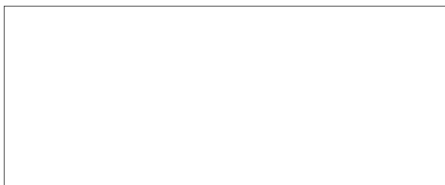


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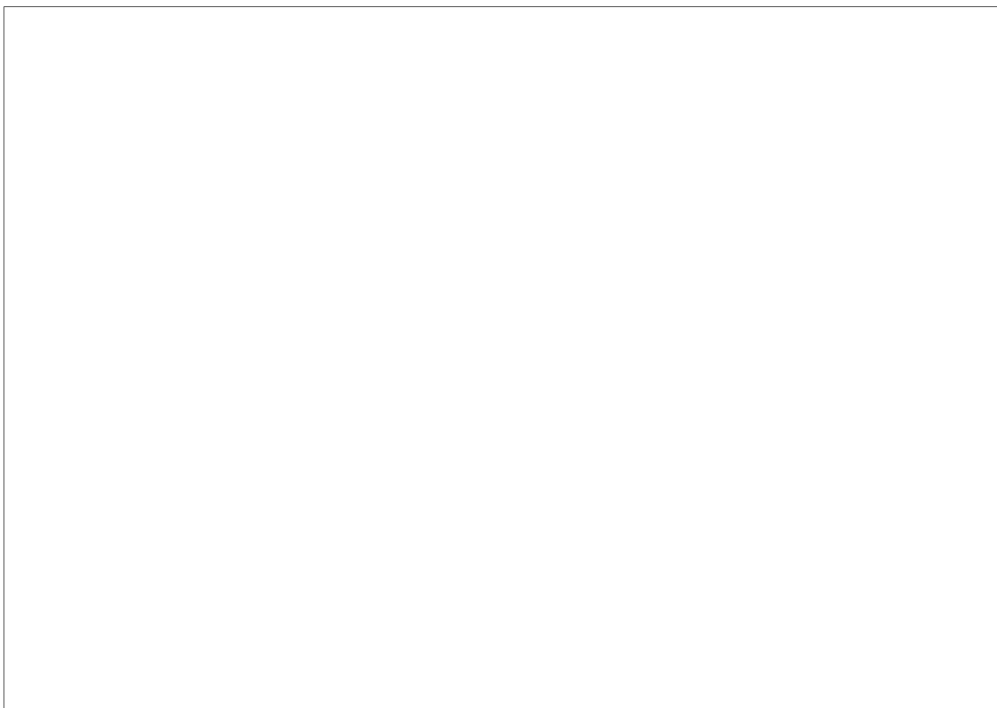


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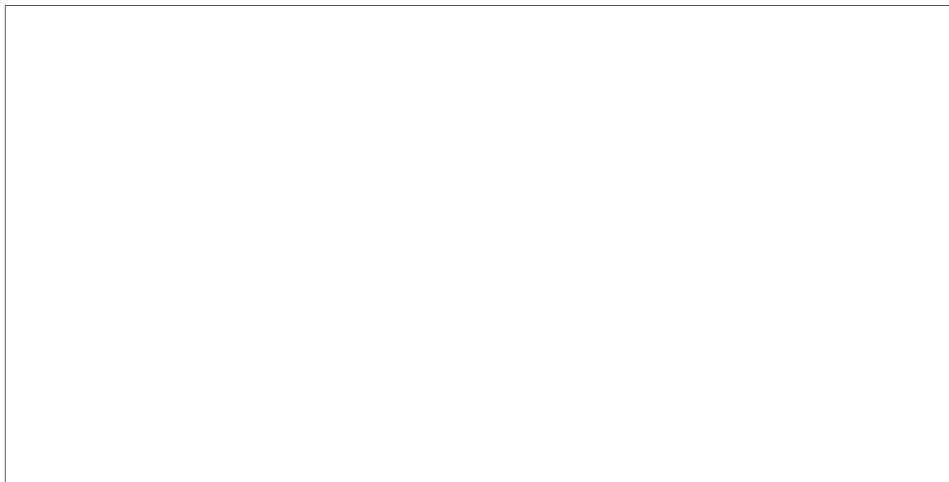
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**C O N T E N T S**

1. SUEZ CANAL DEVELOPMENTS   
(page 3).
2. NASR REPORTED STILL DETERMINED TO OUST AMERICAN  
AID MISSION  (page 5).
3. BOHLEN COMMENTS ON SOVIET INTENTIONS IN SUEZ  
DISPUTE  (page 6).
4. KING SAUD URGES NEW PROPOSALS ON DHAHRAN AIRFIELD  
 (page 7).
5. JAPAN AND USSR MAY REACH AGREEMENT   
(page 8).
6. DISORDERS CONTINUE IN SOUTH KOREAN ASSEMBLY   
(page 9).
7. CAMBODIAN CABINET RESIGNS  (page 10).
8. CONTRACT SIGNED FOR FIRST SOVIET PROJECTS IN  
SOUTHERN AFGHANISTAN  (page 11).

