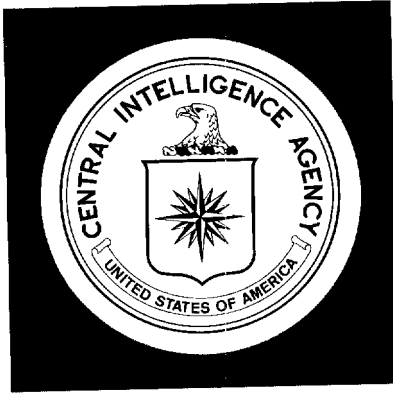


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DIRECTORATE OF  
INTELLIGENCE

# *WEEKLY SUMMARY*

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8 September 1972  
No. 0386/72

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

### WARNING

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## PHAM VAN DONG SPEAKS

As he has in past years at the National Day celebrations, North Vietnamese Premier Pham Van Dong on 2 September once again delivered a kind of "state of the country" address that set forth the main lines of Hanoi's policy on the war and other issues of import to the North Vietnamese leadership. Such speeches can be taken to represent the collective view of the politburo; in this case, North Vietnamese media went to some lengths to underscore the solidarity of the top leadership with the premier. There were numerous references to Le Duan and Truong Chinh in their roles as official co-hosts at the festivities.

Dong devoted the first part of his speech to a relatively routine, yet very defiant, repetition of Hanoi's position on the present balance of military power in the war, predictably claiming that the Communist offensive had scored great victories and opened the way for the defeat of Vietnamization. He added that, despite the US military counter-effort against the North, Hanoi and its southern allies remain capable of continuing and increasing their military operations. The message is that the Vietnamese Communists hope to press ahead on the battlefield with much the same mix of tactics and effort that they have mustered over the past year unless and until a satisfactory settlement can be negotiated.

In dealing with the subject of negotiations, Dong set forth one of the most comprehensive statements of the North Vietnamese position broached by any Hanoi leader since the Paris talks resumed. Although his remarks do not indicate any change in the core position of the North Vietnamese concerning their basic demand for total US military withdrawal and simultaneous political agreement prior to a cease-fire, some of his nuances may point to possible areas of flexibility.

As Dong sets it up, there are two fundamental elements of the seven points that must form the basis of any agreement. One is complete US withdrawal, the other is termination of support for the present Saigon government. Dong spells out the details of the North Vietnamese demand on US military withdrawal rather

precisely, calling for a cessation of US "air, naval, and other military activities" in both North and South Vietnam and for the withdrawal of allied ground forces and military personnel. His formulation is suggestive of a current desire by the Communists to keep the issues of Vietnam and the rest of Indochina carefully separated in a peace settlement—a position on which they have not been wholly consistent.

On the issue of US material support for the Saigon regime, Dong is very specific. He limits the North Vietnamese position to a demand for the ending of all US "military commitments" to Saigon; he says nothing about economic or political aid. There have been a number of fairly firm indications in the past that it is essentially US military aid to Saigon that Hanoi feels must be ended or at least restrained before a settlement can be reached.

In discussing self-determination, Dong did not explicitly repeat the long-standing Communist demand for President Thieu's resignation, and he did not refer directly to the elections the Communists have often described as the last stage in the formation of a permanent government to follow an initial government of "national concord." He did repeat the Communist call for a coalition government. This lack of specificity on the formation and balance of a coalition is doubtless deliberate and intended to suggest flexibility on the exact arrangements once agreement has been reached on the basic outlines. This has been more or less the direction of Hanoi's emphasis for most of the last 12 months, especially since the resumption of the Paris talks.

The North Vietnamese appear to believe that US agreement in principle to a change of government which brings the Communists into the central power structure in South Vietnam will be sufficient, along with US military withdrawal, to assure that the changes Hanoi desires will take place. The North Vietnamese, by their handling of specific political demands, have long hinted that there are a variety of ways the details could be ironed out once the principles are accepted. Dong's treatment of the North Vietnamese negotiating stand adds confirmation to this speculation.

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### ISRAELIS LIKELY TO HIT BACK

1 The fedayeen attack on the Israeli Olympic team in Munich on 5 September, which ended in the death of 11 Israelis, will remind Tel Aviv that its problems with the Arabs are far from solved and that such favorable factors as the departure of the Russians from Egypt and the relative quiet on the frontiers and in the occupied territories can quickly be overshadowed by the desperate actions of a few Palestinians. The Munich drama followed a three-month lull in such fedayeen activity; in early May, the same "Black September" organization responsible for the Munich action attempted unsuccessfully to hijack a Sabena jet liner. Black September is the terrorist front of Fatah.)

2 The Israeli Government and public are particularly bitter over the latest outrage and will seek to avenge the death of the Israeli athletes. West Germany has already been the target of Israeli press criticism, and bitterness could well be voiced against the Meir government itself for not having taken sufficient security precautions. The

semi-official newspaper, *Davar*, has called for "war to the end against these murderous organizations, their members, and dispatchers, wherever they may be." *Davar* warned the Arab governments giving sanctuary to the fedayeen to "eliminate the terrorist bases within their borders, or Israel will undertake the task." The government itself expressed almost the exact sentiments in a communique issued after a cabinet meeting.)

3 Israel is almost certain to strike against fedayeen installations and concentrations in southern Lebanon and in Syria. Fedayeen in Syria may indeed get extra "attention" from the Israelis since they have been harassing Israeli positions in the Golan Heights for several weeks and since the Syrians have termed the Munich fedayeen "martyrs." Although Tel Aviv may undertake some quick, dramatic retaliatory strikes in the near future, the Israelis may prefer a more carefully planned military operation in order to deal the fedayeen a very heavy blow. Terrorist reprisals by the radical Jewish Defense League may also be carried out against Arab officials in Europe and the US. [REDACTED]

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**BRAZIL: THE SUCCESSION ISSUE**



**President Medici (l) confers with  
Army Minister Orlando Geisel**

6/7 <President Medici, whose term runs out in 1974, is trying to keep the lid on any discussion of the succession problem for at least another year. Federal police have been stationed at newspapers to make sure that they comply with orders issued in late August not to print on the subject.>

