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1. BRITISH CONSIDERING COUNTERMEASURES TO SUEZ NATIONALIZATION

Britain apparently has ruled out recourse to the UN Security Council on Egypt's nationalization of the Suez Canal, and feels that Britain, France and the United States must consider the possibility of military seizure. An emergency cabinet meeting on 26 July, attended by representatives of both the United States and France, took no firm decision, however.

The cabinet agreed that the interested Western governments must consider economic, political and military measures outside the UN to ensure maintenance of the canal, freedom of transit and reasonable tolls. The cabinet felt Security Council discussion would run too great a risk of getting "hopelessly bogged down." Prime Minister Eden is apparently thinking in terms of an American-British-French ministerial conference in the immediate future.

Although London has protested sharply to Cairo that the seizure is illegal, the British government apparently does not feel that the 1888 Convention neutralizing the canal provides strong legal grounds for action at this stage. Britain's possibilities for action are limited. Eden has told parliamentary questioners that blocking Egypt's sterling balances (valued at about \$290,000,000) and stopping all arms shipments to Egypt are being considered.

The cabinet ordered a study of the forces required to seize the canal, and Foreign Secretary Selwyn Lloyd told the American representative that he thought perhaps the only solution lay in a Western operating consortium, establishing itself by force if necessary. Britain probably would not take military action, however, without American support.

On 27 July, Paris made a strong protest to the Egyptian ambassador, reserving the right to take all necessary measures in defense of French interests and freedom of transit through the canal.

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2. USSR MAY PROVIDE AID FOR ASWAN DAM

The Soviet commercial attaché in Cairo on 25 July reasserted the USSR's intention to help finance the Aswan High Dam, according to the British embassy there.

This report suggests that the confusion in Cairo over the USSR's current position on the dam question may well extend to the Soviet embassy. On 21 July Soviet foreign minister Shepilov avoided committing the USSR to support of the dam, but left the door open for later negotiations.

Egyptian president Nasr in his speech on 26 July reported that Shepilov last month had promised to help Egypt "in all fields in which Egypt asked for assistance to the extent of granting long-term loans." Nasr said that he had postponed discussion of the details until his visit to Moscow scheduled for next month.

In any case, should the Suez Canal receipts appear to improve Egypt's own ability to finance the dam, Moscow might find it increasingly attractive to make a specific offer to Egypt, at least in the form of technical assistance. Since the international complications of nationalization remain unclear, the USSR may hold off, at least until Nasr's trip, before making any offer.

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3. FRENCH ADOPTING STIFFER ATTITUDE TOWARD WARSAW GOVERNMENT

[Redacted]

French foreign minister Pineau told the Polish ambassador on 24 July that the proposed visit of Polish premier Cyrankiewicz to Paris, reportedly scheduled for September, must be postponed "indefinitely," because of the French public reaction to the repression of Polish workers.

Paris may now also defer indefinitely the planned visit of the Czechoslovak premier, according to the American embassy. The embassy expects Pineau to instruct his ambassador in Warsaw to try to have an official observer attend the Poznan trials.

Comment Leading members of Pineau's Socialist Party recently urged the government to withdraw the Cyrankiewicz invitation unless guarantees were secured that the Poznan rioters would get a fair trial. Deferment of the Czechoslovak visit would suggest that Pineau is now anxious to disengage himself from commitments which he made to the Satellites without consulting his Foreign Ministry staff.

Polish vice foreign minister Winiewicz recently told an American official in Warsaw that the trial would be "open" and that the government would give visas to "as many journalists as possible." [Redacted]

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4. JAPANESE SOCIALISTS PLAN TO SEND ATOMIC ENERGY MISSION TO MOSCOW

[Redacted]

Japan's Socialist Party has announced that it will send a team of nuclear experts and Diet members to Moscow in September to explore the possibility of obtaining Soviet aid for Japan's atomic energy program and co-operation for an exchange of nuclear scientists, according to Reuters.