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**THE ARAB-ISRAELI SITUATION**  
 (page 13)

31 July 56

Current Intelligence Bulletin

Page 2

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# 1. SUEZ CANAL DEVELOPMENTS

[Redacted]

[Redacted] Britain con-  
 sidered it essential to keep Suez Canal  
 traffic moving and has instructed British  
 ships to pay full toll at the canal if Egypt  
 insists. From Paris, the canal company  
 has instructed its personnel to follow Egyptian orders under  
 protest, and to refrain from any sabotage of canal operations.

[Redacted]

[Redacted]

**Comment** Prime Minister Eden's statement in the House  
 of Commons on 30 July that any arrangement  
 leaving Egypt in "unfettered control" of the canal would be unac-  
 ceptable suggests that he will push for establishment of an inter-  
 national consortium to operate the canal.

Meanwhile, traffic has continued to move  
 normally through the canal, [Redacted]

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31 July 56

Current Intelligence Bulletin

Page 4

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**2. NASR REPORTED STILL DETERMINED TO OUST AMERICAN AID MISSION**

[Redacted]

[Redacted]

Egyptian president Nasr is still determined to request the withdrawal of the United States ICA mission in Egypt, [Redacted]

[Redacted]

**Comment**

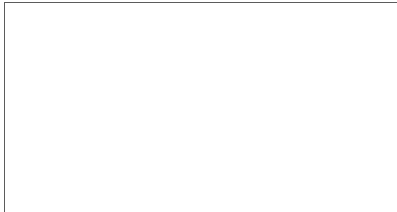
Nasr was previously reported to have considered announcing the end of American aid to Egypt when he made his 26 July speech. Since that date, Egyptian statements have concentrated their fire on Britain and France, the powers most immediately concerned with the Suez Canal Company seizure. Nasr may well be holding a denunciation of American aid in reserve as a response to any American action in support of the British and French positions on Suez. [Redacted]

[Redacted]

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### 3. BOHLEN COMMENTS ON SOVIET INTENTIONS IN SUEZ DISPUTE



Ambassador Bohlen expects the USSR to move cautiously if Western response to nationalization of the Suez Canal is firm and effective, but he believes the

USSR will fully exploit the breach between Egypt and the West if it sees no direct risk to itself. Bohlen expects that if the question is raised in the UN Security Council, the USSR would almost certainly veto any consideration of the issue.

#### Comment

Copious commentaries in the Soviet press indicate the USSR's approval of Nasr's move but do not hint at any specific course of action. Recent Soviet policy has indicated that the USSR wishes to avoid an outbreak of hostilities in the Near East. The USSR is expected to give Nasr both economic and political support in his resistance to Western courses of action.

31 July 56

Current Intelligence Bulletin

Page 6

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#### 4. KING SAUD URGES NEW PROPOSALS ON DHAHRAN AIRFIELD

King Saud has suggested that the United States submit new proposals which could become the basis for further negotiation on terms for renewal of the Dhahran airfield agreement. Saud told Ambassador Wadsworth on 25 July that Saudi Arabia was not insisting on "\$250,000,000 or nothing" for a new five-year agreement, and expressed "amazement" that the United States had not brought forth alternative proposals.

The king reaffirmed his wish to continue close and friendly relations with the United States. Declaring "We are not greedy. . . thank God every year our income is increasing," he asked that the United States indicate how it proposed to help strengthen his kingdom and that it submit offers of arms which are currently available. Saud has declared that, meanwhile, there should be no further negotiation until the United States presents new proposals.

#### Comment

The king's willingness to permit the 23 July deadline to pass without termination would appear to indicate that he still desires a new airfield agreement.

The king's statements were made prior to Egypt's nationalization of the Suez Canal. This action will probably encourage him to maintain a tough bargaining position.

31 July 56

Current Intelligence Bulletin

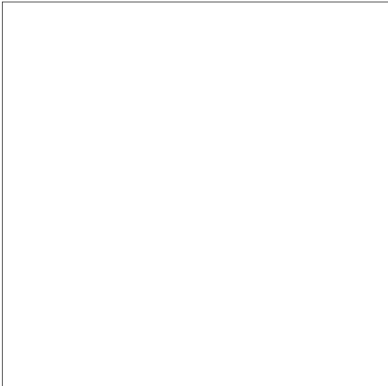
Page 7

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## 5. JAPAN AND USSR MAY REACH AGREEMENT



Japanese foreign minister Shigemitsu's statement in Moscow on 28 July that he had come to normalize relations between Japan and the USSR suggests that the renewed negotiations will result in an agreement. His previous public statements that he would not break off the talks give further support to this view.

