

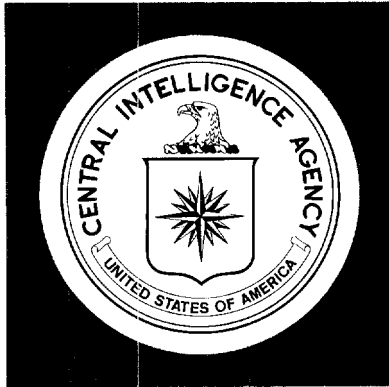
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WEEKLY SUMMARY

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22 June 1973
No. 0375/73

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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 (22 June 1973)

- 1 USSR: Next Stop, Paris
- 2 Argentina: Can He Put the Lid On?
- 3 Yugoslavia: Economic Maze

FAR EAST

- 3 Indochina
- 6 Japan: Communist Victory

EUROPE

[Redacted]

- 8 Romania: Ceausescu Looks West
- 9 West Germany: Gathering No Moss; New Opposition Team
- 11 NATO: The Ministers Meet
- 12 Iceland: Lack of Leverage
- 13 CEMA: Uneasy Alliance

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[Redacted]

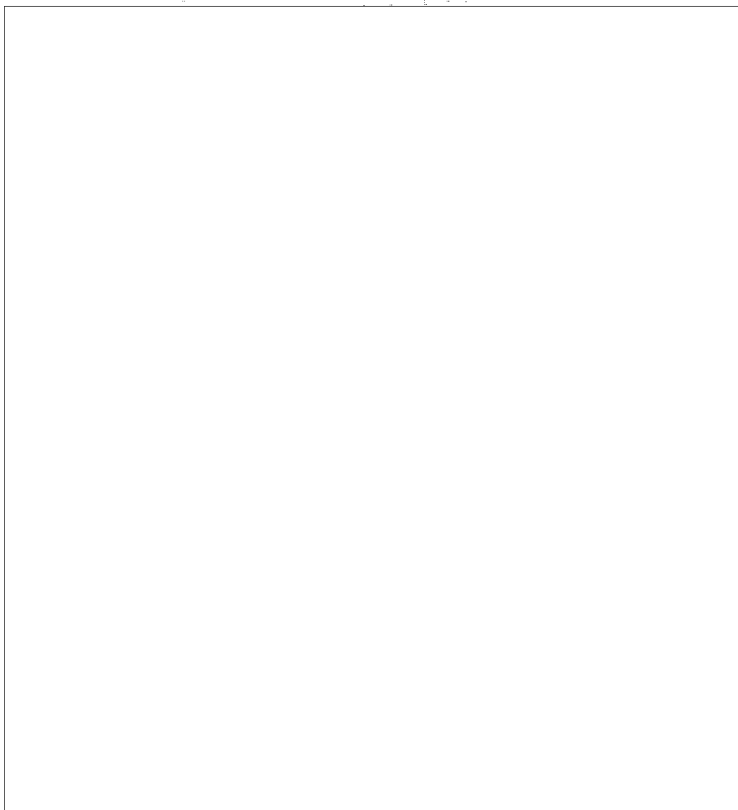
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MIDDLE EAST
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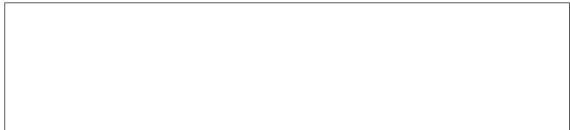
- 14 Greece: Establishing a Republic
- 15 Turkey: Parliament Under Pressure
- 16 Israel: Remaining, Reluctantly
- 17 Syria: Arms Pour In
- 17 Libya-Egypt: Merger Blues
- 18 Afghanistan: Help from Moscow
- 19 Ghana: Communist Aid Overtures

WESTERN
HEMISPHERE

- 19 Brazil: Geisel for President
- 20 Chile: Closing In
- 21 International Money



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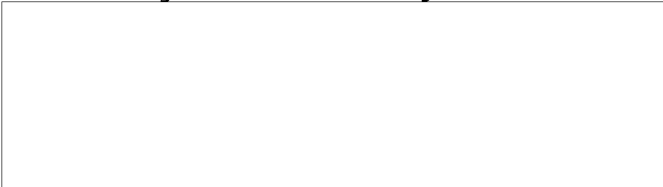
USSR: NEXT STOP, PARIS



3 } Brezhnev will spend three days in Paris next week on his way home from Washington. The two stops will cap six weeks of vigorous personal lobbying in Western capitals. With the conspicuous exception of London, the Soviet leader will have carried his current campaign for detente to each of the major Atlantic allies.

1 } Brezhnev doubtless welcomed the French invitation, which evidently was extended only after Italian President Leone canceled a planned state visit to France at about this time. The Paris stopover will provide an opportunity to show that France still has, in Soviet eyes, a favored place among West European nations. Although the Paris visit has been all but submerged in the flood of Soviet propaganda on Brezhnev's visit to Washington, it will serve to demonstrate that super-power summitry has not diminished Moscow's interest in Europe.

3 } The visit is also timely as offering Moscow an opportunity to counter whatever effect Chinese Foreign Minister Chi Peng-fei had in Paris.

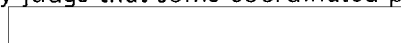


1,3 } The French see this fourth meeting between Brezhnev and President Pompidou in less than three years as a reaffirmation of their "special" relationship with the Soviet Union. Pompidou, who has himself been actively engaged in summitry, will be able to point to his meetings with President Nixon, and with Heath, Brandt, and Brezhnev as proof not only of France's significant role, but also of his own sound health.

1,2 } Brezhnev and Pompidou will probably exchange views on their separate talks with President Nixon. They will probably focus on Europe, including the Conference on Security and Cooperation in Europe which opens on 3 July in Helsinki. The Soviets may raise the issue of force reductions in Europe, as they did with Pompidou in January.



1,3 } Brezhnev campaigned strenuously in Bonn and Washington for expanded economic cooperation with the West, and he and Pompidou will review progress toward their previously agreed goal of doubling bilateral French-Soviet trade between 1970 and 1974. They may also discuss the economic relationship involving the US, the EC, and the USSR. The two leaders will touch on their interests in Southeast Asia. With the UN Security Council scheduled to resume consideration of the Middle East in mid-July, and with the Soviet and French positions fairly close, the two leaders may judge that some coordinated planning is feasible.



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ARGENTINA:

CAN HE PUT THE LID ON?

20 Juan Domingo Peron returned to Argentina on 20 June and got an immediate taste of the political turbulence he will have to deal with. A shoot-out between rival Peronist groups that had gathered to greet him forced him to land at another airport and call off a welcoming rally. The violence that made his homecoming less than triumphant has probably driven home to him in an effective way the urgency of meeting the terrorist challenge.

15+16) The turmoil may have accentuated the strains between Peron and his handpicked stand-in, Hector Campora.

