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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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Contents

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Page

FAR EAST

THE WEEK IN PERSPECTIVE	1
Vietnam-Cambodia, COSVN, Buddhists	2
Communists Grab Much of Cambodia's Northeast	5
Asian Nations Meet in Djakarta to Discuss Cambodia	6
Peking Postpones Warsaw Meeting	7
Communists Keep up Pressure in South, Hold Off in North Laos	8
Marcos Switches to More Amicable Relations With US	9
Peking's Party Building Efforts Drag On	10

EUROPE

THE WEEK IN PERSPECTIVE	11
Moscow to Keep Presence in Phnom Penh	12
Eastern Europe Cautious in Response to Bonn's Overtures	13
Eastern Europeans Worry About Relations With US	13
Agricultural Prospects Dim in Eastern Europe	14
Soviets Seeking Warsaw Pact Support Against China	15

SECRET

SECRET

Franco-British Concorde SST Soon to Fly Mach Two 16

Finns Resort to Nonpartisan Government as Stopgap 17

Labor Agitation Tests Italian Government 18

POLICIES OF THE NEW SPANISH CABINET

[Redacted]

MIDDLE EAST - AFRICA

THE WEEK IN PERSPECTIVE 19

Israeli Military Ripostes Batter Arabs 20

[Redacted]

Iran Faces Slower Economic Growth 23

[Redacted]

Moderates Have Edge in Ceylon's Parliamentary Elections 24

WESTERN HEMISPHERE

THE WEEK IN PERSPECTIVE 25

[Redacted]

Chilean Presidential Campaign Swings Into High Gear 26

Ecuadorian Government and Business Battle Over New Taxes 27

Dominican Elections Strengthen President's Control 28

Castro Blasts US, Admits Sugar Harvest Defeat 29

SECRET

25X1

25X1

25X6

25X1

SECRET

FAR EAST

The conflict in Indochina widened and deepened this week. Communist forces in Cambodia solidified their control over most of the northeastern provinces as they moved to keep open existing supply routes and establish new, more protected ones farther inland. The Cambodian Army is receiving considerable help from South Vietnamese forces in the border areas and in the southeast. This assistance may continue for some time, but it is not without its drawbacks. Traditional animosities between the two peoples have quickly cropped up with reports that South Vietnamese troops are engaged in looting, rape, and even murder in some areas. At least some South Vietnamese leaders welcome this opportunity to gain power over their weakened neighbor.

In South Vietnam, Communist forces have sharply increased harassing attacks, and the evidence indicates that similar waves of limited attacks will extend through the summer. The Communists continue to demonstrate that, despite the attacks on their sanctuaries and the relocation of major elements of their command structure farther inland in Cambodia, they retain the ability to conduct disruptive raids at times and places of their choosing.

The situation in northern Laos is relatively quiet, and although the Communists remain in strength within striking distance of the Meo tribal stronghold at Long Tieng, there are signs they may be content to hold firmly onto the Plaine des Jarres rather than conduct further offensive activity during the next few weeks. In the south, however, Pathet Lao and North Vietnamese forces are continuing to exert pressure on government positions around the Bolovens Plateau and can take the provincial capital of Saravane any time they choose.

The Communist Chinese have been steadily reiterating their tough position on Indochina. They recently gave an extremely warm welcome to Vietnamese party chief Le Duan, and a statement by Mao Tse-tung on 20 May stressing the "protracted war" theme was repeated the next day at a massive Peking rally in support of Sihanouk. The Chinese emphasized their militance by canceling this week's session of the Sino-US talks in Warsaw.

On the somewhat brighter side, President Marcos of the Philippines has decided that his policy of encouraging anti-US activity is not paying off, particularly after the US ambassador pointed out to him the value of US bases to Philippine and regional security. As a result, Marcos has ordered Philippine officials to reduce the irritations arising from the lawless conditions that surround US bases and stepped hard on a Filipino congressman who was trying to get a US base commander declared persona non grata.

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Vietnam-Cambodia, COSVN, ~~Buddhists~~

~~Saigon Seeks Wider Role in Cambodia~~

The South Vietnamese are broadening their military activities in Cambodia, and there are signs that the intervention may be prolonged. Both President Thieu and Vice President Ky have called for attacks against the Communists in Cambodia as long as those forces threaten the security of South Vietnam. They acknowledge that arrangements for such operations must be worked out with Phnom Penh but appear confident that this can be done without serious difficulty. Phnom Penh's acceptance of the extensive South Vietnamese operations along the main Saigon - Phnom Penh highway and more recently in the southeastern provinces of Cambodia is likely to bolster this belief.

President Thieu has been trying cautiously to improve communications with the Lon Nol regime ever since the March coup. Despite longstanding animosities between the Vietnamese and Cambodians, progress has been made and the two countries probably will renew full diplomatic relations and exchange missions in the very near future.

If the South Vietnamese and Cambodians are to develop an effective working relationship in a common fight against the Communists, however, many more obstacles will have to be overcome. Friction and mutual resentment between South Vietnamese and Cambodian officials already have cropped up in Phnom Penh and in the field along the border.

Top leaders on both sides are trying to smooth over the problems, but if traditional antagonisms are to be kept in check, Saigon probably will have to take pains to assure the Cambodians that South Vietnamese objectives in Cambodia are limited. Right now, with Communist forces threatening on many Cambodian fronts, the Lon Nol government probably will accept any assistance Saigon can give, whatever reservations it may harbor regarding South Vietnam's longer term intentions.

For its part, Saigon does not have a free hand to help Cambodia, in part because of widespread hostility in South Vietnam toward the government in Phnom Penh. Students, some Saigon newspapers, and opposition politicians have vigorously criticized the Lon Nol regime for its rough treatment of Vietnamese in Cambodia and the Thieu government for soft pedaling the issue. Thieu has, in fact, been glossing over reports of mistreatment of Vietnamese in Cambodia and stressing the need for a joint effort against the Communists.

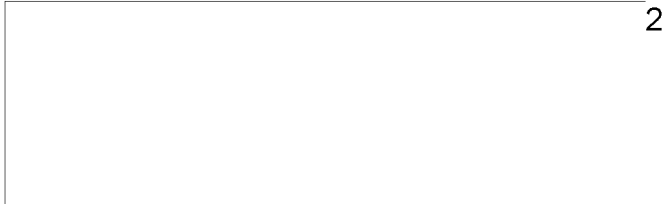
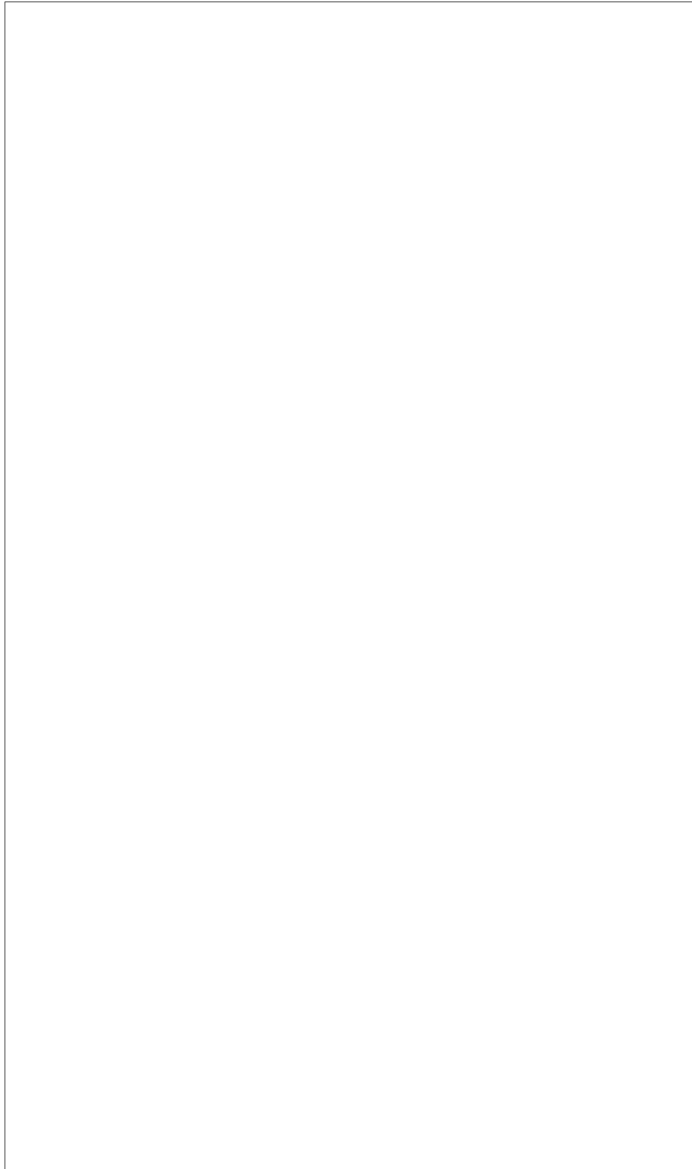
~~Buddhist Problem Simmers~~

The Thieu government encountered only low-key protest activity this week from students and veterans, but it may be facing more trouble from the country's contentious Buddhist organizations. The two principal rival factions are both suffering from internal disagreements, and one of them, the officially recognized Quoc Tu sect, is now threatening to disband.

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COSVN Moves Out of the Way

Important elements of the Communists' top command—COSVN—have been relocating to an area of Cambodia some 20-25 miles north of South Vietnam's Tay Ninh Province border. The assembly of several high-level staffs well away from the border represents an effort to regroup, at least temporarily, beyond the 21.7-mile limit set for US forces.

Captured documents and defectors affirm that several enemy base camps have been overrun. One complex, less than five miles north of Tay Ninh Province, reportedly was evacuated by a 1,000-man staff upon receipt of a seven-hour advance warning of a B-52 raid. The seizure of a large quantity of important documents by US soldiers strongly suggests another important base had been uncovered.

In South Vietnam, the Communists sharply increased harassing attacks in the I and IV Corps regions during the week, but enemy ground forces continue to operate in small units. Captured documents [redacted] indicate that the enemy plans to carry out similar waves of limited attacks throughout the summer. [redacted]

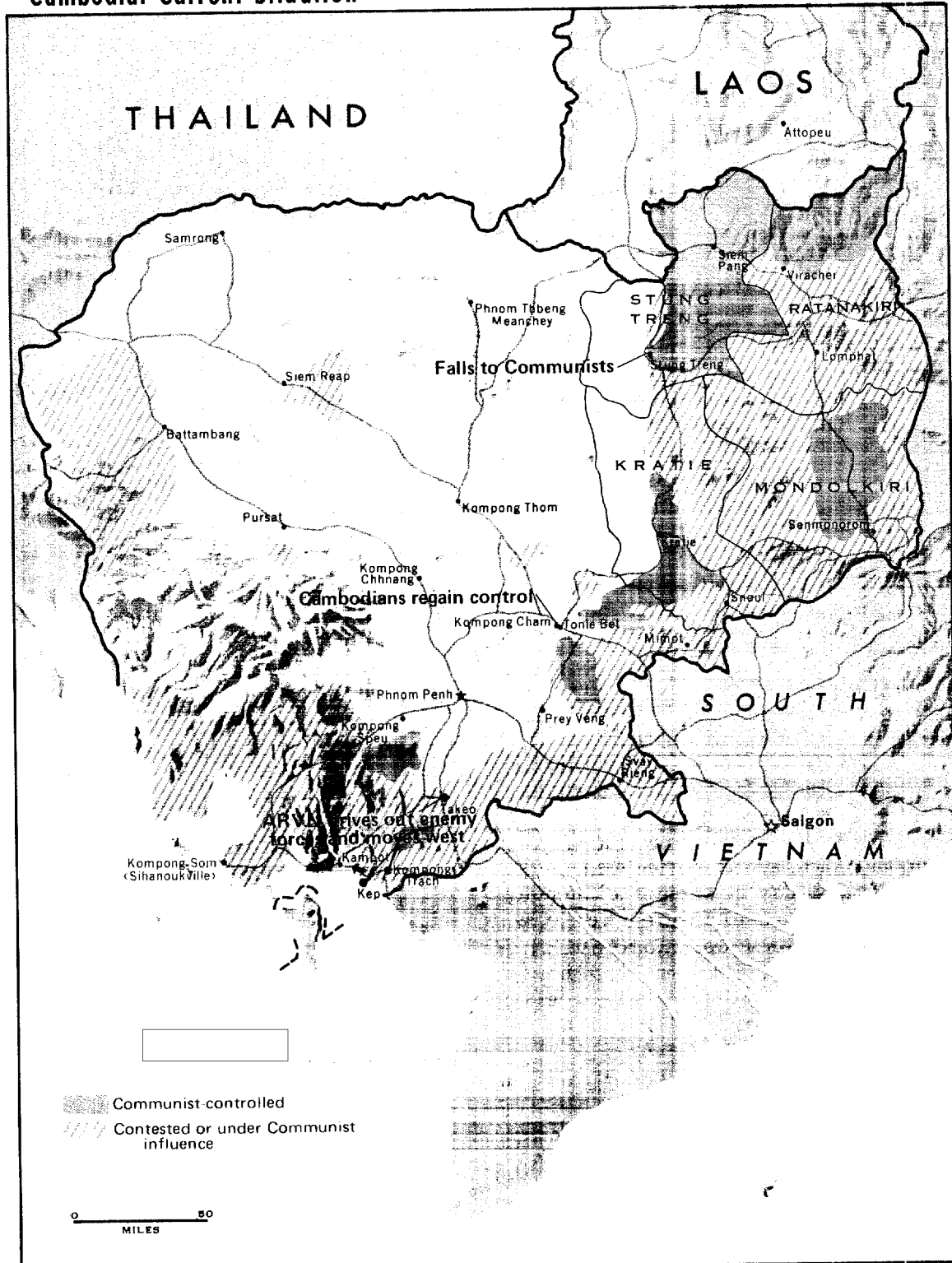
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Cambodia: Current Situation



