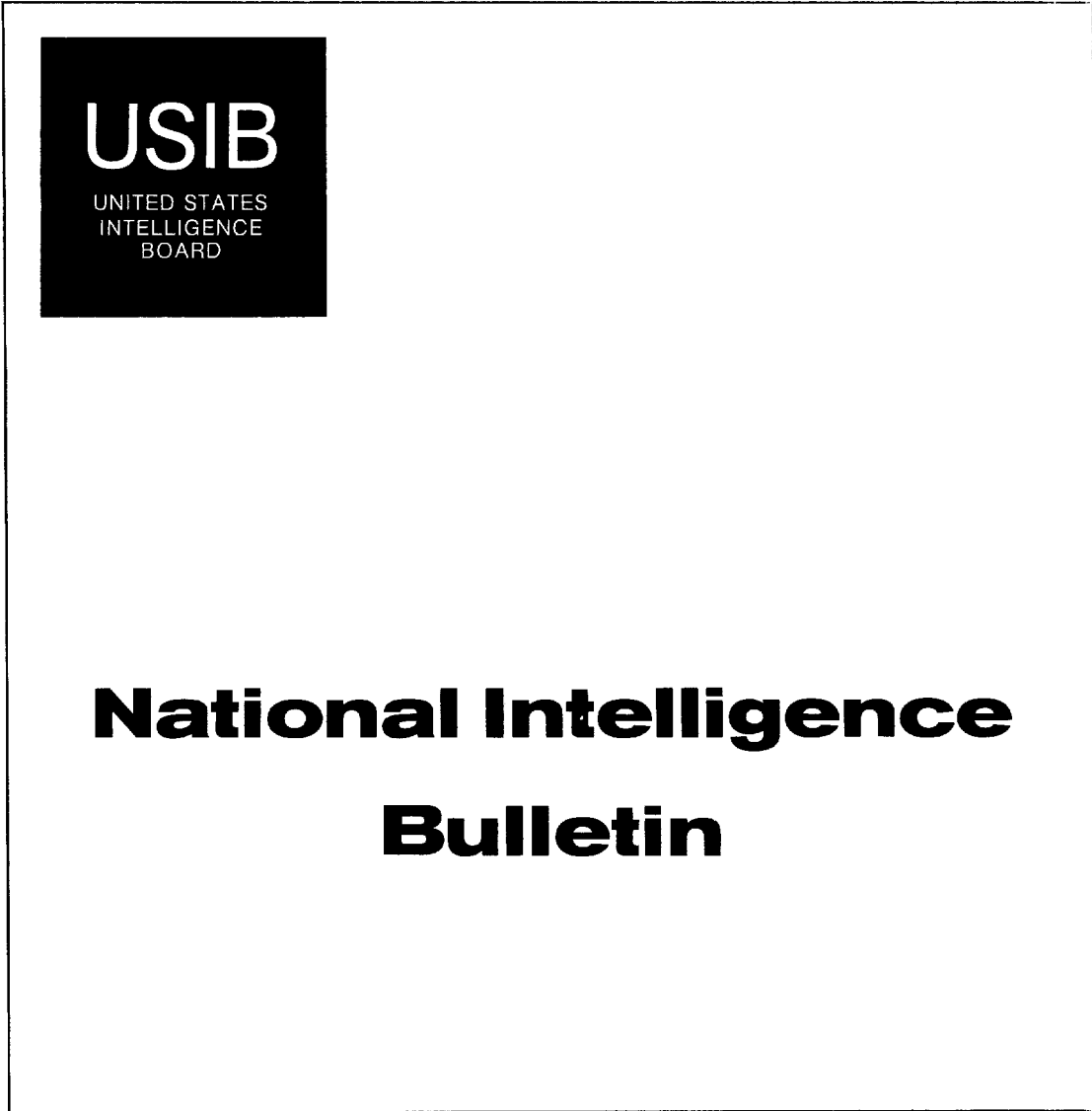


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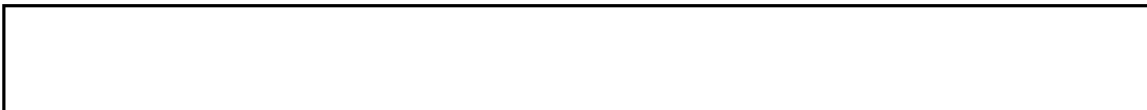
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JAPAN-CHINA

The Japanese Foreign Office has conceded that peace treaty talks with Peking are dead for now.

