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PORTUGAL: There has been no serious challenge to the junta's authority after one week in power. In the coming weeks, however, it will have to face up to the activities and demands of the far leftists and produce an African policy statement acceptable to a wide political range.

The liberalization measures announced this week have encouraged leftists of all colorations to move on various fronts. They have taken over key unions and forced out the managements of the government airline and some of the news media. Particularly during the first few days after the coup, the left appeared to control radio and television broadcasts. Since then, the junta has acted to restore some balance, and this week the media have carried interviews with a dozen or so political figures, mostly from the center of the political spectrum.

The power grabs by leftist activists have had the effect of keeping the junta reacting to, rather than shaping, events and of largely overshadowing the center forces. The US Embassy in Lisbon reports, however, that moderates and various liberal groups are expected to announce the formation of a new political party soon. The embassy also anticipates that after the provisional government is formed-- probably soon--the more conservative forces also will again emerge.

Socialist Party leader Mario Soares' current trip to various European capitals may enhance his status and improve his chances of being named to an important cabinet post in the provisional government. He told one European leader that he would accept only the prime ministerial post. He reportedly fears competition from the Communists and he is seeking financial support from European socialists. While in London he met with Prime Minister Wilson and Labor Party officials who plan to offer Soares' party organizational and technical help. He may also meet with African liberation movement leaders to learn their thoughts on future negotiations.

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General Spino-la has made it clear that he hopes the question of the future of Portuguese Africa could be kept on the back burner while this political re-grouping within Portugal is going on. How he chooses to handle this question, however, will have an important impact on his future relations with the left. The measured approach to self-determination for the overseas territories is incompatible with the demands on the left for a cease-fire and immediate independence.



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CANADA: Ottawa's exports of nuclear power reactors are becoming significant after a long and extensive marketing effort. Canada has sold two of its CANDU nuclear reactors to India, one to Pakistan, and one to Argentina; a second one will probably be sold to Argentina. South Korea has signed a letter of intent to purchase the reactor with an option to buy a second. Romania, Denmark, Iran, Taiwan, and the UK also have indicated an interest in the system. The CANDU reactor has recently been the focus of attention because it is fueled by natural uranium and uses deuterium oxide or "heavy water" as a coolant and to slow the neutrons in the reactor.

The majority of nuclear reactors sold up to now have been of US design and manufacture. These are fueled with slightly enriched uranium and use "light" or ordinary water as a coolant and to slow the neutrons. The US has also been the principal supplier of enriched uranium to other countries, but many countries are now considering alternatives for reactor fuel, such as that offered by Canada.

The capital cost of a CANDU reactor is slightly higher than a light-water reactor of similar size, but over its lifetime the reduced cost of fuel would make up this difference. The CANDU reactors will be even more competitive as the price of enriched uranium increases. A major problem at this time is the shortage of heavy water for these reactors. Canada has had some problems in the past meeting commitments because of poor performance by its heavy water production plants.

The CANDU system proved itself in 1973 by the performance of Canada's Pickering nuclear station. The four reactors at this station, each with a capacity of 540 megawatts of electricity, operated at about 85 percent of their possible capacity, producing a total of 14 billion kilowatt hours of electricity. The main reason for this high productivity is that the CANDU system can be refueled while still producing electricity. US reactors must be shut down during this operation.

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*INDIA: The government's arrest of 700 labor union leaders on Thursday in an effort to avoid a nationwide railroad strike has provoked an angry reaction from labor. Strikes and violence have followed, and the next several days will probably bring more walkouts, demonstrations, and perhaps greater violence.

Railway unions across the country have begun wildcat strikes. Some have led to violent clashes with the police. Yesterday, trade unions protesting the mass arrests--including socialist leader George Fernandes--joined leftist parties in a 24-hour general strike that brought New Delhi to a standstill and spread to Bombay. Anticipating further violence, the government has placed security forces on alert throughout the country.

Before the arrests, negotiations had reached an impasse over rail workers' demands for almost a doubling of wages plus a bonus payment. The government claimed it could not possibly meet these demands.

The labor situation is becoming a major test of strength for Prime Minister Gandhi, who is seeking to deal with a deteriorating economic situation and prevent a further erosion of support for her government. A protracted rail strike would not only paralyze the economy but could also lead to widespread rioting if, as is likely, the flow of vitally needed food to deficit areas were curtailed.

Mrs. Gandhi's decision to go ahead with the arrests at the risk of losing a political ally--the pro-Moscow Communist Party of India--and alienating organized labor is probably a signal to all groups that she is determined to take forceful action.



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USSR-INDIA: The warm public atmosphere in Soviet-Indian relations generated by Brezhnev's visit to India last November has dissipated and the two countries are again sniping at each other.

