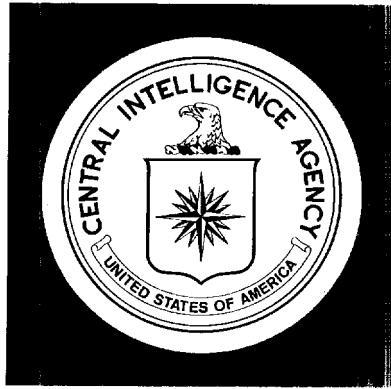


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Weekly Summary

DIA review
completed.

State Dept. review
completed

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27 July 1973
No. 0380/73

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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.

WARNING

The WEEKLY SUMMARY contains classified information affecting the national security of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary.

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Searching for a Way

President Anwar Sadat had a busy, if not particularly rewarding, week. First, he had to face down President Muammar Qadhafi and his strange march on Cairo, and this took a rather sharper reaction from Egypt than Sadat had hoped would be necessary. Then he had to face the Egyptian people on Revolution Day with little to offer in the way of solid, new accomplishment. So he gave them standard fare—a diatribe against the US, a reassurance about the cool relationship with the USSR, and a few homilies on union with Libya. In Libya, Qadhafi agreed to return once again to the presidency, the better to pursue his mystical search for union with a reluctant Egypt.

2 Sadat opened his address on 23 July with a strong attack on US actions at the UN in particular and US Middle East policy in general. Charging that the US was issuing ultimatums on the subject, Sadat asserted that Egypt does not quaver at the prospect of a US veto, and, indeed, the Egyptians seem quite prepared to push the US to a veto at the Security Council. Sadat went on to accuse the US of reneging on its earlier support for UN recommendations.

1 The attack reflects his frustration over Cairo's inability to induce movement on a settlement. He tried militant threats last spring and moved toward moderation in June at the opening session of the UN debate. Both tactics failed in their intended aim of inducing the US to press Israel toward compromise.

1 This surge of anti-American feeling probably influenced the tenor of Sadat's remarks on the USSR. The import of his statements was that Egypt must make the best of what has come to be a fairly distant relationship—a point made frequently in Egyptian media in recent weeks. Sadat's tone was a bit warmer than the tone of most recent Egyptian commentary; in fact, the tone was warmer than the state of relations actually warrants. This warmth probably is the product more of unhappiness with the US than of satisfaction with the Soviets.

1 Sadat's speech was an admission that the Egyptians have again reached a dead end in their search for an acceptable settlement. The speech was also an acknowledgment that Cairo is only feeling its way toward its next move. Sadat did not threaten war, as he did last spring, but spoke of the longer term and of the need to work out a policy that will set guidelines for action for years to come.

State of the Union

2 Relieved that the Libyan "march on Cairo" had ground to a halt, Sadat had little to say about the proposed merger with Libya except to admonish Tripoli for its rashness. The Egyptian leader did try to smooth ruffled feathers by emphasizing that the substance of any union is far more important than its constitutional framework. He called on President Qadhafi to withdraw

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his resignation, but with the Libyan leader obviously in mind, he reprimanded those who permit their emotions to outrun their reason.]

1 Sadat's remarks were uncompromising and pointed, but they left the door open to Qadhafi, who, in fact, withdrew his resignation several hours later. During a somewhat subdued speech, Qadhafi told a large crowd of enthusiastic followers that he would remain in office at least until the union was formalized. The decision was probably as tentative as earlier ones and can be reversed at any time. Qadhafi spent some time expounding on his personal feelings and experiences over what he described as 14 years of tension and strain. Confessing that he, like other men, is subject to human frailties, he said, "One gets tired, disgusted, and bored—particularly with Arab politics."

1 Despite this dispirited tone, Qadhafi showed no sign of weakening his position on union. He was neither antagonistic nor condemnatory toward the Egyptians, with whom he differs on issues ranging from plans for the battle against Israel to his own cultural revolution. Qadhafi noted that the Egyptian Government has been forced to carry out a number of purges and to maintain strict security controls on its citizens; he claimed this offered clear proof that Egyptian political institutions are ill-prepared to survive

another confrontation with Israel. While expressing his confidence in the Egyptian leadership, Qadhafi bluntly said that he would not himself shoulder responsibility for a united state "which would again be defeated by Israel."]

1 The outpouring of support for Qadhafi's return to office has overshadowed, at least for the moment, any loss of prestige he may have suffered as a result of his trip to Egypt and the subsequent fiasco of the "march on Cairo." His return to Tripoli will ease the uncertainty and turmoil that has plagued Libya for over a month.]

1 Nevertheless, the Libyan leader seemed to be telling his people, his colleagues on the Revolutionary Command Council, and the Egyptians that they will ultimately have to get along without him if his "personal" concept of unity proves too great an obstacle to union. Qadhafi's motivations for placing his leadership in the balance appear to be a mix of deeply held conviction and political design and are entirely consistent with his character. Like his Bedouin countrymen, Qadhafi is a tough bargainer; he is pushing for concessions from the Egyptians and is not through using brinksmanship to that end. At the same time, Qadhafi's deep commitment to Arab unity is born out of a genuine conviction, which may yet dictate that he step aside for the sake of union.

The march on Cairo

Sadat receives merger petition from Libyan delegation



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ZHIGULI

The People's Car

(No sources)

The Soviet leadership is ushering in a new era for the Soviet consumer by permitting private individuals to purchase most of the Zhigulis—replicas of the Italian Fiat 124—produced by the new plant at Tolyatti. More than half of the 500,000 Zhigulis and the 400,000 other Soviet cars to be built this year will be sold through a growing network of state-controlled retail outlets.

The decision to build the Tolyatti plant reversed long-standing Soviet policy of keeping car output low and set a course toward "automobilization" of the economy. Until recently, the USSR had fewer cars than any major industrial country; the government owned most of the few cars there were. By 1975, however, the country will have an estimated 5 million cars, and two thirds of them will be privately owned. According to Soviet plans, by 1980 there will be 11 million cars on the road, 8 million privately held—about one for every ten families. By that time the family car—once a Kremlin symbol of the decadent West—will have established its place in Soviet society.

The high prices of cars and the absence of credit and deferred payment arrangements preclude ownership by average citizens. The Zhiguli is priced at 5,500 rubles (\$7,400). A Fiat 124 costs about \$2,500 in the West. Many well-to-do families in the USSR can afford such a price, but not the average worker. Although progress is being made, there will not be a Zhiguli in every garage until the government lowers the price, raises worker income, or offers extended payment terms.

Availability of cars, however, is not an un-mixed blessing for the Soviet purchaser. Car service—already notoriously poor—is getting harder to find as more new cars hit the road; private owners have to do much of the repair and service work themselves. Filling stations are also difficult to find in many cities and along the highways. The road system is poorly developed, resembling the US road network of the 1920s; traffic snarls are common and the number of accidents is growing.



