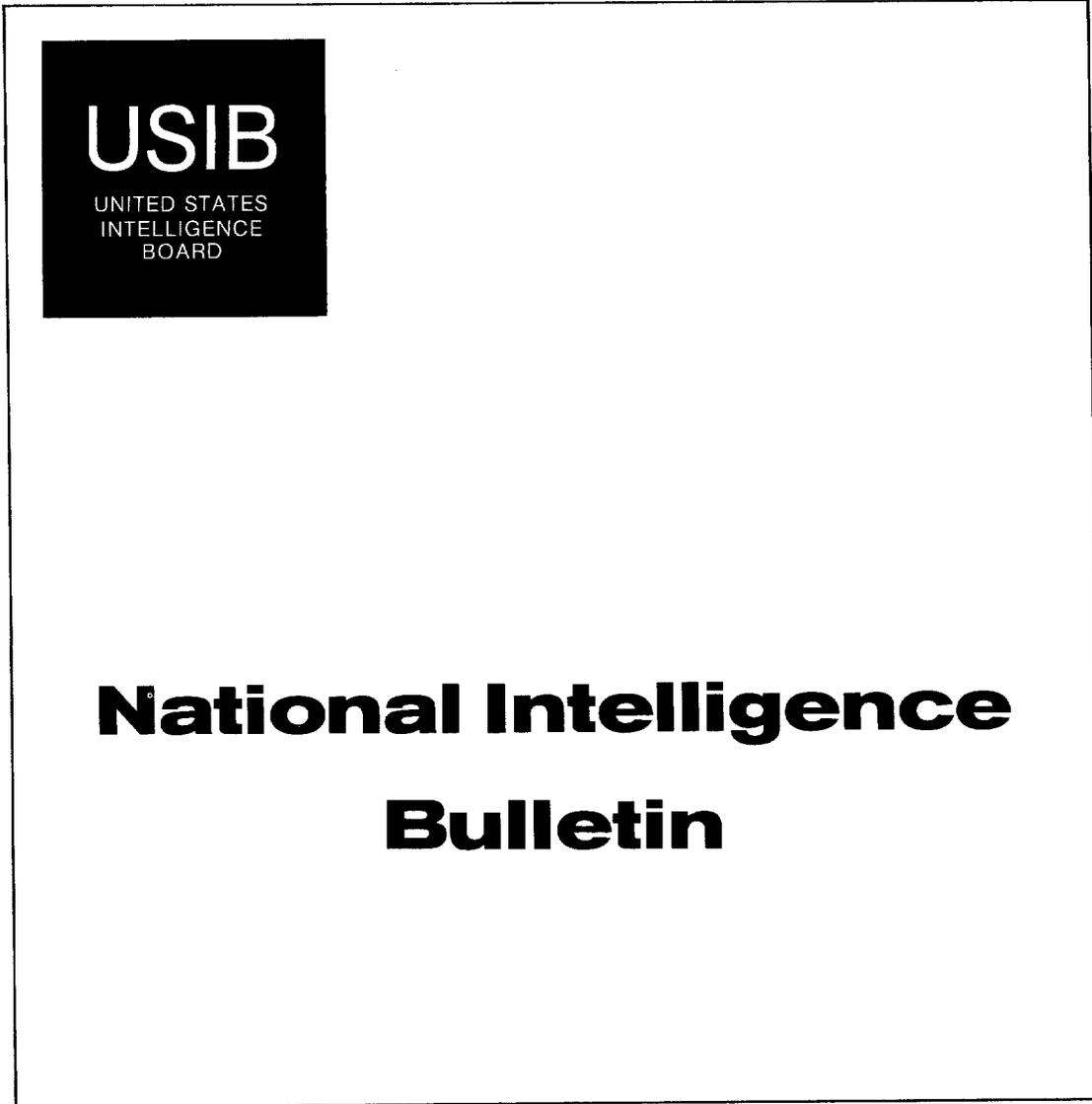


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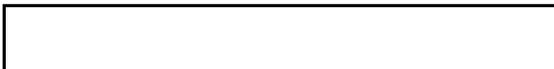


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State Dept. review completed

DIA review(s) completed.



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PORTUGAL

Portuguese Socialists put on an impressive show of public support over the weekend, proving to the rival Communists as well as to the military government that they are a force which cannot be ignored.

The Socialists brought out more than 70,000 supporters for a rally in Oporto on Friday, followed by an even larger demonstration in Lisbon the next day. The Communists unsuccessfully tried to block both demonstrations, exhorting party militants to stop the Socialists "by any possible means" and warning the public of a "march on Lisbon by reactionary forces."

