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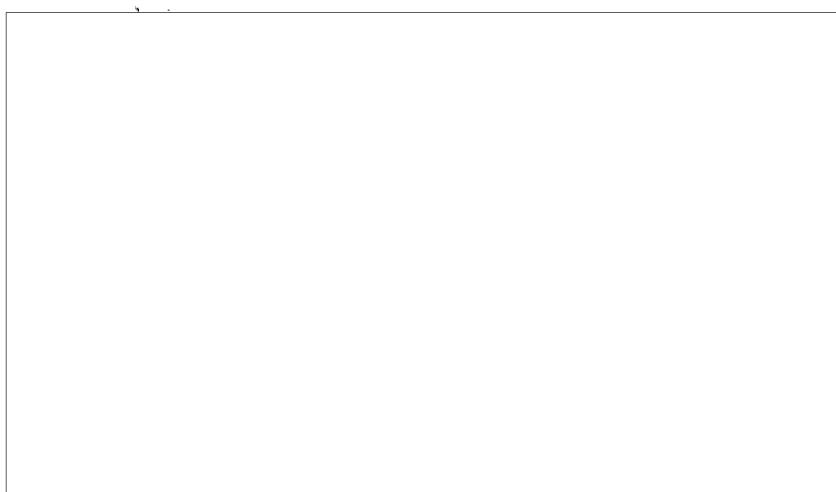
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## OFFICE OF CURRENT INTELLIGENCE CENTRAL INTELLIGENCE AGENCY

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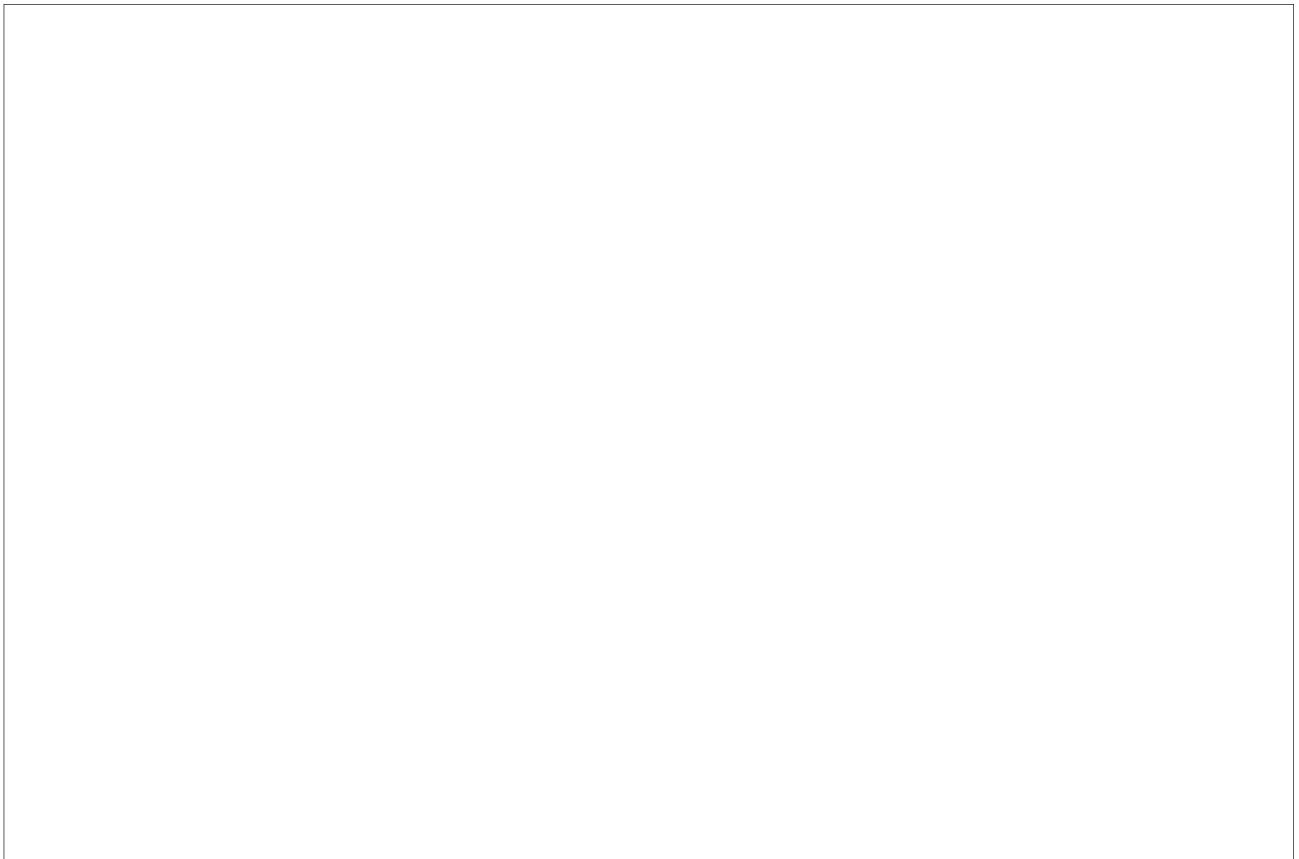
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**1. SHEPILOV ADVISES EGYPT THAT SUEZ DISPUTE  
SHOULD BE "SPUN OUT"**