The inability of the two governments to agree on the handling of an anti-hegemony clause—one with anti-Soviet overtones—proved to be the stumbling block. According to a Japanese Foreign Ministry official, Tokyo finally offered to include the hegemony clause in the preamble, rather than in the body of the treaty, thereby giving Peking "80 percent" of what it wanted.



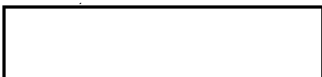
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The Japanese Foreign Office believes that relations with Peking will not be seriously harmed by failure to conclude the pact, as long as the issue is allowed to subside quietly. Tokyo will also stress other more positive developments in bilateral relations—progress on a fisheries agreement and trade, among other things—in an effort to offset the breakdown in talks.

Japanese officials believe that China's harder line may have resulted from domestic political difficulties in Peking, although there is no solid evidence to support this. Uncertainty regarding Prime Minister Miki's political staying power may also have been a factor in China's unwillingness to compromise. If so, the Chinese may seek to revive the talks after Miki is replaced—or once they conclude that they will have to deal with him for some time to come.



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PORTUGAL

Tension rose a few more degrees in Portugal yesterday, as troops were used to break up two demonstrations; scores of people were injured in one. The level of violence, the need to use troops, and the continuing trouble over the Socialist newspaper *Republica* will strengthen the argument of radical military officers who want to abolish political parties and close down the Constituent Assembly.

These officers have apparently been stalemated in discussions of these matters by the Revolutionary Council, which has now been meeting in secret for six straight days.

Last night, troops fired into the air to disperse some 2,000 supporters of the leftist workers who, earlier this month, took over the Catholic-owned radio station. The demonstrators attacked supporters of Catholic control of the radio station with stones, iron bars, and sticks, and trapped them inside the headquarters of the Portuguese Catholic Church.

Portuguese catholic bishops had earlier issued a statement demanding the re-opening of the radio station and criticizing the Armed Forces Movement for "creating a climate of personal insecurity, intimidation, and anxiety about the future."

Earlier in the day, troops dispersed a crowd of angry Socialists who had tried to storm the offices of their newspaper; security forces had allowed Communist printers to enter the building before Socialist editors arrived. The offices of *Republica* re-opened briefly Monday, for the first time in a month, were closed again Tuesday. *Republica's* editor was finally allowed to enter the building yesterday, and he began negotiations with the Communist printers. At the end of the workday, the printers surrendered the building to security forces, who said *Republica* would reopen this morning.

The Socialists have not explicitly repeated their threat to resign from the government if the newspaper is not returned to them, perhaps because they now fear

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the military will call their bluff. Socialist leader Mario Soares did say in an interview last night that the *Republica* affair had reached an "impasse that might lead to a serious political crisis." Soares expressed solidarity with the Catholic Church in its struggle to retain control of its radio station.

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BRAZIL

Brasilia's intention to conclude a nuclear cooperation agreement with West Germany has led to new frictions in the country's usually friendly relations with the US. The Brazilian press has strongly denounced what it regards as US efforts to prevent the signing of the agreement next week. Even after the agreement is concluded, the issue will probably continue to be an irritant because related contract negotiations are expected to drag on for the next several years.

Since 1967, Brazil has refused to sign the Nuclear Non-Proliferation Treaty on the ground that the treaty is ineffective and freezes current power relationships. The intransigence of Brazilian officials on this issue stems not only from apprehension over the lead of neighboring Argentina in nuclear technology, but from a conviction that Brazil, as an emerging world power, should not restrict its options.

Brazil also sees nuclear energy as an important factor in supplying its future energy requirements. It imports three fourths of its oil, its known petroleum resources are small, and demand for energy is growing. Although Brazil's uranium reserves are modest, extensive exploration efforts are under way. Brazilian deposits of thorium—which can be converted in reactors to form a new fissionable fuel, Uranium 233—are second only to India's.

