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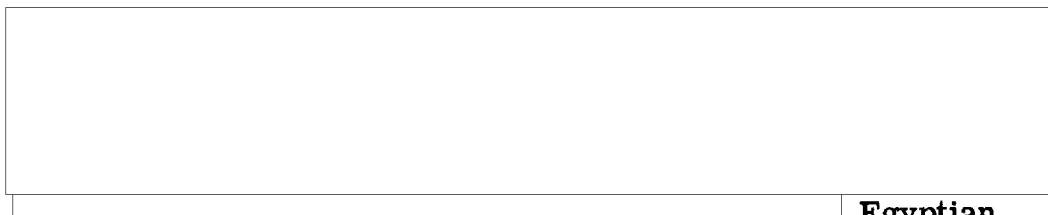
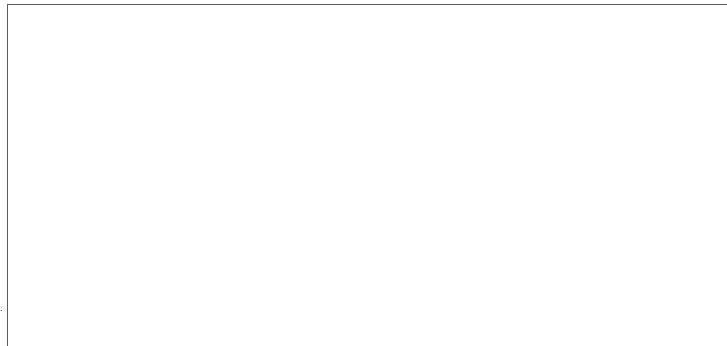
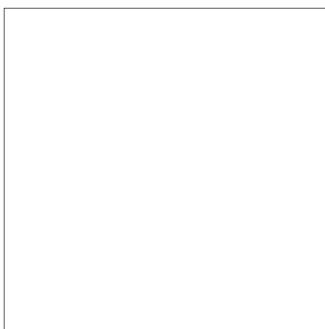
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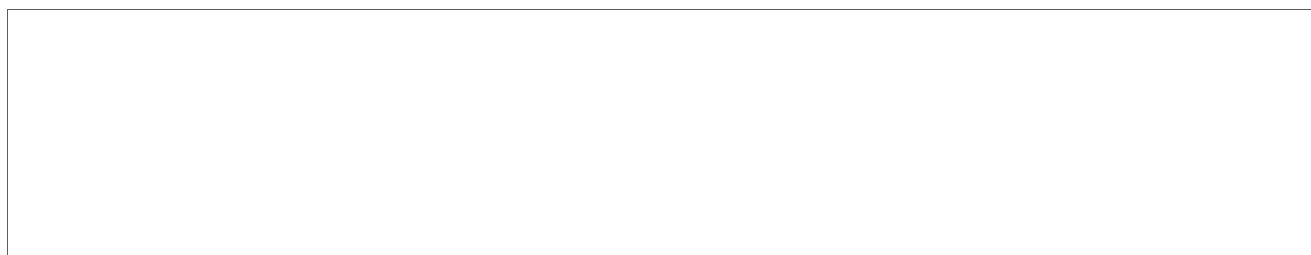
**1. INITIAL EGYPTIAN REACTION TO US STATEMENT
ON HIGH DAM**

Comment on:



Egyptian spokesmen in Cairo state that replies to the American and British withdrawal of offers on the dam will be made after the government studies reports from its ambassadors in Washington and London.

The Egyptian press, which will be followed by the Arab press generally, has taken a bitter line toward the US and Britain over the withdrawal of the offer to help build the dam and asserts that the dam will be built whether the "imperialists" help or not. Radio Cairo, meanwhile, is broadcasting reports that Soviet news releases are commenting favorably on Egypt's "new and independent policy" and quoting Soviet press criticism of the American action.



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2. COMMUNISTS CONTROL TWO POSTS IN NEW ICELANDIC GOVERNMENT

[Redacted]

The new six-man Icelandic government as reported on 21 July gives the Communist-dominated Labor Alliance two important cabinet posts, but does not immediately threaten

[Redacted]

the American-manned NATO base at Keflavik or Iceland's continued adherence to NATO. The new government will, however, probably press for some face-saving revisions in the status of the base along the lines of the parliamentary resolution of 28 March calling for the withdrawal of American troops.

The Progressives (agrarians), the Social Democrats and the Labor Alliance each received two seats in the cabinet. The ministries going to the Labor Alliance, which consists of dissident left-wing Socialists and Communists, reportedly include Commerce, Fisheries and Social Welfare. Through their administration of these ministries the Communists hope to acquire a stranglehold on the nation's economy and build up a strong political machine.

The new prime minister is the opportunistic chairman of the Progressive Party, Herman Jonasson. The Foreign Ministry went to Gudmundur I. Gudmundsson, a strong right-wing Social Democrat who was reportedly opposed for this post by the Labor Alliance. The Labor Alliance also presumably accepted the Social Democrats' condition that the new government issue a declaration of Iceland's continued adherence to NATO.

