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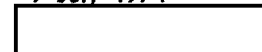
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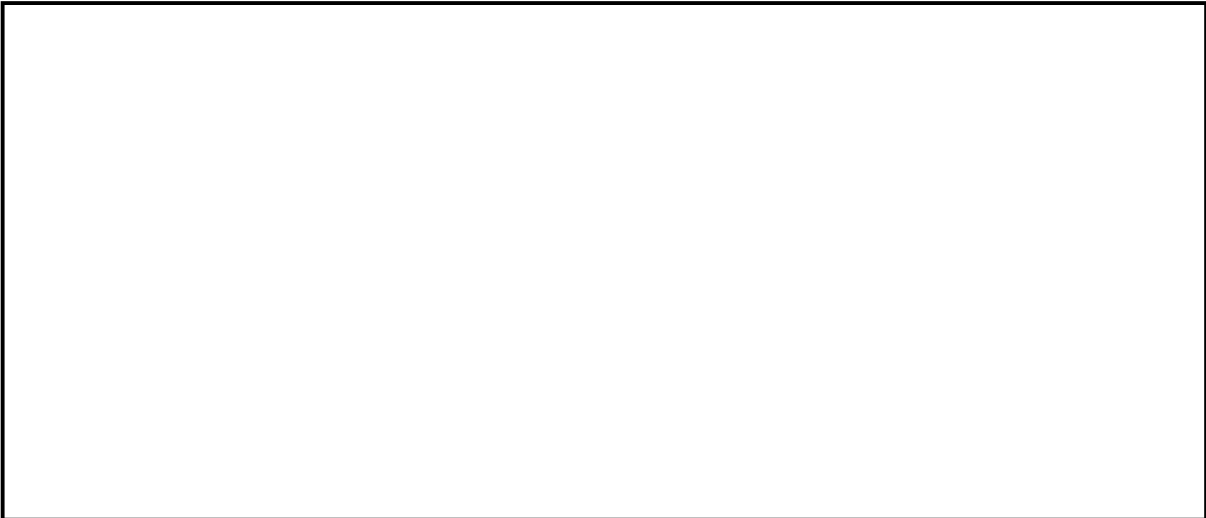
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JAPAN

Returns from the election on Sunday are nearly complete, and it appears that Prime Minister Tanaka's Liberal Democratic Party (LDP) has emerged without a clear majority in the 252-member upper house. Unless some of the independent winners affiliate with the ruling party, the LDP will hold only 126 seats, compared with 134 prior to the election. Although the upper house is the less important of the two houses of the Diet, the increased strength of the opposition may hamper some of the ruling party's legislative efforts.

The LDP's losses are being attributed to economic discontent. Tanaka's conduct of the campaign, however, and particularly his heavy use of corporate contributions, may also have cost his party a few seats. The weak LDP performance will almost certainly damage Tanaka's recently reviving prestige within the party.

The Socialists, the largest opposition party, put on an unexpectedly good performance, coming on strong in the final weeks of the campaign and picking up a few seats. The Communists increased their small upper house base, almost doubling their previous strength of 11 seats.

The Buddhist-based Komeito, on the other hand, just about maintained its strength in the upper house, contributing to a growing belief that the party has reached its political plateau after an extraordinarily rapid growth in the 1960s. The small Democratic Socialist contingent in the upper house was further depleted, though not to the extent that it is likely to fade into oblivion, as its partisans had feared.

With the upper house elections over, political maneuvering in the Liberal Democratic fold will now focus on next summer's party leadership race, particularly the effort of Tanaka's major factional opponents to unseat him as party president, and hence prime minister.

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PORTUGAL

The shake-up in the cabinet expected today flows from a sharp rift in the forces that brought President Spinola to power last April and reflects Spinola's apparent determination to give the regime a more conservative orientation.

There are, however, differing accounts of the nature of the rift. According to [redacted] the US embassy in Lisbon, the cabinet changes grow out of a split between leftist members of the cabinet and Prime Minister Palma Carlos over pending legislation, particularly in the labor field. The Prime Minister reportedly offered to quit the government last week. Spinola refused to accept his resignation, and instead plans to dismiss five leftist ministers. The junta and the Armed Forces Movement reportedly have agreed to authorize the Prime Minister to legislate by decree.

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[redacted] the Armed Forces Movement is resisting efforts of the junta to consolidate Spinola's position. In meetings last weekend with Spinola, representatives of the Armed Forces Movement reportedly demanded the elimination of the paramilitary forces that have police functions--the National Republican Guard and the Public Security Police--and insisted that supporters of the Movement be appointed to key military positions.