Shigemitsu believes a strong effort, including an appeal to the top Kremlin leaders, will be necessary to regain the southern Kuril Islands, but that if the attempt fails Japan must not formally relinquish its territorial claims.

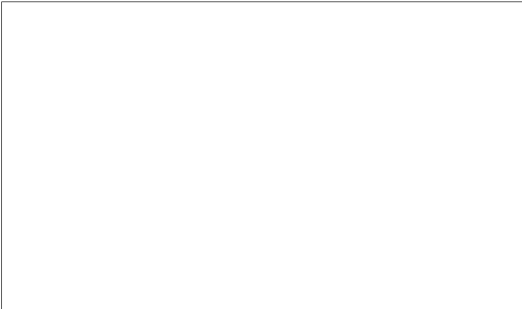
Shigemitsu, like the Japanese public, believes that official relations with Moscow are necessary for Japan to gain admission to the UN, to bring the recently concluded fishery pacts into force, and to assure the return of Japanese detainees before winter. He feels that Japanese achievement of these aims would counterbalance a Soviet rejection of Tokyo's territorial demands.

Shigemitsu prefers a formal peace treaty to a restoration of diplomatic relations by an exchange of ambassadors. This could lead to a treaty which omits any reference to territories. Such a treaty would in effect defer indefinitely the solution of the territorial problem, but could have an appended protocol in which the USSR agreed to withdraw from Shikotan and the Habomai Islands, since the USSR at the London talks offered to return them. 

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## 6. DISORDERS CONTINUE IN SOUTH KOREAN ASSEMBLY



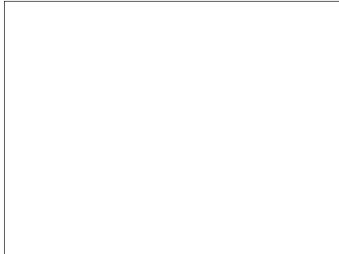
Opposition assemblymen in the South Korean assembly continued their demonstrations on 28 July against police interference with the opposition's attempts to register its candidates for the 8 August local elections. Fighting broke out on the floor of the assembly on 28 July over the arrest and imprisoning of an opposition legislator the previous day when police broke up a street demonstration in front of the American embassy.

The embassy believes the government's unwise strong-arm police tactics in the street demonstration on the 27th will bring unfavorable publicity to the Rhee administration. This action, together with recent police reorganizations, suggests that the government may increase police controls in an attempt to combat the discontent. The antiadministration vote in the recent vice-presidential election suggests that the public will probably resist government attempts to impose stricter police controls.


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## 7. CAMBODIAN CABINET RESIGNS



Public charges of corruption in the Cambodian government are given as the chief reason for Premier Khim Tit's submitting his cabinet's resignation on 28 July, but there is a strong possibility that the resignation was engineered by Crown Prince Sihanouk. The American embassy reports that Sihanouk, who still dominates Cambodian politics, recently threatened a general "house cleaning" if squabbling and scandals in government circles persisted.

The king may request Khim Tit to remain in office until Sihanouk returns from his extended European tour, probably in mid-August. During his visit to the USSR and various Satellites, the prince secured pledges of economic aid and technical assistance to complement aid already promised by Peiping. He may well desire a government more amenable to closer relations with the Soviet bloc than the mildly pro-West Khim Tit regime. 