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Campora and his coterie have vacillated on every question while they waited for Peron to return and give direction to the new Peronist government.

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Now that he is back in Buenos Aires, he will be in a position to sound out top officers and politicians—as well as to get a firsthand view of the situation. He might well decide to live with Campora and run things from behind the scenes; he would in this way at least refrain from adding to the unsettling climate that has already badly shaken his “national reconciliation” program.

18 Among the myriad problems Peron will have to deal with is controlling the disparate elements

19

of his own movement, which is rent by divisions between moderate labor and radical youth. Peron will need all of his skill to keep the pulling and hauling of these groups to a minimum and to impose some sort of common purpose on them. High on the list of Peron's problems is the wave of terrorist activity that has disrupted the stability of the new regime. Two kidnappings occurred this week, presumably the work of the Marxist People's Revolutionary Army. The president of the Firestone tire subsidiary, an American, and an official of a hosiery firm, a West German, have been abducted and presumably will be held for ransom. Several politically motivated robberies and an assassination threat against an official of an Italian motorcycle company provide further evidence that there has been no curtailment of terrorist activity.

20A Juan Peron will have a dominant role to play in attempts to stabilize the situation. The military will probably remain in the wings for the present—subdued and watchful—but a further deterioration in the fragile political and economic order could revive the military's long-standing animosity to Peron.

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SECRET**YUGOSLAVIA:****THE ECONOMIC MAZE**

14 [The economic stabilization program initiated with some fanfare last December has bogged down. Its unpopular, belt-tightening restrictions have generally failed, and Belgrade is now hatching new policies in hopes of avoiding both political trouble and a new round of inflation.]

12 [Widespread dissatisfaction with the stabilization program has already forced some loosening of controls on incomes and investment. The trade unions have loudly complained that the government's failure to hold the line on prices, which are increasing at an annual rate of 16 percent, has placed an unfair burden on the workers. Last week, Belgrade agreed not to extend the current wage freeze beyond 30 June.]

14 [Belgrade has also backed down on its plans to get tough with inefficient and insolvent enterprises. Some insolvent firms did manage to pay their outstanding debts, but repayment for most of them was simply postponed through bank grants of long-term, interest-free loans. As a result, few of the inefficient firms were forced to close.] Despite this fact, unemployment is at an all-time high, and fears of a recession like that of 1967 and 1968 are being expressed in the press.]

12 [Political overtones have begun to emerge. The republics and provinces of the underdeveloped south are bewailing their declining productivity and growth—an implicit charge that Bel-

grade is not living up to its commitment to speed their development. The grumbling has spread to relatively well-developed Croatia. The Croat premier said last week that the stabilization program could not succeed in his republic. He charged that the only growth has been in federal funds gained from taxes on trade. This assertion comes perilously close to a nationalistic indictment of Belgrade, similar to those that provoked the Croat purge of December 1971. Party leaders in Zagreb have also warned that these economic troubles could have "negative political repercussions."]

14 [The Yugoslav government faces some unpleasant choices. If it gives in to excessive wage demands—and workers in one factory have already voted themselves a 33 percent wage hike—it will increase inflationary pressures. On the other hand, ignoring the grass-roots discontent would invite embarrassing events, with national elections and a party congress set for early next year.]

12 [A substantial loosening of economic controls would add to Yugoslavia's trade deficit, which is already 87 percent higher than in the same period last year. Although hard currency earnings from tourism and remittances from Yugoslavs abroad will offset part of the deficit, it could still be excessive. If so, hard currency reserves will drop and it will be more difficult for Belgrade to acquire the \$1 billion in long- and medium-term credits it is seeking in Western financial markets this year.]

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INDOCHINA**COMBAT COOLS IN SOUTH VIETNAM**

29 [Fighting has eased considerably in the country except in a few areas of southern Military Region 1, the highlands west of Kontum City, and the delta province of Chuong Thien. The modest upsurge of military action that immediately preceded the "new" cease-fire of 15 June brought no change in the relative control the two

sides exercise over the country's territory or people.]

29 [The reaction to the Paris communique among most officials and government supporters in South Vietnam was pessimistic concerning the outlook for peace. President Thieu in an Armed Forces Day message on 19 June asserted, "The South Vietnamese people cannot believe naively

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that the Communists have relinquished their aggressive designs so that a true, lasting peace can be achieved." Thieu's key civilian adviser told cadets at a Saigon military training center that the government will not demobilize its forces as long as North Vietnamese troops remain in the South. Government military commanders have all professed concern that the Communists will use the new agreement to gain a foothold in the administrative affairs of the country.]

29 [Saigon radio and TV have concentrated on defending the government interpretation of the joint communique as "nothing new," and extensive coverage has been given statements made by government leaders. Editorial comment in Saigon's newspapers has been more varied, but no commentator has predicted that genuine peace is at hand.]

29 [The reaction among the populace appears to be a mixture of relief over what the communique does not say and apprehension over what it may really mean. Concern about the provision calling for early delineation of territory by the two sides prompted some persons to leave Kontum Province to wait out the fighting in neighboring areas. There have been some indications of economic uncertainty in Da Nang since the announcement from Paris. There are no signs of panic anywhere in South Vietnam, however, and a sober "business-as-usual" attitude seems to prevail.]

Hats in the Ring

30 [Four slates of candidates have entered the race for 31 of the 60 Senate seats at stake in the election in August. Voting will be at-large; the slate getting the most votes will fill 16 seats, and the runner-up slate will get the other 15. Two of the slates, composed of members of President Thieu's Democracy Party and other well known pro-government personalities, are heavily favored to win. The other two slates contain little-known individuals of uncertain political orientation; indeed, both are suspected in some opposition circles to be merely a government-contrived facade of competition.]

30 [The country's main non-government groups are sitting the election out. Some were convinced that they had no chance against Thieu's well-organized political machine, and others were unable to agree on slates in time to meet the short filing deadline.]

35 [Thieu apparently sees the election as an integral part of his long-range plan for strengthening his hand politically, suggesting that he does not anticipate an early political settlement with the Communists. The Senate has been the country's only official body in which the non-Communist opposition has considerable strength; it is now almost evenly divided between pro- and anti-government Senators.]



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Pham Van Dong To Tour

24 [Hanoi has announced that Premier Pham Van Dong will lead a party and government delegation to North Korea and Mongolia soon.] [The exact dates were not announced, although Ulan Bator has publicly stated that the visit will occur in late June. The trip apparently fulfills a clause in Ho Chi Minh's will directing that all of the countries which aided Hanoi during the war should be thanked in this way.]

24 [Pham Van Dong will also be visiting Eastern Europe, and it is possible he may also make stops in Africa and Cuba.] [Presumably he will be stopping in Moscow for talks, at least in part to balance off the recent visit he and Le Duan paid to Peking.]