Barricades were set up by Communist militants on the main arteries into Lisbon, but were later taken over by internal security troops. Communist militants remained near many of the checkpoints, but there were only isolated instances of conflict between Communists and Socialists.

Socialist leader Soares took a particularly tough stance at the Lisbon rally, calling for the resignation of Prime Minister Goncalves. The Socialists have grown bolder in their criticism since withdrawing from the government ten days ago, moving from critical remarks of Communist control over labor, the press, and local government to direct attacks on the party itself and Armed Forces Movement officers associated with the Communists.



Costa Gomes commented on Saturday about the kind of new government he wants—a coalition representing all the "socialist forces" but not one in which the ministers would represent their respective parties. This statement provides little clue to what the President really wants. His emphasis on the "rapid establishment" of a new cabinet has prompted press speculation that he will replace Goncalves if the Prime Minister cannot come up with a cabinet soon.

The Communist-dominated propaganda division of the armed forces general staff is defending Goncalves against Soares, claiming that Goncalves is essential to the unity of the Armed Forces Movement.

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The Communist Party has used its influence over the media further to support Goncalves. The success of the Socialist rallies was played down in the media, while messages of support for the Prime Minister from "popular organizations" received prominent coverage. The Communists could decide, however, to cool their support for Goncalves, reportedly taking the advice of the Soviets not to hitch their star so closely to one person. If Goncalves loses Communist support, his days will be numbered.

The Communists are increasingly concerned about their waning popularity in northern Portugal. Never accepted by the generally conservative north, they now find themselves the victim of a growing number of violent incidents. Troops have been called in on several occasions to disperse crowds bent on storming and sacking Communist Party offices. In one such instance, a soldier was killed by a stray bullet when the troops fired into the air.

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CSCE

Agreements reached at the European security conference have cleared the way for final acceptance of July 30 as the opening date for a three-day summit in Helsinki involving 35 heads of government.

The longest negotiating session in the history of the conference produced accord on confidence-building measures after Turkey—under increasing pressure from its NATO allies—dropped most of its demands for separate notification of amphibious and airborne troop movements. Ankara agreed to give advance notification of maneuvers within a 250-kilometer zone along its borders after a compromise was worked out—over Cyprus' objections—excepting notification in areas "contiguous to" borders with non-participating states—exempting some maneuvers in eastern and southern Turkey.

The Soviets held out until the last hour of the negotiations for a mention of the "irreversibility of detente" in the final documents, but agreed finally on an alternative formulation substituting "make continuing and lasting" for "irreversibility." The Soviets also tacitly agreed to allow Italian Prime Minister Moro to sign the final declaration twice—acting on behalf of the EC as well as Italy.

In Helsinki, preparations for the summit are proceeding at a hectic pace. The Finns are expecting 900 delegates, accompanied by thousands of support personnel, and have begun elaborate security preparations. The order of speakers was determined by lot in Geneva, and a time limit of 20 minutes was placed on each speaker. British Prime Minister Wilson will be the first to address the conference; General Secretary Brezhnev is thirteenth to speak and President Ford is twenty sixth.

The NATO allies may try to evaluate later this week tentative indications that Moscow may follow up the CSCE with renewed emphasis on disarmament negotiations. A ranking French Foreign Ministry official has told the US embassy in Paris that his government expects Moscow to continue promoting a world disarmament conference and also to begin pushing for European regional disarmament negotiations broader in scope than the force reductions talks in Vienna.

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ARGENTINA

The decision to accept Economy Minister Rodrigo's resignation will probably ease some of the pressures on President Peron, but his departure leaves the administration with no one in charge of economic policy at a critical time.

Labor had demanded that Rodrigo, a protege of the now virtually exiled Lopez Rega, be replaced because of his role in last month's attempt to roll back wage increases. With Rodrigo gone, pressures from labor—and most likely from politicians and the military as well—for the replacement of other cabinet members linked to Lopez Rega will grow. Press sources over the weekend said that Mrs. Peron will give in to these demands and oust as many as four more ministers. This would be her second cabinet reshuffle in less than two weeks. Mrs. Peron's freedom to choose her own advisers is becoming increasingly more restricted because of the widespread resentment toward her administration.

Labor leaders are scheduled to meet today with the President to present a 15-point document on economic policies. They probably will confront her with their demands for more cabinet resignations.

