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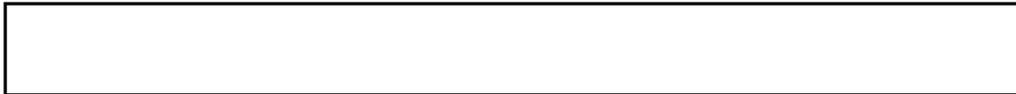
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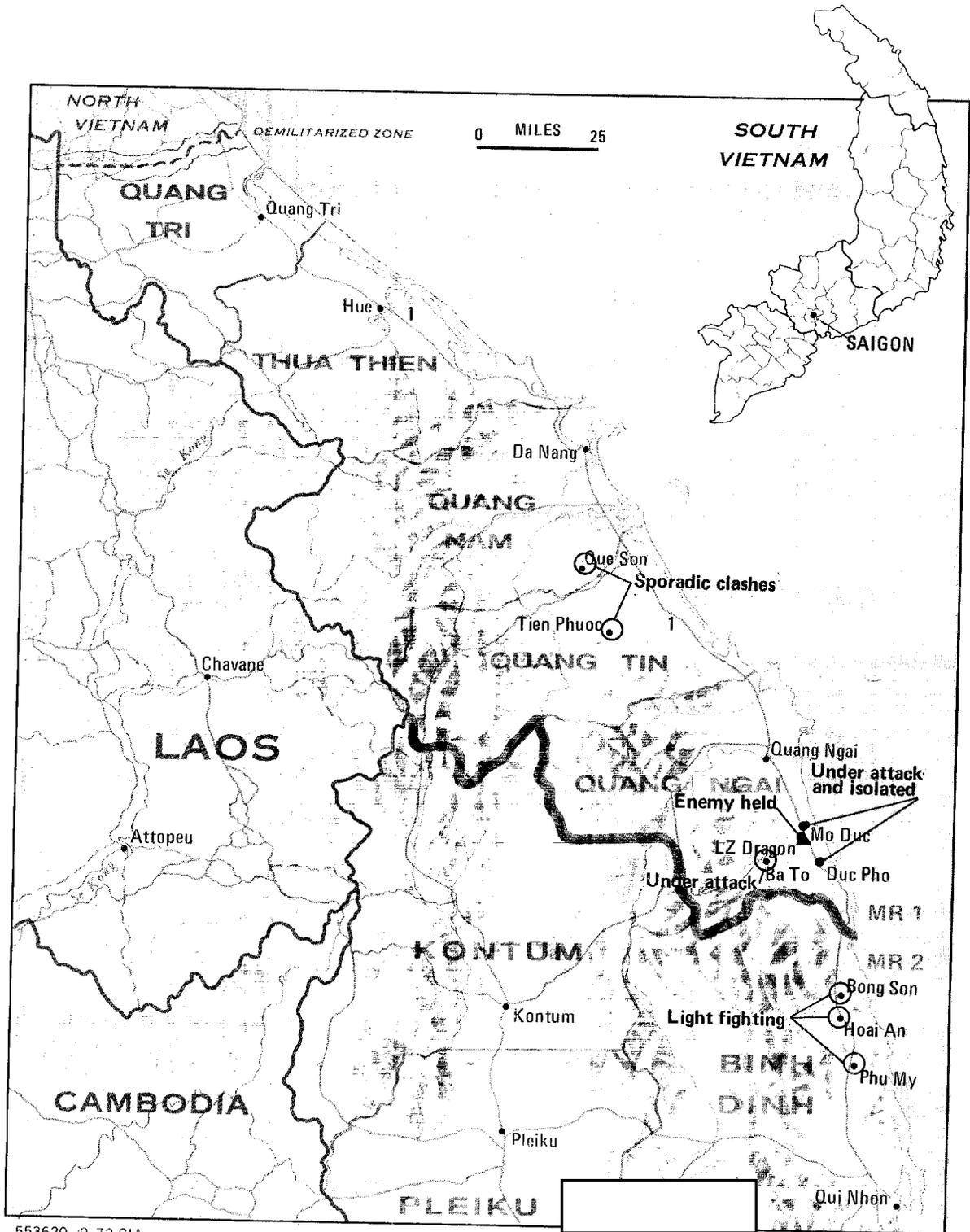
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VIETNAM: Heavy fighting continues in Quang Ngai Province. The Communists' main effort is directed against Mo Duc and Duc Pho district capitals, which reportedly are now isolated. South Vietnamese regulars have been unable so far to dislodge enemy troops from Landing Zone Dragon, just south of Mo Duc. New enemy attacks reportedly are also under way in the Ba To area, where intense enemy ground fire yesterday prevented aerial resupply of the ranger camp near that abandoned district capital.

