchiani has been ordered home for instructions (see Secdel 1440, April 9²) principally with that policy in mind.

Sent Department repeated Moscow 42.

DUNN

¹ Not printed.² See telegram 867, p. 536.

Defense Files: Telegram

*The Acting Supreme Allied Commander, Mediterranean Theater:
(Lee) to the War Department*

SECRET

LEGHORN, 14 April 1947.

F 75932. Your W 95575 and W 95664 and my FX 75866 refer.

1. Except for American Graves Registration Service, U.S. Troops in this Theater are mainly engaged in providing US share of Allied:

United States-United Kingdom Mission as laid down by armistice terms and Combined Chiefs of Staff. Therefore I must make my reply as acting SACMED rather than as Commanding General MTOUSA.

2. General Harding reports and I agree that to maintain law and order in Zone A and to insure reasonable security of Allied communications and living areas in the province of Udine and to provide maximum reserves against a worsening of the internal situation, he requires a minimum of 15 and one half combat battalions for the forward garrison.

3. The foregoing estimate is predicated upon a continuation of present conditions until ratification and excludes the possibility of full scale Yugoslav intervention, military or political, should the ratification proceedings break down completely. In this latter case I would be unable to carry out my assigned mission with the troops at my disposal and must then request additional forces.

4. Allied combat forces now available in the forward garrison area are 7 and one half US battalions and 8 British battalions. General Harding plans and expects to maintain his approximate parity forward with 8 British battalions and necessary administrative backing. Attrition will reduce US forces by approximately 1500, including strength of 1 battalion combat troops, by 30 June 1947. This rate of attrition, i.e., 1 combat battalion each 60 days, if continued without provision for replacements, will very shortly make it impossible for me to fulfill my currently assigned mission. It can be seen that US combat forces cannot be reduced, but must be replaced unless R Day comes before 30 June 47.

5. Of United States troops elsewhere in Italy approximately 11,000 are engaged in administrative backing to 88th Division and in disposal of surplus and excess stocks and are located generally at Base Port Leghorn and along line of communications Leghorn-88th Division.¹

6. Balance of US forces are engaged in discharge of SACMED's responsibilities important out of proportion to numbers involved. Main responsibilities concerned are:

- (a) Allied Military Government in Zone A of Venezia Giulia and Province of Udine.
- (b) G-5 activities in Rome, displaced persons, refugees and war criminals.
- (c) Italian Armed Forces branches of Allied Force Headquarters. Reorganization and equipping of the Italian Armed Forces and enforcement of the armistice terms.

¹ In despatch 1, March 27, from Caserta, not printed, Joseph N. Greene, Jr., Acting U.S. Political Adviser, forwarded a copy of a letter addressed on March 19 by the Acting Chief of Staff, G-5, Col. A. L. Hamblen, to Prime Minister De Gasperi explaining that Allied Force Headquarters would move to Leghorn on April 6, which would permit the closing out of substantially all of the Allied military installations in the Naples-Caserta area. (740.0011 EW/3-2747)

7. Actual current US strength approximately 25,500 against troop basis of 26,000. I can accept a troop basis reduction to anticipated actual strength on 30 June of 22,000 provided I have sufficient funds to hire required civ replacements. Beyond that I cannot go without relief by the Combined Chiefs of Staff of some of my current or contingent responsibilities.

8. Aside from the above, it is hoped that the political significance of a drastic reduction in US troops, which I understand would be paralleled by the British, prior to the coming into effect of the peace treaty, has received careful consideration both by the War Department and War Office as well as by the State Department and Foreign Office. My political advisers are making their views known to their respective Ambassadors.

9. The foregoing is concerned only with the situation prior to ratification of the Peace Treaty. The mission assigned me as acting SACMED by Fan 737 should Yugoslavia fail to ratify the treaty will be impossible of fulfillment under the conditions laid down in Fan 723 with only the TRUST and BETFOR forces of 5,000 each.

865.48/4-1547 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

CONFIDENTIAL
US URGENT

ROME, April 15, 1947—noon.

810. Reliable ranking Italian official reported in confidence that Sereni,¹ Communist Minister Public Works privately admitted to a Christian Democrat Minister that Communist Party is opposed to post-UNRRA aid to Italy from US for reason that it creates friendship and strengthens ties between the two countries. However, Togliatti and other leaders reportedly prefer that party exert no outright opposition lest such action might encourage the US to give even more relief. In other words, party cannot afford publicly to oppose US aid.

It is not clear whether line of action will be to play up role of Communist Party in obtaining and distributing US goods to workers, to use delaying tactics in making agreements, to foster dissipation or wasting of relief grant by foolish expenditures or wasteful distribution, or to maneuver US into position where difficulties in delivery could be blamed on US.

Apparent food policy of Cerreti,² Communist High Commissioner for Food, is to institute differential rationing, to issue food packages

¹ Emilio Sereni.

² Giulio Cerreti.

to workers as well as pensioners and indigent, to lower prices, and to reduce luxury consumption. It appears also that he and his party favor elimination or reduction of amassing controls as an appeal to farmers and/or as an indirect means of discouraging US aid. Former Under Secretary of Agriculture, Spano,³ also Communist, reportedly denounced publicly the amassing program in speeches to warn [*farm?*] groups.

Cerreti has reportedly reorganized Commissariat to include section to handle food packages and has asked Federconsorzia⁴ to organize along similar lines with budget of two billion lire annually.

De Gasperi reportedly scolded Cerreti for proceeding with food package proposal (Embtel 780, of April 11, 1947⁵) without prior approval. Cerreti said proposal was strongly favored by UNRRA and acceptable to US Embassy. Contrary to his purported statement neither UNRRA nor Embassy has expressed opinion.

Embassy has not yet been presented with complete food package proposal but on basis preliminary information submitted disadvantages appear to outweigh advantages. De Gasperi is said to oppose proposal. Main defects appear to be (a) the expense in dollars for processing and packaging; (b) the utilization of US labor for work that could be performed by Italian unemployed; (c) the shifting of the entire food relief burden for specified classes on the US while freeing a portion of Italian indigenous food from control; (d) the distribution of certain processed food items not normally consumed and not always wanted by Italian consumers (i.e. margarine and canned milk); and (e) the possibility of distribution of packages to workers through Communist-controlled organizations.

On the other hand, the advantages seem to be: (a) broadening the base of rationing to the commodities and thereby providing a well-rounded diet for needy and productive classes; (b) easy and quick distribution permitting rapid transfer from one area to another; (c) giving possibility of tighter controls and more easy observation of distribution; (d) possibility of US labels on each package for publicity purposes.

Sent to Department 810, repeated to Moscow as 48.

DUNN

³ Velio Spano, Under Secretary in the Italian Ministry of Agriculture and Forests in the second De Gasperi cabinet, July 1946—January 1947.

⁴ Federconsorzia, Federation of Syndicates or Unions.

⁵ Not printed; it described the plan for food packages for low-income groups proposed to the Embassy by officials of the Italian High Commission for Alimentation, with the United States supplying up to 10 million completely assembled packages per month which presumably were to be requested as part of the post-UNRRA aid program. The Embassy did not endorse the proposal but asked for full details. (865.5018/4-1147)

865.248/4-2147 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET

ROME, April 21, 1947—midnight.

883. ReDeptel 267, February 25.¹ In conference with Acting SAC² this afternoon I was informed that he intends to recommend to CCS that original program for reequipment Italian air force with Spitfires and P-38's be implemented immediately since continued delay in decision to make available P-51's from US is damaging Italian air force program and no longer technically feasible for MTOUSA at this late date because of early close out. I shall alert Department on number and date of Lee's message as soon as it is despatched³ and meanwhile can only express regret that firm agreement to reequip Italian air force at least in part with modern American equipment understood available in USFET has not yet been reached. In not supplying the P-51 type we are losing an opportunity to establish in Italy a modern air force with American equipment and training which would be adequate to meet any real emergency at least in the initial stages.

Sent Department as 883 ; repeated Leghorn as 28.

¹ Not printed ; it informed the Embassy in Rome that SWNCC had on January 9 approved the sale of P-51 aircraft to Italy ; that the Department had been discussing the matter on an urgent basis with the British Embassy, but that no reply had been received and the War Department had therefore been unable to instruct the theater (865.248/2-2447).

² Lt. Gen. John C. H. Lee.

³ Leghorn's telegram 62, April 26, not printed, identified General Lee's message as FX 76068 of April 25 (865.248/4-2647). In FX 76068, April 25, not printed, General Lee as Commanding General of the U.S. Forces in the Mediterranean Theater informed the War Department that the austerity standards forced on him did not permit indefinite commitments. He asked for authorization to inform the Italian Government that no U.S. proposal for equipping the Italian Air Force with P-51's had developed ; and proposed to suggest that the Italians in their own interest accept the British plan. (Defense Files)

740.00119 Control (Italy) /4-2347

The Secretary of War (Patterson) to the Acting Secretary of State

WASHINGTON, 23 April 1947.

DEAR MR. ACHESON: The delay in ratification of the Peace Treaty for Italy has reached a point where it becomes necessary to consider withdrawal of U.S. forces from Italy irrespective of treaty ratification. This is so because of an increasingly critical situation as regards manpower, the requirement for warning so that withdrawal can be accomplished in the limited period of 90 days and the necessity for funds to cover the prolonged retention of forces in the area.

The understanding of the War Department has been that the national interest required the retention of U.S. forces in Italy until the

peace treaty came into effect. In addition to the moral obligation of the U.S. to retain troops in the area until ratification, there is a military commitment with the British to remain in Venezia Giulia jointly until an international settlement is secured.

Informal State Department advice initially estimated that the treaty might be brought into effect by 1 April 1947. This would have permitted the withdrawal of U.S. forces by the 30th of June 1947.

War Department planning has been predicated on no requirement for U.S. forces in Italy after 30 June 1947. In addition, subsequent to agreement by the Council of Foreign Ministers, as regards the Venezia Giulia problem and Trieste, the schedule for troop deployment was revised to provide after 30 June 1947 only the 5,000 troops for U.S. national contingent for Trieste.

The manpower situation is such that the retention of U.S. forces in Italy beyond 30 June 1947 will require either the reduction of U.S. forces available for the European Command or committing a substantial part of the General Reserve. The adoption of either of these alternatives will reduce the respective forces to a level which is considered dangerously low and most unsatisfactory from the military point of view.

The present situation is that the War Department will have, subsequent to 30 June 1947, only the funds necessary to maintain the 5,000 man contingent for Trieste. In order to provide for maintaining forces in Italy after 30 June 1947 and until withdrawal is completed, consideration is being given by the War Department to the impact on the War Department expenditures and its budget resulting from the continuance of U.S. forces in Italy, at least in the initial part of fiscal year 1948.

Unless reasonable assurance can be given that the Italian Peace Treaty will come into force not later than early June this year, thereby permitting the withdrawal of U.S. forces from Italy by September, the course of action concerning the retention of U.S. forces in Italy must now be determined.

It is recommended that every effort be made to secure the earliest practicable consideration by the U.S. Senate of the Italian Peace Treaty. Whatever may be the course of action determined, the War Department assumes that it will have the full support of the State Department in securing necessary funds.

The manpower situation, the advance warning required for withdrawal and the present indefiniteness as regards funds, require early resolution of the problem as outlined. It is hoped that the views of the State Department may be available to the War Department at an early date.

Sincerely yours,

ROBERT P. PATTERSON

865.50/4-2547: Telegram

The Acting Secretary of State to the Embassy in Italy

SECRET

WASHINGTON, April 25, 1947—8 p.m.

US URGENT

583. A. For Emb's confidential information only, Dept now investigating needs for immediate and longer-run stabilization Ital economy. Basic questions being considered include (1) is stabilization impossible without important changes Ital economic policies, especially toward price and wage stability; (2) is it necessary emphasize production for domestic consumption rather than for export in order to permit most rapid improvement living standards, and (3) what outside financial assistance necessary to facilitate stabilization program over say five-year period and especially to induce adoption sound internal programs and measures.

B. Dept now analyzing Ital political and economic situation, impact of economic assistance already given, and magnitude and nature additional economic assistance required to achieve long-run economic stability if combined with appropriate changes Italy's economic policies.

C. Request Emb give highest priority to submit latest information not previously forwarded on present situation, changes since Liberation and future prospects re following points, assuming no change Italy's policies:

- (1) Agricultural and industrial production;
- (2) Standard of living, with special reference to (a) per capita availability of principal consumer goods and (b) real wages and the changing distribution of real income among manual laborers, salaried employees, farmers, entrepreneurs etc.;
- (3) Investment, with special emphasis on (a) reconstruction activity, (b) investment in new industries and (c) inventories and hoarding;
- (4) Relations between domestic prices, world prices and the exchange rate;
- (5) Foreign trade and the balance of payments.

D. Request also (1) Emb's evaluation current govt economic policies, (2) detailed suggestions re changes required on economic grounds, and (3) political implications of adoption such changes. Please consider particularly govt policies following fields:

- (1) In general;
- (2) Taxation;
- (3) Currency inflation;
- (4) Wages;
- (5) Rationing, price control, allocation of raw materials;
- (6) Control of foreign trade and foreign exchange;
- (7) Public and private investment;
- (8) Unemployment.

E. Appreciate magnitude of task inherent preparation detailed replies. Advise if material can be received here by May 20 and advance summaries cabled before May 7.

ACHESON

865.248/4-2947 : Defense Files : Telegram

The Combined Chiefs of Staff to the Acting Supreme Allied Commander, Mediterranean Theater (Lee)

SECRET

WASHINGTON, 29 April 1947.

WARX 97147 (Fan 749) Modernization of Italian Air Forces is subject. References Naf's 1235¹ and 1258.²

1. After careful consideration including financial aspect of proposals for reorganization of Italian Air Force put forward by British Air Ministry and U.S. War Department and bearing in mind that our object is to build up an efficient Italian Air Force within the limitations imposed by the Peace Treaty, we have decided that following is the best plan from all points of view.

2. Five fighter-type squadrons to be equipped with Spitfire IXs and two with P-51s all complete to operational role. Supply of fifty P-51 aircraft and specific-to-type aircraft maintenance equipment and spare parts for three years for the P-51s will be the only responsibility of American Government. British Government will assume entire responsibility for provision of all British equipment including ancillary aircraft, ground equipment specialist vehicles, etc., required by the Italian Air Force. Plan will be in essence that prepared by Air Ministry and already submitted to Italian Government with exception that P-51s are substituted for P-38s.

3. You should inform Italian Government that this is agreed Anglo-American plan and that they should discuss details including cost with the British and American authorities in Rome. In view of the early withdrawal of Allied forces from Italy, a decision by the Italian Government is urgently required.

4. For your guidance as regards British equipment, the cost of the Spitfires will be nil, cost of spares and other equipment will be nil so far as these are available from stocks in Italy, one-sixth cost price so far as they are available from surpluses outside Italy and full price

¹ Naf 1235 (FX 73372), November 21, 1946, not printed. In this message SACMED mentioned his understanding that there were now available more modern types of combat aircraft than the P-38 and Spitfire 9, and urged that it was essential for the Allies to leave behind the most efficient air force possible within the treaty limits. (Defense Files)

² Naf 1258 (FX 74126), January 6, 1947, not printed. In this message SACMED mentioned that pending details of the U.S. plan, the Italian Air Staff had withheld acceptance of the British plan and that reorganization of the Italian Air Force was at a standstill. He urged that delay in the American plan jeopardized the policy of leaving behind an efficient Italian Air Force. (Defense Files)

for such equipment and spare parts as have to be supplied from new production. Air Ministry estimate that about 3 months' aircraft spares plus a considerable proportion of the other equipment required such as MT, special equipment, ammunition, etc. can be provided from surpluses either in Italy or elsewhere but that major part of the spares required for 3 years' backing would have to come from new production. Range and quantity of spares required would of course be for decision by Italians. According to Air Ministry scales of provision of spares total original sterling cost of British equipment is estimated to amount to pounds sterling 4,417,300 of which 2,149,000 worth (including all the Spitfires and a proportion of spares and other equipment) would be supplied free: 1,410,800 worth would be supplied for 305,000 and the remainder would be charged for at full price i.e., roughly about 857,500.

5. With regard to United States equipment, the over-all cost will include a nominal price for aircraft, spares for three (3) years, and associated aircraft maintenance equipment, plus the actual costs incurred in placing the aircraft in operational standard and delivery thereof, and packing, crating, and transporting three (3) years' supply of spares and aircraft maintenance equipment. Due to deterioration in storage, if resolution of arrangements is long delayed, an increase in cost of placing aircraft in operational standard may be expected.

865.248/4-2147 : Telegram

The Secretary of State to the Embassy in Italy

TOP SECRET

WASHINGTON, May 1, 1947—5 p.m.

619. Ur 883 Apr 21. You will have seen WARX 96927 Apr 25 to MilAttaché Rome¹ re P-51 aircraft for Ital air force. You shd inform Ital Govt of availability these planes, parts and maintenance equipment at nominal cost presently estimated at \$92,000, and urge that necessary arrangements for acquisition be expedited. Keep ComGenMed informed.²

Dept has informed FLC in premises.

MARSHALL

¹ WARX 96927, War Department to Headquarters, European Command, Frankfurt, and to Military Attaché, Rome, for information. This message, not printed, directed EuCom to advise FLC, Germany, of the available surplus of 50 P-51's, and to be prepared to fly the planes to Italy on receiving notification that agreement had been reached with the Italian Government. (Defense Files)

² In telegram 1044, May 5, from Rome, not printed, Dunn reported that in accordance with Fan 749 (*supra*) General Lee had on May 2 informed Prime Minister De Gasperi of the Allied plan to provide Italy with five squadrons of Spitfires and two of P-51's. He stated he would inform De Gasperi that the cost to Italy would be \$92,000 (865.248/5-547).

865.00/4-1747 : Telegram

The Secretary of State to the Embassy in Italy

SECRET

WASHINGTON, May 1, 1947—8 p.m.

622. Personal for the Ambassador. Dept deeply concerned by deterioration Ital political and economic conditions which apparently leading to further increase Communist strength and consequent worsening situation of moderate elements (ur 892 Apr 22¹), with Communists becoming more confident and inclined disregard govt authority (ur 973 Apr 29¹). Dept would therefore like your estimate at earliest possible date of impact of future course Italy, and particularly implications re October elections, of recent disquieting developments as Communist-Socialist dominance important municipalities (Genoa, Turin, etc); apparent consolidation Communist control of labor (ur A-473 Mar 25¹); increase in intimidation and threats of violence (ur 696 Apr 1¹); Communist electoral victory Sicily, etc.

Dept also desires your opinion possibility of De Gasperi relinquishing govt leadership (ur 892 Apr 22¹) or of attempting form govt without extreme left in hope improving Christian Democrat's chances in October elections. What importance do you attach possible moves form "technician" govt without parliamentary basis (Milan's 24 Apr 17¹).

Finally, Dept wishes your views what pol and eco steps if any this Govt should and could take towards strengthening democratic, pro-US forces, having in mind vital importance Italy in relation US policy in Mediterranean, as well as your estimate possible effectiveness any suggested measures.

MARSHALL

¹ Not printed.

865.00/5-347 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET

ROME, May 3, 1947—8 p.m.

URGENT

1031. For the Secretary. In response to urtel 622, May 1, 8 p.m. regarding deterioration in Italian political and economic conditions, the lack of confidence in the Govt as present formed of Christian-Democrats, Communists, and Communist inclined Socialist groups has progressed to a point which results in a psychological impediment to effective action by the Govt to correct present economic and financial

conditions. I am convinced that no improvement in conditions here can take place under Govt as at present composed. Communists who are represented in Cabinet by second-string team are doing everything possible outside and within the Govt to bring about inflation and chaotic economic conditions. Population generally and particularly more responsible banking and industrial leaders have lost confidence entirely in the Govt and are afraid to venture upon new or expanded enterprises. A flight from the lira is beginning; rise in spiral inflation is unchecked. The pity is that there exists all over Italy a real will to work and there could easily be a general confidence in the future if it were not for the political agitation of the Communists and I doubt if there can be any real effective measures taken to improve the situation as long as the Communists participate in the Government. The Communist Party would, of course, fight hard against any effort to form a Govt without its participation but I do not believe it is too late for a gov't to be formed without their participation and there appears to be a growing realization that the Communist Party is not really trying to bring about the restoration of economic stability.

Within the next few days the recently announced program of the Govt in the financial field will be discussed in the Constituent Assembly. We have had reports that strong efforts will be made to pose the question of confidence in the Govt as an underlying factor in the present difficulties. The Prime Minister indicated in a radio address a few days ago his desire that the basis of the Govt be broadened to include representation of more parties and there are many reports current of a possible crisis which will result either in a new composition of the present Government or a different grouping of the Parliamentary representation.

With regard to what political or economic steps we could take in the circumstances I question very much whether any assistance to Italy other than in the form of direct food relief and coal would be advisable at the present time while the Govt is in the hands of the present Cabinet. I do believe that direct relief and coal are of real importance as hunger and unemployment are fertile soil for Communism. There is such a real need of food in the country that responsible men are extremely concerned over the possibilities of a starvation situation arising some time during the next six months, if not all over the country, at least in important sections.

Dept will recall recent indications we have received concerning design on part of Communist leaders to thwart our program to ensure post-UNRRA relief from US to Italy.

There is an important element in the Italian situation which does not manifest itself very sharply when studying the problem. That is

that one of the greatest obstacles to the spread of Communism here has been the action of the United States in assisting the economy of the country with food and raw materials and fuel which has provided employment. But we have not accompanied our action with adequate propaganda.

The smooth and deceptive program of the Communist Party has seemed reasonable to a large mass of Italian workers, but if those same people had any idea that adoption of Communism in Italy would cut them off from relations with the US, I feel sure the vast majority would reject the Communist advances. Our practice of holding back from expressing themselves [*ourselves*] on ideological views has given all the advantage to the other side and they have not hesitated to use it and abuse it. With all the efforts which have been made here since the war very little presentation of US policies and position has appeared in the Italian press. (That is why I have been making speeches recently on visits to the important cities and the press has carried them with a good spread.)

We have assumed in the eyes of Italians a passive role as regards the growth of Italian Communism. The vigor and energy of the Communist movement in Italy in particular the efficiency of its organization and propaganda and its penetration of local administrative government ensuring a powerful influence in considerable areas in the distribution of work has contributed to a growing belief among Italians and in many cases fear that the Italian Communist bandwagon is not seriously opposed by the US and it is the one to board. The Embassy is constantly receiving letters from individuals begging the US to take a stand in Italy against this drive towards a totalitarian Communist Italy. All the indications we receive and particularly the trend of local elections throughout Italy show that the Communists are consistently gaining ground and that our policy to assist the development of a free and democratic Italy is losing ground rather than making progress.

In order to bring to the attention of the Italian people therefore a clear indication of what might be the result of their going over to the Communist line and in order to build up a sound resistance to the siren call of the insidious propaganda now being pushed around here, it has occurred to me that perhaps you or the President might consider something along the following lines:

Either voluntarily or in response to a question by a correspondent regarding conditions in Italy and the US attitude toward this country to say that the US has deep and friendly interest in the growth of real democracy in Italy; that we have been happy to assist in the reestablishment of economic stability and will be happy to continue

to lend our support to those elements here who have deep and abiding faith in the democratic processes and the preservation of the freedom and liberty of the Italian people and who are opposed to government in Italy by totalitarian regimes either of the extreme right or the extreme left. That we are watching with interest the progress of the Italian nation in solving her difficult economic and political problems and we are ready to lend our assistance to the development of an economic life based upon the liberty of the individual and the protection of his individual rights; and that we are confident that the Italian people will not desire a totalitarian regime which would inevitably break down the close ties that bind together the Italian and American people.

DUNN

740.00119 Control (Italy)/4-2347

The Secretary of State to the Secretary of War (Patterson)

TOP SECRET

[WASHINGTON,] May 5, 1947.

MY DEAR MR. SECRETARY: I refer to your letter of April 23, 1947 to Mr. Acheson regarding the retention of United States forces in Italy until the Italian peace treaty comes into effect.

As you know, hearings on the Italian and Balkan treaties were resumed by the Senate Foreign Relations Committee on April 30.¹ I am hopeful therefore that Senate action will be completed at an early date. If no further delays are encountered, it should be possible to bring the Italian treaty into force not later than early June, but you will understand that no definite assurances can be given in this regard at the present time.

The difficulties of the War Department in the situation resulting from the delay in ratification of the Italian treaty are appreciated by the Department of State. In the national interest, however, United States forces should be retained in Italy until the treaty comes into effect, and it seems evident that forces in excess of the national contingent of 5,000 troops for the Free Territory of Trieste could not be withdrawn by June 30. I wish to assure you, therefore, that the War Department will have the full support of the Department of State in securing the necessary funds for the retention of United States forces in Italy beyond July 1, 1947, and during the withdrawal period subsequent to the coming into force of the Italian treaty.

Faithfully yours,

G. C. MARSHALL

¹ *Ante*, p. 515.

865.51/5-647 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, May 6, 1947—noon.

URGENT NIACT

1048. For the Secretary. The Prime Minister asked me to come and see him last evening and made a point of trying to keep my visit confidential. He received me at the Colonial Office. He informed me that about a week ago he had sent a letter¹ to President Truman directly and not through the Italian Embassy in Washington telling the President that Italy was in great economic difficulty at the present time and asking the President to request Mr. Clayton to come to Italy from Geneva in order that the Prime Minister and his advisers might have an opportunity to discuss the economic and financial situation here with a view to the adoption of corrective measures, he hoped, with the assistance of the US. Mr. De Gasperi asked that I inform you of this approach and seek your support to his request. I am also informing Mr. Clayton in Geneva of this approach. I believe it would be very helpful at the present time if Mr. Clayton could come.²

The Prime Minister then went on to discuss the present political situation. He said he himself considered it advisable to broaden the composition of the Cabinet to include some of the other parties of the center and had discussed this possibility with Togliatti and Nenni. Togliatti had appeared willing on condition that the present program of the three-party government not be changed. Nenni . . . is opposed to enlargement of the government. Mr. De Gasperi said the financial and economic situation was so unstable at the present time that he did not wish to invite a crisis unless he had some agreement among the parties to bring forth another form of government before the present one fell. He said he was afraid of the spiral of inflation and that the fall of the government if it involved any considerable time to find a replacement might result in a financial panic and a real loss of ground in the fight they had been making for return of economic stability.

The Prime Minister then spoke of the lack of confidence in the government. He said he was afraid this was caused largely by his "allies", but he did not think it was wise to attempt to form a government without them at this time unless the Communists were themselves ready to remain out of the government in order to be free to level their criticism

¹ Not found.

² See despatch 1341, July 25, p. 945.

against it. He said he was continuing his conversations but that he had no intention himself of deliberately provoking a crisis. If this were brought about in the assembly that was quite another thing and he would, of course, accept a reversal in that body. He said various persons had been mentioned as head of a new government; that he himself was ready to retire at any moment that he felt an able and efficient successor could be chosen. He spoke of Signor Nitti as one of those mentioned to succeed him.³ His own opinion was that Nitti's advanced age and his present physical condition would make it impossible for him to carry on the arduous task of Prime Minister in these present times.

Mr. De Gasperi then spoke of possible assistance from the United States. I said that our Government was deeply interested in the Italian situation and wished to be of such assistance as they could but that it was necessary for us to see some effective measures taken by the Italians themselves to put their house in order before we could give consideration to aid for Italy other than the direct relief. I said that after all it was quite impossible for the US to take the entire burden of assisting Italy to recovery and that it was necessary for the Italians to apply themselves to the solution of their own problems and to take the steps necessary to improve the situation before we convince our people and Congress that we could render effective aid here. Mr. De Gasperi said he was only afraid that assistance might come too late and at a time when it would be extremely more difficult to revive the situation than it would be now to preserve it. I told him (De Gasperi) that we all had the greatest confidence in him personally and that we wanted to be of all the help we could and that we were sincerely hopeful that he would find the means of correcting the present situation and take advantage of the splendid attitude and will to work of the Italian people at this present time.

He asked me to explain to our government that Italy was now in an electoral campaign period and that it was most unfortunate to look forward to financial difficulties, inflation and possible hunger in the country at the same time as the elections. Finally, he made another plea that Mr. Clayton come to Italy with a view at least to talking over the situation and asked me also to convey to you his deep concern over the reduction of the post UNRRA relief fund to \$200,000,000 which might drastically affect the possible allotment for Italy.⁴

DUNN

³ Francesco Saverio Nitti had been President of the Italian Council of Ministers from June 23, 1919 to May 21, 1920.

⁴ See footnote 1, p. 874.

865.5018/4-1847 : Telegram

The Secretary of State to the Embassy in Italy

CONFIDENTIAL

WASHINGTON, May 7, 1947—5 p.m.

651. Urtel 864 Apr 18.¹ Not found possible make diversions meet critical stock situation Italy early May. Felt here main Italian problem not one of allocation but of prompt movement quantities already allocated. Slipover from early US programs for Italy into Apr totalled about 150,000 tons.

In recent note Italian Emb to Dept request for 60,000 tons additional allocation flour made to help cover June consumption. Claim made that Italian crop not ready harvest before June 20 or 25 thus reducing prospective collections from new crop in June from 150,000 as originally estimated to 65,000, leaving supply inadequate meet ration. Emb requested comment on this claim.

Agri on May 2 allocated 20,000 tons semolina flour to Italy, a quantity representing month's production this flour by US mills.

MARSHALL

¹ In this telegram, not printed, Dunn reported that Italian food officials had stated that Italy's cereal supply would be exhausted by May 10 unless there were unforeseen arrivals (865.5018/4-1847).

865.51/5-747 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, May 7, 1947—midnight.

1078. This is telegram No. 3.

1. Tasca¹ in accordance with Department's 641 of May 5,² is leaving by air for Washington May 8 or 9 carrying the text of the report prepared in response to Department's 583 of April 25. The preliminary summary is therefore not being telegraphed in advance.

There follows however a synthesis of our comments on Section D of Department's outline. For the statistical data called for in Section C reference is made to Embassy's 1013 of May 2.³ Tasca before departing may be able to assemble some current statistics supplementing those that have already been reported. As Tasca will explain, however, some statistical data, such as inventories, cannot be developed by either the

¹ Dr. Henry Tasca, Treasury representative attached to the Embassy in Rome.

² Not printed.

³ Not printed; in it Dunn merely reported that the Italian Cambital (Foreign Exchange) officials were unable to present any new data on exchange availabilities (865.5151/5-247).

Italian Government or ourselves with the means available; many others are suspect and still others, such as trade, will vary according to the government agency which assembles them.

2. The chain of circumstances which have plagued post-Fascist government and have led to the present situation, although familiar, might be summarized for backdrop:

(1) The government[s] since liberation have been composed of parties of widely varying competitive philosophies.

(2) The earliest governments had only token authority during military operations. Since the transfer of full responsibility to the Italians, local and assembly elections, the institutional problem, the constitution and the coming elections for the regular parliament have monopolized the attention of government and politicians. Parliamentary and electoral jockeying has therefore replaced constructive activity.

(3) Party strife and ambitions have resulted in unworkable ministerial organization (witness the separation in the preceding government of the Ministry of Treasury or spending ministry, headed by a Liberal, from the Ministry of Finance or collecting ministry, headed by a Communist.[])

(4) Incompetence and inexperience, both technical and political, have occurred from the inevitable epuration [of?] so many persons trained in government who were Fascists and from paying-off with political positions of obligations to resistants.

3. The deepening crisis is fundamentally psychological. Other is lack of confidence in the government. This psychological state of mind is reflected in the sudden rise of the lira in the free market yesterday caused by rumors of a government crisis, i.e., "any government is better than this one". Only Draconian measures, and the longer they are delayed the more severe they must be, appear adequate to arrest the drift, which may become a plunge, and to start Italy on the upward path. Such measures will hurt some classes but as things are now done in the fatuous hope of being all things to all men, all of Italy may be reduced to misery.

4. The requirements to meet and vanquish the forces in this whirlpool of disintegration are:

(1) Political leadership both competent and courageous.

(2) Political and economic policy reforms against the opposition of many special interests, including Communist, preference, (a) to prolong the turmoil and (b) to gain time for organizational preparation for the elections;

(3) Effective implementation of policies through fundamental reforms of practices and procedures.

Only the Italians themselves can meet these requirements; outside aid per se will provide neither leadership, confidence, nor courage. What the United States can and should however do is, first, provide wheat, no matter how bad the situation, so as to maintain life and

hope; and, second, when the appropriate time comes, to give moral and material support to an eventual competent government who promises some measure of success.

5. Assuming a competent strong government will eventually emerge, we appraise as follows the requirements for Italy to start on the road forward. While we have been mainly guided by technical considerations, we have at the same time tried to remain politically practical by keeping our suggestions within range of attainment.

(1) Restoration of confidence in the government and its ability to direct the economic and financial reconstruction of the country.

(2) Abrogation of political legislation in financial clothing used to intimidate and paralyze strategic economic groups in the country.

(3) Adoption of policies to include: direct block on wages, abandonment of prohibition and work to dismissals [apparent garble], controls over political strikes in key industries.

(4) Adoption of other technical measures with assurance of successful implementation, such as exchange control, credit control, reduction of government expenditures, et cetera.

(5) Extraordinary amounts of foreign aid (government and private if possible) for some time to come.

(6) Strict protection of freedom of speech and assembly against extremist interferences, and restoration of respect in all levels of the population for government and law.

Italian Communist policies have been at direct variance with the above. Therefore, it might be difficult for the Communists to accept participation in a government which would effectively carry out these policies. On the other hand the magnitude of the problems confronting a competent government including increased problems of maintenance of public order of [if?] the PCI were in open opposition and the immense difficulty of its taking the necessary measures we have urged will assuredly require moral and material support and sympathy from the west, meaning more especially of course the US.

DUNN

865.51/5-747

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, May 7, 1947.

No. 677

Subject: Recommendations concerning Italian Economic Policies and Needs

SIR: In compliance with the Department's telegram No. 583 of April 25, and with reference to my telegrams Nos. 1022 of May 2,¹ 1030 of

¹ Not printed.

May 3,² and 1078 of May 7, I have the honor to submit as an attachment a memorandum which may prove helpful to the Department and perhaps to other Government agencies in evaluating current Italian economic and financial policies and in drawing conclusions as to the form and nature of possible long-range American collaboration in Italian reconstruction.

Dr. Henry Tasca, Treasury representative attached to the Embassy, is acting as courier in order to insure expeditious delivery and distribution of the enclosed material within the Department. Dr. Tasca, as the Department is aware, has been recalled to Washington for consultation by the Department's telegraphic instructions of May 5.

Admittedly, conditions are serious, and the present government has not demonstrated its ability to rectify them. With special regard to my views on our policies until such time as an adequate government is installed, I respectfully refer the Department to my telegram No. 1078 of May 7.

Respectfully yours,

JAMES CLEMENT DUNN

[Enclosure—Extract]

CURRENT ECONOMIC AND FINANCIAL POLICIES OF THE ITALIAN GOVERNMENT

1. *General Appraisal*

The current economic and financial position in Italy reflects the lack of confidence on the part of strategic economic groups in the ability of the Government to direct and control the country. There are four basic interrelated groups of factors accounting for the prevailing forces of financial and economic disintegration:

(1) *Lack of inner consistency in the composition of the Government.*

Since the days of liberation it has been necessary to include in the Italian Government, in varying degrees, representatives of political parties with such widely divergent concepts of social and economic reform that it has been difficult to prepare and execute consistent national plans for reconstruction and rehabilitation. In the field of finance, up until the present Government, the Ministry of the Treasury was in the hands of the Liberal[s]—that is, the spending side of the Government, [—] and the Ministry of Finance—the collecting side—was in the hands of the Communists, with both parties keenly endeavoring to outwit and outmaneuver the other with respect to financial policy. The Communists desired politically spectacular measures designed simultaneously to destroy the dominant property owners.

² Not found in Department of State files.

The Liberals wished to preserve such classes as the backbone of economic reconstruction. IRI was headed by a Liberal but with left-wing Socialists and Communists in key positions immediately below. The former wished the dissolution of IRI, the latter the transformation of IRI into the central organ for State control of industry. Similar comments may be made with respect to other ministries and to the composition of the Government in general. These conflicts have made impossible the adoption of the sharply defined policies necessary to rehabilitate and reconstruct the Italian economy.

(2) *Political agitation.*

The electoral campaigns in Italy which have taken place, and those which are to take place during the current year, have had the effect of disintegrating such cohesive forces as existed in the Government which might have led to the adoption of viable financial and economic policies. The attempt to build up electoral strength has required a constant process of agitation. Promises, which augment discontent and social unrest, are made and the population is kept in turmoil. Such agitation has been a principal cause in the loss of confidence on the part of the people in their Government.

The agitation of the Communist Party deserves particular attention. It is now a well-known tactic of the Communist Party to remain in the Government and at the same time, particularly through CGIL, to offer corrosive opposition to the Government. This tactic (a) provides the Communists with a cloak of respectability for the Party, and (b) permits them to infiltrate into key positions. Threats of general strikes have forced the Government to yield on wage policy and expenditures for public works. Sporadic but frequent public disturbances throughout the country frighten business enterprise and accentuate economic difficulties, which in turn provide a tool for the Communists to exert further pressure on the Government publicly and thus seek to obtain further support from the masses.

(3) *Lack of public order.*

The incidents which occurred during the course of one week in Rome and Messina, which in one case involved jostling of and threats to the Minister of Foreign Affairs and in the other case the refusal of a group in Sicily to permit the Prime Minister to speak, could not fail to lower further the prestige of the Government. It has not been possible for a long time in certain zones of Italy for the Government to make effective freedom of speech, as is shown by the inability of a right-wing Socialist leader to speak in the red zone of Emilia. The loss of prestige of the Government incites holders of liquid assets, business enterprisers and people in general to attempt to provide individual economic secu-

riches and gain in the form of commodity hoarding, speculation, capital flight, etc. This in turn accentuates the gravity of the economic situation. The lack of public order permits extremist elements to disturb public opinion by building up a psychosis of fear which is, in turn, politically exploited. The fear of Communist seizure of power, paradoxically, increases the number of adherents to the Party.

(4) *Technical incompetency.*

The loss of confidence of the strategic groups in the economic system is undoubtedly also to be attributed in part to repeated examples of gross incompetency demonstrated at the ministerial level. To a lesser degree this is also attributable to ejection of top civil servants. For many months the public was kept under the threat of fiscal currency conversion, a threat which finally succeeded in causing holders of currency to disinvest and to lose confidence in the future of the paper lira.

The threat of currency conversion was publicly made over the radio day and night to force subscription to the Reconstruction Loan, with the argument that currency holdings would be taxed as a part of the capital levy program in the process of preparation. The effect of such threats was to emphasize the instability of the lira and to decrease the desire of people to subscribe to the Loan. The interest rate on the Loan, in addition, was low relative to the prevailing interest rate structure. The net result was that the Loan was a failure, and attempts to hedge against the anticipated inflation multiplied to dangerous proportions.

Since currency conversion was supposed to form part of the capital levy, and since those subscribing to the Reconstruction Loan would not, to that extent, be subject to the capital levy, the final decision to abandon currency conversion penalized severely persons who had disinvested currency to purchase Reconstruction Loan bonds. When the quotations on the stock exchange of the Reconstruction Loan fell to below 80, then the Government stepped in again and raised the interest rate on such securities held by persons who would not be subject to the capital levy. The net effect of the entire operation on the public was to demonstrate an astonishing degree of incompetence.

Another example of incompetency, with a political flavor, was the manner in which extraordinary financing was placed in the forefront, particularly by the Communist Minister of Finance,³ as the solution of the problem of budgetary deficits. Various types of extraordinary revenue-creating measures were announced and adopted, providing the public with the sensation that such measures would yield sufficient revenue to cover the budgetary deficit. The most recent of these meas-

³ Mauro Scoccimarro, Italian Minister of Finance in the cabinet of Parri (June-December 1945), and in the first and second cabinets of De Gasperi (December 1945-January 1947).

ures has been the adoption of the capital levy, which in its present form will take very many months, if not years, before any substantial flow of revenue can be realized. The declaration of holdings, the examination of such declarations on the part of the appropriate governmental authorities, the assessment of the levy, the possibility of appeals on the part of the tax-payers, as well as the very large number of persons involved in view of the low gross value of 3 million lire subject to the tax, will all consume many months before any significant volume of revenue is collected. When such measures are adopted and the budgetary deficit position not only continues to remain serious but actually worsens, the psychological effect upon the people takes the form of a growing conviction that the most drastic technical measures are insufficient to "save the lira".

A third example, on a smaller scale, has been the establishment by the present Minister of Treasury and Finance of a committee on credit control to study the ways and means of establishing effective credit controls in Italy. In view of the fact that this problem has been under study for many years and in view of the fact that under the 1936 banking act an effective system of credit control had been established, subsequently abandoned in 1944, the matter did not require study at this time. Informed business and financial circles can only believe that the Government is either incompetent or acting in bad faith.

In these circumstances the question arises, how much of Italian disorders and political instability are due to deliberate fomentation and unrest on the part of political elements and how much are due to economic difficulties and the relatively low standard of living. Indices of consumption and real wages would appear to indicate that the position with respect to the masses in Italy has not deteriorated substantially during the last year, and that in fact the probability is that the political agitation is retarding economic recovery rather than economic difficulties retarding the achievement of political stability and equilibrium. This view is of prime importance in connection with the problem of further external aid to Italy.

If it is true that the economic position could be substantially improved through political measures, then aid to Italy perhaps should be based upon the *quid pro quo* of necessary changes in political orientation and policies.

There are presented below a series of concrete recommendations regarding present financial and economic policies of the Italian Government. The recommendations indicate at the same time the defects in existing policies.

[Here follow: II. Recommendations on Tax Policy; III. Recommendations on Government Expenditures; IV. Improvement in Gov-

ernment System of Recording Government Expenditures and Income; V. Recommendations on Exchange Control; VI. Recommendations on Currency; VII. Recommendations on Credit Controls; VIII. Recommendations on Wage Policy; IX. Recommendations on Price Policy; X. Recommendations on Commodity Distribution; XI. Recommendations on Employment; XII. Recommendations on Foreign Trade.]

865.248/5-1447 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET

ROME, May 14, 1947—7 p.m.

1146. ReDeptel 619, May 1 and mytel 1056, May 6.¹ I have now seen War Department WX 97755 of May 9² concerning provision of P-51 craft for Italian Air Force. MTOUSA has raised question whether they (reference paragraph 5 A of WX 97755) or Embassy should now carry principal burden of discussion with Italian Government regarding implementation. Since De Gasperi indicated to me that cost would be a principal factor in Italian decision whether to accept, and since details of cost will apparently fall to FLC, I have agreed that Embassy and FLC will negotiate, keeping General Lee fully informed.

Paragraph 5 C of WX 97755 appears ambiguous and leaves open possibility that FLC may charge an amount as yet unknown for the aircraft and spares in addition to \$90,000 for packing, crating and transportation, and rehabilitation of aircraft. Please clarify whether remainder of \$92,000 figure mentioned Deptel 619 intended cover cost of aircraft. I informed De Gasperi that total is \$92,000.

OFLC Rome has no instructions or information regarding program, or manner of payment. (Paragraph 5 E of War Department Signal). Suggest Department instruct FLC Rome, Paris or Washington, or all three, which will handle cost negotiations.

Ruling in paragraph 5 D, namely that Italians will receive no credit toward P-51's for payments on P-38's which they have already bought is likely to prejudice joint nature of program outlined in Fan 749. I am informed contract price for P-38's was \$160,000, which more than covers present estimate of P-51 program, and believe it entirely pos-

¹ In this telegram, not printed, Dunn reported that he had spoken to Prime Minister De Gasperi on May 5 and had informed him of the proposal in the Department's 619 of May 1. De Gasperi expressed appreciation for the generosity of the U.S. offer. (865.248/5-647)

² Not printed; it directed General Lee to explain that the proposal of Fan 749, April 29, was an agreed Anglo-American plan which the Italians should promptly accept, and suggested that USAAF personnel take part along with RAF representatives in discussions with the Italian Air Force. (Defense Files)

sible that if War Department ruling stands Italians might refuse any or all of the Spitfires to be provided by the British, preferring to utilize American craft of both types insofar as treaty limitations permit. Additional factors leading to this conclusion are that British, although intending turn over Spitfires free, apparently intend to charge hard sterling cash amounting about 800,000 pounds for maintenance parts to be purchased out of current British production; furthermore that guns now mounted in Spitfires (reference paragraph 5 F of WX 97755) are Lend-Lease equipment which cannot be sold by British and therefore present additional complicating factor. If, as War Department states, maintenance parts and spares for P-38's are difficult, if not impossible, I suggest that Italians be allowed to return P-38's for scrapping or other disposal and use the credit for the P-51's.

Regarding training of flying and maintenance personnel (paragraph 5 B of War Department Signal 97755) I am informing military through PolAd, in response to their request for views, that important point is that US personnel instruct Italians in use and maintenance of the P-51 craft. Whether this instruction takes place in Germany or Italy I do not consider immediately important, so long as no US military personnel associated with the project remain in Italy after R-Day plus 90.

Sent Department 1146, repeated Leghorn 36.

DUNN

865.20/5-247 : Telegram

The Secretary of State to the Embassy in Italy

TOP SECRET

WASHINGTON, May 15, 1947—4 p.m.

US URGENT

695. Reurtel 1021 May 2¹ you shd see WAR 97658 of May 6.² Dept has concurred in reference JCS paper and final approval JCS and CCS under urgent consideration.

For your guidance re this transfer and air force equipment (Deptel 619 May 1, Fan 749 Apr 29 and WARX 97755 May 8³) difficult financial position Ital Govt fully appreciated. In view overriding importance prompt equipment Ital armed forces Dept considers "scrap price" or "nominal cost" shd insofar as possible be set to conform Ital

¹ In this telegram, not printed, Dunn reported having learned that on withdrawal from Italy the Allies would have made inadequate provision for equipping the Italian army; that it now appeared that the British could not take on such a commitment; and he urged that tanks, U.S. artillery and ammunition now in Italy be made available to the Italian forces (865.20/5-247).

² Not printed.

³ Not printed, but see footnote 2, p. 902.

financial and budgetary limitations, since regulations prohibit transfer without some payment. You shd follow negotiations US mil and FLC with Ital Govt and report any serious difficulties which might block or delay implementation programs.

MARSHALL

865.00/5-1647

Memorandum of Conversation, by the Secretary of State

SECRET

[WASHINGTON,] May 16, 1947.

Participants: Ambassador Tarchiani
The Secretary
Mr. Matthews

The Italian Ambassador called this afternoon at his request and gave me his impression of conditions in Italy following his return from a visit there and made some suggestions as to what the United States might do to help. He said that he had seen the President Tuesday, that the President had shown much interest in Italy's situation, and had asked him to talk further with me.¹

He painted a pessimistic picture of the growth of Communist strength in Italy as evidenced especially by the recent elections in Sicily. He said that in that island, which is essentially conservative, the Communist bloc had polled over a third of the vote. There were two factors in this surprising Communist success: First the general discontent resulting from the poverty of the peasants and second, the extraordinary expenditure of campaign funds by the Communist party. The Communists spent over a billion lire or the equivalent of \$2,000,000 which, he said, is an unheard of figure in any Italian election campaign, especially in a small area such as Sicily.² This, he thought, proved the importance that Moscow attaches to obtaining Communist control of Italy and presents a gloomy outlook for the elections next October. He said that for the time being Moscow can do little in France since that country is cut off from Russia by the Anglo-American zones of Germany. On the contrary, through Yugoslavia, Italy is in effect directly linked to Russia which makes Communist infiltration much easier. If Moscow succeeds in establishing a Communist Italy it will have gained a highly strategic position. Italy as a base would serve to flank Greece and Turkey, to extend Communist influence north to

¹ No record of Tarchiani's conversation with the President has been found.

² In a memorandum of conversation with H. Freeman Matthews, Director of the Office of European Affairs, on May 8, not printed, Tarchiani explained that one important source of Communist funds was the Mussolini treasure seized by the Communists at the time of Mussolini's assassination (865.00/5-847).

Germany and Austria and west to France and Spain. It would also facilitate Communist penetration into North Africa, an area to which Moscow is attaching increasing importance.

It was, therefore, he said highly important that Italy should not fall under a Communist regime. The present government crisis, he thought, would soon be solved whether with Nitti as Prime Minister or with de Gasperi.³ In either case, with the Christian Democrats as the strongest party in the Assembly, de Gasperi would exercise the real power. De Gasperi would do everything possible to prevent the rise of Communism, though whether it would be possible at the present stage to form a government without any Communist participation he could not say. It was important, however, that everything possible be done to assist Italy between now and the elections next October. He did not know when the Italian peace treaty might be ratified, and feels that ratification is a matter between the U.S. Government and the Senate on which he should not comment but if ratification takes place in May or June it will mean the removal of American and British troops from Italy prior to the elections. This, he thought, would be unfortunate. If the Communists do not succeed in coming to power by legal means they may try to take control through insurrection. In the latter case, the Government's position would be serious. The Italian army is disorganized and incapable of resisting and the police have been largely infiltrated by Communists and Socialists. The Carabinieri represent the most reliable force, but there are only 60,000 to 70,000 of them and in villages where only 3 or 4 are stationed they would easily be overpowered. I inquired as to the required date of British-American troop withdrawal which is 90 days after the treaty becomes effective. So far, no country has ratified the treaty but if the four powers ratify by the middle of June, it would in fact mean the removal of these troops before that time. I said that I would give thought to the matter.

I asked whether the exact date for the elections has been fixed. Mr. Tarchiani said no. Both the government and the Communists and Socialists wanted the elections in October, but there was a possibility that the members of the Constituent Assembly might desire to prolong their own political life and not approve the constitution in time to permit elections by that date. This would present various legal complications and the present expectation is that the elections will be held in October.

I said I wanted to assure the Ambassador that I was giving serious thought to the situation in his country and would do all that I could to help. I could tell him that when the new government is formed the

³ De Gasperi submitted his resignation on May 13.

United States Government will issue a public statement expressing its support and its interest in Italy's problems.⁴ As to future measures, I will urge that the \$100,000,000 Eximbank credit earmarked for Italy be made available.⁵ We hope to get ahead with the negotiation of a treaty of friendship and commerce with Italy. I was encouraged by the passage by the Senate of the post-UNRRA relief bill which would assure Italy substantial relief assistance this year.⁶ I would likewise press for the early return to Italy of Italian assets in the United States. I asked the Ambassador what these amounted to and he replied about \$60,000,000, a substantial proportion of which, however, constitute private bank balances, which while valuable assets would not be available to the government since it did not know the owners. Finally, I said the United States would vigorously support Italy's application for membership in the United Nations. I felt encouraged by the recent trend in Congress which seemed to me a reversal of previous opposition to constructive measures.

The Ambassador expressed his appreciation and said that this brought him to the question of Italy's financial situation. For the next three or four years Italy's unfavorable balance of payments, he thought, would amount to \$500,000,000 to \$600,000,000 per year. This was due to a number of causes. First and foremost, Italy had lost her most important export markets in central Europe—Germany, Austria, and in large part Czechoslovakia. Only Switzerland remained. Similarly, Scandinavia had reduced its purchases of Italy's principal exports, fruits and vegetables, and Italy had not been able to build up markets in France or England. Fruits and vegetables were now considered as "luxuries" which all those countries could do without and the other important Italian export, textiles, was running into greater competition because of the high cost of Italian production. In order to avoid unemployment Italy's factories are compelled to employ three men for the job of one. Her steel and shipbuilding industries suffer through lack of coal. Furthermore, the Italian merchant marine had been reduced from some 3,600,000 tons before the war—the minimum necessary—to about 600,000 tons. Thanks to American help it is now back to 1,200,000 tons but this is far too small. Atlantic shipping conditions and other factors mean that tourist trade, another important source of revenue, will continue greatly diminished for the next three or four years. On the other hand, Italy is compelled

⁴ For text of the statement, released to the press by the White House on June 14, see Department of State *Bulletin*, June 22, 1947, p. 1214.

⁵ See telegram 1402, June 4, from Rome, p. 917, and memorandum of July 29, p. 951.

⁶ Reference is presumably to Public Law 271. The Supplemental Appropriation Act, 1948, approved July 30, 1947; 61 Stat. (pt. 1) 612.

to spend large sums abroad for her two principal essentials: wheat and coal. I asked whether Italy did not desire more ships and whether she had the crews to man them as this seemed to be one possible source of further American help. He said that in addition to the return of Italian ships utilized by the United States during the war, Italy had purchased through Mr. Byrnes' efforts on long term credit 50 Liberty ships and an additional 50 had been granted at the time of Mr. de Gasperi's visit here. I asked why more are not available in view of the large number of Liberty ships which we still have. Mr. Tarchiani and Mr. Matthews replied that they thought the Maritime Commission was reluctant to sell ships to foreign governments owing primarily to the dislike by American shipping interests of foreign competitors who could operate the ships at much cheaper costs. I asked Matthews to explore the possibilities of acquiring further merchant ships for Italy. I asked that tankers be included in such a study since I had this morning considered the sale of tankers to foreign owners and Mr. Tarchiani indicated Italy would like to acquire some on credit.

