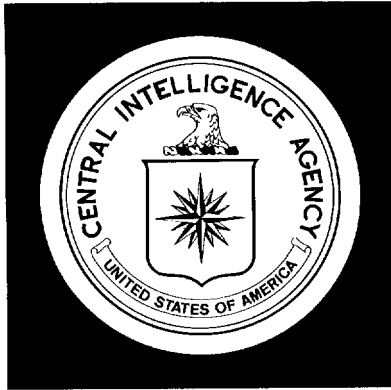


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SECRET

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26 October 1972

Central Intelligence Bulletin

CONTENTS

LAOS: Pathet Lao send a top leader to negotiate.
(Page 1)

YUGOSLAVIA: Serbian leaders resign under fire.
(Page 2)

SYRIA-IRAQ: Damascus demands larger payment for
use of oil pipeline. (Page 3)

ISRAEL: F-4 Phantoms (Page 4)

STERLING AREA: Pound at all time low (Page 4)

INTERNATIONAL FOOD GRAIN SITUATION: A review of
world wheat and rice markets. (Page 5)

SECRET

SECRET

LAOS: The dispatch of a top Pathet Lao official to Vientiane is a further sign that the Lao Communists believe the time is right for serious peace negotiations.

Radio Pathet Lao on 25 October announced that Phoumi Vongvichit had departed the Communist headquarters at Sam Neua for Vientiane where he will serve as "special adviser" to the Lao Communist negotiating team. Phoumi is generally regarded as one of the top three Lao Communist leaders and will have considerable discretion in dealing with government negotiators.

At the second session of the talks on 24 October, chief Communist negotiator Phoune Sipraseuth concentrated on the familiar arguments that Souvanna's government can no longer be considered the neutral government of national union set up in 1962 by the Geneva Conference and that the two sides must negotiate on an equal basis to establish a new coalition structure. Both the government and the Communists have now set forth initial bargaining positions based on their well-known public views concerning political issues. Serious probing for signs of give could begin at next week's talks. Although on 24 October Phoune castigated the government for a lack of "good will and realism," he held out the hope of constructive dialogue by admitting that "certain points" in Vientiane's position are "capable of bringing us together."

25X1

26 Oct 72

Central Intelligence Bulletin

1

SECRET

SECRET

YUGOSLAVIA: The top leaders of the Serbian party have resigned under fire, and Tito may have to intervene directly to fill the leadership vacuum and restore order in Yugoslavia's largest republic party.

Last week Tito personally attacked the republic leadership for its resistance to his demands for party recentralization. On 21 October a Serbian central committee plenum accepted the "resignations" of party boss Marko Nikezic and his second in command, Latinka Perovic. The central committee did not announce the move until four days later. Another plenum is planned for the near future, presumably to select a successor to Nikezic. Tito's primary problem is to find a replacement who will be able to restore confidence and carry out his orders. The confusion and uncertainty among Serbian officials, many of whom are Nikezic's appointees and are similarly vulnerable, have demoralized the party organization. The deterioration is such that 30 out of 40 members of an important party commission failed to appear for a meeting on Tuesday.

A wider purge may be in the offing. On 23 October, the central committee warned against personal vendettas but simultaneously demanded punitive actions, including expulsions from the party. The Vojvodina party, which is affiliated with the Serbian organization, also appears to be affected. There are demands for self-criticism by provincial party leaders.

The fallout from Tito's demands, expressed in his letter of 17 September, for radical changes throughout the Yugoslav party also threatens the third party conference scheduled for late November. The executive bureau has ordered that plans for the conference be reviewed in light of Tito's demands. Last week, Communists at Belgrade University requested a postponement of the conference, which is to revamp the regime's youth policy. Tito probably will not permit a postponement because this would indicate indecision and inaction, two chronic party failures that he is now committed to cure.

26 Oct 72

Central Intelligence Bulletin

2

25X1

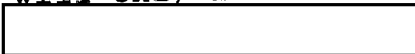
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SYRIA-IRAQ: Damascus has demanded larger payments from Iraq for oil transiting the Syrian portion of the nationalized Iraq Petroleum Company (IPC) pipeline.

