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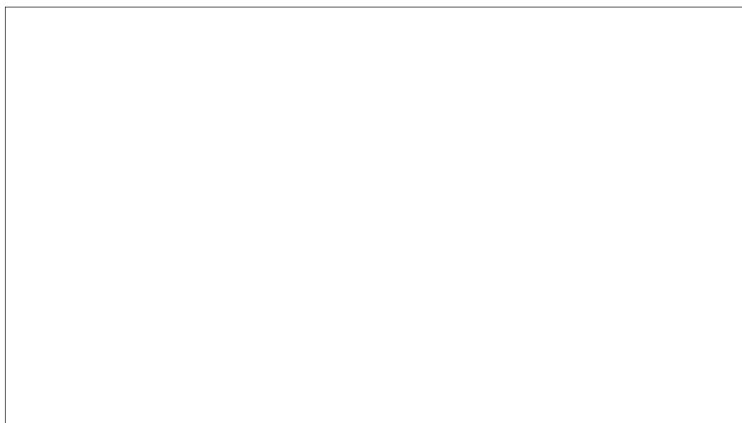
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1. NASR THREATENS TO HALT CANAL CLEARANCE

President Nasr told Emile Bustani, former Lebanese minister of public works, on 19 January that he was determined to stop clearance of the Suez

Canal if Israel refused to obey the United Nations resolution regarding Israeli withdrawal from Egyptian territory or attempted to impose conditions for withdrawal.

Comment

During the past three days the officially controlled Cairo press has uttered threats along this line.

Nasr was previously [redacted] stated that he would bar British and French vessels from the cleared canal if Israel had not withdrawn behind the 1949 armistice line. Nasr apparently believes that that threat is not sufficient in the present situation.

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**2. SUEZ CANAL FEES SUGGESTED AS REPAYMENT FOR
SOVIET GOLD LOANS**

Cairo requested its Moscow embassy [redacted] "to inform Shepi-
lov" that Egypt wishes to obtain Soviet gold with which to "meet the current eco-
nomic pressure," in exchange for "a suf-
ficient amount of Egyptian goods!"

The Moscow embassy asked the Egyptian foreign office [redacted] how long a repayment period was contemplated, what kind of goods would be available, and whether part of the repayment could be made in hard currencies from future Suez Canal revenues.

Comment Egypt's request reflects the urgency with which Cairo now is viewing its foreign exchange crisis. Egypt needs at least \$50,000,000 to ease the problem, but Soviet gold holdings are more than sufficient to accommodate Egypt's immediate needs to finance purchases from the West. The Egyptian ambassador's query on committing future canal revenues suggests that Moscow may be seeking to gain some leverage on future operation of the Canal.

With Egypt almost bankrupt and the bulk of its cotton crop already committed to the Soviet Bloc, Cairo must seek new means of paying for additional Soviet "aid," which has been characterized by quid pro quo arrangements. Cairo is unwilling to draw on its own gold reserves, amounting to about \$174,000,000, since these constitute the backing for the Egyptian pound.

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3. BRITAIN OUTLINES PLANS FOR DEFENSE ECONOMIES

Comment on:

Defense economies under consideration by Britain's new government in the coming year will cut deeply into Britain's forces in Germany, according to the permanent secretary of the Ministry of Defense. Tentative plans, which envisage an over-all force cut of 70,000 men or roughly 10 percent by March 1958, will remove 30,000 of the 78,000 now in Germany. Informed of these plans, the Bonn Foreign Ministry told American officials that the Germans would resist the plan as it would have serious adverse political effects in the absence of a quid pro quo from the USSR.

These over-all force cuts are called preliminary to "vastly greater" ultimate reductions under a major defense reorganization announced by Prime Minister Macmillan on 24 January. Timing of final decisions and public announcements is complicated by the need to prepare a budget for the fiscal year beginning 1 April and by obligations to consult with NATO and the Western European Union. The annual mid-February white paper on defense, which outlines plans for the coming year, may appear this year in March in abbreviated form with details to follow in the fall.

The reorganization appears to involve increased control over the service ministries by the new minister of defense, Duncan Sandys. He will have an unusually high-ranking officer as his principal aide in Marshal of the Royal Air Force Sir William Dickson, presently chairman of the Chiefs of Staff Committee, and reported as due to be named chief of staff to the minister of defense. Speculation on Sandys' 28-30 January visit to Washington has stressed Britain's interest in abandoning its expensive aircraft development program in favor of missiles.

