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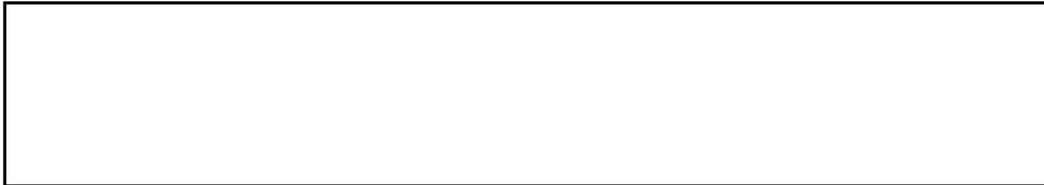


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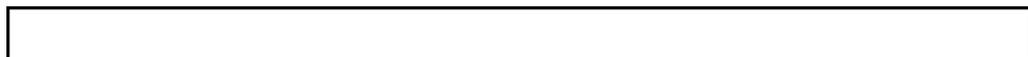


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PORTUGAL

Prime Minister Goncalves still has a mandate to form a government, largely because the President has failed to ask for his resignation, according to the US embassy in Lisbon.

Moderate members of the Revolutionary Council, however, are still engaged in a determined, last-ditch effort to prevent him from remaining in power. Foreign Minister Antunes, a member of the moderate faction, reportedly is prepared to struggle to the end against the Prime Minister and is confident of the outcome.

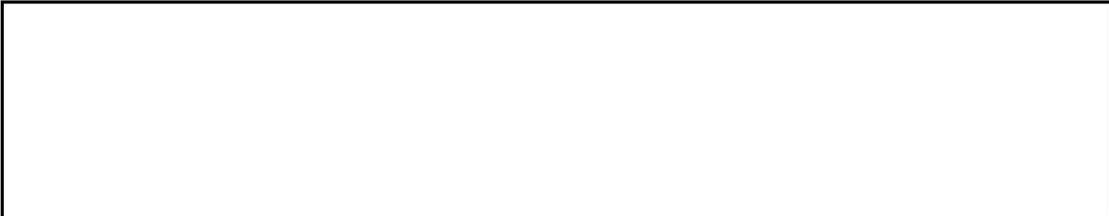
The resolution of Goncalves' fate seems to be between the Revolutionary Council, which reportedly has a strong majority against him, and the Armed Forces General Assembly, in which radical leftists appear to predominate. If the issue comes to a vote in the assembly, Goncalves probably will receive a vote of confidence. If, on the other hand, the council moderates prevent a meeting of the assembly—which has already been postponed twice—their efforts to get rid of the Prime Minister may still succeed.

Contributing to the uncertainty is President Costa Gomes himself. Although he has decided to allow Goncalves to try to form a cabinet,

the President may think Goncalves will still fail to form a government—or that if he succeeds, he will later be brought down as a result of the country's accumulating problems.

If Goncalves' power and influence are perpetuated in the proposed new government framework, it would be interpreted in the country to mean a significant consolidation of Communist power. There are good prospects for a strong reaction, however, from those forces in Lisbon attempting to prevent a continuing move to the left. Reaction among the Socialists and in the volatile north could be violent.

The moderates' hopes of unseating Goncalves were buoyed earlier this week by a 56-1 vote against him in the infantry caucus which preceded an army assembly meeting.



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In the past few days, allegations of US support of or involvement in the autonomy and separatist movement in Azores have obviously become a more important factor in the maneuvering in Lisbon. In a conversation with the US defense attache earlier this week, for example, a member of the President's household staff expressed the view that without the Azores, Portugal was of little consequence to the US. But for the Azores, he added, the US might be willing to let Portugal go Communist in order "to vaccinate Europe" as a whole.

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JAPAN - SOUTH KOREA

Japanese Foreign Minister Miyazawa's two-day trip to Seoul this week—in doubt until the last moment—helped clear the troubled atmosphere surrounding bilateral relations.

As a price for Miyazawa's trip, Tokyo had insisted that Seoul produce a verbal note regarding the kidnaping of Kim Tae-chung by the South Korean CIA in Tokyo two years ago—an event that stirred considerable resentment of the Pak regime in Japan. At the last moment Seoul complied, while in return asking for future reports on Tokyo's efforts to control pro - North Korean activities in Japan.

While in Seoul, Miyazawa indicated that the Kim Tae-chung affair was closed as far as Tokyo was concerned. He also agreed to hold a formal ministerial meeting with South Korea in September. Held up over a year and a half by the Kim incident, this conference had taken on considerable symbolic importance for Seoul; it should also help resolve a number of bilateral issues, including economic aid for South Korea.