CAMBODIA: STILL HITTING THE HIGHWAYS

32 [Khmer Communists continued to put pressure on key highways this past week. On 17 June, they again cut Route 5, the only overland access route to the rice-rich northwest, and by mid-week were in control of a six-mile stretch of the

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highway some 45 miles from the capital. The Communists seized control over a short section of Route 6 about 40 miles northeast of Phnom Penh early in the week and repeatedly thwarted government attempts to clear stretches of Route 3 south of the capital.]

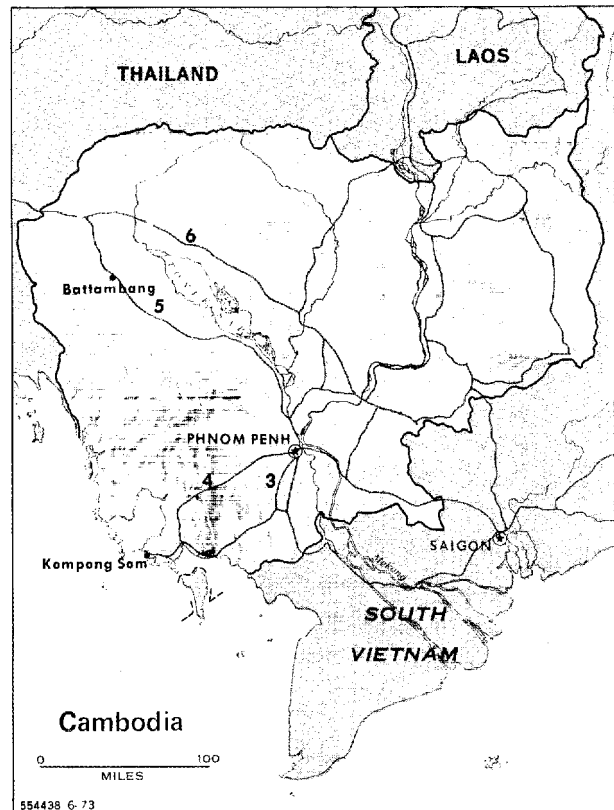
32] The government had more success along Route 4 west of Phnom Penh. Government troops reopened a section of that vital highway, encountering little resistance in the process. Truck convoys began to use Route 4 for the first time in two weeks on 20 June, but there is no assurance that the government will be able to keep the highway open and supplies moving freely into Phnom Penh from the port of Kompong Som.]

33] Routes 4 and 5 are the key roads by which Phnom Penh is provided needed rice supplies. Rice stocks in Phnom Penh are now reaching dangerously low levels; hoarding, unusually high consumption rates throughout most of the year, and the large influx of refugees into the capital are all contributing to the problem. There is less than a two-week supply of rice in government warehouses, although arrangements are being made to bring some additional supplies into Phnom Penh.]

Economic Reforms

32] Against this backdrop of an impending rice shortage, the cabinet has finally moved to stem serious economic deterioration. On 15 June, it adopted reforms calling for an immediate increase in the price of most rice to more than double the current artificially low, controlled level. Beginning in July, water and electricity rates will be raised to more nearly match producer costs, and petroleum prices will be increased to reflect higher world prices and the declining value of the Cambodian riel. To compensate for the higher prices, salaries and allowances for civil servants and the military are to be increased.]

34] These reforms will have a favorable effect. The price increase on rice will be badly received



and may result in some panic buying at first; but in the longer run consumption should decrease considerably from present high levels. The increase in wages is a change in policy from the ill-advised use of politically motivated price subsidies to the use of specific curbs on the decline in real incomes among government workers and lower-level military personnel. The reaction among workers whose wages are not increased will, however, be adverse.]

LAOS: DOWN TO BUSINESS

35] Now that the US and the Vietnamese have reinforced the cease-fire in South Vietnam, the Lao negotiators appear to be settling down to serious discussions on the implementation of the Lao peace agreement. Vientiane's chief

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negotiator, Pheng Phongsavan, described his meeting on 15 June with Communist envoy Phoumi Vongvichit—the first since the signing of the Paris communique—as “productive” with the Communist taking a more businesslike attitude. The two sides have begun meeting frequently in an effort to reach early agreement.

36 } Prime Minister Souvanna now seems ready to make some concessions on matters that have blocked progress on the talks since February. He appears prepared to modify his stand on the allocation of portfolios in a new coalition cabinet, on the provisions for the security of Pathet Lao coalition members in Vientiane and Luang Prabang, and on the demarcation of lines of control. Souvanna presumably hopes that these concessions will help to create some momentum in the negotiations process. He expects that the Communists—in wake of the Paris talks—will also show some flexibility.

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JAPAN: COMMUNIST VICTORY SMARTS

38 } A surprising show of strength by the Communist Party in an Osaka by-election last Sunday will heighten the Liberal Democratic sense of alarm over the party's declining political fortunes. Most Japanese political observers view the leftist victory as a forerunner of serious setbacks for the ruling party in the Tokyo Metropolitan Assembly elections, which take place on 8 July. Moreover, few media commentators are now optimistic that the conservatives will be able to maintain their majority in the Upper House after next year's Diet elections.

38 } Miss Takeko Kutsunugi, the Communist candidate in Osaka, is a physician who rode to victory on the shoulders of urban dissatisfaction with Prime Minister Tanaka's domestic policies and the mobilization of a reported 250,000 cam-

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Tanaka campaigns in Osaka

campaign workers. The Liberal Democrats fought a last-ditch campaign and aimed it directly at the Communists. In one personal appearance, Tanaka reportedly warned that the Communists posed a threat to free society and would ultimately crush Osaka's numerous small and medium-sized industries.

38 } These emotional appeals did not bring out Liberal Democratic voters. Only 72.7 percent of those who voted for Liberal Democratic candidates in the Diet elections last December turned out Sunday; the comparable figure for the Communists was an amazing 99.6 percent.

38 } Miss Kutsunugi's victory reduces the majority of the ruling party in the Upper House to a slim nine seats. It gives the Communists the minimum 11 seats needed to introduce non-budgetary bills in that chamber and will give the party a greater voice in floor debate. The Communists will now attempt to parlay this latest victory into a successful bid for parliamentary leadership of the “progressive” parties.

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42 [Ceausescu had planned to go to Bonn last year, but that trip foundered on problems arising from Romanian efforts to negotiate a large German loan in advance of his visit. This time, however, Ceausescu has set no prerequisite. He reportedly will ask Bonn for new credits, West German guarantees for their investments in Romania, and increased economic cooperation across the board. On the political side, he will ask Chancellor Brandt to sign a joint declaration of "solemn principles" governing the relations between states. Bucharest is pushing these principles, which stress the equality, independence, and territorial integrity of all states, as a cornerstone to any agreements on European security.]

42 [Romania scored some successes in the West earlier this year. Ceausescu's trip to Italy last month boosted bilateral economic cooperation. He called on the Pope. On 4 June, Romania became the first Warsaw Pact country to be granted tariff preferences by the EC, and Bucharest appears close to achieving its long-sought goal of most-favored-nation status with the US. Such agreements have as much political as economic significance, and the Romanians read them as a Western vote of confidence in their country.]