Sporadic clashes are occurring near Que Son and around Communist-held Tien Phuoc, in Quang Tin Province, where a government effort to retake ground lost to the enemy last month is making little headway. Enemy shellings have tapered off in Binh Dinh Province, but some ground action continues in the vicinity of Phu My district capital as well as in the Hoai An - Bong Son area.

On the northern battlefield, enemy shellings and ground action were at the lowest level since the South Vietnamese Marines started their campaign in late July to retake the Quang Tri citadel. [REDACTED]

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UGANDA: Libya and Sudan have become embroiled in the Ugandan situation.

According to press reports, the Sudanese Government has thwarted a Libyan effort to support President Amin with 400 troops and equipment. Five Libyan transport aircraft bound for Uganda were apparently denied permission to overfly Sudan yesterday and were forced to land in Khartoum. Sudanese officials reportedly have decided to seize the arms on board and to return the troops to Libya today. Claims by the commander of the grounded men that more Libyan troops and materiel are scheduled to depart for Uganda could further enmesh Sudan in what may become a four-cornered row among Uganda, Tanzania, and the two northern capitals.

The Sudanese are clearly unwilling to become involved in the Ugandan hostilities, and the Libyans' bold move aggravates the strained relations between Khartoum and Tripoli. President Numayri already is irritated by President Qadhafi's heavy-handed efforts to impose his brand of pan-Arabism on Sudan.

Qadhafi's gesture will almost certainly encourage Amin in his confrontation with Tanzania. Amin, claiming Tanzania is planning another invasion, has threatened to order the Ugandan Air Force and a sea-borne battalion to "destroy" Tanzanian staging areas. Amin asserted that a new force composed of Tanzanians, guerrillas, and white mercenaries is on the way toward Uganda and will have to be stopped before they enter the country.

President Nyerere is angered over the Ugandan bombing of a Tanzanian village during fighting between the Ugandan Army and rebel forces, and he has warned of serious consequences if the raids continue. He probably would like to retaliate if there are further attacks, but his assets are limited. Tanzania has no combat aircraft, but Nyerere does have some 1,500 troops on the border.

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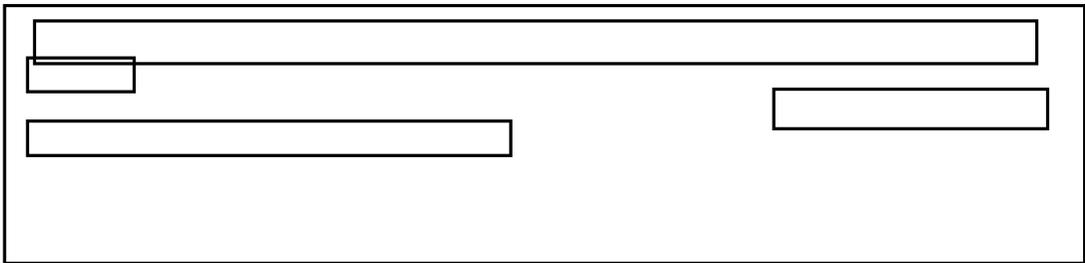
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EGYPT-USSR: The chill between Cairo and Moscow persists, but both countries are trying to maintain some useful ties.

The polemics in Egyptian and Soviet media earlier this month have been largely curtailed as public attention turned to the events at Munich and their aftermath. Both the Soviet and the Egyptian ambassadors remain on home leave, but Egyptian Foreign Minister Zayyat, in an interview in early September, said they would eventually return to their posts.



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Soviet pique over the expulsion from Egypt was recently expressed by a public lecturer in Leningrad who called Sadat a "reactionary" and a "religious fanatic." Although a public lecturer is not generally an official spokesman, in this instance the commentary probably was an accurate reflection of Moscow's frustration with Egypt. Neither side wants a complete rupture, but Cairo is hedging its bets with an eye to such an eventuality. The Egyptians are engaged in a search for supplementary, or perhaps alternate, sources of arms and spare parts in Western Europe and elsewhere.

The Egyptian minister of electricity returned to Cairo on 15 September after a two-week tour of the Soviet Union, and other exchanges of visitors have also occurred. In spite of these signs of normality, however, it is likely to be some time before a basis for a new relationship between Moscow and Cairo is achieved.

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NETHERLANDS: The government is planning to seek higher taxes to combat persistent inflationary pressures.

Queen Juliana, in her annual address to the nation, has announced that Parliament will be asked to vote increases in the wage and incomes tax, value-added tax, corporation tax, and the excise tax on private automobiles. The Queen also asked Parliament to promote speedy negotiation of voluntary labor-management accords on prices and wages for 1973. Despite the recent recession, inflation continues to be the country's most pressing economic problem. The cost of living is about eight percent higher than a year ago.

The tax increases obviously are unpopular and fraught with political risks, especially so soon before the elections scheduled for 29 November. Time for effective action is running short, however, because the economy is showing signs of recovery. If the government can convince the electorate of its determination to control inflation, the political risks inherent in tax increases will be significantly reduced.