As to the deficit for the current year Mr. Tarchiani estimated it at \$100,000,000 and said that this could be reduced, he thought, to \$50,000,000 if the tentative amount of relief ear-marked for Italy could be increased. He said that he thought it was important that if possible steps be taken to step up food shipments between now and the time of the elections so that the Italian people could be given some material as well as psychological lift. There was one final question about which he had spoken to the President and to Matthews, namely, the importance of issuing a statement at the time of ratification of the treaty. He said naturally the treaty was not popular in Italy and it was important to give the Italian people some counteracting assurances at the time of ratification. I said I thought we could issue a statement at that time. He said that he hoped any statement would contain some specific reference to Italy's "disarmed frontiers" and give some sort of "moral guarantee" by the United States that they would be respected. Opinion in Italy is very sensitive to the fact that Italy has been effectively disarmed by the treaty in the face of an aggressive and well-armed Yugoslavia. For all their talk and oratory the Italians are essentially a realistic people, he said. They think that the United Nations may at some future date become an effective organization for world security but they have little confidence in its ability to defend Italy's frontiers at the present time. I told the Ambassador that I would look into this aspect of the matter. I said that I recognized the importance of aiding Italy from the psychological point of view. I understood Ambassador Dunn was fortunately in "good voice", so to

speak and he would be authorized to continue addressing the Italian public. Furthermore, I hoped the programs of the Voice of America to Italy could be stepped up. The Ambassador said both were quite helpful.

865.00/5-2047

*Memorandum of Conversation, by the Director of the Office of
European Affairs (Matthews)*

TOP SECRET

WASHINGTON, May 20, 1947.

The Italian Ambassador called this afternoon at his request and read me part of a private very secret message which he had received from de Gasperi. The message was partly in response to reports which the Ambassador had sent following his conversations with the President and with the Secretary. It suggested that the Ambassador make an early approach to Secretary Snyder on Italian financial needs which was in accordance with what Tarchiani said the President had suggested.

While the important part of the message was somewhat vague Mr. Tarchiani interpreted it to mean that Nitti will probably not be successful in forming a government and that de Gasperi will thereupon be asked to do so. De Gasperi seemed somewhat dubious of success and apparently in need of encouragement. Unless he is successful Tarchiani thought a period of uncertainty and disorganization will ensue with eventual Communist success and tragic effects on Italy. De Gasperi asked specifically whether he could count on the moral support of the United States and on additional financial help to enable Italy to meet its financial necessities this year if he undertook to head a new government. The Ambassador asked me to bring this to the attention of the Secretary and to say on his behalf that he felt it important to get some message of encouragement to de Gasperi this evening. I told the Ambassador I would inform the Secretary immediately of his call.

After consulting the Secretary I telephoned the Ambassador by his direction and told him that he might send the following message from the Secretary to de Gasperi :

"You may count on the strong moral support of the United States and that we will make a serious effort to assist Italy in meeting her essential financial needs."

The Ambassador said that he thought this message would give de Gasperi the needed encouragement and expressed his deep appreciation.

The Ambassador emphasized throughout the very private nature of his communications from and to de Gasperi and urged that the matter be kept entirely secret.

H. F[REEMAN] M[ATTHEWS]

865.00/5-347 : Telegram

The Secretary of State to the Embassy in Italy

TOP SECRET

WASHINGTON, May 20, 1947—8 p.m.

US URGENT

726. For the Ambassador. Dept has considered Ital situation in light developments outlined Deptel 622 May 1 as well as info urtel 1031 May 3 and subsequent tels. It is evident any non-Communist govt formed following De Gasperi's resignation must achieve early, visible improvement economic conditions and demonstrate Ital people it enjoys Western support if further progress Italy along democratic lines expected. Foregoing naturally applies also and in almost equal measure to any new govt in which Communist participation is reduced to minimum.

In anticipation of possible request from Itals as to what US support such govt might obtain, following proposals have been formulated and approved:

1) General pledge US support for Italy, to be made upon formation new govt.¹

2) Consultations to be undertaken UK and French Govts to urge them lend support Ital Govt and take steps provide Ital people tangible evidence this support, including any possible treaty revision in Ital favor. One move would be immediate admission Italy to Tangier regime.²

3) Contemplated Italo-US agreements, including commercial treaty, bi-lateral air agreement and trade agreement, to be negotiated soonest possible to derive full psychological value. US to urge Ital Govt take immediate effective steps improve economic conditions.

4) Every available source economic assistance Italy to be utilized, including post-UNRRA relief.³ Congress to be urged pass promptly enabling legislation for return Ital assets in US, including seized

¹ Issued to the press by the White House on June 14. For text, see Department of State *Bulletin*, June 22, 1947, p. 1214.

² The Ambassador in France, Caffery, reported in telegram 4171, September 25, from Paris, not printed: "Member of Italian Embassy told us this morning that he had learned from French of our initiative (and French concurrence) in renewed effort to obtain Italy's readmission in international regime at Tangier now that peace treaty has been ratified." (881.00/9-2547)

The British Embassy's note No. 553 of October 13, not printed, gave the Department official notice of Italy's admission under article 11 (b) of the Anglo-French Agreement of August 31, 1945 (881.00/10-1347).

³ See telegram 1786, July 1, from Rome, p. 930.

ships; ⁴ Eximbank to be urged expedite availability \$100 million earmarked loan; War Dept to be asked expedite final settlement suspense accts.

5) Surplus mil eqpt, recommended by SACMED for transfer to Ital armed forces, to be made available lowest possible cost.⁵

6) Every opportunity to be taken advertise to Ital people US support Italy and US appreciation Ital progress.

Tarchiani told in genl terms of above measures when he called see me May 16, as well as our willingness explore possibility making available additional merchant ships for Italy. He was also informed we contemplate statement of US support for Italy at time treaty is ratified, in addition to friendly statements which I understand will be made in Senate during treaty debate.

In your discretion, you may use substance of foregoing in conversations with De Nicola, De Gasperi or others re formation and future course of new govt.

MARSHALL

⁴ Regarding the "Memorandum of Understanding between the Government of the United States of America and the Government of Italy regarding settlement of certain wartime claims and related matters", see editorial note, p. 956.

⁵ See letter of July 21, by the Deputy Central Field Commissioner for Europe, p. 939.

865.248/5-1447 : Telegram

The Secretary of State to the Embassy in Italy

TOP SECRET

WASHINGTON, May 21, 1947—6 p.m.

734. Reur 1146 May 14 FLC issuing instructions FLC Rome to negotiate transfer planes at nominal price (Deptel 695 May 15) to be arranged in consultation you.

Figure of \$92,000 is total estimate. Final price to be determined by FLC in consultation with you on basis Ital capabilities in accordance Deptel 695.

War Dept has informal reports indicating Itals already forced cannibalize some P-38's to maintain serviceability P-38's presently operational. War reiterates impracticability furnishing maintenance parts spares 38's. You shd therefore discourage any further consideration Itals continued use 38's and urge acceptance overall combined US-UK plan as offered. Dept exploring further with War possibility accept return 38's for credit and will advise soonest.

Contemplated training will be by US personnel in Germany and will involve stationing no US mil personnel in Italy after R plus 90.

MARSHALL

865.00/5-2847 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET

ROME, May 28, 1947—8 p.m.

US URGENT

1322. Mr. De Gasperi arranged yesterday for a confidential meeting with me. He said that he was giving serious consideration to the formation of a government by his own party, the Christian Democrats, alone, with the inclusion perhaps of some experts who would not be considered as politically representing any of the other parties. He said he was considerably concerned in making this decision as to whether such a government would be successful in dealing with the economic situation because if it failed, in his opinion the next step would be a government of the extreme Left. He knew that every effort would be made to undermine and discredit the new government by the extreme Left although he felt he could count on sufficient votes in the Assembly to give him parliamentary support.

I took occasion to give him the substance of urtel 726, of May 20, 8 p.m. as no opportunity had presented itself to convey this information because of the discussions regarding formation of a new government. He made very careful notes of each point and discussed them in detail with me. He then said that we could dispense with discussion of the attitude of the US toward Italian situation as he was fully conversant with and fully appreciative of what we had done and the favorable attitude manifested by our government as indicated in the information I had just given him and in conversation which Tarchiani had had with the President and you and R. L. [J. W.] Snyder.¹ He said, however, that what he needed for the survival of the new single party government, if he undertook it, was some new and substantial evidence of economic aid which could be applied to the support of the lira and the financial position of the government. He said that in order to provide the basis for economic and financial stability the new government would have to undertake many unpopular measures and it was only by presenting the picture of having the financial strength to effect economic recovery that he could have the necessary program accepted by the country. He said that if he had this new substantial support he was ready to take up the battle against the parties of the extreme Left. He felt that this winning of such a battle was of primary importance to the country because if his party were politically discredited the effort toward preservation of real democracy in Italy would be eclipsed.

¹ Records of Tarchiani's conversations with the President and with the Secretary of the Treasury, not found.

My own judgement of the present situation here is that a Democratic Christian government headed by De Gasperi and given economic and financial support by the United States in addition to the matters mentioned in your 726 can turn the tide now strongly favoring the Communists and bring about an increase in the parliamentary representation of the center and left of center, thus strengthening the democratic forces in their development here in Italy. I am fearful however, if the proposed government does not receive some additional financial support that it will not be able to resist the undermining efforts of the extreme Left.

Of course, everyone here has their eyes upon the forthcoming elections which are now expected to be held in October or November and almost every step taken in connection with the formation or actions of the national government is with a view to the representation of the parties which will result from these elections. As the efforts of the other Democratic leaders to form a government have now apparently failed, I believe we have come to the point right now where we should, if possible, give assistance to a Democratic Christian effort should they succeed in forming a government.²

In addition to the measures referred to in urtel 726, May 20, 8 p.m. suggested as support for a new government of the kind referred to after consultation with Tasca, strongly urge that consideration be given to additional aid to Italy from the following sources: (a) credit to the Italian Government of a sum of 20 million dollars involved in the prisoner of war credit certificates irregularly taken up by the Italian Government and the elimination of this item from claims by Italy to be cancelled under the financing agreement presently being negotiated; (b) immediate return to the Italian Government of some 20 tons of gold held at Bank of Italy under USFA [US-UK?] custody; (c) transfer of some part of gold pot share ultimately to be transferred to Italian Government at as early a date as possible; (d) modification in administration of Export Import Bank loan to make available the 100 million dollar loan for basic requirements of last six months of 1947; (e) possible addition of further sum to 100 million dollars loan, to be taken from funds allocated to China.

I realize that latter two suggestions involve matters of very high policy, the realization of which may encounter serious difficulties. It should be emphasized, however, that this is the opportunity for the US Government to indicate in bold relief its political support for the first post war Italian Government formed without the Communists.³

² In telegram 1364, June 1, from Rome, not printed, Dunn reported that a government had been formed by Christian Democrats and outside experts, but without Communists (865.00/6-147).

³ The endorsement of this telegram by the Division of Financial Affairs has the notation: "Memo drafted to Secretary 6-3-47 FN H[enry] R. S[piegel]". See *infra*.

At the same time I was talking to the Prime Minister, Tasca was meeting with Minister of Treasury Campilli with the consent of De Gasperi and myself. Tasca's report of that conversation is contained in next following telegram.⁴

DUNN

⁴ Not printed.

FW 865.00/5-2847

Memorandum by the Director of the Office of Financial and Development Policy (Ness) to the Secretary of State

TOP SECRET

WASHINGTON, June 3, 1947.

Subject: Urgent request of Ambassador Dunn for assistance to new Italian government.

DISCUSSION

Ambassador Dunn's telegram No. 1322, May 28, attached,¹ states that it is of great political importance to give de Gasperi's new Democratic Christian Government concrete evidence of U.S. support. The Ambassador feels this is essential if the new government is to survive expected attacks from leftists groups. The Ambassador suggests five possible measures of assistance :

1. Credit Italy with approximately \$20 million for prisoner-of-war certificates representing wages and salaries of former Italian POWs.
2. Return immediately to Italy about \$28 million worth of captured Italian gold currently in Anglo-American custody.²
3. Make an advance transfer to Italy of some part of the share in the German Gold Pool which may ultimately go to Italy.
4. Modify the terms of the existing \$100 million Eximbank loan so as to make it available for basic 1947 requirements.
5. Make an additional \$100 million Eximbank loan, these funds to be taken from the \$500 million earmarked for China.

RECOMMENDATIONS

1. The approximately \$20 million available in the POW trust fund account should be transferred. This will require concurrence of and possibly pressure on the War Department.
2. The Department previously attempted to get British agreement to immediate transfer of the gold in custody. The British would agree only to transfer upon the coming into force of the peace treaty. In view of changed circumstances the Department should again seek British concurrence to immediate transfer.

¹ *Supra.*

² See footnote 2, p. 987.

3. The Department has engaged in discussions with the British and French looking toward the admission of Italy to the German Gold Pool on the same basis as the other participants. The French, however, insisted that Italy should not share in that part of the German Gold Pool contributed by Switzerland under agreement with the Allies. Until this is resolved it will be impossible even to consider an advance distribution to Italy. In the light of the new political situation in Italy and the French interest therein, a high level attempt should be made to obtain French consent to full participation by Italy in the Pool. If, nevertheless, the French continue to maintain their present position, the Department should agree for the sake of getting prompt action.

4. Since the Eximbank agreed to the \$100 million loan to Italy only after vigorous efforts by Mr. Clayton and after the matter had been taken to the White House, it is not believed that Ambassador Dunn's suggestion to seek liberalization of the terms of the loan is feasible. The Eximbank agreed to make funds available only for approved export projects and only if conditions in Italy were stable and Italy's other needs could be met from other sources.

5. It is believed that your decision on May 23 to continue earmarking \$500 million of Eximbank funds for China, precludes Ambassador Dunn's suggestion of giving Italy an additional \$100 million from this source. The Bank has currently available only about \$300 million outside of the funds earmarked for China. In view of the limited resources available a choice must be made between Italy and China or between Italy and other applicants.

6. If the above recommendations meet with your approval they will be communicated to Ambassador Dunn in response to his telegram of May 28.

CONCURRENCES

This action has been concurred in by A-T—Mr. Thorp and EUR—Mr. Matthews.

865.51/6-447

Memorandum of Conversation, by the Director of the Office of European Affairs (Matthews)

TOP SECRET

[WASHINGTON,] June 4, 1947.

Ambassador Tarchiani called this afternoon at his request and read from another private telegram which he had just received from de Gasperi through their private channels (see memorandum of conversation of May 20, 1947). The cable, which was sent before our

public statement of June 2,¹ welcomed the assurances which Ambassador Dunn had given de Gasperi (see Dunn's telegram no. 1322, May 28, 8 p.m. and telegram 1323, May 28²) and expressed the hope that a public statement would be made by our Government in support of de Gasperi's new Government. Mr. Tarchiani said that this statement had now been made and that he considered the one which we had issued a very good one, striking just the right note under the circumstances. De Gasperi's cable went on to say that as a result of conversations between Tasca, our Treasury Attaché, and Campilli, the Italian Minister of Treasury, it appeared that Italy's balance of payments for the current year would be in deficit to the amount of some \$200,000,000. To meet this de Gasperi urged the importance of further financial assistance in addition to the measures proposed, such as suspense account payments, return of Italian assets in this country, et cetera, now under discussion with Lombardo.³ Specifically, he wanted to know whether (a) the \$100,000,000 Eximbank credit to Italy could not be made available in its entirety to the Government for utilization this year and whether (b) a further \$100,000,000 might not be obtained from the \$500,000,000 now earmarked for China. Ambassador Tarchiani had been asked urgently to inquire as to the possibilities of obtaining this further assistance. He emphasized that neither Sforza nor Lombardo nor anyone else know of this personal appeal from de Gasperi and that it must be kept entirely secret. He asked me to look into the matter and let him know the possibilities within the next few days. He said that he naturally did not expect anything approaching a "commitment" in such a brief space of time but would like to know whether or not either or both of the suggested measures were within the realm of possibility. I said that I would look into the question and endeavor to let him know. I asked on what basis post-UNRRA relief for Italy had been figured in arriving at the \$200,000,000 deficit. He replied at the "conservative" one of \$100,000,000, adding that of course any allotment over that figure would correspondingly reduce the deficit.

He said that de Gasperi has now agreed that elections should be held on the 9th of November and emphasized the importance of them. He said that the new Parliament would be elected for a period of four years and the new Government would be formed on the basis of the November elections. He could not overestimate the importance of doing all that could be done to improve Italy's lot before then and to prevent the Communists, with their apparently unlimited funds, from winning.

Mr. Tarchiani thought that when de Gasperi goes before the Constituent Assembly on Saturday he would come through with a small

¹ For text, see Department of State *Bulletin*, June 15, 1947, p. 1160.

² Not printed.

³ See editorial note, p. 956.

majority which should be adequate. He denied the accuracy of stories reporting that the Communist Partisans were taking to the hills to start disorders. On one road a total of 10 Carabinieri had been stationed but that was all the precautionary measures required in all Italy. The demonstrations in Rome had been quite orderly. In de Gasperi's earlier negotiations, however, the Communists and Socialists had fought bitterly against being excluded from the Government.

I said that as he knew the Italian peace treaty would be voted on by our Senate tomorrow and I asked whether, if we succeeded in obtaining Senate consent to ratification, he believed the Constituent Assembly in Italy would likewise ratify before adjournment on June 24. He said that he felt it would and that he had had Sforza's assurances to that effect. He reverted to his statement to the Secretary on May 16 as to the importance of our issuing a statement promptly on ratification. The statement, he said, should emphasize: (1) the fact that while the treaty is being ratified in the interests of general peace and reconstruction of Europe, its terms did not represent the wishes of the United States which had favored a more generous treaty and (2) that through the usual processes and through the United Nations it is subject to modification.

H. F[REEMAN] M[ATTHEWS]

865.24/6-447 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET

ROME, June 4, 1947—7 p.m.

1398. OFLC, Rome, advise that negotiation of additional credit agreement for \$10,000,000 to cover purchases of fixed installations, scrap, YMS vessels, ammunition, combat material and other items not covered by agreement of September 10 [9], 1946,¹ is held up pending further advices from OFLC Paris and Washington, concerning possibility of bulk deal encompassing all these items. These items cannot be included in original bulk deal even though total credit will not be absorbed because prices involved will be considerably less than 18.2% of government cost. Caulkins² suggests individual sales contracts covering each class of item using same Three (C) payment terms as bulk agreement and negotiating amendment to bulk agreement to

¹ See *Foreign Relations*, 1946, vol. v, p. 932.

² Daniel P. Caulkins, Field Commissioner, Office of Foreign Liquidation Commissioner, Mediterranean Theater.

cover additional real estate requirements (reDeptel 734, May 21 and Embtel 1365, June 1³).

In connection with the eventual instructions issued to OFLC Rome for transfer of remaining items to Italy, it is urged that the Embassy together with OFLC be allowed in our discretion to by-pass ARAR. As the Department is probably aware ARAR is constituted as the agent of the Italian Government to receive surplus and to dispose of it on a commercial basis. Because of the commercial aspect of ARAR operations, that organization is loathe to transfer material to impecunious government ministries of which the service ministries are good example. Furthermore, we are inclined to be dubious of the good will toward the US of some of the ARAR personnel. Accordingly, since the sale of surplus ground and air aviation equipment is a nominal sale without commercial aspects, we would be inclined to discuss the proposed negotiations in advance with either the Prime Minister or the new Vice President of the Council, Einaudi, who as Minister of the Budget will have control over expenditures authorized for the service ministries.⁴

DUNN

³ In this telegram, not printed, Dunn pointed out that the program for reequipping the Italian army was not at the same stage as that for the air force for which SAC had received instructions from the CCS whereas none had as yet come regarding the army (865.20/6-147).

⁴ In telegraphic instruction 898, June 12, not printed, the Department directed that the negotiations need not involve ARAR; and that Dunn might use his own discretion in dealing directly with the appropriate Italian authorities (865.24/6-447).

865.51/6-447 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, June 4, 1947—7 p.m.

1402. Export-Import Bank representatives conversations in Rome ended May 29 and Messrs. Arey and Itana¹ left for visits to industrialists in southern and northern Italy May 30. Subjects of [*subject to*] development of new thinking as a result of this trip, representatives have reached agreement with Italians on memorandum (text by air) to be submitted to board of bank for implementing tentative 100 million dollar credit.²

¹ Hawthorne Arey, vice president and general counsel, Export-Import Bank. "Itana" is a garble for Tirana. Rifat Tirana was a senior economist with the Export-Import Bank.

² The Department's instruction 168, July 28, 1947, not printed, forwarded to Rome copies of the Report to the Board of Directors of the Export-Import Bank, 34 typewritten pages, dated June 23, 1947 (811.516 Export-Import Bank/7-2847).

In summary memo states:

1. Italian Govt will guarantee credits and undertakes to ensure that all qualifying firms will get share of financed raw materials.

2. Credits will be remitted to industries which can most quickly increase Italian exports i.e. improve balance of payments. Italian Govt proposes to limit equipment financing to 15 percent (although needs of individual industries may deviate from this percentage).

3. Credits will be geared to import needs over next one year period.

4. Italian Govt will select the firms (and indicate respective amounts) authorized to contract direct with Export-Import Bank.

5. For smaller manufacturers Italian Govt will draw up an overall program based on one year production and export prospects.

Credit applications for small firm groups will be made by "industrial sectors".

6. Italian Govt proposes to allocate one-half total credit to large firms (about 35) under direct loans and one-half to small manufacturers through IMI.

7. Export-Import Bank proposes to open credits simultaneously for each sector as a whole. Italian Govt suggests following priority of sectors without prejudice to Export-Import Bank's right to examine any application it may receive:

- (a) Iron, steel and mechanical;
- (b) Electro mechanical;
- (c) Chemical; and
- (d) Rubber.

8. There shall be no discrimination between term of credit for small firms financed through IMI and "direct loan" firms. Confindustria assumes responsibility to inform firms of terms. Firms belonging to an approved sector may, subject to Export-Import Bank IMI agreement, buy goods from IMI in lire. IMI is responsible for records of distribution of raw materials.

9. Excepting coal and POL materials distributed under credits will not jeopardize right of firms so credited to their normal internal allocations.

10. IMI will cover credits in special dollar accounts guaranteed by dollar value of financed raw material inventories and equipment plus exchange proceeds of exports in sufficient amount to cover deficit.

11. So long as existing exchange regulations prevail dollar exchange to service credits and to enter into IMI cover account is to come from exporters 50 percent share of exchange.

12. Italian Treasury may charge a commission of one and one-half to two percent per annum to borrowing firms.

13. Export-Import Bank will be kept informed of use of credits.

14. Italian Govt should devise methods to reduce number of direct lines of credit (i.e. permit group contracts for each sector or large firms).

15. While the Export-Import Bank emphasizes it is not authorized to discuss terms or interest rates, Italian Govt points to convenience of:

- (a) Terms of ten years or more;

- (b) Begin amortization only after second year; and
- (c) Low interest rates.

16. Export-Import Bank representatives express view that terms and conditions of credit bear direct relation to economic position and export prospects of each sector.

17. Italian Govt has taken note of and has not objected to usual terms included in Export-Import Bank loan contracts.

Throughout conversation Export-Import Bank representatives stressed that discussions in no way modify general conditions set forth in bank's letter of last January to De Gasperi.

DUNN

865.00/6-647 : Telegram

The Secretary of State to the Embassy in Italy

SECRET

WASHINGTON, June 6, 1947—8 p.m.

864. For the Ambassador. Demonstrations organized Rome and other cities show Communists intend charge new Ital Govt as undemocratic, without representation working classes, while attempting portray US as supporting reactionary Ital elements. Dept has no doubt gov't program will in time refute these charges but propaganda value of such attacks can not be ignored, either as regards implementation Ital Govt program, some necessary measures of which are bound to be unpopular, or as concerns effectiveness of US assistance.

In view of foregoing, Dept feels that in conversations with Christian Democrats and PSLI¹ leaders you might take occasion intimate some disappointment that agreement could not be reached for PSLI participation in cabinet. You might explain to PSLI leaders, . . . US view that Ital situation requires loyal cooperation all truly democratic elements in nat'l interest. With CD leaders, you might point out need, which applies to all European Govts today, for support of democratic left and of fullest possible representation working classes. To both, you might convey impression of US hope that way may yet be cleared for eventual PSLI participation in gov't.²

MARSHALL

¹ *Partito Socialista dei Lavoratori Italiani*, Socialist Party of Italian Workers, the followers of Saragat who had broken away from the Nenni Socialists because of that party's pact of unity with the Communists.

² In telegram 1500, June 11, Dunn reported that he had conveyed this point of view to a principal leader of the PSLI, and he added in telegram 1534, June 13, that a CD leader had reviewed the situation with him and expressed the view that, while widening the cabinet was desirable and might later be possible, for the time being it was likely to provoke an undesirable crisis. Dunn recommended that no further steps be taken. (865.00/6-11, 6-1347)

865.00/6-847 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, June 8, 1947—midnight.

1455. While it may be a little early to judge (already 40 deputies are inscribed for interpellations following the new government's statement scheduled for today) there is some justification in expecting the new De Gasperi Government to admit the critical economic facts of Italy, however unpleasant, and to make genuine efforts to adopt and carry out its program accordingly. The bullish reaction of the lira (785 May 13 when Cabinet resigned 725 June 5) since announcement of the new Cabinet is perhaps symptomatic of restrained providence [*confidence*] and hope.

The participation of Einaudi¹ as Vice Premier and Minister of the Budget over Finance and Treasury; the constitution of a consultative economic planning body (a "brain trust" according to *Il Globo*) the increasing realism of CIR studies of Italian exchange balance and Italian needs revealed in our current talks on relief, suggest a conscious striving to develop internal measures which inspire confidence among groups, and in countries (i.e. the US) whose contribution to rehabilitation is essential.

In this light, the Secretary's Harvard address² is, as concerns Italy, most happy as to both substance and timing. It is what is needed to rally the Cabinet and the majority of the country to support unpleasant restrictions and sacrifices against opposition of special interests. The next few days should prove whether this is indeed the real start up and forward.

DUNN

¹ Luigi Einaudi, governor of the Bank of Italy, January 1945–May 1948; later president of the Republic, 1948–1955.

² For text of Secretary Marshall's address of June 5, see p. 237.

Editorial Note

On June 9, 1947, by an exchange of notes, signed by Ambassador Dunn and Foreign Minister Sforza, the United States Government agreed to turn over to the Italian Government air navigation, communication, and weather facilities at ten listed air fields where they had been installed by the U.S. military services. For texts of the notes, see Department of State Treaties and Other International Acts Series (TIAS) No. 2127, or 62 Stat. (pt. 3) 4074.

740.0011 EW Peace/6-1147

*The Secretary of State to the Chairman of the Senate Committee
on Foreign Relations (Vandenberg)*

[WASHINGTON,] June 11, 1947.

MY DEAR SENATOR VANDENBERG: You will recall that on April 15, 1947 the Acting Secretary, Mr. Acheson, wrote to you in connection with Italian property in the United States and the Treaty of Peace with Italy. In that letter it was indicated that the policy of the United States had been "firmly directed toward the release by this Government of Italian property controlled by it, whether blocked or vested. It is, therefore, contemplated that arrangements will be made for the unblocking and return of such property".

The letter under reference was designed for inclusion in the record of the Senate dealing with the Treaty of Peace with Italy and, in part, released, during the course of your Committee's hearings, to the public.

Discussions have now for some time been under way with an Italian Delegation which is presently in the United States. Procedures for the unblocking and the return of Italian property here have been discussed with the Italian Delegation and have, with the possible exception of certain drafting changes, been satisfactorily worked out. It appears, however, that further legislative action will be necessary in order to effect the return of such property, previously Italian, as has been vested by the United States Alien Property Custodian.

After conference with the Office of Alien Property, Department of Justice (the successor to the Office of Alien Property Custodian), and the Treasury Department, the Department of State therefore recommends the enactment, by the present session of Congress, of legislation which would enable the executive branch of this Government to enter into arrangements for the return of the vested property under reference. Should such legislation be enacted, the Office of Alien Property will have authority to make returns to Italy or to Italian nationals on exactly the same basis as returns are now authorized vis-à-vis non-enemy countries, such as France, Belgium, etc. I therefore commend to your attention and to that of the Congress the early enactment of legislation designed to accomplish this result.

It may be pointed out that the legislation will, in itself, not actually return Italian property, but will merely authorize the Office of Alien Property to enter into arrangements, safeguarding the interests of the United States, as well as contributing to the welfare of Italy and to the alleviation of the Italian burden under the Treaty of Peace, for the return of such property.

Because of the urgency of the matter this letter has not been cleared with the Bureau of the Budget, to which a copy is being sent.

While the attached joint resolution ¹ has been cleared in substance with the interested agencies, it may be necessary for certain language changes to be made prior to its enactment. These changes will be available the early part of next week.

Faithfully yours,

G. C. MARSHALL

¹ Not printed; the draft was the basis for Public Law 370, "Joint Resolution: To provide for returns of Italian property in the United States, and for other purposes," approved August 5, 1947 (61 Stat. 784). See also the bracketed note, p. 956.

865.00/6-1747: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET

ROME, June 17, 1947—9 p.m.

US URGENT

1590. Re statistical presentation in my 1579, June 16, midnight,¹ I wish to emphasize following very important qualifications to any interpretation of the data presented:

1. It is likely that the estimates presented, in absence of any substantial US aid in addition to post-UNRRA program will involve a drastic reduction re Italian Govt's exchange reserves. In view of uncertainties attached to problem of financing Italy's requirements in 1948, as well as unfavorable economic developments which may take place during last six months of 1947 it is highly important that Italian Govt maintain sufficient foreign exchange reserves to meet such emergencies as may arise.

2. Dept's attention is also called again to very pessimistic forecast being made at present time with respect to current wheat crop. Until more definitive estimates are available with respect to need for grain imports during next twelve months' period it is impossible to state accurately total foreign exchange deficit which will have to be met during that period.

3. The entire Govt's estimates as revised by Embassy are based upon minimum emergency rations. A primary factor in the instability of any democratic govt in Italy is inadequate food supplies resulting in hunger which provides a fertile field for Communist propaganda and agitation.

4. If the present tide in favor of extreme left is to turn and if a democratic govt of present type is to succeed, its fundamental task

¹ Not printed.

must be to shift from present phase of an emergency hand-to-mouth economy to one providing maximum employment and production and their corollary of improved standards of living necessary for eliminating social unrest. For democratic leadership in Italy to survive it must accomplish this position towards a more permanent basic economic reconstruction which offers Italian people concrete hope for a betterment in standards of living in foreseeable future.

The political situation in Italy has reached a point of delicate balance where the outcome between totalitarianism of extreme left and democracy may be decided by the extent to which outside aid will support the democratic elements in Italy who are attempting to meet the heretofore unchecked drive of the Communists. Should the present effort to govern Italy without the Communists fail, the future of democracy in Italy may be most seriously endangered. A victorious Communist Party back in the Govt would face the coming elections in a very strong position with discouraged forces of Center either joining it for self preservation, along with Nenni, or turning in desperation to extreme right.

I urge therefore that Dept give immediate consideration to adoption of measures along lines suggested in mytel 1322, May 28, 8 p.m.

DUNN

865.00/6-1847: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

CONFIDENTIAL

ROME, June 18, 1947—9 p.m.

1613. *Avanti* (Socialist) carried this morning brief article to effect that report relative to organization of partisans movements in northern Italy had not been denied by Ministry of Interior. Headline stated that partisans were against the "black market". *Tempo* carried same item adding that center of movement was in province of Asti and its objective was to demonstrate against present government. *Messagero* article on subject referred to movement of opposition to government which parties of extreme left were endeavoring to develop and mentioned speeches inciting armed revolt on part of partisans of Teramo province. In line with above, we have been informed recently by young Socialist that several Communist friends of his had told him that they were bringing out their arms from places of concealment and were getting ready for any eventuality in light of advent of fourth De Gasperi Government. He expressed view, however, that Communists would not push violence tactics to point of civil war on national scale.

There have recently been reports, often from reliable sources, of large potential military and paramilitary formations under Communist control in Italy, especially the north. There is no doubt that Communist Party has military organization based on former Communist controlled partisan formations which are now organized into the ANPI (National Association of Italian Partisans) which is completely Communist controlled. Reported leader of this organization is Luigi Longo, the so-called Minister of War of the party, who was one of the organizers of the International Brigade in Spain. The number of these armed Communist elements has been placed as high as 150,000 men. The Embassy believes that this figure is too high insofar as actually armed elements are concerned. It is of opinion that there are in neighborhood of 50,000 trained men equipped with light weapons and sidearms at disposition of CPI.¹ This does not include, however, unarmed or semi-armed men who might rally to Communist banner in case of insurrection. As example, Embassy has recently received confidential memorandum from a highly reliable source concerning Communist semi-military formations in northern Italy. A copy of this memorandum has been forwarded to Department.² It indicates that there are in the provinces of Modena, Reggio Emilia, Parma and Bologna, so-called "Red zone" of north Italy, a total of about 10,000 armed Communist elements, already in active service which, in case of insurrection or direct Communist action, would be supplemented by about 40,000 men organized in the Garibaldi partisan brigades. The 10,000 represent cream of insurrectionary forces, the shock troopers, who would be called upon to undertake the most hazardous tasks as well as to liquidate leaders of opposition.

It is of course quite possible that rumors relative to "direct action" on part of Italian Communists are spread purposely by CPI in order to put country in state of jitters and with view to intimidating the present government. Although we would not be surprised to see an increase in the near future in political violence (a separate telegram is being prepared on this subject), in CPI inspired strikes and in all manner of nuisance tactics aimed at embarrassing government, we are not inclined to believe that Communists will resort to violent methods so long as they feel they may gain control of government through legal means.

DUNN

¹ Usually referred to as P.C.I., *Partito Comunista Italiano*, the Italian Communist Party.

² Not found in Department of State files.

865.24/6-1847: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, June 18, 1947—10 p.m.

1618. For Dowling and Labouisse.¹ We should like to call your attention to the OFLC telegram going out today as Embassy's 1617,² proposing in substance that the re-equipment of Italian Ground and Air Forces be brought within the close-out residual surplus negotiations for which Taff, OFLC Field Commissioner Paris,³ has come to Rome (see our telegram 1398 of June 4 and Department's reply 898, June 12).⁴

As explained in the accompanying OFLC message deliveries under the 160 million dollar credit of the bulk deal of last September,⁵ and under surplus contracts entered into before the bulk agreement, will run short a total of 28 million dollars, transfer value. The political advantage of putting into the residual deal (in effect an amendment to the bulk agreement), both non-combat items and all items belonging to the Italian Army and Aviation re-equipment programs are obvious. For example it could prove embarrassing, in fact it might be impossible, to negotiate at a later date an agreement covering only the re-equipment program. Furthermore, it would be easier at this time, considering the present composition of the Italian Government, to reach an agreement which would include the re-equipment (a few weeks ago the Prime Minister said to us P-51 proposal would meet opposition from extreme left in the government). A deal covering solely re-equipment which followed a general formula like that for P-51's would be apt to attract attention and provide a convenient point of attack against friendly government.

We are putting Taff in touch tomorrow with Einaudi to discuss the general purposes of the close-out surplus negotiations, to indicate who the end users should be of certain specific items (this being one of the main reasons for avoiding ARAR at least at this stage), and to suggest to him the setting up of an Italian negotiating group of his and the Prime Minister's confidence. However, the substantive negotiations will necessarily await OFLC's reply to the accompanying telegram and the Department's concurring instructions to us. You will

¹ Walter Cecil Dowling of the Division of Southern European Affairs, and Henry Richardson Labouisse, Jr., Special Assistant to the Director, Office of European Affairs.

² Not printed.

³ A. Erich Taff, Deputy Central Field Commissioner for Europe, O.F.L.C.

⁴ See footnote 4, p. 917.

⁵ See *Foreign Relations*, 1946, vol. v, p. 932.

accordingly understand how useful it will be for us here if you can help expedite the Washington decision.

DUNN

865.24/6-1947: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, June 19, 1947—8 p.m.

1634. Personal for the Secretary. With the imminent withdrawal of the Allied troops and the end of their stabilizing influence after ratification, the implementation of re-equipment plans of the treaty-size Italian Army and Air Forces becomes a matter of immediate urgency. The general political situation of the Government, and the deplorable inadequacy of the present Italian military forces to assume responsibility for the maintenance of order and even token protection of Italy's northeast frontier, make it indispensable to hasten the Allied program of providing for the transfer to Italian troops of combat material in this theatre. An unobtrusive method would be to include such combat material in a general surplus settlement.

To attain these purposes, the OFLC Deputy Commissioner, Europe, now in Rome, has requested, with our full endorsement, instructions from OFLC Washington in the above sense. (These instructions were requested in this Embassy's telegram 1617, June 18,¹ which was supported by mytel 1618, June 18.)

In view of the foregoing considerations and of the importance of the time factor, may I ask whether you would wish to express your interest in the appropriate quarters to see that the OFLC instructions may be forthcoming without delay in order to expedite negotiation of a single arrangement well before the theatre close-out.

DUNN

¹ Not printed.

811.2365/5-2347: Telegram

The Secretary of State to the Embassy in Italy

CONFIDENTIAL

WASHINGTON, June 20, 1947—8 p.m.

US URGENT

972. On 19 June SWNCC approved final draft Military and Civil Affairs Agreement between US and Italy as basis for negotiations by you through an exchange of notes with Ital Govt.¹

¹ On June 20 General Hilldring forwarded to the Department of State a copy of SWNCC 271/21, as approved on June 19, indicating that the Department should initiate negotiations on the basis of the draft (memorandum SWN-5489, June 20, not printed, 740.00119 Control (Italy)/6-2047).

Text agreement approved as in text of annex in ComGenMed tel F 75419 Mar 9² with following amendments:

Para three; second sentence: After "in any case not later than" and before "the coming into force of", insert "ninety days after".

Para eight: After "the United States Forces" insert "and organizations or persons employed by or accompanying these forces".

Para twelve: Delete entire paragraph and substitute following:³ "The Italian Government will continue to make available all services and facilities required by the United States Armed Forces during this period on the same basis as in the past, in consideration for which the United States Government shall pay to the Italian Government the amount of \$250,000, which amount shall be considered as full compensation for all such services and facilities furnished by the Italian Government under the terms of this Agreement. All other financial arrangements in effect between the Armed Forces of the United States and the Italian Government on 1 February 1947 shall continue in effect for the period of this Agreement."

Text of note contained ComGenMed tel F 75419 approved subject to such changes as you might consider appropriate.

Reurtel 1532 June 12,⁴ you may, in your discretion, include suggested changes if requested by Itals and agreeable Gen Lee.

Accordingly, you shd undertake appropriate negotiations at the earliest opportunity and inform Dept of date exchange of notes.

MARSHALL

² Not printed, but see telegram 509, March 10, p. 875. The amendments indicated above were incorporated in the agreement signed at Rome on September 3, 1947; see telegram 2601, September 3, p. 964.

³ For a summary of the original paragraph 12, see telegram 509, p. 875.

⁴ The reference is to telegram 1523, June 12, from Rome, not printed; it listed a series of proposed changes of wording, applicable to the U.S. Forces, on the basis of the text of F 75419 of March 9 (811.2365/6-1247).

865.24/6-2347

The Secretary of War (Patterson) to the Secretary of State

TOP SECRET

WASHINGTON, 23 June 1947.

DEAR MR. SECRETARY: In his 1021 of 2 May,¹ Ambassador Dunn states his view concerning 70 medium tanks and 50 105 howitzers which the War Department proposed to be shipped from Italy to the United States since they are needed in connection with War Department programs. General Lee, in messages furnished to the State Department, has recommended that these items of equipment be turned over to the Italian Army.

As to medium tanks, the War Department is querying General Lee since information now available indicates that considerably less

¹ See footnote 1, p. 903.

than 70 are required to equip the Italian Army to the number authorized by the peace treaty. Medium tanks of the type of the 70 under consideration are an item of particularly short supply in War Department programs.

There are in the Suez area in British possession over 200 lend-lease medium tanks of a type which the War Department does not intend to retain in its programs. These tanks are available for recapture or re-transfer in connection with foreign assistance programs. Hence, I suggest that in the matter of any additional medium tanks for the Italian Army the State Department take action with the British to utilize those in British possession now in the Suez area.

As to the matter of the 50 105 howitzers, these are in less short supply than the medium tanks. Howitzers are available to fill requirements for the Regular Army, the National Guard and the Organized Reserves, all the programs at present authorized by law. There are inadequate howitzers available for the contemplated needs of Universal Military Training, the Western Hemisphere Defense program and perhaps for the authorized Turkish aid program.

The requirements for this latter program are not available since determination awaits return of the survey group now in Turkey.

From a narrowly military standpoint, the proper action for the War Department is to return the 50 105 howitzers to the U.S. It is apparent that the national interest involved in this matter transcends narrowly military factors and involves international political factors which are the primary responsibility of the State Department.

Your views on the matter set forth in this letter are requested.

Due to the possible early ratification of the Italian Peace Treaty, there is an urgency involved in the problem set forth which requires its resolution by the end of this month. In case the State Department believes that the situation warrants serious consideration of transfer of any of the equipment mentioned above to the Italians, it is requested that the legal and financial considerations involved be taken into account in any action proposed.

Sincerely yours,

ROBERT P. PATTERSON

865.5018/6-2747 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

CONFIDENTIAL

ROME, June 27, 1947—8 p.m.

1744. In conversation with Ronchi, High Commissioner Food reported Embtel 1718 June 26,¹ Embassy's Agricultural Attaché²

¹ Not printed.

² Howard R. Cottam.

stressed importance forthcoming IEFC cereals conference and implied by series of questions regarding Italian rationing policy that before making major changes in rations or food controls Italy should bear in mind purpose of IEFC conference and apparent shortage in world cereal supplies (Reurtel 978, June 24³).

At this particular time with new government only 1 week in office since Assembly vote, it would be highly undesirable for US to take responsibility for demanding that government not increase ration. Appropriate place for matter to be acted upon is Paris meeting of IEFC. For US to take action singly now would be a blow to government which expects at least moral support from the US. Pressure for raising ration now is natural result in presence of harvest and it would be extremely damaging to our prestige and support of government for it to take entire responsibility for refusing increase.

Embassy awaits reply to its telegram referred to above before taking further steps.⁴

DUNN

³ Not printed; it directed the Embassy to suggest that the Italian Government postpone any increase of the ration until after the meeting of the various food ministers with the International Emergency Food Council scheduled for Paris in July (865.48/6-2347).

⁴ In telegraphic instruction 1045, July 1, not printed, the Department approved the course of action proposed by the Embassy (865.5018/6-2747).

Defense Files : Telegram

*The Director of the Plans and Operations Division, War Department
General Staff (Norstad) to the Commanding General, United States
Forces, Mediterranean Theater of Operations (Lee)*

TOP SECRET

WASHINGTON, 27 June, 1947.

WARX 81070. From WDGPO MA Rome for Stillwell.

1. Return to Z/I the medium tanks you are holding which originally totaled 70; however, now appear to total 56, and have been subject of exchange of messages. State Department concurs and is considering provision of 20 British lend-lease tanks from the Middle East, References are FX 76636,¹ paragraph 6 of WAR 99303,² and F 76195.³ For your information, the medium tanks are needed to meet established programs of the Regular Army and National Guard and therefore cannot be declared surplus.

2. The 50 105-millimeter howitzers are receiving further consideration by both State and War Departments; instructions are forthcoming

¹ FX 76636, June 21, 1947, not printed.

² WAR 99303, not found.

³ F 76195, not found.

ing. We understand that you now have in the depot for turn over to the Italian Army 78 105-millimeter howitzers, M-7, motor carriage, which are US lend-lease items, reference paragraph 3 B of F 76289; ⁴ plus 5 British pieces of medium artillery, reference paragraph 4 of FX 76636. This total of 83 should equip 3 Italian regiments. Therefore it appears that your action to hold an additional 50 105-millimeter howitzers is to equip 2 more artillery regiments, thus providing the Italians with a total of 5 medium artillery regiments. Is this correct?

3. There are in the European Theater approximately 300, M-18, tank destroyers equipped with 76 millimeter guns which can be declared surplus. Their condition and availability of spare parts are not known. Could 50 of these be used as substitutes for the 50 105-millimeter howitzers you are holding?

⁴ F 76289, May 15, 1947, not printed.

865.48/7-147 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

RESTRICTED

ROME, July 1, 1947—midnight.

URGENT

1786. I expect to sign tomorrow U.S. foreign relief agreement with Italy and I shall notify Department precise time as soon as arrangements are made. I propose to issue following statement at time of signature.

An agreement was signed today at Palazzo Chigi to provide food relief to Italy under recently enacted US foreign relief program. Prime Minister Alcide de Gasperi and Foreign Minister Count Carlo Sforza signed for Italy. Ambassador James Clement Dunn signed for US.

US foreign relief program is designed to alleviate misery of peoples in countries devastated by war. Congress of US has voted 350 million dollars to authorize relief supplies, food and medicines to following countries: Italy, Trieste area, Greece, Austria, Hungary, Poland, and China. This program will remain in operation through 30 June 1948.

Terms of agreement which two governments have signed today are based on an act of Congress of US and are virtually same as those currently being negotiated with other eligible countries.

Amount of funds as well as types and tonnages of supplies to be authorized for Italy and other nations will be determined periodically in joint consultation as the requirements manifest themselves.

In order to insure maximum expenditure for actual relief supplies and to supplement program with donations by American voluntary

relief agencies total of five million dollars is set aside in law for expense of ocean transportation and related costs incidental to work of private non-profit American relief agencies. Assistance of these private agencies is expected to augment aid received by Italy considerably.

US relief program will carry on humanitarian work of UNRRA through which US contributed supplies valued at four million dollars to Italy,¹ three quarters of entire UNRRA program, and will give aid to Italian economy while long term measures for rehabilitation of Italy have time to become effective.

This agreement illustrates once again strong sentiments of mutual friendship and sympathy that animate peoples of two countries. Purpose of US foreign relief program is relief on a broad popular scale. It is another indication of desire of American people to assist Italy toward point where her economy can carry on alone with full and unimpeded strength.²

DUNN

¹ The correct figure of \$400 million was supplied on the margin of the working copy in the Department of State.

² In telegram 1822, July 4, from Rome, not printed, Dunn reported that the signing took place that day at 11:15 local time with a good press turn-out assuring a good send-off for the strictly U.S. program (865.48/7-447).

Copies of the agreement were transmitted to the Department in despatch 1156, July 4, from Rome, not printed (865.48/7-447); for text of the agreement and exchange of notes, see Department of State Treaties and Other International Acts Series (TIAS) No. 1653, or 61 Stat. (pt. 3) 3135.

740.00119 Control (Italy)/6-3047: Telegram

*The Secretary of State to the Acting Political Adviser (Greene)
at Leghorn*¹

SECRET

WASHINGTON, July 3, 1947—1 p.m.

55. Urtel 115 June 30.² JCS with State concurrence approved Brit proposed reply Naf 1342,³ authorizing continuance AFHQ during period (if any) between R and RJ days with proviso AFHQ functions vis-à-vis Itals terminate R day.

You shd stress to Gen Lee view this Govt Allied mil in Italy must respect scrupulously restoration Ital sovereignty upon coming into force treaty and abide strictly by that principle in interpretation rights mil and civil affairs agreement.

Dept does not desire approach Yugos re their deposit ratification.

MARSHALL

¹ Mr. Greene was Acting United States Political Adviser to the Acting Supreme Allied Commander, Mediterranean Theater (Lee).

² Not printed.

³ In this telegram, June 26, from Leghorn, not printed, SACMED recommended that AFHQ continue to exercise command in the Mediterranean Theater until ratification by Yugoslavia of the treaty of peace with Italy (Defense files).

865.24/6-1947 : Telegram

The Secretary of State to the Embassy in Italy

TOP SECRET

WASHINGTON, July 3, 1947—7 p.m.

1063. For the Ambassador. You will have seen numerous War Dept and OFLC tels since urtel 1634 June 19 re reequipment Ital Army.

In letter 1 July SecState has urged SecWar give every possible consideration provide minimum requirements reequipment program.¹ Letter states “. . . I want to emphasize that the Dept of State considers it to be of great importance to the future peace and stability of Italy that the Ital Govt have at its disposal forces adequate to ensure internal order and to discourage aggression against Italy's frontiers and, further, that this factor is considered as being important to the national interest of the United States”

Re WARX 81070 June 27, it is hoped through substitution or transfer from other areas sufficient equipment may be obtained supply Ital minimum requirements. War Dept urgently considering all possibilities. Dept appreciates urgent requirements other War Dept arms programs but will continue stress importance effective reequipment Ital forces.

MARSHALL

¹ Not printed.

102.1/7-747 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

CONFIDENTIAL

ROME, July 7, 1947—6 p.m.

1852. Inform Treasury for Tasca. Several meetings have been held regarding amendment to Corbino Agreement¹ for purchase of surplus property. Apparently a stumbling block is question of valuation of lend-lease material turned over by UK to Italy under April 17 Anglo-Italo financial agreement. (Embassy's despatch 609, April 28, 1947, page 20, of attached agreement²) UK apparently stated to Italians at time amount involved did not exceed one million pounds, whereas Italians subsequently discovered 13 to 14 million pounds of US material involved. See Embassy's despatch 988, June 13,² containing *procès-verbal* signed in May. Italian Government now reluctant to assume dollar burden involved in such debt. Italians also consider such items as airfields, fixed installations and bridges overpriced. Minister Del Vecchio stated in this connection that he considered the basic Corbino-

¹ See *Foreign Relations*, 1946, vol. v, p. 932.

² Not printed.

Bonner Surplus Property Agreement unfavorable to Italy, particularly when compared with the Anglo-Italian Agreement for the disposition of surplus property in Italy.

Although Del Vecchio had expressly wished negotiations conducted without the presence of other Ministers, under insistence of Einaudi, a meeting is to be held as soon as possible with the Director General of Economic Affairs of Foreign Office and Del Vecchio, primarily because of the lend-lease item.

Repeated London 118.

DUNN

840.50 Recovery/7-647

Memorandum of Conversation, by the Director of the Office of European Affairs (Matthews)

[WASHINGTON,] July 9, 1947.

The Italian Ambassador called this morning at his request and left with me the attached telegram from Count Sforza to the Italian Embassies at Paris and London, dated July 6, containing the Italian acceptance of the Anglo-French invitation.¹ In connection with the last paragraph, he said that he hoped the pertinent commission of the Italian Constituent Assembly would recommend ratification of the treaty today but seemed a little doubtful. . . . Tarchiani said that he himself feels that it is important that Italy should ratify and I heartily agreed. I pointed out that this would strengthen Italy's case for admission to membership in the United Nations and her position during the forthcoming Paris discussions.

As to news from Italy, he said he felt more encouraged on the political side. There are signs, he said, that the Communists are losing ground. This was in part due to lack of money as well as to lack of patronage and the ability to do favors which comes from participation in the government. I gather that the Italian Government has been weeding out the Communists from positions in the Ministries and the fact that there are no more Communists in high office has strengthened the morale of the police and of government officials. He said it was quite clear that the Communists had been taking considerable sums of money from public funds for their own party purposes and the lack of this money was handicapping their efforts to increase their popularity. He told me a fact which I had not before heard, namely, that through their control of the Government Printing Office the Com-

¹ Not printed; regarding Italy's participation in the Conference of European Economic Cooperation, see telegram 2963, July 10, from London, p. 323.

munists had been printing large quantities of lire for their own use without accounting for it. This scandalous state of affairs had, however, been discovered and ended, he said.

He said also that the improved atmosphere following the elimination of the Communists from the Government had resulted in an improvement of the lire rate from some 900 to 600 to the dollar on the open market. He said that unlike France where the peasants apparently have lost confidence in the franc the Government estimates that Italian peasants have salted away some 150 billion lire in their socks. He said this was very fortunate as the inflationary pressure of such a sum if the peasants attempted to dispose of it would be considerable. He emphasized the importance of doing everything possible to continue the improvement and of the vital necessity of American financial aid.

I referred to the suggestion in the attached Italian acceptance telegram for the establishment of a Committee on Emigration and Labor and asked what progress the Italians were making in their negotiations with the French. (There is an agreement that France will import 200,000 Italian laborers.) He said that progress was very slow because of the French unwillingness to grant any economic concessions. I said that we understood that on both the Italian side and the French side all prospective Italian emigrants to France were being carefully screened by the French CGT and the Italian CGIL which labor organizations are Communist controlled. I said that we understood that only militant Communists were being accepted under this arrangement. The Ambassador said he had no knowledge of this and laughingly added it might be good for his country if it could ship its Communists to France. He said that they had tried to send Communists to Argentina but Peron wouldn't have them and wanted only Christian-Democrats. He laughed again and said this would be taking away De Gasperi's voters. More seriously he said that shipping was the bottleneck in getting Italian emigrants off to the Argentine. With an annual excess of births over deaths in Italy of between 400,000 and 500,000, outlets for Italian surplus labor were of great importance.

