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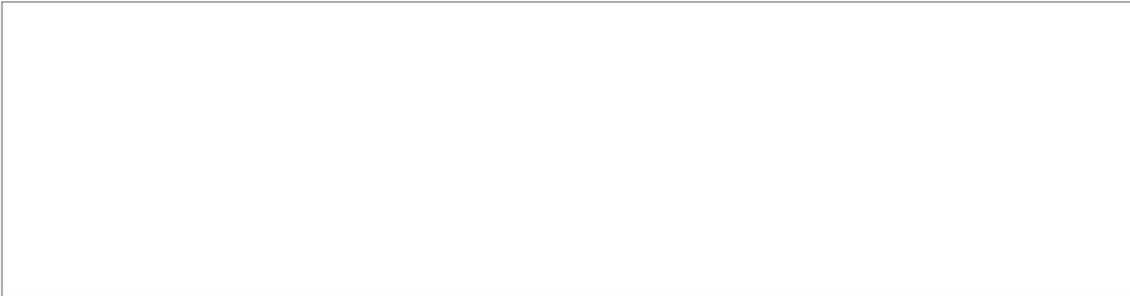
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EGYPT

Egypt backed down yesterday from its tough position on the UN force mandate, informing the Security Council that it would extend the mandate for three months from its expiration today.



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Last week Fahmi had said the UN must live up to its responsibilities—which he never clearly specified—before Egypt could extend the mandate.

The reason for Sadat's abrupt relaxation of his political pressure over the UN mandate issue may be that he believes prospects for negotiation of an interim agreement are now encouraging and that further obvious pressure could jeopardize its successful conclusion.

Sadat's exercise in brinkmanship has served to show both Arabs and Israelis that he can be tough in his negotiating position and can raise temperatures virtually at will whenever he is not satisfied with the pace of the talks. At the same time, however, by backing down from his tough stance without yet having achieved visible progress, he has left unfulfilled the Arabs' expectations that he could force the pace of negotiations. He also may have hurt his credibility not only with Arabs but with Israelis as well.

The Israelis, for their part, can draw satisfaction from the fact that they kept their powder dry for six days before reacting to Egyptian military demonstrations.

Prime Minister Rabin fired the first shot in the next round with his statement yesterday that negotiations for an interim agreement will not be concluded "without a face-to-face parley" between Egyptian and Israeli delegations. The negotiations are taking a long time, he said, because of the Egyptians' insistence on dealing through the good offices of the US.

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The Israeli embassy in Washington, worried about the impact of Rabin's statements, has been quick to point out Rabin's remark concerning face-to-face talks was not a demand for new ground rules. Rather, the embassy stated, the remark was a reference to Israeli and Egyptian representatives working out the details of negotiations directly, as they did during the last disengagement.

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PORTUGAL

Reports that a move is under way to restructure the present military regime have been denied by the president's office. The denial may, however, mean only that military leaders want to scotch such rumors until the Revolutionary Council and the Armed Forces General Assembly have a chance to vote on the restructuring plan.

According to earlier reports received by the US embassy from several sources, [redacted] the revamped regime would be headed by an 11-man directorate drawn from the present ruling Revolutionary Council. The directorate—whose members have not been named—would be served by a three-man executive collegium composed of President Costa Gomes, Prime Minister Goncalves, and security chief Otelo de Carvalho.

The collegium, in turn, would be assisted by two vice prime ministers—one civilian and one military man—who would have charge of the day-to-day running of the provisional government. The present Revolutionary Council would be relegated to a pro forma role linked to the directorate.

Such a formula could streamline the present unwieldy governing machinery and, depending on the proposed composition of the 11-man directorate, might be acceptable to a battle-weary majority in the Revolutionary Council.

The reasons for the official denial are not yet clear. The reorganization proposals, which have been widely publicized by the international media, may have triggered an initial unfavorable response among opposition groups, including the Socialists.

A meeting of the General Assembly, which has been postponed several times, was erroneously reported by the Lisbon press as scheduled for yesterday. This apparently was confused with a meeting of the army assembly, which was held yesterday to prepare for a full assembly meeting to be held later. The army assembly reportedly took up the formation of the new government.

Meanwhile, the Socialists have called for a "government of national salvation," which is reminiscent of the "national salvation junta" formed immediately following the coup of April 1974. The Socialists also threatened to expel any party member who agrees to join a government headed by Goncalves.

