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# CURRENT INTELLIGENCE WEEKLY SUMMARY



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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**13 September 1956**

**T H E   W E E K   I N   B R I E F**

**PART I**

**OF IMMEDIATE INTEREST**

**THE SUEZ SITUATION . . . . . Page 1**

**British and French Moves:** Prime Minister Eden's announcement of plans for a users' association to control transit through the canal came amid signs that transit may break down within a few days. Most non-Egyptian pilots evidently plan to stop work by 15 September. British and French military preparations continue. The British parliamentary debate has demonstrated the sharp division of British opinion.

**Egypt's Position:** Eden's plan for a users' association was promptly denounced in Cairo. Nasr and his advisers apparently are lining up support in the Arab world and in South Asia for the new international conference which Nasr proposed in his statement of 10 September following the departure of the Menzies mission.

**Soviet Tactics:** The USSR has continued its efforts to discourage British and French military action against Egypt. A Pravda article warned against the possible spread of war beyond the Middle East. Moscow would still like to see prolonged negotiations on the whole Suez question and probably would favor its referral to the United Nations.

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**PART II**

**NOTES AND COMMENTS**

**CYPRUS . . . . . Page 1**

Britain continues determined to press its campaign against EOKA, and Governor Harding has announced that Cyprus is "absolutely crucial" in the Suez crisis. British distrust of the Karamanlis government in Greece may have abated, but not to the extent where London is willing to approach Athens on the question of a Cyprus settlement. London appears less concerned than previously over the possibility of UN consideration of the issue.

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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**13 September 1956**

**NORTH AFRICA . . . . . Page 1**

Algerian rebel leaders have informed Paris they are prepared to "reopen" negotiations. At the same time, the rebels seem to have stepped up their military activities. The expulsion of 60 members of Presence Francaise, the die-hard settler organization in Morocco, seems likely to complicate the financial, economic and defense negotiations now under way in Paris. [redacted]

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**ARAB-ISRAELI SITUATION . . . . . Page 3**

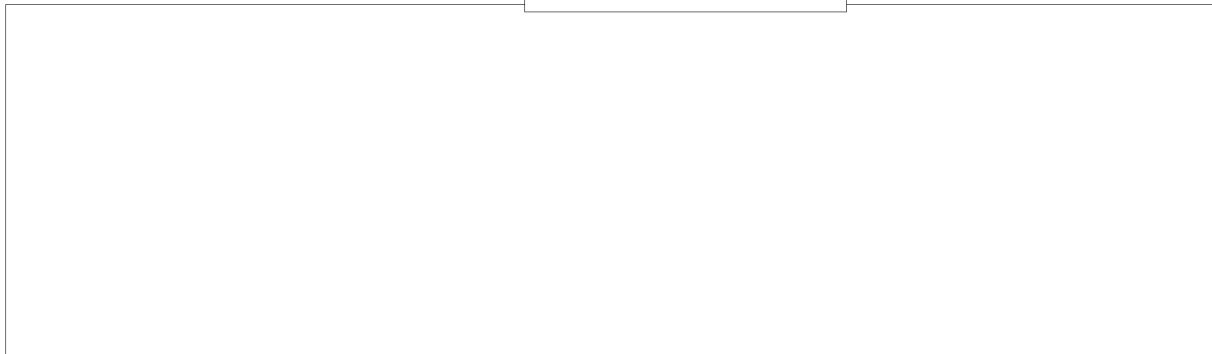
Israeli actions over the past week indicate that Israel will continue to retaliate quickly and sharply against any Arab depredations. Israel's Arab neighbors are negotiating more intra-Arab military pacts which, though ostensibly aimed at increasing strength against Israel, appear in fact to be more concerned with Arab power politics. [redacted]

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**PROSPECTS FOR A SOVIET-JAPANESE SETTLEMENT . . . . . Page 4**

Both Japan and the USSR have indicated they are willing to shelve the territorial issue when discussions for a settlement are resumed. Thus, prospects are improved that the prolonged peace negotiations will soon be concluded. Prime Minister Hatoyama plans to go to Moscow late this month to seek a settlement for restoring relations without a formal peace treaty. Whether his mission is successful or not, it may be followed by his retirement if the conservative leaders can agree on his successor. [redacted]

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**CONFIDENTIAL**

~~SECRET~~

**SECRET**

**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**13 September 1956**

**PEIPING BIDS FOR CLOSER TIES WITH NEPAL . . . . . Page 6**

The visit this month of Nepalese prime minister Tanka Prasad to Peiping provides Communist China with a new opportunity to exploit Nepal's desire for a reduction of India's predominant role in its foreign affairs. Although Peiping probably will make an effort not to appear as India's competitor for Nepalese good will, the visit is likely to strengthen New Delhi's belief that Communist China is making inroads in its traditional "sphere of influence" along the Sino-Indian border.

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**LAOS . . . . . Page 7**

There has been no progress toward a final accord between the Laos government and the Pathet Lao. The Pathets have not sent negotiators to Vientiane to work out the details of a settlement. They are likely to continue temporizing until Prime Minister Souvanna Phouma returns from a three-week medical checkup in France.

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**BONN'S UNIFICATION NOTE CRITICIZED . . . . . Page 8**

The West German opposition parties, which have long urged the Adenauer government to approach Moscow on the subject of German unification, have criticized the government for its failure to advance any "really new proposals" in its note of 7 September. They have also attacked Adenauer for doing nothing to improve the poor diplomatic relations with Moscow before dispatching the note.

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**SOVIET-SPANISH RELATIONS . . . . . Page 9**

The USSR and Spain have reached agreement on the direct repatriation of Spanish Civil War refugees, and reportedly a "great number" will be permitted to return to Spain. The Soviet Union is moving slowly toward proposing formal diplomatic and commercial relations with Spain. Franco's reported conditions for discussing the establishment of relations are the return of the remaining Blue Division prisoners and of the gold sent to the USSR during the civil war.

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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**13 September 1956**

**EUROPEAN SOCIALISTS MEET . . . . . Page 10**

The present discussions of European Socialists will culminate in the formal session of the Bureau of the Socialist International in London on 20 September. Unification of the Italian Socialist movement, Socialist contacts with the Yugoslav Communists, and relations between the Icelandic Socialists and Communists are to be discussed. [redacted]

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**LAGGING BUILDING MATERIALS  
INDUSTRY CONFRONTS KAGANOVICH . . . . . Page 11**

The failure of the Soviet building materials industry during the first half of 1956 to achieve the increases called for under the first phase of the Sixth Five-Year Plan has jeopardized the planned expansion of capital construction. First Deputy Premier Lazar Kaganovich was appointed head of the Ministry of Building Materials on 3 September to bolster the ministry so that it can meet its high targets. [redacted]

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**SOVIET UNION ISSUES  
NEW MINIMUM WAGE DECREE . . . . . Page 12**

Seven to eight million workers of the total Soviet labor force of almost 100,000,000 will receive substantial wage increases when the regime's new minimum wage decree takes effect on 1 January 1957. Collective farmers, who constitute half of the labor force, are not covered by the decree. [redacted]

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**SOVIET BOARDING SCHOOLS  
MAY BE PROTOTYPES FOR NEW SYSTEM . . . . . Page 13**

The boarding schools being established in the USSR in response to Khrushchev's recommendations at the 20th party congress appear to be prototypes for a new educational system. Although certain of the schools may evolve toward an elite status, they are apparently not intended to provide a preferential education for the children of the upper classes. The existence of juvenile delinquency arising from unsatisfactory home conditions is probably the immediate motivation for the establishment of these schools. [redacted]

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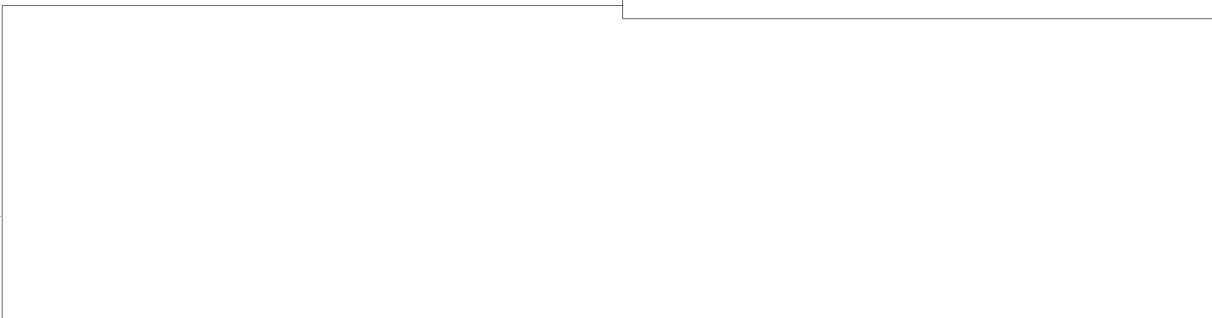
**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**13 September 1956**

**SOVIET SUBMARINES EXTEND  
LONG-RANGE OPERATIONS . . . . . Page 14**

On three occasions between 30 August and 7 September, American naval forces positively identified Soviet "W-class" submarines operating in Far Eastern waters. From 28 August to 5 September, six submarine contacts of varying validity were reported in the western Atlantic, the Gulf of Mexico and European waters. Increased use of distant international waters as submarine patrol areas is a logical corollary to the great expansion of Soviet long-range submarine forces which has occurred in recent years and demonstrates a growing capability to conduct independent long-range submarine operations.

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**LEFT WING GAINS INFLUENCE IN  
JAPANESE LABOR FEDERATION . . . . . Page 16**

The "action policy" adopted by the Japan General Council of Labor Unions, the country's largest labor federation, demonstrates again the ability of the council's extreme left-wing minority to influence policy. In a tumultuous display of factional strife, the followers of pro-Communist Minoru Takano have been able to force a policy compromise on the council's more moderate leaders, although they failed to secure leadership of the council.

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v

**THE WEEK IN BRIEF**

**SECRET**

**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**13 September 1956**

**PART III**

**PATTERNS AND PERSPECTIVES**

**YUGOSLAVIA'S PRESENT POSITION . . . . . Page 1**

While Yugoslavia's expanded economic relations with the Sino-Soviet bloc pose a potential threat to its future economic independence, it has maintained its freedom from outside political control. Yugoslavia has continued to move closer to the USSR, but there remain basic ideological differences concerning the application of the "many roads to socialism" concept. The coincidence of Yugoslavia's views with those of the USSR on most international issues has aroused new suspicion of Tito among various Western nations.

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**PROBLEMS FACING THE ITALIAN GOVERNMENT . . . . . Page 4**

The growing possibility of a split between the Italian Socialist and Communist Parties and of a rapprochement between the two Socialist Parties in contributing to the problems faced by the Italian government. As parliament is preparing to reconvene, the government is confronted with the need to make decisions on its own political complexion, its relations with the opposition, action on long-delayed legislation, and timing of national elections, now scheduled for 1958.

