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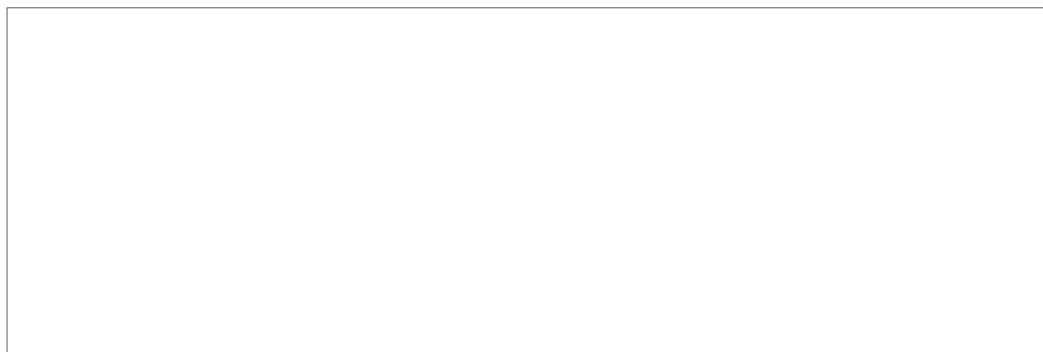
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~~SECRET~~**1. MOSCOW RENEWS OFFER TO BUILD ASWAN HIGH DAM**

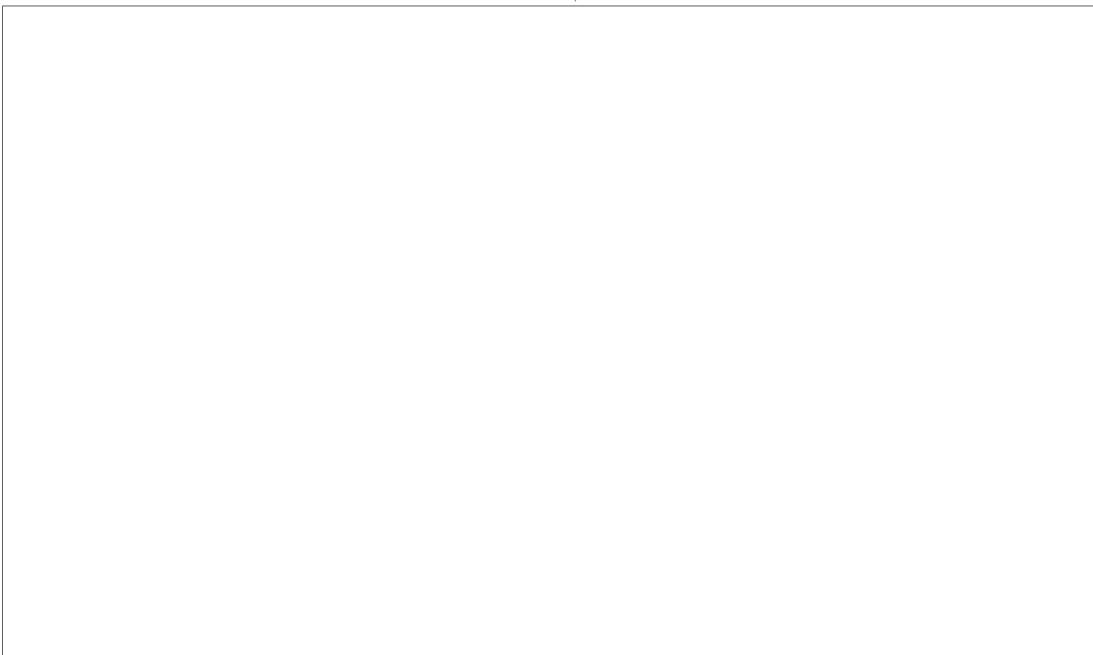
In a meeting with Egyptian prime minister Nasr on 17 May, Soviet ambassador Kiselev reportedly renewed the standing Soviet offer to build the Aswan High Dam.

Major Hasan Ibrahim, Egyptian minister of national production, had told a press conference several days earlier that the Soviet offer to finance the dam still held, and that Egypt could "accept it at any time." Noting that the preliminary work on the dam was proceeding, Ibrahim said that the International Bank for Reconstruction and Development had not made a final decision and was "waiting for the US Senate to declare itself."

