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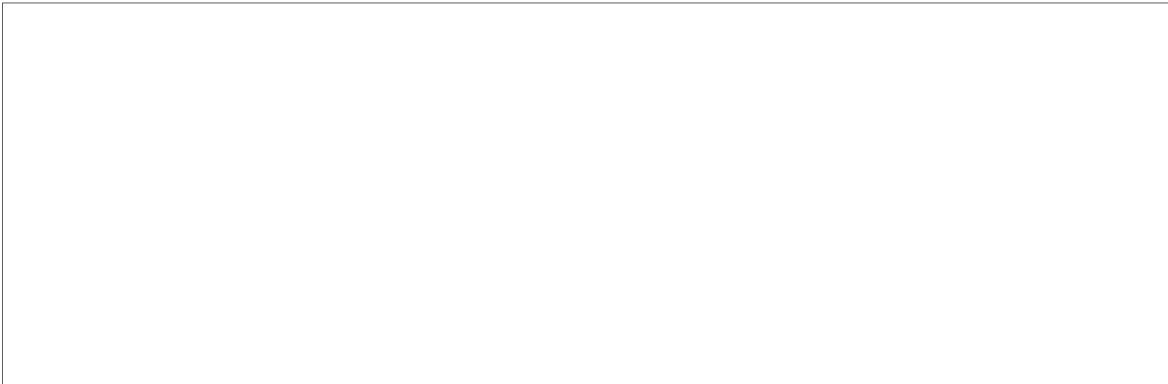
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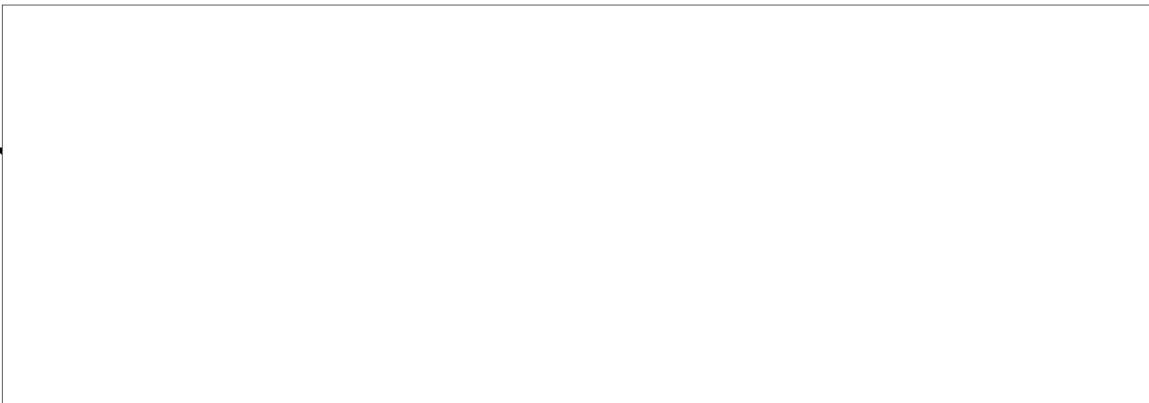
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SOVIET UNION

1. Elements of Soviet Northern Fleet may move outside home waters:

elements of the Northern Fleet will proceed to the Black Sea in February for combined maneuvers. Possibly in preparation for a movement, Northern Fleet elements recently staged maneuvers similar to those which preceded the sortie of last August.

2. Comment on Khrushchev's speech at central committee plenum:

Party secretary Khrushchev's role as main speaker at the recent central committee plenum and the publication of his six-page speech by the central press on the opening day of the Supreme Soviet session constitute a striking addition to his stature as the most publicized Soviet leader.

The introductory section of the speech clearly identified Khrushchev with the current re-emphasis of heavy industry and the bitter criticism of officials who have overemphasized the role of light industry.

Khrushchev's speech and the central committee decree based on it provide an authoritative justification for the renewed stress on development of heavy industry and defense being effected at the Supreme Soviet session now in progress. His

harsh criticism of "woebegone theoreticians" who disagree with the continued emphasis on the development of heavy industry is an ominous warning to any opposition elements.

The rest of the speech so far received was devoted to agricultural themes. Khrushchev heavily underscored the leading role of the party in agricultural affairs and appeared to stress administrative measures rather than material incentives. Such incentives were emphasized by Malenkov, and to a somewhat lesser extent by Khrushchev himself, in the fall of 1953.

3. Comment on the 1955 Soviet budget:

Incomplete reports on the 1955 Soviet budget, announced on 3 February, indicate that the consumer welfare aspects of the "new course" are to be slowed down in 1955 in order to increase allocations to the defense and heavy industrial sectors of the economy.

This year's budget allocates 112.1 billion rubles for military expenditures. The corresponding amounts for earlier years were 100.3 billion rubles in 1954, 110.2 billion rubles in 1953, and 113.8 billion in 1952, the highest postwar year. The amount officially announced each year is known not to cover construction or modernization of defense plants, expenditures for military research and development, or for atomic weapons.

If, as seems likely, the personnel strength and administrative costs of the Soviet military establishment remain approximately the same this year as last, the bulk of the larger allocation will be devoted to the increased procurement of improved weapons and equipment. The rise in the level of outlays is partly caused by the complexity of modern weapons. Part of the rise, however, probably resulted from a Soviet decision that the international situation required greater military preparedness, and perhaps also from a decision to increase assistance to the Satellites and China in their re-equipment programs.