The Socialists, having obtained an invitation through the Soviet fishery mission in Tokyo, called on the ruling Liberal-Democratic Party to join the nuclear group. The government party has not replied but is reported to favor making the group nonpartisan in nature.

Comment Japan is anxious to launch an atomic energy program leading to early application of nuclear power to industrial use. It is seeking an experimental nuclear reactor on the best terms obtainable and plans to send a mission to study Britain's atomic energy program in late 1956.

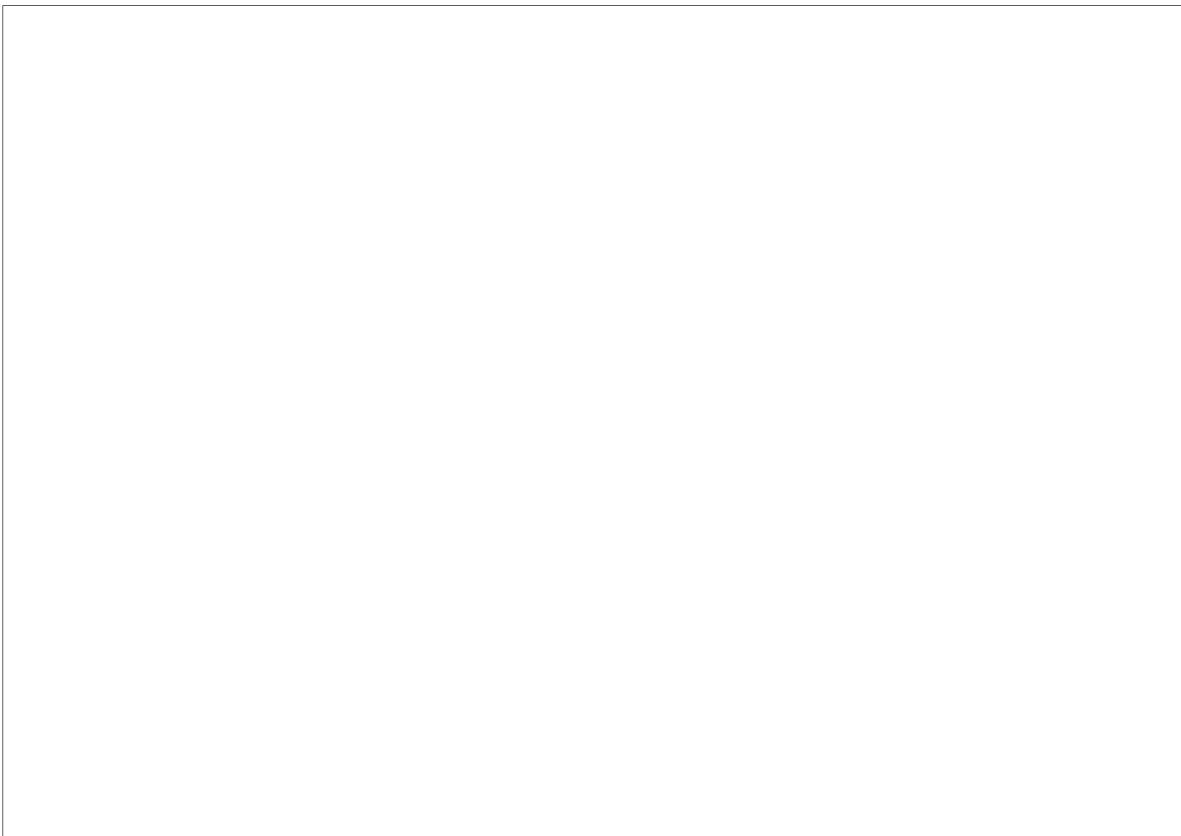
Japanese Atomic Energy Commission chairman Matsutaro Shoriki has favored the British system because of his belief in its economic feasibility and the absence of some of the security restrictions required by the United States. Both the Japanese government and industrialists probably would give favorable consideration to a Soviet offer of aid extended on liberal terms without restrictions.

