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# WEEKLY SUMMARY

OFFICE OF CURRENT INTELLIGENCE

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## CENTRAL INTELLIGENCE AGENCY

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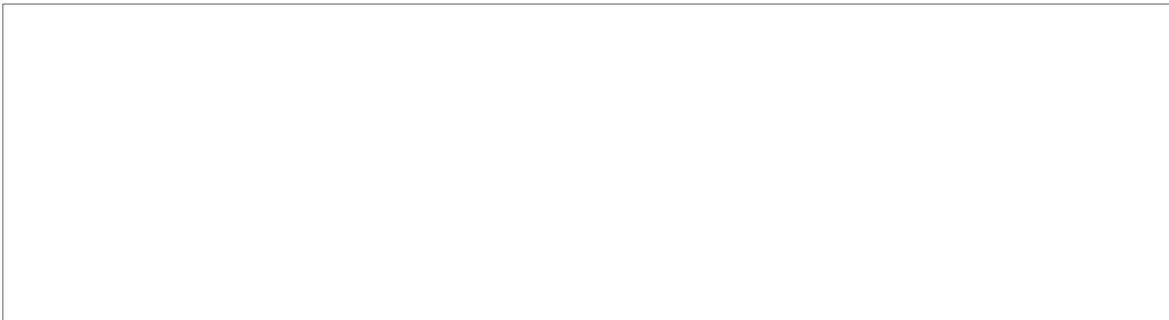
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Cuba

**CASTRO ON COEXISTENCE, SOVIET AID, AND ARMY COUPS**

Fidel Castro's speech on 28 September, marking the third anniversary of the formation of the Committees for the Defense of the Revolution, touched on several themes prominent in recent Cuban public statements.

On Cuba's attitude toward the nuclear test ban treaty and signs of lessening US-Soviet tensions, Castro was more direct and explicit than ever. He said, in effect, that Cuba cannot go along with Soviet moves toward "peaceful coexistence" as long as the United States continues its policy of "aggression" toward Cuba. He stated flatly that "naturally we will not calmly accept a situation in which tensions decrease elsewhere while they increase for us.... We are glad when tensions relax, but we cannot consider ourselves at peace with an imperialism that tries to strangle us more and more.... This situation will determine our policy in the international arena, in the United Nations and everywhere. It will determine our stand on the nuclear pact and toward the proposals on denuclearization."

Castro then emphasized that Cuba "has its own stand" which is dictated by its position in the "anti-imperialist struggle" and which, moreover, derives from the unique origins of the Cuban revolution and the place it has in history. Here, Castro seems to be telling the Soviet Union that Cuban policy is independent and cannot be subject to Moscow's dictates. Later in the speech, Castro warned the Cuban people that they must not become accustomed to Soviet economic assistance and must make every effort to pay off its trade debt to the USSR.

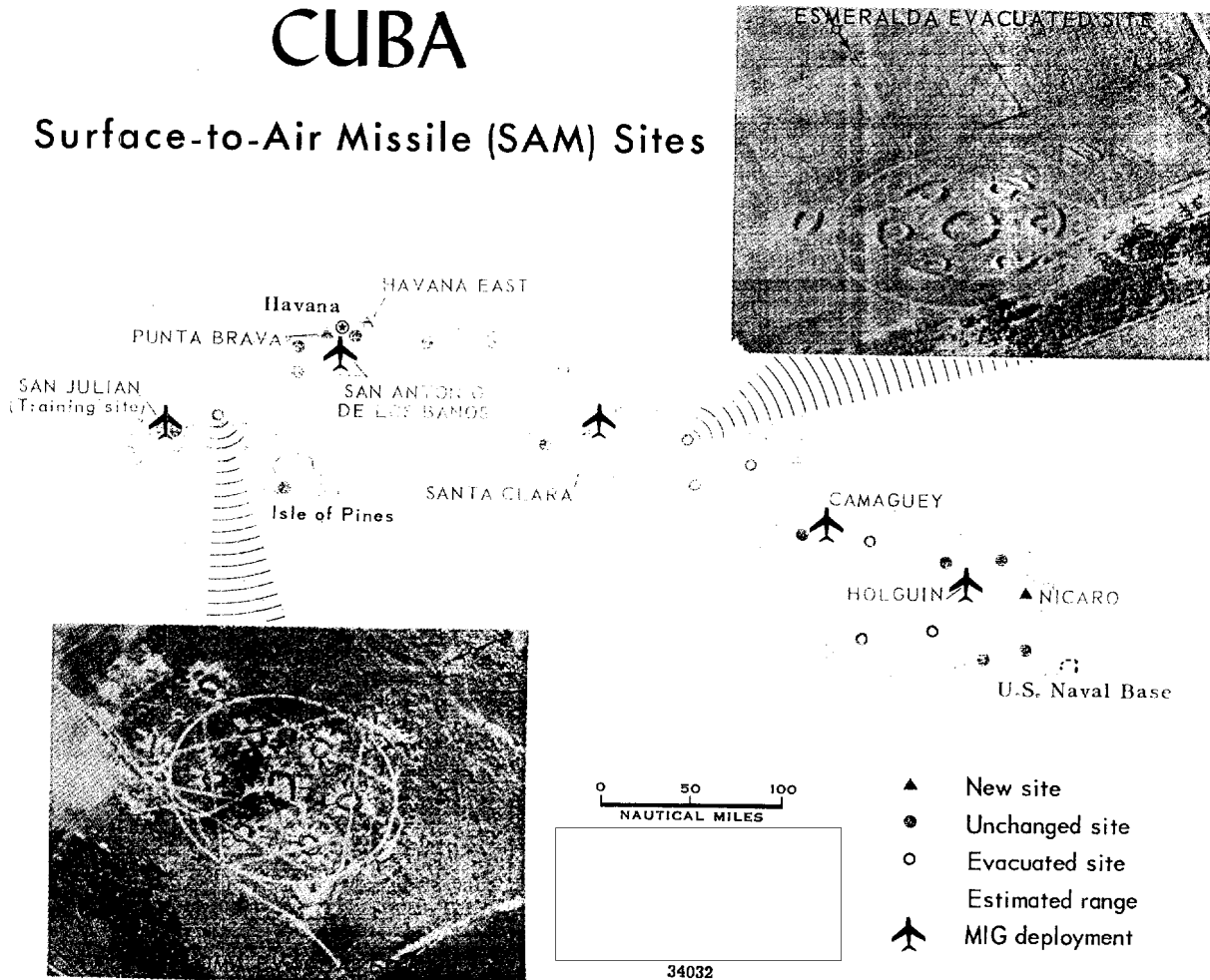
In another portion of the speech, Castro stated that the news of the Latin American revolutionary struggle is "more encouraging every day." Referring to the recent coup in the Dominican Republic, he declared that this demonstrates once again that "there is only one way, only one remedy"--the Latin American military class must be liquidated and its principal leaders executed.

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# CUBA

## Surface-to-Air Missile (SAM) Sites



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Cuba

**REORGANIZATION OF CUBAN AIR DEFENSE SYSTEM**

A major reorganization of the air defense system is in progress in Cuba. [redacted]

[redacted] eight of the 24 surface-to-air missile (SAM) sites have been evacuated, including one entire SAM regiment of four sites and a support area in central Cuba. To date, four of the sites have been re-established at other locations.

The pattern of relocations indicates a shift from an island-wide SAM coverage to point defense of major cities and installations--in anticipation of on-site training of Cubans in November. [redacted]

The number of [redacted]

SAM sites may be reduced in the reorganization process and some SAM equipment withdrawn from the island.