He asked me the status of the Fortezza gold² and I said I understood that we had approached the British suggesting that it be turned over to Italy. He said that this was important as it would give the Bank of Italy at least some gold reserve and strengthen confidence in the lira. He asked again if any progress had been made on the possible sale of Italian fruits and vegetables in Germany and I told him that I understood Italian negotiators were now discussing this in Berlin.

² See footnote 2, p. 987.

He said that he understood that the Ex-Im Bank's Commission report on Italy was now in and that it was "a good report".³ I said that I had just received it today and had not had time to read it but that I understood that it was favorable to Italy. He urged that prompt action be taken so that Italy could begin to draw on its earmarked credit.

Mr. Tarchiani said he had heard excellent reports with regard to Ambassador Dunn's trip to Sicily. He thought the visit had been genuinely helpful and that his speeches there had had a real effect. I said I was delighted to hear it and mentioned the Communist article bitterly attacking President Truman which I understood Mr. Dunn had properly objected to. The Ambassador said he was glad Mr. Dunn had spoken of this slanderous article but that the paper itself was of no real importance in Italy. He said that Togliatti's mild and reluctant support for the "Marshall Plan" was rather clear evidence that the enthusiasm for the "Plan" in Italy made it difficult for the Communists to oppose it openly.

In conclusion he expressed the hope, in case Italy now ratifies the treaty, that our Senate would reply to the message on this subject from the Italian Constituent Assembly of last winter. He thought this would have a helpful psychological effect. I told him I would look into the matter and see what could be done.

H. F[REEMAN] M[ATTHEWS]

³ See footnote 2, p. 917.

862.24/7-947 : Telegram

The Secretary of State to the Embassy in Italy

SECRET

WASHINGTON, July 9, 1947—4 p.m.

US URGENT NIACT

1090. Dept desires your comments soonest possible re Taff's phone conversation with Genl Connolly FLC on 7 July.¹ Understand Taff reported Min of Treas² stated Ital Govt not willing agree at this time to amendment Corbino-Bonner surplus property agreement³ to avoid twenty-eight million downward adjustment in one hundred sixty million settlement figure.

Apparently this development will seriously interfere contemplated arrangements transfer army equipment. In view apparent impossibility Itals undertake even nominal commitment on long range credit basis; impossibility FLC effect transfer gratis under surplus property act;

¹ No record of this telephone conversation has been found.

² Gustavo del Vecchio.

³ See *Foreign Relations*, 1946, vol. v, p. 932.

and now obstacle transfer under revision general surplus property settlement, request your recommendations. In your discretion you might wish to point out to Minister Treas or De Gasperi importance of obtaining settlement now in view of substantial concessions by US now being negotiated with Lombardo mission. In view nature certain materials involved in surplus property settlement Dept reluctant to discuss question with Lombardo but you might deem it advisable that tie up with Wash discussions be made by you in Rome. While Dept would not hold up signing agreement with Lombardo unless Ital yielded on surplus property, history of latter discussions indicates Ital refusal at last moment to enter into proposed surplus property agreement may be based on misunderstanding our intentions which might be corrected by reference to substantial concessions we are negotiating in Wash. If you approached Ital you could also point out that settlement now on surplus property taken in conjunction with settlement Wash would constitute complete settlement on all known claims US against Ital. Otherwise, US would, even after signing agreement with Lombardo, have outstanding a claim arising out of retransferred lend-lease property, with original cost 110 million dollars, which has not been made subject for discussion Lombardo, but has been reserved for inclusion in settlement surplus property discussions Rome. For your info OFLC Wash unable concur with Taff's suggestion that title to all remaining surplus Italy be transferred Ital Govt immediately on basis of undertaking by latter to reach agreement on price and payment terms within three months.

For your info only, agreement with Lombardo may be signed middle to latter part week July 14.⁴

FLC deferring further action pending receipt ur views and report results ur discussions Rome, if any.

MARSHALL

⁴ See editorial note, p. 956.

865.24/7-1247: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, July 12, 1947—3 p.m.

NIACT

1932. It is our view that principal obstacles to transfer agreement regarding US surplus property include (a) Government's reluctance to burden further Italy's dwindling foreign exchange assets with additional principal and interest payments implied in additional purchases of US surplus property and (b) concern regarding burden of Italy's balance of payment when principal payments begin to become due in

1951 (c) Anglo-Italian agreement regarding lend-lease supplies transferred by UK to Italy involve substantially higher figure than Italians had understood at time of agreement. In final analysis all three of above problems could probably be solved by offering Italians sufficiently attractive price with respect to disposal of remaining US surplus property in Italy.

Since it appears to be in US national interest only to complete this agreement as speedily as possible, I recommend that we establish on US side rock bottom price on basis of which we can conclude overall transfer agreement with Italians. Once this is established, I will see De Gasperi and, having in mind recommendations put forward your 1090, July 9, insist this Government conclude transfer settlement promptly.

After conversation with Taff who is sending parallel explanatory cable we believe that settlement with Italian Government might be reached on basis of turning over all remaining surplus property, including lend-lease, in Italy for total sum of 150 million dollars (Corbino-Bonner Agreement contained ceiling 160 million dollars). It is estimated this would mean about 23 percent recovery of original cost which would be above recovery percentages in other countries, such as France and U.K.

Will Department authorize me proceed on this basis or any other lower figure which Department can agree as our rock bottom price? Please reply urgently.¹

DUNN

¹ In instruction 1138, July 15, not printed, the Department concurred in Dunn's proposal if an over-all transfer agreement could be arranged for a total of \$150 million (865.24/7-1247).

865.24 FLC/7-1547: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, July 15, 1947—9 p.m.

US URGENT NIACT

1960. To OFLC. Conversations with Italian Ministers yesterday during Harriman visit¹ indicated a new urgent need for some im-

¹ In telegram 1966, July 15, from Rome, not printed, Dunn reported that Secretary of Commerce Harriman arrived in Rome Sunday afternoon, July 13, and was able that evening to discuss matters with Ambassador Dunn and General Lee. He was able next day to meet Italian President De Nicola, Prime Minister De Gasperi, Vice Prime Minister Einaudi, Minister of the Treasury Del Vecchio, Minister of Finance Giuseppe Pella, Minister of Foreign Commerce Giuseppe Merzagora, Minister of Industry and Commerce Giuseppe Togni, and several officials of the Ministry of Foreign Affairs. Harriman mentioned to Dunn "that he had been agreeably surprised and impressed with intelligence and evident high caliber of Ministers in present government whom he had met". (033.1140/7-1547)

mediate gesture on our part in support of present government in view of mounting Communist opposition both to treaty ratification and Marshall plan discussions in Paris. It is possible that in addition to another 100 million dollars credit from Exim Bank which I have already recommended,² pending surplus agreement on airfields, fixed installations, mine sweepers, fighter airplanes, combat equipment, lend-lease, scrap, etc., could be turned to advantage along these lines, provided it were divorced from former agreement of September 9, 1946 and presented to Italian public as a new and even more favorable gesture.

It is therefore proposed that the Corbino-Bonner agreement be left untouched and that OFLC endeavor to conclude with Italian Government a new agreement on all items of surplus uncovered by the former agreement on basis of 10% of original cost. In other words, that we agree to sell Italy on 30 year terms approximately 184 million dollars of property for 18 million dollars. Agreement would also include option to obtain up to 10 million dollars in real property and improvements. Aside from retention of the escalator clause in original agreement, this proposal would not alter the total sales price of approximately 150 million dollars as outlined in ourtel 1932³ (if present estimates on size of underrun prove accurate), but it would have an infinitely greater moral effect by the mere fact of being a new and more favorable agreement with the present government rather than merely an amendment to an agreement made with a former government in which the Communists participated (having in mind that Scoccimaro was present at the signing of the original agreement).

It is my intention, if you agree, to get the utmost news coverage on the signing of such an agreement, however leaving disclosure of the inclusion of combat matériel entirely to De Gasperi as he has indicated that he did not desire it to be known at this time that rearmament of Italian forces with United States equipment was contemplated. To this end wording of the agreement would refer to surplus army matériel, avoiding the use of the words "combat" or "armament" or "ammunition".⁴

DUNN

² See telegrams 1322, May 28, and 1590, June 17, from Rome, pp. 911 and 922.

³ *Supra*.

⁴ In telegram 1152, July 16, not printed, the Department concurred in the proposal to negotiate a new, separate agreement, and it agreed to omission of the reference to combat material (865.24 FLC/7-1547).

865.24 FLC/7-2147

The Deputy Central Field Commissioner for Europe, Office of the Foreign Liquidation Commissioner (Taff) to the Italian Minister of the Treasury (Del Vecchio)

[ROME,] 21 July 1947.

DEAR MR. MINISTER: The Government of the United States is particularly anxious at this time to aid in every possible way in the recovery efforts of the Italian Government and therefore proposes to transfer to the Italian Government, upon the terms and conditions specified herein, possession of and title to the following listed types of property which have heretofore or will hereafter be declared to the Office of the Foreign Liquidation Commissioner, Central Field Commissioner for Europe, United States Department of State, as surplus to the needs of the Government of the United States. The estimated original cost of the property to be transferred under this Agreement is approximately \$184,000,000.

A. United States Army equipment located in Italy. In the event the United States is unable to supply from surpluses located in Italy all of the items which have formed the subject of conversations between our two governments, the United States will endeavor to make suitable substitutions or replacements from surpluses located in other Theaters. The United States Government undertakes to supply such detailed data regarding such equipment as may be desired by the Italian Government.

B. Sixteen (16) United States Government motor minesweepers, type YMS.

C. Fifty (50) aircraft to be designated by the United States Army, together with maintenance equipment and spare parts for said aircraft for three (3) years, which property is presently located in the United States Occupied Zone of Germany.

D. All United States Government property of Lend-Lease origin located in Italy which has heretofore or will hereafter be transferred directly to the Italian Government by the British Government and for which no settlement has been made. The terms of this paragraph "D" are not to be interpreted to apply to property of Lend-Lease origin now in the possession of foreign governments which may be returned in Italy to the United States Government.

E. All interest of the United States in fixed installations located in Italy (which terms include structure or capital assemblies affixed to lands and buildings in a permanent manner).

F. All United States scrap, salvage and waste material located in Italy.

G. All property covered by contracts entered into between the Office of the Foreign Liquidation Commissioner (Central Field Com-

missioner for Europe) and the Italian Government since 9 September 1946 and for which no settlement has yet been made.

If any property listed above has been sold or is under contract or commitment to any purchaser other than the Italian Government prior to the date of acceptance of this letter, such property shall not be included in the terms of this letter.

For and in consideration of the transfer of surplus property under this Agreement, the original cost of which is estimated to be approximately \$184,000,000, the Italian Government agrees to pay in United States dollars to the Treasurer of the United States the sum of \$18,000,000 on the following terms:

1. Beginning on 1 January 1952 and continuing thereafter on the first day of each succeeding year until the balance is liquidated, a sum equal to four percent of the purchase price, together with accrued interest, subject to such pro rata adjustments in annual installments as are provided for below.

2. Interest shall begin to accrue commencing 1 January 1948 on the total amount due under this Agreement and shall be paid on the first day of each succeeding year (the first payment being due on 1 January 1949), at the annual rate of two and three-eighths percent on the balance unpaid as of the first day of each preceding year.

The United States Government reserves the right to receive from the Italian Government, in lieu of the total dollar obligation specified above, Italian currency up to the equivalent of \$8,000,000 to be used for the payment of any and all expenditures in Italy of the United States Government, its agencies or Armed Forces, or for educational purposes. However, such acquisitions of Italian currency under this paragraph will be limited to an amount not to exceed \$1,000,000 per year.

The United States Government also wishes to acquire and improve certain real properties in which it has an interest and therefore reserves the right to require the Italian Government in lieu of the total dollar obligations set forth above, to enter into negotiations with the United States Government and to use its best efforts to conclude without undue delay appropriate contracts wherein the Italian Government will furnish to the United States the properties and improvements it desires or which its representatives have selected. Representatives of the United States Government may at their discretion conduct discussions directly with owners of property or with contractors for improvements as to fair terms and prices prior to the acquisition of such property or improvements by the Italian Government for delivery to the United States Government. The United States Government agrees, however, that in no event will its acquisitions of real property and

improvements made under the terms of this paragraph exceed the equivalent in value of \$10,000,000 over the thirty-year period of this agreement.

When any Italian currencies or real properties or improvements are furnished to the United States Government under this Agreement, the Italian Government will be credited (at the exchange rate set forth below) with the United States dollar equivalent of the fair value received. Such credit will be applied first to past due interest, if any, and then pro rata to all remaining unpaid installments of principal.

The exchange rate shall be that established by the International Monetary Fund, provided that, if no such rate exists, the rate shall be that rate which is applicable to all United States Government expenditures under the terms of the Agreement reached between our two Governments on 25 January 1947.¹

If the proposals contained herein are satisfactory to the Italian Government, would you please indicate the agreement of your Government by signing in the space indicated below and returning this letter to my office.

Respectfully yours,

A. ERICH TAFF
*Deputy Central Field Commissioner
for Europe*

The terms of the foregoing letter are hereby accepted.

GUSTAVO DEL VECCHIO
Ministro del Tesoro

¹ Not printed.

865.24 FLC/7-2147

The Deputy Central Field Commissioner for Europe, Office of the Foreign Liquidation Commissioner (Taff) to the Italian Minister of the Treasury (Del Vecchio)

[ROME,] July 21, 1947.

DEAR MR. MINISTER: Reference is made to the Agreement reached this date between our two Governments concerning the bulk acquisition by the Italian Government of certain property surplus to the needs of the Government of the United States.

Under the terms of said Agreement, the Government of the United States reserved for itself the right to require the Italian Government to transfer to the Government of the United States up to the equivalent of \$10,000,000 in real properties and improvements thereto over the thirty-year period of the Agreement.

I would like to take this occasion to assure the Italian Government that the United States Government agrees to limit the exercise of this right in such a way and at such times as not to place, in the judgment of the United States Government, any undue financial burden on the Italian economy.

In addition, I wish to remind the Italian Government that the Surplus Property Act forbids the reimportation into the United States of surplus property if it is in the same or substantially the same form as originally produced unless such property is imported for the purpose of reconditioning for re-export. Therefore, all property transferred under the said Agreement will necessarily be subject to this restriction.

Respectfully yours,

A. ERICH TAFF
*Deputy Central Field Commissioner
for Europe*

865.51/7-2547

Memorandum by the Director of the Office of Financial and Development Policy (Ness) to the Assistant Secretary of State for Economic Affairs (Thorpe)

CONFIDENTIAL

[WASHINGTON,] July 25, 1947.

Subject: Discussions with the Lombardo Mission of Italy's Financial Needs for Second Half of 1947

1. The Italian balance of payments for the second half of 1947 presented by the Lombardo Mission was screened by ED, FN and DRE in the light of the technical discussions held with the Lombardo Mission by the Department, Treasury, Commerce and Federal Reserve.

The Department's review was based on rather austere criteria, comparable to those used in estimating post-UNRRA relief needs. As has previously been noted in the recent SWNCC paper on Italy, OFD does not endorse these criteria of minimum aid as the basis for continuing United States reconstruction policy toward Italy. In view of the impossibility of obtaining the requisite large-scale financial aid this year, however, it would be pointless in reviewing the Lombardo estimates to adopt economic aid criteria based upon our political objectives in Italy.

While import requirements (c.i.f.) were estimated by Lombardo at \$777 million, the Department estimates minimum imports at \$702 million. Total payments during the second half of 1947 were similarly reduced from \$783 million to \$733.5 million. On the receipts side the discrepancies are somewhat larger. Exports for the second half of the

year are estimated at \$292 million by Lombardo, at \$381 million by us. Including invisible items, total receipts were revised upward from \$547 million to \$650.5 million.

The resulting deficit for the second half of the year, estimated by Lombardo at \$236 million, is reduced by the Department's estimate to about \$83 million. The major reasons for the differences are summarized below.

2. *Payments*

Coal import requirements stated by Lombardo have been reduced by the 600,000 metric tons which were earmarked for increase in stocks. While it is recognized that such an increase would be not unreasonable and in fact desirable, it is felt that it could be postponed while Italy is in its present critical financial situation. *POL* import requirements have similarly been reduced to eliminate any increase of stocks.

Textile fibers import requirements have also been very substantially reduced to eliminate any allowance of increases in stocks, which now exceed five months' processing requirements for both cotton and wool. A further reduction was made on the assumption that, under present circumstances, it should be possible for the Italian Government to reduce such stocks to a three-month level.

Other imports have been reduced for various reasons indicated in the attached OIR memorandum.¹ On the other hand, miscellaneous industrial materials and miscellaneous supplies (machinery, equipment, ships and commodities which Italy must import under trade or barter agreement) have been increased substantially above the Lombardo estimates to the minimum level necessary to prevent further deterioration of the Italian economy. Payments on capital account have also been increased above the Italian estimates.

3. *Receipts*

Estimated *exports* during the second half of the year were increased from Lombardo's figure of \$292 million to \$381 million. The latter figure appears to be more consistent with the rate of industrial activity made possible by the volume of imports allowed. Our estimate seems reasonable in view of the most recent information on the level of Italian exports during the first months of 1947.

4. *Conclusions*

(a) On the assumption that Italy will receive during the second half of 1947 \$230 million on capital account as indicated in the attached document, paragraph 12, the Italian balance of payments in the last half of 1947 should show a deficit of \$83 million. The figure

¹ Not printed.

of \$230 million includes \$25 million of the Eximbank credit; this is the maximum which the Bank's staff feels can be spent in 1947 under the present loan arrangements.

This deficit figure is approximately 40 percent of the deficit indicated by the Lombardo Mission, and constitutes a serious threat to Italian economic and financial stability. Foreign exchange holdings available to the Italian Government as of June 30, 1947 are estimated at \$151 million. This appears to be a moderate monetary and contingency reserve for Italy. It should not be drawn on substantially in payment for Italian imports during the remainder of 1947.

(b) The Department's screening of the Lombardo estimates assumes that the Italian Government will be able to restrict imports of textile fibers to the screened amounts. Past experience indicates that this will be very difficult for the Italian Government to manage. Similarly, the Department's estimates assume that textile exports can be increased above the Lombardo estimates, which means that some production now going into hoards will be exported. If these two assumptions are not realized, the deficit will be substantially larger.

5. *Recommendations*

In the light of the above, and on the assumption that no further straight financial aid can be granted to the Italians, and if the Italian share of the post-UNRRA relief program cannot be increased, the following is suggested:

(a) The Lombardo Mission should be told that the United States is unable to cover Italy's 1947 deficit because no additional financial help can be given until the Marshall plan is put into effect; consequently, it could be informally suggested that the Italian Government exert all its efforts to reduce programmed imports where it is believed that the reduction will do the least damage. As indicated above, postponement of stock increases and reduction of cotton and wool stocks are believed to be possible.

(b) The Department should support the immediate granting of a WAA credit which might allow the Italians to finance a small part of their import requirements for equipment, scrap, etc. No important reduction of their deficit could, however, be anticipated from this source.

(c) Arrangements should be made immediately to sell additional ships to the Italian Government, to be operated by Italian ship operators for the account of the Italian Government in hauling coal and other bulky materials which Italy is importing from this hemisphere. The time required to put additional ships into operation would, however, preclude any important financial aid from this source during 1947.

(d) The Department should explore thoroughly the possibility of increasing grain allocations to Italy from the United States for the 3rd and 4th quarters of this year. Any increase of United States

breadgrain available to the Italian population would have obvious excellent political repercussions, and would reduce the cost of breadgrain imports by reducing or excluding imports of high-cost Argentinian wheat.

(e) The importance of utilization of excess inventories and of stronger controls on the use of foreign exchange and of imported raw materials should be pointed out to the Lombardo Mission.

The recommendations summarized above are in line with the recommendations recently received from Ambassador Dunn, especially in cable 1927, July 12.²

² Not printed.

865.50/7-2547

The Ambassador in Italy (Dunn) to the Secretary of State

RESTRICTED
No. 1341

ROME, July 25, 1947.

Subject: Report on the visit to Rome of the Honorable William L. Clayton, Under Secretary of State for Economic Affairs

SIR: I have the honor to report that the Honorable William L. Clayton, Under Secretary of State for Economic Affairs, arrived in Rome late in the evening of July 22 and left Rome for Geneva at 5:30 p.m. on July 24.

In the morning of July 23 I took Mr. Clayton to call upon the President of the Council of Ministers, Signor De Gasperi, and the Vice President of the Council of Ministers and Minister of the Budget, Signor Einaudi. I gave a luncheon for Mr. Clayton on that day, which was attended by Signor De Gasperi, Signor Einaudi, Count Sforza, Minister of Foreign Affairs, Marchese Taliani, Chief of Protocol of the Italian Government, and members of the Embassy staff. At five o'clock that afternoon I took Mr. Clayton to call upon Count Sforza, the Minister for Foreign Affairs.

On the morning of July 24 Mr. Clayton was received by the Pope. He held a small background press conference for American correspondents at the Embassy at 11 a.m. and at 12 o'clock attended a meeting in Dr. Einaudi's office composed of Dr. Einaudi, the Minister of the Treasury, Dr. Del Vecchio, the Minister of Finance, Signor Pella, the Minister of Industry and Commerce, Signor Togni, the Minister of Foreign Trade, Signor Merzagora, and the Chief Commissioner of Food, Signor Ronchi.

The President of the Council of Ministers gave a luncheon for Mr. Clayton on that day and in the afternoon Mr. Clayton held a confer-

ence with members of the Embassy staff on the subject of the general economic and financial situation in Italy.

In his conversation with Mr. Clayton, Signor De Gasperi touched on the political situation as it related to the matter of the ratification by Italy of the Peace Treaty. He said he anticipated considerable difficulty in the Assembly on this matter but that the Government was determined to press forward with its request for approval of the ratification and intended to leave the responsibility for acceptance or rejection of the Government's position to the General Assembly itself. Signor De Gasperi also spoke of his hope for support of the present Government by the United States, particularly in providing for food grains for the next twelve months. He said that Italy needed to import during the present fiscal year ending June 30 next, 2,900,000 tons of grain in order to maintain the present ration and the Prime Minister remarked that the present Government should not, at least, reduce the ration from that established by the last Government in which the Communists participated. Signor De Gasperi said he hoped to get 700,000 tons of wheat from Argentina, and possibly Turkey, which would make the amount they would ask from the United States 2,200,000 tons. He said the first question was to obtain the allocation of that amount to Italy and the second question was to obtain assistance in the form of credit for purchase of the wheat. He said also that it was important to make an effort to have the delivery facilitated and expedited in order to save the expense of transporting wheat from one section of Italy to another, which was itself uneconomic. Mr. Clayton stated that there was a good crop of wheat in the United States this year, even better than last year, although the corn crop would probably not equal that of last year. He stated further that one of the great difficulties in exporting wheat from the United States was the railway transportation, as the grains had to be carried distances of from 1,000 miles or more to the seaboard and this created difficulties in regard to the rail transportation. He said, however, that the President had granted priorities for the use of cars for the transport of wheat for export and had also granted priorities in shipping so that the problem was now principally one of obtaining the transportation to the seaboard. Signor De Gasperi expressed deep appreciation for all that had been done by the United States for Italy in the past and expressed his confidence that the present Government could meet its difficulties if it had some assistance in meeting its balance of payment.

Signor De Gasperi said that he was faced with a Communist Party in Italy which was under the leadership of a very shrewd politician, Palmiro Togliatti, who had been Secretary General of the Comintern,

and he pointed out that with the Soviet suspicion and mistrust of all foreigners, his appointment as Secretary General of the Comintern was an indication of the confidence the Moscow Government had in him.

The Prime Minister asked Mr. Clayton his opinion of the possibilities of the Paris meeting of sixteen nations in connection with General Marshall's proposal. The Under Secretary replied that there was a great opportunity for the European countries concerned to produce a plan for integrating their economy and providing for real recovery in Europe with a minimum of assistance from non-European countries. He called attention to the fact that Europe during the past fiscal year imported coal from the United States to a value of \$750,000,000, which was entirely uneconomic and was more than Europe could normally pay for and at the same time pay for imports of food and other materials.

Mr. Clayton took occasion at this point to suggest to Signor De Gasperi that some thought be given in connection with the Paris drafts to the necessity for restoration of sound currencies in the European countries as a means of promoting exchange of goods and thereby increasing production generally. He said that in his opinion any plan which left out financial and monetary problems as they existed in each country and their relation to the exchange of trade would be incomplete. The conversation ended after a short reference to the position of the Soviet Union with respect to the Paris Conference and the attitude of that country also toward the ratification of the Treaty of Peace for Italy.

In the conversation with Signor Einaudi, Vice President of the Council of Ministers and Minister of the Budget, the subjects touched on were the Paris Conference, the balance of payments position of the Italian Government for the remaining six months of this year and the first six months of 1948, the food situation, and the financial situation of Italy at the present time and in the immediate future. The discussion of the Paris Conference was very much along the same lines as the conversation with the Prime Minister, although Dr. Einaudi did say that he had received a request from Signor Campilli, the Italian representative on the Conference in Paris, for a financial expert to deal with financial and monetary problems. He said he was at the moment endeavoring to send one of the very best financial experts in Italy and hoped that he would be free to go. With regard to the Italian balance of payments, Signor Einaudi handed Mr. Clayton a memorandum,¹ a

¹ Enclosure 1, "Deficit of the Italian balance of payments, as a consequence of the war and financial requirements," not printed.

copy of which is enclosed, and the discussion followed the general lines of the information contained in that memorandum.

Signor Einaudi related the food situation also to the balance of payments position and explained how the requirements for an increased import of food this year were due to the poor crop in Italy and the fact that the exports had not yet reached the point where the foreign exchange thereby gained sufficed for the import of necessary materials and fuel and food.²

On the financial situation Dr. Einaudi stated that there had been no change in the Italian tariff since 1921 with the exception that some two years ago the ad valorem duty was increased about $3\frac{1}{2}$ times and as the price level had increased 40 or 50 times since the 1921 rate, this meant that the actual ad valorem duty on goods imported into Italy amounted to only 2 or 3% of the value. He said there had been another tax of 5% of the value of the goods as a service charge and this had recently been raised to 10% in order to cover an increase granted by the Cabinet to the salaries of the State employees. Mr. Clayton pointed out that the tariff itself was not always the greatest obstruction in international trade but it was often other restrictions and obstacles which could be just as obstructive as a high tariff.

Dr. Einaudi then explained the taxation system in Italy, stating that the rates of taxation for definite categories of income were in general very high but as they were based on valuations which were very seldom 100% of the value of the income to be taxed the eventual rate of taxation was not as high as was provided for under the law. He said he felt that the tax rates were as high as could be supported by the people at this time but that a simplification of the rates and application of the law could perhaps provide for a more effective collection system.

All the further points covered in this conversation are included in the memorandum Dr. Einaudi handed to Mr. Clayton during his call.

During the call on Count Sforza, Minister for Foreign Affairs, the conversation was rather general in tone, Count Sforza being interested in Mr. Clayton's ideas about the Paris Conference and about the general economic situation in the United States. There was nothing particularly new that came out in this conversation which had not been discussed in Mr. Clayton's previous calls, but Mr. Clayton also took occasion at this time to call Count Sforza's attention to the advisability of having the Paris Conference include a reference to the financial and monetary problems in the European situation.

² Enclosure 2, "Memorandum on the Production of Cereals in Italy," not printed.

A report on the discussion which took place at the meeting in Dr. Einaudi's office on July 24, which was attended by the financial and economic Ministers of the Cabinet as well as the High Commissioner for Food, is contained in a memorandum by Mr. Walmsley, which is attached herewith.³ Mr. Byington, Mr. Walmsley, and I accompanied Mr. Clayton to this meeting.

Mr. Clayton, upon leaving Rome, said that while he had had rather full information with regard to the food situation here and the Italian financial situation also before he came to Rome he was interested in meeting the members of the Government and was satisfied that they were an earnest and competent group of officials who were doing their very best in the interests of their country for the promotion of its economic recovery.

I wish to express my appreciation for Mr. Clayton's visit here as it was a source of encouragement to the Italian Government in that they felt they had an opportunity to put their case to an important American official who is concerned with the problems with which they are confronted. Mr. Clayton's tact and interest in dealing with the officials during his visit was deeply appreciated by them and they all expressed themselves as extremely gratified on his informed understanding of the Italian situation.

Respectfully yours,

JAMES CLEMENT DUNN

³ Enclosure 3, "Memorandum of Conversation: Italian Food and Agricultural Crisis," July 24, 1947, not printed.

865.5018/7-2647: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

CONFIDENTIAL

ROME, July 26, 1947—4 p.m.

2109. As evidence of the critical food situation coupled with payments problem fully as serious, which Italy faces this winter, Einaudi, the Vice Premier, on July 24 arranged a special meeting between Mr. Clayton and Italian food experts.

Ronchi, the Food Commissioner, made an excellent statement which followed the lines of my telegram 2014, July 21.¹ He said that he had realistically reduced to 2.9 million tons, "the irreducible minimum", the quantity of foreign bread grains sought over the next twelve months. He emphasized that by September, when fresh vegetables become scarce, and for six months thereafter, it would be essential for

¹ Not printed.

humanitarian and political reasons of crucial importance that the bread ration and pasta ration of 235 grams per day and two kilos per month, respectively, be fully met (which at present they are not). In this connection mention was made of the elections which will probably be held by next March.

The plea that Ronchi made was that the American share of Italy's grain imports, amounting to 2.2 million tons be shipped at the full rate of 220,000 tons per month beginning in August. The present strenuous efforts of the government to move domestic grain from surplus to deficit provinces are meeting determined opposition from local authorities, Communists, etc.; it had therefore become imperative to ask the US to expedite this year's movement to Italy.

With regard to Italy's current wheat production problem Segni, Minister of Agriculture,² spoke as follows:

(1) Extremely poor growing conditions had seriously reduced this year's harvest per acre; (2) unpopularity of government controls and amassing, among other factors, had reduced overall acreage 10% from pre-war; (3) similar factors had reduced acreage planted this year by 2% compared with last year when crop was 6.3 million tons, equivalent to the 1936 crop, and only about 1.2 million tons less than the 1937-39 average; (4) beginning in 1942 when fertilizers became seriously short, Italian farmland has suffered from the cumulative effect of soil fatigue. It will require three years in Segni's opinion of intensive effort to return Italian wheat production to 7 million tons. One of the most serious difficulties stems, he says, from the payments problem the French are creating over phosphates, an allocation of which Italy has now had to ask from the US under the relief program.

Mr. Clayton assured the Italians that, as a member of the inter-departmental committee of three which examines food requests from deficit countries he would continue to give his most sympathetic attention to all Italian requests. He spoke of the unprecedented success of American efforts to export 16 million tons of bread grains this past crop year and of what this record involved in the way of long hauls within the US, loading and shipping; and yet a world deficit still existed. He urged that it would be easier to continue the high level of American aid if Italy could demonstrate that it is taking every possible measure to stimulate domestic production.

Sent Department 2109, Paris 276, Geneva for Clayton 34.

DUNN

² Antonio Segni.

811.516 Export-Import Bank/7-2947

Memorandum by Mr. Jerome J. Stenger, Special Assistant in the Division of Investment and Economic Development, to the Director of the Office of Financial and Development Policy (Ness)

[Extract]

[WASHINGTON,] July 29, 1947.

Subject: Agenda for Meeting of Board of Directors Eximbank
July 30, 1947.

4. *Italian Credits.* The Board agreed at an earlier meeting that, under the \$100 million earmarked for Italy, it was prepared to receive separate credit applications on behalf of specific sectors or subsectors of Italian industry engaged in promoting Italian foreign trade. The Bank has received the following applications amounting to \$25 million:

- (a) Fiat, S.A.—\$11,000,000
- (b) Montecatini Soc.—\$10,000,000
- (c) Pirelli, S.A.—\$4,000,000.

[Here follows section in which Mr. Stenger reported that the staff of the Bank recommended that the original Fiat application be cut from \$11 million to \$10 million; that Montecatini's credit be reduced from \$10 million to \$9 million which would also provide for the possibility of financing by the Bank of applications from other smaller chemical companies; that Pirelli be granted a credit of \$4 million in accordance with the wishes of the Italian Government. Mr. Stenger proposed that the Department concur with the recommendations of the staff of the Bank.]

740.0011 EW Peace/7-3147 : Telegram

The Secretary of State to the Embassy in Italy

SECRET

WASHINGTON, July 31, 1947—8 p.m.

U.S. URGENT

1288. For the Ambassador. Brit Embassy has informed us that Brit Govt "on financial and manpower grounds" has decided to withdraw Brit troops from Greece and reduce those in Italy to the 5,000 provided for in Annex 7 of the Italian treaty. Brit Embassy said that no announcement foregoing decision is being made.¹

¹ For the text of the note of July 30 from the British Chargé, see vol. v, p. 268.

War Dept has been informed. Your comments on effect this decision in so far as it applies to Italy are urgently desired.²

MARSHALL

² See *infra*.

740.00119 Control (Italy)/8-247: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET
URGENT

ROME, August 2, 1947—4 p. m.

2191. Dept's 1288, July 31. General Lee is coming to Rome Monday¹ to confer with me and British Embassy re situation arising out of proposed reduction of British troops.

From all information which has come to us here the existing situation in Venezia Giulia in no sense warrants any degree of complacency such as might be inferred from reduction of troop strength in that area prior to going into effect of treaty. Reduction of British troops will inevitably give rise to the question of military commitments in Venezia Giulia which in turn depend on our political commitments. Military commanders here have already expressed themselves as convinced that they are now at an irreducible minimum of troop strength required to fulfill the commitment assigned to them, principally maintenance of *status quo* and prevention of disorder. My preliminary reaction is that we cannot reduce our political commitments concerning Venezia Giulia and that any reduction of troop strength in Venezia Giulia will endanger the carrying out of those commitments.

Sent Dept, Leghorn 80.

DUNN

¹ August 4.

740.00119 Control (Italy)/8-447: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET
U.S. URGENT

ROME, August 4, 1947—8 p. m.

2219. For the Secretary. General Lee informs me he has telegraphed War Department on subject of proposed withdrawal of British troops from Italy along following lines:

That a statement should be issued by British announcing decision not to withdraw troops from Italy until Anglo-American commitments here are fulfilled and that US and UK immediately begin studies with a view to reduction of British forces through adjustments

whereby US can assist greatly in maintaining supply lines and other administrative functions.

I wish to support General Lee's recommendations. It is extremely important, in my opinion, to maintain the principle of Anglo-American responsibility for maintaining order in Venezia Giulia and preventing any disturbances by either side in connection with establishment of new Venezia Giulia boundary and setting up of Free Territory of Trieste. It would be politically a great blow to Italians and to our position in this area if we were to abandon Pola and perhaps other parts of the Morgan Line to the Yugoslavs. It seems to me that politically any reduction of our commitments in this area would be playing right into the hands of the Communists in Italy and elsewhere in Europe. In this connection, I would refer to position taken by the Combined Chiefs of Staff and the Department as to maintenance of *status quo* in Venezia Giulia until Yugoslavs accept the treaty.

If the British will give us a chance to discuss some readjustments which would permit them to take out of Italy certain contingents not now needed for maintaining the *status quo* in Venezia Giulia, I feel sure that with good will on both sides, we could arrive at an adjustment which would be of substantial help to the British in their home economic situation and we could still present picture of maintaining Anglo-American responsibility in this highly explosive area.

I might also recall that we have not yet succeeded in providing necessary equipment for rearming Italian forces to point where they could with any degree of success meet even first onslaught of forces that in Yugoslavia alone probably exceeds several hundred thousand well armed with Soviet equipment.¹

DUNN

¹ In telegram 1472, August 21, not printed, the Department informed Dunn that it had received assurances that no withdrawals of British troops from Italy would be undertaken without full consultation with the United States (740.00119 Control (Italy)/8-447).

865.24/8-747 : Telegram

The Secretary of State to the Embassy in Italy

TOP SECRET
US URGENT

WASHINGTON, August 11, 1947—2 p. m.

1366. Reurtel 2264 Aug 7¹ following paraphrase letter Acting SecWar to SecState July 30:²

¹ Not printed; in it Dunn reported having been informed that, under War Department orders, 31 tanks, 50 105 mm. howitzers, 30 155 mm. howitzers, and 400 rocket launchers were being shipped back to the Zone of the Interior (FW 865.24/8-747).

² Not printed.

Lee holding following items recommended as essential complete equipping Ital Army: 31 light tanks, 20 medium tanks, 50 105mm howitzers M2AI, 30 155mm howitzers, and 400 rocket launchers.

Foregoing items necessary meet requirements of planned War Dept programs and therefore cannot be declared surplus but must be returned US. Appears no legal alternative this action in absence legislative authority transfer to Italy US Govt property other than surplus.

War Dept making every effort meet equipment requirements Ital Army, and to this end can make available other equipment as below.

a. To meet requirement light tanks, 31 light tanks, M-5 available in Germany (an earlier model than those now in Italy; equipped with 37mm gun instead 75mm). Have been stripped of auxiliary armament, radio and fire control instruments and require extensive reconditioning.

b. To meet requirements medium tanks 20 available in Germany can be made ready issue in five days.

c. For requirements 105mm howitzers M2AI, in Germany 43 105mm howitzers M-3, require three weeks conditioning. M-3 has range only 8,295 yards as contrasted M2AI's 12,200 yards and for this reason Lee says not suitable substitute. However, since a principal mission Ital Army maintenance internal order, War Dept believes M-3 should be acceptable though not as desirable as M2AI.

War Dept has no available substitute items for 155mm howitzers or rocket launchers.

War Dept has no funds legally available recondition equipment for Ital Army or to transport to Italy from other areas. Every effort made to solve problem within means available to War Dept in view your (SecState's) statement such action considered important national interest US. Appears, however, that unless means found to surmount legal and financial obstacles, best that can be done will be make available at German border substitutes as indicated above in such condition serviceability as may be achieved without appreciable expenditure War Dept funds or use materials which not surplus.

Dept understands from Gen Hyssong, FLC, that he may be able arrange with ETO for transportation to Ital border of such substitute items in Germany as desired for Ital program.

You will have seen ComGenMed tel FX 77066 Aug 6³ advising deficit medium tanks being supplied Brit from Austria. Has Gen Lee explored possibility filling other deficits from Brit sources?

As CCS advised SAC in Fan 772³ para 4, Brit had advised no Brit equipment available unless demanded and paid for through civil import program. In view FX 77066, it would appear Brit statement inaccurate, however, and possibility may exist finding other Brit equipment suitable Ital program.

³ Not printed.

Pls discuss with Lee status entire reequipment program taking into consideration possible substitutes and all possible Brit sources, and advise soonest.⁴

MARSHALL

⁴In telegram 1514, August 26, not printed, the Acting Secretary of State urged Ambassador Dunn to expedite his reply to this message (865.24/8-2647).

Lot 60-D 137 : Box 1

Minutes of Seventieth Meeting of the National Advisory Council on International Financial and Monetary Problems, Washington, August 12, 1947

[Extract]

PRESENT

Secretary John W. Snyder (Chairman), Treasury Department	Mr. George Luthringer, International Fund
Mr. Carroll Perry, Maritime Commission, Visitor	Mr. John S. Hooker, International Bank
Mr. Norman T. Ness, State Department	Mr. Frank A. Southard, Jr., Treasury Department
Mr. J. J. Stenger, State Department	Mr. Thomas J. Lynch, Treasury Department
Secretary W. Averell Harriman, Commerce Department	Mr. William W. Parsons, Treasury Department
Mr. Thomas C. Blaisdell, Jr., Commerce Department	Mr. Joseph B. Friedman, Treasury Department
Mr. M. S. Szymczak, Board of Governors, Federal Reserve System	Mr. Orvis A. Schmidt, Treasury Department
Mr. J. Burke Knapp, Board of Governors, Federal Reserve System	Mr. Lowell M. Pumphrey, Treasury Department
Mr. William McC. Martin, Jr., Export-Import Bank	Mr. Melville E. Locker, Treasury Department
Mr. Herbert Gaston, Export- Import Bank	Mr. George H. Willis, Treasury Department
Mr. Hal Lary, Export-Import Bank	Mr. Harold Glasser (Secretary)
Mr. Andrew N. Overby, International Fund	Mr. Allan J. Fisher (NAC Secretariat)

1. *Maritime Commission Ship Sales Credits*

(c) *Italy*

Mr. Glasser said that the request was for an increase of credit from \$51 million to \$68.7 million to permit the Government of Italy to purchase some 15 additional ships. The Staff Committee recommended that the Council express no objection to the increased credit (NAC Document No. 492). The Council approved the recommendation unanimously.

Action.

The following action was taken:

1. The National Advisory Council has no objection to consideration by the Maritime Commission of increasing the credit to Italy from \$51 million to \$68.5 million to provide for the purchase of 119 vessels in lieu of 104 as previously proposed.

2. The Council approves sending a copy of NAC Document No. 492 to the Chairman of the Maritime Commission.

[Here follow (d) and items 2 and 3.]

Editorial Note

On August 14, 1947, a "Memorandum of Understanding Between the Government of the United States of America and the Government of Italy regarding settlement of certain wartime claims and related matters" was signed by Acting Secretary of State Robert A. Lovett and Ivan Matteo Lombardo, chief of the Italian Economic and Financial Delegation to the United States. For texts of the memorandum and supplementary exchanges of notes, see Department of State Treaties and Other International Acts Series (TIAS) No. 1757, or 61 Stat. (pt. 4) 3962, or Department of State *Bulletin*, August 24, 1947, page 372. A summary of the deliberations was released to the press on August 14, reprinted in the *Bulletin*, page 371, which states: "Highlights of the understandings were the waiver of sizable governmental claims arising out of the war and the establishment of procedures for the return to Italy and to properly qualified Italian nationals of their blocked and vested property, totaling some 60 million dollars, under conditions which assure, among other things, that property in which there are German and Japanese interests will not be returned. Another major feature of the understandings is the provision for the transfer of approximately eight Italian ships which had been seized by the United States before the war, five of which had been purchased from other American republics which had previously seized the ships in their waters, and the transfer of approximately fifteen surplus Liberty ships to replace the Italian ships which had been seized by the United States, requisitioned for war use and subsequently lost. The return of vested property and the return of the ships required Congressional authorization, which was recently given in recognition of the importance to world peace of rendering Italy every possible assistance. . . ."

800.48 FRP/8-2747: Telegram

The Acting Secretary of State to the Embassy in Italy

CONFIDENTIAL

WASHINGTON, August 27, 1947—4 p. m.

1522. Rap 87. Representatives ItalEmb and Ital Purchasing Mission advised Dept yesterday that because of British suspension pound convertibility Italians have no available dollars to procure Oct coal in US. On basis urgent calls from Rome they requested total Oct allocation coal be included in US relief program. They were advised that since total available relief funds were limited inclusion increased amounts of coal Oct could only result in equivalent decrease relief dollars available for purchase grain or coal at later date and that serious consideration should be given to position Italy would be in at end 1947 or early 1948 re these items before utilizing funds for Oct coal. Dept pointed out that money for Jan grain shipments must be available Nov 15, for Feb shipments Dec 15. We advised however that if after weighing all considerations appeared wise to increase coal in Oct up to 500,000 tons could probably be included in relief program. This being maximum limit which appears to be justifiable for relief purposes in Italy as defined by Relief Act.

Since it is expected matter will be reopened after ItalEmb has communicated with ItalGovt Dept would appreciate ur comments. Commitments for Oct coal will have to be made about Sept 8.

LOVETT

865.51/8-2847

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] August 28, 1947.

Participants: Ambassador Tarchiani
Mr. Lovett, Acting Secretary
Mr. Dowling, SE

The Italian Ambassador called at his request this afternoon to express the thanks of the Italian Government for US support during the Security Council's discussion of Italy's application for membership in the United Nations.¹ In this connection the Ambassador expressed the hope that when Italy's application is discussed in the General Assembly the American representative would stress Italy's ratification

¹ For documentation on the general policy of the United States on the admission of states to membership in the United Nations, see volume 1.

of the peace treaty as a factor in the US decision to support Italy.² He explained that the Government expected criticism when the Constituent Assembly again meets, especially from the extreme right, since it had urged ratification as necessary to obtain Italy's entry into the United Nations and that it would be helpful if the Government could point out that this action on its part had been of value in obtaining the support of a majority of the Security Council.

I told Tarchiani I was not sure how much stress it would be advisable to place on this factor in any expression of support the US representative might make in the General Assembly but that consideration would certainly be given to it.

Tarchiani then referred to Italy's financial difficulties which he said had been made even more grave by the decision of the British Government to suspend the conversion of sterling funds into dollars. Tarchiani added that he wished to leave with me a telegram from Rome which set forth the Italian position.³ He pointed out that while the Italian Government realized the difficulties facing the British Government, it felt that its own problems were no less severe. At British insistence the Italian Government had refrained from converting its sterling funds during recent months but had always counted upon the availability of these resources for essential purchases during the final quarter of this year. He showed me another telegram from Rome suspending further purchases of cereals, coal and petroleum pending a reply from the British Government of an Italian request to make available some \$10-\$15 million monthly from sterling funds.³ The Ambassador said this action was necessary in view of the fact that present dollar resources were almost exhausted and some months must elapse before additional dollar funds from the troop pay account, POW payments and the return of Italian assets could be expected.

Tarchiani went on to say that it was in this situation that the Italian Government had decided upon an immediate approach to the Export-Import Bank for an additional \$100 million loan and to the International Bank for a \$250 million loan. He said he had spoken to Mr. McCloy about the International Bank loan and that Mr. McCloy would talk with Italian officials at the London meeting of the Bank and perhaps then go on to Italy for further discussions. He hoped that the Department's support would be forthcoming for both these loans at the proper time.

I told Tarchiani I understood that the British Government would license conversion transactions to the extent possible in the next few

² For documentation on Italian ratification of the peace treaty, see pp. 515 ff.

³ Not printed.

months and that I therefore hoped the Italian Government could in this manner obtain at least some of its dollar requirements. I added that we would do what we could to make funds from the American sources he had mentioned available at the earliest possible date. As regards the Export-Import Bank and International Bank loans, I said that as the Ambassador knew, we would give every consideration to the Italian proposals.

865.51/8-2847

The Italian Ambassador (Tarchiani) to the Acting Secretary of State

URGENT

No. 7734

The Italian Ambassador presents his compliments to the Hon. the Acting Secretary of State and has the honor to draw his kind attention to the following:

The seriousness of the Italian financial situation has been repeatedly pointed out to the attention of the competent American Agencies and has been illustrated in detail by the Italian Economic and Financial Mission during the meetings held in Washington during the past months of June and July. In such meetings it was demonstrated how the Italian Government has to face a deficit in its balance of payments of about 236 million dollars, in the second half of the current year, in spite of the generous assistance granted by the American Government, with the troop and non-troop pay funds and the "grant-in-aid" concession.

The recent decision of the British Government, arrived at in the course of the Anglo-American negotiations on the convertibility of the pound sterling, will now deprive Italy of a substantial availability of dollars which had been taken into account among the receipts in the projection of the balance of payments for the second half of the current year.

Such a decision has brought about a complete lacking of dollar availability for the Italian Government, which cannot but view with the utmost seriousness and deep preoccupation the situation which is developing for Italy in the financial field in the coming months.

Due to such severe dollar shortage, instructions have in fact already been sent to the Italian Purchasing Mission in Washington to stop all purchases of coal in September and to utilize the remaining balances available to the Mission only for the payment of the transportation of coal acquired under the grant-in-aid program.

It would be difficult to conceal the very severe consequences in the economic and social fields of any interruption of the flow of basic supplies to Italy. The process of reconstruction in which the Italian Government and people have been so far engaged would receive a fatal set-back and unemployment and hunger would prevail in a very short time in Italy.

The Italian Ambassador finds himself compelled to stress, with the greatest emphasis, the necessity of meeting such a situation with immediate steps, such as to allow the continuance of the flow of supplies to Italy.

In this respect, the Italian Ambassador has the honor to point out that the Italian Government is in these days approaching the British Authorities in order to obtain that the sterling balances accrued in favor of Italy up to August 20th, 1947, be made convertible, in line with the Anglo-Italian agreement of which a most important clause was related to the convertibility of such balances. The Italian Government is, in fact, pointing out in this respect to the British Authorities that the insertion of such clause was the outcome of negotiations relating to the settlement of all pending questions between Italy and the United Kingdom and that, should the convertibility of the said balances not be allowed, this would constitute a very hard blow on the Italian economic situation, which is already very serious.

The Italian Ambassador has the honor to request in this respect that the United States Government kindly give all its support to the action taken by the Italian Government described above. The Italian Government is relying on the understanding of the American Government and on its kind interest and intervention in order to secure the availability, so badly needed, of the dollars corresponding to the balances in question.

Some other steps which could bring, however, minor results but would provide some immediate availability of dollar funds, could also be taken, i.e.:

—further consideration could be given as urgently as practicable to the possibility of making available to the Italian Government the balance of the "suspense account".

—Consideration could be given to the possibility of making available to the Italian share under the grant-in-aid program, an increased dollar allocation in order to make it possible to have during the coming months a larger amount of coal shipped to Italy and the related necessary freight expenses paid out of the same "grant-in-aid" funds.

—UNRRA is now considering the refund to various countries of advances made by them for the procurement of essential raw materials at the time when, for administrative reasons, UNRRA had no available funds. So far, with the liquidation of its administration, UNRRA has refunded out of the 22,7 millions disbursed by Italy for the reasons

above mentioned, only an account of 2,1 million dollars. UNRRA could be urged to refund the highest possible balance with the utmost speed.

The steps which the Italian Ambassador has deemed it fit to suggest above, are, however, related to the problems of the immediate dollar availability.

While the Italian financial situation is already presenting itself under the most precarious circumstances in the present impact, making it necessary to take recourse to emergency measures, no favorable prospects can be envisaged also for the following months and the next year 1948.

In fact the deficit already foreseen for the second semester of the current year will be far greater in the next year, when the income of certain proceeds, like the troop and non-troop pay and the grant-in-aid, will not recur.

Moreover, the difficulties so far encountered by Italy in receiving essential basic supplies, like coal, from central Europe, the persistent need of obtaining wheat supplies from the Western Hemisphere, the practical impossibility of restoring normal trade relations with the German market, will characterize again the structure of the Italian economic situation in the future.

The Italian Government has taken note with the greatest appreciation of the suggestions brought up by the Secretary of State in his Harvard speech, and has tried, with constructive proposals, to give its utmost contribution to the work entrusted to the Conference of the 16 European countries in Paris.

The Italian Government is, however, aware that, even if the problems which the Conference will bring to the attention of the American Government will receive a favorable solution, there will be a considerable lapse of time before any suggestion for assistance to the European countries will be put into practise.

The Italian Council of Ministers has therefore decided to take the following steps, in order to obtain the dollar funds which are necessary for maintaining the present rate of production, so that the process of recovery be not undermined :

—an application has been filed with the International Bank for obtaining an interim line of credit of 250,000,000 dollars. This loan is being now negotiated with a view of assisting Italy in continuing and increasing the maintenance, development and reconstruction of productive facilities and activities. In such negotiations the Italian Government will try to focus on the financing of projects of national importance.

—steps are being taken in order to ascertain the possibility of obtaining from the Export-Import Bank of Washington a second line

of credit of 100 million dollars, for satisfying the request of the qualified Italian industries, engaged in export activity, which will not benefit of the credit granted under the first line of credit of 100 million dollars.

—consideration is being given for the filing of applications with the competent American Agencies for the purchase of surplus materials both in the United States and in Germany.

The steps above mentioned are meant not only to provide the necessary dollar funds for the purchases of supplies essentially needed but also to give to the Italian Government a breathing space for increasing the chances of a satisfactory development of the budgetary situation, through the receipts in lire accruing from the utilization of such credits.

Such decisions have been taken by the Italian Government in the intent of avoiding any collapse of the economic situation in the coming months and in the awareness that, without the assistance accruing from the implementation of such requests, it would be difficult to avoid a deterioration of the psychological situation in Italy and a further increase of the inflationary process.

The Italian Ambassador, in calling the kind attention of the Acting Secretary of State to the seriousness of the conditions described above, requests his kind assistance for obtaining that the applications filed or to be filed by the Italian Government and the steps which will be taken in their connection, receive all possible support and assistance by the United States Government.

The Italian Ambassador thanks in advance the Hon. the Acting Secretary of State for his kind interest in the matter.

WASHINGTON, August 28, 1947.

A[LBERTO] T[ARCHIANI]

865.6584/9-347

The Italian Ambassador (Tarchiani) to the Acting Secretary of State

No. 7885

The Italian Ambassador presents his compliments to the Honorable the Acting Secretary of State and has the honor to draw his kind attention to the following.

In the meetings held in Rome between the Under Secretary of State for Economic Affairs, Mr. Clayton, and the Chiefs of the Italian Economic Agencies,¹ and in the interview, which took place in Paris, between the United States Secretary of Agriculture, Mr. Anderson, and

¹ See p. 945.

the Italian Minister of Agriculture, Mr. Segni,² the Italian cereals situation for the period July 1947–June 1948 was illustrated in detail.

