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SOUTH VIETNAM: The level of Communist military activity remains low, but there are numerous signs that a new flurry of shellings and ground probes is to begin soon.

The current calm can be attributed, in part, to the recent heavy rains in the northern sector spawned by a typhoon and to seasonal flooding in the delta. North Vietnamese main-force combat units still pose a formidable threat near the DMZ, and in the south elements of several enemy regiments have been assembling near a South Vietnamese artillery base in the northern part of the U Minh Forest. Elsewhere, Communist forces have been getting ready for what appears to be another monthly increase in hostilities to be conducted largely by the enemy's local force and guerrilla units.

Captured documents [redacted] have called for increased action from mid-July through August; the most frequently mentioned period is 15-25 July. The action is likely to begin on different days in different places as individual units complete battle-field preparations. [redacted]

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CHILE: President Allende has decided to sign the copper nationalization legislation without change, even though he has criticized it as weaker than he had wanted. The constitutional amendment authorizing total nationalization of Chilean copper resources, which was unanimously approved by the Chilean Congress on 11 July, enables his government to take immediate and full control of the large mines as soon as he signs it.

Despite passage of the amendment, a long negotiating process is still ahead. Talks on the transfer and compensation of the remaining Kennecott and Anaconda interests have not yet begun, and there are indications that an agreement reached with the Cerro Corporation in late May still faces major hurdles before it is signed. The only appeal open to the US companies concerns the amount of compensation the Chilean Government offers. The Allende forces are making every effort to ensure a majority on the appeal tribunal.

Opposition political forces are now unlikely to run the political risk of challenging the administration on the enormously popular issue of copper nationalization. In fact, the Christian Democratic legislators may attack as injurious to Chilean interests the reasonable buyout agreements already reached with other US firms. This is partly in self-defense; the administration, in its effective campaign against Kennecott and Anaconda, has been charging that the partial nationalization effected by Christian Democratic President Frei left the US companies "free to rob and mismanage" the mines until serious damage was done. This campaign fails to mention that some of the problems stem from extensive expansion activities carried out in the mines under the Frei agreements. Other problems were caused by serious morale and discipline difficulties that arose among key copper technicians and workers after Allende took office. Allende is abetting the propaganda campaign by citing studies by French and Soviet technicians that criticize many aspects of the US operations.

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The amendment gives the President various options, and he will be under pressure from conflicting interests. Communist officials [redacted]

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[redacted] probably will advocate a relatively restrained approach. Extremist Socialists, however, will urge Allende not to use the more moderate provisions of the law. [redacted]

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MALTA: Renegotiation of the UK-Malta defense and financial agreements may be approaching a serious impasse.

A Foreign Ministry official has informed the US Embassy in London that the negotiations "may be on the point of breakdown." The official said that the departure of Defense Secretary Lord Carrington for Valletta on a fact-finding mission is being "urgently reconsidered" as a result of another peremptory letter received from Prime Minister Mintoff. [In the letter, Mintoff refused to receive Carrington unless he is given full negotiating powers and characterized the visit as further evidence that the British intend to stall the talks. In addition, he said that "under the present circumstances", the British should plan to withdraw their troops by the end of July.]

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MOROCCO: Calm and tight security prevail as the roundup of remnants of the insurgents involved in last Saturday's coup attempt continues.

Ten officers, all Berbers, were executed yesterday morning, rather than on Monday as first reported. They included four generals, five colonels, and a major. The generals were the commanders of the first, third, and sixth military regions (Rabat-Kenitra, Fez-Taza, and Marrakech) as well as the director of military training, and included some of Morocco's best trained and most able officers.

The Libyan news services continue to express support for the Moroccan "revolutionaries," and a break in diplomatic relations appears imminent. The Libyan Embassy in Rabat is closely guarded and diplomatic personnel are restricted, as is the case with the Moroccan Embassy in Tripoli; the Moroccan Embassy in Benghazi, however, is open and functioning [redacted] [redacted] although telephone lines have been cut. The small size of demonstrations against the Moroccan King organized in Tripoli on Monday and the comments of some Libyans suggest that the government's premature support for the rebels is causing some embarrassment.

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The public reaction of the Algerian Government remains cautious and essentially noncommittal. Algiers has refrained from issuing any kind of official declaration on the subject, and there is no firm evidence that Boumediene ever assured King Hassan of Algerian "support and solidarity," as reported in the international press. The Algerian news media have not reported Libya's expression of support for the Moroccan rebels. Algerian Minister of State Cherif Belkacem, who made a quick fact-finding mission to Rabat, met on Monday with Boumediene and a Libyan emissary.

Tunisian reaction, predictably, was one of shock and indignation. Bourguiba telephoned Hassan on Sunday, and sent a four-man delegation--headed by

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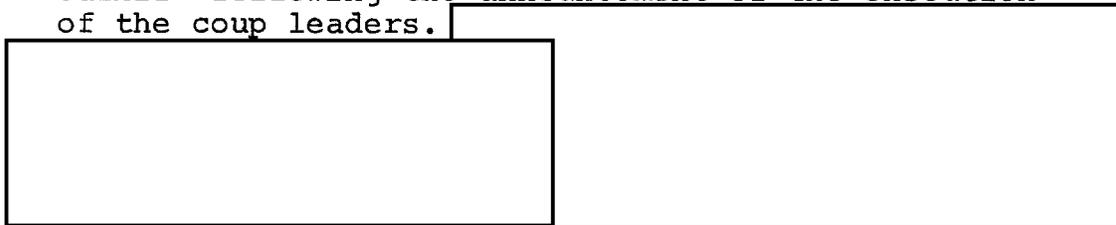
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a cabinet member and including the chief of staff of the army--to Rabat yesterday to express Tunisian solidarity. Tunisia's main concerns appear to be whether the King's position will be reinforced as a result of the coup's failure and what long-term effect the coup attempt may have on Maghreb unity.

