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**OFFICE OF CURRENT INTELLIGENCE**  
CENTRAL INTELLIGENCE AGENCY

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3. INTENSIFIED EAST-WEST BERLIN TRANSIT  
CONTROLS PLANNED FOR MID-NOVEMBER

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[Redacted]  
Plans are under way in East Berlin to intensify controls at the sector border with West Berlin by mid-November [Redacted]

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[Redacted] The purpose apparently will be to halt the flow of new East marks to the West, which is steadily undermining the new currency, as well as to reduce the flight of skilled East German workers.

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Measures under consideration are: a special tax on all border crossers, reduction in the number of crossing points, and a regulation requiring all crossers to re-enter at the same point they leave. Between 1,000 and 2,000 police and customs guards are being trained in inspection techniques at a special school in the Potsdam area.

None of these measures would directly apply to the three Western occupying powers, but all Berliners would be affected. East Germans are already doing their Christmas shopping in West Berlin in anticipation of tighter controls. [Redacted]

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4. BRITAIN MAY REDUCE ITS NUCLEAR ROLE IN  
WESTERN DEFENSE

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The British government is considering reducing its reliance on the nuclear deterrent in favor of greater concentration on mobile conventional forces.

The change in British views was reflected in Defense Minister Sandys' statement to Parliament on 7 November. He stressed that only about 15 percent of Britain's total defense effort now goes to the nuclear deterrent and generally placed less emphasis than previously on nuclear weapons.

The rethinking of British defense plans announced in the defense white paper of last April was stimulated by the rebellion in Oman which brought an increased appreciation of the importance of efficient mobile conventional forces. Also, recent evidence of Soviet technical advances and the revival of Anglo-American cooperation have lessened British leaders' emphasis on an independent role in international affairs.

A high defense ministry official has told the American embassy that some specific steps in allocating defense production among NATO allies might help the British government save face in readjusting its nuclear armament plans.

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5. TUNISIAN PRESIDENT MAY PUBLICIZE WESTERN  
ARMS SHIPMENT

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Tunisian President Bourguiba may feel impelled to publicize the purchase and arrival of American and British arms with sufficient fanfare to offset anticipated Egyptian propaganda when an Egyptian ship bearing a "token gift" of 2,000 Egyptian-made rifles arrives in Tunis.

Publicity for the Western arms shipments would revive the strong French antagonism toward the United States manifested in the National Assembly during debate of the Algerian reform statute last September. French Premier Gaillard, who expects to obtain cabinet approval on 12 November for France to supply arms for one battalion of the Tunisian army, told Ambassador Houghton on 9 November that France would consider American and British delivery of weapons to Bourguiba, prior to announcement of the French decision, an "unfriendly act." He expressed astonishment that the United States and Britain might deliver arms even if France supplied the Tunisians and urged that in this event the action should be co-ordinated.

Bourguiba is said to feel that American and British shipments--consisting of 500 American M-1 rifles and ammunition and approximately an equal number of British automatic weapons and ammunition--are "very token compared to the Egyptian gift." The Egyptian arms were offered to Bourguiba in August and were accepted in September as a means of inducing Western sources to meet Tunisian arms needs. The date of arrival is still unknown.

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6. SHAH SAYS IRAN MAY BE FORCED TO ACCEPT  
SOVIET LOAN

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[Redacted]

The Shah of Iran has made an "impasse" plea for a loan from the United States to offset anticipated budget deficits during the next two fiscal years, according to the American ambassador in Tehran. The Iranian ruler warned that unless funds were obtained to meet both the general budget and development projects of the Iranian Plan Organization, it might be impossible to reject a Soviet loan on attractive terms.

Both the Shah and Prime Minister Eqbal have recently intensified their requests for additional American aid. The Shah believes that Iran will have a budget deficit during the next fiscal year of \$50-55,000,000. The American embassy estimates the deficit at \$30-35,000,000.

Until oil revenues cover all government expenditures, the Iranian government can be expected periodically to seek help from the United States.

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7. INDIA AND USSR SIGN \$125,000,000 CREDIT AGREEMENT FOR INDUSTRIALIZATION.

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The industrial aid agreement signed in New Delhi by Indian and Soviet negotiators on 9 November gives effect to the \$125,000,000 loan offered by Moscow to the Indian government in November 1956.

It will enable New Delhi to carry out several high priority projects to speed industrialization under its Second Five-Year Plan without further drains on its declining foreign exchange reserves, and will also expand substantially Soviet participation in India's development program.

The credit will be utilized to establish with Russian equipment a heavy machine-building plant, an optical glass works, a thermal power station and various enterprises connected with the coal industry. The loan will be repayable in twelve yearly installments at an interest rate of 2.5 percent beginning one year after delivery of the machinery. Training facilities will be provided in the USSR for Indian personnel required for the projects, and Russian technicians will supervise construction in India.

The original Soviet loan offer contained a provision that the funds could not be utilized until 1959. The Indian government's press statement on 9 November that the agreement would help to conserve foreign exchange "in the immediate future" suggests, however, that New Delhi was successful in persuading Moscow to withdraw this restriction.

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## 8. BRITISH ACQUIESCING IN PATHET LAO SETTLEMENT

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[Redacted]

A letter from Prime Minister Macmillan to Prime Minister Souvanna Phouma indicates that the British are no longer opposing the Laotian settlement with the Pathet Lao. For some months London has considered that time is working against the free world in Laos, and evidently fears that continued opposition to the coalition policy might hurt Western interests in the long run.

Macmillan's letter, which was delivered to Souvanna by Lord Reading, former minister of state in the Foreign Office, expressed support for Souvanna's efforts to bring about a "united and prosperous Laos." Souvanna, according to his French adviser, interpreted the letter as approving his solution. [Redacted]

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