It was then pointed out by the Italian Representatives that the need for importation of supplies of cereals would have been, on the basis of the IEFEC questionnaire pattern, of 3,400,000 tons in the above said period, but that such figure could be reduced to the smaller amount of 2,900,000 tons in view of the following facts:

a) in the month of July 1947 and even in the present month, the consumption has been reduced for failure of distribution with some consequent savings, (which however raise increasing opposition and unrest and cannot obviously be continued indefinitely);

b) the Italian Government is planning to exercise the utmost pressure on the farmers for obtaining the maximum results from the amassments (as in fact the July amassment has already shown the original target for that month having been surpassed);

c) the Italian Government hopes to be in a position to waive a part of the allocation by cutting the end stock requirements, in case some advance crops in the southern regions would be possible.

It was pointed out to the American Representatives that, of the above said amount of 2,9 million tons, 2,2 million tons should have come from the United States at the rate of 220 thousand tons a month beginning from the month of August included, the remaining part of 700 thousand tons having to be imported from Argentine, Canada, Near East. Moreover the necessity was stressed of obtaining such allocation of 220 thousand for the month of August in view of the fact that in the present period of the year the imports from the Near East would not be forthcoming immediately and that already towards the end of September, the Italian Government has essentially to rely on imports in order to obtain all the supplies needed for the distribution.

The Honorable the Acting Secretary of State is aware that a meeting of the Cereals Committee of the I.E.F.C. took recently place in Winnipeg. In such meeting the general situation of the allocations was reviewed and a resolution proposed by the United States delegate was approved, according to which, among other decisions, Italy should receive an allocation of 775,000 tons of cereals in the period July–December 1947, of which 540,000 should come from the United States. To this resolution the Italian Delegate strongly objected voting against.

Should such resolution in fact be adopted, Italy would receive in the months between July and December, from the United States, an amount of cereals which is less than half of what was previously asked to the American Representatives above mentioned. This would entail

² No record of this meeting has been found.

unforeseeable consequences in the present Italian situation: the working classes have already indicated their strong concern for the limitation of the cereal supplies distributed to them and for the inflationary spiral that such shortage of cereals is entailing. Moreover, the Italian Government, which is constantly faced with the problem of shifting from the producing provinces to the others the amounts needed for the distribution of the minimum ration, will have to fight against insolvable difficulties to achieve such distribution, as various provinces have already shown their reluctance to comply with the Government orders in the awareness that cereal supplies will become even shorter in the near future.

The Italian Ambassador has the honor, therefore, to invite the most serious attention of the Honorable the Acting Secretary of State to the gravity of such a problem, asking him to explore any possibility in order to arrive at an increase in the allocation to Italy in the future months to come.

The Italian Ambassador realizes the present shortage throughout the world but cannot but stress the great concern of the Italian Government for the consequences that inadequate provisions in the field of cereal supplies would entail for the social and economic situation in Italy.

The Italian Ambassador thanks the Honorable the Acting Secretary of State for his kind interest on the matter.

WASHINGTON, September 3, 1947.

A[LBERTO] T[ARCHIANI]

740.00119 Control (Italy)/9-347: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

ROME, September 3, 1947.

2601. Following official press release by Italian Foreign Ministry today:

"There was signed today at Chigi Palace by Minister Sforza and Ambassador Dunn, an agreement in the form of an exchange of letters for facilitating the withdrawal of the American armed forces from Italy and for regulating the status of same during the period of evacuation in which the armistice regime shall have ceased to be in force.¹

This agreement provides further that the United States High Command shall immediately prepare, in conjunction with the appropriate Italian authorities, for the substitution, with Italian personnel, of

¹ For text, see Department of State Treaties and Other International Acts Series (TIAS) No. 1694, or 61 Stat. (pt. 4) 3661.

the American personnel now serving with the Allied Military Government in the areas to be given back to Italian administration.["]

Sent Secretary of State 2601, Leghorn 111, Trieste 52.

DUNN

Editorial Note

On September 4 the Department of State reiterated to the Embassy in Rome its policy of supporting impartially all moderate political elements in Italy. It stated that the United States would welcome support for participation in the Italian Government of the greatest possible number of moderate left, center and right groups prepared to work together in harmony, without regard to narrow party differences, for the best interests of the Italian people. The Department further stated: "Obviously, we shall not support extremists, but it must be clear also that we cannot support those who, while not themselves of extreme left or right, make common cause with extremists to detriment of general welfare." (Telegram 1593 to Rome, September 4, 1947; 865.00/8-2847)

865.51/9-1147

Memorandum of Conversation, by the Assistant Secretary of State for Political Affairs (Armour)

[WASHINGTON,] September 11, 1947.

Participants: Ambassador Tarchiani
Mr. Armour, A-A
Mr. Dowling, SE

When the Ambassador called at his request this morning he said that in a brief conversation with the Acting Secretary yesterday¹ Mr. Lovett had requested any suggestions which the Ambassador might have regarding assistance for Italy. The Ambassador said that unfortunately he had been unable to think of any concrete measures which would not require Congressional action, although it was clear by now that Italy would run out of dollars long before any action which Congress might take. He said Italy would be able to finance her requirements this month and it might be possible to pay for October requirements, but there would be nothing at all left for November

¹ No record of this conversation has been found.

imports. He said he had not received complete figures from Rome but his own estimate was that within the near future Italy had in sight only some \$37 million; this figure would have to be reduced proportionately if there were any delay in final settlement of the Army accounts, from which Italy expected to realize approximately \$4 million, or in the POW account totalling perhaps \$5 million. On the other hand, his estimate of Italy's needs to the end of December was \$120 million. As he understood it the only immediately available source of assistance was the relief program for Italy which is generally expected to total about \$120 million. Of this amount, about \$35 million had been committed in the present quarter, leaving about \$85 million for the balance of the program. He understood further that it was contemplated that about half of this amount would be spent in the final quarter of the year and the rest in the first quarter of 1948. He hoped, however, we would give consideration to stepping up shipments in the final quarter, in anticipation that funds under the Marshall Plan would be available for the first quarter of next year. He said the essential commodities for Italy were, of course, wheat and coal; he realized there were difficulties in procurement and transportation, but if Italy's requirements for these two items could be covered under the relief program he felt that they would get along somehow.

I told Tarchiani that we would give consideration to his suggestion and that we would see what could be done in this connection.

After thanking me, the Ambassador turned to the question of Italy's admission to the UN. He said that of course none of us knew what the Soviet attitude on Italy's application would be, now that the treaty was coming into effect, but he feared the USSR would continue to oppose Italy unless the other ex-enemy states were also admitted. He added that he knew and sympathized with our attitude in this matter, but that he hoped if we could admit some of the ex-enemy states Italy could also get in. I said we had particularly grave doubts that Albania, Bulgaria and Rumania were willing to carry out the obligations of the Charter and that I did not see how we could vote for all of the ex-enemy states. At the same time, Italy could count on the same warm support for the Italian application which we had already given in the Security Council. The Ambassador said that the Italian Government was most grateful for this support and he knew we would continue it.

Referring again to the coming into force of the Italian treaty on September 15, Tarchiani said there were two matters to which he hoped we would give special consideration. One was the delimitation of the Italo-Yugoslav frontier. He said the Italian Government had not accepted the Four Power Boundary Commission's recommendations, which he felt deviated from the treaty provisions and made

too many concessions to Yugoslavia. The area involved was not great, but it meant a great deal to the Italian people, and he hoped this unfavorable frontier would not be imposed on Italy. The second matter was the possible return to Italy of the US share of Italian naval vessels distributed under the treaty. He said he understood we did not want to use these ships, and he felt their return to Italy for scrapping would make a tremendous impression on the Italian people. He said the scrap metal was needed for Italian industries, and the return of the ships, perhaps for some specific purpose like the production of agricultural machinery, would be a gesture which would capture the Italian imagination.

In conclusion the Ambassador said he hoped very much that any action we might take in regard to these matters could be announced before September 23 when debate began in the Constituent Assembly on the motion of no confidence introduced by Nenni. He said De Gasperi would surely be hard-pushed in the debate; the Communist-instigated strikes were becoming increasingly grave; Togliatti had just threatened the use of violence if necessary to overthrow the Government; and every effort would be made to charge De Gasperi and his pro-Western policy with responsibility for all of Italy's ills. He felt the vote would be extremely close, and further evidence of American support and assistance might be the deciding factor.

I promised Tarchiani that I would look into all these questions immediately, adding that as he knew we would be as helpful as possible.

N[ORMAN] A[RMOUR]

865.24/9-1147 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET

ROME, September 11, 1947—3 p. m.

2718. Deptel 1366, August 11. Decisions on outstanding matters of equipment for Italian army have been delayed while Italian army staff considered which of available items they wish accept under terms of July 21 surplus agreement and while allied and US authorities examined availabilities from surplus stock.

In meeting with Italian chief of army staff¹ September 1 General Lee after consultation with us offered the following equipment:

(a) 110 105mm howitzers, M-3 of which 99 in EuCom and 11 in Italy. All of these weapons are in poor condition having been stripped of fire control instruments and those in EuCom prepared for demili-

¹ Gen. Efsio Luigi Marras, Chief of Staff of the Italian Army.

tarization; further we do not consider them substitute for 105 howitzer M-2 A-1 weapons. General Lee offered them to General Marras as scrap thus leaving open for possible future fulfillment the commitment of the July 21 agreement to provide substitute items and General Marras accepted.

(b) 20,000 rounds of ammunition for the M-3 available in EuCom; General Marras accepted.

(c) 39 light tanks M-5 available in EuCom. Since these tanks have been stripped of radio and fire control and auxiliary armament and require extensive reconditioning, they were also offered not as substitute items but as "scrap". General Marras was informed they are believed suitable for training purposes and said he would send a representative to inspect them before giving final answer.

(d) 20 medium tanks M-4 and M-4-1 available in EuCom. (This offer made even though medium tanks had been supplied from British troops Austria to meet earlier deficit (FX 77066 August 6 to War Department from ComGenMed²) in accordance with our belief that all possible equipment should be offered to Italians regardless of limits of "balanced force", which in any case refer only to minima. We also interpret treaty limitations to refer only to material in operative condition). Italian representative will inspect these before final answer given.

(e) 89 57mm anti-tank guns for which ammunition may not be available. General Lee undertook to query EuCom availability ammunition there and General Marras said he would take weapons if ammunition available. (Subsequent to meeting MTO staff reported 30,000 rounds ammunition available in Italy after R-Day).

(f) Assorted grenades, mines and small arms ammunition available in Italy.

In line with Deptel 1441, August 19² General Lee stated equipment located in EuCom would have to be accepted "as is", and that he hopes arrangements can be made to transport it to German border without cost to Italy.

I have informed General Lee that I am communicating with Hyssong³ at Paris on question of arranging transport from present depots to German border.

Re possibility that additional British equipment may be found available for Italian program understand that British decision to make such equipment available only against payment has not been altered in principle. However, British troops Austria have been ordered to close down their depots by 30 September and War Office has approved shipment to Italy equipment which Italians may want, in preference to its abandonment inside. Financial arrangement to be worked out subsequently.

² Not printed.

³ Brig. Gen. Clyde Lloyd Hyssong, central field commissioner, Office of Foreign Liquidation Commissioner.

Majority of equipment available this source comprises personnel and munition carriers, armored scout cars and similar vehicles.

My understanding is that when all equipment referred to above has been delivered to the Italian army, the latter will still be lacking the following items in good condition required to establish minimum level of balance force.

200 light tanks; 230 field artillery pieces (105mm); 50 medium artillery pieces (155mm); 140mm anti-aircraft guns; 130 3.7 inch anti-aircraft guns; 400 rocket launchers, and 65 17 pounder anti-tank guns.

I have informed General Lee of my understanding that under July 21 transfer agreement US still committed endeavor supply Italy with equipment called for, or suitable and acceptable substitutes. Since agreement specified no time limit for fulfillment this obligation I have informed General Lee I believe intensive search should be continued to obtain items still deficient from whatever source for delivery to Italian army.

I hope the Department will agree that the US should make every effort to see that the reduced Italian forces are as well equipped as possible.

DUNN

865.51/9-1647

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] September 16, 1947.

Participants: Ambassador Tarchiani
Mr. Lovett, Acting Secretary
Mr. Dowling, SE

The Italian Ambassador called this afternoon to bring to my attention data on Italian financial requirements for the final quarter of 1948. He referred to his recent conversation with me¹ and said that additional figures were being received by mail from Rome but that he believed the essential facts were shown in the memorandum which he was leaving with me.²

Tarchiani also left with me a note regarding the IEFC grain allocation to Italy³ and urged that this allocation be increased if at all pos-

¹ This brief conversation, for which no record has been found, took place on September 10, for it is referred to as of "yesterday" in Tarchiani's conversation with Armour and Dowling on September 11 (*ante*, p. 965).

² Note of Italian Embassy, No. 8275, *infra*.

³ Note of Italian Embassy, No. 8274, p. 972.

sible. He said that contemplated shipments in the next few months would leave Italy with little more than a month's supply of grain on January 1.

I told Tarchiani I was glad to have these figures and inquired whether there would be any objection to making them public if it seemed desirable. He replied there would be no objection, adding that most of the information had been made available to other countries participating in the Paris talks on the Marshall Plan.

The Ambassador then discussed the present situation in Italy. He said the recent wave of strikes, coming as the treaty entered into force and Italy's economic resources were practically exhausted, were of course part of the overall strategy of the Italian Communist Party to force the De Gasperi Government out of office. He added that he did not believe Togliatti could overthrow the De Gasperi Government by parliamentary vote. If Togliatti failed, however, he might then attempt to set up a Communist government in Northern Italy which would undoubtedly receive recognition and assistance from Tito. The Italian Government in this event would take all possible measures to defend itself and to regain Northern Italy, but the armed forces permitted Italy under the Treaty were small, and even with the support of a majority of the population, a situation would exist akin to that in Greece today. He was still hopeful, though, that De Gasperi could win through, and that the Communist drive could be checked by means short of civil war.

After expressing the opinion that developments in Italy were related to general Soviet moves in Europe, Tarchiani said he felt the Soviets were pushing ahead in Italy rather than elsewhere since Greece and Turkey were now under "direct US protection", both in a military and economic sense, whereas Allied troops were being withdrawn from Italy and the economic situation there was growing worse. He added that while he felt sure the Italian Communists could count on Yugoslav and Soviet support he wondered what assistance the Italian Government would obtain.

I commented that Italy could proceed under Article 51 of the United Nations Charter, pointing out that Italy's right to defensive action thereunder was not subject to the veto. Tarchiani agreed, but seemed doubtful that the Italian Government could hold out while appealing to the United Nations; he reiterated, however, that the Government would do everything possible to maintain and defend itself.

In conclusion Tarchiani said that his views were based on his own estimate of the situation; he had received no direct word from De Gasperi, he said, but if he did, he would let me know.

840.50 Recovery/9-1647

The Italian Ambassador (Tarchiani) to the Acting Secretary of State

No. 8275

WASHINGTON, 16 September 1947.

DEAR MR. LOVETT: Following our conversations of the other day,¹ I enclose herewith some tables² which show the magnitude of the problem of the Italian requirements for the next months.

The tables here submitted are the following:

a) Table n. 1 *reflects the immediate problem* confronting the Italian Government for the purchases to be made in U.S.A. from now to the end of 1947. No funds are at present available to the Italian Government for such purchases. Should funds not be forthcoming and said purchases not be effected, a complete breakdown of the Italian economic system would occur. The table in question includes the amounts of basic essential commodities, like coal, cereals and P.O.L. products, in excess of those now being financed under the grant-in-aid program as within the limits so far indicated by the American competent authorities, plus other items absolutely indispensable to maintain the minimum production level of Italian industries in the above said period. The total requirement for these undeferrable purchases amounts to approximately *190 million dollars*, for four months, or an irreducible minimum of more than *47 million dollars* per month. I wish to point out that this figure does not include purchases to be made in other countries, for which payment in dollars is required.

b) Table n. 2 estimated balance of payments for the second semester 1947 showing a deficit for such period of approximate 236 million dollars.

This figure was however calculated when the decision of the British Government on the nonconvertibility of the pounds sterling had not been taken. Such figure therefore must be considerably increased, as approximately 15 million sterling pounds of receipts corresponding to net trade balances are not usable for the time being.

What is very clear is that the deficit in the balance of payment for 1947 is such that Italy without additional assistance can not meet the irreducible minimum requirements of more than 47 million per month, as set forth in paragraph a) above.

c) Table n. 3 shows the estimated projection of Italian balance of payments in the year 1948 as submitted to the Paris Economic Conference of the 16 European countries. It indicates a total deficit of 852 million dollars, i.e. a monthly deficit of approximate 70 million dollars. In the calculations of such balance of payments no considera-

¹ See footnote 1, p. 969.

² None printed.

tion was at the time given to the possibility that the pounds sterling accruing for Italian export into the sterling area might not be convertible. In this respect it may be useful to recall that the Italian Government estimates that Italian export in the sterling area will exceed imports to that area for an amount of 1,5 million pounds sterling per month. Therefore should the nonconvertibility be maintained, the actual deficit within the dollar area would considerably increase.

With respect to the above, I wish to stress the absolute necessity in which the Italian Government finds itself to obtain the necessary funds to finance the undeferrable essential purchases in the U.S. market, in the present moment. I venture to suggest that an immediate increase of the grant-in-aid program for Italy would be a practical solution to meet the present emergency.

I hope that you will give all your kind and careful consideration to the data submitted herewith and I thank you very much for the attention which you will give to the matter.

Yours sincerely,

ALBERTO TARCHIANI

865.6131/9-1647

The Italian Ambassador (Tarchiani) to the Acting Secretary of State

No. 8274

WASHINGTON, [September 16, 1947.]

The Italian Ambassador presents his compliments to the Honorable the Acting Secretary of State and has the honor to refer to his previous note No. 7885 of September 3rd, 1947.

In such note the Italian Ambassador deemed it necessary to draw the utmost attention to the Honorable the Secretary of State on the very serious consequences which the present insufficient grain allocation for Italy would have entailed.

Since the presentation of the note above mentioned, the Italian Ambassador has been again urged by his Government to point out to the competent American Authorities that, should the allocations in question be not increased, no stocks would practically be available to Italy at the end of the year or a further drastic cut in the rations would now be needed.

A table is attached to the present note with the aim of giving an illustration of the extremely dangerous situation confronting the Italian Government.¹

As specified in its footnotes, such table is to be considered as an exploratory approach to the situation as it would develop for Italy in the months up to next January, if no prompt and adequate pro-

¹ Not printed.

visions were taken to increase wheat shipments in the immediate future.

The depletion of stocks before next year will also mean that Italian food administration will be soon faced with the impossibility of maintaining an orderly bread distribution.

On the other hand it cannot be easily conceived how in the present moment in which the Italian Government is faced with riots and widespread strikes, it would be possible for them to announce and enforce a reduction in the bread rations.²

² In letter No. 8641, September 24, not printed, Tarchiani told Armour of a new, urgent, personal appeal from Prime Minister De Gasperi for the Secretary of State, urging an increase in the wheat allocation for Italy (865.6584/9-2447).

865.5018/9-1747: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET

ROME, September 17, 1947—3 p. m.

2772. ReEmbtel 2633, September 5 and 2651 and 2652 September 6¹. In submitting my recommendations to ship wheat to Italy at the expense of other commodities under the relief program, we made a choice that was forced upon us, and in which we were guided by humanitarian as well as political arguments of special importance to Italy. Aside from the preponderance of cereals in the Italian diet (normally two-thirds of the caloric intake), we would be poor managers indeed of relief program if Russia, by timing rather than generosity, were afforded the opportunity to make good the Italian deficit at a critical political moment, say March.

The choice of wheat is almost entirely at the sacrifice of coal, the commodities under USFRP already having been virtually eliminated. Whether we supply all of the wheat and none of coal, or half of wheat and half of the coal, there remains a wide gap which Italy must fill with foreign exchange. The gravity of this decision to Italian economy is clear.

Italian economy normally used about one million tons of foreign coal a month. However, Italian industry operates on a narrow margin as regards both fuel and raw materials; the proportion of coal allocated to public services here is considerably greater than is the case in countries with heavy industries. Therefore, proportional cuts of coal receipts affect Italian production to a greater degree than production of most of its neighbors.

¹ None printed.

The Italian Government has been counting among its exchange resources some 20,000,000 of sterling, most of which would have been used for US coal purchases. The suspension of convertibility leaves the Italian Government in a critical exchange position—according to statements of Governor of Bank of Italy⁴ and Minister of Foreign Trade,⁵ the net dollar position is between 13,000,000 and 15,000,000. While by scraping the bottom of barrel, Italian Government may possibly find some small sums of additional dollars, it is very undesirable for it to consume the last of the meager resources, and placing the government before end of year in a most vulnerable political position. (The Embassy is making a careful inquiry into such additional US tapped [*additional untapped?*] sources of dollars as may exist—for instance, suspension of 50% exchange retention legislation—and hope to be able to report at end of the week.)

It can be frankly said, therefore, that Italy is on verge of a dollar crisis, which if allowed to break, will inevitably so restrict production, transportation and employment as to cause an inflation, with attendant political upheaval, so far unmatched in Italy. If it does not break in a few weeks, it cannot be held off for long.

While the Marshall plan is still a light of hope on the dismal road Italy walks, it is a dim and distant one for the weary traveller.

I appreciate from the messages we have been receiving and particularly from the Under Secretary's statement of September 3 and yours of September 12, that our government is anticipating the measures to take in order to meet the gathering forces of despair in western Europe. However, as the situation in Italy is giving signs of starting to move rapidly, I have felt constrained to risk the error of repetition by presenting the above picture. By the same token I submit for what it may add to the Department's material, some of the possible emergency devices which might be considered.

1. An advance of dollars against Italy's sterling as collateral.

2. A stabilization loan similar to the recent one to Mexico, if the Italian case fits the requirements.

3. Expediting the opening of credits under the Export-Import Bank 100,000,000 dollar credit, of which only some 30,000,000 have been formally committed and none used.

4. Making a public commitment now, with a view to negotiation of an agreement as soon as possible, of a new Export-Import Bank loan of at least \$100,000,000 available for purchases of raw materials without conditions as to the export trade it could develop, the present formula of "political stability", etc. (While such an operation would depend upon a change of bank's policy, I imagine that, in the absence of other US loan funds for foreign countries the interim use of the

⁴ Luigi Einaudi.

⁵ Giuseppe Merzagora.

Export-Import Bank for the critical period in Europe is under general examination.)

5. Exploring the possibility of an International Monetary Fund and Bank operation in favor Italy. Despite the long term nature of the bank's loans public commitments to an Italian loan should have a splendid psychological effect at once.

Patently, these are all emergency measures to meet a new, and the worst, emergency; the definitive solution to Europe's ills must be built of constructive planning at Paris which will sell itself on its merit to the American people and Congress. The suspension of convertibility has rapidly accelerated economic deterioration. There was a time not long ago when I believed Italy would pull through, at least until the first of the year. Such is no longer the probability. In a short time, perhaps a very short time, it will be question no longer whether this government or even a broadened one can survive; it will be a question when Communists find it suits their purpose to seize initiative, which is passing to them, to assume the Government by legal means.

The present or a similar type of government is one which we should support with substantial assistance now if we really want to avoid Italy going Communistic. Without assistance this government will fall and the only alternatives are either a coalition including the Communists or a government of Communists and non-Socialists [*Nenni Socialists?*]. Either of course would mean the end of democracy in Italy.

Sent Department, repeated Paris 365.

Repeated Paris for Clayton.

DUNN

740.00119 Control (Italy)/9-1747: Telegram

*The Acting Political Adviser (Greene) at Leghorn to the Secretary of State*¹

LEGHORN, September 17, 1947.

173. From MTOUSA to SecState, info AmEmb Rome AmEmb Belgrade US PolAd Hq AMGVG Trieste US PolAd Frankfurt. Effective with abolition AFHQ September 17, US PolAd Leghorn closes. Correspondence relating to US military establishment in Italy should now be addressed to AmEmbassy Rome.

British PolAd also closes same date.

¹ Mr. Greene was Acting United States Political Adviser to the Acting Supreme Allied Commander, Mediterranean Theater (Lee).

Sent Dept 173, repeated Trieste 15; Rome 83; Belgrade 30; Frankfurt unnumbered.

GREENE

865.00/9-2247: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET

ROME, September 22, 1947—1 p. m.

URGENT

2871. For the Secretary and Under Secretary. On Saturday evening (September 20) during meeting with member of Embassy staff, Prime Minister de Gasperi expressed his deep concern with respect to outcome of vote on Socialist-Communist motion of lack of confidence in present government, expected to take place at end of next week. He stated that vote, in any case, would be very close and that he would have to mobilize every possible support in order to pull through. Loss of vote of confidence, he added, would undoubtedly mean his departure from government and the formation of a government which would include those left-wing forces which brought about his defeat.

Immediate measures of support of the present government, prior to the vote of confidence, may be the decisive factor. I recommend strongly therefore, that the following measures be taken by the US Government prior to the vote of confidence: (1) Immediate availability of the dollar counterpart of prisoner of war certificates, estimated at 20 million dollars, (2) immediate certification by War Department of remaining dollars forming counterpart of American lire spent in Italy, (3) immediate restitution of 24 tons of Fortezza gold which it has now been agreed is to be restored to Italy, (4) transference to Italian Government under surplus property agreement of July 21, 1947, of three wrecked ships lying in Italian territorial waters which Maritime Commission propose offering generally on sealed bids.

I strongly recommend that the US Government announce these measures, involving some 50 or 60 million dollars, together in one press release prior to the vote of confidence.

DUNN

Executive Secretariat Files

Memorandum by the Policy Planning Staff

TOP SECRET

[WASHINGTON,] September 24, 1947.

The Problem: Possible Action by the U.S. to Assist the Italian Government in the Event of Communist Seizure of North Italy and the Establishment of an Italian Communist "Government" in That Area.

FACTS BEARING ON THE PROBLEM

1. The Communists were excluded from the Italian Government in June, 1947. Since then, their rapid increase in strength and power appears to have been checked, and their influence seems to have declined, although they remain the strongest single force in Italian politics.

2. Resenting their exclusion from the Government, and alarmed at the initial success of this first attempt since liberation to govern without them, the Communists have exerted increasing pressure through propaganda, popular demonstrations and strikes by constituent unions of the Communist-dominated General Labor Confederation to bring about the downfall of the De Gasperi cabinet and the formation of a new government with Communist participation.

This pressure has recently been intensified. Following the introduction of a motion of no confidence before the Constituent Assembly, Communist propaganda has alternately threatened De Gasperi with defeat and pled with him to resign for the good of the country. Strikes have been increased in number and size, and a nation-wide "hunger" demonstration was held on September 20 in an attempt to intimidate the cabinet and Assembly before debate begins September 23 on the motion of no confidence. For the first time, the Communists have threatened the use of force to overthrow the government.

3. Following the signature at Paris of the Italian Peace Treaty on February 10, 1947, small US and UK forces have been maintained in Italy, primarily for reasons of stability and to ensure an orderly and peaceful transfer of Italian territory ceded to Yugoslavia under the treaty. The Italian treaty having come into effect on September 16, these forces must be withdrawn within ninety days of that date under the provisions of Article 73 of the treaty.

4. Annex VII of the Italian treaty, however, provides that 5,000 US troops shall remain in the Free Territory of Trieste, together with 5,000 British and 5,000 Yugoslav troops, until such time as the Governor of the Free Territory shall declare to the Security Council that their services are no longer required. Maintenance of the security and territorial integrity of the Free Territory is a direct obligation of the Security Council.

5. US policy towards Italy has been directed toward the support of a friendly, democratic regime in that country in order to safeguard US security aims in the Mediterranean.

DISCUSSION

6. There can be no question of the ultimate aim of the Italian Communist Party; this aim is the complete subjugation of Italy to Soviet control. There is, however, some question as to their immediate objective. It may be that they expect and desire no more at present than

participation in the Italian Government, in the belief that the increased power and prestige to be derived from this participation would enable them to win the national elections in March 1948. A possibility exists, however, that they may have decided upon an immediate attempt to seize full power.

7. While consideration of their participation in the Government as the Communists' immediate objective is beyond the scope of this paper, it should be said that it seems doubtful they could now overthrow the De Gasperi government by parliamentary means unless economic conditions grew worse. If conditions do worsen, discontent and disorders may well rise to a point beyond the ability of the Government to control with the limited armed forces permitted it under the treaty, thereby enabling the Communists to achieve their ultimate aim of full power.

8. If the Communists are persuaded they cannot succeed by constitutional means, and are convinced that with US assistance economic conditions will improve rather than worsen, it seems probable they will intensify still further their efforts to disrupt economic life and undermine the authority of the Government. The plan will be to reduce the country gradually to a state of chaos in which local and national administration will collapse and in which "peoples' councils" can be set up in Communist-dominated areas as spontaneous expressions of the popular will. Any effort in this direction would be facilitated by the virtual control which the Communists and Nenni Socialists already exercise over the municipal governments of Milan, Turin, Genoa, Bologna and other smaller cities in the North.

Once established, these "peoples' councils" could be joined together to form a Communist national "government," whose authority might be expected to cover initially most of North Italy as far south as Florence. Appeals would then be issued to Italian regions in the south to recognize this "government" as truly representative of the Italian people.

9. In this situation, the Italian Government can be expected to exert every effort to maintain its authority in Rome and throughout Southern Italy, where the Communist Party is weaker and less well organized than in the north. Above the Po Valley, the Government might attempt to hold Venice, where the Christian Democrats are strong, and around which the greater part of US and UK forces will probably be concentrated while awaiting withdrawal. Its main effort, however, would have to be directed towards consolidating its position in the south, and even there it could not hold out for long without appreciable assistance from abroad. Cut off from industrial production of the north, and deprived also of the agricultural produce of the Po Valley, southern Italy would soon be almost wholly dependent upon imports

for its very existence. Though assistance under the United States relief program would be used for the 20 million people in South Italy, rather than for the entire population of 46 million as at present, additional assistance would be required for an improvement in present living standards if stability were to be insured.

10. North Italy would likewise require foreign assistance. It is possible that basic food requirements might be met from domestic sources for an initial period, but coal and primary raw materials would be required almost immediately to maintain production and employment in urban centers. Communications with Yugoslavia would, however, provide means as well as a source for many essential materials. These same means would also serve for military assistance from Yugoslavia and the USSR; such assistance would most probably be extended covertly, with overt Yugoslav action limited to seizing for itself the border areas, notably the province of Udine, claimed during the Italian treaty negotiations.

11. The rise of Communism to power in Italy would seriously menace US interests. Apart from the influence this development would have on the future of Western Europe and the repercussions to be expected in South America, a Communist regime in Italy could nullify the achievement of US objectives in Greece and Turkey. On the other hand, failure of the Communist moves in Italy could only cause most favorable reactions throughout the Mediterranean and Europe, giving courage to the peoples of those areas in their own efforts to resist Soviet pressure.

CONCLUSIONS

12. It is evident that the Communists are exerting the greatest possible pressure to obtain their renewed participation in the Italian Government by parliamentary means. It is not equally evident that they are prepared at present to resort to force to obtain their aims before the final withdrawal of Allied forces from Italy. This possibility cannot be excluded, however, and plans should now be made for action by the US in the event that Communist seizure of North Italy appears imminent. Soviet control of the Italian peninsula would jeopardize US interests in Europe and the Mediterranean, and the National interest would require that the greatest possible support be given the Italian Government in its efforts to maintain itself and eventually to regain the territory seized by the Communists.

Communist seizure of North Italy would probably be presented as purely domestic in character, without foreign aid or intervention. In the event that Yugoslavia seizes Italian border territory, the US should if possible treat this as a separate matter, bringing Yugoslav aggression to the attention of the United Nations and making it clear

to the Italian people that we are acting in the interest of the Italian nation as a whole, regardless of the fact that Yugoslav aggression is against territory held by an illegal Communist regime.

13. It is believed that plans now formulated should apply to the period of ninety days within which US and UK forces must be withdrawn from Italy in accordance with the treaty. If action has not been taken by the Communists in the near future, but appears likely to be taken after the final withdrawal of US forces, these plans should be reviewed not more than sixty days from now in order to determine the course of action to be followed by the US in the circumstances which may then exist.

RECOMMENDATIONS

In the event of Communist seizure of North Italy, the following plan of U.S. action is recommended:

a. The Italian Government should inform the Four Ambassadors (US, UK, USSR and French) in Rome (with the request that they notify the other signatories of the peace treaty) that it is no longer able to maintain effective authority in North Italy and that it consequently cannot accept responsibility for the execution of the terms of the peace treaty in that area.

b. The Italian Government should inform the U.S. and, so far as may be applicable, the British Government, that in the light of the situation which has arisen in North Italy it is no longer able to guarantee order along lines of communication across Italy from Leghorn for the support of US forces in Italy and in Trieste; that it must therefore leave it to the U.S. to take suitable measures to protect legitimate American interests in that area; and that in this connection it remains prepared to render to the United States Government, within the limits of its ability, all possible assistance in servicing US forces in Italy and in meeting US obligations to the UN with respect to the Free Territory of Trieste.

c. The US should immediately express concern publicly over the fact that disorder has broken out in Italy so soon after the entry into force of the peace treaty and should notify the Italian Government and the UN that in the light of this situation it has become necessary to suspend the withdrawal of US forces from Italian territory.

d. The US should inform the Italian Government that in view of the situation which has arisen it will require additional military facilities for the time being and arrangements should be made to that end.

e. The US should announce the suspension of aid to North Italy under the US relief program, at the same time making it clear that this aid will be continued for areas under the jurisdiction of the Italian Government.

f. If the Italian Government makes a request to the US for direct military assistance, our reply should be that we are not disposed to intervene with US armed force in what appears to be a civil conflict of an internal nature in Italy but that we will continue to recognize the Rome Government as the legitimate Government of Italy and will regard all of our existing undertakings with respect to aid to that Government as still in effect.

g. If, in the foregoing situation, Yugoslavia should make incursions into or seize Italian border territory, the US should vigorously take up this aggression against Italy with the appropriate body of the United Nations.

h. These recommendations are designed to apply only to the period between now and December 12 (the expiration date of the period during which we are entitled to have forces in Italy). They should be reviewed in the latter part of November, and revised to fit the circumstances which will prevail after December 12.

865.51/9-2547

*Memorandum of Conversation, by the Assistant Secretary of State
for Political Affairs (Armour)*

SECRET

[WASHINGTON,] September 25, 1947.

Participants: Ambassador Tarchiani
Mr. Armour, A-A
Mr. Dowling, SE

The Italian Ambassador said he had asked to see me to continue our conversation of some days ago¹ regarding Italy's present situation. He said that he had just received a telegram from De Gasperi, which he wanted to read to me, and which in substance said that the continued existence of a non-Communist government in Italy would be determined primarily by the assistance which Italy might receive during the next few months. De Gasperi seemed reasonably confident that the Communist-Socialist motion of no-confidence in the government would fail, and he was firmly disposed to resist Communist demands for their inclusion in the government. He (De Gasperi) did not believe that the Communists would succeed in any attempt to overthrow the government by violence so long as the government was able to maintain essential supplies, principally wheat and coal. Italy's current dollar resources, however, were down to approximately \$2 million, while existing commitments totaled \$6 million, and there was

¹ See p. 965.

no hope that the government could continue purchases in October without assistance.

In this connection, Tarchiani said he wanted to leave with me a copy of a telegram summarizing Vice Premier Einaudi's conversation in London with Messrs. Snyder and Clayton regarding interim aid,² and to urge upon the Department the importance of making available to Italy every possible amount of assistance. He said that in the existing situation every dollar would help, and he therefore hoped it would be possible to expedite the return of the Fortezza gold, payment of the balance of the suspense account, and settlement for the POW certificates.

I told the Ambassador we would certainly do what we could, and that I would immediately bring his suggestions to the attention of the Departmental officers concerned.

The Ambassador then said he wanted to leave with me a letter urging an increased IEFEC allotment of grain for Italy,³ adding that he appreciated the difficulties confronting us in this matter, but that if it became necessary to reduce the present low bread ration in Italy he did not believe the government could survive.⁴

[Enclosure—Memorandum]

Text of the telegram received from Premier De Gasperi by Ambassador Tarchiani:

"Vice President Einaudi and Menichella have presented in London to Mr. Snyder and Mr. Clayton a memorandum on the Italian financial situation pointing out that if within the next few weeks no extraordinary help in dollars will be granted to Italy the collapse of the Italian economy will be inevitable. Such immediate help cannot be found in loans from banking institutions due to the slowness of the procedure and the finalities of the aims of such institutions, which are mainly devoted to the reconstruction of industries. No concession whatsoever was obtained in London by the British Government on the question of the convertibility of sterling. Einaudi has proposed to Mr. Snyder an advance on the amount of the grant-in-aid to be recovered at a later date out of other extraordinary appropriations to be decided or an advance of forty million dollars on the frozen pounds. Both proposals could be combined. Snyder pointed out difficulties, but

² See enclosure to this document.

³ See footnote 2, p. 973.

⁴ A typewritten, attached memorandum, without date or signature, reads: "Questions which could be examined with the War Department:—Immediate concession of the balance of the suspense account. —Speedy solution of the granting of the dollars for the scrips of the prisoners of war.—Consideration to the possibility of granting to Italy some dollar amounts against requisitions effected by the United States Armed Forces in Italy."

promised to examine this and other suggestions although mentioning necessity of Congress' decision for definitive solutions."

WASHINGTON, September 24, 1947.

865.24/9-1147 : Telegram

The Acting Secretary of State to the Embassy in Italy

TOP SECRET
US URGENT

WASHINGTON, September 27, 1947—11 a. m.

1863. Army Survey Group (ASGI) under Col Bathurst¹ proceeding Italy Sept 27 to undertake thorough review reequipment program Ital Army and also to study all aspects possible desirability and practicability establishment US Military Mission Ital Govt. Decision send Group largely result consideration, in consultation with Dept, points urtel 2718 Sept 11. Mission has full support Gen Lee who discussed matter with Group yesterday. Col Bathurst will advise you his instructions and will undertake survey in closest consultation you and Emb staff. Army informing MA who will give you further details ASGI mission.

Re establishment US Mil Mission Italy, Dept has formulated no firm position but will appreciate your views desirability from political point of view after you have considered recommendations ASGI report.

LOVETT

¹ Col. Charles R. Bathurst, executive officer, Organization and Training Division, General Staff.

865.24/9-2947 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, September 29, 1947—3 p. m.

2987. US Army in Italy desires to turn over direct to Italian Army sufficient surplus of Quartermaster, Signal Corps, Medical Corps, Transportation and Ordnance supplies to properly equip the force provided by Article 61 of the treaty as part of combat equipment included in Taff-Del Vecchio agreement of July 21, 1947. General Hyssong, central field commissioner, OFLC,¹ objects to such transfer, stating that Taff-Del Vecchio agreement comprises a specified list of actual combat equipment which did not include vehicles, clothing,

¹ Brig. Gen. Clyde Lloyd Hyssong.

medical supplies or communications equipment which, when surplus, should be turned over to army under Bonner-Corbino agreement of September 9, 1947 [1946]. His position is that transfer of this additional surplus under Taff-Del Vecchio agreement, which had no escalator clause, would reduce net return to US and that he cannot approve without instructions from Foreign Liquidation Commissioner.

Unfortunately MTOUSA Leghorn did not understand that Taff-Del Vecchio agreement was limited to arms and ammunition and have informed Italian Army and Cingolani,² Minister of Defense, that these other items would be included with result that De Gasperi has issued a protocol stating that Italian armed forces are authorized to receive these additional items direct from the US Army under the Taff-Del Vecchio agreement.

Total value at government cost of these additional items will be about 20 million dollars, which will reduce return on Taff-Del Vecchio agreement from 18.2 percent to about 15 percent. However, political and strategic factors at this time would appear greatly to outweigh this monetary sacrifice. For both political and economic reasons present government in no position to properly equip Italian Army. This fact has lowered effectiveness and morale of the force.

I, therefore, strongly urge that FLC, Washington, immediately instruct Hyssong to allow transfer under Taff-Del Vecchio agreement.

Repeated Paris for OFLC 384.

DUNN

² Mario Cingolani, Italian Minister of Defense in the fourth De Gasperi cabinet (until December 15, 1947).

865.24/9-2947 : Telegram

The Acting Secretary of State to the Embassy in Italy

SECRET

WASHINGTON, October 4, 1947—3 p. m.

1951. Ur 2987 Sept 29. In view Dept following three procedures possible effect transfer equipment Ital Army :

1. Amend two agreements as follows :

Such non-combat equipment and supplies as are required for equipment and maintenance Ital Armed Forces, and for which transfer to Itals provided Bonner-Corbino Agreement, may be transferred directly Ital Army upon declaration as surplus by US mil in accord transfer procedures provided Taff-Del Vecchio Agreement.

Upon the final computation of value of surplus property transferred under Bonner-Corbino Agreement in application escalator clause, to the value of the property transferred under that agreement will be added cost of additional property transferred under procedure Taff-Del Vecchio Agreement in accordance above paragraph.

2. Amend agreements to add to the total Ital payment due under Taff-Del Vecchio Agreement the value of the additional equipment and provide for transfer under Taff-Del Vecchio rather than Bonner-Corbino as latter agreement now provides.

3. Amend agreements to allow transfer under Taff-Del Vecchio procedure instead of Bonner-Corbino without requiring additional compensation from Itals for additional equipment under Taff-Del Vecchio and at same time allowing credit under escalator clause Bonner-Corbino.

We consider first procedure most desirable in that it would permit direct transfer equipment without substantial alteration existing agreements. Second course also acceptable. If third proposal adopted would necessitate statement by SecState to effect gratis transfer made in consideration substantial benefit received by US. We would be most reluctant pursue this course, particularly since necessity not apparent to us.

You are authorized negotiate necessary agreement to effect either first two proposals after consultation Hyssong. Final draft amendment shd be submitted Dept and Hyssong for approval prior signing. OFLC concurs.

(Sent Rome 1951 rpt Paris 3807 for Hyssong)

LOVETT

865.6131/9-1647

The Secretary of State to the Italian Ambassador (Tarchiani)

The Secretary of State presents his compliments to his Excellency the Ambassador of Italy and has the honor to acknowledge his notes of September 3 and September 16 in which an increase in grain allocations to Italy from the United States is requested and attention is called to the serious political and social consequences which might result from any reduction in rations in Italy. Specifically, the request is made for allocations of 220,000 tons a month. Reference is made in the note of September 3 to savings effected by reduction of consumption in July and August and to efforts to effect maximum collections of indigenous grain.

The United States Government regrets that it is unable to make allocations to Italy in the magnitude requested and thereby to remove uncertainty regarding adequate supplies to meet the present ration. Careful thought has been given to what the United States can make available to various countries for the entire crop-year. The export program during the first part of the year must not be so large that little or nothing would remain to be shipped in the winter and spring when

the impact of this year's unprecedented deficit is expected to be most keenly felt. It is quite clear that no such quantity as 220,000 tons a month can be sustained for Italy and it would be unwise to lay plans regarding procurement and consumption levels with such an expectation in mind.

The successful progress of the Italian amassment has been watched with interest and gratification. However, the increase in consumption which is known to have occurred in July and probably also August, when controls on distribution are understood to have been in part relaxed, has been a matter of concern because of the vital necessity of conserving supplies to meet the difficult winter and spring period. This development is the more disquieting in view of the projection of Italy's grain position attached to the Ambassador's note of September 16 indicating that monthly consumption is expected to continue throughout the present semester at the increased rate of 400,000 tons reached in July. This is in strong contrast to reductions in rations which are taking place in other countries in recognition of the necessity of making adjustments to conserve supplies because of the great grain deficit known to exist. It is hoped that means are being found to reestablish effective controls of distribution so that the most careful use can be made of all available resources.

WASHINGTON, October 8, 1947.

865.24/10-947 : Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, October 9, 1947—midnight.

3159. Del Vecchio, Minister of Treasury, interviewed this morning and given letter proposing amendment to Bonner-Corbino and Taff-Del Vecchio agreements as in suggestion No. 1 in Deptel 1951 October 4. Although Del Vecchio said he would study matter nevertheless he made it quite clear that such procedure was entirely contrary to wording and spirit of Taff-Del Vecchio agreement which he says was final clean-up of all army surplus and that first sentence Paragraph A "U.S. Army equipment located in Italy" refers to any Army equipment of whatever nature to be turned over directly to Italian Army. When reminded that this sentence referred only to specific list of combat equipment Del Vecchio answered that no such list formed part of this agreement nor was it his understanding that such equipment was limited to arms and armament. He did not apparently recall that this list was not made integral part of agreement for political reasons.

We will advise as soon as reply to our letter received but it may be assumed that in view of Del Vecchio attitude we will have to fall back on suggestion No. 3 in Deptel 1951. In this event it is considered that you can substantiate a statement that gratis transfer is in consideration of benefits to the US inasmuch as Italian Army now has sole responsibility for defense of new eastern frontier, a task it could not perform without the proper equipment, and enabling it to assume internal and external security so that US Army may withdraw under treaty terms. The Italian Government cannot appropriate funds for such equipment in its present precarious financial situation. If transfer is made under Bonner-Corbino Agreement, a covering appropriation to Italian Army would have to be made and any such proposal at this time would undoubtedly precipitate another government crisis as the Left parties are united in opposing any additional funds for defense.

Sent Department, repeated Paris 393 for Hyssong OFLC.

DUNN

865.51/10-1047: Telegram

*The Chargé in the United Kingdom (Gallman) to the Secretary
of State*

SECRET

LONDON, October 10, 1947—noon.

US URGENT

5466. ReDeptel 4217 [4207], September 30, to London, repeated Rome 1884.¹ Fortezza² protocol signed on schedule 11 a. m. London time by Gallman for US, Bevin for UK and Italian Chargé B. Migone.³

Text follows that quoted Embstel 5353, October 3, repeated Rome 120, Paris 5361, October 4, repeated Paris 555, Rome 121, October 6 and Embstel 5391, October 7, repeated Paris 559, Rome 123. US copy being forwarded cover air despatch immediately.⁴

Sent Department 5466; repeated Paris 562; Rome 128.

GALLMAN

¹ Not printed.

² In telegram 1442, May 29, 1945, from Rome, not printed, Ambassador Kirk reported that the gold discovered by U.S. troops at Fortezza, valued at approximately \$25 million, had been identified as a portion of the gold reserve of the Bank of Italy, apparently removed to northern Italy by the Fascist Republican government. (865.515/5-2945) In the memorandum by Ness of June 3 (*ante*, p. 913), the value of the gold was estimated at \$28 million. For additional information, see Department of State *Bulletin*, October 19, 1947, p. 770.

³ Bartolomeo Migone.

⁴ None printed; for text of the Protocol, "Transfer to Italian Government of Gold Captured at Fortezza", see Department of State Treaties and Other International Acts Series (TIAS) No. 1658, or 61 Stat. (pt. 3) 3239.

865.00/10-1047: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET

ROME, October 10, 1947—noon.

US URGENT

3168. Our analysis of results of votes of confidence on October 4 fortified by information we have since obtained in conversations and from press is summarized as follows:

1. De Gasperi's personal prestige was greatly enhanced more so than that of his party.

2. De Gasperi's leadership within his party was strengthened. (During debate on no confidence motions it is reported that Gronchi,¹ Demochristian, had approached Nitti proposing combination with him of "dissident" Christian Democrats to overthrow the government and presumably make use of Nitti's prestige for formation of new government with Gronchi in prominent role. Nitti did not take to this maneuver as his attitude in debate showed and even it is reported informed De Gasperi of it.)

3. The extremist Marxian Parties emerged not only proportionately weaker, in parliamentary terms, but also somewhat discredited in absolute terms vis-à-vis the public. Three motions were voted upon: the further to the left the origin of the motion the greater the majority for the government (see despatch 1701, October 8²). The total supporting votes remained virtually the same on all three counts while the votes against were (1) on the Nenni motion 178 with 63 abstentions; (2) on the Saragat motion 224 with 17 abstentions; and (3) on the Republican "order of the day" 236 with one abstention.

Immediately upon the completion of the vote on the Nenni motion Togliatti withdrew the Communist motion; undoubtedly he preferred not to risk a greater defeat of the Communist motion than that suffered by the Fusionist motion.

4. The course of the vote should now strengthen De Gasperi's bargaining position with the small moderate Leftist parties for admittance into the government to broaden its base (the Prime Minister in fact confirmed to me night before last that he planned to negotiate with these small parties after seeing results of Rome municipal elections October 12).

The most important result, however, of last week's test may not come to light for a time although the new Communist manifesto setting up the Belgrade information bureau may hasten realignments and momentous decisions. (In accompanying telegram 3145, October 9² Lombardo's program for Italian Socialism is amply reported. Present telegram should be examined jointly with that one.)

¹ Giovanni Gronchi, one of the founders of the *Partito Popolare* in 1919.

² Not printed.

In a meeting a few days ago with members of the Smith-Mundt Committee the Prime Minister, commenting on the present situation, averred that the next big undertaking on his program is the breaking up of the Fusionist Socialists; the time and the tactics must be adopted to the end that segment remaining in Communist camp be as small as possible. (Again it should be mentioned that Communist tactics from Belgrade may influence De Gasperi's and Lombardo's timing.) It is surely not entirely coincidence that in the present Rome municipal campaign (see mytel 3117, October 7^a) the Communists are directing their violence against Saragat Socialist meetings only.

The reconstitution of single Socialist party aside from the problem of size of Left-Wing group which would merge with Communists is also, however, beset by problems of personalities. Saragat has advantage deriving from having split first but both in his group and in the center and right of Nenni group there are personalities with individual followings who may be expected to contend for leadership of reunited party.

There seems to be a move within bureaucratic circles in favor of getting Lombardo into the government soon as possible; but Lombardo himself notwithstanding his talent would not greatly strengthen government until he can speak for a mass following.

Despite the brighter prospects in Italy now of reunited moderate Socialist mass party allied with social democracy of Demochristians much if not all of progress toward moderation in Italy may be lost by election time, if this alliance is identified this winter with bread riots. This serves to point up the tremendous importance of continued support by us of forces of moderation; without promise of our long-term support and with ever present possibility of timely Russian shipment of wheat into Italy this winter the Communist party's chances of gaining control of Italian Government through legal means would be immeasurably increased.

Sent Department 3168; repeated London 230; Paris 395; Moscow 160.

DUNN

* Not printed.

865.20/10-1047: Telegram

The Ambassador in Italy (Dunn) to the Secretary of State

TOP SECRET

ROME, October 10, 1947—midnight.

3185. Re Deptel 1863, Sept 27. Colonel Bathurst and his associates called on me and members of my staff October 8 and we had most useful exchange of views. In view of confusion which has arisen re aid to

Italian army, I was particularly glad to see how thoroughly AGSI [*ASGI?*] has gone into matter, and believe their trip will prove well worth while.

In our discussion, I told Colonel Bathurst that my comments would be restricted to political aspects of question, on assumption that General Jaynes' staff at MTOUSA had covered purely military aspects, on which I did not in any case feel competent to speak. I said that I considered it of utmost importance that we continue our efforts to assist Italy to establish and maintain a balanced army which would be capable of insuring both internal security and local defense of frontiers against guerrilla incursion or attack incident to an operation less than formal war. Colonel Bathurst agreed, and also agreed that the balanced force to which we refer should be as recommended by SAC and approved by CCS.

I also emphasized that Italy in its present state is not economically or politically able to provide required materials for itself, nor are the British able to assist. Colonel Bathurst pointed out that some of equipment considered necessary to establish balanced force is not available from US Army surpluses, and that legislation would in all probability be required to permit War Dept make such equipment available. He also noted difficulties of procurement in US at this time.

Re military mission, I said I consider such a mission highly undesirable from political viewpoint, in that its presence in Italy under present circumstances would, I believe, be source of embarrassment to and consequent weakening of present Govt. I added that my objections to military mission do not extend to possibility of assigning a few specialist officers to Military Attaché to instruct Italians in care and use of US equipment which we may make available to them.

In any case, any project for mission would have to have concurrence of Italian Govt; of course, if Italian Govt itself should unexpectedly ask for mission, situation would be materially changed. Colonel Bathurst said he believed that mission could be set up under President's emergency powers, but that when these expire, legislation (as contemplated in military mission bill now before Congress) would be required.

Colonel Bathurst and I agreed that immediate consideration should be given to inviting Italian officers to attend staff, technical and tactical schools in US, possibility in which Minister of Defense and Chief of Italian Army Staff have already expressed great interest. Colonel Bathurst felt, however, that legislation would be required to permit any significant number of Italian officers to attend our army schools in US.

We discussed together question of Congressional approval in three matters mentioned above, and I expressed view that it would be most undesirable at this time to initiate debate in Congress confined to our

military policies in Italy. Such debate might well upset the trend toward stability which De Gasperi Govt is beginning to show and might well defeat the very purposes it was intended to fulfill. Of course, if general legislation, without specific reference to Italy, were to be introduced and debated in Congress, this objection need not apply.

Throughout the discussion I emphasized both that my views are based entirely on present political circumstances, and that any program of military aid must be considered as part of an overall program of aid, of which AUSA now forms the most important and most obvious part. I said I do not believe the situation in Italy today is now analogous to that in Greece or Turkey but that of course crucial period will come during the winter. If De Gasperi Govt is unable to get over hump of winter distress, we may well be faced with serious deterioration of Italian political climate, necessitating a complete revision of our plans and procedures. AGSI pointed out that considerable time must elapse between initiation of emergency military planning and its implementation; accordingly, we agreed that it is desirable for our planning staffs at Washington to begin now to study and formulate plans including active military assistance, should need arise in Italy next winter or spring.

