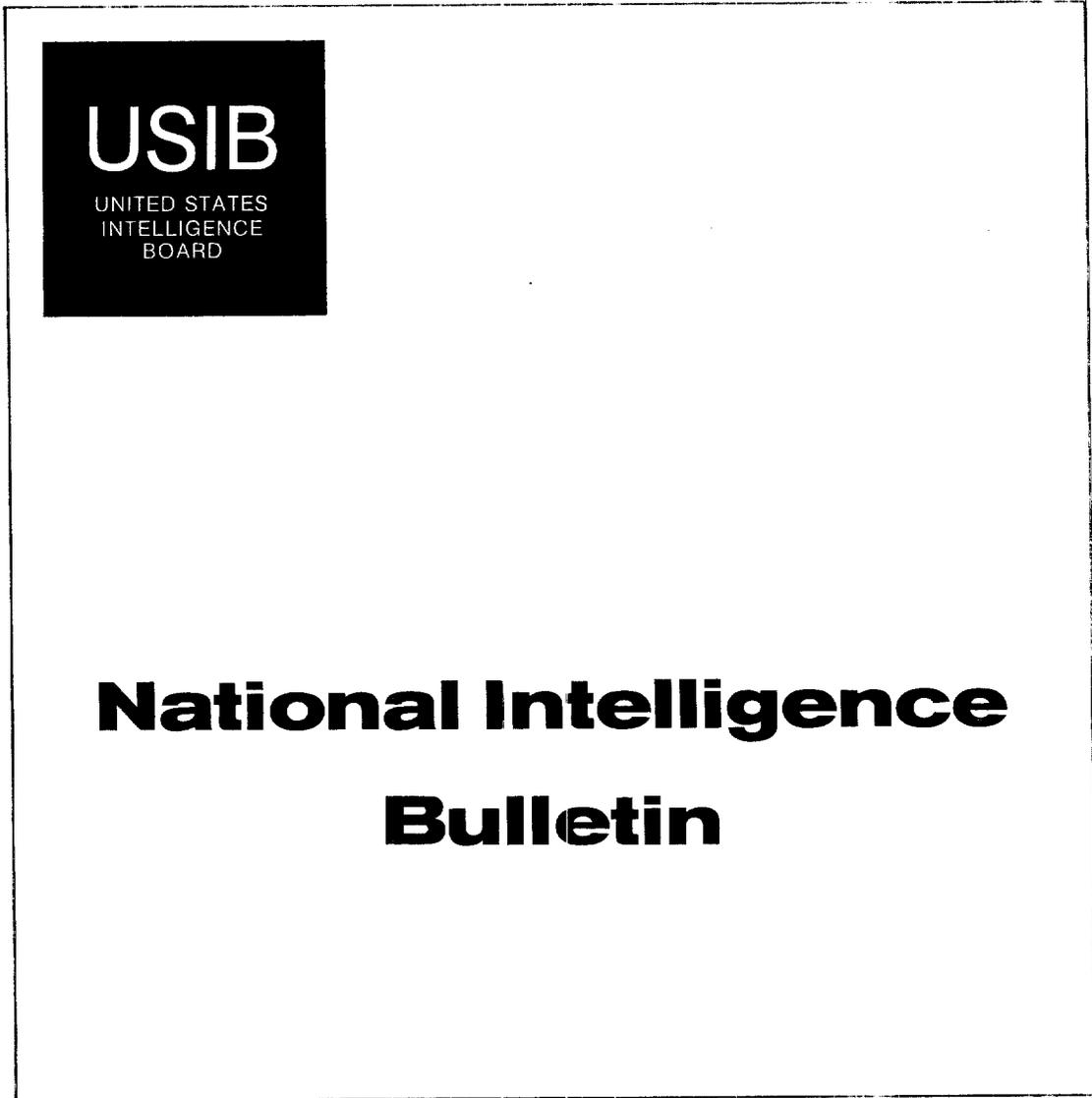


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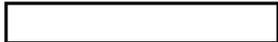
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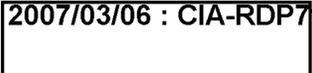
