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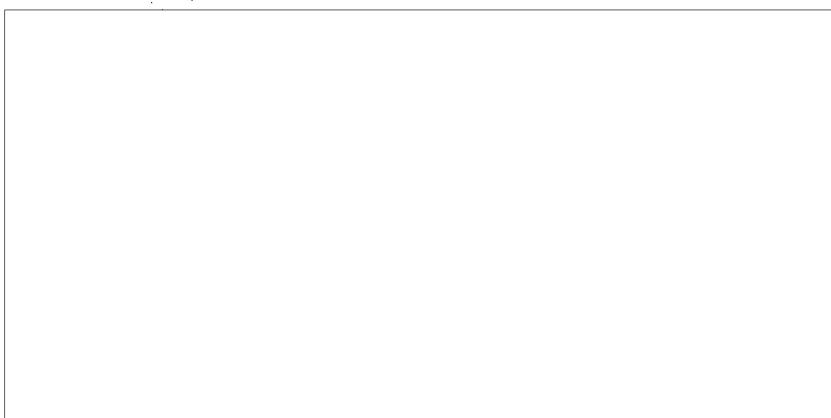
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1. FRANCE SEEN FORCING MAJOR CRISIS IN SUEZ BY MID-SEPTEMBER

France's determination to press the Suez issue to a climax raises the strong possibility of a very serious crisis about mid-September, in the view of the American embassy in Paris. In its present mood, France will not be satisfied with a partial and camouflaged Egyptian retreat and fears prolonged negotiations will permit Nasr to get away with his coup.

The embassy believes that unless Nasr yields far more than seems probable in his reply to Secretary Dulles' plan, Paris will insist that the work of the five-nation committee in Cairo is finished and will bring strong pressure for immediate and drastic sanctions.

Ambassador Dillon believes that the French attitude may be based on the general view that the USSR would not respond forcibly to an Anglo-French attack on Egypt.

Comment

Since the London conference, the French government has taken military and economic steps to improve its ability to exert pressure on Nasr, and Premier Mollet apparently has almost unanimous non-Communist backing for this policy. Implementation of extreme measures probably will depend on the extent of active British support. Thus far the two countries appear to have closely co-ordinated their military and economic pressure tactics against Egypt.

2. TWO SOVIET SUBMARINES TO BE DELIVERED TO EGYPT IN SEPTEMBER

Comment on:

Two Soviet submarines are scheduled to leave the Baltic Sea for delivery to Egypt

If the schedule is followed, the submarines should arrive in Egypt by the last week in September.

The boats will be manned by Soviet crews not in Soviet uniform on the voyage to Egypt. Egypt may want to retain at least some members of the Soviet crews to supervise tactical operations after the boats arrive in Egyptian waters.

~~CONFIDENTIAL~~

3. SWISS BANKS MOVE TO CURTAIL EGYPTIAN FINANCIAL TRANSACTIONS

[Redacted] Leading Swiss commercial banks and the Swiss national bank have tentatively decided to short-circuit Egypt's scheme to make its international payments from

[Redacted] deposits to be established in Switzerland by Communist China. They will do this by declining substantial deposits (presumably in Egyptian accounts) from any country in any currency other than Swiss francs.

[Redacted] the Egyptians have been informed of this proposed action.

Swiss bankers will take the position that large receipts of foreign currency might eventually inflate the Swiss franc and are therefore averse to Switzerland's becoming the turntable for pro-Communist countries' international payments. The final decision by the Swiss government is expected within a few days.

Comment The 20,000,000 Swiss francs reported deposited by Communist China for Egyptian clearing accounts in Switzerland is a relatively small capital movement. Larger movements of capital in and out of Switzerland have occurred in recent years without adverse effects on the Swiss economy.

~~CONFIDENTIAL~~

4. WEST GERMANS MAY BACK DOWN ON 18-MONTH CONSCRIPTION TERM

A leading member of Chancellor Adenauer's Christian Democratic Party (CDU) says his party will have to drop its support of an 18-month conscription term for its armed forces or lose the 1957 election to the opposition. The American embassy in Bonn comments that, although the government still favors 18 months, the CDU is now likely to try to take credit for advocating a shorter term. Meanwhile, the chairman of the Bundestag Defense Committee, a CDU member, has supported a compromise plan whereby basic troops, such as the infantry, would serve 12 months and specialists, 18 months.

The CDU spokesman said there is no longer any possibility of preventing the law setting the term for conscription from being presented to the Bundesrat, and that there is insurmountable resistance in the Bundesrat to the 18-month term.

