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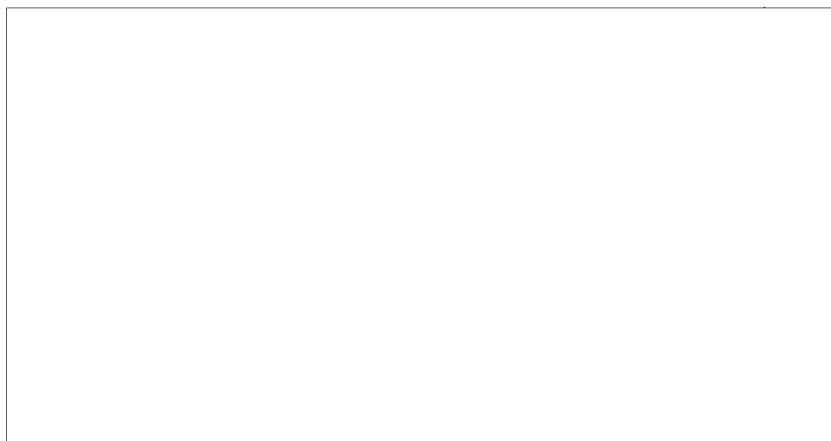
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THE ARAB-ISRAELI SITUATION
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1. [REDACTED] ANGLO-FRENCH MILITARY
ACTION AGAINST EGYPT ON 8 SEPTEMBER

Comment on:

[REDACTED] Britain and France would be unlikely to undertake military action while the Menzies committee talks have any prospect of continuing. A decision to act on 8 September would have had to be taken while it was still unclear how long the talks would last.

Furthermore, the British government would not be likely to take such decisive action in advance of the special reconvening of Parliament on 12 September. Top British spokesmen have consistently indicated that military action would come only as a last resort after other devices had been tried, including appeal to the United Nations.

An attack at this time would come a week in advance of the long-scheduled 15 September target for completion of the British redeployment into the eastern Mediterranean. In recent days these plans appear to have been slowed down. The Third Infantry Division's departure from Britain reportedly was deferred until 10 September at the earliest.

France has given every indication of moving only in concert with Britain.

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2. SUEZ CANAL PILOT DEVELOPMENTS

Comment on:

Egypt appears to be having some success in obtaining pilots for the Suez Canal. Between 150 and 200 new pilots would be required if most of the present non-Egyptian pilots left.

Egypt has received a firm offer from East Germany of eight pilots. In addition, at least one Pole, two Rumanians, and several Russians have applied. Egypt is reviewing the applications of 10 to 15 Greek pilots.

Radio Peiping announced on 5 September that 29 pilots in Shanghai had "volunteered" for service with the Egyptian canal company, and on 6 September the four Belgian candidates had been accepted. The Moscow press reported on 7 September that the first group of Soviet pilots had left for Egypt.

3. FAILURE TO CHECK NASR MAY FORCE FRENCH CONCESSIONS IN ALGERIA

Premier Mollet's chief hope of minimizing the threats to his government over the Suez and Algerian crises appears to lie in a radical shift in Algerian policy--possibly along the lines of a negotiated cease-fire. He may undertake this even at the risk of strong attacks by the right on the government when the National Assembly reconvenes on 2 October.

The American embassy in Paris reports a growing conviction among government officials that Minister Lacoste's Algerian policy of pacification before negotiation must be altered before November since France has failed to achieve a strong negotiating position in either the Suez affair or Algeria.

Despite some weakening in the ultra-nationalists' feeling on Algeria, as evidenced by Marshal Juin's suggestion of a federal solution, there is still strong resistance in the assembly to negotiations with rebel leaders. Mollet's position will be further jeopardized if Minister Lacoste does not respond favorably to a switch in policy.

Much of French official opinion continues to be that unless Premier Nasr is removed from power or suffers a loss of prestige, there is no hope of holding Algeria.