## 2. PANAMANIAN LEADERS TO ENCOURAGE STUDY OF CANAL NATIONALIZATION

Panama's President Ricardo Arias and President-elect Ernesto de la Guardia agreed at a recent meeting that the next administration will "harp constantly, through the press, radio, and official circles, on the theme of Panama's irrevocable sovereignty over the Panama Canal" and the similarities between the Panama and Suez Canals. They reportedly also agreed to encourage the National Assembly to study "nationalization or internationalization" of the Panama Canal.

**Comment** Such a campaign would be designed to step up Panama's long-time efforts to weaken United States treaty rights and gain ultimate participation in the operation and profits of the canal. It would also serve well as a nationalistic issue distracting the public from serious domestic problems and thus strengthening the next administration, which will inherit the corruption and internal factional struggles which have weakened the Arias administration.

De la Guardia is to be inaugurated on 1 October. He is basically friendly to the United States, but will be obliged to appear to the public as an energetic defender of Panama's "rights" with respect to the canal. One of his personal advisers is a pro-Communist who can be expected to encourage this nationalistic approach.

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**3. LEADER OF CHILE'S ANTI-INFLATION DRIVE OUSTED FROM CABINET**

**Comment on:**

The replacement on 27 August of Oscar Herrera as head of Chile's ministries of finance and economy threatens the continuance of his austerity program, launched ten months ago, which has already ameliorated Chile's long-continued inflation.

This improvement in Chile's economic stability has appeared to modify the government's concept of Chile's role as leader of the opposition to United States economic policy at inter-American meetings. This modification was indicated by President Ibanez' co-operation at the Panama meeting of presidents in July. Should Chile's domestic economic situation again deteriorate, Chile may revert to its espousal of "share-the-wealth" policies at inter-American gatherings such as the meeting on 17-19 September of high-ranking representatives of the American republics. This meeting is scheduled to discuss President Eisenhower's Panama proposal for improving inter-American economic co-operation.

American ambassador Lyon believes that Herrera's ouster was motivated by political rather than economic policy considerations, but that it does not bode well for the future of the fight against inflation. Neither the new minister of finance nor the new minister of economy is a man of recognized public stature and both are likely to be more concerned with pleasing President Ibanez than with stabilizing the country's economy.

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**4. AFGHAN PRIME MINISTER PUBLICLY CONFIRMS  
ARMS DEALS WITH USSR AND CZECHOSLOVAKIA**

Afghan arms deals with the USSR and Czechoslovakia which were announced on 26 August by Prime Minister Daud probably are for small arms and artillery, and possibly tanks and aircraft.

Daud announced that he had made the deals in accordance with the decision of the Grand Assembly of Tribes (Loe Jirga) last November. The Loe Jirga approved strengthening Afghanistan's military forces in order to support the Pushtoonistan campaign against Pakistan. Daud's announcement included a statement that he hoped Pakistani president Mirza's recent visit to Afghanistan would lead to "an understanding satisfying the Pushtoon people." [redacted] (Concurred in by ORR)

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**THE ARAB-ISRAELI SITUATION**  
**(Information as of 1700, 28 August)**

Egypt's crude oil requirements will be met [redacted] on a day-to-day basis for some time, since Soviet bloc crude oil deliveries during the year beginning July 1955 were considerably below the amount promised, [redacted]

[redacted] The main reason for the slow deliveries was said to be the overtaxed Egyptian refinery and storage capacities. [redacted]

A joint Syrian-Egyptian command message of 27 August indicates that a Syrian MIG "flight" (or possibly squadron) plans to begin operational flying the week of 3 September. Syria has purchased 20 MIG's from Czechoslovakia. These, according to intercepted messages, were to be shipped in July.