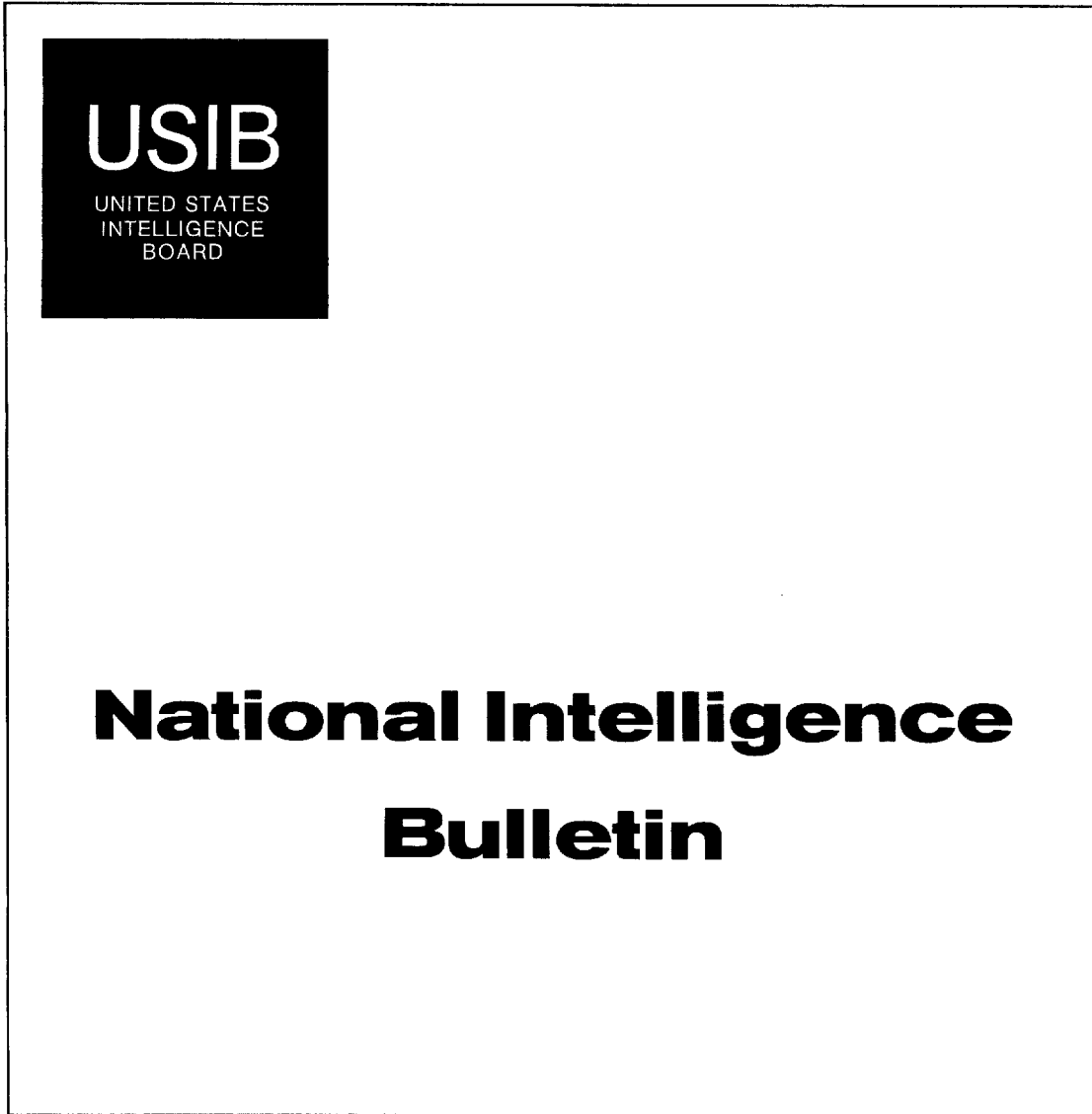


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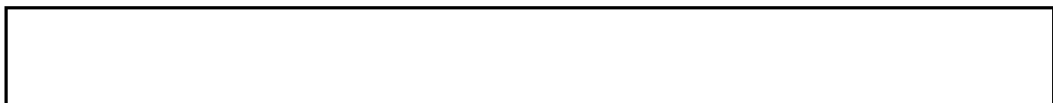
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PORTUGAL

The Revolutionary Council's debate on basic policy last week may have been more bitterly fought than the final communique issued Saturday revealed.