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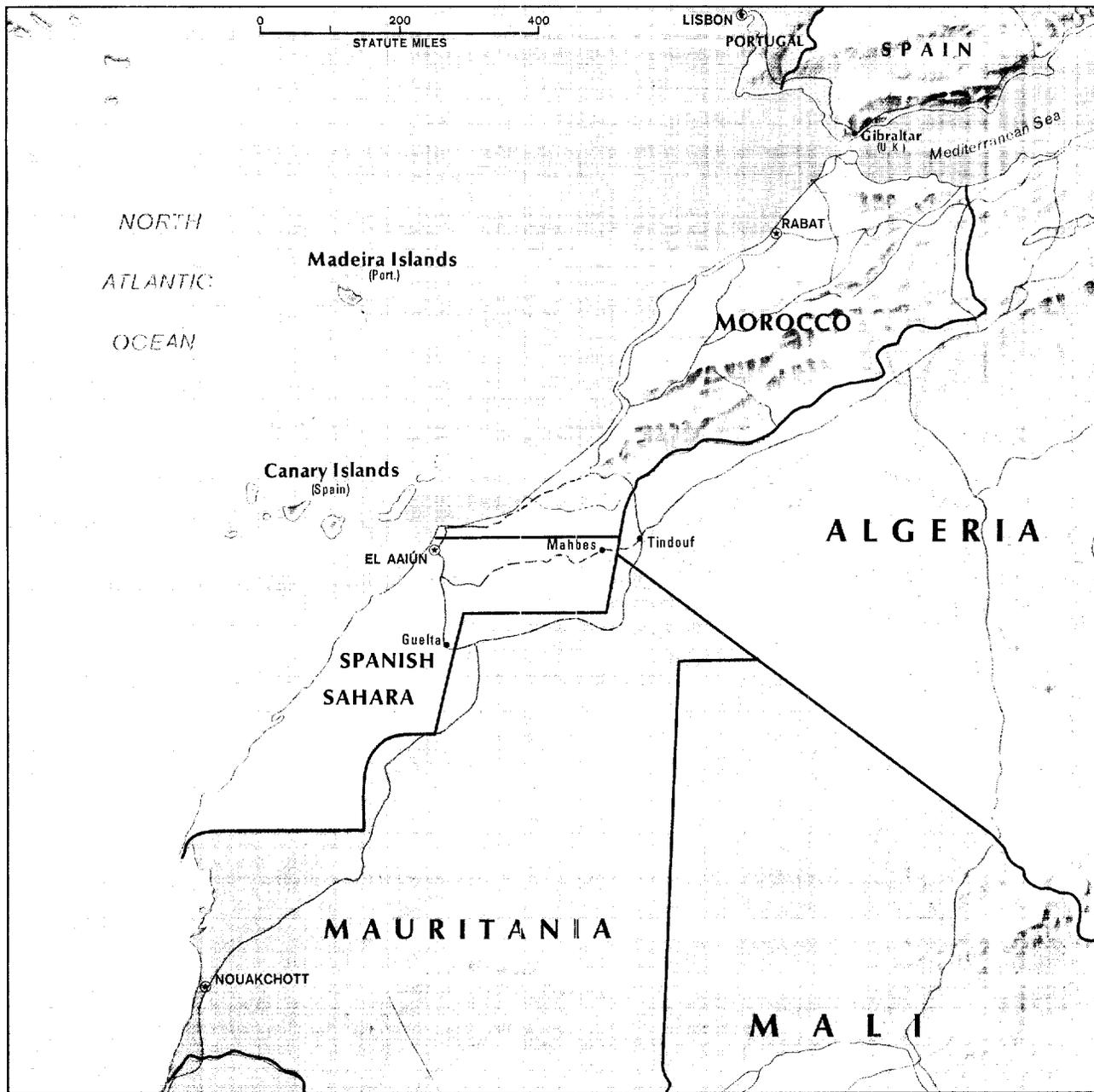
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MOROCCO-ALGERIA

Rabat confirmed yesterday that Moroccan forces now control Mahbes, the last remaining Polisario stronghold in the northeastern Sahara.