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**ONE YEAR OF AUSTRIAN NEUTRALITY . . . . . Page 7**

In the year since the occupation came to an end, Austria has engaged in a continuing internal debate over the obligations imposed by its neutrality law. Disputes over the meaning of the law have encouraged a tendency to "appease" both the West and the Soviet bloc. Sensitive to the problem of their eastern border, the Austrians feel they cannot afford to offend the Soviet bloc. Thus far they seem to believe that their security depends on wider participation in the European community and the United Nations.

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**NEW SOVIET AIRCRAFT . . . . . Page 11**

Preliminary study of 11 new Soviet aircraft observed in connection with the Air Force Day show in Moscow on 24 June shows that these aircraft, which included the first Soviet supersonic fighters, are of advanced design.

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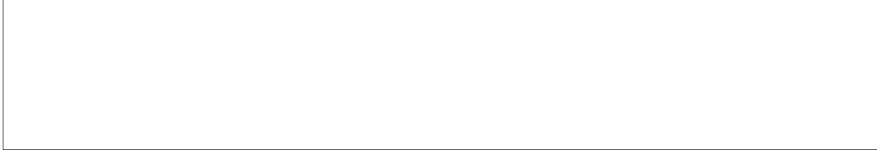


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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**13 September 1956**

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vii

**THE WEEK IN BRIEF**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

**PART I****OF IMMEDIATE INTEREST****THE SUEZ SITUATION**

25X1

**British and French Moves**

Prime Minister Eden's announcement on 12 September of plans to form a users' association to control traffic through the Suez Canal came amid signs that transit may break down within a few days. According to the plan, which he said had French and American support, the new authority would collect tolls on its own shipping, provide its own pilots, and pay Egypt an "appropriate" amount for the use of Egyptian facilities.

Eden cited the 1888 Convention on Suez as authorizing users to furnish their own pilots, and noted that Nasr had recently reasserted Egypt's support of that convention. Cairo immediately made clear its rejection of the plan, however.

Fully anticipating the failure of the Menzies talks, Eden and Premier Mollet on 10 and 11 September concluded their plans for immediate steps to maintain the pressure on Nasr. Apparently the first result was the Suez Canal Company's advice on 11 September to its non-Egyptian employees in Egypt to stop work on 14 or 15 September. In Port Said, a spokesman for a majority of the non-Egyptian pilots has stated that they plan to quit the night of the 14th.

Large numbers of the non-Egyptian pilots will evidently be available to the new users' association.

Beyond not paying tolls to Egypt, no intimation of plans for further economic sanctions appeared in Eden's statement. Because of the limited tanker supply, he specifically ruled out boycotting the canal.

Eden left the door open for possible use of force as a last resort. Mollet probably hopes that a breakdown in canal transit resulting from the resignation of the non-Egyptian pilots will make Britain more amenable to joint military action. French officials' opinion that intervention would be easy and effective has some British support.

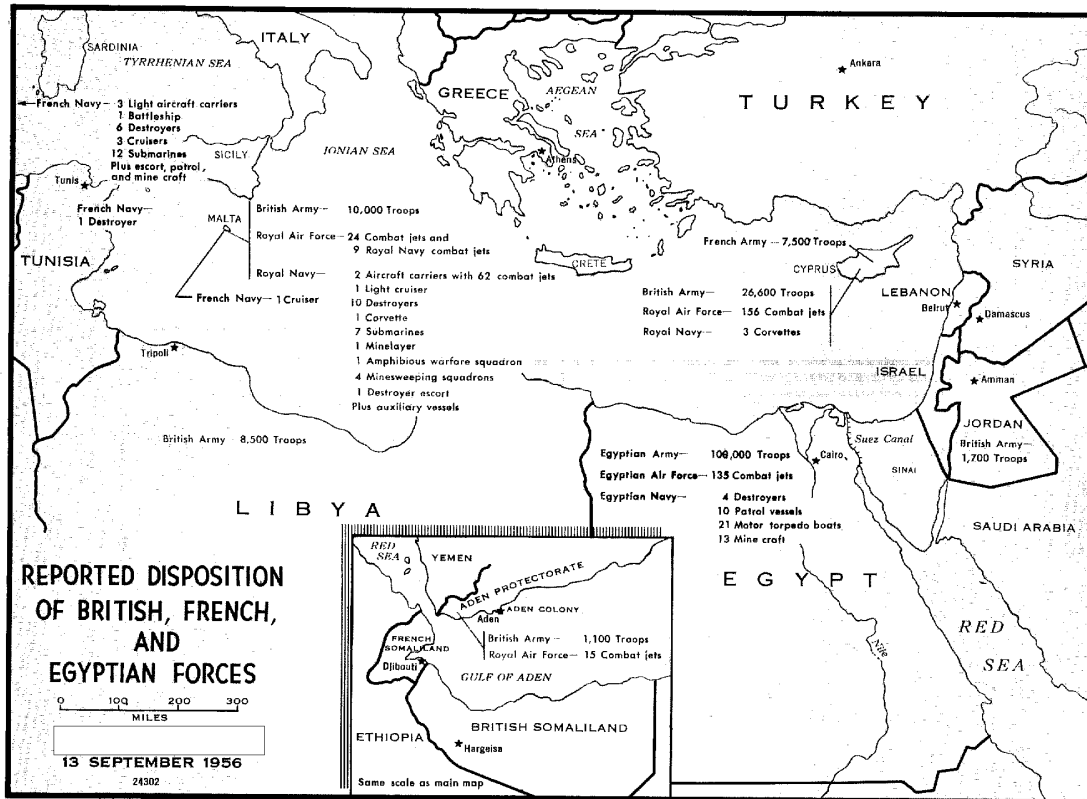
**Military Preparations**

Both nations have continued their military preparations. Britain's Lieutenant General Sir Hugh Stockwell has been appointed to command British-French forces preparing for possible operations against Egypt.

The British build-up, on a reduced scale, has brought naval reinforcements, including three

**SECRET****PART I****OF IMMEDIATE INTEREST**

Page 1 of 5

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****13 September 1956**

mine-sweeping squadrons totaling 23 vessels to Malta, and three landing ships are en route to the Mediterranean. Ground troops in the Middle East area, estimated at 49,700, were to be augmented by the departure from Southampton on 8 and 9 September of two troopships carrying more than 1,400 service and support troops, including one heavy anti-aircraft battalion of 600 men. No significant air moves have been reported in the past week.

Six troopships are still standing by at Southampton, near where troops of the Third Infantry Division are on alert. The status of this division probably remains the best indicator of British intentions with regard to using military force. No combat troops are known to have embarked to date. Five

cargo ships that have been loading divisional equipment have left Southampton and are believed anchored in the channel ready to sail.

French ground forces brought to Cyprus totaled an estimated 4,300 early this week, with an eventual build-up to 7,000 to 10,000 by 15 September forecast by the French press. About a third of the 4,300 came from France, the remainder from two divisions in North Africa, one of which the press refers to as a "parachute division."

Also, 1,200 French air force ground personnel reportedly are already on Cyprus, although no French planes designated for the new command have yet left their bases in France.

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

Aircraft known to be designated for Cyprus are mostly F84-F's, but a fighter group of Mystere IV-A's is among units alerted and presumably scheduled to move. The French Mediterranean fleet has apparently returned to Toulon after "maneuvers."

At the same time the "drift out" of British civilians, dependents, and embassy personnel from Egypt and Jordan is being intensified under official direction. Advised to be out by 15 September, over 1,300 of the 3,000 British nationals in Egypt had left by 4 September, and the last embassy families with minor exceptions were to leave Cairo and Amman by 15 September.

Gesture to UN

Britain and France's letter on 12 September to the Cuban president of the UN Security Council informed him of the continuing steps to resolve the dispute peacefully, but asked for no Security Council action at this time.

Most UN members believe some type of action is necessary, although they differ on which UN body would provide the best forum. Brazilian ambassador Muniz has suggested that a special session of the General Assembly be called for 20 September, when representatives of all members will be in New York for the international atomic energy conference.

Domestic Problems

On both the question of consulting the United Nations and on the threatened use of force, Eden faces a far more sharply divided country than does Mollet. The Labor Party attack on the government in the special session of Parliament stressed both points. Eden's view of the seriousness of the Laborite assault was demonstrated by his decision to call for a vote of confidence, despite earlier indications that he wished to avoid providing such graphic evidence of the parliamentary split on the issue.

In contrast to widespread approval in the British press of the American position in the Suez dispute so far, the French press, until announcement of the users' association plan, blamed the United States both for setting off the crisis and for the "softness" in the Western position.

Egypt's Position

Nasr and his advisers are still maintaining there will be no compromise of Egypt's control over the operations of the canal. They apparently are lining up support in the Arab world and in South Asia for the new conference of user nations which Nasr proposed in his statement on 10 September following the departure of the Menzies

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

committee. [redacted]  
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According to some observers, the economic squeeze being applied by France and Britain is being felt sooner than was expected by Egyptian officials, but there is no sign that shortages of pharmaceuticals, machinery spare parts, and other Western products, are having much impact on the course of Nasr's diplomacy. Dissatisfactions created by wholesalers' hoarding of consumer goods and by the almost total disappearance of foreign exchange for even necessary business imports are not, so far, being transformed into resentment against the Nasr regime or its Suez policy.

In conformity with its now established policy of avoiding any overt act which Britain and France could use as an excuse for intervention, the government has announced that canal pilots are free to leave, if they desire, in accordance with the canal company's statement authorizing its non-Egyptian employees to depart. Reports from Port Said indicate that non-Egyptians will walk out as soon as possible, probably beginning about 14 September; in most cases their dependents have already departed.

Cairo apparently intends to keep canal traffic moving if possible despite the departure of the bulk of the pilots. Presumably, the Egyptian authority expects to be able to utilize fairly quickly the services of

other pilots. Press reports have referred to some 40 Chinese Communists, about 100 Western Europeans, and a sprinkling of Indians and Japanese as interested in Suez jobs.

Should the Egyptians find that available pilots cannot keep ships moving through the canal at something close to their present rate of about 30 to 45 per day, one observer has suggested they may enforce their 31 August order that all ships must pay tolls in Egypt in Egyptian pounds, and refuse passage to those ships which refuse payment under these conditions. This situation might bring the volume of traffic down to a level that could be handled by a much reduced pilot corps. In view of the danger that this situation could lead to an incident, however, it seems unlikely that Cairo would adopt such a plan except as a last resort.

Soviet Tactics

Soviet activity over the past week has been limited primarily to propaganda while Bulganin, Khrushchev and Shepilov have been vacationing at the Black Sea.

Previous sober but qualified warnings by Soviet leaders on the possible spread of war beyond the Middle East were repeated in Pravda on 8 September. The timing of the article suggests growing Soviet concern over the threat of British and French military action.