MIG-21s have been deployed from the San Antonio de los Banos training base to three other airfields for the first time since March. At the same time, MIG-15 fighters have been deployed to San Julian. While it is too early to determine whether these transfers are permanent, the deployments may be related to the over-all reorganization of the air defense system prior to transferring the system to Cuban control. [redacted]

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The Communist World

**GRAIN SITUATION IN THE COMMUNIST WORLD**

Khrushchev now has admitted publicly that the 1963 harvest is in a "rather difficult position" because of unfavorable weather. This appears to be a gross understatement. Total grain production may be significantly smaller than the mediocre 1962 crop and the wheat harvest may be especially bad--down to an estimated 44 million tons compared with last year's estimated production of 57 million tons. The Soviets need at least 50 million tons of wheat for domestic use and are committed to export--mainly to the European satellites--4 to 5 million tons.

Lagging production stems, in part, from difficulties in the New Lands, which the USSR has come to count on for more than a fourth of the total grain harvest. Production there slipped badly again this year because of the weather, and serious problems of a more permanent nature may be developing. Local newspapers are pointing to a mounting problem of wind erosion of the soil--one article called it "national disaster." Western analysts have long pointed out that the continuous cropping of such marginal land without offsetting conservation measures could lead to serious erosion and possibly even dust bowl conditions reminiscent of the US during the

1930s. Adequate conservation practices would take large amounts of land out of cultivation, but without them a dust bowl is a growing possibility.

In either case the regime is faced with the necessity of raising land productivity throughout the country. This probably accounts, in part, for Khrushchev's present emphasis on rapidly increasing fertilizer production and introducing irrigation on a large scale.

Grain conservation is now the keynote in the Soviet Union. The laws against feeding bread and flour to animals are being strictly enforced, and restaurants are no longer permitted to give free bread with meals; a kind of informal rationing is being practiced in the stores, which are frequently out of bread and flour.

It now seems likely that the USSR will import at least 11 million tons of Western wheat in the next ten months. Although the largest single contract, with Canada, allows for credit, Moscow apparently intends to pay cash for the lot--almost \$800 million, including freight charges.

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The Communist World

East European countries, also affected by adverse weather, require imports well above those of last year and now are actively seeking them in France, Canada, and the US. Only Rumania, which is shipping 400,000 tons of grain to the USSR, has a surplus.

As a result of the unprecedented recent Soviet purchases, Communist China will face rising prices for both wheat and freight when it begins to negotiate contracts for next year's deliveries. None of its present contracts extends beyond the end of January 1964. Harvest prospects and propaganda claims during the 1 October National Day celebrations--which implied that agricultural and industrial output has risen only

slightly during 1963--suggest that Peiping will again be in the market for about five million tons of grain.

Canada and Australia--the source of 65 percent of China's past purchases--apparently have set aside some wheat for "regular customers." Canada is to ship 500,000 tons by the end of January and is committed under a long-term agreement to make available up to five million tons between now and mid-1966. France sold Peiping about 700,000 tons in the first half of the year, and it too has a long-term agreement with China under which supplementary purchases may be made next year.

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The Communist World

**MOSCOW NAMES NEW MILITARY INTELLIGENCE CHIEF**

As a result of the Penkovsky spy case and other recent setbacks for the Soviet military intelligence service (GRU), the Kremlin has assigned Colonel General Petr Ivashutin as GRU chief. He replaces General Ivan Serov, who has reportedly been demoted and assigned to a relatively unimportant army command in Central Asia.

For at least 20 years, Ivashutin has been a high-ranking official of the secret police (KGB) directorate for "counter-intelligence in the armed forces," a euphemism for the wartime SMERSH ("death of spies") organization. Now also known as the Third Directorate of the KGB, the unit has always acted as the regime's watchdog over the loyalty of the military. Ivashutin headed this directorate from 1953 to 1958 and supervised its work during

his subsequent five years as first deputy chairman of the KGB.

Ivashutin's new appointment suggests that he is being brought in to conduct a security crackdown which could temporarily hamper Moscow's military intelligence collection effort. This sign of Kremlin distrust is likely to lower both the morale and the efficiency of GRU officers, particularly those who regularly deal with foreigners.

At least in the GRU, and perhaps elsewhere in the Defense Ministry, the appointment could also increase the traditional antagonism of the military toward the civilian secret police. Ivashutin is reported to be callous, overbearing, and conceited--traits which are likely to sharpen military resentment of the KGB's authority to keep all levels of the armed forces under surveillance.

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**SINO-SOVIET RELATIONS MAY BE APPROACHING NEW CLIMAX**

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There are growing indications that Soviet leaders are considering convening a new international Communist meeting. They may believe that Peiping's rejection of the nuclear test ban treaty has created a favorable opportunity for exploiting this forum to further discredit and isolate the Chinese.

Publication by Pravda during the past week of appeals by three small Western Communist parties for such a meeting--last convened in 1960--suggests that Moscow will attempt to

rally a great majority of foreign parties in condemning Chinese dogmatism, "splitting activities," and attacks on the Soviet leadership.

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Such a conference could take place in connection with the 7 November anniversary of the Bolshevik revolution, when

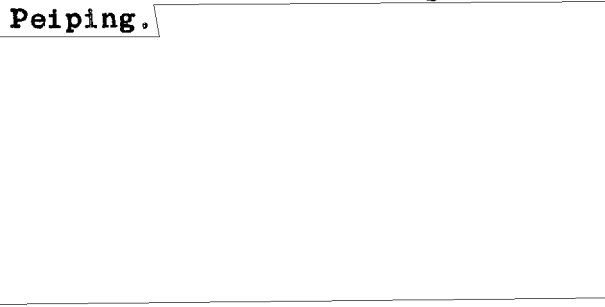
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The Communist World

delegations from almost all Communist parties customarily gather in Moscow. Khrushchev's tactics would probably center on demands for a cessation of open polemics, a ban on interference in the affairs of other parties, and a revision of the 1960 Moscow statement which would label dogmatism rather than "revisionism" the "main danger" to the Communist movement. Moscow's interest in asserting these points has been foreshadowed in a Paraguayan party statement published in Pravda on 30 September, in a speech by Poland's leader Gomulka, and in other documents and statements.

Hints that Moscow now favors a new conference--a departure from its previous reluctance to give the Chinese another forum for vilification--may be designed to pre-empt a Chinese initiative to convene an international meeting in Peiping.

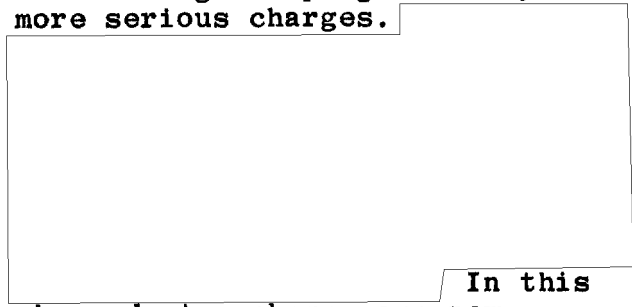


A Soviet decision to proceed with a meeting organized along lines which the Chinese could not accept would indicate that Moscow is deliberately seeking to provoke the Chinese into some action which the USSR

could represent as Peiping's formal voluntary separation from the Communist movement. The Chinese would certainly call into question the legitimacy of such a Soviet-sponsored conference and might convene a rival meeting of their followers in answer.

Peiping in fact appears to be challenging the Soviets to undertake some decisive action which could then be turned against them. The third installment--published 25 September--of China's answer to the 14 July Soviet letter expresses an unrestrained abomination for Khrushchev as a traitor and renegade, and Peiping's promise of more in this series can only mean that more scurrilous language will be used to blacken the Soviet leadership.