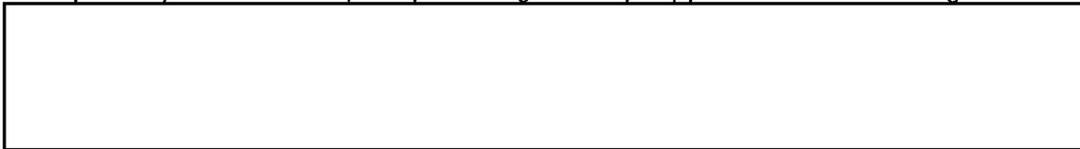
Press reports from Rabat indicate Moroccan forces have also taken over Guelta, another Polisario stronghold in east-central Sahara.

Morocco's military sweep against the Algerian-backed Polisario guerrillas is now virtually complete. Moroccan and Mauritanian forces have occupied nearly all of the towns and outposts in the Sahara.

Algeria has not yet responded to Morocco's latest military advance. Algiers' decision not to confront Moroccan forces occupying these strongholds may have resulted from a deal arranged by Egyptian and Saudi Arabian mediators. Although Moroccan officials have said withdrawal of any forces Algeria may have had at Mahbes was not part of the deal, Egyptian Vice President Mubarak may have urged during his shuttle last week that the Algerians pull out to avoid a clash.

Meanwhile, Algerian President Boumediene and several other senior officials flew to Tripoli yesterday for talks with Libyan President Qadhafi. The Libyans have been Algeria's main supporter in its dispute with Morocco over Spanish Sahara and have publicly admitted they are providing military support to the Polisario guerrillas.

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UK

A new round of cuts in the British defense budget, which is expected to amount to \$400 million annually through 1979, will be announced next week, and specific details will be released in early spring. In discussions with the US embassy in London, British officials have stressed that these latest reductions involve the "tail" and not the "teeth" of the British military establishment, and therefore London does not feel obliged to consult formally with NATO before implementing its decisions.

The Labor government in fact is balking at NATO consultations mainly for political reasons. The level of defense spending has recently become a sensitive issue that is attracting public attention. Prime Minister Wilson is sure to be attacked from both the left and right when the new budget figures are announced.

The Labor left wing has long been critical of "excessive" British defense costs and is certain to protest loudly that the military budget has still not been cut enough. The Tories, on the other hand, have been effectively pushing the line that the government should not be cutting back at all in the face of Warsaw Pact military strength. Wilson clearly regards NATO consultations as a pitfall that could result in the government's being maneuvered into a position in which the Conservatives could claim Alliance support for their position rather than for the government's.

London is prepared to explain and discuss the cuts with the US and West Germany in a bilateral context. Washington and Bonn will be provided with specifics several weeks before the public announcement in late March or early April. British officials have hinted that they would be open to suggestions but are very limited in making changes in their plans before they issue the defense white paper late next month.

This will be the third round of cuts in defense spending since Labor came to power in February 1974. Britain's overall economic performance will be the key factor in determining the ultimate level of the defense budget. If the economy picks up, the government will be able to hold the line or perhaps even expand a little bit. But if the recession persists and government resources shrink further, more reductions will be in the offing.

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CHINA

China's political leftists, having successfully blocked the appointment of Teng Hsiao-ping as premier, are stepping up their attacks on him.

Wall posters attacking Teng began appearing at Peking University on February 10. The posters do not mention Teng by name but quote some of his well-known statements, making it clear that he is the target of their wrath. They reiterate the criticism that began on February 6 of "capitalist roaders" in the party, an expression used a decade ago to disgrace Teng during the Cultural Revolution.

