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20 June 1957

Copy No. [redacted] 3.5(c)

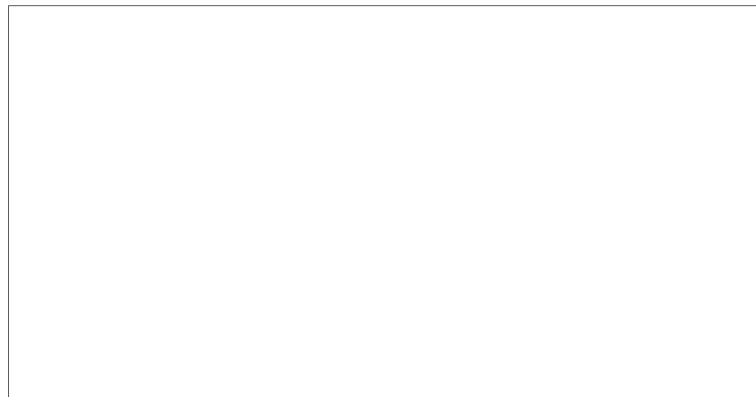
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# CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 48  
NO CHANGE IN CLASS.   
 DECLASSIFIED  
CLASS. CHANGED TO: TS S 2059  
NEXT REVIEW DATE:  
AUTH: HR 70-2  
DATE: 26 Dec 79 REVIEWER: [redacted]

**OFFICE OF CURRENT INTELLIGENCE**  
CENTRAL INTELLIGENCE AGENCY

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## 1. SUEZ CANAL COMPANY DIRECTOR REPORTEDLY SEEKS AN "UNDERSTANDING" WITH EGYPT

[redacted]  
The French director general of the Suez Canal Company, Jacques Georges-Picot, is prepared to reach an "understanding" with Egypt in hope of obtaining compensation for Egyptian nationalization of the canal,

[redacted] He is advancing proposals which include increasing canal transit tolls.

**Comment** Recent reports indicate that the Egyptians, despite public denials, have been interested in beginning negotiations with the Suez Canal Company. The French government's decision on 13 May to permit French ships to transit the canal opened the way for the canal company to reach agreement with Cairo.

In the recent Anglo-Egyptian financial talks in Rome, Britain insisted on Egyptian negotiations with the Suez Canal Company as one of its preconditions for releasing blocked Egyptian sterling balances. These talks are expected to resume, and, in deference to its own shipping interests, London will probably insist that Cairo compensate the company without raising tolls.

UN Secretary General Hammarskjold is already trying to arrange a toll surcharge for repaying canal clearance costs. He has written to Cairo urging consideration of the question of compensation to the company, but the reply was noncommittal.

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## 2. LEBANESE ELECTION PROBLEMS

Comment on:

The success of pro-Western premier Solh in bringing about the election of his candidates in the first half of the parliamentary elections has created a tense political situation in Lebanon. Two cabinet ministers recently appointed to hear from the opposition on election procedures resigned on 17 June, stating that while "the conduct of elections from an administrative point of view was correct, the general atmosphere prevalent during the elections does not encourage us to continue our mission." The election developments have apparently alienated the chief of staff, General Chehab, who feels that the opposition must be allowed to win sufficient seats in parliament to give them a voice in affairs.

An additional problem has been created by Premier Solh's reported threat to resign if President Chamoun and General Chehab, who is in direct charge of maintaining security during the elections, do not allow his son, Abdur Rahman, to run for parliament.

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### 3. INDONESIAN AIR FORCE REPORTEDLY CONTRACTS FOR SOVIET AIRCRAFT

[redacted] The Indonesian air force has contracted with the Soviet Union for several jet fighters and twin-engine bombers, ac-

[redacted] These aircraft, will be accompanied by Soviet technicians and pilots who will remain in Indonesia for maintenance and instruction purposes. In addition, eight technicians are scheduled to arrive in Indonesia soon for permanent assignment to care for President Sukarno's IL-14.

[redacted] all of the planes will be stationed at an airfield near Makassar, which has already been expanded and modernized to accommodate them.  
[redacted]

Comment                    Indonesia has already ordered approximately 500 Soviet jeeps, some of which have been delivered, and reportedly has an option to purchase a total of 4,000 jeeps. The purchase of the jeeps--for the armed forces--was undertaken independently of the \$100,000,000 Soviet technical aid agreement, and any contract for aircraft would probably also be a separate arrangement.

The Mandai airfield near Makassar is one of the best military airfields in Indonesia and probably is the only airport other than the busy field near Djakarta capable of handling jets. The Indonesian air force is loyal to Djakarta.

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#### 4. LOCAL DJAKARTA ELECTIONS SCHEDULED FOR 22 JUNE

Comment on:

Election for Djakarta's 45-seat city council will be held on 22 June, the first of a series of nationwide provincial elections scheduled for the remainder of 1957 and early 1958. The Communists have been working hard to improve their showing in Djakarta over the 1955 national elec-

tions when they finished a poor fourth behind the Masjumi, National Party and Nahdlatul Ulama. They reportedly have access to large sums of money, and their campaign undoubtedly has received additional impetus from President Sukarno's encouragement of extensive Communist activity in support of his concept of "guided democracy."

The outcome in Djakarta will probably influence later elections, particularly those in Central and East Java.

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5. KHRUSHCHEV HINTS USSR MAY RETURN SOUTHERN  
KURILS TO JAPAN

Comment on:

Soviet first secretary Khrushchev told a Japanese correspondent on 18 June that the Soviet Union may agree to return the southern Kuril islands of Etorofu and Kunashiri, depending on improvement in the international situation and the state of relations with Japan. Except for one informal feeler in February 1956 concerning return of Kunashiri "under certain conditions," Soviet officials flatly refused to consider return of either Kunashiri or Etorofu during the protracted treaty negotiations. Khrushchev's remarks are the first high-level hint of a possible change in the Soviet position. Eventual Soviet conditions for return of the islands would probably require American return of Okinawa and withdrawal from Japan.

This statement was obviously timed to coincide with Premier Kishi's visit to the United States.

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