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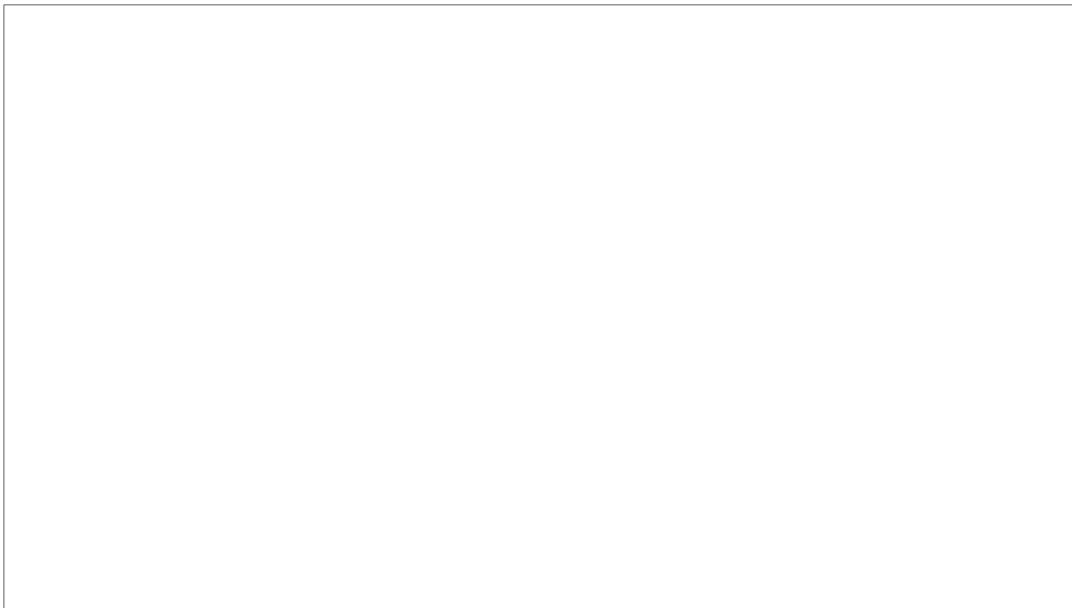
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1. BRITAIN FACES CRITICAL FINANCIAL SITUATION

Chancellor of the Exchequer Macmillan said privately on 19 November that the British balance-of-payments figures for this month would be "very bad" and that he was facing a most difficult choice. Macmillan said that in announcing the figures on 3 December he could either let events take their course, in which case sterling would depreciate substantially and Britain would no longer be a major power, or he could take the stronger line that Britain had reserves which it would use to support the rate. In this connection, he mentioned the International Monetary Fund and borrowing against government-held United States securities. He indicated that he favored the latter course.

Macmillan said he realized that he could not possibly make the necessary arrangements to use these reserves within 10 days and that he could not secure the necessary United States agreement until British troops were out of Egypt.

Comment For the last several months Britain's sterling reserves have shown a steady decline with the exception of September. On 1 November, following a fall of \$84,000,000 in the October figures, the reserves were only \$244,000,000 above what British Treasury officials have long considered the minimum safety level.

In answering Labor's 12 November parliamentary attack on the government for disregarding the economic consequences of its intervention in Egypt, Macmillan acknowledged that there would be a "serious temporary effect upon our economy and our reserves." He insisted that the sterling reserves were sufficient to take care of such a setback, commenting, "that is what reserves are for!"

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2. SYRIAN REQUEST FOR ARMS AND PERSONNEL FROM USSR INDICATED

[Redacted] Kabbani had asked the USSR to supply two squadrons of MIG-17 jet fighters--about 30 aircraft-- "with necessary personnel." Other equipment requested, to be accompanied by personnel, included four mobile radar stations, one regiment each of 122-mm. field guns (24 guns), 85-mm. antiaircraft guns (8 guns), coastal artillery (8-12 guns), and 12 motor torpedo boats. In addition, personnel to service two regiments each of 85-mm. antiaircraft guns and 37-mm. antiaircraft guns were requested.

The Soviet response to the Syrian request is not yet known. [Redacted] Damascus instructed its army purchasing mission in Moscow to "work to procure immediately" 25,000 rifles, 15,000 submachine guns, 650 mortars, together with ammunition, and to hasten deliveries under contracts concluded earlier with Czechoslovakia and Poland. The USSR is not known, however, to have delivered any of this equipment.

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[Redacted]
The "reservoirs" are probably for petroleum storage. One of the major factors limiting Syria's present capability to support a high level of jet aircraft activity is a shortage of fuel storage facilities. The quantity of steel plate sought is sufficient to provide storage for as much as 75,000 tons of aviation fuel in tanks which could be constructed within a period of two or three months.

