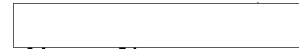


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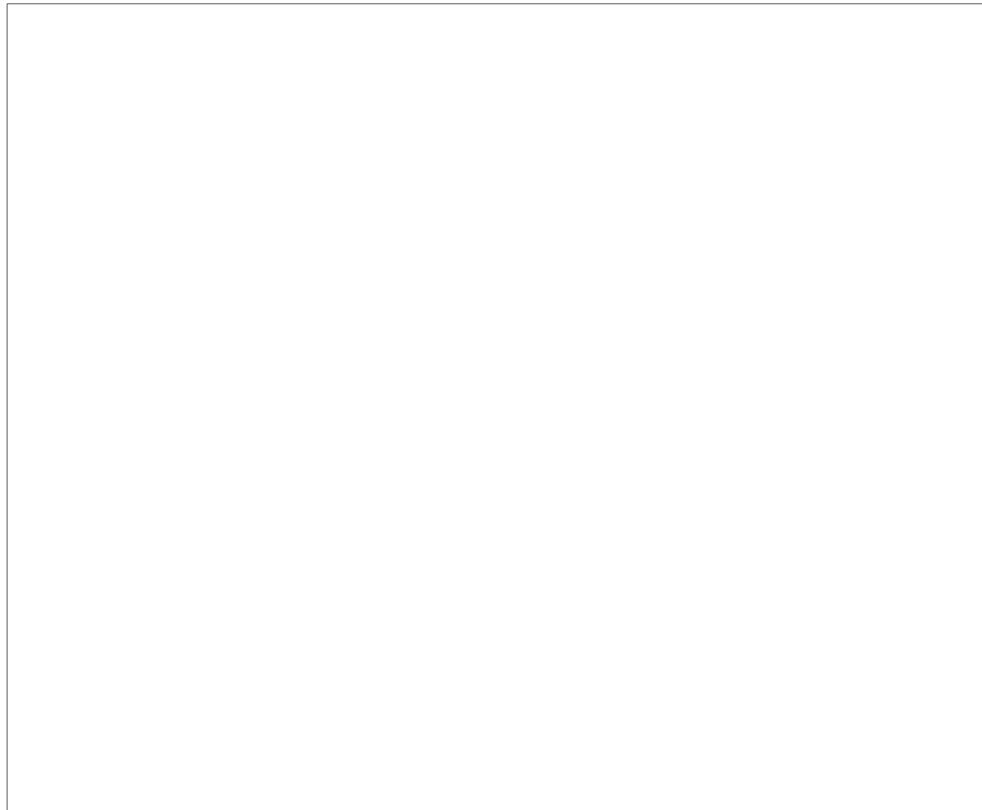
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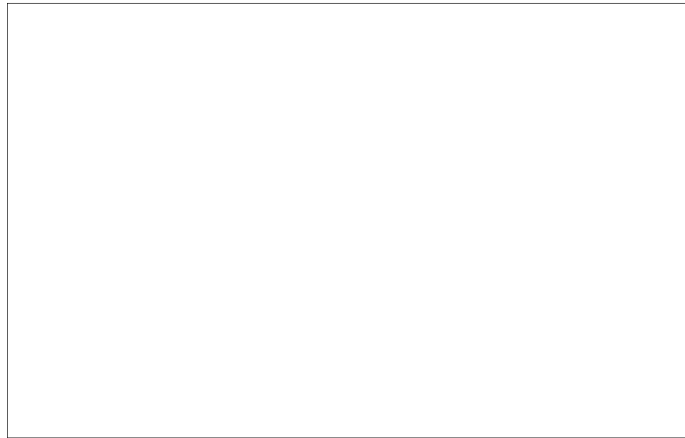
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~~TOP SECRET~~



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CONTENTS

no

1. BRITAIN'S TROOP REDUCTION THREAT [] (page 3).

no

2. FRENCH NUCLEAR TEST MAY BE IMMINENT [] (page 4).

ok

3. NEW COMMUNIST THEORETICAL JOURNAL TO BE ESTABLISHED [] (page 5).

ok

4. EAST GERMAN INTERPRETATION OF MOSCOW CONFERENCE [] (page 6).

ok

5. JAPAN AND USSR TO SIGN TRADE PACT [] (page 7).

ok

6. EARLY DISSOLUTION OF JAPANESE DIET EXPECTED [] (page 8).

ok

7. SITUATION IN INDONESIA [] (page 9). *cut out last two sentences.*

ok

8. INDONESIAN DISSIDENT LEADERS TO CONCENTRATE ON ECONOMIC AUTONOMY [] (page 10).

ok

9. SOVIET OIL OFFER TO IRAN REPORTED [] (page 11).

no

10. NEW EGYPTIAN RED SEA BASE INCREASES POSSIBILITY OF SERIOUS ARAB-ISRAELI CLASHES [] (page 12).

no

11. BRAZIL CONCERNED OVER COMMUNIST BLOC OFFENSIVE [] (page 14).


1. BRITAIN'S TROOP REDUCTION THREAT

Comment on:



Britain's statements in the WEU and NATO councils on 3 December appear designed to play on Continental concern that Britain may withdraw all its troops from Europe. London presumably hopes to bring pressure to bear on West Germany to continue payments to defray local costs of British troops in Germany.