43 [The Romanians have also increased their military contacts with the West. The fact that Romania is a member of the Soviet defense system did not prevent Bucharest from playing host to the chief of the British general staff in late May. Under Ceausescu's leadership, Romania has joined Yugoslavia in developing a subsonic fighter-bomber aircraft that uses a Rolls-Royce engine and numerous Western-made parts.]

ROMANIA: CEAUSESCU LOOKS WEST

42 [President Ceausescu will become the first Romanian chief of state since World War II to visit West Germany. He begins a four-day visit on 26 June. The trip is part of Romania's efforts to expand ties with the West and to guarantee its place as an independent among European nations.]

42 [Ceausescu probably will not achieve all of his economic objectives in Bonn, and the subject of closer military ties is not likely to come up. The trip, nevertheless, gives him another opportunity to use European detente as a means of advancing Romanian national interests.]

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East German border guards watch preparation of new crossing point

WEST GERMANY

GATHERING NO MOSS

47 [Two key symbolical events for West Germany took place this week, the entry into force of the inter-German treaty on basic relations and the initialing of the elusive treaty of reconciliation with Czechoslovakia. Together with the Soviet and Polish treaties, these pacts constitute the core of Chancellor Brandt's efforts to normalize relations with West Germany's former enemies in the East.]

46 [Bonn and Pankow exchanged ratification instruments on the inter-German treaty after the West German constitutional court turned down the Bavarian state government's second request in three weeks to block the pact's entry into force.]

47 [The court still has the treaty on its docket. This week, it began to deliberate the treaty's constitutionality after reversing a decision not to disqualify a justice who had already expressed approval of the pact. Although justices sponsored by the opposition parties hold a four-to-three edge, a verdict of unconstitutionality next month remains unlikely; most Christian Democratic leaders do not approve of the Bavarian challenge. A negative verdict might encumber efforts to negotiate other agreements pursuant to the treaty, but would not nullify the pact itself.]

45 [With its entry into force, the treaty will quickly lead to several improvements in inter-German relations. Among the most visible will be the opening of several new border crossing points and permission for West Germans to visit border communities heretofore in the restricted zone. Both Germanies have filed application for UN membership, and Bonn expects Pankow to agree to complete negotiations on the exchange of diplomatic missions, possibly before fall.]

47 [Czechoslovak Foreign Minister Chnoupek went to Bonn to initial the Czechoslovak - West German treaty on 20 June. The pact negotiated this spring describes the most difficult obstacle in the talks, the Munich Agreement of 1938, simply as null and void, and thus avoids declaring when it became so. The treaty also excludes legal claims flowing from the Munich Agreement and its nullification, another difficult point. Like Bonn's treaties with Moscow and Warsaw, it renounces the use of force. Chancellor Brandt has indicated his willingness to go to Prague in September to sign the treaty, but there are signs that his hosts want to move the event forward to July, possibly to coincide with the opening of the Conference on Security and Cooperation in Europe.]

48 [As expected, the conclusion of Prague's negotiations with Bonn is rapidly clearing the way

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49 for Bulgaria and Hungary to establish diplomatic relations with West Germany. World War II did not leave a residue of problems requiring treaties of reconciliation with these two countries, and negotiations are expected to proceed smoothly. Bulgaria got its foot in the West German door before Hungary. Talks are to begin at any moment, and Foreign Minister Scheel is slated to wrap up the loose ends during a visit to Sofia in mid-August. Once Bulgaria and Hungary are on board, the West Germans will have established relations with all the East Europeans, save Albania.]

A NEW OPPOSITION TEAM

(50-52)

[After several weeks of intra-party strife, the opposition Christian Democrats managed to avoid squabbling over personalities at their special party congress on 12 June. Helmut Kohl, the minister-president of Rhineland-Palatinate, was unopposed in his bid to succeed Rainer Barzel as party chairman. Five deputy chairmen were elected also without competition as several leaders of the conservative and liberal factions either did not seek or declined nomination. The election of Kohl and three state-level party leaders as deputy chairmen suggests that the party's domination by its parliamentary delegation will decline.

Kohl's remarks following the election were cautious. Being a new man, he obviously did not wish to disturb the relatively harmonious atmosphere of the convention. Even so, the various party factions still differ sharply over the party's future orientation. The Christian Democrats will convene again this fall to formulate a party program. At that time they will have to decide whether to remain on the right of the political spectrum, as advocated by party conservatives and by their ally, Strauss' Bavarian Christian Social Union, or to move to the center as proposed by party liberals. The new leadership team is moderate, but the major ideological battle remains to be fought.



Helmut Kohl

CDU Leaders

Chairman: Helmut Kohl (Minister-President, Rhineland-Palatinate)
 Deputy Chairmen: Gerhard Stoltenberg (Minister-President, Schleswig-Holstein)
 Heinrich Koenigler (Party leader, Northrhine-Westphalia)
 Hans Filbinger (Minister-President, Baden-Wuerttemberg)
 Hans Katzer (Chairman, CDU Social Committees)
 Helga Wex (Chairman, CDU Womens' Alliance)
 Secretary-General: Kurt Biedenkopf
 Treasurer: Walther Leisler Kiep

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Danish Prime Minister addresses NATO foreign ministers

NATO: THE MINISTERS MEET

58 [The NATO foreign ministers in Copenhagen last week lent modest endorsement to the US proposal for an intensive examination of alliance goals and relationships. This was the first formal multilateral response to the US call for a new declaration of Atlantic principles. The ministers approved the decision to open the first phase of the security conference in Helsinki on 3 July and reiterated their expectation that the Soviets will honor their commitment to begin force reduction negotiations no later than 30 October.]

57 [The allied ministers went along with the US suggestion that their ambassadors to the NATO

Council begin a study of the Atlantic relationship. The ministers agreed that such a study should be made in view of "the profound changes which were taking place in every field of international activity." [They avoided, however, any implication in the final communique that either NATO objectives or NATO strategies are in for a change. The allies fear that the US is preparing for a major overhaul of the alliance. They have taken as evidence for their concern Mr. Schlesinger's presentation to the NATO defense ministers on 7 June and a Washington Post article on the same day disclosing a study being made in the Pentagon upgrading the strength of NATO relative to Warsaw Pact forces.]

53 [Although the French went along with the proposal for a study of Atlantic relations, they undoubtedly will take every opportunity to keep it as narrow as possible. None of the Europeans believe that specific monetary or commercial matters should be negotiated in the NATO forum.]

53, [The French predictably refused to join in any recognition of the US claims on the Europeans regarding the balance-of-payments costs of US forces in Europe. The other ministers agreed that the NATO Council could examine the question, but gave no encouragement, even in private, that the US could expect any joint European action on the matter.] In fact, the allies probably will want to evaluate the relationship between US balance-of-payments claims and US positions in the international trade negotiations scheduled for this fall before they do anything.]