Estimated Distribution of Zhiguli Cars

	1972	1973	1975
Retail Market	150,000	300,000	400,000
Official Use	100,000	100,000	100,000
Export	<u>70,000</u>	<u>100,000</u>	<u>160,000</u>
TOTAL	320,000	500,000	660,000

The government still keeps a sizable share of the total car output each year for such purposes as official transportation and taxi service as well as export to Eastern Europe and to budding markets in Western Europe. This year, about 20 percent of the new Zhigulis will be reserved for government use. Another 20 percent will be exported, mainly to Eastern Europe, to pay for imports of parts and accessories.

The USSR is trying to develop markets for the Zhiguli in the West, particularly in Finland and Belgium, and is testing the car's marketability in other countries. No more than 20,000 Zhigulis will be sent to Western Europe this year, but the USSR hopes for a bigger share of the Western market after 1975. Although competition will be stiff, the Zhiguli is well suited for sale in Western Europe; it can be priced below the Italian-made Fiats, and can be serviced by existing Fiat dealerships. The Soviets may have trouble, however, in maintaining the high standards of quality and durability demanded by Western buyers.

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A Tale of Two Cities

6 The foreign ministers of the nine EC countries held political consultations in Copenhagen on 23 July and then went on to Brussels for a meeting of the EC Council. Relations between Europe and the US were a major topic of discussion in both capitals. France, with Denmark's support, had demanded the two-site arrangement in order to wall off the political consultations of the Nine from their EC activities. But the absurdity of meeting in two cities in one day made the ministers impatient with the distinction, as well as with French tactics, and emphasized how thin the wall is.

5 In Copenhagen, the Nine approved a 12-point plan on the coordination of foreign policy. They reaffirmed some current practices—regular meetings of foreign ministers on a quarterly basis and direct telecommunications linking the ministries of foreign affairs. On the relationship between political cooperation and EC institutions, the ministers agreed to accept formal opinions from the commission on matters under the jurisdiction of the political committee and vice versa. The ministers themselves can now charge the political committee with preparing studies on the political aspects of community activities.

25X1 6 The ministers focused on possible procedures for the expected EC meeting with President Nixon next fall. [redacted] the ministers agreed that such a meeting is desirable and that Commission President Ortoli and Council President Norgaard should represent the EC. Some officials proposed that the nine foreign ministers should also attend, but the French are still wary, fearing this would expose differences among the Nine.

5 The sense of the discussion was that the design of a new European-US relationship will take time since great developments have occurred since the construction of the present framework in the late 1940s, and since Europe itself has changed and so have US relations with the Soviet Union and China. The foreign ministers will meet

again prior to the President's visit. Over the next few weeks, the political committee and the ministers will try to agree on topics that can be taken up with the President in the EC and NATO forums next fall.

4 In Brussels, European-US relations were also in the spotlight. It was agreed that parallel progress should be demanded in world trade negotiations and in international monetary reform. French Foreign Minister Jobert wanted to go considerably further and urged the community to block the opening of substantive trade negotiations unless Washington supports the exchange rates fixed last March. The Jobert proposal, however, was modified considerably by France's partners and the commission.

4 Subsequently, the EC Council agreed, with French support, to some of the commission proposals for improving the EC's offers of compensation to the US and others for damage to exports resulting from enlargement of the EC. The council is asking the permanent representatives to come up with a list of further concessions by early September. The council was not able to agree on a position for or against demanding preferential access to the markets of certain less-developed EC associates. The council decided to wait for the discussions that began this week with the present and future African and Caribbean candidates for association. This will give the European and African opponents of these so-called reverse preferences—to which the US also objects—further opportunity to argue their case.

7 "We're moving ahead like snails in a barrel of tar," a Dutch spokesman said after meetings this week. On the other hand, the Danish foreign minister, responding to press questions in Copenhagen, asserted that Denmark has decided to emphasize its European identity. Asked about Nordic identity, he expressed doubt that such existed and added that the Nordics do not have "a common appreciation" of security policy or trade questions. [redacted]

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INDOCHINA

SLOW REBUILDING IN THE NORTH

9 There is little doubt that economic conditions in North Vietnam are still unsettled six months after the signing of the Paris accord. The fundamental problems seem to be transportation and communications, where shortcomings affect a wide range of economic activity. The press admits that distribution problems have made it necessary to ration construction materials and production supplies, with priority accorded to key projects or installations. Small industrial enterprises in the Hanoi area have even been admonished for relying solely on normal channels for their supplies and thus failing to fulfill the six-month plan.

9 The machinery sector has also been criticized, notably for its failure to produce enough

spare parts for the many kinds of foreign transport equipment used by the North Vietnamese. Other specific difficulties include shortages of electric power, coal, warehousing, and materials like steel, cement, and timber.

9 Several things that contribute to North Vietnam's current predicament will be more difficult to overcome than in the period after 1968. Mining of the ports in 1972 caused a massive reorientation of the transport system to accommodate overland imports of goods, and switching the system back toward seaborne supply channels will require time. More workers in construction and industry were assigned to wartime duties in 1972 than in any earlier year, and skills are still poorly matched to jobs. Damage to machinery and heavy equipment resulting from the dispersal

Repairing the Long Bien bridge



Communist Radiophoto

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and subsequent reassembly of plants—some went through the process twice—is also hampering reconstruction.]

Touring Eastern Europe

10 Pham Van Dong's party-government delegation is in Warsaw on the second leg of its swing through Eastern Europe. Not surprisingly, the North Vietnamese have been hearing much the same story in Budapest and Warsaw as they heard in Moscow, although their hosts are probably putting more emphasis on the problems surrounding the ICCS. In the communique following the visit in Budapest, for example, the Hungarians lauded the "positive activities" of the "Vietnamese people" in fulfilling the Paris accords. In both Poland and Hungary, Dong and his entourage were treated to further comments on the value of peaceful coexistence and detente—a subject that had also figured prominently in Moscow.]

10] Budapest announced that Vietnamese obligations under past Hungarian credit arrangements would be canceled. In this too, the Hungarians followed the Soviet lead, although in Moscow's case the cancellation apparently applied only to economic aid. In clear contrast to the Moscow stop, where the Soviets and North Vietnamese could do no better than work out an "agreement in principle" on aid, an agreement was signed in Budapest on "free credit and military assistance" for 1974. A similar accord will probably be worked out in Warsaw.]

10] The Dong delegation held brief meetings with both Kadar and Gierek—a gesture that went beyond the strict requirements of protocol and one apparently designed to underscore the importance Poland and Hungary attach to their role in the ICCS. The North Vietnamese apparently will visit Romania after they leave Poland, and they may go on to Sweden and Algeria after departing Eastern Europe.]