South Korean officials, aware that Miyazawa and Prime Minister Miki will be discussing Korea in Washington next month, pressed their views on a wide range of issues. President Pak strongly emphasized the need for trilateral US-Japanese-Korean cooperation. Recognizing that more of a Japanese defense effort was not possible, he urged closer political cooperation, to which Miyazawa agreed in principle.

More specifically, the South Koreans pressed the Japanese very hard for support of South Korean membership in the UN; Seoul is considering making its application next month, when Tokyo will be chairing the Security Council. The South Koreans also urged Tokyo to back a UN strategy tacitly linking the applications of the two Vietnams with the two Koreas.

Despite the improved tone in relations, sources of friction remain. Tokyo has yet to make a current definitive statement on the linkage between Japanese and South Korean security. Seoul will also continue to be sensitive about any increase in economic and unofficial links between Tokyo and Pyongyang.

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THAILAND-PHILIPPINES

The recently concluded talks between Prime Minister Khukrit and President Marcos indicated that both leaders desire a continued US role in Southeast Asia and greater regional cooperation. In the joint communique marking the end of Khukrit's four-day visit, the two sides took note of the changed political situation in the area. They agreed, among other things, that:

- "foreign" military bases in the region were "temporary in character";
- the major powers should contribute in a more positive way to the development of the region;
- the SEATO organization, as opposed to the treaty itself, should "in principle" be phased out;
- they were prepared to work with the countries of Indochina in helping with their national development;
- the time had come to take steps toward regional economic integration, including establishment of a free-trade area;
- there should be an enlargement of cooperation among states in the region, regardless of their differences, and ASEAN should be the foundation for such cooperation.



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THAILAND-LAOS

Tensions are increasing between Bangkok and the Pathet Lao - dominated government in Vientiane.

A major irritant is the presence of several thousand former Royalist Army and government personnel in Thailand, including some of General Vang Pao's irregular forces. The Pathet Lao apparently are convinced that these personnel are preparing, with Thai government support, to launch an attack to overthrow the communist-dominated government.

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At the same time, the Thai have increased their vigilance along the border [Redacted]

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[Redacted] Although the likelihood of a major confrontation appears remote at this time, tensions have increased somewhat and several clashes involving Pathet Lao troops and Thai river patrol boats have been reported.

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The Lao ambassador to Thailand was recalled on July 22, apparently for consultations regarding recent border tensions and other problems.

Despite the squabbling, the Lao communists have continued to express a desire to maintain good relations with Thailand and probably will attempt to work out some sort of accommodation. Moreover, recent statements by Lao Prime Minister Souvanna Phouma suggest that normalization of relations between Bangkok and Peking has lessened his fears of Thai support for any incursion by Laotian forces in exile. [Redacted]

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CHILE

The Chilean government is undertaking a broad diplomatic offensive to improve its international standing.

By sponsoring a wide variety of visits of foreign officials and groups and by dispatching missions abroad on trade and good-will trips, the Foreign Ministry evidently hopes to cement ties with other nations, particularly in the Third World. The primary purpose is to curry support in various regional and world forums, where Chile has come under increasing criticism for its conduct in the field of human rights, especially since President Pinochet's recent refusal to allow the visit of a UN human rights investigating team.

The strongest bid will be in the Middle East and Africa, where Chilean envoys are planning extensive good-will tours. An Egyptian mission concluded a successful stay in Chile earlier this month. In Africa, Santiago hopes to open diplomatic establishments in capitals where it does not have them.

To counter what the government charges is an "international Marxist-Leninist propaganda campaign" against it, Santiago is seizing every opportunity to induce foreign delegations to visit and observe for themselves whether there is repression against dissidents. US and West German legislators are being encouraged to travel to Chile, and an invitation has been extended to Aleksandr Solzhenitsyn—presumably to attract international attention to the junta's virulent anti-Soviet line.

Among other diplomatic efforts, Santiago is offering to host the sixth OAS General Assembly, a session of the Special Latin American Coordinating Commission, and the second meeting of Latin American arms limitation talks.

Uruguayan President Bordaberry is expected in Santiago this fall, and Pinochet will probably follow up any other chances to demonstrate solidarity with leaders of other nations.

The best that Santiago can hope for is to make a few advances in strengthening ties with the underdeveloped world. Unless the Chilean regime relaxes its authoritarian rule and curbs the more flagrant abuses of human rights, it will remain ostracized by the major nations and will have increasing difficulty altering its image as an outcast.

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ARGENTINA

Doctors have confined President Peron to her bed. This has touched off a new round of speculation that she will request a leave of absence, possibly for as long as two months.