Although we have seen no serious weakening on the part of the Socialist leadership's resolve to continue the struggle to oust the Prime Minister, party leader Soares' reported concern that he might not be able to retain full control of the

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membership may be borne out. According to sources of the US embassy, four renegade Socialists from the extreme left of the party have reportedly agreed to join the government that Goncalves is still trying to form.

Should the stalemate drag on much longer, there will be the growing risk that right-wing elements will be stirred into acts of violence or ill-planned moves similar to the fiasco last March. Any such attempt would likely serve the Communists in their effort to smear the Socialists' campaign as counterrevolutionary and could provide the government an excuse for another—and perhaps decisive—lurch to the left.

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GREECE

Construction workers and students battled the police yesterday in violent demonstrations in Athens.

The demonstrations followed a meeting called by construction workers to highlight their economic demands. When the police tried to stop the workers, who had been denied a permit to hold a demonstration, they were attacked with clubs and stones. The police used tear gas to disperse the crowds, and some 40 persons were injured. Sporadic disorders are continuing.

Before the military coup in 1967, the construction workers' federation was leftist oriented. Some of its affiliated unions were Communist-dominated and often supplied cadres willing to take to the streets to further the economic and social demands of the workers.

Students and construction workers in October 1973 sparked the violent demonstrations that led to the downfall of the Papadopoulos government.

The present leadership of the federation is court-appointed. These leaders had called off a strike planned for Tuesday, once the government assured them that it would meet most of the workers' demands. A faction of the federation disagreed with that decision, however, and urged the workers to demonstrate.

Perhaps unwilling to give the Karamanlis regime an opportunity to crack down on the left, which the government's moderate and conservative supporters have been urging, the extreme leftist Panhellenic Socialist Movement and the Greek Communist youth organization canceled plans for demonstrations for this evening—the anniversary of Greece's return to civilian rule. Leftist leader Papandreou labeled the violent incidents yesterday the work of "provocateurs," but he also criticized the strong reaction of the police.

Radical students are smarting because of a new university law requiring that all students vote in student elections. The Communists and radical elements have been able to dominate the student unions up until now because the moderate students—who are in the majority—usually have not bothered to vote.

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CYPRUS

The third round of intercommunal talks, scheduled to be held in Vienna today under the auspices of UN Secretary General Waldheim, has been postponed because of developments in the Middle East. The talks will resume on July 31.

In the meantime, the EC Nine on July 21 made a demarche to Greek and Turkish Cypriot leaders, as well as to Athens and Ankara, urging that neither side take any unilateral action that would disrupt the negotiations. The EC specifically asked Turkish Cypriot leader Denktash to renounce the extreme position he had taken the day before, when he threatened to expel five Greek Cypriots from the north for every Turkish Cypriot who was prevented from leaving the south.

Although Denktash defended his position on the expulsions, he later moderated his stand by hinting to reporters that his plan to expel Greeks from the north might be postponed, presumably at least until after the Vienna talks. Denktash also offered the conciliatory comment that he and Greek Cypriot leader Clerides had made further progress toward resolving problems relating to the exchange of certain categories of the population and that he was now ready to carry out his part of the bargain.

The Turks, however, are not disposed to be conciliatory on the use of the now-repaired Nicosia airport. Secretary General Waldheim had hoped to get an agreement in Vienna for the UN Cyprus Force to use the airport immediately.

