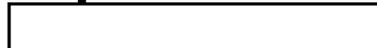


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National Intelligence Bulletin

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December 8, 1975



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National Intelligence Bulletin

December 8, 1975

CONTENTS

PORTUGUESE TIMOR: Indonesian troops capture Timor capital 1

PORTUGAL: Communist participation in government 2

LEBANON: New round of fighting feared 3

UK: London still plans selective import 4

FRANCE: Fourth ballistic missile submarine ready for sea trials 5

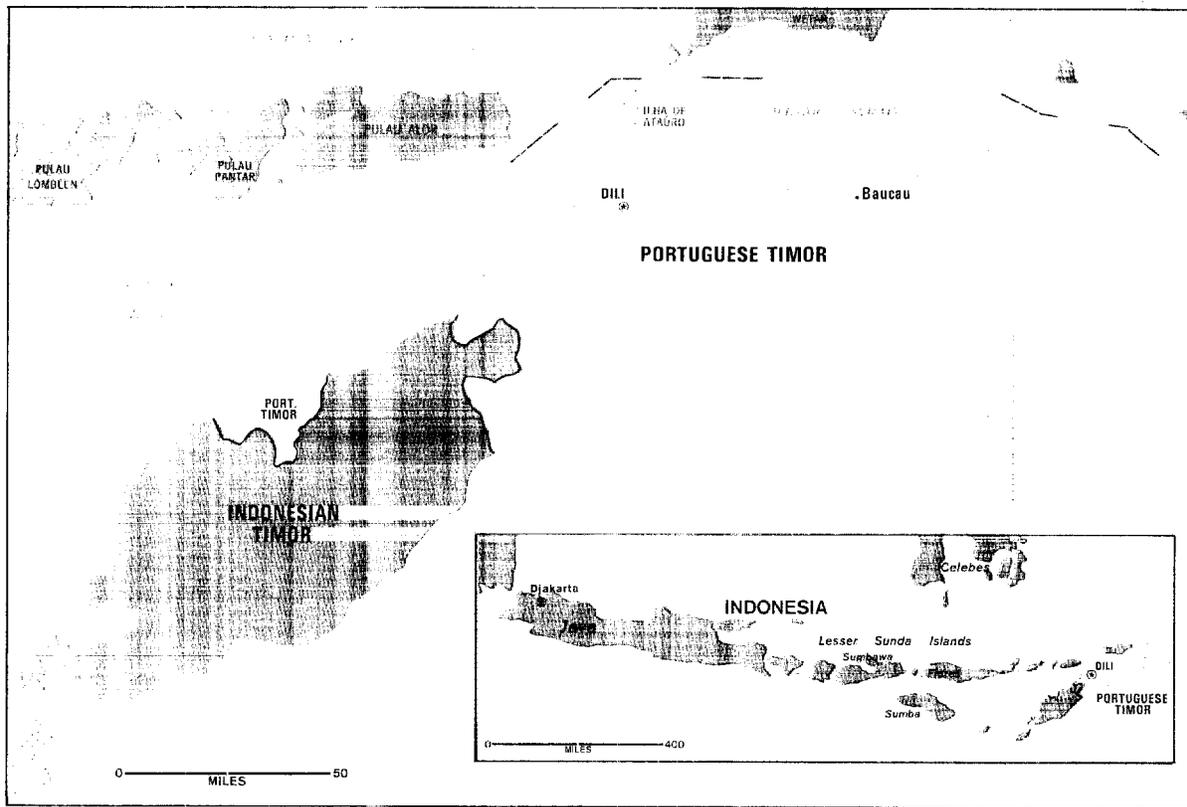
EUROPEAN COMMUNITY: Discussion of monetary reform 6

INTERNATIONAL TRADE: EC-US differences over agriculture 7

EGYPT-POLAND: Large Egyptian order of T-55 tanks 8

ALGERIA-MOROCCO: Maneuvering over Spanish Sahara 9





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National Intelligence Bulletin

December 8, 1975

PORTUGUESE TIMOR

Indonesian troops have captured Dili, the capital of Portuguese Timor.

Yesterday, Indonesian marines and airborne troops equipped with US weapons mounted a full-scale attack against the city following a naval bombardment. The units met little Fretilin resistance.

[Redacted]

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In anticipation of the fall of the capital, the Fretilin weeks ago had begun moving large quantities of supplies and ammunition into the mountains, from which they plan to wage guerrilla war against the Indonesians.