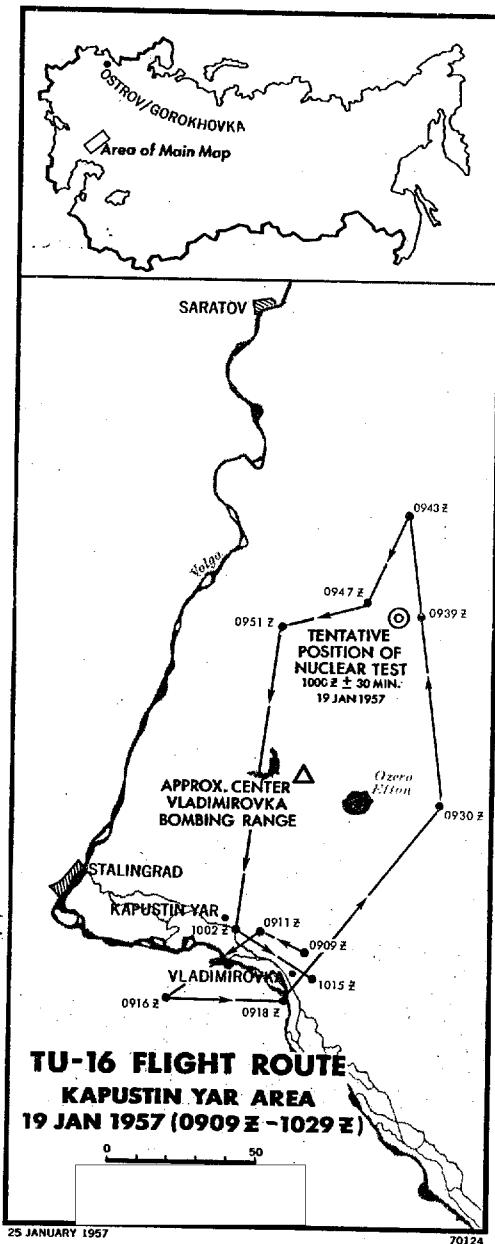
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4. POSSIBLE SOVIET AIR-TO-SURFACE MISSILE DELIVERY OF NUCLEAR WARHEAD

The flight
of a
BADGER
(TU-16)

medium jet bomber across the Kapustin Yar rangehead at the time of the 19 January Soviet nuclear test strongly suggests delivery of the weapon by air-to-surface missile. The aircraft was initially detected in the Vladimirovka area, from which it flew counterclockwise around the area of the nuclear explosion, passing within approximately five nautical miles of the tentative ground zero, and orbiting in the Vladimirovka area before landing. The area of operations is the same as that in which TU-16's of a special-purpose unit (X-502) launched air-to-surface missiles with an estimated range of 50 miles during the period 14 September-10 October 1956. A TU-16 based at Ostrov/Gorokhovka, the base of special-purpose unit X-502, was observed on 18 January flying from Omsk to Belya Tserkov, and may have been associated with the 19 January operation.



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5. SOVIET-YUGOSLAV IDEOLOGICAL SPLIT WIDENS

Comment on:

The blunt condemnation of Yugoslavia's national Communism contained in the latest issue of the Soviet Communist Party's journal Kommunist approaches an ideological excommunication of Yugoslavia. The article states that there is no such thing as national Communism, which is "nothing more than refined bourgeois nationalism." Claiming that all true Marxist-Leninist parties revere the Soviet Union's experience in the fight for socialism, Kommunist says that there are "exceptions among the Yugoslav comrades!" The latter are accused of revising the doctrine that a laboring-class party must lead the state. The Soviet journal also criticizes Yugoslav economic practices.

The Yugoslavs, for their part, show no sign of a more conciliatory attitude. Implicitly accusing the Soviet Communists of "dogmatizing" Lenin's writings, the Belgrade paper Borba at about the time of the Kommunist article stated that "in Marxism, in Leninism, there is something that is eternal... and there is also something that is momentary, fleeting, something that coincides with the requirements of immediate practical work." At the same time, the Yugoslav paper denied that Stalin was a "real Marxist," a statement which appears aimed at Khrushchev's recent remark that all the Soviet Communists are good Stalinists in the fight for socialism.

While neither side has yet mentioned the possibility of an open break, the positions now taken appear too firm to make a workable compromise likely. The virtual dissolution of party rapport does not appear as yet to have had a decisive effect on Yugoslav-Soviet governmental and economic relations.

The further widening of the ideological rift will probably serve to isolate "liberal" elements in some of the Satellite parties and particularly will place the whole Polish leadership in a dilemma.

6. HUNGARIAN POLITICAL TRIALS MAY TRY TO IMPLICATE WESTERN MISSIONS

Forthcoming political trials in Hungary may stress the "close ties" between revolutionary leaders and Western missions and governments. In the opinion of the

American legation, the trial of General Pal Maleter, ex-premier Nagy's defense minister, may feature the alleged activities of the British military attaché--who was recently expelled--while anti-American accusations may be directed primarily against Radio Free Europe.

The legation has also heard from several sources that the extension of the martial law decree on 13 January to include the death penalty for strikers led a considerable number of state prosecutors--possibly totaling 30--to tender their resignations in protest.

Comment Soviet bloc propaganda concerning the Hungarian uprising has consistently stressed Western "imperialist" complicity, but the Hungarian regime has generally avoided specific and official charges against individual Western states. The ousting of the British military attaché on 18 January, however, may foreshadow the adoption of a more direct form of attack.

The resignation of the state prosecutors--and the reported resignation of many judges as well--constitutes additional evidence that the regime's terror campaign has hit a major snag in party and government functionaries.