Rumors of sharp splits within the Council have been circulating in Lisbon, and one unconfirmed report indicates Prime Minister Goncalves offered his resignation because he opposed the moderate tone of the document. [redacted]

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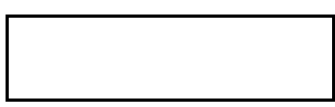
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[redacted] the resignation has not been announced because Foreign Minister Antunes, a respected moderate, refused to take the job and Goncalves agreed to stay on for the time being.

Moderate political parties in Portugal are encouraged by the recent turn of events and hope that the momentum that has developed will have an impact on impending Council decisions on the freedom of information disputes centering on the Socialist newspaper *Republica* and on the Catholic radio station. There have been no new developments in either dispute, but the Socialists and the Catholic Church are using the lull to develop political support and to secure the backing of influential external forces. The Vatican has expressed its strong support for the Portuguese church, while the Portuguese Socialists are being aided by the Socialist-leaning *Quotidien de Paris* which has published two editions of a French-language *Republica*.

Socialist and Catholic leaders have some basis for hoping that these pressures will influence Council members in their current deliberations on how to resolve the two cases. There are strong indications that the moderates' arguments were strengthened considerably in the debate on the policy statement last week by the fact that West European offers of economic assistance have been linked to the adoption of a pluralist approach in Portugal. A major portion of the Council's communique dealt with Portugal's serious economic problems, and Movement members appear to be increasingly aware that Western Europe offers the best hope for substantial assistance. [redacted]

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SPAIN

In a speech to the Spanish parliament yesterday, Prime Minister Arias tried to placate his critics on both the left and right by stressing the need for law and order, as well as further political development, but neither group is likely to be fully satisfied.

Arias devoted more of his speech to Prince Juan Carlos, General Franco's designated heir, than to Franco, but he shed no light on when the transfer of power would take place. Arias thus disappointed the many Spaniards who have been calling for Franco to step down. The extensive praise for Juan Carlos may have been intended as a slap against the Prince's father, Don Juan of Borbon, who recently renewed his claim to the throne.

The Prime Minister singled out the outlawed Communists as the greatest obstacle to a smooth transition after Franco goes. He announced that before the end of the year, he would send the parliament a special draft law on fighting communism. The law probably means harsh police action against the Communists and their allies in the underground trade union movement and in the Communist-dominated Democratic Junta, which was formed in Paris last July and now operates clandestinely in Spain.

Arias also condemned separatist movements, especially those in the troubled Basque provinces. He did sound a conciliatory note, however, saying his government is looking at regional development plans that could meet some separatist grievances.

The Prime Minister spoke again of wider popular participation in government through creation of political associations, a project that has thus far failed to arouse much public interest. He said that associations will be permitted to participate in a parliamentary election in the fall. In this connection, Arias cited the appointment last week of Jose Solis Ruiz as minister-secretary general of the National Movement. Solis, Arias noted, was an early active promoter of associations. Arias can take little other comfort from Solis' appointment. Solis, an ambitious politician who has been mentioned as a future prime minister, reportedly was appointed by Franco against Arias' wish.

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INDIA

Prime Minister Gandhi's political position was further damaged yesterday by a Supreme Court justice's ruling barring her from full participation in parliament, pending a decision by the court on her appeal of the conviction for campaign violations in 1971.

The decision allows her to stay on as head of government and engage in parliamentary debate in that capacity, but denies her the vote to which an elected member is entitled. Although the restriction is academic as long as parliament remains in recess, it will stimulate new demands from the opposition for her resignation, probably accompanied by mass demonstrations and by a nationwide civil disobedience campaign.

Mrs. Gandhi could postpone reconvening parliament until November, when the maximum six-month span between sessions expires. If she does not call the usual summer session in mid-July, however, she will come under bitter attack from opposition parties. They are eager for parliament to reconvene so they can obstruct its proceedings and continue to focus public attention on charges of corruption in government.

The Supreme Court will begin deliberating on Mrs. Gandhi's case after it reassembles on July 14. If the court confines itself to reviewing only the points of law involved in the lower court decision, a verdict should be issued by the end of August. If, however, the court undertakes a review of the facts of the case, as well as the point of law, a decision may not be handed down for several months.

In that event, Mrs. Gandhi might be pressed by her own Congress Party to step down in favor of an interim prime minister. At this time, party leaders remain publicly united behind her, but with parliamentary elections required before next spring, many are wary about the impact of recent events on the public. The longer Mrs. Gandhi's case drags on, the wider opposition to her continuing in office is likely to become.

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USSR-MBFR

The Soviets have somewhat modified their stand on one of the issues that has stalemated the MBFR talks in Vienna. At an informal meeting last week, the chief Soviet delegate offered to enter a discussion of "definitions" of what should be included under ground forces and air forces. The Soviets indicated that these definitions should cover both personnel and armaments in terms of "elements of structure," such as "units" or "divisions."