Britain formally stated that it intends to retain a 55,000-man force if acceptable financial arrangements can be made; if not, the "whole question of the number of troops" will have to be reconsidered. In response to a Dutch question, the British WEU representative stated that this reconsideration would apply not just to the 5,000-man strategic reserve contingent, but to the full number of troops. In invoking special WEU and NATO provisions concerning financial distress connected with stationing forces in member countries, Britain asked for a decision on financial arrangements by mid-January 1958 for budget planning purposes.

This British approach will probably mar the 16-18 December NATO meetings. Continental suspicions that London plans to play an independent role have been fed in the past year by difficulties over Britain's proposed European free trade area and by London's initial troop reduction plans outlined last March. Indirectly these doubts contribute to anxiety over the continuation of the American military commitment in Europe--a concern shared by Britain. 

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2. FRENCH NUCLEAR TEST MAY BE IMMINENT

Comment on:



The president of the French National Assembly Foreign Affairs Committee, Maurice Schumann, commenting on 2 December on a recent newspaper report that France has already tested a nuclear weapon in the Sahara, stated he did not know "definitely" whether the report is true but in any case is certain that "it soon will be." Schumann added that "equality of rights" among the NATO allies requires a nuclear capability for Europe as well as the United States and Britain. He predicted "intolerable strains" in the alliance otherwise.

Schumann's demand for a European nuclear capability is the strongest in a series of official French efforts to impress the United States with France's unwillingness to be excluded from making nuclear weapons.

 
no evidence of a nuclear weapons test in the Sahara. It has been estimated that France can conduct its first test of a nominal yield nuclear device in North Africa during 1958. French officials recently stated that work is under way on manufacture of a nuclear weapon. Sufficient French plutonium is currently available for the production of two or three nominal yield weapons. 

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3. NEW COMMUNIST THEORETICAL JOURNAL TO BE ESTABLISHED

Comment on:



A decision to establish a new theoretical journal of the international Communist movement was made at the recent high-level Communist meeting in Moscow, according to a speech by Friedrich Ebert, an East German politburo member and mayor of East Berlin, to a conference of the East German SED (Communist) party. Ebert's remarks that this was one of a number of suggestions for "systematic close cooperation" among Communist parties suggest that the East Germans and possibly other bloc parties had pressed for more far-reaching measures, such as the creation of a new international Communist organization.

Prior to the meeting, numerous reports pointed to the possibility that some type of international Communist organization would be revived and that a theoretical journal would be re-established as means of coordinating the views of the Communist parties throughout the world. Instead of a new organization, the 12-nation Communist policy declaration of 21 November stated that "in present conditions it is expedient" to hold bilateral and multilateral conferences as a means of coordinating views and policies.

There are indications of disagreement over the new publication which may be one reason why the 12-nation declaration contained no mention of a journal. the Polish party is not expected to participate in the work of the new journal. the Yugoslavs have refused and that the Italian Communists are reluctant to take part. This accords with reports of the positions of these parties prior to the conference.

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4. EAST GERMAN INTERPRETATION OF MOSCOW CONFERENCE

Comment on:

[redacted] Top East German Communists, [redacted]

[redacted] said the Moscow conference left them with the impression that the Soviet Union is now the strongest force in the world, that Gomulka capitulated to Khrushchev's demands and is now "back in the socialistic fold," and that, next to Mao, Ulbricht is today the most important international Communist leader. [redacted]

[redacted]

[redacted]

[redacted] The SED functionaries also had the impression that, as a result of Mao's demands, the Chinese Communist and Soviet general staffs met following the celebration and agreed on military help for China and mutual assistance measures in case either country is attacked.

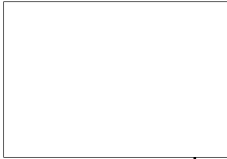
SED politburo member Hermann Matern said that the peace manifesto would provide the basis for a great campaign in East Germany which would require every citizen to take a stand for the Soviet peace policy or be treated as "a traitor to the fatherland." He said that this campaign would be carried out more vigorously than similar operations in the past and that all leading SED functionaries would be required to "hit the road and spread the word." [redacted]

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5. JAPAN AND USSR TO SIGN TRADE PACT

Comment on:



Japanese and Soviet trade officials, after three months of negotiations which resulted in compromises on both sides, on 6 December are to sign the first postwar trade and payments agreement between their countries. The agreement, of one year's duration but renewable annually, anticipates trade of approximately \$30,000,000 each way, which is about ten times Soviet-Japanese trade in 1956. Although trade has been expanding during the past year, the goal may not be reached within the first year of the agreement.

