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1. PARAGUAYAN MILITARY REBELLION REPORTED QUELLED

President Stroessner announced on 22 December that the "command crisis" which broke out on 21 December in the First Cavalry Division "is headed toward a satisfactory solution." The rebellion in this key unit was touched off by Stroessner's order for the arrest of Epifanio Mendez Fleitas, Central Bank president and a controversial leader of the ruling Colorado Party.

Stroessner and other conservative elements in the Colorado Party wish to remove Mendez from his politically strategic job, not only because of political rivalry, but because they variously consider him to be pro-Peron, corrupt and leftist. Mendez and his followers, on the other hand, would like to reduce the traditionally dominant political power of the military.

The Argentine government is reported to have made the removal of Mendez a prerequisite for granting the economic co-operation which Paraguay urgently needs-- trade having virtually ceased since Peron was ousted last September. Buenos Aires is probably concerned over plotting by Peronista exiles and the extent to which pro-Peron Paraguayan officials would be willing to limit such activity.

While Stroessner, as commander in chief of the armed forces, still appears to hold the stronger position, Mendez has made some progress in undermining Stroessner's military support by granting special favors to younger officers, including the commander of the First Cavalry Division. In addition, Mendez is said to have the support of the police and of the head of the Colorado Party.

It is evident that Stroessner has not yet resolved the crisis. [redacted]

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**2. AFGHANISTAN RELEASES MORE FUNDS TO
MORRISON-KNUDSEN COMPANY**

[Redacted] The Afghan government has ordered \$800,000 released to the Morrison-Knudsen Company for current expenses, according to the company's manager in Afghanistan. The company has been authorized to resume purchasing and shipping through Pakistan, and its manager is recommending that the sending of personnel to Afghanistan be resumed.

Comment This sum is apparently in addition to the \$700,000 released in recent weeks and previously reported.

Kabul's actions in favor of Morrison-Knudsen suggest that the Afghans, in an effort to counterbalance the effect of the Bulganin-Khrushchev visit, mean to keep the Helmand Valley project under American auspices. [Redacted]

3. POLES MAKE DETERMINED EFFORT TO GAIN ARABIAN RAILROAD SURVEY CONTRACT

[Redacted]

The Polish organization responsible for Polish industrial construction in other countries has submitted the low bid for a survey of the Hejaz rail line reconstruction project which would extend

the line from Maan to Medina.

[Redacted] reconstruction of the line.

The difference between the Polish bid of \$440,000 and the next lowest bids, \$780,000 by an American firm and \$865,000 by a Japanese firm, demonstrates that Warsaw is determined to win the subsequent contract for actual construction of the line.

The Hejaz commission will recommend acceptance of the Polish offer, although it realizes that the bid is far below the estimated cost of the survey, and recognizes it as a Soviet-backed penetration effort. The final decision as to which firm will receive the survey contract is, however, to be made by King Saud. [Redacted] (Prepared by ORR)

4. DISORDER INCREASING IN ALGERIA

Jacques Chevallier, the French mayor of Algiers, has told the American consul general that the Algerian Assembly has been paralyzed by the mass resignation of Moslem members. Moslem administrative officials throughout Algeria, threatened with assassination if they do not resign by the time of the 2 January elections in France, are leaving office in increasing numbers. Clashes between the nationalists and the French reportedly have resulted in about 90 deaths in three days. Terrorist activities will probably be stepped up over the holiday season, and propaganda leaflets calling for greater violence at that time are being circulated in the cities. The 175,000 French ground and air forces in Algeria are being reinforced.

Chevallier believes that Governor General Soustelle must be replaced, as he has lost the confidence of the Moslems. The mayor thinks the Moslems would still support a federal arrangement between France and Algeria, but in the opinion of the consul general, the French will have to spell out the details and timing of an acceptable solution before the nationalists will lay down their arms.

The anticipated early consideration of the Algerian issue by the French National Assembly after the 2 January elections will be handicapped by the lack of Algerian representation.

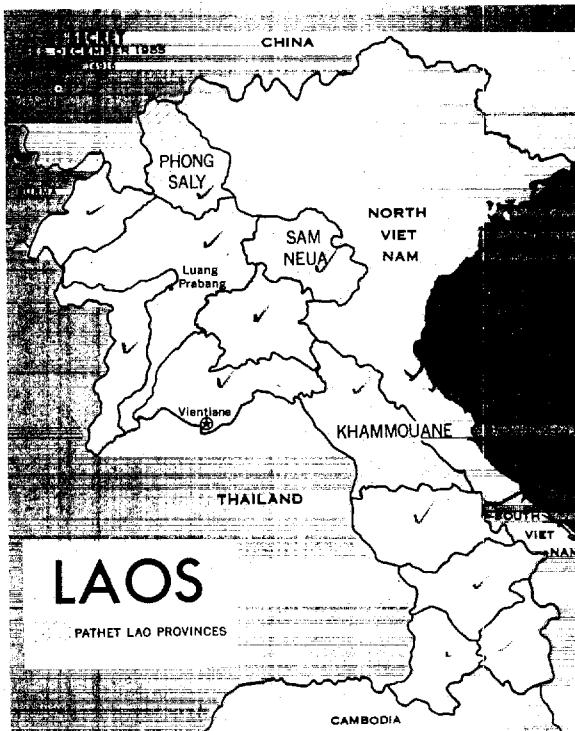
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5. INCREASED COMMUNIST ACTIVITY IN CENTRAL LAOS REPORTED

Pathet Lao-Viet Minh activity has increased radically in Khammouane Province, central Laos, during the last two months,

sighting Lao-Viet units, ranging in size from two to 60 men, on 38 separate occasions during this period.

Not all of these groups were armed. Security in the province is the worst in any of the ten under the government's control. Police and army reinforcements were recently sent there, presumably in anticipation of disorders during the 25 December elections.



Comment This report indicates a considerable Communist capability for subversion and sabotage in central Laos. Although Khammouane Province, on a main communications line from Viet Minh-held central Vietnam, is apparently the most heavily infiltrated, the Communists are believed to be increasing their capabilities in other central and southern provinces as well. A recent Pathet Lao defector said that guerrilla operations by small units throughout the country are planned.

The government's military problem in the north has forced the concentration there of most of its military units. A withdrawal to meet security threats elsewhere would

weaken government pressure on the Pathet Lao's base areas and perhaps preclude any plans to reassert royal authority there by large-scale military action.

The Pathet Lao is urging the people to abstain from the national elections on 25 December, and bands of Lao-Viets such as those reported would be able to intimidate isolated localities.

6. NASR CALLS CONFERENCE OF ARAB LEADERS ON JORDAN

Comment The Saudis have previously suggested that Arab states should replace the British subsidy to Jordan, which amounts to about \$33,000,000 annually, but have never made a concrete offer.

It is unlikely that the Saudis would live up to such a commitment. However, if the present political unrest in Jordan continues, Hussain may feel that the safety of his throne depends on weakening his ties with Britain.

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

No significant military activity has
been reported.

On 30 November the secretary general of the Italian Foreign Ministry told the American embassy that it would become increasingly difficult to resist domestic pressure for the sales of arms to the Middle East as a result of delays in the Washington talks and reports that the French were continuing to sell arms to that area.