She has recently been absent from her office a number of times with what press aides have described as the flu. She is reported to be suffering from a severe case of nerves and to be under frequent heavy sedation by her doctor.

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A number of congressmen had demanded an official explanation of President Peron's physical condition. The pressure for an explanation of her health stems from a desire by the administration's detractors—evermore numerous—to force her to choose either to assume the duties of office in earnest or hand them over. A resignation for reasons of health might be the least painful way for all concerned to put an end to an untenable situation.

The latest object, meanwhile, of the purge of Lopez Rega's supporters is Chamber of Deputies president Raul Lastiri, number-two man in the Peronist party and a relative of Lopez Rega, who was asked to resign his congressional posts. Lastiri said yesterday that he may ask for a two-month leave of absence.

Labor earlier had declared its intention to seek a restructuring of the Peronist movement, including selection of new leaders. Party politicians, anxious to avoid a complete labor take-over and equally interested in ridding the country of Lopez Rega's influence, joined in the effort against Lastiri.

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For the moment, the various groups ranged against the President still seem to favor pressing her to resign, or to become a figurehead, rather than assume the onus for her forcible removal.

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ITALY

Italy's Christian Democrats are finding it much harder to settle on a successor to Amintore Fanfani than it was to reach agreement on his ouster. The party feud over how to replace him is putting a strain on Prime Minister Moro's fragile governing coalition.

Fanfani's fall was engineered through an agreement by centrist and leftist factions to vote against him at the national council meeting on Tuesday. A split has now developed between the left wingers and the party's largest centrist faction over who should succeed him.

The centrist faction, which represents about a third of the party, is threatening to bring down Moro's government by pulling out of his cabinet unless a faction member gets the party leadership. Their candidate, Flaminio Piccoli, is unacceptable to the 20 percent of the party represented by the left wingers. Piccoli has a reputation as a conservative, but he has been courting the party's left wing since Fanfani's power base began to unravel. The left has recently had complimentary things to say about Piccoli, perhaps as a ploy to ensure cooperation from the centrists in getting rid of Fanfani.

The left wingers say they want Moro as party leader. Moro would not have to give up the prime minister's post to accept the party job, but he would have to reach an accommodation with the center faction in order to accomplish much. He still seems to favor "collegial" leadership until the party congress in the fall.

The Socialist Party refuses to join a center-left coalition until the Christian Democrats shift their policies leftward. De Martino and other Socialist leaders began at a central committee meeting yesterday to review their strategy. They will not decide on their next moves until the Christian Democrats choose a new leader, but De Martino has reiterated his call for an arrangement that would enable the Communists to have some formalized say in government policy-making.

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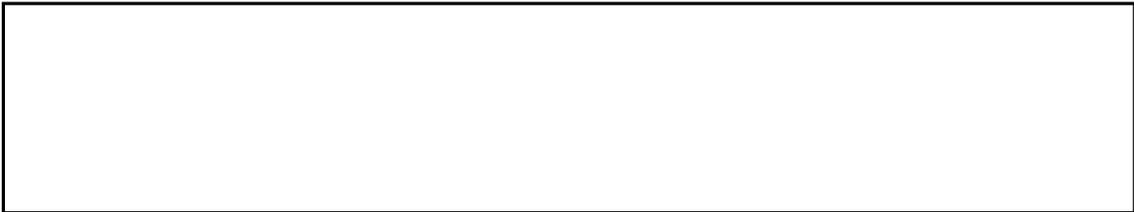
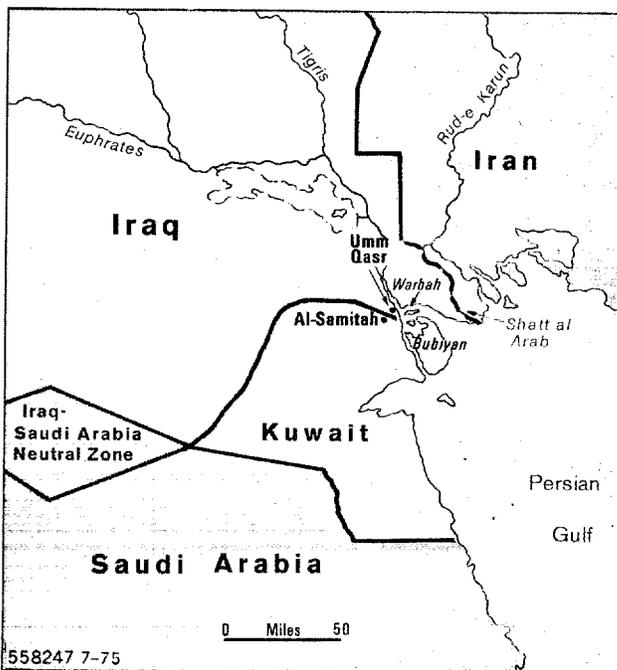
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IRAQ-KUWAIT