Comment

The conscription bill was pushed through both houses in July without any specification as to length of service, with the idea that the Bundesrat could probably be bypassed and a law setting a term of 18 months pushed through the Bundestag after it reconvenes in September, by the CDU's own majority. Since July, the West German public has been confused by speculation over the status of conventional armed forces, and Adenauer's position on the need for conscription has been undercut.

5. TASS ANNOUNCES SOVIET NUCLEAR TESTS

[Redacted]

The official Soviet news agency, TASS has announced that two nuclear weapons tests occurred on 25 and 30 August and that other tests will be held for the purpose of improving existing nuclear weapons and developing new types of weapons.

TASS claimed that the fall-out of radioactive material was reduced by the Soviet practice of detonating the weapon "at a considerable height" and by using "the smallest possible quantity of active material." The statement reiterated previous Soviet proposals for a ban on nuclear weapons and tests and cited recent US and British tests as a justification for the current Soviet series.

Comment

The first in the current series of Soviet nuclear tests occurred on 24 August at Semipalatinsk and produced a yield of approximately 100 kilotons. The estimated yield of the most recent test probably falls in the range of 500 to 1,000 kilotons. Three previous tests during February and March of this year all produced yields of less than 30 kilotons.

Announcement of these tests follows closely President Eisenhower's recent criticism of Soviet secrecy. The danger from fall-out to neighboring countries implied in the President's statement probably induced the Soviet announcement's emphasis on safety measures.

[Redacted]

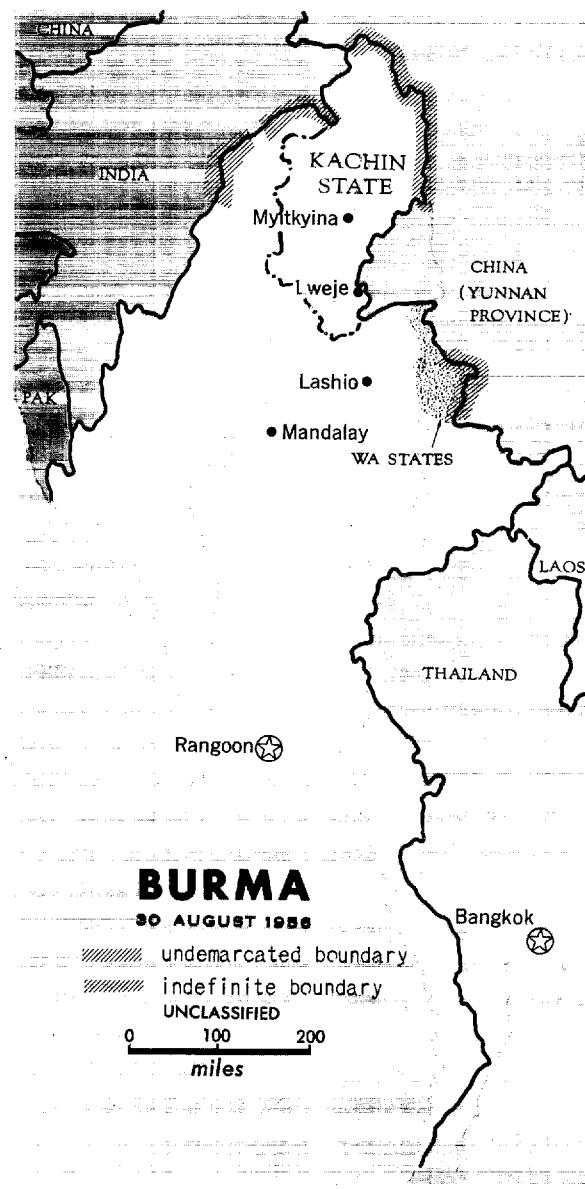
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6. COMMUNIST CHINA OFFERS TO WITHDRAW TROOPS FROM DISPUTED SINO-BURMESE BORDER AREA

Premier Chou En-lai has declared [redacted]
[redacted] to Prime Minister Ba Swe of
Burma that Chinese Communist troops
"are prepared to withdraw" from the
disputed territory in the Wa States. [redacted]

Chou stated that Communist China finds it difficult to accept the present boundary line but, in the interests of a peaceful settlement, is willing to accept the Burmese suggestion that Chinese troops be withdrawn.

Chou, however, called attention to the presence of Burmese troops near the "undetermined boundary" in the Kachin State area. He requested that these troops be withdrawn, and expressed the hope that Burmese troops would also "cease to advance" toward the disputed area in the Wa States in order to avoid a situation prejudicial to a smooth settlement of the boundary question by a joint commission.



