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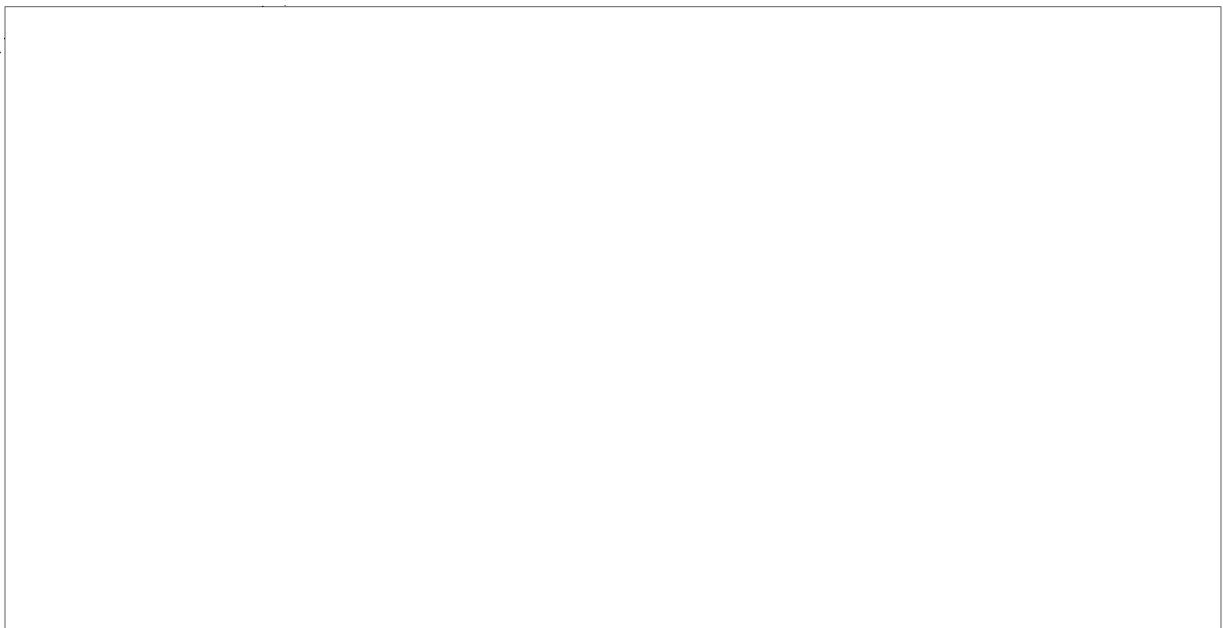
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1. SHEPILOV SEEKS CO-OPERATION OF US AT LONDON CONFERENCE

In a conversation with Secretary Dulles in London on 15 August, Soviet foreign minister Shepilov stated that he was not attempting to split the Western Big Three, but that if differences did exist between the United States and the United Kingdom and France, the "US and USSR together might find a way out of this crisis," according to Ambassador Bohlen, who served as interpreter. Shepilov agreed on the necessity of avoiding an outbreak of hostilities in the Middle East.

Shepilov said that freedom of navigation of the canal was the primary problem for negotiation at the conference. He reiterated Egypt's right to nationalize the Suez Canal Company. He said that the Soviet task was not to "complicate the work of even a nonrepresentative conference" and that the conference "would be useful." Shepilov said the Soviet delegation would use its efforts to obtain fruitful discussion in a calm atmosphere and added that the United States also was in a position to take a calm, objective approach.

Comment

Shepilov's prompt request to meet with Secretary Dulles and his restrained approach suggest that he will attempt to maintain an air of reasonableness before the West while at the same time posing as a champion of Arab nationalism.

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2. WEST GERMAN DIPLOMATS SYMPATHETIC TO EGYPTIAN POSITION

Comment

Bonn officials have told American representatives that their government favors an international agency to guarantee the international character of the canal and freedom of shipping. At the same time, these officials have emphasized their opposition to forceful measures against Egypt and it is unlikely that Bonn would endorse economic sanctions. The West German press has tended to regard the attitude of Britain and France as too belligerent, and has felt that the canal issue should be referred to the United Nations.

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3. BRITISH OFFICIAL'S VIEWS ON POSSIBLE OVERTHROW OF NASR

Comment

This attitude seems to dominate British government thinking about the Suez issue.

In recent public statements, Eden and Lloyd have emphasized that they are seeking to internationalize the canal by peaceful means but insisted that "precautionary" military measures are necessary.

Some government officials in Iraq and Libya have [redacted] a desire to curb Nasr's power, and Saudi Arabia is believed to be displeased over not being consulted by Nasr prior to the Suez nationalization. While Nasr's unilateral action may have embarrassed Arab governments whose vital interests were affected by the nationalization, Nasr commands widespread popular support both in Egypt and in other Arab states. [redacted]

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**4. CAIRO ORDERS PREPARATION FOR SABOTAGE OF
BRITISH AIRFIELDS IN LIBYA**

Comment Britain has three operational airfields
 in Libya--Tripoli, Tobruk and Kufra.