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3. ISRAEL'S POSITION ON NEGOTIATING WITHDRAWAL OF TROOPS

[Redacted]

Israel planned to start negotiations on 20 November with the UN secretary general on the withdrawal of troops from Egypt, according to Israeli ambassador Eban. Eban said Israel intends to ask that UN forces take over key points in Sinai as Israeli troops move out and that Sinai be demilitarized "without prejudice to Egyptian sovereignty." Israel proposes that it be assured of freedom of the Straits of Tiran by one of three alternatives: (1) leaving Israeli forces there, (2) leaving the islands in the straits empty, or (3) having a UN force occupy the islands. The Israeli position on the ultimate disposition of the Gaza strip is not yet firm, but Tel Aviv will insist that the Egyptians do not return there.

According to the American embassy in Tel Aviv, the Israeli defense force, the press, the general public and all but the extreme political parties have reluctantly accepted Ben-Gurion's agreement in principle to evacuate Sinai. The embassy believes that the Israelis, however, will insist on border security and freedom of transit in the Suez. The embassy believes that if these objectives are not attained, not even Ben-Gurion could persuade the Israeli public to accept Egyptian control of the Gaza strip, or the re-establishment of Egyptian military control in Sinai and the Straits of Tiran, unless the big powers give Israel iron-clad security guarantees.

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4. JORDAN PARLIAMENT CALLS FOR ABROGATION OF ANGLO-JORDANIAN TREATY

The Jordanian parliament's unanimous approval of a committee recommendation that Jordan abrogate the Anglo-Jordanian treaty and establish diplomatic relations with the Soviet Union and Communist China will almost certainly be followed by action in this sense by the Jordan government, although King Hussain may attempt to delay final action on the treaty until a substitute has been found for the \$33,000,000 annual British subsidy.

King Hussain told Ambassador Mallory on 16 November that he doubted the other Arab states would provide aid on a long-term basis, and that he did not want to align Jordan against the West despite assurances of aid he had received from "other sources." Ambassador Bohlen believes the USSR would respond favorably to a Jordanian request for aid.

Syria has already ordered arms for Jordan's account from the Soviet bloc.

The approval of diplomatic relations with Communist China is a gesture of defiance against the West. Peiping has shown great interest in the Arab states during the past year.

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CONFIDENTIAL**5. YUGOSLAV ARREST OF DJILAS**

[Redacted]

The arrest in Belgrade on 19 November of former Yugoslav vice president Djilas may be designed to counter any Soviet criticism during the current Belgrade-Moscow controversy that Yugoslavia is no longer a true supporter of world Communism. Belgrade presumably foresees an increasingly difficult period in its relations with Moscow following Tito's critical speech of 11 November and Pravda's rejoinder on 19 November.

Djilas' detention arose from the publication in the American press of his article which described the Hungarian revolt as the "beginning of the end of Communism generally." There have been no signs of serious unrest in Yugoslavia in the wake of Hungarian events, but Djilas is presumably viewed by the regime as a natural rallying point for those forces opposing the Belgrade Communist government. Tito stated in his 11 November speech that Yugoslavia is "united and strong," but "we must not allow various characters and elements to speak all sorts of nonsense!"

Djilas was purged in 1954 for advocating greater freedom in Yugoslavia and was arrested in early 1955 on charges of conspiring against the state when he called for the establishment of a two-party system in Yugoslavia in an interview with a Western correspondent. He was at that time given an 18-month sentence, but placed on probation for three years.

[Redacted]

