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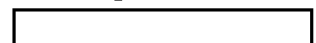
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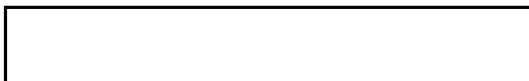
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DIA & DOS review(s) completed.

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LEBANON

Radical leftists last night conditionally accepted Prime Minister Karami's latest call for a truce. They will decide whether to participate in political negotiations on the terms of a more durable cease-fire after meeting with the Prime Minister.

The leftists are demanding that Karami "explain" why the government used the army in Beirut's commercial center this week. They also want an explanation of a speech made by President Franjyah on December 10, in which Franjyah denounced the continuing violence in terms that the leftists considered placed undue blame on them.

The decision to accept the cease-fire came after the leftists met with leaders of the Palestine Liberation Organization. Zuhayr Muhsin, head of the PLO military department, told newsmen that the Palestinians had been able to act as mediators because they "are not a party to the conflict." Muhsin is head of the Syrian-controlled Saiqa fedayeen group. His involvement in negotiations and recent attempts to keep his followers out of the fighting are part of Damascus' behind-the-scenes effort to end the clashes.

Palestinian and Lebanese leaders most closely allied with Syria, unlike the independent or Iraqi-supported leftists, have cooperated from the start in Karami's efforts to implement a cease-fire. A representative of the Lebanese wing of the Syrian Baath Party in effect supported the right-wing Phalangists by charging that "certain elements" are seeking to undermine the positive effects of Phalangist leader Jumayyil's recent trip to Damascus.

Representatives of the two largest Christian political parties, the Phalangists and the National Liberals, have said that they will respect the cease-fire. A Phalangist representative has pledged that his party will allow an official inquiry into the causes of the killings last weekend that set off the current round of fighting.

This relatively cooperative attitude has resulted in part from the Christians' inability to turn the tide of battle in the hotel district. Despite intervention by army commandos, the leftists appear to control two of the three hotels that command the seafont between the Christian and Muslim areas of Beirut.

The US embassy considers that fundamental changes may occur in Lebanon within weeks if the country's leaders remain unable to reduce the current level of fighting through political negotiations. In ascending order of consequence for the US government and for Middle East security, such changes could include:

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- The resignation of Karami and Franjiyah.
- The collapse of the government if continued fighting precludes holding parliamentary and presidential elections next year.
- An army coup.
- Efforts by ultraconservative Christians to partition the country.
- Syrian and Israeli intervention in Lebanon.

We have no reliable evidence that Lebanese or other leaders are planning any such moves now, but the heads of several factions—anticipating a showdown at the time of parliamentary elections next April—could soon decide to employ more drastic measures to secure their positions.

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ICELAND-UK

The incident yesterday in which an Icelandic patrol boat was rammed by two British support ships inside the 12-mile limit represents a major escalation of the fishing dispute. The patrol boat subsequently fired on the British ships. According to press reports, the Icelandic cabinet decided last night to submit a formal complaint to the UN Security Council over the ramming.

The incident will also complicate the talks the Icelandic and British foreign ministers are having in Brussels during the NATO foreign ministers' meeting. British officials had hoped to avoid serious incidents during the NATO meeting. London feared that an incident at sea would embroil NATO directly in the dispute and prompt Icelandic Foreign Minister Agustsson to demand that the North Atlantic allies support Iceland. Agustsson had intended, according to the US embassy in Reykjavik, to make a relatively moderate plea for support. NATO officials also hoped that tensions would be eased if Agustsson and British Foreign Minister Callaghan agreed to reopen the stalled talks on a new fishing agreement.

According to British officials, Callaghan is not prepared to make unilateral concessions on the main sticking point—the size of the British catch. The British have told Icelandic officials that they will reduce their demands if Reykjavik raises its standing offer of 65,000 tons to a figure approaching the 110,000 tons demanded by London.