For months a major portion of the main Soviet press and almost all of China's news output have been devoted to the exchange of progressively more serious charges.



In this charged atmosphere some new climax appears to be building up and a possible international Communist meeting might provide the occasion for it.

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**COMMUNIST CHINA'S NATIONAL DAY CELEBRATIONS**

For the fourth consecutive year, Communist China's National Day celebrations on 1 October avoided the boasts of military and economic strength which characterized the first ten anniversaries. The Chinese were instead defensive about both domestic and foreign policies and cautious about economic progress and prospects.

Chou En-lai tried to maintain an optimistic tone by claiming that there has been a "trend of general improvement" in the economy since the disaster years of 1959-61. However, he made no comparison between 1963 and 1962. Other propaganda claims of increases in selected sectors of the economy suggest that agricultural and industrial output has risen only slightly during 1963.

Chou promised only that China would eventually overcome its many difficulties. He made the expected assertion that China intends to go it alone, while defensively insisting that it has many friends and is not, as the Soviets charge, isolated. Apparently to underscore this point

Peiping invited 2,000 foreign guests to the celebrations. These were mainly from Asian, African, and Latin American countries and did not include any important figures. Last year there were only 300 foreign guests.

For the fourth year in a row no military parade was held. The colorful civilian rallies were reviewed, as usual, by Mao Tse-tung.

The list of officials with Mao on the rostrum suggests that the number of active leaders may have shrunk recently. Missing were Li Fu-chun and Lo Jung-huan, who had been important and fairly active politburo figures until July, but who have not made public appearances since then. Lo, top political commissar in the army, has a record of illness and may be sick. It is plausible to speculate, however, that Li Fu-chun, the regime's top economic planner, is out of favor because he expressed reservations about the wisdom of Peiping's present autarchical policies.

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The Communist World

**CHINESE COMMUNIST LEADER VISITS NORTH KOREA**

Liu Shao-chi's visit to North Korea from 15 to 27 September was a new Chinese Communist effort to tighten political, military, and economic ties between the two regimes. He apparently failed, however, in his attempts to embroil the Koreans more deeply in the Sino-Soviet struggle.

The communiqué issued on Liu's departure stressed the identity of current political views between Peiping and Pyongyang, specifically including "major questions which have arisen in the international Communist movement." Nevertheless, it was a surprisingly brief document, and avoided any elaboration of the points of Sino-Korean political affinity.

Pyongyang has always been careful to make clear that its espousal of Chinese-favored positions springs from its own analysis of what is

best for Communist interests. For this reason, Pyongyang may have been chary of again officially joining Peiping in a substantive communiqué on the dispute so soon after the strongly anti-Soviet communiqué issued following the June visit of Korean President Choe Yong-kon to China.

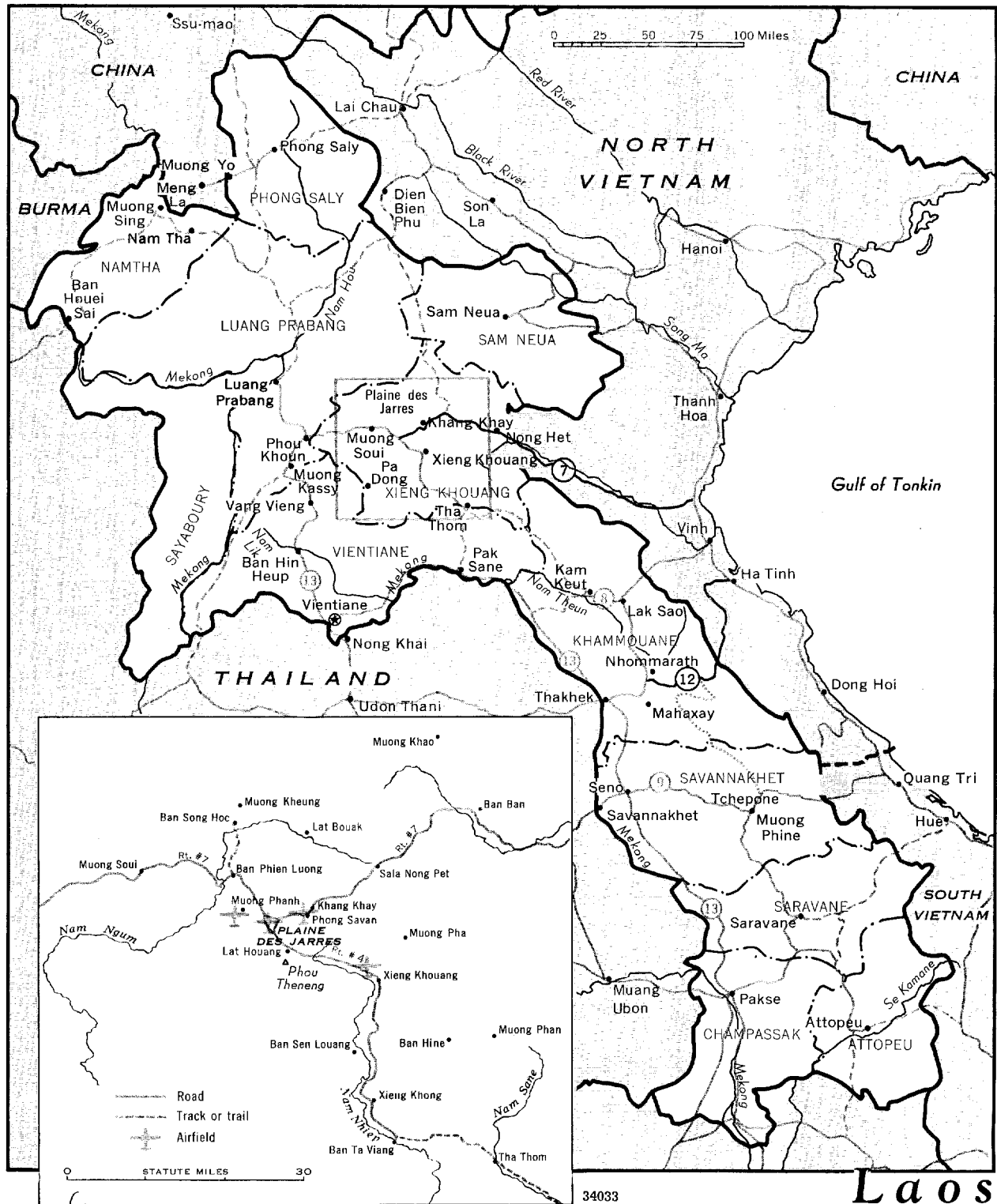
Liu's trip was ostensibly to return that visit. However, the presence of high-ranking military and ideological personnel in Liu's party and of the Chinese minister of foreign trade in Pyongyang the week before Liu's arrival suggests that major substantive matters were on the agenda.

Peiping may have offered new inducements in an effort to stiffen North Korean opposition to the USSR in the Sino-Soviet conflict. Neither regime, however, has given any clue as to what concrete proposals were discussed or what action, if any, was decided upon.

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Asia-Africa

**SITUATION IN SOUTH VIETNAM**

The Diem government is making efforts to redress its image both within and outside South Vietnam and to portray itself as firmly in control. While the National Assembly elections on 27 September provided no true gauge of the government's support, they were conducted with a minimum of Viet Cong harassment and, seemingly, with heavy voter participation.