This Soviet initiative had been foreshadowed in corridor conversation. It is an effort to move part way toward NATO's desire to discuss actual numbers of troops, or kinds of equipment that the Soviets still strongly oppose. The Warsaw Pact's position has been that questions of "principle" about reductions had to be settled before an analysis of data could be undertaken.

These questions involve whose forces and what forces should be reduced and in what quantity. Since the negotiations began, the Soviets have been trying to ensure that all NATO participants, especially the West Germans, are involved in the reduction process from the start. The Soviets fear that unless there is such a commitment, NATO will be able to reduce its forces without affecting the size of the West German Bundeswehr. The Soviets also want to get NATO to include air and nuclear forces in the reductions and want the reductions on both sides to be essentially equal.

The Soviets may also hope their initiative will give some substance to their assertions that political detente in Europe—to be consecrated at a CSCE summit—should be followed by military detente.

The Pact delegates, meanwhile, seem content to wait for NATO to broach formally its nuclear proposal. On Monday, the NATO Allies began discussion of that proposal which would offer to withdraw US nuclear warheads and delivery systems in return for Soviet withdrawal of armored forces.

The Allies generally agree that the offer should be made as an inducement to end the deadlock in Vienna, but they have reservations about various aspects of the proposal. They are particularly concerned that the US withdrawal of nuclear-capable aircraft and missiles will lead the Soviets to demand that the other NATO participants reduce the number of their aircraft and missiles.

The Allies also want the West to insist that the Soviets not only agree to withdraw armored forces, but also to accept in specific terms the Western proposal for a common ceiling on both NATO and Warsaw Pact ground forces in Central Europe.

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The discussion in Brussels on Monday indicated that several Allies support the British and German view that there should be a full-scale review within NATO of the technical and military implications of the nuclear offer. The debate would occasionally be difficult, but the Allies will probably reach agreement on the nuclear offer before the next round of negotiations in Vienna opens in September.

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USSR - WEST GERMANY

The Soviet - West German joint economic commission meeting, which was held in Bonn between June 9 and 11, apparently went smoothly. There was little evidence that Moscow's earlier misgivings about the durability of the Schmidt government or the strength of its commitment to better relations with the USSR had an impact on the prospects for mutually beneficial economic ties. As a result of the session, Bonn believes economic contacts between the two countries have reached the stage where they can be handled routinely through normal business channels.

The joint commission devoted considerable attention to the recent sharp tilt in West Germany's favor in the two countries' trade balance. The problem lies partly in the Soviets' inability to come up with sufficiently attractive finished goods to close the gap, but largely in the ballooning of Soviet imports from West Germany. The Soviets did not push for a quick solution, evidently calculating that future Soviet deliveries of gas and other raw materials and semiprocessed goods will correct the trade imbalance.

The Soviets inquired about the availability of government-subsidized trade credits, pointing to those extended by the British and the French, but the West Germans responded negatively.

There was some progress in the area of industrial cooperation, with prospects for cooperation appearing best in the machine tool, ceramics, paper and pulp, wood processing, and raw materials sectors. The two sides also moved closer to an agreement on the Soviet - West German - Iranian gas deal, which eventually will enable the West Germans to import natural gas from the Soviets, who, in turn, will receive natural gas from the Iranians.

Not discussed at the joint commission meeting was the controversial West German - built nuclear power plant proposed for Kaliningrad. East Germany has objected, among other things, to Bonn's stipulation that power from this plant be routed to West Germany via West Berlin. The head of the Soviet delegation claimed to have no mandate to discuss this issue, although West German Chancellor Schmidt made clear Bonn's concern over the continuing stalemate. Some West Germans believe that the East German objections may carry sufficient weight in Moscow to prevent the project from being realized.

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CHINA

Peking's "proletarian dictatorship" campaign, which began early this year with numerous authoritative articles, has thus far settled down into an ordinary study movement. The campaign's heavy emphasis on production is in contrast to the convulsions and purges of other campaigns of the past nine years, movements that essentially involved political struggle. The constant calls for unity and stability suggest, however, continued apprehension that the campaign could get out of hand.

The so-called "rectification" phase of the current campaign, anticipated with some fear at the local levels, to date, has been used to crack down on economic crimes—corruption, profiteering, theft, and influence-peddling—rather than on political wrongdoing. Offenders are subjected not to purge but to education and, in more serious cases, to imprisonment.

In its earlier stages, the campaign was interpreted by many observers as an attempt to move China rapidly toward communism, when wages would be equalized and various economic incentive programs abolished. Although there have been isolated cases of overzealous local officials confiscating private farm plots or forbidding other incentive measures, the propaganda has made it clear that local officials are not to tamper with current economic practices.