Comment

Peiping had previously indicated it would not withdraw its troops from the disputed area but would "preserve the status quo" pending a negotiated settlement. Its reversal of position follows [redacted] from Ba Swe which warned of "lasting enmity" between the two countries and which threatened to give further publicity to the issue by bringing it before the Burmese parliament.

[redacted] however, by no means resolves the Sino-Burmese border dispute as Rangoon will almost certainly reject Chou's contention that any of its troops in the Kachin State are in Chinese territory. The Burmese have for some time been preparing a case concerning this portion of the boundary, although no specific representations have been made to Peiping.

Ba Swe would meet any continuing deadlock by renewing his effort to win the support of other neutralist nations. Yugoslavia, India and Indonesia have already expressed their sympathy for the Burmese position.

~~CONFIDENTIAL~~

7. NEGOTIATIONS FOR SOVIET AID TO INDONESIA SUSPENDED



Ivan Semichastnov, the leader of the Soviet delegation conducting negotiations in Djakarta for Soviet economic and technical assistance to Indonesia, reportedly will leave for Moscow on 3 September. Semichastnov's return to Moscow will give Bulganin and Khrushchev the opportunity to be briefed during the Indonesian president's visit there, and the USSR may hope to include a reference to Soviet aid in a joint statement at the end of Sukarno's visit. Meanwhile, negotiations have been suspended.

[redacted] the Indonesians had refused to be stampeded into signing an aid agreement with the USSR, and were holding out for restrictions which would severely circumscribe Soviet activities. Recently, the deputy chief of the Indonesian negotiating team stated that the talks had been moving at a slow pace because of a lack of understanding of each other's problems. Prime Minister Ali, moreover, told the American ambassador that neither party has yet made any specific proposals, confirming other information that each side has been waiting for the other to take the initiative.

~~CONFIDENTIAL~~

8. SOVIET JOURNALIST DISCUSSES GERMAN UNIFICATION AND EUROPEAN SECURITY

[redacted] the USSR did not insist that a united Germany be Communist, it was impossible for the USSR to abandon East Germany at the present time, just as the West could not abandon West Germany. He said "something might be worked out" in the future if there were true security guarantees and the question of Western bases were settled, and if the West stopped demanding a Western-oriented Eastern Europe. Pointing out that Molotov was no longer the foreign minister, he urged that these questions be explored further "without communiqüs and declarations."

He urged a rapprochement between the United States and the USSR and hinted that correspondence between President Eisenhower and Marshal Zhukov on disarmament would be more productive than has the correspondence with Premier Bulganin.

Comment

Although the remarks on the present prospects for German unification reflect the flatly negative position taken by Khrushchev over the past year, the suggestion of secret, informal negotiations is new.

Soviet journalists in past conversations have stressed the value of developing contacts between President Eisenhower and Marshal Zhukov.

THE ARAB-ISRAELI SITUATION
(Information as of 1700, 31 August)

Egypt has protested to the UN Truce Supervision Organization that Israelis killed 13 Egyptian soldiers and wounded two others in three attacks on 30 August. An Israeli spokesman said he could neither confirm nor deny the Egyptian complaints. Two of the attacks occurred in the Gaza strip and the third near the El Auja demilitarized zone. The Israeli action is probably in retaliation for the incident of early 30 August in which two Israeli soldiers were killed and two others wounded by the explosion of land mines near El Auja. The Israeli response to Arab actions over the past few weeks indicates that sharp Israeli reprisals can be expected to follow almost immediately after future Arab incursions.

An Israeli broadcast from Jerusalem stated on 31 August that Egypt has added the 500-ton Israeli merchant ship Bat Galim to the Egyptian navy. The Bat Galim was seized in the Suez Canal on September 1954 as it was en route to Haifa with meat and hides from Eritrea. Although the 10 Israeli crew members were released in January, the Bat Galim has remained in Egyptian hands. Egypt had previously announced that it was going to put the ship up for auction.

The second of the two former British destroyers purchased by Egypt is reported to have left the United Kingdom. The first departed British waters last week and stopped at Sicily on 29 August. Previous reports indicated that both destroyers would have to sail without ammunition. Egypt may find it difficult to find the particular type of ammunition required.

in New Delhi informed Cairo on 17 August that he had succeeded in obtaining 5,000 rifles, 20,000 grenades and 2,500 three-inch high-explosive mortar shells.

[redacted]
[redacted] a new Egyptian query on the return of tanks previously requested. The Egyptian request probably referred to the 20 Soviet T-34 tanks reliably reported to have been delivered by Egypt to Syria in early March. [redacted] the 20 tanks were on loan to Syria pending Czech deliveries of the Syrian-ordered T-34's.