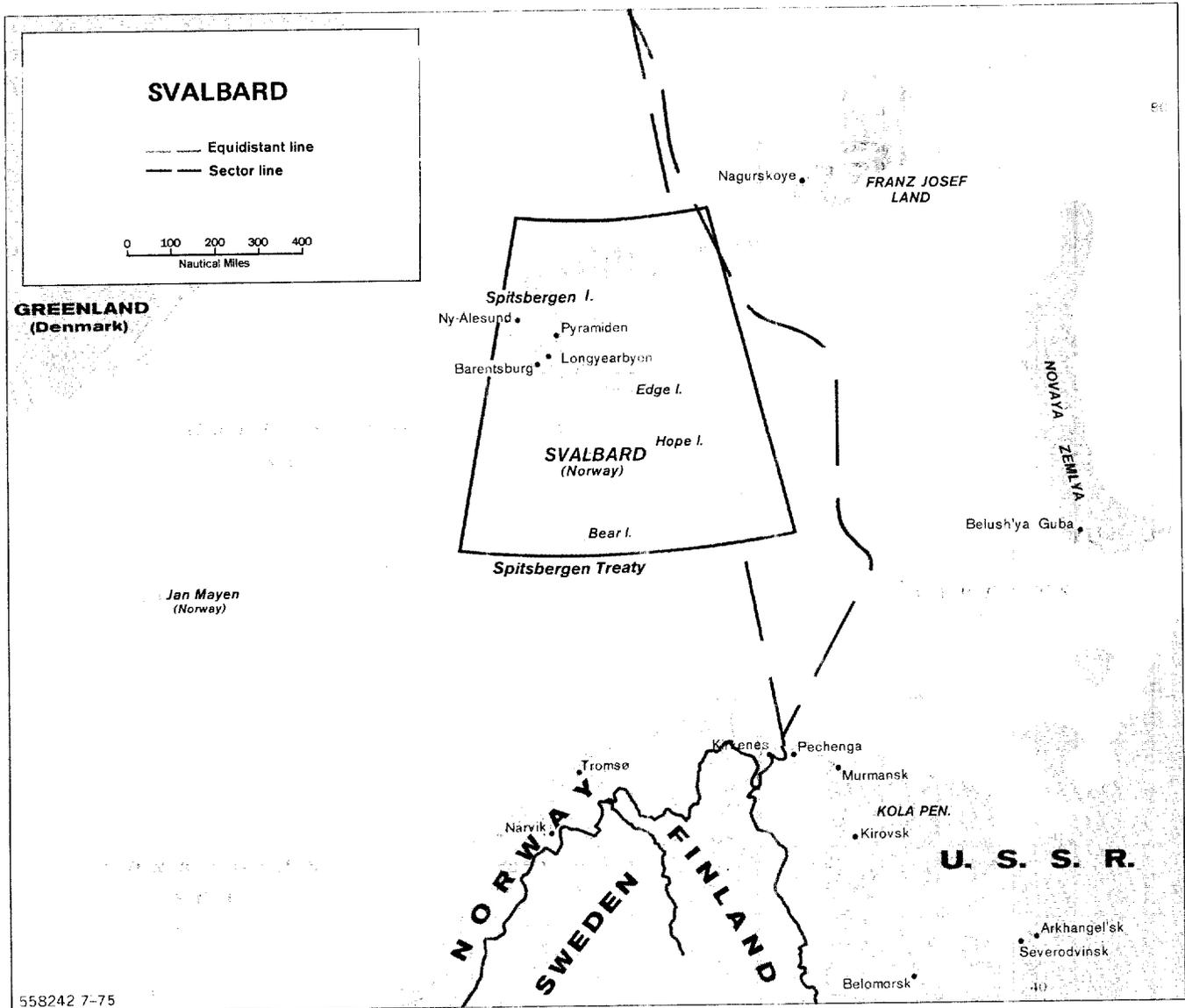
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If the Greek Cypriots refuse Turkish proposals at Vienna, the Turks expect Cypriot President Makarios to take the Cyprus problem to the UN once again. This prospect does not disturb the Turks, however, as they believe that they have rallied sufficient Arab support to ensure a sympathetic hearing for their side.

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NORWAY—USSR

Disagreement over national boundaries in the Barents Sea and administrative problems on Svalbard continue to strain relations between Oslo and Moscow.

The Soviets recently hinted at a package deal to settle the question of dividing the continental shelf in the Barents Sea and solving jurisdictional problems off Svalbard. They have implied that their position may soften if Norway adopts a policy on petroleum exploration and exploitation off northern Norway that accords with Soviet interests.

Norway backs a median or equidistant line to divide the shelf, while the USSR wants a "sector line" giving them more territory. Sporadic talks between the two countries have failed to produce an agreement. A Soviet official recently suggested that both sides should suspend activity in the disputed area pending an accord.

The Soviet community on Svalbard—currently about 2,000—is pressing Norway for "administrative reforms." Although the Norwegians admit that some revision may be necessary, they are concerned that the reforms would infringe on Norway's sovereignty over the area.