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4. KUWAIT AND TUNISIA SEEK TO DUMP STERLING FOR SWISS FRANCS

[Redacted]

[Redacted] Switzerland has been approached by representatives of Tunis and Kuwait with specific proposals for converting Tunisian and Kuwait reserves of foreign exchange from pounds sterling to Swiss francs. A spokesman for Kuwait intimated his country wished to convert 250,000,000 free sterling pounds into Swiss francs and a similar sum into dollars and other currencies.

Swiss financial authorities have been informed by Arab representatives that the Arab bloc is beginning to regard the Swiss franc as the only currency whose free convertibility is completely assured, and that similar requests from other Arab countries will follow soon.

Swiss authorities see serious technical monetary objections to the mobilization of the very large volume of Swiss francs which acceptance of the Arab proposals would involve. Swiss monetary authorities have not made any decision on the problem.

Comment

The Arab proposal presents a dilemma to the Swiss government, whose liberal economic trade policies commit it to maintain free money markets in Switzerland. In view of the serious consequences to the pound sterling of such Arab action, the British exchange control authorities presumably would make every effort to prevent the transfer of sterling held by the Arab bloc. The sheik of Kuwait's huge oil royalties are one of the largest private sources of investment capital in the London money market.

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5. TURKISH CONCERN OVER DEVELOPMENTS IN MIDDLE EAST

Prime Minister Menderes

Turkey feels subjected to pressures from all sides because of developments in the Middle East, and is increasingly dependent on the leadership of the United States.

Menderes criticized a lack of American leadership in the area and the failure to keep Ankara adequately informed. He feels that Turkey should be regarded as more than a junior partner. He probably overemphasized his country's foreign problems in order to underline its strategic position.

The prime minister said that besides Greek pressures on the Cyprus issue, which have virtually killed the Balkan pact, Turkey is concerned over Nasr's growing influence in the Arab states. He added that Turkey "cannot stand idly by" while Syria, having a 500-mile common border with Turkey, becomes more vulnerable to Soviet and Egyptian penetration.

6. BRITISH VIEWS ON RELATIONS WITH GREECE

[redacted] British Foreign Office permanent under secretary Kirkpatrick states that Britain recognizes the importance of maintaining the Karamanlis government [redacted] in Greece, and that its probable successor would "no doubt" be more intransigent on the Cyprus issue.

Kirkpatrick stated, however, that Britain does not plan to respond to the recent indications of a more conciliatory Greek attitude by initiating discussions with Athens on the British constitutional proposals for Cyprus now being prepared. He said Greece should demonstrate its changed attitude publicly, or at least to the Cyprus ethnarchy and the Greek Cypriots.

Comment

Kirkpatrick's statement may indicate a reversal of Britain's estimate of the probable situation in Greece were Karamanlis to fall. London does not appear, however, to have overcome its suspicion of Karamanlis sufficiently to set about improving relations with his government. [redacted]

7. DEVELOPMENTS IN SINO-BURMESE BORDER DISPUTE

The Burmese ambassador in Peiping has urged Rangoon that the press campaign against Communist China in connection with the border dispute be moderated and that Burma seek intervention by the Colombo powers only as a last resort,

in late August that Chou En-lai had been extremely annoyed over the press attacks and that the Chinese premier assumed the Burmese government had inspired these attacks.

Chou appeared sensitive to suggestions that Burma might appeal to the Colombo powers to intercede with Peiping on its behalf. He was anxious that India and Indonesia be kept out of the dispute.

