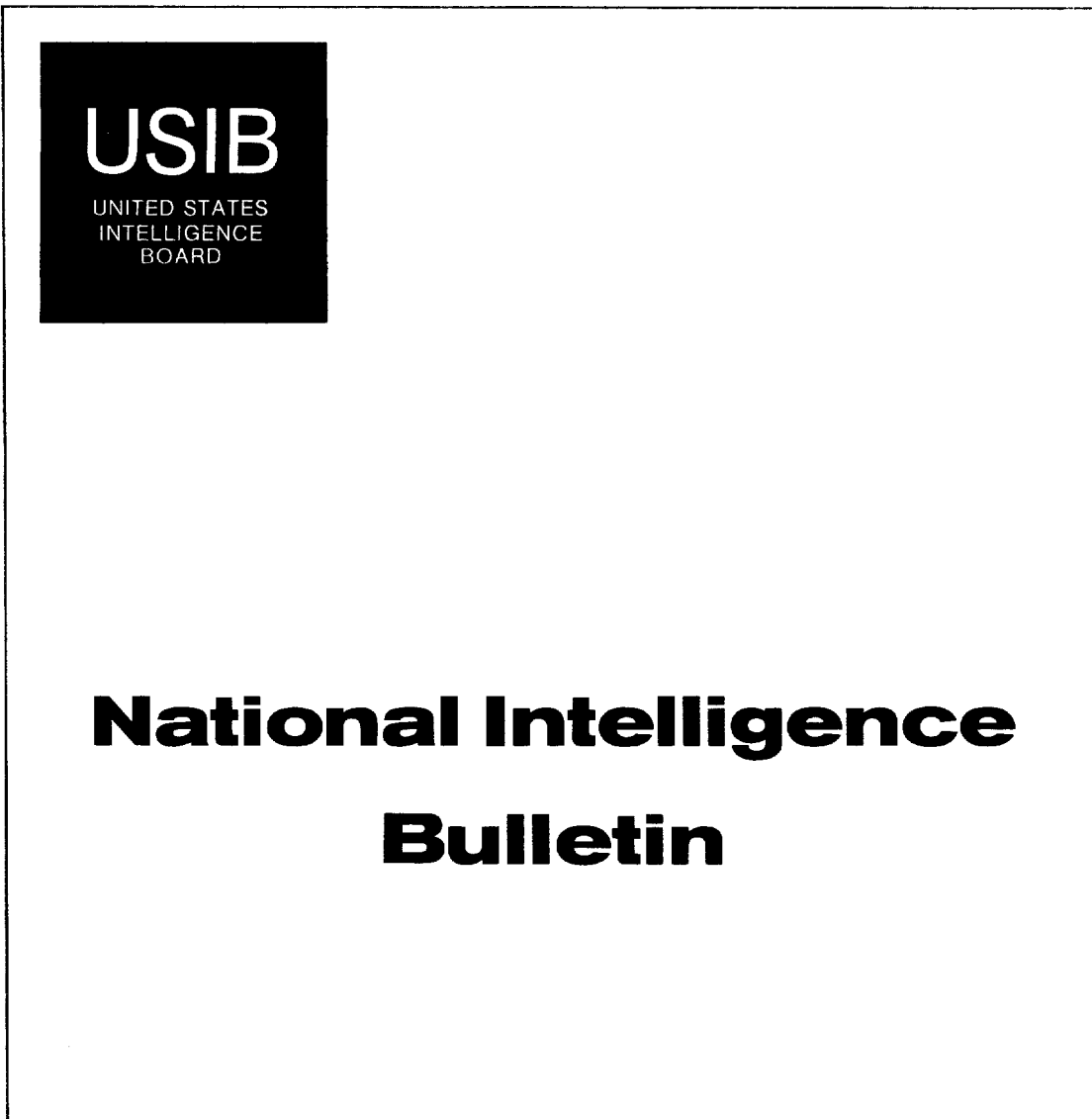


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# National Intelligence Bulletin

July 24, 1974

## CONTENTS

CYPRUS-GREECE: Change of governments in Nicosia and Athens. (Page 1)