[Redacted]

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The posters accuse Teng of opposing Chairman Mao's educational policies, but the propaganda reportedly contains a broader attack on him, including a threat that his fate will be the same as other fallen party leaders. The official party newspaper yesterday published its second attack within a week on "capitalist roaders who refuse to repent." This theme has been picked up in several provinces.

[Redacted]

The party's left wing undoubtedly smells blood in the wake of Teng's failure to be appointed premier and presumably is now engaging in an effort to purge him from his remaining party and military positions. Unless the national media begin a daily propaganda barrage against him and posters appear elsewhere throughout the country, it would be premature to conclude that the left wing will marshal enough support to remove Teng from office.

Teng has not appeared in public since he delivered the eulogy at Chou En-lai's funeral on January 15. His very presence on the Chinese political scene has been a constant source of irritation to the left. In view of the current attacks on him, it would be prudent for him to stay out of the limelight. A continued and prolonged absence, however, would strongly suggest that he had been unable to surmount his troubles.

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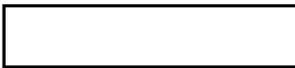
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USSR-CHINA

Soviet media are replaying foreign press accounts which stress that Hua Kuo-feng's appointment as China's acting premier is evidence of serious political turmoil in Peking. The media have also observed, however, that Hua may have been a compromise candidate acceptable to both moderates and radicals.

A Soviet embassy officer in Peking characterized Hua as a good administrator, well suited to the task of building China and with more foreign policy experience than is generally assumed. He commented that Hua had been less vindictive than other Chinese spokesmen in his statements against the Soviet Union.

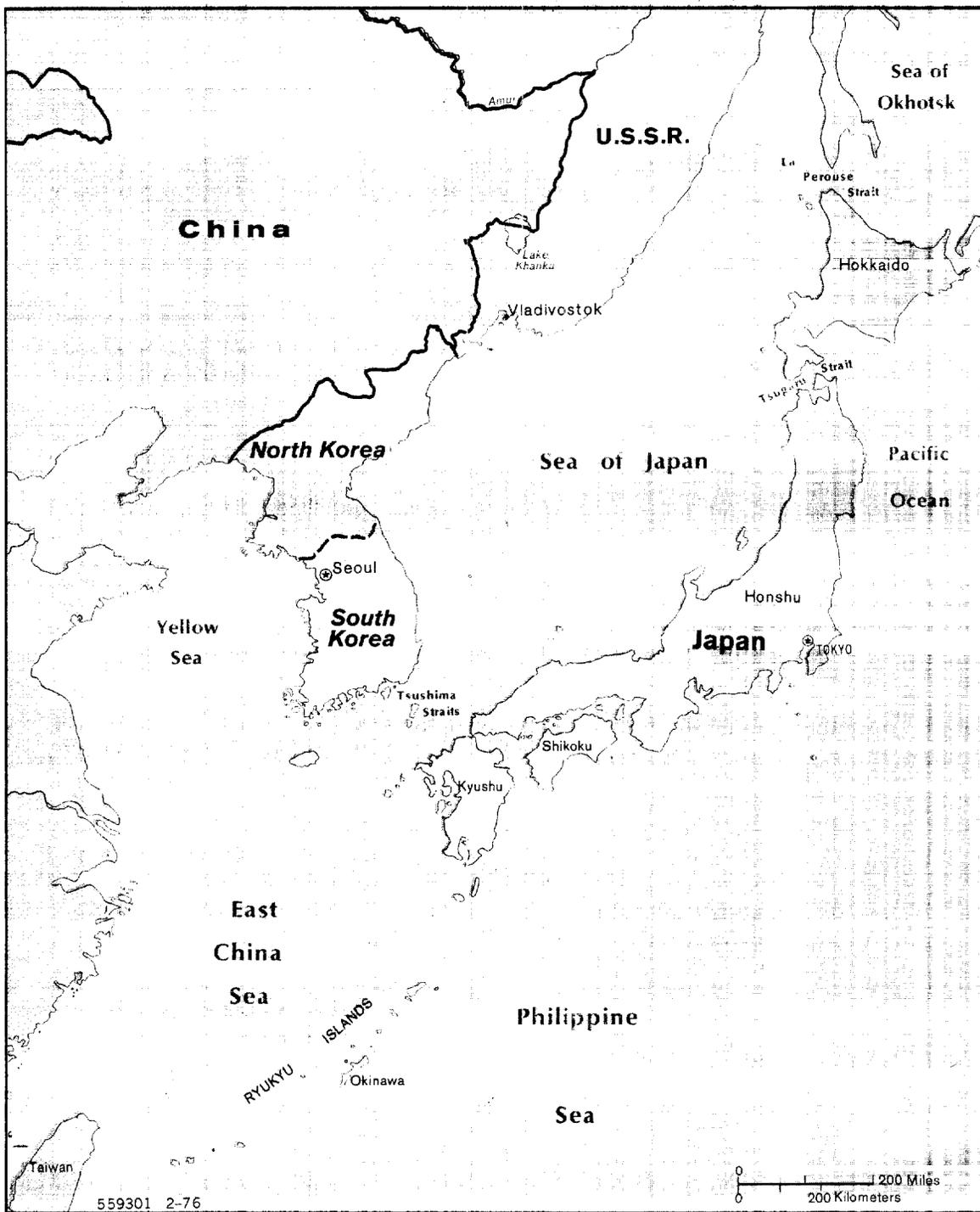
The official said Moscow expects no early change in China's foreign policy as a result of the appointment. He professed, however, to see some diminution in the output of China's anti-Soviet propaganda since the appointment and said that ultimately it might be a positive development for Sino-Soviet relations. We have detected no appreciable change in China's propaganda treatment of the USSR; the Soviet embassy frequently takes an optimistic line on developments in China that could have consequences for the USSR. Nonetheless, the Soviets are probably relieved that Hua is apparently a moderate with no specific history of anti-Sovietism.