Colonel Bathurst also asked my views on possible desirable revisions of the peace treaty. I said that I do not believe it necessary or desirable in view of economic situation to seek at this time modification of the treaty limitations on Italian ground forces, although an upward revision might later become necessary if, for example, trusteeship of any of the colonies is assigned to Italy or aggression from outside were threatened. As regards air force limitations, I expressed view that present ceiling of 200 fighter planes is inadequate for minimum requirements of air defense and support of army, a situation which is both intrinsically bad and which may well adversely affect the morale of the army and air force. Accordingly, I believe we should sponsor modification of treaty designed to permit Italy additional fighter aircraft and to remove completely limitations on training planes. Air force personnel ceilings would have to be revised upward appropriately, and the US would, as in the case of the army, have initially to provide material assistance.

DUNN

865.5018/10-1147

The Italian Ambassador (Tarchiani) to the Acting Secretary of State

No. 9313

WASHINGTON, October 11, 1947.

MY DEAR MR. LOVETT: I have received with deep concern the note of the Department dated October 8, 1947, regarding the grain allo-

cations to Italy from the United States. I have particularly given full attention to what is stated in the note regarding the considerations of the Department as to the increase of consumption of grain which has occurred in Italy during the month of July and as to the fact that the table attached to my note of September 16, indicates a monthly consumption up to the present semester at a rate of 400,000 tons.

I deem it necessary therefore to clarify the situation of the needs for grain in Italy.

It is known that Italy, as well as other European countries, has suffered this year from a very poor season and as a consequence has grown less crops.

The import requirement for the consumption year of 1947-1948 had been estimated at 2,900,000 tons. On the other hand all possible sources of supply from abroad are becoming more and more limited: in fact it is now almost certain that Canada, as a result of a very low production, will be unable to supply the quantity of 100,000 tons as it was estimated in the Italian Government's plans. Supplies from Argentina are being received at a very low rate, and it is doubtful, owing to transportation difficulties, that the estimated amount of 500,000 tons will be provided. There are no other sources from which the Italian Government can hope to receive substantial shipments of cereals.

The allocations from the United States having been limited to 115,000 tons monthly, it has been necessary for Italy, in order to meet the rations required, to draw at a dangerous rate from the local sources which are rapidly running towards exhaustion.

Regarding the estimate of consumption of 400,000 tons of grain monthly during the current semester, it is necessary to remark that during the month of July there was in Italy an increase of cereal consumption due to the infractions of government regulations and to a rush movement of wheat from producing to consuming provinces, and it was feared that the same conditions would have prevailed during the immediate future months.

However, the prompt and strong action taken by the Government, through severe punishment of violators and through a widespread persuasive campaign had immediate results. Final returns of consumption during the month of August have shown that the situation is again under control and consumption has dropped to 382,000 tons. Provisional returns for the month of September indicate even better results, since consumption is estimated to be further lowered and reach 370,000 tons, which means not only a full compliance with rationing requirements, but also some savings in distribution losses.

As to the Department's remark concerning the contrast between Italy's consumption provisions and the reductions which are taking

place in other countries, I must emphasize that Italy has preceded other countries in reducing the already extremely low rations, since she was forced to reduce the "pasta" ration by 50% as of December 1946 and has been unable ever since to restore it. Furthermore, the bread ration had to be modified in order to make the maximum possible use of coarse cereals. The bread ration now being distributed is composed of 200 grams of bread, containing from 15% to 20% coarse cereals, and of 35 grams of corn flour.

At the same time the hardships suffered by the Italian people should be fully measured, namely by appraising the meaning of cereals in the Italian food consumption. In fact, cereals represent from 60% to 70% of the Italian diet. Italy ranks foremost in cereal consuming countries, and the effects of a reduction in her cereal intake cannot be compared with those occurring in countries where diets are based mainly on foods other than cereals.

I have therefore the honor to call again your kind attention to the extreme serious situation developing in Italy.

I voice my confidence that further consideration will be given to Italy's need for cereals, with the hope that the food savings campaign so generously undertaken in the United States will make available larger supplies in the immediate future so that allocations to Italy be brought as far as possible nearer to 200,000 tons monthly.

Please accept [etc.] ¹

ALBERTO TARCHIANI

¹ No reply was made to this note. A memo by Leo I. Highby, International Resources Division, dated January 5, 1948, not printed, indicates that the note went first to IR, and was then borrowed by another division and not returned until December 30 by which time a formal reply would have been "awkward", and in any case there had been frequent consultations between officials of the Department and of the Italian Embassy on the problem. (FW 865.5018/10-1147)

865.51/10-2047

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] October 20, 1947.

Participants: Ambassador Tarchiani
 Pietro Campilli, Chairman of the Italian
 Inter-Ministerial Committee on Reconstruction
 Mr. Lovett, Acting Secretary
 Mr. Ness, OFD
 Mr. Dowling, SE

The Italian Ambassador called at his request this afternoon to present Mr. Campilli and to leave with me a memorandum giving

figures on Italy's immediate financial needs which Mr. Campilli had brought from Rome.¹

The Ambassador said that on the basis of the latest information which Mr. Campilli had received from Rome this morning by telephone Italy had some \$9 million on hand with something over \$10 million in obligations which had to be met immediately. He added that the memo would show Italy's needs to December 31 amounted to some \$180 million. Mr. Campilli explained that this sum represents not only supplies needed for the rest of the year but also supplies which the Italian Government must purchase within the very near future for consumption in January and February. He pointed out that a firm commitment must be made by November 5 for the small amounts of grain available to Italy from Turkey, Syria and Argentina; otherwise this grain would be sold to other countries or would be available to Italy only at greatly increased prices. He said too that additional coal supplies were needed because of a shortage in hydroelectric power in Italy.

I told the Ambassador and Mr. Campilli that I would ask Mr. Ness to look over these figures and that I would also examine them personally. The Ambassador thanked me and said that he knew we realized the extent of Italy's needs but he wished to urge that we do everything possible to obtain funds at once for these immediate needs.

¹ *Infra.*

865.51/10-2047

The Italian Embassy to the Department of State

No. 9535

MEMORANDUM

In the course of the last few months, the Italian Government have several times called the attention of the United States Government to the rapid deterioration which was and is taking place in the Italian situation with regard to dollar exchange and to vital supplies.

The Italian Government have participated wholeheartedly in the Conference for European Economic Co-operation which has met in Paris this summer, and which following the lead given by the Secretary of State of the United States in his Harvard speech in June last, has made every effort to elaborate a constructive plan for global European recovery over the next four years. Equally an Italian Delegation is now taking part in the Washington conversations on the same matter. The Italian Government and people fully recognize that the

United States can extend their support to each European country on the scale and for the time which will be necessary only if such support is part of a series of constructive measures, beginning with national and intra-European self-help. Also Italy is vitally interested in the re-establishment of the economic health of her European neighbours, which for deep-seated reasons of economic history and structure have been in the past and must be in the future amongst her principal customers and suppliers.

The Italian Government and people, which through great efforts had already achieved some measure of success in the work of economic and financial reconstruction, had hoped that the generous aid already extended to Italy by the U.S. in 1947 would have been sufficient to meet the essential requirements of the Italian economy until such time as the new plan of American aid to European reconstruction would come into force.

An accurate survey which has been again made by the Italian Government clearly shows that even with the mobilization of all possible dollar credits standing in favor of Italy, like balance of suspense account, redemption of P.O.W. scrips, a very serious gap is developing at present in relation to dollar availabilities of the Italian Government. In fact for reasons which are well known to the United States Government and in spite of the severe measures already taken by the Italian Government for reducing its purchases abroad, Italy's meager resources in dollar exchange and in basic imported commodities are now exhausted to all practical effects.

According to the last data (October 8th) the Italian Exchange Office had in hand and with "agent banks" less than \$9,000,000 corresponding roughly to a few days of the country's imports to be paid for in dollars.

It is therefore imperative for the Italian Government to find ways and means in order to face its dollar requirements in the period between now and the coming into force of the Marshall plan.

The requirements and the receipts in the period between October 1st, 1947 and March 31st, 1948 are stated in a letter of the Italian Technical Delegation (copy attached under #1¹), which has been handed to the Chief of the Economic Development Division of the Department of State, entrusted with the study of this matter.

As shown in said document, the difference between requirements and receipts for the period mentioned is in the order of U.S. \$334,000,000. This figure has been arrived at, after taking into full consideration the necessity of reducing the import requirements to the minimum possible extent.

¹ Not found in Department of State files.

In effect the figure is based upon estimates of grain requirements which do not take into account the fact that after March 1948, the remaining requirements would represent almost 100% of the rations; this would exceed by far practical possibilities. Also the above figure does not include U.S. \$41,000,000 of general commodities which would be in themselves extremely useful for the working of the Italian economic machinery on the present low level. Neither does it include the re-establishment of a minimum operating reserve of U.S. \$50,000,000, which appears necessary in view of the exhaustion of the Italian Government's exchange reserves, which have been absorbed in part by the lack of external financing during the first weeks of October.

If the President of the United States convenes Congress to a special session for the examination of this problem, the Italian Government will be anxious to submit all the additional data which may be required. However, as the procedure involved for such examination would certainly take some time, and the above said needs are indeferrable, the Italian Government consider it their duty to stress the necessity of obtaining the immediate availability of some funds in order to avoid a breaking down of the economic and social structure in Italy.

A break-down of the global figure per months as shown in Table 5 of Attachment 1, shows that the indeferrable needs between now and the end of December 1947 amount to \$182,000,000. This is due to the fact that in these months the Italian Government must not only provide the funds to meet engagements already incurred into and make the purchases which are immediately necessary, but must also place the orders and open the credits for the arrival in the first months of 1948. If this is not done in time, it may be impossible to obtain the necessary goods or a much higher price will have to be paid for them.

The Italian Government venture to ask the American Government if they consider practicable that the appropriate Italian Authorities should apply to the following United States Agencies, who may already have funds at their disposal:

a) The purchase of coal, POL and a part of industrial materials could perhaps be financed by the Import-Export Bank over and above the credits to Italian industries now being perfected. As such purchases would be made to maintain the level of industrial production and therefore of exports from Italy, it would appear that a request from the Italian Government for such a credit would fall within the Bank's field of operations.

b) The Italian Government could perhaps also apply to the Commodity Credit Corporation for obtaining funds for the purchase of grains and other agricultural products in the United States of America. As such operations would fall within the sphere of action of the Corporation, no legal obstacles seem to stand in the way.

c) There remains a third category of expenses, i.e. purchases of grains in other countries than the United States, as well as the payment of freight on some purchases in the United States. For this third category of expenses, the Italian Government strongly appeals to the United States Government for reconsideration of the problem of the granting to Italy of the dollars corresponding to the requisitions effected by the United States Army in Italy. Should this not appear as a sufficient or workable solution, the Italian Government venture to suggest that recourse be made to the Stabilization Fund of the United States Treasury.

A part of the funds needed could also be obtained if ways and means were found to mobilize, in agreement with the British Government, the sterling balances owned by and gradually accruing to the Italian Government.

WASHINGTON, October 20th, 1947.

811.516 Export-Import Bank/10-2447

The Acting Chairman of the Export-Import Bank (Gaston) to the Secretary of State

WASHINGTON, October 24, 1947.

MY DEAR MR. SECRETARY: I think you may be interested in the enclosed release telling of the Bank's action on credits to Italy. It is our belief that these individual credits will have a substantial effect in promoting the revival of Italian industry.

Yours very truly,

HERBERT E. GASTON

[Enclosure]

Press Release Issued by the Export-Import Bank, October 23, 1947

The Board of Directors of the Export-Import Bank today approved credits in the amount of \$36,500,000 to Italian industries through Istituto Mobiliare Italiano, thus bringing to \$97,300,000 the aggregate of credits approved under an earmark of \$100 million made in January for the purpose of reactivating Italian industry and foreign trade.

The credits granted today are in two groups, as follows:

1. Credits in favor of Istituto Mobiliare Italiano for the account of the leading Italian iron and steel mills in the following amounts:

- a) \$7.5 million for the account of Ilva, Alti Forni e Acciaierie d'Italia, Societa per Azioni;
- b) \$3.0 million for the account of "Terni", Societa per L'Industria e L'Elettricit ;
- c) \$1.0 million for the account of Dalmine, Societa per Azioni;

- d) \$1.0 million for the account of Societa Italiana Acciaierie Cornigliano;
- e) \$2.0 million for the account of Acciaierie e Ferriere Lombarde Falck, Societa per Azioni.

2. Credits in favor of Istituto Mobiliare Italiano, aggregating \$22 million, for the account of small industrial concerns within the four industrial sectors eligible for financing:

- a) \$4 million for small chemical concerns;
- b) \$2 million for small rubber concerns;
- c) \$6 million for small electro-mechanical concerns;
- d) \$10 million for small metallurgical and mechanical concerns.

Credits approved earlier under the January 1947 earmark include:

- a) \$23 million for the account of the Fiat automobile and machine works, Montecatini chemical and mining industries, and Pirelli rubber and cable manufacturers—August 4, 1947;¹
- b) \$5.8 million for four leading Italian shipyards—October 1, 1947;
- c) \$32 million for 60 medium-sized metallurgical, electrical, chemical and rubber firms—October 16, 1947.

The steel mill credits approved today are designed to enable the Italian steel mills to purchase solid and liquid fuels and certain amounts of equipment in the United States with a view to sustaining and increasing their production of steel to meet urgent internal Italian requirements and to supply materials to other Italian concerns engaged in manufacturing for foreign markets. Italy had built before the war an iron and steel industry which took care of a large part of its needs. Capacity was reduced by war damage and removals, but there has been a notable recovery. The five steel mills benefiting from today's credits should be able to produce an aggregate of well over 1,000,000 tons of steel in the coming year.

The credits for the small industrial concerns supplement the \$32 million previously approved by the Board for the account of 60 medium-sized industrial concerns.

In Italy, as in several other European countries, medium and small-sized industrial concerns play a very large role in the economy of the country as well as in its foreign trade. They range in size from a labor force of as few as 10 workers to 250 workers. Before the war, and especially under the Fascist regime, there was an increasing tendency toward monopoly, with the small industrialists either being absorbed or squeezed out of business. With the liberation of Italy the small industrialist is making successful efforts at a comeback. The credits approved by the Board today are designed to furnish the small indus-

¹ See memorandum by Mr. Jerome Stenger, July 29, p. 951.

trialist of Italy with essential raw materials and equipment to enable him to resume the place he formerly occupied in the Italian economy and in foreign trade.

Following the decision to earmark \$100 million the Bank,² at the request of the Italian Government, early in May sent two representatives to Italy for exploratory discussions and to survey industrial conditions.³ In July the Board of Directors reviewed the findings of its representatives and informed the Italian Ambassador of its readiness to receive and consider separate credit applications. The Bank started receiving applications in July.

The credits granted have been of varying maturities and conditions in accordance with the merits of each application, the ability of the applicant to earn foreign exchange readily convertible into dollars, and the general economic welfare of Italy. Though the credits are for specific purposes and for given industrial concerns, the lines of credit, for the sake of convenience and expediency, have been established in favor of the Istituto Mobiliare Italiano. This is an Italian public credit institution engaged in medium-term industrial financing, which will act both as banker and as trustee. The credits granted by the Bank to named industries will permit these industries to establish definite production and export programs free from uncertainties which have had a general restraining effect on Italian recovery.

² See minutes of the 50th Meeting of the National Advisory Council, January 13, p. 859.

³ See telegram 1402, June 4, from Rome, p. 917.

811.2365/11-1247

The Ambassador in Italy (Dunn) to the Secretary of State

SECRET
No. 1855

ROME, November 12, 1947.

Subject: Transmitting Text of Note to Foreign Ministry Regarding Liquidation of Residual Military Matters in Italy.

SIR: With reference to my telegram no. 3637 of November 12, 1947,¹ I have the honor to enclose herewith a copy of a note which I handed to the Secretary General of the Italian Ministry of Foreign Affairs²

¹ Not printed; in it Dunn reported having handed the note here printed to the Secretary General of the Foreign Ministry who said that the proposal appeared to be satisfactory (811.2365/11-1247).

Rome's despatch 1996 of December 9, not printed, forwarded an English translation of Sforza's note No. 2032 of December 5 which constituted acceptance of the American proposal (811.2365/12-947).

² Francesco Fransoni.

on November 11, 1947 relating to liquidation of residual military matters in Italy after December 15, 1947, in accordance with instructions in the Department's telegram no. 2287, of November 5, 1947.

I would suggest that the contents of this note be reclassified from "Secret" to "Restricted".

Respectfully yours,

For the Ambassador:

J. WESLEY JONES

First Secretary of Embassy

[Enclosure]

The American Ambassador (Dunn) to the Italian Minister for Foreign Affairs (Sforza)

F.O. No. 590

ROME, November 11, 1947.

EXCELLENCY: Acting on the instructions of my government, I have the honor to refer to the withdrawal from Italy of United States military forces, which is now in progress and which, as contemplated in our exchange of notes dated September 3, 1947, is to be completed on or before December 15, 1947.

After the latter date there will inevitably remain a few residual matters relating to the former United States military establishment in Italy. I am to inform you that these matters will be liquidated as quickly as possible after December 15 by the Office of the United States Military Attaché, to which office it will be necessary temporarily to attach certain additional military and civilian personnel and facilities.

As soon as possible, the names of these additional personnel will be communicated to the Ministry of Foreign Affairs. I trust that they will be accorded the usual immunities and privileges ordinarily extended to members of the Embassy staff, and that they will receive such assistance from appropriate Italian authorities as may be necessary.

In this connection, I would draw to your Excellency's attention that limitations of space within the buildings now occupied by the Embassy preclude that the temporary additional staff contemplated above be provided offices therein. As your Excellency is perhaps aware, negotiations have been in progress through a representative of the Ministry of Foreign Affairs to provide suitable office and dormitory space in the Foro Italico, in consideration of an appropriate rental, I shall be grateful if the Ministry of Foreign Affairs can use its good offices to the end that these negotiations are speedily concluded to the mutual satisfaction of those concerned.

Accept, Excellency, the renewed assurances of my high esteem.

[JAMES C. DUNN]

AGREEMENTS BETWEEN THE UNITED STATES AND ITALY

[For a reference to the text of the Treaty of Peace with Italy, see page 524, and for references to the texts of other agreements, see pages 920, 931, 956, 964, and 987.]

Editorial Note

Documentation on further developments with regard to Italy at the end of 1947 was not available in time to appear in this volume. This documentation is scheduled for inclusion in a subsequent volume of the series.

NETHERLANDS

AGREEMENT BETWEEN THE UNITED STATES AND THE NETHERLANDS SUPPLEMENTARY TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

[For text of Agreement and Accompanying Letters rendering in-operative the Agreement of December 20, 1935, and supplementing the General Agreement on Tariffs and Trade of October 30, 1947, signed at Geneva, October 30, 1947, see Department of State Treaties and Other International Act Series (TIAS) No. 1705.]

AGREEMENT BETWEEN THE UNITED STATES AND THE NETHERLANDS RESPECTING MUTUAL AID SETTLEMENT

[For text of Agreement, signed at Washington, May 28, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1750.]

AGREEMENT BETWEEN THE UNITED STATES AND THE NETHERLANDS RELATING TO AMERICAN DEAD IN WORLD WAR II

[For text of Agreement, effected by an exchange of notes signed at The Hague, April 11, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1777.]

NORWAY

ATTITUDE OF THE UNITED STATES REGARDING REPORTED DEMANDS BY THE SOVIET UNION ON NORWAY WITH RESPECT TO SPITS- BERGEN AND BEAR ISLAND¹

857.014/12-1146: Telegram

The Chargé in Norway (Huston) to the Secretary of State

SECRET

OSLO, December 11, 1946—5 p. m.

724. Foreign Minister Lange informed me today he had two talks with Molotov² in New York recently (Embtel 716 December 5³) during which Molotov pressed for early negotiations regarding Spitzbergen and Bear Island on basis of exchange notes of January 1945 (despatch 158 July 26, 1945³). Lange indicated his willingness to proceed with negotiations since his government considers it cannot disregard commitment made by a previous government in 1944 and 1945, but declared he could not actually enter into such negotiations before consultation with his government and the Storting.

Lange says he maintained position that (a) Norway considers itself bound by 1920 treaty, (b) Norway cannot enter into abrogation of treaty except in consultation with other signatories, (c) any agreement regarding common defense is subject to approval by Security Council and (d) entire procedure must be governed by provision of UN charter notably article 43.

This question has not been considered by government nor discussed in Storting since Foreign Minister's return from New York although Foreign Affairs Committee has been informed that early consideration in secret session will be necessary in order "to determine line to be taken". As present Storting ends its work December 14 question will not receive parliamentary attention until after new Storting is convened January 11. While Lange believes proposal for negotiations must be kept secret during government and Storting consultations, he does not wish to maintain secrecy indefinitely and believes that Nor-

¹ For previous documentation on this subject, see *Foreign Relations*, 1945, vol. v, pp. 91 ff. For the negotiation of the Treaty relating to Spitsbergen between the United States and other powers, signed at Paris on February 9, 1920, and subsequent questions concerned with it, see *ibid.*, 1920, vol. i, pp. 73-87, with text of the treaty at p. 78; 1924, vol. i, pp. 1-6; and 1925, vol. i, pp. 201-209.

² Vyacheslav Mikhailovich Molotov, Minister for Foreign Affairs of the Soviet Union.

³ Not printed.

way should not actually engage in negotiations "without letting Norwegian people know what we are talking about". He had hoped, he says, that the Spitzbergen question could be allowed to "sleep indefinitely" but he is now convinced that early negotiations cannot be avoided and may take place toward end of January or beginning of February.

Lange endeavored see Secretary Byrnes just prior his departure from New York but as this was not possible he had prepared memorandum regarding his talks with Molotov and given it to Ambassador Morgenstierne with instructions to inform Secretary fully in Washington at earliest opportunity. He has so far heard nothing on subject from Morgenstierne and hopes that, if he has not already done so, he will be able to see Mr. Byrnes at early date for his [*this*] purpose.

Sent Dept 724; repeated Moscow 26.

HUSTON

861.24557H/12-2346

*Memorandum by the Director of the Office of European Affairs
(Matthews) to the Secretary of State*

[WASHINGTON,] December 23, 1946.

MR. SECRETARY: Norwegian Ambassador Morgenstierne is coming to see you at 10 o'clock this morning to inform you, on instructions from Norwegian Foreign Minister Lange, of the present status of Soviet-Norwegian conversations on the revision of the 1920 multi-lateral treaty regarding the status of Spitsbergen (which includes Bear Island and may be referred to by the Ambassador under its Norwegian name Svalbard).

There is attached a telegram dated 11 December from our Embassy in Oslo on this subject.¹

We have learned from Mr. Morgenstierne that the Soviets have proposed bilateral Soviet-Norwegian negotiations looking to the abrogation of the 1920 Treaty and the subsequent negotiation of a new multilateral treaty. The Soviets propose that such 1920 signatories as Italy and Japan, and possibly others, be dropped from the new multilateral negotiations when they take place, and that Finland be included.

So far as we can gather, the fundamental points in the Soviet proposals to Norway are: (1) Elimination of those clauses of the 1920 Treaty which demilitarized Spitsbergen; (2) Joint Soviet-Norwegian defense installations in Spitsbergen (which, by the way, is only something over 500 miles from the northeast coast of Greenland); (3) Special Soviet economic privileges with respect to fishing and hunting

¹ See *supra*.

rights and the exploitation of the Spitsbergen coal mines which produce roughly 700,000 tons of coal a year and are the sole source of coal within Norwegian territory; (4) The new Treaty to be within the framework of the Charter and to take the form of a regional defense agreement under Article 43 of the Charter.²

For your general information, the 1920 Treaty was the culmination of many years of international negotiation over the sovereignty of Spitsbergen (in which the US had economic interest due to American ownership of a coal mine there). Previously, Spitsbergen had been generally considered *terra nullius*—the 1920 Treaty gave the sovereignty to Norway under the conditions laid down in the Treaty.

The conversations with Norway looking to special Russian privileges in Spitsbergen were initiated by Mr. Molotov in the autumn of 1944 and therefore antedated by some months any US initiative for long-term overseas bases with the exception of the 1940 destroyer-base arrangements with the United Kingdom.³

The Joint Chiefs of Staff about a year ago indicated that the US had no special military interest in Spitsbergen⁴ but I understand that the problem is to be re-studied in the light of our recent Iceland Agreement⁵ and the proposal which you recently made to the Foreign Minister of Denmark⁶ with regard to Greenland.

My suggestion would be that we refrain at this time from commenting on what Mr. Morgenstierne may communicate to you but that we make it clear to him that any Norwegian-Soviet negotiations regarding Spitsbergen should, of course, take into account the position of the US as a signatory of the 1920 Treaty.

The Soviet Union has ratified the 1920 Treaty.⁷

H. FREEMAN MATTHEWS

² In his conversation with the Secretary, Ambassador Morgenstierne did discuss the subjects here indicated. He told about the two talks between the Norwegian Foreign Minister Halvard M. Lange and Foreign Minister Molotov at the New York sessions of the General Assembly of the United Nations in November. Lange had informed Molotov that he would have to confer with his government and parliament on the proposals, and that no abrogation of the 1920 treaty could occur without the full consent of the signatories. The Department informed the Embassy in Norway of Morgenstierne's visit in telegram 7 to Oslo, January 6, 1947, noon, not printed (861.24557H/1-647).

³ *Foreign Relations*, 1940, vol. III, pp. 49-77.

⁴ For a more precise expression of the views of the Joint Chiefs of Staff with regard to Spitsbergen, see *Foreign Relations*, 1945, vol. v, pp. 96-97.

⁵ For the text of this agreement, "Termination of Defense Agreement July 1, 1941 and Provision for Interim Use of Keflavik Airport", effected by exchange of notes signed at Reykjavik, October 7, 1946, see Department of State Treaties and Other International Acts Series (TIAS) No. 1566, or 61 Stat. (pt. 3) 2426.

⁶ See footnote 3, p. 657.

⁷ With respect to a note from the Soviet Government of February 16, 1924, to the Norwegian Government wherein it was stated that "from now on the Government of the Union recognizes the sovereignty of Norway over Spitzbergen, including Bear Island, and therefore will not hereafter make any objection with respect to the Spitzbergen Treaty of February 9, 1920," see the note from the Norwegian Minister to the Secretary of State of March 20, 1924, in *Foreign Relations*, 1924, vol. I, p. 1. *De jure* adherence to the treaty by the Soviet Union came by the decree of February 27, 1935, and entered into force on May 7, 1935.

861.24557H/1-1047: Telegram

The Ambassador in Norway (Bay) to the Secretary of State

OSLO, January 10, 1947.

14. Foreign Office has issued following statement published in afternoon press concerning alleged Soviet approach to Norwegian Government regarding military bases in Svalbard (Spitsbergen):

"In autumn 1944 Government of Soviet Union approached Norwegian Government which was in London on question of revision of Spitzbergen treaty. Soviet Union has particular interests at Spitzbergen and treaty came into existence without participation of Soviet Government. In fall 1944 and spring 1945, subject was taken up for preliminary discussion between two governments. During negotiations both parties realized that an alteration of Spitzbergen treaty could not take place without approval of signatory powers (except signatory powers who fought with Germans against Allies) and it was also agreed that final solution could not be reached until Norwegian Government returned to Norway and Storting again was functioning. Committee of Foreign and Constitutional Affairs and Storting have been informed regarding negotiations which have taken place. With consent of Soviet Government principal Allied nations, US and Great Britain, and later France, also have been informed."

BAY

861.24557H/1-1147: Telegram

The Ambassador in Norway (Bay) to the Secretary of State

SECRET

OSLO, January 11, 1947—6 p. m.

US URGENT

18. Embtel 14, Jan 10. Foreign Minister Lange received me this afternoon and told me Norwegian Govt was not responsible for news leak in London regarding Soviet proposals for establishment of military bases in Svalbard. British Ambassador¹ had, he said, informed him that he had received assurances by telephone from Foreign Office, London, that reports had not come from British official sources adding suggestion may have originated in Norwegian circles, London.² Lange remarked smilingly to me that it was possible to imagine disclosure at present time might seem good idea in British quarters, allowing inference he felt British circles at least as suspect as Norwegian.

In course of hour's discussion Foreign Minister reviewed developments since 1944, including presentation by Norwegians of draft joint

¹ Sir Laurence Collier.

² Responsibility for the leak in newspapers was admitted by the London correspondent of the Oslo *Arbeiderbladet*, who informed the (London) *Times*.

declaration (despatch 158, July 26, 1945³) to which Russians have never replied and repeated previous assertions of his declared position that (a) Norway is bound by 1920 treaty; (b) abrogation or modification thereof can be effected only in consultation with other signatories; (c) any mutual defense arrangement must be elaborated within framework of UN and have approval Security Council; and (d) negotiations can be undertaken only after consultations with Norwegian Govt and Storting.

When I asked him extent to which he felt bound by 1944-45 Commitment, Lange said that he obviously could not ignore commitment made by previous Govt, altho terms of proposed declaration could not be considered binding, as it had never been accepted by Soviet Govt. He reminded me that initial discussions occurred in war period, when Russians were occupying northern part of country and London Govt felt it had at least to accede to Soviet request that Norway agree to need of abrogation or modification of treaty. At that time, he emphasized, Soviet Govt was making outright claim to Bear Island and making condominium [*sic*] over Svalbard.

Lange expressed belief that other signatories would not agree to abrogation of 1920 treaty or modifications proposed by Russians. He also mentioned that Norwegian people would be greatly opposed to granting Russia special economic rights in Svalbard, particularly as Spitzbergen is Norway's only domestic source of coal.

Foreign Minister seemed rather fatalistic regarding future developments, feeling that Norway is in stronger position today than when original commitment was made in 1944; and that particularly now that militarization projects have recently been further discountenanced by UN adoption of disarmament resolution,⁴ Norway will be rescued from any serious effects of Russian designs by double check of other signatories to treaty and of second [*Security?*] council. He gave no clue to any indications he may have received regarding Soviet reaction to news leak. He evidently believed the Soviet Govt hoped that regardless of results of consultation with other signatories Norway could be induced to declare its agreement with Soviet view that 1920 treaty should be abrogated and new arrangements made.

Most Norwegians, including many high officials, seem genuinely surprised at news of Soviet proposals regarding Svalbard and preliminary reaction is marked by grave concern, if not by shock. Press

³ Not printed.

⁴ A resolution on Principles governing General Regulation and Reduction of Armaments was adopted unanimously by the General Assembly at its 63d plenary meeting on December 14, 1946. For text, see *Yearbook of the United Nations 1946-47*, p. 142, and for documentation on this subject, see *Foreign Relations, 1946*, vol. 1, pp. 712 ff.

has devoted considerable space to yesterday's announcements, together with pictures, historical sketches and other background; but more studied editorial comment will probably appear during next few days.

Sent Dept as 18; repeated London as 2; Moscow as 2.

BAY

861.24557H/1-1647 : Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, January 16, 1947.

100. Translation follows Tass item published Soviet press January 15.

“Question of Spitzbergen (Svalbard Archipelago) :

Statements have appeared in recent days in Norwegian press as well as in press of certain other foreign states concerning negotiations which have taken place between Soviet and Norwegian Governments regarding Spitzbergen (Svalbard Archipelago). Authoritative Soviet circles¹ and informed Tass as follows concerning these negotiations:

At end 1944 and beginning 1945 negotiations took place between Soviet and Norwegian Governments concerning Spitzbergen Islands, Soviet side having raised question of necessity for revision of treaty on Spitzbergen concluded February 9, 1920 in Paris.

This treaty, which introduced radical change in status of Spitzbergen Islands which had previously been considered no man's land whereas Bear Island included in Spitzbergen Archipelago group was actually Russian island, was signed without knowledge of Soviet Union and without its participation. Moreover as states which had fought against Allied powers were among signatories of this treaty this treaty cannot preserve its validity.

This treaty did not take into consideration USSR security interests in north as well as important economic interests of Soviet Union. As regards question of security of USSR, as Second World War particularly showed, Spitzbergen Islands, where lies western exit to ocean, have in this connection exceptionally important significance for Soviet Union in north. In economic sense significance of Spitzbergen Archipelago to Soviet Union is apparent from fact that before Second World War northern regions of USSR and Soviet fleet in north were supplied with coal acquired by Soviet organizations on Spitzbergen Island in approximate amount of 400,000 tons annually as compared with general coal output for Spitzbergen Island of 600,000 to 650,000 tons.

During Soviet Norwegian negotiations mentioned understanding was reached concerning necessity for joint defense of Spitzbergen Islands. It was also envisaged that consultation be achieved with per-

¹ Apparent omission.

tinent Allied governments concerning revision of 1920 treaty. But negotiations were not concluded.

In November 1946 during General Assembly session in New York exchange of views in spirit of preceding negotiations took place on this question between USSR Foreign Minister V. M. Molotov and Norwegian Foreign Minister Lange. ["]]

Sent Department as 100, repeated Oslo as 1, London as 12.

SMITH

861.24557H/1-1747: Telegram

The Ambassador in Norway (Bay) to the Secretary of State

US URGENT

OSLO, January 17, 1947.

31. Following is abbreviated translation of Norwegian Foreign Office communiqué on Spitzbergen published here this morning:

"Contrary to will of Norwegian Government there appeared in world press during last few days reports of certain discussions which took place during war concerning Spitzbergen, Spitzbergen Archipelago.

Since these discussions were confidential Norwegian Government hitherto has considered itself unable report on them officially. However, because of nature of afore-mentioned newspaper reports Foreign Office feels it necessary issue following statement:

In fall 1944 Soviet Government broached to Norwegian Government, which was then in London, question of revision of Spitzbergen treaty of 1920. It pointed out that treaty was concluded without participation of Soviet Union and that it did not satisfactorily provide for either Soviet Union's security or its other interests. Treaty was signed by two countries which fought on Germany's side against Allies, namely, Italy and Japan.

War had disclosed importance of protecting supply routes over Arctic Sea and Soviet Union, therefore, wished to discuss, together with economic questions, question of joint measures concerning security of these areas. Soviet Union could not agree that treaty continued to remain in force.

Soviet Government stated it intended take question of revision up officially in regular manner but it felt obligated first to notify Norway which had sovereignty over islands. It was necessary to settle in entirely just fashion these questions which involved Norway's and Soviet Union's common defense interests as well as their economic interests. Regarding economic interests it was stated Norway would suffer no loss.

Norwegian Government in reply stated it was desirous of reaching solution which could contribute to strengthening still further good relations which had always existed between Norway and Soviet Union and which war had deepened. It was pointed out further that Norway had met with understanding declaration of Soviet Government, after

Spitzbergen treaty was signed in 1920, that it could in no way recognize as legally binding any solution of Spitzbergen question which was put into effect without Soviet Union's participation. It was recalled further that not until Soviet Union had in its note of February 16, 1924¹ announced it recognized Norway's sovereignty over Svalbard, including Bear Island, and therefore it would take no future exceptions to Spitzbergen treaty and organization of mines, that Norwegian Government asked Storting on February 22, 1924 to approve treaty so it could be ratified by Norway. In 1935 Soviet Union adhered to treaty without reservations.

It was clear to Norwegian Government that powerful political interests were involved. In defense of this region Norwegian and Allied ships were regularly traversing these waters and suffering heavy losses. Norwegian Government stated its understanding of viewpoint that war had put situation in new light.

However, under international law, defense dispositions could not be taken until treaty was revised. Article 9 in treaty binds Norway not to establish or permit establishment of naval bases or to build any fortifications in area which treaty covers and which must never be used for belligerent purposes. Norwegian Government stated, therefore, its belief, which it assumes other Allied powers which were parties to Spitzbergen treaty share, that article 9 either should be dropped or be replaced by new article which would permit military utilization of islands as regional link in universal security organization.

Norwegian Government declared itself willing to consider, together with Soviet Government, possibilities of agreement between Norway and Soviet Union on military utilization of islands. After further discussions between Soviet Foreign Minister and Norwegian Ambassador in Moscow² Norwegian Government, in April 1945, stated it was willing to sign provisional joint declaration on matter. This would state, among other things, that Norwegian and Soviet Governments desired, with full maintenance of Norway's sovereignty over Spitzbergen, to bring about joint arrangement for defense of islands which would serve to promote security of two countries and which could become link in development of international security organization.

Qualification was made that this arrangement should not come into effect until it received approval of American, British, Danish, French, Dutch and Swedish Governments. Norwegian Government also made reservation that arrangement must be accepted by Storting.

During discussions Norwegian Government maintained that for constitutional reasons it could not consider arrangement which might result in changing sovereignty of islands and Spitzbergen treaty could be abrogated only in accordance with international law. During provisional negotiations it was determined that two governments were agreed that any change in or abrogation of Spitzbergen treaty could take place only with consent of other signatory powers.

No joint declaration was signed. Great Britain and United States have been kept informed by Norway, with knowledge of Soviet Union, of negotiations between two countries and have given no expression of any reaction in connection with case.

¹ See footnote 7, p. 1005.

² Rolf Otto Andvord. In 1947 he was Secretary General of the Norwegian Foreign Office.

After end of war there were no negotiations of any kind between two countries on Spitzbergen question until Foreign Ministers of Norway and Soviet Union conferred on matter in Paris in August 1946 and in New York in November 1946. After this Denmark, France, Holland and Sweden were informed as signatory powers.

During conversation in New York Foreign Minister Molotov expressed wish to take up negotiations. Case therefore is now under consideration in government and Storting.”

Repeated Moscow as 7.
Pass to War and Navy.³

BAY

³ This message was relayed to the War and Navy Departments on January 17, 1947, at 11:15 a. m.

861.24557H/1-1647: Telegram

The Secretary of State to the Embassy in Norway

SECRET

WASHINGTON, January 18, 1947—9 a. m.

U. S. URGENT

26. Urtel 30 Jan 16.¹ As previously indicated we are interested Spits question as party 1920 Treaty and because of general security considerations. We desire to be kept informed and expect any agreement between Norway and Soviet Union concerning Spits will be subject approval other signatories. Last week's communiqué Norwegian FonOff apparently satisfactory on these points and no action on our part seems necessary at this time.

Brit Emb Wash has been in touch with Dept and has been informed along above lines.

Sent to Oslo as 26, repeated Moscow as 85 and London as 297.

BYRNES

¹ Not printed.

861.24557H/1-2947: Telegram

The Ambassador in Norway (Bay) to the Secretary of State

SECRET

OSLO, January 29, 1947—6 p. m.

52. ReEmb 47, Jan 28.¹ Foreign Minister Lange told me today that second meeting of Storting had not yet been held and may be delayed one or two weeks while Lange goes to hospital for check-up. He is apparently not seriously ill but health has been sub-par since return-

¹ Not printed.

ing from US in November. Lange expects that following Storting consideration Norwegian Govt will inform Soviet Govt that (a) situation is different today in light of UN Charter and objectives in conformity with which Norway's present policy is opposed to bilateral military action between Norway and Russia or between Norway and any other power and (b) Norway is satisfied with *status quo* and present terms of 1920 Svalbard treaty but if Russia should initiate request that treaty be submitted to signatories for any purpose whatever Norway will not oppose in principle such submission.

Lange told me that he put question squarely before Molotov in New York as to what Russia objects to with respect to her economic interests, pointing out that Russia has equal economic rights with every other signatory. Presumably Molotov did not answer this question. Lange also told me that since principal economic interests in Svalbard are now divided between Norway and Soviet Union, if Russia wishes to bring to Norway's attention any matters which may presently be disturbing to Russia in economic field Norway would be happy to explore such situation but if any question arises in such exploratory discussion which may be of concern to any other signatory question must be submitted to other signatories.

Lange informed me that he has not told Soviet Ambassador ² during recent informal call his expectations re Norwegian communication to Moscow as set forth above.

Sent Dept 52; repeated Moscow 9; London 6.

BAY

² Nikolay Dmitriyevich Kuznetsov.

861.24557H/2-447

The Secretary of War (Patterson) and the Secretary of the Navy (Forrestal) to the Secretary of State

TOP SECRET

WASHINGTON, 4 February 1947.

DEAR MR. SECRETARY: There is inclosed a statement ¹ of the views of the Joint Chiefs of Staff on the military implication of a change in the status, under the Treaty of Paris of 1920, of the Spitzbergen Archipelago.

We wish to reinforce these views by stating that in our opinion it would seriously impair the overall security interests of the United States to accede to any substantial Soviet demands with respect to Bear Island and the Spitzbergen Archipelago. Even in open negotiation among all non-enemy powers signatory to the Treaty of 1920, we

¹ Not printed.

would recommend that the United States oppose any Soviet gains which could be interpreted in this country or abroad as appeasement of the U.S.S.R.

Sincerely yours,

FORRESTAL

Secretary of the Navy

ROBERT P. PATTERSON

Secretary of War

861.24557H/2-447

The Secretary of State to the Secretary of the Navy (Forrestal)

TOP SECRET

[WASHINGTON,] February 18, 1947.

MY DEAR MR. SECRETARY: I have received the letter of February 4, 1947 signed jointly by you and Secretary Patterson, together with the statement of the views of the Joint Chiefs of Staff, on the military implications of a change in the status of the Spitsbergen Archipelago as established by the Treaty of Paris of 1920.

The Joint Chiefs of Staff correctly state the facts regarding Soviet approach to the Norwegian Government looking to a change in the status of the Spitsbergen Archipelago with particular reference to Soviet participation, in some form not entirely clear, in the military use of the Islands. No change in status can however legally take place without the concurrence of the United States (and such concurrence would require action by the Senate), and of all non-enemy powers signatory to the 1920 Treaty. No proposal for a modification of the 1920 Treaty has been received from Norway or the Soviet Union or any other party to the Treaty.

I have noted the conclusions of the Joint Chiefs of Staff that the Soviet Union can advance some plausible military arguments for a share in the defense of Spitsbergen, and that Spitsbergen "in the hands of an aggressive Soviet Russia, would have an offensive potential against the United States, but not sufficient from the purely military point of view to justify military action by the United States to prevent a measure of Soviet control".

I have also noted the opinion expressed by you and Secretary Patterson that agreement to any substantial Soviet demands with respect to Bear Island and the Spitsbergen Archipelago would "seriously impair the overall security interests of the United States", and your joint recommendation that the United States oppose any Soviet gains which could be interpreted as appeasement of the USSR. If and when any question involving such considerations with respect to Spitsbergen arises, I will, of course, discuss the question with you, the Secretary of War and the President.

I realize that in determining the treatment of the Spitsbergen question we will have to keep in mind United States' long-term objectives with respect to military rights in Greenland and Iceland. On the one hand, if the Soviet Union pursues its apparent objectives in Spitsbergen the possession of military rights in Greenland and Iceland will become correspondingly more essential to our national defense. On the other hand, if at this juncture we press ahead with negotiations for military rights in Greenland and Iceland, we might well stimulate the Soviet Union to take positive action in Spitsbergen which might otherwise be avoided or at least postponed.

In this latter connection, I think that two points merit serious consideration:

(1) Now that Soviet objectives in Spitsbergen have come into the open, it is unlikely that either Denmark or Iceland would at this time be willing to grant us long-term military rights if, while asking for such rights, we oppose any change in the status of Spitsbergen;

(2) Maintenance of the *status quo* (which the Joint Chiefs of Staff recommend as the most desirable solution to the problem) would not preclude clandestine Soviet military activity in Spitsbergen under the guise of development of the extensive Soviet coal mine properties in the Islands.

In these circumstances, I take it that no action by the State Department is necessary at this time except to continue to follow the situation closely and to work on it in the closest possible touch with the War and Navy Departments as in the past.

I am addressing a similar letter to the Secretary of War.

Sincerely yours,

G. C. MARSHALL

861.24557H/2-1947

Memorandum of Conversation, by the Chief of the Division of Northern European Affairs (Cumming)

TOP SECRET

[WASHINGTON,] February 19, 1947.

Mr. Middleton¹ called on me this afternoon to say that the British Embassy had received, with instructions to communicate the contents to the Department for information, a copy of a telegram sent by the Foreign Office to the British Embassy in Oslo.

The British Ambassador in Oslo had been instructed to apprise the Norwegian Government that the legal position of the British Government remains as in the past, namely, that any legal change in the 1920 Spitsbergen Treaty can only take place with the consent of all the signatories except Japan; that whether or not the consent of Italy would be required is uncertain, but that the British Government inclines to the view that Italian consent would have to be obtained. The

¹ George Humphrey Middleton, first secretary of the British Embassy.

Ambassador was also instructed to express the hope that in any discussions that may take place between the Norwegian Government and the Soviet Government the Norwegians will reserve their position in accordance with the foregoing, and will not "spring anything" on the British Government unexpectedly. He was further instructed to inform the Norwegians that the British Government is keeping in touch with Canada and the United States with regard to the Spitsbergen question.

Mr. Middleton also told me that the Embassy had received an expression of the views of the British Joint Chiefs of Staff which, in summary, were that a modification of the Spitsbergen Treaty to permit of legal Soviet military activity in Spitsbergen would have no direct influence on the security of the United Kingdom but would directly affect the defense interests of Canada and the United States.² Mr. Middleton added that it was his understanding that the British Joint Chiefs would get in touch with the United States Joint Chiefs of Staff with regard to the matter if they had not already done so.

H[UGH] S. C[UMMING, JR.]

² In a communication of March 20, 1947, to Mr. John D. Hickerson, the Deputy Director of the Office of European Affairs, the Canadian Ambassador, Mr. Hume Wrong, conveyed the viewpoint of the Canadian Chiefs of Staff: "They consider that this might constitute a threat to the security of North America, with the employment of new weapons of increased range and power. In consequence, they have recommended that every effort should be made by diplomatic means to secure the maintenance of the conditions laid down in the Treaty of 1920, to which Canada is a party, which provided that the establishment of military fortifications or bases on Spitzbergen and Bear Island should not be permitted." (861.24557H/3-2047) This information was sent in letters to Vice Adm. F. P. Sherman, Deputy Chief of Naval Operations (Operations), Department of the Navy, and to Maj. Gen. Lauris Norstad, Director of Plans and Operations, War Department General Staff.

861.24557H/2-1947: Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

SECRET

Moscow, February 19, 1947—6 p. m.

PRIORITY

462. Norwegian Ambassador¹ informs me report that Secretary General of Norwegian Foreign Office visited Moscow is incorrect.² Offi-

¹ Hans C. Berg.

² Ambassador Smith relayed the information to the Department in his telegram 435, February 18, 1947, 5 p. m., not printed, that Secretary General Andvord had arrived in Moscow on the night of the 17th to discuss the question of Spitzbergen (861.24557H/2-1847). By telegram 470, February 20, 11 a. m., not printed, he advised the Department that telegram 462 was highly confidential and requested that the news contained in it should not be passed on in an information telegram nor given wide distribution within the Department itself (861.24557H/2-2047).

cial was a secretary of Foreign Office carrying in a sealed envelope for Mr. Molotov, reply of Foreign Office after consultation with Storting on the matter of Spitsbergen. In event this reply has not been communicated to the Department from Oslo, gist is that Norwegian Government finds it impossible to consider revision of present treaty on bilateral basis and that any changes would of necessity be made as result of consultation among all signatories. Also that any modification of military aspect would presumably be considered within the framework of UN.

SMITH

861.24557H/2-1947: Telegram

The Ambassador in Norway (Bay) to the Secretary of State

SECRET

OSLO, February 19, 1947—6 p. m.

84. Reference Embassy's 47 and 52, January 28 and 29.¹ Foreign Minister Lange called me to Foreign Office today and handed me copy of resolution adopted by Storting secret meeting February 15 re Svalbard. Verbatim text resolution being forwarded following numbered telegram.² Lange informed me he had forwarded copy of resolution with personal letter to Molotov because of personal nature of recent discussions with Molotov in New York. He informed Molotov that copies of resolution would be handed Chiefs of Mission of signatory nations now and about week later to Norwegian press. Lange indicated government and Storting made offer to continue nonmilitary discussions largely as friendly gesture to mitigate Norwegian refusal to negotiate bilaterally on military aspects.

Lange added that only Norway and Russia have been concerned with active economic development of Spitsbergen during recent years and therefore perfectly reasonable for Norway and Russia to discuss bilaterally economic aspects of treaty. I asked Lange whether Norway felt satisfied with general provisions of treaty 1920. He answered that while Norway is satisfied with the demilitarization provision, nevertheless Norway would not object to and might even favor certain changes in treaty. He stated for example that Norway has felt that it assumed under the treaty all the obligations of sovereignty without acquiring corresponding benefits.

¹ Former telegram not printed.

² Not printed. Ambassador Bay informed the Department in telegram 103 of March 4, 1947, 5 p. m., not printed, that all newspapers had published on that day a Foreign Office statement that this resolution by the Storting had been approved by a vote of 101 to 11. The minority of 11 had supported a Communist proposal in favor of joint Norwegian-Soviet defense measures (861.24557H/3-447).

Sent Department as 84; repeated Moscow as 10; London as 9; pouched to Stockholm.

BAY

861.24557H/3-1147: Telegram

The Ambassador in Norway (Bay) to the Secretary of State

SECRET

OSLO, March 11, 1947—noon.

115. ReEmb's 84, and 85, February 19, and 86, February 20.¹ In visit with Mr. Andvord, Secretary General Foreign Office, on March 8, I asked him whether Norway has yet received a reply from USSR to Norwegian note on Svalbard. He stated that Norway had received no answer.

To clarify that part of the Storting resolution reading, "Storting never forgetting assistance given to Norway by Soviet Union, agree that discussions with Soviet Union, state which, besides Norway, has particular economic interests on Svalbard, otherwise should be continued concerning preparations for revision of Spitsbergen treaty 1920 with view to making it more satisfactory," I asked him whether Norway is presently dissatisfied with any major provision of the treaty and desires on its own account to call a meeting for revision, to which he replied in the negative.

I asked what the Norwegian Govt meant by that phrase, and he stated with a smile that if USSR initiates request for meeting to revise the treaty that Norway would like to take up certain minor provisions on its own account, but that none of these provisions has anything bearing upon the military or defense aspects of treaty. He made it clear that Norway would not initiate a request for revision of treaty, but would be willing to join such request if USSR should initiate request.

My conclusion is that Norway desires to reject USSR proposals for treaty revision, but wishes to do so as graciously as possible.

BAY

¹ Last two telegrams not printed.

861.24557H/3-2847

The Ambassador in Norway (Bay) to the Secretary of State

SECRET

OSLO, March 28, 1947.

No. 810

SIR: I have the honor to report that after a dinner at the French Embassy on the evening of March 22, Mr. Andvord, Secretary Gen-

eral of the Foreign Office, told me in private conversation that the Norwegian Government had not yet received any reply from the U.S.S.R. to its note (reference Embassy's telegram No. 86, February 20¹) communicating the resolution adopted by the Norwegian Storting with respect to Svalbard. He then told me that a Soviet representative to the United Nations had recently stated to the Norwegian representative to that organization—the names of these representatives were not given—that “Norway need not have been so prompt about sending the note”. I asked Mr. Andvord how he interpreted this and he said that, on the basis of his experience during his term as Norwegian Ambassador to the U.S.S.R., as well as upon his general knowledge of Soviet methods, it was his definite belief that the Soviet remark was inspired from Moscow. I asked if he had any idea as to why the U.S.S.R. was disappointed in receiving the note “so promptly”, and he stated as his personal opinion that the U.S.S.R. would possibly have preferred not being on notice to the effect that their request for Svalbard militarization had been rejected by Norway; that the Soviet receipt of such rejection at the beginning of the Foreign Ministers' Conference in Moscow would possibly put a brake on similar Soviet plans for other areas (possibly meaning the Dardanelles).

Respectfully yours,

C. ULRICH BAY

¹ Not printed.

861.24557H/5-1948: Airgram

The Chargé in Norway (Huston) to the Secretary of State

SECRET

OSLO, May 19, 1948.

A-273. Embtel 115, March 11, 1947. FoMin Lange told Ambassador Bay yesterday, in reply to a question, that there have been no developments whatever in the Spitsbergen question since the despatch of his letter to Molotov last year conveying Norway's refusal to enter into negotiations looking to the joint defense of the archipelago. Mr. Lange indicated that he considered the subject “dead”, at least for the time being.

HUSTON

PORTUGAL

NEGOTIATIONS BETWEEN THE UNITED STATES AND PORTUGAL REGARDING A NEW AGREEMENT GRANTING TO AMERICAN MILITARY AIRCRAFT TRANSIT RIGHTS THROUGH LAGENS AIRFIELD IN THE AZORES FOR THE DURATION OF THE OCCUPATION OF GERMANY AND JAPAN¹

853B.7962/3-1447

The Acting Director of the Office of European Affairs (Hickerson) to the Under Secretary of State (Acheson)

SECRET

[WASHINGTON,] March 14, 1947.

