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Central Intelligence Bulletin

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March 14, 1974

DIA and DOS review(s) completed.

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Approved For Release 2004/07/08 : CIA-RDP79T00975A026200190001-0

Approved For Release 2004/07/08 : CIA-RDP79T00975A026200190001-0

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LAOS - NORTH VIETNAM: The surprise return of North Vietnamese Ambassador Le Van Hien to Vientiane yesterday after an effective absence of nearly ten years is a further manifestation of Hanoi's support for a coalition government and of its satisfaction with the results of the Laos cease-fire.

Hien's presence should buoy the spirits of Prime Minister Souvanna, who has been discouraged over the recent lack of movement toward forming the new government. Soviet Ambassador Vdovin told the US ambassador earlier this week that Hien's arrival is linked to the early establishment of a coalition.

The North Vietnamese have supported the Vientiane peace agreement [redacted] 25X1 Despite the Soviet Ambassador's comments, however, Hanoi probably sees little reason to pressure the Pathet Lao to move more briskly in the negotiations over implementation of the agreement.

Hanoi seems to have judged it prudent to permit the Pathet Lao to move at their own measured pace toward a coalition because the North Vietnamese already have gained a number of advantages through the cease-fire agreement that they do not wish to see jeopardized. These include an unchallenged buffer zone contiguous to North Vietnam and unimpeded use of the eastern Lao panhandle for logistic activity. [redacted] 25X1

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*PORTUGAL: The state of alert in Portugal, during which troops were confined to their barracks, has been lifted.

There are indications, however, that younger officers who sympathize with General Spinola, an advocate of greater autonomy for the overseas territories, are being quietly posted as far away from Lisbon as possible. The US defense attaché reports

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This dispersal of officers suggests that rightists are attempting to undercut Spinola's support in the military. Once this is achieved, they may feel more secure about disposing of Spinola himself.

The reaction from Angola, one of the overseas territories, is mixed. Most civilian and military leaders seem relieved that Spinola's suggestion about self-determination has run into trouble. Some officials, concerned about a regression to the Salazar era, say that Portugal's African policy can never be the same, now that Spinola has spoken out. The media in Angola have supported Prime Minister Caetano's handling of the affair, although one editorial criticized the National Assembly for endorsing Caetano without having fully debated the issues.

A communiqué issued after a cabinet meeting on Tuesday emphasized the country's economic problems and did not even mention the disruptive dispute over

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the overseas territories. There have been rumors, but no confirmation, that a decision to revamp key cabinet ministries was made at the meeting. The government's reluctance to announce any such changes may be attributable to its concern that the information would increase tensions between the military and the government. [redacted] 25X1

*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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*OIL: The Arab oil ministers' conference in Tripoli recessed Wednesday evening without making any announcement about the oil embargo or future oil-production levels. It will reconvene on Sunday in Vienna, where the Organization of Petroleum Exporting Countries will be meeting to discuss oil prices. The official reason given for postponement was to allow time for the ministers to consult with their governments.

According to a report from the US Embassy in Tripoli, the conference ended apparently in a deadlock. There appeared to be a chance for an agreement up until the last moment, when Libya and Syria decided to hold out against lifting the embargo. A high Libyan official, however, told the press after the conference that the ministers had, in fact, decided to end the embargo.

Nine of the ten member-nations of the Organization of Arab Petroleum Exporting Countries were represented at the Tripoli meeting. Iraq boycotted the conference. [redacted] 25X1

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VENEZUELA: President Carlos Andres Perez told a visiting US official this week that his administration is planning to work out a new arrangement with the foreign-owned oil companies operating in Venezuela.

Perez said it would be impossible to continue the present concessionary arrangements until they begin to expire in ten years, and that some change would be necessary. Nevertheless, he expressed hope that the oil companies would make the first move by presenting their ideas on the subject, and he promised that his administration would respond.

Perez' remarks--in private as well as during the campaign and in his inaugural speech this week--indicate that he intends to proceed at a deliberate pace, disregarding leftist and nationalist calls for immediate nationalization. He appears willing to consider recommendations of the oil companies as well as advice from a broadly based commission that he intends to set up to advise the government on possible alternatives for operating the oil industry. Once he has these recommendations, Perez is expected to draw up legislation to take over the industry.