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USSR - SOUTH KOREA - JAPAN

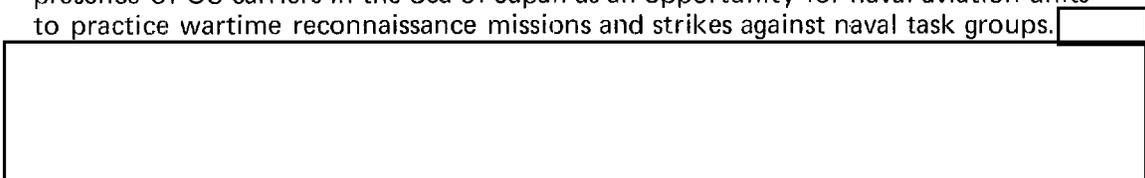
South Korean and Japanese newspapers have recently expressed concern over the congressional testimony of the US chief of naval operations concerning the military position of the USSR vis-a-vis the US in Asia. The Koreans reacted most strongly to the reference to Soviet "supremacy" in the Sea of Japan.

The Soviets are indeed the strongest naval power in the Sea of Japan. Over the past few years their Pacific Ocean Fleet has been strengthened by the addition of newer submarines and surface ships. This fleet now consists of about 110 submarines, 60 major surface ships, and about 325 naval aircraft, not all of which are based along the Sea of Japan.

The Soviet navy is highly active in the Sea of Japan, and much of this activity is easily detectable by the South Koreans and Japanese. Soviet surface ships sailing to stations in the Pacific and the Indian Ocean, for example, must pass through three straits leading out of the Sea of Japan that are bounded by Japanese or South Korean territory.

Perhaps the most easily perceived is the fleet's naval air arm. Bomber, reconnaissance, and antisubmarine-warfare aircraft are frequently in the air over the Sea of Japan and adjacent waters. Last September the Japanese Foreign Ministry lodged a protest with Moscow over Soviet violations of Japanese air space.