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Spinola is said to feel that he has the support of the junta and of enough of the rank-and-file soldiers to remove from the political arena the leftists in the Armed Forces Movement who oppose him. [REDACTED]

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[REDACTED] Spinola has formed a new commando regiment outside Lisbon that would support him against the Armed Forces Movement. This regiment and other military forces in Portugal reportedly have been on alert for the past several days.

A key issue has thus become whether Spinola or the Armed Forces Movement will control the government. If Spinola moves abruptly against the left, he will upset the equilibrium of political forces that he has been trying to maintain. [REDACTED]

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ISRAEL

The National Religious Party may soon join Prime Minister Rabin's coalition government. The support of the Religious Party's ten members in the Knesset would greatly enhance the government's chances of survival and deal a setback to opposition hopes for early new elections. The opposition will suffer a further blow if one of the Likud bloc's most popular members, Major General Sharon, follows through on his reported decision to withdraw from active politics to military service.

Religious Party secretary Bernstein on July 7 was reported as saying that a decision to enter the coalition is "imminent." A number of factors appear to be contributing to a reconsideration by the party of its earlier refusal to join forces with Rabin:

--Orthodox rabbinical objections to such a move may be softening sufficiently to permit a compromise formula on the contentious religious conversion issue.

--The party's ultraconservative youth faction reportedly has dropped its opposition to joining the government, and one of its leaders is said to be in line for a cabinet post.

--Party leaders may be coming to believe that Rabin's prospects of survival without the participation of their party are better now than they anticipated when the government was formed in early June. Consequently, they may now be more eager to get aboard.

Rabin, for his part, is anxious to have the National Religious Party return to its traditional role as Labor's major coalition partner and has kept open four cabinet seats as an inducement. Labor Party negotiators have continued their contacts with Religious Party and orthodox rabbinical leaders to work out a solution. The

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Laborites have been at least partly motivated by concern that the Religious Party could eventually team up with the opposition Likud bloc to challenge Labor's continuing political hegemony. Rabin recently told the US ambassador, however, that he had gone as far as he could to meet the Religious Party's demands and that the next step was completely up to them.

If the Conservative Religious Party opts to join, the liberal Citizens Rights Movement is expected to leave the government. It controls only three Knesset seats and will in any case support the government on major issues, such as the Middle East peace negotiations. Rabin's other coalition partner, the Independent Liberal Party, which controls four Knesset seats, would probably elect to stay on. Rabin, who now commands only a one-vote majority in the 120-member Knesset, would thus end up with a more comfortable majority of eight.

Rabin's flexibility in conducting Middle East peace negotiations with Egypt and perhaps Syria would probably not be significantly affected by the addition of the Religious Party to the cabinet. The party would insist--and Rabin has already agreed--that the government submit to new elections before accepting a peace agreement with Jordan embodying territorial concessions on the occupied West Bank. [REDACTED]

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CANADA

On the basis of incomplete returns, Prime Minister Trudeau's Liberals have won a majority of seats in the House of Commons.

The latest returns show the Liberals won or were leading in 139 districts, the Progressive Conservatives in 95, the New Democrats in 18, and the Social Credit Party in 12. In the election in October 1972, the Liberals won 109 seats, the Tories 107, the New Democrats 31, and the Social Credit 15. The remaining two seats were won by independents.

The strong Liberal showing was a surprise. Polls conducted throughout the campaign indicated that the voters would not elect a majority administration.

The win is a personal victory for Trudeau, whose lackluster performance in the 1972 campaign contributed greatly to the Liberal setback. This time, however, the Prime Minister adopted an aggressive, highly visible policy that was more convincing to the voters.

Without pressure from the nationalist-minded New Democrats, who held the balance of power in the last Parliament, a majority Liberal government might be less influenced by the "Canada first" approach that was frequently demonstrated during the minority Trudeau government's stay in office. There remains, nevertheless, strong bipartisan support in Ottawa for the current policy of trying to lessen Canada's dependence on the US.

Inflation was the dominant issue, and the voters clearly rejected Tory leader Stanfield's proposal for a freeze on wages and prices. This was Stanfield's third chance to lead his party to victory; the loss is likely to result in his resignation or ouster as party leader.

New Democratic leader David Lewis was upset by a Liberal challenger in his Toronto district. He had held the seat since 1965. [REDACTED]

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CAMBODIA

Phnom Penh has made a new bid to open peace negotiations.

The formal declaration on negotiations issued today by the Lon Nol government invites the Khmer Communists to enter immediately into talks without prior conditions at a mutually agreeable time and place to find a Cambodian solution to the present conflict. The declaration expresses the hope that such a dialogue will lead to a cease-fire, to the withdrawal of all foreign forces, and to unity and national reconciliation. In addition, it appeals to all countries to help the two Cambodian sides in establishing a dialogue.

