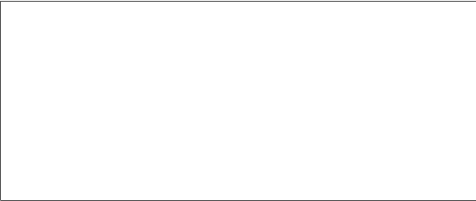


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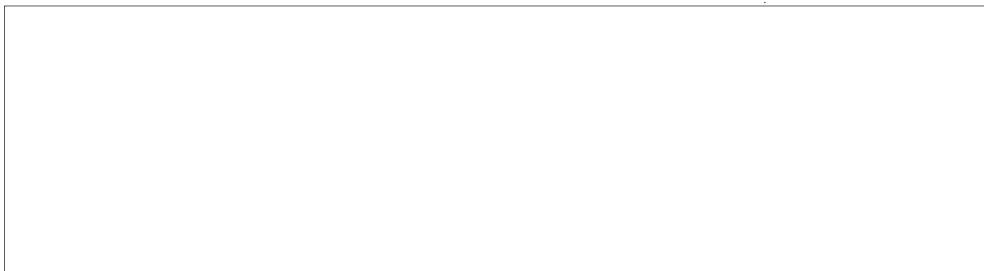
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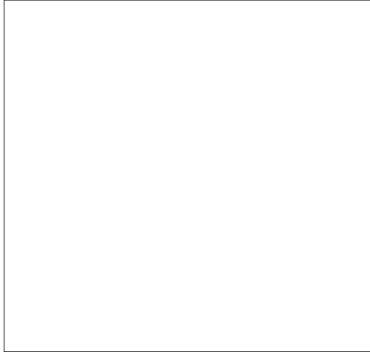
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1. THE TOGLIATTI INTERVIEW




Available excerpts from Italian Communist leader Togliatti's interview with a non-Communist Italian journalist on the question of Khrushchev's repudiation of Stalinism point up Togliatti's desire to emphasize the independence of his party from foreign control. His statement does not, however, constitute a repudiation of

his loyalty to Moscow and to the international Communist movement.

Togliatti's remarks are an accurate reflection of the new international Communist line admitting different roads to state socialism, which received its doctrinal underpinnings at the 20th Soviet Party Congress. His statement is thus a blueprint for the Italian Communist Party in carrying out this general line and is designed to strengthen Italian Communist efforts to form a popular front with non-Communist parties.

The references to the autonomy of the national Communist parties suggest that Togliatti wanted to reassert his leadership of the entire Italian left which had been called into question by the 27-28 May local elections in which the Communists lost votes to their Nenni Socialist allies. Togliatti had laid the ground work for the autonomy theme by several recent moves, notably his public praise for the dissolution of the Cominform in April and his dramatic reconciliation with Tito on 29 May. This theme may receive further emphasis at the long-postponed national congress now scheduled for October.

Various reports in recent months have stated that the repudiation of Stalin at the 20th Party Congress left many Italian Communists confused and angry but extended discussion of the subject was postponed until after the 27-28 May elections. Togliatti meanwhile has been under considerable attack within the party for not having been frank enough with its members both during the Stalin era and immediately after his return from the 20th Party Congress. 

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2. BRITAIN FORMULATES NEW POLITICAL APPROACH TO CYPRUS

Comment on:

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The new initiative comes as British troops on the island are preparing a drive designed to break the back of the Cypriot nationalist terrorism which on 16 June caused the death of an American vice-consul in Nicosia, and the wounding of several other Americans.

[REDACTED]

Governor Harding would announce when he returns to Cyprus from London that Britain is prepared to draft a new Cyprus constitution immediately. He would also state that after a "suitable period," perhaps ten years, NATO would be asked whether the transfer of sovereignty over the island is strategically feasible. [REDACTED] the proposals would be discussed beforehand with Turkey but not with Greece. He displayed concern over the possibility of a strong negative reaction in Ankara.

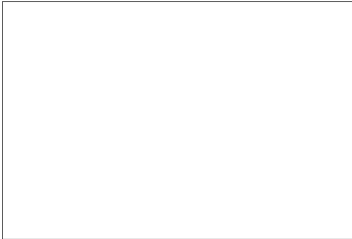
The British government evidently expects that the proposals will disarm its critics at home and appeal to the Cypriots, weary of violence and tension. Both the Cypriot nationalists and the Greek government, however, are likely to be incensed over Britain's failure to consult them and at the idea of waiting ten years for determination of Cyprus' sovereignty.

