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27 July 1956



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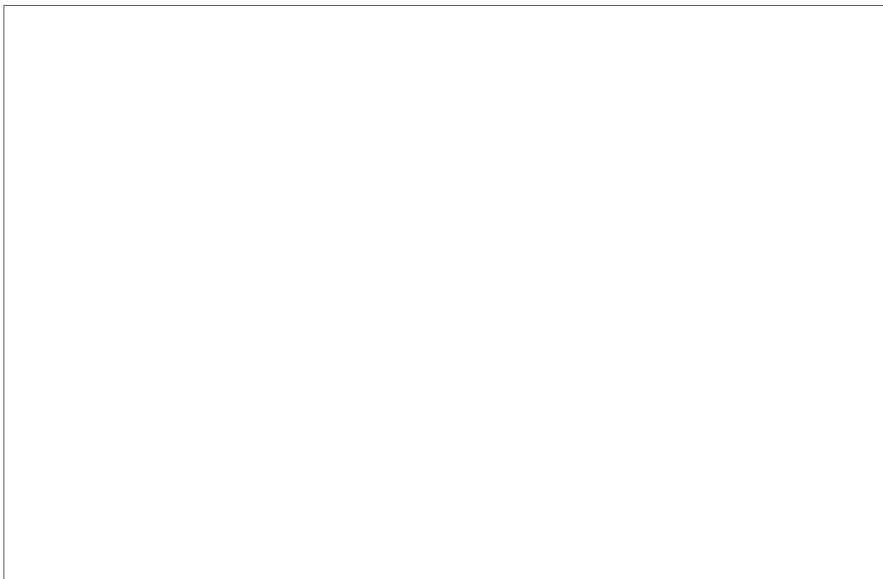
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1. NASR SEIZES SUEZ CANAL COMPANY

Egyptian president Nasr's announcement on 26 July of the nationalization of the Suez Canal Company is almost certain to produce the thorniest international legal and political tangle since Iran's oil nationalization.

Although the company is an Egyptian-registered concern with administrative offices in Alexandria, the British government owns 35 per cent of the capital shares and 42 per cent of the ordinary shares. In addition, there are a number of international agreements covering the freedom of navigation of the canal and the responsibility for its defense.

Nasr's assertion that receipts from the canal will pay for the Aswan High Dam project seems to be unrealistic unless the Egyptian administration raises the tolls considerably above their present level. While Nasr claimed the canal would produce \$100,000,000 a year, annual gross receipts have been less than that figure and net income has been in the neighborhood of \$40,000,000.

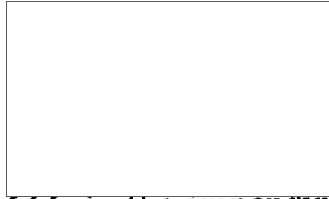
According to press reports, the immediate reaction in Britain was that the move was illegal and might be protested to the UN Security Council as well as in the courts.

The balance of Nasr's two and a half hour speech, of which the canal announcement was the climax, consisted of a diatribe against the "imperialists" and a lengthy rehearsal of the Egyptian version of the course of negotiations with the West over the Aswan Dam project. Nasr said Soviet foreign minister Shepilov had offered to assist Egypt, and that this offer would be discussed when he visits Moscow in August.

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2. PROBABLE ICELANDIC POSITION IN BASE NEGOTIATIONS



Following recent talks with Iceland's new foreign minister, Gudmundur Gudmundsson, Norwegian foreign minister Lange stated that Gudmundsson thinks Iceland's position in the impending negotiations with the United States on the Keflavik air base will be (1) to retain the radar station, presumably with American technicians not in uniform, and (2) to have the air base revert to a standby status with sufficient Americans out of uniform to maintain it until Icelanders are ready to take over. Gudmundsson believes that 90 percent of his countrymen will support this policy.

In order to prevent Communist access to NATO information, Gudmundsson intends to propose the establishment of a special cabinet committee without Communist participation to deal with NATO matters. Such a procedure, he said, has the "full support" of the Communist cabinet members.

