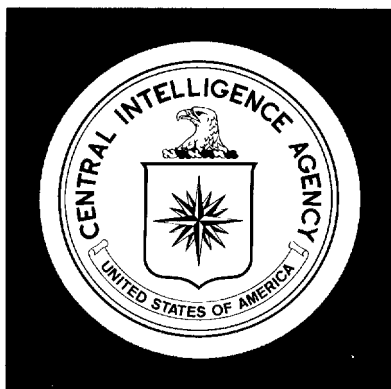


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DIRECTORATE OF  
INTELLIGENCE

# *WEEKLY SUMMARY*

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12 January 1973  
No. 0352/73

State Dept. review completed

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.



**CONTENTS** (12 January 1973)

[Redacted]	25X6
2 Czechoslovakia: Nods to the West	
3 The Philippines: The "New Society" Ages	
4 France: Watch on the Seine	
[Redacted]	25X6 25X1

**FAR EAST**

- 6 Indochina
- 10 China: The PLA; The Economy
- 12 North Korea: The Party's the Thing

**EUROPE**

- |                                      |      |
|--------------------------------------|------|
| [Redacted]                           | 25X1 |
| 14 Europe: Security talks; Eurocrats |      |
| 16 Malta: NATO Makes an Offer        |      |
| 16 Romania: Dee-fense, Dee-fense     |      |
| [Redacted]                           | 25X6 |

**MIDDLE EAST  
AFRICA**

- 19 Egypt: Quiet Flows the Nile
- 19 Israel-Syria: Clashes Continue
- 21 Africa: Hounding the Israelis
- 21 Comoro Islands: Toward Freedom
- 22 Bangladesh: Opponents at Home
- 23 Ghana: A Year after a Coup

**WESTERN  
HEMISPHERE**

- 24 Brazil: Economic Situation Lauded
- 25 Colombia: New Year Prospects
- 26 Argentina: Peronist Problems
- 27 Venezuela: Oil Treaty Fades
- 28 Cuba: USSR Picks up the Tab
- 28 Panama: Host to the Council

**SPECIAL  
REPORT**

(Published separately)

- A Brazil: The Selection of a President

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#### CZECHOSLOVAKIA: NODS TO THE WEST

11 Officials at the Ministry of Foreign Affairs in Prague have been showing a more cooperative spirit toward the West. They have told the US Embassy that Czechoslovakia is ready to get down to business on a consular convention. This reverses the line in December when they demanded that bilateral negotiations open with the most difficult and complex issues. They left the impression that Czechoslovakia intended to hold back on the less contentious consular and exchange agreements until some progress was made in settling stickier trade and financial questions.

11 In another significant departure from their stance in December, the Czechoslovaks have shown a willingness to discuss cultural matters. They also expressed the hope that Secretary of State Rogers and/or the new secretary of transportation would visit Czechoslovakia in 1973.

6 As if to underline the shift, a reshuffle at the Ministry of Foreign Affairs has upgraded the section dealing with the US. The department formerly concerned with the entire Western Hemisphere has been split into two, one of them

to deal only with North America. Deputy Foreign Minister Ruzek, the number-three man at the ministry, has been given the North American responsibility. Deputy Foreign Minister Rohal-Ilkiv, who controlled the former Western Hemisphere department and who spoke the hard lines of December, apparently has been demoted. It may well be that the regime belatedly saw the error of its December ways and chose Rohal-Ilkiv as the scapegoat.

6 In a further development related to the change in Czechoslovakia's attitude, Miloslav Hruza, another deputy foreign minister, told the US ambassador that, in negotiating the establishment of diplomatic relations with West Germany, Prague is now ready to give up its insistence on the invalidation, *ab initio* of the 1938 Munich Agreement—provided language can be found to protect Czechoslovak sensitivities in this matter. This would remove the issue that has deadlocked negotiations with Bonn. The easing of the *ab initio* requirement follows a month of Western speculation that the Czechoslovaks were under pressure from their allies to ameliorate their demands in the interest of detente.

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The Philippines  
THE "NEW SOCIETY" AGES

17 [As the shock effects of Marcos' martial law wear off, Filipinos are beginning to take a second look at his much-vaunted "New Society." The result has been a rising level of public disenchantment, something of a shock to Marcos, who expected Filipinos to accept his sincerity as a reformer.]

12/13 [Marcos has been receiving reports from subordinates, both military and civilian, that indicate serious slippage in domestic security and in popular acceptance of martial law. In particular, local committees entrusted with organizing a favorable vote for the new constitution report considerable resentment of that document and its transitory provisions which allow Marcos to retain unlimited power.] [With the "New Society" crumbling about the edges, Marcos may try to dress it up with new promises of sweeping reform, but his immediate reaction has been to take the authoritarian road.]

13/14 [The Philippine President announced on 7 January that he was postponing the scheduled constitutional plebiscite indefinitely and reinstating the restrictions on free speech, recently suspended to allow open debate on the constitution.] [On 10 January, government officials began polling the 34,000 village-level citizens' assemblies created by Marcos on 31 December for their "reactions" to a suspension of the present constitution and new measures to legitimize his martial law regime. The assemblies consist of all residents of a village over age 15, but the local government representative has complete control over their deliberations and will ensure "appropriate" reactions. Marcos has also asked these assemblies to ratify the new constitution in lieu of holding a national plebiscite, but they are supposed to recommend that he continue ruling through martial law for seven years before putting the new parliamentary system into effect.]



Marcos and Subordinates

15 [Marcos apparently decided he had to move quickly to avoid a constitutional test on 22 January, when Congress is scheduled to convene. Several senators have threatened to call for a full debate on the legality and appropriateness of Marcos' actions since September.] [Although he probably could get a favorable vote, he would prefer to avoid the messy debate that would go before. Now, he can justify suspending Congress as the "will of the people," expressed through the citizens' assemblies. The citizens' assemblies will replace existing representative bodies and will doubtless be called upon to ratify future decrees by Marcos. They will also give him feedback on public opinion in the countryside.]

17 [Marcos has more than his own political position to worry about. Peace and order in the Muslim south have deteriorated steadily since the imposition of martial law. Marcos has tried to reach an accommodation with Muslim leaders by meeting some of their economic grievances, but what he is offering is probably too little and too late.] [Many Muslims are losing confidence in their traditional political leaders and are turning to religious leaders who are less inclined to compromise with Manila. Marcos may gain a temporary respite, but the prospects for a lasting peace are dim.]

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FRANCE: WATCH ON THE SEINE

18 Pompidou's Gaullist coalition can take cold comfort from a poll that reflected a drop in support for the left opposition. The poll, taken between 16 and 21 December, showed the alliance of Communists, Socialists and left Radicals down from a high of 46 percent to 43 percent. The same poll gave the Gaullists 40 percent—a gain of two percent, but still five points below their high in October. [The Gaullists, outwardly confident, are expressing concern in private about the outcome of the legislative elections, scheduled for 4 and 11 March, and are casting about for ways to improve their prospects.]

18 [After a well-staged, highly publicized rally, the left reached a peak in the polls in early December. Negative public reaction to an announcement that retail prices had risen in November at the highest rate since January 1969, the efficiency of the leftist organization, and public alienation caused by the Gaullists' long tenure in office all figured in the strong showing for the left. In addition, lackluster Gaullist campaigning and the absence of clear-cut issues has done little for the ruling coalition, already hurt by 18 months of scandals and by internal dissension.]

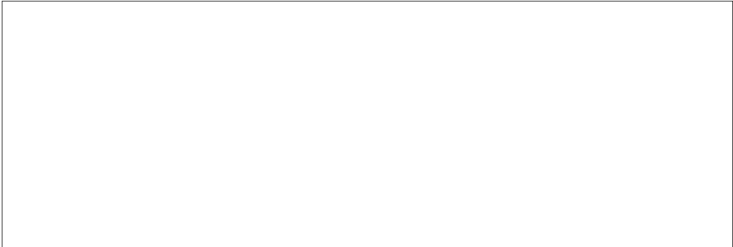
18 Polls do not, of course, forecast the final voting pattern. In the latest poll, for example, only 17 percent of those questioned thought the left alliance would win a majority. Fifty-one percent predicted a victory for a coalition enlarged to include the centrists, who have been receiving about 14 percent of the votes in the polls.

18 Unless a candidate receives an absolute majority on the first ballot, there must be a

runoff in which only candidates who polled at least ten percent of the registered voters on the first round are eligible to run. The French traditionally vote in the first round against their grievances and in the second against their fears. This will work in favor of the Gaullist coalition, which will reiterate the theme—exploited so successfully in 1968—that it is dangerous to give power to the left. The shift of a small number of centrist voters could have significant consequences, for a key enigma in the coming election is whether such voters will choose Gaullist or leftist candidates in the second round.]

18 [The Gaullists and their allies are clearly concerned over the improving ability of the leftist alliance to present itself as a credible alternative to the present government. The Gaullist campaign has not really got going yet; once it does, campaigning will be strenuous. President Pompidou announced on 1 January that he will speak out against the "incompatibilities" that would result from a leftist victory. Also, in an effort to prevent further damaging scandals, he has warned civil servants not to misuse privileged information during the campaign. His government has also pushed through a law outlawing publication of opinion polls just prior to the elections when they might adversely influence voters.]