Unconfirmed press reports of Communist origin on 6 September

**SECRET**

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13 September 1956

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13 September 1956

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**SECRET****PART I****OF IMMEDIATE INTEREST**

Page 4 of 5

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

asserted that military leaves in the Soviet bloc have been canceled because of the Suez crisis. Similar rumors may be expected as a reflection of Soviet concern and to impress on the British and French the possibility of direct Soviet intervention, although there are still no indications that Soviet offers to Egypt have exceeded those of "volunteers" and economic and military aid.

Since Egypt's nationalization of the canal, there has been no evidence that the USSR has provided Egypt with arms or goods other than those contracted for in exchange for Egyptian cotton. With Western economic sanctions, it would probably become incumbent on the Soviet bloc to provide at least essential POL supplies, industrial equipment, food, and necessary consumer goods such as drugs. Egypt's deteriorating foreign exchange position may necessitate Soviet bloc subsidies in the form of gifts or loans. [REDACTED]

In addition to the pilots it is making available to Egypt

for the canal, the USSR could provide sufficient numbers of skilled maintenance personnel to continue uninterrupted operations.

Moscow presumably still seeks prolonged negotiations on the Suez conflict, and probably would favor its referral to the United Nations. In the Security Council, the USSR could veto action inimical to Egypt's interest; in the General Assembly, a decision favorable to Egypt would be fairly well assured by the votes of the underdeveloped and anticolonial bloc of nations with those of the Soviet bloc. The USSR, however has not yet shown a disposition to introduce the issue itself.

A long Izvestia article on 7 September on the Panama Canal argued that the Republic of Panama is the proper owner of the canal and stated that American "pretensions" that the canal is an American waterway are "illegal." This was the first reference to other waterways since the London conference on the Suez Canal. [REDACTED]

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CURRENT INTELLIGENCE WEEKLY SUMMARY

13 September 1956

PART II

NOTES AND COMMENTS

CYPRUS

Britain appears determined to press its campaign against EOKA violence to a conclusion before taking any new steps toward a political settlement. Governor Harding stated on 10 September that Cyprus is "absolutely crucial" to Britain in the Suez crisis.

Britain's distrust of the government of Greek prime minister Karamanlis may have abated somewhat, although London is not about to initiate measures to improve relations with Athens or move toward a Cyprus settlement. Permanent Under Secretary Kirkpatrick's professed recognition that any successor to Karamanlis would be more intransigent on the Cyprus issue may represent a reversal of London's estimate of the probable situation in Greece were Karamanlis' government to fall.

Lord Radcliffe plans soon to return to Cyprus to discuss his constitutional proposals, but it is unlikely he will get any more co-operation from the Cypriots than he did on his earlier visit. There is no indication that the British will agree to discuss the proposals with Athens.

London appears less concerned than previously over the

possibility of UN consideration

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According to a Colonial Office official, London plans to publish a large new selection of captured EOKA documents in about two weeks. This may cause a hardening of Karamanlis' attitude, which has recently become more conciliatory. It may also lead the Greeks to step up their press exposé of British intelligence activities in Greece.

Turkish Views

Meanwhile, Turkey may prove less intractable on the Cyprus problem than Ankara's public statements would indicate. The American embassy in Ankara feels that progress on the Cyprus problem might now be made through direct contact between the Greeks and the Turks. The embassy also believes that, as far as Turkey is concerned, self-determination for Cyprus "might be entirely feasible" in 20 years.

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NORTH AFRICA

Algeria

Algerian rebel leaders in exile have informed Paris they

are prepared to "reopen" negotiations.

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SECRET

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

weapons or induce their newly armed compatriots to join the guerrilla forces.

Considerable secrecy surrounded French premier Mollet's visit with Robert Lacoste, minister residing in Algeria, on 7 and 8 September. The American consul general in Algiers believes the sole purpose of Mollet's visit was to put the final touches on an anticipated statement regarding the future status of Algeria, and he expects the statement to be made in October before the French National Assembly reconvenes.

Morocco

Continuing friction between French settlers and Moroccans was highlighted by the arrest and expulsion on 12 September of some 50 members of the die-hard settler organization, Presence Francaise. These expulsions followed closely on the heels of the arrest on 6 September of five organization members who were charged with distributing tracts urging the Berbers to revolt. French ambassador André Dubois has protested the manner in which the expulsions were carried out.

The Istiqlal party, which in August itself precipitated a crisis by demanding a one-party government, has termed the activities of Presence Francaise a plot against the state. Presence Francaise, which in 1954 and 1955 sponsored French counterterrorist activities, probably has contributed to present tensions. It may also have been bolstering the small Shoura party, which claims to rival the Istiqlal in strength and popular following.

The arrests seem likely to complicate financial, economic and defense negotiations now under way in Paris as well as to prolong the present unsettled atmosphere in Morocco.

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The Algerian nationalists may have taken this initiative following Marshal Juin's support of a "federal solution" on 27 August. There are no indications, however, that they have modified their basic demand that France recognize Algerian independence.

Meanwhile, the Asian-African bloc is considering sponsoring the Algerian issue at the forthcoming session of the UN General Assembly. A member of the bloc recently estimated it was assured of 34 votes and therefore needed to pick up "only about six votes" to gain inscription of the issue on the assembly agenda.

Possibly in concert with these diplomatic efforts, the rebels have stepped up their activities in Algeria, particularly west of the capital city of Algiers. Recent French reports of pacification gains appear somewhat exaggerated, as reports from Algeria indicate that peace is tenuous at best, even in the sectors east of Algiers where formal ceremonies of allegiance to France have taken place. Widespread distribution of arms for the self-protection of repacified villages would seem to be an open invitation to the rebels to attempt to capture these

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

**ARAB-ISRAELI SITUATION**

Israeli actions over the past week indicate that Israel, while taking no steps to exploit Egypt's preoccupation with the Suez crisis, will continue to retaliate quickly and sharply against any Arab depredations. Twice in the last few days, Israeli patrols have retaliated almost immediately, first against the Egyptians for the dynamiting of a section of the Tel Aviv-Beersheba rail line, and second against Jordan for an attack on an Israeli patrol.

Israel's quiet but tougher policy has apparently been in force since early September, when the Israelis resumed close-in border patrols. Prime Minister Ben-Gurion, according to UN truce supervisor Burns, has said Israel rejects all of the UN Security Council's proposals for improving the border situation and the armistice machinery. Israel has long maintained that Arab commitments to the armistice agreements are worthless and that, in any event, the UN is incapable of obtaining strict Arab compliance. In the present circumstances, the Israelis feel they can be bolder in asserting this belief officially.

King Hussain of Jordan called in the British, French, and American ambassadors on 12 September, following the Israeli retaliation of 11 September which resulted in the death of 23 Jordanians. He told them he thought Israel was deliberately trying to provoke Jordan while Egypt was

occupied with the Suez crisis. Hussain suggested certain Western powers involved in the canal dispute might be pushing Israel to attack. Jordan army chief Nuwar told the ambassadors that widespread hostilities might break out if additional provocative acts continued from Israel.

Intra-Arab Pacts

Meanwhile, Israel's Arab neighbors continue to negotiate more military pacts. Though these pacts ostensibly are aimed at increasing Arab cooperation and strength against Israel, the Arabs appear in fact to be more concerned in these negotiations with intra-Arab power politics. Lebanon has consistently sought to avoid any strong ties with any Arab state.

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Though Jordan, too, has sought to maintain a more or less neutral position in Arab politics, its desire for arms and its lack of money are leading it toward closer alignment with Egypt, Syria, and Saudi Arabia. Jordan is, however, apparently still trying to avoid a direct military alliance with Egypt. The fact that Jordan is urging Lebanon to enter an arrangement with Syria suggests that it hopes the

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

inclusion of Lebanon in the intra-Arab pact system would lessen the exclusive influence of the Egyptian-Syrian-Saudi bloc in Jordan. One result of

this maneuvering appears to be at least the promise of some additional Arab arms assistance to Jordan.

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**PROSPECTS FOR A  
SOVIET-JAPANESE SETTLEMENT**

Both Japan and the USSR have indicated they are ready to postpone the territorial issue in order to normalize relations. The removal of this obstacle opens the way to a settlement, without a formal peace treaty. Japanese prime minister Hatoyama is planning to visit Moscow at the end of September.

The proposal Hatoyama is to take to Moscow envisages the shelving of the territorial issue, a declaration terminating the state of war, an exchange of ambassadors, the immediate return of Japanese detainees by the USSR, the implementation of the Japan-USSR fisheries agreements, and unconditional Soviet support for Japan's admission to the UN. While the prime minister apparently at this point has been granted little discretion by his party to negotiate, Moscow's readiness to accept indicates the prolonged peace negotiations may soon be successfully resolved.

A Moscow broadcast of 11 September followed up previous informal hints from Premier Bulganin and Soviet fishery mission chief Tikhvinsky that the USSR was willing to accept the Hatoyama proposals as a basis for agreement. The USSR

may balk at agreeing to the Japanese proposal that Soviet support for Japan's admission to the United Nations be made unconditional. The USSR has given no indication it has backed down from its attempt to tie Japan to Outer Mongolia in a package admission.

While Moscow has not officially accepted the Japanese plan, it is probable the Kremlin would accept an informal restoration of relations with Japan, since the USSR has consistently stressed that its goal is to bring about normalized relations. The Soviet leaders may feel Japan's present proposal represents capitulation, since it embodies a procedure essentially the same as that proposed by the USSR and rejected by Japan in January. Japanese government leaders, however, want a firm prior commitment from the USSR, and a letter from Hatoyama to Premier Bulganin has been sent which seeks official Soviet confirmation that an "Adenauer-type" solution would be acceptable.

Hatoyama's Future

Success or failure at Moscow may set the stage for

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****13 September 1956**

Hatoyama's retirement since he has said he would be willing to retire once relations with the USSR were restored. A failure might sufficiently discredit his leadership to force him out of office. Japanese business leaders have become alarmed over the increasing chaos among the conservatives and have called for the retirement of the prime minister.

Although pressure from business circles alone would

not be likely to force Hatoyama out, this, added to another influences working against Hatoyama, both within and outside the conservative ranks, could be enough to tip the scales. The prime minister's retirement alone would not solve Japan's basic difficulty--the choice of a new prime minister. Until that question is resolved by the conservative leaders, any calm on the political scene is likely to be only temporary.

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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**13 September 1956**

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**PEIPING BIDS  
FOR CLOSER TIES WITH NEPAL**

The visit this month of Nepalese prime minister Tanka Prasad to Peiping provides Communist China with a new opportunity to exploit Nepal's

desire for a reduction of India's predominant role in its foreign affairs. Although Peiping will probably make an effort not to appear as India's

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

13 September 1956

competitor for Nepalese good will, the visit is likely to strengthen New Delhi's belief that Communist China is making inroads in its traditional sphere of influence along the Sino-Indian border.

