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## Portuguese Security Chief Enters Struggle

### Refuses to Take Sides, Offers His Own Program

Portuguese security chief General Otelo de Carvalho, one of the members of the ruling triumvirate, yesterday criticized both factions in the struggle for power between pro-communist Prime Minister Goncalves and dissident officers in the Armed Forces Movement. Instead of taking sides, he offered his own radical plan for putting the "revolution" back on course.

We do not yet have enough information to estimate whether Carvalho sees his plan primarily as a vehicle for taking power himself or as an alternative program to which all the warring factions of the Movement could rally.

Carvalho's populist approach was to revive the idea of bypassing both the Communist and non-Communist political parties with popular organizations avowedly intended to forge "direct links" between the military and the people. A similar proposal, when advocated by the armed forces general assembly in July, was widely criticized and was a major factor contributing to the Socialists' withdrawal from the coalition government. Their withdrawal, in turn, precipitated the present crisis.

The Carvalho alternative was presented at a hastily called meeting of military officers, including the three regional commanders, heads of certain military units, and representatives of the Movement—a group that reportedly numbered about 100. Press reports indicated that at least three of the nine dissidents responsible for (See Portugal . . . Page 4)

## Continuing Political Uncertainty Damaging Portugal's Economy

Portugal's economic deterioration is being accelerated by the continuing political crisis. Lisbon has yet to adopt or even formulate a program that could turn things around.

The ruling Armed Forces Movement forecasts a 6-percent decline in gross national product this year, a figure likely to prove unrealistic, given the disastrous

effect labor turmoil is having on industrial production.

### Industry

Many enterprises—including some foreign-owned—have been seized by radical workers and subsequently shut down. Labor unrest, moreover, has discouraged private investment, reinforcing the adverse effects of:

- A 150-percent increase in minimum wages since April 1974.
- Desultory price controls.
- Threats of expropriation by the new radical government.

Production has been reduced further by the exodus of tens of thousands of managerial personnel and skilled professionals.

The government—preoccupied with continuing political divisiveness—has postponed the deadline for decisions on their organizational structure until December 31. It has not yet begun an investment program in the nationalized industries. Strong leadership from Lisbon is essential because two thirds of industry is now under government control—either through direct nationalization, through the nationalization of banks and insurance companies holding large equities in numerous enterprises, or through in- (See Portuguese . . . Page 4)

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## Portuguese Economic Decline Is Accelerating

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intervention in the operation of private firms.

### Agriculture

Lisbon's agricultural policies are having a mixed effect. [redacted] predicts that farm output will hold up well this year. The government is buying hogs and eggs to support prices, is extending soft loans and other assistance to the farms seized by workers, and is authorizing local authorities to requisition machinery from large farms still privately held.

Takeovers of farms, however, are disrupting production in some areas. The government is also forcing the large private farms to raise wages sharply and hire more workers, while subjecting them to a credit squeeze.

### Employment Down

Unemployment, already high, threatens to get much worse. Official estimates show that it is over 8 percent. Settlers returning from Angola and Mozambique are swelling the number and would double it overnight if all those try-

ing to leave Africa are accommodated. The scarcity of jobs in northern Europe is blocking a traditional outlet for excess Portuguese workers.

Consumer prices are still rising at about 25 percent a year. Redistribution of income in favor of poorer groups, unsettled political conditions, and declining production have fed inflation. The government budget, in near balance in 1974, is running a substantial deficit. Lisbon undermines its own price controls with efforts to raise farm prices and boost wages.

### Foreign Reserves Decline

Lisbon admits to a drop in foreign reserves of \$650 million in 1974 and \$440 million between January and April of this year. Remaining reserves, which total \$5.7 billion, include \$4.7 billion in gold if valued at the market price of \$165.

Since early 1974, high oil prices, sharp wage increases, political unrest at home, and the international recession have opened a substantial gap between receipts from abroad and outlays. Imports are up while receipts from tourism, foreign investment, and worker remittances have fallen.

The trade deficit seems certain to rise from \$1.7 billion in 1974 to at least \$2 billion this year; the current account deficit will jump from \$560 million to more than \$1 billion. The government has moved to discourage imports by imposing ad valorem surtaxes on a wide range of products. So far, it has refused to devalue the escudo.

Capital flight continues, despite various controls by the government. Travelers can take only small amounts of cash and other assets out of the country. Remittances by foreign firms operating in Portugal reportedly also have been impeded.

Although the EC foreign ministers last

June agreed in principle to extend a possible \$1.3 billion in aid to help the country "develop along democratic lines," subsequent deterioration in the political situation has caused the Community to back off. Only small amounts of help actually have been committed or extended by West European countries and the US.

### Trade with Communists

Lisbon and the communist governments have signed several economic agreements amid much fanfare; trade has picked up sharply but from a small base. Portuguese exports to Warsaw Pact countries totaled \$12 million in the first four months of 1975, while imports increased from \$7.3 million to \$16 million. Moscow has agreed to supply equipment and training to the Portuguese fishing industry and appears willing to provide technical assistance for the aluminum, cement, coal, and nuclear power industries.

Balance-of-payments difficulties are a constraint on economic policy. Further action to protect reserves probably will be taken soon. Likely measures include additional controls on imports and devaluation of the escudo. Renewed efforts no doubt will be made to borrow abroad, perhaps using gold as security. [redacted]

## Portugal. . .

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the anti-regime document now circulating in the armed forces were at the meeting.

Carvalho's proposal is not likely to gain much support among the dissidents, but it may appeal to apolitical officers who see the current crisis as a partisan fight between Communists and non-Communists.



Otelo de Carvalho

Carvalho, who many of the dissidents thought was on their side, will probably divide the Movement even further by suggesting an alternative plan and complicate Portugal's effort to sort its political situation. His move, no matter what his motives, will sap the dissidents' backing.

From all indications, the dissidents led by former foreign minister Antunes are still collecting signatures for their petition. [redacted]

If the dissidents do not make their move soon, they are likely to lose the momentum that still appears to be in their favor. Support is coming even from unexpected sources. The Lisbon light artillery regiment, considered the most radical unit in Portugal, split, for example, between supporters of the manifesto and those against it.

These divided loyalties within the military will make public order all the more difficult to maintain. Rival civilian demonstrations are scheduled in Lisbon today. One extreme left-wing group that uses anti-American slogans to attract support is sponsoring a march that will terminate at the US embassy.

The Communists and Socialists are also planning rallies. The Socialists, determined to prove the national scope of their popularity, are coordinating the Lisbon event with demonstrations in Porto in northern Portugal and Portimao in the south. [redacted]