Brasilia has made it clear that it will not be deterred from signing the agreement. When Foreign Minister Silveira assumed office last year, he said Brazil would not automatically align itself with US foreign policy and expressed his belief that it would acquire more influence internationally if it could demonstrate its independence on major political and economic issues.

West German officials also are unhappy about US expressions of concern about the projected sale of a full nuclear fuel cycle. They have not only taken precautions to ensure that Brazil will comply with the safeguard procedures of the International Atomic Energy Agency, but have also agreed to satisfy some, if not all, of the major concerns voiced by four US experts who visited Bonn last May.

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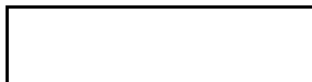
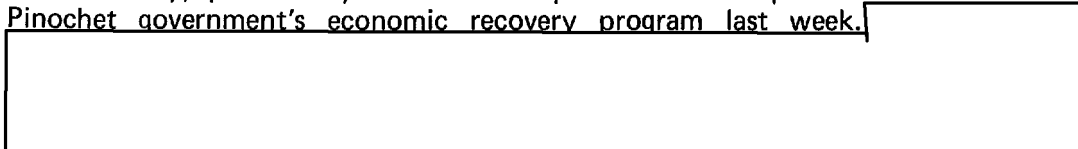
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CHILE

Several separate incidents, one attributed to the guerrilla Movement of the Revolutionary Left, which has been inactive since 1973, have raised government concern that terrorism may increase. The Movement, which once claimed 2,000 activists, was largely neutralized by the government late last year.

An army officer who had been investigating arms smuggling was found dead in Talca Province on June 5. Fourteen persons, subsequently linked to the Movement by Chilean authorities, were arrested and implicated in his death. Soon after the killing, reports appeared in the Chilean press that 15 Movement members had infiltrated from Argentina. In a possibly related development, 17 persons were arrested in northern Chile for distributing anti-government pamphlets.

The government's reaction to these incidents apparently is designed to warn Chileans that a terrorist threat still exists and to give the appearance that the Movement is under close surveillance. Stricter security measures may now be taken in the political sector. There may also be a tightening of the limits of dissent over the economy, particularly after former president Frei's public criticism of the Pinochet government's economic recovery program last week.



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EGYPT

A Panamanian merchant ship reportedly struck an explosive device on June 16 in an area of the Strait of Gubal that presumably had been cleared by Soviet minesweepers last year. This area was mined by the Egyptians in 1969 and 1973.

No casualties have been reported, and the 12,700-ton cargo ship is proceeding under its own power. This incident not only embarrasses the Soviets, but could also cause an increase in insurance rates for ships transiting the Suez Canal, thereby inhibiting greater commercial use of the waterway.

There is some question whether the USSR certified the Strait of Gubal as safe for navigation. The Soviet defense attache in Cairo reportedly stated that the Soviets certified the Strait as being clear of mines after they completed their minesweeping operation. The Soviets, however, are currently embroiled in a dispute with the Egyptians over whether Moscow actually did so. In any event, the Soviet operation was often interrupted by inclement weather and Israeli harassment of ships that strayed into its claimed waters off the Sinai coast. These gaps could have permitted some mines to drift into areas already cleared.

It is also possible that the Egyptians did not accurately mark their minefields. Consequently, the Soviets could not be assured of the location of all mines that might drift into the shipping lanes. A notice was issued to mariners on June 11 warning merchantmen that the Strait of Gubal and certain other previously mined areas were possible hazards to navigation.

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EC - ARAB STATES

The first meeting between EC and Arab experts in Cairo last week was an apparent success. The experts agreed on several areas for possible future cooperation. They skirted the three troublesome topics of oil, Israel, and the Palestinians, which have delayed commencement of the talks, originally proposed by the French 18 months ago. A second meeting is planned for late July, probably in Italy, and is to be similarly structured to deny specific representation to the Palestine Liberation Organization.

The participants in the Cairo meeting proposed six areas for future economic cooperation: industrialization; basic infrastructure; agricultural and rural development; financial cooperation; trade; and cooperation in the scientific, technological, cultural, labor, and social areas.

