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FOR THE PRESIDENT ONLY

VIETNAM

The new "revolutionary administration" in Saigon issued three directives on May 1 concerning security, weapons collection, and public property. Like earlier communiqués broadcast from captured cities and provinces, the new directives promise that there will be no retribution against those who cooperate, but they threaten "severe punishment" against those who do not.

Foreign property and diplomatic residences are to be protected, with communist soldiers ordered to maintain order around these areas.

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A separate communiqué from the Provisional Revolutionary Government's Foreign Ministry, headquartered in the former presidential palace, instructed all South Vietnamese missions and embassies abroad to "remain at their posts and await new orders." Most of these diplomatic staffs, however, have already requested asylum in the US or other countries.

The communists, according to press reports, state that they have completed the "liberation" of South Vietnam by seizing four holdout provinces in the delta and disbanding four divisions of the South Vietnamese army. Intercepted messages, however, indicate that some pockets of resistance remain. According to a May 1 message, resistance was continuing around Tan Son Nhut air base.

CHINA

China has marked the Vietnamese communist take-over of Saigon with an outpouring of congratulatory comment. The statements suggest, however, that Peking has reservations about the growth of North Vietnamese power.

Mao Tse-tung and Premier Chou En-lai sent a message of congratulations to PRG and North Vietnamese leaders, which was delivered personally by Vice Premier Teng Hsiao-ping to Vietnamese communist embassies in Peking. People's Daily also carried an editorial on the take-over on May 1.

The two statements praised the PRG, but gave only a minimal nod to Hanoi's role. The editorial, in fact, was addressed to the people and army of South Vietnam and mentioned North Vietnam's help only once. Both statements implied that China hopes for an eventual unification of Vietnam, but the leadership message also spoke of a "democratic and national revolution" in the South still to occur; this suggests that Peking would prefer that unification not take place any time soon.

People's Daily referred to Moscow as expansionist and ambitious--certainly an indication of Chinese concern over postwar Soviet role in the region. Both statements expressed hope for a "free and independent" Vietnam.

US "imperialism and aggression" were portrayed as defeated by the Vietnamese, hence no longer a threat to the region. An NCNA dispatch on US evacuation from Saigon, in fact, gave favorable treatment to Secretary Kissinger's remarks that the US would consider a new Asian policy in consultation with other Asian states and that Washington would carefully avoid overcommitment.

There is other evidence that Peking hopes Washington will concentrate on areas such as Europe and Japan and that the Chinese are worried that, in the wake of Vietnam, the US will and ability to act will be sapped by domestic controversies.

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USSR-ISRAEL

Moscow is making a fresh effort to develop contacts with Israel.

Since the meeting in early April of two Soviet emissaries and Israel's top leaders, Moscow has suggested a wide-ranging agenda for talks in London between a Soviet scholar on the Middle East and an Israeli representative. The proposed agenda for the London meeting suggests that, at least in this venue, Moscow is not making any false claims to evenhandedness in the Arab-Israeli dispute, but that it is seeking to show its flexibility on terms for a Middle East settlement.

The Soviets are suggesting, for example, that if the Israelis promise to withdraw from occupied territories and acknowledge the right of the Palestinians to their own state, implementation of these promises could be delayed. The Soviets also suggested, as did Foreign Minister Gromyko publicly on April 23, that Moscow would be willing to "guarantee" Israel's existence as a state.

The agenda also includes the highly sensitive issue of Soviet Jews. The Soviets call for Tel Aviv to quit using "Zionist interests" in the world to pressure Moscow on the treatment of Soviet Jews. They did not say what they would do in return, expecting no doubt that Israel would make its own demands on this issue in due course.

It is doubtful, however, that Moscow views these contacts as the main arena for its dialogue with Israel. For one thing, the Soviets have entree to top Israeli policy-making circles through such contacts as the reported mission to Tel Aviv in April and through discussions in Washington between ambassadors Dobrynin and Dinitz.

The unofficial contacts do, however, give the Soviets a way to float trial balloons and to create an appearance of a continuing exchange with Israel

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on substantive issues. The Soviets may hope that this will encourage Israel to participate at Geneva and add to Moscow's image as Middle East intermediary.