New Delhi is upset about Moscow's response to its present economic difficulties. Since Brezhnev's visit, only one new economic agreement advantageous to India has been signed--a contract for 1 million tons of kerosene and 100,000 tons of diesel fuel.

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The Soviets are concerned that they may be made the scapegoat for some of India's current economic difficulties. A Soviet official in New Delhi recently took the unusual step of calling a press conference to criticize India's performance in meeting its commitments for the Bhilai and Bokaro steel plants. These are two of the USSR's largest aid ventures in India, and neither is proceeding as rapidly as planned. Part of the fault rests with New Delhi, and the Soviets want to make sure they are not blamed for the delays.

On the political side, the Soviets are probably unhappy about the improvement in US-Indian relations, Mrs. Gandhi's domestic moves to the right, and the Indian Defense Ministry's desire to diminish India's arms dependence on the USSR. For their part, the Indians also probably find fault with Moscow's lack of response to their request for help in restraining naval competition of the great powers in the Indian Ocean and the USSR's persistence in pressing for special military privileges in India.

The Soviets reacted to an erroneous press report in mid-March that India had concluded a naval aid agreement with the French by quickly inviting the Indians to send a military delegation to Moscow.

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New Delhi, however, does not expect much to be accomplished because of Soviet reluctance to give India the kinds of assistance it needs to build up its own armament industry.

Such bilateral problems as these are not unusual, particularly in the economic sphere where the USSR has long been unwilling to provide India with the kind of assistance it thinks it needs. They only surface when the situation on the subcontinent is relatively calm and the Indians have no pressing need to curry favor with the USSR. The present difficulties could become more serious, however, if India continues to move closer to the US or there are indications of an improvement in Sino-Indian relations.

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CHINA: The May Day celebrations produced no evidence that the anti-Confucius campaign has yet claimed a victim at the Politburo level. The celebration in Peking featured an indoor rally attended by most top party leaders, while the provincial rallies were highlighted by the reappearance of a party vice chairman who has been heavily criticized.

Admittance to the high-level celebration in Peking was carefully controlled, suggesting that security for party leaders has been tightened. Mao Tse-tung again did not appear; he has not made a public appearance since 1971.

Li Te-sheng, who has been attacked by name in political wall posters in several areas and was reported to have been arrested, made his first public appearance since January 21. He was identified in radio broadcasts both as vice chairman of the party and as commander of the Shenyang Military Region. Li's reappearance does not, however, mean that his political survival is assured.

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All other active members of the Politburo, including the two other military region commanders on that body, Hsu Shih-yu and Chen Hsi-lien, also appeared at rallies. Four of the eight regional commanders transferred in late December are not known to have appeared at all, but the provinces in which they are now stationed did not report detailed lists of who appeared at local celebrations. One who has been under heavy fire appeared in Shantung but was listed second, after the civilian second secretary. This is a further indication that the rotated commanders will not be named provincial first secretaries in their new bailiwicks, although the May Day lists failed to identify any new civilian appointees to those positions.

While the May Day rallies did not identify any victims in the anti-Confucius campaign, they did reflect the unsettled nature of leadership in the provinces. All provinces reported celebrations, but the