The listing of labor and trade as areas for cooperation was a concession by the EC, but the Community refused Arab demands that would establish the principle of identical EC trade treatment for all Arab states. The EC also rejected Arab demands that would have guaranteed training and equitable treatment for Arab workers in Europe. Both topics are important in the negotiations of specific Community agreements with some individual Arab states, now also under way, and the EC does not want to generalize the benefits given to one state.

The major Arab concession, in addition to the format of the meeting, was the omission from the final confidential joint memorandum of any reference to guarantees for Arab investments in Europe.

The Irish chairman of the EC side said the Arab League and the Palestinians present on the Arab side were particularly anxious to reach agreement on extending cooperation. Representatives of the oil-exporting states seemed somewhat indifferent, and the Algerians were negative "as usual." The British embassy in Cairo commented that the EC chairman's inclusion of a reference in the joint memorandum to "a common cultural heritage" of Europeans and Arabs had so pleased the Arabs that it made the achievement of other objectives easier.

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SPAIN

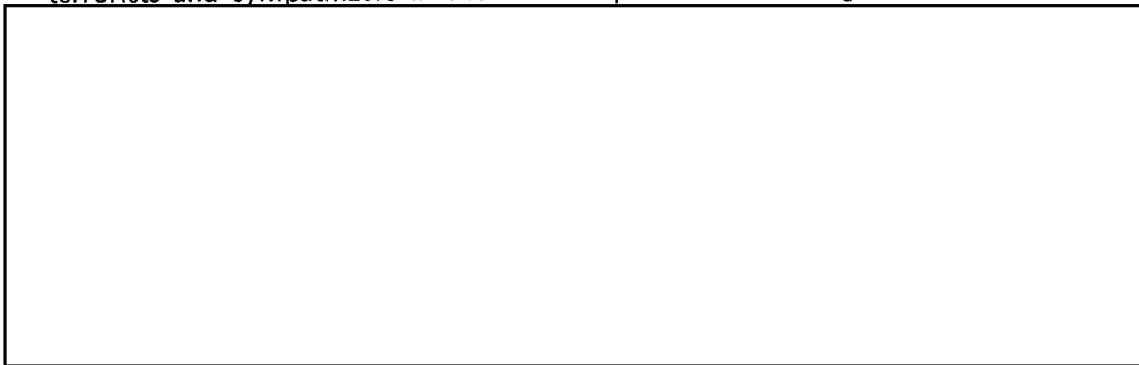
The Arias government reportedly is considering political measures to deal with the troubled situation in the northern Basque provinces, where violence has now spilled over into neighboring France.

Last week, the civil governor of Guipuzcoa Province announced the government is considering revocation of the 1937 decree that denied to Guipuzcoa and Vizcaya provinces special economic privileges that are still allowed in the other Basque provinces. Acting on another long-held Basque grievance, Madrid announced last month that it would allow instruction in the Basque, Catalan, and Galician languages in those regions. These moves indicate that Madrid is beginning to view the unrest in the Basque provinces as a political problem rather than just a security matter.

Tension is still high in the Basque areas, although the general strike and demonstration called last week to protest police repression failed to attract the turnout its organizers had hoped for. Less than 15,000 workers appear to have heeded the strike call, a small turnout compared with the 200,000 who walked off their jobs last December in a similar protest. The modest turnout, however, is not an accurate reflection of the deep resentment felt by the Basques over the continuing police controls imposed by Madrid and the impending court-martial of two Basques accused of the death of a Civil Guardsman in 1974.

Meanwhile, a series of bombings and other actions by Spaniards against Basque terrorists and sympathizers in France have provoked French government reaction.

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The French government reacted to the recent incidents by declaring that Spain had been requested to take measures to prevent a recurrence. In addition, orders have been issued for stricter vigilance on the border and the expulsion of Basque

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refugees sentenced for using false documents or possessing arms or explosives. A French government spokesman lamented the fact that some Spanish exiles have taken refuge in France for the purpose of planning violence against Spain.