Premier Chou En-lai will probably seek to duplicate his success with the premiers of Cambodia and Laos and gain a commitment to neutralism from the Nepalese prime minister. Chou will probably attempt to get Prasad to sign a joint communiqué affirming the principles of "peaceful coexistence" and a pledge calling for closer economic and political relations.

As Peiping's ambassador to Nepal offered "co-operation and assistance" to Katmandu last February, the Chinese can be expected to make a more specific offer to Prasad. The Nepalese prime minister would probably welcome an offer of "unconditional" economic aid. He told an American embassy official last May that Nepal would accept a Chinese Communist offer of financial aid, provided Peiping did not insist on sending Chinese technicians.

Meanwhile, Chinese Communist and Nepalese negotiators have reached an agreement on a new Nepal-Tibet treaty, according to press reports. The treaty draft, which is said to give Nepal "highly favorable treatment" in Tibet, has been sent to both governments for formal approval.

India, which has displayed a growing sensitivity to

## LAOS

There has been no progress on a final Laos-Pathet Lao accord because the Pathet Lao has failed to send representatives to Vientiane to work out

Communist China's overtures to Nepal, has attempted to reassert its special role in the formulation of the border kingdom's foreign policy. An Indian official recently told the American chargé in New Delhi that India "has been able to explain" to Peiping's negotiators that India expected friendly nations not to attempt to establish diplomatic missions in Katmandu. He said that Communist China, which carries on diplomatic relations with Nepal through an ambassador stationed in New Delhi, "no longer" intends to establish an embassy or consulate general in Katmandu.

During his visit to New Delhi this December, Premier Chou En-lai will presumably try to allay Nehru's apprehensions regarding Communist China's intentions in Nepal.

New Delhi's reported success in dissuading Peiping from seeking a diplomatic mission in Katmandu at this time will almost certainly antagonize the Nepalese if it results in Peiping rejecting Nepal's request for a consulate in Lhasa. That Nepal is already chafing under continued Indian domination is indicated by Prime Minister Prasad's announcement on 21 August that he planned to seek revision of the Indian-Nepalese treaty of 1950. This treaty, which Prasad feels is not compatible with the "five principles of coexistence" limits the tax Nepal can put on exports to and imports from India.

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the details of a settlement. Laotian prime minister Souvanna Phouma, meanwhile, departed on 8 September for a three-week visit to France for medical treatment.

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

Although Souvanna had on 31 August "summoned" his half-brother Souphannouvong to come to Vientiane with his negotiating team, he had apparently received no reply prior to his departure. According to the British ambassador, however, Pathet Lao representative Nouhak met with Souvanna on 6 September and told him Pathet leaders were "full of good will" but were having difficulty convincing their subordinates. The latest report from Vientiane states that the Pathet negotiators are expected to show up on 15 September.

Vice Premier Katay, who is skeptical of Pathet "good faith" and who when premier, took a "hard" line with the Pathets, will be in charge of the government during Souvanna's absence. He could be expected to stiffen the government's

will to resist damaging concessions, and it therefore seems likely that the Pathets will avoid serious negotiations until Souvanna returns.

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**BONN'S UNIFICATION NOTE  
CRITICIZED**

The West German opposition parties, which have long urged the Adenauer government to approach Moscow on the subject of German unification, have criticized the government for its failure to advance any "really new proposals" in its note of 7 September. They have also attacked Adenauer for doing nothing to improve the poor diplomatic relations with Moscow before dispatching the note.

By its memorandum, Bonn has not only launched its long-promised effort to explore the unification subject with the USSR, but has also, in effect, opened the Adenauer regime's campaign for re-election in next year's Bundestag elections. The government is trying to convince the West Germans that all legitimate efforts are being made to unify the country.

The immediate icy reception the note received in Moscow was not surprising in view of the wrangle between Bonn and Moscow on the repatriation of each other's nationals and Moscow's pique at the ban on the West German Communist Party. Soviet deputy foreign minister Gromyko said flatly that German unification was impossible because of West Germany's rearmament and suppression of civil liberties. The Soviet attitude may put a crimp in Bonn's hopes for a protracted exchange of notes which would keep the West German populace satisfied until the elections next year. The USSR will not give the present Bonn government any satisfaction on the score of unification, in order, if possible, to get rid of the Adenauer regime next year.

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

The West German government did not call for a new international conference, but only for a continued exchange of views. As previously, the government's key idea is still free elections throughout Germany, although it was praised by most German papers for its apparently "flexible" attitude, notably its willingness to consider any European security system based on unification. Bonn incorporated the idea proposed last year by Prime Minister Eden of a zone between East and West, including a unified Germany, in which armaments would be regulated.

Although this scheme was featured by Bonn officials as giving its note a "forward look," the opposition was quick to point out that the USSR had rejected Eden's so-called "demilitarized zone" plan when it was first advanced.

The Federal Republic's handling of the note raises

some questions about the degree of co-ordination with the three Western powers which Bonn will observe in its future dealings with Moscow. Although Bonn accepted various modifications in the note proposed by the West, it did not accept the suggestion of deleting reference to the demilitarized zone. It is also noteworthy that Bonn consulted NATO only belatedly, whereas it has been arguing this year that all major foreign actions of NATO members should be fully co-ordinated in NATO beforehand.

The Adenauer government has made a possible shift in its position on the military status of a united Germany more difficult by informing the Soviets that "freedom of alliance" for an all-German government is a "cornerstone" of its policy. The note did not reveal any hesitation by Bonn about rearmament, or any inclination to deal with the East Germans.

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**SOVIET-SPANISH RELATIONS**

The USSR and Spain have reached an agreement on the direct repatriation of Spanish civil war refugees and reportedly a "great number" will be permitted to return to Spain, possibly in September.

Unconfirmed reports have placed the number of Spaniards still in the Soviet Union as high as 5,000. Most of them were sent to the USSR from the Loyalist areas as children for "safekeeping" during the civil war in Spain in 1936-39. Their return as well-indoctrinated "Soviet" citizens would seem to pose a problem for anti-Communist Spain. In addition, there are still in the Soviet Union about 70 prisoners of

the Blue Division, which fought against the USSR in World War II.

The arrangements for the return of the refugees have been worked out largely through the International Red Cross. In April 1955 a representative of the French Red Cross informed the Spanish ambassador in Paris that the Soviet Union was willing to return all Spanish citizens. In May 1956 Madrid decided that rather than intervene directly, it would leave the matter to the Red Cross.

Press reports in Madrid in July stated that 500 persons were to be allowed to go home, and data on those individuals believed still in the USSR were

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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

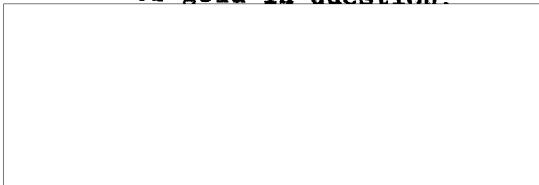
**13 September 1956**

requested by Foreign Minister Martin Artajo. A French radio broadcast in late August said 1,300 Spanish refugees would leave the USSR by ship on 20 September.

The Soviet Union appears, however, to be moving slowly toward proposing formal diplomatic and commercial relations with Spain. In 1954, the USSR released 289 Spanish prisoners from the Blue Division at the same time it repatriated prisoners from other countries. In September 1955, Molotov indicated the Soviet Union would not oppose Spain's application for admission into the UN in the 18-nation package plan.

Franco's reported conditions for discussing the establishment of relations are the return of the remaining Blue Division prisoners and of the gold sent to the Soviet Union during the Spanish Civil War--estimated to equal as much as half a billion dollars. There were unconfirmed reports of preliminary discussions last winter which reportedly broke up over disagreement on the amount of gold in question.

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**EUROPEAN SOCIALISTS MEET**

The present discussions of European Socialists, which will culminate in the formal session of the Bureau of the Socialist International in London on 20 September, promise to be among the most important meetings of moderate leftist leaders in the postwar period. While these discussions are unlikely to have a decisive impact on the attitudes of individual parties, they will undoubtedly have considerable influence. The range of national and international topics which is to be discussed testifies to the increasing importance of these efforts to harmonize Socialist views.

Two major items on the bureau's agenda are the present efforts to unify the Italian Socialists (see Part III, p. 4) and the attitudes of the various parties toward the establishment

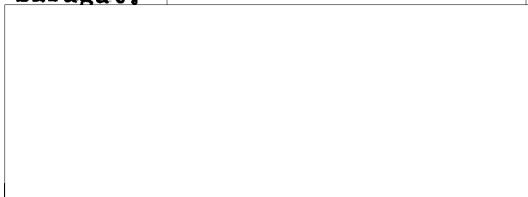
of contacts with the Yugoslav Communists.

Italian Question

On the Italian item, it is evident that bureau officials have been playing a far more active behind-the-scenes role than had been previously indicated. The bureau is scheduled to hear a preliminary report from French senator Pierre Commin on the results of his mediation efforts and the outcome of his conversations in early September with the Italian Socialist leaders, Nenni and Saragat.

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the bureau may have to consider giving its "official"

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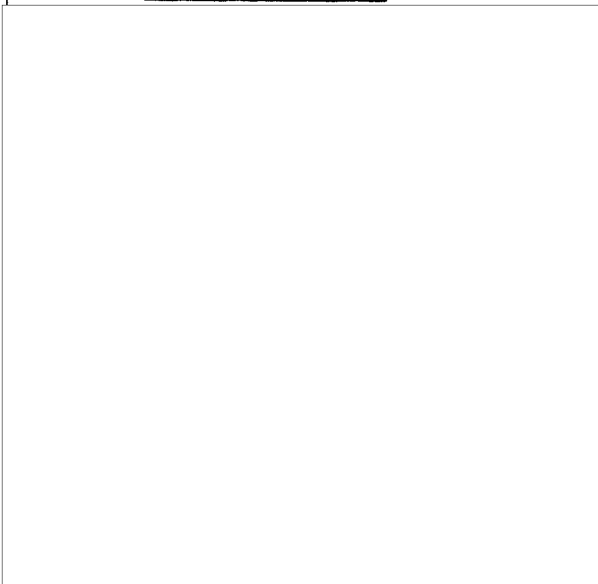
**CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

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blessing to Commin's inter-  
vention, the possible interim  
financing of the Nenni Social-  
ists, and the advisability and  
timing of a possible admission  
of a unified Italian Socialist  
movement--presumably led by  
Nenni--into the International.

Other Questions



Yugoslav Question

The question of contacts  
with the Yugoslav Communists  
was reportedly the subject of a  
"spirited discussion" at the  
meeting of the bureau last June.