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The Legislative Race Is On

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## INDOCHINA

### SAIGON POLITICIANS AROUSED

President Thieu's decree stiffening the legal requirements for political parties is still the center of political attention in Saigon. Thieu told a group of National Assembly members last week that political unity will be essential in the "new phase" of the anti-Communist struggle coming up. He asserted that the decree is the only feasible way to bring about such unity in time. Thieu rejected complaints from the legislators that the provisions of the measure are too strict. One senator who attended the meeting told US Embassy officers that Thieu appeared unconcerned by the prospect that his own Democracy Party might be the only one able to qualify under the new provisions.

Some of the country's significant political factions are publicly attacking the decree, and one party leader has asked the Supreme Court to overturn it. He has little hope of success, but he claims he will ignore the decree if his appeal fails.

The An Quang Buddhists are organizing a new group of elected Buddhist officials, but they have given no indication yet that they will try to turn it into a legal party. The Buddhists have expressed concern to US officials that the government might harass their organizational efforts. An Quang leaders are also trying to compile a list of persons detained "illegally" by the government—a move that runs the risk of causing new friction with Thieu. While reluctant to challenge the government for fear that the Communists will be the ultimate beneficiaries, the Buddhists do not want to remain on the political sidelines when they feel their vital interests are at stake.

The Catholics are one of the few groups responding positively to the new decree. Several Catholic factions, which have been cooperating in an informal alliance in recent months, have decided to try to merge and seek validation as a legal party. Catholic political leaders realize that

they do not command enough support on their own to develop an influential party, and they hope eventually to ally with non-Catholic factions.

### The Economic Picture

The North Vietnamese offensive, bad weather, and the US troop withdrawal hurt South Vietnam's economy last year, and the rapid production advances of 1971 were not repeated. Nevertheless, inflation was held to a modest rate, progress was made in both tax reform and tax collection, and exports rose.

The military offensive brought little damage to productive facilities; still, the large-scale dislocation of people and the uncertainty among businessmen and consumers about the future did cause considerable economic disruption. Consumer demand dropped sharply, business activity declined, and investment decisions were postponed. The drop in consumer purchases led to a severe recession, especially in the manufacturing sector where only firms with government contracts or US military procurement orders are producing anywhere near capacity.

With the exception of the rubber plantations and rubber-processing facilities, agriculture did not suffer as much as industry, and output probably equaled that of 1971. The rice crop now being harvested probably will be about the same size as last year's despite the effects of bad weather and military disruptions in some places. New momentum has been imparted to the distribution of land to new owners, and Saigon's goal of distributing 1 million hectares probably will be reached by the end of March on schedule.

Local economic activity in support of the US presence also slowed as US forces continued to withdraw and major construction projects were completed. Large numbers of Vietnamese employed by the US have been laid off, causing

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some unemployment problems. The impact of the layoffs, however, has been obscured by the overall business recession and the more than 1 million refugees generated by the offensive.

On the financial side, the rate of inflation was held to about 24 percent for the year, compared with 14 percent in 1971 and the 30-55 percent rates registered annually during 1965-70. Although the rise is a deterioration from the 1971 rate, it nonetheless was a fairly good record, considering supply disruptions due to the offensive and the increasing cost of imports resulting from the 16 percent devaluation of the piaster during 1972. The government's vigorous effort to increase domestic tax revenues was successful, especially for local governments, which more than doubled their tax collections in 1972. During the period of President Thieu's emergency decree powers, Saigon enacted major reforms of income and property taxes and adopted a value-added tax. Although the full effects of these measures in generating added revenues will not be felt until 1974, they represent the first important attempt to reduce the country's large budget deficits.

An encouraging development has been an increase in commodity exports. Last year, they were about double the 1971 level, principally because the government instituted realistic exchange rates and export subsidies. The value of commodity exports—\$20-25 million—still is small in relation to commodity imports of about \$650 million. Nevertheless, the increase was the first since 1963 and sets the stage for the further export growth needed if South Vietnam is to reduce its dependence on foreign aid. }

#### **HARD TIMES AHEAD IN CAMBODIA**

The last of the Indochinese states to become directly involved in the war, Cambodia faces some imposing problems in the months ahead. A wide political gulf separates the Lon Nol government and the Khmer Communists, and any chance for bridging this gap is complicated by the disunity of the Phnom Penh regime and by the complex



**The Economy Rolls Along**

relationships on the insurgent side. Strong external pressure may eventually be needed to break the political deadlock.

The military situation appears headed for a stalemate. With the return of most Vietnamese Communist units to South Vietnam in 1971, the fighting in Cambodia has taken on the overtones of a civil war—a development that adds to the difficulty in reaching a settlement. The Khmer Communists oppose any compromise with Phnom Penh, an attitude adopted in part to accommodate the North Vietnamese, who would prefer to see continued fighting in Cambodia until they have had time to assess their post - cease-fire prospects in South Vietnam.

The insurgents' hard line is also based on their favorable position throughout much of the Cambodian countryside and on the fact that they no longer need rely on the Vietnamese Communists to do the bulk of the fighting. But despite the greater tactical independence and effectiveness displayed lately by the Khmer

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insurgents, they are still dependent on Peking and Hanoi for most of their military supplies and equipment.

The gradual growth in insurgent military capability provides counterpoint to the Cambodian Army's own uninspired combat performance. Although better armed and trained, the army has lost the enthusiasm that buoyed it during the first months of the war. It will probably remain indefinitely in its defensive positions around population centers and close to major communication lines.

The government's lackluster war effort is matched by its disappointing political record. The arbitrary Lon Nol has been unable to keep the considerable confidence he enjoyed during the first year of his rule, and his reluctance to share authority has dashed hopes for a unified, broadly based government. If for reasons of health Lon Nol should be removed from power, the path toward a compromise settlement might be smoothed. It could equally well be rougher be-



Sihanouk and Chou in Peking

cause there is still no generally acceptable replacement to the President in sight.

Phnom Penh's political problems and uncertainties may be dwarfed by those in the insurgent camp. In any strict sense, the term "Khmer Communist" does not accurately describe the disparate and contentious forces operating under the banner of Sihanouk's "Royal Government of National Union." Although little is known about the inner workings of the insurgent movement, most of the evidence available points to a basic nationalist-communist cleavage. This is best reflected in Peking, where difficult and uncomfortable relations exist between the shadowy Khmer Communist members of the rump government on the one hand, and Sihanouk and his entourage on the other.

Sihanouk's future poses the main political problem to the insurgents. From all accounts, Sihanouk expects to return to Cambodia to serve for a time as head of a coalition regime that includes some Communists. Although mindful of Sihanouk's value as a figurehead and of the lingering peasant loyalty to him, the Khmer Communists must harbor real reservations about allowing him to return in any capacity. A political comeback for Sihanouk would be complicated by the murky status of his relationship with widely divergent Communist movements--the Khmers, the Vietnamese, and the Chinese.

In view of the evolving stalemate in Cambodia, all parties concerned may come to believe that an end to the Cambodian conflict will ultimately demand some form of compromise between the current regime in Phnom Penh and a Communist-dominated insurgency. But the key question of Sihanouk's role in a political settlement must first be threshed out within the insurgent ranks and in Phnom Penh, Hanoi, and Peking. Until it is, everyone involved may find it easier just to go on fighting.

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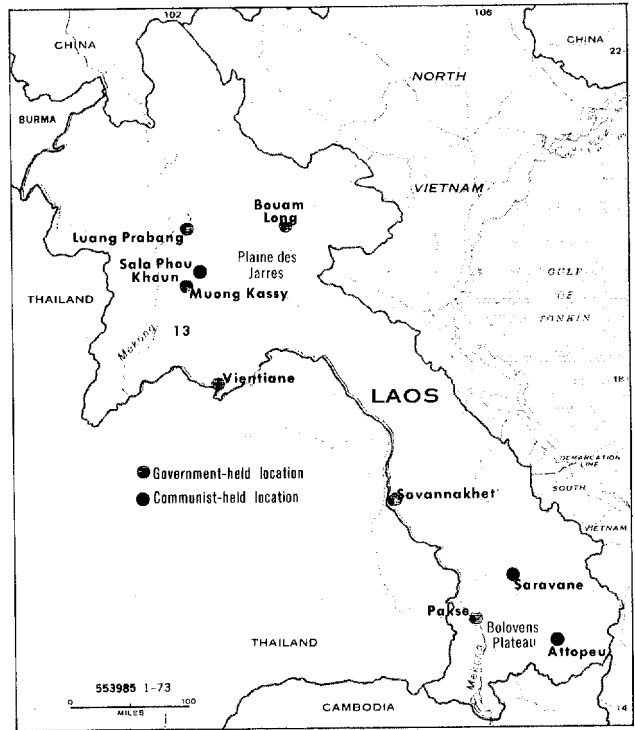
**SLIPPAGE IN SOUTH LAOS**

35 The war in the south seldom reaches the intensity it reaches around the Plaine des Jarres, but for the past two months the fighting for the provincial capital of Saravane has been heavier than anywhere in the country. This week a North Vietnamese division supported by antiaircraft and artillery units moved against the 2,200 government defenders around the town, and after two days of ground assaults and some of the heaviest shelling ever seen in the panhandle, the defenders pulled back to the south and west.

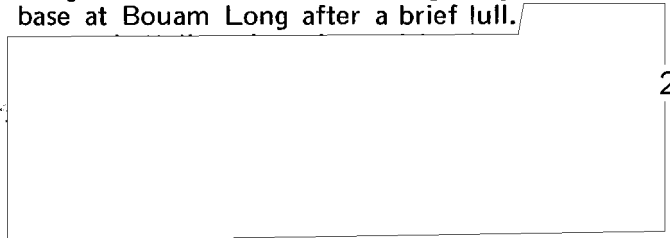
35 Since mid-October, the Communists have forced the irregulars out of Saravane three times, but each time the government has been able to reoccupy the town after air strikes on Communist concentrations. Many government soldiers have been on the line for over two months, and it may be more difficult now to organize them for another counterattack.

