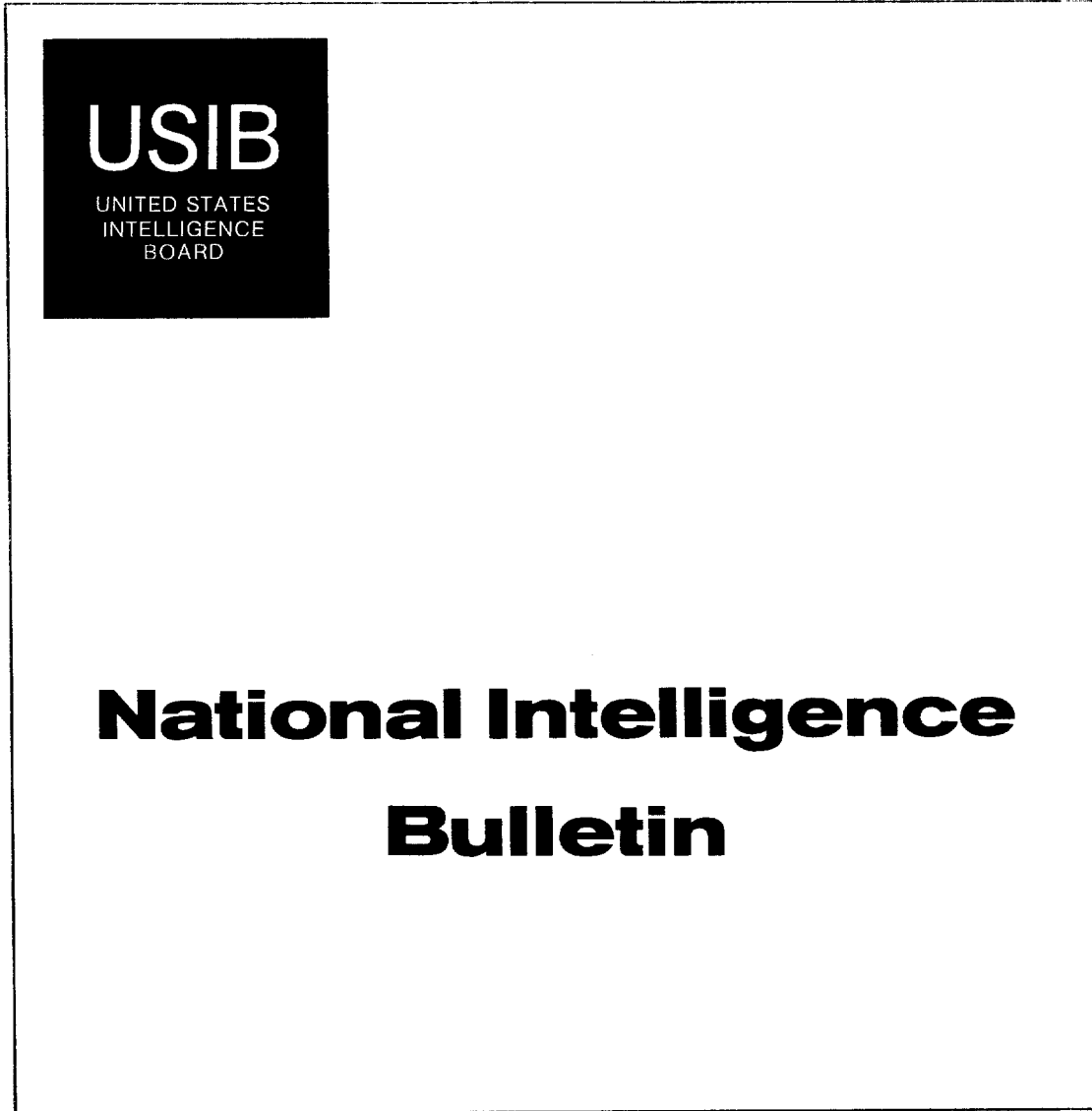


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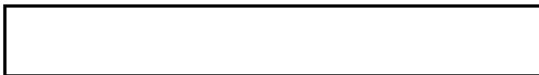


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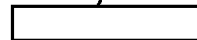
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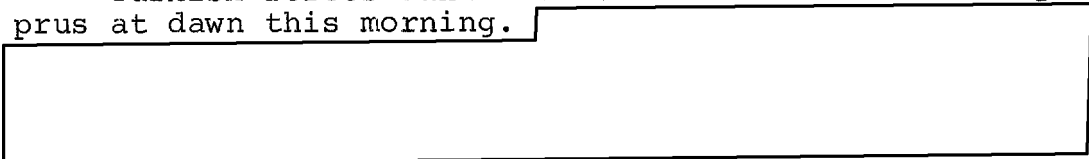
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CYPRUS

Turkish forces landed on the northern coast of Cyprus at dawn this morning.