6/7 <Medici's chief motive in seeking delay is his desire to postpone the maneuvering among ambitious army generals. The new president will come from this group, which—along with Medici—will choose the new president. Medici recognizes that once the selection is announced, everyone will try to influence and gain the favor of the chosen man. The President fears that the resulting "lame duck" status of his own administration could disrupt important long-range social and economic programs that otherwise could begin to pay off in 1973. He reasons that, if he can delay the process, these programs will strengthen his own hand in the selection.>

anyone they think might give them a slightly larger role. These politicians apparently believe that if Medici were forced to choose now, Orlando Geisel's personal control of the army would ensure a consensus behind his brother.> They fear, however, that given more time, Medici might decide in favor of a member of his personal team, such as General Carlos Fontoura, director of the National Intelligence Service. The civilian backers of Ernesto Geisel think this would mean a continuation of Medici's basic policies, including the exclusion of civilian politicians from policy-making.>

7/10 <All three presidents since the 1964 "revolution" have come from the military hierarchy and were chosen by a consensus of senior officers. Once he attained the presidency, his chief problem became retaining the support of his military colleagues while not allowing them to dominate his actions, including the choice of a successor. Medici doubtless remembers that the first "revolutionary" president—Castello Branco—failed to plan the succession, with the result that the then army minister, Costa e Silva, was able to line up enough military backing to gain the presidency in 1966

10 <Both Medici and the army minister know that dissension surrounding the succession is almost the only factor that could threaten military unity and the stability of the regime. In an Army Day speech on 25 August, Orlando Geisel, after consulting with Medici, issued an unusually strong call for continued military unity under a rigid hierarchical system.>

7/10 <Medici's position is delicate because his army minister, General Orlando Geisel, upon whom he has relied to maintain army support for the regime, is a brother of a leading unofficial candidate—retired General Ernesto Geisel. Ernesto Geisel apparently now has the support of the "outs"—these include military officers who, like both Geisels, were closely associated with Castello Branco, as well as officers who have had their personal ambitions frustrated under Medici.>

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7/10 <Geisel is also supported by a considerable number of civilian politicians, who would back

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### THE SOVIETS REINVEST

#### SOME GAINS IN SOMALIA

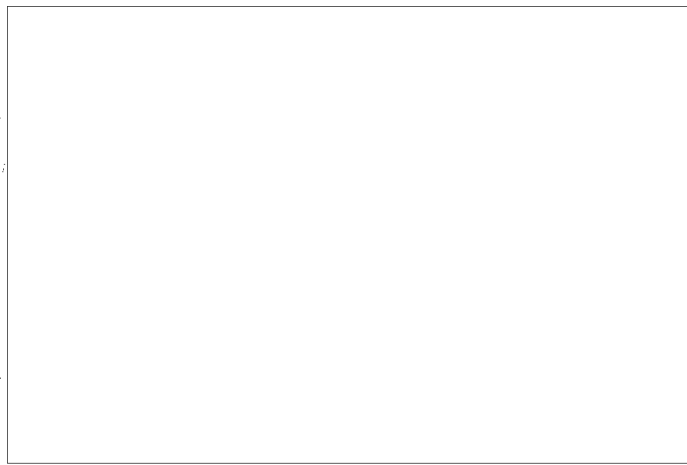
4 A The Soviet position in Mogadiscio looks stronger. Over the past few months, President Siad of Somalia has made a series of moves designed to strengthen his position against present and potential threats from the divided Supreme Revolutionary Council. The moves have generally taken Siad closer to the Soviets, who have provided him every assistance. >



25X1 Still the primary Soviet asset in Somalia is military assistance. The Russians have supplied \$50 million of military aid since 1963, and Soviet planes and warships have access to Somali air and port facilities. The Soviets also have over 300 military advisers stationed in the country, and there are now signs that further military assistance may be forthcoming. The Somalis have been unhappy for some time with Moscow's refusal to provide sophisticated weapons such as MIG-21s, >



> The picture of an improving Soviet position is not unqualified. Siad's shift toward Moscow

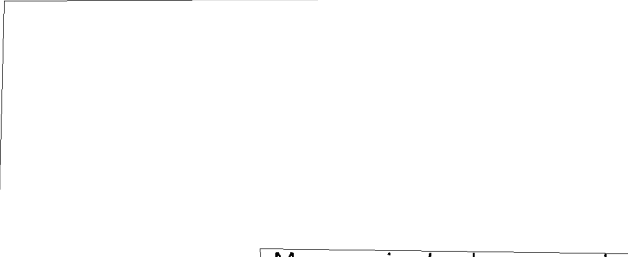


Mogadiscio

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probably stems from a desire to use every avenue to advance his own interests rather than from a real commitment to the Russians. There are pro- and anti-Soviet factions in the Somali leadership.



Moscow is clearly aware of the shaky basis of its relationship with Siad and is undoubtedly concerned with protecting its investment. In the aftermath of the Egyptian experience and faced with a growing Chinese economic assistance program in Somalia, the Soviets can be expected to work hard to avoid another setback.



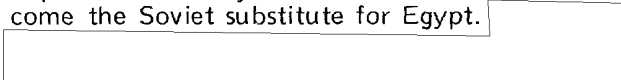
**AT ARMS LENGTH IN SYRIA**

The Soviets are scrambling, with some success, to preserve their position in Syria. They are providing new deliveries of military equipment and promising extensive economic aid. There are still loose ends in the relationship, and Moscow tried, not too successfully, to tie them up by sending Deputy Foreign Minister Kozyrev on a hurried trip to Damascus last week.

Kozyrev delivered a special message from Brezhnev, Kosygin, and Podgorny to President Asad in a late evening audience. The contents of the message have not been revealed, and there are no indications of how the Syrians will reply. In the past, the USSR has pressed Syria to sign a friendship treaty and has sought base rights in Syrian ports, but Moscow has surely tempered these requests following the Soviet expulsion from Egypt. Instead, the Kremlin may be asking for guarantees about the tenure of their advisers

in Syria and assurances that Soviet naval units will be allowed to go on using Syrian port facilities.)