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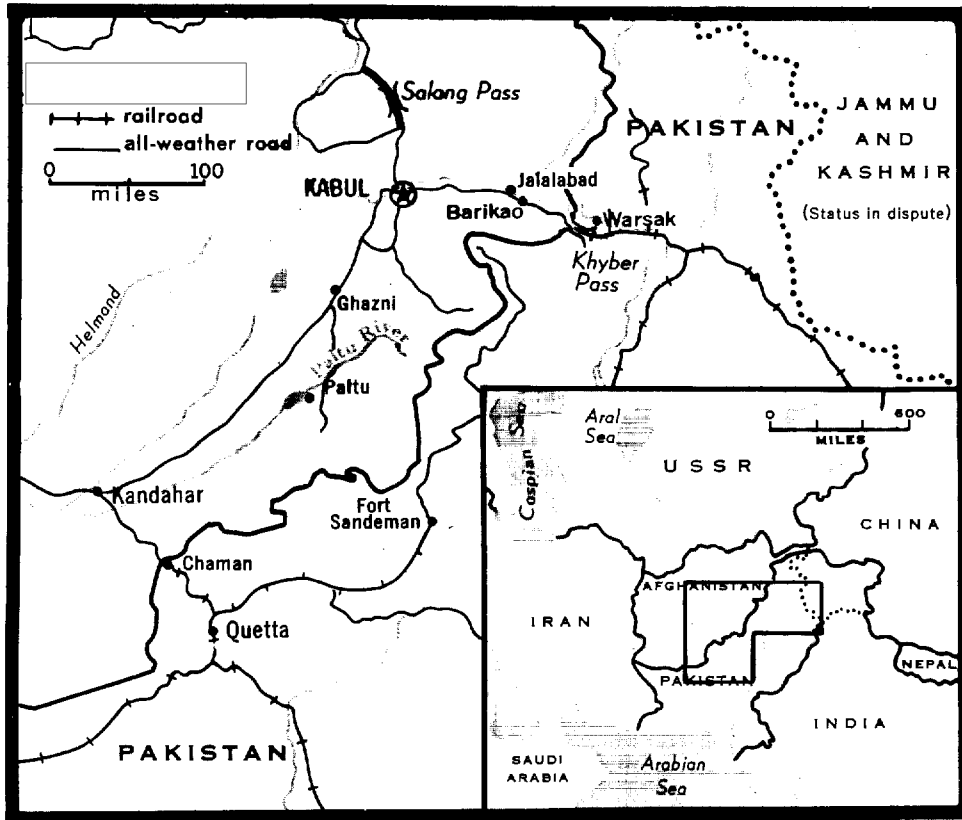
### 8. CONTRACT SIGNED FOR FIRST SOVIET PROJECTS IN SOUTHERN AFGHANISTAN



Radio Moscow has announced the signature on 26 July of contracts for Soviet surveys of a canal near Jalalabad, east of Kabul, and two dams and a reservoir on the Paltu (or Nahar) River, near the tribal territory east of the Kabul-Kandahar road below Ghazni.

#### Comment

The Paltu River projects will be the first undertaken by the USSR in southern Afghanistan, which has traditionally been a purely Western sphere of



30 JULY 1956

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31 July 56

Current Intelligence Bulletin

Page 11

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operation. The survey near Jalalabad is presumably for the Barikao irrigation project on the Kabul River near the strategic road from Kabul to the Khyber Pass. This project is of special significance because it may affect the availability of water for the Pakistani hydroelectric and irrigation dam at Warsak, just across the border.

Contracts now have been signed for most of the 11 projects covered in the general agreement of 1 March under the Soviet \$100,000,000 credit to Afghanistan.



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**THE ARAB-ISRAELI SITUATION**  
(Information as of 1700, 30 July)

Prime Minister Ben-Gurion told Ambassador Lawson on 27 July that the United States has no ground for worry that Israel will do anything to disturb the peace. Ben-Gurion implied that prospects on the other side of the frontier were not so reassuring. He said that Secretary General Hammarskjold was obviously a very intelligent man but there was something wrong in his reactions and appreciation of the situation. [REDACTED]

[REDACTED] Israel will have a test mobilization on 5 August. The American army attaché said that if this is true, the alarm generated in the Arab states would be tremendous, particularly during the present tenseness, and could conceivably cause active hostilities. The attaché said that mobilization would disrupt the economy and would prove nothing since all units have been mobilized at one time or another during the past year. [REDACTED]

A Jordanian Defense Ministry spokesman has stated that the Arab states are going to ask the UN to replace UN truce supervisor General Burns as being "biased in favor of Israel." [REDACTED]

In connection with Egypt's nationalization of the Suez Canal Company, Britain's Prime Minister Eden announced in the House of Commons on 30 July that all exports of British war materiel to Egypt had been stopped. In answer to a question as to the status of the two British destroyers sold to Egypt, Eden said he didn't know where they were but he thought the Royal Navy could take care of them wherever they happen to be. The last report indicated that the destroyers, which are fitting out in Britain, would depart for Egypt on 13 August. [REDACTED]

The British ambassador in Amman told American officials that if Britain does not comply with Jordanian demands for heavy arms, he is convinced that Chief of Staff Nuwar will turn to Nasr

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for such supplies, and that Czech tanks and other weapons will be in Jordan in less than 90 days. The ambassador said that Britain has told Jordan that should non-British weapons come into the country in any volume, Britain would have to reconsider its treaty relations with Jordan.

31 July 56

Current Intelligence Bulletin

Page 14

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