The US embassy in Nicosia reports that Turkish paratroops are being dropped in the vicinity of Nicosia, including the Turkish sectors of the city, roads leading to the landing areas on the northern coast, and the airport. Evidently, the Turks plan to secure an area in the capital and then to link up with forces advancing inland from the coast. They are apparently attempting to secure the main road from the landing area to Nicosia.



Turkish Prime Minister Ecevit, in a public announcement this morning, said the decision to invade was made after Ankara had explored all diplomatic means to solve the problem caused by the Greek-engineered coup on Monday. Turkey's immediate goals are to stabilize its forces on the island and then to negotiate. Ecevit said Turkish forces would not fire unless fired upon.

Turkish leaders reportedly do not care who is president of Cyprus as long as he is a moderate. Most Turks agree, however, that they would not support the return of Archbishop Makarios. Of all the prominent Greek Cypriot politicians, the Turkish Cypriots would be most comfortable with Glafcos Clerides, president of the House of Deputies and Makarios' constitutional successor.



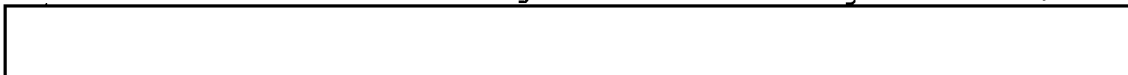
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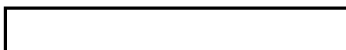


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The special session of the Security Council yesterday listened to Archbishop Makarios' appeal, but passed no resolution. Support appeared to be eroding for the strong resolution that Makarios demanded calling for the withdrawal of Greek National Guard officers and recognition of himself as the legitimate head of government.



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FEDAYEEN

Virtually all fedayeen groups have condemned the Egyptian-Jordanian communiqué issued Thursday at the end of King Husayn's visit to Cairo. Palestine Liberation Organization Chairman Yasir Arafat's dominant Fatah group has labeled it a "retreat" from the position adopted at the Arab summit last November that the PLO is the sole representative of the Palestinian people. The head of the Syrian-controlled Saiqa group reportedly said it reflected decisions taken without Palestinian participation or consideration of their views. Predictably, the smaller, more radical fedayeen groups were much more vehement in their denunciations.

The Palestinians fear that the communiqué will be construed by Egypt and other Arab states as allowing Jordan to speak for Palestinians who live on the Israeli-occupied West Bank. Their criticism is directed primarily at President Sadat, who offered significant support for the resolution on the PLO passed at the Arab summit.

Arafat himself appears to be withholding public comment on the Egyptian-Jordanian statement, pending the outcome of the talks he is expected to hold with President Sadat in Egypt this weekend. Arafat almost certainly will plead that Sadat disclaim any interpretation of the communiqué that would give Amman freedom to negotiate an Israeli withdrawal from the West Bank without the cooperation of the PLO.

The most that Arafat can realistically expect, however, is a pledge from Sadat that Egypt will leave ambiguous the status of the West Bank, and perhaps a commitment that the question of Palestinian participation in the Geneva peace talks, which Sadat and Husayn agreed should occur at an "appropriate time," will not be allowed to slip into the indefinite future. In statements made over the past few months, Sadat has gone on record as saying that he will not agree to additional steps toward a settlement on the Sinai front until there has been some movement in negotiations on the Palestinian question.

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Arafat, whatever stand Sadat takes, will not be able to deviate from the position that the PLO represents all Palestinians. Until he can produce evidence that Jordan is prepared to make concessions to the fedayeen, moreover, Arafat will continue to have difficulty marshaling Palestinian support for direct talks with Husayn or for allowing Palestinian participation in a Jordanian delegation to future sessions of the Geneva talks. [REDACTED]

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SPAIN

The sudden relapse suffered by General Franco yesterday apparently has raised serious questions about prospects for his recovery and led to the decision to transfer temporarily to Prince Juan Carlos the routine functions of chief of state.

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Juan Carlos will not become king unless Franco dies, is declared incapacitated, or retires. If Franco dies, or it is necessary for the cabinet and the Council of the Realm to declare him incapacitated, the Regency Council--made up of three senior government, military, and church officials--must within eight days convoke a joint session of the Cortes and the Council of the Realm to witness the swearing in of Juan Carlos as king. Juan Carlos would also assume the title of Supreme Commander of the Armed Forces and nominally that of the National Movement, a function which he delegates to the prime minister.