In the absence of agreement, it  
was decided that the bureau's  
secretary should "collect in-  
formation" on the views of the  
affiliated parties toward Yugo-  
slavia for discussion in Sep-  
tember, prior to a vote in the  
council next December.

The chairman of the Nether-  
lands Labor Party recently told  
the American embassy in The Hague  
that, following the meeting of  
the bureau, there would be a  
special meeting of Socialist  
Party chairmen, at which time an  
attempt would be made to pressure  
the Icelandic Social Democrats to  
end their participation in the  
government coalition, which in-  
cludes the Communists. The Dutch,  
whose government has been partic-  
ularly concerned over recent  
Icelandic developments, are evi-  
dently taking the lead in this  
effort



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op-  
ponents of such contacts had  
the advantage--a view shared  
by the American embassy in Lon-  
don, which reported then that  
Socialist leaders had shown  
"rapid disenchantment" with  
Tito because of his recent "Com-  
munist" behavior and the renewed  
harassment of Milovan Djilas  
during the early summer.

**LAGGING BUILDING MATERIALS  
INDUSTRY CONFRONTS KAGANOVICH**

The failure of the Soviet  
building materials industry  
during the first half of 1956  
to achieve the increases called  
for under the first phase of the  
Sixth Five-Year Plan has jeop-  
ardized the planned expansion  
of capital construction. Capital

investment reached only 86 per-  
cent of the plan from January  
through June.

First Deputy Premier Lazar  
Kaganovich may have been ap-  
pointed head of the Ministry of  
Building Materials Industry on

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

3 September to bolster the ministry so that it can meet its high targets under the Sixth Five-Year Plan. He had previously held this post briefly in the immediate postwar period, when reconstruction of the country was in full swing.

Soviet cement output of 11,600,000 tons in the first half of 1956 was 7 percent greater than in the corresponding period last year, but fell short of the estimated goal by 1,200,000 tons; brick production of 9 billion units was an estimated 700,000 units short; and precast concrete production of 3,500,000 cubic meters was an estimated 400,000 cubic meters short.

These failures have been attributed by the Soviet press mainly to poor organizational and technical leadership and

failure to complete new plants. The poor leadership, however, may have been partly because the ministry did not have a ministerial head from 10 April, when Pavel Yudin died, until the appointment of Kaganovich.

Although the goal for cement output was achieved in the Fifth Five-Year Plan, construction of new cement plants has lagged badly since 1955. This has resulted in existing plants being overworked.

Very ambitious plans have been set for future production, which is to rise from 22,400,000 metric tons in 1955 to 55,000,000 in 1960--surpassing present production in the United States. Failure to fulfill plans for construction materials would hold back the development of heavy industry, housing, and other branches of the economy.

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**SOVIET UNION ISSUES  
NEW MINIMUM WAGE DECREE**

A joint decree issued by the Soviet government and the Communist Party central committee on 8 September raised basic minimum wages for urban workers to 300 rubles per month and wages for workers other than collective farmers living in rural areas to 270 rubles. Higher minimums, up to 350 rubles per month, are to be provided for production workers in industry, construction, transportation and communications. A companion decree raised the minimum monthly income on which income taxes can be levied from 260 rubles to 370 rubles. All these provisions are to become effective on 1 January.

Some 7,000,000 to 8,000,000 workers from the total Soviet labor force of about 100,000,000

are apparently to receive substantial wage increases when the new rates take effect. The decree applies, however, only to those persons included in the category "workers and employees," which covers government workers, wage earners in most branches of the economy, and workers on machine tractor stations and state farms. Collective farmers, who account for about half of the total Soviet labor force, are not included.

Minimum basic wages at present range from around 200 to 250 rubles per month, which would not provide even subsistence. For most workers, however, bonuses for above-norm output and overtime payments have raised wages well above the low basic levels. The average

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

monthly wage for workers and employees in recent years has been generally estimated at 600 to 700 rubles. The various types of additional payments are to continue unchanged under the decree.

The establishment of higher minimum wages is an interim step in a broad program which was inaugurated more than a year ago to overhaul the entire structure of salaries and wages in the USSR. This reappraisal of the wage structure is the first to be made since 1932 and is intended to eliminate the many inequities which have developed over the years in wages paid for similar work in different branches of the economy. In addition, the present wage structure is said not to provide adequate incentives for workers to increase productivity.

The decree on minimum wages, which was foreshadowed in Khrushchev's speech at the 20th party congress, will add 8

**SOVIET BOARDING SCHOOLS  
MAY BE PROTOTYPES FOR NEW SYSTEM**

The boarding schools being established in the USSR in response to Khrushchev's recommendations at the 20th party congress appear to be prototypes for a new system of general education. Although certain of the schools may evolve toward an elite status, they apparently are not intended to provide a preferential education for the children of the upper classes. A Pravda editorial in June asserted that "boarding schools in our country must become in the future the basic form of universal secondary, polytechnical education of the growing generation."

billion rubles annually to the monetary income of consumers, which was estimated at about 600 billion rubles in 1953. The recent law raising pensions in the Soviet Union

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will add another 13 billion rubles each year. These measures are aimed at raising the income of the low income segments of the population, and constitute a marked departure from the policy generally pursued in recent years of attempting to stabilize consumer income.

These methods of increasing the purchasing power of consumers also have a somewhat different impact than the widely publicized annual price reductions on consumer goods, which were employed for the same purpose from 1947 to 1954. The price cuts affected luxury goods as well as necessities, and benefited higher-income groups as well as workers in the low-income brackets.

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(Prepared by ORR)

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A "provisional instruction" issued by the minister of education of the Russian Republic states, "Children of unmarried mothers and of mothers with a large number of children, of disabled veterans and persons disabled at work, and orphans, as well as children of families which lack the necessary conditions for raising them, enjoy priority in admittance to boarding schools." This and other press statements lead to the conclusion that the existence of juvenile delinquency arising from unsatisfactory home conditions is probably the immediate motivation for establishment of the boarding schools.

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

The overwhelming majority of Soviet mothers must work to help provide even a minimum standard of living for their families, and the fact they are unable to pay adequate attention to raising their children is clearly a major cause of juvenile delinquency,

The Soviet aim in establishing the schools is broader, however, than just to provide relief for working mothers and to ameliorate poor home conditions. Through a broad network of boarding schools, the party-state could greatly increase its influence over the growing generation, both in the positive sense of training them to be obedient Communist citizens and in the negative sense of counteracting the influence of "survivals of the past," such as religion.

A relatively modest beginning is to be made this year in the founding of boarding schools. A reported 166 schools will open in the Russian Republic, 50 in the Ukraine, 8 in Kazakhstan, 5 in Georgia, etc. Because there were 167,500 elementary and seven-year schools and 26,900 ten-year schools in the Soviet Union in the 1955-56 school year, it will take considerable time for the boarding schools to become the "basic form of universal secondary education."

Most boarding schools opening this fall will accept pupils in only the first five or seven grades. Ultimately, a boarding school will include not only the first ten grades, the present normal span of Soviet secondary schooling, but a nursery and kindergarten as well. Thus, it will provide cradle-to-factory education, with only a minimum of parental influence.

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**SOVIET SUBMARINES EXTEND LONG-RANGE OPERATIONS**

On three occasions between 30 August and 7 September, American naval forces positively identified Soviet "W-class" submarines operating in Far Eastern waters. From 28 August to 5 September, six submarine contacts of varying validity were reported in the western Atlantic, the Gulf of Mexico and European waters. Although positive identification was not established in the latter instances, some of the submarines probably were of Soviet origin.

Increased use of distant international waters as submarine patrol areas is a logical corollary to the great expansion of Soviet long-range submarine forces which has

occurred in recent years. Recently evidenced Soviet disregard for secrecy while operating in Pacific waters probably is equivalent to a Soviet declaration of intent to operate more openly in this area in the future.

A Soviet "W-class" submarine was sighted 53 miles west of St. Matthew Island in the Bering Sea on 30 August. Another unit of this class was sighted on 4 September 150 miles north-northwest of Attu. These units, probably based at Petropavlovsk, made no immediate effort to avoid detection and appeared, in fact, to invite observation. On 7 September another "W-class" submarine, number 87, was observed 145 miles east-southeast of Vladivostok in the Sea of Japan.

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956



Three unidentified submarine contacts were made in American waters on 28 August: an American naval aircraft sighted a submarine on the surface 265 miles southeast of Newport, Rhode Island; an American naval vessel made a probable submarine contact in the Gulf of Mexico, 130 miles west of Tampa, Florida; a Coast Guard vessel established sonar contact with a possible third submarine, 30 miles north of Bermuda. Another vessel, possibly a submarine, was contacted in American waters on 4 September in an area 100 to 500 miles north-northwest of the Bahamas.

Denmark reported the detection of two possible submerged submarines in the southern part of the Great Belt on 31 August; one of the vessels was on a northerly course. On 5 September, a possible

submarine was sighted in the English Channel.

The submarine contacts reported in American and European waters are believed to have been Soviet. The number of valid contacts with presumably Soviet submarines throughout the world has risen steadily during the past two and one-half years.

Peacetime patrols in American coastal waters would give extremely valuable training to Soviet submarine crews, which in wartime might be assigned mine-laying operations in principal American harbor entrances, guided-missile launchings against coastal targets, or anticonvoy duties. Most of the recent sightings probably involved training and area familiarization patrols, indicating a growing Soviet capability to conduct independent long-range submarine operations.

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**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****13 September 1956**

25X1

**LEFT WING GAINS INFLUENCE IN  
JAPANESE LABOR FEDERATION**

The extreme left-wing minority of the Japan General Council of Trade Unions (Sohyo), --Japan's most influential labor organization, with over 2,800,000 members--has, in the council's seventh national convention which ended on 27 August, again extensively influenced its policy. Following a bitter struggle between the minority faction of pro-Communist Minoru Takano and the more moderate supporters of Secretary General Akira Iwai, an "action policy" for 1956-57 which was heavily amended with leftist proposals was adopted. The amendments follow the line of the Communist-front World Federation of Trade Unions.

Accompanied by cheering from Communist-packed galleries for visiting pro-Communist and Communist guests of the convention, the Takano faction was able to reverse some of the more moderate policies advocated by Iwai.

A clause calling for the reconciliation of differences with the anti-Communist International Confederation of Free Trade Unions was dropped; a proposal to hold an Afro-Asian labor union conference in 1957 with Communist China participating was added; an earlier decision not to take part in the US-sponsored productivity movement was reaffirmed; and, in a compromise agreement, a decision

**SECRET**



**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

was reached to participate with the Japan Communist Party in future joint programs, although not to support it on political matters.

The extreme left wing, however, did not completely carry the day. Majority faction leader Iwai was re-elected secretary general without opposition. Yukitaka Haraguchi, president of the All-Japan Federation of Metal Mine Workers Union and a staunch anti-Communist, was elected president. The initial left-wing motion to support the Japan Communist Party failed to receive the votes of more than 56 of the 208 delegates who deliberated on the policy draft. The convention also decided that Takano should resign his headquarters post and be recalled to his own union.