Tel Aviv remains suspicious of Soviet intentions and of the Soviet's ability and intention to deliver on any promises. The Israelis have shown no sign that they are persuaded that Moscow's pro-Arab Middle East policy has undergone a fundamental change. Nevertheless, from the Israeli government's point of view, the contacts in and of themselves are useful if only to remind Washington that Tel Aviv could establish non-US channels for a dialogue with the Arabs.

SAUDI ARABIA

Saudi Arabia has drastically reduced new purchases of sterling-denominated assets during the past two months in favor of assets in continental European, Canadian, and Japanese currencies. The change probably reflects a pessimistic assessment of sterling's prospects by the new Saudi financial leadership and will make it more difficult for the UK to finance its payments deficit.

With the deaths of Anwar Ali--who headed the Saudi Arabian Monetary Agency for 15 years--and King Faysal, Saudi financial leadership passed to a group of young and less conservative technocrats centered around Prince Fahd. They are moving to change the composition of Saudi holdings, which at the end of 1974 were 80 percent dollar-denominated, 10 percent in sterling, and 10 percent in other currencies.

In March, the Monetary Agency acquired \$65 million worth of West German marks, Swiss francs, Japanese yen, and Canadian dollars. During April these purchases more than doubled, reaching \$130 million--or over 10 percent of all new investment.

Increasing diversification is expected to continue with new investments widely spread among currencies. Any concentration in major continental currencies would probably result in the imposition of controls by West European governments that are unwilling to see their currencies appreciate.

Saudi Arabia stopped accepting sterling payments from oil companies in December and now has halted the purchase of sterling-denominated assets. No new sterling purchases have been noted since early March. So far the Saudis have not tried to sell any of \$2 billion of assets they hold in sterling.

Riyadh's move will make it more difficult for the UK to finance its estimated \$6-billion current account deficit this year. Last year, some \$6 billion of new OPEC investment in the UK covered roughly two thirds of the British deficit. Saudi

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Arabia alone put about \$1.5 billion into sterling assets. With less of this effortless deficit financing, London will be forced to borrow more in private capital markets. London borrowed more than \$2 billion last year, but private lenders have become decidedly more cautious about lending to the UK.

News of the Saudi shift

may result in a reexamination of investment policies by other OPEC investors. Private Western bankers may see the change as an indication that the UK's credit worthiness is going to deteriorate further.

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Saudi Arabia's willingness to take a further deep cut in its oil production last month indicates the new leadership plans to continue the late King Faysal's policy of strong support for OPEC.

In April, Saudi output fell below 6 million barrels per day, down at least 600,000 barrels per day from March levels. The cut has resulted from Aramco's decision to reduce its floating oil stocks rather than from a decline in consumption. It represents a 35-percent drop in Saudi output from last October's peak of 8.8 million barrels per day. If the companies continue their policy of reducing oil stocks, as now seems likely, some further cut in Saudi production can be expected through August. Several other OPEC states, hard pressed for more oil revenues, are now trying to increase their oil output. If they succeed, Saudi output is likely to be cut even further.

FOR THE PRESIDENT ONLY

NOTES

Yesterday's well-organized and strongly anti-rightist demonstration in the Laotian capital is a good indication of the Pathet Lao's capability to muster large-scale support on their behalf and can only further damage the morale of the non-communists in the government coalition.

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 munist victories in South Vietnam and Cambodia have already caused despair among the non-communists. Key civilian and military leaders have concluded that the refusal of the US Congress to provide emergency assistance to South Vietnam and Cambodia means that the non-communist side in Laos can no longer depend on help from Washington either. As a result, many prominent non-communists reluctantly are beginning to believe that an eventual Pathet Lao "victory" in Laos is inevitable and some are making long-range plans to leave the country.

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Yesterday's May Day celebration in Portugal brought an upsurge in party rivalry, as the Communists sought to offset the moderate parties' election victory last week.

The Communist-dominated labor confederation sponsored a large rally in Lisbon, in which they refused to allow the center-left Popular Democrats--second after the Socialists in the election--to participate. At the rally, Communists and Socialists engaged in a shouting match that interrupted a speech by Prime Minister Goncalves. May Day also marked the promulgation of a law, approved earlier, which places Portuguese labor under a single, confederation--the Communist-dominated Intersindical.

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