7. SAUDI ARABIA SEEKS HEAVY ARMAMENTS FROM JAPAN

Saudi Arabia's Deputy Foreign Minister Yusef Yasin has stated that his government would like to purchase from Japan tanks, jet fighters, antiaircraft equipment, and coast artillery "for the Jidda coast,"

Saudi Arabia did not desire to buy arms from the Soviet bloc and that Saudi Arabia assumed that purchases of heavy arms from the United States would be limited.

Comment Saudi Arabia's anxiety to obtain antiaircraft and coastal guns to defend its ill-armed outposts on the Gulf of Aqaba from harassment by Israeli naval craft. Syria has responded with 32 Swiss light antiaircraft guns and 18 French 105-mm. guns.

The Japanese ordnance industry is geared largely to the production of materiel according to American specifications, and the sale of such items must be approved by the United States. The industry, however, has recently produced Japanese-designed prototypes of self-propelled weapons and a medium tank which are not subject to this restriction. Although the Japanese sorely need orders, the government, because of the tense situation in the Middle East, is likely to seek Washington's views before deciding its policy on any Saudi purchase.

Japan and Saudi Arabia have recently taken steps toward closer contacts. Saudi Arabia plans to conclude an oil development agreement with Japan following completion of a survey of Saudi oil resources by Japanese experts

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8. LAOTIAN CABINET HEDGING ON AGREEMENT WITH PATHET LAO

[Redacted]

Laotian cabinet members appear generally convinced that the government's 28 December agreement with the Pathet Lao requires additional safeguards on the restoration of [redacted] control over the two provinces, on the dissolution of the Pathet Lao movement, and the disavowal of Communism by Pathets joining the coalition government. This stiffening attitude was apparently brought about by Deputy Premier Katay, who has urged that the agreement be publicly revised. Most of the ministers, however, appear to favor embodying the safeguards in a secret supplementary declaration to be signed by the Pathet Lao.

Comment

Pathet chief Souphanouvong's prolonged stay at his headquarters in Sam Neua, where he is seeking Pathet approval of the agreement he worked out with Premier Souvanna Phouma, has prevented the premier from seeking early assembly endorsement of the agreement. Now that opposition has crystallized, he may find it difficult to win Pathet Lao acceptance of any increased demands from the cabinet. While the Pathets would be most reluctant to jeopardize the advantages they have already won in negotiations, [Redacted]

[Redacted]

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9. FRENCH CONSIDERING WITHDRAWAL FROM MILITARY BASE IN LAOS

A recommendation for complete abandonment "within a few months" of the French military base at Seno in Laos is being sent to Paris by French ambassador Jean Payart in Saigon, according to the latter's counselor. A recent survey trip to Laos by the counselor on Payart's instructions convinced the former that the base no longer has significant military or political value. The French estimate that Laos will eventually request their withdrawal from Seno, and that it would be preferable to leave without being "pushed out."

Comment France, the only foreign nation permitted to keep troops in Laos under the 1954 Geneva agreement, is authorized to maintain 3,500 troops at Seno. Present French strength is about 2,000, however, and the Laotian government doubts that France could or would provide aid in the event of Communist aggression.

Strategically located in central Laos, the Seno military base with its all-weather airfield plays a major role in the Laotian defense system. It is also a potentially valuable asset to SEATO for the defense of the entire Indochina peninsula. From the viewpoint of Asian SEATO nations, France's withdrawal would largely eliminate any reason for continued French membership in SEATO. Western abandonment of this base would strengthen the advocates of neutralism in Laos and cause alarm in South Vietnam.

10. AFGHAN REACTION TO CHOU EN-LAI VISIT

Comment on:

Afghanistan's reception of Chinese Communist premier Chou En-lai during his visit from 19 to 23 January appears to have been confined almost entirely to diplomatic cordialities.

A round of official social functions, during which Chou and his party apparently went out of their way to cultivate Asian diplomats, was followed by a tour of development projects. The sites visited by Chou included the Helmand Valley in southeastern Afghanistan, where an American construction company is working, and Sarobi in east central Afghanistan, where West German engineers are constructing a large dam.

The joint communique issued by Chou and Afghan premier Daud on 22 January merely reaffirmed the principles of the Bandung conference and announced that Daud would visit Peiping sometime in 1957. It did not contain any attack on "colonialism" or the American Middle East proposal--endorsed by Afghanistan--which have been important targets of Communist propaganda.

Kabul apparently has not been influenced significantly by the heavy Chinese Communist propaganda effort in Afghanistan over the past six months. This has included lavish participation in the International Fair in Kabul last August, exchange of cultural delegations, and recent stationing of a permanent representative of the Chinese Communist news agency in Kabul.

ANNEX

Watch Report 338, 24 January 1957
of the
Intelligence Advisory Committee

Conclusions on Indications of Hostilities

On the basis of findings by its Watch Committee the Intelligence Advisory Committee concludes that:

- A. No Sino-Soviet Bloc country intends to initiate hostilities against the continental US or its possessions in the immediate future.
- B. No Sino-Soviet Bloc country intends to initiate hostilities against US forces abroad, US allies or areas peripheral to the Orbit in the immediate future.
- C. A deliberate initiation of hostilities in the Middle East is improbable in the immediate future.