The discredited Lopez Rega reportedly left last night for Madrid after a stopover in Rio de Janeiro. [REDACTED]

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ITALY

The national council of Italy's Christian Democratic Party today begins its third day of debate with party chief Fanfani more isolated than ever.

Defending his performance in a speech on Saturday, Fanfani said his party's losses and the Communists' gains in regional and local elections last month were the result of long-term political trends rather than his policies. After Fanfani's address, however, the centrist factions led by Foreign Minister Rumor and Budget Minister Andreotti resigned from the party's executive directorate. Representatives of about 70 percent of the party, including the left-wing factions that resigned last month, have now taken that step.

In his speech to the council yesterday, Prime Minister Moro stood apart from Fanfani by proposing that the party switch temporarily to a "collegiate management." Today, the council will probably choose between accepting Moro's idea or ousting Fanfani with a vote of "no confidence." Once they have settled their leadership problems, the Christian Democrats will have to give more attention to their difficulties with the Socialists, who have again begun to urge that the Communists be associated with the national government in some indirect way.

An aide to Socialist chief De Martino told embassy officials that the Socialists want to commit the Communists to the government's program by consulting them formally on it. They do not want to give the Communists government posts. According to the aide, the Socialists feel squeezed between the Christian Democrats and Communists and are pushing the idea mainly to protect themselves.

The Socialists fear that the Communists will continue to advance if left in the opposition, while the Socialists will continue to suffer from their association with the government. On the other hand, the Socialists worry that, even if they and the Communists gained enough votes in the next national election to form a coalition, the Communists would find a way to exercise control over them.

The Communists will have mixed emotions about the Socialists' idea. A year ago, Communist chief Berlinguer proposed such a consultative relationship, presumably as another way of establishing the Communists' potential as a governing party. Their strengthened position, however, was acquired mainly by attacking the Christian Democratic coalition for "bad government," which may make the Communists reluctant to associate themselves with it in this way.

The Christian Democrats will be sharply divided over the idea. Some elements of the Christian Democratic left wing have suggested such a relationship with the Communists, but the majority has always gone on record against it.

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VIETNAM

The large quantity of military equipment captured by the communists in South Vietnam is mostly of US manufacture; it includes small arms, tanks, artillery, air and naval craft, and sophisticated electronics systems.

Three basic options for disposal of this equipment are open to the communists:

- it can be utilized for their own armed forces;
- it can be sold or traded abroad for needed capital or goods;
- it can be used to support insurgent movements in Southeast Asia or elsewhere.

The communists will probably use all three options to some extent and will select carefully both materiel for their own use and for sending abroad.

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Hanoi has captured an estimated 1,000 workable 105-mm. howitzers, and will probably incorporate some into its own military force. The communist regime's need for hard currency and the good marketing prospects for the howitzer open the possibility that some of these arms will be placed for sale. Since the 105-mm. howitzer is used in much of the world and since China makes parts and ammunition, the weapon is one that both the North Vietnamese and insurgent movements can maintain and support without much difficulty.

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KOREA: The first exchange of fire within the Korean DMZ this year occurred Friday when a North Korean guard post fired on a South Korean patrol. A brief exchange ensued, but no casualties were reported. The last DMZ firing incident took place last November, when a South Korean patrol uncovered the first North Korean-built DMZ tunnel. While no excavation has been identified in the immediate area of the latest encounter, Seoul is conducting anti-tunnel drilling operations some five nautical miles to the east.

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ANNEX**Possible Implications of Egypt's
Action on UNEF**

The announcement last week of Egypt's refusal to extend the UN Emergency Force (UNEF) mandate in the Sinai Peninsula has thus far raised little stir. There have been no charges that Egypt is readying itself for war, despite the fact that its armed forces are on an increased state of alert. Israel has apparently not mobilized its forces, although it is closely watching Egyptian forces. Many Israelis, at least in public, are interpreting the Egyptian move as a pressure tactic that can be waited out and that will in the end prove to have been only another empty threat.

This memorandum examines the immediate implications of the Egyptian move—the possibility that the Egyptians are not bluffing, that they will order UNEF's removal if the UN Security Council does not within a week or so adopt a resolution of some substance, and that they recognize and perhaps intend that this removal will heighten the possibility of military clashes. The memorandum is meant not necessarily to predict, but to call attention to the dangers inherent in the Egyptian actions.

At the UN

Egyptian spokesmen have demanded, as the price for UNEF's continued presence, that the UN Security Council adopt a resolution on Israeli withdrawal that would "break the present stalemate" and constitute a "major step toward peace." What precisely this would entail has been left unclear. Egypt's UN ambassador has insisted on a "clear-cut, unambiguous" resolution imposing sanctions on Israel.