Yesterday, Juan Carlos performed his first official act by signing the joint declaration of principles on European defense cooperation with the US. Meanwhile, Madrid remains calm, according to the US defense attaché, but the security alert reportedly has been reinstated.

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IRAQ-EGYPT

Baghdad appears to be moving toward a rapprochement with Egypt aimed at ending Iraq's isolation within the Arab world because of its opposition to a Middle East peace settlement.

[REDACTED] President

Sadat's personal representative, Ashraf Marwan, and Iraqi leaders agreed during Marwan's recent visit to Baghdad to a general improvement in relations between the two countries and to begin immediate cooperation in several fields, including petroleum and construction. The Egyptians also claim the Iraqis agreed to supply Egypt with badly needed spare parts for Soviet military equipment without informing the Russians.

Both Iraqi President Bakr and Saddam Husayn al-Tikriti, the vice president of the Iraqi Revolutionary Command Council, reportedly tried to assure Marwan that Iraq is anxious to rejoin Arab ranks as a "cooperative" member. Tikriti reportedly also voiced a growing impatience with "heavy-handed" attempts by Moscow to interfere in Iraqi affairs and expressed an intention to move away from the Soviets. Although the Egyptians may be exaggerating some of Tikriti's remarks about the Soviets, there have been other indications in recent weeks that Baghdad wants to move closer to the Arab mainstream. Tikriti probably feels he can be more influential in Arab circles if he joins the club, rather than merely criticizing from the sidelines.

Apart from the obvious benefits of a rapprochement with an erstwhile Arab opponent, Sadat undoubtedly views the prospect of improved relations with Baghdad as a useful reminder to Moscow that Cairo is still the political center of the Arab world. He probably feels that it could also have a salutary effect on Syria. The Egyptians have grown increasingly concerned that Syria is actively opposing Cairo's moderate policies, and they would like to be able to show Damascus that Egypt can cement ties with the most radical of Arab states.

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USSR

The Soviets, disappointed by the pace of the mutual and balanced force reduction negotiations at Vienna, reportedly are "thinking about" a unilateral reduction in the forces in "all" Warsaw Pact countries.

According to an East European official, the Soviets may announce such a reduction at the Vienna talks in September. They would have great difficulty, however, getting the Romanians to go along with such a plan. Other considerations should also cause this report to be treated with reserve.

Unilateral reduction could hold some attractions for the Soviets. It would create a psychological climate that probably would encourage West European countries to reduce their forces unilaterally, and the Soviets may calculate that the West's economic difficulties now make reciprocal unilateral reductions a more likely prospect. The recent Dutch announcement of possible military reductions is a case in point.

At the same time, a unilateral reduction carries risks for the Soviets, if only because the ultimate outcome would be harder to predict than would the more manageable process of negotiated reductions. The Soviets would have no guarantee that the West would reciprocate, and they have made it clear that equivalent reductions are extremely important to them. Of special Soviet interest, there would be no assurance that West German forces would be cut back--a major Soviet goal--and any force withdrawn unilaterally by the West could later be reintroduced unilaterally.

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If the Soviets should go the unilateral route, they might not withdraw full units and equipment, as they proposed in their formal statement last November, but instead cut a large number of smaller units or thin out forces over a wide area. In this case, it would be difficult for the West to determine whether there had actually been reductions.

The Soviets have seemed more interested in institutionalizing the force reduction talks as a negotiating process than in tangible results. By engaging the West in negotiations, Moscow maintains some influence on Western defense affairs and gains some leverage with the US. On balance, therefore, it seems probable that the Soviets will continue to seek negotiated troop reductions.

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PORTUGAL

The US embassy in Lisbon believes that the cabinet installed on Thursday is somewhat to the left of its predecessor, but not markedly so.

The slightly leftist coloration of key figures among the eight military men in the 17-man cabinet is somewhat balanced by the departure of certain prominent leftists, including some who obstructed decisions on economic and labor laws. The important economic and finance ministries are held by centrist economists.

The Armed Forces Movement is well-represented in the cabinet, and its leaders have stated that they want no more bickering there. They say they will make sure that this is the last cabinet before the constituent assembly election, now planned for March.

The new government will undoubtedly move vigorously to carry out the program of the Armed Forces Movement. The new minister of interior--a military man--has come out in favor of elections soon for municipal and parish councils. Such elections would permit various parties to unseat the many local authorities installed after the April coup by the Communist-dominated Popular Democratic Movement.