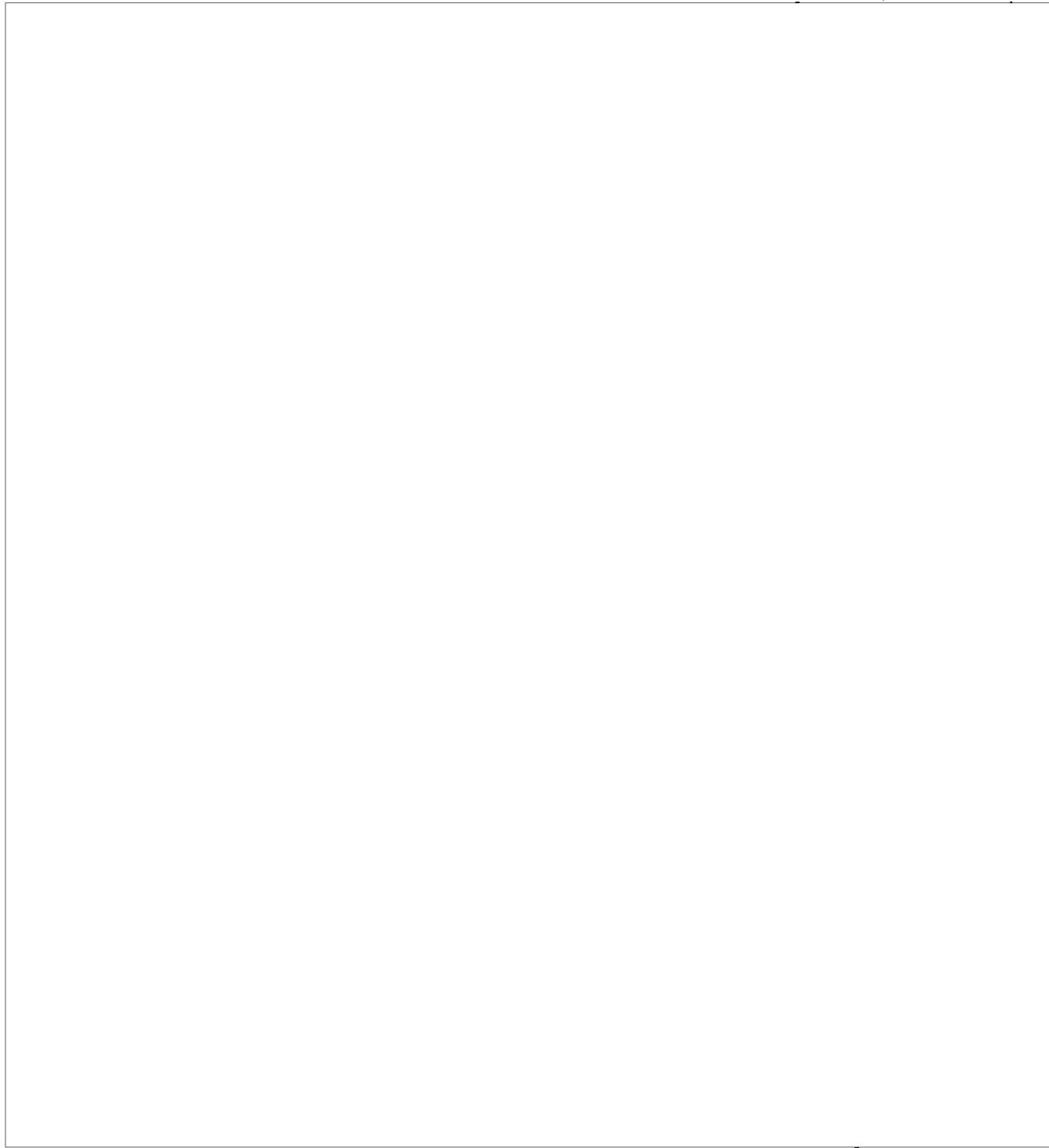
U Nu has been unsuccessfully seeking to restrain Premier Ba Swe from antagonizing the Chinese Communists too openly. Ba Swe reportedly intends to "educate" those Burmese who still do not believe the Chinese Communists are guilty of subversion in Burma.

Comment

Prime Minister Ba Swe will continue to take a much firmer stand in all matters affecting Burma's relations with the Sino-Soviet bloc than did his predecessor, U Nu.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 7 September)



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