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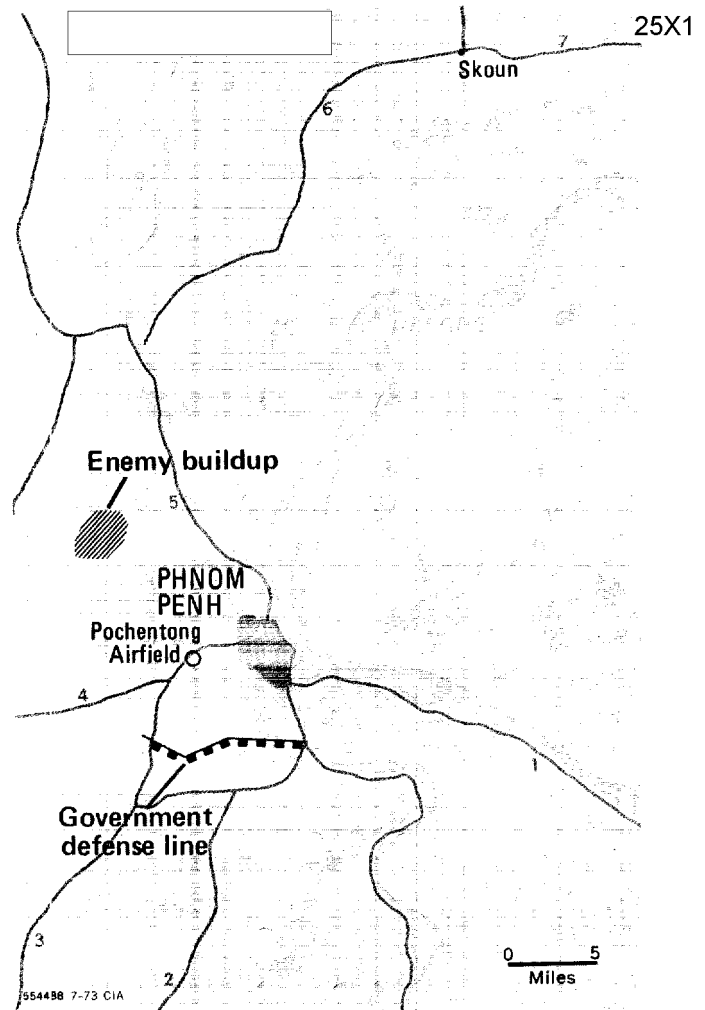
CAMBODIA: SQUEEZE ON PHNOM PENH

16 ¶ The war edged closer to Phnom Penh this week as Khmer Communist forces kept up their attacks on government positions near the capital. The insurgents brought pressure against Cambodian defenses along Routes 2 and 3 a scant seven miles south of the capital. Ten miles northwest of the city, elements of the army's elite 7th Division fought a series of battles with a sizable insurgent force. Most available government reinforcements are committed to these two fronts. As a result, government forces lost more ground along Route 6, and garrisons on the east bank of the Mekong River some 15 miles upstream from Phnom Penh have been attacked by the insurgents. ¶ At midweek, Communist gunners shelled the capital's western outskirts near Pochentong Airfield, but damage and casualties were light. ¶

17 ¶ The government has ordered a "general mobilization" in Phnom Penh—a move aimed largely at providing badly needed manpower for the armed forces. A conscription law is being implemented, large numbers of deserters are being rounded up for return to military duty, and personnel from the general staff and other military offices in Phnom Penh are to be assigned to field units in the capital area. ¶

18 ¶ The political front was generally quiet this week. Prime Minister In Tam made no new threats to resign, apparently recognizing that such a step would have a damaging impact on unity. The Prime Minister evidently is still determined to increase government efficiency and has proposed a few cabinet changes. There were indications, however, that members of President Lon Nol's Socio-Republican Party were equally determined to resist such changes, which are very likely aimed at them. ¶

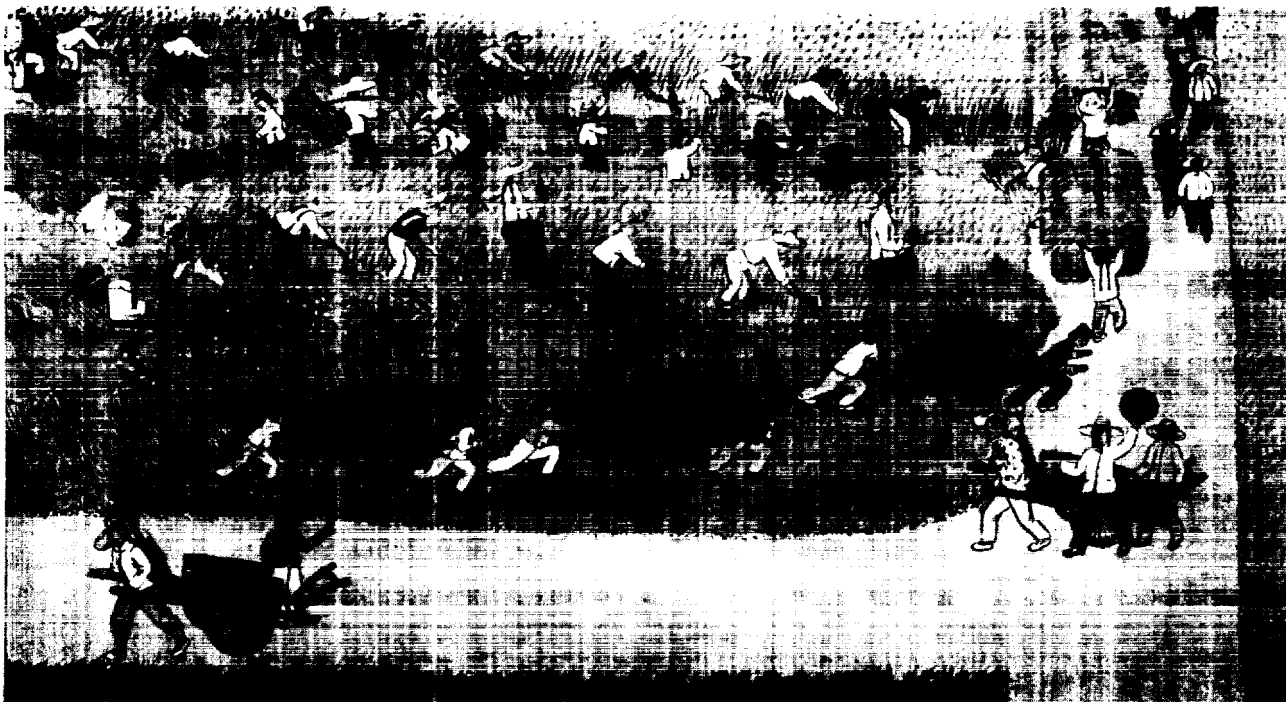
19 ¶ In the meantime, In Tam and other senior civilian and military officials go on grumbling about Lon Nol's leadership. There are no signs, however, that the President is as yet willing to change his authoritarian ways. Although Lon Nol



recently indicated that Sirik Matak would become a special presidential adviser with considerable authority over military affairs, he has thus far given Matak no specific duties. Lon Nol this past week reaffirmed that he is still the supreme commander of the armed forces, suggesting that Matak's military position may be essentially an honorary one. ¶

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Chinese peasant painting
The first day of harvest

CHINA: EARLY RETURNS

19 China's agricultural production is hard pressed to keep pace with its population growth even in good years, and in poor ones major food shortages often develop. The harvest last year was disappointing—mainly because of widespread bad weather—and all through the spring planting China's leaders have emphasized the need to go all-out to obtain record yields.7

19 Despite abnormal weather, the early figures on the spring crop, mostly rice and wheat, indicate some improvement over last year has been achieved, largely as a result of increased acreage. Peking is guarding against premature optimism as the spring harvest accounts for only one third of the total crop.7

19 Not content to rely solely on ideological exhortation, China's leaders took a number of steps this spring to increase the manpower available to agriculture:

- a five-percent ceiling was placed on the number of workers permitted on non-farming tasks in the countryside;

- a freeze was ordered on the hiring of factory workers for urban areas;

- the campaign to send youth to the countryside to work in agriculture was accelerated dramatically.