**In the North**

36 Pathet Lao and dissident neutralist troops still hold the upper hand along Route 13 north and south of the Sala Phou Khoun road junction.



37 In the Plaine des Jarres area, North Vietnamese gunners have resumed shelling the government base at Bouam Long after a brief lull.



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### CHINA

#### A NOT-SO-LOVED ARMY

As the Chinese New Year approaches, military and government units throughout the country exchange lengthy and effusive greetings, each unit declaring an intention to cherish and assist the other. One of the greetings is an authoritative pronouncement from Peking, called the "Spring Festival Directive," which for the past few years has provided an index of how the regime thinks the army is handling the many civil affairs tasks it inherited during the Cultural Revolution. This year, the greeting from Peking was a tersely worded three paragraphs virtually ignoring the army's still-considerable political tasks. Lin Piao's removal seemed to foreshadow a change in this political role, but the glaring lack of central guidance indicates that Peking's efforts to redefine these tasks have not yet borne fruit.

The Cultural Revolution produced a number of stock phrases to describe the civil functions the army was taking over. It was, and still is, supposed to "support-the-left" with troops sent to run factories, schools, and government offices, the so-called "three support and two militaries" forces. This year, both quotes were missing in the Spring Festival Directive.

39 [These omissions, although they obviously have political meaning, do not mean that the armed forces have totally withdrawn from civil affairs. Over the past year there has been some reduction in the number of troops assigned to these activities, but a variety of sources indicate that the military maintains a sizable role in provincial and sub-provincial party and government organizations, and some provinces have continued to praise the contribution of the "three support and two militaries" troops.]

39 [A corollary to the problem of the army's political future is the question of who will fill the administrative void if the military men are withdrawn. Basically, the choice is between pre-Cultural Revolution officials who are now in the process of being rehabilitated in growing numbers, or new officials, many of whom were activists during the Cultural Revolution. Articles supporting either alternative continue to appear regularly in the domestic media, suggesting no agreement in Peking over the proper mix of old and new in the civil administration. This controversy, together with other fallout from the Lin affair, has drastically complicated the process of reconstructing the party and reasserting orthodox party control.]

The PLA : *Treading water*



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47 On top of all this, a subtle new controversy has emerged over who commands the armed forces. Some provincial broadcasts state that the military is commanded by Chairman Mao alone; others, adopting a line first surfaced on Army Day last August, assert that it comes under the joint command of Mao and the party. While the difference may seem arcane to outsiders, recent history suggests the formulations are more than that. For example, a similar seesaw battle took place in the media during much of 1971, with Mao and Lin Biao alternately portrayed as in direct control. The outcome of that skirmish is well known.

#### Industrial Growth Slows

47 At year's end, Peking released selected statistics citing industrial gains in 1972. The statistics show rates of increase considerably lower than those of 1971. Aggregate industrial growth in 1972 appears to have been at most 10 percent, down a bit from the gains of 1970 and 1971, when the economy was recovering from the effects of the Cultural Revolution. According to Peking's figures, the rates of advance in the production of three pacesetters of recent years—steel, petroleum, and chemical fertilizer—were substantially below the gains claimed for 1971. Peking acknowledged a shortfall in the harvest of foodgrains and most vital industrial crops like cotton.

47 The New Year's editorial circulated by Chinese news media offered no explanation for the decline in the rate of growth, noting only that continued growth "at a fairly rapid pace" hinges heavily on expansion of the steel industry and of other basic industries producing raw materials, fuels, and power. Actually, the Chinese have a number of major expansion projects under way in most of these industries, and the failure to report progress in capital construction may indicate that the rate of completion has fallen behind schedule. The new facilities now under construction as well as plants being imported from Japan and Western Europe will have to become operational soon if China is to maintain its industrial momentum during the fourth Five-Year Plan (1971-75).

Selected Production Figures

	Preliminary 1972	Percentage Increase Over Previous Years	
		1972	1971
Crude steel (million metric tons)	23*	9.5*	18.0*
Crude oil (million metric tons)	30	16.0*	28.0*
Chemical fertilizer (million metric tons)	11.3	18.1*	20.2*
Electric power (billion kilowatt-hours)	95	10.5	18.0*
Coal (million metric tons)	340	4.6	8.0*
Cement** (million metric tons)	15.5	6.9	16.5*

\*Officially reported data.  
\*\*Large-scale plants only.

47 The most notable event pointing to China's growing industrial capabilities was the opening of a television network carrying live broadcasts from Peking to most of the nation's provincial capitals. The buried cables and microwave relay stations associated with the system will be used also for military command and control purposes. Other significant signs of progress included the commissioning of five large—and at least 100 small—chemical fertilizer plants. Chinese officials are optimistic on prospects for the petroleum industry, and they have predicted an annual output of 50 million tons by 1975. Moreover, China could begin exporting small amounts of crude oil before the end of the year. Groundwork for a substantial expansion of electric power capacity was laid in 1972 when construction of several new plants was begun, and a considerable volume of high-capacity equipment was imported. Lagging coal output could constrain future industrial growth although Peking has begun converting some power plants from coal to oil.

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## NORTH KOREA: THE PARTY'S THE THING 43

North Korea has always been one of the least liberal of the Communist states, but even it has attempted in the past to display some trappings of representative government. Now, under a new constitution, even the fiction of popular participation has been largely dropped by putting the party in greater control of day-to-day administration. Although Kim Il-sung had an eye on the government changes under way in South Korea, his modifications were clearly designed to cope with problems in his own ranks.

The new constitution approved by the party and government in mid-December replaces the one in force since 1948, streamlines the bureaucracy, and reflects the regime's claim that it has achieved socialism by eliminating the vestiges of the old economic system. A new Central People's Committee made up of senior Politburo members headed by Kim is formally designated the government's top policy-making body. It takes over many of the responsibilities once ostensibly vested in the popularly elected Supreme People's Assembly. The new committee is also responsible for supervising the working of the State Administration Council, formerly the Cabinet. In contrast to the previous administration, ranking Politburo members have been appointed to head important ministries and commissions, including those dealing with the economy. The total number of these bodies has been significantly reduced from 37 to 22.

The changes announced thus far do not signal any significant realignment in the North Korean leadership, although minor juggling in the party hierarchy is evident from the government assignments. Kim Il-sung's paramount position has been reinforced by his designation as chief of state.

The appointment of Kim Il as premier, the post formerly held by Kim Il-sung, appears to move the former solidly into the number-two spot.

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There are no indications that the reorganization will affect the North-South negotiations. Pyongyang did not claim, like Seoul, that government restructuring was needed to further the dialogue. Rather, President Kim, discussing the reorganization in his New Year's address, said it was necessary to overcome inefficiency, disorganization, and regional rivalries. He focused on the need to increase agricultural production and industrial development, particularly mining. Kim also called for an increase in the quality and quantity of consumer goods; the new constitution calls for a Committee for People's Service headed by a senior party officer. This suggests he may be under some pressure to improve the quality of life of the average North Korean. These challenges were probably laid before the party hierarchy in a plenum of the central committee held at the end of 1972, the usual vehicle employed by Kim to pass on new policies.

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The Supreme People's Assembly: Adopting a new constitution



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**SECRET****EUROPE****SECURITY TALKS TO RESUME**

Next week when the 34 delegations open the second round of conference preparations in Helsinki, they will begin to draw the battle lines on which the outcome of the conference itself may well turn. The first-round skirmishes went mainly to the West, but Moscow's major objective of holding the conference next summer still appears attainable at a price Moscow will pay. The Soviets undoubtedly will keep trying to quicken the pace of the talks.

When the talks adjourned last month, they were bogging down over the Western insistence that the preparatory sessions specify in draft mandates what should be discussed under various conference agenda items. Moscow wants such detailed considerations left for the foreign ministers. The Western participants will try to trump Moscow's objection as soon as the talks resume simply by tabling their proposed agenda items and the accompanying detailed mandates.

Moscow in the last month has been grappling with the Western desire for an agenda item on "freer movement." Party chief Brezhnev, speaking at the USSR's 50th anniversary celebration, noted that Moscow might agree to discuss expansion of East-West contacts and exchanges. An authoritative follow-up commentary in *Pravda* appeared to warn that Brezhnev had drawn the limits of Soviet flexibility on the matter. In Helsinki, the Soviets may be willing to put certain aspects of freer movement on the agenda, but will stick hard on the substance of any proposals for unregulated increases in East-West contacts.

The British and some other NATO allies suspect that to get freer movement on the agenda the West will have to agree to an item on post-conference machinery. The US disagrees. In NATO discussions, the members of the European Communities have been much more willing than the US to countenance some form of permanent machinery to follow the conference.

**THE NEW EUROCRATS**

The new Commission of the European Communities that took office this week has more

youth and political personality than its predecessors. It will need energy and persuasive skill to cope with the community's enlargement from six to nine members and with the programs approved at the European summit in Paris last fall.

Commission President Ortoli skillfully and rapidly arranged the distribution of responsibilities among the 13 commissioners. The addition of four commissioners has spread out the work load, but this also risks increasing the tendency for individual commissioners to identify themselves with narrow aspects of community policy. Ortoli apparently considered, but rejected a task-force approach to commission organization, and he has not revealed how he will restore a sense of collegial responsibility to the body.