[Redacted]

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Indonesia, meanwhile, is attempting to portray its actions in the best possible light. Foreign Minister Malik, for example, told reporters yesterday that Indonesian "volunteers" had indeed landed in Timor, but only after Dili had fallen to indigenous anti-Fretilin forces and only in response to a request from these forces for assistance in restoring security. He denied that Indonesian forces were involved in heavy fighting, or that they had shelled or carried out air attacks against the capital.

Malik also indicated that a delegation representing the four pro-Indonesian parties on Timor would soon depart for the UN to lobby for approval of the integration of East Timor into Indonesia.

Lisbon has broken relations with Jakarta and will ask the UN Security Council to order Indonesia to cease military operations.

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National Intelligence Bulletin

December 8, 1975

PORTUGAL

Portugal's centrist Popular Democratic Party has dropped its inflexible stand against Communist participation in the government, averting a showdown over the issue.

At a national congress held over the weekend, Popular Democratic delegates voted to allow the party to continue to participate with the Communists in the present government under certain conditions. Many of the conditions either have already been met or could be met by the government without extreme difficulty.

Popular Democratic leaders, after extensive debate, backed away from a conflict with the Antunes faction and the Socialists over the Communist issue. The final resolution may have been a compromise to avoid splitting the conservative and leftist wings of the party. Party Secretary General Francisco Sa Carneiro had been calling for the ouster of the Communists for weeks because of their efforts to undermine the government.

Such calls intensified in the wake of the coup attempt on November 25-26, which both the Popular Democrats and the Socialists blamed on the Communists.

Communist Party leader Alvaro Cunhal, meanwhile, told 20,000 supporters in Lisbon yesterday that the party had not withdrawn from the government because that would only strengthen the right. He said a new threat from the right must now be overcome by changing the policies of the Socialists and the ruling faction in the Armed Forces Movement.

Cunhal told the Communist rally—the first since the coup attempt—that the rebellion had been “disastrous,” and he placed the blame on the far left. He said a bloody rout of the workers had been narrowly avoided when the Communist Party failed to support the uprising. [redacted]

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National Intelligence Bulletin

December 8, 1975

LEBANON

Security in Beirut deteriorated over the weekend, despite efforts by leaders of the major combatants to forestall heavy fighting.

Commercial activity, which had gradually been increasing since the latest cease-fire, has halted as a result of a new wave of kidnappings and gunfights in the downtown area. Many Lebanese fear that the end-of-the-month "pay day" truce is over and that radical elements have sufficiently rearmed themselves for another round of fighting.

The flare-up appears to have been caused by radical elements of both Christian and Muslim groups seeking revenge on one another. One incident involving a kidnaping in the hotel district led to the wounding of two Soviet diplomats. Interior Minister Shamun, Lebanon's most powerful Christian leader, has condemned both sides and imposed what amounts to a 24-hour curfew on the city.

Prime Minister Karami's recent admission that he is having difficulty broadening his government has scotched hopes that a new cabinet slate would be announced by the end of the week and has generally dampened public confidence that an effective government can be put together at all. Christian politicians are apparently arguing that security must be restored before Karami can take any new initiatives, while leftist leaders are demanding that their reform proposals be accepted prior to formation of a new cabinet.

Although much of this talk is part of the bargaining progress, Shamun and Socialist leader Jumblatt have not given much indication of softening their positions. Karami will have to work out an understanding between these two adversaries if an expanded cabinet is to succeed.

Talks between Phalanges leader Jumayyil and Syrian President Asad over the weekend may have smoothed the way for greater cooperation from the Christian Phalangists. Jumayyil has been relatively flexible in recent weeks, and is thought to be prepared to consider granting limited economic and political concessions to the Muslims. [redacted]

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National Intelligence Bulletin

December 8, 1975

UK

The British government apparently still intends to impose selective import controls. The final decision on how extensive they will be, however, may have been held up because of negative international reaction.

Michael Foot, secretary of state for employment in the Labor government, has told labor attaches of the Western embassies in London that he supports the import controls and that he expects the government to announce them before the end of the month.

Foot indicated that selective controls would be part of a "Christmas package" of measures intended to increase employment. Other measures probably will include subsidies, designed to create new jobs for young workers, and retraining schemes.

Although unemployment is not expected to peak until next year, the government may expect that the package would at least offset Chrysler's closing of its UK operations. Foot claimed that a complete shutdown would directly or indirectly affect the jobs of 50,000 workers. He declined to comment on the status of negotiations with Chrysler.

Foot's deputy indicated that the primary target of controls would be textiles from Hong Kong and Taiwan and clothing from Eastern Europe. Second- and third-priority targets would be television tubes and automobiles from Japan. Such priorities suggest that London wants to avoid quarrels with either its EC partners or the US.

