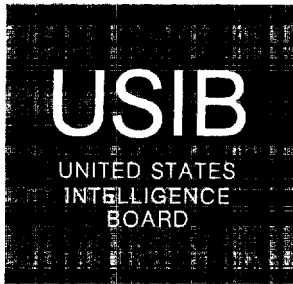


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USSR

General Secretary Brezhnev yesterday ended the Soviet leadership's series of Supreme Soviet candidacy speeches with a measured appraisal of US-Soviet relations.

Referring to the coming summit, he acknowledged pessimistic forecasts in the West but said bilateral relations can and must continue to improve. Ruling out hasty decisions on questions not ready for solution, Brezhnev seemingly cautioned against high expectations for the results of the summit. He said US-Soviet relations must proceed on a stable basis and "not be dependent on considerations of expediency."

Brezhnev said the most important and complex problems are those in the field of arms limitation--the subject of heated debate. He presumably was referring to debate in the US, but he did not make this explicit.

Apparently responding to Western charges that the USSR is aggravating the arms race with its missile modernization programs, Brezhnev claimed that historically the arms race has been forced on the Soviet Union. Praising the strategic arms agreements of 1972 and 1973, he called for further agreements to prevent the continuation of the arms spiral.

Specifically, Brezhnev expressed willingness to limit underground nuclear tests "down to their full termination according to a coordinated timetable." Pending a halt to the arms race, Brezhnev assured his listeners, Soviet defenses would be maintained "at the appropriate level."

Brezhnev was also cautious on European issues. He praised Pompidou and Brandt, but went no further than noting that both President Giscard d'Estaing and Chancellor Schmidt have said that they will continue the policies of their predecessors. He also spoke of the possibility of closer ties with Italy.

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The General Secretary placed some emphasis on successfully completing the European security conference, with the participation of "top leaders" at its concluding stage. He strongly implied, however, that Moscow would not meet Western demands for the freer movement of peoples and ideas. He also expressed Soviet willingness to take partial measures toward arms limitation, and hinted that one such step might be in the offing on force reductions in Europe.

Brezhnev said prospects had improved for eliminating the hotbed of war in the Middle East, but he cautioned that only the combined efforts of participants at the Geneva conference would fully resolve the remaining problems. He pledged continued support for this task.

On the topic of relations with China, Brezhnev took the usual Soviet line. He condemned the Chinese leadership and echoed earlier speakers in charging that Peking is in open collusion with right-wing imperialists in the West. He also made the standard references to Moscow's desire for normalization of relations with China and for friendship with the Chinese people.

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ITALY

President Leone on June 13 refused to accept Prime Minister Rumor's resignation because he is convinced there is only a slight difference separating the coalition parties on key economic issues.

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Leone's conclusion is supported by a US embassy source, who maintains that the Christian Democrats and Socialists were very close to agreement on fiscal and credit policy prior to Rumor's resignation.

Leone is prepared to instruct Rumor to submit the issues to parliamentary debate if the Prime Minister reports that he cannot resolve the differences between the Christian Democrats and the Socialists.

Meanwhile, political leaders may have been given a short breathing spell by organized labor. The labor federation which represents all of Italy's unions has reaffirmed its support for the Socialist position but has voted a temporary moratorium on politically motivated strikes. The Communist-dominated union is following a policy calculated to convey a responsible image and thus supports Communist leader Berlinguer's campaign for more formal consultations between the Communists and the government. The leader of the Communist union, for example, aided Christian Democratic labor leaders in their effort to beat back a Socialist attempt to pin responsibility for the current crisis on the Christian Democratic Party.

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Prime Minister Rumor will probably convoke a meeting of the center-left party leaders this weekend to get negotiations started and to prepare for a possible attempt by the Communists to force a debate on the crisis when parliament convenes on Monday. Rumor is not likely to make much progress toward resolving the dispute, however, prior to next week's regional council elections in Sardinia. Both the Christian Democrats and the Socialists are hoping for an outcome that can be interpreted as endorsing their respective positions in the dispute.