President Diem's scheduled address to the opening of the new assembly on 7 October may provide a further test of his willingness to carry out his promises to the Buddhists. He may use the occasion to urge swift removal--which he has said must be an assembly act--of a long-standing ordinance which discriminates against Buddhist organizations. Diem made a rela-

tively moderate radiobroadcast on 28 September, urging the country to get on with pressing tasks in the "interest of the entire nation, not the selfish interests of a group or minority."

The level of Viet Cong activity declined slightly last week from the 1963 high recorded the previous week. The number of larger scale Viet Cong attacks in September--3 of battalion and 17 of company size --was the greatest for any month since June 1962. While most of this action occurred in the delta provinces, the northern part of the country also suffered an increased number of attacks, aimed partly at securing rice from the fall harvest.

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**COMMUNISTS INCREASING SUPPLY ACTIVITY IN LAOS**

With the advent of the dry season, Communists forces have resumed large-scale convoy operations into Laos along the recently reopened Route 7. [redacted] indicate a substantial infusion of troops and supplies during the past two weeks. Pathet Lao forces in the Plaine des Jarres area were short of supplies during the monsoon period, particularly since early August when Meo guerrilla units sabotaged the supply route with explosives.

Renewed convoy activity has also been reported in south-central Laos along Route 12, another key resupply route leading from the North Vietnamese border to the Nhommarath-Mahaxay area.

These movements may presage a step-up in Communist military pressure against right-wing and neutralist forces deployed in forward positions. Recent maneuvers

by the Pathet Lao to improve its political position proved fruitless.

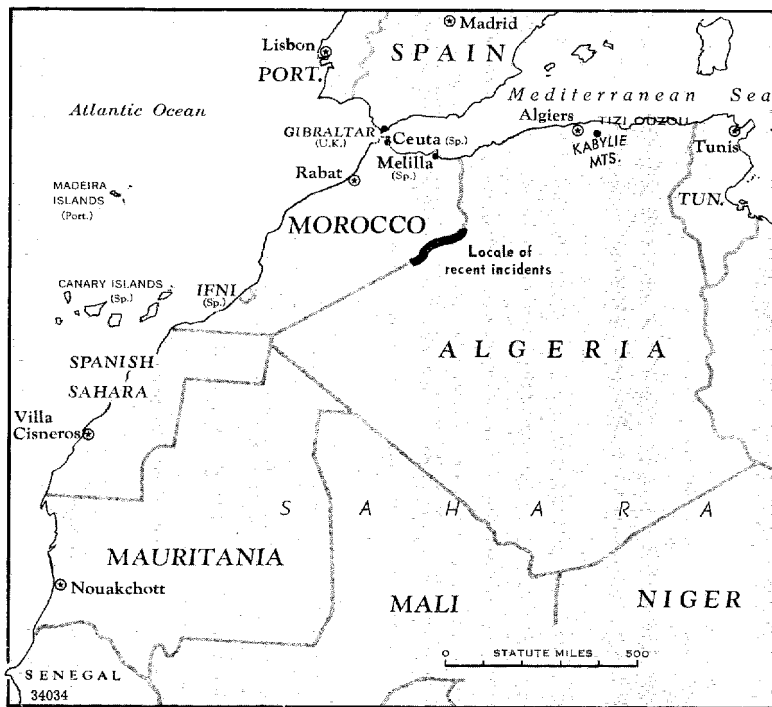
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While neutralist and right-wing forces appear fairly well dug in on the western edge of the Plaine des Jarres, non-Communist forces near Route 8 in the Nhommarath region are disorganized and would probably be unable to hold out against even moderate enemy pressures.

Premier Souvanna, following his recent address to the UN General Assembly and talks with Presidents Kennedy and De Gaulle, plans visits to Britain and the USSR--coguarantors of the Geneva agreements on Laos--before returning to Vientiane later this month. Souvanna's neutralist military chief, Kong Le, is also scheduled to return to Laos this month following a two-month stay in the Soviet Union.

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Asia-Africa

**CHALLENGE TO BEN BELLA REGIME IN ALGERIA**

Ahmed Ben Bella, who on 20 September began a five-year term as Algeria's first President, is faced with the most direct challenge to his authoritarian control since he bested his opponents in the struggle for power last year. He seems to have sufficient military and police strength to contain the Berber dissidents who staged a public rally in Tizi Ouzou on 29 September to demand the formation of a new Algerian government. However, the boldness of the Berbers' action could encourage manifestations of opposition to Ben Bella in other chronically depressed areas.

The rally was attended by some 4,000 Berbers of the Kabylie region and apparently was organized by Hocine Ait Ahmed, one of the original leaders of the Algerian rebellion and long a fellow prisoner with Ben Bella. Ait Ahmed broke with him in 1962 and now wants to re-establish the collegial leadership that prevailed in the rebel movement before its victory.

Ait Ahmed is backed by Col. Mohand ou el Hadj, whom Ben Bella has relieved of command of the Seventh Military Region, of which Tizi Ouzou is the center. He may also have the backing of Belkacem Krim, also a Berber and another of the original rebel leaders. Krim's recent arrival in Morocco probably inspired Ben Bella's

charge that the Moroccans are supporting the Berbers by creating incidents along Algeria's western border.

Ou el Hadj's immediate subordinates support Ben Bella. The colonel, however, has rallied a reported 3,000 of his former troops--nearly the full complement of his command, which was organized in nine infantry battalions armed with artillery and heavy mortars. Most of the men in these forces were local guerrillas whom Ou el Hadj commanded during the seven-year rebellion. They are believed to be fit, alert, and more effective than the average Algerian soldier. They could defend the mountainous Kabylie indefinitely but would be incapable of advancing on Algiers.

Ou el Hadj may have allied himself with Ait Ahmed in reaction to recent command changes imposed by Algiers. Some subordinate officers were transferred and a number of ex-guerrilla companies were replaced by Algerian Army regulars in an attempt to bring the Seventh Military Region more under Algiers' control and to reduce Ou el Hadj's independence of action. The government is using similar tactics in other areas where loyalty is doubtful, and it may face similar reactions if its action is not rapid and effective.

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Asia-Africa

**CONGO PRESIDENT DISMISSES PARLIAMENT**

The dispute between the Congo's government and parliament over the latter's refusal to restrict itself to constitution making ended abruptly on 29 September when President Kasavubu prorogued the legislature. He charged the deputies and senators with "default" of their responsibilities and said a special constitutional commission, from which they would be excluded, would be named to draft the constitution. The decision was made by Kasavubu, Premier Adoula, and army chief General Mobutu, and was carried out smoothly.

Adoula and Mobutu appear confident they can make the move stick, and they seem determined to deal vigorously with any attempts by the opposition to incite new disorders. Adoula told Ambassador Gullion that he had lost patience because parliament had spent its time trying to attack the government, incite insurrection, and mount intrigues. He said he would cut parliamentary salaries to "subsistence" and would govern by decree until the constitution was promulgated; elections would follow "immediately" after a constitutional referendum.