Peking's emphasis on unity and its constant criticism of "factionalism" are meant as warnings not to use the current campaign against political adversaries. These warnings, for the most part, seem to have been successful. In a few troubled provinces, which have long been plagued by factional rivalries, however, the campaign reportedly has given the various factions an excuse to renew their disputes.

Disparaging references in the propaganda to worker indiscipline and production disorders indicate that Peking intends to use the campaign to restore order in the economic sector and to increase production. These objectives are in line with the goal announced last January to achieve a modern, industrialized nation by the end of the century.

The campaign has been linked closely with calls for stability, a common theme for almost a year that bears directly on China's production goals. According to the propaganda, stability is necessary to "gain time" to pursue modernization in a variety of economic areas.

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ISRAEL

Despite Israel's announcement on June 22 of plans to sell its supersonic Kfir jet fighter abroad, it will be some years before the aircraft can be exported in significant numbers.

A market exists in Latin America and the Far East for the \$4-million fighter-bomber, but no definite orders or prospective customers have been identified. Foreign sales may be hindered by problems in development and design, an inability to produce at the same time enough aircraft for the Israeli air force's needs and for export, licensing agreement constraints, and political considerations.

The first loss of a Kfir on May 25 could indicate that structural design problems have been encountered. According to two Israeli air force personnel, a Kfir disintegrated while accelerating through Mach 2. There are tenuous indications that the other seven aircraft have been grounded while the air force studies the cause of the accident. In addition to this delay, the aircraft is continuously being modified.

Production of the Kfir is currently estimated at one and a half to two a month. The Israeli air force will require at least 60 aircraft in the next three years and approximately 120 by the end of 1984. At this production rate, it would be a minimum of three years before the Kfir is available for export.

Restrictions in licensing agreements with foreign manufacturers could cause Israel problems. For example, any sale to a third country of the J-79-1E engine, which powers the aircraft, is subject to US approval. In addition, Israel may face stiff competition from the French Mirage in attempting to encroach upon traditional French markets. The Far East appears to be the most feasible market; Israel Aircraft Industries has already made contacts in the Philippines, South Korea, Taiwan, and Thailand.

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PERU

Political intrigue on the part of two army generals is complicating the Peruvian succession issue. President Velasco reportedly is planning to dismiss radical major generals Jose Graham and Leonides Rodriguez on charges of plotting to replace him. Should they be dismissed, it would remove some leftist influence from the regime, as well as considerably strengthen the position of General Morales Bermudez, the prime minister and minister of war, who is not taking part in the quarrel.

Velasco has the upper hand in this affair because Graham and Rodriguez have recently lost prestige. Graham is an ambitious man who in the past was mentioned as a front-runner, along with Morales Bermudez, in the race to succeed the ailing Velasco. If Graham is removed as head of the presidential advisory board, it might present problems for Velasco since Graham holds sufficient rank to hold a major command within the Peruvian army or some other equivalent assignment. The President would have to dismiss him from the military or assign him to a foreign post to neutralize him.

Rodriguez, whose subservience to Prime Minister Morales Bermudez has increased proportionately with the charges lodged against him, is unlikely to lead a coup at this time.

[redacted] Doubts about Velasco's health, coupled with his seeming inability to govern Peru, probably are at the heart of the current problem involving the two generals. The ability of Velasco to retaliate, however, and the fact that Morales Bermudez' position is secure greatly reduce the chance for a successful coup.

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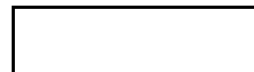
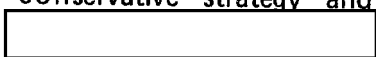
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WEST GERMANY: The conservative Christian Democratic Union has officially named party chairman Helmut Kohl, minister-president of the Rhineland-Palatinate, its candidate to run against Social Democratic Chancellor Helmut Schmidt in the 1976 general elections. At a three-day national party convention that opened on Monday in Mannheim, the Christian Democrats closed ranks behind Kohl as the party's candidate for the chancellorship and confirmed him in his present post of party chairman by a nearly unanimous vote. After protracted negotiations, the Bavarian sister party—Franz Josef Strauss' Christian Social Union—announced its grudging acceptance of Kohl on June 19, but made it clear that it still considered Strauss the best candidate to run against Schmidt. The Bavarian party had waged a last-ditch effort designed to gain—if not acceptance of Strauss as the Christian Democratic candidate—maximum Bavarian influence on conservative strategy and representation in a conservative shadow cabinet.



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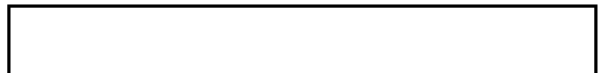


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