You will recall that last June we completed an agreement² with the Portuguese by which ATC could continue to operate through the Azores using the field at Lagens. That agreement was for 18 months and will expire December 2, 1947. The Azores are vital to our lines of communication with Germany and for that reason a new accord or an extension of the present one is required. If negotiations are to be undertaken, they should be started well in advance of the date the present agreement expires. The Army is anxious to have these discussions opened about the middle of May. Paul Culbertson³ has done the previous negotiations and it is my thought that he would go to Lisbon on his way to Madrid, arriving in Lisbon about the middle of May. We would like to ask the War Department to assign General Kissner to assist in these negotiations. Before we get any deeper into our discussions with the War Department I would like to have your approval for going ahead with these negotiations.

JOHN D. HICKERSON

¹ For previous documentation relating to United States interest in the airfields in the Azores, see *Foreign Relations*, 1946, vol. v, pp. 962 ff. For related documentation on U.S. policy with respect to acquisition of military bases and air transit rights, see volume I, compilation entitled "United States National Security Policy".

² See telegram 480, May 30, 1946, from Lisbon, *Foreign Relations*, 1946, vol. v, p. 996.

³ Paul T. Culbertson was assigned to the Embassy in Spain where, on April 15, 1947, he became First Secretary.

853B.7962/6-347

*The Secretary of State to the Ambassador-Designate to Portugal
(Wiley) in New York*

SECRET

WASHINGTON, June 3, 1947.

SIR: The United States Government is now prepared to open discussions with the Portuguese Government for the purpose of negotiating a new agreement under which United States military aircraft serving American forces of occupation abroad would enjoy transit rights at the Lagens airfield in the Azores for the duration of the occupation of Germany and Japan. The Department wishes you to initiate negotiations to that end as soon as you think it wise to do so after your arrival in Lisbon. The essential elements of the proposal to be made to the Portuguese Government are contained in the attached draft Note for delivery by you to the Portuguese Foreign Minister at an early appropriate opportunity.

The War Department has designated Brigadier General A.W. Kissner as military adviser to assist you in these negotiations. General Kissner is continuing his present duties in Washington, but is prepared to proceed to Lisbon promptly as soon as you indicate the need for his presence there. General Kissner's instructions authorize him to speak for the War Department except in cases where a major change in existing War Department policy is involved. Discussions have been held in Washington with General Kissner and other representatives of the War Department. They have agreed to the presentation of the objectives in the form of the attached draft Note. Depending on the development of your discussions with the Portuguese Government, you will of course be free to recommend changes, having in mind the objectives of the War Department with which General Kissner is familiar.

You will note that the draft proposals contain no *quid pro quo* on the part of the United States Government and it is not intended that there should be given any form of political assurance such as might be suggested by the Portuguese Government in exchange for the concession of military base rights. The War Department is, however, prepared to make certain commitments in connection with assistance in the training of Portuguese military and civilian personnel, in making available surplus military aircraft, in the construction of certain facilities and in the assumption of certain maintenance responsibilities. General Kissner will inform you of these in detail.

In view of past experience, it is felt that the Portuguese Government would be unwilling to agree to a mere extension of the time limitation contained in the May 30, 1946, agreement.¹ It is therefore considered

¹ For text of Agreement, effected by exchange of notes May 30, 1946, see Department of State Treaties and Other International Acts Series (TIAS) No. 2345; United States Treaties and Other International Agreements (UST), vol. II, (pt. 2), p. 2201.

important that, although the purpose of the new agreement is substantially the continuation of present facilities and privileges, the Portuguese Government should be given every indication that it is intended to negotiate an entirely new agreement to take effect upon the expiration of the May 30 agreement.

As to the duration of the new agreement, it should be for the period of occupation of Germany and Japan, since the entire premise of the agreement is the need for the facilities to which the occupation gives rise. If that is not obtainable, provision for termination under certain conditions after a lapse of five years, as in Paragraph 12 of the United States-Iceland Agreement of October 7, 1946,² might then be sought. A copy of Despatch No. 713 of October 7, 1946,³ from the American Legation at Reykjavik, containing the text of the agreement just mentioned, is enclosed.

Discussions with the Portuguese Government last year on long term arrangements for joint use and maintenance of military base facilities in the Azores were discontinued early in September 1946. The Portuguese Government showed great interest in the matter but attached conditions which were unacceptable to the United States Government. At the conclusion of the discussions, the Portuguese Government was informed that they were being recessed rather than terminated. In the light of the interest shown by the Portuguese Government, you may, if you think it desirable to do so, refer to those discussions and emphasize our continuing interest in coming to an agreement of that nature. The uncertainty of present world conditions suggests, however, the desirability of postponing further discussions along those lines, which could be resumed at a later date at the initiative of either Government, and of confining present arrangements to the immediate need for transit facilities to service occupation forces in Germany and Japan.

The British Embassy in Washington was informed on May 22, 1947⁴ of the intention to open these negotiations and was assured that the British Government would be kept informed of their progress. Emphasis was laid on the necessity of secrecy at this stage of the negotiations. The hope was expressed to the British Embassy in Washington that the British Ambassador at Lisbon would be given instructions enabling him to lend prompt support to your negotiations, should that be necessary. You should keep the British Ambassador at Lisbon⁵ informed of the progress of the negotiations. A copy of the Depart-

² For text of Agreement, effected by exchange of notes October 7, 1946, see Department of State Treaties and Other International Acts Series (TIAS) No. 1566, or 61 Stat. (pt. 3) 2426; for documentation on the negotiation of the Agreement, see Department of State files 859A.20 and 501AA.

³ Not printed.

⁴ Note of May 22 not printed.

⁵ Sir Nigel B. Ronald.

ment's note of May 22, 1947 to the British Embassy in Washington is enclosed.

Very truly yours,

For the Secretary of State:
JOHN HICKERSON
Acting Director
Office of European Affairs

[Enclosure]

*Draft Note From the American Ambassador to the Portuguese
Minister for Foreign Affairs (Caciro da Mata)*

EXCELLENCY: I have the honor to refer to the negotiations which were conducted last year between the Governments of the United States and Portugal with respect to the use of facilities in the Azores Islands for the transit of United States aircraft serving the forces of occupation in Germany and Japan.

The Government of Portugal recognized the need of the United States Government for these facilities and, in an agreement of May 30, 1946, authorized for a period of eighteen months the passage in transit through Lagens airfield of United States aircraft serving American occupation forces. For its part, the United States Government has conscientiously carried out its obligations under the spirit and letter of that agreement. This authorization expires on December 2, 1947. However, the responsibilities of the United States to the other members of the United Nations and, in fact, to all nations of the world for the occupation of the ex-enemy nations still continue. The United States as one of the occupying powers must therefore continue to look to friendly governments for such cooperation as they can give in assisting the United States and the other occupying powers in carrying out their responsibilities for the occupation of Germany and Japan.

The facilities which the United States Government has enjoyed in the Azores have been a vital link in the line of communications with the American forces of occupation, and its need for such facilities will still exist at the date of expiration of the agreement of May 30, 1946. In view of the consistently cooperative and friendly attitude of the Government of Portugal in providing essential facilities in the Azores during the war and in recognizing the need for transit facilities during the subsequent period of the occupation of Germany and Japan, the Government of the United States is encouraged to anticipate a renewed cooperation of the Portuguese Government in providing for the continuation of facilities in the Azores after December 2, 1947, for the transit of the United States aircraft serving the forces of occu-

pation. The need for these facilities has been recognized in the agreement of May 30, 1946, as a clear and unavoidable consequence of the responsibilities of the United States Government as one of the occupying powers, and the United States Government feels certain that it can depend upon the Government of Portugal to provide this assistance so essential to the successful discharge by the United States of its responsibilities in the occupation of Germany and Japan.

The United States Government would therefore appreciate an early opportunity to negotiate a new agreement to meet the foregoing requirements and to take effect upon the expiration of the agreement of May 30, 1946, which will include the following essential elements:

1. Lagens airfield on Terceira Island in the Azores to be available for regular and scheduled passage in transit of United States military aircraft serving the forces of occupation in Germany and Japan.

2. The United States to maintain such American personnel, facilities and installations at Lagens airfield as are necessary for controlling, maintaining and serving United States military aircraft.

3. Santa Maria airfield to be available to United States military aircraft for emergency use in the event of adverse weather conditions at Lagens.

4. A mixed commission to make periodic inspections of the two airports and to advise the Portuguese Government on any improvement of conditions, services and equipment necessary to maintain both airfields at a high standard.

853B.7962/6-1847: Telegram

The Secretary of State to the Embassy in Portugal

SECRET

WASHINGTON, June 18, 1947—3 p. m.

428. Referring to Dept's note of May 22 outlining our proposed negotiations with Portugal Brit Emb has given Dept note substance as follows:

"It is understanding of HMG that US proposals are substantially those contained in memo from Byrnes to Bevin of 19 Aug 1946¹ and that no new requirements are now under consideration. On this understanding, HMG are prepared to instruct their Ambassador Lisbon to support US approach to Port Govt if he should be asked to do so by his US colleague or if he should be consulted by Port Govt.

HMG wishes also to make clear that their support of US proposals will be given on understanding that facilities for which US is asking are not exclusive, i.e. that nothing in any arrangement which US may make with Port Govt would prevent HMG should an emergency arise,

¹Not printed. Ernest Bevin, British Secretary of State for Foreign Affairs, and Secretary of State James F. Byrnes were at that time attending the Paris Peace Conference.

from seeking such military facilities in Azores as they might consider necessary for protection Brit military interests.

Finally HMG attach importance to Brit participation in any mixed commission set up to supervise upkeep of two airfields in accordance with Point 4 of US proposals. It is hoped that US Ambassador at Lisbon may be instructed to include proposal for Brit participation in mixed commission in his approach to Port Govt."

We have assured Brit that understandings in first two quoted paragraphs above are correct and have given assurance that we have no objection in principle Brit participation mixed commission. We said that since functions of mixed commission would be developed during course negotiations we would find appropriate time take up this point with Portuguese. However, we said in initial stages we would prefer not to introduce this additional factor as it might seem to relate our approach to long-term base question which we wished to avoid.

Brit Emb cabling our assurances FonOff with recommendation that Brit Amb Lisbon be given appropriate instructions promptly.

MARSHALL

853B.7962/6-2047 : Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, June 20, 1947—7 p. m.

451. For Reber.¹ Saw British Ambassador today and acquainted him with substance of your No. 428, June 18. He replied that his instructions already received from Foreign Office differed only in that he was to broach to Portuguese Government the question of British participation in mixed commission as soon as I started conversations. I pointed out that question of best timing to raise this question was impossible to foresee at this moment, that it might be better for me to keep him currently informed of progress of conversations and then we could together work out the best moment for this step. He acquiesced entirely. He gave evidence of earnest and sincere desire to be as helpful as possible going so far as to suggest that wherever I might encounter obstacles (for example, Mathias²) he would then go into action as indicated by me.

I expect to make preliminary calls on Foreign Minister³ and Political Director soonest and will promptly thereafter initiate conversations.

WILEY

¹ Samuel Reber, Chief of the Division of Western European Affairs.

² Marcello Mathias, Portuguese Minister-designate to France; formerly Director General of Political Affairs in Ministry of Foreign Affairs.

³ Dr. José Caeiro da Mata.

853B.7962/7-347 : Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, July 3, 1947—7 p. m.

US URGENT

500. For Reber. Mytel 493, of July 2.¹ By appointment I called on the Foreign Minister at 12:30 today. The Minister, as a result of my off the record talk with Teotonio Pereira, Ambassador designate to the US, was of course forewarned of the purpose of my visit, namely to present the Azores note. There was a marked atmosphere of nervous expectation.

I spoke to the Foreign Minister along the following lines; I told him that we are very grateful for the collaboration we have received in the past from Portugal in respect of the Azores and, to allay current rumors, I assured him that I had not been sent to Portugal only to work out this or any other particular question. I foresaw a broad and continuing field for collaboration between us. We appreciate the special ancient relationship which exists between Portugal and England and I assured him we had no desire to see it weakened in any way. I reminded him that there has also been a very special relationship for a long time between Great Britain and the United States, based on realities rather than the written word. I hoped that collaboration on the same basis between the United States and Portugal might close the triangle.

I then referred to previous conversations for a long range agreement with Portugal and the inadvisability either for US or for them to pursue the matter further at this time. With this the Foreign Minister expressed entire agreement.

I handed our note to the Minister which he read carefully. He stated that a new agreement according US essential facilities in the Azores was necessary not only for the United States but also for Portugal. He recognized that the presence of American military occupation forces in Germany and Japan was of the greatest value to all.

He went on to say that there had been a very important meeting of the Cabinet (this presumably resulted from my conversation with Teotonio Pereira), in which Dr. Salazar² had called on him to discuss the world political situation. He repeated to me the gist of his remarks at that time which were in brief as follows: He lamented the fact that Great Britain, which in the past had been the central pillar of Portugal's economic and financial structure, had now become a

¹ Not printed.

² Dr. Antonio de Oliveira Salazar, President of the Portuguese Council of Ministers.

debtor nation to "little Portugal", was fatigued from the war and could no longer play its traditional role. Portugal has always looked upon France as a great political force in Europe but it too could no longer play its traditional role. The infiltration of Communism in many countries of the world and the Soviet control of Eastern Europe, he viewed with the greatest alarm and said that he felt that another war was inevitable. He was not sure that it would not be both advisable and necessary. I replied that another war would be a universal disaster and the United States could be counted upon to do everything humanly possible to avert any such calamity.

The Foreign Minister repeated that we would get in the Azores what we needed and he expressed great satisfaction that we had included the paragraph on the Mixed Commission. In making arrangements to meet European requirements, however, he said that we must work out a formula which would permit the Portuguese Government to reassure Portuguese public opinion that there was no infringement of Portuguese sovereignty. He said that he was convinced that we could readily work out such a formula and he implied that whatever the formula might be we would have what we want.

The Foreign Minister stated he would see Dr. Salazar today but he was confident that he would encounter no difficulties with him.

I asked the Foreign Minister to let me know when it might be timely for me to pay my respects to Dr. Salazar. He said he would mention the matter [to] Dr. Salazar at once.

These conversations have opened under what appear to be very favorable circumstances. The Foreign Minister, however, has the reputation of being at times too optimistic and Dr. Salazar is, of course, known to be very legalistic. I think we can expect to encounter snags in connection with the formula. While I am convinced of the good intentions of the Foreign Minister, there are resolute die-hards in key positions here. This business is not yet in the bag and we may still encounter serious difficulties.

After my conversation with the Foreign Minister, I fully informed the British Ambassador. He told me that he had been alerted to be prepared in the immediate future to make representations to the Portuguese Government together with the French Minister in connection with the Paris meetings on the "Marshall Plan". He promised to take that occasion to tell the Foreign Minister privately that he had learned with great satisfaction that my representations had received such a favorable reception, and he will make clear the interest which his government feels in seeing a solution satisfactory to all concerned.

853B.7962/7-1447: Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, July 14, 1947—2 p. m.

US URGENT

536. For Reber. My wife and I spent weekend motoring through northern Portugal as guests of Foreign Minister. After dinner Saturday night I informed him briefly of the recent visit to Lisbon of Colonel Warren and of the interviews Colonels Warren and Tibbets¹ had with the Minister for War² and General Cintra.³ The Foreign Minister was very interested and said he would immediately confer with Minister of War and would see Cintra upon latter's return from Azores where he now is; the Foreign Minister would then see me.

I told Foreign Minister that we had certain practical problems in the Azores that I would like to work out in principle with him, namely, certain repairs were needed in connection with gasoline storage installations, and that it was very desirable during the few remaining summer months to bring in and store the winter's supply of gasoline because of weather conditions in the Azores after October 1. The Foreign Minister seemed slightly upset about this and referred to the great Portuguese susceptibilities and the need of finding a "formula". I was able, I think, considerably to reassure him. He promised also to discuss the question with me shortly.

The following day, Sunday, seated in the back of the car, the Foreign Minister raised the Azores question at great length with my wife. He insisted on his great desire to consolidate Portuguese relations with the United States. He is convinced that war is inevitable and that in this critical period collaboration of all nations sharing the same moral aims is indispensable. He thought that in foreign relations there were issues that must be kept above the bargaining level. There were many with small minds everywhere who considered international agreements as purely business propositions and thought only of what they could derive therefrom in a material way. Happily, however, Dr. Salazar was in complete agreement with him that concessions Portugal might grant to the US in the Azores should not be on the basis of a *quid pro quo*.

Dr. Salazar, he went on to say, wanted very much to see me as soon as possible. He, the Foreign Minister, was anxious to have this interview take place while he was still in Lisbon. (He departs the twentieth for Paris by motor.)

¹ Col. John W. Warren, Commanding Officer, ATC personnel at Lagens; Col. Gene H. Tibbets, U.S. Air Attaché in Portugal.

² Col. Fernando dos Santos Costa.

³ Gen. Antonio Cintra, Portuguese Director of Civil and Military Aviation.

Foreign Minister then discussed colonial questions: Macao means nothing in a material sense to Portugal; it is a small, inconsequential spot that is an economic outlet to nothing and is in no sense a political bulwark. Yet the historical tradition in Portugal is such that if Portugal's precarious position there is worsened the repercussions in Portugal would be very great. Exactly the same situation applies to Goa and the two other Indian colonies. Moreover, there was much importance attached in Portugal to the role of the Patriarch of the Indies now in Portugal on the eve of returning to his ecclesiastical duties. On the subject of the Indian colonies he had made, a month ago, very strong representations. He considered the matter so delicate that he was keeping them entirely secret so as not arouse public opinion or popular emotion in Portugal. He showed great concern over the foregoing.

I am reporting this since it is tied in so closely with our Azores conversations. The coincidence is unfortunate that Portuguese colonial alarm should be so aroused at this particular moment since it makes their susceptibilities just so much more acute. It is obvious that we shall be obliged to use the utmost tact in every step in order to achieve our essential objectives.

WILEY

853B.7962/7-2647: Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, July 26, 1947—noon.

582. For Reber. I was requested to call at Foreign Office yesterday afternoon by Dr. Faria, Director General of Political Affairs. He told me that great consideration had been given to our note of July 3 on the subject of the Azores, and that the Prime Minister and other members of the Portuguese Government were quite agreed to according US transit facilities for Army aircraft servicing American occupation forces in Germany and Japan. Before communicating a note formally to me, however, he desired to acquaint me with the position of the Portuguese Government. He then produced an unsigned document dated July 25 which reads in translation as follows:

"1. Within the spirit of friendly understanding which has animated the Portuguese Government in its relations with the Government of the United States regarding the facilities granted in the Azores to American aviation, and having in mind the situation resulting from the expiration on December 2, 1947 of the agreement of May 30, 1946 the government is disposed to grant for a period to be determined upon, to North American airplanes of the ATC servicing occupation troops

in Germany and Japan the right of transit through the Lagens airdrome.

"2. It is known that the execution of the program resulting from the technical agreement negotiated between the military authorities of the two countries for the carrying out of the May 30th agreement is well advanced and it will be practically terminated on the date of the expiration of the latter agreement. For this reason all of the services of control, maintenance and technical aid should be turned over to and exclusively executed by Portuguese services of the Lagens base which will be in a position to render the necessary assistance.

"3. In order to carry this out it is necessary that there be ceded, under whatever arrangement, the American material which is at present in Lagens and which material the United States Government undertakes to provide substitution or replacement.

"4. The Government of the United States should take for its own account warehousing of aviation spare parts for the airplanes in transit and to maintain civil personnel for the maintenance of the airplanes in a number to be agreed upon.

"5. For the execution of this concession the Portuguese Government would like the Government of the United States to agree to: (a) Authorize the contracting by Portugal authorities of some American personnel which may still be necessary, and during the indispensable period, to serve on the base; and (b) to advise through the intermediary of its technicians the Portuguese Government regarding improvements which may be desirable to introduce in the field or in its services.

"6. The concession granted to the Government of the United States under the new agreement will be extended for the same period to the British Government.

"7. The Portuguese Government would appreciate it if the American Government would take under consideration the eventual competition which the airplanes of the ATC may be giving to private companies whose airplanes utilize the airdrome at Santa Maria." Portuguese text follows by air pouch.

Dr. Faria in conversation amplified somewhat the text of the foregoing document. With regard to paragraph 2, he quoted the Minister of War as being definitely of the opinion that the Portuguese could take over all the technical services on December 2. I replied that I disagreed entirely with regard to the ability of the Portuguese to take over the aforesaid services. Dr. Faria pointed with pride to the operation of the Lisbon airport. I replied that the Lisbon airport was the cause of consternation to the American airlines; it did not even have equipment for a blind landing. ATC would never be satisfied with conditions like those in Lisbon. Concerning Paragraph 3 Dr. Faria stated that the Portuguese Government was willing to take over American equipment in the Azores either by purchase, loan or lease. With regard to 4, I expressed great doubt that the American Government had any civilian personnel that could be provided. Also I told him

ATC would require its own personnel, maximum 677, minimum 382. They would have to be in uniform and could not and should not be disguised as civilians. With regard to 6, I expressed complete satisfaction that the Portuguese Government should extend whatever concessions it might wish to the British. With regard to 7, I denied that there was any competition worth mentioning between ATC and private airlines.

My interview with Dr. Faria lasted one hour and five minutes. I gave him all the orthodox arguments for Portugal's collaboration with the US in the conformation of the American war effort in Germany and Japan. Since the explanation by Dr. Faria made it more than clear that the Portuguese concept is that everything in the Azores shall be completely Portuguese operated and controlled without any American military personnel or responsibilities, I told him that the formula, as tentatively proposed, would be in my opinion, utterly unacceptable. Indeed I was convinced that ATC would infinitely prefer to leave the Azores rather than to remain there on anything that even remotely resembled the present proposition. Dr. Faria talked about Portuguese susceptibilities. I told him we had susceptibilities too. I asked him why there was no reference to the suggestion of a mixed commission. He replied that this was approached indirectly in five ways. The approach seems very indirect.

After my reiterating the complete unacceptability of the present Portuguese formula, he expressed the hope that I would nevertheless communicate it to my government and in the meantime he would communicate my objections to the Prime Minister.

I think there are two schools of thought in the Portuguese Government with regard to the Azores problem. One, represented by the Foreign Minister and Teotonio Pereira, Ambassador designate to Washington, is conciliatory. The other, headed by Athias [*Mathias*] and probably by the Minister of War and perhaps with the legalistic and sympathetic support of Dr. Salazar, is one of most reluctant acquiescence to anything. The Foreign Minister left July 20 for Paris. Dr. Mathias, who is now Minister designate to Paris, was to have accompanied him. Apparently Mathias stayed behind and left only yesterday. I think the document and what Dr. Faria said were the fruits of his labor. It was understood between me and the Foreign Minister that the question of the Azores would be suspended until his return. Thus, this interview today came as a surprise. My suggestion is that as soon as Teotonio Pereira arrives in Washington the Department talk to him frankly and that any instructions to me be postponed until the return of the Foreign Minister, probably about the middle

of August. I think we can proceed faster and better in this matter by making haste slowly.

WILEY

853B.7962/8-1347

*Memorandum of Conversation, by Mr. William B. Dunham of the
Division of Western European Affairs*

SECRET

[WASHINGTON,] August 13, 1947.

During his call on me this afternoon, Dr. Rocheta¹ said that the Ambassador had asked him to state, in connection with his discussion with Mr. Reber and me yesterday, that the Embassy had just received the pouch from Lisbon which contained a copy of the Portuguese Memorandum of July 25.² The Ambassador's judgment was that this did not represent an official document but merely constituted a written record of an informal conversation. He felt that, while we might be dissatisfied with the "formula" contained in this paper, nevertheless the opening paragraph did indicate that the Portuguese Government was quite willing to permit the US the continued use of the airfield at Lagens. It now remained to agree upon a time period and the formula.

I explained to Dr. Rocheta that we understood that this Memorandum was merely informal. One of the things which troubled me about it, I said, was the fact that Ambassador Wiley had been assured by the Foreign Minister that the two of them would conduct the discussions. However, shortly after the Foreign Minister left Lisbon, Ambassador Wiley was handed this Memorandum by a lower official of the Foreign Office.

I also told Dr. Rocheta that we were disturbed by the formula which this Memorandum contained. I told him that with all due respect to the abilities of the Portuguese Air Force, the Portuguese Minister of War had agreed at one time in the recent past with our Military Attaché for Air and our commanding officer in the Azores that the Portuguese personnel at Lagens were not yet capable of taking over the many services which must be rendered there to our aircraft. The training of Portuguese personnel was going forward, but as he knew this was a long process and until their personnel was trained up to our standards, our Air Force people would not wish to consider turning over the essential services rendered our aircraft; they would wish to perform these services themselves.

¹ Manuel Rocheta, Counselor of the Portuguese Embassy.

² Presumably reference is to the unsigned document quoted in telegram 582, July 26, 1947, *supra*.

I also explained to Dr. Rocheta that we were under an obligation, in view of our current agreement, to begin by September 2 making our plans for the evacuation of Lagens and that it would, of course, be desirable, if possible, to reach some firmer agreement in principle before that time if the evacuation was to be unnecessary.

Dr. Rocheta indicated that he understood these problems and said that the Ambassador, who was still without instructions on the subject, was writing to Lisbon for further information.

853B.7962/7-2647 : Telegram

The Acting Secretary of State to the Embassy in Portugal

SECRET

WASHINGTON, August 13, 1947—6 p. m.

575. We have delayed replying your recent telegrams pending opportunity discuss your negotiations with Pereira yesterday after he had presented credentials. We gave him copy of Memorandum (urtel 582 July 26) and repeated objections you have already made.

Pereira had not seen Memo and has not heard from his Govt about negotiations since his departure. He obviously did not understand this turn of events and was surprised by contents of Memo and to learn FonMin was not expected in Lisbon before end of month. He said he would cable Lisbon to express our views and request information.

Pereira gave no indication of part he expected Bianchi¹ might play in negotiations but did suggest he would be appropriate person to talk with in FonMin's absence. We discussed negotiations with Bianchi prior to his departure and while he was sympathetic with our objectives he seemed more interested in winding up his personal affairs.

War Dept has expressed great appreciation for effective manner in which you countered points raised in Portuguese Memo. They and we concur fully in all points you made and you are authorized, whenever you consider it desirable, so to inform FonOff.

It has occurred to us as it probably has to you, in connection with urtel 582, that Portuguese may be purposely using widespread shift in FonOff personnel as means of delaying negotiations. In view of FonMin's extended absence and fact that you will probably have to begin all over again if you deal with Bianchi, you may wish to consider desirability of approaching Dr. Salazar as Acting Minister of Foreign Affairs. We have not discussed such an approach with Pereira.

Following details have arisen out of examination of Memo and are set forth for your info:

Portuguese use of phrase "North American airplanes of the ATC" indicated misconception of type of traffic we wish to have serviced at

¹Dr. João Antonio de Bianchi was succeeded by Mr. Pereira as Portuguese Ambassador to the United States.

Lagens. This would for instance exclude occasional administrative and transport flights of Navy aircraft and might well exclude transit of combat aircraft. Furthermore name of Air Transport Command might be changed at some future date. Our inclination is therefore to describe aircraft which we wish to transit Lagens as "aircraft operated by or on behalf of the United States Government" (phrase used in Iceland Agreement).

In connection with personnel, War Dept states it would not be able to find qualified civilian personnel who would be willing to settle at Lagens and War Dept cannot of course "authorize the contracting by Portuguese authorities" of American military personnel. If present Iceland Agreement should be raised as precedent in connection with use of civilian personnel you may say that it has proved most unsatisfactory in operation (i.e. through contract arrangement with private company) and that we hope for much more satisfactory arrangement with Portuguese Govt.

Assume Col Warren had satisfactory info on current number and use of personnel. If you desire further briefing on this please advise.

LOVETT

853B.7962/8-1447: Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, August 14, 1947—6 p. m.

MOST IMMEDIATE

630. Embtel 588 July 28.¹ Following suggestion Carvalhaes,² I lunched with General Cintra today. I showed him "oral statement" and also gave him detailed personnel information obtained from Warren. Cintra apparently is member of school of thought which believes Portuguese able operate Lagens for ATC albeit with certain specialized American technical assistance. When expressing forego he added that without such assistance "formula" would have to be reworked thus implying Government might then be disposed reconsider matter.

I frankly told Cintra formula utterly unacceptable and ATC would prefer withdraw rather than operate under basis proposed. I also told him Lagens facilities great convenience to US but not indispensable, but that I considered Lagens question most important as point of departure for US-Portuguese relations in general and that without such point of departure I could only be very pessimistic.

Cintra asked if I had discussed matter with Salazar. I said not as yet but hoped, in view of time element to do so soonest. Concluding I stressed fact that present instructions call for last American flights

¹ Not printed.

² Col. Esmeraldo Carvalhaes, Protocol Officer in Portuguese Ministry of War.

through Lagens October 2. I told Cintra quite a story about our getting out of Galápagos³ and subsequent chagrin of Ecuador.

WILEY

³ For documentation regarding return by the United States of military bases in the Galápagos Islands to Ecuador in 1946, see *Foreign Relations*, 1946, vol. XI, pp. 836 ff.

853B.7962/8-1447: Telegram

The Acting Secretary of State to the Embassy in Portugal

SECRET

WASHINGTON, August 15, 1947—6 p. m.

US URGENT NIACT

588. We have had very helpful discussion with Wayne C. Taylor¹ today. War Dept and we agree that formula which you have devised is acceptable. Redraft of formula incorporating few suggested changes is being telegraphed separately. We feel we should avoid, in first paragraph, impression that we are seeking only extension of old agreement. We believe for tactical reasons, that it might be wise to include in second paragraph statement that Lagens Airfield will remain under full control of Portuguese authorities but leave this to your judgment. We agree fully that it is wise to include a statement that similar privileges are being extended to British.

We will take no action here to obtain British support for your approach to Dr. Salazar next week (urtel 631 Aug 14²) unless you specifically request it since we believe British Ambassador has adequate instructions and that you will in any case wish to arrange with him timing of his approach.

War Dept and we entirely agree with statements you made to Gen Cintra (urtel 630 Aug 14³). In connection with question of Portuguese ability to take over technical services at Lagens we would be interested in significance you attribute to change in War Minister's view on this subject since Tibbets and Warren spoke with him on July 11 (Embtel 531 July 12²).

Summary of timing situation is now as follows:

If by Sept 2 we do not have strong indication of favorable outcome of negotiations, War Dept will begin issuing instructions to staff agencies to initiate evacuation Lagens. By Oct 2 transit flights through Lagens will be discontinued. Thereafter flights will overfly Azores and/or use Iceland route.

¹ Member of Advisory Committee to Secretary of State on International Aviation.

² Not printed.

³ *Supra*.

Since we are anxious to have, by Sept 2, some indication of eventual outcome of negotiations we are somewhat concerned about stressing Oct 2 deadline to Portuguese. In April and May of 1946 the Portuguese purposely delayed negotiations in order to take advantage of approaching firm deadline June 2. If they now believe that Oct 2 is a similar firm deadline it is possible they would delay negotiations beyond Sept 2 and War Dept would thus be forced to begin evacuation.

We have just spoken to Pereira and have again repeated our dissatisfaction with Portuguese proposal. We stressed our desire to get on with negotiations and told him of your plan to see Dr. Salazar. He has received a letter from Faria with copy of July 25 Memo. He assures us that this Memo represents merely Faria's notes for his conversation with you and is not official document. He says Faria told him first paragraph of Memo shows they have accepted idea of our continued use of Lagens and that balance of Memo according to Pereira represents primarily War Minister's thoughts. We again reviewed with him necessity for presence of ATC personnel at Lagens to operate many technical services. Some of these services ATC must operate themselves at all times but others we are quite willing Portuguese personnel should take over as they become competent to do so. We however pointed out that these technical questions could be arranged in Lisbon after basic agreement reached.

LOVETT

853B.7962/8-1547: Telegram

The Acting Secretary of State to the Embassy in Portugal

SECRET

WASHINGTON, August 15, 1947—6 p. m.

US URGENT NIACT

589. Following contains suggested revisions in text of "formula":

In view of the termination on December 2, 1947 of the agreement of May 30, 1946 granting transit privileges at the Lagens airport to United States Government aircraft serving United States forces of occupation in Germany and Japan, the Government of Portugal, animated by the spirit of international cooperation is prepared to grant transit privileges at this airport to US Government aircraft serving the US forces of occupation for the period of the occupation, provided that if this period exceeds ten years the question of further use of these facilities shall then be subject to further agreement between the two governments.

The foregoing privileges are granted on condition that the competent American authorities will accept full responsibility for all technical installations and services, maintenance and repairs having to do with the passage of US Government aircraft. The airport at Lagens

will of course remain under the full control of the Portuguese authorities.

The Portuguese authorities will be disposed fully to collaborate in the discharge of the foregoing responsibilities and, when deemed opportune, will favorably consider assuming part or all of the aforesaid responsibilities.

The Portuguese Government is extending similar privileges to the aircraft of the British Government.

LOVETT

853B.7962/8-2047 : Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, August 20, 1947—10 p. m.

654. Saw Dr. Salazar for hour and half this evening. Gave him our formula and fullest background. He told me that he understood our difficulty in supplying civilian personnel and seemed to accept idea that any new agreement would permit ATC to remain on. During whole discussion Dr. Salazar never mentioned question of wearing uniforms and seemed to attach no particular importance to question.

Dr. Salazar stated that he was mistrustful of over-rapid intelligence of his own people and of possible over-confidence in their ability to take over technical aspects of aviation. Nevertheless, they had made considerable progress and the passage of planes through Lisbon exceeded in number those transiting Lagens. He wanted therefore to approach new agreement on basis factual determination of what responsibilities the port authorities could assume now and, on basis of further preparations, at a later date.

He insisted that he attached the greatest importance to collaboration between the United States and Portugal; that he would work with US with complete good will; and that he had no thought of any kind of ulterior motives or hidden designs on our part.

I mentioned to him the date line of September 2 and that the mechanism for withdrawal would then have to be put in motion, explaining that this would involve considerable work and some confusion. He replied that we could disregard the September 2 date line. He then mentioned December 2. I queried him closely on this so that there would be no misunderstanding. It ended up by his saying that if agreement was not reached promptly, and he implied that no new agreement would be forthcoming immediately, that we could have one month, or two or three or four months or—with sweeping gesture of hand—whatever was necessary during which time we could carry on as usual; he was not approaching the question in any narrow spirit.

I am asking Colonel Tibbets to request appointment with Minister War to repeat foregoing, in order to make absolutely sure that there is no misunderstanding.

Dr. Salazar spoke with great appreciation of the manner in which the American authorities had complied with agreement and with their commitments, of absence of incidents, and of cordiality which characterizes American-Portuguese relations at Lagens. I told him of General Huglin's¹ availability to advise me on technical matters. He replied that he did not think it would be necessary for the General to come for the present, perhaps not at all. I told him, nevertheless, that the General would remain alerted and requested Dr. Salazar to inform me whenever it might be timely for the General to come. He promised to do this.

In our conversation I suggested to Dr. Salazar that we take a trip together to Lagens and look the place over. He sidestepped quickly but amiably.

I got impression from Dr. Salazar's remarks that he wishes to await the return of Caeiro da Mata (now scheduled for early September) before proceeding further with matter.

The way things now appear to stand is that we have reached an agreement on broad question of principle that the technical details must be worked out on a factual basis and that further conversations will be with Foreign Office and not with Dr. Salazar.

WILEY

¹ Brig. Gen. Harold Q. Huglin, Deputy Commander of Air Transport Command.

853B.7962/8-2547 : Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, August 25, 1947—6 p. m.

671. Faria told me last night immediately subsequent to interview he had with Salazar—he gave same story to Zanthaky¹ the previous day following an earlier interview with Salazar—that the Doctor was pleased with our talk August 20 (Embassy's telegram 654, August 20). Faria stressed fact that he is convinced that an agreement satisfactory to US will be reached but stated it could not be exactly like the May 30 agreement but that the new agreement would have to be "attenuated". For example he mentioned matter of reduction in American personnel and substitution by Portuguese, and said that even on this point the Portuguese did not wish to hinder our efficiency and safety at Lagens

¹ Apparently the reference is to Theodore Anthony Xanthaky, special assistant to the Ambassador in Portugal.

and that they will base their estimates on a "factual" study of Portuguese possibilities in furnishing Portuguese personnel wherever possible.

Faria apparently uses the term "May 30 agreement" loosely (the gist of that agreement is of course contained in article (B)) and what he really means is the ancillary Kissner-Cintra document of September 7.²

Department will recall that under numbered paragraph 13 of that document the US undertook to lessen drastically our technical staff at Lagens and although the Portuguese have been unable to effect replacements (Embassy's telegram 531, July 12³) our army nevertheless accepted at that time the broad principle of reduction of our personnel and substitutions by Portuguese—which incidentally we agreed to train—and this tenet is now coming home to roost.

Department's attention is also invited to numbered paragraph 8 of this document which stipulates that operations, services, et cetera, including radar would function under control of Portuguese authorities.

Salazar apparently is harping on our commitments under existing agreement and insists on tying them into any new agreement. I expect to see Bianchi shortly and shall reiterate that new agreement shall indeed be "new".

WILEY

² See telegram 794, September 7, 1946, from Lisbon, *Foreign Relations*, 1946, vol. v, p. 1020.

³ Not printed.

853B.7962/8-2547 : Telegram

The Acting Secretary of State to the Embassy in Portugal

SECRET

WASHINGTON, September 5, 1947—6 p. m.

648. Urtel 671 Aug 25. In connection with US commitments under May 30 Agreement and Kissner-Cintra Agreement following comments from War Dept may be useful to you in future conversations with FonOff:

A. The US has generously and conscientiously fulfilled spirit Kissner-Cintra Agreement as cordial relations prevailing at Lagens indicates.

B. In July 1945 US military complement in Azores was 2600. At time Kissner-Cintra Agreement concluded US detachment at Lagens was 440 military and 661 civilians (latter preponderantly Portuguese nationals). By Jan 1947 US military personnel had been reduced to 345 military and 590 civilians. Experience demonstrated this number inadequate to handle normal base functions, aircraft maintenance, technical facilities and creditably discharge training commitments. By

July 1947 number was therefore necessarily increased to 550 military and 780 civilians.

C. Para 1 of Kissner-Cintra Agreement accomplished according to schedule; para 2, sale of supplies and equipment concluded to great financial benefit of Portuguese; para 3, assistance of US technical personnel at Santa Maria upon initial occupancy by Portuguese after US withdrawal was made freely despite critical US personnel shortages; paras 4 and 5, terms scrupulously observed including removal US flag from pole in soil to building at Portuguese request; paras 6 and 7, wholehearted cooperation between US and Portuguese authorities and mechanical training continues; para 8, US has submitted to over-all Portuguese control and yet bears major burden for operation of technical facilities; para 9a and b, operations conducted and training obligations being fulfilled; by June 1 it was recognized by all that training of weather reconnaissance personnel was insufficiently advanced to justify assumption of this responsibility by Portuguese military; para 9c, fully and generously fulfilled over and beyond letter of commitment, including better model aircraft than specified, and one-year supply spare parts; paras 10 and 11, scrupulously observed; para 12, full cooperation including assistance to Portuguese Navy in sea-rescue not specified; para 13, recognized by all that Portuguese training insufficiently advanced to adopt substitution for US personnel on scale envisaged this para; para 14, minor technical modification by local agreement; para 15, no comment; para 16, full cooperation.

Question of large-scale substitution of Portuguese for Americans is dependent upon continuous active training and cooperative effort over long period of time. As training for various functions completed gradual substitution of Portuguese for American personnel can of course take place. Estimated however some years will be required to complete training of sufficient number Portuguese up to required standards and to build up reserve pool adequate to guarantee sustained operation of field by Portuguese. Hence realistic approach to duration new agreement must take this into account and not contemplate a temporary expedient of 12-18 months.

Particular reference paras 8 and 9a and b USAF has spent three decades perfecting techniques and training personnel in highly technical matters but is willing to be placed under Portuguese control as long as ultimate responsibility for strictly technical functions rest with US personnel. Is further anxious to make available its skill and knowledge to Portuguese Air Force to indoctrinate its personnel over period of years until adequate number Portuguese reach general level of efficiency and experience to insure uninterrupted airport operation under all circumstances at standard comparable to those required by CAA.

Col Warren estimates 600 US military and civilians are required to guarantee sustained operations with current average work load and to continue to conduct present training. This figure is minimum consistent with our obligations. Since Lagens is vital link US air transport chain supporting occupation forces, it must be maintained at reasonably safe, efficient level. USAF must daily and hourly be prepared to reinforce occupational units, both in personnel and supplies. This may result in abnormal traffic loads. Peak loads can also arise from

contingencies of weather and maintenance. Personnel, supplies and facilities must be predicated on anticipated maximum work load rather than average. If US capability cut due to unwise personnel reductions to point where unable to handle peak loads, such conditions would constitute direct and heavy financial and manpower burden on Portuguese.

Capabilities of present operation and servicing personnel means maximum of only six to eight modern four-engined aircraft can be handled in any twenty-four hour period. These are normally scheduled transports, weather reconnaissance and locally based aircraft. In event diversions are made from Santa Maria by commercial aircraft due to weather or USAF special missions by squadrons or groups are required to be handled in same twenty-four hour period, capability this personnel will be exceeded and backlog will develop.

Present stockpiles of US matériel and supplies, many of which are in critical shortage category, cannot be adequately preserved and safeguarded without sufficient personnel. . . . Health of community as well as aircraft maintenance and cooperation of technical services dependent upon regular measures to prevent deterioration of food, water and supplies.

US desires Port Govt be under no financial burden as result of use of transit privileges at Lagens by USAF or of imminent necessity rebuild housing and technical edifices in restricted area now used by US personnel. Only by continued US participation in operation of Lagens can assumption of financial burden by Portuguese be avoided.

LOVETT

811.24553B/10-847

Memorandum of Conversation, by the Director of the Office of European Affairs (Hickerson)

TOP SECRET

[WASHINGTON,] October 8, 1947.

Participants: The Portuguese Ambassador,
Mr. Hickerson,
Mr. Reber.

The Portuguese Ambassador called this afternoon at my request to continue the conversation which he had had with Mr. Armour¹ on September 27. I explained that I wanted to take this occasion to give him some of the background of our thinking and policy with respect to base and transit rights in the Azores as I had been closely associated with the formulation of the U.S. position in this matter. There are two separate aspects of the problem which had become confused and thereby might be creating some misunderstanding in his mind and possibly that of his government. I explained that I wanted to talk to him as frankly as he had talked to Mr. Armour and, as it were, off the record.

¹ Norman Armour, Assistant Secretary of State for Political Affairs.

The matter which was now under discussion in Lisbon related only to our requirements for transit facilities for the period of occupation of Germany and Japan. We have suggested that the agreement last ten years in order to be sure that we could justify necessary expenditure in maintaining the facilities for which we were asking the Portuguese Government. No one at the time knew how long the occupation of Germany would last but these transit rights were required only in that connection.

The other aspect of the problem was the long-term base rights which we would like to obtain in the Azores and eventually in the Cape Verde Islands. These rights would in all likelihood provide joint operation by Portuguese and U.S. Governments. The facilities we would require might be similar to those which we had obtained from the British Government in some of the islands and which in no sense were considered a derogation of British sovereignty there. We fully understood the Portuguese preoccupation in this respect and had every intention of working out an arrangement with them fully safeguarding their sovereign rights.

In 1946 Mr. Byrnes had decided in connection with the long-term problem to send Mr. Russell, who was then Assistant Secretary of State, to Lisbon in order to explore this question with Dr. Salazar and the members of the Portuguese Government. Recognizing the Portuguese difficulties in respect to any such matter but also their interest in Atlantic security arrangements, we proposed at that time to give an assurance to the Portuguese Government to the effect that any threat to the territorial security of Portugal would contribute a threat to the security of the Atlantic. Should Portugal be the victim of aggression the U.S. by reason of the commitments under the United Nations is obliged to use force against any aggressor. Should the United Nations fail for any reason to act the U.S. would be prepared immediately to consult with Portugal in regard to the solution.

Dr. Salazar seemed profoundly interested in this offer but the definite response of the Portuguese Government was disappointing. The Portuguese Government at that time had replied that any agreement on this subject should be limited to five years and that the desired base rights could only be granted in time of war and even then only if the United Kingdom were actually in the war on the same side as the United States. I explained briefly to the Ambassador why these conditions were not acceptable. It had then been decided in the light of this reply and of conditions existing at that time that it would be preferable to postpone further discussions with the Portuguese Government on this subject until a more appropriate time. We felt that both in our own interests and in the interests of the Portuguese Government such

delay would be advantageous but that we still believed that some such arrangement was important and would be glad to talk to the Portuguese Government at some later date which both governments considered opportune.

I then referred to the suggestion which the Ambassador had made to Mr. Armour concerning possibility of an arrangement with Portugal in line with the provisions of Article 51 of the Charter.² As the Ambassador was aware, there has been discussion in the press of this country as to agreements which might be reached probably on a multilateral basis to carry out the provisions of this article and that the matter was under study by the U.S. Government. We do not yet know what the result of this study would be. Personally it seemed to me to offer the best chance of providing the security which we had originally hoped the Charter itself would give when it was not expected that the veto would be used to nullify it. When this government had reached a decision on the matter I could state that Portugal's suggestion in this matter would be given most sympathetic consideration.

The Ambassador said that he welcomed this frank explanation of U.S. position which would be most helpful indeed to him. He recognized that with regard to the long-term security problem which would involve the base rights this must now await the results of this year's General Assembly. He was frankly concerned by its trend and feared that it might mark a very crucial point. He was worried that the American position had not been sufficiently understood in certain countries and that its leadership which was so important to the safety and security of the smaller countries was not being given the full recognition which it merited.

JOHN HICKERSON

² Charter of the United Nations, June 26, 1945; for text, see Department of State Treaty Series No. 993, or 59 Stat. (pt. 2) 1031.

853B.7962/10-2247 : Telegram

The Acting Secretary of State to the Embassy in Portugal

TOP SECRET

WASHINGTON, October 22, 1947—6 p. m.

784. We have learned from Emb here Portuguese most disappointed Azores discussions not resumed same basis Russell proposal (Embtel 615 July 16, 1946¹) and Portuguese have not fully understood or accepted explanation our inability resume discussions that basis. Portuguese furthermore disappointed and disturbed we are minimizing importance transit facilities we have requested. While facilities may seem relatively unimportant to us they maintain granting them presents problem first importance to Port Govt since it will then be

¹ *Foreign Relations*, 1946, vol. v, p. 1004.

at least indirectly associated with US policy generally. They feel US should indicate greater appreciation importance to Portugal this question. They apparently would welcome indication from us now we would send them, when agreement concluded, letter of appreciation for their assistance and cooperation.

While appreciating Portuguese position we wish avoid overemphasizing importance facilities in order avert possibility Portuguese then seeking obtain unrelated concessions, or commitment such as contemplated in Russell approach, which we cannot make.

LOVETT

853B.7962/10-2347 : Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

TOP SECRET

LISBON, October 23, 1947—7 p. m.

869. Am most surprised to learn Portuguese disappointed because conversations re Azores not initiated same basis Russell proposal (Deptel 784, October 22). Am further surprised that they have not understood or accepted "explanation" (what explanation?) our inability resume on that basis since question has never in any way been raised with me.

I have repeatedly emphasized that facilities at Lagens represent important point of departure for American-Portuguese collaboration, but without suggestion of any *quid pro quo* on our part. Dr. Salazar perfectly understands that we entirely unable to give Portuguese any "empire guarantee", etc, etc.

Since comments set forth in Deptel do not tie in with realities of situation as they appear here, I would be interested in knowing source of Department's information; was it the Ambassador? ¹

WILEY

¹ The Department in its telegram 791, October 24, 1947, to Lisbon, not printed, identified the source as the Counselor of the Portuguese Embassy (853B.7962/10-2347).

853B.7962/10-2447 : Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, October 24, 1947—9 p. m.

875. Have seen Foreign Minister. I told him in detail my trip Azores, of excellent impression I received there; that I doubted if in entire world there was a more happy example of international collaboration and that I doubted if one would find more satisfactory formula than conditions as now exist. I discussed with him conditions there in detail. I referred to Portuguese susceptibilities. I told him I thought these

susceptibilities were limited to very few Portuguese indeed and that I myself would not call them susceptibilities but superstitions.

The Foreign Minister told me *inter alia* that although Dr. Salazar had promised to show him the report of General Cintra he had not done so. He felt very much as I did about the Azores but regretted to say that Dr. Salazar's views were more rigid than his although he added that Dr. Salazar was most anxious that a mutually acceptable agreement be reached.

Dr. Salazar, the Foreign Minister explained, felt that the time had come for us to get on a technical basis. The [*They?*] thought that this was the moment to bring over one of our generals. I replied that I was perfectly agreeable to anything Dr. Salazar desired. If he, the Foreign Minister, wished I was ready to telegraph that a general proceed immediately to Lisbon. Personally, however, I thought suggestion was premature. I was running the negotiations here; we had established an atmosphere of mutual confidence but, so far, we had not reached an agreement in principle. I thought that we were not yet ready for small details. The Foreign Minister asked what I proposed. I suggested that it would be valuable indeed if he, Dr. Salazar and I, with ample time at our disposition, could sit down around a table and talk things out. The Foreign Minister replied that he thought idea was excellent. He would communicate with Dr. Salazar in that sense tomorrow. He feared very much that interview would not be feasible until after Wednesday, October 29. There were American naval vessels here, the Portuguese military celebrations and the Canadian Minister of Commerce. Just as soon after Wednesday as possible interview would be arranged.

During the course of conversation I talked about psychological misinterpretation and informed him re nomenclature Lagens that name was being changed to "Azores Air Transport Station".¹ He seemed very pleased.

WILEY

¹The Air Force had taken action earlier to designate Lagens as the "Azores Command" (853B.7962/10-1747).

853B.7962/10-2447 : Telegram

The Acting Secretary of State to the Embassy in Portugal

TOP SECRET
US URGENT

WASHINGTON, November 1, 1947—2 p. m.

815. We have had most useful discussion with Wagner¹ today. Fundamentally important fact has emerged which will probably have direct bearing on your next talk with Salazar.

¹Joseph J. Wagner, second secretary and vice consul at Lisbon, temporarily in Washington.

We believe that Salazar and FonOff are fearful that US, under guise of request for innocuous transit facilities, is attempting to obtain substance of long term base rights, as proposed by Russell, without giving *quid pro quo* of type he outlined. We are still definitely interested in long term arrangements for joint use and maintenance of military and naval base facilities in Azores (see para 6 Dept instr. June 3, 1947 re Azores). It is essential that Portuguese understand such arrangement is still a matter of interest to us but is entirely separate from present request for transit facilities. When long term discussions ended last year Portuguese were assured talks were being recessed but not terminated. From Portuguese point of view particularly, Russell proposal is not extraneous issue. They attach great importance to long term arrangement but should understand foregoing.

You may inform Salazar accordingly.

We believe Portuguese suspicion we are attempting obtain substance long term base rights without necessity giving them *quid pro quo* may be basic reason for their procrastination, reluctance to conclude agreement and for Pereira's effort (perhaps under instructions from Salazar) to obtain reassurance that US is still interested in Russell proposal.

We will see Pereira Tuesday, bring him up to date (urtel 873, Oct 24²) and express anxiety long delays in negotiations.

LOVETT

² Not printed.

853B.7962/11-347: Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET
NIACT

LISBON, November 3, 1947—10 p. m.

910. I saw Dr. Salazar for 1 hour 35 minutes this evening, discussed Lagens with him in greatest detail. He reverted to familiar theme song about necessity for finding "formula". I asked him what he had in mind. He replied that he hadn't reached a decision; that he would immediately confer with Minister War on latter's return Wednesday and would talk to General Cintra. He insisted that he wanted agreement that would permit no possibility of misunderstanding with US; he attached greatest importance to Portuguese relations with US and didn't want them jeopardized; in formula it must be shown that Portugal had made "progress" from last agreement; that Portugal would be able to take additional technical services. He will communicate with me in course of present week.

I urged continuation of present ideal situation existing in Lagens, insisted that exaggerated importance was being given to question of

formula, as when he raised question of Portugal susceptibilities (this always comes up) I suggested these were limited to a very few men in or near his government and did not preoccupy Portuguese public opinion. He replied this was true because public opinion had confidence he would take best decision to safeguard Portuguese interests. I replied that Portuguese public opinion had confidence in US. I repeatedly brought up December 2 deadline. He said and reiterated that he would try to work out acceptable formula as rapidly as possible. He hoped it would be done before December 2 but if he could not we could forget about December 2 and if we could not agree on a formula we could have "six, eight or twelve months, or whatever time we needed" for evacuation.

I made strong plea for American personnel at Lagens to be able to bring families.

My conclusions are that in course of next week Salazar will gently place Azores baby in lap of General Cintra and will want an American general to come over in order to engage in long and very detailed negotiations. Salazar, I think, would prefer our staying in Azores for next millenium if Portuguese Government could dodge responsibility definite decision.

There is not the slightest manifestation of interest on part of Salazar with regard to any political guarantees (he is, I think, bright enough to know from realities of world situation Portugal already has in fact all guarantees in that he [*that we?*] could possibly give them). So far he has not shown the slightest interest in any agreement "for long-term base". (ReDeptel 815, November 1, 2 p.m.)