54, [The allies concluded that the outcome of security conference preparations had justified opening the conference on 3 July. Expected Canadian and Dutch opposition to giving a green light to the conference until the Soviets had agreed to set a date for beginning force reduction talks never emerged, and the two joined the allied consensus that the allies should not link the two sets of talks.] The allies assume that it is Washington's responsibility to convince the Soviets to settle on a date. In any case, they see the possibility of delays in the second phase of the security conference as giving the West leverage on the force reduction timetable.]

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54, [The ministers' discussion of NATO preparations for the force reduction negotiations brought out some of the differences that the allies will have to settle before they can plunge into substantive discussions with the East. West German Foreign Minister Scheel noted Bonn's preference for simultaneous negotiation of indigenous and stationed force reductions. The other ministers generally favored the US preference for initial US and Soviet cuts. The allies also have differences over whether constraints to accompany reductions should be applied to an area larger than the reduction zone.] The final NATO communique gave prominence to the importance of "undiminished" and "indivisible" security by which the allies mean that force reductions should be approached with great caution through thorough allied consultations. [redacted]

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the US and mainland Europe, but not to Iceland when it was faced with British "aggression."

The summit passed, but the government kept up the pressure. Foreign Minister Agustsson observed that he would be ordered to invoke "immediately" Article VII of the base treaty, calling for renegotiation of the agreement. On 8 June opposition leaders claimed that they stood alone against invocation of Article VII at a Foreign Affairs Committee meeting. On 12 June, Agustsson informed the US ambassador that his government intended to invoke the provision. At the NATO foreign ministers' meeting, he notified NATO of Iceland's intention, and the final move, expected later this month, is the formal invocation of the article. The parties will then have six months to work out a new arrangement. If no accord is reached, either party can at any time call for the closure of the base within 12 months.

ICELAND: LACK OF LEVERAGE

(59-62)
[Reykjavik's attempt to use the base issue to force the US and NATO to aid Iceland in its fishing dispute with the UK has failed. Neither pressure on the eve of the French-US summit last month nor pressure prior to the NATO ministerial meeting last week gained Iceland the leverage it wanted in the Cod War. Although Iceland soon will start the clock on base negotiations, its chances for linking that issue with the fishing dispute are waning.]

In the week preceding the summit, Iceland instigated several incidents at sea, stimulated popular demonstrations against the British, and railed at the US and NATO for failing to persuade London to withdraw its frigates. Prime Minister Johannesson led the way, declaring that Icelandic opinion toward the base would depend on what the US and NATO decided to do about the British naval intervention. Icelandic leaders charged that the base at Keflavik afforded protection to

The Icelanders' primary concern is fishing, and little progress on the base issue is likely until the fishing dispute is resolved to Reykjavik's satisfaction. NATO Secretary-General Luns has tried without success to restart fishing negotiations by asking the British to withdraw with the understanding that the Icelanders would not harass British trawlers once the frigates were pulled back. The British rejected the offer because Reykjavik would not give such a guarantee. Both sides rejected a Norwegian offer to mediate. The British, as intransigent as the Icelanders, may become separated from their fellow disputants, the West Germans, who have agreed to open talks with Iceland later this month. Most of Iceland's Scandinavian neighbors have backed Reykjavik.

If the fishing dispute could be settled this summer, resentment toward the US and NATO for not "protecting" Iceland may subside before the six-month period expires. Communists and other leftists in the government will try to keep anti-base sentiment alive, but without the fishing dispute the arguments for retaining the base are generally acceptable to the majority of Icelanders. [redacted]

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CEMA: UNEASY ALLIANCE

(63 + 64)
Members of the Council of Mutual Economic Assistance met in Prague earlier this month to hash over the problems of economic integration and coordination for the years 1976 to 1980. The East Europeans were especially interested in implications of the Soviet economic setback last year for their economies, as well as the longer run reliability of Soviet material supplies.

Because of the drop in Soviet agricultural output and the slowdown in industry in 1972, the USSR failed to meet some of its export commitments to the six East European CEMA members; even more significantly, the USSR had to demand above-plan deliveries of agricultural and industrial goods from its CEMA partners. As a result, the USSR last year ran an unprecedented trade deficit with Eastern Europe on the order of \$1 billion.

The CEMA meeting produced the usual references to progress in economic integration, but it also produced some complaints. Hungarian Premier Fock, in a post-session interview, said that there was a "healthy impatience" among the delegates with progress to date. He singled out the machine building industry, saying that duplication within CEMA "has not diminished but rather increased." Polish Premier Jaroszewicz described recent specialization accords in the engineering industries as "a modest achievement" and pointed to the need for a real breakthrough in industrial cooperation.

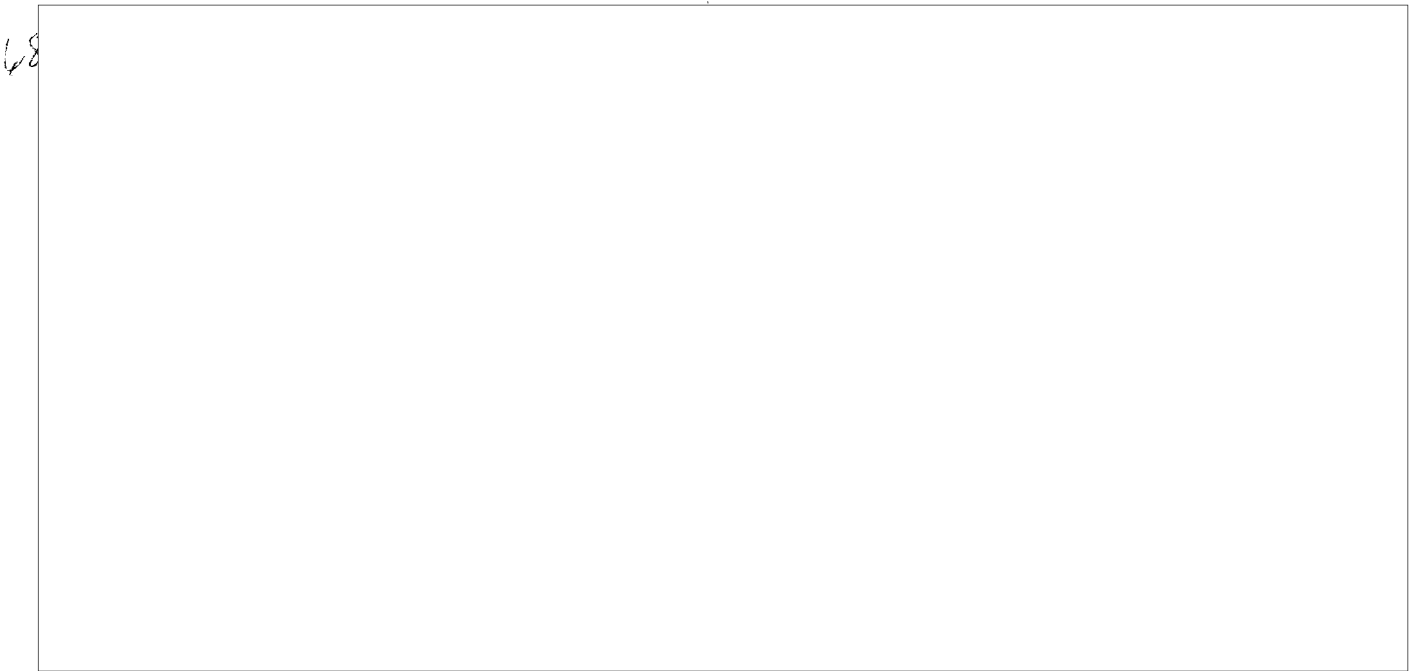
The CEMA session reflected continued East European concern over Soviet deliveries of materials beyond 1975. The East Europeans have for some time recognized that if they want deliveries from the USSR to increase, they must make further investments in the Soviet Union, along the lines of the investments already made in the Soviet oil, gas, copper, and cellulose industries. Such investments, however, no longer guarantee adequate future supplies.