The Norwegians are also annoyed that the Soviets have ignored regulations requiring helicopters flying to Svalbard to be licensed. Soviet scientific expeditions have not requested permission to use radio-transmitting equipment. In addition, the Soviets have not complied with Norwegian oil-drilling safety regulations.

Norway's decision to limit to those ambassadors resident in Oslo invitations to the 50th anniversary celebration of the Svalbard treaty on August 14 has irritated Moscow. The Norwegians originally intended to invite each signatory to send two representatives but changed their mind to keep the level of representation equal and to prevent the Soviets from sending a high-level delegation.

The Norwegians have repeatedly insisted that they intend to maintain tight control over exploration and development in the Svalbard Archipelago. The Soviets regard extensive economic activity in the area as a hindrance to their right of free passage to and from their large military bases on the Kola Peninsula. Moscow is particularly apprehensive about the possibility that future oil installations may be used by NATO for military surveillance purposes.

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In addition to the Barents Sea dividing line

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and the Svalbard problem, which Frydenlund pointed to as the greatest potential threats to Norway, the foreign minister listed border problems in the far north and the growth of the Soviet embassy staff in Oslo as factors straining bilateral relations.

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CANADA-USSR

The Canadians plan to close their eastern ports to the Soviet fishing fleet on July 28.

Prime Minister Trudeau's government has for some time been under heavy pressure from the Canadian fishing industry and political leaders in the maritime provinces to stop the overfishing in Canada's North Atlantic waters, especially by the Soviets and Japanese. The Soviets apparently are making "consistent and flagrant" violations of international North Atlantic fisheries agreements. The Canadians presumably chose not to include Japan in the ban at this time because Ottawa wants to improve its economic and political ties with the Japanese as part of an effort to counteract its heavy dependence on the US.

Canada is also investigating the fishing practices of several other countries and has made direct approaches to Spain and Portugal regarding violations.

Soviet fishing fleets operating in Canadian waters had been replenished almost entirely by tankers that came directly from the Soviet Union. Since the latter part of 1974, however, the Soviets have taken greater advantage of the facilities available at Canadian ports.

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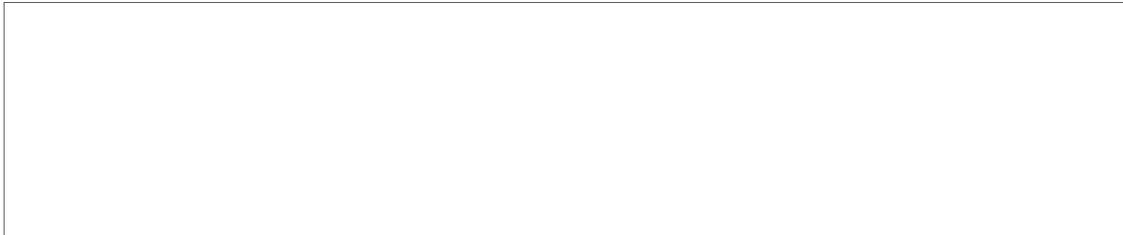
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ARGENTINA

Despite a generally cautious attitude toward overt political involvement in the current political crisis, the armed forces played a direct role in Lopez Rega's exile. Further direct action by the officers—including the ouster of President Peron herself—is possible if she opposes their growing behind-the-scenes role in decision-making.

According to the press, the first direct military intervention in the recent crisis was triggered on July 18, when Interior Minister Benitez was prevented from entering President Peron's residence. Informed of this, the three service chiefs ordered the disarming of all private and personal bodyguards at the President's residence and placed the commander of the presidential guard in charge. Orders were then issued that all cabinet members would henceforth have free access to Mrs. Peron.



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CAMBODIA

Since taking over three months ago, the Khmer communists have not solved Cambodia's serious food problem. Pressure on meager supplies in urban areas was initially relieved by forced migration to the countryside. Although the communists are providing small quantities of food to rural areas, the bulk of the population is being forced to fend for itself.

Total rice stocks available after the fall of Phnom Penh were at most 300,000 tons, enough to feed the country's population for about three months. Imports of 250,000 tons will probably be needed before the fall harvest. Only a fraction of this amount—presumably all from China—has so far been observed entering the country.

Rice stocks in rural areas almost certainly have been reduced sharply. Rice is difficult to move to food-deficit areas because of war-related damage to the country's roads and the lack of fuel and trucks.

