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DIRECTORATE OF
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SOUTH VIETNAM: Big Minh's camp has confirmed that it will try to help Vice President Ky qualify to run for president.

Minh's advisers, confident that Minh can easily qualify on his own [redacted] will attempt to persuade provincial councilors sympathetic to Minh to nominate Ky, in order that the latter also can get the required endorsements under the provisions of the election bill. Ky had previously indicated that he would be unable on his own to gain endorsements from more than 50 to 75 of the necessary 100 councilors. [redacted]

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[redacted] many Buddhist councilors are afraid to go on record as backers of the vice president, [redacted]

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[redacted] Minh presumably will benefit if Ky runs, because the vice president probably would draw votes away from President Thieu.

There is further evidence that some An Quang Buddhist leaders have cooled toward Minh. Tri Quang, who publicly washed his hands of the presidential election last month, reportedly told associates recently that his statement to that effect was made because none of the prospective candidates is capable of bringing an end to the war. In response to charges that the statement would benefit Thieu, Tri Quang argued that unless the US changed its policy, it would be best for the Buddhists to acquiesce in Thieu's re-election so that the Catholics would bear the onus for the unpopular war. Despite these remarks, some other An Quang leaders are working with Minh, and a large majority of the Buddhist faithful will support him in any case. [redacted]

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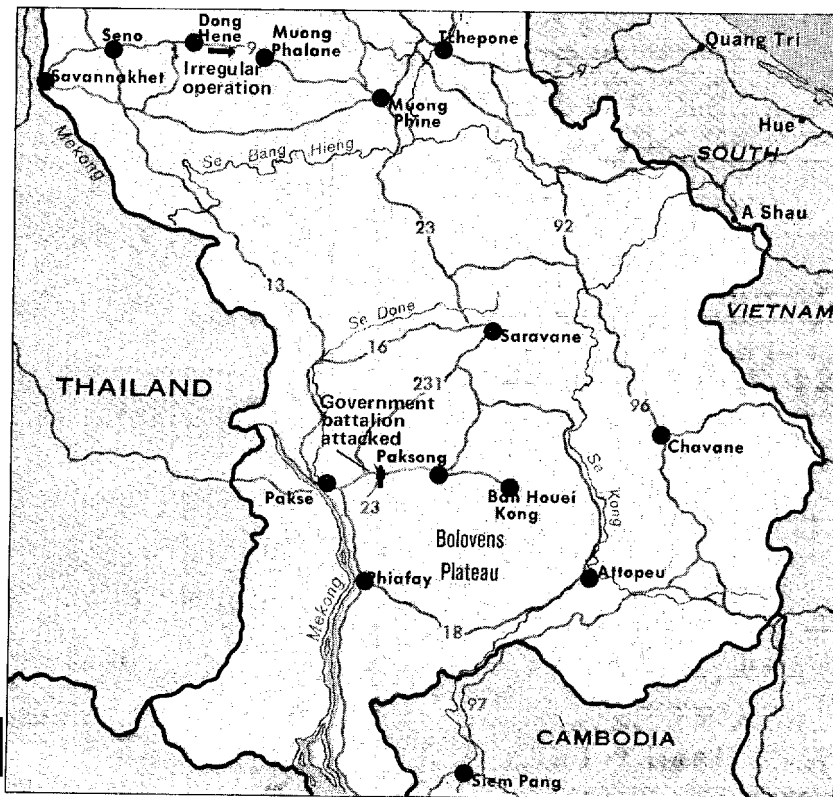
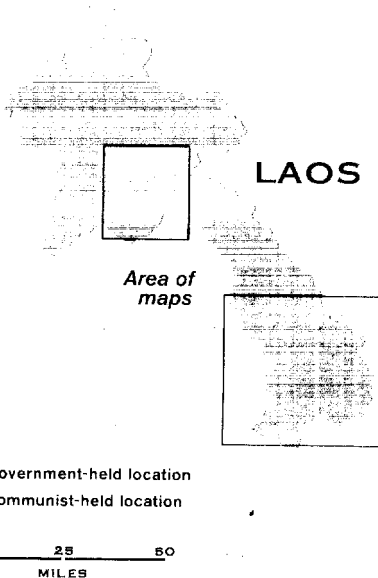
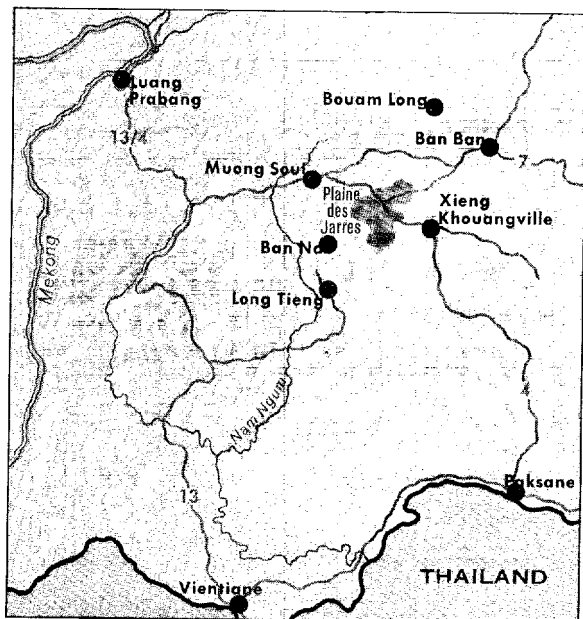
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LAOS: The Communists have renewed pressure on Lao Army units on the western Bolovens Plateau, but elsewhere in Laos action has been relatively light.