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Communists Grab Much of Cambodia's Northeast

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The capital of Stung Treng Province fell before a sharp attack on 15 May as Viet Cong forces increased pressure on the remaining isolated government outposts in Stung Treng and Ratanakiri provinces. The Communists now apparently control the Se Kong - Mekong waterway all the way from the Laos border to the outskirts of Kompong Cham. Additional attacks against the remaining government positions in the northeastern provinces are almost a certainty, and it is probably only a matter of time before the government's presence there is eliminated completely. The Communists' current drive to secure control of these provinces is designed to ensure the maintenance of already existing supply routes from Laos and to open up other routes farther inland.

Government forces, with South Vietnamese support, regained control of Kompong Cham city on 17 May, but they have been unable to move east across the Mekong in the face of stiff enemy pressure. A South Vietnamese force swept into southern Cambodia on 17 May, relieved the beleaguered Cambodian garrisons at Takeo, Kep, and Kompong Trach, and is moving west toward the harassed coastal city of Kampot. Communist control is now confined to a narrow belt of territory just north of these operations, but, as in other border areas, they will almost certainly reassert their control if the South Vietnamese pull back.



The Communists are moving ahead to organize Sihanouk's apparatus in "liberated areas" of Cambodia. On 18 May Sihanouk's headquarters in Peking released copies of two letters purportedly sent from the "liberated areas" by Sihanouk's ministers of defense, interior, and propaganda. The letters report the election of committees for the National United Front in the "liberated areas" and great "voluntary contributions both in manpower and materials" by the people of the area for the overthrow of the Lon Nol government.



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Asian Nations Meet in Djakarta to Discuss Cambodia

Indonesian Foreign Minister Malik's initiative on Cambodia, so clumsily and amateurishly surfaced a month ago, turned out reasonably well. The twelve participants in the 16-17 May Djakarta conference put on a good show and produced a statesmanlike communiqué.

The conference is not likely to have a measurable effect on events in the Indochina area, but it was never expected to do so. Its chief merit, acknowledged from the beginning by all participants, is that Asian nations for the first time have taken the initiative on an Asian problem and have followed through to the extent of discussing it among themselves and specifying future action. Its principal weakness, which prejudiced its accomplishments from the outset, was its largely pro-Western complexion; the three Communist nations and six of the nonaligned countries declined to participate. Of the twelve nations represented, only Indonesia and Singapore were nonaligned.

The most significant point made in the communiqué was the recommendation for a broader international conference at a later date. To this end, the communiqué directed the foreign ministers of Japan, Malaysia, and Indonesia to begin "urgent consultations" toward convening a conference similar to that already suggested by the UN Secretary General and others. The three foreign ministers are to approach the participants of the 1954 Geneva conference and all other interested parties. Otherwise, the communiqué followed anticipated lines in calling for the immediate cessation of hostilities in Cambodia, the withdrawal of all foreign forces, respect for Cambodia's sovereignty and neutrality, and reactivation of the International Control Commission.

As expected, Indonesia and Japan played key roles at the conference and were chiefly responsible for the content of the communiqué. Japan's contribution was additionally significant in that, for the first time since World War II, Tokyo engaged in a purely political regional conference in contrast with its previous activities in economic and developmental fields. Other major participants were Thailand and Australia. Both Australia and New Zealand were pleased at the extent of their acceptance at an Asian conference on an Asian problem.

The good organization and general smoothness of conference procedure seemed to surprise both participants and observers, particularly considering Malik's hasty, largely untested initiative last month and the resultant pique in a number of Asian capitals. Assistance from Japan and Australia as well as Indonesia's traditional capacity for extraordinary, eleventh-hour activity probably accounts for the good performance. Moreover, many of the governments involved are actively committed to supporting the present Indonesian Government and, once they had overcome their surprise and exasperation at Djakarta's tactics, made an extra effort to see that "Malik's conference" turned out well.


Malik, who had been censured domestically for having compromised the nation's nonaligned foreign policy in nurturing this largely pro-Western conference, seems to have emerged undamaged politically and perhaps with his position slightly enhanced. He has a key role in follow-up consultations aimed at developing a later and more broadly based conference and thus has provided Indonesia with the kind of symbolic area leadership that Djakarta wants.

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Peking Postpones Warsaw Meeting

Peking's decision to cancel the Sino-US meeting in Warsaw this week represents a temporary postponement designed to underscore China's hard-line public posture against US actions in Cambodia while keeping open this important channel of communication with Washington. Unlike China's last statement of cancellation in February 1969, its announcement this week was relatively mild in tone and clearly implied that a new date for the next meeting would soon be arranged through the normal diplomatic mechanisms in Warsaw.

The Chinese obviously considered that to meet while US troops were engaged in ground operations in Cambodia would prove embarrassing and would tend to undercut the image of resolve and militance Peking has adopted in response to developments in Indochina. In particular, the Chinese probably believe that signs they were "dealing with the enemy" on a business-as-usual basis would raise questions in Hanoi at a moment when China's influence in North Vietnam is on the rise.

The Chinese over the past month have consistently emphasized their hard-line position on Indochina in order to encourage Hanoi to steer clear of a negotiated settlement, persist in a "protracted war," and drive the US out of Southeast Asia. At the same time, Peking has also seen a golden opportunity to capitalize on Moscow's recent equivocation over the Cambodian issue. Last week, for example, the Chinese gave a warm welcome to Vietnamese party chief Le Duan, including a meeting with Chairman Mao and Vice Chairman Lin Piao. This is the first publicly reported meeting of a North Vietnamese leader with Mao since 1965. This Chinese demonstration of support is in sharp contrast with the Viet-

namese leader's earlier rather lukewarm send-off from Moscow and was obviously designed further to encourage Hanoi's militancy at the expense of the Soviets. Following up on what Peking clearly believes to be its current advantage, a Chinese central committee message to the North Vietnamese on the occasion of Ho Chi Minh's birthday again stressed the "protracted war" theme.

Although relations with the Soviets and the North Vietnamese are almost certainly the controlling factor both in Peking's insistence on a hard line with regard to Indochina and in its decision to postpone the meeting in Warsaw, the Chinese are clearly concerned about developments in Southeast Asia. Chinese attacks on President Nixon, for example, have been especially bitter in the past several weeks, labeling him a "malicious war criminal" and a "cornered dog." This concern is still relatively limited, however. Had Peking expected a sudden, serious worsening of the situation in Indochina, it might well have wished to meet in Warsaw to convey a private expression of concern or warning.

Indeed, despite their strong verbal blasts, the Chinese will probably be ready to resume the talks once US forces have withdrawn from Cambodia. For one thing, the Chinese statement clearly tied the current postponement to the US presence there. More importantly, Peking definitely views the Warsaw sessions as an important source of much-needed political leverage in its dispute with the USSR. The recent upsurge in Soviet polemics against China, together with Moscow's continuing military build-up along the Sino-Soviet frontier, almost certainly provides sufficient incentive to dissuade Peking from any prolonged suspension of the Warsaw talks.

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Communists Keep Up Pressure in South, Hold Off in North Laos

Communist forces during the past week continued to threaten the provincial capital of Saravane and to exert pressure on government positions along the eastern rim of the Bolovens Plateau. Unconfirmed reports of three North Vietnamese battalions on the outskirts of Saravane have caused most of the civilian population to leave the town, but so far the Communists have confined their military action to occasional rocket fire and brief skirmishes around government outposts. The garrison commander, believing an enemy attempt to seize Saravane is imminent, has closed the town's airstrip to resupply and evacuation flights. The Communists clearly have the capacity to take Saravane by force but may continue to employ largely psychological tactics, as they did at Attopeu, to persuade government forces to surrender the town.

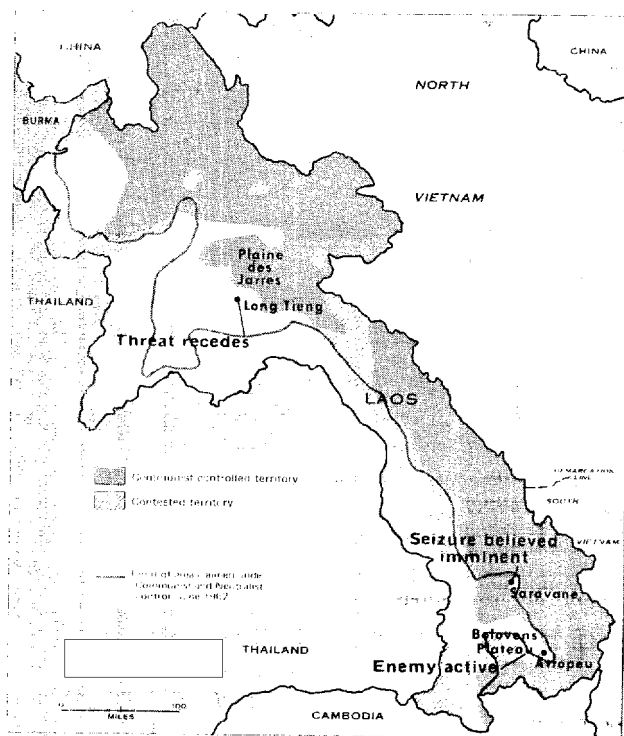
Enemy troops remain in control of Attopeu and the artillery site overlooking that provincial capital. This week they also seized an important guerrilla base about ten miles to the northwest and told supporters that they would soon attack the principal guerrilla base on the plateau.

Communist motivations in maintaining a high level of military activity in this region remain unclear. They may be seeking to broaden their logistic routes to the south, but it is possible they may only be making a show of force in the panhandle to compensate for their difficulties in achieving all their objectives in northern Laos.

Although a major push against the Meo stronghold at Long Tieng cannot be ruled out, time is running against the Communists. Enemy forces did succeed in seizing several government outposts north of Long Tieng this week, which put the base, once again, within range of 122-mm. rocket fire. But these actions appeared to be designed to retard government efforts to expand the Long Tieng perimeter rather than to gain ground from which to launch an attack.

On balance, it appears that prospects for a Communist drive against General Vang Pao's headquarters before the end of the dry season are dimming. The evidence suggests that the two North Vietnamese divisions in the area are shifting to a defensive posture to avoid a repetition of last year, when, during the rainy season, Meo irregulars easily took the Plaine des Jarres from the Communists.

If Vang Pao succeeds in clearing the area south of the Plaine, he can sit tight around Long Tieng and give his troops a much needed respite. This strategy might include an effort to recapture bases north of the Plaine and some harassment of the enemy's rear areas, but it would avoid a major



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wet season offensive. Such a course could conceivably return the fighting in the north to the pre-1969 ground rules, when the Plaine was more or less a Communist sanctuary and the Communists refrained from driving toward Long Tieng and the Meo heartland.