The initial Egyptian press reaction was generally neutral but became slightly more hostile toward the Moroccan leadership--especially to General Oufkir--following the announcement of the execution of the coup leaders.



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INDIA-PAKISTAN: US officials in Calcutta and New Delhi estimate that refugees from East Pakistan are continuing to arrive in India at a rate in excess of 50,000 a day.

The official Indian count as of 3 July was over 6.5 million and the total may now have reached seven million. Refugees are beginning to arrive from the interior of East Pakistan, and reports from the border areas estimate that Muslims now make up 20 to 25 percent of the new arrivals. The Indians had estimated early in July that 91 percent of the refugees then in India were Hindus.

Assurances by the Pakistani Government that returnees will be well treated are having little effect; even Pakistani officials claim that only some 50,000 have returned to East Bengal. Reports by the new arrivals of continuing persecution by the Pakistani Army and by vigilante groups are effectively discouraging most of those who might think of returning. Embassy officials in New Delhi report that there is no evidence to support Pakistan's claim that the Indian Government is attempting to dissuade the refugees from going back to East Pakistan.

The Indians have, so far, managed to cope with the formidable economic, administrative, communal, and security problems posed by the refugees, but Indian officials emphasize that, at best, they are conducting a holding operation. New Delhi's patience with the seemingly endless flow is wearing thin, and it is apparent that Prime Minister Gandhi's moderate policies on this issue have little nationwide support.



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ITALY-LIBYA: Rome is seeking a new relationship with Tripoli that could result in Italy's getting preferential access to Libyan oil.

In late June the director general for economic affairs in the Italian Foreign Ministry captured the interest of Libyan Deputy Prime Minister Jallud with two propositions. He proposed an umbrella agreement under which the Italian state oil agency ENI would meet all Libyan needs for technical assistance in the petroleum sector. He also held out the prospect of Italy's support for Libyan association with the European Communities--an arrangement in which Tripoli has reportedly expressed interest.

Italy is seeking assured supplies of Libyan oil, if possible on a preferential basis, as well as compensation for Italian property nationalized by the Revolutionary Command in July 1970. ENI has been unwilling to line up with the international oil companies in the conflict with the producing countries. ENI vice president Girolli recently argued before an Italian Senate committee that European consuming countries should establish and protect direct access to crude. Italy is heavily dependent on imported oil and gas.



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PORTUGAL: Prime Minister Caetano has obtained approval of his controversial constitutional revisions granting, among other things, more autonomy for overseas territories.

Following a major political battle in the National Assembly over proposed revisions of the 1933 Constitution, Portuguese overseas territories now become autonomous regions with greater freedom to organize provincial affairs. Nevertheless, the central government will retain control over international affairs and other matters, such as the naming of provincial governors, national defense, administration and finance, and economic integration. Despite strong opposition from ultraconservatives to even such limited changes, the measure was adopted by an overwhelming majority.

Other significant constitutional revisions include an enlargement of the National Assembly's membership and a slight increase in its powers, a moderate extension of civil liberties, a strengthening of the foreign policy role of the president, and the establishment of common citizenship for Portuguese and Brazilians. The Portuguese hope to get Brazil's acquiescence in such an arrangement during Foreign Minister Patricio's visit to Rio beginning on 25 August.

Although the basic policy lines of the Portuguese Constitution have been maintained, the revisions reflect Prime Minister Caetano's attempt to appear more flexible and liberal than his predecessor. He will, however, face further opposition when he attempts to get implementing legislation passed in the assembly.



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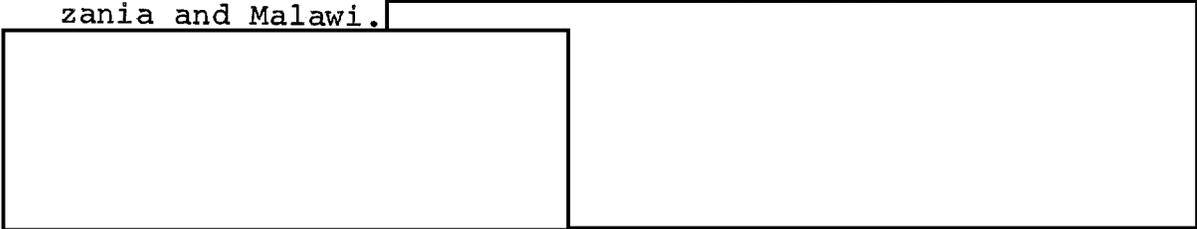
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NOTE

ZAMBIA: The government, moving to reduce its dependence on Portuguese railroads, has signed an agreement with Rhodesia for essential corn imports. Rhodesia will supply 150,000 tons of corn, worth about \$12.6 million. The accord, which already has been approved by the UN Sanctions Committee, comes in spite of Zambia's policy of reduced dependence on Rhodesia following its unilateral declaration of independence.

Domestic production of corn, a main staple of Zambia's diet, has fallen behind consumption in recent years, necessitating large imports, mainly through Portuguese-controlled Mozambique. Earlier this year Zambia suffered from a costly, four-month Portuguese blockade of its corn imports resulting from the murder of five Portuguese agronomists by the Zambia-based COREMO guerrillas. The import stoppage rapidly eliminated Zambia's surplus stocks and necessitated the emergency importation of additional corn via more expensive routes through Tanzania and Malawi.



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