Included in the over-all arrangements are a commercial treaty which lists items to be traded, an agreement to exchange trade missions with limited diplomatic privileges, and a most-favored-nation clause. Trade accounts are to be settled in pounds sterling, although the Japanese acceded to a Soviet request that individual barter transactions be permitted.

The Soviet negotiators showed particular interest in Japanese heavy industrial products, which are featured in the proposed trade list, but Moscow has consented to respect Japan's adherence to COCOM regulations. The USSR will probably try to implement fully its side of the agreements in order to bolster its claim that an eventual \$500,000,000 trade turnover can be achieved.

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6. EARLY DISSOLUTION OF JAPANESE DIET EXPECTED

Comment on:



Foreign Minister Fujiyama and other informed political observers have told Ambassador MacArthur that Prime Minister Kishi may soon dissolve the lower house of the Diet and call an election. Campaigning already under way by some Socialist and conservative Diet members appears to support Fujiyama's forecast. MacArthur believes that Kishi might order the dissolution when the Diet convenes on 20 December or when it resumes business in late January after the holiday recess.

Kishi's apparent success in reaching a reparations agreement with Indonesia during his recent visit to Djakarta may increase his prestige and incline him toward an early election. Kishi may also be influenced by pressure within the conservative party to call an election to curb the rising power of Ichiro Kono, the strong man of the Hatoyama cabinet.

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7. SITUATION IN INDONESIA

Comment on:

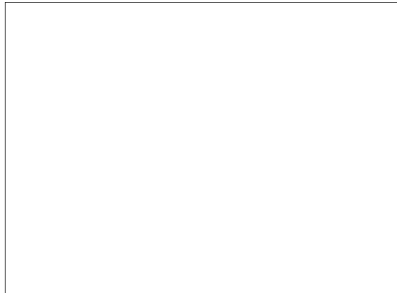
There is a growing consensus in Djakarta that President Sukarno's reaction to the attempt on his life will be retaliation against those political forces opposing his policies. It thus appears that major effects of the assassination attempt will be a closer association between Sukarno and the leftists and a hardening of regional opposition, unless it can be proved to him that, [redacted]

[redacted] the Indonesian Communist party was involved in the attack. Indonesian Communist tactics, however, have been to exploit troubled situations rather than create them.

In the wake of the assassination attempt, the Communist labor unions have seized the opportunity to expropriate Dutch businesses in the name of the government. They are now offering to turn them over to the government in exchange for a voice in their management. The Communists apparently made their move just prior to similar action planned by the government. [redacted] the Indonesian army chief of staff instructed all territorial commanders throughout Indonesia to cooperate fully in carrying out the "West Irian Action Committee's" plan to confiscate all Dutch businesses.

8. **INDONESIAN DISSIDENT LEADERS TO CONCENTRATE
ON ECONOMIC AUTONOMY**

Comment on:



Disaffected Indonesian regional leaders view the current national reconstruction conference in Djakarta as of little value and will return to their provinces determined to concentrate their efforts on local reconstruction and economic development, [redacted]

They are temporarily dropping their efforts to effect changes in the Djakarta government and in Sukarno's policies, and to bring former Vice President Hatta back to an official position. The commander of South Sumatra, Lt. Col. Barlian, allegedly foresees an initial reconstruction period lasting until 1959 and believes time is on the side of the dissidents.

Regional concentration on economic autonomy would worsen the central government's economic position, already threatened by a rupture of economic relations with the Dutch. There is, therefore, a growing danger that Djakarta will turn increasingly to the bloc for assistance, a move that would aggravate the regions' general dissatisfaction. A recent report states that the Indonesian government has approached the USSR on the possibility of purchasing rice. [redacted]

9. SOVIET OIL OFFER TO IRAN REPORTED

Comment on:



Soviet Ambassador Pegov in a [redacted] interview [redacted]

[redacted] stated that the USSR is prepared to sign an oil agreement which would give Iran more than 75 percent of the profits and assure it a Soviet market, according to another Iranian journalist. Pegov's statements, if published, would stimulate the aspirations of all Middle East oil-producing countries for a larger share of oil profits than they now receive, and strengthen Moscow's propaganda campaign against Western oil interests.