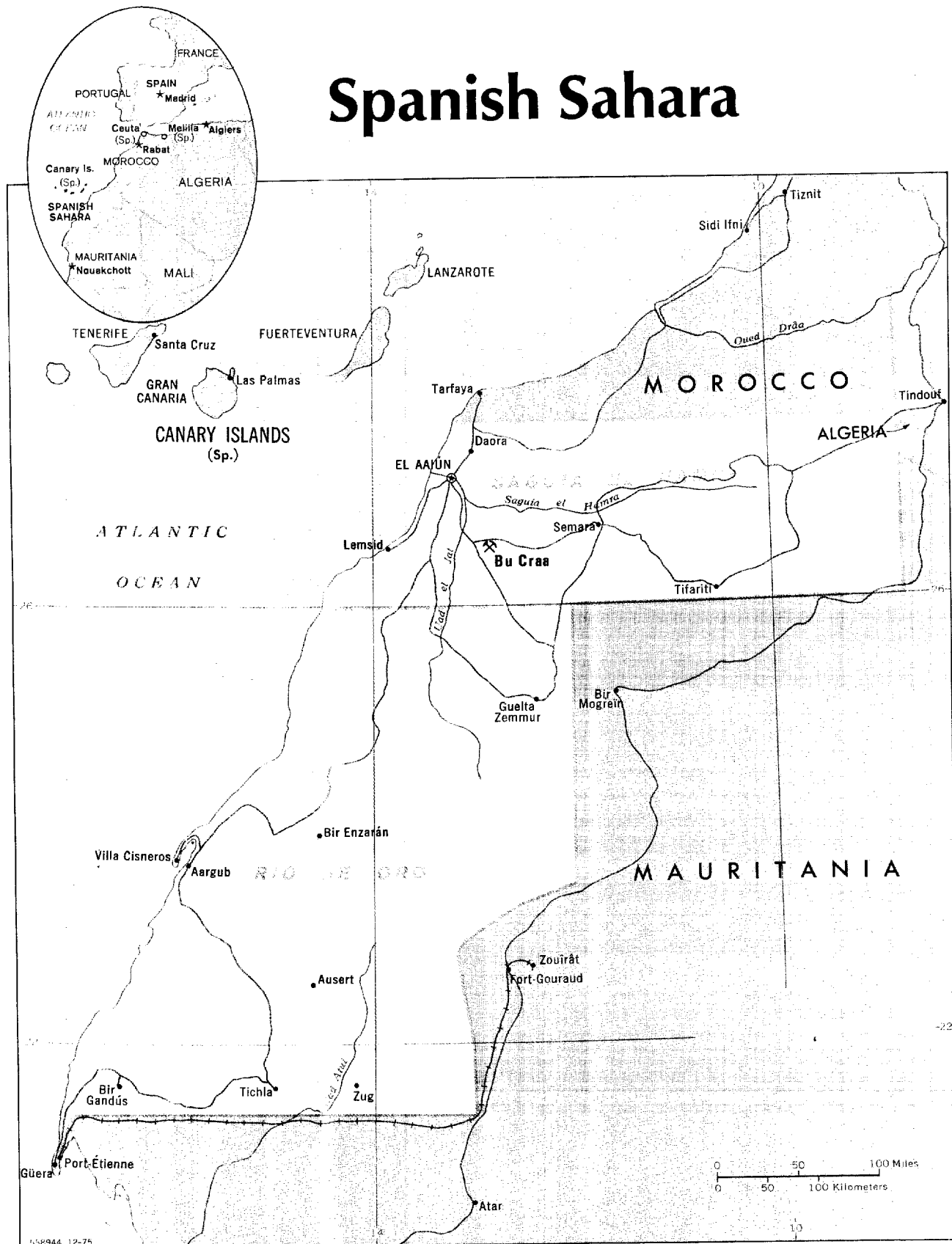
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Spanish Sahara



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SPANISH SAHARA

Morocco is continuing to strengthen its security forces in northern Spanish Sahara, anticipating a rapid Spanish withdrawal from the territory.

