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GENERAL**1. Soviet-Burmese trade negotiations suspended:**

Soviet-Burmese trade agreement negotiations have been suspended because of Burma's refusal to accept a clause in the draft treaty permitting private firms, as well as government agencies, to engage

in trade with the Soviet Union.

[redacted] an alternative Soviet proposal that such an arrangement be provided for in the exchange of notes, rather than in the treaty, was also rejected.

Comment: Trade negotiations with Moscow were initiated by the Rangoon government at a time when it was seriously concerned over its suddenly discovered inability to market Burma's large rice surplus. A subsequent agreement with India substantially reduced pressure to find new rice markets.

The negotiations have been stalled since last May because of Moscow's insistence on dealing directly with private traders, by means of which it apparently hoped to facilitate local Communist activity in Burma.

SOUTHEAST ASIA**2. Vietnamese reported to believe United States abandoning them:**

[redacted] According to Ambassador Heath in Saigon, there is an "almost nationwide" belief that the United States is "abandoning" Vietnam. This feeling, he reports, is ad-

versely affecting the government's program for evacuating anti-Communist refugees from the north.

Comment: The French have estimated the total number of persons that might move to the southern zone at about 150,000. Vietnamese estimates have been considerably higher.

General Ely observed recently that a dramatic propaganda campaign by the Diem government might persuade a million or more persons to go south. He said that in such an event, Diem would win the eventual elections.

NEAR EAST - AFRICA

3. Egyptian forces alerted for Israeli attack as tension increases:

Walter Eytan, director general of the Israeli Ministry of Foreign Affairs, announced in a broadcast on 25 July that British withdrawal from the Suez base would constitute a "serious threat" to Israel. Eytan strongly objected to the imminent grant of American arms

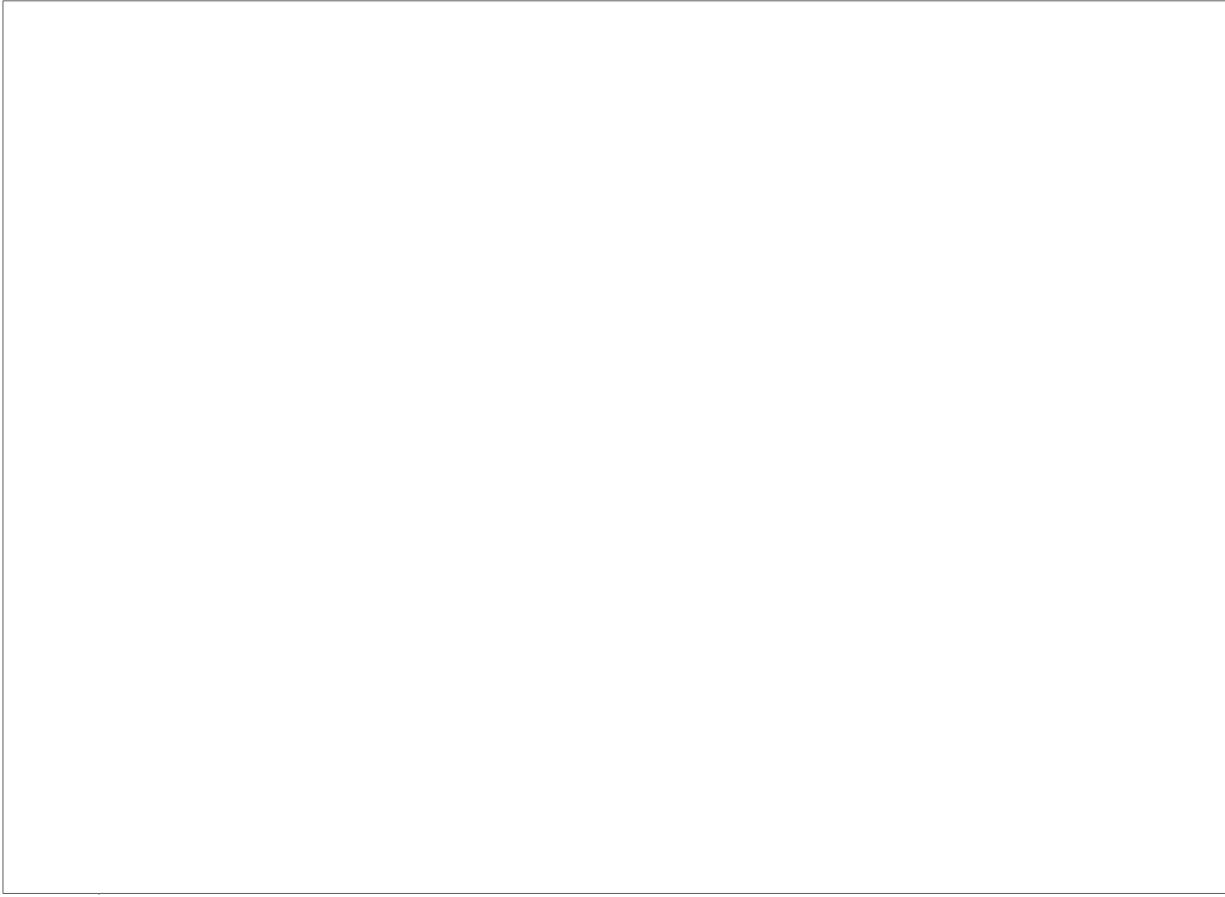
to Egypt, saying it would encourage a "second round" unless Israel received equal arms. Referring to the guarantee of boundaries, he declared that "paper guarantees or a new tripartite declaration will be pointless."