The government has warned the EC of the possibility of controls, Foot stated, adding that he expected no hostile reaction from that quarter. Several EC countries, however—West Germany, most recently—have told the British that they oppose selective controls. The subject was not on the agenda of the EC summit meeting in Rome, but it may have been discussed in the corridors.

Foot justifies his support of import controls by claiming that they are necessary to save jobs and retain vital trade union support for the Wilson government. He believes that the most difficult periods for the government will be when unemployment peaks and when the unions decide next summer how to react to phase two of Labor's anti-inflation program.

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National Intelligence Bulletin

December 8, 1975

FRANCE

France's fourth ballistic missile submarine, the Indomptable, is ready to begin sea trials. According to the US defense attache in Paris, the initial tests of the nuclear-powered submarine will be conducted in the coastal waters off Cherbourg.

At the current rate of progress, the Indomptable should be ready to join the fleet in early 1977. It probably will be France's first submarine to carry a full load of sixteen M-20 missiles, which have a range of about 1,600 nautical miles and are armed with one-megaton thermonuclear warheads.

France currently plans to build six or seven ballistic missile submarines. Three already are operational, and the rest should be in service by the mid-1980s unless the budgetary squeeze forces Paris to slow development.

The defense attache also reported that the prototype reactor for France's first nuclear-powered attack submarine went critical in late November. The reactor now will be studied by naval propulsion specialists for its suitability in the planned class of 2,500-ton nuclear attack submarines.

Construction of the first submarine of this class has been delayed as a result of budget cuts already made. Consequently, the first of these boats now will not be operational until well into the 1980s.

Long-range plans still call for two squadrons of nuclear attack submarines in the 1980s. These probably will replace, rather than augment, some of the older, conventionally powered boats.

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National Intelligence Bulletin

December 8, 1975

EUROPEAN COMMUNITY

The EC's Monetary Committee on November 28 discussed monetary reform issues, including the French-US accord at Rambouillet. There was general agreement over the handling of International Monetary Fund gold sales, but several committee members had reservations over specific points of the compromise reached at Rambouillet on exchange-rate practices.

The Monetary Committee agreed that two parts of the gold accord—the sale of IMF gold to aid less developed countries and the return of some IMF gold to members—should be implemented simultaneously and as soon as possible. The UK representative suggested, however, that the IMF ought to attempt to proceed with the sales to aid less developed countries if the US Congress insists on debating the gold restitution question.

Several members questioned portions of the US-French exchange-rate accord. Some were concerned that the agreement does not offer specific guidelines for intervention by central banks to prevent erratic movements in exchange rates. The understanding which now is in effect—and which would presumably be superseded by the new accord—calls for intervention to prevent day-to-day movements in excess of 1 percent.

Some members were also concerned that the proposed inclusion of Finance Ministry officials in discussions on intervention practices would jeopardize the independence of central banks in some countries. The EC Monetary Committee is composed of Community central bankers. Committee members favored the expansion of current short-term credit arrangements to accommodate intervention under the proposed accord.

Several Monetary Committee members objected to the proposed wording of new IMF articles covering exchange-rate practices. Some felt that under the proposed rules, the IMF would find it difficult to prevent countries from following undisciplined exchange-rate policies. Others thought that the proposed rules were too strict and would hinder the right of countries to adopt independent practices.

All members agreed that the IMF oil facility, due to expire early next year after two years of operation, should be continued. The Committee was unable, however, to agree on other methods of expanding member access to IMF resources.

The EC Council of Finance Ministers will meet on December 15 to discuss further the Community's stance on monetary reform, in preparation for international discussions later this month and in January. The most difficult problem will be to find wording for the IMF articles on exchange rates that can accommodate those countries, such as the UK and Italy, which want to continue floating their currencies without external pressure and those, such as France, which want the IMF to have a greater say in dictating exchange-rate practices.

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National Intelligence Bulletin

December 8, 1975

INTERNATIONAL TRADE

Differences between the EC and the US over agriculture are complicating the multilateral trade negotiations in Geneva. The long-standing clash between the US desire for increased market access for agricultural exports and the EC's refusal to negotiate fundamental tenets of its Common Agricultural Policy is at the root of the problem.

The handling of the agriculture talks has been a sticking point since the start of the trade negotiations. The EC has insisted that agriculture be discussed separately; the US has favored its integration into the overall negotiations.

The trade negotiations have so far proceeded because of a series of compromises that papered over fundamental differences. The latest compromise, which provides for "collaboration" between the Agriculture Group and other negotiating groups, is proving unworkable. Paris opposes this procedure, and since the EC must act with unanimity, implementation has been blocked.