Britain's former ambassador to Paris, Christopher Soames, after some hard lobbying, will take over most of the external relations briefs, including that for the forthcoming multilateral trade negotiations. One of Soames' avowed aims is to improve the EC dialogue with the US, and he feels he will be aided in this by the confidence that both Prime Minister Heath and President Pompidou have in him. EC relations with the less-developed countries, except for Latin America, will be in the hands of France's Deniau. Problems such as the Mediterranean and the trade negotiations will test how well Soames and Deniau can cooperate.

Germany's Ralf Dahrendorf, who formerly held Soames' job, has suffered something of a comedown. His new responsibilities cover areas in which activity is likely to be slow. Bonn did not strongly push Dahrendorf's claim to retain foreign affairs, in part because his political stock is not high at home, and in part because Germany's other commissioner moved to the economic and financial affairs post—a major assignment even though some of its functions have now gone to a new Belgian commissioner.

The Commission not only has to meet the challenges of the enlarged community but also has to contend with sagging morale among the Commission's more than 5,000 employees. Work has tended to become routine and the innovative atmosphere of former years is missing. The recent

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strike of Commission personnel reflected dissatisfaction with salary prospects as well as uncertainty over the impact of contingents from the new members. Parceling out posts in the various directorates will be a delicate chore.)

629 Although the Commission still lacks real political heavyweights, six of the seven new commissioners have held ministerial posts in their national governments. The British commissioners say they intend to take seriously the political

requirements of their European posts and to be active in promoting initiatives in the name of the EC's common interests, taking the community's ease to the people. Ortoli's reputation as an administrator and his experience years ago as a senior official in the Commission give some promise of increasing the efficiency of the Brussels executive. He is, however, a protege of Pompidou's, and this probably will lead him to avoid doctrinal disputes with Paris on European organization.

**The New EC Commission**

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	Age	Nationality	Position	Responsibilities
Francois-Xavier Ortoli	48	Fr.	President	Commission secretariat Legal service Spokesman's group Security office
Wilhelm Haferkamp	50	FRG	First Vice President	Economic and financial affairs Statistical office
Carlo Scarascia-Mugnozza	53	It.	Vice President	Liaison with European Parliament Environmental policy Consumer interests Transportation Press and information
Sir Christopher Soames	53	UK	Vice President	External relations
Dr. Patrick Hillery	50	Ire.	Vice President	Social affairs
Henri Simonet	42	Belg.	Vice President	Fiscal harmonization Financial institutions Energy policy EURATOM safeguards
Jean-Francois Deniau	45	Fr.	Member	Developing countries linked to EC Budget and financial control
Altiero Spinelli	66	It.	Member	Industrial and technology policy
Albert Borschette	53	Lux.	Member	Competition policy Personnel and administration
Ralf Dahrendorf	44	FRG	Member	Research, science, and education
George Thomson	52	UK	Member	Regional policy
Petrus Lardinois	49	Neth.	Member	Agriculture
Finn Olav Gundelach	48	Denmark	Member	Internal market Customs union

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**MALTA: NATO MAKES AN OFFER**

Prime Minister Mintoff reacted calmly to the NATO response to his demand that Malta be compensated for losses in base rental caused by the sterling float, although he did raise several points that may result in additional haggling. He also wants to settle several bilateral issues with the UK before he accepts the NATO offer.

The UK's NATO allies had set aside enough of their own currencies to pay their shares of the base payment in sterling when the pound was valued at \$2.60. With sterling down in value, the contributors in effect have extra amounts in their own national currencies budgeted for the base payment. These extra amounts total roughly \$2 million, and this is what the UK's NATO allies have agreed to pass on to Malta for 1973. These payments would begin only after Malta accepts London's 1 January payment made under the terms of the base rental agreement.

Mintoff told the US ambassador in Valletta, who presented the NATO offer, that he had to consult with his colleagues before responding. He raised several questions. Concerned that the payments would be only for 1973, Mintoff said he did not want to get into yearly wrangles and hoped he could be reassured that the allies would continue to make these payments. The Prime Minister also proposed that all of the annual payment of \$36.4 million be made in the respective national currencies instead of pounds. The terms of the base agreement, however, specify that the payment is to be made in pounds, and the US ambassador responded that the change Mintoff wants would alter the basic agreement. Mintoff also commented that the UK, the biggest contributor, had not agreed to any extra.

Although Mintoff claimed he has to consult with his colleagues, the decision on what Malta does next is essentially up to him. His calm reaction suggests that, basically, he is relieved that he will get most of what he demanded and that he will not have to rely on Libya for aid. Mintoff now appears to want to reconcile bilateral differences with the British on the Malta Flight Information Region and the removal of security clearances from Maltese personnel working on the British bases before he answers the allies on their proposal.

**ROMANIA: DEE-FENSE, DEE-FENSE**

Bucharest has reasserted its right to run its own military affairs. It has just passed a new defense law that codifies this independence in the broadest way possible without violating Romania's Warsaw Pact obligations. The law also reinforces a point Bucharest is pressing at the European security talks—that a sovereign state has the right to formulate its own defense policy without outside interference. The insistence on independence in military matters dovetails with another point Bucharest is making at Helsinki, that military blocs must eventually disappear.

The law provides, for the first time, compulsory military training for women as well as men. It provides that all organizations and economic enterprises would come under military authority in the event of war. It prohibits Bucharest from accepting the action of any foreign power that would tend to injure Romania's defense capability. Although the new law does not address the subject of military maneuvers specifically, it is yet another document Bucharest can point to in its opposition to hosting Warsaw Pact exercises.

The law has striking similarities to the code governing the Yugoslav defense system and underscores Romania's already numerous differences with its pact allies. Even before passage of the defense law, a mutual fear of Soviet hegemony had brought about Romanian-Yugoslav military cooperation and consultations. Bucharest and Belgrade are putting final touches on a plan for the joint production of a subsonic fighter/trainer aircraft. There are reports that an agreement has been reached for a joint venture in submarine construction.

There are, however, limitations on both Romania's independence of the pact and the extent to which Bucharest can work with Belgrade. The new law contains references to Romania's treaty obligations and stops short of creating a comprehensive nationwide defense system such as Yugoslavia's all-peoples' defense.

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**EGYPT: QUIET FLOWS THE NILE**

69 The closure of all Egyptian universities on 3 January, coupled with strict police control of student activity, has halted the latest outburst of student unrest. Scattered protests continued over the weekend, but they were of a minor nature. Most university students apparently have left for home to begin their longer than ordinary, mid-year vacation.

73 Some of the confrontations between the police and protesters were fairly bloody, and both sides sustained sizable casualties. In spite of the number of injured, the incidents were largely confined to the immediate vicinity of the campuses, and only a limited number of students participated. More important for the regime, no other segments of the population actively supported the protesting students. A constant fear of the government is that workers might join in student-initiated protests, or that demonstrators would win support from younger military personnel.

71 Some of the over 100 arrested during the disturbances were apparently from the political left, and there are Egyptian officials who suspect that foreign Communists encouraged the outburst. Pinning the blame on outsiders is, of course, one way to absolve the Sadat regime of responsibility for the underlying causes of discontent.

72 In an interview published by a Lebanese newspaper on 8 January, Sadat underscored his determination to keep student activism within manageable limits. He charged the troublemakers had exploited the freedom of expression allowed them. He warned that students who had poor grades or who failed to report for classes when the schools reopened would be expelled. Sadat obviously hopes that such warnings will suffice, but his domestic security forces will be on guard against any indication of renewed student restiveness when classes resume on 27 January.

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**ISRAEL-SYRIA: CLASHES CONTINUE**

74 Israeli forces on 8 January mounted another retaliatory action against regular army positions and fedayeen bases in Syria that exceeded in terms of firepower the last heavy attacks of late November. These attacks brought a few weeks of relative quiet along the Golan Heights cease-fire line, but mid-December Syrian-based fedayeen began a new string of incidents.

74 An attempted ambush of an Israeli patrol, accompanied by some supporting Syrian artillery fire, set off this latest Israeli attack. There were no Israeli casualties resulting from these fedayeen-inspired incidents, but Israeli aircraft launched a wide-ranging attack involving some five separate air raids that extended from southwest Syria as far north as the port of Latakia. The targets included four Syrian radar sites, two fedayeen supply bases, two Syrian army camps, and as many as 35 Syrian artillery positions close to the cease-fire line.

74 The Israeli air attacks prompted a Syrian artillery barrage into the Golan Heights that was answered by Israeli artillery and tank fire. During the air strikes the Israelis downed another six MIG-21s. They shot down six in late November. Damascus has lost 17 aircraft—3 SU-7s and 14 MIG-21s—since early September when the Israelis—in the wake of the Munich slayings—stepped up their actions against the fedayeen.