Some delegates may have voted for various Takano-sponsored amendments, having taken

at face value Communist policy changes emphasizing peaceful coexistence rather than violent revolution.

The convention battle demonstrated the factional conflict between Iwai and Takano. Since succeeding Takano as secretary general last year, Iwai has tried to wean Sohyo from its far-leftist political orientation and to emphasize economic betterment of the worker. Takano and his faction wish to align the organization with the Japan Communist Party and stress political action.

The Takano faction made an impressive showing at the convention, and the outcome of the conflict could well foreshadow an expansion of Communist influence in Japanese labor.

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**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

**PART III****PATTERNS AND PERSPECTIVES****YUGOSLAVIA'S PRESENT POSITION**

While Yugoslavia's expanded economic relations with the Sino-Soviet bloc pose a potential threat to its future economic independence, it has maintained its freedom from outside political control. Yugoslavia has continued to move closer to the USSR, but there remain basic ideological differences concerning the practical application to be given the "many roads to socialism" concept. The coincidence of Yugoslavia's views with those of the USSR on most international issues has aroused new suspicion of Tito among various Western nations.

The Yugoslavs declare that their present position--one they claim they will maintain--is midway between East and West. They consider themselves ideal moderators between the big-power blocs. However, their propaganda and policy declarations have been sufficiently friendly to the USSR to arouse serious doubts in the West. Belgrade defends its position by maintaining that the forces of liberalization developing in the Soviet world must be encouraged and that public statements critical of these changes would only strengthen the remnants of Stalinism.

The restoration of ties with the Soviet bloc does not appear to have developed any serious factionalism within the league of Yugoslav Communists. While some of the pre-1948, hard-core Communists may feel more at home in an atmosphere of greater comradeship with an apologetic Soviet Communist Party, the determination of the regime to retain its independence and hold to its own road to socialism appears to receive the full support of the party hierarchy.

**Party Relations With Bloc**

Yugoslav Communist Party relations with other Communist parties were given a flying send-off by the joint Yugoslav-Soviet Communist Party communiqué in Moscow in June. Although there have been exchanges of governmental and quasi-governmental delegations with the USSR, very few major party exchanges have since taken place in public.

The Yugoslavs believe the time is not ripe to form any multiparty organization even if it included Socialist as well as Communist parties. They continue to favor only bilateral associations with other Communist parties and their affiliated organizations. Relations have been renewed with the Italian Communist Party, and an agreement has been reached with the French Communist Party to hold talks this fall. Besides those with the USSR, party contacts have taken place with Poland, Czechoslovakia and Rumania. Poland's party delegation at the end of August was the first such group from the Satellites to visit Yugoslavia.

Despite the surface appearances of a close rapprochement with the Soviet Communists, there still remains an apparent underlying tension between Belgrade and Moscow over the question of the latter's role in international Communism. The argument now is about the application of the concept of "each country's own road to socialism." Soviet party boss Khrushchev publicly recognized this as true Communist doctrine, both at the 20th party congress and in the joint party communiqué with Tito this June, but there has been little public emphasis on it by

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

the USSR since then. In fact, the Soviet party pronouncements in late June and early July emphasized international Communist unity rather than its diversity, as advocated by Yugoslav ideologists. One Soviet article even attacked the "national Communism" concept.

Belgrade's propaganda apparently has maintained silence on these pronouncements and it seems the Yugoslavs are considerably displeased, as is indicated by the current propaganda interchange between the Soviet bloc and Yugoslavia concerning the latter's trials of former Yugoslav Cominformists.

A period may now follow in which Belgrade's line will appear more balanced between East and West. Such a shift in line would be designed in part to show the Kremlin that it must still make further concessions, including concrete actions, on the fundamental ideological issue of "many roads to socialism." It would also be motivated by a desire to impress the West that Belgrade is not being "taken in" by the USSR.

The Yugoslavs remain critical of those with a Stalinist approach in Western Communist parties, such as Vidali in Trieste and Thorez in France, but the Satellites are the main arena for this question of freedom from Moscow control. The long-term subject of Satellite independence probably will not, in the near future, affect Yugoslavia's basic rapprochement with the USSR, but events related to this question will affect the pace and further degree of Soviet-Yugoslav accord.

Governmental Relations

Belgrade still strongly desires to enhance its political and ideological influence in Eastern Europe. Developments to date within the Satellites--

a term no longer used by the Yugoslavs--have generally been to Belgrade's satisfaction, except in Albania and, to a lesser extent, Bulgaria. Tito has welcomed the gestures made by the Satellites in his direction and all indications of their increasing independence of Moscow.

The concept of a Balkan Federation--the pre-1948 idea of including Yugoslavia, Bulgaria, Albania, and possibly other states in a federated grouping--still sporadically comes to the surface, but Tito denies any interest "at the present time."

Whatever Tito may be doing to influence the course of events in the Satellites and particularly to encourage their independence of Moscow, remains obscure. There have been hints, from Hungary at least, that he is active. Yugoslav propaganda treatment of Polish developments suggests an effort to influence the Polish regime to assert greater freedom from Moscow and to modify internal conditions. The sudden acceleration in the exchange of parliamentary delegations between Yugoslavia and the Satellites may be an indication that Tito feels it is now opportune to try by this means to influence Satellite developments.

Economic Arrangements

Western suspicions of Belgrade's avowals of nonattachment to either East or West have increased since the Yugoslav announcement on 3 August of an agreement for a 700,000,000-ruble (\$175,000,000) credit from the USSR and East Germany, the largest single Soviet bloc credit ever granted to a nonbloc state. This credit is to be used to give Yugoslavia the capacity to produce 50,000 tons of aluminum annually by 1961; subsequent credits from the same source, to be agreed on later, are to double this capacity.

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

Yugoslav officials had repeatedly indicated prior to the announcement that they greatly preferred Western European and American assistance for the development of their aluminum industry and had submitted a prospectus to the West only three weeks before the announcement of the deal with the USSR and East Germany. They now explain that the arrangement with the bloc would be in addition to Western aid.

This transaction and the explanation for it have confused the whole question of Belgrade's attitude on economic aid from the West. The Yugoslavs may feel they need nothing more from the West than a mere "open door" for emergency use for bargaining purposes against the Soviet bloc.

Approximately 30 percent of Yugoslavia's total trade is now with the Sino-Soviet bloc, and promises of credit from this source total \$464,000,000 as opposed to about \$120,000,000 available from the free world. Yugoslavia appears confident that these arrangements pose no threat to its maneuverability, and continues to accept Soviet offers which it considers to be in its interest. The actual implementation of the agreements, however, entailing, among other things, the return of Soviet technicians and advisers to Yugoslavia, could well prove a vexing problem for the regime.

Confronted with the problem of obtaining sufficient wheat to fulfill their needs for this fall, the Yugoslavs turned to the USSR after they failed to secure surplus grain from the West. It was announced on 10 September that the USSR has promised 300,000 tons to tide them over the next two months. If Yugoslavia obtains the rest of its next year's wheat requirements--approximately 1,000,000 tons--from the USSR, it will have to orient its exports

increasingly toward the East to pay for these grain imports.

Relations With Western Nations

The apparently satisfactory relations Yugoslavia had developed with several West European nations prior to Tito's Moscow trip have since gone into a decline. The decidedly pro-Egyptian stand that Belgrade has taken on the Suez crisis, coupled with the more recent aluminum deal, is causing Britain and France to undertake a reappraisal of policy toward Yugoslavia. Statements regarding the compatibility of Soviet and Yugoslav Communism which Tito made during his trip to the USSR, moreover, shook what little confidence the Socialist parties of Western Europe had in the Yugoslav "experiment."

Relations with West Germany have suffered from several recent events, most notably the aluminum deal, which is the first government-level agreement Yugoslavia has concluded with East Germany. This transaction, with its implied recognition of the East German government, will make more difficult ratification this fall by West Germany of the \$71,000,000 World War II claim settlement Yugoslavia concluded with Bonn last March. Ratification has already been postponed as a result of Tito's joint statement with the USSR last June concerning "two sovereign states" in Germany.

Formal Ties

The Yugoslavs have agreed with the Greeks that, unless the Balkan pact is put "back on the track," bilateral co-operation between Athens and Belgrade should be expanded. It is not clear whether abrogation of the pact is envisioned or simply to increase Greek-Yugoslav ties at the expense of the Turks, leaving the pact in cold storage. Belgrade still sees in the pact

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

a link with NATO, an organization unpopular in official Yugoslav circles but regarded as essential to counterbalance the Warsaw pact. Publicly, however, the Yugoslavs have discounted the need for further military planning under the pact and have called for its development in the cultural, economic and political areas as proof of effective "active coexistence."

Yugoslavia has apparently not entered into military co-operation with the USSR or the Satellites, and continues to count on fulfillment of the American military aid program originally agreed on for the period 1950-1955. Belgrade still refuses, however, to broaden its military planning with the West--a prerequisite for any future additional military aid program.

Western Economic Aid

Belgrade continues to seek long-term economic co-operation commitments from the West. In addition to its request for credits amounting to \$673,000,-000 for developing its aluminum industry, Belgrade has also asked for a total of about

\$54,000,000 to finance the Majdanpek copper complex. The Yugoslavs have stated that the USSR has offered to support this project, but maintain they hope for Western aid instead. This attitude probably arises in part from their realization of the necessity for continuing to comply with Battle Act restrictions on strategic goods exports if they hope to receive additional American aid.

Relations With Neutralists

Yugoslavia continues to pursue its friendship with the "uncommitted" states, although its increasing rapprochement with the Soviet bloc may have caused its prestige in those areas to decline. The Tito-Nasr talks in July probably led to closer Yugoslav-Egyptian co-operation. However, the Nehru-Nasr-Tito talks immediately following on Brioni--hailed in Yugoslavia and Egypt as a high point in co-operation among nonbloc states--actually appear to have accomplished little. Nevertheless, Tito will probably continue to try to act as a moderator between East and West and reportedly will make another visit to India and other states in the area this winter.

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**PROBLEMS FACING THE ITALIAN GOVERNMENT**

The growing possibility of a split between the Italian Socialist and Communist Parties and of a rapprochement between the two Socialist parties is contributing to the problems faced by the Italian government. As parliament is preparing to reconvene, the government is confronted with the need to

make decisions on its own political complexion, its relations with the opposition, action on long-delayed legislation, and timing of the national elections, now scheduled for 1958.