Egypt is clearly preparing for an extensive effort against British property and personnel throughout the area, as well as against the oil installations, should Britain resort to military force.

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5. PERUVIAN APRA LEADER CALLS FOR "INTER-AMERICANIZATION" OF PANAMA CANAL

Haya de la Torre, absentee leader of Peru's recently legalized leftist but non-Communist APRA party, reaffirmed support for the "inter-Americanization" of the Panama Canal in the party's newspaper on 14 August. Haya stated that canals such as Panama and Suez should be internationalized and that Egypt wants to do in Suez what the United States has already done in Panama.

On 15 August the APRA paper carried an interview with Carlos Zuniga, a Panamanian columnist, who stated Panama should nationalize the Panama Canal gradually. He said inter-Americanization was the only step now acceptable.

Comment This is the first official reaffirmation of APRA's call for inter-Americanization of the canal since the Egyptian action on Suez. While the party's program has always called for a broadening of the Panama Canal's control, this has not been pushed by party leaders since the early 1930's.

APRA was founded in Mexico in 1924 as a revolutionary party for all Latin America. During its early period, the party's position on the Panama Canal was disseminated throughout the hemisphere and evoked some favorable reaction. APRA had particular appeal in Mexico, Argentina, and Chile, as well as Peru, but was established as a domestic political party only in Peru.

Zuniga is a member of the small pro-Communist group in Panama which advocates nationalization of the Panama Canal.

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6. PUBLIC UNREST REPORTED IN KARACHI

Mass unrest, which appears to be increasing daily in Karachi, is ostensibly centered on the Suez Canal issue but seems most likely to be the work of political opposition groups seeking to embarrass or bring down the Pakistani government.

The Pakistani press and public have been much more vociferous in support of Egypt's nationalization of the Suez Canal than has the government. On 14 August, hecklers whose actions did not appear to be spontaneous forced the Pakistani prime minister to cut short his Independence Day speech by goading him into a statement on Suez and drowning out his remarks on domestic matters. By 16 August, Karachi suffered an extensive shop-closing strike in support of Nasr, and mass demonstrations were scheduled for that same afternoon. Police and troops were alerted, and mass meetings banned.

The American army attaché in Karachi believes that if the police have to resort to force, a situation may develop which can be settled only by use of troops.

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7. SOVIET-INDONESIAN ECONOMIC NEGOTIATIONS

The Soviet trade mission negotiating in Djakarta has offered 12-year industrial credits to Indonesia at two and one half percent, [redacted]

[redacted] an additional Soviet offer of arms and military vehicles in any quantity on the basis of a five-year interest-free loan.

[redacted] the USSR wished to apply the industrial credits to complete projects but reluctantly accepted in principle an Indonesian proposal that Soviet aid could be limited to one preliminary phase of any given project, and that the project could then be completed by the country which makes the lowest bid. No specific amounts of aid have been decided, because the Indonesian delegation stated that Indonesia's five-year plan was not yet firm enough for it to request Soviet aid on a specific basis.

Comment

The conclusion of an economic aid agreement on Indonesian terms would reveal the importance Moscow attaches to its aims. It does not appear that the agreement will be signed before President Sukarno leaves for Moscow on 26 August.

The Indonesian government is unlikely to accept a Soviet military assistance offer, in view of the pro-Western sympathies of most Indonesian army leaders and the probability that acceptance would aggravate existing army-government friction.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 16 August)

According to an Israeli military spokesman, an Israeli bus was ambushed in the Negev Desert on 16 August, killing four passengers in the worst border incident since the latest trip of the UN secretary general. The spokesman also reported that several civilians were injured when their truck hit a mine in the central Negev area. He blamed Egyptian infiltrators for the truck incident and said a similar incident had occurred on 14 August but there were no casualties. (Press) *16 Aug*

A Jordanian spokesman charged that three Israeli meteor jets flew over Jordan. He stated that one jet may have been damaged by Jordanian antiaircraft fire. (Press) *16 Aug*

The American air attaché believes that the release of the Israeli air force chief of staff from military service for graduate work in an American university starting in September indicates that Israeli air force officials are not expecting an Arab-Israeli war. The attaché reports that this officer is "the brains of the Israeli air force" and is their only "real efficiency expert," and he would be unlikely to leave if there were a threat of war.

The Israeli press published a New York press report that Tel Aviv was negotiating with British and American petroleum companies for construction of a pipeline from Eilat to Haifa which would cost about \$30,000,000 and would take one year to complete. According to the American embassy, the Israeli petroleum director said that such a plan was originally discussed in 1951 but would make no comment on reports that discussions have been resumed.

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