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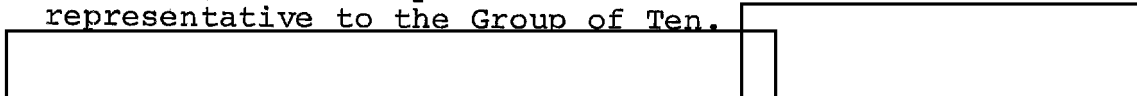
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INTERNATIONAL ECONOMIC DEVELOPMENTS: A low level of activity, with only minor adjustments among exchange rates, continues on foreign exchange markets in Europe; apparent intervention by the Bank of Japan maintains the yen about six percent above parity.

European officials are alerting the public not to expect a quick resolution of the monetary problem. Their motive seems to be to avoid a series of increased expectations and subsequent disappointments. Solutions will be sought at many informal meetings scheduled for this month, as well as in the ad hoc consultations now taking place among European states in the wake of the Group of Ten meeting last week.

Market uncertainties probably will keep international commercial transactions at a reduced level. Sales of ships on the London market, for example, are reported to be at a virtual standstill. As time passes, however, the postponement of normal trade will put pressure on governments to move toward a settlement.

The Latin American economic grouping--bemoaning the status of less developed countries "left out" of world councils on topics affecting them--has drafted an appeal to the US cataloging its concern over the import surcharge and potential foreign aid cuts. These countries have also proposed that their interests be protected by the addition of a Latin American representative to the Group of Ten.



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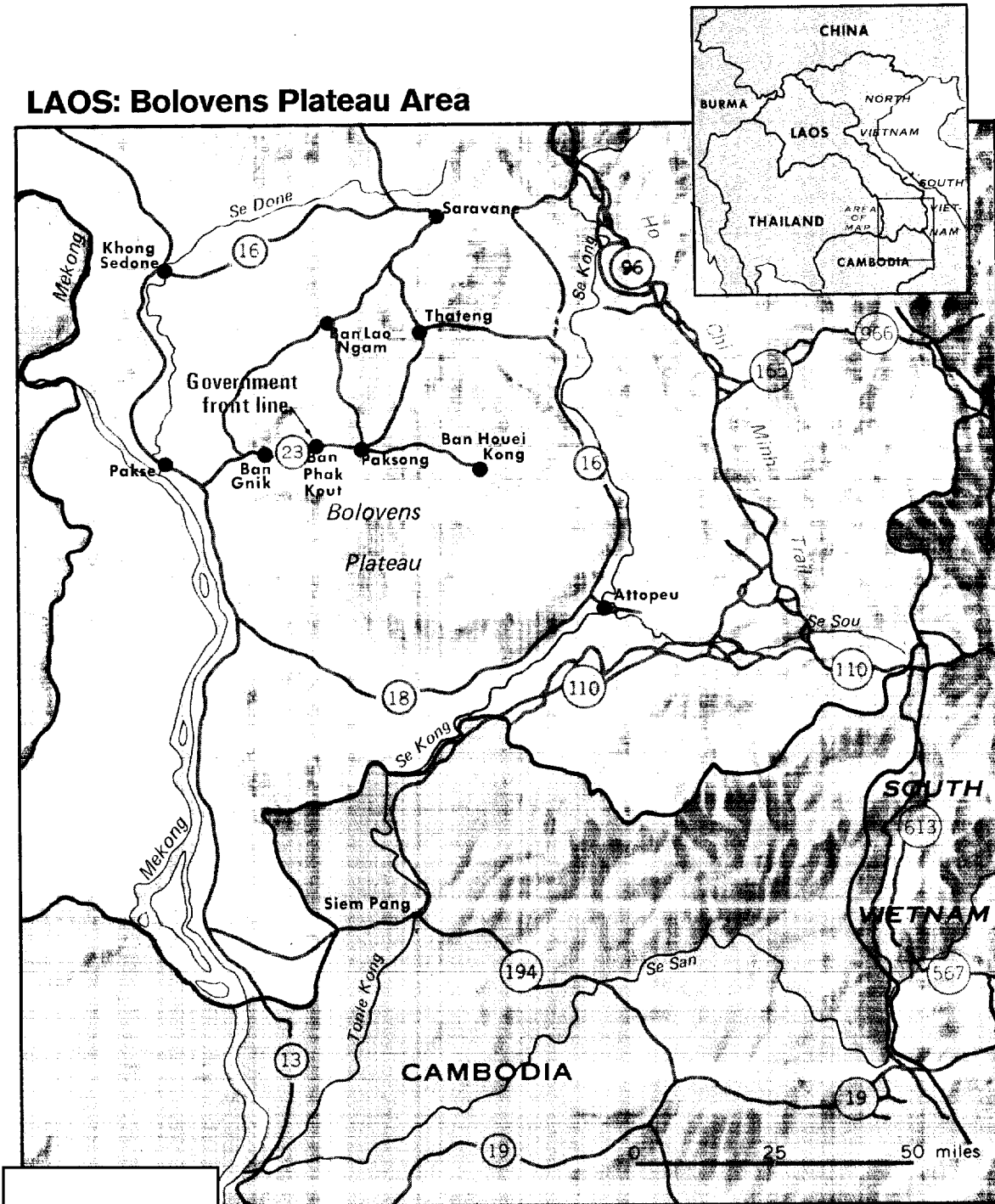
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LAOS: Bolovens Plateau Area