Moscow's objective is to avoid another embarrassing ouster from a Middle Eastern country, and it would appear that the Russians have something to be concerned about. They are aware that the Syrian military, like the Egyptian, resents the Soviet presence. The Kremlin expects Asad to come under greater pressure from his fellow leaders of the Confederation of Arab Republics when they meet in October. Despite public declarations of friendship to the USSR by Syrian officials, including Asad, Soviet leaders seem to be searching for more concrete indications that their relationship with Syria is solid. The response from Damascus has been friendly but not overwhelming, and has given the impression that Syria is determined not to become the Soviet substitute for Egypt.



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INDOCHINA

VIETNAM: COMMUNISTS LOOK AHEAD

There are indications that the Communists hope to maintain and, if possible, to step up the level of fighting in South Vietnam as the US presidential election nears.

Communist officials have given instructions that Communist main forces are to lead a surge of military activity, beginning this month, designed to force the US and South Vietnamese governments to make concessions at Paris prior to the election. October, according to COSVN, will be the "decisive" month in the 1972 offensive. Similar instructions have been issued in other parts of South Vietnam not under COSVN jurisdiction.

COSVN's main forces are directed to use their artillery and sapper units to attack govern-

ment defenses around Saigon and major US and government bases. The aim is to tie down South Vietnamese forces and prevent them from launching counterattacks into "liberated" areas. Viet Cong local forces have been tasked with assassinating government officials in an effort to weaken South Vietnam's administration at the lower levels. The instructions also directed Viet Cong cadre to recruit new members and to penetrate legal organizations in order to be in position to manipulate the populace in the event of a cease-fire.

In issuing the new instructions, the COSVN leadership appears to be aware of the limitations and weaknesses of its forces. The directive exhorted the cadre to commit themselves totally to carrying out the policies of the party central committee, and lower-level officials were re-proved for questioning the policies and directives of COSVN and other higher authorities.

Some Gains, Some Losses

South Vietnamese forces made little headway in Quang Tri City during the past week. They fought with Communist units inside and to the north of the city, while the enemy continued to pour in thousands of mortar and heavy artillery shells on the attacking government forces.

To the south, government troops made further progress in the Que Son Valley fighting. South Vietnamese 2nd Division troops recaptured most of the district capital of Que Son and began efforts to retake Fire Support Base Ross to the west of the city. Communist units in the area reportedly have begun to feel the effects of allied air strikes against their positions. Several prisoners who have been captured in the recent fighting claimed that many of their units were under-strength and had not been resupplied or refitted since they began their campaign in mid-August.

In the western highlands, Communist units, dormant for the past several weeks, attacked South Vietnamese outposts in Pleiku Province, capturing the important ranger camp at Plei Djereng. On the central coast, Highway 1 was cut in several places between Binh Dinh Province and



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Da Nang. Communist units attacked several government outposts and the district capital of Tien Phuoc in Quang Tin Province, apparently to take some of the pressure off Communist troops fighting farther north in the Que Son Valley. By mid-week, bad weather had slowed the fighting somewhat, although the typhoon-spawned rains had also cut into allied air support. >

### Stirring the Political Pot

53 The Saigon government has extended the deadline for newspapers to make the security deposits required by the new press decree and is reportedly considering ways to moderate some of the decree's more severe provisions. The deadline for the deposits was extended until 15 September, ostensibly to give publishers more time to raise the necessary funds. Many papers have not made the deposit as yet, and some have done so only under protest. In addition, fairly widespread albeit low-keyed criticism of the decree is continuing among informed South Vietnamese, and the Senate is preparing to debate the matter. President Thieu probably would like to work out a compromise to quiet criticism, but he seems unlikely to make many changes in the provisions, which are designed to ensure tighter government control over the opposition press. >

53 The press decree is one of a series of measures announced by Thieu under the six-month emergency powers law promulgated last June. In recent weeks, the government has also taken steps to stiffen penalties for corruption and for certain crimes by private individuals. These tough measures have generally been favorably received, though many South Vietnamese are taking a wait-and-see attitude. They will remain skeptical unless the government actually enforces the anti-corruption regulations by cracking down on prominent figures with reputations for corrupt activities. >

### CAMBODIA: LITTLE FORWARD MOTION

54 The government's effort to reopen Route 5, which links Phnom Penh to rice-rich Battambang

Province, has made scant headway. For over three weeks, the Communists have held on to a 14-mile section of the highway; local government commanders have been reluctant to hazard a major engagement. After some belated prodding from the high command in Phnom Penh and the arrival of reinforcements, however, an organized clearing operation appears to be taking shape, but as of 7 September, it had not been launched. >

### Strain on Grain

51 The closure of Route 5 continues to add to Phnom Penh's rice problems. Public knowledge that domestic rice stocks will not last until the next harvest late this year and that the capital's current stocks are dangerously low touched off a wave of heavy buying this week. Some hoarding is being reported, and the price of preferred grades recently has jumped 40 percent to the highest level since the war began.

The government is trying to alleviate this situation by taking over distribution of a portion of privately held stocks, and it is selling less-preferred grades at controlled prices. The first delivery from a recent purchase of 10,000 tons of rice from Thailand, due to arrive next week, should further ease the pressure. >

### National Assembly Elected

54 While the prospects of real military achievements remain remote, the Lon Nol government could find some small solace in the successful conduct of another election—even though the contest to choose a new National Assembly was a one-sided affair. Complete returns will not be announced until 10 September, but the regime has already claimed that pro-government candidates of the Social-Republican Party have captured virtually all of the 126 seats in the lower house of the legislature. The government again managed to muster a heavy military vote, but the civilian turnout was light. The Communists did not undertake any significant military actions to disrupt the election, but they did try to intimidate voters in some rural areas from going to the polls. >

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LAOS: THE COMMUNISTS HIT HARD