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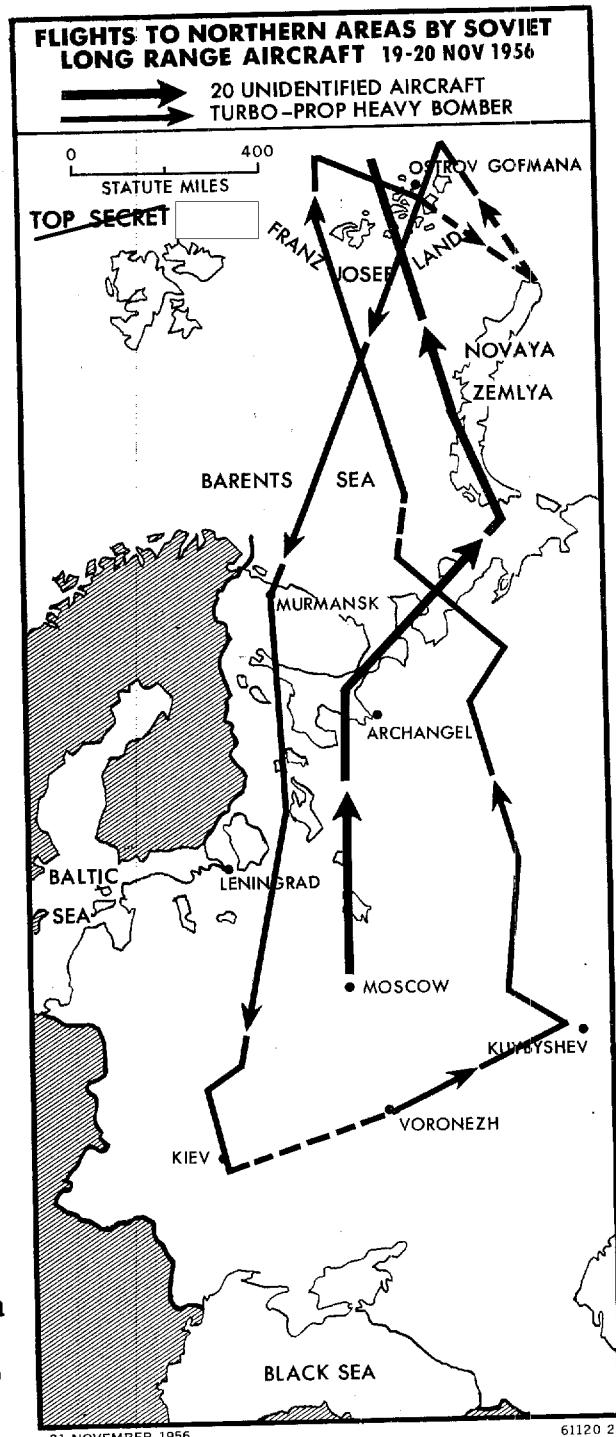
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6. SOVIET LONG-RANGE AIRCRAFT ACTIVE IN WESTERN ARCTIC

Comment on:

more than 20 long-range aircraft in flights to the Soviet western Arctic extending above the 80th parallel. The Soviet long-range D/F network plotted these aircraft in a flight from the Moscow area to a point well north of Franz Josef Land. The length of the flight suggests that the aircraft were medium or heavy bombers rather than transports.

The same network reported a single TU-95 turboprop heavy bomber in a 14-hour round-robin flight from its base near Kiev to a point about 150 nautical miles north of the westernmost island

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of Franz Josef Land.

Although long-range bombers have been observed in isolated flights above the 80th parallel since March, this is the first time aircraft are known to have operated in this area in unit strength.

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7. PAKISTANI PRIME MINISTER REPORTS ON CHINA TRIP

Pakistani prime minister Suhrawardy has stated [redacted] that he upheld Pakistan's ties with the West, including its membership in SEATO and the Baghdad pact, in his meetings with Mao Tse-tung and Chou En-lai last month.

[redacted] he came away with the feeling that "the Chinese leaders seem genuine in their desire for peace," and that "Pakistan would not be committing an error in being friendly and genuinely co-operative with them."

In their conversations with Suhrawardy, Mao and Chou sought to minimize their commitment to the USSR and declared emphatically that Peiping is not a satellite of Moscow. Noting that they were receiving assistance from the Soviet Union, Mao and Chou asserted that they were also prepared to accept aid from other countries--"even from the United States!"

As they have done before in talks with other visitors, the Chinese urged that Suhrawardy help them by approaching his American friends to induce them to reduce their opposition to Peiping. Mao and Chou indicated that they were anxious to have expanded contacts with other countries and were "very keen" to establish relations with the United States. The Communists, however, gave Suhrawardy the impression that normal relations between Peiping and Washington would be impossible without a settlement of the Taiwan question. Any mention of Taiwan, said Suhrawardy, "upset their mental balance!"

In response to Suhrawardy's request for Peiping's support on the Kashmir question, Chou tried to evade the issue, but finally said he would discuss it with Nehru on his forthcoming visit to India. [redacted]

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8. EARLY INTEGRATION OF PATHETS INTO LAOTIAN GOVERNMENT SEEN LIKELY

[Redacted]

Laotian cabinet opposition has apparently developed over Prime Minister Souvanna Phouma's efforts to win approval for the immediate formation of a coalition government with the Pathet Lao. He reportedly told the cabinet on 15 November that Pathet Lao chief Souphannouvong had agreed to the integration of the Pathet Lao army and the restoration of royal government authority in the northern provinces in return for immediate Pathet participation in the government. The cabinet, which opposed this move since it would deprive the government of all bargaining power with the Pathet Lao, is turning the issue over to the national assembly.

Souvanna Phouma has indicated that he will resign unless his proposal is accepted, thus precipitating a cabinet crisis. Faced with this prospect, and the popular demand for a settlement with the Pathets, the assembly seems likely to approve the formation of a coalition government, broadening the cabinet to include several important Pathet Lao officials, probably including Souphannouvong.

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