Madrid has long resented the French policy of permitting Basque terrorists to use France as a sanctuary. While the cross-border actions may have temporarily irritated French-Spanish relations, they appear to have had the desired effect of prompting France to restrict the terrorists' freedom of movement.

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EC

French Finance Minister Fourcade announced Tuesday that on July 10 the franc will rejoin the six currencies now in the European joint float. The franc's return after a year and a half of free floating brings a second major currency to the band, which has been dominated by the German mark. After the franc's reentry, only the pound and the lira among EC currencies will be floating freely.

The European joint float was originally designed as a first step toward the EC's planned economic and monetary union and, in particular, to limit the fluctuations between the currencies of countries that trade together extensively. Under the joint float agreement, fluctuations among participating currencies are limited to a maximum of 2.25 percent in either direction.

The pound and lira were withdrawn from the float when downward pressure on the currencies made intervention unacceptably expensive. The franc was pulled out in early 1974 during the height of the energy crunch, because of Paris' concern with protecting its foreign exchange reserves.

EC heads of government, attending their second meeting as the European Council on July 17, will be able to point to the newly expanded float as a step toward the long-term goal of economic and monetary union. The fact that Britain and Italy will remain outside the float—and that there is no prospect for their joining any time soon—may, however, give rise to concern that the EC is moving in the direction of a "two-tier" community, divided between those able to move more quickly toward integration and those with weaker economies for whom certain "allowances" must be made.

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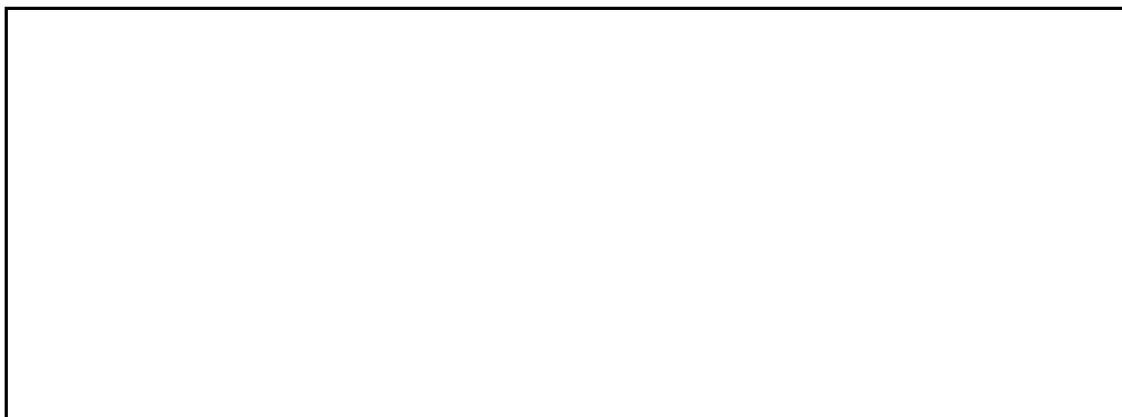
FRANCE

Leaders of the French Union of the Left Alliance—Communists, Socialists, and the Left Radicals—meet today for their first formal summit-level conference in more than a year. The parties disagree over several important issues that are likely to be discussed. A common desire to preserve the alliance, however, seems likely to produce a superficial statement of accord and an agreement to establish working groups to review conflicting positions.

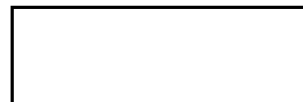
The meeting was agreed to last month when tensions between the Socialists and Communists appeared to have eased following Socialist leader Francois Mitterrand's visit to Moscow in late April. Early this month, however, the closure of the Socialist newspaper *Republica* in Lisbon sparked a renewed dispute between the parties over the touchy issues of freedom of the press and Communist attitudes toward pluralism.

The *Republica* affair, which continues to divide Portuguese Communists and Socialists, seems certain to bedevil today's meeting. French Communists strongly support the Portuguese Communists, while French Socialists still back their sister party in Lisbon.

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USSR

The Soviets are taking steps to eliminate the causes for delays in their nuclear power program, partly through a reorganization of ministries and partly through attempts to acquire needed facilities from the West.