This course runs the risk of allowing the Communists to maintain forward positions on the Plaine from which they could mount a fresh of-

fensive toward Long Tieng in the fall. An offensive to push the Communists from the Plaine once again or to interdict Route 7 might set back Communist plans, but it would probably be more costly than last year's effort.

Either way, it seems doubtful that the Meo^{25X1} guerrillas can extricate themselves from the war of attrition in which they have been locked with the Communists for the past decade.

~~Marcos Switches to More Amicable Relations With US~~

~~President Marcos, responding to pressure from the US ambassador, appears to have moved quickly to reduce the irritants in US-Philippine relations that arise from lawless conditions around US bases. The promised improvement could be only temporary, however, because nationalistic Filipino politicians and the Manila press delight in ballyhooing incidents involving Filipinos and US soldiers.~~

~~The general illegal activities of Filipinos around the bases complicates US military operations and also poses a threat to US military personnel and their dependents. Local Philippine officials have tended to ignore the negotiated military base rights agreement that allows the US to determine when a soldier is on or off duty and thus which court, US or Philippine, takes jurisdiction. In addition, they have dragged out the disposition of cases, frequently forcing servicemen to remain in the Philippines beyond the end of their tour of duty.~~

~~To ease the situation, Marcos has ordered Philippine authorities to comply with the US-Philippine agreement on jurisdiction. He has also taken steps to diminish political exploitation of the US military presence, particularly by Filipino~~

~~politicians who in a time-honored tactic draw exaggerated attention to incidents involving US servicemen several times each year as a way to revalidate their nationalist credentials. On this tack, Marcos has silenced a congressman who had been pushing for a congressional resolution that would have labeled a US base commander persona non grata. The President, however, has less leverage on the politicians than he does on government officials, and the former are unlikely to keep still for long.~~

~~These actions by Marcos, who has himself played on anti-US sentiment when he considered it to his political advantage, reflect a re-evaluation of the worth of US bases to the Philippines. His switch to more amicable tactics no doubt stems from a fear that operating difficulties could impel the US to lower its military strength in the Philippines to a level that Manila would see as reducing the effectiveness of the US security umbrella. Marcos had been increasingly worried over what he saw as an overly quick reduction in the US^{25X1} military presence in Asia. He clearly views the US operations in Cambodia as demonstrating an intent to remain strongly committed in Asia.~~

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Peking's Party Building Efforts Drag On

The Chinese Communists' campaign to rebuild their shattered party apparatus is still moving at a snail's pace even though a full year has elapsed since the ninth party congress. Current discussions in domestic propaganda indicate that the principal obstacles to reconstruction are quarrels over staffing new party committees and resistance to the party's resuming its previous leading role in local administrations. There are also signs that these problems are being compounded by intensified factional infighting between various former Red Guard groups that are vying for dominant positions in the new party organs.

Despite Peking's evident desire to speed up the tempo of reconstruction, the majority of the new party committees formed since the first of the year have appeared only at the lowest levels of administration, i.e., in communes, factories, and production brigades. To date, less than one third of the provinces have claimed that one or more reconstructed party committees have been formed as high as the county level. Not one has been announced at the special district or provincial levels, and only a single small city in southern China has announced that it has formed a municipal party organ.

For many months after the party congress, party rebuilding was seriously hampered by insufficient guidance from Peking, but this is no longer the case. Since last December, Peking has issued several authoritative statements detailing the manner in which the new party organs are to function. Nevertheless, the regime's moves in recent weeks to reaffirm these guidelines attest to considerable opposition to them in many localities.

Peking has stressed repeatedly, for example, that party committees must exercise leadership

over revolutionary committees—the governing bodies that were formed at nearly all levels of administration during the Cultural Revolution. Theoretically, this transfer of power should proceed smoothly because the new party organs are required to draw the majority of their membership from the revolutionary committees. An increasing number of radiobroadcasts devoted to party leadership problems, however, have been complaining that elements who are on existing revolutionary committees and who have been denied membership in the party are unwilling to submit to its leadership in local affairs.

Disgruntled former Red Guard activists have been particularly virulent in their opposition to party leadership. Moreover, their discontents appear to have been heightened by Peking's recent injunctions that Cultural Revolution activists do not automatically qualify for party membership and that all former Red Guard factions in a given area will not necessarily be awarded equal representation on new party committees. Thus, in many areas, competing factions appear to be engaged in a scramble for the relatively small number of party posts open to them.

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EUROPE

Moscow's recent behavior underscores its preoccupation with countering the challenge from China. *Pravda* set the tone on 18 May with the USSR's most scathing indictment of Peking since last August. *Pravda* blamed China for the "latest events in Indochina," taking the line that Chinese obstructionism weakens socialist unity, thus opening the way for imperialist aggression.

The Russians continue to wait and see on the matter of support for Cambodian Prince Sihanouk, mostly because they fear that he may be in Peking's pocket. Meanwhile, Moscow sees clear advantage in keeping a hand in Phnom Penh and has decided for the present not to break with the Lon Nol government.

The USSR is also agitating to bring its East European allies more solidly into line in support of Moscow's stand against the Chinese. The Soviets abruptly summoned Romania's top leaders to Moscow this week for two days to discuss this and other points of difference. There was not much sign of give on either side, and there are hints that Moscow's patience may be wearing thin.

Although Prime Minister Wilson claims that he decided last month to call for a general election, he was almost certainly influenced by the massive swing toward Labor in last week's public opinion polls. London bookies—not noted for throwing away money—quickly established 2-1 odds for a Labor win on 18 June. The election will unquestionably be hard fought, despite the Conservatives' lackluster leadership, and may turn out to be one of the closest since World War II.

The French Communist Party (PCF) this week formally expelled party intellectual Roger Garaudy. Garaudy, who had already been ousted from the politburo and his local cell for sharp criticism of PCF policy, touched off a public controversy by revealing that party leaders had provided the Czechoslovak Government with a document that could be used against former Czech party boss Dubcek. These actions by the PCF will succeed in further alienating both French youth and potential allies of the non-Communist left.

C. W. Jenks of the UK was chosen to succeed David Morse as head of the International Labor Organization. The slimness of his margin may presage substantial opposition, and he presumably will be too old to run for re-election when his term expires in 1975.

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Moscow to Keep Presence in Phnom Penh

25X1 The Soviets have apparently decided not to break diplomatic relations with Lon Nol's government in Cambodia.

The decision means in effect that Moscow's determination to retain its freedom of maneuver in Indochina has taken precedence over other considerations.

25X1 The Soviet decision suggests that Moscow is uncertain about Sihanouk's prospects, and more importantly, wary of his dependence on the Chinese. In the present situation, the Soviets clearly believe it unwise to make a premature commitment that would limit their options. If Sihanouk should leave Peking, Moscow is free to review and modify its position.

Moscow's present posture, however, leaves it vulnerable to Chinese charges that the USSR follows a policy of only "sham support" for the Communists in Indochina, and at the same time places further strain on its relations with Hanoi.

The Soviets have already anticipated Peking's charge, however, and in private conversations with diplomats and in propaganda they are claiming that China is obstructing united Communist action in Indochina. In the *Pravda* article of 18 May (which was Moscow's response to Peking's Lenin anniversary polemic), Moscow implicitly accused the Chinese of being responsible for US actions in Cambodia, a charge that had already been made explicit in less authoritative propaganda.

The Russians no doubt are trying to persuade Hanoi that, in the end, its best interests might be served better if Moscow preserves for the present a degree of flexibility on the question of the future shape of the Cambodian government. The North Vietnamese, however, are displeased at this current Soviet posture. Le Duan's failure during his recent stay in the USSR to line up full backing for North Vietnam's current policies clearly disappointed Hanoi's leaders and gave Peking a new issue to exploit against Moscow. Pham Van Dong made clear in a speech on 19 May that North Vietnam's sympathies at the moment lie more with Peking than with Moscow. Heretofore, the North Vietnamese had always been careful to balance the praise given their two giant allies, but this speech was clearly more effusive toward the Chinese than the Soviets. The Soviets have apparently calculated, however, that so long as they provide strong—if not unconditional—political backing and the necessary economic and military aid, they will not jeopardize their over-all position in Hanoi.

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Eastern Europe Cautious in Response to Bonn's Overtures

A number of Eastern European regimes are now negotiating or getting ready to talk with Bonn about improving relations.

The East Germans last week prepared for the second round of political talks with the West Germans. Party boss Ulbricht and Premier Stoph met with General Secretary Brezhnev and other Soviet leaders in Moscow on 15 May, undoubtedly to elicit a demonstration of Russia's solidarity with Pankow and presumably also to discuss the implications of Chancellor Brandt's expected proposal for the establishment of commissions to carry the negotiations further. Pankow recently accelerated its propaganda in a final-hour effort to convince Bonn that a continued inter-German dialogue is dependent upon West German recognition of East Germany under international law.

The West Germans, who signed a 1970 trade protocol with Poland on 13 May, have announced that negotiations on a long-term agreement covering trade and aid will be "intensified." This suggests that both sides now are willing to resume

the discussions that were interrupted last January. Warsaw has implied that it would like to conclude the major part of these talks before the fourth round of political consultations begins on 8 June in Bonn.

Czechoslovak - West German trade negotiations are scheduled to open on 25 May. Prague has also agreed to a "quiet visit" by a West German Foreign Ministry official, thus renewing political contact for the first time since the Soviet invasion in August 1968. No date has been set for the visit, but a Czechoslovak trade official claims that Moscow has given Prague the green light for more active contact with Bonn.

The Hungarians, meanwhile, apparently have made a series of maximum and inflexible demands, hoping that the Brandt government will grant broad concessions to expand trade, especially by lifting restrictions on Hungarian goods. Like other East Europeans, the Hungarians are watching for a breakthrough in Polish - West German and Soviet - West German talks before starting serious negotiations.

Eastern Europeans Worry About Relations with US

Four of the eight Eastern European governments have privately told US officials that they hope their public opposition to US policy in Cambodia will not cause lasting damage to relations with Washington.

While a steady drumfire of anti-US propaganda on the issue is emanating from all of Eastern Europe, Yugoslav, Romanian, Polish and Hungarian spokesmen have pointed out that they have other obligations: Romania to defend its independent stance vis-a-vis Moscow, Yugoslavia to its nonaligned friends, and the others to Moscow. There appears to be apprehension among the four

that US-Soviet relations might deteriorate as a result of Cambodia, thus setting back the pace of European detente.

US contacts on the diplomatic level are continuing to proceed normally with the four governments, although there have been minor surface gestures of disapproval of US actions in Indochina. There have been no demonstrations against US missions, however, except for some vandalism at the USIA installation in Belgrade for which the Yugoslav Government made amends.

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Agricultural Prospects Dim in Eastern Europe

For the third consecutive year the outlook is unfavorable for significant growth in Eastern Europe's agricultural production. Grain prospects are currently not as good as a year ago and the output of livestock products, especially meat, shows no sign of improvement. As a result, there will be little change this year in consumer availabilities of quality foods or in foreign exchange earnings from agricultural exports.

Adverse weather through the end of last month makes production prospects for the important winter grains—wheat, rye, and barley—less favorable than a year ago. Drought last fall was followed by a long, severe winter and by excessive moisture this spring. These conditions reduced the area seeded to winter grain and caused above-normal damage to these plantings in many countries. Spring planting also was set back by as much as four to six weeks. Shortages of seed potatoes may also reduce acreages of this important crop in the northern countries. More favorable growing conditions in the coming weeks could improve crop prospects, but attainment of above-average yields is unlikely.

Growth in livestock production will be limited by the smaller number of productive live-

stock available at the beginning of 1970 and by fodder shortages. Output and procurement of livestock products such as pork, eggs, and butter, which fell in 1969, are not expected to improve before the last quarter of 1970, if then. The northern countries have programed increased imports of feedgrains and high-protein supplements during the year ending 1 July 1970 to prevent a significant drop in livestock herds and meat production. Grain imports may exceed last year's 5.8-million tons by a half million tons. Some 40 percent of total grain imports may come from the free world.

Increased outlays for such purchases as well as reduced earnings from exports of food products are likely to occur this year. Czechoslovakia and East Germany will have to increase hard currency expenditures for meat, potatoes, and animal feed. Hungary and Poland anticipate smaller net gains in foreign exchange earnings from Western trade in agricultural products.

The population and money incomes will continue to increase faster than retail supplies of the quality foods most in demand. Thus, unsatisfied consumer demand for such foods, particularly animal products, can be expected throughout 1970.