EC members and the EC Commission have been meeting frequently to attempt to break the impasse.

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The agricultural impasse is affecting other areas of the trade negotiations. Negotiations on quantitative restrictions, which specify the quantity of a product that may be imported, were initiated last summer, but several countries, primarily the EC, refused to discuss agricultural restrictions outside of the Agriculture Group.

Problems will also arise when tariff cutting is discussed. France reportedly will insist that agricultural tariffs be negotiated solely in the Agriculture Group. Further, Paris is likely to propose that negotiations for agricultural products be held on a case-by-case basis. Agricultural exporting countries such as the US, Canada, and Australia want a general tariff reduction that applies to agricultural as well as industrial goods.

Paris is by far the most intransigent member in the agriculture dispute. France profits handsomely from the EC's Common Agricultural Policy and is unwilling to see its benefits diluted by the trade negotiations. France also perceives an attack on the Common Agricultural Policy by other EC members. The UK has long opposed high food prices, and West Germany is irritated with the cost of supporting Community farmers.

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National Intelligence Bulletin

December 8, 1975

With its politically powerful farm bloc closely watching the negotiations, Paris is even more unlikely to compromise in Geneva while aspects of the Common Agricultural Policy are under fire in Brussels.

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EGYPT-POLAND

Egypt has ordered 150 T-55 tanks from Poland, according to [Redacted] the US defense attache in Cairo. The \$30 million agreement—Cairo's largest military purchase from a communist supplier this year and the largest ever concluded with Poland—calls for payment in hard currency. Previous accords with Poland, valued at less than \$15 million, included ground force equipment, tanks, machine guns, and support material.

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Egypt, with its large inventory of Soviet equipment, has no practical alternative to Soviet and East European suppliers for replacement equipment and spares, although Cairo is increasing its contacts with Western arms suppliers. The Egyptians now have about 2,200 medium tanks in their inventory, about the same number as during the October 1973 war.

The Polish-made tanks probably will be used to replace some of the tanks in Egyptian armor units. They are unlikely to be used for new armor units. Although 150 tanks would be adequate to establish nearly five tank battalions, new units also would require support equipment, trained crews, and maintenance personnel and materials which we believe are in short supply in Egypt.

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[Redacted] the T-55s are new tanks, rather than used ones being removed from the Polish inventories as the Poles receive T-62 tanks from the USSR. [Redacted] the agreement undoubtedly had the concurrence of the Soviet Union. [Redacted]

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National Intelligence Bulletin

December 8, 1975

ALGERIA-MOROCCO

Algeria is following developments in the Spanish Sahara closely, especially Moroccan activity, and is expected to increase support for its favored independence movement—the Polisario Front.

Direct Algerian involvement, including the use of military forces either in the Spanish Sahara or against Morocco, is not expected. Nevertheless, Algerian military forces have been improving their posture along the border with Morocco, probably for defensive purposes and to divert Moroccan forces from their efforts to secure northern Spanish Sahara.

In the decolonization process, Morocco has augmented its forces in the south and its units in the northern portion of Spanish Sahara. These forces are being harassed by Algerian-supported guerrillas. Such activity will most likely intensify after Spain withdraws. The likelihood of Moroccan forces engaging in "hot pursuit" missions against the guerrillas based in the Tindouf area of western Algeria will increase. Under these circumstances, escalation is certain.

Any Algerian military actions, however, would most likely be confined to the Spanish Saharan - Algerian border area. In addition, poor logistics and difficult terrain would limit military advances by either side.

A reported build-up of Algerian forces in the Tindouf area has not been confirmed, although some increase has no doubt taken place. A few MIG-15s have been flown in, but their ability to support military operations is questionable. There is no significant local base support for extended ground or air operations, and the supply line to northern Algeria extends for more than 800 miles over a single road through desolate, uninhabited Saharan wasteland. Furthermore, the strong logistics build-up required for offensive operations has not been detected.

The Algerian leadership will most likely opt for increasing its logistics and training support to the Polisario. The guerrillas are provided arms and equipment by the Algerian army, and training is being conducted by army personnel in the Tindouf area. An important element of support is the continuous and immediate access to a secure sanctuary in Algerian territory.

President Boumediene's fundamental motive is to oppose the increase in Morocco's prestige and economic potential that sovereignty over Spanish Sahara would afford. The Algerian President does not want to provoke a military confrontation with Morocco over this issue. Nevertheless, he wants to be prepared for any contingencies and to discourage Moroccan attempts to pursue Polisario forces into Algerian territory.

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