Center-leftists are gearing up for the future elections, but are still competing among themselves. Shortly after the resignation of Palma Carlos, a new political party, the Portuguese Social Democratic Party, was announced; Palma Carlos was one of its 13 founders. The party, made up primarily of middle class professionals and calling itself non-Marxist, will focus on economic problems. According to one of its leaders, the party decided against joining the centrist Popular Democratic Party that was represented in the outgoing cabinet, because that party is center-right and has ties to the old regime.

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FRANCE-NATO

Paris continues to be uncompromising on its negative official response to association with NATO's Eurogroup.

A French official close to Prime Minister Chirac recently reminded US embassy officers that domestic political constraints prevent a move toward the Eurogroup "in the foreseeable future." French membership in NATO's Eurogroup--with its clear link to the military side of the Alliance--would be unacceptable to the Gaullists, on whom Giscard depends for his parliamentary majority.

Giscard, however, may be under strong pressure from domestic interests to associate France with the Eurogroup.

[Redacted]

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[Redacted] the French armaments and aerospace industries fear that France will be cut out of the NATO armaments market through eventual standardization of arms. This fear has been heightened by the decision of Belgium, the Netherlands, Norway, and Denmark to work toward a joint purchase of replacements for their F-104 Starfighters.

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ITALY

After protracted discussions among the three major trade union confederations about the government's austerity program, Italian labor leaders have stopped short of directly defying the government on this issue. Instead, they plan to press for changes in the measures. Union leaders did not yield to pressure from militants for a nationwide general strike, but did designate July 24 a "day of struggle," at which time local labor leaders will have the option of calling brief work stoppages.

The unions called for an immediate meeting with top political leaders to present their requests for modifications in the austerity program. The changes desired by labor are similar to, and in some cases overlap, amendments to the program now being pushed in parliament by the Communist Party. Their common objective is to reduce the impact of the measures on labor and to increase the burden on upper income groups. The Communist parliamentary effort derives mainly from the party's fear that its influence with labor would decline if it did not try to force changes in the austerity measures.

The Communists are following a carefully balanced parliamentary strategy. They are trying to exploit differences within and among the coalition parties to obtain concessions on the austerity measures, while stopping short of causing a formal split in the coalition. There is some concern in Communist circles, however, that Socialists in the coalition who support the Communist effort could precipitate a government crisis by pressing too hard.

There is room for compromise between the two sides. The government could accede to a number of labor's demands without seriously undermining its goal to boost taxes by \$4.7 billion. Promises to hold the line on fuel prices or to increase tax exemptions for lower income groups would not substantially reduce the effectiveness of the austerity program. Instituting progressively higher real estate taxes would add to revenues, although

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probably at the cost of reduced savings, rather than lower consumption. The government could even implement a national health system if it trimmed other spending.

A few of labor's demands, however, cut into the very heart of the austerity program. For example, reducing the increases in utility rates and in employer and employee health contributions would undercut the program's objective of reducing domestic demand. [redacted]

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EGYPT

An unusually large infestation of cotton worm threatens to reduce significantly the yield and quality of Egypt's cotton crop--one of the country's major exports.

Field observations by two American entomologists confirm that the cotton pest infestation is serious. Although the Egyptians have taken vigorous measures to combat the immediate problem of the first generation of cotton worms, stocks of insecticides at many agricultural field offices are inadequate to control the second and third generations expected during late July and August.

Egyptian officials contend that their efforts to control the infestation are hampered by delays and shortfalls in deliveries of pesticides purchased abroad. [redacted]

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LAOS

There are still no signs of any acceptable caretaker arrangement emerging to fill the political vacuum in Vientiane.

Non-Communist Deputy Prime Minister Leuam Insisiengmay and Pathet Lao Deputy Prime Minister Phoumi Vongvichit have not been able to agree on how to handle government business during Prime Minister Souvanna's convalescence, and this week's regular cabinet meeting was canceled because there was no agreement on who should chair the session.

In addition to remaining deadlocked with Phoumi, Leuam is also at loggerheads with senior non-Communist leaders over the organization of the Vientiane side's nascent political front group. Leuam, who is serving as the front's unofficial chairman, has been insisting that the group's proposed central committee should consist of a limited number of representatives from the coalition structure. Leuam's colleagues in the cabinet are adamant that the committee must include provincial governors, representatives from various political associations, and members of the military if it is to compete effectively with the Pathet Lao.

Although a decision on committee membership has yet to be made, Leuam's position has further soured many members of the Vientiane side with his uncertain leadership. Finance Minister Ngon Sananikone has called Leuam a "gutless politician." Ngon's suggestion on July 16 that neutralist Interior Minister Pheng Phongsavan be asked to replace Leuam as head of the front--if the latter does not back down on the committee issue--reportedly was favorably received by most members of the Vientiane side.