The Presidium of the Supreme Soviet recently separated Power Machine Building from the former Ministry of Heavy Power and Transport Machine Building and made it a separate ministry, presumably to give much-needed impetus to the trouble-plagued nuclear industry. The Soviet nuclear power program has consistently fallen behind schedule, in large part because of delays in the delivery of large components. The creation of the new ministry just before the start of the 10th Five Year Plan probably indicates the Soviets will give Power Machine Building a significant share of the funding, manpower, and material resources allocated under the plan.

Part of this funding may go toward purchasing nuclear component manufacturing facilities from the West. In the past few months, Soviet delegations to France and the US have requested bids on such facilities, as well as on the purchase of pressurized water reactors. The Soviets appeared willing to begin negotiations on these matters in the near future, with funding to be provided under the Five Year Plan.



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ANNEX

Gandhi's Control In India Impaired



Prime Minister Gandhi addresses rally in New Delhi

Prime Minister Indira Gandhi's political position has been seriously weakened by the two setbacks she suffered last week: her conviction by a court in her home state for campaign violations in 1971; and the defeat of her Congress Party in the legislative election in the state of Gujarat.

Her survival in office now depends on the Supreme Court's verdict on the appeal she reportedly will file on Friday and on her ability to fend off challenges from within the troubled Congress Party. Even if the Supreme Court decides in Mrs. Gandhi's favor, her control over both the party and the government will be impaired. Still, the centrist Congress Party—India's only truly national party—is likely to continue as the dominant factor in Indian politics.

A Surprise Ruling

The ruling by the court against Mrs. Gandhi caught most Indians by surprise; the case had been in and out of state courts since the charges were brought against her four years ago. The almost simultaneous election setback in Gujarat was a major blow to the party and strongly implies that Mrs. Gandhi, who campaigned vigorously in the state, is not the vote-getter she was in 1971 and 1972.

Opposition parties lost no time in demanding Mrs. Gandhi's resignation. She has

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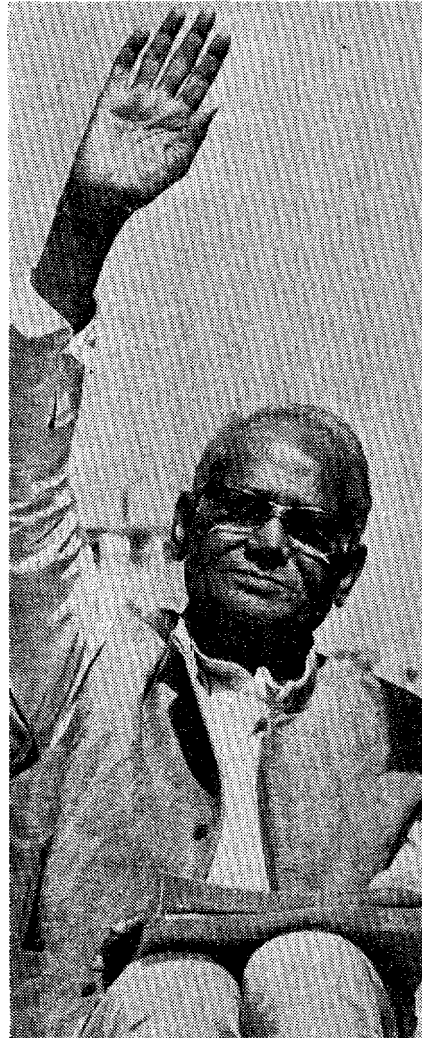
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not responded unequivocally, but gives every evidence of a determination to stay on. She has canceled official visits to Mexico and Cuba this month.

A decision by the Supreme Court could be months away. In the interim, she will have problems keeping her Congress Party in line. The defeat in Gujarat heightened already growing concern among party leaders about the party's ability to keep its large parliamentary majority in the next national election, which must be held no later than next spring. Some party leaders are convinced that public resentment will grow if Mrs. Gandhi remains in office should there be a drawn-out appeal to the Supreme Court.