For some years, the Soviets have been warning Eastern Europe to look elsewhere for an in-

creasing share of its materials. Now, there is a growing concern that Soviet deals with the United States, Japan, and other Western countries may cut into Soviet energy supplies to Eastern Europe. Economic progress in a more integrated CEMA depends not only on the ability of all members, especially the USSR, to meet yearly plans, but also on imports from non-Communist countries to minimize the impact of unexpected shortages.

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GREECE: ESTABLISHING A REPUBLIC

74 [Preparations to transform Greece into a republic are continuing amid speculation over possible early cabinet changes and eventual formation of political parties. Although the forms of government will change, Papadopoulos and his military colleagues will remain very much in charge.]

certain to become a party, and there may be attempts to form at least four others. It can be assumed that no party posing a major threat to the regime will be permitted.]

70 [On 29 July the Greeks will be asked to vote "yes" or "no" on 34 changes in the 1968 constitution. The changes eliminate all vestiges of the monarchy and entrust wide powers to the new presidency. A "yes" vote will embark Prime Minister Papadopoulos on a presidential term that extends to 1 June 1981 and install the present commander of the armed forces, General Angelis, as vice president.] There have been predictions in the press that the changes will be approved by 72 percent of the electorate, but Papadopoulos' advisers expect something closer to 80 percent.]

73 [Papadopoulos would like to rid the regime of many of his military colleagues. Such a step could prove dangerous to him, particularly if the army—the mainstay of the regime—disapproves.] Deputy Prime Minister Stylianos Pattakos has already squelched rumors that he will be stepping down.]

[Papadopoulos is likely to proceed cautiously with any changes, making only those that have the approval of his main military supporters.]

70 [Along with the referendum, the Greek press has been discussing the possibility that political parties may be permitted again sometime in 1974.] Papadopoulos' "cultural organization" is almost

70 [The regime has announced that municipal elections will be held by the end of 1974, but is committed to do no more than set a date for national elections by that time. Thus, the formation of a parliament is far off.]

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TURKEY: PARLIAMENT UNDER PRESSURE

75 [Though he managed to maneuver the military back to the barracks this spring, Suleyman Demirel, leader of the majority Justice Party, is having trouble prodding a dawdling parliament to take action on important pending bills before it adjourns. Adjourment will probably come in late June; the legislators are anxious to get out on the hustings. Primaries are in the offing, and parliamentary elections will be held on 14 October.]

77 [Most of the bills on the agenda had their origin in the military's intervention in March 1971. At that time, Demirel was forced to step down as prime minister, and the military demanded the passage of tough internal security measures, along with liberal social and economic legislation. Parliament has been dragging its feet ever since. When the conservative Justice Party and the centrist Reliance Party agreed last April to form a coalition cabinet under Prime Minister Naim Talu, Demirel promised that the reform proposals would be adopted before parliament quit for the summer.]

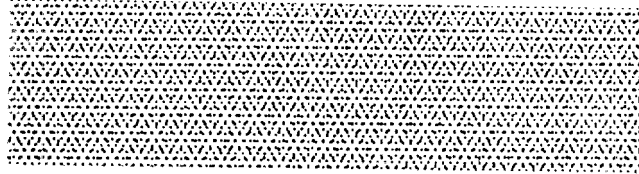
77 [Both lassitude and politics have had a hand in parliament's slowness in dealing with the reforms. Until Demirel recently got the lower house to hold late sessions, the legislators had stuck to a routine 20-hour work week. The opposition parties—the Republican Peoples Party on the left and the Democratic Party on the right—have taken advantage, sometimes in concert and sometimes individually, of parliamentary procedures to thwart Demirel. The opposition has filibustered, absented itself from sessions, demanded time-consuming quorum calls, and offered dilatory amendments. Legislators from Demirel's own Justice Party have added to his woes by leaving Ankara in droves to campaign in their constituencies.]

75 [In the past two weeks, the lower house of parliament has managed to pass several of the reform bills and is debating others. Little has been done in the Senate, but prospects that at least some of the proposals will pass now seem good. Most of the reform legislation will emerge so watered down by the Justice Party that it will be unrecognizable to the military.]

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Prime Minister Talu and leaders of Reliance and Justice parties ride the camel of government; Republican Peoples and Democratic Party leaders hold it back





ISRAEL: REMAINING, RELUCTANTLY

Prime Minister Golda Meir, despite misgivings, has decided to stay on in the top job. She announced on 17 June that she would lead her ruling Labor Party ticket in the October parliamentary elections. Mrs. Meir clearly was prevailed upon to remain by party leaders, particularly Finance Minister Sapir, in order to avoid a bitter succession struggle at this time.

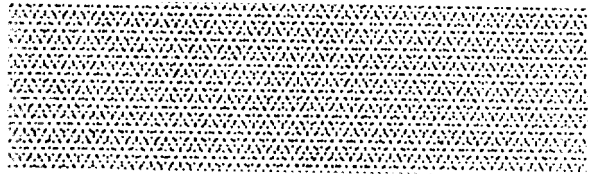
Mrs. Meir was urged out of semi-retirement in March 1969 on the death of Prime Minister Levi Eshkol. Labor Party leaders then saw her as a stopgap prime minister to postpone a bitter party fight over the succession between the Labor Party "Old Guard" and some of the younger leaders like Defense Minister Dayan or Deputy Prime Minister Yigal Allon. Mrs. Meir, however, quickly established herself as a leader and quieted down the quarreling factions, including the often free-wheeling Dayan.

Mrs. Meir had for months been talking about her desire to retire; her health is not good and her family has pleaded with her to leave office. Her desire to retire was outweighed, however, by strong party loyalty and a desire to avoid any hint of general Israeli disunity. Prime Minister Meir's main pursuit will be to continue Israel's present diplomatic course, to paper over the deep domestic differences on Israeli territorial needs, and to prevent Dayan from bolting the party line.