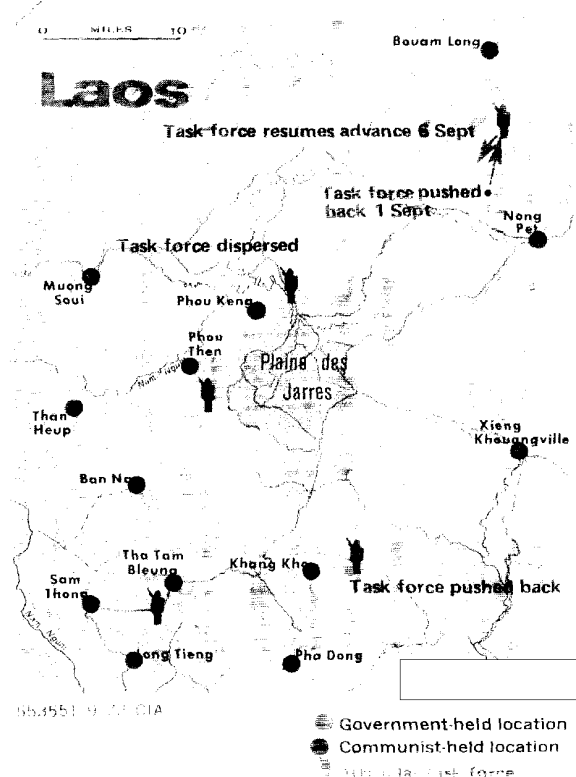
41 The government's offensive in northern Laos has suffered a setback. In the most serious tactical reverse, a nine-battalion irregular task force that had been operating north of the Plaine des Jarres was scattered and rendered ineffective by strong North Vietnamese ground and artillery attacks on 30 and 31 August; poor weather hampered air support. Some 700 of the scattered irregulars worked their way to the positions of another task force on the Plaine's western edge and have since been evacuated to Long Tieng. At last report, other irregulars were continuing to straggle back to friendly lines.

41 The other irregular task force in the north, which had been moving south from Bouam Long to harass Communist supply lines near Nong Pet, came under Communist attack on 1 September

and was forced to pull back a short distance. The task force renewed its advance on 6 September, however, following air strikes on suspected enemy positions.

41 South of the Plaine, the Communists have forced the irregulars operating near Khang Kho to abandon some of their positions. North Vietnamese units also struck the task force near Tha Tam Bleung, southwest of the Plaine. That task force managed to hold its ground and sustained only light casualties.

44 As General Vang Pao's current campaign enters its fourth week, his chances for matching the gains he made on the Plaine last year seem slim. One irregular task force is completely out of action, and the other four are largely immobilized. Many of the irregulars are suffering from poor morale and need medical treatment. With better weather and increased air support, however, the irregulars might still be able to regain some of their momentum.



Progress in the South

207 Military activity picked up this week in the Pakse area as several government battalions began to move east along Route 23. The irregulars ran into strong North Vietnamese resistance on the ground and were shelled on 3 September. With the help of air strikes, they managed to reach the junction of Routes 23 and 231, where on 5 September they linked up with another government force moving south.

Little action was reported in the vicinity of Khong Sedone. The present lull has permitted the return of civil administration to Khong Sedone, and commercial and agricultural activities show signs of returning to normal.

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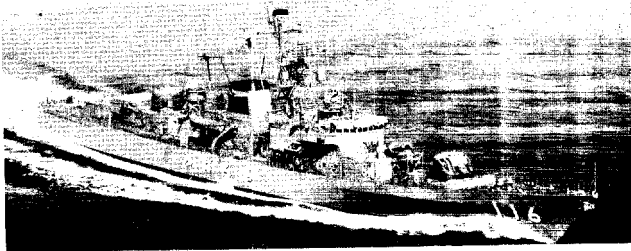
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### JAPAN: DEFENSE PLAN IN LIMBO

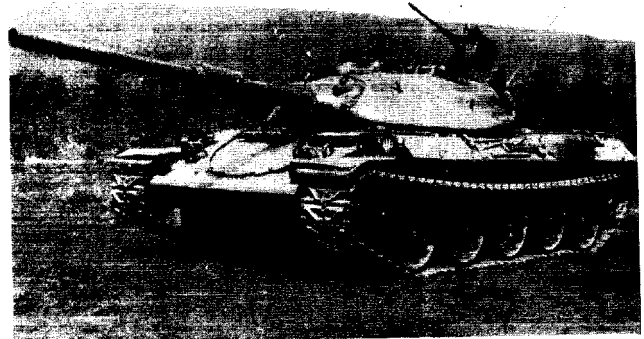
55 The Japanese National Defense Council, a civilian panel of top ministry officials chaired by Prime Minister Tanaka, is deferring final consideration of the nation's fourth five-year defense buildup plan until after Tanaka's Peking trip. The council probably will not return to the plan for several months; it will then have to be approved by the full cabinet and the Diet. >

52 The new plan should have been put into effect by April 1972 when the previous plan expired, but a number of economic and political factors prevented the National Defense Council from considering a draft before the deadline. The Diet has, nevertheless, approved appropriations for the first year of the new plan after the government agreed to withhold spending on the new weapons systems in the plan. The freeze on the new weapons systems will be lifted only after the Diet passes the entire plan. >

52 The goals of the present draft are modest and should escape drastic cuts. The plan calls for expenditures of some \$16 billion, excluding payroll costs, over the next five years compared with a budget of some \$7.5 billion for the previous five years. Foreign purchases will climb to over \$1 billion, over 70 percent of which will come from the US. Yearly military expenditures have been averaging less than one percent of Japan's gross national product and about seven percent of the annual budget. Spending under the new defense draft is expected to average about the same percentage of the country's rapidly growing GNP and national budget. >



Japanese Destroyer



New Japanese medium tank developed by Mitsubishi.

56 Under the draft plan, the authorized strength of the ground forces is to increase only slightly above the current 180,000 men. The present force structure of five armies with 13 divisions would be maintained, but an additional infantry brigade will be raised for use on Okinawa. The firepower and mobility of the ground forces will be increased by providing Japanese-made tanks, armored personnel carriers, and helicopters to replace obsolescent US weapons. >

56 The draft projects new naval construction on approximately the same scale as the third plan. About 15 destroyers and destroyer escorts, along with five submarines and various smaller combatants, will be built. The emphasis will be on improved antisubmarine and mine-sweeping capabilities; procurement of antisubmarine and other aircraft would be continued. The Japanese Navy now has some 40 major surface combatants, 13 submarines, and more than 200 aircraft, in addition to numerous smaller units. >

56 The plan calls for strengthening air-defense and ground-attack capabilities by the acquisition of F-4E Phantoms and Japanese designed FS-T2 jet fighters. These aircraft would supplement F-104s now in the inventory and allow the phasing out of aging F-86s. Japanese trainer and transport aircraft also would be purchased to

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replace obsolescent US aircraft. Air defenses would be further strengthened by raising the number of Hawk SAM battalions from five to eight and the number of Nike battalions from four to six.