These measures came too late to affect the early crop very much; their full impact will not be felt until the crucial harvest in the fall or later.7

19 The 1972 harvest had its political repercussions as well. [redacted] Vice Premier Li Fu-chun accepted the blame last winter for the poor crop, stating that he had assigned too much manpower to factory jobs and thereby damaged agriculture. Li, at one time the leading economic planner, has been inactive in recent years. By taking upon himself the role of scapegoat, he has deflected criticism from others more directly involved in managing the economy. A veteran economic specialist, Yu Chiu-li, has been in charge of planning since last October. Both Li and Yu are close associates of Chou En-lai. [redacted]

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THE SOVIET UNION

BUYING MORE FROM THE US

For some time, Moscow has been interested in acquiring advanced equipment and technology from US firms. Soviet purchases, however, were inhibited by the state of US-Soviet relations, high US prices and interest rates, and US trade restrictions. In these years, the US got less than 5 percent of Soviet contracts for Western plant and equipment. Now that US-Soviet relations have improved, export controls have been relaxed, Eximbank credits granted, and the dollar devalued, US firms have been more successful in competing for Soviet contracts. Since January 1972, US firms have received \$600 million worth of orders for technology and equipment, raising the US share to about 20 percent.

US firms are now sufficiently competitive in price terms so that other factors such as technology, know-how, and scale of operation—areas where US firms often have a clear-cut advantage—come into play. The ability of US firms to meet specified delivery dates and their willingness to undertake “turn-key” projects—i.e., ready to start producing—and to provide performance guarantees have been important considerations.

Some US firms have lost contracts because they were not familiar with Soviet trading practices. Other US firms have been deterred

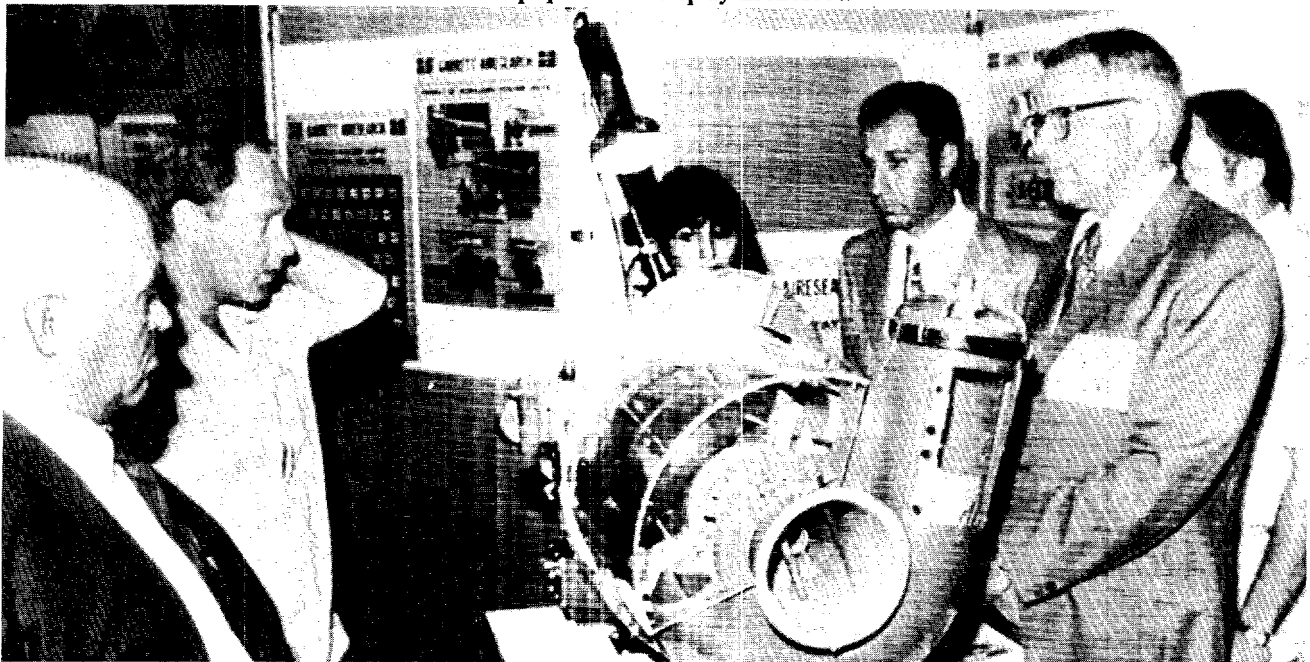
Soviet Orders of US Plant and Equipment January 1972 - June 1973

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	Value (Million US \$)
Chemical and petrochemical	\$ 14
Oil refining and pipeline equipment	74
Metalworking and metallurgy	44
Electronics	19
Automotive and vehicle manufacturing	258
Consumer-related plant and equipment	47
Mining and heavy construction equipment	111
Other	28
TOTAL	\$595

because of limited knowledge of Soviet import requirements. By the same token, the Soviets are unfamiliar with US capabilities and have tended to rely on their usual European and Japanese suppliers. As US-Soviet commercial contracts increase, these impediments should be largely removed.