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GUATEMALA: President Arana has indicated that his primary objective during the second half of his term will be to foster economic and social development.

In a major speech last week marking the 151st anniversary of Guatemalan independence, Arana complained about the lack of private sector support for government efforts to combat sickness, poverty, and ignorance. He warned the economic elite that unless it helped the government carry out economic, political, and social reform, it risked the development of a totalitarian government.

When he took office in July 1970, Arana had hoped to devote a major portion of his time to economic and social development. Instead, a campaign by leftist insurgents to embarrass the government led Arana to concentrate on a pacification program designed to eradicate the guerrilla threat. This program was rather successful and with the security situation well in hand the government had begun to focus on development problems. Arana, however, has been finding that the problem of reform is both technically and politically more difficult than the problem of insurgency. He has been disappointed by the lack of support for his development policies and dissatisfied by the lack of speed in their implementation.

Although Arana was the candidate of the right, he and a number of senior military officers have attempted recently to put the government and the army clearly on the side of social and economic progress and to dissociate themselves from the views of the more conservative landowners and businessmen. In part, this is a political move designed to undercut the appeal of the left and help the government coalition win the presidency in 1974. Arana may prove as reluctant as previous presidents to make the politically difficult decisions that would accelerate the rate of social

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change, and such reforms as are accomplished are likely to be rather moderate. Nevertheless, Arana seems sincerely concerned about social justice and desirous of building a political record that will stand up even after he leaves office. [redacted]

[redacted]

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LUXEMBOURG: With an eye to the next elections, Prime Minister Werner has made his first significant ministerial shift since 1969 and removed a source of government embarrassment.

On 16 September, Werner accepted the resignation of Madeleine Frieden-Kinnen, minister of public health and of family, youth, and cultural affairs, who had been indirectly embroiled in a morals affair and its consequent litigation since 1969. Although the 57-year-old Madame Frieden-Kinnen's involvement in the matter has never been proved, the barrage of adverse publicity--some of it from within the governing coalition--and its deleterious effect on her performance as minister eventually forced her removal from the cabinet.

She will be replaced by Secretary of State Camille Ney, who reportedly will assume both the public health and agriculture portfolios. The prime minister is also bringing into the government as a new state secretary Jacques Santer, a bright young protege most recently secretary-general of Werner's Christian-Social Party (CSV).

The CSV, senior partner in the Christian-Social/Democratic coalition, appears to be girding for the next electoral campaign. Despite overtones of retreat under fire, Werner should emerge less vulnerable to opposition sniping. Elections are not officially scheduled before June 1974, but there is a good chance that they will be called early if, as is traditional in Luxembourg, intra-coalition stresses build up toward the end of the five-year legislative term.

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CHILE: The annual Independence Day military parade on 19 September took place without incident. It was witnessed by high-ranking visitors, including the commanders of the Soviet Air Force and the French Navy. Reflecting the strains of the past week, President Allende closed the independence celebrations with a speech pointedly praising the military and police forces for their dedication in supporting the constitution and protecting civilians from violence provoked by extremists. [redacted]

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WEST GERMANY: A rising deficit spells more trouble for Chancellor Brandt [redacted]

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[redacted] In the first eight months of this year, spending has risen 10.4 percent while revenue has increased only 7.4 percent. The resulting \$1.3-billion deficit is nearly twice as large as that incurred in the same period of 1971, despite spending cuts [redacted]

