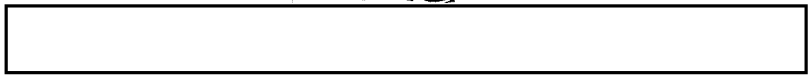


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4 July 1966

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# INTELLIGENCE REPORT

Prepared Weekly

for the

SENIOR INTERDEPARTMENTAL GROUP

DIRECTORATE OF INTELLIGENCE

State Dept. review completed

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1. IRAN

The US may well be heading into a difficult period with the Shah over the issue of Iranian arms purchases.

Since his recent return from Eastern Europe and North Africa, the Shah has reiterated his acute dissatisfaction with the terms offered for US equipment and has expressed his determination to maintain freedom of action in looking for other sources of supply.

The Shah told the US ambassador on 29 June that he was particularly anxious to purchase such items as all-weather aircraft from the US, but that he was unhappy about high prices, long-term delivery dates, and the limited number of F-4 aircraft available. He mentioned negotiations for equipment with the French and British, and he indicated he was considering the possibility of buying some "non-sensitive" items, such as anti-aircraft weapons, from the USSR.

Prime Minister Hoveyda had said earlier that Western European terms were not much more attractive than those offered by the US, adding that the Shah was tempted to turn to the USSR for more reasonable terms on military equipment.

The Shah told the US ambassador on 29 June that he had not yet approached the Soviets on the question of military purchases. There have, however, been several reports of Soviet offers to supply arms to Iran, and Foreign Minister Aram has indicated the Shah may have discussed arms with the Moscow representative who was in Iran last week for the formal signing of the USSR-Iran steel mill agreement.

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2. ARGENTINA

The military take-over in Argentina last week was a move carefully planned in advance and aimed at ending the political and economic problems that have plagued Argentina since the end of the Peron dictatorship in 1955.

New President Juan Carlos Ongania and the army generals who overthrew President Illia apparently acted when they became convinced that Illia and his Radical Party administration were incapable of positive action and that Illia's newly announced policies were merely stalling tactics to buy time in hopes of promoting military disunity.

The new government reportedly has plans for drastic revision of the country's economic and political institutions. The task will not be easy. The regime hopes to attract foreign investment and stabilize the economy but realizes that a period of austerity may be necessary. Its policies include an attempt to win the loyalty of the Peronists by instituting a social security system, but it may face strong reaction from Peronists to plans to keep them out of national politics.

The regime does not envision holding elections for some time to come and it is reportedly prepared to stay in power until certain basic economic and political problems are resolved.

Initial statements by General Julio Alsogaray, who was active in the plotting for the coup, indicate that the new government will not alter Argentina's pro-Western foreign policy. Ongania strongly favored Argentine participation in the Inter-American Peace Force and is particularly concerned with Communist penetration and insurgency in Latin America.

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3. GUATEMALA

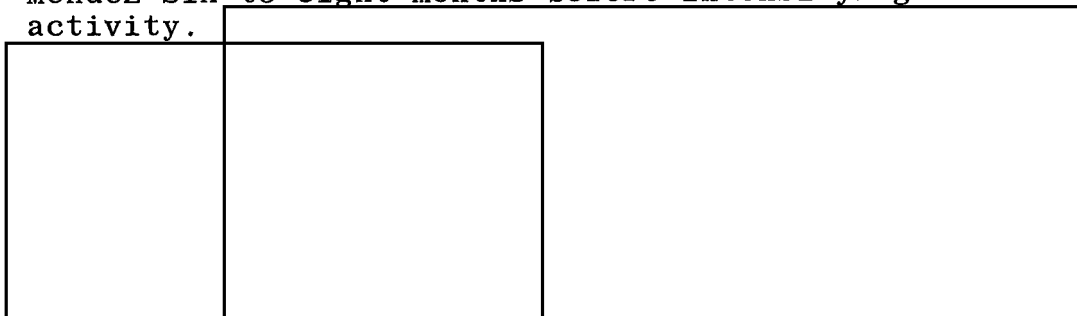
President Julio Cesar Mendez Montenegro, a moderate leftist inaugurated on 1 July, starts his term with an uncertain future.

The military, the final arbiters of power in Guatemala, distrust the new president, but appear willing to give him a chance to prove himself. Difficulties seem likely, however, when Mendez attempts to bring about reforms he promised during his campaign. Such attempts are almost certain to antagonize conservative sectors, and these may in time persuade the military once again to take over.

Aside from the country's economic, social, and political problems, Mendez will face continuing leftist guerrilla terrorism as well as some terrorism by extreme rightists. As the first civilian president since 1951, however, he is likely to have greater support from the populace than did military governments. Mendez has picked a generally moderate cabinet and his minister of defense has a substantial following within the military high command.