Comment

Iceland's bargaining position with the United States is weakened by the fact the base's dollar earnings are important to the precarious Icelandic economy. This factor is, however, somewhat offset by a recently revealed offer by West Germany on 23 June to lend Iceland the equivalent of \$25,000,000 for a development program. This offer would provide an alternative source of foreign exchange to finance imports as well as capital for the new government's ambitious economic expansion program.

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3. ISRAELI OFFICIALS REVIEW TALKS WITH HAMMARSKJOLD

[redacted] Israeli officials, following their recent talks with UN secretary general Hammarskjold, concluded that his visit to the area had little connection with his earlier discussions in Moscow. They believe he came to the Near East only because he was concerned that new Israeli policies might result in large-scale hostilities.

Although Hammarskjold emphasized that he had Soviet support for his efforts to settle Arab-Israeli problems, the Israelis said that when they discussed details, the amount of this support was not clear. When Prime Minister Ben-Gurion reminded Hammarskjold of his promise to raise the Jordan River waters problem in Moscow, the secretary general said he had done so but that Soviet foreign minister Shepilov's reply was vague.

The Israelis feel that the only surprising statement made by Hammarskjold was that he considered "retaliation" by individual Israeli settlements against Arab raids less evil than the organized military action Israel has undertaken in the past. [redacted]

[redacted]

Comment Hammarskjold's latest mission to the Near East has not had even the temporarily calming effect of his mission last April, since new, more serious incidents were reported within 48 hours of his departure.

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4. CAMBODIAN DE FACTO RECOGNITION OF NORTH VIETNAM SEEN IMMINENT




Cambodia's early de facto recognition of North Vietnam, with an exchange of representatives, is indicated by Prince Sihanouk's re-

ported statement in Yugoslavia on 20 July that he is "favorable" to granting the Viet Minh the same non-political representation accorded to South Vietnam, according to Ambassador McClintock. Indian chargé Mitra, who has been actively promoting this, predicts an exchange of representatives with Hanoi in a "matter of weeks."

Comment

Cambodia last May agreed to exchange "nonpolitical" representatives with South Vietnam, arguing against full diplomatic relations to avoid a precedent for recognition of the Viet Minh.

South Vietnam is increasingly concerned over Cambodia's close relations with the Sino-Soviet bloc. Cambodia's recognition of North Vietnam might lead Saigon to break off its relations with Cambodia and reimpose the trade restrictions lifted in May. This would undoubtedly revive Sihanouk's charges that Saigon's hostility to Phnom Penh is inspired by the United States to force Cambodia to abandon its neutralism. 

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5. MINOR DISORDERS REPORTED IN YUGOSLAVIA



Reports alleging the occurrence of "bread and freedom riots" of varying severity in isolated areas of Yugoslavia have been circulating in Belgrade

during the past two weeks, according to the American embassy. The embassy is tentatively of the opinion that the reports refer to minor, localized disturbances which, though not frequent in past years, have sometimes occurred in periods prior to the harvests when peasant wheat stocks are exhausted.

Comment

It is unlikely that such disturbances are politically inspired. Yugoslav officials have readily admitted serious shortcomings in their economic planning, and there is little doubt that grain is in short supply. The recent purchase of about 150,000 tons of Soviet wheat was necessary to cover shortages this summer.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 26 July)

An Israeli spokesman stated that an Israeli patrol killed a man who failed to halt as he crossed from Israel into Jordan territory. No other incidents were reported on the Israeli-Jordanian border, but tension remains high as a result of the clash on 25 July. UN truce chief General Burns and secretary general Hammarskjold have appealed to both sides to abide by the cease-fire agreements. Hammarskjold broke off his European trip a week early and is scheduled to arrive in New York on 27 July. (Press)

Ambassador Lawson in Tel Aviv reported on 24 July, prior to these latest incidents, that the continuation of the Jordan border incidents in spite of sharp warnings from Israel, Hammarskjold, and the West has weakened Prime Minister Ben-Gurion's ability to satisfy the Israeli public with verbal responses.

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