25X1

EGYPT-USSR: Sadat speech carries rather conciliatory tone toward USSR. (Page 6)



25X1

ITALY: Christian Democrats paper over differences. (Page 11)

PORTUGAL-ANGOLA: Lisbon turns over administrative control of Angola to the military. (Page 12)

PORTUGAL: Foreign Minister Soares gives assessment of new government. (Page 13)

ICELAND: Conservative role in new government placed in doubt. (Page 14)



25X1

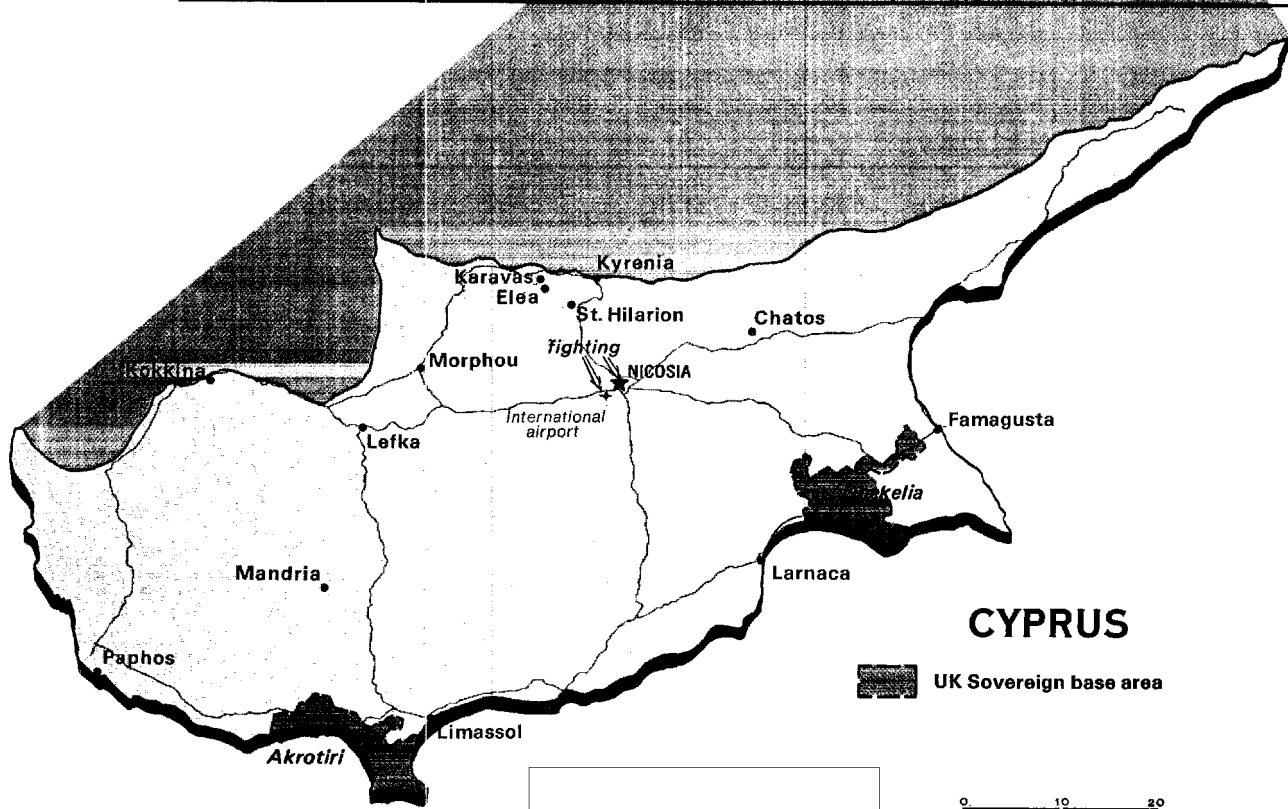
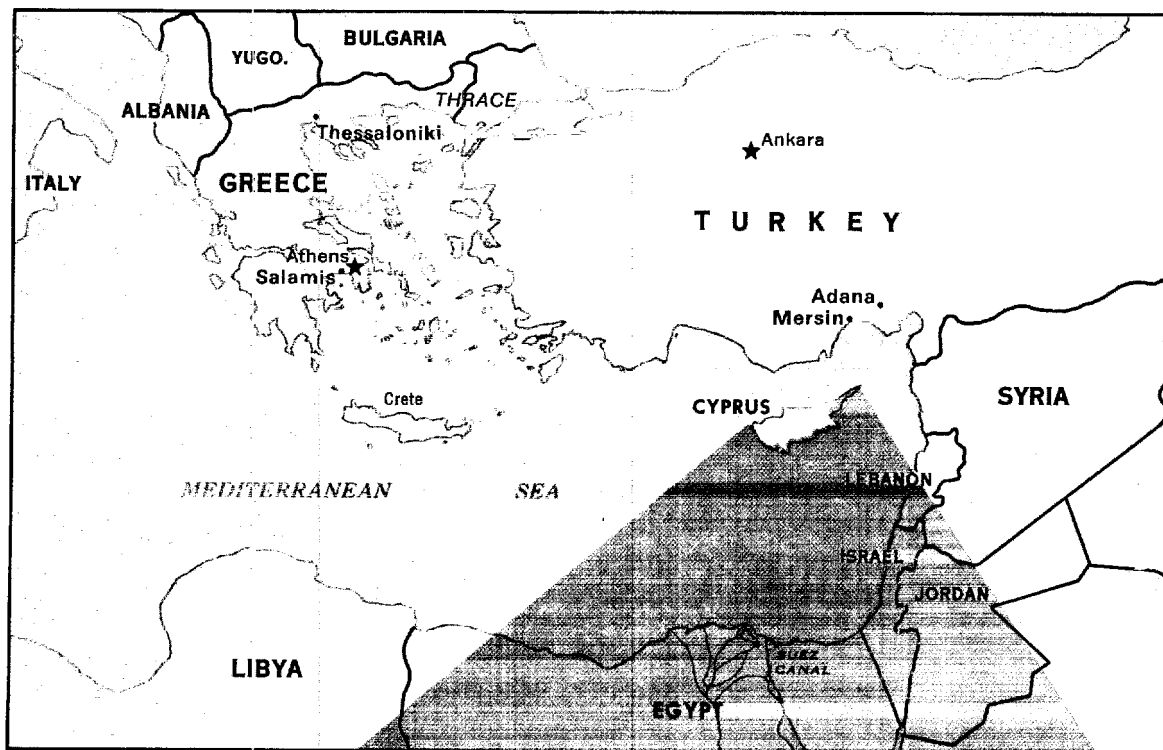
BURMA: Leader of Burmese insurgent group engaged in narcotics trade arrested in Thailand. (Page 16)