The USSR has made a number of informal offers of large-scale economic assistance which the Iranian government has turned aside. Iranian officials have claimed that new Soviet economic proposals are received "every day." Pegov's remarks may have been intended to induce Iran to accept some of these offers. Negotiations are at present under way in Tehran for conclusion of a civil air agreement, and a Soviet survey team is scheduled to arrive in Tehran soon to implement the preliminary agreement concluded on joint development of border rivers. [redacted]

10. NEW EGYPTIAN RED SEA BASE INCREASES POSSIBILITY OF SERIOUS ARAB-ISRAELI CLASHES

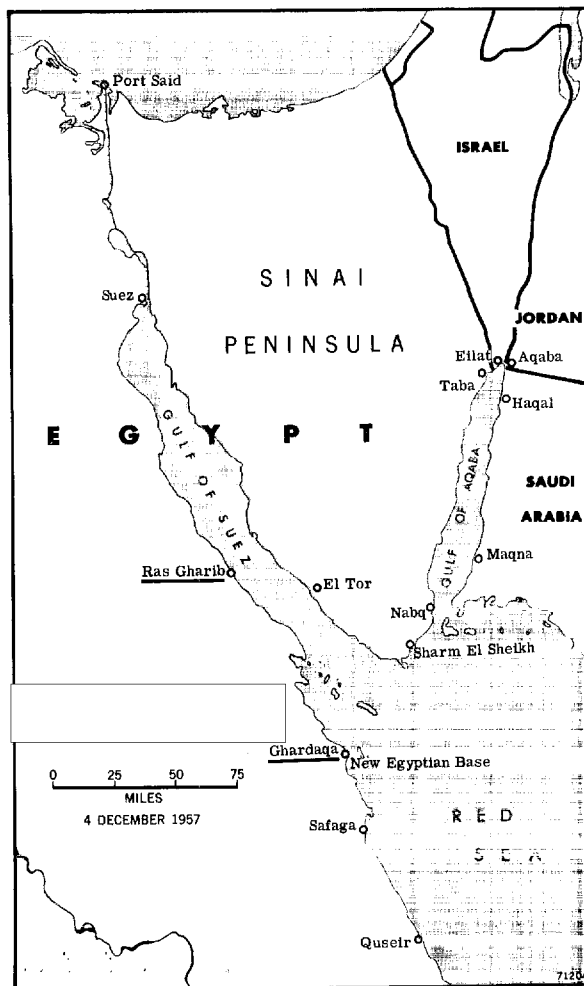
Comment on:



Recent Arab military measures have placed an increased strategic emphasis on the upper Red Sea area and correspondingly increased the possibility of serious Arab-Israeli clashes. While Saudi Arabia has strengthened its Aqaba positions, the most significant moves have been undertaken by Egypt and directed toward development of military bases along the western shore of the entrance to the Gulf of Suez, within operating distance of the entrance to the Gulf of Aqaba.

The most important new Egyptian move has been the development of a military base at Ghardaqa at the entrance to the Gulf of Suez.

two national guard battalions have been detailed to guard the "air base" near Ghardaqa, indicate that a civil airfield there has been converted into a military airfield of some importance. This base would permit Egypt for the first time to conduct effective air operations over the lower Gulf of Aqaba and to support ground forces which might again be deployed at the entrance to the gulf.



Facilities have also been developed at Ghardaqa to support light naval forces--particularly motor torpedo boats, whose limited operating radius requires a base close to the area of operations. Earlier this year, the Egyptians moved 200 naval mines to Ras Gharib, suggesting a plan to close the Gulf of Suez in the event of hostilities. Activation of the naval facilities at Ghardaqa may have occurred on 2 December when. [REDACTED]

At present, a small UNEF detachment is deployed on the Egyptian side of the Gulf of Aqaba. Although Egypt's immediate interests would appear to be best served by continuation of the protective UNEF screen in Sinai, there are unconfirmed reports that Nasir plans to request withdrawal of the UN force later this month. [REDACTED]

11. BRAZIL CONCERNED OVER COMMUNIST BLOC OFFENSIVE

Comment on:



A high-ranking official in the Brazilian Foreign Ministry has asked US assistance in assessing the implications of the Soviet bloc's new economic and diplomatic offensive in Brazil. He said he hopes to convince President Kubitschek that the bloc's objectives are basically subversive, but he fears the government will be under increasing pressure to accept economic development offers at face value.

Several bloc countries have offered to help alleviate Brazil's foreign exchange crisis and to participate in its five-year development program by accepting coffee and other surplus products in exchange for heavy equipment and complete industrial installations. While Brazilian officials are undoubtedly tempted by some of these offers, they are also aware that the bloc would probably try to resell some of these commodities in Brazil's regular European markets, and they probably fear that there would be delivery problems on installations as extensive as those being offered.

There is some evidence that Brazil is utilizing these offers to solicit increased US interest in its economic problems. Brazil has been agitating for increased developmental credits from the US and may soon request financing for its rising trade and payments deficit.

The bloc offensive--together with the psychological impact of Soviet scientific achievements--has already subjected the politically weak Kubitschek government to heavy pressure from powerful nationalist groups in congress and has substantially aided the Communist party in its campaign to regain legal status and respectability.