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Soviets Seeking Warsaw Pact Support Against China

Moscow appears to be making a determined effort to involve the Warsaw Pact states more directly in support of its interests outside the European continent—particularly in the running dispute with China. The Soviet leaders seem increasingly disturbed by what they consider a provincial attitude on the part of some of their allies and a reluctance to get involved outside of Europe. Moscow is now talking of remedying this situation, to the apparent distress of Bucharest, and perhaps others.

The USSR is placing much stress on the reciprocal nature of bilateral treaty obligations between Moscow and the Warsaw Pact states. This was most recently manifested in the Soviet-Czechoslovak friendship treaty of 6 May, which—like treaties signed with Bulgaria and Hungary in 1967—omitted the limitation of mutual defense obligations to Europe. Thus, these three states at least now would appear formally bound to fight with the Soviets in an Asian war.

Moreover, there have been recurrent rumors that the Soviets have already succeeded in maneuvering some of their allies into establishing a token military presence in Soviet Asia. At the turn of the year, there were several reports that some Polish Air Force units had been transferred to Soviet Central Asia. ~~More recently, there were rumors that some Czechoslovak Army units were training in the neighborhood of the Soviet-Mongolian border.~~

None of these reports has been confirmed, and there would be little military advantage to

the Soviets in establishing an East European presence there. However, the Soviet leaders might see considerable political advantage in this kind of tactic as a device to bring reluctant East Europeans more solidly into line in the dispute with China.

There have also been indications that the Soviets would like to reorient the Warsaw Pact to take account of Soviet interests in Asia. They have begun in recent weeks to speak more and more frequently of an alleged Pact responsibility to defend the cause of peace and socialism “anywhere”—in blatant contradiction to the published text of the Warsaw treaty itself.

The Romanians have been the main obstacle to these ambitions. Bucharest made its opposition to any effort to reorient the bases of the Warsaw alliance dramatically clear in an editorial article in the party daily *Scinteia* last week. Presumably in reaction to recent Soviet tactics, the article pointedly stressed that the Pact’s area of responsibility applies “only” to Europe, and that in giving orders, national command structures cannot be bypassed.

Differences on these points may have been one of the factors that led to the sudden visit of Romanian leaders to Moscow for talks on 18-19 May. Although these talks undoubtedly reflected the determination of the Soviet leaders to force Bucharest into line on these and other issues, there is still no indication that the Romanians are of a mind to make significant concessions. These differences may also affect the course of a meeting of Pact defense ministers in Sofia this week. 25X1

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Franco-British Concorde SST Soon to Fly Mach Two

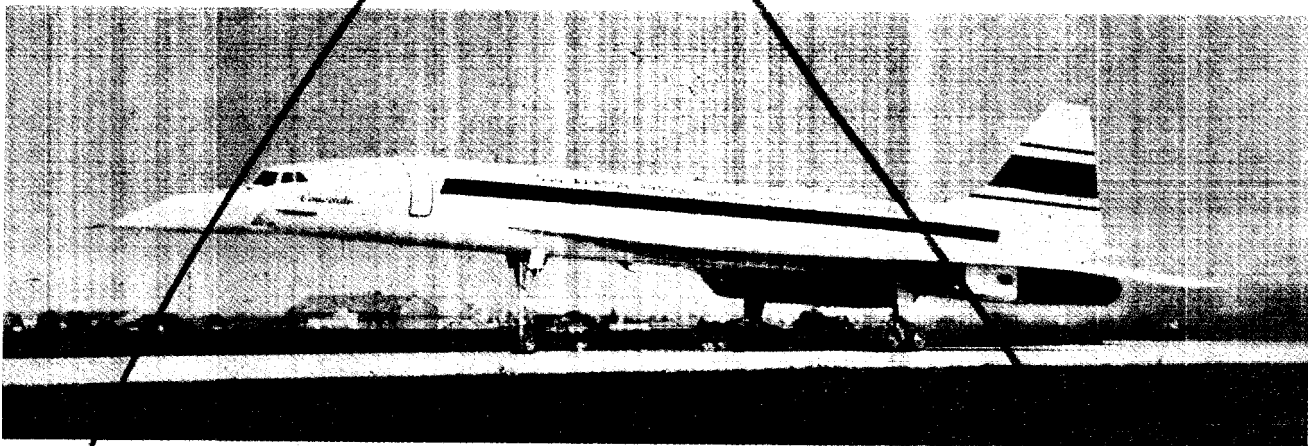
The British are installing more powerful engines on the UK-built prototype Concorde and plan to begin Mach 2 flight tests this month.

Mach 2 testing—which will help to establish the economic feasibility of the aircraft—will be a crucial phase of the test program. To date, tests have progressed smoothly and have brought renewed optimism to officials associated with the Concorde program. The British plane had been scheduled to fly 18 times in the last series of tests before the new engines were installed. Progress was so good, however, that the various tests were completed in only 6 flights.

The French-built prototype Concorde already has approached Mach 2 for short periods, but the highest sustained speed achieved so far has been Mach 1.54. It will begin Mach 2 tests shortly after the British plane. In addition to the two prototypes now flying, two preproduction aircraft are under construction and scheduled for maiden flights in the spring of 1971.

To date, \$975 million has been spent by the French and British governments on development of the Concorde and an estimated \$800 million more will be spent before the production stage is reached. The unit price of the Concorde being quoted to the airlines is about \$19.5 million, but Sud-Aviation and British Aircraft Corporation, the manufacturers, are reserving the right to alter that figure when contracts are actually negotiated.

So far, 16 airlines, including 7 in the US, hold options to purchase 74 Concorde. The US lines account for 38 of the options. These 16 airlines presently carry 70 percent of the passengers on the world's scheduled airline routes. In late 1969, pilots from Air France, BOAC, Pan American, and TWA went to Toulouse to test fly the Concorde. They reported that the aircraft was easy to fly, did not impose an excessive workload on the pilot, and should present no problems in training airline pilots and engineers in the handling of the aircraft.



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~~The Concorde, however, is not without its problems, the most intractable being excessive weight and noise. The weight difficulty is largely a result of unanticipated changes and additions to the structure and equipment—problems normally encountered in the development of an aircraft incorporating new technology. The developers of the Concorde continue to wrestle with the problem of keeping the maximum weight at 385,000 pounds while incorporating the necessary changes in the aircraft. One change has been a reduction in planned passenger payload from 140 to 120.~~

~~On takeoff, the plane reportedly can be heard to a distance of some 20 miles. This noise level is well beyond the limits imposed at most international airports, including those in the US. Noise, however, is endemic to supersonic transport aircraft and some compromise in the operation of the Concorde may ultimately be necessary to alleviate the problem before the plane enters service—now scheduled for 1973.~~

Finns Resort to Nonpartisan Government as Stopgap

The nonpartisan cabinet named by President Kekkonen is a stopgap measure aimed at providing Finland with a government during the President's forthcoming trip to Moscow as well as during the approaching parliamentary recess. Negotiations for a new political government are expected to resume in the fall.

Kekkonen took this step after attempts to form a majority government reflecting the sharp swing to the right in the parliamentary elections of 15-16 March were repeatedly stymied.

The cabinet is expected to play essentially a "caretaker role," concerning itself with everyday duties and preliminary work on the next budget. There will be no vote of confidence, and the government will exist with the "toleration" of rather than the active support of parliament.

In line with the officially neutral complexion of the government, the known political loyal-

ties of the ministers are divided evenly between the moderate right, the center, and the moderate left. Named as prime minister is Helsinki Mayor Teuvo Aura, a member of the Liberal Party; the deputy prime minister is a conservative, and the foreign minister a Social Democrat. Both the Rural Party of the radical right and the Communists have been left out of the cabinet, as have all the present members of parliament.

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~~The new cabinet consists generally of a mix of high-level bureaucrats, businessmen, and politicians whose only common characteristic is close personal friendship with Kekkonen. The controversial appointment of a vocally pro-Soviet Social Democrat as foreign minister probably reflects the President's desire to reassure Moscow regarding Finnish cooperativeness. Distaste for this appointment and widespread dissatisfaction among the political parties with Kekkonen's stopgap arrangement give added weight to assurances that this government will be short-lived.~~

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Labor Agitation Tests Italian Government

Organized labor is pressing Mariano Rumor's center-left government, now two months old, for social and economic reforms. The disruption arising from short general strikes staggered by region throughout the country has been intensified by a number of strikes in specific occupations, particularly in the service sectors of the economy.

Union leaders in direct negotiations with the government are demanding curbs on rising prices, better housing, tax relief, and reform of the state health service and transportation. Leaders of the three major confederations, both Communist and non-Communist, are seeking to maintain a united front, although conflicts within the labor movement evidently continue. The Communists are reportedly in favor of further agitation, a development that could help them, as the chief opposition party, in regional and local elections on 7 June. The non-Communist labor leaders, who have links to the government parties, are pressing for a specific reform program within a definite time frame. The government is trying to identify relevant measures that can be put into effect immediately as an earnest of its serious attention to the wide-ranging reforms that union leaders seek.

The union concern most widely shared by the general public is rising prices. According to a public opinion survey earlier this year, one third of the population identified this and the fight against inflation as the most important of all current problems. Prices for the first quarter of 1970 rose at an annual rate estimated at six to seven percent. The second concern identified in the survey—unemployment and underemployment—was given top priority by only one fifth of the population; the widely publicized “danger” of a rightist or leftist coup d'etat in Italy is, according to the survey, a major concern of only two percent, while union concerns of inadequate housing and transportation are not mentioned.

Interest in union-government negotiations is heightened by the approaching regional, provincial, and communal elections, which will have more significance than previous local elections. In belated compliance with the 1948 Constitution, regional government is being established in much of Italy for the first time, providing a measure of decentralization. Each party hopes to read endorsement of its policies and positions in results of the elections, the outcome of which could force changes in the national government.

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MIDDLE EAST - AFRICA

Spurred by Egyptian attacks and harassment, Israel has been striking hard at targets along the Suez Canal and the Red Sea, taking a heavy toll of Egyptian aircraft in the process. Tel Aviv's concern over Soviet and Egyptian intentions in the canal area has continued to mount. The Arab "confrontation" states have their own worries that lightning strikes against their own forces may be in the offing, particularly after last week's Israeli sweep into Lebanon.

The UN Security Council this week passed by an 11-0 vote a resolution condemning the Israeli incursion into Lebanon. The resolution did not—even implicitly—condemn the fedayeen raids. The mission of Gunnar Jarring, Secretary General Thant's special representative for the Middle East, will probably not be reactivated soon.

There have been rumors—nothing more—that a coup may have been attempted in Baghdad last week. The rumors are based on unconfirmed reports of gunfire and tank movements in the Iraqi capital on 10 May.

In the Maghreb, Morocco, Algeria, and Tunisia seem ready to go ahead without Libya to hold the oft-postponed economic ministers' conference. King Hassan and Premier Boumediene probably will discuss Maghrebian problems and may also take up their disputed border issue when they meet next Monday. Meanwhile in Tunis, the trial of former economic chief Ahmed ben Salah and several supporters began last Tuesday. President Bourguiba, whose prestige has been tarnished by the denigration of Ben Salah, is expected to commute the anticipated stiff sentences.

Congo (Kinshasa) has publicized the expulsion of four Soviet Embassy personnel, described as "influential diplomats," on charges that the Soviets were propagandizing among students and operating an extensive espionage network. [redacted]

[redacted] The publicity may be intended as a sharp warning against meddling in Congolese affairs as Mobutu's official party prepares for parliamentary elections in December.

In West Africa, Guinea's radical President Toure is continuing his efforts, under way since March, to patch up his long-standing quarrels with Ivory Coast and with France. In a speech last week he called for "complete reconciliation" with Houphouet-Boigny's conservative Ivorian regime and extended the olive branch anew to the French. Both Abidjan and Paris are responding positively, and an early meeting between Toure and Houphouet appears likely.

India's Naxalites, pro-Peking Communist revolutionaries, are continuing to cause concern both in New Delhi and in several state capitals. Originally peasant oriented, the Naxalite movement has gradually attracted student and limited worker support with the result that violence has been introduced into urban areas. Police action against the Naxalites has been increasing, particularly in West Bengal—scene of some of the most widespread violence in recent weeks—but, with socioeconomic conditions continuing to deteriorate in that state, the outlook for further growth of the movement is good. [redacted]

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Israeli Military Ripostes Batter Arabs

Action Along the Canal

A high level of ground, air, and sea action took place this week between Egyptian and Israeli forces.