The Japanese Defense Agency hopes to restore some of the reductions in weapons purchases in a future plan. In any event, rising equipment costs, continuing budgetary restrictions, and other political and economic factors probably will prevent a significant increase in Japan's self defense capabilities over the next several years.

The court ruled that a 1946 constitutional amendment, which allows US interests to buy and own land, applied only to public-domain land and not to private land; since 1946 Americans have acquired some 37,000 acres, over three fourths of which had been in private hands. The court also ruled that the expiration of the amendment on 3 July 1974 will cancel all corporate and land ownership rights now held by Americans. Together, the two judgments place a very large cloud over the future of a major portion of the total US investment of \$1 billion.

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**PHILIPPINES: COURT DECISION**

The recent Philippine Supreme Court decision jeopardizing US landholdings has, of course, become a matter of considerable controversy, but President Marcos is trying to prevent precipitate Philippine action against US business. The defendant in the original court case is petitioning the Supreme Court to reconsider its decision, and this could cause further delays, perhaps by as much as several months.

Marcos is urging caution and moderation by government and party leaders. Stressing the need to maintain a favorable investment climate, he is attempting to ease the concern of US business without exposing himself to nationalist critics. Until the full ramifications of the court decision are known, Marcos does not want the legislature to pass implementing legislation that might restrict his own freedom to strike a favorable deal with the US. In particular, Marcos wants to negotiate a new bilateral trade relationship with the US to replace the Laurel-Langley agreement, which expires in 1974. He would doubtless like to use the court decisions as a lever to win US concessions.

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**SINGAPORE: ONE-PARTY STATE**

To the surprise of no one, Prime Minister Lee Kuan Yew's People's Action Party swept the field in the general election on 2 September, winning all 65 seats in parliament. Prior to the election, Lee had feigned interest in having a "constructive opposition" in parliament but, as election day neared, he and other government leaders had second thoughts, accusing their opponents of acting as proxies for foreign powers and maligning

them personally. This vitriol notwithstanding, the four opposition parties won some 30 percent of the popular vote, indicating that not everyone in Singapore is content under Lee's paternalistic rule, particularly those in the lower socio-economic strata. While the once-effective Barisan Sosialis was weak at the polls, the recently reactivated Worker's Party made a relatively strong showing.

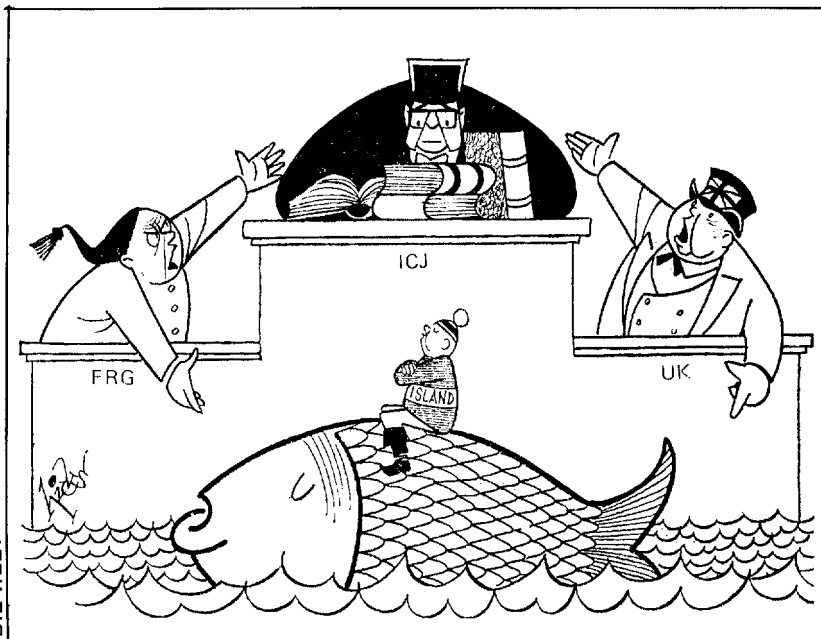
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## ICELAND: FISH 'N' SHIPS

66 While the governments involved move to restart negotiations over the 50-mile fishing limit instituted on 1 September, Icelandic Coast Guard vessels and British trawlers confront each other daily in the North Atlantic. The first incident came on 5 September when an Icelandic vessel cut across the stern of a trawler, severing the lines to its net. >



66 Iceland activated its entire coast guard—six small ships and several aircraft—on 31 August. Despite indications by Prime Minister Johannesson that the Coast Guard will not attempt to arrest violators but merely catalog violations, more incidents are likely to occur. A British frigate, dispatched by London after the first incident, is expected to arrive on station, just outside the 50-mile limit, on 8 September. >

65 The British and West Germans, who have identical fishing treaties with Iceland, are trying to arrive at a common negotiating position, but one Foreign Office official in London thought it might take another week. He thought that talks between the UK, West Germany, and Iceland could not begin before the end of the month. He said his government was interested in getting some sort of interim arrangements with Reykjavik; he indicated that the UK might settle for slightly less than the catch limit awarded by the International Court of Justice last month. >

warned that a lengthy delay would only increase the difficulty of reaching an agreement. The Soviet Union, incidently, has deplored Iceland's action. >

69 In Reykjavik, Fisheries Minister Ludvik Josefsson, a Communist, predicted that the difficulties for the foreign fishermen will become insurmountable as winter approaches. They will either give up and go home or seek shelter in Icelandic ports, where their ships will be subject to impoundment. Josefsson did not comment on the chances for resumption of negotiations, but

69 When asked about the base issue, Josefsson asserted that the Keflavik air station was not essential to Iceland's economy and that jobs could be found elsewhere for Icelanders working there. He was less assured when asked if he thought the US would retaliate by stopping purchases of Icelandic fish if the base were closed. He said he doubted that Washington would react in such a manner. Unless a solution can be found soon, the fishing dispute will have an adverse effect on subsequent base negotiations. If forced to compromise on fishing, the government is apt to be much tougher over the base issue to save face—and possibly their jobs. >

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### THE EC PREPARES A SUMMIT

68 (Summitry as a tool for promoting European integration will be tested when the EC foreign and finance ministers meet in Rome next week to finish preparations for the scheduled October session.)