The announcement that Mrs. Meir will seek another term will probably tone down the campaign speeches of the major office seekers. Still, her decision merely postpones the eventual power struggle that will occur when she finally does leave office.



Golda Meir



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SYRIA: ARMS POUR IN

(83-86)

38 Syria is emerging this year as Moscow's main arms client among the developing countries. The high rate of deliveries, begun in mid-1972 after Syria requested a speedup of shipments of arms ordered earlier, has continued through the first half of this year. Since January, Moscow has delivered over \$185 million worth of arms, compared with \$150 million for all of 1972. Moreover, during a two-day trip to Moscow early last month, President Asad may have concluded an agreement for additional military equipment.]

Soviet aid to Syria during the past year has focused on strengthening Syrian air defenses and modernizing the army. Since late last year, Moscow has introduced into Syria SA-6 surface-to-air missiles, SA-7 hand-held surface-to-air missiles, ZSU-23-4 anti-aircraft guns, FROG-7 tactical surface-to-surface rockets, BMP infantry combat vehicles, T-62 and JS-3 tanks, 203-mm. howitzers, and 240-mm. mortars. The navy has received Vanya-class minesweepers and Osa-1 class patrol boats. The air force has received more than twice as many jet fighters this year as in all of 1972.

The rapid rise in arms deliveries has been accompanied by a 75-percent jump, to 1,400, in the number of Soviet military technicians. None of them are known to be involved in an operational capacity.

The new equipment and technical assistance is not likely to improve significantly Syria's military capabilities against Israel. Damascus has neither the manpower nor the capability to absorb large quantities of equipment and use it effectively against an opponent like Israel. After a sufficient amount of time for training, however, the new equipment will provide a much improved air defense system against potential Israeli air strikes.

LIBYA-EGYPT: MERGER BLUES

4 [Differences between Libya and Egypt are growing as their 1 September deadline for union draws nearer. Presidents Qadhafi and Sadat apparently have agreed to proceed with a proclamation of the merger on schedule, but it is clear that the union will be largely symbolic.]

5 [The two presidents apparently have not been able to agree on any details of the merger and intend to drag out the integration process. The volatile Qadhafi is another big problem. While the Egyptians would be reluctant to entrust much military power to him, Qadhafi himself undoubtedly expects to exert considerable control over the military and, through this means and his "cultural revolution," ultimately to dominate the union. The Egyptians also expect to dominate the union and Qadhafi's money.]

4 [The "cultural revolution" poses a problem of some magnitude. Cairo is disdainful of the movement and has grave misgivings about its effects on the union.] The Cairo press, after a long officially imposed silence, has recently begun reporting the "revolution" in a guardedly critical vein. The Egyptians have also begun to level oblique criticism against Qadhafi. An influential Cairo columnist this week attacked Qadhafi, though not by name, for undertaking "bombshell measures" which do not take account of the "greater realities."]

4 [Sadat and Qadhafi are scheduled to meet once again in early July to discuss the merger further. That meeting and the months ahead will probably be marked by increased tension in Libyan-Egyptian relations.]

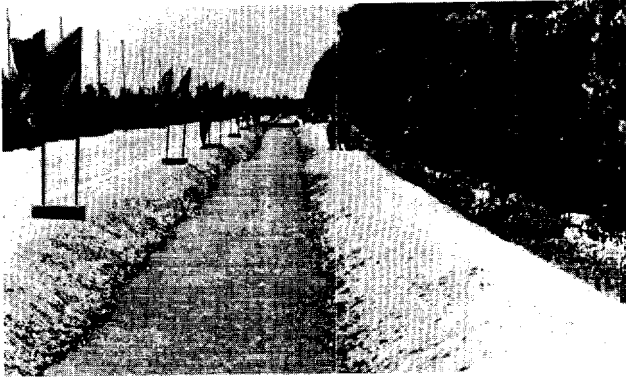
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Soviet-financed irrigation canal; T-62 tank

AFGHANISTAN: HELP FROM MOSCOW

(87-88)

Moscow has long provided most of Afghanistan's military and economic assistance. Recently, the Soviets have begun to provide Kabul with a new generation of armored vehicles, which will increase the military's prestige more than its combat effectiveness.

Ten Soviet-built T-62 medium tanks and nine BMP infantry combat vehicles have been observed near Kabul. The newly arrived T-62s carry a more powerful gun than the T-54/55s that have been the Afghans' main tank. The BMP, a tracked, armored, amphibious vehicle carrying a 76-mm. gun and a Sagger anti-tank missile, will help increase the infantry's firepower and mobility. The armored vehicles probably were ordered in 1971 when Kabul launched a program to upgrade its arms inventory. Other equipment covered by the 1971 arms accords included MI-8 helicopters, BTR-50 APCs, bridge-laying tanks, artillery, and small arms.

Since 1956, Moscow has signed arms agreements with Kabul valued at \$450 million; more than two thirds of the equipment specified under these agreements has been delivered. The weapons have ranged from small arms to MIG-21 jet fighters and SA-2 surface-to-air missiles. Repayment terms on this aid have been the most favorable received by any of Moscow's arms clients—a 75-percent discount on practically all purchases with long-term repayment at very low interest rates.

The Afghan military will have difficulty integrating the new equipment into the army de-

spite extensive Soviet technical assistance. Some 200 Soviet military advisers and technicians are in Afghanistan to assist in the operation and maintenance of the equipment. In addition, over 2,200 Afghan troops have been trained in the USSR. Nevertheless, Afghanistan's small and unskilled population cannot provide enough men to handle large quantities of modern and relatively sophisticated equipment.

Soviet economic aid deliveries of about \$600 million have accounted for half of the funds spent on Afghanistan's economic development programs since 1956. Soviet aid has focused on expansion of the road network, development of a power grid, extension of irrigation, and exploitation of natural gas deposits. As with military aid, repayment terms are as generous as any Moscow has given. The USSR accounts for about 40 percent of Kabul's foreign trade, supplying Soviet machinery and petroleum products in exchange for Afghan natural gas and agricultural products.

The USSR has held the pre-eminent position in providing military and economic aid to Afghanistan for more than 15 years, but Kabul has been able to maintain to a large degree its freedom of action. Moscow has not sought to dictate Afghan policies, but has sought to make sure that no other power can use the country to threaten Soviet interests. The Afghans have been successfully playing off the great powers one against the other for more than a century. During the past 20 years, Kabul has sought, and received, economic, military, and technical aid from the West in an effort to limit Soviet influence.

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GHANA: COMMUNIST AID OVERTURES

(89-92)

The USSR has recently taken steps to reactivate some of its aid projects in Ghana. Moscow has been able to do this despite the inability of the two countries to renegotiate an extension of a debt moratorium that expired last December. Accra apparently has made no repayment since the expiry, and its failure to pay has been a major stumbling block since discussions on resuming aid began.

mated \$31 million in credits, leaving \$62 million in credits outstanding. It is likely that some other old projects will be reactivated.

