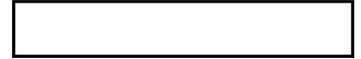


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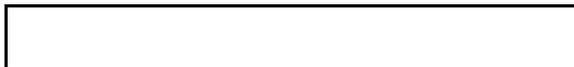


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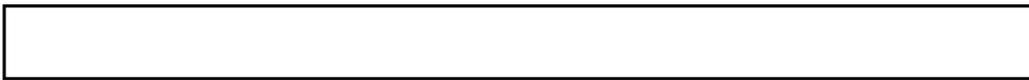
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LAOS

Prime Minister Souvanna Phouma suffered an apparently serious heart attack yesterday. According to the US ambassador, Souvanna is now under intensive care at his home, with his French doctor and four Lao doctors in attendance. The 72-year-old Lao leader has had a previous episode of heart difficulty and is also a diabetic.

Souvanna's illness poses a serious threat to the stability and perhaps even the viability of the coalition government. The immediate danger is the possibility of nervous overreaction by either the Vientiane or the Pathet Lao side. Information and rumors regarding Souvanna's condition and the intentions of the Communists and the right wing are bound to spread quickly through Vientiane. A prognosis of full or partial recovery would calm fears within both camps, but until Souvanna's condition stabilizes, the situation in Vientiane is likely to be tense.

If Souvanna were incapacitated but still able to make some decisions, both sides in the coalition probably would be willing to go along temporarily with such a situation. This type of holding action could particularly benefit the non-Communists, who recently have fared poorly in the political arena. On July 10, Souvanna and the Communist members of the cabinet overruled non-Communist objections and pushed through a decision to dissolve the rightist-controlled National Assembly. The following day, in a special session of the cabinet, the Communists' 18-point program containing general guidelines for domestic and foreign policies was approved with minor modifications.

Without Souvanna actively at the helm and serving as a full-time arbiter between the Pathet Lao and the non-Communists, however, the decision-making process within the coalition structure could grind to a halt, thus providing the non-Communists with some badly needed breathing room.

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If Souvanna is unable to continue in office, the succession will be confused and complicated. Under the constitution, the King would be called on to designate a new prime minister from within the cabinet. The prime minister - designate would then have to be approved by the National Assembly. The Communists, however, could be expected to strongly oppose any effort to reverse the decision dissolving the legislature.

In the present situation, personalities are more important than procedures. The four most likely contenders for Souvanna's mantle would be non-Communist Deputy Premier Leuam Insisiengmay, Communist Deputy Premier Phoumi Vongvichit, neutralist Interior Minister Pheng Phongsavan, and Lao Communist leader Prince Souphanouvong, the chairman of the advisory political council.

Because neither the Communists nor the non-Communists would be likely to approve a candidate from the other side, Pheng would appear to be the front-runner. He is relatively close to Souvanna and, like the Prime Minister, has had long experience in dealing with both sides. In any event, the final choice may be dictated by Souvanna, should it be necessary for him to name a successor.

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MIDDLE EAST

The official Egyptian news agency announced yesterday that King Husayn will visit Cairo on July 16 for three days at President Sadat's invitation. Jordanian-Israeli disengagement and relations between Husayn and Palestine Liberation Organization leaders--whom Sadat would like to see reconciled--are likely to be the key subjects discussed. Syrian President Asad, who has been planning to visit Cairo soon, may show up at the same time as Husayn.

Meanwhile, there are reports that the Israeli cabinet will meet next week to re-examine its position on negotiations with Jordan and Palestinian representatives. The government reportedly expects to come up with some new proposals which Foreign Minister Allon can take with him to Washington, which he is scheduled to visit before the end of the month.

Over the past week the Israeli press has run a number of articles on the Palestine issue, and several commentators have urged the government to rethink its position. Some have even gingerly suggested that the cabinet might have to negotiate with the PLO. Information Minister Yariv reportedly said yesterday that the government is prepared to do so if that organization publicly acknowledges the existence of the Jewish state of Israel and ceases terrorist activities. This position is not new, but it is stated more positively than in the past.

One of Prime Minister Rabin's coalition partners, the small Independent Liberal Party, on July 11 adopted a resolution urging the government to begin negotiations with Jordan and "other Palestinian entities." In addition, several liberal Labor Party Knesset deputies and the mayor of Tel Aviv, a member of the opposition Likud bloc, were among the signers of a manifesto issued the same day calling on the government to work "realistically and speedily" toward solving the problem between Israelis and Palestinians.