69 (The French want the meetings to show promise of "solid achievements" at the summit, and they underline this desire by threatening to withdraw—at least temporarily—Pompidou's invitation to hold the summit in Paris. France's partners seem determined to reveal no public concern that the summit might be postponed and seem content to let Paris bear the onus for calling it off.)

69 (The Hague summit in 1969, which set the stage for the enlargement negotiations and the ambitious scheme for EC economic and monetary union, was notable for generating a new solidarity in the community. The prospects for the October summit are not so bright. The preliminaries have revealed confusion about how far it is possible to advance now and new suspicions about French intentions. The European press has not been shy of bitterly criticizing Paris' "bilateral diplomacy" or of recommending alliances against France to preserve community institutions.)

69 (The French sought to "clarify" their expectations in a series of meetings with the Italians, Germans, and British in July and August. These encounters were not entirely successful; there is virtually no acceptance of the French desire to raise the price of gold in intra-EC bank settlements, and there is resistance to locating a political secretariat in Paris. Bonn was nevertheless worried about Italian receptivity to French inducements—most of which directly or indirectly involved the Germans' paying for French promises. Bonn's suspicions may linger even following the Italian and German foreign ministers' meeting in Bonn last week. Further pre-summit jockeying has figured importantly in German meetings this week with the British, and will be prominent in the Brandt-Pompidou meeting in Munich on 9 September.)

69 (Next week, the EC ministers will continue to wrestle with economic and monetary union, the

EC's international relations, and institutional development. On the last, the most France's partners now hope for is to stop further erosion of the commission's role.

This is one reason why the British and Germans, in particular, prefer no agreement now on a political secretariat to locating one outside Brussels. On the community's external relations, outright conflict will probably be avoided, although differences may be evident on several points—including ties with the US and a re-affirmation, apparently opposed by France, of 1 January 1973 as the effective date for a common commercial policy toward Eastern Europe.)



Pompidou

69 (Paris has singled out economic and monetary union as the crucial area, and it is here that the most difficult problems still lie. France's bias against stronger EC institutions runs counter to its own insistence that the community register meaningful progress and to last week's French request for a new coordinated EC anti-inflation campaign. The other members, and the Germans in particular, require institutional guarantees which would limit the financial burden they would have to bear in a currency union with ever tighter exchange bands. Italy and the UK demand common regional and industrial policies, which France may be willing to consider, but probably with the stipulation that they result from inter-governmental, rather than community, decision-making. France now regards agreement on a European monetary fund as the key to progress on economic and monetary union. Such a fund would be a step toward an eventual European "federal reserve system." Although agreement in principle is possible next week on a modest beginning, there is still resistance to the French concept, which stresses the management of foreign-exchange reserves but is weak on the fund's ability to influence national economic decision-making.)

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## NORWAY-EC: THE NAYS MAY HAVE IT

77 (The campaign to persuade Norwegians to approve membership in the EC is lagging with recent polls indicating that the opposition is still strong. Leaders from West Germany and the UK are coming to Norway to lend a hand in the drive to obtain a favorable vote in the referendum on 24-25 September.)

77) The British visitors regard the outcome as crucial and fear that, if EC entry is defeated, anti-community forces within their own party will seek a pledge at the annual conference next month to withdraw from the EC should Labor return to power.)

77) (EC entry is a heated topic in Norway, and opposing forces are even resorting to minor violence to underscore their views. In the northern districts, where opposition is rampant among uncompromising fishermen and farmers, it is dangerous to flaunt a pro-EC button. Fistfights and damage to cars with EC bumper stickers are common incidents throughout the country. EC supporters are alarmed by recent polls showing a slight increase in the number of voters opposed to membership: the polls in August gave the nays an advantage of seven percentage points over the ayes, up from five points in July.)

77) (The spirited campaigning of pro-EC forces over the next two weeks may help, but the referendum results promise to be very close. A bare majority may not be sufficient, however, to persuade the Norwegian parliament to give the required three-fourths endorsement necessary to ratify the agreement. The government's hope seems to lie in Scandinavian pragmatism and the fact that Norwegians rarely repudiate their government's policies.)

77) (A negative result in Norway might bring the Danish referendum into question. The Danes vote on the EC question on 2 October. The early optimism of leaders in Copenhagen has dissipated, and they now share the deep concern of their Norwegian counterparts. At a recent seminar for Copenhagen trade union leaders, a vote against entry was narrowly averted only after the strong intervention of government leaders, including Prime Minister Krag. Furthermore, an August poll indicated that support for joining had slipped from 46 to 41 percent.)

77) (The minority Labor government, which has conducted a vigorous six-month campaign for entry, launched its final drive last week. West German Chancellor Brandt will speak at a rally in Oslo on 14 September and prominent pro-market British Labor Party figures, including George Thomson, Roy Jenkins, and Lord George Brown, will also make appearances on behalf of entry.)

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## MORE GERMAN TREATY TALKS

77) (Negotiators Bahr and Kohl made little progress on a basic political treaty during their second formal meeting.) In accordance with a mutual desire to put off the most contentious issues to the last, the two negotiators in their 30-31 August sessions limited themselves to tentative agreement on the relatively easy issues of arms limitation

and the right of each state to represent itself internationally.) The West Germans are seeking to avoid the appearance of too great anticipation. Chancellor Brandt has warned that the projected treaty is too important to the nation to become an election football.

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### FINLAND: ANOTHER GOVERNMENT

After more than two months of negotiations, Finnish political leaders on 4 September finally managed to paste together another shaky coalition of the Social Democratic, Center, Swedish People's, and Liberal parties. The new government, Finland's 16th in as many years, promises to set no records for longevity.