During their infrequent visits to the Sea of Japan, major US surface units are kept under nearly constant surveillance by the Pacific Fleet. The Soviets regard the presence of US carriers in the Sea of Japan as an opportunity for naval aviation units to practice wartime reconnaissance missions and strikes against naval task groups.



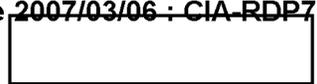
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Because of North Korea's present naval superiority over the South, Seoul is especially sensitive to any apparent diminution of US strength in the Sea of Japan. The South Korean press has recently pointed out that the Korean war ended successfully only because the high seas were under US control. The inference is clearly that US naval power might be negated by Soviet superiority if and when another war broke out on the peninsula.

At least one newspaper offered a solution, urging Seoul to improve its antisubmarine warfare capabilities and then to build a submarine fleet to match that of North Korea.

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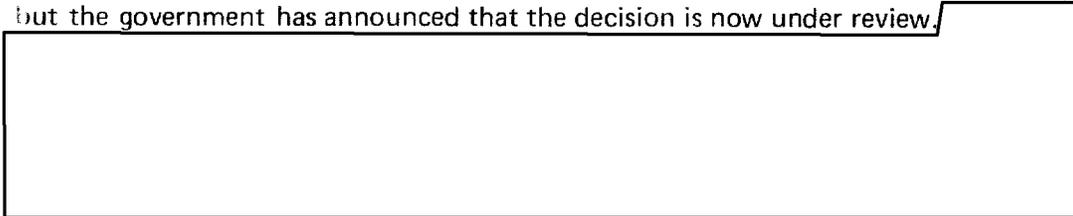
Seoul is already moving toward improving its ASW capabilities, with emphasis placed on ship- and shore-based helicopters and fixed-wing aircraft. The South Koreans originally considered acquiring their own attack submarines to counter those of the North, but—after discussions with senior US officials—opted instead for developing air and surface ASW techniques as a countermeasure.



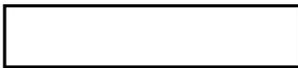
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The implications of the Soviet presence in the Sea of Japan are not as serious for Tokyo as they are for Seoul, but the Japanese are concerned about the impact that any apparent erosion of US military strength in the Far East might have on the overall balance of power in the Pacific. Tokyo, for example, is upgrading its ASW capability, and Japanese defense officials acknowledge that future defense planning may have to include provisions for a greater Japanese role in protecting key sealanes near home.

The scandal in Tokyo over payments to Japanese officials by the Lockheed Corporation, however, has delayed the government's plans for modernizing its ASW forces. Tokyo had decided to purchase more than 100 ASW aircraft from Lockheed, but the government has announced that the decision is now under review.



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POLAND - WEST GERMANY

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[redacted] party leader Gierek will suffer a major political setback if the West German parliament rejects the Polish-FRG accords signed last fall. While Gierek has a personal stake in the implementation of the agreements, it is highly unlikely he would lose his dominant role in Polish politics if Bonn did not ratify.

Gierek and West German Chancellor Schmidt personally opened the way for the agreements during their talks in Helsinki last August. The accords provide for emigration of 125,000 ethnic Germans from Poland in return for West German credits of about \$400 million at favorable interest rates and a contribution of nearly \$500 million to a Polish pension fund. The legislature in Bonn must approve the pension accord.

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[redacted] Polish war veterans and "others" are not satisfied with the Gierek-Schmidt deal and would be quick to take political advantage if it were rejected by West Germany. He claimed that such a setback would provide a focal point for disparate groups to coalesce in opposition.

West German rejection of the pension accord, [redacted] would very likely prompt a Polish diplomatic and propaganda offensive questioning Bonn's commitment to detente in general and to reconciliation with Poland in particular. Gierek undoubtedly would feel obligated to mount a counteroffensive, if only to seize the political high ground.