A Spanish Foreign Ministry official recently indicated that virtually all Spanish forces and civilians will be out of the Sahara by December 20, well ahead of the scheduled February deadline. The Spanish want to avoid involvement in hostilities between Morocco and the Polisario Front or its sponsor, Algeria.

Yesterday, the first Moroccan army units arrived in El Aaiun, the capital, amid much fanfare from Moroccan officials already on the scene. Moroccan police units have been in El Aaiun for several weeks and are beginning to move into some outlying towns.

Operations are under way in the northeastern part of the territory against guerrillas of the Polisario Front. The guerrillas are now using mortars, machine guns, and grenade launchers. According to Spanish press reports, Polisario guerrillas machine-gunned a Moroccan police car in El Aaiun Tuesday. They probably were also responsible for a pre-dawn raid yesterday on a Moroccan garrison outside the city.

Scattered fighting reportedly is also occurring between Mauritanian forces and Polisario guerrillas along the southern Spanish Saharan border. Nouakchott has mobilized its 1,500-man army and Moroccan C-130s are shuttling arms and ammunition into the capital.

Algiers remains opposed to a Moroccan-Mauritanian take-over of Spanish Sahara and is continuing a limited military build-up in southwestern Algeria adjacent to the Sahara. The Algerian government has declared a Sahara solidarity week and is staging demonstrations throughout the country. These rallies are clearly intended to arouse anti-Moroccan sentiment, but we believe the government is also trying to develop domestic support for increased Algerian assistance to the Polisario Front. The Algerian media are highlighting Polisario claims of military success against Moroccan forces in the Sahara.

The Polisario guerrillas cannot defeat the more heavily armed Moroccan army, but with Algerian backing they can probably keep up terrorist and sabotage attacks. The automated belt conveyor system that moves phosphate ore some 60 miles from Bu Craa to El Aaiun is especially vulnerable to guerrilla operations.

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Debate on Spanish Sahara in the UN General Assembly has ended with the adoption of two contradictory resolutions. This outcome is a setback for Algeria, which sought formal UN disavowal of the Spanish-Moroccan-Mauritanian agreement that provided for giving the territory to Rabat and Nouakchott.

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SPAIN

The new Spanish cabinet, which is to be sworn in today or tomorrow, promises a break with the past. It is liberal in Spanish terms, as King Juan Carlos and Prime Minister Arias try to take some of the wind out of the opposition's sails.

Manuel Fraga Iribarne, the new interior minister, and Jose Maria de Areilza, the new foreign minister, favor an early and fairly extensive liberalization of the Spanish political system. Most of the other posts are filled by men who favor gradual, but significant, change. The new justice minister, former ambassador to the Vatican Antonio Garrigues, for example, may interpret the King's controversial pardon liberally enough to free many of the remaining political prisoners—an emotional issue for the left.

Lieutenant General Santiago Diaz de Mendivil was named deputy prime minister and coordinator of defense affairs. He is one of the less conservative members of the military high command.

The new minister of the government's labor organization, Rodolfo Martin Villa, and the new minister of the prime minister's office, Alfonso Ossorio, are also men who favor gradual democratization. Indeed, the entire cabinet list provides scant comfort to die-hards on the right. Leftists are unlikely to greet the new government with any public enthusiasm, but they may be privately encouraged by a cabinet that is as liberal as they could have realistically hoped for.

The cabinet will have to move quickly to deal with demonstrations and strikes organized by the left. Thousands of industrial workers struck yesterday as labor action spread from Madrid to other industrial areas, including Barcelona, the northern Basque country, and the Asturias coal mines. The two principal themes of the strikers have been political amnesty and the wage freeze. The strikes so far have failed to paralyze the construction and metal workers' industries—boding ill for the Communists' plans to organize a nationwide general strike early next month.