In a more moderate vein, Egypt's second-ranking diplomat at the UN has said Cairo will seek a resolution that defines one of UNEF's duties as the supervision of Israeli withdrawals. Whether moderate or more hard lining, the resolution Egypt seeks would, at a minimum, be less ambiguous than past resolutions on the Arab-Israeli situation.

The Egyptians have been careful to avoid reference to the US in their focus on the UN; they have made it clear that they want the US to continue efforts to mediate an interim Sinai agreement. An Egyptian UN diplomat has specifically

This alert memorandum was prepared July 19, 1975, by CIA and reviewed by appropriate analytical elements of the Bureau of Intelligence and Research/Department of State, DIA, and NSA. The Bureau of Intelligence and Research believes the memorandum is excessively pessimistic regarding the imminence of a Sadat decision to abandon the negotiating track or to order the withdrawal of UNEF.

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stated that Cairo wishes to avoid provoking a US veto. The Egyptians would almost certainly extend the UNEF mandate if an interim agreement could somehow be concluded or firm agreement reached on some major aspect of it before the mandate deadline on July 24. If no concrete progress is evident by that time, however, and the issue does in fact come before the Security Council as more than a pro forma mandate extension, the Egyptians may then use the debate as the acid test of the efficacy of US-managed negotiations. President Sadat will probably make some accommodation to avoid a US veto, but he may have reached the point of impatience at which he would be less willing to accommodate and would no longer shy away from putting the US on the spot.

Beyond the Security Council

It is quite possible that the UN debate could be drawn out beyond the mandate deadline in order to postpone any Egyptian decision finally to request the evacuation of the Sinai buffer zone. The decision—if in fact the situation comes to this point—could also be taken, however, by the July 24 deadline, and Egyptian and Israeli forces could be meeting head-on in at least small-scale clashes in the buffer zone by the end of the month. If the UNEF buffer is withdrawn, it is expected that the Israelis and Egyptians will patrol the vacated zone, raising the risk of clashes that could escalate into major hostilities. Both sides may well increase their force dispositions and mobilize reservists.

In the event an extension resolution satisfactory to the Egyptians is negotiated within the next week or so, the danger of accidental clashes would of course largely be obviated. But successful maneuvering on this resolution would, in the absence of a further disengagement, only postpone the danger of military action. Sadat seriously intends that his action on UNEF should signal his impatience with the pace of negotiations, and any extension now is likely to be brief—no more, perhaps, than a month. At that time, if he were still unsatisfied in negotiations, Sadat would be even more likely to follow through with an order to evacuate the UNEF zone; the danger of clashes, accidental or otherwise, would then be even greater.

A grave danger in the current situation lies in the possibility that Sadat will perceive that his action on UNEF is not being taken seriously by either the Israelis or the US and that he will run the risk of war, exploiting this lack of concern to mask his military preparations. Sadat is acutely conscious of the fact that because he did bluff, and fail to follow through, in the years before the 1973 war, he became a laughing stock of the Arab world and lost the attention of the superpowers. He is proud of the fact that with the war he surprised the world with his seriousness—proved, as he puts it, that the Arabs were not a “dead corpse”—and he is not likely again to risk a reputation for empty posturing. Sadat’s action on UNEF is a gambit to gain attention and exert pressure for more rapid movement in negotiations, but he is not unaware that, if it is unsuccessful, he must either take further action or lose credibility and diplomatic leverage.

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The Egyptians have lost no time in calling attention to the parallels between the situation now and that in the summer of 1973. At that time, Sadat took his final test of the US to the UN Security Council and, when the US vetoed a resolution condemning Israel, he set in motion his war machines while seeming to be concentrating only on diplomacy. Sadat is a two-track strategist; in 1973 he showed that he was working on a military track while simultaneously giving diplomacy a chance to work, and in the years of negotiations since the war, he has seriously prepared for the eventuality of hostilities.

He is most likely to focus on the military option again when he perceives that his diplomatic efforts are not having effect and, equally important, that his political pressure is not being taken seriously. He would not signal his choice of a military over a diplomatic option, and he would not necessarily implement it immediately. The October war came more than two months after Sadat's final serious try at diplomacy through the Security Council debate in July 1973.

Sadat has said frequently that he would again take his case to the UN, if negotiations do not succeed, before going to war. If his Security Council effort fails, either next week or next month, he could decide that nothing more remains to be tried on the diplomatic track. [REDACTED]

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