The violations of which Mrs. Gandhi was found guilty involved the use of government officials for campaign purposes. A loose coalition of generally conservative opposition parties was formed last year in an effort to capitalize on popular dissatisfaction with Congress' performance. Led by Jayaprakash Narayan, a 72-year-old disciple of Mahatma Gandhi, the coalition has been loudly demanding clean government, election reforms, and lower prices. It has accused Mrs. Gandhi of dictatorial actions, such as suspending civil liberties and using police and paramilitary forces to suppress legitimate dissent.

The Gujarat election was the first major test of the ability of the members of the opposition coalition to unite behind single candidates. The opposition held together in the campaign and formed a government on Wednesday. For more than 20 years, Congress had been able to count on a split of the opposition vote at both the state



*Opposition coalition leader
Jayaprakash Narayan*

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and national levels. The Gujarat victory will stimulate the coalition to cooperate on a nationwide basis in preparation for the next national election.

Pressures to Resign

After the state court decision last week, the opposition coalition declared that it no longer recognized Mrs. Gandhi as prime minister. The opposition is clearly going to try hard to force her early resignation.

--Sit-ins have begun in New Delhi and a mass protest march in the capital is scheduled for Sunday. Government security forces can maintain public order, but injuries and arrests may result in renewed accusations of police repression.

--The opposition's small contingent in parliament plans to obstruct proceedings when parliament reconvenes, possibly in mid-July. It has already challenged Mrs. Gandhi's right to take part in parliamentary debates before her case is decided. She could delay convening parliament until November.

Mrs. Gandhi's cabinet associates have responded with public expressions of full confidence. Congress Party members of parliament reaffirmed their support at a meeting on Wednesday. Behind the scenes, however, party leaders are carefully assessing whether she ought to resign. They probably will not make a decision until the Supreme Court responds to her appeal.

The Prime Minister, of course, hopes the Supreme Court will extend the stay granted by the state court without setting conditions that would prohibit her from participating in parliamentary sessions. If it does not, she may have to step aside in favor of an interim prime minister pending a final ruling. Likely contenders for that role include three veteran cabinet members, all in their sixties: Agriculture Minister Jagjivan Ram; Foreign Minister Y. B. Chavan; and Defense Minister Swaran Singh. Also in the running would be Congress Party President D. K. Barooah and West Bengal Chief Minister S. S. Ray.

Mrs. Gandhi would not wish the job to go, even on an interim basis, to either Ram or Chavan. Both are ambitious and might prove reluctant to give the job back to her. She would be especially reluctant to have Ram take over. He has a sizable following in the party, particularly among those who sympathize with Narayan's reform movement and are unhappy about Congress' loose alliance with the Communists. Ram reportedly has said he would not feel bound to continue backing Mrs. Gandhi if she steps aside.

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Stepping Aside

Mrs. Gandhi may still conclude that stepping aside would be politically wise. Such a move would undermine some of the opposition's arguments and, perhaps, win public sympathy for an embattled Prime Minister, still India's most popular politician.

The Supreme Court's decision on her stay request and its willingness to speed the appeal process will be important. The judge who is presiding while the rest of the court is on vacation reportedly is pro-Congress. The chief justice, named by Mrs. Gandhi over three senior judges, could assist her by calling a special session before the court is due to reconvene in mid-July. Observers in India expect that the Supreme Court will accord her tender treatment. She appointed all of the judges now sitting on the court.

An alternative available to Mrs. Gandhi is to request the election commissioner to waive the penalty imposed by her conviction—a six-year ban on holding public office. Such a move, however, would infuriate the opposition and probably be damaging at the polls.

The Foreign Bogeyman

Mrs. Gandhi has generally refrained from blaming her current troubles on foreigners, as she has often done during times of stress. Her remark that Pakistan was the only country made happy by recent developments was swiftly rebutted by Prime Minister Bhutto. Bhutto, in fact, is concerned that as Mrs. Gandhi's domestic position is threatened, she may shift to a tougher posture toward Pakistan. He reportedly has ordered the Pakistani press not to gloat about Mrs. Gandhi's predicament.

India's pro-Moscow Communists are fighting hard for Mrs. Gandhi. They are worried that a change in prime ministers might alter the country's socialist policies and close ties with the USSR.

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