Egypt used one of its Soviet-built guided missile patrol boats for the first time since October 1967 and sank a large Israeli fishing vessel off the northern coast of the Sinai Peninsula on 14 May. The following day an underwater explosive charge detonated in Eilat harbor killed one Israeli diver and injured several others; it is not clear who set the charge.

Cairo paid the price for sinking the Israeli fishing boat and for its continued harassment of Israeli troops along the Suez Canal during the next few days. On 15 and 16 May four Egyptian MIG-17s and one MIG-21 were downed by the Israelis, bringing the total of Egyptian fighters lost to the Israelis since the June 1967 war to some 97.

Also on 16 May, Israeli aircraft struck far to the south of the Suez Canal and attacked an Egyptian naval base along the Red Sea Coast. An Egyptian destroyer and a guided missile patrol boat were sunk in the attack, according to press reports from Tel Aviv.

Compulsion in Cairo

The Egyptians, however, will probably not be deterred by periodic casualties from further harassment of Israeli military positions in the Sinai. The compulsion to resist militarily Israel's continued occupation of Arab lands apparently outweighs any negative effects brought on by the losses Cairo's armed forces suffer as a result. As a

demonstration of this, Egypt carried out an abortive ~~commando~~ raid across the Suez Canal on 19 January, suffering considerable casualties.

Nasir continues to exhibit a willingness to resolve the Middle East impasse through political channels. Nevertheless, he probably believes what he has often said publicly: that only when his military forces are strong enough to challenge the Israelis can evacuation of the occupied territories be realized. The recent reinforcement of his defenses by Soviet units will stiffen his resolve to wait until this goal can be achieved.

The View From Tel Aviv

Underlying Tel Aviv's concern with Nasir's new aggressiveness—a result of the new Soviet-assisted air defense system in Egypt—is the fear that the Egyptians and Soviets are considering actions designed to limit Israeli military actions still further. The key question agitating the Israeli Government this week is whether the Soviet air defense system is about to be extended to the Canal. There is no evidence of such a move, but Israeli spokesmen have indicated that it is just a question of time. They claim that the Soviets have already attempted to do so but have been forestalled by heavy Israeli bombings.

The Israeli Government has made it clear in notes to the Big Powers that it has chosen to fight to maintain air control over the Canal, i.e., that it has no plan to pull back under Egyptian and Soviet pressure. Implicit in such a decision is a willingness to accept the increased risk of direct confrontation between Israeli and Soviet pilots. Israeli leaders have so far operated with great caution as far as the Soviets in Egypt are concerned. Tel Aviv had hoped the unwritten modus

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vivendi—that Israel would forgo deep penetration raids in exchange for Soviet forbearance in the Canal area—would hold. A loss of its air superiority over the Canal—the prime guarantee of halting any serious Egyptian military thrust into the lightly held Sinai—would raise for Tel Aviv the whole question of peace and war, and, in the Israeli psychology, the question of Israel's ultimate existence. The Israelis want at all costs to avoid a situation in which Nasir becomes so emboldened by direct Soviet support that he deludes himself again into thinking he can win a war with Israel. If Israel's existence comes under serious question, Israeli leaders will think of preventive action against Nasir.

~~The Israeli Government at this point is puzzled—and troubled—by what it chooses to view as faltering US support of Israel. Foreign Minister Eban is in Washington this week to try to obtain a US commitment for continuing sales of aircraft to Israel and to obtain some indications of US diplomatic support for Israel against the developing situation in Egypt and along the Suez Canal. So far, the Israeli Government has talked in military terms and has given no indication of any disposition for political compromise. The few voices in Israel that advocate compromise as the way to obtain peace have been drowned in the~~

~~public outcry over the new situation posed by Soviet actions in Egypt.~~

Israel's Lebanon Incursion: Aftermath

Israel's armored thrust into Lebanon last week has heightened Arab fears of Israeli attacks against their eastern front forces.

The Lebanon Government pitched itself into a new crisis last week less than 24 hours after the withdrawal of Israeli forces from the Mount Hermon area. Almost before the Israelis had left the area, large numbers of fedayeen had entered Lebanon from Syria. Stirred by misleading Lebanese Army accounts, President Hilu and most of the cabinet charged that Syrian Army regulars had entered the country without Beirut's permission. Interior Minister Jumblatt and fedayeen officials in Amman, however, refuted the charge and maintained that the fedayeen were merely rotational replacements. Seeking to avoid a diplomatic clash with Syria over the alleged incursion, Prime Minister Karami led a delegation of civilian and military officials to Damascus last weekend, where they apparently were satisfied with Syria's explanations. By the beginning of this week Lebanon had quietly dropped its charges of a Syrian invasion, and the affair appears to have been resolved.

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Iran Faces Slower Economic Growth

The recent agreement with the Western oil consortium will give Iran an 11-percent increase in oil revenues this year. These payments will ease Tehran's expected balance of payments difficulties and will slow the decline in the growth of the economy.

High government expenditures, caused largely by heavy public investment under Iran's ambitious development program, have kept foreign exchange reserves under pressure since 1967. Annual imports since the Iranian year beginning March 1966 have risen by 21 percent, while foreign exchange earnings from nonoil exports and oil revenues have increased only about 18 percent per year. To finance the estimated \$366-million gap for the year ending March 1970, Iran has been borrowing increasingly on short term at high interest rates. As a result, its annual external debt repayment burden increased dramatically during the past year, totaling an estimated \$254 million, or 18 percent of total foreign exchange earnings.

Military needs are competing increasingly with development programs for foreign exchange. Last year the government decided to raise current expendi-

tures by some \$1.5 billion during the remainder of the Fourth Plan period (1968-73). Over half is to be for military purposes—reflecting the Shah's concern with Iran's military posture following the scheduled British withdrawal from the Persian Gulf in 1971.

Largely because of balance of payments constraints, government investment, which grew 14.2 percent in the year ending March 1969, increased only 9.7 percent last year and is not expected to expand by more than 5.5 percent for the year ending next March. As the rate of investment slowed, the growth rate of real gross national product (GNP) declined from a high of 12 percent in 1968 to 9 percent last year. It is expected to be about 8 percent this year.

The government-consortium agreement will increase Iran's oil revenues by more than \$100 million over last year, allowing increased imports of development goods. The government hopes that by next year it will have adequate funds to increase investment to planned levels, thus meeting the targeted 9.4-percent average annual increases in real GNP during the Fourth Plan period.

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Moderates Have Edge in Ceylon's Parliamentary Elections

Prime Minister Dudley Senanayake's United National Party (UNP) holds a slight lead in the campaign for crucial parliamentary elections on 27 May, but the outcome could depend on minor shifts in up to 50 closely contested seats out of a total of 151. Although the campaign has been free of violence, the opposition might yet decide to play on latent communal antagonisms between the majority Sinhalese and the minority Tamils in a last-ditch effort to achieve victory.

The only significant opposition to the UNP is the United Front, a leftist coalition headed by Mrs. Bandaranaike, a former prime minister. The coalition is composed of her nationalist Sri Lanka Freedom Party, the Ceylon Communist Party/Moscow, and the Lanka Sama Samaja Party, a Trotskyite group. The front's election manifesto calls for the nationalization of remaining private banks and increased state control over both imports and the wholesale distribution of all "essential" commodities. It also promises the establishment of "people's committees" at various levels of government to supervise the bureaucracy. In foreign affairs it endorses recognition of some Communist countries.

The UNP has vigorously criticized the totalitarian aspects of this manifesto and has pledged continued communal harmony and economic growth. Ceylon's economic outlook is mixed, however, and

the opposition may reap advantage from rising living costs and urban unemployment. The United Front scored an initial psychological victory when one of its candidates was declared an uncontested winner following the disqualification of a progovernment independent. An apparent opposition ploy to discredit the UNP, however, by alleging that the armed forces were preparing to seize power if the UNP loses seems to have been largely ineffective. The UNP has also won pledges of support from the Ceylon Workers' Congress, the country's largest union and one that controls a crucial swing vote of up to 20 seats.

The UNP and its allies will clash head on with United Front candidates in only 47 constituencies. A Sinhalese nationalist party is fielding 51 candidates and may unintentionally aid the UNP by drawing strength away from the coalition. The presence of over 80 independents clouds the prospects for both sides. At present the UNP appears to have over 65 solid seats and is leading in about a dozen other constituencies, while the United Front probably can count on slightly over 40 seats. If the UNP and its allies cannot muster a majority, the Tamil-based Federal Party could become the decisive factor; although this party left the UNP-led government in 1968, it would probably support the UNP rather than Mrs. Bandaranaike, whose party has a history of anti-Tamil bias. ()

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WESTERN HEMISPHERE

Fidel Castro early Wednesday morning delivered a scathing attack on the US. He accused Washington of planning and launching exile attacks, threatened to withdraw the Swiss Embassy's privilege enabling it to represent US interests, and indicated that he may take over the former US Embassy building in Havana and so bring to an end the refugee airlift. Castro also announced that the ten-million-ton sugar harvest goal will not be reached, admitting that this is a bitter defeat because "the honor of the revolution is at stake." In another speech that night he attempted to rationalize the size of the harvest and said that a goal of nine million tons could be reached.

The Soviet naval force of two warships, three submarines, and two auxiliary ships that arrived in Cienfuegos on 14 May is still in port. The visit is expected to last two weeks, after which the ships probably will leave Cuba to carry out operations in the Caribbean and possibly in the Gulf of Mexico.

On 15 May, Peru's military government decreed harsh new controls on foreign exchange. The measure has dealt a severe blow to business and the wealthy and will further weaken the economy. Penalties for violations of the decree are extremely severe. The wealthy and middle-class businessmen thus far have reacted with uncertainty and fear, but the action could solidify the heretofore fragmented and ineffective opposition to the military government.

In Barbados, Prime Minister Barrow has banned the Second Regional Black Power Conference, scheduled for July, probably because of the expectation that it would be accompanied by disturbances and violence. Conference organizers now intend to seek permission from Guyana's Prime Minister Burnham to hold the conference there.

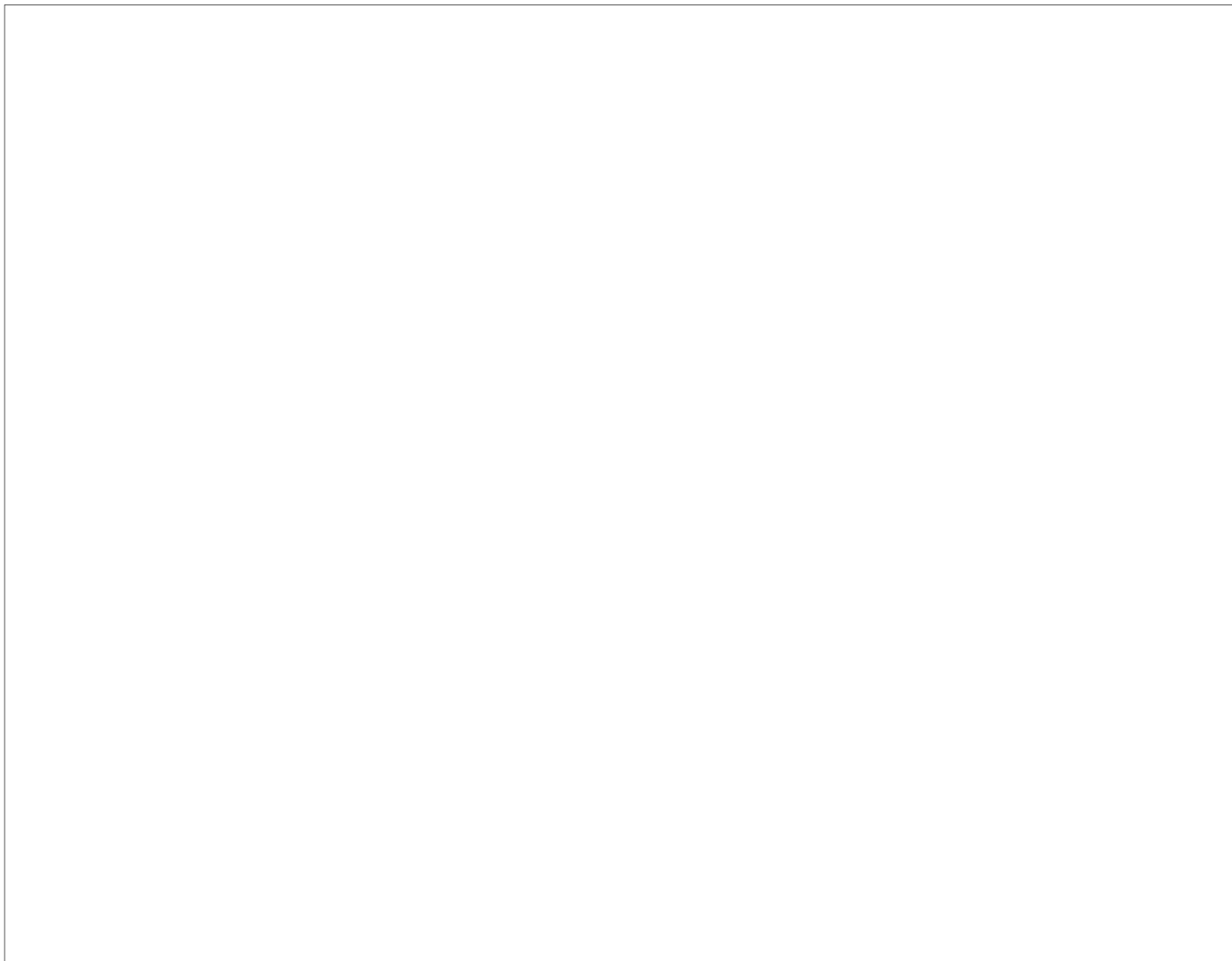
A student demonstration in Mexico late last week to protest US action in Cambodia soon turned into an attack on the government and on presidential candidate Luis Echeverria. This is the first major protest against the government since the riots on the eve of the 1968 Olympics, and it has encouraged students to plan further political rallies during the World Cup soccer matches scheduled for Mexico City in June.