BANGLADESH: Severe economic situation prompts requests for emergency aid. (Page 17)

FOR THE RECORD: (Page 18)



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National Intelligence Bulletin

July 24, 1974

CYPRUS-GREECE

The changes of government yesterday in Athens and Nicosia are a tacit admission that General Ioannidis' hope of engineering a surgically neat coup on Cyprus failed. The changes seem to hold additional promise that a negotiated solution will emerge from the talks expected to begin later this week in Geneva.

The talks had been scheduled to get under way today, but they were postponed as a result of the change in government in Athens. Despite their assurances that they have no preconditions, the Turks clearly will insist on retaining the territorial gains they have made, and they may propose a federal form of government on Cyprus.

Former Greek prime minister Constantine Karamanlis was welcomed back to Athens by jubilant crowds last night shortly after President Gizikis announced that the military, which has ruled Greece since 1967, was turning over power to civilian politicians.

He is expected to form a government composed of right-of-center politicians, such as former foreign minister Averoff and erstwhile prime minister Kanellopoulis.

Since his return, Karamanlis has provided few clues to the policies he will pursue toward Turkey and the Cyprus situation. In his arrival statement, Karamanlis asked the Greek people to be prudent, patient, and optimistic, noting that regeneration often follows upon crises in the affairs of nations.