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ITALY-FRANCE

Although the first direct elections to the European Parliament will not take place for more than two years, the Italian and French Communists are already beginning preparations for the contest aimed at obtaining a leftist majority in the parliament, [redacted]

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[redacted] These preparations are the first follow-up to the joint declaration of principles signed last month by Italian Communist chief Berlinguer and French Communist leader Marchais.

The European Parliament now consists of representatives appointed from the legislative bodies of the EC member countries. The EC heads of government agreed last week, however, to hold the first direct elections to the parliament in the spring of 1978. With this decision, the parliament is assuming greater importance as a locus for political debate over the future of the Community. West European Christian democrats, conservatives, and centrists are also beginning to discuss alliances in anticipation of direct elections to the body.

Procedures for direct elections have not yet been established, but the French and Italian Communists reportedly calculate that by maintaining their current voting strength they could capture 25 to 30 percent of the French and Italian delegations to the proposed 355-seat parliament. They would then work for close coordination among left-of-center parties, and ultimately, for a leftist majority that would include such parties as the Italian and French Socialists and the West German Social Democrats.

The French and Italian Communists will face major obstacles in implementing this strategy. European socialists and social democrats are sharply divided on cooperating, in electoral alliances or otherwise, with the communists. The French Socialists, for example, resent the West German Social Democratic Party's coolness toward the strategy of local alliances with communist parties.

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Brandt apparently wants to improve socialist solidarity, both within and outside of Europe, prior to undertaking a dialogue with the communists. Along with Swedish Prime Minister Palme and Austrian Chancellor Kreisky, Brandt is trying to promote a new alliance of socialist parties that would be more effective in fostering ties than the existing Socialist International. The difference in attitudes toward communist parties is likely to be a prime issue at a conference of some 40 to 50 West European socialist government and party leaders that Brandt and Palme plan to hold in Denmark on January 18 and 19. [redacted]

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NATO

Eurogroup defense ministers on December 8 reviewed achievements this year in arms standardization and plans to establish greater cooperation next year in acquiring new equipment.

Eurogroup—which consists of European NATO countries except France, Portugal, and Iceland—has long sought to standardize armaments through common purchase or collaborative production. Accomplishments in 1975 cited by the defense ministers include a four-country coordinated purchase of the US Lance surface-to-surface missile system, which is now entering service, and the US F-16, which will not be delivered for several years. The Multirole Combat Aircraft—produced by Italy, West Germany, and the UK—continues flight trials, and deliveries have continued for the British-French Jaguar aircraft. Although not a member, the US has supported Eurogroup standardization by agreeing to increase procurement of European equipment, including more British Harrier aircraft and the French - West German Roland II surface-to-air missile.

Eurogroup plans to improve its military capabilities further by introducing additional ground, naval, and air weapons in 1976. In addition, the Allies want to standardize the upgrading of existing arms. Successive modifications of some equipment by individual countries have reduced or destroyed interchangeability. Several nations have already agreed to a common upgrading of the Hawk SAM system. Eurogroup believes standardization and joint operations will increase efficiency and save money. [REDACTED]

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EC-PORTUGAL

Although the EC is proceeding with plans for various direct financial aid projects to Portugal, the community will be unable to meet Portugal's desire to begin talks by the end of this year on improving trade relations.

Member-state resistance to liberalizing one or another aspect of the existing trade agreement is preventing the EC from formulating its position on a new accord. At an EC Council meeting this week, France opposed easing restrictions on Portuguese wines, Britain objected to more textile imports, and West Germany spoke against further increases in social security benefits to Portuguese workers in the community.

Community officials still hope that a Council meeting in January will make a favorable decision, but high-level political decisions by EC leaders—based on a judgment that Portugal now requires a sign of European approval—may be needed to overcome budgetary constraints and trade protectionism.

Independent of EC programs, a long-promised German-Portuguese aid agreement was signed last week. Bonn is giving Lisbon about \$27 million for specified agricultural development projects.