Marco Antonio Yon Sosa, the last of the original guerrilla leaders in Guatemala, was killed by Mexican authorities on 16 May near the border. Communist terrorists will probably try to avenge his death with some type of violent retribution. Right-wing counterterrorism, which began after the assassination of the West German ambassador in April, continues.

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Chilean Presidential Campaign Swings Into High Gear

With the presidential election less than four months away, the campaign now is proceeding in earnest, and some political alliances and strengths appear to be shifting. From the beginning of the campaign it has been apparent that independent conservative Jorge Alessandri is the front runner. Socialist Salvador Allende, running with Com-

munist support, has been considered a strong second, and Radomiro Tomic, candidate of President Frei's Christian Democratic Party (PDC), a poor third. Although Alessandri is still in front, some believe that he may be losing ground to Allende and Tomic. Tomic himself appears to be running a much stronger campaign than he had earlier.

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Two weeks ago Allende's campaign suffered a setback when he suddenly became ill. Although a heart attack was rumored, he claims that it was merely a severe case of grippe with accompanying heart difficulties. Even if the illness was relatively mild, it seems certain that his campaigning will have to be curtailed somewhat.

Tomic, apparently convinced that Alessandri will continue to lead, now seems to be trying to make as strong a hold on second place as possible. Under the Chilean constitution, if no candidate wins a majority of the popular vote, Congress chooses between the two top contenders. In the past, Congress has chosen the candidate with the plurality. Tomic, however, hopes to reinforce the PDC votes in Congress by strengthening his own ties with other leftist congressmen. Last week he refused to permit PDC members of parliament to strike a deal with conservative groups that would have set up a PDC-Radical leadership in the Chamber of Deputies. As a result, a new leader-

ship consisting of a leftist Radical, a Communist, and a Socialist was elected. He may believe that he thus could count on leftist votes in a contest with Alessandri.

Another new factor in the campaign has been provided by a recent public statement by the army commander, General Schneider, that the armed forces would support the right of Congress to choose the candidate with the second highest popular vote. This statement has been attacked as favoring Tomic's campaign, although it also theoretically gives a boost to Allende. It probably was made in consultation with Defense Minister Ossa, a confidant of President Frei.

Frei has opposed Tomic's attempts to make deals with the leftists. The government and party now appear to be uniting in his campaign, however, preferring patronage with Tomic and ties with the left to maintaining an independent position and being out of power. 25X1

Ecuadorean Government and Business Battle Over New Taxes

The government may be facing a showdown with Ecuador's most powerful economic groups over the emergency taxes imposed last week to help cover its budget deficit.

Business organizations from both the commercial center of Guayaquil and the capital of Quito are attempting to have the new revenue-producing measures struck down by the courts as unconstitutional. Businessmen have threatened a general commercial strike to enforce their demands, a threat that is not to be taken lightly because such strikes have helped to bring down two governments within the past ten years.

President Velasco is reacting vigorously with name calling, a publicity campaign stressing the need to "soak the oligarchy," and threats to resign if he is defeated on the fiscal issue. There are no indications that the government is prepared to back off on even part of the fiscal measures.

An extra session of Congress to upset the new tax decrees has been called for by economic interests and by opposition political parties. It appears unlikely that Congress will convene, however, as elections for deputies are due next month and the lower house does not want responsibility for the problem.

The armed forces, whose recent pay increases would be funded by revenue generated from the new taxes, are squarely behind President Velasco. If unrest develops, or if Velasco is faced with an unfavorable ruling from the Supreme Court, his principal military and civilian advisers will increase their pressure on the President to assume new powers, probably extraconstitutional.

Despite the strong reaction to the taxes, a compromise is possible. Opposition groups neither want to push Velasco into a dictatorship nor to see him replaced, because they see no alternative candidate who is more attractive. 25X1

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Dominican Elections Strengthen President's Control

President Balaguer's sweeping re-election victory on 16 May, buttressed by overwhelming congressional and municipal majorities, puts him in a commanding position. Although the administration will continue to be plagued by significant public order problems, Balaguer is unlikely to face a serious political challenge in the near future.

Balaguer's 56-percent majority in the five-man race was a rude disappointment for his opponents. The two leading opposition candidates have predictably charged the government with fraud and have threatened retaliation, but they lack both the political and military muscle to carry through with their threats at this time. Moreover, the OAS observers publicly gave the elections their stamp of approval.

Still-unofficial returns indicate that Balaguer's supporters also won control of 26 of the 27 Senate seats and 60 of the 74 seats in the Chamber of Deputies, and captured 75 of 77 mayoralties. This showing increases the already formidable majorities at all levels. Only Balaguer's Reformist Party had the organization and resources necessary for an effective campaign.

The total vote, less than 1.2 million, does not match the 1966 total of 1.34 million and falls substantially below the 1.8 million eligible voters. Juan Bosch's Dominican Revolutionary Party (PRD), which abstained, will cite these figures as proof of its continued strength. The low voter turnout, however, can be partially explained by a lack of voter interest. The PRD's vote getting potential is also called into question by the fact

that, despite its support of the popular incumbent mayor of the capital, he lost to the President's candidate.



President Balaguer

has done in the past, will probably bring some opposition figures into the government, and this action may further isolate the PRD.

Balaguer, having stepped down temporarily from the presidency, will probably reassume office within a few days. His formal inauguration is scheduled for 16 August. The administration will face a significant public order problem in June, when the OAS is scheduled to meet in Santo Domingo. Bosch has already begun attacking the meeting and may urge demonstrations in an attempt to embarrass the government. Balaguer, however, has been able to use massive military patrolling to shut off serious disorders in the past, and the government will make extensive security preparations in advance of the conclave.

The PRD nonetheless remains the major opposition, if only by default, on the basis of the poor performances of the other parties. The party will continue to attract significant popular support in the cities as long as it has the magnetic Bosch at the helm, but it is no match for the President's combined political and military strength. Balaguer, as he

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Castro Blasts US, Admits Sugar Harvest Defeat

Fidel Castro took a particularly aggressive stance toward the US in a speech delivered early on 20 May celebrating the return of the fishermen kidnaped earlier by anti-Castro exiles.

A major portion of Castro's address was devoted to lambasting the US. He stressed the theme that the "principal party responsible for these deeds" was the US Government. He also reprimanded the British for allowing the Bahama islands to be used as sanctuaries by the exile groups. Castro said the British should demand that "the US Government stop using these islands as bases from which to attack our country." He went on to report to the Cuban people the steps he had taken in order to secure the return of the fishermen, but he constantly returned to his basic theme that the exile attacks were being planned, supported, and launched by the US.

Castro has overreacted to this recent flurry of exile activity—beginning with the Alpha 66 landing on 17 April. The kidnaping incident has brought forth his most vociferous protest. Castro is probably genuinely concerned about the vulnerability of his extensive fishing fleet to more than just harassing attacks by exile groups.

He also probably wants it made quite clear that his government will not be blackmailed into making deals and hopes this will put an end to such tactics. If they continue, he warned, Cuba will "seek every means to pass from the defensive to the offensive." Castro also complained that his air searches were cut short by the "very limited range" of his MIG-21s and lamented that "unfortunately our country does not have long-range aircraft." These statements may be a prelude to a possible announcement of new military assistance

from the Soviet Union and may also represent an implied threat to Guatemala and Nicaragua, which he charged with supplying "bases for aggression."

On other matters, Castro referred to the former US Embassy building on several occasions. He said that the time was not ripe to take over the building and that it would suffice for Havana to "withdraw from the Swiss Embassy its status as representative of US interests in Cuba." He also commented that this action would doom the US-operated Cuban refugee airlift program inasmuch as the refugees are processed through the Swiss Embassy. Moreover, he threatened that no other country would be permitted to represent the US once the Swiss have ceased to act on its behalf.

Castro used the celebrations to deliver some bad news about the sugar harvest. He announced that "we will not reach the ten million (tons)." He admitted that this was a bitter defeat because the honor of the revolution had been at stake, but he added that "true revolutionaries" learn from failures as well as from victories. Castro praised the Cuban people for doing as well as they already have in achieving a record harvest. There was no attempt to blame the US or anyone else for Cuba's failure to meet the ten-million-ton goal. He said that "our goal was too high" and urged the Cubans to an even greater effort in the remaining days of the harvest. In another speech made less than 24 hours later, Castro dwelt extensively on the reasons for the failure to reach his original sugar harvest goal. He did not resume the strong anti-US line emphasized in his earlier speech. According to preliminary reports, Castro indicated that a new goal of nine million tons could be achieved.

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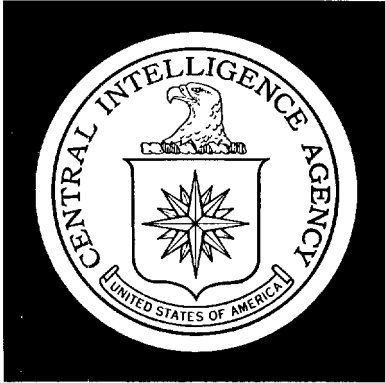
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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Policies of the New Spanish Cabinet

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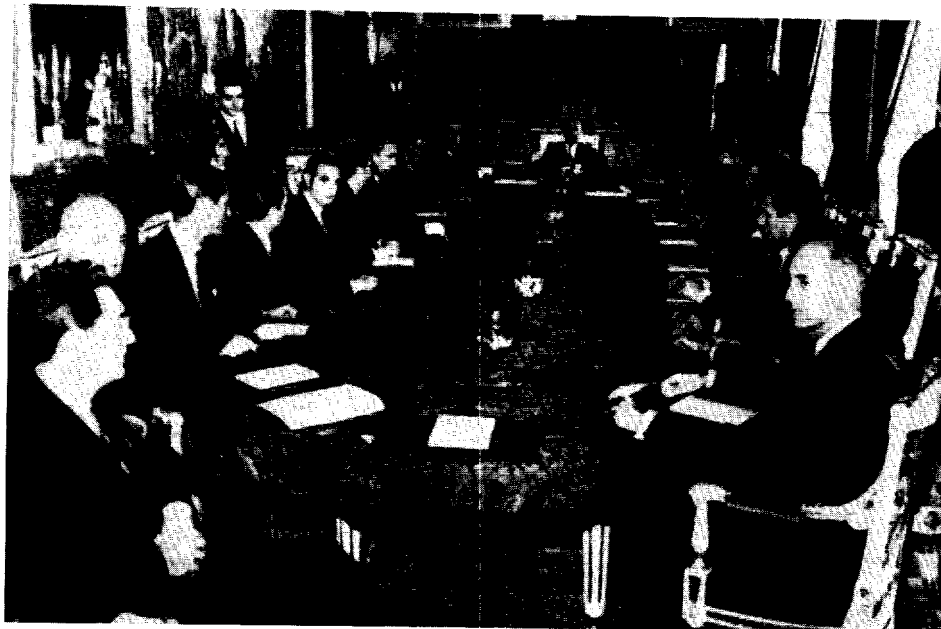
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POLICIES OF THE NEW SPANISH CABINET

When General Franco announced sweeping changes in his cabinet last October the move aroused much interest because it is likely that this government will take Spain into the post-Franco era. Cabinet reshuffling in Madrid has been infrequent—the last major change took place in July 1965. In making his choices this time, Franco abandoned his usual policy of keeping a balanced representation of all the major groups that support him and gave the largest number of portfolios to businessmen and technical experts who are either members of or associated with members of the influential Catholic lay organization Opus Dei. These men, called "technocrats" because of their economic orientation, believe that the political evolution of Spain requires stronger socioeconomic foundations. In keeping with this belief, they propose to give priority to the economic modernization of the country. Political liberalization, in their view, can wait.