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USSR-JAPAN-US

A tripartite venture to exploit oil deposits offshore Sakhalin Island seems promising now that the Gulf Oil Company has agreed to participate with Japanese firms in the project. The USSR and Japan had signed a memorandum on the project in April, but Gulf, citing insufficient return, had refused to participate on an equity basis.

The Soviets, anxious to get the project moving, paved the way for the accord signed between Gulf and Japanese firms. Under the terms, Gulf is to provide technical and managerial services and put up a share of the risk capital, as yet undetermined. In return, the Soviets agreed to enter into a contract with Gulf for exploration of a separate section of the Sakhalin continental shelf, which may involve Japanese participation.

Under the terms of the April Soviet-Japanese agreement, Japan would provide the Soviets with \$100 million in credits over five years to finance exploration. An additional \$100-million Japanese credit for another five years of exploration may also be forthcoming if both sides agree. In return, Japan will have an option to buy 50 percent of any oil found.

Although the size of the Sakhalin reserves is unknown, they are believed to be quite large. Exploration and development will be difficult, however, because of ice floes and high tides in the Sakhalin offshore area.

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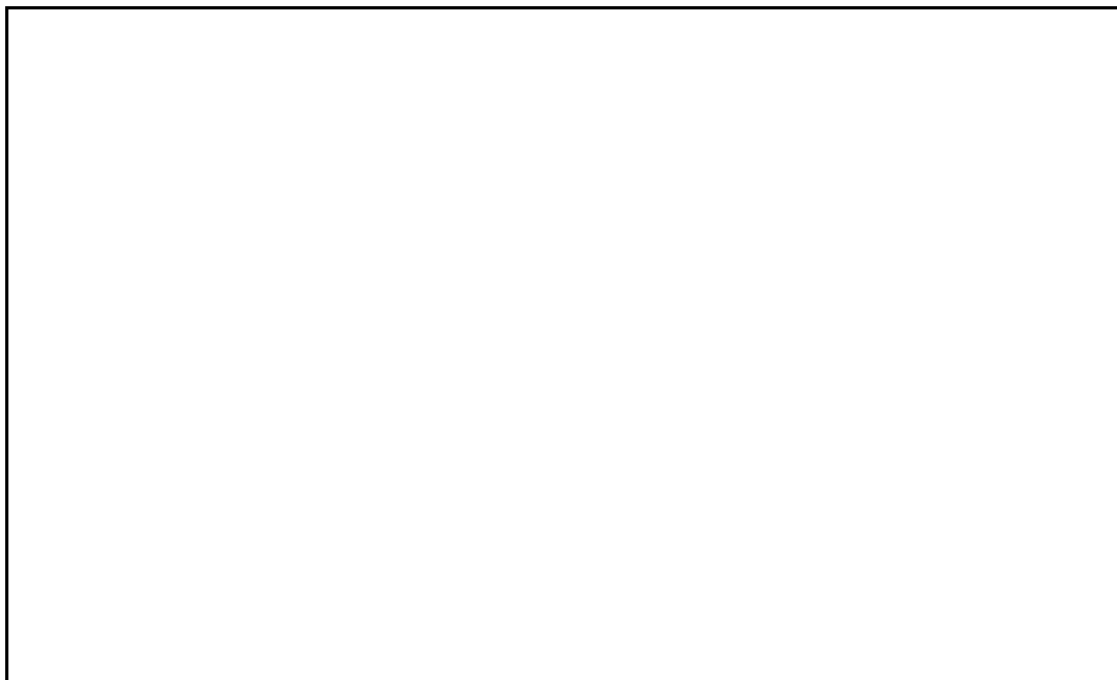
FOR THE RECORD

Czechoslovakia - West Germany: Czechoslovakia and West Germany on Friday exchanged the instruments of ratification for the treaty of reconciliation signed last December. The treaty, which finally disposes of the issue of the 1938 Munich Agreement, was worked out last year after two years of hard bargaining, and reportedly with a little prodding from the Soviets. [redacted]

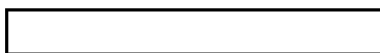
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Mexico: The army's capture of three members of Lucio Cabanas' guerrilla group in the state of Guerrero on July 14 is the first sign of success in the three-week-old campaign to kill Cabanas and rescue kidnaped Senator Ruben Figueroa. The army's tactic of occupying hamlets in the area to cut off Cabanas' sources of supply may have been responsible for the capture of the guerrillas, who had been sent out to obtain food. According to the prisoners, Cabanas has about 340 men split into several groups, one of which Cabanas leads. Mexican security officials doubt that Cabanas has more than 45 men. [redacted]

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