Iraq has not kept up the payments of the transit fee paid by IPC before nationalization and Syria is pressing Iraq either to meet its demands or provide a loan pending a settlement. Damascus, however, probably will not close the pipeline, which is the principal outlet for Iraqi oil, because Syria needs these funds to cover its budget deficit. Prior to Iraq's nationalization of IPC's holdings last June, company payments to Syria were about \$64 million annually for transit rights, as well as a minimum of \$3 million in hard currency to Syrian oil workers. The transit payments accounted for about 14 percent of Syria's total revenues in 1970.

Both sides apparently are far apart on terms for a settlement. Damascus has stated that it hopes to receive double the amount it was paid prior to nationalization, while Baghdad reportedly has offered to make payments at the old IPC rate and provide a portion of the profits it has realized from nationalization. Both countries are ruled by Baath party elements, but they have strong differences stemming from personal and political bases and have a history of diplomatic haggling, even over issues of mutual interest. Failure to arrive at a prompt settlement will only lead to further strains in their relations.



25X1

26 Oct 72

Central Intelligence Bulletin

3

SECRET

SECRET

NOTES

ISRAEL: F-4 Phantoms in the Israeli Air Force are receiving only minimum maintenance, [REDACTED]

[REDACTED] Skin cracks reportedly are being ignored and planes frequently are flown with inoperable subsystems. An F-4 with some 550 flying hours recently was sent to Israel Aircraft Industries Ltd. for inspection where it was judged to be in such bad shape that it should not be repaired. The air force had considered the plane to be in average condition. Another US source claims the Israelis are wearing out F-4s some three times faster than the US Air Force. Despite these reports, the Israeli Air Force is known to have lost only one F-4 due to a malfunction and none has been taken out of service since the first aircraft were received in 1968.

[REDACTED] * * * *

STERLING AREA: The fall of the pound sterling to its lowest level in history has forced additional nations to withdraw from agreements with the UK under which a fixed percentage of a country's reserves is held in sterling. South Africa has cut its ties to the pound and has set the value of its currency about four percent above the rate to which the rand had floated. Malaysia also has unilaterally withdrawn from its sterling agreement and has substantially reduced its foreign exchange reserves in sterling. Singapore, Hong Kong, Australia, and New Zealand cut their sterling ties last summer after London floated the pound. [REDACTED]

26 Oct 72

Central Intelligence Bulletin

4

SECRET

SECRET

INTERNATIONAL FOOD GRAIN SITUATION:

A poor wheat harvest in the USSR has resulted in an unparalleled Soviet demand for imports, and there are unusual requirements for rice by several Asian countries. Although adequate quantities of wheat are available on a world-wide basis, transport and distribution problems have left some countries in a deficit position. The supply of rice is expected to become more critical next year as a result of crop shortfalls this year, while the tight wheat market may ease. World wheat trade in the 1972-73 crop year will set a record at some 63-65 million tons, up 20 percent from last year and exceeding by a small margin the previous peak in 1965-66, which also followed poor Soviet and Indian harvests. The extraordinary recent demand for wheat has pushed up both the price of wheat and ocean shipping freight rates for all grains.

WHEAT

Traditional importers of wheat have felt the greatest impact from the rise in world wheat trade. Those buyers who usually purchase wheat periodically throughout the year--for example, Japan--have borne the brunt of rising grain prices. The cost at Rotterdam for US hard winter wheat, for example, rose nearly 40 percent between 28 June and 4 October 1972. Most of Moscow's unusually large purchases were arranged for in July and early August--prior to and, in effect, the major cause of the price rise. Moscow has since picked up additional small quantities of wheat from suppliers in Eastern and Western Europe and Australia. Wheat purchases by the USSR from all sources for delivery by mid-1973 now total almost 19 million tons, compared with only four million tons in the year ending last June.

The increased costs of shipping will be felt by all grain importers. Ocean freight rates between

26 Oct 72

Central Intelligence Bulletin

5

SECRET

SECRET

August and mid-October rose by 55 percent and are still climbing. They may peak in mid-winter when the largest portion of grain under contract is scheduled to move.

Although their reserves will be reduced by at least one third during the current crop year, the US and Canada remain the grain "storehouses," with substantial amounts of wheat in reserve. Certain kinds, however, are in short supply. Canada's sales, however, have been limited by the shortage of rail transport from its wheat producing areas and by strikes and the lack of storage facilities at its ports. Moreover, the major St. Lawrence Seaway is closed to shipping for several months during the winter.