The Turks believe Britain has already promised the Greeks too much, and oppose any suggestion of eventual Greek annexation of Cyprus. [REDACTED]

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3. ISRAELI FOREIGN MINISTER ANNOUNCES RESIGNATION




The announcement on 17 June by Israeli foreign minister Moshe Sharett that he would resign on 18 June suggests a new and possibly tougher approach in Israeli foreign policy. Mrs. Golda

Myerson, first Israeli minister to the USSR and now minister of labor, is scheduled to become the new foreign minister.

Sharett did not explain his reasons for resigning other than to state that he "considers it impossible to continue in the post." There have, however, long been reports of differences between Sharett and Prime Minister Ben-Gurion over foreign policy, particularly toward the Arab states. Ben-Gurion favors a tough line toward the Arabs while Sharett has sought to give priority to diplomatic action.

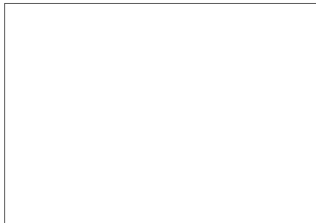
Sharett's resignation may also be connected with Israel's failure to obtain what it considers an adequate supply of arms from the West. Furthermore, Israel was bitterly disappointed over the recent UN Security Council resolution on the Hammarskjold mission which it considered "pro-Arab."

By placing Mrs. Myerson in Sharett's post, Ben-Gurion will have a trusted exponent of his "activist" line in the Foreign Ministry, and will thus be able to exert close direction of Israeli foreign policy. While she was in the USSR, Mrs. Myerson reportedly was not in favor with the Soviet government because she maintained close personal contacts with members of the Jewish community in Moscow. 

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4. CHINESE COMMUNISTS ANNOUNCE RELEASE OF TWO AMERICAN PRISONERS



The release from prison on 15 June of two American priests reduces to 11 the number of Americans in Chinese Communist jails. The Chinese Communists released and deported nearly 30 Americans in late 1955, but continued to hold the remainder in prison, apparently retaining them as hostages to improve Peiping's bargaining position in the ambassadorial talks at Geneva.

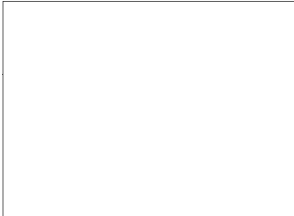
Peiping's declaration that the prisoners had "served their terms" is apparently intended to suggest that their release does not necessarily signify the early release of all the Americans still in Chinese prisons. At least one of the prisoners still being held is serving a life sentence; another is serving a 20-year term. On 1 June, however, Chou En-lai told a Reuters correspondent that American prisoners might be released before the expiration of their sentences "if their behavior was good."

Letters from a number of prisoners, including one of the two just released from jail, have indicated that some of the Americans held by the Chinese have been getting better treatment during the past six months. It has been common practice for Peiping to improve the lot of prisoners a few months before their release. 

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5. CHINESE 1956 BUDGET DESIGNED TO OVERFULFILL FIRST FIVE-YEAR PLAN



The new \$12.5 billion Chinese Communist budget gives primacy to heavy industry and aims at fulfillment of the First Five-Year Plan (1953-1957) ahead of schedule. Describing 1956 as the year of "fastest development," the Chinese are allocating 65 percent of total expenditures to economic construction, of which heavy industry will receive almost 90 percent. Funds for water conservancy, and for agriculture which is the key to industrial growth and chief source of state revenue, are to be increased nearly 50 percent. Light industry, which produces a quick return on investment, has been granted an 86 percent budget increase, although it will still receive only about 10 percent of economic construction allocations.

Almost 20 percent of national expenditure will be for defense but the allocation shows a reduction of \$140,000,000 from last year. Despite this reduction, however, the defense burden on China itself will be greater than last year because the 1955 Chinese budget included a Soviet military credit of over a half billion dollars, which apparently will not be repeated in 1956.