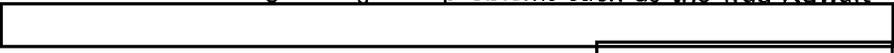
The Iraq-Kuwait border dispute remains deadlocked, despite mediation efforts by other Arab countries over the past few months. The Kuwaitis are complaining about what they see as Baghdad's intransigence, and they are not hopeful about prospects for an early settlement.

There were indications in May that the good offices of Egyptian President Sadat and Algerian President Boumediene had succeeded in moving the two sides toward a compromise on the central issue in the quarrel: Baghdad's demand for control of Warbah and Bubiyan, two Kuwaiti islands that flank the approaches to Iraq's Persian Gulf port of Umm Qasr. In a token gesture of conciliation, the two sides pulled back ground units from positions they held near Al-Samitah, a Kuwaiti border post seized by Iraq in March 1973. Iraqi forces, nevertheless, continue to occupy a small strip of Kuwaiti territory.

Since May it has become clear that Baghdad and Kuwait are still far apart over the disposition of the two islands. The Kuwaitis claim that each of their concessions during the fitful course of negotiations has been met with a further Iraqi demand.



Arab mediators would appear to face an uphill battle in breaking the impasse. Last month, Kuwaiti Foreign Minister Sabah publicly aired the squabble with Iraq by laying the blame for the deadlock on Baghdad's "adamant" position. More recently, Sabah, alluding to the Gulf states foreign ministers' recent talks in Jidda on regional security, told the US ambassador that the littoral states could more profitably spend their time working on regional problems such as the Iraq-Kuwait border dispute.



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ANNEX**West German Armaments Industry**

The recent debate by Belgium, Denmark, Norway, and the Netherlands over whether to buy a US or a European fighter aircraft once again focused attention on the prospects for a joint West European defense industry and the French role in it. A healthy West European defense industry cannot be developed, however, without involving West Germany, a leading proponent of joint defense undertakings.

Bonn views joint defense projects as a way to save money, to standardize weapons, and to promote European and Atlantic cooperation. Most of its armaments projects already are cooperative international undertakings. Since the end of World War II, Bonn has carefully avoided developing a strictly West German, government-owned arms industry. In fact, despite the failure of several joint projects, Bonn encourages companies to develop major arms projects in conjunction with its allies.

West Germany places stringent controls on arms exports. All arms shipments abroad must have specific government approval. In practice, this has limited sales of major weapons largely to NATO members. These controls could be a problem when partners want to export jointly produced items. The French already are eager to export—particularly to the Middle East—several of the items they produce in cooperation with West Germany.

Up From the Ashes

The postwar reconstitution of the West German arms industry began in the 1950s and involved maintaining and renovating equipment provided by the US, UK, France, Italy, Belgium, and Turkey. Then, from the end of the 1950s to the mid-1960s, the West Germans produced foreign-designed equipment under license. The aircraft industry led the way with the production of airframes and engines for planes designed in France, Italy, and the US. This kind of production under license still accounts for the majority of military aircraft produced in Germany.

In the 1960s, the West Germans began to develop and produce arms jointly with the US, France, and Italy. These joint projects resulted in a few successful products, but there were also several spectacular failures. The most recent successful joint project—with France—was the Roland mobile surface-to-air missile system. The US decision to buy the system is viewed by some West Europeans as proof that joint arms development in Europe can work.

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Also in the 1960s, the West Germans began developing their own weapons systems for the Bundeswehr. Two examples are the Leopard battle tank and the gun-and-missile-armed tank destroyer.

Joint Aircraft Projects

The joint German-British-Italian multirole combat aircraft is Western Europe's most ambitious—and extensive—military aircraft project ever. Assembly lines for the aircraft are to be established in all three countries, with West Germany's largest aerospace company, Messerschmitt-Bolkow-Blohm, doing about 40 percent of the work. The Germans will produce the fuselage center sections, main landing gear, air intake ducting, and gear boxes.

Canada, Australia, and Japan have officially discussed buying the aircraft, but lingering problems with the engine have delayed a final decision to go ahead with the plane.