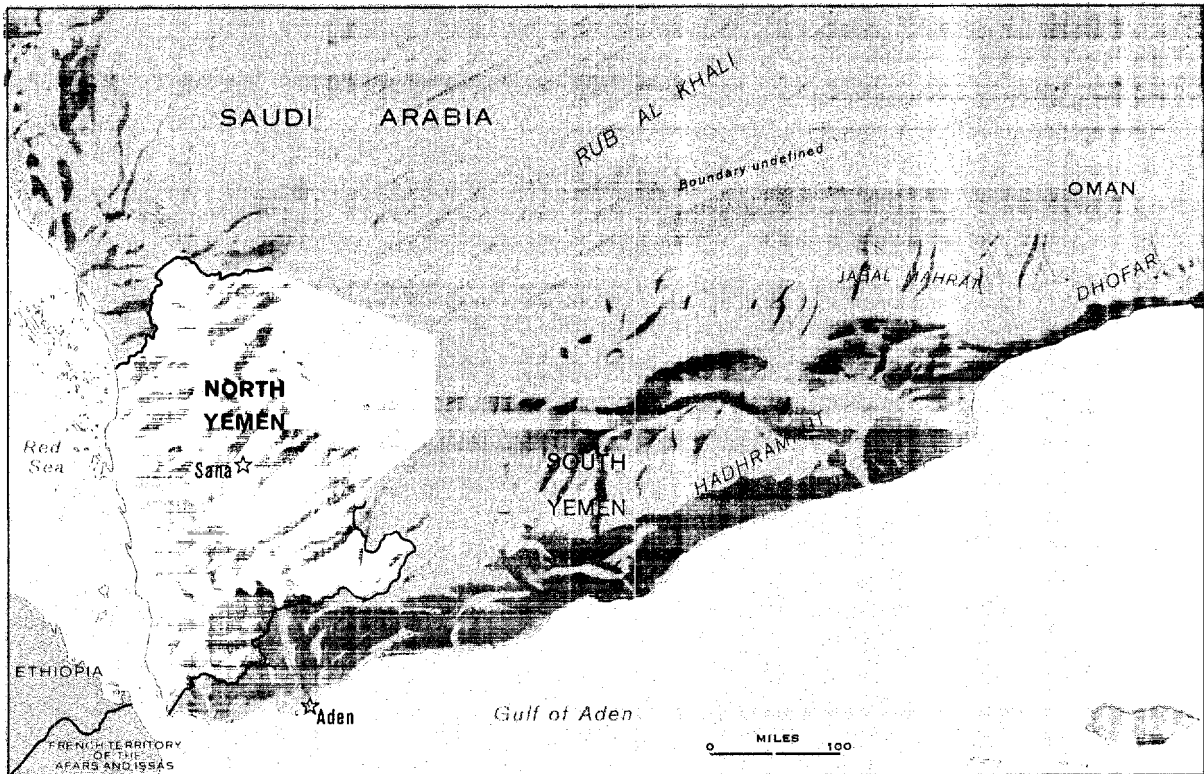
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NORTH YEMEN

The Command Council under Colonel Hamdi appears to be in control of the capital, but it has yet to receive pledges of support from powerful tribal elements in the north that on Thursday threatened to occupy Sana.

Hamdi's chances of consolidating his take-over will be enhanced if the Saudis can and do restrain Sheikh al-Ahmar and the other tribal leaders subsidized by Riyadh. The Saudis do appear well disposed toward Hamdi, whom they regard as an anti-Communist nationalist.

In a public statement of support for the new regime, Saudi Arabia warned South Yemen against "external intervention" in North Yemen. The South Yemenis could well be tempted to exploit the North Yemeni army's preoccupation with the tribes by initiating military moves along the border.

When and if Hamdi works out an accommodation with the tribes, his next challenge will be to unite the various political factions behind his regime. The Command Council has made a vague commitment to restore civilian leadership, but such a move does not appear imminent.



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JAPAN

The balance-of-payments deficit widened in May, primarily reflecting an increase in the trade deficit. The trade deficit last month was \$580 million and for January-April amounted to \$2.8 billion. The overall balance-of-payments deficit for the first five months is nearly \$6 billion.

The trade deficit grew in May even though exports soared 63 percent, compared with May 1973. Price increases accounted for nearly two thirds of export growth, while volume increased 20 percent. Led by higher oil costs, the import bill rose 88 percent. Excluding oil, the trade balance showed a \$600-million surplus, about \$100 million higher than in May 1973.