This is the government's first major peace initiative since July 6, 1973, when it issued a six-point proposal. In contrast to the new declaration, that proposal stressed the need for the withdrawal of foreign troops and a cease-fire before negotiations could start. Although Phnom Penh probably is not optimistic that its new, more flexible formula for negotiations will draw a favorable reaction from the Communists, it apparently believes the statement will put them on the diplomatic defensive.

The Communists have consistently rejected any negotiations with the present regime in Phnom Penh. In the past few months, the Communists have emphasized that the only way to peace is a withdrawal of all US support to Phnom Penh. They recognize that a withdrawal of US support would cause the fall of the Lon Nol government.

The insurgents' nominal leader, Prince Sihanouk, has also underlined the need for the withdrawal of US backing for Lon Nol. [REDACTED]

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Thus far, however, there are no signs that the in-country Communist leadership shares Sihanouk's interest in dealing directly with the US. [REDACTED]

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SOUTH KOREA

Leaders of South Korea's 800,000 Roman Catholics are moving into open opposition to the Pak government. On July 5, the Catholic Bishops' Conference on Korea issued a lengthy pastoral letter affirming the right and responsibility of the Church to speak and to act in support of human rights. The following day, one of the most vigorously anti-Pak Church leaders, Bishop Chi Hak-sun, returned to Seoul from Rome in an apparent challenge to the authorities, and was promptly arrested.

The Bishops' letter, soon to be read in all Catholic churches in South Korea, is a relatively moderate and generalized statement of support for the many Christian and other dissident elements currently on trial in Seoul for alleged antigovernment activities. It is a product of compromise, worked out by the influential Cardinal Kim in an effort to avoid an unnecessary affront to the government. It will be interpreted, however, as a demand for political moderation on the part of President Pak. As such, it aligns the South Korean Catholic leadership with the nation's leading Protestant grouping, the National Council of Christian Churches.

Cardinal Kim opposed Bishop Chi's return to Seoul at this time, and his effort to avoid an outright Catholic confrontation with the government has undoubtedly been complicated. Even if Bishop Chi is released--and this is not certain to occur soon--his arrest and interrogation are likely to cause resentment among Catholics.

The arrest, moreover, is further evidence of President Pak's willingness to call even the best known public figures to account for opposing him. The others include political opposition leader Kim Tae-chung, now on trial, and former president and elder statesman Yun Po-sun.

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WEST GERMANY

Egon Bahr's appointment last weekend as minister for economic cooperation came as a surprise to political circles in Bonn. Hans-Juergen Wischnewski, the Social Democratic Party's expert on Middle East affairs, had been widely expected to replace Erhard Eppler, who resigned on July 5 following a cabinet dispute over cuts in his ministerial budget. In this post, Bahr will administer a wide range of assistance programs to the less developed countries.

Prior to this appointment, Bahr's political future was clouded. He had served as Brandt's chief foreign policy adviser and was the architect of Ostpolitik, but he lost much authority when Chancellor Schmidt came to office in early May. His relegation to obscurity was widely interpreted as a sign of Schmidt's intention to de-emphasize Brandt's controversial Ostpolitik.

There had been several hints during the past month, however, that Bahr might be asked to accept a position in the Schmidt government.

--In an interview in early June, Schmidt indicated that he had not "parted" with Bahr and that he regarded him as a personal friend who would influence his foreign policy decisions.

[Redacted]

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--Schmidt has also indicated interest in using the swing credit system that underwrites Bonn's trade with East Germany as a lever to extract concessions on a number of issues--a course Bahr claims he supports.

[Redacted]

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[Redacted]

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TURKEY-GREECE

NATO Secretary General Luns will make a new offer this week to mediate the dispute between Athens and Ankara over rights to the Aegean seabed.

Luns will propose to Greek and Turkish NATO representatives that the two countries set up joint companies to exploit the mineral resources of the Aegean and work out arrangements concerning each side's participation later. He hopes this suggestion will enable the Greeks to begin negotiations, perhaps in a NATO forum, and provide a way around Greek objections to setting up new machinery for such talks.

The Turks appear to have convinced Luns that they are eager to work out some kind of compromise, in part because they are worried about recent arms purchases by Greece.

Some Greek officials--particularly in the Foreign Ministry--seem to favor a flexible approach to the problem, but they are not calling the shots. This was made clear by the behavior of Greek officials conducting recent talks with Turkish representatives in Ottawa and Brussels. The Greeks had no authority to negotiate substantive issues and had to check back regularly with the military leaders in Athens.