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CYPRUS-GREECE

President Makarios has refused Athens' request that he delay the recall of Greek officers from the Cypriot National Guard until October.

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Athens is still pondering its official response to Makarios. A Greek spokesman has made statements designed to ease tension, and anti-Makarios posters were promptly removed from Athens walls, suggesting that the government does not wish to exacerbate the situation at the present time.

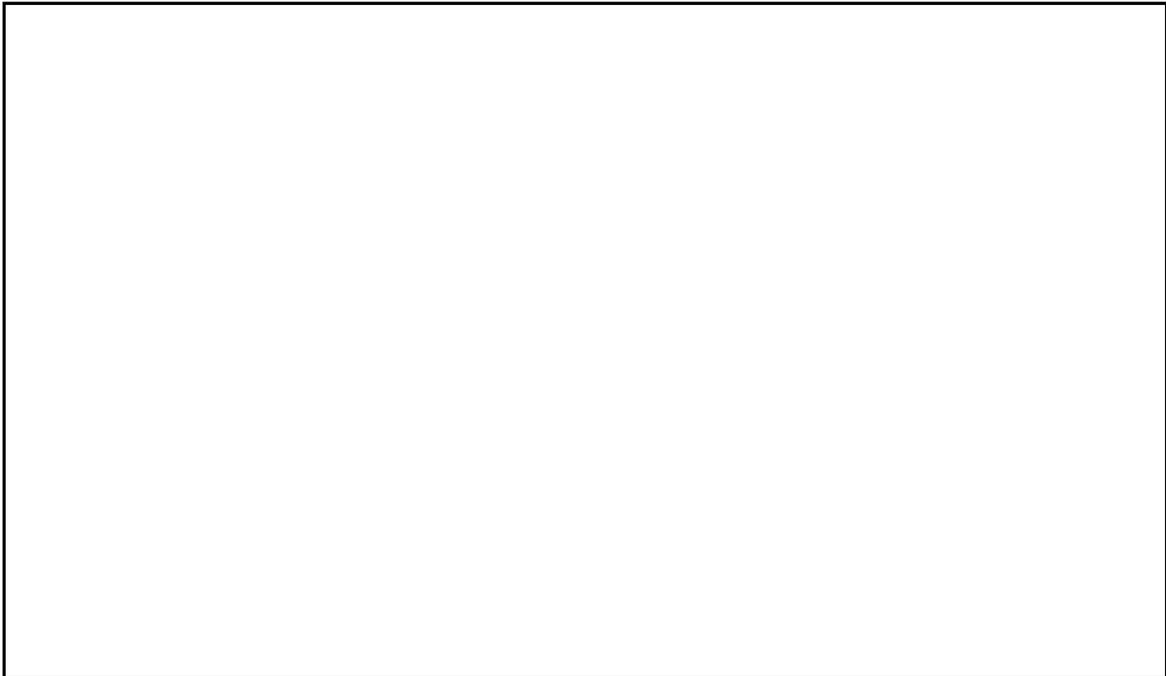
Makarios, meanwhile, has begun rounding up international support for his position. He summoned the US ambassador yesterday to present his side of the story.

Makarios said he was determined to stop Greek support through the National Guard for the terrorist activities of EOKA-B, an organization whose objective is immediate union with Greece. He accused Greek strongman General Ioannidis of direct complicity in attempts by EOKA-B to kill him or overthrow his government. Makarios said he would dissolve the guard if Athens refused to withdraw its Greek officers and end support for EOKA-B.

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The archbishop once again dismissed the Greek position that he is endangering the mutual defense arrangements in the face of a growing Turkish threat, affirming that the Athens government was a greater threat to Cyprus than Turkey.



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WESTERN EUROPE

The decision this week to admit the Communist-dominated Italian labor confederation (CGIL) to the European Trade Union Confederation marks a significant step toward the goal of an all-embracing West European labor organization. The ETUC now includes members affiliated with the free, Christian, and Communist labor internationals.

In leading the opposition to the Italians at the meeting of the ETUC executive committee, the powerful German labor confederation hoped to force clarification of the CGIL's recently proclaimed "associate" status in the pro-Soviet World Federation of Trade Unions. A large majority of ETUC members, however, are sufficiently satisfied with the evolution in the outlook and doctrine of the Italian Communists to permit their inclusion in the confederation. CGIL entry was facilitated, moreover, by the growing unity of the Communist and non-Communist federations in Italy.