The President has set no timetable, but he clearly does not intend to allow the talks with the oil companies to continue indefinitely. [redacted]

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ECUADOR: Only two foreign firms have bid for new oil-exploration rights in Ecuador. The lack of interest among other companies is one of the discouraging effects of Quito's highly nationalistic petroleum policy, which the companies feel overly restricts foreign investors. It may forebode the political eclipse of Gustavo Jarrin, the influential minister of natural resources and author of the military government's oil policy.

Because of the high prices for petroleum, Quito had expected keen competition in the bidding, but of the 35 firms that had expressed interest, only the Argentine and Polish state oil companies actually submitted bids. The other companies apparently concluded that the areas offered for exploration did not have the potential to justify acceptance of Quito's terms. The terms are stiffer than those for Texaco-Gulf, the only current producer in Oriente, the eastern region of Ecuador. Last August, Texaco-Gulf signed a 20-year contract which, in accordance with the 1972 hydrocarbons law, provides that all oil company property, including machinery and equipment, will revert to the state at no cost when the contract expires.

Since the Rodriguez government took power in 1972, Quito has dramatically increased its control over the petroleum industry. During this period, little additional petroleum of commercial quantity or quality has been discovered. In addition to Texaco-Gulf, other foreign-owned companies are exploring in Oriente, but only one is likely to enter production--and only on a modest scale--within the next few years.

A sharp increase in petroleum revenues--estimated at over $600 million for 1974--will ease pressure for immediate changes in the government's nationalistic policies. Even without further oil development, total government revenues this year could be two and a half times those of 1972. Nevertheless, the low turnout of bidders will contribute to an eventual modification of exploration policy. [redacted] 25X1

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*CHILE: Pronouncements marking six months of government by the armed forces and carabineros strongly reiterate the regime's determination to restructure Chile's political, economic, and social systems before allowing a return to civilian rule.

These statements outline the regime's plans for the creation of a "social democracy" free of the partisan politics of the past. The military and police will eschew reliance on any organized political group and attempt to create their own base of mass popular support through a highly structured chain of command extending from the junta to neighborhood councils. Participation will be compulsory.

Junta President Pinochet emphasized the regime's sympathy with the low-income groups that are bearing the brunt of the economic recovery program. He declared that further privations lie ahead, but he promised that "the same generation will reap the fruits of these sacrifices." Pinochet also noted that new taxes will spread the burden more evenly and warned "those who seek only their own profits and ignore their social duties" that drastic penalties will be imposed for violations of economic regulations.

Former Christian Democratic Party head Eduardo Frei was the only living ex-president not present to hear Pinochet's speech. He reportedly had planned to attend but changed his mind following publication of the social development paper, a portion of which strongly attacked his party. [redacted]

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Nevertheless, yesterday's press confirmed that the document did not come from the junta. This public disclaimer seems to represent a significant gesture toward the Christian Democrats on the part of the government. [redacted]

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CHILE: Santiago has signed a $41.8-million compensation agreement with Cerro Corporation for copper investments nationalized by the Allende government in 1971. The Allende government had agreed to compensate Cerro but was ousted before a settlement could be concluded.

A cash payment of $3.2 million was made to Cerro at the signing on March 12, and the remaining $38.6 million is to be paid within 17 years. Santiago agreed to Cerro's request that payments be free from Chilean taxes. Cerro has managed the nationalized mines since expropriation, and plans to continue this relationship.

Talks continue with two other US copper firms, Anaconda and Kennecott, whose properties were also nationalized. The two firms value their assets at around $600 million, but Santiago reportedly is offering far less. Negotiations are likely to be more protracted than those with Cerro, because there are substantially larger sums involved and the issues are more complicated. A timely settlement would pave the way for renewed activity by Anaconda in the Chilean copper industry through technical assistance and management contracts. Kennecott, on the other hand, has evinced no interest in returning to Chile.