Salazar has excluded Foreign Minister from his conversations with me and has not even given Foreign Office copy of Cintra report.

(ReEmbtel 889, October 29¹). I therefore urge that Department observe extreme reticence in talking with Pereira.

Would like to have Col. Warren informed of foregoing thru ATC and also that it may be desirable Major Hammond² remain here some time.

WILEY

¹ Not printed.

² Maj. Mahlon B. Hammond.

853B.7962/11-1947 : Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, November 19, 1947—1 p. m.

URGENT NIACT

949. Attention Dunham WE. Had occasion to talk briefly to Foreign Minister at dinner last night. I told him I had received very nice

letter from Dr. Salazar informing me he thought he had found "formula". Foreign Minister replied, "Yes, we have just finished working over this formula today and I think you will find it satisfactory. Dr. Salazar's point of view has become much less rigid." He then added that he wanted to talk to me about it but explained he was not feeling well. He gave me impression that it would be perhaps several days before he could receive me.

I then had occasion to talk to Faria. He volunteered that a satisfactory formula had been found that he was sure I would like. Bianchi too was there. He said the formula provided for continuation without renegotiation for, he added, perhaps twenty years or even longer. (This probably means an "escape clause".) He said that he was sure wives and children of American personnel could come to Azores.

Please inform Colonel Warren through ATC of foregoing telling him I am going to shoot hard to make it possible to get at least a few families to Lagens for Christmas. He should make tentative plans.

WILEY

853B.7962/11-2747: Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, November 27, 1947—8 p. m.

NIACT

960. Following is formula mentioned mytel 958, November 27¹

"I have the honor to communicate to Your Excellency that the request of the Govt of the US relative to the continuance of transit facilities granted to the airplanes of the ATC under the agreement of May 30, 1946 has been considered attentively and in the most friendly spirit. The Portuguese Govt believes that the following formula will give satisfaction to the interests in question:

The Govt of Portugal and the Govt of the United States:

Considering that the facilities granted for the transit of airplanes of the ATC servicing the occupation troops in Germany and Japan terminate on December 2, 1947 under the terms of the agreement of May 30 of the preceding years;

Considering the manifest utility to the Govt of the United States, given its international responsibilities with which at the moment it is burdened, in continuing the transit thru Lagens of the referred to airplanes;

Having in mind the advantages which those facilities will achieve for the security of Europe and for the reestablishment and consolidation of world peace as well as the indirect value which the same may bring about for the common defense and security;

¹ Not printed.

Examining the execution of the program agreed upon for the carrying out of the May 30 agreement between the Portuguese military authorities and the ATC command in the Azores:

Agree:

That the Portuguese Govt will continue to grant to the Govt of the United States transit facilities for American aviation (ATC) thru Lagens airdrome in the following terms:

(A) The granting of facilities refers to period of three years beginning December 2, 1947, tacitly extendable from year to year for two years more, if not denounced by the Portuguese Govt with three months' notice. The Govt of the US may denounce the agreement and relinquish the facilities at any moment.

(B) There shall not be due, for the utilization of the aerodrome and of the various installations, the payment of any tax or rental; and for the purpose of customs and other facilities the special character of the airplanes in transit will be respected. The Govt of the US will, however, be responsible for the expenses which may have to be made for those improvements of the aerodrome which are not necessary for the utilization by the Portuguese services as well as the eventual substitution of deteriorated installations which are destined to the services or living quarters of its personnel, it being understood that all constructions shall be immediately considered property of the Portuguese Government.

(C) The Govt of the US will continue to furnish the necessary facilities for the apprenticeship and training of Portuguese personnel having in mind the perfect functioning of the services of the air base including those utilized by the ATC during the three year period mentioned in para A, as well as the acquisition by the Portuguese Govt of material deemed indispensable for the services of the base.

(D) The special conditions of a technical nature necessary for the carrying out of the present agreement will be stipulated between the Portuguese military authorities and the authorities of the ATC and will be subject to confirmation of the Minister of War in Lisbon, as well as a periodic revision at the request of either of the parties. It is understood, however:

(1) The personnel of American nationality normally in service may not exceed the minimum reached during the last 12 months, except in case of emergency communicated as far as possible in advance to the Portuguese Govt and there then can be authorized the entry and utilization of personnel necessary to the anticipated traffic.

(2) Among the material the acquisition of which will be facilitated the material needed for the new control tower will be given urgent consideration.

(3) There may be authorized the residence in Praia da Victoria of persons of the families of the personnel on service and there will be granted as a consequence of this authorization the necessary facilities.

(E) The Portuguese Govt reserves the right to grant the Govt of Great Britain transit facilities identical to those mentioned in this agreement.

In case the govt of the United States accepts the formula mentioned above the affirmative reply of Your Excellency will constitute with this the agreement of the two govts concerning this matter, which will enter into force together with the arrangements contemplated in item (D) above."

WILEY

853B.7962/11-2747 : Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET
NIACT

LISBON, November 27, 1947—9 p. m.

961. Foreign Minister today handed me Portuguese "formula" covering our continuance at Lagens, and English translation thereof is being telegraphed separately (Emtel 960).

During Foreign Minister's conversation with me, he mentioned that Portuguese would consider any modifications which we might wish to make in their formula. I replied, that, concerning the number of US personnel at Lagens, we might have to add to such complement during times not of an "emergency" nature, to take care of new types of aircraft et cetera, and said that I believed that this feature should be provided for, suggesting the use of the words "in order to meet technical exigencies". He reacted sympathetically.

The Foreign Minister also said that after Salazar had relaxed his rigidity, he, the Foreign Minister, had had great difficulty with the Minister War, who tried to insist that the formula be limited to one year, and who also fought stubbornly against the admission of families of American personnel. The Minister War eventually relaxed to the extent of accepting the idea of admitting 10 families, then 20 and finally the Foreign Minister was able to arrange the formula without any limitation on numbers.

The Foreign Minister also told me that we should interpret the formula to mean that we will enjoy the use of the facilities for the full five years.

I think it notable that the Portuguese have dropped any demands to show "progress" in the new agreement, and have similarly dropped all requests for their forces to take over any of the technical functions at Lagens.

Furthermore, I think that the Foreign Minister has done a grand job on our behalf, in the face of stiff and resolute opposition.

I discussed with the Foreign Minister the substance of Deptel 855, November 25.¹ He is immediately calling in Faria, in order to prepare a press release which could simultaneously be given out in Lisbon and Washington.

¹Not printed.

I think that the foregoing will give all that the ATC want at this time. However, we are going to work immediately to see if the requirement that families be stationed at Praia da Victoria (the small town near the airfield) can be eliminated since ATC desires to remodel existing quarters to accommodate families; and to dilute word "emergency" in respect to increase of personnel and that ATC aircraft be changed to US Government aircraft.

Subheading D of formula suggests that ATC now send me very competent technical adviser.

Please inform Colonel Warren of formula through ATC. Please also brief Major Hammond on Department's reaction to formula and return him here.

WILEY

853B.7962/12-147: Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, December 1, 1947—2 p. m.

NIACT

973. Yesterday had very intimate and off-the-record conversation with Bianchi. After thinking things over, have reached conclusion that in view of Portuguese susceptibilities re formula, it is wiser to accept it as is and not run risks inherent in reopening conversations. I propose therefore, when I see Foreign Minister tomorrow afternoon, to congratulate him on statesman-like and friendly solution which he and Dr. Salazar evolved. I shall then, unless instructed to the contrary, say that formula is entirely acceptable and is accepted. Only after this shall I seek modifications. In meantime, suggest Department draft very affable expression of appreciation which I can include in my formal note of acceptance (see last paragraph of formula). Please instruct me soonest.

WILEY

853B.7962/12-147: Telegram

The Acting Secretary of State to the Embassy in Portugal

SECRET

WASHINGTON, December 1, 1947—5 p. m.

US URGENT NIACT

862. Agree formula may be accepted in principle subject to minor modifications. (Urtel 973, Dec 1.) Hope you can postpone any final decisions with FonMin on modifications we desire until arrival Ham-

mond who is full briefed on our views and who is due to arrive Lisbon probably with Warren Dec 3.

Briefly, we would like language modifications made (urtel 961, Nov 27) but do not wish to insist, if Portuguese have strong substantive objections, in view liberal interpretation they are giving formula. Believe you are best judge of what is feasible and acceptable this respect. However, we do wish to insist on removal requirement dependents must live at Praia da Victoria. Hammond advises conditions there are so bad this requirement constitutes, in effect, prohibition on presence of families.

Instead of including expression of appreciation in formal note of acceptance, we suggest you send FonMin separate letter, under instructions from your Govt, along lines of draft enclosed with Dunham's letter to you Oct 28.¹

LOVETT

¹ Not printed.

853B.7962/12-247 : Telegram

The Ambassador in Portugal (Wiley) to the Secretary of State

SECRET

LISBON, December 2, 1947—7 p. m.

US URGENT

977. Saw Foreign Minister this afternoon. Expressed sincere gratitude for his and Dr. Salazar's statesmanlike solution.

I told him that formula was acceptable and was, in principle, accepted [;] only then I went into matter of modifications. Concerning "American aviation (ATC)" I pointed out (1) that ATC might change its name at some future date and (2) that US Government planes other than ATC aircraft transit Lagens and inquired if wording of formula would present any legalistic hindrances. He categorically said that terms used meant all American Government aircraft, including Navy. I told him that his interpretation was sufficient. I then suggested that perhaps a synonym could be found for word "emergency" emphasizing that the word had taken on a special connotation in the English language. He said that he had thought of this himself, and that he considered "unforeseen necessities" would be a better expression of what was intended. I agreed entirely.

I thereupon raised the proposed residence of dependents at Praia da Victoria. The Foreign Minister quickly replied that this feature had been most difficult for him to work out. He said Dr. Salazar had at times been most rigid on the point, and that attitude of Minister War had been adamant. The Foreign Minister finally suggested that he would see what could be done about allowing some dependents at

Lagens, perhaps families of officers. I made strong appeal to get some dependents out for Christmas. He jumped at this and said that it would give him a good talking point with Dr. Salazar.

The interview, which was most friendly and characterized by sincere desire of Foreign Minister to assist us, ended by his assuring me that he would see Dr. Salazar this evening and also contact Minister War.

To recapitulate: from conversation with Foreign Minister it is clear that all US Government aircraft can transit Lagens; that probably a satisfactory synonym for "emergency" will be found and, finally, that part of the dependents (officers families) will be permitted to reside at Lagens. On subject of getting all dependents at Lagens I went all out but attitude of Dr. Salazar and Minister War is such that I don't think we can accomplish this immediately. I think however that we have our foot in the door. I might add that Foreign Minister suffers from no illusions that we can rent premises at Praia da Victoria; he realizes that we have to build. Surely building a few beaverboard houses in neighborhood of Praia, which is very near Lagens, would involve neither great expense nor inconvenience. In any event the women and children would spend their days at Lagens. From my visit there I would say that living in vicinity of Praia would present no more inconvenience than for State Department personnel to reside in vicinity of Dupont Circle.

I gave Colonel Warren and Major Hammond tremendous buildup and also hinted that Colonel Matalo should be brought over from Lagens to work on operating agreement.

WILEY

Editorial Note

An agreement between the United States and Portugal granting American aircraft the right to continue using transit facilities in the Azores was effected by an exchange of notes signed at Lisbon February 2, 1948; operative retroactively to December 2, 1947. For text of Agreement, see Department of State Treaties and Other International Acts Series (TIAS) No. 2351; United States Treaties and Other International Agreements (UST), volume 2 (pt. 2), page 2266.

**AGREEMENT BETWEEN THE UNITED STATES AND PORTUGAL ON
AMENDMENT OF THE ANNEX TO THE AIR TRANSPORT AGREEMENT
CONCLUDED DECEMBER 6, 1945**

[For text of Agreement effected by exchange of notes signed at Lisbon, June 28, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1656, or 61 Stat. (pt. 3) 3185.]

SPAIN

ATTITUDE OF THE UNITED STATES WITH RESPECT TO THE FRANCO REGIME IN SPAIN¹

852.00/1-347

*Memorandum of Conversation, by the Chargé in Spain (Bonsal)*²

[MADRID, January 2, 1947.]

Following a conversation on other subjects the Foreign Minister³ and I discussed the Spanish political situation and the regime's foreign relations. The Foreign Minister stated that the recent resolution⁴ approved by the General Assembly of the United Nations in New York with regard to Spain constituted a set-back for those members of General Franco's⁵ cabinet, including himself, who desired to secure some sort of evolution here. The attitude generally prevalent in the cabinet at present is that nothing which the regime could conceivably do internally would be apt to improve Spain's international position. This applies not only to political developments but also to such matters as repatriation, SAFEHAVEN, etc. which involve concessions to the requests of the United States and Great Britain. (See other memoranda of this same date.⁶)

The Minister said, however, that he himself had every intention of continuing to press for evolutionary changes here since he is strongly of the opinion that the Government, in order to achieve stability, must rest upon institutions rather than upon one man, i.e., General Franco.

The Minister then spoke with considerable indignation of the way in which the Spanish problem has been handled in the United Nations. He said that it had been a sort of cat's paw in the struggle between the Soviet Union on the one hand and the United States and Great Britain on the other. Whenever the relations between East and West became tense the Spanish issue was apt to be dragged out and the Western powers were apt to make concessions to the Soviet in the form of attacks on the Spanish regime.

¹ Continued from *Foreign Relations*, 1946, vol. v, pp. 1023 ff.

² Transmitted to the Department as an enclosure to despatch 3315, January 3, from Madrid, not printed; received January 15, 1947.

³ Alberto Martín Artajo.

⁴ Resolution on Spain adopted by the General Assembly of the United Nations on December 12, 1946; see *Foreign Relations*, 1946, vol. v, pp. 1080-1090.

⁵ Francisco Franco y Bahamonde, Spanish Chief of State.

⁶ Not printed.

In reply to this I endeavored to raise the larger issue of the attitude in general of the peoples of the Western countries and especially of Great Britain and the United States toward the Spanish regime. I said that we all considered that Spain belongs to our civilization and that therefore a regime which denies the basic freedoms considered essential to that civilization cannot hope for good relations with us. I pointed out that, viewing the situation wholly objectively, the recent action of the United Nations was merely a further step in a process which, if it were allowed to continue, could only result in a still greater isolation of Spain from the rest of the western world. I also ventured the thought that the longer this isolation continued the more apt would be the extremists to win out in Spain.

The Minister replied that he frankly no longer believed that there was anything within the power of the present Spanish regime to perform which would improve public opinion in general in the United States and Great Britain. He said, however, that he believed that in Spain's own interest some sort of evolution is necessary. He said that he had been in frequent contact with General Franco on the subject and that he himself was advocating the preparation of a constitutional law which would set up a ["Consejo del Reino" (Council of the Realm) which would provide for an orderly succession in the leadership of the State as well as public participation on a moderate scale in the work of Government. The Minister said that it was his idea that this constitutional law would be subjected to a popular referendum.

The Minister then referred to the demonstrations of December 9 against foreign interference in Spanish affairs. He said that the importance of this matter had been wholly and willfully neglected by the foreign press and that this neglect was a further contribution to misunderstanding of Spanish realities. He said that the Monarchists had been amazed at the evidence of the regime's strength afforded by the demonstrations and he took occasion to say that he thought orthodox Monarchists rather weak and ineffective.

The Minister said that there was some sentiment in Government circles for the holding of a plebiscite in order to register support for Franco. In his opinion General Franco would win such a plebiscite overwhelmingly, particularly if Giral⁷ were to be placed on the ticket. However, the Minister said that in his own opinion it would be undesirable to have such a plebiscite since the objective toward which Spain should work, i.e., institutional normality, would not be furthered by voting at this time on personalities.

The Minister then returned to the handling of the Spanish question in the United Nations. He expressed great indignation at the difference

⁷ José Giral y Pereira was President of the Spanish Republican "Government-in-Exile" until his resignation on January 27, 1947.

between the treatment accorded the Soviet Union and her satellites and that meted out to Spain. I said that we were endeavoring to carry out our obligations in regard to Poland, Rumania, Bulgaria, etc. He said, however, that it was a farce for us, in view of our attitude toward the Soviet Union to maintain that we had fought and won a war for the overthrow of totalitarianism and that this justified our attitude toward the Franco regime. He said that there was considerably more personal liberty in Spain than in countries which we had mentioned.

The Minister then described the actual voting in the United Nations regarding the Spanish problem. He referred to the vote at San Francisco in the spring of 1945 when Spain was not even mentioned by name and when all of the members of the United Nations voted in favor of a vague condemnation of regimes brought into power with Axis assistance. He then referred to the General Assembly meeting in London in February ⁸ of this year [1946] and pointed out that although the resolution on Spain obligated no one to take any action two American republics have voted against it. He then said that considering the prestige of Great Britain and the United States and the pressures which he assumed had been brought to bear that it was well worthy of notice that the resolution which had been voted in New York last month had received the negative votes of six countries and fourteen had abstained. He said that he himself had received the visits of certain representatives of countries which had voted in favor of the resolution and they had indicated that their delegates had had no choice in the matter although deploring this infringement of the principle of non-intervention. The Minister said that it was his own impression, apparently derived from the return from the United States of such travelers as the Bishop of Ciudad Rodrigo, that our public opinion was becoming more favorable or at least less hostile toward the regime and that with a Republican victory in Congress some change might be expected in our Spanish policy.

In closing the conversation I returned to the theme of the impossibility of Spain's maintaining indefinitely a regime based upon principles wholly in disaccord with those which have been worked out by the countries whose civilization Spain shares and to which Spain has made important contributions. I again said that it seemed to me the longer the present situation lasts the more certain would be a violent overthrow. The Minister of course reaffirmed his own feeling as to the popular support of the regime. In the course of the discussion I had said that it seemed to me that the objective of evolution here would be to close the wounds of the Civil War and to establish a political system

⁸ For text of the resolution on Spain adopted by the General Assembly on February 9, 1946, see *Foreign Relations*, 1946, vol. v, p. 1033, footnote 16.

within which both sides in that conflict might have some possibilities of free expression. The Minister conceded this to be a desirable objective and he agreed with me that the Government could not indefinitely be the sole property of those who won the Spanish Civil War. However, he made the point that the United Nations so far is being conducted by and for the benefit of those who won the World War.

852.00/2-647

*Memorandum of Conversation, by the Chargé in Spain (Bonsal)*¹

[MADRID,] February 1, 1947.

This conversation took place at my home on the evening of February 1. General Beigbeder was accompanied by Señor Tomás Peyre who represents moderate Republican sentiment and is reported to be close to the Socialists. Mr. Maffitt of the Embassy was also present, and this account reflects our joint recollection of what took place.

After the customary amenities, General Beigbeder said that as we were all aware he had replaced General Aranda in negotiating on behalf of the Monarchist parties with the Republican groups for the setting up of a provisional government which would be broadly representative of the opposition to General Franco within Spain. The plan is to form a cabinet consisting of seven Monarchists, seven Republicans and either three or four military men. General Beigbeder's responsibility is apparently confined to discussions with Republican elements of the A.N.F.D.

General Beigbeder said that he did not know when or if these negotiations might be successful. He said that there was at least a chance that agreement might be reached within the next few days. He said that he wished to inform me about this so that the Government of the United States could be thinking over the matter and deciding what its attitude would be. He said that he felt that the prospective government came within the objectives set forth in the tripartite statement of March, 1946² of the British, French and American Governments.

At first General Beigbeder implied at least the hope that the formation of this new provisional government would be followed by a rupture of relations on the part of the British and ourselves with the Franco regime. However he did not insist on this point. He did say that the success of the new organization would depend in large part

¹ Transmitted to Department as enclosure 1 to despatch 3500, February 6, from Madrid, not printed; received February 19, 1947.

² Joint statement by the United States, United Kingdom, and France on their relations with the Franco Government, released to the press on March 4, 1946. For text, see Department of State *Bulletin* March 17, 1946, p. 412.

upon the "calor" or warmth with which it was received in Washington and London. He made it clear that in the absence of such warmth it would soon fall apart and "Franco might last for thirty years". He also said that he hoped that as soon as the new government was set up, it would be possible for "agentes oficiosos" or semi-official representatives to be received in Washington and London.

In reply to all this I stated that while our attitude toward the Franco regime was well known, it was difficult for us to define beforehand the action we would take in any particular set of circumstances. I set forth some of the considerations involved in the recognition of a new government, taking as a minimum basis the requisites of the so-called Estrada doctrine.³ I said that while there had been cases in which our Government had continued to recognize governments after they had been driven into exile by foreign invaders, I did not know of any cases where we had recognized organizations which had never held executive power.

Although General Beigbeder concentrated entirely on his own negotiations with the Republicans within Spain, I gathered that those Republicans are in pretty close touch with various groups outside of Spain and even with Martinez Barrio, the so-called President of the Spanish Republic.

It is General Beigbeder's thought that as soon as the new provisional government is formed about half of its members will be arrested here and the other half will be able to reach Tangier where they can set up operations. A period of conspiracy and underground activity will ensue, the success of which will be greatly dependent upon the support which the new organization is able to obtain from abroad.

The purpose of the interim government, once it has secured the elimination of General Franco, will be merely to hold elections on the fundamental question of whether Spain is to be a Republic or a Monarchy. It is General Beigbeder's idea that these elections will be held shortly after the assumption of power and that conditions prevailing in the interim and on that occasion will include strict censorship, a continued state of war, the suspension of the right to strike and very limited scope for political propaganda. In fact, General Beigbeder envisages statements on the matter at issue only by members of the new Ministry, i.e., the seven Monarchists, seven Republicans, and three or four generals. Once the country has decided on

³ In 1930 Genaro Estrada, the Secretary of Foreign Relations in the Mexican Government, announced that when a new government was established in another country by means of a *coup d'état*, Mexico would continue its diplomatic relations with that country without regard to the legitimacy of the new government. For discussion of the doctrine, see Instituto Americano de Derecho y Legislación Comparada, *La Doctrina Estrada* (Mexico City, 1930).

either a Monarchy or a Republic, all parties will be pledged to accept this decision and to work loyally under whatever system is achieved.

852.00/2-447 : Telegram

The Chargé in Spain (Bonsal) to the Secretary of State

SECRET

MADRID, February 4, 1947—1 p. m.

97. Gen Beigbeder has just called on me to say that it is possible negotiations between Monarchist groups (which he represents with approval of Pretender Don Juan ¹) and Alliance of Democratic Forces including certain Republican elements, Socialists, UGT and CNT may possibly not certainly result in agreement within next few days. Beigbeder said purpose of giving information was to enable US Government to ponder its possible attitude toward new provisional government. He said that its eventual success would depend on "warmth" with which it was received abroad principally in Washington and London. He said he hoped that unofficial agents of this new organization when formed would be received in friendly manner in Washington and London. Other than stressing our policy regarding Franco regime I was non-committal. Full report being despatched.

It is my belief that if agreement reached on governmental slate including representatives of conservative classes largely Monarchists, Republicans and major labor organizations, important step forward would have been taken here. Difficulty is that of ascertaining representative character of self-styled leaders of various groups.

Repeated Paris 20, London 15.

BONSAL

¹ Juan de Borbón y Battenberg.

852.00/2-747

The Chargé in Spain (Bonsal) to the Secretary of State

SECRET

MADRID, February 7, 1947.

No. 3506

SIR: I have the honor to submit below certain considerations regarding the policy which the Department might adopt in the matter of recognition of any new Spanish government which might emerge as a result of political developments within the country.

It is assumed that the recognition issue would not arise unless the new government fulfilled at least the minimum requirements of the so-called Estrada doctrine. However, as I have already indicated (see

the Embassy's telegram 85 of January 31¹⁾, the opinion has been expressed by some members of the opposition to the Franco regime that in the event that a "paper" government is formed which is deemed truly representative of the Spanish people, recognition should be forthcoming even in the absence of the removal of the present regime. This is an interpretation of the tripartite statement of March, 1946 for which I can see no basis. The question of the attitude to be observed by the Department with regard to any opposition organization or self-styled government prior to the removal of the present regime will be the subject of other communications to the Department.

There is no doubt that the prospects of anti-Franco groups or coalitions within Spain are becoming more promising. Therefore, the attitude which the British and ourselves may assume in the matter of recognition in the event that such groups or coalitions manage to achieve power is becoming of increasing urgency and should be defined. In fact, it is my belief that not only should the policy be defined but that this Embassy should be authorized in its discretion, following consultation with the British Embassy and perhaps also with the French Mission here, to make it known at an appropriate time to opposition leaders. Those leaders are, of course, much concerned with the matter and we will eventually, in fairness to them and in furtherance of our own stated policy toward Spain, have to express a point of view particularly if and when a practical agreement is reached among opposition groups. (See, for example, the Embassy's telegram 97 of February 4.)

My recommendation in the matter involves a separation between the two principal aspects of the matter :

1) the recognition of a new government and maintenance of diplomatic relations with it, and

2) cooperation with the new government in economic and political matters, appointment of an American Ambassador to Spain and advocacy of Spain's admission into the United Nations.

Recognition should in my judgment be accorded as soon as in our judgment the new government appears to control the situation, to enjoy the at least passive acquiescence of the people and to have pledged itself to the performance of its international obligations. The added condition might be injected that it should pledge itself as soon as possible to ascertain the will of the Spanish people regarding the constitutional future of the country. Whether to add this condition would depend very much upon circumstances. Such a statement would

¹ Not printed.

in all likelihood be made in any case. I assume that this matter of recognition of any new Spanish Government would be handled individually rather than through the United Nations.

The second phase of the problem would then be subject to developments here. We might wish to make it clear that economic and political cooperation, the designation of an American Ambassador to Spain and support of Spain's admission into the United Nations would depend on the reestablishment in Spain of fundamental individual freedoms. On the other hand, circumstances might be such that we would find it desirable to bolster the new government (which would undoubtedly find itself in a position of considerable difficulty from the economic point of view) without exacting any very specific pledges. It is my opinion that we would wish to make no statements or commitments which would unduly tie our hands and take away from us the possibility of action designed to further our own best interests in Spain.

Those interests clearly lie in the direction of the appearance here as soon as possible of a government of moderate tendencies able to steer a course between the extremes of rigid dictatorship of the reactionary and fascist elements on the one hand and on the other the social revolution advocated from Moscow. In order to promote such a situation we will obviously not find it possible to apply too rigid a series of definitions and conditions but will have to be guided by our estimate of the practical possibilities of Spanish politics at the time we are called on to make our decisions.

In conclusion I wish to emphasize that I believe that a time may come when the activities of the opposition to Franco, especially among military and middle class circles here, will be stimulated and facilitated if the leaders of those elements could be given a general idea of the recognition policy which would be followed by our Government and by the British Government. I should appreciate receiving the views of the Department on the matter.

Respectfully yours,

PHILIP W. BONSAI

711.52/2-2847 : Telegram

The Chargé in Spain (Bonsai) to the Secretary of State

CONFIDENTIAL

MADRID, February 28, 1947—1 p. m.

166. Immediately preceding telegram contains text signed editorial appearing this a.m.'s Falange organ *Arriba* with highly of-

fensive statements re US Govt (see especially last two paragraphs).¹ I have orally indicated to high Foreign Office official for transmission to Ministry that I must regard this article as official statement of Spanish Govt since it appears in organ of single party, of which Franco is head, and I added that I was sending text to Dept for instructions as to any action which might be desirable.

In my judgment opportunity is afforded to press Foreign Office to oblige Falange organ to publish humiliating apology.

Dept's views and instructions would be appreciated.

BONSAL

¹ Not printed. The penultimate paragraph of telegram 165, February 28, 1947, referred to Braden's "Hispanophobia" and included the following sentence: "How long are there to be let loose through the world those degenerates and criminals who stain all that they touch and dishonor wherever they enter?" (811.00B/2-2847)

711.52/2-2847: Telegram

The Secretary of State to the Embassy in Spain

CONFIDENTIAL

WASHINGTON, March 3, 1947—8 p. m.

194. We are wholly in accord with prompt action you took Embtel 166 Feb 28. You are authorized to take such further measures in this connection as you deem appropriate, including request for public retraction of references to Asst Sec Braden.

MARSHALL

711.52/3-1047: Telegram

The Chargé in Spain (Bonsal) to the Secretary of State

CONFIDENTIAL

MADRID, March 10, 1947—6 p. m.

208. Note protest sent Foreign Minister re *Arriba* editorial (Embassy's telegrams 165¹ and 166, February 28) and latter discussed at some length with him March 8. Foreign Minister takes position insulting adjectives do not grammatically apply Mr. Braden. This seems to me quibbling with only slight foundation and I have refused Foreign Minister's suggestion that I withdraw my note. He is consequently sending me a reply² disclaiming any unfavorable intention of Spanish Government in matter.

Despatch follows.

BONSAL

¹ Telegram 165, not printed.

² Not printed.

852.00/3-1047

Memorandum of Conversation, by the Acting Director of the Office of European Affairs (Hickerson).

[WASHINGTON,] March 10, 1947.

Participants: Dr. Salvador de Madariaga¹
Mr. John D. Hickerson, Acting Director, EUR
Mr. Paul T. Culbertson, Acting Deputy Director, EUR
Mr. Samuel Reber, Acting Chief, WE
Mr. Outerbridge Horsey, Division of Western European Affairs

At the suggestion of Mr. Francis B. Sayre,² Mr. Hickerson received Dr. de Madariaga. Mr. Hickerson said that Mr. Acheson³ had expressed great interest in knowing Dr. de Madariaga's views but regretted that pressure of work, particularly on the Greek situation, made it impossible for him to see him. Mr. Hickerson invited Dr. de Madariaga to outline his views on the political situation in Spain.

Dr. de Madariaga thought that, from the point of view of the Spanish people only, the longer Franco continued in power, the better. The Spanish people had so often resorted to civil war during the past century that they ought to learn the hard way the evils of that practice. However, from the point of view of the Western powers, particularly vis-à-vis the USSR, the continuation of Franco in power was a disaster. This situation prevented the completion of an Atlantic system of security; it continued the economic stagnation in Spain since the US was prevented from extending economic aid to the Franco regime; and in addition, there was the propaganda advantage to the USSR of placing the Western powers on the defensive by picturing them as defenders of fascism and reaction. The last thing the USSR wanted was the replacement of Franco by a moderate regime. Dr. de Madariaga thought that what was strengthening Franco was not the fact of the USSR attacking, but the fact that the US and UK hung back and were obviously opposed to international pressure on Franco. This enabled Franco to say to the generals, on whose support he must rely, that the Anglo-Saxons did not really want to get rid of his regime.

As to the means of getting rid of Franco, the first and most important step was a determination on our part that Franco *must* go, and that all the means necessary to accomplish that end would be employed.

¹ Salvador de Madariaga, Spanish historian and diplomat; Ambassador to the United States in 1931, and to France in 1932-1934.

² Formerly Assistant Secretary of State; on February 28, 1947, he was sworn in as United States Representative on the Trusteeship Council of the United Nations.

³ Dean Acheson, Under Secretary of State.

including the use of force if necessary. For example, an embargo on petroleum and cotton exports to Spain would, he thought, be immediately effective. But before taking coercive action, we should send a secret emissary of international standing, such as Winston Churchill, who would speak for the UK and the US, and who would communicate to Franco the decision that he must go. At the same time, the Army chiefs would be told of our decision and of our intention to use all necessary means. We should not, however, lay down the details of what kind of Government should follow Franco. That would be resented by the Spanish people. We should confine ourselves to a statement of certain general principles which, if followed by the new government, would enable us to support it economically and politically. For example, we should specify that the government should rest on the consent of the governed and that it should guarantee fundamental freedoms. We should not, however, enter into details on the forms, as for example, whether suffrage should be universal or direct, etc. To do this would be to create resentment. Success depended on not arousing political passions in Spain as the activities of other political exiles were constantly doing. The initial approach to Franco should be secret and should include arrangements for his own personal safety. If the secret approach failed to produce results, the pressure would become public and would be continued until the objective had been achieved.

As to the form of the new government, Dr. de Madariaga favored the restoration of the Monarchy under Don Juan. Since it was the Generals who would hold effective power upon Franco's departure and since they were opposed to the idea of a republic and favored a monarchy, the latter was the logical form to expect. He had talked with Don Juan and believed that he would be a sound constitutional ruler. Moreover, Dr. de Madariaga thought that the sooner Don Juan came in, the better. He thought that, without the stabilizing influence of the Monarchy, there was the risk that the period of preparation for elections would degenerate into chaos. He thought that an interim group of mixed Republicans, Monarchists and Generals, all acting, as it were, in their personal capacities [would?] have great difficulty in commanding allegiance and maintaining order. Moreover he thought that it would be hard for such a group to accomplish the delicate task of bringing back political exiles and reintegrating them into Spanish life. He thought the superior authority of the Monarchy was important for this purpose. He thought that, in the elections, the Monarchy would meet with the approval of the majority of the people. Under the Republic, the popular following of the Right and Left had alternated on a 40%-60%, 60%-40%, 40%-60% basis and he thought that

the pendulum had now swung in favor of the Right so that the Monarchy would probably get 60% or 70% of the vote. Dr. de Madariaga thought that many Republicans would be willing to support the restoration of the Monarchy. The CGT [*UGT?*] and CNT (labor federations under the Republic, now outlawed, but maintaining clandestine organizations) had both agreed to suspend strikes for the duration of the interim period until elections had been held and were apparently not averse to having the Monarchy in power during this interim period provided there was to be opportunity for a free choice between the Republic and the Monarchy in the elections.

Instead of an interim government representative of all political complexions, Dr. de Madariaga favored interim rule by two or perhaps three persons. The "two" would be a Republican and a Monarchist and the "three" would include a supporter of Franco. This latter scheme, if suggested to Franco, would put him "on the spot", for he affects to have popular approval. Moreover, it would have the result of dividing the vote of the Right between Franco and the Monarchy, thus favoring the Republic in the eventual elections. However, Dr. de Madariaga recognized that neither the Spanish Left nor opinion abroad would look with much favor on the inclusion of Franco on the ballot.

Economic and political support of the interim regime by the Governments of the US and UK would be an important element in its success.

Mr. Hickerson said that, although in England there was a general attachment to the Monarchical principle, that was not the case in the United States, as Dr. de Madariaga well knew. Accordingly, public opinion here would not be predisposed in favor of the immediate return of the Monarchy. We would take no action influencing the choice of the Spanish people. A Monarchy could look for active economic and political aid from us, only *after* it had received approval in public elections.

As to the strength of the Communist Party in Spain, Dr. de Madariaga was not sure how it was now. In any case it was useless to fight that type of totalitarianism with Franco's type of totalitarianism. Our interests required the development of healthy political conditions in Spain.

Concluding the talk, Mr. Hickerson thanked Dr. de Madariaga for a most valuable exchange of views and assured him that they would be brought to the attention of Mr. Acheson.

852.00/4-147 : Telegram

The Chargé in Spain (Bonsal) to the Secretary of State

CONFIDENTIAL

MADRID, April 1, 1947—5 p. m.

276. Franco's broadcast and the project of law of succession¹ follow expected lines and in my judgment contain no real concession whatever in sense of liberalizing regime here. Full texts being airmailed soonest. It is assumed there has been ample press coverage.

Proposed law must now be discussed by Cortes, meeting date of which unannounced. Passage of law presumably certain. It will make no practical change in present situation except to constitute new Council of Realm (a body of twelve government appointees directly or indirectly) and to give Franco right if he sees fit to designate a successor or rather to submit such designation to approval as provided in law.² Machinery provided in project mainly designed for event Franco's incapacity or death and as such regardless its merits it fills long felt constitutional lacuna. There is no evidence any intent on Franco's part voluntarily to give machinery opportunity to function.

Project states Spain is kingdom to be ruled either by a person of royal blood (male over 30) or by a regent who would be selected similarly by machinery provided. Reliable information is that project has been conveyed to Pretender in Lisbon by official emissary of Franco but evidence so far at hand is strongly against thought that it represents any agreement with Pretender; in fact it may be anticipated anti-Franco Monarchists will strongly oppose project.

Proposed law is logical development of ideas consistently expressed by Franco, especially in speeches of July 1945 and May 1946 (opening of Cortes) and involved no change in basic principles of so-called national movement and much less any tendency to submit those basic principles to any sort of public discussion. Franco's concept is of Catholic kingdom of corporative nature devoted to social and material advances through a mechanism of so-called organic democracy in which the individual finds expression not as member of political party but as member of family, vertical syndicate, municipality or provincial organization.

¹ Gen. Franco, in his broadcast of March 31, 1947, announced that Spain was to become a monarchy with a regency council and himself as the head of state. In case of the death or the incapacity of the chief of state the regency council would propose a king or regent who must be accepted by a two-thirds majority of the Cortes. This "Law of Succession" was approved by a referendum vote on July 6, 1947.

² In reply to a question at a press conference on April 4, Acting Secretary of State Dean Acheson stated that the establishment of a Regency Council in Spain "does not change our attitude with regard to Spain at all". (852.00/4-447)

More detailed comments and reactions will be sent as available.
Sent Department 276; repeated Paris 58; London 33; Lisbon 17.

BONSAL

852.00/4-747: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom

TOP SECRET

WASHINGTON, April 7, 1947—7 p. m.

1531. For the Ambassador. From point of view of US and UK, it must now be clear that as long as Franco remains in power, the Spanish situation is dangerous. In substance Franco's latest decree providing for succession does not improve situation since it seems intended merely to consolidate the regime regardless of person of Chief of State.

As long as Franco, or a successor appointed in accordance with new decree, continues in power there can be no real improvement of economic stagnation in Spain. We will continue to be blocked from providing the effective assistance which would make possible the economic reconstruction of that country and thereby build an effective barrier to civil strife and communist domination.

It further becomes increasingly clear that Moscow not only is interested in keeping Franco in power until political and economic distress in Spain reaches the point of revolution, but also derives considerable propaganda advantage from the present situation by placing the Western powers on the defensive as defenders of fascism and of reaction. Franco's new decree is apparently motivated by a necessity for meeting a growing desire in Spain for some change, need for which is emphasized by inability of present regime to solve Spain's economic problems.

Further, there is already evidence that movement in direction of action by UN against Spain will not be altered by new decree. It may be expected to grow and to lead to increasingly serious action. If more forceful measures against Spain are recommended or called for by the UN, US and UK might be obliged to join in such measures in spite of doubts which we might have as to their wisdom.

Our reports both from inside and outside Spain indicate increased political activity by non-communist anti-Franco groups looking toward some governmental organizational change in the country. While there are, to be sure, many fears and other factors tending to maintain the *status quo* (fear of communism, fear of renewed civil war, disillusionment, weariness and apathy), nevertheless, there is sufficient evidence to indicate that some other form of change might be brought about.

The attitude which the US and Grt Brt should assume has therefore become urgent and must be defined. It is clear that Franco and any regime perpetuating the principles of his control must go. Although action involves certain risks, nevertheless it appears to us that the time has come when the US and UK should agree upon a positive policy which would act as an inducement to Span elements to bring about another form of change themselves and thereby render possible extension of our assistance in creating healthy economic and political conditions in the country. Such action by the US and UK would not be contrary to but would aid in bringing about the objectives sought by the UN.

If at this particular juncture the US and Grt Brt could make this policy known in Spain this would, in our opinion, materially assist the efforts of the non-communist elements to compose their differences and to agree upon some interim regime which could maintain order and enjoy the acquiescence of the people and which would not merely continue the objectionable characteristics of the present form of government. In order to receive our support such regime should assume a public obligation to preserve freedom of speech, of press, of religion and of public assembly and to hold free elections, and should provide amnesty for political prisoners and allow the return of political exiles. A precise indication of the nature and degree of support which a regime accepting the foregoing obligations could expect from the US and UK would, we believe, go far in giving confidence to those who desire a change, particularly in the Army, but who have so far been restrained by doubts as to our intentions.

There might be two stages in our relations with any new regime of this character. The first stage concerns the interim period which must of necessity last for sufficient time to prepare for the elections, during which we would enter into more friendly political relations and eliminate without delay the unilateral economic restrictions now imposed on Span trade and commerce by the US and Grt Brt. We would expect that our action in this respect would be followed by other members of the UN.

As soon as elections had been held and a government formed in Spain with the consent of the governed, the second phase could begin and fuller measures of economic and political support could immediately be contemplated. These would include our backing for Spain's admission to the UN and a greater degree of positive aid for economic development and industrial modernization.

We would hope that conditions during the first stage would make possible economic assistance going further than the mere elimination of existing restrictions but this would of course be influenced by the

character of the provisional regime and by the degree of support which it secures from the Span people. In our opinion such additional aid in the first stage would be difficult if Franco's departure immediately led to the restoration of the Monarchy. We do not wish to impose any form of govt upon the Span people, which should of course be made clear, and would be willing to accept their choice when freely expressed. Immediate restoration of the Monarchy, although possibly gaining greater immediate allegiance and better able to maintain order, would, however, in our opinion, have too great an influence upon the results of the elections and it would be difficult for public opinion in this country and for this Govt to give it the necessary support during the interim regime. The Monarchy could only look for active economic and political aid from the US if as a result of the elections it is the clearly expressed choice of the people of Spain.

Should this policy be agreed we feel it should immediately be made known secretly to Army chiefs since Army support is essential to peaceful change, to opposition leaders and to Franco himself. We feel that the approach to Franco should be an important element in the settlement. Our resolve that we can no longer deal with him and our conviction that his proposed plan for succession is unsatisfactory should be made clear and an opportunity afforded him to depart in safety.

You are requested to seek an early opportunity to bring this matter to the attention of the FonOff and to state that, as part of our over-all security arrangements, we attach importance to the Span phase of the problem and we hope it will be possible for the Brit Govt to concert with us in achieving our common end, namely the restoration of a democratic Spain. The latest developments in Spain point to the necessity of adopting some positive policy lest events in the country itself get out of hand and we be faced with the appearance of a change which does not alter the inherent difficulties in the present situation.

We should be glad to receive UK Govt views at an early date. We are prepared to discuss this matter in detail either in London or Washington and would of course wish to avoid publicity at this stage.

ACHESON

852.00/4-1047 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

TOP SECRET

LONDON, April 10, 1947—7 p. m.

2160. Personal for Acheson. Called on Sargent¹ this morning and discussed contents urtel 1531, April 7, 7 p. m. He indicated gratification

¹ Sir Orme Sargent, British Permanent Under-Secretary of State for Foreign Affairs.

over fact that Department was reviewing policy toward Franco and said that Foreign Office had been doing the same thing. He agreed that from evidence in possession Foreign Office it was to Moscow's advantage that Franco be kept in power, thus increasing the economic and political confusion in Spain and providing propaganda advantages. He agrees further that there is some danger that even at the special meeting of the UN action might be taken which, unless US and UK have developed by then a positive policy, might prove to be embarrassing to both of us.

Sargent considers the method of implementing a positive policy to be extremely delicate, requiring utmost skill, and that key generals of army should probably first be tapped for without their support the venture might, and probably would, fail. A meeting is being held in the Foreign Office this afternoon to discuss the matter. He defers judgment for the time being as to whether further discussions should be held in Washington or London.

DOUGLAS

852.00/4-1947: Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

TOP SECRET

LONDON, April 19, 1947—6 p. m.

2314. Personal for Acheson. Meeting Foreign Office Thursday, April 17. Present McNeil,¹ Sargent and Victor Mallet, British Ambassador to Spain who was recalled pursuant to resolution² of UN Assembly. Have delayed reporting on it until I had received résumé of telegram from His Majesty's Chargé d'Affaires³ at Madrid dated 15 April 1947 on the political situation in Spain. It has just come and is as follows:

"As I understand them, the main differences between suggestions under consideration by United States Government and His Majesty's Government respectively are:

(1) That American proposal is for an Anglo-American approach which would involve a promise of material aid to a government which seemed to comply with provisions of tripartite declaration, and

(2) That British proposal is for tripartite approach to opposition elements inside and outside Spain, to Generals and to Franco.

¹ Hector McNeil, Minister of State in the British Foreign Office.

² Resolution of December 12, 1946; see *Foreign Relations*, 1946, vol. v, p. 1083.

³ D. F. Howard.

"To deal with the second point first. It must, I fear, be admitted that French prestige is very low here. Internal opposition in France is generally considered most undefined and the French Government are believed to be dangerously open to Communist influence. Moreover, French policy toward Spain, in particular the closure of the frontier and the toleration of extremist exiles near the Spanish frontier, is violently resented by the Spanish Government and also, I have no doubt, by Spanish Generals. I am, therefore, convinced that association with the French Government in any approach to them would prejudice this from the start and in the last resort it would, I think, be better for the United States Government to act alone if their relations with the French Government make it impossible for His Majesty's Government to take any joint *démarche* without the French.

"Indeed even before the receipt of your telegram I had decided it would be better not to discuss the questions involved with my French colleague. I realize, of course, that if the United States Government and His Majesty's Government agree upon departure in their policy towards Spain it might well be necessary to secure French concurrence but I would strongly recommend that we should not disclose to the French Government the lines on which we are thinking until we have reached our own conclusions particularly where any secret *démarche* is involved.

"As regards financial aid to the new government I assume the reason why this does not form part of the British proposal is that there is not much that His Majesty's Government could do in that direction. Promise of such aid is, however, clearly complementary to warning of likelihood of sanctions and in following comments I have for convenience dealt with the two plans together.

"Bill of succession has I think left matters much as they were. It is unlikely to win any favourable support for the regime. Don Juan's declaration of April 7th⁴ will in my view likewise fail to shake allegiance of Franco's supporters though it seems to have been generally welcomed by a moderate Left as well as by loyal Monarchists. On the other hand, the implications in statements attributed to him in the *Observer* interview published on April 13 that he would insist on returning to Spain before the plebiscite is held will, I fear, impede the agreement with the Left especially with Llopis's⁵ Government who have I believe announced that in no circumstances will they agree to the restoration of the Monarchy prior to the plebiscite or election.

"Although it is too soon to judge the effect which Franco's bill, Don Juan's declaration and his *Observer* interview will have on Right-Left negotiations, it may nevertheless fairly be assumed that in time the movement to bring them together stands good chance of success provided neither side meanwhile sees better way of reaching power—the Left by the hope of outside support particularly from United Nations Organization for revival of Popular Front and the Right as a result of concessions by Franco.

⁴ Don Juan on April 7 issued a personal message to the Spanish people in which he reasserted his hostility to the Franco regime.

⁵ Rodolfo Llopis, head of the Spanish Republican "Government-in-Exile", at Paris. Giral had resigned on January 27, 1947.

"In my view Army is fundamentally loyal to Franco. General A⁶ has throughout been doubtful on the subject and we have always doubted whether he could count on any appreciable support from Army officers. Many senior officers profess Royalist sentiments but they are hypnotised by 'Communist menace' against which the regime must seem to them to offer the best defence and even if they do not approve of it in all its aspects they prefer it to any leap in the dark. They also have to consider their own material comforts and vested interests which they owe to Franco and which they naturally wish to preserve. There is therefore, in my opinion, no reason to think that the Generals are ready to desert Franco now or that they would do so in the future unless they were very seriously alarmed indeed about the consequences of his continuance in power and were also satisfied that there were alternatives ready at hand which would not lead to anarchy.

"This is also true of industrialists and leading businessmen.

"Commission of the Cortes which has been nominated to consider the bill for succession consists of servile followers of Franco mostly old members of Falange, and there is no likelihood of the bill meeting with opposition in the Cortes. I understand Cardinal Archbishop Toledo who was nominated in the bill to serve on the Regency Council has declined to do so and that Bishop of Madrid who was likewise nominated to serve on the Regency Council in his capacity as head of the Spanish Academics and who is a member of the Cortes Commission has been summoned to Rome by the Vatican. Any boycott on the part of the Church is, however, unlikely to deter Franco; Cardinal Archbishop of Seville who was likewise without his consent appointed member of the Cortes some years ago and who promptly declined to sit has nevertheless continued to receive summonses to attend its sessions.

"Knowledge that United States aid would be forthcoming for the democratic government would, of course, be great stimulus to those working for the coalition of the moderate Left and Right. On the other hand we cannot be sure that prospective drastic action by United Nations Organization might not actually hamper negotiations by suggesting to moderate Left that of the two alternatives open to them, revival of the Popular Front offered the best chance of success.

"Effect on present supporters of Franco of approach on lines suggested should not be over-estimated. United States proposal at least seems based on the assumption that the economic situation of Spain is critical. The deterioration which was so marked last summer and autumn has slowed down and despite maladjustment caused by the rise last year of over thirty percent in general price level and the continuance of basic inflationary trends, there seems no reason to suppose Spanish economy is likely to break down this year in the absence of any unexpected developments of which the economic sanctions would, of course, be one. Food situation though still very difficult has in some respects improved and the outlook for crops is not unpromising. Industrial production should increase as a result of better supplies of electrical power. Moreover, the picture of the outside world presented to the Spanish public suggests that only in some former neutral coun-

⁶ Presumably reference is to Gen. Antonio Aranda, a monarchist.

tries and perhaps Belgium is the economic position less difficult than in Spain and that in many countries which have the sympathy of United States Government and His Majesty's Government the position is actually much worse than here. Much as the Generals, businessmen and Government officials would welcome economic aid from outside, I do not therefore think that in order to secure this they would think themselves compelled to adopt the course which on other grounds seemed to them undesirable or dangerous, while a warning or threat of sanctions might in my view well be more likely to exasperate than to intimidate them. Such a clear case of foreign intervention as the suggestion from the United States Government and ourselves that they should unite to throw out the head of the state, whom they have all sworn allegiance to, would hardly incline the Generals to listen favourably to any proposals that we might make. I do not think, therefore, that we should count on any practical help from these quarters.

"Such chance as there is of securing the removal of Franco on the line suggested in these proposals seems to me to lie rather in combined approach to Franco himself. I should hesitate to rule out altogether the possibility that he might decide to surrender power if faced:

1. With alternative government which offered reasonable prospects of stability and which would receive generous United States aid.
2. With some guarantee as to his own personal safety, and
3. With the probable certainty of economic sanctions if he remained in power.

"But if this possibility cannot be ruled out altogether it must, I fear, be regarded as extremely remote. Nothing that he has done gives any indication that he will take this line. On the contrary the bill of succession in itself shows that he is at present prepared to yield up nothing of his real power. Nor is this an experiment which can be tried without expense. If as United States Government propose we told Franco 'that we can no longer deal with him' we should surely have to abide by our word. In the same way, especially in view of possible leakages to the public, even to hint at the probability of our having to agree to sanctions might make it much more difficult for us to oppose their imposition by United Nations Organization if Franco remained in power.

["]Indeed the course of action under consideration seems to me open to very serious objections. Both United States Government and His Majesty's Government have constantly acclaimed that they are opposed to intervention in Spanish internal affairs which must be settled by Spaniards themselves. If once they depart from this principle they may, I fear, find themselves forced, step by step, to more and more extreme forms of intervention which might in the end not stop short of armed force—all this in violation of the United Nations Charter. The serious consequences to the United Kingdom of economic sanctions were set out fully in your despatch number 27. But at the risk of wearying you I would repeat that such pressure is also calculated to defeat its own object by splitting the moderates and leading to a situation where Franco and the extreme Left would remain face to face in an atmosphere of growing ultra-violence and

anarchy. Such a situation is opposite to everything for which we and the Americans stand. It should, on the other hand, suit the Soviet Government very well—much better than the present state of affairs—and it is no doubt for this reason that they continue to press for direct action by UNO.

“If His Majesty’s Government and the United States Government stand by the United Nations Charter and refuse to tolerate outside intervention in Spanish affairs, there are at least good prospects that under the stress of circumstances Franco’s moderate opponents on the Left and Right will finally come together. I confess that I am unable to hold out any hope that Franco’s early disappearance can be achieved on these lines, but they seem to offer in the long run the only satisfactory solution of the problem and surely even temporary continuance of Franco in power (which so far as I know does not directly threaten any vital British or American interests) is a lesser evil than those outlined in preceding paragraph.”

The article in the Sunday *Observer* is being sent airmail.

Discussion indicated that if action were now taken France should at least be informed. Serious doubt was expressed by Mallet and Sargent of the success of any approach that we might now make or action that we might now take. A tentative view was expressed that the matter should, therefore, now probably be dropped. McNeil, however, dissented from this view on the ground that he was not convinced that we should do nothing and that if we pursued a do-nothing course it was not unlikely that the UN Assembly, possibly at the forthcoming special meeting, would make recommendations to impose sanctions or to take other steps in the internal affairs of Spain which we could not decline to follow without seriously weakening the prestige of the UN.

It was suggested that the matter be considered further. These further discussions will probably be held within two or three days.

If your information differs from the information contained in telegram quoted herein from His Majesty’s Chargé d’Affaires or if you have any additional information it would be most helpful if you would let me know.

DOUGLAS

852.00/4-1947: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom

WASHINGTON, April 25, 1947—7 p. m.

1818. Personal for the Ambassador. There are some points brought out in Embtel 2314 April 19 which we feel can be clarified.

In proposing these discussions with British we proceeded on assumption that Brit Govt would agree with us that continuation of present

situation in Spain serves Moscow's interest and that longer Franco remains in power the more dangerous situation becomes and more certain the eventual disintegration. Brit Govt has failed to comment on this assumption and has merely pointed out, through its Chargé in Madrid, that our approach will probably not work. We feel strongly that although there are prospects of temporary economic improvement as indicated by Brit Chargé nevertheless dangers inherent in present situation are such that some positive action should be taken very soon.