[Redacted]

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5. AFGHAN-SOVIET ARMS DEAL APPEARS IMMINENT



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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 27 July)

As a result of Egypt's nationalization of the Suez Canal Company, a conservative member of the British parliament, Sir Charles Boothby, has announced that he will urge the British government next week to "reconsider its decision not to allow Israel to purchase arms for its defense." (Press)

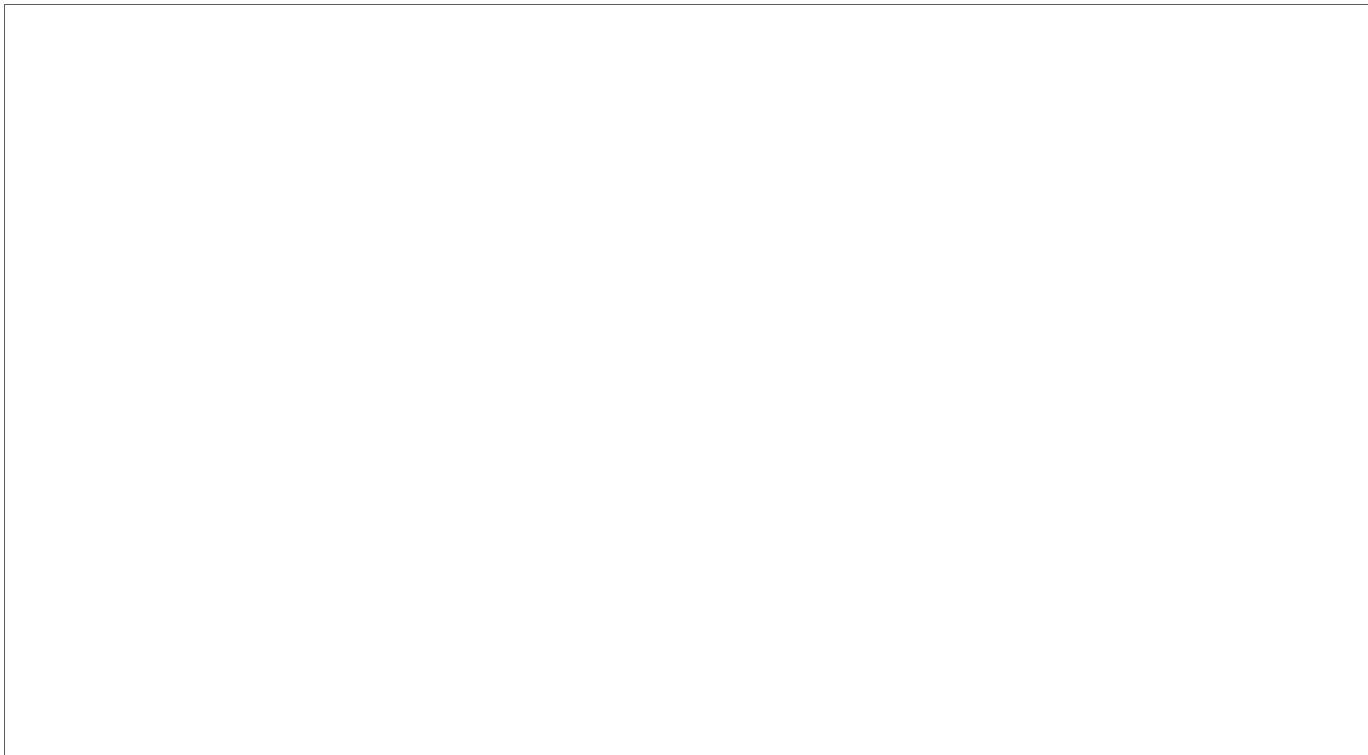
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