Another joint aircraft project joins the West German firm Dornier with France's Dassault-Breguet to produce the Alpha Jet. The Germans want the aircraft primarily as a light tactical support weapon, and the French will use it as a trainer. There will be two final assembly lines—one in each country—but Dornier will build all wings and rear fuselages. The French would like to export it, ostensibly as a trainer, but the plane can easily be equipped as a tactical support aircraft. This might bring into play Bonn's export restrictions.

Tactical Missile

The West German tactical missile industry is small. Only one firm, Bolkow, has experience in the design, development, and production of missiles. One of its products, the Cobra, an antitank missile first produced in 1958 in cooperation with the Swiss, has been successful. More than 150,000 Cobras have been built, with production licensed in Brazil, Italy, Pakistan, and Turkey. Bolkow has designed an updated version of the Cobra, but none has been produced.

The West Germans are now pursuing several joint tactical missile projects with the French. One tactical missile, the Milan, is being issued to the Bundeswehr's antitank units. The missile is assembled by the French company Aerospatiale; Messerschmitt supplies many of its parts. Besides the French and Germans, eight other countries have ordered the system, and the production rate is 1,000 missiles a month; some 200,000 will be built.

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Another missile jointly developed with the French, the Hot, is expected to go into production by mid-1976. Like the Milan, the components will be supplied by Germany and the missile will be assembled in France. France and Germany will buy about 27,000 of the missiles. Two other countries have ordered the system for their helicopters and armored cars.

The Kormoran antiship missile is being developed for the German navy's F-104G fighter-bomber. The missile can be fired by aircraft from altitudes below radar detection. The navy has ordered 350 of the missiles. The system may also be used on the multirole combat aircraft. The Germans have discussed developing another antiship missile with the British Aircraft Corporation.

Naval Shipbuilding

Bonn in 1966 set up a private company—Marinetechnik Planungsgesellschaft—as a central design bureau for surface warships. The company has worked on some 50 different projects, including the S-143 large guided-missile boat.

German fast patrol boats either have been or will be sold to Argentina, Spain, Turkey, and Ecuador. Bonn has also licensed production of various types of fast patrol boats in Spain, Turkey, Sweden, Denmark, France, and Singapore.

A relatively new aspect of Marinetechnik's activities is increased cooperation with NATO working groups on multinational projects. The company has cooperated in designing a NATO hydrofoil and is participating in the development of a new frigate for NATO.

In the 1960s, the West Germans began to build small coastal defense submarines armed with torpedoes; they built three different types of submarines—types 205, 206, and 207—ranging from 350 to 500 tons. A larger submarine of about 1,000-ton displacement—the Type 209—also was developed during the late 1960s. Germany has sold Type 209 submarines to Greece, Turkey, Argentina, Peru, Colombia, Ecuador, and Venezuela; negotiations are under way for sales to Iran, Greece, and Argentina. Another German company is designing a new series of 850-ton submarines for the Norwegian and German navies.

Army Materiel

West Germany is self-sufficient in small arms and ammunition up to 40-mm.; it could, but does not now, produce its own larger caliber artillery ammunition as well.

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Armored vehicle production is concentrated on two families of vehicles. One is based on the medium-tank chassis and includes the Leopard tank, a tank-recovery vehicle, a combat-engineer vehicle, a bridge-laying vehicle, and the Gepard anti-aircraft system. The second series, built on a 90-mm.-tank-destroyer chassis, includes the Roland antitank missile system and the Marder armored personnel carrier.

The Leopard is one of the most effective tanks in the world. It has exceptional mobility, a powerful and accurate gun, reliable components, and is easy to maintain and operate. In addition to the Bundeswehr, it has been purchased by Belgium, Denmark, Italy, Norway, Australia, and the Netherlands. Exports would expand rapidly if weapons deals did not require Bonn's approval. The Shah of Iran, for example, tried unsuccessfully in 1969 to purchase 1,000 Leopards.

West German companies produce a wide range of military communications and electronic gear, including sophisticated fire-control systems. Well over 100,000 domestically produced military vehicles—ranging from a quarter-ton jeep to an 80-ton prime mover—have been supplied to the Bundeswehr. Some 120,000 advanced transport vehicles are being built for West Germany's defense forces and will keep these forces mobile into the 1980s.

West Germany also turns out all types of military engineer equipment: quartermaster and medical supplies; optical, infrared, and photographic equipment; mines; and defensive chemical and biological warfare products.

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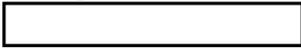
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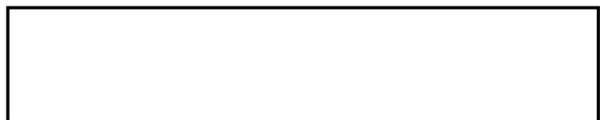
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