Comment

The International Bank and the governments of the United Kingdom and the United States have approved in principle and in some detail the financing of the Aswan High Dam. Final action has been delayed while Egypt negotiates with the Sudan over diversion of the Nile waters and compensation for Sudanese lands which will be inundated by the lake formed by the dam. (Prepared by ORR)

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~~SECRET~~**2. SHAKE-UP REPORTED IMMINENT IN CZECH COMMUNIST PARTY**

Comment Criticism of government policies has increased rapidly since the removal of Defense Minister Cepicka in late April. The party leadership, however, has not been publicly attacked and the regime has appeared capable of controlling the dissident elements. Criticism, while fairly extensive, has not been so outspoken as in Poland.

This discontent probably has been increased by the confusion which developed in the party following first secretary Novotny's report to the central committee on Khrushchev's secret speech.

A number of recent reports that the removal of Deputy Premier Kopecky, Minister of Culture Stoll and Slovak Party first secretary Bacilek is imminent indicate that their positions are insecure.

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3. RAKOSI'S SPEECH TO HUNGARIAN PARTY ACTIVISTS

Hungarian party first secretary Rakosi's speech on 18 May in Budapest to 5,000 party activists made a show of bowing to mounting party opposition to his leadership, without, however, significantly modifying his policies.

Rakosi admitted that he too was personally guilty of tolerating, and often supporting, the cult of personality. He also admitted that he, like other party leaders, was to blame for ex-police chief Gabor Peter's illegal practices in violation of socialist legality, because poor party controls at that time made possible the malpractices of the security forces. These statements are in contrast to Rakosi's early comments, following the 20th Soviet Party Congress, virtually absolving himself of these crimes.

Although opposition party elements may make further demands for Rakosi's removal, his political position will probably remain secure as long as he has the endorsement of the Soviet leaders, which he received as recently as 11 May. The USSR presumably fears that his removal now would only worsen the Hungarian political situation. Probably Soviet leaders suggested that he deliver a defensive speech of this type in order to attempt to placate various elements in the party.

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THE ARAB-ISRAELI SITUATION (Information as of 1700, 20 May)

UN secretary general Hammarskjold told Ambassador Lodge on 17 May that he did not think there could be war in the Middle East for at least another year. He said he was absolutely convinced that Egypt was strongly opposed to war. He believed the Egyptians had suggested to the Soviet Union that it make its 17 April statement about support of a solution through the UN because they feared war might break out. Hammarskjold added that Egypt was the only country which had been 100-percent co-operative with him and he thought it might lift the Suez blockade if it could be done without fanfare and without Israel testing the blockade in a public way. (Comment: These statements contrast sharply with Hammarskjold's views on his return that his mission had achieved at best only a two- or three-months' extension of the truce.)

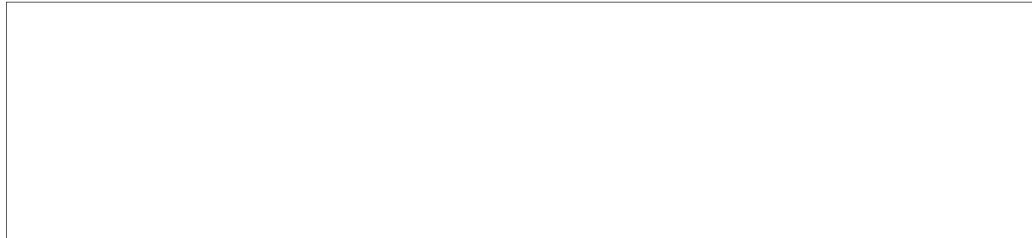
United Nations truce supervisory officials in Jerusalem report that a deadlock regarding a meeting of the Egyptian-Israeli Military Armistice Commission to implement agreements on the establishment of observer posts on the Gaza demarcation line continues with no indication it may be broken at an early date. One of the officials expressed the view, which the American consul general believes correct, that although the Israelis were not in a position to refuse Hammarskjold's proposals while he was there, they appear to be seizing upon various subterfuges to avoid implementing the agreements.

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Soviet air technicians arrived in Egypt on 9 May. Prior to this report at least 100, and possibly 200, Soviet and Czech technicians were believed to be in Egypt in connection with the arms deal.

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