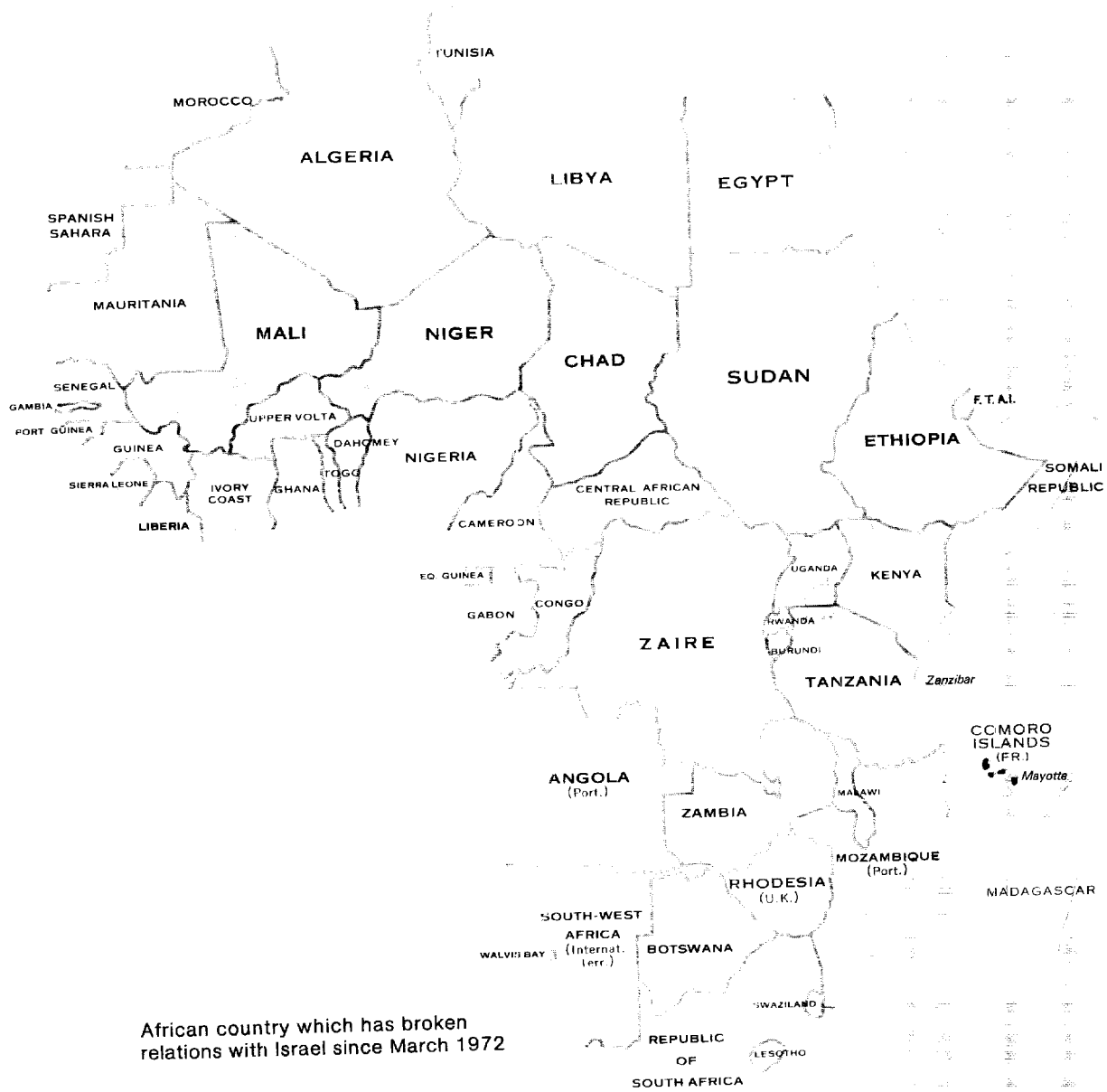
75 Israeli officials stated—as they have on each such occasion—that there would be no Israeli shelling or bombing once the Syrians decided to keep the cease-fire completely. The Israelis insist that Damascus can determine fedayeen plans and that it can easily shut off fedayeen actions as have Jordan and Lebanon. Damascus is apparently not yet willing to call a halt, despite the heavy punishment it is taking.

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**AFRICA: HOUNDING THE ISRAELIS**

82 Growing Arab influence in black Africa, first evident early last year when Uganda broke with Israel and adopted a pro-Arab policy, has led to Tel Aviv's diplomatic ouster from four more African countries over the past two months.

82 Israel is trying to repair its diplomatic network in Africa and still has friendly relations with 24 African countries.

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84 [Redacted]

Davar, the semi-official newspaper which mirrors Israeli Labor Party opinion, indicated that while these diplomatic setbacks should not be belittled, there was no cause for hysteria or for a general revision of the activist policy that Israel has long pursued in Africa. Davar called for rational links and rational application of Israel's limited resources in Africa.

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82 Chad triggered the recent series of ruptures in a sudden action last November. The Congo and Niger severed their ties following Israel's announcement in late December that it was reducing its representation in those countries to non-resident status. Tel Aviv's announcement coincided with signs of nervousness in Niger over Israel's continued presence there after neighboring Chad had broken relations. The Israelis apparently believed that their position in Brazzaville was crumbling. Mali—next door to Niger and also to Mauritania, which had broken with Tel Aviv in 1967—did not wish to be out of step and followed suit on 5 January. Chad, Niger, and Mali all have large Muslim populations; Congo does not, but has long been pro-Arab in outlook.

**COMORO ISLANDS: TOWARD FREEDOM**

86 The government of this Indian Ocean territory, elected on 3 December, is moving cautiously toward independence from France. The negotiations, once started, will probably be prolonged, but France is expected to accede to the island's wishes. Once independent, the islands will still be heavily dependent on outside aid; independence could also lead to increased friction between the islands' Arab aristocracy and a largely black population.

82 The expansion of Arab influence southward in Africa is in large part the result of Libyan President Qadhafi's Arab activism and his ability to provide generous financial inducements from his country's oil wealth. In the case of Chad, Qadhafi had special leverage by virtue of the support he has been giving to the long-standing Muslim insurgency against Christian President Tombalbaye's government. Since his break with Israel, Tombalbaye has visited Qadhafi, who promised to turn over any Chadian rebels—except for the most prominent political leader—found on Libyan soil. The Chadians are claiming that they were also promised substantial development funds by Qadhafi. Niger, already receiving modest Libyan aid before the break with Israel, was anxious to silence domestic critics and forestall any difficulties with Qadhafi. The Libyan President's machinations in the Arab cause were supplemented by the anti-Israel line urged by Saudi King Faysal when he visited Chad and Niger last fall.

86 While sincere in their desire for ultimate independence, Comorian leaders for the most part want no abrupt change in status, and they have emphasized their wish to maintain close, cordial relations with France. Negotiations are expected to lead finally to the holding of a referendum on the independence question. French officials have stated that they will grant independence, provided a majority of the Comorians vote in favor of such a move. In order to accommodate the separatist sentiment on one of the islands, Paris is committed to allowing each island to accept or reject the proposal. The inhabitants of Mayotte, who feel little sense of identity with the other islanders and have always resented their domination from the capital, are eager to end their

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association with the rest of the Comoros and become a French department.]

Until the fall of this year, leaders of the two main political parties, representing different factions of the ruling aristocracy, were content to maintain the Comoro's territorial status. Agitation for independence originated with a liberation movement based in Tanzania, which had little following on the islands. Last September the two parties adopted a common policy favoring independence. The government then fell, and in the resulting elections those favoring independence won a decisive victory, gaining 34 of the 39 seats in the legislature; the 15 deputies opposed all come from Mayotte. The independence coalition is not agreed on a timetable for independence, and the differences may become more pronounced as the negotiations proceed.]

The move for independence probably grew out of a general feeling on the part of the islands' leaders that territorial status had become anomalous. The recent classification of the Comoros as a colonial state by the UN's decolonization committee may have added to that feeling. The Comorian leaders may have feared they would find themselves in a really embarrassing position if they went on clinging to France. On top of this, independence sentiment had been steadily growing among Comorian youth.]

At the same time the islands' Arab aristocracy can only be mindful of the example of neighboring Zanzibar, where the African majority rose against the Arab minority shortly after independence and overthrew the government. Comorian Arabs do not want the independence question to become an inflammatory public issue. [redacted]

**BANGLADESH: OPPONENTS AT HOME**

The government, possibly fearful of jeopardizing future US economic aid, has moved to tone down the anti-American line taken recently by a number of leading members of the ruling Awami League. The regime is concentrating

mainly on its domestic opponents and is stepping up the use of strong-arm tactics against them.]

A New Year's Day clash outside the USIS building in Dacca, in which police killed two student demonstrators, triggered a spate of protest activities by opposition parties. On 3 January some leaders of the Awami League, seeking to shift attention from the government's role in the student deaths, issued a statement blaming Chinese and American "agents." The following day, Prime Minister Mujib took some sting out of this when he publicly asserted that the government was determined to adhere to a neutral foreign policy "with friendship to all." Foreign Minister Samad made a similar declaration and also stated—clearly referring to the USSR—that "we don't want to get into the pocket of any of the powers." Several other Awami League leaders made speeches on 4 January blaming the unrest on foreign "inimical forces" and "agents," but this time only China—not the US—was mentioned. Both Mujib and Samad have acknowledged Bangladesh's obligation to pay for damage done to several USIS installations last month. Moreover, the Dacca press, possibly with government prompting, has begun to play up American economic assistance.]

The government also has taken action to restore the Dacca USIS building, occupied last week by opposition-led student protesters, to US control. Normal USIS operations have not yet been resumed, but the occupiers have abandoned the building, the police have taken US officials on an inspection tour that revealed no apparent damage, and USIS custodial and security personnel are back on the job.]

Meanwhile, violence sponsored by the Awami League against opposition parties has increased. Some Awami League leaders have been publicly threatening to employ force against the opposition. On 5 January members of the party's student organization set fire to two opposition offices in Dacca and stoned two others. In at least two district capitals, opposition rallies and buildings have also been physically attacked. Politically inspired violence, chronic in Bangladesh, will probably increase in frequency as the March elections approach. [redacted]

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**GHANA: A YEAR AFTER A COUP**

97 Colonel Acheampong, the head of Ghana's second military government, and his cohorts on the ruling National Redemption Council are firmly in power as they celebrate the first anniversary of their overthrow of former prime minister Busia. As a result of nationalistic policies and effective propaganda, the government's popularity at home and prestige in Africa have grown. It has also managed some modest economic successes, but huge problems remain.