Allocations for heavy industry are scheduled to rise to 163.6 billion rubles, compared with 133.2 billion rubles allotted for last year. Funds for light industry, agriculture, and housing, however, are to drop slightly below 1954 allotments, but will still be well above 1953. This suggests that the USSR has decided to maintain and improve the Soviet bloc military establishment.

SOUTHEAST ASIA

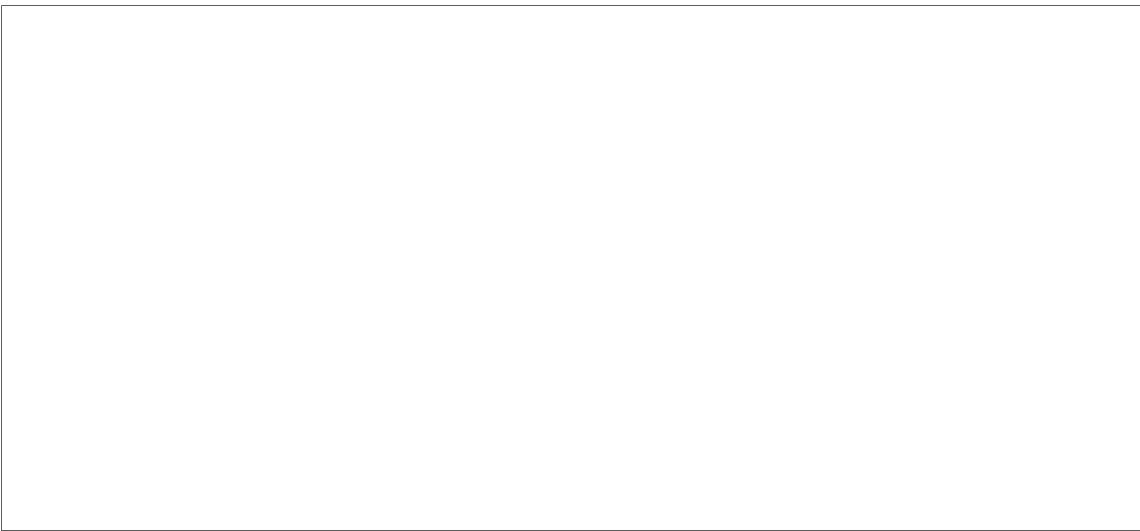
4. Additional plotting against Vietnamese premier reported:

Diem's supporters may be initiating some of the current rumors of antigovernment plots in order to discredit the premier's enemies. The report that Huu is in direct contact with Mendes-France appears extremely dubious.

Tran Van Huu's antigovernment intriguing and his willingness to head a government which would come to terms with the Viet Minh are well established. He has apparently been abetted by certain French elements, and high French officials have spoken of him as a likely candidate for the premiership. These same officials, however, have more recently expressed the view that it was now too late to get rid of Diem. Without full French support, Huu's prospects are very slight.

NEAR EAST - AFRICA

5. Egypt may seek Indian support for area defense arrangement:



Comment: Nasr, frustrated by his apparent failure to prevent Iraq from concluding an agreement outside the Arab League, is likely now to attempt with Indian encouragement to create a neutralist bloc of Arabs in an effort to retain Egypt's position of leadership.

WESTERN EUROPE

6. Communist-led walkout in Genoa fails to tie up port:

For the first time in several years, ship repairs and cargo handling in Genoa were not halted by walkouts called by metal-workers and dockworkers affiliated with

the Communist-dominated Italian General Labor Confederation (CGIL). The American embassy in Rome reports that effective action by the seamen's union affiliated with the Christian Democratic-oriented labor federation, energetic police action and co-operation from the government labor office contributed to the CGIL failure.

Comment: This report suggests some weakening of the Communists' hold on labor in Genoa, long a center of CGIL strength. However, a CGIL-called strike in December on the same issue is reported to have been 100-percent effective.

No important strike efforts have been reported in recent months in other industrial centers, such as Milan, where CGIL's hold on labor appears to continue strong.

LATE ITEM

7. Comment on the overthrow of the Mendes-France government.

Although the National Assembly deputies who spearheaded the attack against Mendes-France in the North Africa debate are confident that a new government can be formed easily within a week, the American embassy in Paris regards this as unrealistic and estimates a two-to-three-week cabinet crisis. Such a delay might have serious consequences for North African problems and might postpone action by the Council of the Republic on the Paris accords.

The premier's opposition reportedly has laid plans for the succession and is apparently encouraged by the recent constitutional revision permitting investiture by a simple majority. However, the opposition may be overestimating its ability to form a cabinet acceptable to the assembly, which is now required to approve both premier-designate and cabinet simultaneously. An attempt may be made to present a skeleton cabinet to be filled out later.

Foreign Minister Edgar Faure and former premier René Mayer are the leading contenders for the premiership. Two possible candidates from the center Popular Republicans long in opposition to Mendes-France are Charles Barançé and Pierre Pflimlin.

The independents, who have been forging a more cohesive rightist bloc, may present ex-premier Pinay.

Council of the Republic action on the Paris accords could be delayed if the crisis were prolonged. The council is now expected to complete action before 11 March, but a cabinet crisis lasting more than a week permits the council to postpone its deadline for action by a corresponding period. The American embassy speculates that assembly approval of a premier more acceptable to the council than Mendes-France would improve the chances of getting approval of the accords without amendments.