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- Communist-held location
- Government-held location

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LAOS: The government task force attempting to recapture Paksong on the Bolovens Plateau was dealt another setback over the weekend.

On 4 September, North Vietnamese forces mounted a coordinated ground and mortar attack on three Lao Army battalions manning frontline positions on Route 23 west of Paksong. The three battalions were dispersed, with known casualties of one killed, 36 wounded, and over 125 missing. Army commanders have begun regrouping these units at positions some ten miles west of Paksong. Two irregular battalions at Ban Phak Kout now form the government's front line; they are supported by two other irregular battalions and an artillery battery situated near Ban Gnik.

Elsewhere in south Laos, the four-battalion irregular task force that occupied Ban Lao Ngam last week continues to be the target of enemy probes and shelling attacks. The task force is patrolling in the area to locate enemy positions and supply caches as targets for tactical air strikes.

In north Laos, shelling attacks, ground probes, and skirmishes occurred along the perimeter of the Plaine des Jarres. Irregulars were forced to abandon outposts both northeast and southeast of the Plaine, but no major positions changed hands.

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URUGUAY: The Tupamaros' spectacular mass prison break on Monday has dealt the Pacheco administration a stunning, and perhaps crippling, political blow and left security forces badly demoralized.

The administration announced that 111 prisoners, including 106 Tupamaros, tunneled their way to freedom Monday morning. The adept operation highlighted the imagination and daring of the terrorists and the ineptness of the government's security apparatus. The escape was apparently initiated from within the prison, suggesting the complicity of guards. The top terrorist leaders, including Raul Sendic who is widely recognized as one of the organization's founders, were apparently among the escapees. Despite the widespread incredulity in reaction to the escape, the operation was not entirely unexpected; a similar tunneling effort was washed out by rains earlier this year. This latest escape, together with that of a top Tupamaro leader in July by way of a simple ruse, and the mass breakout of 37 female members of the band later that month have underscored the government's inability to operate an effective detention system.

The escape, coming as the campaign for general elections in November is hitting full stride, is especially damaging to President Pacheco. Basing his primary appeal on a law-and-order platform, he recently announced he would seek re-election, but the escape will seriously undermine public confidence in the administration's ability to contend with the country's problems.