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The strength and character of Polish opposition to the accords should not be overdrawn. The war veterans probably feel that the proposed German payments are not enough, but would be dissatisfied with any reasonable sum mentioned. Gierek, of course, may be trying to tell Bonn that collapse of this agreement would only escalate Polish demands and thus lead to a complete impasse.

The fate of the pension agreement in the West German parliament remains uncertain. Recent political developments in Lower Saxony increased the margin of strength of Christian Democrats over the Schmidt government in the upper house of the national parliament. The Christian Democratic national leadership has publicly stated that it opposes the agreement with Warsaw.

However, the Christian Democratic leadership has had difficulty from the beginning in reaching a firm decision over the accord. Some in the party suspect that Schmidt will reap political benefit in the October national elections if the opposition appears to be obstructionist on foreign policy issues. [redacted]

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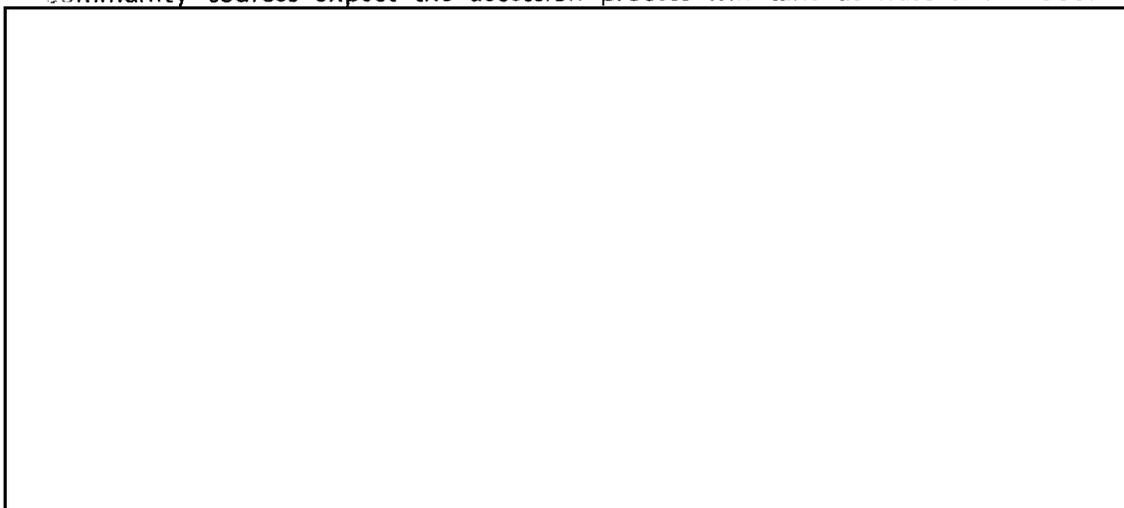
GREECE-EC

The EC Council's unqualified endorsement of early negotiations looking toward full Greek membership in the Community by the end of the decade has received an enthusiastic response in Athens.

Prime Minister Caramanlis, who has placed much of his prestige behind his EC initiative, hailed the Council's decision as one of historic significance for Greece that will help safeguard democracy and improve the living standard of the people. He was obviously pleased by the Council's rejection of a three-stage accession process for Greece—proposed earlier by the Commission. The uproar created by the Commission's reservations indicates that their incorporation in the Council's ruling would have caused Caramanlis serious problems at home.

In making its decision, the Council clearly placed more weight on the political desirability of Greece's entry than on the economic and structural difficulties for the Community alluded to by the Commission. Council President Thorn, moreover, noted that Greece's problems with Turkey—also raised by the Commission—will not affect the negotiations and that no political preconditions will be imposed on the Greeks. Greece has agreed that, as a member, it will not veto Turkish membership.

Actual negotiations between the EC and Greece will probably not begin for another six months. The Greeks would like to secure full membership by 1978, but Community sources expect the accession process will take at least until 1980.



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