Shortly after formation of the cabinet, a leading member announced that the government had no intention of giving impetus to the very cautious political evolution that has been taking place in Spain in recent years and that it would instead place emphasis on changes in foreign policy, especially in improving ties with Europe. Ironically, this important goal is unlikely to be achieved until political liberalization takes place.



New Cabinet Appointed October 1969

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THE LEADERSHIP

The outstanding man in the new cabinet is one of only six survivors of the old one, Laureano Lopez Rodo, Economic Planning Minister. He has emerged as chief policy maker and has the support of Vice Premier Carrero Blanco, the principal



Minister of Economic
Planning
Lopez Rodo

government figure after Franco. Lopez Rodo's training, his wide government and academic experience, his economic and political expertise, and his membership in Opus Dei all serve to enhance his position and to make him the leader of a team that includes several of his former subordinates in economic planning as well as several colleagues in Opus Dei.

INITIAL POLICY STATEMENT

After its first meeting on 31 October, Vice Premier Carrero Blanco issued a policy statement on behalf of the new government. In the domestic field the statement emphasized general goals such as better social welfare programs, education reforms, equitable distribution of wealth and the strengthening of local government. There was also a pious statement of the cabinet's intention to give full information on its actions in order to receive the benefit of public reaction.

In international affairs, the statement noted that Spain belonged to the Western world and would formulate its foreign policy accordingly. It further stated that negotiations with the Common Market would be stressed and friendship with Portugal reaffirmed. It added that the government

would strengthen relations with Latin America and with the United States. This was followed in mid-November by an interview given by Lopez Rodo in which he stated that the new government would emphasize changes in foreign policy rather than internal politics. This remark confirmed the general intention of the new government with regard to closer ties with the Common Market and relations with the United States.

ROLE OF FOREIGN MINISTER LOPEZ BRAVO

The chief spokesman of the new cabinet on foreign affairs is the new foreign minister, Gregorio Lopez Bravo, who also is one of the six holdovers from the previous cabinet, in which he was minister of industry. A go-getter with an attractive personality, he immediately started a flurry of diplomatic activity. In a newspaper interview in December, after little more than a month in office, he explained his approach to his job. After noting that, because of social, historical, and political factors, there were many "constants" in Spanish foreign policy, he declared that the main changes that a foreign minister could make were in priorities and methods of operation.

As part of his activist approach, Lopez Bravo is using personal visits to foreign countries to make Spain's views better known. Since his appointment last October he has made eight trips abroad (see map). He also received German Foreign Minister Scheel in Madrid on 22-23 April.

Lopez Bravo is also interested in having Spain play the role of a power with global interests. He has stated, "Spain must not only have a foreign policy, it must participate in international politics." By interjecting himself into international matters, he hopes to promote both himself and Spain.

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In addition to making more use of travel than did his predecessor, Lopez Bravo has employed a more tactful approach to foreign policy problems. For example, in the dispute with the



Foreign Minister
Lopez Bravo

United Kingdom over Gibraltar—a perennial point of friction—Lopez Bravo has played down differences and concentrated on aspects on which some progress might be made. In attempting to reduce tension with the UK over Gibraltar, Madrid agreed last November to suspend further discussion of the problem in the United Nations. The Spanish press moderated

its coverage of the subject and adopted a friendlier tone toward the UK. There was no implication that Spain would give up its claim to Gibraltar, but Lopez Bravo stated in an interview that the Rock would no longer be the magnetic pole of Spanish foreign policy. Lopez Bravo and the British ambassador in Madrid have had informal exchanges this month concerning the sort of cooperation that might eventually take place between Spain and Gibraltar once present border restrictions are removed. The problem remains, but it has been reduced somewhat as an obstacle to other Spanish goals.

IMPORTANCE OF TIES WITH EUROPE

The new cabinet's real push to identify Spain with Europe is concentrated on efforts to reach an agreement with the European Communities (EC). Although Spain wants full membership or association with the EC, political opposition to the Franco regime within some of the six countries has made that impossible. The

new cabinet has continued earlier negotiations for a two-stage preferential trade agreement, and terms were concluded in March. Final approval by the EC is expected in June. During the first stage, to last six years, Spain will reduce tariffs by an average of 25 percent on most of the manufactured goods that it imports from the EC (by 60-70 percent on some items), and the EC will reduce tariffs by about 60 percent on most imports of Spanish manufactured goods. Both Spain and the EC will also reduce trade barriers on selected agricultural products. The character of the second stage was left undefined, but Spain hopes that it will lead to eventual association.

In pursuit of these closer ties, Lopez Bravo has met with the foreign ministers of all six EC countries. For instance, his trip to Paris in February promoted closer relations with France, which in turn could help Spain in its plans to play a larger role in international affairs. The two foreign ministers in their talks stressed their similarity of views on international questions. France agreed to sponsor Spain's return to full participation in European affairs, including support of Madrid's effort to establish a relationship with the EC. Lopez Bravo emphasized to the French that, in developing closer ties with Paris, Spain did not wish to detract from cordial relations with its other allies.

The most notable accomplishment of the Paris visit was the signing of an agreement under which Spain contracted to purchase 30 Mirage aircraft. Under a special provision, almost half of the aircraft construction will be performed in Spain. Madrid is also considering the purchase of French tanks.

During the past several months Spain and France have also discussed the possibility of forming a Mediterranean "pact" to ensure the security of the western Mediterranean. It is not

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clear which side revived this idea, as both De Gaulle and Franco have espoused it in the past. The pact, which may be no more than an agreement to consult, would include France, Spain, Italy, Greece, and certain Maghreb countries, or some combination of these.

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Spain is interested because of its concern over expansion of Soviet influence in the area. Madrid may feel that pact consultations would improve its relations with the Maghreb countries, but its main reason would be the opportunity to enhance its international standing and improve its chances of eventually getting into NATO. Lopez Bravo told Secretary Rogers last month that he had discussed with the French how such a pact arrangement might be achieved, but that Spain would act with the full understanding and support of the United States. The idea is likely to remain a French-Spanish project, for an Italian official has already said his country would not be interested, and participation of the Maghreb countries at this time is doubtful.

IMPROVED RELATIONS WITH THE USSR AND EASTERN EUROPE

The cabinet is interested in stepping up relations with the Soviet Union and the Eastern European countries. An indication of this goal was the brief stopover that Lopez Bravo made in Moscow en route to Manila last December, when he met with a Soviet Foreign Ministry official at the airport. Lopez Bravo is influenced by his long-time support for increasing Soviet-Spanish trade as well as by the possibility that better relations would put Madrid in line with the efforts of the EC countries to expand ties with Eastern Europe.

The main development since Lopez Bravo's visit was the arrival in Madrid in late March of a Soviet shipping delegation to set up an office

under terms of the port facilities agreement signed in February 1969. This may lead to eventual subdiplomatic relations. The Soviets are also pressing for a TASS office in Spain and the establishment of Madrid-Moscow flights by Soviet and Spanish airlines. Madrid is likely to move slowly, however, on giving the Soviets any significant presence in Spain. It believes it must balance its desire for improved trade and relations with its concern over Soviet expansion in the Mediterranean area.

The present cabinet has continued the policy of its predecessor in establishing formal consular relations with Eastern European countries. This policy began with Romania in 1967 and was followed with Poland in July 1969 and Hungary in December. Negotiations for consular relations have been undertaken with Bulgaria, and a similar move with Czechoslovakia is expected.

The Spanish Government has accepted in principle the Warsaw Pact proposal for a conference on European Security. The Spaniards have indicated publicly their strong support for this proposal with the proviso that the United States and Canada participate and that it have careful preparation. They are urging that a date for the conference be set before September, a stand that goes beyond the more cautious NATO position.

POLICY TOWARD THE UNITED STATES

While devoting considerable attention to the promotion of Spain's ties with Europe, the new government has not neglected relations with the United States. In fact, Lopez Bravo immediately raised the matter of beginning negotiations on a new relationship to replace the bilateral defense agreement that expires next September. Spanish discontent with the amount of grant aid offered by the United States during negotiations for renewal of the agreement in 1968 led Madrid to

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refuse to sign by the deadline and to invoke a consultation period that finally resulted in a shorter renewal period than the five years stipulated in the original agreement. In negotiations now under way, the Spaniards say they have abandoned the idea of rent for the bases. Instead they are stressing the need to replace the present US control over the bases with a "truly shared" US-Spanish control mechanism. They are also interested in having the new agreement permit Spain to participate along with NATO in decisions involving European defense. Also, Madrid desires to increase and strengthen commitments to defend the Spanish security area. But the new government appears to want to continue its special tie with the United States and to expand it by including nonmilitary items such as aid to education. Although Spain could still make unreasonable demands, it seems likely that it will accept some sort of compromise that can be presented to the Spanish people as an increase in international prestige.

One immediate possible irritant in US-Spanish relations may arise from the preferential trade agreement Spain has negotiated with the European Communities. Because Madrid is desirous that the agreement will lead to eventual association with the EC, it hopes Washington, which generally opposes preferential trading agreements, will leniently interpret the GATT provision requiring that such agreements have a definite time schedule for full association.

RELATIONS WITH OTHER AREAS

Although the cabinet's initial policy statement omitted any reference to Spain's relations with the Arab countries, Lopez Bravo later explained that this did not mean any neglect or change in Madrid's traditional ties with the Arab states. To reaffirm this, he made an official visit to Cairo last January and to Rabat in early May.

He also invited Nasir to visit Madrid. In addition, agreement has been reached to permit the Arab League to open an office in Madrid. Concurrently with the new flexibility, however, Lopez Bravo also softened Madrid's usual hard line toward Israel, which it does not recognize, when he stated in an interview in March that Spain's friendship with the Arabs does not mean that it is an enemy of Israel.

Lopez Bravo is also interested in expanding Spanish relations in Asia. He was able to do this and also promote Spain's ties with the former Hispanic nations by going to Manila last December for the inauguration of President Marcos, at which time he offered a \$10-million Spanish credit to the Filipinos. He also used that occasion to meet the Mexican foreign minister, and this led to an understanding that their ambassadors in Washington would hold talks regarding the establishment of consular relations.