US equipment on display in Moscow



SECRET**RECORD CROP FORECAST**

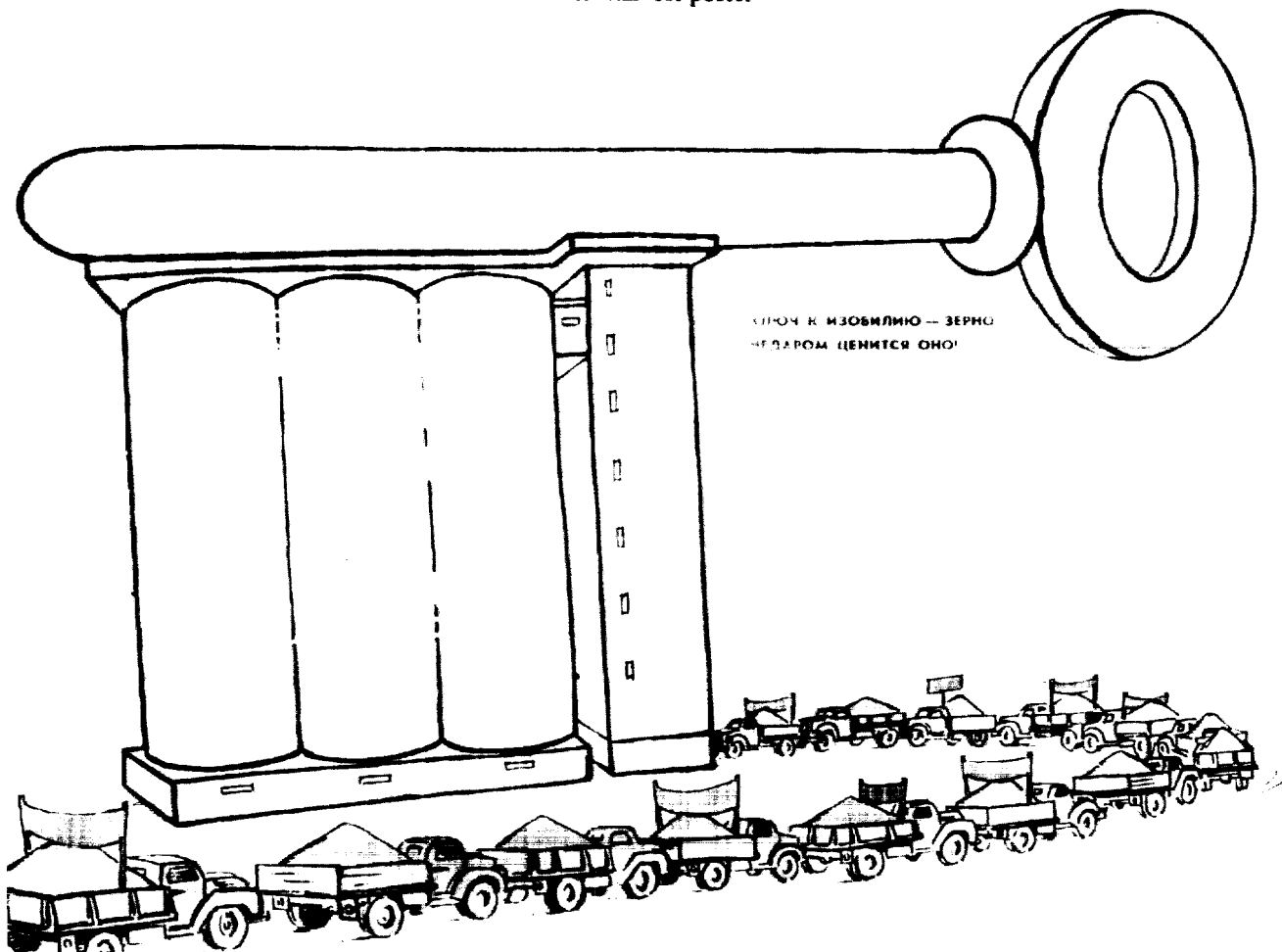
29 If weather conditions from now through September are at least average, the USSR should reap a record harvest of 157 million tons of usable grain.

The outlook is for excellent yields in the European USSR if threshing is not delayed too long. Although harvesting has been hindered by considerable lodging, drier and hotter weather since mid-July has permitted an accelerated pace in threshing. Even so, the Soviets have failed to maintain their usual harvesting pace. By 23 July,

about 13 percent of the total area had been threshed, compared with an average of 18 percent in the preceding three years. Party and agricultural leaders are exhorting farmers to get the harvest over with quickly to halt the decline in quality that sets in when wet grain is left too long in the field or is not dried after being threshed.

East of the Urals, crop prospects are not as good as last year. Rainfall since April in Kazakhstan and West Siberia has been less than in any of the preceding four years. Soil moisture is inadequate or marginally adequate in a number of areas, and if dry weather persists, yields will

Soviet harvest poster

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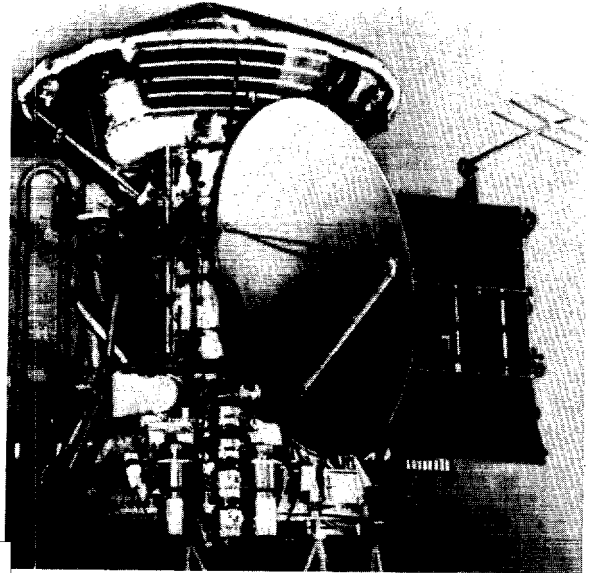
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MARS PROBE

Mars-3

30 [The latest Soviet space probes, Mars 4 and Mars 5, appear to be functioning normally. They were launched from Tyuratam on 21 and 25 July by SL-12 boosters and should arrive in the vicinity of Mars next February. The probes' mission may be similar to that performed in 1971 by Mars 2 and Mars 3. Those probes orbited Mars during a massive dust storm and attempted to photograph the planet and land instrument packages on its surface. An instrument package from Mars 3 landed successfully, but a malfunction occurred and only 20 seconds of TV signal were transmitted.

The Soviets in the past have launched two or three space probes toward Mars and Venus when conditions permit. Proper conditions for launch will exist through August, and additional Mars probes may occur.



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suffer. During mid-July, temperatures much cooler than normal moderated the fall in soil moisture, but at the same time slowed the development of the grain—mainly spring wheat. The crop was planted later than usual, increasing chances that it will encounter frost and snow before ripening.

This year, Moscow has purchased about 9 million tons of grain—more than 6 million tons from the US. Scheduled imports bring the USSR within a few million tons of bridging the gap between its estimated requirements for grain (165-170 million tons) and the crop forecast.

Soviet officials have

stated that, because of the furor created in the US by their grain purchases last year, they will buy no more US grain—possibly through 1975. The stricture probably applies only to this year's purchases. If prospects for the crop this year were to deteriorate, or if they rebuild their grain reserves, Moscow would be hard-pressed to find alternative suppliers for the necessary additional imports. In fact, the Canadian Wheat Board recently announced that at most it will be able to fill only 2.5 million tons of the Soviet request for 3.5 million tons of wheat from the current Canadian crop. Even in the longer run, the USSR's continuing requirements for grain are such that Moscow will find it difficult to buy all it needs outside of the US.

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SPAIN: EAGER TO TALK

31 [The new foreign minister, Lopez Rodo, has made his opening moves in a campaign to up the ante for renewal of the agreement of friendship and cooperation with the US. The agreement permits the use of several military bases constructed by the US in Spain under terms of the original 1953 pact.]