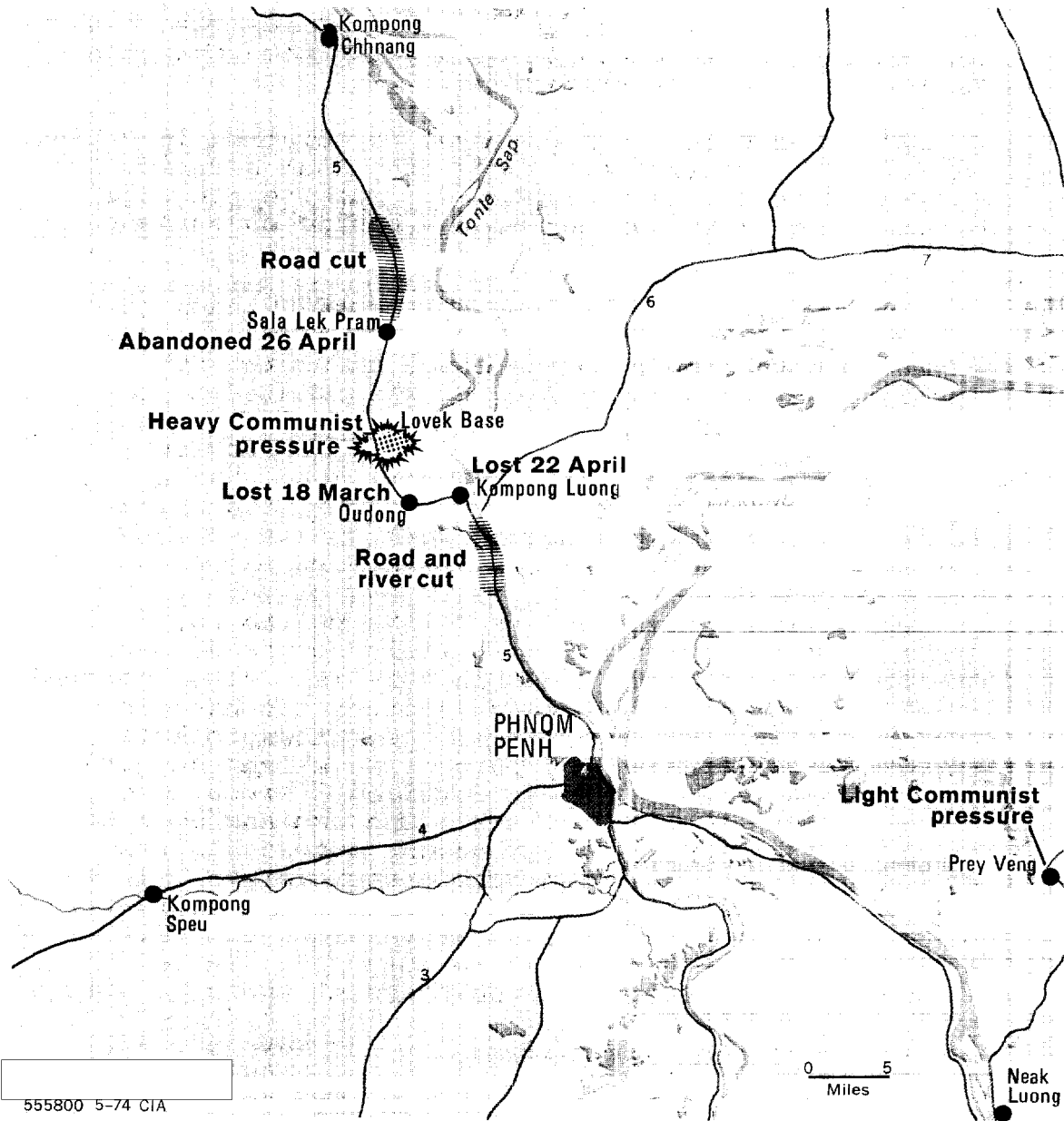
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CAMBODIA: Phnom Penh Area