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NORTH KOREA - IRAN

North Korean President Kim Il-song will begin a state visit to Iran later this month, possibly on December 21. His main purpose will be to promote an expansion of economic relations between the two countries.

A major topic on Kim's agenda is likely to be the \$200-million loan promised earlier this year by Tehran against future Iranian purchases of cement, steel, and corn. This loan would help North Korea clear up the defaults that have ruined its credit rating in the West.

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Pyongyang, worried about its precarious foreign exchange situation, sent Deputy Prime Minister Chong Chun-ki to Tehran in October in an attempt to expedite the credit, but he apparently made no progress. Kim was invited to Iran during Princess Ashraf's visit to North Korea last May. According to the US embassy in Tehran, the Shah has reluctantly agreed to Kim's visit on the grounds that he can no longer delay it.

South Korea also has been actively courting Tehran in an effort to obtain loans and further expand economic relations. Although generally satisfied with their country's relations with Iran, South Korean officials nevertheless will be watching developments during Kim's visit for any indications that Pyongyang might be improving its stock with the Shah.

Kim's trip to Iran will make his failure to visit Moscow all the more conspicuous in view of his trips last spring to China, Eastern Europe, and several nonaligned countries. Soviet officials have since maintained privately that a trip to Moscow by the North Korean leader is in the offing, but that no specific date has been set.

By avoiding Moscow, Kim may be expressing dissatisfaction with Soviet political support and with the levels of Soviet military and economic aid. The Soviets, for their part, may have done nothing to encourage a visit in order to show their displeasure with the improvement in Sino - North Korean relations since the early 1970s. Kim's trip to Peking last April—which apparently was arranged hastily on his initiative—and the subsequent visit to Pyongyang of Politburo member Chang Chun-chiao underlined the closeness of the present relationship. North Korea has also indicated partiality toward Peking by including in North Korean media anti-Soviet remarks made in Chinese leaders' speeches.

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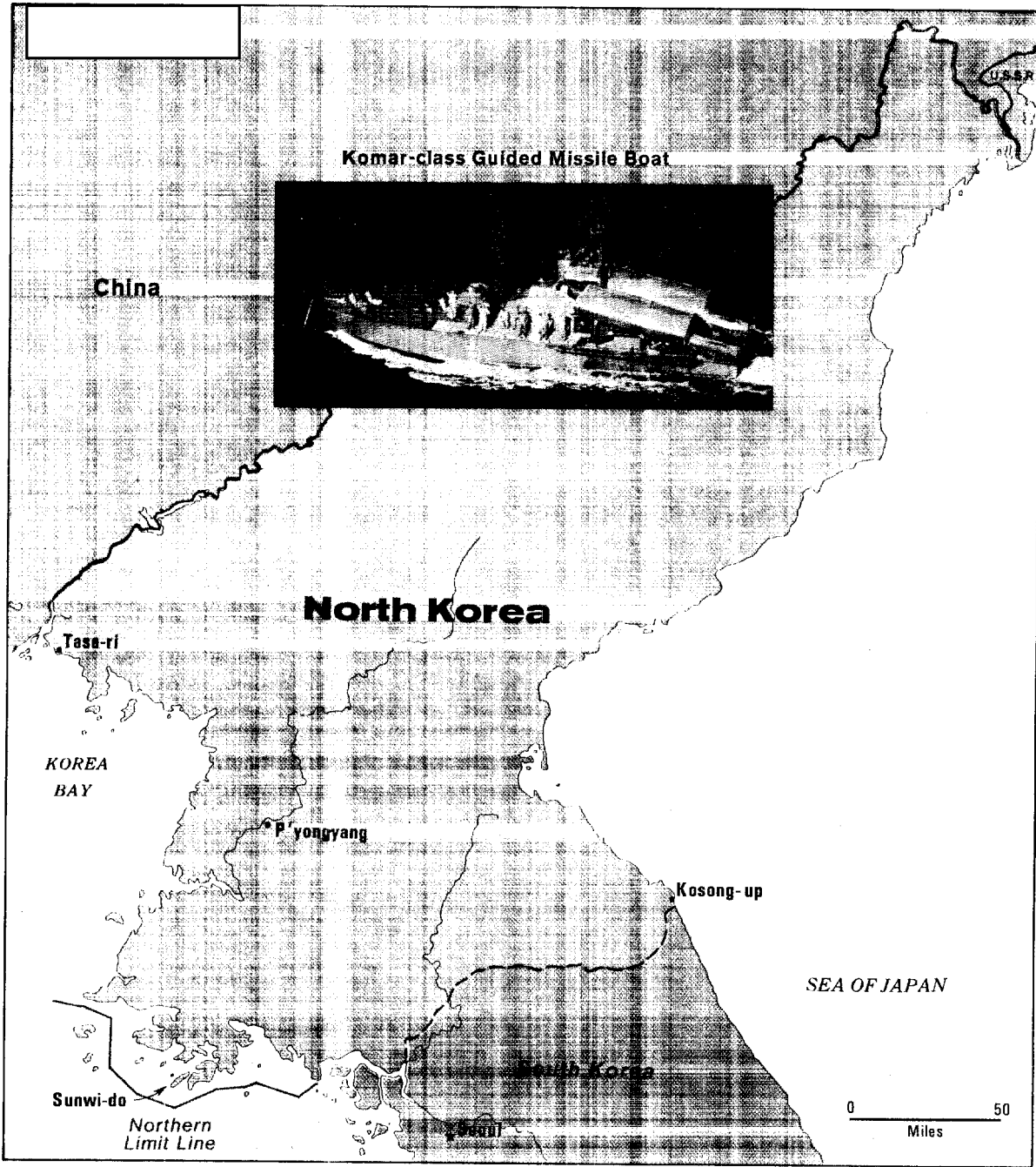
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NORTH KOREA