The terrorist breakout left the police in a state of rage and shock--no search operations or blockades were apparent in Montevideo by mid-afternoon yesterday. Earlier this year, frustration at the ineffectiveness of official measures designed to counter the Tupamaros led to the formation of counterterror units in the security forces, and this episode will add impetus to those who favor

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Extralegal methods. At the same time, the already formidable capabilities of the terrorist group have been improved by the escape of some top leaders, suggesting that violence, abetted by the election campaign fervor, will become more serious.

In the short term, events will probably follow a familiar script. The government has reiterated its determination to hold the elections and maintain a democratic system, and has announced it will soon take measures to deal with the "grave episode." Cabinet and other resignations are likely to be offered, and the administration will use emergency security measures to tighten controls on the media and the population.

The leftwing electoral coalition, the Frente Amplio, is already assailing the government's ineptitude and will probably find its appeal enhanced as a result of the latest government bungle. The political stock of the Pacheco government has now sunk dangerously low and only the implementation of rapid and uncharacteristically efficient countermeasures will save it from being a liability of the incumbent Colorado party to maintain power in November.



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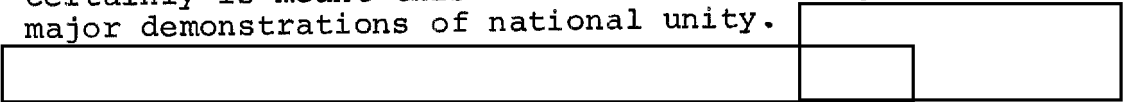
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YUGOSLAVIA: Tito's visit to Zagreb, which began yesterday, is a continuation of his drive for national support in talks with Brezhnev later this month.

Tito's past successes in dealing with Soviet leaders have been predicated on firm domestic backing, and he will exert all his efforts to assure this support. He has already taken steps to tighten his control in potential problem areas along the Hungarian border and is fresh from a speaking tour of Bosnia-Hercegovina.

His visit to Zagreb is aimed at one of the main centers for potential internal dissidence. The Croats began flirting with dangerous separatist themes earlier this spring, but Tito--with the help of the Zagreb party leaders--had effectively muzzled the most outspoken nationalists by midsummer. Nationalist agitation has recently begun to revive, however, and Tito is determined to keep these trends in bounds.

Croatian party and government leaders appear to be cooperating. After a brief meeting with Tito in Split over the weekend, they returned to Zagreb and ordered a rousing welcome for his arrival. Extensive public preparation for such visits is rare and almost certainly is meant this time to set the stage for major demonstrations of national unity.



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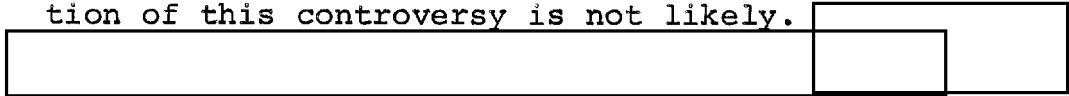
INTERNATIONAL AVIATION: A high-level conference opening tomorrow in Montreal is another step in the international effort to deter aerial hijackings.

The conference, expected to last about two weeks, should result in the drafting of a convention designed to cope with "unlawful interference" with international civil aviation. The most notorious example of such interference occurred a year ago when the fedayeen held three airliners for ransom in the Middle East. The draft convention, the primary impetus for which has come from the US and Canada, is likely to outline steps for concerted action--such as suspension of air service--against states that tolerate such activities.

Meanwhile, an "unlawful seizure" convention may enter into force soon, the requisite ratifications being nearly completed. Under its terms, an adhering state in which a hijacked plane lands must either extradite or prosecute the hijackers.

Several specific instances of interference are causing severe strains, however, within the International Civil Aviation Organization (ICAO). Among these are Libya's interception and forced landing of a British commercial aircraft last July in order to remove two passengers. The ICAO Council probably will pass a resolution condemning such acts but without referring to the Benghazi incident.