Comment: The Israeli government and unofficial circles have become increasingly outspoken concerning the consequences of British evacuation of the Suez base and the grant of American arms to Egypt. Eytan's statement reflects the anxiety of the more moderate faction of the government. The extremist press has long advocated war as a solution to the Arab threat.

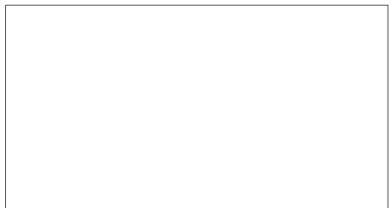
The Egyptian army apparently fears that Israel may resort to attacks similar to the Gaza incident of 10 July. There are some 5,000 Egyptian troops in the frontier sector; Israeli forces in the area are estimated at approximately 9,000.

WESTERN EUROPE

4.



5. French likely to propose formula for delayed implementation of EDC:



A French embassy official in Rome is quoted by the Italian Foreign Ministry as stating Paris desires an informal understanding

[Redacted] among the six EDC powers that full implementation of the EDC treaty will take place over a longer period than presently specified. The French also allegedly want to soft-pedal the supranational character of EDC and to adopt a unanimity rule for all voting in the EDC Council.

The Italian Foreign Ministry sees no great difficulty for an informal understanding on the points raised by the French, but admits that the unanimity proposal "will present problems."

Premier Mendes-France told Ambassador Dillon in Paris on 26 July that delayed implementation of the treaty would be one of the most necessary changes.

Comment: Delayed implementation need not require renegotiation of the treaty, but a unanimity rule would require changes in the text of the treaty. Acceptance by the EDC powers at the proposed Brussels meeting on 10 August of an informal understanding to delay implementation of the treaty could provide Mendes-France the formula he considers necessary to obtain ratification.

6. France preparing new basic program for Tunisia:

[Redacted] The French government is readying a program for Tunisia which the American embassy in Paris believes will substantially meet the nationalists' demands for an all-Tunisian government responsible to an all-Tunisian assembly, for an all-Tunisian civil service, and for an eventual French-Tunisian association to replace the present protectorate relationship.

A spokesman for the Ministry for Tunisia and Morocco told Ambassador Dillon on 27 July that France will retain control over foreign affairs, defense, and finances. He added that the rights and status of Frenchmen in the protectorate will have to be protected.

The embassy believes that the cabinet will consider Tunisian policy on 31 July and that it does not plan to hold assembly debate.

Comment: This program will antagonize French settlers in Tunisia and their conservative supporters in the French cabinet and assembly. Avoidance of an early debate might permit the government to rally much needed support.