Pyongyang has shifted two of its Komar guided-missile boats to a base less than ten miles from the east coast Northern Limit Line. This move, following similar activity earlier this year on the West coast, gives the North Koreans a stronger naval presence in areas of possible confrontation with South Korea.

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Since March, at least one Osa guided-missile boat has been continually based at Sunwi-do, near the UN Command - controlled islands off the west coast. Recently, Pyongyang shifted its native-designed Sohung-class missile boat, which is similar to the Komar, to Sunwi-do. Both units came from the main west coast missile base at Tasa-ri. The North Koreans may be rotating missile boats between the two bases, and similar rotations may possibly occur on the east coast.

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MEXICO

The recent seizure of four US shrimp boats by the Mexican navy suggests Mexico is adopting a policy of strict enforcement of claimed territorial waters.

The boats, seized last week, were the first taken into custody by Mexican authorities since March. Three were charged only port fees amounting to about \$500. The fourth boat was given a minimum fine of \$6,000—plus port costs—for resisting arrest. Although shrimp catches were confiscated, the nominal fines suggest the seizures were warnings.

Recent criticism of the navy in the Mexican press has undoubtedly generated some pressures to take action against foreign fishing boats in Mexican waters. Another reason for stepped-up enforcement may be Mexican legislative action to establish a 200-nm offshore economic zone. When it becomes effective in the spring, this measure will affect US shrimping in the Gulf of Mexico. Last week's arrests could be an indication that the Mexicans will no longer take a tolerant view of violations of their claimed territorial waters. The arrests will also give the government a better bargaining position, if bilateral talks are required.

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ISRAEL: Israel has purchased from a US shipyard a 230-foot ship, originally designed as an offshore oilrig support craft, and modified it to serve as a missile boat support ship. It will operate with Saar-class missile boats in the Mediterranean. It is expected to increase appreciably the operational range of Israeli missile boats in the eastern Mediterranean. The ship was turned over to an Israeli crew in early November, and is due in Haifa early next week. Shakedown tests and sea trials are expected to be completed by March or April.

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