31 [Although the agreement does not come up for renewal until 1975, the Spaniards want to start negotiations early to avoid the last-minute rush that occurred in previous renewals. On several occasions in recent weeks, Lopez Rodo has advised ranking US officials that he wants to discuss the negotiations when he comes to the UN in October. He stressed that, instead of another agreement, Spain wants a formal treaty that would broaden the areas of cooperation.]

32 [Other Spanish officials have said that Madrid wants a security guarantee for Spain in the treaty. The Spaniards point out that although they run the risk of inviting military attack by allowing the US to use bases in Spain, they have no security guarantees such as those enjoyed by the NATO members.] [The Spanish military is likely to seize the chance to submit a shopping list, but the emphasis is likely to be on technical assistance to modernize Spain's defense production facilities.]

32 [Lopez Rodo has made it clear that Spain also intends to link renewal of the agreement to a solution of the Gibraltar question. In a talk with the US ambassador, the foreign minister singled out the base at Rota and stated that the US could stay there only if the Gibraltar matter is settled to Spain's satisfaction. He urged the US to persuade London to relent and turn Gibraltar over to Spain.]

34 [Spain, of course, would like to have the US help wrest Gibraltar from the British. In years past, Madrid succeeded in getting the UN to approve resolutions directing Spain and the UK to negotiate the matter, and calling on the UK to terminate its occupation of the Rock by 1969. Spain has tried to negotiate, resorted to harassment of UK communications with Gibraltar, and

cut off direct access to Gibraltar from the Spanish mainland. London has been immovable, and numerous meetings between foreign ministers have failed.]



Madrid last week addressed a letter to the UN secretary general reviewing the UK's failure to live up to UN resolutions on Gibraltar. In playing up the letter, the Spanish press stressed the government's decision to break off talks with the UK and noted that Madrid is "seriously contemplating additional steps."

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YUGOSLAVIA: THE MAN IN THE MIDDLE

38 [The ouster last month of the internal security boss, General Ivan Miskovic, will put Stane Dolanc, Tito's heir-apparent in the party, in a difficult tactical position. Although he is still the front-runner, he will have to work more closely with other regime power brokers and demonstrate more sophisticated political skills, if he is to become Tito's successor.]

38 [As secretary of the party executive bureau, Dolanc has generally received high marks for administrative ability. Tito leaned heavily on him in the drive to recentralize the party during the past 18 months. He was effective in passing along orders and seeing to their execution. Part of his success stemmed from the fact that he and Miskovic, the tough military counterintelligence chief, worked well together as personal advisers to Tito.]

38 [Now that Miskovic is gone and Tito is leaving more and more responsibilities to Dolanc, he will have to lean more heavily for support on other strong men—party leaders, military officers, trade union leaders, and government officials—who have influential constituencies and the

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capacity to undermine distasteful policies. Dolanc will need to show an ability to cajole them and compromise with them if he is to maintain Tito's strong sense of Yugoslav unity up through the party congress and national elections early next year.]

38 [Dolanc was catapulted from political obscurity in Slovenia to the federal party executive bureau in 1969. He reportedly served under Miskovic in military counterintelligence in the 1950s, and their personal ties probably had deep roots. There is little doubt that the relationship augured well for the internal security forces to exercise a special influence over Dolanc in the post-Tito era.]

37 [While Dolanc's political effectiveness may have been temporarily weakened by Miskovic's removal, there are no hard indications of slippage in Dolanc's relationship with Tito. The aging Yugoslav leader trusted Dolanc sufficiently to have him address recent meetings of internal security and military officers. Dolanc also took over some of Tito's responsibilities during the recent visits of Kadar and Ceausescu. The rumors nevertheless serve to highlight Dolanc's difficult political position. On the one hand, Tito has purged two other heirs-apparent—Djilas and Rankovic—for acting like they were in command, and Dolanc cannot feel immune. On the other hand, lesser members of state and party collective bodies will judge his decisions, or lack of them, harshly.]

INTERNATIONAL MONEY

39 The dollar this week was weak on European money markets. Tight money conditions in Germany increased demand for the mark at the expense of other currencies including the dollar and the pound; the pound is now at its lowest level since April. Nevertheless, Bundesbank dollar purchases worth more than \$100 million in the past weeks, together with US intervention, have helped calm the market.]

39 [The mark also strengthened substantially relative to the other currencies in the European joint float, again testing that fragile arrangement. In the last six days, the French franc has slipped from near the top of the float band to near the bottom, more because of the strength of the mark than because of any basic weakness in the French economy. By 26 July, the guilder, the franc, and the Norwegian and Swedish crowns had all reached their respective lower intervention points against the mark, necessitating substantial support by the Bundesbank to keep the joint float alive.]

39 [Paris continues to be the most insistent of European governments that the US should be doing more to support the dollar. In a recent interview, Finance Minister Giscard d'Estaing stressed that the present situation provokes disorder, makes international monetary developments dependent upon American political factors, and leads to entirely unrealistic exchange rates. Giscard claims to be particularly worried that some of the most dynamic French industries— aerospace, electronics, tire-manufacturing—will be priced out of international markets at present parity levels. Despite the waves of criticism, however, the over-all French trading position has not been seriously affected by the dollar depreciation. Since March, the franc has appreciated 12 percent against the dollar on the money markets, but the value of the franc has risen only 1 percent on a trade-weighted basis because the currencies of France's major trading partners—particularly West Germany—have appreciated more than the franc.]

39 [The Japanese have sold over \$500 million in the last two weeks to satisfy commercial demand. This burst of demand for the dollar has been prompted by the need to repay dollar loans made by the Japanese Government to Japanese exporters during the currency crisis in March. These loans were made to provide protection to exporters against dollar depreciation. Demand for dollars has also been stimulated by rapidly rising imports. The dollar sales have kept the yen from depreciating relative to the dollar, but the yen weakness is probably a short-term phenomenon that will dissipate when the dollar loans are repaid.]

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IRAN: BUYING A BIG STICK

(CC - 70)

Iran is purchasing still more military equipment in its effort to be the dominant military power in the Persian Gulf. Since 1968, Tehran has contracted for more than \$5 billion in arms, over half of it since 1972. A new arms accord has just been concluded with the UK, and negotiations are under way with the US and the USSR.

The Shah has already purchased over \$610 million worth of British arms including 770 Chieftain tanks, the Rapier surface-to-air missile system, the Seacat surface-to-surface missile system, hovercraft, and support ships. Last month, the Shah bought 250 Scorpion light tanks from the UK. The contract, valued at some \$70 million, had been under negotiation for nearly a year. Delivery of the Scorpion may be several years off, however, since the British Army has several hundred on order and 130 remain to be delivered to Belgium. Iran has shown interest in obtaining Fox armored reconnaissance vehicles and a contract may be signed later in the year.

Iran's defense minister recently visited Moscow and may have concluded an arms accord. The USSR is Iran's third largest arms supplier, having logged almost \$600 million worth of orders--the most recent was a \$75 million accord concluded in October 1972. The Shah has restricted purchases of Soviet equipment to such unsophisticated military hardware as armored personnel carriers, artillery, and vehicles.