97 pudiating some of it and accepting the remainder only on Ghana's terms. At present, the government is drafting a response to a compromise offered by the creditors last fall. Meanwhile, having declared an intention to seize the "commanding heights" of Ghana's foreign-dominated economy, the council recently moved to acquire majority ownership in some mining and timber firms. Increasingly, economic policy is being made by advisers who advocate a centrally directed economy much as in the days of Nkrumah, who, in fact, has been partially rehabilitated posthumously.

100 After a slow start marked by policy confusion and a preoccupation with security, the regime over the past six months has gained confidence. 97 formulated definite policies, and assumed effective control of the country's administrative machinery at all levels. Acheampong

97 The government's "Operation Feed Yourself," restrictions on luxury imports, and smuggling controls—aided considerably by rising cocoa and gold prices—resulted in a favorable trade balance. No appreciable progress has been made, however, toward solving the country's major economic problems—inflation, commodity shortages, a stagnant growth rate, and a declining standard of living. Indeed, some of the government's policies, popular at home, complicate the search for solutions. Ghana's major creditors, including the USSR, are in effect tying a resumption of aid to a resolution of the debt problem, and Ghana's participation policies are discouraging new foreign investment. 7

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has grown in his job. 78 He clearly has no plans to step down soon; on 10 January, he confirmed publicly that he will not return the country to civilian rule until the economy is sound.

100 The turning point for the junta came when it easily foiled an inept coup plot last July. The government faces no visible threat. 97 the exiled Busia's followers are either discredited or in detention, and the labor movement has been effectively contained. Nonetheless, policy disputes, tribal animosities, and personality conflicts within the group have the potential eventually to threaten regime stability. 100 For example, personnel shifts within the military are always a bone of contention, and Acheampong's decision, reported this week, to remove the popular acting army commander is likely to alienate some younger officers. 99

97 In foreign affairs, the council has shifted Ghana from a pro-Western tilt to a more non-aligned position. It has espoused more militant positions on African issues. It has restored relations with the People's Republic of China, which has scored points by becoming the only country to offer aid since Acheampong took over. It has established relations with the German Democratic Republic. Acheampong remains basically friendly to the US, but his regime is clearly moving along a course that is likely to subject these relations to increasing friction. He has criticized the West's economic ties to South Africa, and early this week 100 called on the OAU's African Liberation Committee—meeting in Accra—to reaffirm armed revolution as the only means of liberating southern Africa. [redacted]

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97 Pragmatic self-interest—not ideology—has led the junta to implement decidedly nationalistic policies, strongly emphasizing self-reliance. 100 The junta's most significant initiative so far was an attempt early last year to reduce Ghana's large debt to Western creditors by unilaterally re-

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**SECRET****BRAZIL: ECONOMIC SITUATION LAUDED**

Past economic growth and promises of more in the future dominated the year-end addresses by President Medici and his economic czar, Finance Minister Delfim Neto, but neither focused on the problems that both this administration and its successor may face.]

The Brazilian leaders asserted that the gross domestic product rose by 10.4 percent during 1972—the fifth consecutive year when growth exceeded 9 percent. They said that the cost of living in Rio de Janeiro climbed only 14 percent, 1 percent less than they had projected at the start of the year. Medici declared that he intended to cut inflation to 12 percent in 1973. Exports last year increased to about \$4 billion—more than one third above the 1971 total—but imports also continued to rise—to around \$4.2 billion. The resulting unfavorable trade balance, along with the outflow represented by services, interest, and debt payments, added up to a current account deficit of \$1.6 billion at year's end. Enormous new foreign capital inflows more than offset this deficit, however, and raised reserves above \$4 billion, more than double holdings at the end of 1971.



**\$61.5 Million Naphtha Refinery Project**  
*Claims of growth...*



**Finance Minister Neto and President Medici**

*...and promises of progress*

[These claims are based on preliminary figures, but now that they have been publicized by the President they are unlikely to be changed even if the final tabulations are not quite as favorable. Opponents of the government have charged that the statistics have been manipulated to make them look better, but since the government produces the figures, the charge is hard to prove. The government also tends to set goals it feels it has the power to achieve. The cost-of-living figure cited by Medici, for example, is for the relatively small Rio de Janeiro zone where controls could be better enforced than in other areas. Inflation nationwide may have been higher than 14 percent last year, but was probably lower than in 1971.]

[Medici seems to measure the success of his administration largely in terms of delivering on its economic promises. By setting and achieving reachable goals, Medici convinces top military officers that his regime is capable and effective. The good economic record strengthens Medici's prestige and his hand in choosing a successor, and also smooths the road for the successor.]

[Administration economic officials are already taking steps to attain Medici's targets for 1973. There are factors, however, that could hamper this effort. For example, the cut in

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inflation last year was made possible by unusually abundant harvests, lower sales taxes, and tighter price controls. The spectacular growth in export earnings was in large part a result of high world prices for several of Brazil's basic exports, the devaluation of the dollar, and increased inflation in Europe. The great influx of foreign capital was almost entirely in the form of loans, which pushed the country's foreign debt over \$10 billion. The Brazilians must balance the need for a continued flow of foreign goods and capital with their desire to maintain firm control of the economy so that both debt burden and inflation can be kept manageable. This is likely to be a more pressing problem for the administration that will come into office in March 1974 than for the present one.

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In his year-end speech, Medici said that the ultimate objective of his economic policies is social progress. Although some steps have been taken to improve the lot of the average Brazilian, most of his programs are long-range ones—such as improving education and raising employment—that will bring visible results only over a period of time. As the nation continues to roll up year after year of high growth, there may be more pressure to distribute a larger share of the new wealth among the people who thus far have not benefited much.

the present National Front system of Liberal-Conservative parity. This would balance the present strength of the Liberals by guaranteeing a Conservative president in 1978. Liberal Party director Carlos Lleras Restrepo, trading heavily on the strong support he gained at the Liberal convention last October, has suggested a coalition embracing progressives from both parties. Unlike the National Front, Lleras' coalition would not involve parity and would not assure the Conservatives another turn in power.

107 [Much will depend on whether Lleras can maintain his hold on the Liberals. His personal strength and that of his party are such that he or his nominee could win the presidency fairly easily, barring a dramatic change in the situation. Although the Conservatives are trying mightily to reopen old breaches in the Liberal Party, they recognize that their chances in 1974 are slim. In these circumstances, the Liberals have virtually no interest in extending the National Front. Moreover, they realize that if enough progressive Conservatives become disenchanted with their own party's chances, Lleras' proposed bipartisan coalition would look better to them, thus strengthening the over-all Liberal position.]

107 [These old-line parties, caught up in their dispute over coalitions, appear all but oblivious to a new political factor that has developed since the National Front was created in 1958. Since then, the lower class—ignored by the essentially conservative, upper- and middle- class governments—has been molded into a power base by the populist ex-dictator Gustavo Rojas Pinilla. Rojas, old and ineffective, has since been eclipsed, and his followers have turned to an assortment of peasant organizations. The promise of freer political activity, prompted by the scheduled end of the National Front next year, has encouraged these elements to believe that their hour is at hand. If this prospect is whisked away by some new coalition arrangement, profound lower class demoralization could result. The existing political system would be hard pressed to cope with a strong new populist movement.]

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**COLOMBIA: NEW YEAR PROSPECTS**

106 [The presidential campaign and the form of government that will replace the National Front are already dominating Colombian political life, although the election is not to be held until April 1974. The country's principal political leaders have both proposed coalition governments, but of dramatically different kinds.]

106 [Conservative Party elder statesman Mariano Ospina Perez is pushing hard for a continuation of

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**ARGENTINA: PERONIST PROBLEMS**

Squabbles over the distribution of candidate slots and the defection of some Peronist leaders are impeding Peronist efforts to prepare for the general elections on 11 March. The other major political parties and coalitions stand to benefit from the growing problems within the Peronist movement, but the government-sponsored alliance has been the most active in soliciting the support of dissident Peronists.



**Rogelio Coria**

*A dramatic resignation*

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The resignation of Rogelio Coria as head of the "62 organizations," the controlling bloc within the General Confederation of Labor, could be the most significant break in Peronist ranks to date. Coria's dramatic announcement came after unsuccessful appeals to Peron to reconsider the make-up of the Justicialist Front's election slates. Several labor leaders have been critical of the nomination of Peron's lackey, Hector Campora, for president, but it was the refusal of Peron and Campora to give labor more congressional and provincial candidate slots that caused the greatest disenchantment among union leaders.

Lanusse is likely to do what he can to obtain the support of dissident labor leaders, and with wage negotiations currently in process he has some good bargaining points. As an added enticement, a new group of dissident Peronists has been organized and has joined the Martinez coalition, the Federal Republican Alliance.

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Coria has pledged his support to no one as yet,



Another defection that could have further ramifications is that of Raul Matera, a long-time Peronist leader. Matera, who has rivaled Peron in popularity in some recent polls, has announced that he will support Oscar Alende for president. A former member of the Radical Party, Alende currently leads a center-left coalition that recently attracted the support of the illegal Communist Party.

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**Ezequiel Martinez**

*A hand-picked candidate*

It is doubtful that Matera, despite his popularity, will be able to swing much support to Alende; indeed, the power of any labor leader to deliver votes to any non-Peronist candidate is questionable. On the other hand, if Coria and Matera are joined by other respected Peronist leaders, it could encourage the rank and file to break party discipline and vote against the unpopular Campora.