A small surplus was registered in the capital accounts--the first such surplus since late 1972--reflecting tight controls on long-term capital outflows as well as increased short-term borrowing overseas by Japanese firms. Despite the payments deficit, official foreign exchange reserves grew \$450 million to \$13.2 billion, largely because Tokyo drew down some of its nonofficial reserves.

Given the strong export outlook in the coming months, Tokyo will be able to maintain the level of reserves. [REDACTED]

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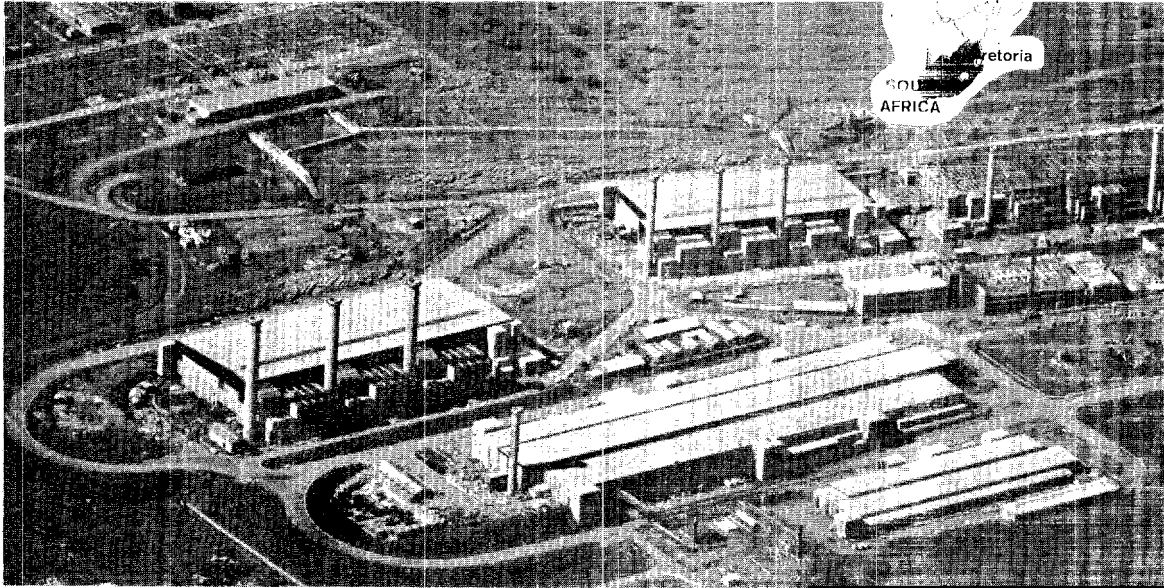
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VALINDABA URANIUM ENRICHMENT PILOT PLANT



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SOUTH AFRICA

Pretoria intends to construct a full-scale uranium enrichment plant with financial assistance from "overseas interests," according to recent statements by the head of the government-owned South African Enrichment Corporation (UCOR).

A South African study of the economic feasibility of a new method for enriching uranium is scheduled to be completed by the end of the year. The UCOR official stated that if the process proves economically viable, Pretoria will construct a full-scale production plant capable of producing about \$375 million worth of reactor-grade enriched uranium annually. A plant with this capacity could be operational by the early 1980s.

A large facility designed to provide the South Africans with operational experience in the use of their enrichment process has been under construction at Valindaba, near Pretoria, since September 1970. This plant has been repeatedly referred to by the South Africans as their "pilot plant."

The South African official claimed that new investors abroad had been brought into UCOR as partners to assist in the financing of the production plant. The cost of this plant is estimated to be close to \$1 billion. The new partners, according to UCOR, will assure a market for the plant's enriched uranium and will provide a means for South Africa to share its enrichment technology with the "free world." A West German electric firm is already involved in the project.



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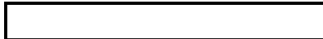
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FOR THE RECORD

France-UK: London and Paris have announced record trade deficits in May--\$1.2 billion for the UK and \$635 million for France. The French deficit was up 60 percent over the April figure, with capital goods imports contributing significantly to the already large deficit caused by higher oil prices. The announcement from Paris came just two days after the government adopted an austerity program designed to curb imports of oil and capital goods and to spur exports. 

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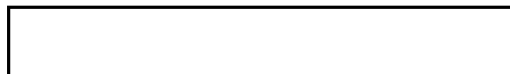
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