Iran continues to get the bulk of its military requirements from the US. Nearly \$4 billion worth of arms contracts have been signed since 1968. In the past 18 months, over \$2.8 billion worth of equipment has been purchased, including F-4 Phantoms, F-5 Freedom Fighters, the TOW antitank missile system, KC-707 aerial tankers, and helicopters. The Shah has expressed interest in purchasing the F-14 and F-15 air-superiority fighters and the Red Eye surface-to-air missile system.

Several other Western suppliers have sold military equipment to Iran. Italy is delivering a

variety of helicopters; Switzerland, antiaircraft guns; Netherlands, transport aircraft; Canada, communications equipment; and Israel, ground forces equipment.

The recent spurt of Iranian arms purchases has been generated by Tehran's effort to improve its military forces to fill the vacuum left by the withdrawal of British forces from the Persian Gulf. For one thing, the Shah is concerned about emergence of new radical influences in the area, particularly those supported by Iraq. The Shah regards a modern, well-equipped military establishment as essential to deter hostile Iraqi moves and to assure Iran of its proper role in the gulf.

FEDAYEEN TERRORISM

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75 There has been an increase in terrorist activity in the last two weeks. It has included the hijacking of a Japan Airlines 747, an unsuccessful attempt to shoot up the El Al office in Athens, and minor bombings in several Israeli cities. Terrorist activity in Israel always increases slightly in the summer because of increased student manpower and the desire to embarrass the Israeli Government by endangering tourists.

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75 The increased violence may well reflect the currently heightened concern of Palestinian leaders over two international developments that they fear threaten their cause:

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75 51 • the UN debate on the Middle East, in which Egypt's ambiguous position on the Palestine issue has aroused fedayeen fears of a sellout;

• the Bourguiba plan for an independent Palestinian state that would co-exist with Israel.

53 Should the principal Middle East antagonists incline toward a settlement or show signs of seriously considering the Bourguiba plan, the fedayeen might well try to sabotage such efforts by stepping up their terrorist activities even further.

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CHILE: SOME MOVEMENT

80 President Allende intensified his search for a political truce this week. The right formula for easing tensions may be nearer his grasp, but it is still eluding him.

80 In an impassioned speech to trade union leaders on 25 July, Allende renewed his plea to the opposition Christian Democrats to help avert a civil war by entering into a dialogue with the government. The President, who has been finding some of his supporters nearly as troublesome and intractable as the opposition, lashed out against extremists on both sides. He even accused leftist "ultrarevolutionaries" of being tools of the far right.

78 Allende emphasized once again that a dialogue with the opposition would not mean a retreat from Popular Unity principles or programs, but he dealt with major issues of concern

80 to the Christian Democrats and the armed forces in conciliatory terms. The President declared that rather than being a socialist government, his is one of "transition to socialism," a stage that necessitates the continued functioning of the private economic sector. Stating that no "army of the people" exists or has been called for by a "responsible" Popular Unity leader, he pledged that as long as he is President, there will be no "parallel armed forces."

80 The Christian Democrats reportedly are ready to begin talks with the government if the armed forces participate as members of the cabinet. Allende has been groping for a way to get the military back into the cabinet that would satisfy both the armed forces and his own supporters, but he has been stymied by the military's insistence on real power and the Communists' and Socialists' reluctance to share it. In his speech, Allende denied rumors that the armed forces are about to be reincorporated into the government,

"To be or not to be"



Ercilia

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80 Allende may hope to rally his more moderate supporters behind a compromise with the military and perhaps break up the tough Socialist-Communist stand on this and other issues that has been hampering his own ability to maneuver. In so doing, of course, Allende would be taking a risk that his governing coalition might disintegrate.

80 Another threat to Allende comes from the activities of the extreme leftist Movement of the Revolutionary Left, the far-rightist Fatherland and Freedom movement, and private business guilds. Any or all of them could provoke military action against the government before a political truce can be established. Pressure from middle-grade officers for independent military action to resolve Chile's problems seems to be on the rise, and serious plotting at a higher level, especially in the navy and air force, may be on the increase.



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ARGENTINA: WHO'S NUMBER TWO

83 } There has been no discernible movement toward a decision as to who will fill the number two spot on a presidential ticket headed by Juan Peron. New names are being floated daily while Peron continues meeting with various political party leaders, probably to sound them out on the proposed elections.7

81 } The maneuvering has been intense and has resulted in sharp disputes among Peron's small circle of close advisers. Jorge Osinde, Peron's adviser on military and intelligence matters, has submitted his resignation as an undersecretary in the social welfare ministry. His resignation was accompanied by a strongly worded attack on the minister of social welfare, Lopez Rega. Osinde charged Lopez Rega with permitting leftist infiltration in the ministry, but privately confided that one of his primary concerns was Lopez Rega's efforts to become Peron's vice president. Peron reportedly has offered Osinde a post as secretary of the National Security Council.7

82 } Conflicts between Osinde and Lopez Rega, who for years has been Peron's private secretary, became evident last November when Peron ended his long exile and visited Buenos Aires. Then as now, it was said that Peron was ill and had become very dependent on his wife Isabel and on Lopez Rega. Osinde had planned to arrange contacts between Peron and outside political forces, but Isabel and Lopez Rega allegedly were able to limit Peron to only a few such meetings. They were also reported to have pushed strongly for the nomination of Hector Campora as Peron's stand-in for the past elections.7

PERU: NOT MUCH OF A HOLIDAY

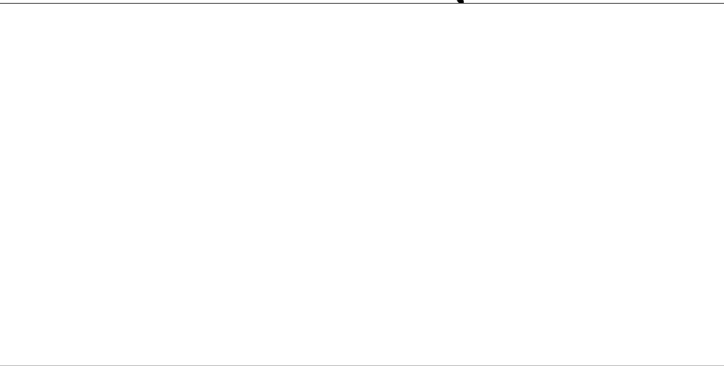
84 } An air of uncertainty hangs over Peru as the nation gets ready for a weekend of independence day celebrations. After nearly five years of military rule, Peru seems to have lost its sense of direction.7

85 } The drift set in when President Velasco was taken ill last February. Today Velasco is still at least nominally in command, but the military government appears unable to come to grips with pressing problems or make important policy decisions. There are reports of renewed rumblings within the armed forces over Velasco's ability to discharge the duties of his office.7