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110 [The Peronists are still considered the strongest political party in Argentina, but disputes over congressional and provincial candidate slots are hurting their prospects. Some 300 Peronists traveled from Rosario to Buenos Aires this week to protest the imposition of a gubernatorial candidate on Santa Fe Province by the Peronist national leadership. Similar rebellion against national leadership is in evidence throughout the country, and in some provinces rival Peronist slates will confront one another at the polls on 11 March. ]

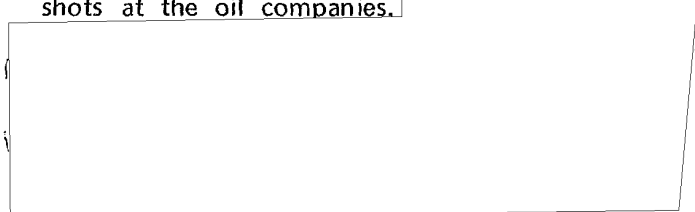
117 [Although government officials now give a low priority to an oil treaty, there is still hope that the state-owned petroleum corporation and the US oil companies can reach an agreement that would set up a consortium to conduct a geological survey of the Orinoco Tar Belt in eastern Venezuela. Several companies have already expressed interest in such a venture, but have been delaying a final decision until it is clear what the government's attitude toward future foreign investment will be. ]

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117 [While professing interest in forgetting past differences and creating a suitable investment climate, Venezuelan officials continue to take pot shots at the oil companies. ]

VENEZUELA: OIL TREATY FADES

117 [The timetable for a long-term petroleum agreement with the US has been pushed back by the Caldera government's growing preoccupation with the campaign for the presidential election to be held in December. ]



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117 [Last September, US and Venezuelan officials agreed to begin discussions on a petroleum agreement. The Venezuelans would like the agreement to guarantee continuing high revenues, large amounts of foreign investments, and a secure market. At the same time, the US would get a steady source of oil and the companies a fair return on investment, present and future. Negotiators were selected, but little progress has been made. Venezuela's chief negotiator recently explained that the press of other duties—specifically Venezuela's entry into the Andean Pact—will completely occupy his time for the next few months. He and other officials connected with the discussions are probably concerned that the talks with the US might become a political football in the campaign. Several leftist politicians have already signaled that they would make an issue of any agreement reached. ]

The government has also voiced dissatisfaction with the companies' production estimates for 1973. [Some government officials talk of imposing penalties and taking a hard line, particularly toward Creole, the country's major oil producer, whose relations with the government range from cool to frigid. In Venezuela, the oil companies are viewed with deep-seated distrust, and the government's presidential candidate is already accusing them of financing the opposition. ]

117 [The government's decision on how hard to press the oil companies on any or all of these issues will depend at least in part on its assessment of the political situation in this election year. If public opinion polls continue to indicate that the government's candidate is trailing, the temptation to beat this particular nationalist drum will be great. ]

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**USSR PICKS UP THE TAB**

The USSR has renewed its commitment to underwrite the Cuban economy in a series of agreements concluded during Fidel Castro's visit to Moscow late last year. The new pacts not only represent explicit recognition of Cuba's inability to meet its debt obligations, but also point to a revived effort to accelerate development of Cuba's sluggish economy.

The agreements provide for rescheduling payment of Cuba's \$3.5 billion debt to the USSR and for \$370 million in new long-term development aid. Debt repayments, which Cuba thus far has been unable to meet, have been officially postponed until 1986; repayment begins then and will stretch over a 25-year period at no interest. The long-term aid follows the nearly \$400 million received over the last decade and is to be provided at "low interest"—probably 2.5 percent per year. The assistance will be used in agriculture and in industry, particularly textiles, nickel, and electric power.

Moscow also agreed to finance Cuba's annual trade deficit with the USSR for at least the next three years. This deficit, which has averaged some \$350 million annually in recent years, reached a record \$450 million in 1972, reflecting the poor Cuban sugar harvest. To help reduce future deficits, the USSR has agreed to raise the price it pays for Cuban sugar from 6 cents to 11 cents per pound, well above the unusually high current world market price of 9 cents a pound. In addition, Moscow will double the price it pays for Cuban nickel, as well as provide financial and technical aid to expand nickel production capacity. Despite these price concessions and an expected improvement in sugar output this year—5 to 5.5 million tons compared with the slightly more than 4 million tons last year—the deficit will remain substantial this year.

The Cuban economy has done poorly under Castro, despite large and increasing amounts of aid in the past, and Moscow has been stepping up the pressure for meaningful economic reform in recent years. Two high-level Soviet delegations visited Havana in 1971 to survey the economy,

the number of Soviet advisers appears to have increased since 1970, and Cuba recently has been brought into the Communist Council for Mutual Economic Assistance. While the new agreements may reflect in part Cuban accession to Soviet suggestions, they constitute no guarantee of rapid economic development, as Castro has readily admitted. The Cuban economy still faces serious organizational and managerial deficiencies that will severely handicap achievement of sustained growth.

[redacted], Castro evidenced no genuine enthusiasm regarding the agreements when he described the key aspects in a televised speech last week. Although he has been more receptive to Soviet advice since 1970, his restrained reaction suggests that he realizes the agreements serve to tie Cuba more closely to Moscow and restrict his freedom of action in political matters. [redacted]

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**PANAMA: HOST TO THE COUNCIL**

The Torrijos government this week all but nailed down a United Nations Security Council meeting in Panama. On 9 January, it formally invited the council to meet in Panama City from 15 to 21 March, at which time Panama will have the chairmanship. Panama has already won the unanimous backing of the Latin American group at the UN and appears to have the necessary council votes to gain approval for its proposal.

Thus far, an agenda for the session has not been prepared, but it seems very likely that Panama will bring up the canal problem. Panama seems to believe that it can advance its negotiating objectives by presenting its case clearly and forcefully in a forum that would attract US and international public attention. A final decision on how Panama will play the issue, however, will probably not be made until the last moment. [redacted]

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DIRECTORATE OF  
INTELLIGENCE

# *WEEKLY SUMMARY*

## *Special Report*

*Brazil: The Selection of a President*

**Secret**

No. 46

12 January 1973  
No. 0352/73A

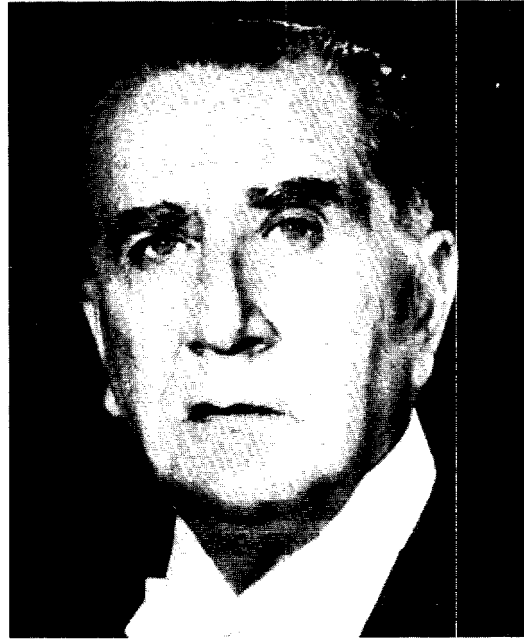
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The major political challenge facing President Emilio Medici in coming months is the need to arrange for a successor. Although his term does not end until March 1974, potentially divisive behind-the-scenes maneuvering by ambitious generals has already begun and may prompt Medici to name his man long before then.

Succession is a problem as the military-backed governments since 1964 have not institutionalized the presidential selection process. This means that the President and the most senior military officers, whose views and attitudes differ, must somehow agree on a choice. Failure to reach agreement or the selection of a man who proves inadequate to the job could disrupt the country's political stability.

President Medici  
1969—



President Castelo Branco  
1964—66



President Costa e Silva  
1966—69

INFORMATION REPORT ON THE GOVERNMENTS SINCE 1964

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It is almost certain that only an active duty or retired general will get the nod. Moreover, he must have four stars, at least by the time he takes office, to avoid the hierarchical strains of full generals being commanded by lesser generals. The military are convinced that only one of their own can carry out the development and national integration programs they have started. They firmly believe that only a man with a military background will possess the integrity, technical know-how, and discipline to do the job. The officers are still not ready to return the decision-making machinery to civilians, whom they blame for the corruption, inflation, and economic failures that helped prompt their intervention in 1964. Moreover, since the military have a monopoly on the disposition of force and have severely curtailed all civilian institutions, there is no way for a civilian to launch a viable candidacy.

#### **Succession Since 1964**

When the military assumed power in 1964, they sought among their ranks a leader who was uncompromised politically and was both respected by and acceptable to diverse military factions. They found such a man in Humberto Castelo Branco, army chief of staff, who had led the Brazilian contingent in Italy in World War II and was known as a military intellectual. He was among the leaders of the 1964 revolution and had worked successfully with generals who held widely differing views. The Supreme Revolutionary Command had little difficulty in agreeing on Castelo Branco, who was then formally elected by Congress.

His successor, War Minister Costa e Silva, actively sought the presidency. He maneuvered skillfully to line up support, while remaining outwardly loyal to Castelo Branco. Costa e Silva was evidently astute enough to perceive a delicate balance within the army between his supporters and those of the President and studiously avoided taking a stand on most issues. Costa e Silva managed to emerge as the unity candidate of the armed forces, and he was elected by Congress in October 1966.