A Soviet delegation arrived in Ghana early in June to talk about reviving several Soviet projects abandoned after Kwame Nkrumah's overthrow in 1966. The Soviets seem disposed to revive a pre-fabricated housing project in Accra and a fishing complex at Tarkwa. Ghanaian officials also want the Bui Dam project, important for industrialization of northern Ghana, reactivated. When Soviet aid was suspended, Ghana had drawn an esti-

Suspended programs financed by other Communist countries may also be revived. Last week a Hungarian delegation talked with President Acheampong about resuming Hungarian projects abandoned in 1966. The value of unused Hungarian aid is estimated at \$13 million. Budapest is prepared to develop Ghana's bauxite deposits jointly with other countries and is willing to help Ghana's textile industry. Another Hungarian delegation is scheduled to visit Accra next fall to ratify any agreements reached on cooperation. The Chinese may have agreed to reactivate some projects financed under 1961 and 1964 credits.

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BRAZIL: GEISEL FOR PRESIDENT

President Medici has announced that he has chosen as his successor retired General Ernesto Geisel. Geisel, whose selection will be formally ratified by an electoral college consisting of congressmen and delegates specially chosen from the states, will begin a five-year term in March 1974.

No real rival ever emerged to challenge Geisel, whose name was the most mentioned from the time speculation began.

Medici banned all public discussion of the issue to preclude debate, which he feared would promote divisiveness within the military. Although nearly every Brazilian general would like to be president himself, the commanders agreed on Geisel because they regard him as competent, honest, and able to continue the successful policies initiated by the Medici administration.

The elevation of Geisel means that Brazil's basic policy direction—top priority on economic development, stress on national security, a growing role in world affairs, and an independent, but



Ernesto Geisel

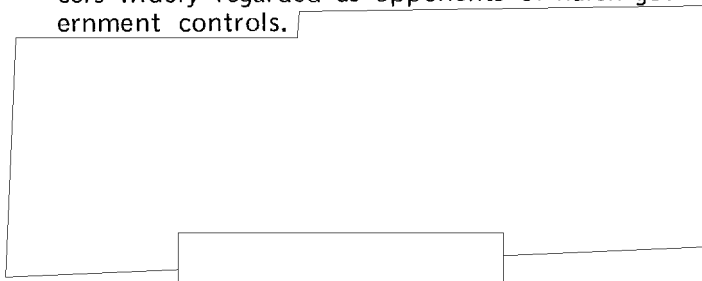
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basically pro-US, foreign policy—will remain the same. At the same time, Geisel's style and the composition of his governing team will differ from those of Medici.]

94 ↓ 95 Some Brazilian observers have suggested that Geisel may in fact be disposed to loosen the bounds on political activity. This hope is based largely on his close identification with the late president Castello Branco and certain other officers widely regarded as opponents of harsh government controls.



The first national congress of the Popular Unity starts on 22 June. It will probably ratify the new tougher line that has crystallized in the holdout against the copper strikers' demands. One sign of this is the choice of radical Adonis Sepulveda of the Socialist Party as chairman of the coalition, a post that had previously gone to one of the minuscule parties. Leaders of both Communist and Socialist parties are galled by the use of the strike and a dozen other issues to obstruct and defy the government. As a result, the two parties are using much rougher tactics against all forms of opposition, lumping these together as "fascist."

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Among the weapons they are using against the opposition are mobs and armed bands of thugs. At the same time, government officials are ordering more repressive police and army moves against anti-government activities.



the opposition is taking the brunt of this crackdown. The Christian Democrats charge that some national police (carabineros) who objected to tolerance of extreme leftists have been forced to resign.

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CHILE: CLOSING IN

President Allende is finding less and less room these days to exercise his gift for political maneuver. Already under pressure from the opposition and the military, he now finds that the usually cautious Communists are joining the extremist Socialists in forcing a harder line on him.

The Communists have evidently decided to abandon their support of Allende's strategy of compromise and maneuver in favor of cracking down at every opportunity on the increasingly obstreperous opposition. This is a marked, though probably tactical, shift that brings the Communists more in concert with the Socialists than the two major coalition parties have been since they took power in 1970 with Allende's election. Their improved cooperation led to the unprecedented action by party leaders of publicly rebuking the President for having met with striking copper miners last week. Although Allende responded by defending his presidential authority, strike negotiations have gone no further.



Street Battle

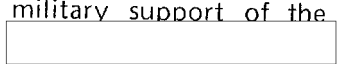
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The Communists have pointed out, quite correctly, that the services are not united on conditions for entering the cabinet and that the appointment of those most amenable could further divide the military to the government's advantage. Even the Socialists now appear less opposed to accepting selected officers. Socialist Defense Minister Toha's announcement on 19 June that new benefits for the uniformed services are imminent strengthens the prospect that Allende is not alone in pressing for continued military support of the government.



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INTERNATIONAL MONEY

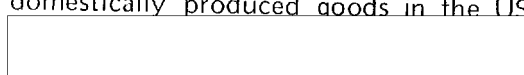
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The dollar reached new lows this week on European foreign exchange markets before rallying slightly. The decline was attributable to a number of factors—chiefly, uncertainty about the adequacy of the new US anti-inflationary program announced by President Nixon and concern that US agricultural exports may be restricted in the future. West Germany's Bundesbank intervened to support the Dutch guilder, which is at its floor against the mark within the narrow European currency band. European reaction to the dollar's decline and to stress within the band remains low key, but further runs on the dollar will generate demands in European capitals for more positive action. The Europeans are likely to increase pressure on Washington to support the dollar.

Several minor measures, however, have been introduced to soften the adverse impact of the dollar's devaluation, particularly on politically sensitive industries. Tokyo has offered \$800 million in financial relief for small and medium-sized industries hurt by the currency realignments. Brussels is considering increasing the funds available for export promotion, for underwriting export credits, and for exchange guarantees. New tax incentives for exports and for investment in the export industries have been introduced in Austria, and Norway has proposed interest-free loans and tax refunds to compensate its exporters for devaluation losses on dollar-denominated contracts.

The dollar's devaluation since the beginning of the year has not prompted strong countermeasures by the major US trading partners. Although the dollar has now depreciated almost 9 percent on a trade-weighted basis since the Smithsonian Agreement of December 1971, only a handful of new foreign export subsidies and tax incentives have been introduced. No significant new tariff restrictions or non-tariff barriers have been imposed against US goods, and no foreign capitals have intervened substantially in the exchange market to halt the dollar's slide.

A number of countries have not introduced countermeasures because so little of their trade is with the United States. In addition, the economies of most of the major US trading partners are expanding rapidly—too rapidly in some cases—and foreign governments are consequently anxious to hold down their own inflation by purchasing cheaper US goods. They are also confident that burgeoning domestic demand will be adequate to compensate for any losses in sales of domestically produced goods in the US.



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