Legislative Progress

The Segni government, partially because of Communist

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

and Nenni Socialist support on several controversial issues, has made more legislative progress than any postwar government. The constitutional court has been set up, a tax reform bill has put teeth into the collection of income taxes, foreign investment has been encouraged by relaxing controls on the conversion of profits, local and national election laws have been revised, and a bill regulating petroleum exploration and development has passed one house. On the other hand, the serious unemployment problem continues, despite the otherwise relatively bright picture of Italy's postwar economic progress. Economic

a real threat to his leadership because of his comments on the Khrushchev anti-Stalin speech and the subsequent rebuke to him by the CPSU's resolution of 30 June, his continued inability to influence Italian government policy, his loosening grip on the voting population, and his apparently weakened ties with the Nenni Socialists.

The evident alarm in the immediate reaction of the Communist leadership to the meeting of Socialist Party leader Pietro Nenni with Democratic Socialist leader Giuseppe Saragat on 25 August reveals a fear of being isolated and of losing the leadership of the Italian left



SARAGAT



NENNI

growth in the south has not kept pace with that of the north, and the promise of speedier economic reform continues to be an effective campaign weapon for the leftist parties.

Communist Losses

For the first time since the end of the war, the government can relax somewhat on the problem of the Communist Party. The gradual decline of the Italian Communist Party over the past two years has been considerably accelerated in recent months. At the party congress in November, Secretary General Palmiro Togliatti faces

to Nenni. Togliatti is now particularly vulnerable to attack from elements in his party who all along have regarded the alliance with Nenni as dangerous and unprofitable. A power struggle within the Communist Party could conceivably force a break from the party by either the revolutionary elements under Vice Secretary Longo or by conciliatory elements, possibly under Umberto Terracini. If Togliatti or his rising young lieutenant, Giancarlo Pajetta, maintains control, however, he may be able to find a compromise to placate the dissidents.

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

**Socialist Gains**

While the apparent strain on the Communist-Nenni-Socialist unity-of-action pact tends to divide and weaken the leftist opposition and move Nenni toward the Democratic Socialists, it also threatens to bring about a change in the composition of the present government. This development, however, could result eventually in a stronger and broader-based government.

Even if the Democratic Socialists quit the cabinet now, Premier Segni would have to rely on their support for a majority, in order to avoid dependence on the discredited right.

The Democratic Socialists hold four important cabinet posts, and certain measures favored by them--such as the tax and election law revisions--were approved in the past year. Their influence over the government would be strengthened by a reunification with the Nenni Socialists, particularly if the reunited party were represented in the cabinet. The Liberals (conservatives) would leave the cabinet if the Nenni Socialists were to participate.

Nenni, with three times the number of deputies and popular following of Saragat, could expect to be the key figure in a unified Socialist Party even if he brought only half his present following. If the Socialist merger does evolve over the next few months, the question of Nenni's relationship to Moscow will be paramount. A foreign policy issue would presumably be necessary to test his sincerity, since most of the

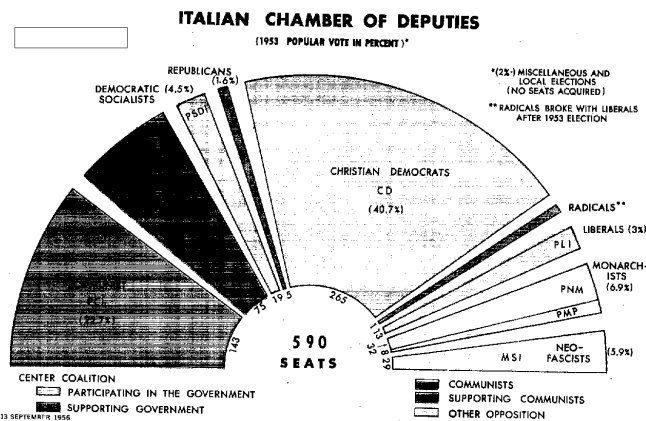
major domestic issues are supported by all groups left of center. Nenni agreed with the Western position on Suez and on the Poznan riots, but his utterances on the question of Italy's ties to Western defense are still equivocal.

**The Christian Democrats**

The Nenni-Saragat rapprochement and a possible cabinet reorganization are only two of the problems facing the Christian Democratic Party.

In mid-October, its congress must deal with the question of the representation of various party elements in party organs. Party secretary general Amintore Fanfani has succeeded in strengthening the party organization as a whole but has been under fire from some of the older leaders because he has failed to consult them and has managed to place his own men in strategic party positions. He may have difficulty holding all elements together if a unified Socialist Party wins greater influence.

Additionally, a Socialist merger might complicate the labor picture, particularly if a unified Socialist-oriented labor union, including the Communists, were to develop.

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

Controversial Legislation

There are a number of controversial legislative proposals which might cause political fireworks. Among these, the proposal to separate the government holding company from the manufacturers' association, Confindustria, is opposed by the right, and the government will probably postpone a showdown.

A bill regulating agrarian contracts, which the Democratic Socialists have urged for over two years, has not been fully formulated by the Council of Ministers. It will be held as long as possible to avoid clashes within the cabinet, but a recurrence of the 1956 farm strikes might force some action, thereby reducing its value to the Communists as an election issue.

The quarrel over a law to regulate the exploitation and development of oil resources and the role of the government-controlled petroleum development agency has been decided in the lower house, and the senate may act on it by the end of 1956.

The Vanoni Plan

A more likely source of political fireworks is the

Vanoni plan for Italian economic rehabilitation. Political jealousy between its author and former premier Mario Scelba blocked it when it was first proposed in late 1954, just before Vanoni visited Washington to sound out the possibility of American financing for it.

The government revived the plan early in 1956 as a campaign issue in the May local elections. It has since appointed a committee to investigate possible allocations to the plan from various government ministries, all of which, however, have only limited funds.

The Vanoni plan has great appeal as an attack on the problems of unemployment and the wide divergency between the economies of southern and northern Italy. It has been regarded as a possible bridge between Nenni and its Christian Democratic sponsors, partly because Nenni came out in quick and vehement support of it, while the Communists rejected its freeze on wages and consumption. If the Christian Democrats could obtain OEEC funds or other foreign loans to implement the plan, they might continue to push it with an eye to the national elections, and might then decide to advance the elections now scheduled for 1958.

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**ONE YEAR OF AUSTRIAN NEUTRALITY**

In the year since the occupation came to an end, Austria has engaged in a great internal debate over the obligations imposed by its neutrality law. Disputes over the meaning of the law have encouraged a tendency to "appease" both the West and the Soviet bloc. Sensitive to the problem of their eastern border, the Austrians feel they cannot afford to offend the

Soviet bloc. Thus far they seem to believe that their security depends on wider participation in the European community and the United Nations.

Defining Neutrality

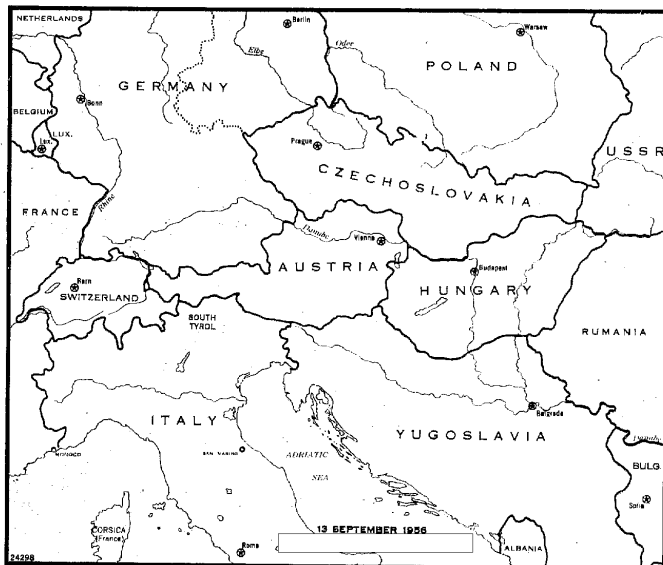
Aside from the extreme rightists, who opposed the neutrality law, the most restricted view in the neutrality

**SECRET**



**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956



presence of the World Peace Council headquarters in Vienna, but ousted the WFTU; they resumed diplomatic relations with Albania, but also with West Germany and Spain.

While there have been fewer occasions for clear-cut "decisions between East and West" lately, the pattern in some respects has remained the same.

The fact that a major test of Austria's neutrality law has not developed is attributable in part to

the USSR's circumspect attitude toward Vienna since the end of the occupation. The state treaty provides ample basis for intervention, but Soviet bloc pressures on Austria have largely been confined to the economic and cultural spheres.

Trade

It is too early as yet to determine if reparations payments to the USSR and new or renewed trade agreements with most of the bloc countries are producing a redirection of Austrian trade. Recent unofficial figures show that trade, exclusive of reparations, with "six major bloc countries" more than doubled in the first half of 1956 over the same period in 1955. Austrian trade, however, is increasing in general, and much of the increase with the bloc reflects the appearance in Austrian trade channels of commerce the USSR carried on during the occupation outside these channels. Moreover, Orbit deliveries have fallen short of expectations, part of an old problem: Austria has plenty to sell, but the bloc has little the Austrians will buy.

More serious than the increase in trade with the European

debate is generally held by the Socialists, who maintain that Austrian neutrality is limited to making no foreign military alliances and permitting no foreign military bases on Austrian soil. At the opposite pole are the Communists, who argue that neutrality applies across the board and that Vienna must be absolutely neutral between East and West--in all international and domestic policies.

The tendency of some People's Party leaders, otherwise anti-Communist, to waver somewhere between these extremes is responsible, in part, for the delayed development of a foreign policy which would apply neutrality realistically. Thus, many Austrians are exaggerating their country's capabilities to act as a "bridge," "mediator," or an "island of peace."

The American embassy in Vienna last spring, in a listing of acts of the Austrian government favorable to the West or to the USSR, found they nearly balanced. For instance, while the Austrians accepted Soviet arms they also accepted American military equipment; they tolerated the continued

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

13 September 1956

Satellites are the pressures to expand trade with Communist China. Both business and government were receptive to recent East German offers to give Austrian firms a "cut" in Chinese contracts supposedly held by East Germany, and a large Austrian delegation has recently returned from Communist China with contracts allegedly totaling \$19,000,000. These offers make continued Austrian co-operation with COCOM and CHINCOM uncertain. Peiping, evidently aware of this, has installed a lavish trade delegation in Vienna for China's first participation in the fall fair.

Cultural Coexistence

In their search for vulnerabilities, the USSR and the European Satellites have shown increasing interest in Austria's devotion to sports and the arts. A "cultural offensive" has not developed thus far, but Orbit leaders have badgered the Austrians to increase the exchange of theater ensembles, artists and musicians.

The Austrians have been cool to the political aspects of such fraternization. Official attitudes have oscillated between a tendency to minimize the importance of such contacts and the excessive caution of such officials as Minister of Education Drimmel.