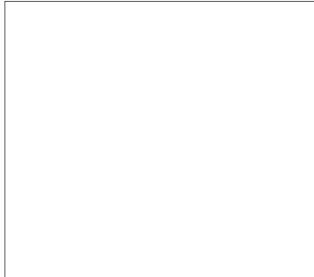
Although First Five-Year Plan investment in the transport sector of the economy has now been largely fulfilled, transport investment will continue at a high rate.

 (Prepared by ORR)

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6. FLOODS IN EAST CENTRAL CHINA



The Peiping press has announced that, in a number of instances in the past two weeks, the rivers of East Central China had exceeded the peak water levels recorded in 1954 when 10 percent of China's cultivated lands were inundated.

Floods could seriously disrupt the normal June planting of the second crop and the harvesting of the first crop, which provides 30 percent of China's total grain production.

Despite the extensive measures taken to protect against a recurrence of the 1954 flood, Peiping has suggested that the current flood situation may become increasingly serious as "conditions exist for the occurrence of heavy rains" in the Yangtze Valley and along its tributaries during the normal rainy season of July and August.

Continued heavy rains could result in widespread famine and reduced state revenues from agriculture. The final statistical report on the 1955 budget, announced on 15 June of this year, revealed that Communist China's first failure to meet planned revenues resulted from the heavy flood damage of 1954. (Prepared by ORR)

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7. JAPAN PLANNING EXCHANGE OF STEEL PRODUCTS FOR CHINESE COMMUNIST IRON ORE

[Redacted] [Redacted] Japan is planning future exports of steel goods to Communist China under the exceptions procedure in return for iron ore. [Redacted] a current deal for Communist coking coal, Tokyo desired American approval for the export of wooden ships instead of steel.

[Redacted]

Comment

Japanese steelmakers want additional iron ore as well as cheaper Chinese coking coal to meet the expanding needs of their steel industry. In April, Japanese businessmen decided to negotiate for 300,000 tons of iron ore from Hainan, and they hope eventually to obtain 500,000 tons from this source.

The Japanese have noted British use of CHINCOM exceptions procedures in shipping limited quantities of steel products to Communist China and London's announcement that British colonies could relax differential trade restrictions against Peiping. These moves will increase existing pressures in Japan for expanding trade with Communist China in embargoed items. (Concurred in by ORR)

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[Redacted]

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8. INDO-NEPALESE DEFENSE TREATY REPORTED

[REDACTED]

[REDACTED] India and Nepal signed a secret defense treaty in May, committing the two countries to a joint defense of their borders with Tibet, [REDACTED]

[REDACTED] No confirmation of this report is available, but the existence of some firm new agreement might explain India's recent acquiescence in closer relations between Nepal and Communist China.

India has long been informally committed to the defense of Nepal, but it has heretofore been in the somewhat anomalous position of maintaining diplomatic relations with China and urging its admission to the United Nations while advising Nepal to be wary of increasing contacts with Communist China. With a formal excuse for intervention in Nepal in case of trouble, India might feel less concerned over increased Sino-Nepalese relations. Simultaneously, the Nepalese government, whose first ambassador to China presented his credentials in Peiping on 13 June, might feel more confident of its ability to control Nepalese Communist and Chinese activities.

India remains fully aware of the dangers in the Himalayan border areas, as shown by numerous reports of Nehru's sensitivity on the subject and the continued Indian defense buildup there. [REDACTED]

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 17 June)

The acting chief of the United Nations Truce Supervision Organization told American officials in Tel Aviv on 14 June that, despite previous authorization to make an inspection on 12 June, he had been denied entry into the area of the demilitarized zone near Banat Yacov where Israel was reported on 10 June to be building tactical defensive positions. The UN official believes that the Israeli army has issued no-entry orders for UN truce personnel because whatever work they have undertaken in the area is too extensive to be concealed. The truce officials had twice previously been forcibly prevented from approaching the area. [REDACTED]

A Syrian foreign ministry official reiterated to Ambassador Moose on 14 June that Syrian troops in the Banat Yacov area have standing orders to open fire the moment Israel resumes work on the diversion of the Jordan river. He said that while Syria's official position is to refer the matter to the United Nations before taking military action Syrian authorities believe that public opinion will demand immediate reaction by the armed forces. Any Syrian government, the official said, which failed to react immediately and effectively would be brought down by mob action. [REDACTED]

For another report bearing on the Arab-Israeli situation, see Item 2, page 4).

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