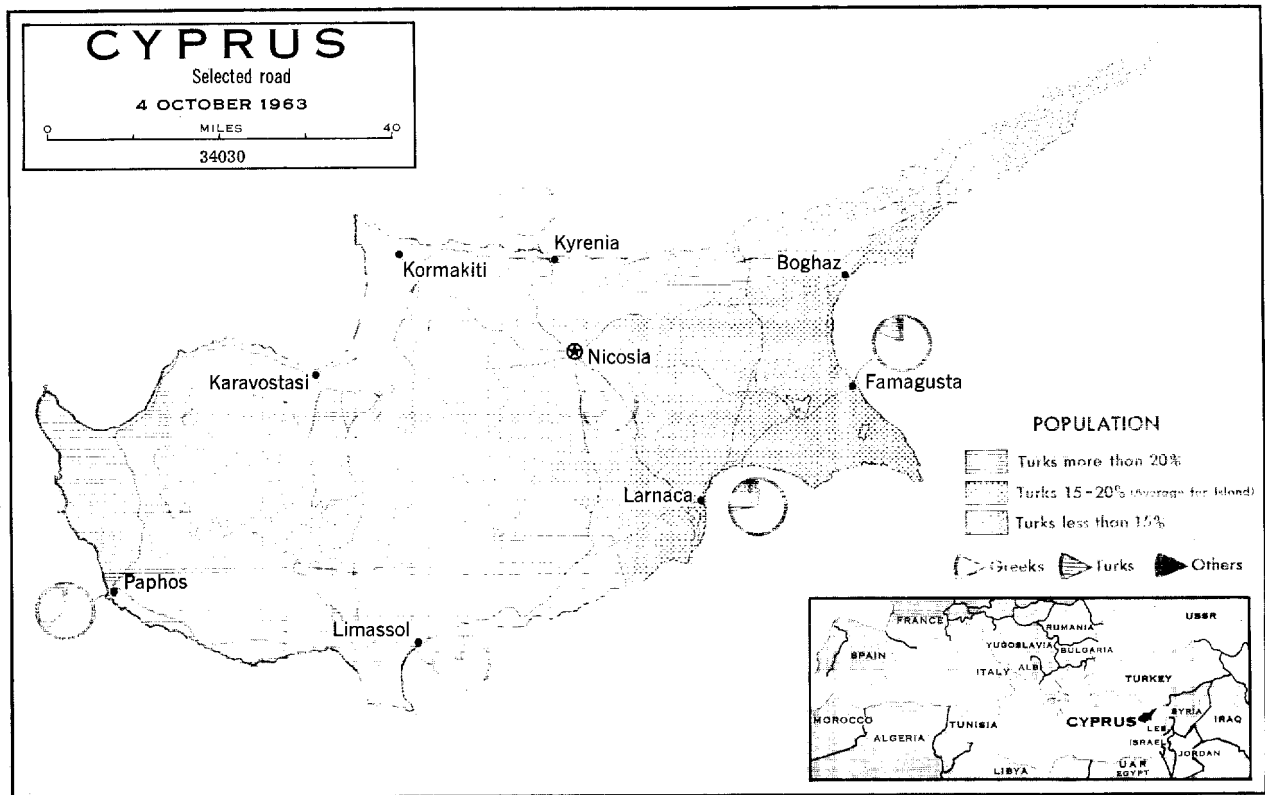
One immediate reason for the move appears to have been recent antigovernment activity by the Lumumbist and Gizengist

factions. In mid-September, the government uncovered a plot to free leftist Antoine Gizenga from his island prison of Boulabemba, where he has been since January 1962. Gizenga's former representative in Cairo, Pierre Mulele, reappeared in the Congo in mid-September to organize the plot. On 25 to 27 September, Lumumbist and Gizengist party leaders staged "free Gizenga" demonstrations in Leopoldville, alleging that Gizenga was seriously ill or dead. Gizenga reportedly had been on a partial hunger strike since 17 September; he was found to be in satisfactory condition by a team of doctors on 24 September and is said to have resumed eating.

The government may also have believed that this was a propitious time to crack down on the opposition. Besides constitution building, it is looking ahead to parliamentary elections next year. Both pro- and anti-Adoula forces are endeavoring to build "national" parties out of the profusion of factions, and the present leadership is particularly eager to keep a tight hold on the government apparatus during this period.

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Asia-Africa

**CYPRUS HEADING INTO NEW CONFLICTS**

There is growing danger that Greek and Turkish Cypriots will again turn to violence in their chronic communal disputes. Leaders of both communities openly admit that they expect armed clashes "sooner or later."

President Makarios continues to call for revision of the Cypriot constitution, abrogation of a treaty with Britain, Turkey, and Greece, and removal of Greek and Turkish troops stationed on Cyprus at the time of independence. He terms "harmful" or "unworkable" constitutional provisions which grant to the Turkish minority the right to veto certain legislation, to have its own municipal governments, and to hold a specific proportion of civil service jobs.

Makarios wants to change a treaty calling for the Turkish and Greek troops and to abrogate outright one permitting Greece, Turkey, and Britain to intervene jointly or unilaterally to prevent violation of the 1959 agreements. These provisions Makarios now calls an "unacceptable infringement of sovereignty." Should he be rebuffed by Ankara, Athens, and London in his effort to alter the settlement, as he probably will be, he has indicated that he will act unilaterally.

Vice President Kuchuk, a Turkish Cypriot, recently told

the American ambassador of his extreme pessimism over the possibility of any agreement between himself and Makarios. He warns that if the Greek Cypriots attempt a unilateral revision of the constitution, the result will be ignored by his community. Turkish Cypriot leaders view the present document as their best guarantee against eventual Greek domination. Kuchuk, for the first time since 1958, has privately voiced the opinion that the only answer to the present impasse may be either to partition the island or to exchange populations--the Turkish Cypriots in Cyprus for the Greeks still resident in Turkey.

The large and well-organized Communist party (AKEL), meanwhile, stands to profit from Greek frustrations, Turkish fears, and the probable development of a controversy among three NATO partners. While Makarios maintains cordial relations with AKEL, some other Greek Cypriot leaders are becoming concerned by recent Communist gains. As long as the communal dispute remains the major issue on Cyprus, however, it appears unlikely that any anti-Communist campaign will be likely to generate much interest or support among Greek Cypriots.

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Europe

**RESULTS OF RECENT EEC COUNCIL MEETING**

At its 23-26 September meeting, the Common Market Council of Ministers took up a number of long-standing issues, including the poultry dispute with the US, relations with the USSR, and the proposed merger of the EEC with EURATOM and the Coal-Steel Community (CSC).

By offering a reduction of only 1.3 cents per pound in the poultry levy--and this conditional on US relinquishment of further negotiating rights--the council dimmed hopes for any early settlement of this issue. The US had previously made it clear that even an unconditional reduction of this size would be unacceptable. Although EEC spokesmen have since urged the US to participate in further bilateral talks, they have in fact held out little prospect that a compromise can be reached. Nor have they been responsive to US proposals that GATT be asked to pronounce on the size of any "compensatory withdrawal" of tariff concessions the US would be justified in making.

EEC Commission officials continue to express grave concern over the "political effects" of the poultry dispute on US-EEC relations, particularly with reference to the forthcoming "Kennedy Round" of tariff talks. Although the EEC appears to be slowly approaching a single position on how tariffs on industrial items should be reduced, no such agreement on agricultural trade is in sight.

As for EEC-USSR relations, the Council decided to offer Moscow Community-wide tariff concessions on three export items of some importance to the USSR. In return, the EEC requested Soviet abandonment of past claims for most-favored-nation treatment from EEC members individually and--in effect--tacit recognition of the Community as a trading unit. There is considerable doubt that the USSR will accept the offer--which, in the opinion of some EEC officials, would be a step toward the Community's adoption of a common commercial policy toward the bloc, perhaps leading ultimately to a single trade agreement between the EEC and the USSR.

The Council also called for a report by the end of 1963 on proposals for a fusion of the executives and the councils of EEC, CSC, and EURATOM. This report in itself will be only one of the preliminaries to moves toward future merger of the three communities, but Community sources believe it will lead to some useful rationalization of the Community institutional structure in the meantime. The question of bringing all the Community institutions into a single European "capital" is still a very delicate one, and any thoroughgoing merger would reopen the three Community treaties to amendments--including those designed to trim away supranational powers.