Argentina and Australia--the other major wheat exporting countries--will be harvesting their southern hemisphere crops in December. Argentina is expecting a good crop but Australia's wheat harvest probably will be smaller than average and most of its anticipated exportable surplus is already committed. Australia has agreed to supply China with one million tons for delivery during the first half of 1973, the first such shipments since 1969 when Peking suspended orders for political reasons. Canberra also has promised one million tons to the USSR for delivery by mid-1973. Countries in the European Economic Community produced a record crop this year, permitting some increase in their usually marginal exports.

Unless the elements remain particularly unkind to the USSR, the record purchases of wheat are not likely to be repeated next year.

Moscow, however, even under normal growing conditions, will continue to import some wheat to meet both domestic and foreign commitments. The requirements of the regime's livestock program caused a

26 Oct 72

Central Intelligence Bulletin

6

SECRET

SECRET

serious depletion in government wheat stocks in 1969 and 1970 when a large quantity of wheat was used for livestock feed. Moreover, the Soviets may continue to feed large amounts of domestically grown but low-quality wheat to livestock, requiring more imports of milling quality wheat to meet their own demands for flour and exports. The Soviets traditionally export about five to seven million tons of wheat and flour to their client states. The USSR, whose purchases of coarse feed grains rose to about nine million tons this year, probably will continue to purchase significant amounts for the next several years. India also may be forced to resume wheat imports next year because an unfavorable monsoon has sharply reduced foodgrain output there.

Traditional importers of wheat, having been stung by market events this year, may feel it prudent to arrange for supplies earlier next year. Many wheat producers probably also will try to boost production next year. Such actions would in themselves engender further uncertainty in the international wheat market. At a recent session of the International Wheat Council--which formerly set world prices but now has become largely a meeting place for importing and exporting nations interested in maintaining an orderly market--Japan suggested consideration of relaxation of production and acreage controls maintained by some producers. Recognizing the difficulty of predicting world demand and supply a year hence, Tokyo suggested, nevertheless, that some predictive effort be made to stabilize the future wheat market. The Council next meets on this subject in late November.

RICE

The real crunch in the rice supply situation is yet to come. Unfilled orders this fall have totaled about 500,000 tons, but the situation may well become more acute next year. The major difficulty with the rice market in the short term has

26 Oct 72

Central Intelligence Bulletin

7

SECRET

SECRET

been in transporting and distributing to deficit countries available supplies from those few sources--largely the US, Thailand, and Japan--which still have small reserves.

The bulk of the 300 million tons of rough rice produced in the world annually is consumed domestically; only about five percent enters international trade. Therefore, even minor shifts in production significantly affect world rice prices. A shortfall in output, for example, often shifts a country from borderline self-sufficiency to an importer status, while bumper crops depress world prices as producers attempt to export their surpluses. Export prices for Thailand's first-quality rice, for example, currently are about 20-30 percent higher than they were in the early spring.

This year, several Asian countries suffered shortages as a result of an unfavorable monsoon, floods, crop diseases, and war. Exportable stockpiles in the surplus countries had already been reduced in the expectation that the developing countries would continue to provide a larger share of their own needs as a result of improved agricultural methods and use of new high-yield varieties of seed.

This year Cambodia has temporarily shifted from exporter to importer status, largely due to war and bad weather. The Philippines, after being self-sufficient for three years, had to increase imports for the second year in a row due to rice disease and floods. India and Thailand also were particularly hard hit by bad weather. Thailand, traditionally a major world exporter, had reduced its rice stocks to a minimum level by mid-1972 and next year's exportable surplus is expected to be considerably lower. Crop mismanagement has reduced production in Burma and Indonesia, and crops in Bangladesh and South Vietnam have been disrupted by war. Output of rice in China apparently dropped this year and there is no indication that Peking is willing to increase its rice exports at this time.

26 Oct 72

Central Intelligence Bulletin

8

SECRET

SECRET

Supplies from generally poor crops this year will be depleted by late spring, several months before the major fall harvests begin. Exportable surpluses next year are likely to be as much as one million tons lower than in 1972 as production drops and exporters' carry-over stocks are reduced by demand this year.

Rising prices will lead to greater efforts to expand production for the fall harvest in 1973 but, once again, the vagaries of weather, and economic and political conditions will influence both demand and supply.

25X1

26 Oct 72

Central Intelligence Bulletin

9

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