North Vietnamese Army forces, estimated at two to three companies, yesterday attacked a Lao Army battalion five miles east of the junction of Routes 23 and 231. Government troops were forced to pull back from their outlying positions, but the battalion command post stood its ground and, with support from gunships and artillery, inflicted heavy casualties on the enemy. To the east, irregular battalions are still operating south of Paksong but have had little contact with the enemy.

As of 14 June, the government estimated that 465 of its nearly 1,600 troops committed to the abortive operation to retake Paksong were still missing as a result of the North Vietnamese counterattack last week. In addition, at least 175 soldiers and irregulars were wounded and 26 irregulars were killed. There are no definitive estimates of North Vietnamese casualties, but air observers and army commanders on the ground believe that as many as 500-600 enemy were killed or wounded by air and artillery attacks.

To the north, irregular units have entered the abandoned town of Dong Hene and occupied some enemy positions east of the town. The irregulars have so far encountered little enemy resistance, tending to confirm reports that enemy units have pulled back toward Muong Phalane. The irregular task force plans to sweep toward Muong Phalane in the next few days.

In northern Laos, action consisted principally of small-unit clashes and shelling attacks on irregular positions near Bouam Long and on the southern and western edges of the Plaine des Jarres. No major Communist attack has been launched in either location.

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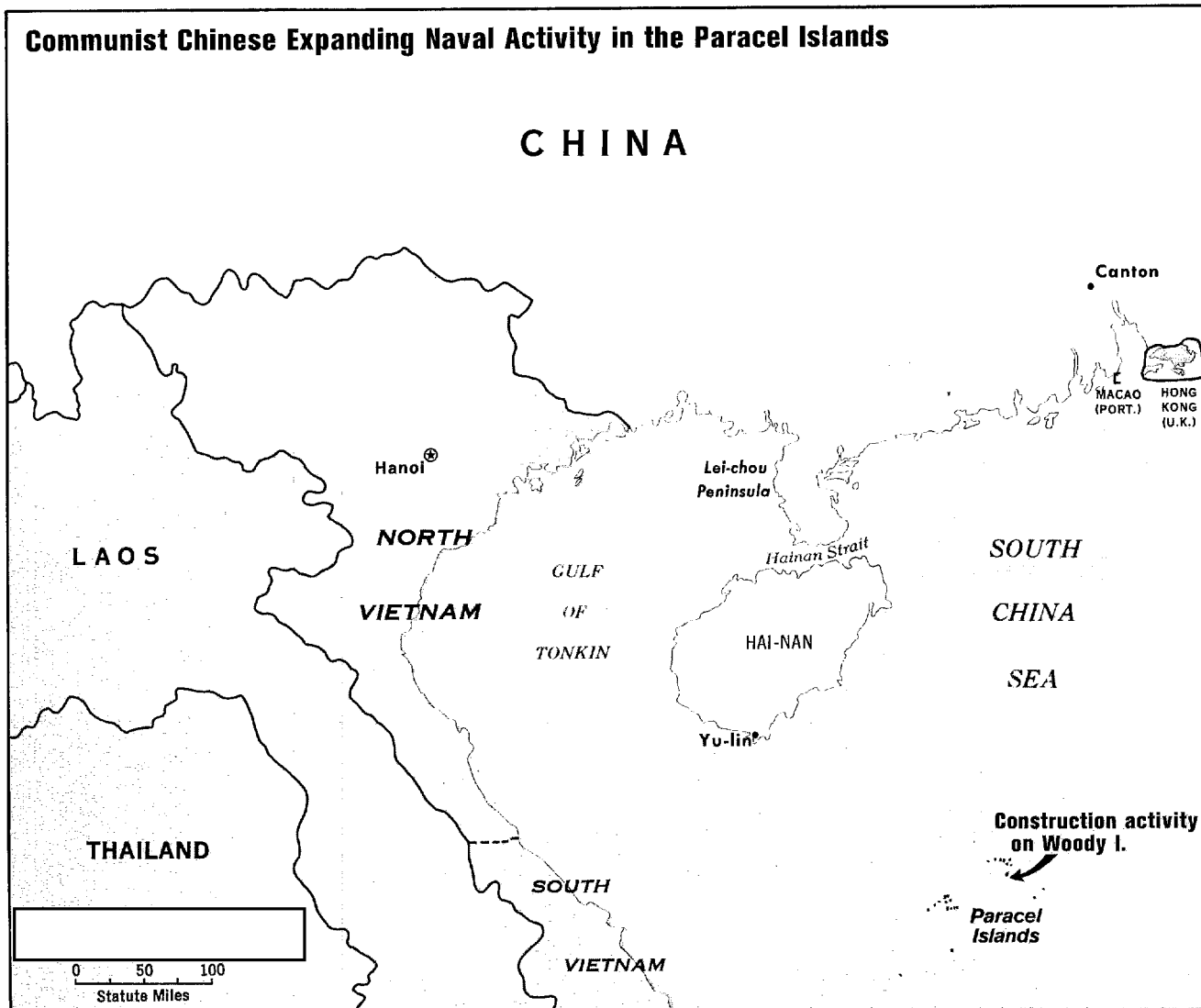
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COMMUNIST CHINA: Peking is expanding its naval activity in the Paracel Islands in the South China Sea some 200 miles southeast of Hai-nan Island.

Naval convoys from Yu-lin on Hai-nan now visit the Paracels frequently, particularly Woody Island, one of the largest of the group. Security for the convoys is being provided primarily by destroyer escorts, the largest warships in China's South Sea Fleet. Recent aerial photography of Woody Island shows that the Chinese are building a berthing area, dredging a channel, constructing a jetty, and erecting new buildings on the island. The convoys are bringing construction materials and supplies for the operation.

The Paracels consist of a large number of coral reefs, only a few of which are large enough to support habitation. Sovereignty of the islands is in dispute and claims are made by at least three other nations--South Vietnam, Nationalist China, and the Philippines. Peking has maintained a naval communications and observation post on Woody Island for years and the island has long been used as a fishing base and source of guano by the Chinese.