Early membership for the Communist-dominated federation in France, however, remains unlikely because of its continuing close relations with the WFTU. Labor circles in Brussels nevertheless predict French Communist membership within one or two years.

The position that the CGIL takes on questions relating to the EC will provide a test of Italian Communist political attitudes within the European labor confederation. The ETUC contains members from community as well as non-EC countries, and this has seriously hampered a unified policy toward the EC. British labor strongly supported Italian Communist admission, but it remains to be seen whether the Italians will play the British game of trying to block the efforts of the ETUC secretariat to concentrate on EC matters.

Regardless of the ETUC's presently faltering unity of purpose, the growing concentration of West European labor in the confederation is likely to widen the split between the Europeans and the free-world labor international and weaken the latter, as well as increase the strain in relations with the AFL-CIO.

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Whether the Soviets will benefit from CGIL entry into the ETUC remains to be seen. They still hope that inclusion of the Italian and, eventually, the French confederations in the organization will promote their long-term goal of establishing a new, Communist-dominated, pan-European labor confederation. Neither the Italians nor the French, however, have thus far shown any interest in the idea.

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EUROPEAN COMMUNITIES

France intends to try to give the EC new momentum during its EC presidency, but its success will depend on the Nine's making some progress with the member state's economic problems.

France has launched its term as EC president with a series of bilateral meetings with its partners, including the meeting between President Giscard and Chancellor Schmidt in Bonn earlier this week. The French have made clear their interest in breathing new life into the community and have discussed calling a summit conference of EC leaders toward the end of the year. Paris has made no specific proposals, and has stated only that the summit should not be held until after the expected UK general elections and that it should be prepared to approve proposals for attainable objectives while avoiding rhetoric about distant goals.

Paris is evidently considering possible initiatives on energy. Foreign Minister Sauvagnargues told the European parliament this week that the agreement on an EC-Arab dialogue was the most important recent example of a successful cooperative effort, and he hoped for more such specific progress, including a community policy on energy.

The French are concerned that the US-led 12-nation energy-coordination group may pre-empt meaningful EC cooperation. Paris presumably welcomes the efforts of some of its EC partners--notably the Germans--to give France a seat in the coordination group by transferring its activities to an OECD framework. Paris may hope then to press for an "EC voice" in the larger cooperation effort. EC meetings on energy are set for July 17 and 18.

Schmidt and Giscard promised to cooperate on the important economic problems facing their governments. Preparations for the EC Council of Finance Ministers on July 15, however, show that it will be difficult to achieve agreement on specific measures.

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The commission has drafted recommendations on economic stabilization, outlining additional measures to be taken by each country in such areas as credit policy, taxation, and social security. The recommended measures aim at restricting demand--except in West Germany, where expansion is considered appropriate. Preliminary soundings in major EC capitals have revealed divisions that make prospects for early progress dim. While Paris was favorable and reportedly would have Rome's support in an effort to develop an EC initiative, neither Bonn nor London was receptive to the commission's proposals. Consequently, council action in this area is unlikely prior to the summer recess.

Early this year, under the Pompidou government, Quai working levels were sketching out proposals for strengthening the EC that included a revamped EC parliament, an EC political secretariat, and institutionalized EC summits with an executive role. Such proposals may be playing a role in Giscard's thinking on ways to revive the community. [REDACTED]

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FRANCE

As domestic credit tightens, private firms and government agencies are moving to borrow abroad. Total foreign borrowing for the rest of this year is likely to be well over \$1 billion. Since Paris has a good credit rating, few problems should be encountered in raising the money.

The surge of borrowing will have mixed effects on the French economy. The foreign funds will help offset a current account deficit now estimated at \$6.5 billion in 1974. It could, however, weaken the anti-inflation parts of the government's program announced on June 12. Paris is relying heavily on tight domestic credit to slow the rise in prices, and borrowing abroad is a way of circumventing these restraints.

Large private companies already are seeking foreign credits [redacted] and more firms will follow suit as domestic credit becomes increasingly scarce and expensive. Government corporations, led by the electricity and telephone companies, are pursuing a similar course. The French government also intends to borrow several hundred million dollars abroad and offer the funds to export-oriented industries at favorable interest rates.

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Saudi Arabia and the US apparently are expected to be the main source of funds. Several of the offerings are planned for the New York market/ [redacted]

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