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Europe

**THE FRENCH NUCLEAR SUBMARINE PROGRAM**

The French Navy continues to give highest priority to the design and construction of a nuclear-powered, Polaris-type submarine, a project absorbing over half of the Navy's 1963-64 research and development funds. Despite public claims that the first submarine will be available in 1969 or before, delays in the development of some components make it unlikely that the first nuclear unit can be deployed on station before 1971.

Construction of a land-based, prototype nuclear propulsion plant for the submarine is encountering some delays. Its reactor was to have been operating by the middle of this year, but production of some of the reactor components was slowed by a serious fire at one of the plants late last year and it now appears that the reactor will not become operative until early in 1964. No major problems are reported on the construction of heat exchangers, turbines, or reduction gearing.

A hull begun in 1957, and originally intended for the first French nuclear submarine, is now being equipped with a conventional diesel power plant, and will be used as an experimental missile test platform. Work is being completed on a center section for this hull

containing at least four and perhaps eight launching tubes. This boat will probably be launched next year, but the test missiles are not likely to be available until 1965 or 1966, which will in consequence delay underwater testing of missiles and guidance systems.

France is also evidently making adequate progress in developing a two-stage, solid-fuel missile with a 1,000- to 1,500-mile range. A series of tests of solid-fuel rockets planned for the next two years --using some components of this military missile--will provide additional information for the military program. Although early French guidance systems are likely to be inaccurate by US standards, they will probably be sufficient for the oft-stated French goal of a weapons system for use against population centers,

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progress with warhead miniaturization can be assumed, all components of the weapons system can be available and an operational submarine can be at sea in 1970. About a year more would probably be required for sea trials before the first submarine went on station. Current French plans call for the production of three nuclear submarines, each with 16 missiles.

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Europe

**THREATS TO ITALIAN ECONOMIC STABILITY**

Although business in general is booming in Italy, prices are steadily rising, and the balance-of-payments problem has become grave. The modest austerity program which caretaker Premier Leone has presented to Parliament will probably be inadequate to stabilize the situation, and it may also complicate the already delicate problem of forming a center-left coalition.

The cost of living has risen about 8 percent in the past year, with price indexes going up faster in the first half of 1963 than during the comparable period of 1962. The average take-home pay of Italian workers is still considerably lower than in the other EEC countries, however, and organized labor is pressing for additional wage increases. Since there is a shortage of labor in several fields, and unemployment is low--about 2.5 percent of the labor force--the unions are in a strong bargaining position.

The wage-price spiral is weakening the competitive position of Italy's export sector, which in recent years has been a main contributor to the country's rapid economic growth. The expanded imports the government has encouraged to hold prices down helped wipe out Italy's customary balance-of-payments surplus last year, and this year the payments deficit may well reach one billion dollars. This is causing increasing concern on the part of central bank authorities, although official reserves

of about \$3.5 billion are large enough to cope with the situation for the present.

The measures proposed to Parliament last month are designed to reduce the balance-of-payments deficit, curb inflation, increase productivity and restrict certain types of consumption. They entail a 10-percent cut in the budget deficit, tax inducements for modernization of factories, more low-cost housing construction, and increases in sales taxes on luxury goods.

These measures are much less extensive than informed observers had expected, however, and their impact on the economy is not likely to be decisive. The Christian Democrats look to the Socialists for eventual participation in a center-left coalition--a consideration which inhibits the Leone government from pressing for really effective restraints on wages. Even now, the Socialists are taking the line that the Leone government's program favors the wealthy class and fails to meet the needs of workers and farmers.

Italian conservatives blame the country's economic problems on the policies of the previous Fanfani center-left government, and warn that another government like it would injure the economy still more. These conservative interests are certain to try to exploit economic strains in an effort to scuttle negotiations aimed at reconstituting a center-left coalition.

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Europe

**GREECE PREPARES FOR PARLIAMENTARY ELECTIONS**

A major step toward resolving Greece's three-month-old political crisis has been taken with King Paul's acceptance of Prime Minister Pipinelis' resignation. This was a major concession to the largest opposition party, the non-Communist Center Union (EK), which threatened "militant abstention" if elections were carried out by the Pipinelis government.

The new caretaker government, which will preside over general elections on 3 November, is headed by the president of the Supreme Court, Stylianos Mavromichalis, and consists entirely of nonpolitical figures. Its installation opens the way for all three major parties to participate in the elections--the right-of-center National Radical Union (ERE), under former Premier Constantine Karamanlis; the EK, under George Papandreou; the right-wing Progressives, under Spyros Markozinis; and the Communist-dominated United Democratic Left (EDA) under John Passalides.

Since the disputed election of 1961, Greek politics have been unusually bitter, and the opposition parties have frequently refused even to participate in parliamentary sessions. Last June, Karamanlis suddenly resigned after a dispute with the King over a proposed royal visit to Britain. While relations between the royal family and Karamanlis had become increasingly strained, he may have seized on the dispute as an opportunity to clear the political atmosphere.

Karamanlis and the King agreed on career diplomat Pipinelis as the interim prime minister to conduct elections. However, Pipinelis, a member of ERE and a minister in the last Karamanlis government, was immediately attacked by the EK and other opposition parties as not really neutral. Eventually, even part of the ERE press called for a completely nonpolitical figure. Both Karamanlis and the King are known to feel that an election without EK participation would be meaningless and would intensify political instability.

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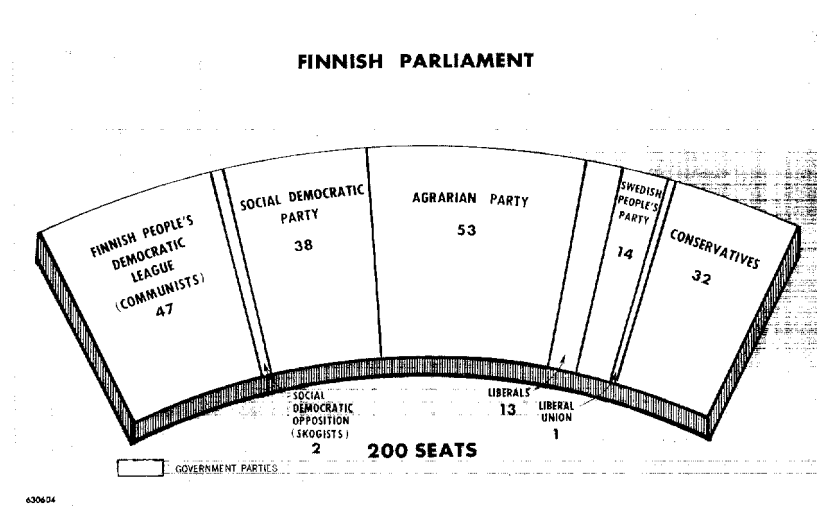
[redacted] Karamanlis remains the most popular figure in Greece, and most observers predict another electoral victory for the ERE. The party may lose some of the 180 seats that it has held in the 300-member parliament, since the provisions of the new electoral law and normal popular disenchantment with any party in power for eight years would tend to work against it.

Leadership of the EK is badly split, but the success of Papandreou's "unrelenting struggle" to force new elections may attract enough support to increase its representation.

The EDA suffered a major defeat in 1961, when its share of the popular vote fell to 15 percent from nearly 25 percent in the previous election. This year the Communist-dominated party appears to be in a good position to make at least a partial comeback. The security services are not harassing EDA members anywhere near as much as before, and there are continuing economic problems on which it can capitalize.

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Europe

**FINLAND'S CABINET CRISIS DRAGS ON**

Efforts to resolve Finland's month-old cabinet crisis continue to founder on the insistence by President Kekkonen's dominant Agrarian Party that representatives of one of the two rival trade union federations be included in any new government.