Communist China is sensitive about the present operation in the Paracels and most of the "serious warnings" to the US in the last six months for violations of its sovereignty have involved overflights of the islands. The reason for the increased naval activity and construction program is not entirely clear, but they strengthen Peking's claim to the islands. The Chinese may feel the need for a new naval facility in the Paracels to provide limited support for the expanding naval operations of their growing South Sea Fleet.



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ITALY: Losses for the Christian Democrats in the elections of 13-14 June may cause interparty tensions in Prime Minister Colombo's coalition but do not appear to threaten the formula for national government by a center-left alliance.

In local and regional contests involving about one fourth of the national electorate, the Christian Democrats lost ground almost everywhere. The losses were particularly sharp in Sicily, but in mainland Italy their average loss was between one and two percent. Nevertheless, the center-left alliance of Christian Democrats, Socialists, Social Democrats, and Republicans remained the predominant force in most of the assemblies and councils that were elected. A further factor for stability of center-left government on the national level is the beginning on 28 June of the so-called "white semester," a six-month period preceding the presidential election next December during which the President cannot dissolve Parliament.

Election successes for the neofascist Italian Social Movement (MSI) are a particular victory for Giorgio Almirante, who has headed the party since 1969. Almirante, who often criticized his predecessor for being too moderate, has himself enforced extremism as the party line. [redacted]

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[redacted] The MSI increased its vote from seven to 16 percent of the total in Sicily and improved its showing elsewhere as well.

The Italian Communist Party and its ally, the Proletarian Socialists, lost about two percent on the average. [redacted]

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EUROPEAN COMMUNITIES - US: The EC Commission apparently hopes to develop a constructive dialogue with the US on economic problems that may emerge as a result of the EC's prospective enlargement.

In meetings last week with a US delegation led by Deputy Undersecretary Samuels, the Commission indicated its intention to promote trade liberalization and to maintain good relations with the US during the difficult period after the UK and other countries join the EC. For example, the Commission suggested that before the EC's arrangements with the Commonwealth countries are definitely determined, a further hearing of the US attitude might be possible. The Commission also explained that it is opposed to any legal restrictions on foreign investment in the EC.

The Commission affirmed its support for the high-level committee that the members of the Organization of Economic Cooperation and Development have established at US urging to explore ways of resolving some of the problems currently plaguing international economic relations. The US and EC officials also discussed ways of expanding their bilateral relationship and agreed to study jointly the impact of pollution abatement measures on trade.

The Commission representatives explained that their recent offer to improve the access of US oranges to the EC market was designed to help end what was becoming a dangerous circle of recriminations. The Commission said that the offer, which could be approved by the EC Council in July, requires no reciprocal US action, although the EC would hope for a gesture in return. A number of other specific trade problems were discussed and will continue on the agenda for future talks.

Although the Commission does not make the final decisions affecting US-EC relations, its current attitude should help assure consideration for US

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interests in the course of the EC's probable enlargement. Ambassador Schaetzel has commented that this second in a series of consultations informally established last July was the most useful and constructive exchange of views yet between the US and the EC.



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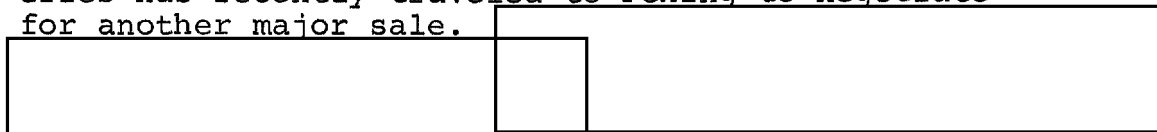
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PERU-CUBA: Peru will sell a large quantity of fishmeal to Cuba in contravention of the 1964 OAS resolution against such trade.

The official Peruvian newspaper reported on 14 June that agreement had been reached with a visiting Cuban trade delegation on a sale of 105,000 tons of fishmeal. The price and terms of the sale have not been announced, but the state marketing agency would receive about \$20 million if the fishmeal were sold at the officially fixed Peruvian price. Cuba's consumption of fishmeal is only about 20,000 tons per year, indicating that the actual shipments may be drawn out over a long period. The government journal also noted that future trade relations between the two countries had been considered during the negotiations, but apparently no decision was reached.