86 } The lack of direction has taken its toll. The regime's labor policy is a shambles. The Social Mobilization System, through which the regime hopes to build a base of popular support, is under attack from some military quarters for doing more harm than good, especially in the countryside. Economy Minister Morales Bermudez has told the rest of the cabinet that Peru's creditors are losing confidence in the military government.7

87 } Moderates like Morales have been trying—so far without success—to ease radical officers out of the cabinet and get policy back on a more realistic track. The radicals have plans of their own. Energy and Mines Minister Fernandez Maldonado wants the government to buy out the US-owned Cerro de Pasco company on terms that are tantamount to confiscation. The radicals appear to be counter-attacking on the social mobilization and agrarian reform issues.7

88 } Velasco remains the great enigma, and there have been conflicting indications of what he will say in his independence day speech. If he has been moved by the entreaties of the moderates, he might call for the consolidation of revolutionary programs already under way. On the other hand, he is just as likely to announce new and radical innovations. A sudden retirement would be surprising, but he might announce plans to step down on 3 October, the fifth anniversary of the military coup and his accession to the presidency.7



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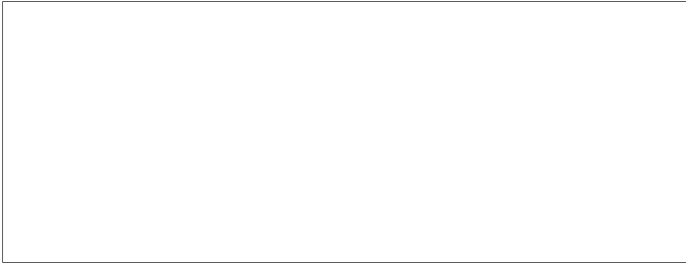
HAITI: FIRE FUELS RUMORS

93 [The Haitian public, already concerned by the lack of economic and social progress under Jean Claude Duvalier, is being bombarded with talk about cabinet changes and rumors of military coups. Some cabinet shifts are likely, but most of the rumors—unusually persistent for Haiti—probably stem from the current visit of the President's controversial eldest sister and the recent fire that destroyed a considerable part of the nation's arms and ammunition, which were stored in the base-90 ment of the presidential palace.]

A [The most likely to go in the cabinet shifts are several high officials who are, or were, supporters of the exiled former minister of interior, Luckner Cambronne. Foreign Minister Adrien Raymond and his brother, army chief of staff General Claude Raymond together with Information Minister Fritz Cineas are among those mentioned. The reason for their fall from grace, it is suggested, is Cambronne's loss of favor with the President's mother, who seems to have realized belatedly that Cambronne was little more than a confidence man.]

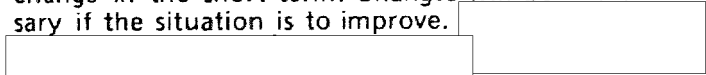
ruthless character of her father. This is Marie Denise's second visit to Haiti since August 1971, when she went into exile following a clash with the then-leader of the cabinet, Cambronne. She probably retains some influence over her brother and may have her eye on a cabinet post for herself or her husband. She may not be permitted to stay more than a few weeks, however, since her presence can only foster further unease. The President, in fact, has decided to delay major personnel changes to avoid appearing to yield to her pressure.]

92 [A fire that damaged the national palace and consumed a large portion of the nation's army has sparked talk about sabotage. The Duvalier family escaped unharmed and immediately issued a call for support. Many government officials and military officers responded to the President's call. Although the fire was brought under control, the US attache comments that it was long overdue because of the casual manner in which the munitions were stored in the underground vaults. He added that this probably will not be the last such incident.]



93 [The lack of visible progress on the economic and social front contributes its bit to the persistent rumors. Since becoming president over two years ago, Duvalier has done little to improve the lot of the impoverished Haitian masses or to reverse the continuing decline in agriculture. It is unlikely that the ordering of national priorities, i.e., the Duvaliers first and the rest after, will change in the short term. Changes will be necessary if the situation is to improve.]

93 [The return on 30 June of the President's eldest sister, Marie Denise Dominique, has added to the nervousness in official circles. Strong-willed and aggressive, she is said to have inherited the



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Presidential Palace

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GUYANA: AFTER THE ELECTION

URUGUAY: BREATHING SPACE

96 Opposition parties have announced that they will boycott the newly elected National Assembly in which Prime Minister Burnham's People's National Congress holds 37 of 53 seats. Burnham has moved swiftly to head off any attempt to oppose his administration by violence?

102 Opposition to President Bordaberry and the generals appears to be exhausted for the time being, with most of the potentially active groups adopting a wait-and-see attitude?

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102 The government has removed one immediate cause for protest by freeing several political prisoners. Lest this magnanimity be taken as a sign of weakness, the government is still holding the leader of the leftist Frente Amplio coalition, Liber Seregni. He is accused of instigating the clash between police and demonstrators in downtown Montevideo early this month?

96 Burnham's overwhelming victory will not ease long-standing racial tensions between blacks and East Indians, but the wide margin of victory for his black-oriented People's National Congress may persuade many East Indians that opposition is futile. Even young hotheads in Cheddi Jagan's People's Progressive Party, which is dominated by East Indians, recognize that Burnham would meet force with force. The fact that Burnham now enjoys a better than two-thirds majority in parliament and has personally assumed all responsibility for security matters makes it unlikely that the opposition will be able to cause serious disruptions or have the election invalidated by the courts?

102 Though lacking Seregni's direct guidance, the Frente is trying to attract the largest faction of the Blancos into an alliance to oppose the government. So far, the faction's leaders have not been able to overcome the reluctance of many party followers to align themselves openly with the Communists?

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96 Charges that Burnham supporters rigged the 16 July vote appear to have some justification. [redacted] a large number of votes cast for Burnham's party were fraudulent—possibly more than 70,000 out of a total party vote of some 244,000. There are signs that election officials may have added more votes than party leaders had intended. Few Guyanese are likely to believe government assertions that the election was completely honest. Opposition spokesmen fear that Burnham's victory signals the establishment of a one-party system?

...IF THE GENERALS LOOK FOR A SCAPEGOAT, BORDABERRY WILL BE A TEMPTING CHOICE...

96 Burnham is expected to pursue the socialist and nationalist policies he has followed since 1968. The Prime Minister has already named Guyana's first ambassador to the People's Republic of China, and Burnham is scheduled to arrive in Canada on 1 August for the meeting of Commonwealth heads of government. He is expected to attend the nonaligned conference in Algeria in September. At home and abroad, Burnham is not likely to let people forget that his party won a landslide victory in 1973. [redacted]

103 Meanwhile, President Bordaberry retains the support of most of the key generals, although many senior- and middle-grade officers are skeptical about the President's ability to provide sound leadership and rally public support. To shore up the government after its tussles with Congress and the nation's largest labor union, the military reportedly is planning a propaganda campaign to educate the people about the government's new goals?

104 With the opposition at least temporarily silenced, both the military and Bordaberry feel they must move swiftly to halt the decay in the national economy. Should they fail, the generals are likely to look for a scapegoat and Bordaberry is a tempting choice. [redacted]

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