The accord with Cerro should encourage new foreign investments and credits. It will also reassure major Western creditors as March 25, the date the Paris Club members are to sign a draft accord on Chilean debt rescheduling, draws near. [redacted]

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WESTERN EUROPEAN UNION: The French failed at the annual foreign ministers' session of the seven-nation Western European Union this week to win approval for reactivation of the moribund Standing Armaments Committee. The participants decided to refer the French proposal to the union's permanent council for further study. The French wish to share in the lucrative European arms market but want joint European arms procurement to be discussed in the union rather than in the NATO Eurogroup, from which Paris has excluded itself.

The other six members of the union supported armaments cooperation in the Eurogroup, with only Italy showing any sympathy for the French position. The French contended that it was politically impossible for them to cooperate in the Eurogroup because of its close link to NATO. The others chose not to discuss a proposal made by Belgium at a previous meeting to use French interest in the European arms market to edge Paris toward some linkage between the union and Eurogroup. Despite its formal status as a meeting of foreign ministers, the only participants of ministerial rank who were present were Dutch Foreign Minister van der Stoel, the host, and Luxembourg Foreign Minister Thorn.

A West German Foreign Office official has indicated that Bonn takes a somber view of the prospects for European defense cooperation. The West Germans see the armaments field as the most promising area for progress toward defense cooperation. Despite French attempts to persuade the other six to deal with arms questions in the union rather than in the Eurogroup, the West Germans plan to continue pressing forward in the latter arena. In order to prevent the isolation of France, however, Bonn plans to continue to examine the possibility of armaments cooperation between the Eurogroup and the union's Standing Armaments Committee. [redacted]

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FRANCE: The French may modify their aging Mirage IV strategic bomber force to extend the service life of these aircraft to about 1985. According to recent press reporting, the government has asked the air force general staff to study how the bomber fleet can be kept in service until that date. Present plans call for the aircraft to remain in service until 1980. [redacted]

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The first Mirage IV squadron entered service some ten years ago, and the entire fleet is suffering from maintenance and aging problems. Four bombers crashed during a seven-month period last year; at least two of the accidents were attributed to mechanical failure. In addition, the bombers have been subjected to greater stress than planned because of a change in mission-flight profile. The Mirage IV, which was designed for high-altitude use, has been flown as a low-altitude attack bomber since 1969, with resulting strain on the aircraft structure. The change in flight profile was required in order to decrease the bombers' vulnerability to Soviet air defenses.

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The French apparently have no plans for a follow-on strategic bomber, although they expect to have a multipurpose tactical fighter with a deep-strike capability operational by the end of this decade. [redacted]

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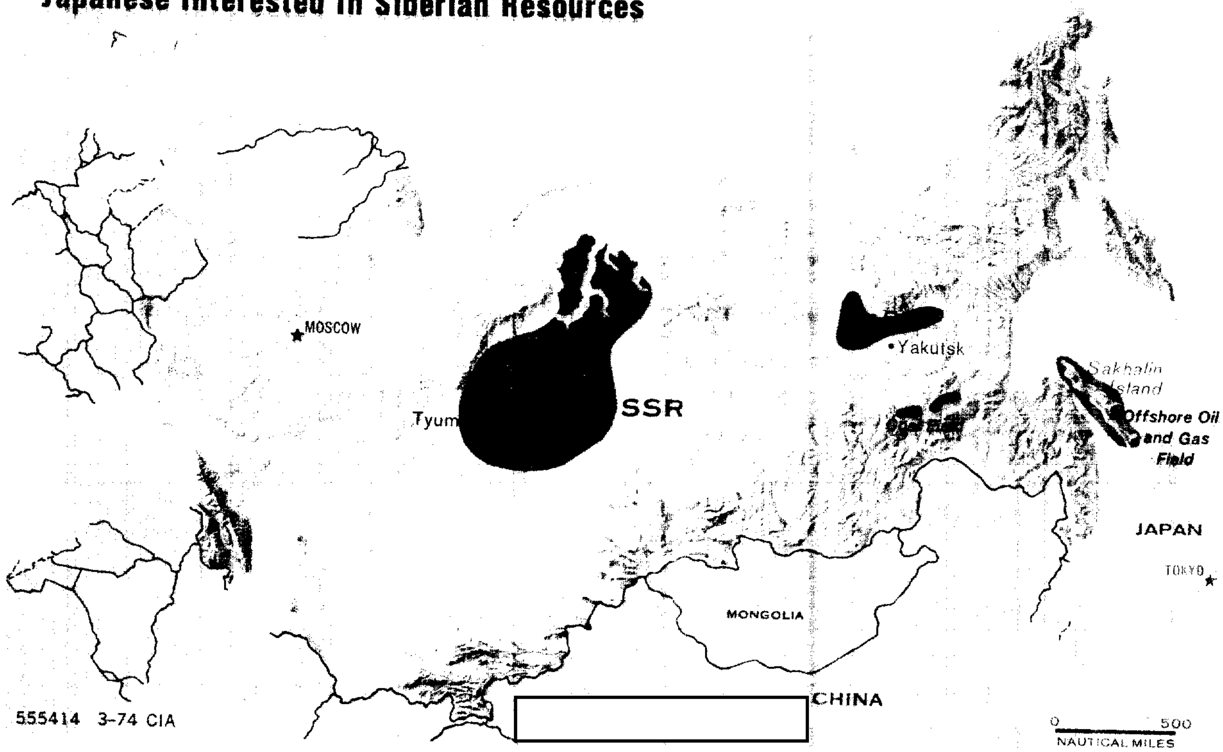
Japanese Interested In Siberian Resources