ECONOMIC POLICIES

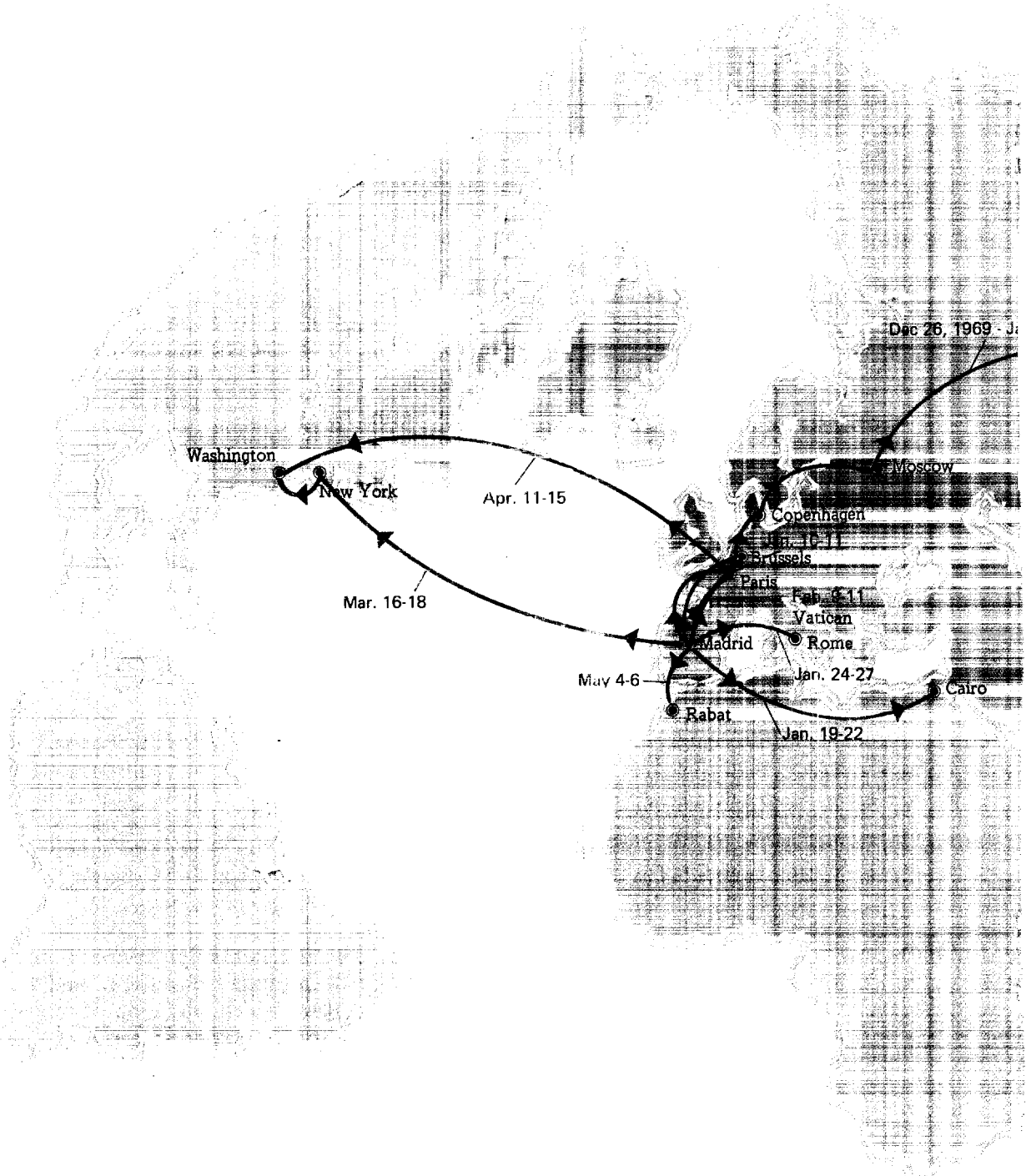
The new cabinet is following the economic programs of its predecessor, at least for the immediate future. This was to be expected because Economic Planning Minister Lopez Rodo, who held the same position in the outgoing cabinet, played a leading role in devising those plans. Inasmuch as a majority of technocrats in the present cabinet were chosen on his recommendation, Lopez Rodo should be better able to implement his plans now.

Essentially economic policy is governed by the Second Economic and Social Development Plan, which was adopted in February 1969 to run through 1971. This plan, as did its predecessor, attempts to set target performances for each sector of the economy so that each will know where the related sectors and the economy as a whole are headed. The Second Plan seeks a more

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Travels of Foreign Minister Lopez Bravo



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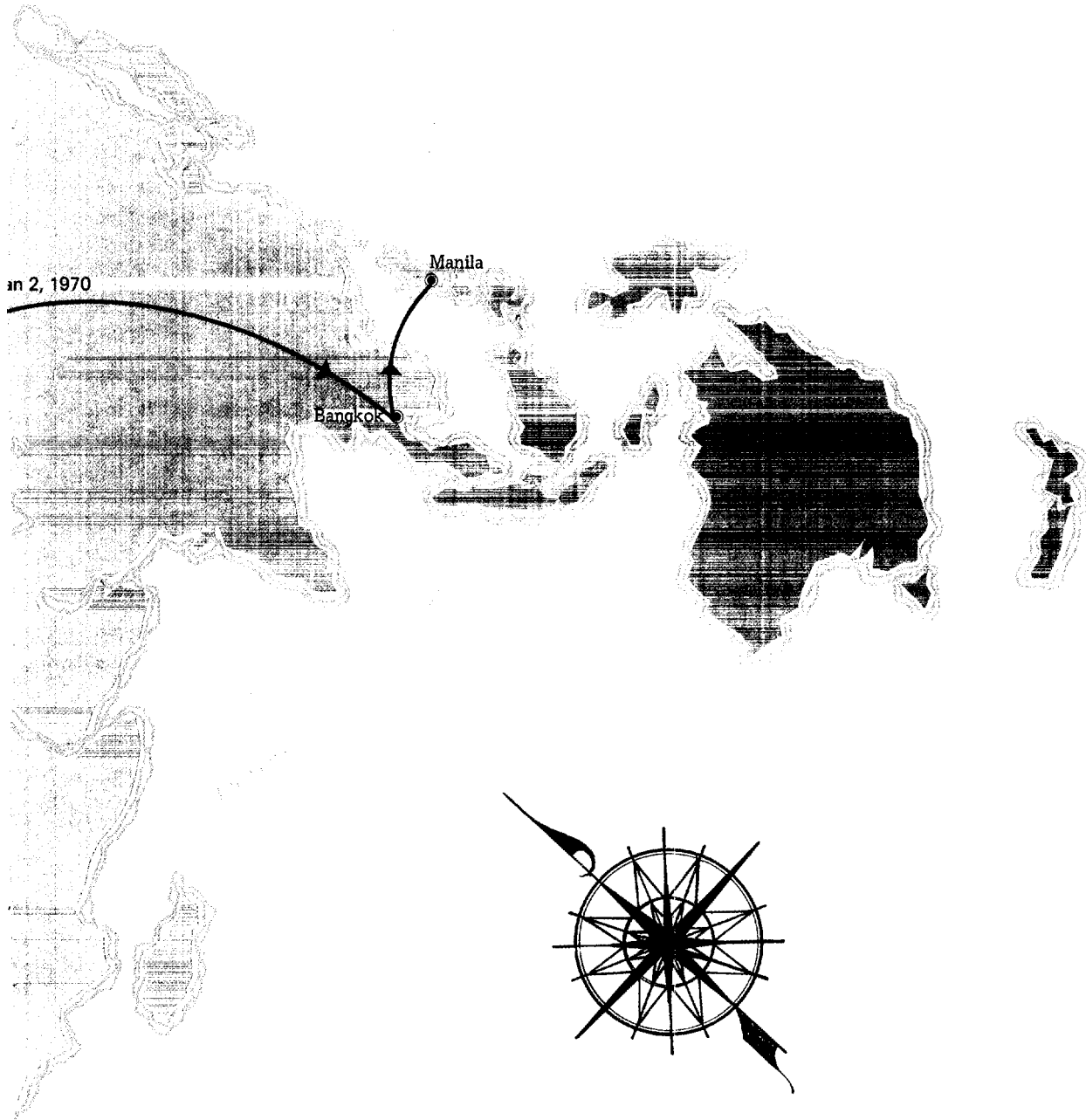
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rational allocation of resources in order to achieve the greatest long-run economic growth and to increase the competitiveness of the economy with a view to further integration into the world economy. The plan stresses improvement in agriculture, which has lagged behind other sectors of the economy, as well as in basic industries, transport, and communications. It emphasizes the need for more and better education, scientific research, housing, and urban services. It aims at a 5.5 percent average annual growth of GNP for the period through 1971 and will attempt to bring about an increase in investment—especially in export-oriented industries—relative to total consumption.

When the new cabinet took over, there was need for prompt action to restrain the growth of domestic demand and to cool the economy. Although the government has pledged to take the action necessary to maintain stable growth, it has appeared to be reluctant to promulgate deflationary measures because these would be politically unpopular. The new cabinet's primary line has been to continue the tight monetary policy initiated by its predecessor for controlling inflation. Thus it has continued for 1970 the 18 percent annual ceiling on new bank credit established last September, and has raised the rediscount rate of the Bank of Spain to 6.5 percent.

The cabinet has also moved to postpone government spending by ordering an indefinite delay of 10 percent of planned central government expenditure projected in the 1970 budget, which contained a 12 percent increase over the 1969 budget approved by the old cabinet. The government also imposed a 20 percent predeposit requirement on all imports in hopes of cutting down Spain's enormous trade deficit, which was responsible for the 1969 balance-of-payments deficit.

On the other hand, the cabinet yielded to worker demands for better pay by approving a 17.6 percent increase in the general minimum wage effective on 1 April. This was a raise from 102 pesetas (\$1.45) to 120 (\$1.70) a day. Notwithstanding the government's contention that a minimum-wage raise is not inflationary because it affects only a small group of unskilled workers, most impartial observers believe that this increase will inevitably have a booster effect upon wages in general. The government maintains limited controls on wages and prices, which are more guidelines than limits to be enforced directly.

The new cabinet reportedly intends to see how well the present regulations work before proceeding further. It is also concerned with increasing Spain's exports, and this goal is reflected in the moves to build closer ties with both Western and Eastern Europe, and with the USSR.

IMPACT ON DOMESTIC PROBLEMS

The new cabinet immediately impressed observers with its alertness and competence and gave the impression of working as a team. US officials who have had contacts with the ministers have remarked on how well informed they are on important issues, including those outside the competence of their ministry. This spring, however, reports are being heard of a lack of coordination and a rise in frustrations within the cabinet. Although a certain amount of this reporting may be chalked up to the propensity of informed Spaniards to gossip about political figures, there are some problems at the root of it.

Among these is the MATESA scandal. This involves the misuse of some 10 billion pesetas (around \$143 million) of government export credits by a fast-expanding company, *Maquinaria Textil del Norte de Espana*, SA (MATESA).

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Because government approval was required to get these credits, and technocrats associated with Opus Dei were involved in approval of these transactions, opponents of the Catholic organization have tried to blame Opus Dei ministers. The ministers of commerce and finance may have been dropped in the October cabinet changes in response to pressure to find those ultimately responsible, but the official investigation to determine responsibility and decide who should be punished has continued. The company president and several associates this week were given stiff fines and sentenced to prison terms of up to three years. Recently the investigation has been moved to the level of the Supreme Court so that ministers or ex-ministers can be indicted if necessary. This action implies that Franco himself has decided to let the case run its full course. Although the most likely result would be the indictment of the ex-ministers of finance and commerce, it could involve ministers in the present cabinet. The two most rumored possibilities are Foreign Minister Lopez Bravo, formerly the minister of industry, and Education Minister Villar Palasi, formerly a legal adviser to MATESA. It would be contrary to Franco's usual way of operating to let a case go so far as to involve a member of so recently chosen a cabinet, however. Consequently, some solution not involving the present cabinet is likely to be found. However, the widespread criticism that the case has aroused makes it difficult to rule out entirely Franco's letting the chips fall where they may.

Other difficult problems confronting the cabinet are financing the new education reform program, replacing old guard officials in the Na-

tional Movement with more moderate officials, and living with the current budgetary restrictions on ministerial programs. These restrictions may have been involved in the recent resignation of Minister of Public Works Silva Munoz. He mentioned family reasons, but some observers see his departure as a strategic withdrawal to avoid being identified with a cabinet that may be embarrassed by the MATESA scandal. As the member of a rival Catholic Action group, Silva Munoz may have considered himself outnumbered in the new cabinet and ready to build up political contacts outside the government.

OUTLOOK

Last month after two leading Madrid newspapers published separate articles about the need for political liberalization in Spain, the editors of one of them, *ABC*, were ordered to print an article by one Gines de Buitrago, which, it soon became known, was a pseudonym for Franco and Carrero Blanco. In an angry rebuttal to critics of the present system, the authors likened calls for political democracy after the ills that existed prior to the present government as comparable to advising a reformed alcoholic to return to drink. The article made it evident that the regime does not intend to permit changes in the present political setup. Such a warning against democracy does nothing to help efforts of the technocrats to lead Spain to reintegration into Western Europe. But the technocrats are pragmatists and are willing to work toward long-range goals to be achieved after Franco goes.

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