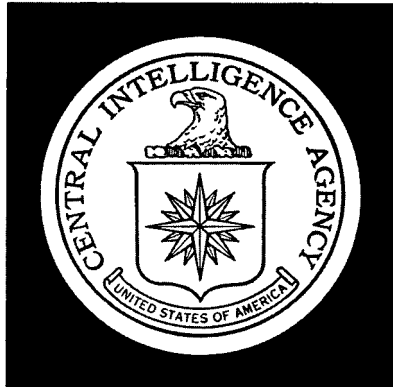


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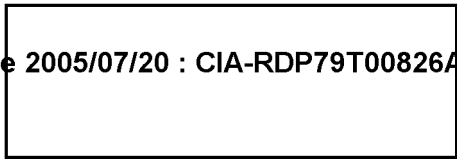
Intelligence Report

Weekly Report

Prepared Exclusively for the

Senior Interdepartmental Group

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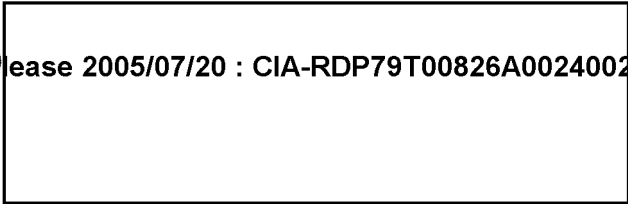
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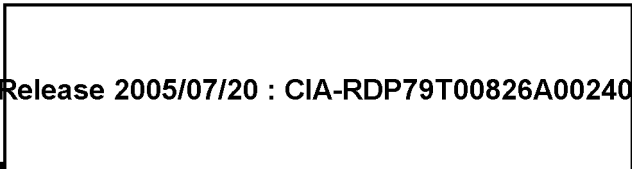




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24 July 1967



1. WEST GERMAN DEFENSE DEBATE

A spirited debate is under way in Bonn, the outcome of which will influence the future shape of the West German defense establishment. The debate was triggered by a cabinet decision of 6 July to trim over \$2.3 billion from projected defense expenditures for the period 1968-71. At issue is what the cuts are to mean in terms of men and materiel.

Chancellor Kiesinger has stated that it is by no means certain the cabinet will have to decide "to reduce significantly" the armed forces' personnel strength. Defense Minister Schroeder, however, asserts that the only realistic choice is a troop reduction of 60,000, spread over a two- to three-year period, with no sacrifice to the equipment modernization program. Finance Minister Strauss contends that a good defense minister could keep the Bundeswehr at its present level of effectiveness with the money available, through economies and structural changes. Some Socialists argue that Germany should give up nuclear delivery systems, and build a mobile, modern, conventional force, perhaps only half the present strength of 460,000 men.

The cabinet evidently hopes to agree on a defense plan prior to the convening of a special Bundestag session on 4 September. Kiesinger will come to the US on 15-16 August; Schroeder may make a separate visit on 11 August.

2. LIBYA

Although Libya remained outside the arena of the Arab-Israeli war, the political balance of the country has probably been greatly altered by it.

Prior to the outbreak of hostilities, the moderate regime in Libya had no significant radical opposition; even Nasir had relaxed his earlier efforts to expel US and British forces from Libya. The country was beginning to feel the prosperity of a fast-growing oil economy, and there was little articulate Libyan concern for the political problems which racked most of the Arab world. The subsequent Arab defeat brought deep humiliation to the Libyans, who were aware of their small contribution to the Arab cause.

Important changes in the country's power structure appear to have resulted. The crisis emphasized once more the total absence of able ministers or successors to the 78-year-old King, who remains Libya's boss and only political leader. Furthermore, previously ineffectual groups of radicals and subversives, united by the crisis, have now formed a group which could offer significant opposition to the regime and perhaps prevent the future accession of the Crown Prince.

The intensity of this opposition, moreover, is reinforced by a traditional regionalism, because it springs largely from the urbanized area around Tripoli and is directed against the rural nomadic power base of the regime, which originates in Cyrenaica.

These political weaknesses, acting together for the first time, provide a distinct threat to the future of the present regime and to its friendly policy toward US interests in Libya.

24 July 1967

3. UK-EEC

The initial sparring over Britain's request for EEC entry has proceeded better than might have been expected last fall, but a hard fight lies ahead.

Despite French desires to deny them even a hearing, the British have presented their case, notably at the recent WEU session. There and elsewhere they made clear that their conditions for joining are minimal. This has compelled De Gaulle to reveal his essentially political objections to UK membership. These objections have not impressed the Five or French domestic opinion, and the Five are now on record in principle in favor of British entry, as is the EEC Commission. London has thus at least succeeded in getting the EEC formally seized with the issue, and the council will resume discussion in the fall.

Britain's tactical problem will be to maintain the momentum and get formal negotiations under way without giving the French opportunities to attempt to exercise a veto. Britain will need to maintain a manifestly pro-European posture across the board to deny the Five excuses for wavering in the face of French pressures. London also will need to prevent further deterioration in its economic position, as well as increased domestic opposition during what is likely to be a prolonged negotiation.

Among the Five, Bonn's attitude is crucial to the UK, but remains equivocal. While willing so far to do what is required at the moment, Bonn would clearly find it a political and psychological wrench to have to part with Paris on this issue. Among those Germans friendly to Britain, the belief that French support is important to Bonn's Eastern policy is a restraint on the help they would otherwise give.

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4. CHILE

Events of the past month point to a general movement to the left in Chilean politics.

The centrist Radical Party came under formal control of leftists at its convention in late June. This group opposes President Frei's reform program and advocates cooperation with the Communist-Socialist Popular Action Front (FRAP).

Frei's Christian Democratic Party (PDC) is undergoing some changes which will undoubtedly add to his problems. Members of a leftist faction won most of the official positions in the party's National Assembly on 15-16 July.

This faction had earlier played a considerable role in preparing the statement issued by the PDC National Council on 10 July which at least conditionally accepted the establishment of a Chilean committee of the Havana-based Latin American Solidarity Organization. This statement specified that the committee must not foment violence in Chile or in other countries, but justified guerrilla activity in cases where democratic means are closed. The statement has been criticized by Colombia and Venezuela, and Frei promptly dissociated himself from it.

Although it is by no means certain that the Chilean electorate is becoming more leftist, the scramble for votes in the congressional and presidential elections--March 1969 and September 1970--may induce the more demagogic leaders to advocate policies that Chile can ill afford, such as nationalization of foreign-owned industries. They may try to play upon popular disappointment with the pace of economic and social reform under Frei's "Revolution in Liberty."

In the past, President Frei has often been able to rally public support by raising the specter of a FRAP government if the PDC loses backing. With the left wing of the PDC sounding more and more like FRAP, this argument is losing much of its strength.