Our plan of action was put forward only as one method of achieving our end. If Brit agree with our premises we of course would consider any other scheme which they may desire to advance.

We agree with Brit Emb Madrid that for obvious reasons French should not be brought into this plan at present time.

We note that British seem to think we are proposing intimidation in order to achieve our objective. We agree that emphasis on this point would produce little result and we would not threaten application of economic sanctions. On other hand we should have to point out trend in the UN and emphasize our determination to support UN even if recommendations are made with wisdom of which we were not entirely in accord. We assume that Brit Govt is in the same position.

Furthermore with reference to emphasis placed by Brit Emb Madrid upon approach to Franco himself, we also in our previous telegram had indicated we considered this an essential element of plan. This approach must be made and it presents a possibility which has not yet been thoroughly explored. We recognize that it may not be successful but if no such direct approach is made Franco might well be justified in continuing to believe his own propaganda to effect that US-British opposition to his regime is nominal, and that insofar as US is concerned recently announced policy of President¹ would indicate that we are prepared to shift our policy in regard to Franco and support any non-communist regime in Spain, including his own.

ACHESON

¹ Apparently a reference to President Truman's Special Message to the Congress on Greece and Turkey, March 12, 1947; for documentation on this message, see volume v.

852.00/5-147: Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

TOP SECRET

LONDON, May 1, 1947—7 p. m.

2547. Personal for the Secretary and Under Secretary Acheson. Deptel 1531, April 7; Embtel 2314, April 19; Embtel 2399,¹ April 24; Deptel 1818, April 25.

¹ Telegram 2399, not printed.

Sargent informed me this afternoon that he had communicated with Bevin² while he was in Berlin and after his arrival here had discussed with him the tentative proposals in regard to Spain. Bevin concluded and the Foreign Office concurred that the matter was too dangerous to take up now.

The reasons for this conclusion are as follows :

1. The Spanish economic situation is improving. The generals of the Army are solid in their support of Franco. The general attitude in Spain is that the present regime, such as it is, is preferable to the risk of a civil war. Accordingly the chance of succeeding along the lines proposed is now considered to be slim if there is any chance at all.
2. Tentative proposals whether successful, which is considered to be most unlikely, or unsuccessful, which is considered to be almost a certainty, would if followed be characterized as unilateral voluntary intervention in the internal affairs of another country which had not sought the intervention and would therefore constitute a precedent which to our disadvantage might justify similar intervention by the Soviets in the internal affairs of other countries.
3. The proposals as followed might give rise to a complaint that might be made by some other nation, perhaps Argentina, before the United Nations that we had violated if not the letter at least the spirit of the Charter.

For all of these reasons, Bevin had concluded that the matter was now too hazardous to broach. Sargent indicated that they had come to this conclusion regretfully but that the facts made it, they thought, inescapable.

He discussed the reasons for the action taken by the Assembly recommending the withdrawal of Chiefs of Mission and reposing in the Security Council the authority to consider further steps if the situation in Spain warranted it. This action he felt had been taken because the Polish representative and others had done such effective advance lobbying that there was no alternative on our part to the acceptance of the recommended action of the subcommittee of the Assembly.

He therefore threw out the suggestion for whatever we considered it to be worth, that we and the British now commence quietly to solicit the support of appropriate members of the Assembly of the United Nations against any further action by it in regard to Spain, thereby preventing any recommendation which would be unpalatable to us both. He spoke of this suggestion as defensive lobbying.

Would appreciate your advice as to whether the matter should be pressed further with the Foreign Office here.

DOUGLAS

² Ernest Bevin, British Secretary of State for Foreign Affairs.

852.00/5-647 : Telegram

The Chargé in Spain (Bonsal) to the Secretary of State

SECRET

MADRID, May 6, 1947—6 p. m.

417. On balance it is my belief that surface developments from announcement March 31 of Franco's succession bill have favored regime and that Franco has shown skillful understanding of local political situation.

Government propaganda during April was concentrated upon following:

1. Revival of memories of civil war horrors. Bloody shirt was waved enthusiastically and effectively.

2. Pretenders alleged trafficking with elements identified with Reds who lost civil war and whose return to political power would allegedly result in return to civil war conditions.

3. Raking up of unfavorable aspects of Bourbon history over past centuries.

4. An obscure and reportedly discredited Grandee Marques de Villamagna has signed articles in Falangist organ purporting to prove that rightful claimant to throne is not Don Juan but infant son of his elder brother Jaime (Jaime is ineligible personally because he is approximately deaf and dumb and he renounced his rights on contractingmorganatic marriage).

5. Theme that whole world now recognizes Franco was right about Soviets is being worked very hard.

6. Principles of national movement with emphasis on Christian social justice have been stressed.

As a result certain conservative elements have shuddered closer than ever to Franco. Traditionalist Monarchists and others have been displeased at liberal tone of Don Juan's manifestoes published here. And Communists whose disinterest in any sort of moderate or immediately practical solution should be self evident by this time have viewed with alarm negotiations between Monarchists and democratic alliance. All this has strengthened Franco temporarily by stressing divisions of opposition. He can probably confirm his advantage by admitting certain amendments to succession law project allegedly reflecting consideration varying opinions. Thus appearance of certain amount of give and take will have been given.

Above factors, however, are in my judgment of short term importance. Regime continues slow deterioration previously described and evidenced among other things by great difficulty of securing outstanding men to serve it. Long delay Cabinet changes probably attributable this factor.

Furthermore, there is some inflammable political material lying about. Labor difficulties or sensational political crime may set it on fire

and thus jolt key elements, especially in army, to practical recognition of necessity for change. This is, however, still only remote possibility and regime looks stable over next few months.

Over long term I believe Monarchists prospects have been improved by refusal of Don Juan and those around him to make deal on Franco's terms. At least monarchy is still in running against time when system conforming to political thought of modern western Europe is established in Spain.

BONSAL

852.00/5-1047 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

TOP SECRET

LONDON, May 10, 1947—2 p. m.

2678. Personal for Acheson. Sargent gives me the following information relative to Spain. A member of the Foreign Office who had recently discussed Spain with the Belgian Chargé d'Affaires in the absence of the Belgian Ambassador here is reported to have said the Foreign Office had been considering the Spanish situation and was glad that it had not been placed on the agenda official meeting of the United Nations Assembly. To this the Chargé d'Affaires replied that Spain [*Spaak*?] would have been pleased had it been included on the agenda for he (Spaak¹) had a personal grudge against Franco.

The member of the Foreign Office took this occasion to point out to the Belgian Chargé d'Affaires the consequences of economic sanctions against Spain. It would, he is reported to have said, involve the re-establishment of controls, the blockading of the Iberian Peninsula with warships and that Belgium would be asked to participate. Moreover, he said, economic sanctions would seriously affect the UK position and would have unfavorable consequences in other directions. For example, Spain was the principal source of pyrites for the UK. If the imports of this type of iron ore were prohibited it would mean a lower steel production in Britain, even though Swedish iron ore were substituted, since Swedish ore is of lower grade and requires more coal for its metallurgical benefaction. UK would probably, therefore, be compelled to seek steel from Belgium. Certainly however, he said, this situation would impel the UK to request larger allocation of coal from ECO, with corresponding diminished amount of coal to other coal consuming countries.

¹ Paul-Henri Spaak, Belgian Prime Minister and Minister of Foreign Affairs.

The Chargé d'Affaires seemed to be impressed with this statement of the consequences of economic sanctions against Spain.

Sargent then showed me communication from the British Embassy in Portugal in response to a request from the Foreign Office as to whether Portugal would cooperate in economic sanctions, and as to their effect on Portugal. The Embassy in Lisbon has replied in substance as follows:—that economic sanctions against Spain would require the re-establishment of the controls of economic warfare that had been abandoned, that they would have unfortunate consequences in Portugal and that it would be impossible to make economic sanctions effective against Spain without Portuguese assistance, which it was stated categorically Portugal would not provide. Therefore if they were to be made effective they would necessarily have to be applied against Portugal also. This step would seriously impair friendly relations between Portugal and the UK and among other things might adversely affect the strategic advantages already obtained in the Portuguese islands (the Azores) and elsewhere.

DOUGLAS

852.00/5-147 : Telegram

The Secretary of State to the Embassy in the United Kingdom

TOP SECRET
US URGENT

WASHINGTON, May 15, 1947—2 p. m.

2110. For the Ambassador. Feeling that the British had perhaps drawn wrong impression on nature of our proposed approach on Spanish question (urtel 2547 May 1 and previous) we thought it might be useful to go over whole background with Brit Emb here and accordingly did so May 13.

Brit Emb quoted from FonOff telegram to Bevin in Moscow to effect that FonOff did not agree with our basic premise that longer situation continued more likely was solution to be violent and detrimental to our and Spanish interests. FonOff said to Bevin that any alternative non-communist regime would continue to be attacked by USSR and implied that little would be gained from this point of view by disappearance of Franco.

We said that continuance of Franco means that US and UK cannot give Spain political and economic support which in our opinion is essential to creation healthy political conditions there. We agreed that there had been a temporary alleviation of food and power shortages thus reducing economic pressure for a change. We said we were nevertheless convinced that Franco's system, both politically and economically, offers no prospect whatever of long range stability. We believed

that political and economic conditions will get steadily worse and final result will be resort to violence by extremist elements both sides, which could have serious consequences for both US and UK.

We said that FonOff apparently thought our approach necessarily involved threats and actual execution of joint US and UK economic sanctions and that this was not what we had in mind. We agreed with British that such action would be contrary to UN Charter and would have grave consequences to UK economy specifically and to overall political and strategic situation in Atlantic. Our approach envisaged more of an objective explanation of our views to Franco, the Generals, the opposition and all interested Spaniards, urging necessity of change. In other words we would show Spaniards the gains accruing from a change in regime rather than emphasize the penalties of failure to make the change. We said our approach would of course include emphasis on fact that nature and timing of changes was entirely up to Spaniards and would avoid giving grounds for Spanish resentment against "foreign intervention".

We said we would in our approach to Spaniards call attention to trend in UN and increasing demands for further action such as economic sanctions with implication that despite any disagreement by us on desirability such measures we might be forced to follow recommendations of UN. We felt that such a line of action would not preclude our opposing economic sanctions in UN if these should, as we thought likely, be proposed later this year. In this connection we pointed out evidences of interest on the part of other states in reviving Franco issue in UN at an early date.

We mentioned that we did not know how far British had gone in talking to French although we had had reports from Paris that fairly extensive conversations had been conducted. For your confidential information this information was contained in a CIG report from Paris which we asked CIG to have repeated to you and it is contrary to indication contained in urtel 2473 of Apr 29.¹ We said that we would of course want at later stage to tell French of our joint position but for obvious reasons believed it better not to associate them in any approach in Spain.

Under circumstances we have outlined in this exchange of messages, we feel that subject has not yet been sufficiently explored and hope that British will agree on value of common positive approach in near future. We would of course consider any alternative proposals they may make. A recent INS press despatch from Paris to effect that US and UK were discussing joint economic sanctions against Spain em-

¹ Not printed; it stated that it appeared clear that the official in the British Foreign Office concerned with Spanish affairs "had no knowledge of any approach by British to French concerning solution to Franco problem before UN meeting in autumn". (852.00/4-2947)

phasizes our request that no publicity be given to our discussions at this stage.

Brit Emb here is reporting conversation to FonOff and we suggest you take early opportunity to develop foregoing with them.

MARSHALL

852.00/5-2047: Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

TOP SECRET

LONDON, May 20, 1947—8 p. m.

2840. For the Secretary and Under Secretary. Deptel 2110, May 15. Bevin away on vacation, therefore discussed Spanish question with Sargent FonOff this morning.

He had received long despatch from British Embassy recounting conversation there with Reber. Explained to him our view.

Over a considerable period, we believed, Spain, under the present regime to which we could offer neither political or economic assistance, would experience progressive deterioration and finally violence invoked by the extremist elements on both sides. In order to dispel any misunderstanding of our previous discussions, pointed out that we not proposing action which would involve joint US and UK economic sanctions but that our proposal was that an objective expression of our views be presented to Franco, the Generals of the Army, industrialists, and the opposition documenting the necessity for a change by pointing out the advantages rather than by suggesting threats. The timing of any change was to be determined by the Spaniards.

Referred also to the growing disposition of the United Nations to invoke economic sanctions despite any opposition by US to their imposition.

Sargent had not discussed the matter with Bevin and was therefore speaking informally and personally when he said that he could find no fault with the argument. He raised the question, however, as to how the approach to Franco, etc., was to be made. Having withdrawn the heads of the British Mission and our mission it was not likely that Franco would receive the Chargé d'Affaires.

Two alternative methods of achieving the objective were discussed. First, a public announcement. This Sargent felt might give encouragement to the intransigent members of the UN who are anxious to have US invoke economic sanctions. As a defense it was suggested that in any public announcement the disadvantages to many countries resulting from economic sanctions might be explained. This, however, he felt

would be construed as an anticipation of the discussion of economic sanctions which properly should take place in UN. He was, therefore, doubtful about the wisdom of his own suggestion that a public statement would be an appropriate method of approaching the interested parties and groups in Spain. Second method contemplated the appointment of special emissaries representing the US and the UK respectively, who would explain our position to Franco and to other groups. This method, however, Sargent thought could not ultimately be kept from the Spanish press and would therefore lead to much publicity which Franco could capitalize for his own benefit were the proposal for a change to be unfavorably received by him and the parties supporting him.

Sargent thought that either of these two methods, should our suggestions be rejected, would be interpreted by Franco for Spanish consumption as intervention by foreign powers in the domestic affairs of Spain. They might therefore have the effect of strengthening Franco instead of furthering the objective we have in mind.

The solitary question in Sargent's mind was how and by whom the approach to Franco and other Spanish parties can be made without running the risks which he informally and personally indicated he thought would be implicit in our proposal, and which he was confident Bevin would want to avoid. He will give matter further thought.

Please give us your advice covering the methods by which the type of approach we have in mind may best be made.

Sargent assured me that there have been no discussions with the French. Massigli, the French Ambassador, has inquired of him on several occasions whether consideration was being given to the possibility of taking any action, vis-à-vis, Spain. Sargent has consistently refrained from giving him any indication that the matter was in the discussion stage.

Impressed upon Sargent the need for greatest secrecy and in this connection referred him to the article in the London Sunday *Observer* of May 11. He assured me that he had no knowledge of the source of this information and would take every possible step to guard with greatest discretion the conversations on the Spanish question.

DOUGLAS

852.00/5-2247 : Telegram

The Secretary of State to the Embassy in the United Kingdom

TOP SECRET

WASHINGTON, May 22, 1947—4 p. m.

2218. For the Ambassador. We are very pleased note from urtel 2840 May 20 that there now seems to be better understanding on part Brit in respect our suggestions re Spain.

As possible channel approach to Franco we suggest similar but not identic letters might be addressed by Pres and Mr. Attlee¹ to Franco. These communications could be sent our Chargés d'Affaires Madrid who would ask for appointments, preferably separately, in order present them to Franco. If Franco refuses receive Chargés letters could then be handed Span FonOff for delivery. Such approach would have double advantage of avoiding adverse effects of publicity and of preventing Franco from distorting oral approach to benefit his own position.

MARSHALL

¹ Clement R. Attlee, British Prime Minister.

711.52/7-647: Telegram

The Chargé in Spain (Culbertson) to the Secretary of State

CONFIDENTIAL

MADRID, July 6, 1947—2 p. m.

627. Accompanied by Maffitt, I saw Foreign Minister Thursday at Ministry at my request and again last evening at his residence at his suggestion. On Thursday we discussed SAFEHAVEN, *Readers Digest*, repatriation of Spaniards in Germany and Germans in Spain, the bill for oil supplied to Italian vessels, and our interest in matter of political prisoners. I indicated my hope that by a bit of give and take on both sides these lesser problems could be settled. Artajo agreed. I then said that while I thought we could settle the lesser questions I was not sanguine about the major problem. It was then two o'clock and Artajo suggested coming to his residence last evening where we could continue our talk. Artajo measures out his soda first and that is a bit the way the two hours conversation went since we never did exactly reach the scotch. Joaquin Ruiz Gimenez, Spanish Culture Institute head, was present for last evening's talk and did most of the interpreting.

Artajo opened emphasizing special viewpoint of those who underwent civil war on Franco side and proceeded to hew closely to the present party line saying that Spain is basically pro-American; is together with us in opposition to Communism and would surely be with us in any future conflict against Communism. Spain was undeniably neutral in war, at great risk to herself; cannot understand our hostile attitude toward Spain which although at first by force of circumstances authoritarian not totalitarian is now slowly developing own democracy in own way, while at same time we continue relations with totalitarian governments like Russia, Yugoslavia, etc.; feel that Roosevelt's 1942 letter¹ to Franco and secret promises Churchill and

¹ See *Foreign Relations*, 1942, vol. III, p. 306.

Eden² allegedly made to Ambassador Alba about same time have not been fulfilled; if US had put as much effort into understanding Spain as we have into attacking her, our relations would be much better today and that today's referendum will demonstrate to world that Spanish people give full support to Franco and that he is free choice.

My end of conversation was limited largely to factual, historical presentation except for remarks about today's "free" election, and sharp distinction we draw between Spanish people and Franco. I told Artajo frankly that we did not and would not consider the result of the referendum as free expression of will of the people. It was by then ten o'clock and meeting had to break up. Artajo suggested we meet again soon. Hope to reach the scotch next time and would appreciate guidance on what if anything might be said along lines of policy being well developed prior my departure from Washington.

Sent Department 627, repeated London 62.

CULBERTSON

² Anthony Eden, British Secretary of State for Foreign Affairs, 1940-1945.

852.00/7-947: Telegram

The Secretary of State to the Embassy in Spain

US URGENT

WASHINGTON, July 9, 1947.

589. At press conference today Asst Secy Armour was asked for comment on election results in Spain. He said that there was no evidence that there had been any press freedom or relaxation of press restrictions prior to referendum and that there had apparently been little opportunity for any public discussion among Span people on alternative forms of govt which they might prefer. He said that nothing which happened in Spain last Sunday would in any way change the position of this govt which of course had been made entirely clear in our relations with the regime in Spain.

MARSHALL

852.00/7-2147

Memorandum of Conversation, by the Assistant Secretary of State (Armour)

SECRET

[WASHINGTON,] July 21, 1947.

Participants: Señor Don Germán Baraibar, Spanish Chargé d'Affaires a.i.
Mr. Norman Armour, Assistant Secretary of State
Mr. Outerbridge Horsey, WE

Mr. Baraibar called to pay his respects. He mentioned the recent referendum in Spain on the law of succession as evidence of Franco's strong position. While admitting that there was widespread opposition to Franco, Mr. Baraibar said that the general feeling was that he was the only alternative to Communism. Mr. Armour recalled that, speaking personally, he had suggested to the Spanish Foreign Minister as long ago as November 1945,¹ that there was a third alternative which was for Franco to turn back power to the generals from whom he received it in 1936, who would be in a position to maintain order and to return the country to representative government.

Mr. Baraibar thought that the most important feature of the referendum was that the ideas of Falange had now been suppressed entirely since the "26 points" of Falange were no longer part of the constitutional basis of the Government. The basic laws are now the Bill of Rights, the Labor Charter, the Constituent Law of the Cortes, the Referendum Law and the new Succession Law. Mr. Armour commented that the Bill of Rights was all very well but its importance lay in whether or not it was implemented. Mr. Baraibar expressed confidence that the referendum was a sign of real evolution in the Government. He thought it would soon be followed by municipal elections. Mr. Armour expressed hope that this was indeed so. Mr. Armour recalled that municipal elections had been promised over two years ago and had not yet materialized. Mr. Armour called attention to the bad effect created by continued political oppression and by restrictions on the freedom of foreign press correspondents. In conclusion, Mr. Baraibar offered his cooperation and assistance in any way in which it might be needed.

N[ORMAN] A[RMOUR]

¹ See telegram 2438, December 1, 1945, from Madrid, *Foreign Relations*, 1945, vol. v, p. 695.

852.00/7-2447 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

TOP SECRET

LONDON, July 24, 1947—1 p. m.

4029. When in London recently, Hickerson¹ discussed Spain with Sir Oliver Harvey,² who promised obtain review British position. In absence on leave of Harvey, Warner³ tells us British have explored

¹ John D. Hickerson, Deputy Director of the Office of European Affairs.

² Deputy Under-Secretary of State, British Foreign Office.

³ Christopher Frederick Ashton Warner, Assistant Under-Secretary of State, British Foreign Office.

all aspects our proposed action and are convinced plan will not work. He says (1) British are confident Franco is less interested in Spain and Spanish people than in maintaining power in his own hands and that therefore he would refuse under any conditions voluntarily to step down and (2) leaks would most surely occur with resulting embarrassment which would be seized upon by Soviets or others to make our position in respect of Spain at UN more difficult and worse than it is.

Accordingly, British Embassy Washington is being instructed to renew to Department previous proposals for soliciting support friendly nations to prevent further UN action on Spain.

As FonOff dossier indicated Harvey had not presented Hickerson arguments very forcibly, we suggested possibility of having Ambassador see Sir Orme Sargent once more but Warner thought such action would be ineffective, saying that Bevin had himself taken position outlined above.

If therefore Department desires this matter pursued further in London, it will likely be necessary that I go direct to Bevin.

DOUGLAS

852.00/7-2747 : Telegram

The Chargé in Spain (Culbertson) to the Secretary of State

SECRET

MADRID, July 27, 1947—1 p. m.

687. For Hickerson or Reber. Father Molina Spanish with first US papers now at Catholic University favorably known to Embassy during war called on me week ago at which time we had off-the-shoulder exchange views. He knows Franco personally, has church approach to regime but seems honestly interested in solution Spanish question. He asked whether I had seen Franco. I said no, that I was merely a Chargé and had nothing to say to Franco although if Franco wanted to see me and I could speak freely a meeting would be O.K. by me. At San Sebastian¹ on Thursday I learned from Embassy Madrid Franco wished to see me at 6:30 yesterday afternoon. I returned to Madrid yesterday by Embassy plane. Molina and I went to Pardo in Molina's car. No one else was present at the meeting which lasted two hours. Molina interpreted. Franco was extremely friendly and the talk was carried on very informal basis.

Franco opened up with discussion complexities Spain and need for people know Spanish history both old and recent past in order understand present situation in Spain. He explained his position and that of

¹ Spanish summer capital.

Spain in recent war step by step, frequently citing conversations with or remarks made to Ambassador Hayes. He laid considerable stress, as did Artajo on July 3, on promises they claim Churchill and Eden made in 1940 provided Spain remain neutral. These promises according to Franco involved territorial adjustments in North Africa at expense French. He said that Spanish Government has documents in connection with this matter but will not use them because to do so would complicate British-French relations. He said also that Germans had offered make French border readjustments, including Andorra but that Franco had refused this offer. He did not mention the Roosevelt letter of November 1942. His attitude and words were to effect that he could not understand why Spain was now being penalized by rest of world, particularly the US since Spain had retained real neutrality during war and had given allies benefits for which Spain now receives no credit. He discussed at very considerable length the problem of communism in Spain going back in his historical development as far as 1922. More particularly however he discussed a "revolution" in Asturias in 1934 at which time he was called back by the then government from the Canaries to put down this revolution. He touched only lightly on infiltration communism into Spain during civil war. He discussed problem Spaniards outside of Spain mentioning briefly the Monarchists but more particularly the other elements. He explained that these people were all free come back Spain and cited case of Lerroux² and also mentioned fact that Hazana's³ son had recently left the country but on leaving declared that he would and wanted return.

Franco went into considerable detail on economic and social program of regime stressing point that he is anxious develop educational system in Spain in order that there may be not only educational advancement but a resulting political and civic development of people.

While Franco did most talking I was able to get in a number points with regard our general position and I found that Franco took my remarks without any resentment even though he did avoid getting into a direct discussion on such things as lack of political liberties here in Spain.

I stressed several times during conversation that while I appreciated his feeling that rest of world must understand Spain's position, Spain and her government must likewise understand reasons for policies toward Spain which have been adopted by US and other countries.

At the end of our conversation Franco indicated an interest in our

² Alejandro Lerroux was the first Foreign Secretary of the Spanish Republic. He returned to Spain from exile by permission of the Franco Government.

³ Presumably this is a misprint and the reference is to a son of Manuel Azafia, formerly Premier of the Spanish Republic.

meeting again near future and in carrying on in informal way in which discussion went yesterday afternoon. On coming back town Molina mentioned another meeting and I told him that if Franco raised question with him again I would be quite happy continue talk but that initiative would have come from Franco himself.

The one impression I got from this meeting was that Franco is sincere and honest with himself. He is convinced that what is now being done in Spain is in the best interest of Spain and the Spanish people. He thinks that Spanish people are being lifted up both economically and socially and he will not lightly relinquish his position to anyone else unless he is convinced that whoever takes over will maintain stability and order and will continue what he considers to be present progressive evolution and education Spanish people.

CULBERTSON

852.00/7-2847

*The Counselor of the British Embassy (Allen) to the Chief of the
Division of Western European Affairs (Reber)*

SECRET

WASHINGTON, July 28, 1947.

Ref. 35/ /47

DEAR REBER: We have learned from the Foreign Office that they had conversations on the subject of Spain with Hickerson on the 3rd July and with a member of the United States Embassy on the 23rd.

It appears that at the latter conversation the Foreign Office explained why, after full consideration, they had come very reluctantly to the conclusion that there was nothing that our two Governments could do to improve the position inside Spain and that we must both fall back as a second best on action to prevent further intervention by the United Nations. You will remember that we last discussed this latter question on the 13th June, when you expressed the view that any general approach to a large circle of governments should be postponed until rather nearer the date of the United Nations Assembly. The Foreign Office, who were informed of your views at the time, now tell us that they hope that the State Department will agree that it would be unsafe to delay action much longer and that they accordingly wish to suggest August 8th as the target date upon which our two Governments should take coordinated action.

Perhaps you would let me know whether the United States Government are ready to fall in with this proposal. In that event, I could perhaps come down and have a further talk with you about details so

that, in particular, we might agree upon the list of Governments to be approached.

As regards the content of our approach, our view is that, provided the action of our respective representatives in the various capitals concerned is closely co-ordinated, particularly as regards timing, it is unnecessary for both of us to take exactly the same line.

I shall look forward to hearing from you as soon as you are ready to discuss the matter further.

Yours sincerely,

DENIS ALLEN

852.00/10-2347 : Telegram

The Chargé in Spain (Culbertson) to the Secretary of State

TOP SECRET

MADRID, October 23, 1947—9 p. m.

904. At his request I called this evening on José Erice, Director General Foreign Policy Spanish Foreign Office. He showed me copy of note which Spanish Foreign Office delivered yesterday evening to British Embassy here protesting fairly mildly and in somewhat injured tone against Bevin's action in having received Prieto¹ and Gil Robles.² First paragraph of note quoted statement allegedly made by Prieto upon leaving Bevin's office to effect that Bevin agreed with his (Prieto's) program. Note called attention to fact that British Foreign Office had issued no denial of accuracy of Prieto's statement.

Erica then showed me copies of telegram received by Foreign Office from Duke of Alba, then Spanish Ambassador in London. There were three of these telegrams, one each in 1940, 1941 and 1942. First of these telegrams gave account of conversation between Alba and Eden in which Eden expressed British friendship for Spain and called upon Spain to do nothing more than keep Germans from entering or transiting Spain. This telegram also contained assurances by Eden that England would not permit Spanish refugees to operate in Great Britain.

Second telegram quoted Eden as promising British consideration of Spain's desire to have Gibraltar as well as to assist Spanish aims in other territorial adjustments.

Third telegram gave account of alleged proposal by Eden to Alba with regard to Britain's desire for Spain to move in on French zone of Morocco, a subject which Spanish Government required Alba to take up with Churchill. Churchill confirmed this proposal, adding

¹ Don Indalecio Prieto, leader in Spanish Socialist Workers' Party.

² José Maria Gil Robles, Catholic Action Party leader.

that once war had been won by British, France would owe Britain much and Britain would owe France nothing; that Churchill expected obtain naval aid from United States which would assist her in Mediterranean fight; that at end of war ships and other aid would be given to Spain and that although he, Churchill, had made public statement favorable to Spanish Government, he would make another one.

Erice then showed me memo of conversation between Ambassador Hayes and Foreign Minister in 1943 in which Ambassador Hayes is said to have asked Spanish Government to permit United States to use port of Barcelona for evacuation of Allied wounded and sick and also to use that port for sending into France for use of civil population food and other materials. Memo stated that Ambassador's requests were granted.

Erice then elaborated to some extent how seriously Government takes fact that Bevin had seen Prieto and Robles in his capacity as Foreign Secretary, adding that he personally could understand gasoline embargoes and that sort of thing but that for Bevin not to deny Prieto's statement as mentioned above placed very substantial strain on present relations between two Governments, and Erice again called attention to telegram in which British were supposed to have promised that Spanish refugees would not be permitted to operate on British soil.

Erice assured me that this resentment was not purely his but also that of Franco and Foreign Minister and government as whole. He expressed hope to me that my government might find it possible to bring to attention of British Government the strength of feeling which this Prieto-Bevin conversation has had and that we might suggest to British utility of at least denying accuracy of Prieto's statement. I naturally told Erice that all I could do would be to submit his request to my government.

Erice also dwelt at considerable length on position of Spain in event of war between Western Powers and Russia. He said there could be no question as to eventual position of Spain in event of such war but that should Spain by reason of her weakness remain neutral for even as much as three months, Russian armies could then easily have reached Pyrenees and probably North Africa. He pointed out that because of Spain's present inadequately equipped army and because of Spain's almost complete lack of airdrome facilities, she could not in spite of her interests undertake to oppose Russia, and in view of inadequate airport facilities, Western Powers would not be able to send in their air forces and airborne troops. He rather appealed to me in hope that something in way of policy modification could be found, protesting

that Spain did want to liberalize and did want to evolve toward more liberal situation. He asked me at lunch other day and again this evening whether I could not define to him just what we mean by evolution. I did not endeavor to correct him by saying that our policy had not envisaged evolution under Franco.

I appreciate that it is hardly up to us to approach British in this matter but I do hope Department can give me early guidance for use in any future discussions which I may be called upon to have with Spanish officials on this subject. I do not know whether Department in light of world developments as they are envisages possibility of policy modification or not. I personally feel that this is not opportune moment to develop antagonisms between United States and Spain or to in any way upset applectart here regardless of number of rotten apples in cart.

Sent Department 904, repeated London 75.

CULBERTSON

852.00/10-2347: Telegram

The Acting Secretary of State to the Embassy in Spain

TOP SECRET

WASHINGTON, October 24, 1947—7 p. m.

830. You should tell Erice that matter seems to us entirely between Span and Brit Govts and one in which we cannot intervene. You should add we know nothing of alleged commitment by Eden (second para Embtel 904 Oct 23 rptd London 75) but that for our part, in absence of any specific and binding agreement on question with foreign govt, we would feel free to get info on conditions abroad from any and all available sources.

In your discretion you may inform your Brit colleague fully Erice conversation and your reply for info FonOff.

Sent Madrid 830 rptd London 4560.

LOVETT

852.00/10-2447

Memorandum of Conversation, by the Assistant Chief of the Division of Western European Affairs (Horsey)

TOP SECRET

[WASHINGTON,] October 24, 1947.

Having called ostensibly on one or two unimportant matters, Mr. Sanz-Briz¹ then said that their Embassy had been told by Madrid of the conversation of Mr. Culbertson at the Foreign Office at Madrid,

¹ Angel Sanz-Briz, second secretary, Spanish Embassy.

reported in Madrid's telegram 904 of October 23. He asked me whether we had yet heard and what my personal reaction was.

I said that we had received a report of Mr. Culbertson's conversation and that we were giving it consideration. The matter seemed to me, personally, to be entirely between the Spanish and British Governments. I said that we knew nothing whatever about the alleged commitment made by Mr. Eden not to permit activities of Spanish political refugees in England, but that we felt strongly on the question of the general principle involved. As far as we were concerned, I said that we would not consider limiting ourselves, in the case of any particular country, to persons considered inoffensive by the government of the country concerned. I said that we would consider ourselves free to talk to anyone we wished in assembling all possible information on any given problem and that this action would not necessarily imply official agreement with the views of any one particular person.

Mr. Sanz-Briz said that they would not mind the British and us talking to relatively unimportant Spaniards, such as Negrin and Alborno, but that the case of Prieto was different. I suggested that this meant that, in their eyes, Prieto had a following in Spain and that his opinions on the Spanish political situation were of some significance. It therefore seemed to me all the more important to have his views as a contribution to the total picture.

My impression was that the Spanish Embassy here had received instructions to repeat to us the protests which they have already made to both Embassies in Madrid, and that Mr. Sanz-Briz was sent in to get a preliminary reaction as to how such a protest would be received.

As to Mr. Bevin's failure to deny press reports that he had given his blessing to Prieto's activities, I suggested that they were taking this a little too seriously and that, for our part in a parallel case, we could not undertake to confirm, deny or correct every statement about our activities appearing in the press.

711.52/10-2847

Mr. George F. Kennan of the Policy Planning Staff to the Secretary of State and the Under Secretary of State

TOP SECRET

[WASHINGTON,] October 24, 1947.

At the suggestion of Mr. Armour, the Policy Planning Staff has looked into the question of our current policy toward Spain. I attach a Staff paper on the subject.

You will note that the paper brings out the following points:

(1) While the Staff does not feel that it should make suggestions concerning current operations, nevertheless it has serious doubts as to

the results to be expected from the Department's efforts to eliminate the Franco regime by bringing international pressures to bear.

(2) The Staff believes that in the National interest the time has come for a modification of our policy toward Spain with a view to early normalization of U.S.-Spanish relations, both political and economic.

(3) This will involve some modification in the instructions under which our U.N. delegation is now operating.

I recommend that if you approve this paper, it be transmitted, in confidence, to Mr. Armour for his guidance.¹

GEORGE F. KENNAN

[Annex]

TOP SECRET
PPS/12

[WASHINGTON,] October 24, 1947.

U.S. POLICY TOWARD SPAIN

The Policy Planning Staff has studied the question of our relations with Spain, which are unsatisfactory not only from the political point of view but from the viewpoint of our military planners. On the one hand, we have hoped to bring about the replacement of the totalitarian regime of General Franco by withholding from his government the benefits of international political and economic relationships. On the other, we are confronted with the fact that General Franco remains firmly in power and that his regime has actually been strengthened by demonstrations of international hostility.

At present, our relations with Spain are governed in part by the United Nations Resolution of December 12, 1946, recommending that member states withdraw their Chiefs of Mission from Madrid and that Franco Spain be excluded from organizations connected with the U.N. For example, the U.S. recently took an active part in the expulsion of Spain from ICAO, and in various other ways we have affirmed our opposition to the Franco government on ideological grounds. In the economic sphere we are withholding all forms of Government assistance; Government credits have been refused, sales of surplus Government property to Spanish buyers have been prohibited, and

¹The memorandum, which had been initialled "L[ovett]" by the Under Secretary, and the annex were returned by the Secretary to Mr. Kennan with the notation: "Approved as indicated G C Marshall." A filing notation on the copy retained by the Policy Planning Staff indicated that the paper was approved by the Secretary of State on October 24 (Lot 62D1, Box 2529).

Government purchases in Spain cut to a minimum. This official policy has had the effect of discouraging private U.S. credits and trade and has contributed to the increasingly serious economic situation in Spain.

The Policy Planning Staff agrees that it would be highly desirable to bring about the replacement of Franco by a regime fully representative of the Spanish people, if it were possible to do so without violent internal or external repercussions. It would be desirable if a plebiscite could be held and some form of coalition government established which would restore to the Spanish people the freedom and rights of which they have been deprived by the totalitarian police methods of the present government. Unfortunately, there is no evidence of effective opposition to Franco, either within or without Spain, which could bring about an orderly change in government.

By adroit maneuvering, occasional concessions, and relentless police persecution, the Franco government has forestalled action by its opponents. There is no indication that the Army, on which the strength of the regime rests, is disposed to withdraw its support. Spokesmen for the old Republican, Socialist and Monarchist parties have been unable so far to compromise their differences or to agree on any program of joint action. Except for the Communists, the opposition parties are divided and disorganized; a concrete political ideal or a leader able to capture popular imagination is lacking.

The Department last Spring initiated conversations with the British with the object of agreeing upon a joint plan of action to eliminate Franco and to replace his regime with one based on democratic lines. The approach contemplated was an objective explanation to Franco of the views of the United States and British Governments, emphasizing the gains which would accrue to Spain from a change in regime. Our explanation was, in addition, to be directed to high ranking Generals, members of the opposition, and to all interested Spaniards, upon whom we would urge the necessity of change. It was contemplated for us to point out that the nature and timing of the change was entirely up to the Spaniards themselves, thus avoiding grounds for Spanish resentment against foreign intervention.

The British have indicated that they do not consider this plan workable, on the ground that: (1) Franco's interest in maintaining his own power would lead him to refuse, under any conditions, voluntarily to step down, and (2) leaks regarding the suggested action would undoubtedly occur, with resulting embarrassment and difficulties. The Department plans to raise the question again with the British at the conclusion of the present General Assembly of the U.N. At the same time, consideration may be given to a suggestion that the Vatican might be persuaded to take an active part in bringing about the retire-

ment of Franco, a possibility which is actually being explored by members of the Spanish opposition.

While the Policy Planning Staff does not feel that it should make suggestions concerning current operations, it nevertheless has serious doubts as to the results to be expected from such a course. The Staff remains unconvinced that the leaders of the present regime in Spain would accept the proposal or that a sufficiently cohesive opposition exists to take over the government successfully. Even if the plan should be accepted with the consequent retirement of Franco, there would seem to be a strong probability of an ensuing political struggle leading only to internal chaos and resultant advantage to the Communists with all its ominous implications.

However, in the unlikely event that one or more of the contending opposition groups should eventually gather sufficient strength to be in a position to take over the functions of government, and in the event that our political support is sought by one of these groups, we should decline. On the other hand, we should be prepared to make available our good offices, in the event they are requested by two or more of the opposition parties, for the purpose of bringing these parties together.

The Staff believes that, in the National interest, the time has come for a modification of our policy toward Spain. The net result of our present policy has been: (1) to strengthen the Franco regime; (2) to impede the economic recovery of Spain; and (3) to operate against the maintenance of a friendly atmosphere in Spain in the event of international conflict.¹

It is the recommendation of the Policy Planning Staff that instead of openly opposing the Franco regime, we should work from now on toward a normalization of U.S.-Spanish relations, both political and economic. Insofar as possible this should be done in such a way as not to strengthen the Franco regime. While no public announcement should be made of our views, we should have in mind the objective of restoring our relations to a normal basis, irrespective of wartime ideological considerations or the character of the regime in power.

The Staff feels that the principal step now open to the United States is a relaxation,² on our own initiative and entirely aside from our U.N. position, of our restrictive economic policy with regard to Spain. Steps should be taken whereby the various controls we have imposed are quietly dropped, so that normal trade may be resumed between the two countries. Elimination of official restrictive measures as such would naturally be followed in a short time by the opening up of

¹ Marginal note referring to this paragraph and the next two, in Marshall's handwriting: "OK GCM."

² In the margin Marshall wrote "Yes" with reference to the words "is a relaxation".

private trade and the possibility of financial assistance in the rehabilitation of the Spanish economy. Thus, instead of contributing to the rapid deterioration of the economic situation, as we are doing at present, we would provide the opportunity for Spain to develop its resources and play a normal part in the revival of world commerce and industry.

Before any economic measures can be taken, the question of Spain is expected to come up in the United Nations. Spain is on the agenda of the Political Committee and we may be called upon to take a position in respect to one aspect or another of the problem. The Staff is of the opinion that at the present session of the General Assembly, this Government should do everything possible to minimize discussion of the Spanish question. We should endeavor to discourage any action, whether under the Resolution of December 12, 1946, or in the form of a new resolution. In particular, we should refrain from any mention of our previous support of the action of the United Nations in condemning the Franco regime. The Department's position paper on this subject states that we should reaffirm such support. This, the Staff believes, should *not* be done.³

In the event that a resolution is introduced seeking to impose economic sanctions, break diplomatic relations, or otherwise strengthen last year's resolution, we should oppose the proposal. On the other hand, if a resolution should be introduced recommending that the provisions of the December 12, 1946, resolution now be rescinded, we could either vote in its favor or abstain. The Staff is inclined to the opinion that, in line with its recommendation for a change in our policy toward Spain, we should support such a resolution,⁴ stating that the measures opposing Franco have not proved efficacious and that their continuation does not appear warranted by circumstances.

³ In the margin Marshall wrote "I agree GCM" with reference to the words "should *not* be done".

⁴ In the margin Marshall wrote "I agree GCM" with reference to the words "should support such a resolution".

Editorial Note

On November 17, 1947, a proposed reaffirmation of the resolution of December 12, 1946, failed to receive the necessary two-thirds majority of votes in the United Nations General Assembly. The United States voted against the proposed reaffirmation but voted in favor of a resolution, which was adopted, expressing confidence that the Security Council would exercise its responsibilities under the Charter as soon as it considered that the situation in Spain so required (U.N. document A/P.V. 118).

852.00/12-1847 : Telegram

The Acting Secretary of State to the Embassy in Spain

TOP SECRET

WASHINGTON, December 18, 1947—7 p. m.

903. Dept has carefully reviewed policy toward Spain and has reached conclusion that our primary objective at this time should be gradually to bring about normalization of relations, both political and economic, between Spain and western democracies, particularly US. Full normalization would be difficult if not impossible without substantial political and economic changes within Spain.

Fundamental and lasting improvement in regime can be brought about only by Span people themselves, not by interference from abroad. Our delegation at recent UNGA session emphasized this view, which appeared to be shared by majority of delegations other than those of Soviet bloc.

Primary desire of Spanish people, other than extreme leftists, is unquestionably for stability and avoidance of recurrence of civil strife. We emphatically do not desire to see Spanish state weakened to point at which disorder and civil strife might ensue. On other hand, indefinite continuance of present authoritarian repression serves to increase underground pressure which may eventually become explosive unless relieved in gradual and orderly manner.

For these reasons this Govt will seek to encourage orderly and peaceful evolution of Spanish Govt toward free and democratic regime representative of freely expressed will of Span people. We are convinced that such evolution must be both orderly and real (rather than any mere window dressing for present regime) if it is to serve best interests of Span people.

We consider choice as between monarchical or republican form of govt purely one for Span people themselves, provided they have opportunity freely to choose. Question of Franco's removal from all connection with Span Govt also one for Spaniards alone to decide, but removal would obviously result in more substantial improvement in Spain's international position than would liberalization of regime with Franco still participating.

We fully recognize need for broadest possible agreement among Spaniards on both objectives and procedures. Recent Robles-Prieto conversations are encouraging but only short preliminary step. Sincere agreement more far reaching and widespread within Spain will be necessary. We are of course mindful of difficulties impeding agreement including passions remaining from civil war, inherent instability of Spanish politics, complacency and support of present regime by various Rightist groups and present repression of political expression. We nevertheless wish to encourage such agreement and orderly evolu-

tion in any way we can without giving cause for charges that we are unwarrantably interfering in internal Spanish affairs.

Insofar as US attitude can have influence within Spain, we hope to convince Rightist elements now supporting regime, particularly Army and Church, that we do not favor foreign intervention in Spain and are not seeking to reverse outcome of civil war, but that we do hope to see orderly evolution toward democratic govt under which their legitimate interests would not suffer, whose permanence would rest upon support of Span people rather than upon repression, and which would restore Spain to full political and economic place in international community. We hope center and non-Communist Left will recognize that such evolution will afford better chance of genuine attainment of their objectives than revolution.

In economic field this Govt contemplates gradual and unobtrusive relaxation of existing trade restrictions. No direct governmental financial assistance now contemplated. When consulted on private trade credits Dept will express no objection on political grounds, but leave economic risk to judgment of American interests concerned. (Economic housecleaning in Spain is apparently prerequisite on purely commercial grounds to any substantial increase in trade.) We would expect, however, to coordinate any positive economic assistance with political developments in Spain and to utilize it (not economic compulsion) to encourage democratic evolution. Possibility of Spain becoming internationally "respectable" in time to secure measure of assistance under European Recovery Program should be important influence.

Foregoing is for your general guidance but not for any specific *démarche* in absence of further instructions.

We are repeating this to AmVat instructing Parsons¹ to communicate our general line of thought to Vatican with view to obtaining its reaction and possible exertion its influence in Spain along similar lines. We are not yet communicating our line of thought to anyone else.

Sent Madrid 903 rptd AmVat 19.

LOVETT

¹ James Graham Parsons, Foreign Service Officer at Vatican City.

complete withdrawal. Comment on Deptel 903, December 18 would be easier if I knew whether Department prepared deal with Franco subject his adopting gradual, effective (not "window dressing") economic political liberalization. (Last part paragraph 2 Embdesp 4337, November 25¹). Franco's removal is question for determination Spanish people (or Spanish army) but fact is he is "in" and the "outs" are of two distinctly different breeds of cat—monarchists and left, each completely disorganized and each basically opposed each other vis-à-vis ultimate political control and means determining expressed will of people. This despite any eventual Robles-Prieto agreement. Since our published policy says Franco must go completely he will hang on and is not likely adopt substantial effective modifications government except possibly in immediate face economic disaster and then measures, if any, may well be too late. While majority Spaniards oppose Franco regime (not necessarily Franco himself) majority also fear results his precipitous removal and this passive support enough keep him in. If we, England *et al*, Vatican, monarchists, the left would adopt policy trying find, with Franco, cooperative solution in interests Spain and western countries. I think pressure would be so great Franco would liberalize and in time be eased out of power, particularly if we prepared accept restoration monarchy and monarchy prepared accept gradual transition from present complete Franco control to liberal democratic monarchy. I see trouble in abrupt transition.

If positive policy of cooperation feasible in place present kick-Franco-out-now-policy, US contribution to solution Spanish problem would be (a) sell all elements including Franco on practicability of cooperative solution and long term democratic results and (b) economic assistance, both governmental and private. (I recognize (a) not easy but believe possible.)

Increasing jitteriness here over economic situation indicates moment relatively opportune use economic assistance as leverage obtain modification and liberalization. Uncoordinated piecemeal private credits, probably in limited amounts because of risk involved, not likely have effect on economic policy and certainly none on political. My suggestion therefore we implement policy outlined reference telegram by willingness consider now governmental assistance coordinated with private credits.

CULBERTSON

¹ Not printed.

711.52/12-3047: Circular telegram

The Acting Secretary of State to Diplomatic Representatives in the American Republics

RESTRICTED

WASHINGTON, December 30, 1947—8:15 a. m.

Representatives of Colombia, Brazil, Peru and Salvador have asked us informally whether we now intend to send an Ambassador to Madrid.

The UN General Assembly resolution of 12 December 1946 included a recommendation that "all members of UN immediately recall from Madrid their Ambassadors and Ministers Plenipotentiary accredited there". With the exception of Argentina, UN members who then had Chiefs of Mission in Madrid withdrew them. We attach importance to scrupulous compliance with UN recommendations as a matter of major principle. Although a motion to reaffirm the 1946 resolution failed at the 1947 session to get the required two-thirds majority (US being among those opposing reaffirmation on ground it had been ineffective), 1946 resolution was not repealed and our opposition to reaffirmation indicates no change in our policy respecting a Chief of Mission in Madrid. Consequently, we contemplate no change in the status of our diplomatic representation in Madrid at this time.

Although you should take no initiative, you may reply along foregoing lines if FonOff should approach you, reporting any such conversations to the Department.

LOVETT

852.00/12-3047

The Chargé in Spain (Culbertson) to the Secretary of State

TOP SECRET
No. 4402

MADRID, December 30, 1947.

SIR: I have the honor to refer to the Embassy's telegram No. 1047 of December 26, sent in response to the Department's telegram No. 904 of December 19.¹

It was with considerable hesitation that I finally let the reference telegram go; first, because I was not satisfied with its presentation and, second, because the suggestion of an attempt to obtain a cooperative effort on the part of the major Spanish factions probably looks like, and may be, daydreaming. Nevertheless, I am naive enough to think it has a possibility of modest success.

¹ Telegram 904, not printed.

The opposition elements inside and outside of Spain have been living in the false expectation that we and the other powers would unseat Franco and place them in control. None of these elements has ever seemed to figure out the mechanics of this change. In fact, they have probably never tried. They have lived on negative opposition to Franco and have kept in the forefront of international condemnation of Franco. In my estimation Don Juan has played more for international reaction and approbation than he has to the internal situation in Spain. Gil Robles and Prieto cling to the hope of positive international action against Franco. Visions of sanctions and sugar plums dance through their heads. The destruction of Franco has been so uppermost in their minds they have failed to see in the situation a possible development resulting in the destruction or near destruction of Spain herself, economically and possibly politically.

On Franco's side, he has been cursed and condemned by all the world. No loophole has been left for him in any of the announced policies of the United States or other powers. With nothing but opposition to confront him, Franco has had two alternatives: one, to commit suicide or, two, to pull in and tighten the dictatorial reins. He is not going to commit suicide, unless it be in the form of pulling the temple down on himself and thus on the Spanish people.

Our policies, for whatever reason adopted, have failed and continue to fail to obtain material political and economic liberalization for the Spanish people. We say, quite rightly, that it is for the Spanish people to determine what they want. At the same time our policies tend to exclude those people who, for whatever the reason may be, support Franco and who are not prepared to plunge into the unknown.

I am not up much on Vatican attitude toward Spain but I am willing to wager that deep down the Vatican is going to be most reluctant to take any step which will open the door to the return of a situation such as existed under the Republic. I am sure that even those elements in the Spanish church which object to Franco would object to the Vatican taking such a step. The Vatican may move toward Monarchy. If it moved to tell Franco he must go at once, I can see division within the Spanish church. Were the Vatican to urge upon Franco, the Church and the Monarchy the need, in the general interest of Spain, for cooperative efforts, such action would eliminate, at least to some degree, the Vatican taking a step which might well develop or accentuate division, especially within the Church.

I doubt whether Prieto could be brought to the point of any kind of cooperation with the present regime, and I am inclined to think it would be a mistake even to try. Not only Franco but lots of people in Spain would find it difficult to accept Prieto. (Even the country laborer

who carried my gun on a partridge hunt last week expressed violent objection to Prieto.) There are, however, some men of the Left here in Spain, and after all they mean more in the future evolution of Spain than all of the exiled Republican leaders put together. One of those here in Spain (Señor Tomás Peire) has already expressed to an officer of the Embassy his growing conviction that cooperation with Franco seems to be the only remaining solution.

"Evolution" as opposed to "revolution" (last sentence, paragraph 7, Deptel 903 of December 18) should mean, as I see it from here, evolution *of* the present, *from* the present to a future improved governmental structure. If I see it correctly, cooperative effort in place of antagonism is the only possible solution and it is worth a try.

In order to obtain cooperation from the opposition, those gentlemen will have to swallow some pride and, at the start, subordinate some of their ideological thinking. I doubt whether that would be a very great task for Gil Robles, for instance.

Franco, on the other hand, is called upon to give a bird in the hand for two in the bush and he will at least want to see the color of the birds in the bush. If one glitters with gold and the other is the blue of friendliness, I think he will come along. No man is likely to refuse a friendly hand that would lift him from the international pit where Franco now rests, and this in spite of the fact that Franco seems to feel that he has been chosen by a higher power to lead Spain and the Spaniards out of the wilderness. I have a hunch he will come down to earth. He is very likely to do so if, in the face of an economic crash, real economic aid will be given to Spain and thus economic, as well as possible political, disaster can be avoided.

On the question of economic policy I feel I've got to stick my neck out by saying that the easing up of present economic and financial restrictions, as outlined in the ultimate paragraph of the Department's telegram No. 903, will in my estimation have practically no effect (*a*) on the economic situation in Spain or (*b*) in bringing about evolution politically or governmentally. For that reason I suggested in the Embassy's telegram No. 1047 the implementation of our policy by present willingness to consider direct governmental assistance. I appreciate that such action may be out of the realm of the practical from the standpoint of problems in Washington, but I suggest it as the practical one for Spain if we want to keep Spanish economy from going to pot.

Respectfully yours,

PAUL T. CULBERTSON

SWEDEN

AGREEMENT BETWEEN THE UNITED STATES AND SWEDEN ON QUANTITATIVE IMPORT RESTRICTIONS IN RECIPROCAL TRADE MODIFYING TEMPORARILY THE AGREEMENT OF MAY 25, 1935

[For text of Agreement, effected by exchange of *aide-mémoire* dated at Washington, June 24, 1947, and exchange of letters, see Department of State Treaties and Other International Acts Series (TIAS) No. 1711, 61 Stat. (pt. 4) 3745.]

AGREEMENT BETWEEN THE UNITED STATES AND SWEDEN RESPECTING EXCHANGE OF OFFICIAL PUBLICATIONS

[For text of Agreement, effected by exchange of notes signed at Stockholm, December 16, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1688, 61 Stat. 3605.]