In August 1969, Costa e Silva suffered a stroke. A junta of the three armed forces cabinet ministers took over, bypassing the civilian vice president. When it became clear that the President would not be able to resume his duties, the junta convoked the military high command, dominated by the army, to choose a successor. The high command agreed on Medici, then commander of the Third Army and former chief of the National Intelligence Service. Medici reportedly neither sought the office nor encouraged anyone else to seek it for him. His selection was largely due to an excellent military record and his reserved personality, which made him acceptable to a broad sector of the armed forces. The early agreement also avoided the threat to military unity that would have been posed by prolonged maneuvering among generals ambitious for the top job. There are indications that Medici, when he sensed less than total support among the generals, has not hesitated to remind them that he accepted the post reluctantly and only to preserve military unity.

#### **Medici's Present Position**

Medici, remembering Castelo Branco's failure to plan the succession, is determined not to repeat that mistake. He is also aware that there is much behind-the-scenes maneuvering by generals who desire the presidency for themselves or for favored colleagues. Months ago, he moved to prevent open debate that might promote or exacerbate divisions within the military or harm the chances of any candidate. He also wanted to postpone a decision that would, in effect, make him a "lame duck" with a year of his term still left.

Medici has the confidence of the senior commanders and is, therefore, in firm control of the succession and likely to remain so. He is widely respected in the military and among the public. He is seen as highly competent and effective in achieving important national goals; his term of office has brought a reduction of inflation, sustained economic growth, and an apparent end of terrorism. He has consistently kept decision-making within a small group and has not

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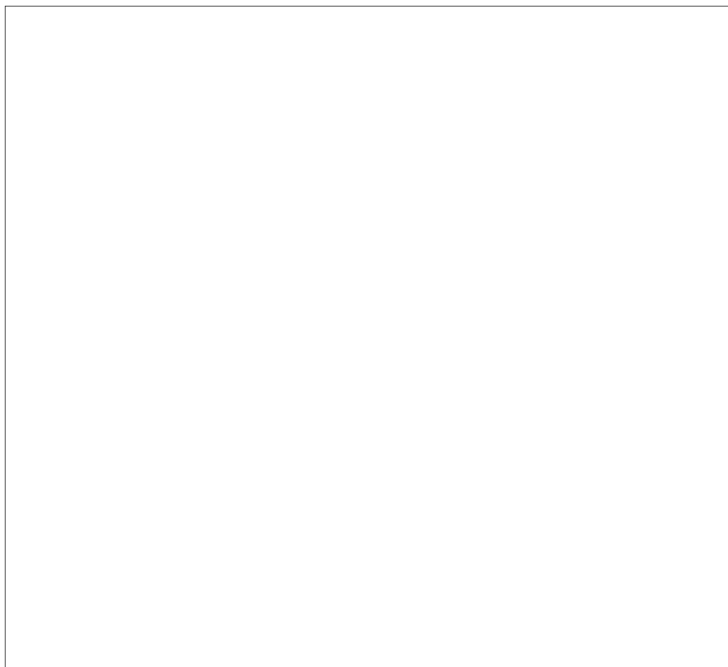
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tolerated ineffectual subordinates. The President, through his army minister, moved the military commanders frequently enough to prevent their establishing power bases from which to maneuver politically. He promoted officers who supported the regime. Ever conscious of the need to maintain military unity, Medici has carefully balanced the various factions; e.g., he has appointed followers of Castelo Branco to high positions.

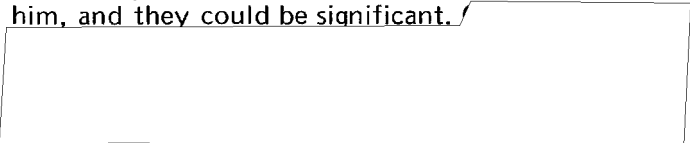
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importance, first as chief military adviser to President Castelo Branco, then as a member of the Supreme Military Tribunal, the nation's highest military court. Geisel, like presidents Medici and Costa e Silva, as well as many of Medici's top advisers, is a native of the state of Rio Grande do Sul.

At Petrobras, Geisel has demonstrated again that he is an able administrator and talented manager. Heading that company has undoubtedly given him intimate insights into the nation's development problems and considerable experience in dealing with complicated technical matters.

Like Medici, Geisel is reserved, personally honest, and politically acceptable. Medici is said to regard Geisel highly. He has been described as moderately nationalistic; he favors nationalized public utilities and authoritarian solutions to national problems. A few factors work against him, and they could be significant.



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Geisel's "candidacy" surfaced too soon, giving his opponents a long lead time in working to defeat him. It also provided an early impetus to the succession scramble the President had so urgently hoped to avoid.

**The Candidates**

Most often mentioned as the successor to Medici is retired General Ernesto Geisel, brother of Army Minister Orlando Geisel. Ernesto Geisel has headed the state petroleum enterprise, Petrobras, since his retirement from active duty in 1969. Geisel, more than any other figure, seems to embody the qualities that the military wants in the next president of Brazil. Basic to these is a long and distinguished military career, spent in a wide variety of command positions that led eventually to the rank of full general. His competence as an officer is acknowledged even by those who oppose his presidential candidacy. Since the military take-over in 1964, Geisel has shown ability in a number of positions of national

**Other Possibilities**

Almost all the four-star army generals in the Brazilian Army can be considered potential candidates. Indeed, many consider themselves presidential timber and are maneuvering to strengthen their bids for the office. There are several who, measured by the military's criteria, seem particularly well-qualified.

- One is General Artur Duarte Candal da Fonseca, chief of the Armed Forces General Staff and former director of the national petroleum enterprises. Candal was born 63 years ago in Rio Grande do Sul. He was a supporter of former president Costa e Silva and is friendly to the US,

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General (Ret.) Ernesto Geisel



President Medici Confers with  
Army Minister Orlando Geisel



A Meeting of the Army High Command

the selection process

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General Candal da Fonseca



General Jorge Correa



General Coelho da Frota

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but his nationalistic views could be strong enough to make him too controversial.

- Another is the commander of the First Army, General Sylvio Couto Coelho da Frota. A native of Rio de Janeiro, he is 62. Frota is highly respected throughout the army. This respect is reportedly shared by President Medici himself. General Frota is regarded as intelligent. [redacted] and has long been concerned about corruption in the army and the government.

- General Antonio Jorge Correa, chief of training and research for the army, has held several positions in the Armed Forces General Staff and was secretary general of the army. A rising star at 60, he is among the youngest of the possible contenders.

- General Joao Bina Machado, commander of the important Superior War College, is a Rio Grande do Sul native, born in 1908. A supporter of Castelo Branco, the first military president after the 1964 take-over, Bina Machado is regarded as an intelligent and competent professional.

- Two other four-star generals whose names have been mentioned are Breno Borges Fortes, army chief of staff, and Humberto de Souza Mello, commander of the Second Army. Generals Oscar Luiz da Silva and Walter Menezes Paes, commanders of the Third and Fourth armies, respectively, are outside possibilities.

There are two major generals who have a chance, albeit a slight one. Each could receive a fourth star by the time of the transition. The first is Major General Carlos Alberto da Fontoura, director of the National Intelligence Service, which President Medici once headed. Fontoura is one of Medici's closest advisers and as such cannot be ruled out. The other dark horse is Major General Euler Bentes Monteiro, chief of the army budget and finance department. Euler Bentes headed the Northeast Developmental Agency and is considered an expert in the economic problems of that region. The nationalist views of Euler

Bentes also could prove strong enough to render him too controversial.

The supporters of controversial Major General Affonso Augusto de Albuquerque Lima, who has long aspired to the presidency, are still maneuvering in his behalf, but he stands virtually no chance. Passed over for promotion to full general by the high command, he subsequently retired. He is outspokenly nationalistic and a charter member of the hard-line group of officers who advocate very harsh measures against anything and anybody they perceive as a threat to national security. It is highly doubtful that he could generate anything like the needed consensus in the high command, even if he had the requisite four stars. 25X6

#### Prospects

Some things seem fairly certain. One is that once Medici and the high command have designated a successor, his elevation to the presidency is virtually assured, barring death or incapacitation. Only if Medici were to lose the confidence of the senior commanders would his choice be seriously questioned. It would take something very drastic—such as a sharp, prolonged reversal of the economy—to provoke such a loss of confidence.

Another is that while the President and the high command will pick the next chief executive, there is no reason to assume that he will be a carbon copy of the incumbent. Although basic policy directions will probably change little, the new president, whether Geisel or another general of similar mold, will have his own team and his own ideas of how to do things.

In office, he will face a number of persisting and unanswered questions. One of the most basic—whether or how the military will give up the active exercise of power—will have to be addressed or skirted again by the administration. There is as of now no indication that the military establishment is contemplating an early return to civilian rule. The success that the military governments have had since 1964 in moving the economy ahead, in reducing inflation, and in

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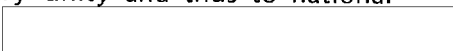


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restoring Brazil's international credit rating has made the military confident that their policies are sound. Likewise, they probably feel vindicated by the virtual cessation of terrorism, as well as the progress made in such areas as vast road-building projects and large-scale literacy campaigns. Another basic question is how to include in a new or revised constitution the Institutional Acts on which the revolutionary governments have based so many of their actions. Medici has avoided acting either to include all these acts in a new constitution, as some urge, or to do away with them, as some political opponents of the regime

propose. His reason has been that he wishes to avoid the divisive debate the issue would involve if broached formally.

Finally, there is the succession issue itself. Until the selection process is institutionalized, it will continue to present a major political challenge for the government every time a presidential term ends. And every time the issue arises, it brings a threat to military unity and thus to national political stability.



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