The sale puts Peru in violation of the 1964 OAS resolution banning trade with Cuba, but there is little likelihood of any official OAS sanctions. A more immediate problem is the effect on current US-Peruvian negotiations for a PL-480 wheat sale, part of the continuing US assistance to victims of last year's major earthquake in northern Peru. One provision of Public Law 480 makes countries that trade with Cuba ineligible for PL-480 sales unless the sales are deemed to be in the US national interest. The agreement with Peru is scheduled to be signed next week, and a failure to follow through is likely to provoke a strong adverse reaction in Peru.

The sale to Cuba is part of an intensive effort by the Velasco government to dispose of its excess fishmeal stocks through sales to Communist countries. A trade mission led by the Peruvian minister of fisheries has recently traveled to Peking to negotiate for another major sale.



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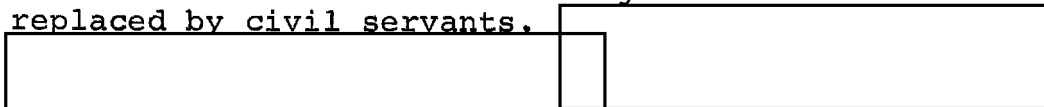
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NIGERIA: Yoruba Chief Awolowo, the highest ranking civilian in the federal military government (FMG), has submitted his resignation, effective at the end of June.

Awolowo reportedly tried to quit last January, but FMG head Gowon refused to accept his resignation. This time, however, the resignation may finally go through. Several other ambitious politicians are critical of the FMG's failure to consult them before making decisions, and may be weighing the merits of continued association with the regime, but it is unlikely that they will resign immediately.

Awolowo's major reason for resigning appears to be his belief that he is lending his prestige to a government from which he gains very little. Although critical of the FMG's lack of direction, Awolowo says that he does not plan any political activity that would embarrass the government. He intends to do some writing and will probably be circumspect in any sub rosa political activity in which he engages.

Awolowo's replacement as federal commissioner for finance will certainly be a lesser political figure. Over the long run the government may take on a more technocratic complexion if other politicians who may want to build their personal political bases dissociate themselves from the government and are replaced by civil servants.



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USSR: Three Soviet oceanographic research ships that were in Cienfuegos last week operated for several days in the central Gulf of Mexico. The three ships, currently heading east toward the Straits of Florida, were probably studying the hydrographic and acoustic properties of the waters in which Soviet submarines and ASW ships are now operating with greater frequency. Increased Soviet research activity began in the Caribbean a year ago and has continued intermittently since then. This type of basic data, as well as tactical training conducted in the area, is required for effective submarine and antisubmarine operations. [REDACTED]

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JAPAN: Pressure for yen revaluation is likely to increase as a result of the continuing massive flow of dollars into Japan. Japan's foreign exchange reserves now stand at nearly \$8 billion and are third behind those of the US and West Germany. Japan ranked sixth in June 1970. The dollar inflow last week reached the second highest level since early May, even though Tokyo had been able to reduce gradually the inflow through the first week in June. Japanese monetary authorities have admitted difficulties in curbing hedging by Japanese businessmen against yen revaluation. They believe, however, they have been able to stem the speculative dollar influx that began in earnest following the West European currency turmoil in May. [REDACTED]

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CUBA-US: Havana announced yesterday that five US citizens had been fined \$20,000 apiece for violating Cuban territorial waters. This is the latest step taken by the Cuban Government in response to the sentencing of four Cubans convicted last week of fishing within 12 miles of Dry Tortugas. The four were sentenced to six months in jail and fined \$10,000 each. Eight crew members of another US boat are also being detained, pending an "investigation"; they may also be tried if the four Cubans are not released soon. The prison sentence received by the four Cubans placed Castro in a position where he felt obliged to make a strong response or suffer an apparent defeat in the eyes of the Cuban people.

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