[Redacted]

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3. BRITISH FOREIGN OFFICE FAVORS CONTINUING MORATORIUM ON CHINESE UN REPRESENTATION

The British Foreign Office, [redacted]

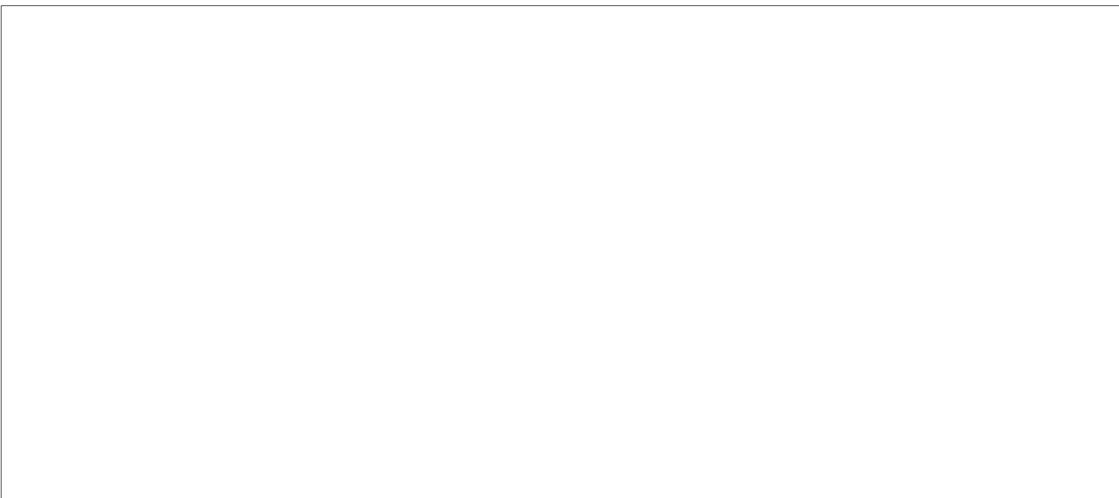
[redacted] has recommended to the cabinet a continuation through the next session of the General Assembly of the moratorium on discussion of seating the Chinese Communists in the UN. He hoped for a cabinet decision within the next few days, but pointed out that the cabinet may wish to support the moratorium only until the end of the calendar year.

Comment

During his talks in Washington last January, Prime Minister Eden was noncommittal on the question of continuing the moratorium for the duration of the General Assembly session, which opens 12 November and continues until about March. The line he took at the Commonwealth prime ministers conference in late June, however, suggests that he may now be ready to agree to further postponement of the China question. [redacted]

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**4. JAPANESE FOREIGN MINISTER REQUESTS INFORMATION
ON US-PHILIPPINES BASES ARRANGEMENT**



Comment The details of the transfer of American ownership of bases in the Philippines have yet to be negotiated. The Japanese may be expected to follow these negotiations closely and to use any agreement as a precedent in the future for opposing American ownership of bases on Okinawa.

5. NEW ARMS SHIPMENTS TO ALGERIA REPORTED

Ten loads of arms, possibly light antitank guns, destined for the Algerian rebels were to be shipped from Belgium to Libya by a Belgian airline beginning 12 July,

[redacted] Moroccan [redacted]

[redacted] government is now supplying the Algerians with small arms being turned over to the Moroccans by the Spanish army as part of the general transfer of authority in the northern zone. [redacted] arrangements have been made with Spain to understate in official records the number of arms turned over and that weapons "lost" in this fashion have already been channeled to the Algerian resistance. [redacted] the Moroccans have also made a deal with Spain to purchase other arms--ostensibly for their own army but actually for the Algerians who have already made the money available for this transaction. [redacted]

Comment

The direct complicity of the Moroccan government in the traffic had been suspected but not previously confirmed. This complicity, probably encouraged by Spain, may be expected to increase in the light of the avowed determination of the sultan's government to support Algerian independence "to the limit." The Algerian nationalists continue to suffer from a general shortage of weapons and munitions.

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6. MOSCOW ALLEGEDLY CONSIDERS GRANTING SATELLITES GREATER INDEPENDENCE

[redacted] the USSR intends at an unspecified date to request a summit conference with the United States to discuss granting "Titoist" type independence to the [redacted] Eastern European Satellites.

[redacted] East Germany would be excluded from the negotiations because there is no solution for the German reunification problem, and that Poland would also be excluded because it borders on divided Germany.

Comment

Moscow may have passed such information to [redacted] in an effort to appeal to the Socialists and others who would view it as an indication the USSR aims ultimately at loosening its control over the Satellites.

[redacted]
It is highly unlikely, however, that the USSR-- if it decided to give the Satellites greater independence--would request a summit conference to deal with a matter Moscow has insisted concerns only itself and the Satellite governments.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 22 July)

UN secretary general Hammarskjold made an unexpected change in his itinerary to include a stop in Amman on 21 July for discussions with Jordanian officials before proceeding as planned to Cairo. American officials in Jerusalem suggest that discussions between Hammarskjold and Israeli officials may have included other issues besides cease-fire arrangements on the Israeli-Arab borders. The presence of the president of the Bank of Israel at one of the functions given for Hammarskjold is considered an indication that indemnity for the Palestine refugees who lost property in Israel might have been discussed.

The American army attaché in Tel Aviv reports a reshuffling of high Israeli army officers, including replacement of the chief of the Israeli armored forces. The attaché believes these changes indicate the armored forces may be having organizational and operational difficulties and that the new chief has been assigned as a trouble shooter. The attaché also has received unconfirmed reports that armored exercises will be held for four days next week in the Negev area. Recent maneuvers in Israel's northern command have apparently been concluded and the roads have been opened to the public. The attaché believes, however, that a new cycle of training, probably the 30-day annual training of reserves, has started. If this follows last years' pattern, it will end in mid-August with field exercises in the northern command.

The American navy attaché in London has received information that Egypt is getting or has ordered four regular submarines and has already received three midget submarines, which will have the primary mission of blockading Israeli ports. Egypt reportedly is to receive submarines as part of the Soviet bloc arms deal but there is no firm information that any have been delivered.

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