The Greek junta shows no sign of give. Greek leaders continue to insist that earlier agreements give Athens extensive rights in the Aegean and that there is nothing to negotiate. Frustration over this inflexible stance may have prompted the resignation last week of two key Foreign Ministry officials and may in part have caused the resignation yesterday of the foreign minister.

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ISRAEL-FEDAYEEN

Several Israeli patrol boats attacked three Lebanese ports late last night. Press reports from both Tel Aviv and Beirut state that about ten fishing vessels were sunk in each of the harbors. The Israelis left leaflets warning local inhabitants against permitting terrorists to operate from the ports.

Tel Aviv says the attacks were prompted by indications that fedayeen amphibious operations would be launched from the ports. Israel claims that the Arab commandos who killed four of its citizens at a seaside resort in late June came by boat from Lebanon.

The raids yesterday were in line with Tel Aviv's announced policy of disrupting terrorist preparations, rather than just reacting to guerrilla attacks.

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PERU

The recent shake-up in the navy high command has led to renewed interest in the purchase of Soviet cruise-missile patrol boats.

Negotiations for the sale of Osa or Komar class vessels have gone on intermittently since 1971/

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[REDACTED]

The new navy commander, Vice Admiral Arce, may have a more positive view. He reportedly has declared that the army got a good buy on its new Soviet tanks and that there is no reason why the navy should not acquire patrol boats from the USSR. He may also believe that the Soviets can be persuaded to share technical data on the missile in order to make the sale.

Arce's reasons for making a point of his interest in the Soviet craft may involve domestic political considerations as well as possible use of a potential purchase from the Soviets as a lever in an attempt to extract similar equipment from the US.

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ARGENTINA

President Maria Estela Peron has decided to retain her late husband's private secretary, Jose Lopez Rega, despite strong pressures from some military and political leaders to remove him.

Lopez Rega, who is also social welfare minister, is strongly distrusted by the military and by rivals in the cabinet, while the Peronist left wing views him with contempt. He has no political following of his own.

The politically inexperienced Mrs. Peron has long leaned on Lopez Rega for political guidance. Even though she has occasionally been at odds with him, she will need his assistance more than ever, now that she is President.

Unfettered by Juan Peron, and aware of his importance to Mrs. Peron, Lopez Rega's power now appears to have increased noticeably. This in turn could lead his enemies within the Peronist movement and the military to increase their efforts to get rid of him. They will move cautiously, however, for fear of causing Mrs. Peron to resign abruptly. [REDACTED]

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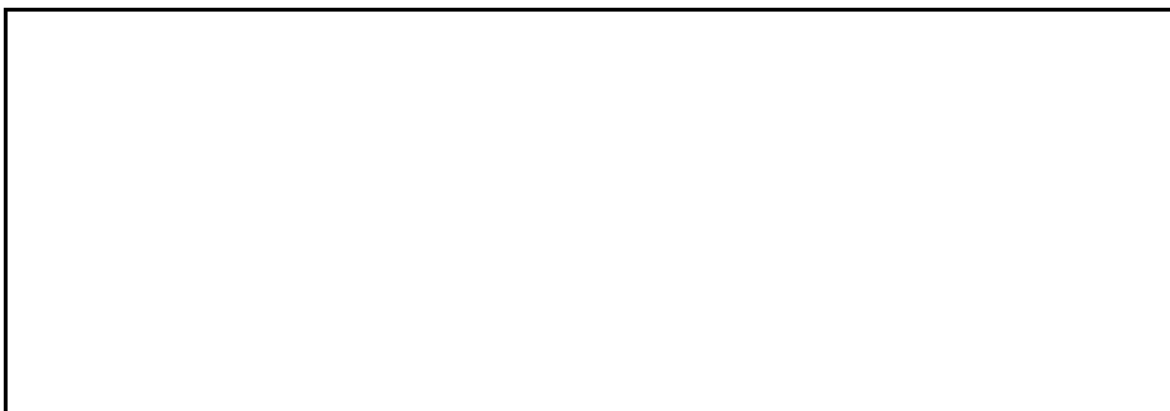
BOLIVIA

Press reporting indicates that President Banzer last night announced the formation of an all-military cabinet. In addition, Banzer said there would be general elections sometime next year.

The selection of an all-military cabinet is clearly designed to recapture flagging support among the President's fellow officers, and perhaps to boost their morale. At the same time, Banzer probably hopes to undercut potential military plotters by giving them a stake in the success of the regime. His call for elections may be meant to assuage restlessness and desire for change on the part of a number of younger officers. Banzer has talked about elections in the past without following through.

The new cabinet may presage the further weakening of the coalition of political parties that had backed Banzer until it was racked by disunity both within and between the parties.

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