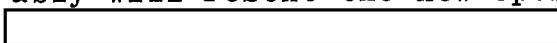
The Communist Party and its action arm, the Fuerzas Armadas Rebeldes (FAR), reportedly plan to give Mendez six to eight months before intensifying their activity.

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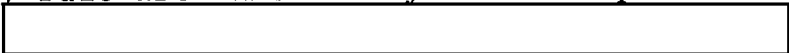


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Guatemalan politics is normally somewhat seamy and the military, who after 40 months of rule have become accustomed to having things their way, probably will resent the new opening of political arenas.

 the Guatemalan Christian Democratic party, which was not permitted to participate in the last elections, has now secured the necessary 50,000 signatures and qualified as a political party. Other parties which have been dormant during the period of military rule are also likely to take up their banners again.

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4. ECUADOR

The government of Interim President Yerovi has thus far survived the threat posed by the late May return from exile of former president Velasco Ibarra, but it remains basically weak and could yet be topped.

Velasco's arrival in Quito on 2 July, which many Ecuadoreans had expected to generate popular clamor for the 72-year-old demagogue's immediate return to power for the fifth time, was not up to Velasquista expectations. Only about 5,000 persons turned out to welcome the former president. While there were sporadic clashes between pro- and anti-Velasco elements--as there had been in other cities Velasco visited before coming to the capital--there were fewer incidents of violence than had generally been expected.

The military remain the key to the situation. While military leaders have thus far stood by the Yerovi government, they are more immediately concerned with keeping Velasco out than with keeping Yerovi in. Velasquistas have been trying to subvert key military units and get support for a coup, and these efforts will probably continue in the weeks to come, especially among junior officers and enlisted men.

Most military leaders are reluctant at this time to resume control of the government, which they gave up under pressure just this past March, but they might act if Velasco seemed to be making headway or if the Yerovi government was unable to stand firm against him.

Another threat to Yerovi's survival is Ecuador's tenuous economic situation together with the continuing resistance of business interests to necessary economic corrective measures. The recent \$10 million budget-support loan granted Ecuador by the Inter-American Development Bank will help shore up the government, but this was at best only a stop-gap measure.

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5. SPAIN

The Franco government, in seeking US support in the Gibraltar dispute with the UK, has threatened retaliatory measures if it fails to get it.

Foreign Minister Castiella told the US ambassador on 16 June that if Spain were rebuffed in its Gibraltar aspirations, there would be "serious repercussions" for US and Western defense interests. He mentioned specifically such matters as [Redacted]

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[Redacted] the extension of the US-Spanish defense agreement which expires in 1968.

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A somewhat similar line was taken the next day by Antonio Garrigues, former Spanish ambassador in Washington now assigned to the Vatican. He told the US ambassador in Madrid that the Gibraltar negotiations were leading to an impasse and a major confrontation, and that US help was necessary to avoid the "bitter consequences."

The Spanish Embassy in Washington also recently showed the Department of State a letter from Castiella stating that Castiella and Vice President Munoz Grandes had reached agreement that all matters involving Spain [Redacted] should be examined in light of a successful resolution of the Gibraltar question.

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While it is doubtful that Spain is willing or able to go very far at this time in carrying out some of the broader threats, it has an available pressure point [Redacted]

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[Redacted]

As for the Gibraltar question, it may be difficult for Spain to extricate itself from the public commitments it has made to change the "Rock's" legal status. Negotiations with the UK which opened in mid-May are to resume shortly, British delaying tactics thus far and London's apparent determination not to give up sovereignty over Gibraltar raise the prospect of continued impasse. [Redacted]