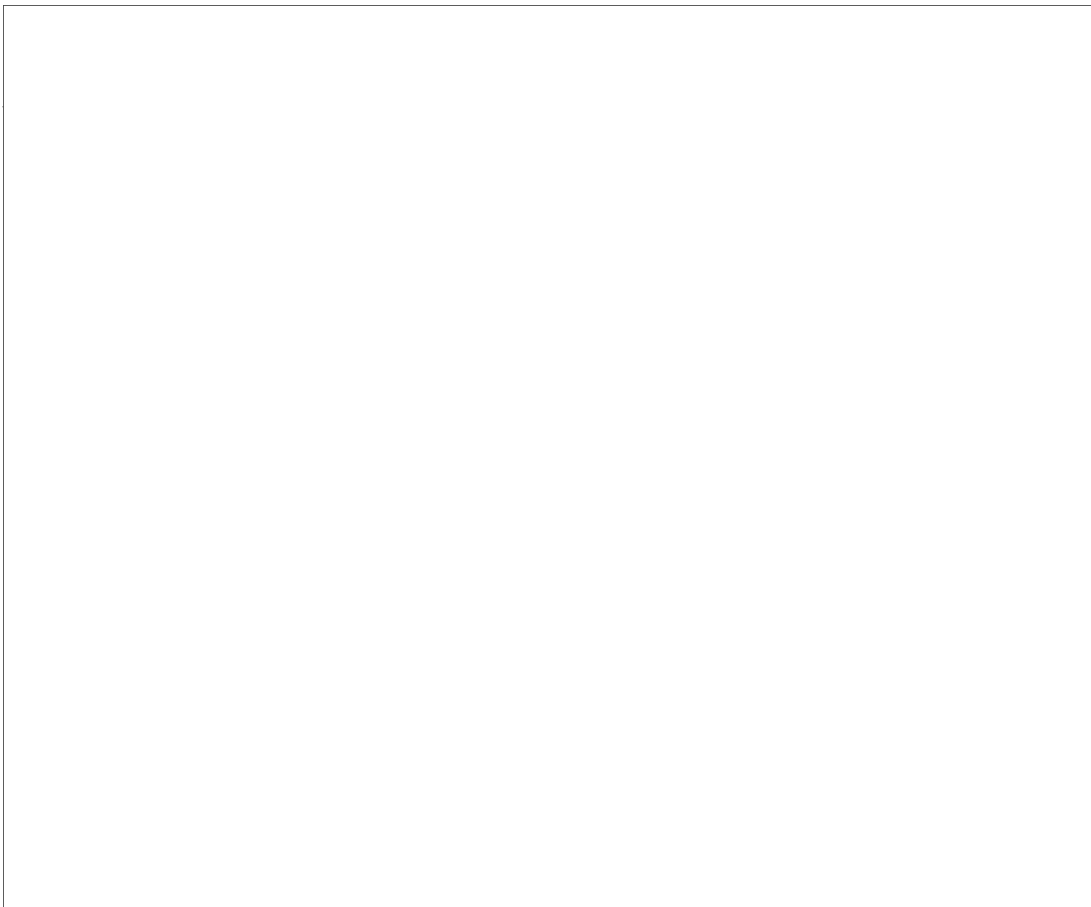


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majority did not provide name lists. What is clear is that the campaign is far from over and that it may still lead to the fall of high-level military and party figures, probably including some at the Politburo level. The picture that emerges suggests a serious deadlock over major domestic policies and personnel issues at the top and continuing factional strife in the provinces.

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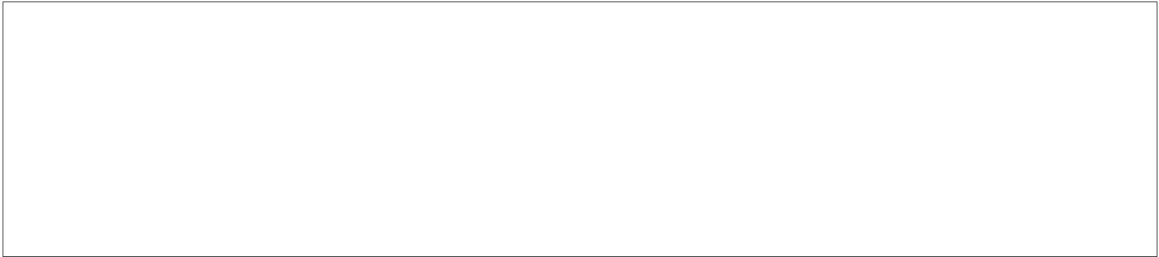


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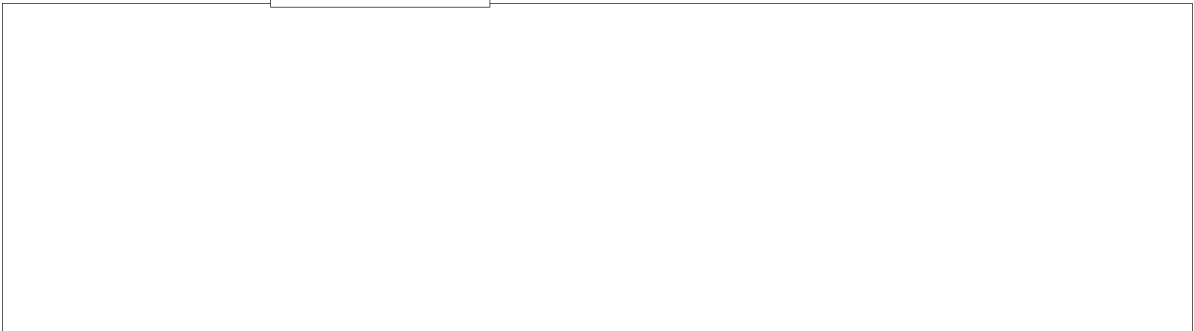


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USSR-Cuba: Two Soviet destroyers and a diesel-powered ballistic-missile submarine have remained moored in Havana since arriving on April 30. According to the Cuban press, the ships will leave Havana next Monday to visit other Cuban ports. They may conduct exercises with Cuban ships before leaving the Caribbean.



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Chile: Junta efforts to ease the burden of rapidly rising prices on the poor are continuing. The wage hike on May 1 nearly restores real wages for lower paid workers to January 1 levels, while increases for middle- and upper-scale wage earners are proportionally smaller. These wage hikes will tend to add to inflationary pressures as increased labor costs are passed on to consumers.




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West Germany: Bonn yesterday reported a record first-quarter trade surplus of \$4.9 billion--about 22 percent above the previous high mark recorded in the last quarter of 1973. A continued surge in German exports and slackening import demand more than offset the higher cost of imported oil. Some special factors, such as diversion of export orders to Germany from Britain and Italy as a result of strikes in those countries, contributed to the surplus. These factors, however, were less influential toward the end of the quarter and the March surplus fell slightly below the February level. 

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