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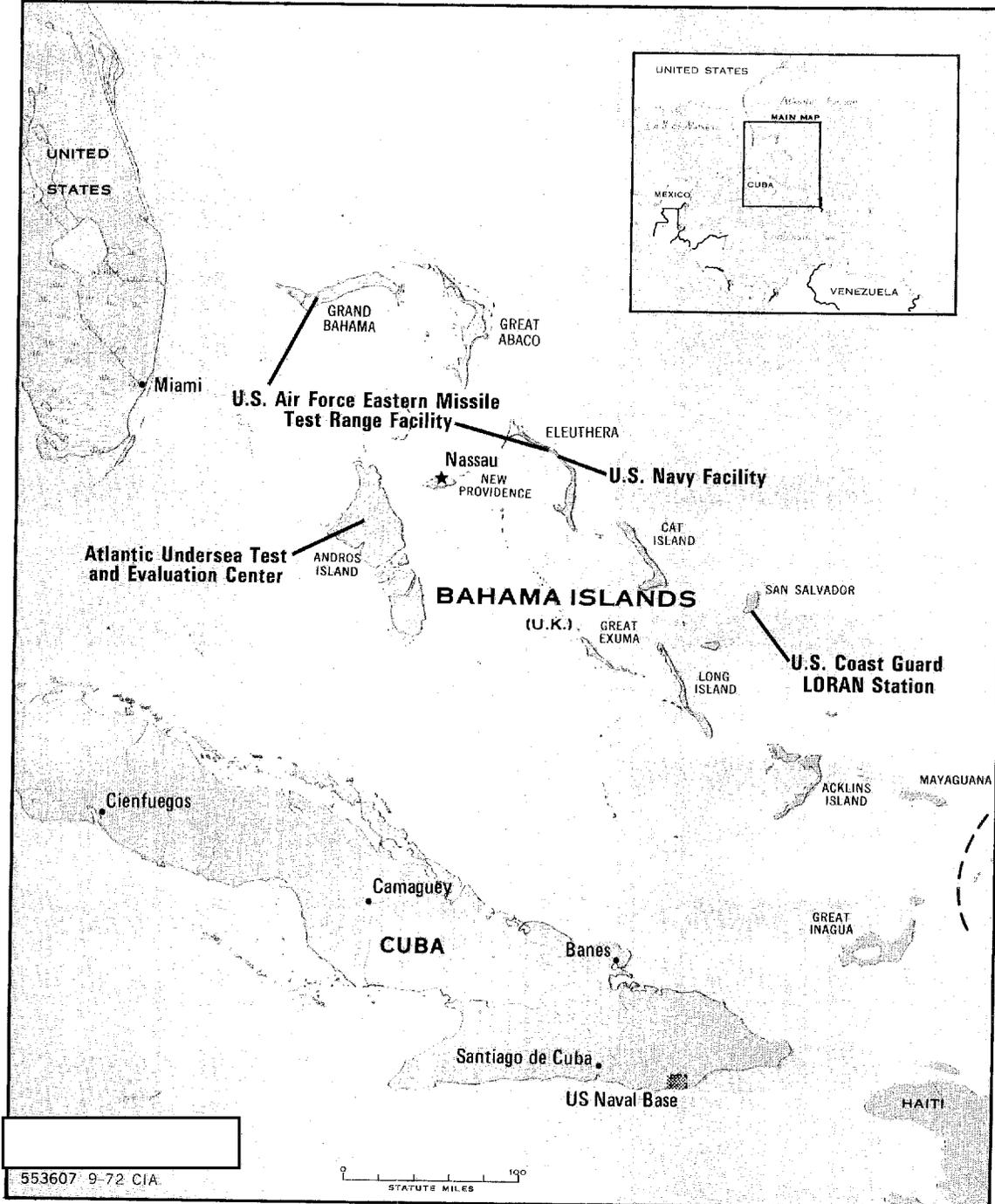
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Bahamas: US Defense-related Installations



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BAHAMAS: Prime Minister Pindling's landslide victory in Tuesday's parliamentary elections presages important shifts in Bahamian relations with the US. The governing Progressive Liberal Party won a strong mandate for its pledge to seek full independence from Britain by next July, and London has made it clear that the "will of the people" will be granted. Formal talks on independence are likely to begin in December. Pindling also made it clear during the election campaign that his government expects to set a high price for continued US operation of the four defense-related installations in the Bahamas following independence. Revenue from base rentals would help to bolster the deteriorating economy and offset the anticipated loss of British support after independence. [REDACTED]

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USSR: Soviet industrial production recovered some momentum in August after a disappointing first half. Results for the first eight months of 1972 show a gain in the rate of growth to 5.5 percent. The overall performance is still disappointing, however, compared with the eight-month period of last year when civilian industrial production posted an increase of 6.8 percent. The 1972 gains are mainly attributable to producer durables which grew by an estimated 12 percent during August. Growth rates in the consumer goods sector, however, continue to fall far short of the leadership's goals for improving consumer welfare. [REDACTED]

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MEXICO: The government's take-over of another large bank extends its control to more than half of the banking resources of the country, according to Mexico's treasury secretary. The bank, which was owned by private domestic interests, was in serious financial difficulties. It now will be run virtually as a state agency. This latest acquisition, combined with recent moves in the copper, telephone, and tourist industries, reflects a growing trend toward government ownership of business firms in those industries considered essential to the fulfillment of President Echeverria's social goals. Echeverria has accused the private sector of being insensitive to national development priorities. [REDACTED]

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URUGUAY: The government-authorized general wage increase that ended the transportation strike will further weaken the economic stabilization program. The size of the increase has not been announced, but if it is sufficient to satisfy unionized labor's demands it would strongly fuel inflationary pressures. Despite extensive wage and price controls, the cost-of-living has risen about 50 percent so far this year, exceeding the government's target to limit inflation to 45 percent for all of 1972. Economic problems are being further complicated by mounting consumer pressures to lift the politically unpopular four-month ban on domestic sales of exportable beef and by rising food prices resulting from a shortage of other meats and fish. [REDACTED]

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