A number of non-Communist leaders have been trying to assemble a new coalition since 30 August, when Prime Minister Karjalainen and his coalition cabinet resigned after its three extra-parliamentary representatives of labor withdrew in a dispute over economic policy. The four non-Communist parties which made up the coalition are in general agreement on policy, but the Agrarians' insistence on including labor has proved to be the principal obstacle.

The problem of labor representation is complicated not only by the political rivalry between the Social Democrats and their left-wing splinter--the so-called Skogists--but also by the parallel split in union ranks which has resulted in the formation of two separate trade union federations. The previous government secured "labor representation" by assigning three cabinet posts to individuals identified with the trade union federation controlled by the Skogists and Communists. Kekkonen and the Agrarians continue to shun all cooperation with the Social Democrats on grounds that they do not support Finland's official policy of friendship with the Soviet Union.

The Agrarians, as the party closest to Kekkonen and commanding the largest bloc of seats in parliament, have played the principal role in the maneuvering to form a new government. The insistence by the Agrarians on labor's participation reflects not only their wish to broaden their base of support, but also their reluctance to bear the onus of the unpopular economic decisions the new government may be compelled to make in the coming months.

Kekkonen has thus far avoided intervening directly in the crisis, except for his recent proposal that an all-party government, including the Communists, be formed. This proposal was promptly dismissed by the non-Communist parties, including the Agrarian leadership, which is well aware that such a development would split their own party. Now that all practical possibilities for resolving the crisis have been explored without success, the stage would appear to be set for more decisive intervention by Kekkonen within the limits imposed by the realities of Finland's domestic political situation. His immediate objective is likely to be the reconstitution of Karjalainen's majority coalition, including the labor representatives, but if this fails his only alternatives would be a four-party coalition without labor or a nonpolitical cabinet of civil servants.

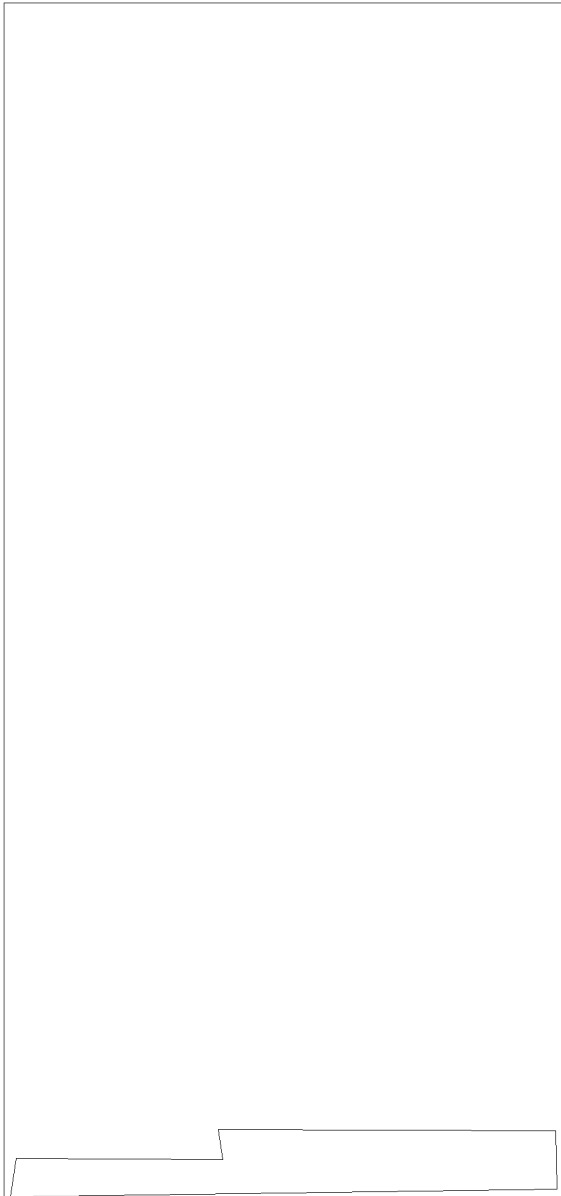
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Europe

AREA NOTES



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Spain: Although the recently agreed five-year extension of the 1953 US bases agreement gives Spain a considerably smaller quid pro quo than it had been hoping for, Franco is reported by the US Embassy to be "extremely pleased." The emphasis in the joint declaration on the "close working relationship" between Spain and the US seems to have satisfied Madrid's desire to gain international respectability through a "political" commitment from the US.

The negotiations on stationing Polaris submarines

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**Europe**

under direct US command at the Rota naval base have not been completed. In December 1962 Vice President Munoz Grandes had authorized their berthing, subject to further talks on the safety and liability factors involved. Unless the Spaniards resort to delaying tactics, these talks should

be completed in time to accommodate the first of the submarines, the Proteus, early next year. The Spanish Government still refuses to allow any NATO-assigned submarines to be berthed there.

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**Western Hemisphere**

**CONTINUED DOMINICAN POLITICAL INSTABILITY LIKELY**

With an eye toward early resumption of relations with the US and key Latin American countries, the new Dominican regime is working hard to win acceptance as a responsible civilian government free from military pressure or political partisanship.

Several hundred Dominicans arrested in the wake of the 25 September military coup have been released, and the pro-Castro, Communist-infiltrated 14th of June Political Group (APCJ)--the only extreme leftist party with a significant popular following--has been at least temporarily excluded from the government's ban on Castro-Communist parties. No serious antigovernment violence has occurred so far

Despite the government's announced intention to undertake immediate economic reforms, US Embassy officials in Santo Domingo foresee continued political maneuvering and personal corruption emanating from certain new cabinet members and military leaders--actions which could undermine the apparently well-intentioned efforts of the ruling triumvirate. Several of the new rightist cabinet members are best known for their political and personal opportunism, and certain military leaders, including the air force and navy commanders, will probably continue with their profiteering, barring a crackdown by their colleagues.

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Western Hemisphere

**MILITARY COUP IN HONDURAS**

Colonel Oswaldo Lopez, chief of the Honduran armed forces, led forces under his command in a coup early on 3 October. The move was made despite strong pressures by US diplomatic and military officials in Honduras to persuade him and President Villeda to guarantee the continuation of constitutional government and the holding of orderly elections on 13 October.

Early indications were that the coup involved some violence in Tegucigalpa, the capital. Chances of widespread disorders and civil strife had not been ruled out by midmorning, when it was still not clear how far the Villeda government and the ruling Liberal Party's presidential candidate, Modesto Rodas Alvarado, would go in trying to rally their own armed supporters to oppose the military.

The revolt in effect is aimed at preventing the election of Rodas on 13 October. Although Lopez has expected some armed resistance by Rodas' Liberal supporters, he is said to believe he can control the situation. There is evidence that he has solicited support from Nicaragua and El Salvador and that he expects to receive immediate recognition from them as well as from the Peralta military regime in Guatemala.

Lopez, who has been under heavy pressure from some of his subordinates to act, stated before the coup that it had the full support of the armed forces, who favor the opposition Nationalist Party. The military feared that Rodas would curtail the influence of the army and build up the power of the Civil Guard, which is in effect the military arm of the Liberal

Party. The tension between the military and Rodas has been fostered by the candidate himself, who remained aloof from high ranking officers and refused to clarify his intentions toward the military.

A forceful politician who has not displayed a tendency to compromise, Rodas is believed to have favored resisting a coup. In a conversation with US Ambassador Burrows on 30 September, he said the Liberal Party would prepare to oppose the army. There have been recent reports that arms are being distributed to Liberal Party followers.