The new prime minister, Sorsa, and six other Social Democrats form the core of the new cabinet; also included are five Centrists, two Swedes, one Liberal, and one independent. The new foreign minister is Center Party stalwart and one-time prime minister, Ahti Karjalainen. The coalition parties have 107 of the 200 seats in parliament. A number of internal differences remain unresolved, and the new coalition will do well if it



Prime Minister Sorsa

simply survives the municipal elections next month.

Under the coalition program, the pension issue—one cause for the resignation of the last government in July—has temporarily been resolved through agreement to halve expenditures. This is a major victory for the Social Democrats, who opposed the pension reform from the beginning. The core of the new government's program relates to measures to curb inflation and other economic fluctuations as the country moves toward commercial arrangements with the EC. There is provision for increased trade and economic cooperation with the Soviet Union, Eastern Europe, and the Nordic countries. The program does not state whether Finland should sign the draft agreement with the EC—an omission that indicates the reluctance of the Sorsa government to grapple with the big issues.

President Kekkonen, in appointing the new government, scored all parties for creating the "longest and sorriest crisis" in recent Finnish political history. He called for more cooperation between parties and chided the Liberals in particular for threatening to withdraw from the coalition if their program was not followed. It is doubtful that even Kekkonen's great prestige can keep Sorsa afloat and create a measure of political order.

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### EASTERN EUROPE: CROP PROSPECTS MIXED

Grain production in Eastern Europe this year is expected to be about ten percent below last year's record level of 81.5-million metric tons. The decline could be greater, however, because of losses in both quantity and quality of grain crops stemming from the prolonged poor harvesting weather in southeastern Hungary and the northern tier of countries.

The decline in breadgrain output will be greater in the southern countries—Bulgaria

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Hungary, Romania, and Yugoslavia—than in the northern. The south, which had been suffering from low soil moisture conditions, was hit by hail and heavy rainstorms in July, just as the wheat harvest was reaching a peak. Rain came to the northern countries—Czechoslovakia, East Germany, and Poland—in time to rejuvenate grain plantings following a dry winter and some damage from winterkill. In the northern countries, workers, students, and soldiers have been mobilized to help bring in the crop. >

86 Overall, the harvest should provide a livestock feed base at least as good as that of a year ago, an important factor in the success of ambitious efforts by many of the countries to expand livestock production. Prospects for production of livestock feed other than grain—potatoes, fodder roots, and forage corn—are excellent, and probably will offset the reduced output of feed grain. >

86 Thus, total grain imports by Eastern Europe in fiscal year 1973 are projected at about the same level as last year, about ten-million metric tons. An expected decrease in import demand by East Germany and Poland, usually the largest grain importers, will be offset by stepped-up purchases by Yugoslavia and, possibly, Bulgaria. The lower quality of the breadgrain harvest this year will increase demand for milling-quality wheat. The USSR is expected to supply Eastern Europe with about five-million tons of grain—mostly wheat—in fiscal year 1973, about the same as the previous year. >

86 If Moscow does meet the area's needs for milling-quality wheat, Eastern Europe's purchases in Western markets will be mostly for feed grains. A large part of such imports is likely to come from the US. Rising prices in world markets for grain and protein supplements are not likely to deter the East Europeans from making the purchases needed to support their livestock programs. [redacted]

**POLAND: MORE WESTERN EQUIPMENT**

89 Western countries are vying for a larger share of the greatly expanded Polish market for ad-

vanced capital equipment. An estimated two thirds of the 44 percent increase in Poland's imports from the developed West in the first half of 1972 came from purchases of capital equipment. Six countries—West Germany, France, Italy, Japan, Switzerland, and Sweden—accounted for nearly all the increase. The US, a late entry in the race for Polish orders, lags behind, largely because of uncompetitive credit terms. >

89 West European countries and Japan already have signed contracts worth at least \$400 million for deliveries of machinery and equipment during the Polish five-year plan (1971-75). Japan, which has heretofore not sold much capital equipment to Poland, is making efforts to capture a significant share of the Polish market. Last month, a Japanese consortium extended a \$200 million line of credit to finance imports of machinery and industrial plants from Japan. Repayments are to run up to eight years at an annual interest rate of 6.5 percent.

90 Poland continues to express interest in purchasing large amounts of technology and equipment from US firms, but it has as yet placed only a few small orders. The US lost a large contract for an oil refinery at Gdansk to the Italians, and a deal for a catalytic cracker so far involves only US licenses and technical data. Poland may buy the equipment elsewhere. Under a recent ten-year agreement with International Harvester, Poland is to assemble heavy construction equipment that Harvester has licensed Poland to sell in Russia and Eastern Europe. >

90 US firms are at a disadvantage in trying to break into the Polish market for capital goods. They have had far less experience than their major Western competitors in promoting sales in Poland; moreover, they cannot offer attractive enough credit terms without Export-Import Bank financing—now available, insofar as Eastern Europe is concerned, only for deals with Romania and Yugoslavia. Poland can get seven- to eight-year financing in Western Europe and Japan, but US banks generally will offer only three- to five-year credits. The Poles claim they must have long-term credits before they will consider large-scale purchases of US equipment. [redacted]

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## CANADA: ELECTIONS

The national elections on 30 October are expected to return Prime Minister Trudeau to power. The latest Gallup poll indicates that Trudeau's Liberal Party is the first choice of 42 percent of the voters who have made up their minds; only 32 percent now prefer the major opposition party, the Progressive Conservatives. The third party, the new Democrats, trails far behind.

Pierre Trudeau became prime minister in 1968 after a whirlwind campaign that cast him, despite his age, as a youthful but brilliant playboy. Four years later, he is married to the daughter of an influential politician and has a son—a distinctly different image that nevertheless is expected to appeal to the young and especially to female voters. His premiership has survived several trials, particularly on the Quebec problem, and he has improved relations with the USSR and China in fulfillment of a campaign pledge to diversify Canada's foreign relations. Several unresolved domestic problems could become campaign issues; the high unemployment rate, for example, probably prevented Trudeau from calling elections earlier this year.

Robert Stanfield, who has led the Progressive Conservative Party since 1968, is cool, tough, and intelligent. He reflects quiet self-assurance but seems to lack the cutting edge necessary to become a prime minister. He has been characterized as having a quality of "sweet reasonableness." This personality and a lack of high competence among other Progressive Conservative officials contribute to the party's reputation for reacting to government moves rather than proposing a program of its own.