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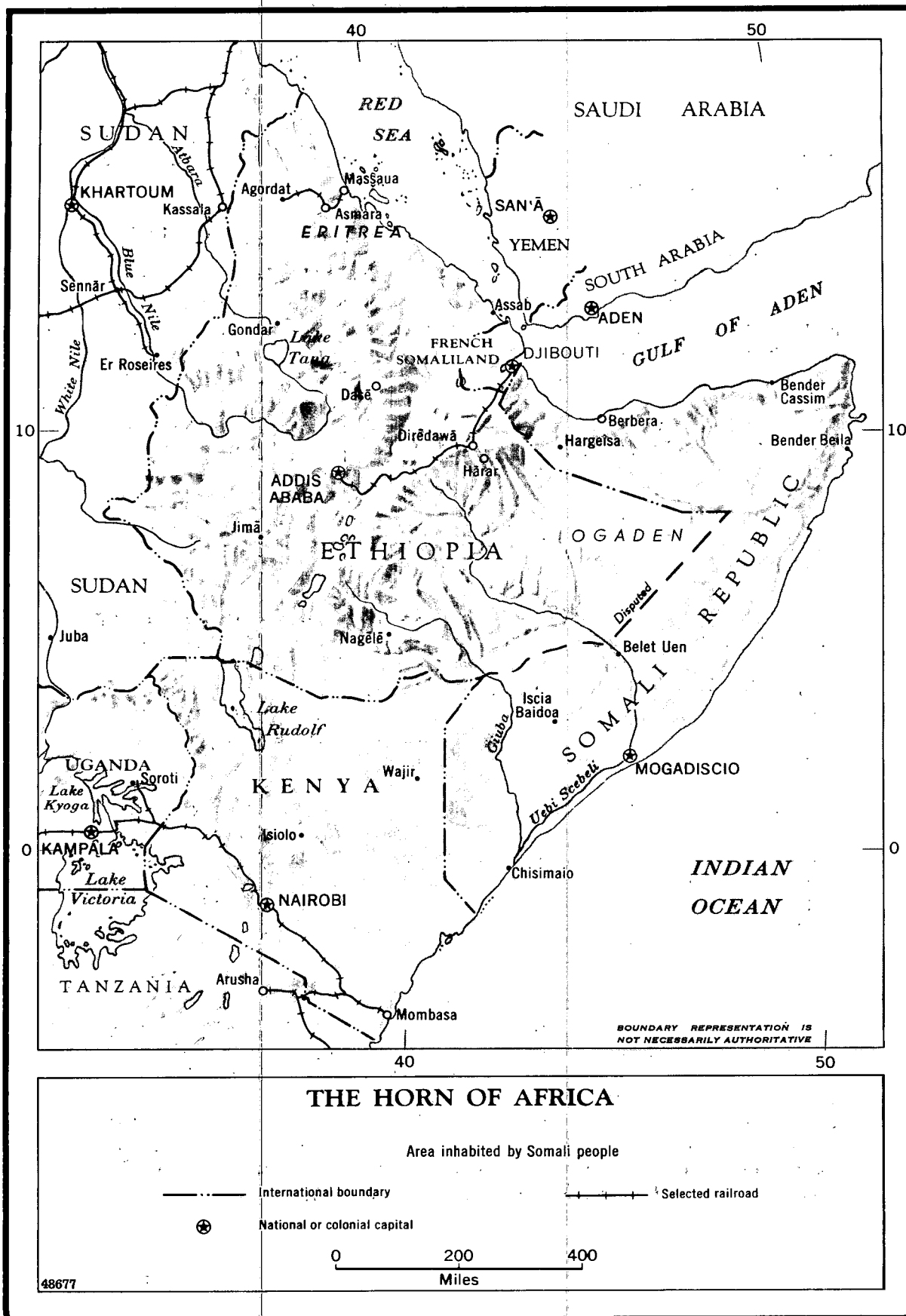
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6. KENYA-SOMALIA

The long-festering frontier dispute between Kenya and Somalia is flaring anew as both countries adopt harder lines.

Bands of Kenyan Somali tribesmen, trained and equipped by the Somali Army, have re-entered Kenya during the past two months. They have sharply increased their attacks and sabotage in the northeastern part of Kenya where the Somali nomads live. One guerrilla band has been active some 200 miles inside the border.

Neither country appears strong enough to settle the dispute by force, and past efforts at negotiated settlement have been fruitless. Both Kenya and Ethiopia--which also has a sizable Somali minority and a disputed border with Somalia--have become increasingly alarmed over Soviet military aid to Somalia, although no Soviet arms are known to have been used outside Somalia's borders. Mogadiscio is equally concerned that Ethiopia has begun to receive modern F-5 jet fighters from the US.

Nairobi is determined to step up its campaign against Somali insurgency despite the economic burden. Key government ministers are urging tough new measures, including a "scorched-earth" policy along the 400-mile border. Some ethnic Somalis loyal to the Kenya Government are being trained for security patrols within Kenya and for possible guerrilla attacks against Somalia.

The joint Kenya-Ethiopia defense committee has been discussing coordinated retaliatory raids into Somalia. Nairobi has apparently authorized "hot pursuit" across the border when necessary. A Nairobi government minister claimed last week that a Kenya Army unit had killed 76 guerrillas on Somali soil.

No Somali government can take the political risk of abandoning ethnic Somalis beyond the country's borders. In fact, there has been increasing pressure on Prime Minister Abdirazak from the opposition and from the Soviet-assisted army to step up aid to their tribal brothers. Faced with an early parliamentary vote of confidence, Abdirazak may feel compelled to promise an even more militant stand against his neighbors.

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