Border Incidents

Incidents along the borders have recently encouraged other government officials to espouse a cautious attitude. Long resentful of iron curtain behavior to the north and east, the Austrians have been shocked by frequent border incursions and the actions of trigger-happy Czech and Hungarian guards. Following the recent death of an Austrian who mistakenly crossed

the demarcation line, Austrian state secretary Kreisky publicly declared he could not imagine even social exchanges with countries "which show such profound disrespect for human life."

Coming on the heels of a Hungarian show of "razing the technical barriers," these potentially explosive episodes have compelled the Austrians to look to their defenses. Formation of the Austrian army, long delayed by political, legislative and budgetary problems, is now making headway and the press has shown increased recognition of its need and purpose.

Refugees

The continued flow of refugees from neighboring Communist countries is also a potential danger in Austria's relations with East and West. As of 1 January, about 150,000 refugees resided in Austria, nearly 30,000 of them in federal camps. Monthly increments are growing and, in July, 665 Eastern Europeans--547 of them Yugoslavs--sought asylum.

The government has attempted in general to abide by international conventions respecting refugees. At the same time, it wants to avoid Soviet reprisals, foreign infiltration and the economic burden involved. Soviet repatriation missions are still a feature of the Austrian scene, and the Soviet press recently blasted the Vienna government for "forcibly preventing" the return of Russian citizens.

Yugoslav refugees, who account by far for the largest monthly increment, are a special problem. The sizable Slovene minority in southern Austria was used by the Yugoslavs to justify

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

13 September 1956

their postwar territorial claims against Austria. Cultural autonomy is guaranteed by the state treaty, and there have been sensational stories in the Austrian press over alleged Yugoslav infiltration. The provincial governor of Styria recently called for police measures to support what he called the "struggle of the border population" against these encroachments.

Search for Friends

Increased doubts over Tito's ultimate intentions vis-a-vis the bloc have curbed earlier Viennese inclinations to flirt with Belgrade. While Yugoslav officials have emphasized a common interest with Austria in "keeping out Soviet influence," some Austrians fear that Tito is "attempting to build a Danubian bloc." Although Chancellor Raab has said that the Yugoslavs would "never be able to include Austria" in such a bloc, Vienna continues to be interested in actively participating in the Eastern Danube Convention. Last January, the pro-Yugoslav Austrian envoy in Belgrade told an American official that the Western powers were underestimating what could be done in tying Yugoslavia to the West through the development of closer Austro-Yugoslav relations.

A tendency toward Realpolitik has not served the Austrians well in their relations with Italy. A friendly relationship there would avoid the domestic and international complications of closer ties with Bonn and the fears of another Anschluss, as well as pressures from the bloc to establish similarly friendly relations with East Germany. Because of domestic Austrian politics, however, the long-dormant claims of Austria to the Italian South Tyrol have recently been revived, and the appointment in the new government of a state secretary

for South Tyrol affairs threatens further difficulties with Rome.

"European Sentiment"

Vienna's continuing interest in the "European Community" as a whole and in the United Nations is a more hopeful sign. This interest is not without reservations. Austrian entry into the Council of Europe was preceded by great hesitation, particularly on the part of the chancellor, who feared Moscow's reaction. There also have been doubts that neutrality would permit an extension of Austria's present economic agreement with the Coal-Steel Community. Nevertheless, "European" sentiment as such remains high, stimulated by economic need, a search for security and the "European" conferences which convene in Vienna.

United Nations membership brought further misgivings. Some of the chancellor's closest advisers argued the need of a "special status" that would exempt Austria from charter requirements to participate in collective sanctions and to furnish armed forces to preserve peace. In the end, however, Vienna, like neutral Stockholm, decided to join without any special exemptions, rather than to shun the UN like the neighboring neutral Swiss.

"Statutory neutrality" may in the long run prove awkward but, for the moment at least, Vienna is taking comfort from its increased participation in world affairs and in its UN membership. For example, after diligent preparation, the government has evidently been successful in bidding to make Vienna the site for the proposed international atomic energy agency, a development that is expected to bring increased prestige to the nation as well as some economic benefit.

25X1

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

**NEW SOVIET AIRCRAFT**

Eleven new Soviet aircraft were observed in rehearsal flights for the Air Force Day show in Moscow on 24 June, in the show itself, and in a ground display at Kubinka airfield the next day. Preliminary studies show that these aircraft, which included the first Soviet supersonic fighters, are of advanced design.

The number of new models displayed shows that the USSR is engaged in a program to develop aircraft of the diversity and quality required by modern warfare. The extent of the Soviet effort is reflected in the appearance of several fighter designs from which one or two may be selected for production.

The New Fighters

Two families of fighters were displayed at the air show, each having both delta-wing and swept-wing versions. Construction of two versions of the same aircraft may have been developed to ensure against possible failure of one of the models. The observed external characteristics of all the new fighter types indicate that they were designed for speeds between Mach 1.5 and Mach 2, or one and a half to two times the speed of sound. These are the first Soviet fighters believed capable of supersonic speed.

FISHPOT/FITTER Family: A large delta-wing fighter, designated FISHPOT, and its swept-wing counterpart, FITTER, were the most striking aircraft shown in Moscow. Apparently designed for speeds approaching Mach 2, both aircraft are very clean in design and have virtually identical fuselages. The latter appear to have been designed to conform to the



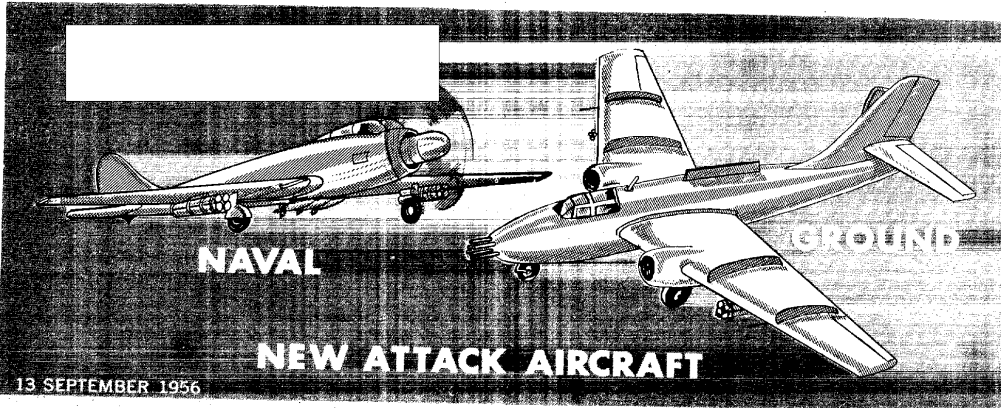
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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**13 September 1956**



that CAMP would be used by Aeroflot as a cargo transport.

New Attack Aircraft

Two additional new aircraft, both described as very crude in appearance, were displayed to foreign visitors at Kubinka airfield. Since photography was not permitted, only superficial analysis is possible.

One was a twin-jet ground attack aircraft with slightly swept wings, described as

roughly similar in configuration to but larger than the USAF B-26. Armament consisted of six guns mounted in the nose and four rocket launchers under each wing.

The other, described by Soviet officials as a naval attack/support aircraft, had a single turboprop engine with the cockpit located immediately behind the propeller. External armament consisted of bombs and rockets.

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**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY**

13 September 1956

suggests that tests of this design are also well advanced.

FLASHLIGHT Modifications

Also displayed at Moscow were two modified versions of the FLASHLIGHT (YAK-25) all-weather interceptor (now designated FLASHLIGHT "A") which first appeared in the 1955 air show. Analysis of the new models, designated FLASHLIGHT "B" and "C," suggests more thrust and an improved speed capability. A pointed nose has been substituted for the speed-reducing blunt nose of FLASHLIGHT "A" and the engine nacelles have been lengthened, probably to incorporate afterburners. These refinements have improved FLASHLIGHT's climb capability and boosted its speed to something over Mach 1.

The FLASHLIGHT "B" has a pointed glassed-in nose and a radome under the fuselage which probably houses bombing-navigation radar. A second crewman probably occupies a position in the nose. This aircraft appears suited for rocketry, bombing, reconnaissance and possibly training.

FLASHLIGHT "C" has a two-seater cockpit and a pointed, solid nose, which probably houses air-borne intercept radar. This model is believed to be an all-weather interceptor.

New Light Bomber

A new swept-wing, jet light bomber, designated BLOWLAMP, appeared in rehearsal flights

and at Kubinka airfield but not in the show. Probably a replacement for the BEAGLE (IL-28), the aircraft is estimated to carry a crew of three: pilot, bombardier-navigator and tail gunner.

The sharply swept wings and high thrust engines--believed to be versions of the FISHPOT engine without afterburners--indicate that BLOWLAMP was intended to be supersonic, and it has been so described by Soviet officials. The USAF Air Technical Intelligence Center estimates, however, that the aircraft is not capable of supersonic speed in level flight.

BLOWLAMP's armament is believed to be two fixed forward-firing 23-mm. guns in the nose and two 23-mm. guns in the tail turret. A large bombing-navigation radome is carried under a rather thick fuselage.

Turboprop Transport

A new twin-engine turboprop military transport, designated CAMP, also was introduced. This aircraft is similar to the USAF C-123 but about 30 percent larger. Its configuration indicates it may be intended as an assault transport capable of moving personnel and equipment in close support of ground troops. The upswept lines of the rear fuselage indicate the CAMP probably contains a loading ramp.

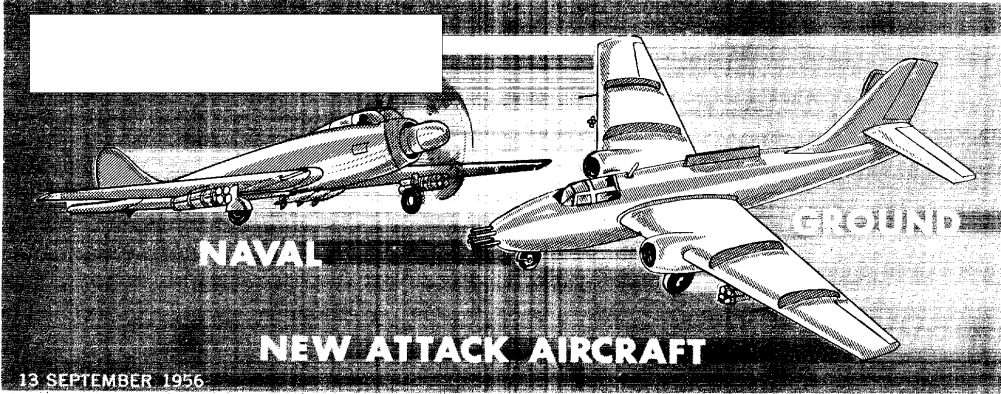
Although the model which was displayed had a manned tail turret--unusual in a transport--representatives of Aeroflot, the Soviet civil airline, have stated

**SECRET**

**SECRET**

**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**13 September 1956**



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