David Lewis, whose New Democratic Party recently won an upset victory in British Columbia, received only 15 percent of voter support in the Gallup poll. At 62, Lewis is something of an anachronism as leader of a party trying to project an image of vigor and freshness. Additionally, the party is probably suffering from too much internal dissension to receive a substantial number of seats in parliament. The moderates in the party support a social and economic reform program that includes selective nationalization of resource industries, while the radical wing advocates



nationalizing all major industries, including US-controlled firms.

The fall campaign is likely to focus on the economy, on national unity, and on foreign policy. The unemployment rate is still high, and inflation is a problem. Friction exists between French-speaking partisans in Quebec and the English-dominated government in Ottawa. In addition, many western Canadians feel that they have not been given a fair shake by the federal government. Trudeau undoubtedly will come under attack for failing to reduce Canadian dependence on and involvement with the US. Questions of trade arrangements between the two countries and the US financial stake in Canadian natural resources are likely to come up frequently as the campaign progresses.

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**SECRET****URUGUAY: TUPES ON THE ROPES**

97 (The recapture of Raul Sendic, the founder and leader of the Tupamaros, may signal the demise of the extremist organization as a major Latin American terrorist group. The Tupamaros have suffered severe damage in recent months, and the apprehension of Sendic is viewed by many as the coup de grace to the terrorist organization.)

96 (According to an official release, Sendic was seized early on 1 September and hospitalized following a gun battle with police in which he was shot in the face. He had been captured in August 1970 and escaped from Punta Carretas prison in the mass breakout on 10 September 1971.) Although Sendic has been rumored at various times to be hiding in Chile, he reportedly attempted to arrange a truce with Uruguayan security officials a couple of months ago.)

97 (The Uruguayan Government has not released recent figures on the total number of Tupamaros captured, but it is well over 1,300 and includes most of the organization's leaders. With the exception of a few assassinations, the Tupamaros have not launched a major operation since 14 April, when the government declared a "state of internal war." Their organizational capability has been permanently hurt (but the security forces are concerned that the government will be tempted to declare "victory" prematurely.) They fear that the Tupamaros could yet revive if the government's tactical advantage is not followed up.



Digging out the Tupamaros: security forces discover underground hideout

**Central America****AND THEN THERE WERE THREE**

98 (The tottering Central American Common Market was given another shove on 1 September when Costa Rica decided to eliminate the preferences given its Common Market trading partners—in effect withdrawing from the integration movement. In retaliation, El Salvador, Nicaragua, and Guatemala have closed their borders to Costa Rica's exports and are attempting to persuade the Costa Ricans to reverse course.)

100 (The normal trade patterns within the common market were greatly affected by the war between El Salvador and Honduras in mid-1969 and by the Honduran decision in December 1970 to withdraw from the free-trade area by imposing duties on imports from the other market countries. For more than a year, Costa Rica has been fretting about the heavy influx of Guatemalan and Salvadoran goods that previously went to Honduras. Faced with a serious balance-of-payments problem—much the same as Honduras faced at the end of 1970—Costa Rica followed in Honduras' footsteps and adopted a protectionist policy. Costa Rica's latest move was to institute an exchange rate system that raises by about 30 percent the cost of all "non-essential" goods entering from the other market countries.)

100 (The difficulties besetting the market predate the 1969 war and are so complex that half-way steps may not be enough to counter the growing trend toward regional disintegration. After initial successes in the 1960s, the market began to divide into two camps. Guatemala and El Salvador were satisfied with the status quo while Honduras and Nicaragua complained that they were not receiving their fair share.)

100 (In the short run, efforts will be directed toward persuading Costa Rica to rescind its new import policy and adopt other means to cope with its economic problems. In the longer run, sentiment may develop for a five-nation conference to discuss a fundamental restructuring of the market to reduce regional trade imbalances and equalize the benefits from industrialization.)

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**BOLIVIA: POST SEASON TRADES**

Following a late start in the August government reorganization season, President Banzer made further cabinet shifts the first week in September. The Socialist Falange's education and housing portfolios were shifted to other members of that party. Independent businessman Carlos Iturralde replaced Alfredo Arce as minister secretary general. Arce moved over to the newly re-established post of minister of state, where he is

expected to continue playing the role of presidential troubleshooter.

Iturralde's appointment gives the private businessmen four seats in the cabinet. Otherwise, the distribution remains the same. The Nationalist Revolutionary Movement and the Falange each have five portfolios, and the armed forces keep three. On the whole, the revamped cabinet is more youthful and a bit more technically qualified than its predecessor.

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**TURKEY: UNEASY POLITICIANS**

The appointment of General Gurler as chief of the Turkish General Staff has produced a spate of rumors about the fate of the Melen government and fears of new military intervention in politics.

(Whether there is real substance to these rumors, it is clear that the politicians are nervous about Gurler's intentions. Anxious to clear the way for parliamentary elections, now scheduled for October 1973, Turkey's usually fractious political leaders have been working together fairly smoothly in an effort to hammer out electoral and constitutional reforms.)

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Although General Gurler was the logical candidate for the job, his appointment was preceded by weeks of intense controversy in political and military circles. Many leading politicians, including President Sunay, reportedly believed that military/civilian relations would be brought into better balance if all four of the signers of the 1971 memorandum that forced out the Demirel government were to retire; this would have included General Gurler and General Batur, chief of the air force. Others, particularly in the military establishment, were reluctant to break with precedent by denying Gurler the job. Shortly before the appointments were announced, air force planes flew over the area of the presidential palace, raising speculation that they were demonstrating in favor of Gurler or Batur, or both.

Although Gurler is now in a position to press harder for reforms, the fall of yet another civilian government would probably cause a good deal of resentment, even among those who are not overly fond of Prime Minister Melen.

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General Gurler has a reputation for political activism, is an ardent reformist, and reportedly has ambitions to be president. Although he and Batur apparently are balanced in the military leadership by less "interventionist" military men, their appointments have been followed by rumors that Gurler is unhappy with the pace of reforms and will force the Melen government to step down—rumors that Melen strongly denied on 31 August.



General Gurler

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