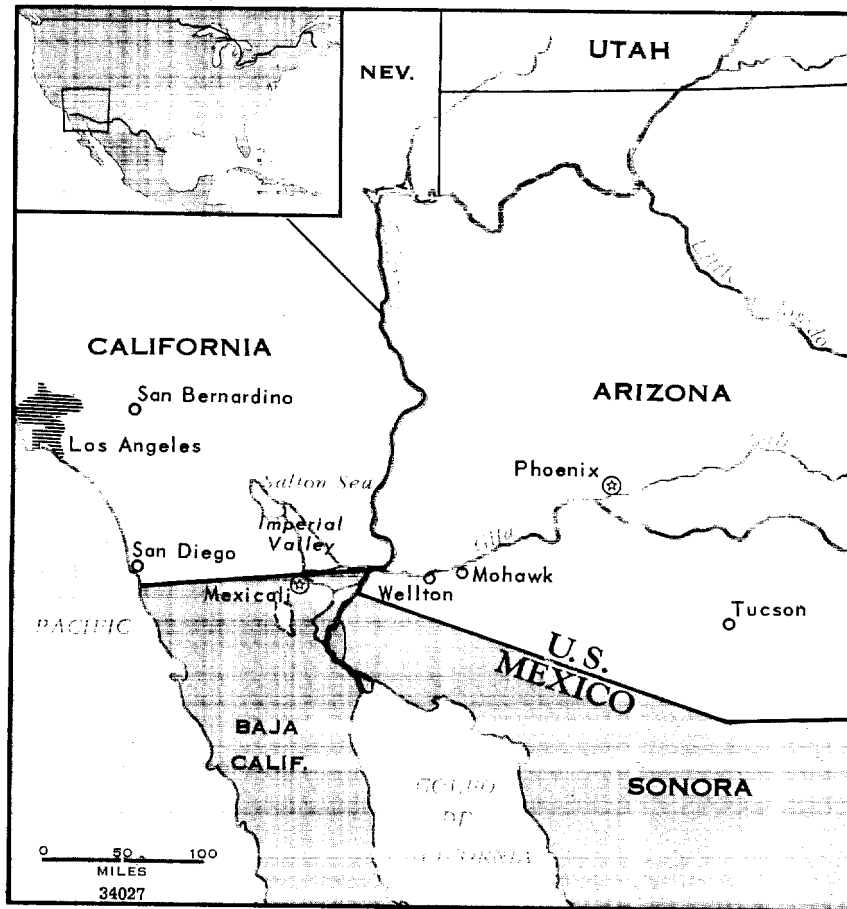
The strong emotional partisanship of both Liberals and Nationalists, the availability of arms to both sides, and the political involvement of the military and the Civil Guard could bring further violence. Military leaders probably will try to justify their coup on the basis of their constitutional duty to guarantee free and orderly elections. They might also attempt to vindicate themselves by charging that the government was penetrated by Communists.

Nicaraguan President Rene Schick admitted to US Ambassador Brown on 1 October that, although General Anastasio Somoza had previously indicated a desire to support a Honduran military coup, the Nicaraguan Government had decided not to assist in any way. Julio Rivera, President of El Salvador, also indicated that his government would not encourage the Honduran military. On 3 October, Schick told Brown he would issue a statement deploring the coup and offered his cooperation with the US.

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Western Hemisphere

**COLORADO RIVER PROBLEM AFFECTS MEXICAN POLITICS**

The Mexican Government may initiate some form of legal action against the US unless there is an immediate solution to the problem of the Colorado River's excessive salinity when it reaches Mexico. The onset of the dry season in the Mexican State affected--Baja California--in October produces peak demand for irrigation water, and President Lopez Mateos and other senior officials have recently been emphasizing that they believe the US is committed to measures this fall to lower the Colorado's salinity to acceptable levels. In addition to its concern over this year's severe reduction in crop acreage, the Lopez Mateos administration is also anxious about political repercussions.

In commenting on the Mexican attitude, the US Embassy at Mexico City states that in the absence of a prompt solution to the salinity problem, Lopez Mateos may feel compelled by domestic pressures to seek a remedy in the International Court of Justice, or in a US federal court. Mexico might also enter a complaint in the Organization of American States or the UN that its riparian rights have been injured by the US. In any event, the resulting publicity would, in the embassy's opinion, cause a sharp deterioration in US-Mexican relations. The embassy also believes that Mexico's case in any court would be a strong one.

The government is evidently trying to keep a rein on public

emotions surrounding the issue, which are potentially explosive, and has clamped a tight lid on public discussion of the situation. Its motive in doing this probably is related to plans for the selection by November of the ruling party's next presidential candidate. Lopez Mateos probably fears that influential pro-Communists like former President Cardenas and former Baja California governor Maldonado will exploit public indignation over the Colorado to demand a hand in making the nomination, which in Mexico is tantamount to election.

It is also possible that Lopez Mateos' own apprehension over any increase in peasant unrest caused by the water dispute might lead him to choose a leftist successor. Although at present he seems to favor the selection of a moderate, he has long tended to overestimate the actual influence of the far left in Mexico. He might be persuaded that a leftist would be in a better position to defend Mexico's interests before world opinion in pursuing the Colorado case.

The situation also carries the threat of a new effort by Communist-led political and labor groups to attract peasant support and develop their assets in Baja California, already better organized than in the rest of Mexico.

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Western Hemisphere

**THE NEW ARGENTINE GOVERNMENT PARTY**

While Argentine President-elect Illia appears to be a cautious and moderate politician, many members of his party--the People's Radical Civic Union (UCRP)--harbor some highly parochial and uninformed attitudes on key issues.

The UCRP, slightly left of center, is out of touch with many present-day realities, partly because it has been in opposition for so long. For the same reason it lacks men with the experience and knowledge necessary to cope with Argentina's complex economic and political problems. Illia himself has a keen political sense and will give the party stronger leadership than it has had in the past, but he too lacks executive experience on the national scene. For the last 25 years he has been a practicing physician in a small railroad town in central Cordoba Province.

Dr. Julio Cueto Rua, a Conservative Party leader, journalist, and former professor of law in the United States, has expressed concern to US officials in this regard. He is one of a number of well-informed Argentines undertaking an "educational campaign" designed to break down some of the traditional suspicions and misconceptions prevalent in the UCRP. The Conservatives were among the diverse political parties--including neo-Peronists and Socialists--which supported Illia in the electoral college after his party won a plurality in the 7 July elections.

Cueto Rua is particularly concerned that the Illia government will annul contracts with US petroleum companies and the Investment Guaranty Agreement, which the UCRP campaign platform promised to change. He foresees strong pressures on Illia from extreme nationalists and leftists both inside and outside the UCRP, who insist that Illia must uphold the platform.

Because Illia is likely to find it hard to resist these pressures without support from outside the UCRP, Cueto Rua and other center-oriented leaders are discussing how such support can be provided. Cueto Rua has urged that the US show patience and forbearance in dealing with the new government, which he believes is made up of honest and highly motivated men dedicated to democratic principles.



Despite its lack of experience and small plurality of 26 percent of the national vote, the UCRP is firmly based both at the national level and in most of Argentina's 22 provinces. It controls the administration of the federal capital and the governorships of 13 provinces in which more than 80 percent of Argentina's population lives. Its 72 seats in the 192-member Chamber of Deputies constitute by far the largest bloc among the 24 parties represented there. In the senate, the more important congressional body, the UCRP has 23 of 46 seats, and will probably gain an absolute majority in a special election for one remaining seat on 5 October.

ILLIA

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