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The cessation of hostilities provided an opportunity to improve agricultural output by restoring fallow land to production and employing former refugees and urban dwellers in farm activities. Many of those transferred to rural areas, however, are unfamiliar with agricultural techniques. Supplies of basic farm tools, seeds, and draft animals are inadequate and modern inputs—chemical fertilizers, pesticides, and fuel—also are in short supply.

These factors make it highly unlikely that the harvest this September will exceed last year's level of about 1 million tons of milled rice—some 200,000 tons below domestic needs at current consumption rates. Since per capita consumption rates are already below acceptable levels, the communists have the choice of seeking imports or allowing large numbers of people to starve. There is no evidence to date that they have sought to import sizable quantities of food.

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CHINA

China's summer grain harvest this year increased by a wide margin, according to Chinese press releases, but Peking has stopped short of claiming that output matched the record crop in 1972. Weather data support Peking's assessment.

Although this year's crop was better than the poor summer harvests of 1973 and 1974, there were the usual problem areas. Output was down in most of southern China because of the damp, cool weather that prevailed throughout the spring and early summer. These losses were more than offset by the good harvest of summer grain—primarily wheat—in northern China, an area dependent on grain imports to maintain urban rations. Thus, China is not likely to require additional large quantities of grain imports above the roughly 4 million tons of wheat already booked for delivery this year.

Early rice—also a major early grain—is not yet ready for harvest, and little crop information has been made available by Peking. The poor weather that affected much of southern China earlier in the year, however, has limited plant growth. As a consequence, the early rice harvest is likely to fall short of the exceptionally good crop in 1974.

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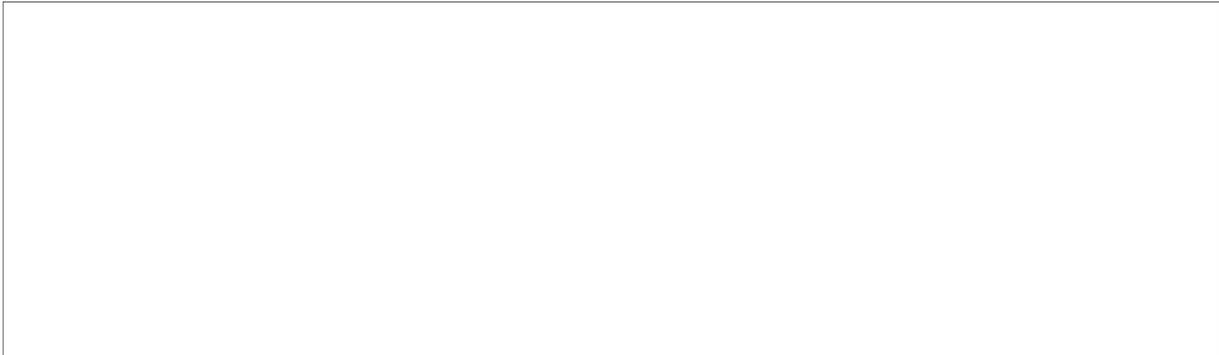
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FOR THE RECORD



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CUBA-PANAMA: The Cuban national airline is inaugurating a regularly scheduled weekly flight between Havana and Panama City today; reciprocal service by a Panamanian airline has not yet been scheduled. Travelers between Cuba and Panama previously had to depend on occasional, specially chartered flights or go via Lima or Mexico City. The new Cuban flight will simplify the shipment of propaganda materials to Panama and the delivery of goods such as electronic and automotive equipment purchased in the Colon Free Zone.



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OAS: The Cuba sanctions issue will probably be addressed by the OAS meeting now in progress in San Jose, Costa Rica. Amendments to the Rio Treaty—the official business of the conference—should be completed within a few days. Mexico then hopes to present a resolution designed to allow OAS members “freedom of action” on relations with Cuba, a proposal most of the delegates wish to approve as soon as possible. A final decision has not yet been made to deal with the Cuba problem at San Jose, but Mexico appears to have the votes to push the matter through. The conference as now constituted is not empowered to handle the issue, but the delegates can “reconvene” as an Organ of Consultation immediately after the current session ends. Although a few governments prefer further delay, the mood at San Jose favors rapid movement.



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