A more explosive issue is India's ban on overflights by Pakistani commercial aircraft. The ban was imposed by New Delhi in retaliation for Islamabad's decision to harbor Kashmiri "freedom fighters" who had hijacked an Indian flight. The ICAO Council has agreed to look into the matter, prompting India to ask the International Court of Justice whether the council has that prerogative. An early resolution of this controversy is not likely.



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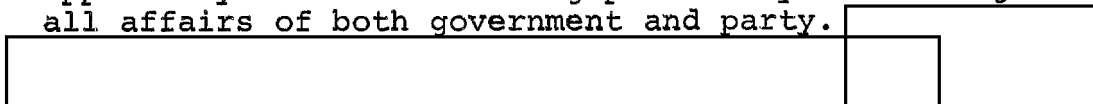
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TUNISIA: The dismissal of the reform-minded minister of interior underscores the factionalism within the ruling Destourian Socialist Party.

President Bourguiba dismissed Interior Minister Ahmed Mestiri on Saturday and transferred his functions to the prime minister. Mestiri, a strong exponent of reforming and institutionalizing the government and party structures, is often at odds with the clique of officials surrounding the President. His position has been shaky since early this year when various persons close to Bourguiba were reportedly attempting to discredit him. Mestiri had offered his resignation when the President returned to Tunisia last June after nearly six months of medical treatment abroad, but Bourguiba persuaded him to remain in the government.

The immediate issues leading to Mestiri's dismissal involved Bourguiba's firing of two minor party officials, appointing several new governors, and replacing the chief of national security--a close friend of Mestiri--without prior consultation. Mestiri strongly protested that his authority was undermined by the appointment of officials within his ministry without consulting him. Whether he will now retain his post as secretary of the party's policy-making high committee, which is preparing for a long-delayed party congress next month, or even his party membership is an open question. When Mestiri publicly resigned as defense minister early in 1968, Bourguiba ordered his dismissal from the party, but reinstated him two years later.

Mestiri's absence from the party congress would seriously weaken the faction seeking to create strong institutions and an orderly presidential succession. Conversely, it would strengthen a rival faction that apparently endorses a strong presidency dominating all affairs of both government and party.



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NOTES

ARMS CONTROL: The draft comprehensive nuclear test ban (CTB) treaty that Sweden offered at the 25-nation Geneva disarmament talks last week reflects the strong desire of the non-nuclear-weapon countries that at least some progress toward a CTB be registered soon. On the difficult issue of verifying compliance with a CTB, the Swedish text calls for "good faith" cooperation in international exchanges of seismic data. The Soviet delegation at the Geneva talks has recently indicated that Moscow might be willing to accept an agreement that would be policed by an international "nuclear detection club"--an arrangement evidently similar to what the Swedes have now proposed. Peaceful nuclear explosion devices, which many countries including the USSR regard as potentially useful in developmental projects, would be exempt from the ban on underground testing.

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USSR-PERU: Moscow has agreed to finance the construction of what press reports bill as the "largest fishing port in Latin America." In addition to providing for the development over the next ten years of fishing facilities that have been under survey by the USSR since early 1970, the contract is said to call for the Soviets to install a plant to process sea products and to provide housing. The agreement permits the Russian fishing fleet to use the port, on which construction is to begin next year. The amount of the Soviet credit is not clear, but in earlier negotiations Moscow had offered \$30 million. This is in addition to \$28 million made available for agricultural machinery and heavy equipment since the exchange of diplomatic recognition two years ago.

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SUDAN: Rumors are circulating in Khartoum that an assassination attempt may be made against Prime Minister Numayri before the presidential election on 15 September. Other stories allege that two attempts already have been made on Numayri's life since his return to power in late July. Although hard evidence of impending action against Numayri is lacking, there are some indications that serious frictions have developed between the Sudanese leader and two key members of the Revolutionary Command Council. One of them, the minister of interior, is said to oppose Numayri's plan to dissolve the council and to install himself as president with full executive authority.



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