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USSR-JAPAN: The USSR and Japan initialed a document last week that could pave the way for one of their biggest economic deals.

If final agreement is reached, the Japanese will provide $400 million to help finance a coal-mining project in Yakutsk. In return, Japan will get more than 5 million tons of coking coal annually for 16 years, beginning in 1983. The terms of the Japanese credit and the price of the coal are among the important details that have to be worked out at negotiations in Tokyo later this month. The Japanese, who found the Soviets more disposed to negotiate than before, are confident that an agreement will soon be reached.

The Yakutsk project thus seems closer to getting off the ground than the other prospective projects in Siberia. The outlook is not so favorable for joint development of oil, gas, or timber.

The project with the next best chance of success involves exploration for Sakhalin oil. Soviet trade and banking officials are expected in Tokyo soon to discuss Japanese loans for this project. The USSR has been asking for $200 million; the Japanese have been offering substantially less.

The preliminary agreement on the Yakutsk coal project is the first tangible sign that the long deadlock between the USSR and Japan over exploration of Siberian resources may have ended. Just before the Japanese delegation arrived in Moscow to negotiate the coal agreement, General Secretary Brezhnev sent Prime Minister Tanaka a message urging joint development in Siberia. Their desire to press ahead also suggests the Soviets are concerned that Tokyo's relations with Moscow are taking a back seat to its relations with Washington and Peking.

Serious obstacles nevertheless remain. The Japanese need US equipment to undertake the Yakutsk oil and gas project, but US participation is threatened by restrictions on Export-Import Bank financing for the USSR. The Soviets, for their part, think that because Japan has been hit hard by the energy crisis it will eventually have to meet Moscow's terms.

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<u>SPAIN</u>: Spain stands almost alone among West European countries in its decision to stimulate the economy in order to counter the adverse effect of high petroleum prices on demand. Madrid hopes to lift the growth rate this year above 5 percent, one of the most ambitious targets in Western Europe.

The shift in Madrid's policy will cause a substantial budget deficit instead of the small surplus anticipated earlier. The government will spend an additional $500 million to subsidize petroleum products as a means of shielding the private sector from the effects of price increases. On the tax side, the government will reintroduce the investment tax credit that was used successfully in 1971 to stimulate the economy.

Monetary policy will also become more expansionary. The growth rate of bank credit--extremely high last year--will probably be increased again this year. A more effective export-financing program designed to help reduce the trade deficit and boost the domestic economy is also planned.

Although the new, expansionary measures will lift the growth rate, they will also add pressure to the rate of inflation, already among the highest on the continent. Moreover, a high growth rate will stimulate imports, thus worsening the balance-of-payments deficit. Madrid apparently expects to meet this problem by borrowing abroad and drawing down its substantial foreign reserves. 25X1

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FOR THE RECORD

Germany: The two German governments today will sign the protocol authorizing the exchange of permanent missions. Bonn's mission will provide full consular services for West Berliners. [redacted] 25X1

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