National Intelligence Bulletin

July 24, 1974

The announcement of the power shift in Athens followed by only a few hours the word that Glafkos Clerides, president of the Cypriot House of Deputies and Makarios' constitutional successor, had replaced Nicos Sampson as President. Considered a moderate on the issue of enosis, Clerides had been widely touted as a possible compromise candidate to lead the government. One of his first acts yesterday was to meet with Turkish Cypriot leader Denktash to seek ways of enforcing the cease-fire.

In New York, Archbishop Makarios expressed pleasure over Clerides' inauguration, saying that he took over "with my agreement." Makarios added, however, that he expected to return to Cyprus in a few weeks to resume his duties as President. There is no indication, however, that Clerides sees himself as an interim president.

Both new governments are threatened by cease-fire violations attributed to Turkish forces. Greek military leaders again threatened war against Turkey if violations continue, and military and civilian leaders informed the US ambassador again last night of their grave concern, demanding that the Turkish forces return to the original cease-fire lines.

The Greek permanent representative to NATO requested the intervention of NATO Secretary Luns to urge the Turks to stop cease-fire violations; he likewise requested British and US intervention.

At the UN, the Greek representative requested an urgent Security Council meeting to consider Turkish violations of the cease-fire, particularly Turkish attacks on the Greek embassy in Nicosia. The Security Council unanimously adopted a resolution reinforcing its earlier call for a cease-fire.

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National Intelligence Bulletin

July 24, 1974

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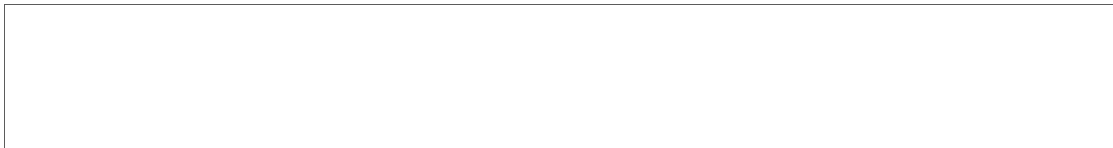
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After yesterday's frequent clashes, the UN negotiated a new cease-fire last evening that seemed to hold through the night. As on the previous evening, however, occasional fire fights and exchanges of small arms fire occurred. Reports that fighting had resumed early this morning indicate that the Turks are continuing to push out from their positions in the Nicosia area.

The major fighting yesterday involved Turkish attacks in Nicosia and Kyrenia, although the Greek Cypriots continued to make gains in attacks against Turkish Cypriot enclaves. Both sides appear to be moving to improve positions or gain ground in areas where they have the upper hand. The UN forces were kept busy throughout the day intervening to stop the almost continuous battling in the Nicosia area and to resolve the conflict around the airport, which threatened to turn into a major battle.

The Turks moved on the airport early yesterday with a substantial force--estimated at battalion strength. The quick reaction of the UN forces in occupying the airport averted a major conflict. The UN now occupies the airport in an uneasy truce, the Greeks have been escorted back to Nicosia, and the Turks hold positions just north of the airport. The Turks maintain that they do not recognize the UN protection of the airport and threaten further attacks.

The fighting in Nicosia during the day mainly involved clashes in the vicinity of the demarcation line separating the Turkish- and Greek-occupied sections, with the Turks attempting to move into the Greek zones. The UN forces became involved in the fighting, but most clashes were resolved before they could develop into major fire fights.



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## National Intelligence Bulletin

July 24, 1974

EGYPT-USSR

President Sadat took a relatively conciliatory position toward the Soviet Union in his Revolution Day speech yesterday. After the Soviets abruptly postponed Foreign Minister Fahmi's scheduled trip to Moscow two weeks ago, Sadat initially was inclined to lambaste Moscow publicly. His speech, however, reflects a more considered judgment that to do so now might only further harden the Soviet attitude toward Egypt.

Using a line he has adopted in public since the postponement, Sadat expressed puzzlement over the Soviet attitude and over what he called Moscow's inability to understand that Cairo's better relations with the US do not mean that the Egyptians wish to cut off ties with the Soviets. He professed confidence, however, that the misunderstanding would be cleared up, and affirmed that Egypt is "anxious to eliminate it." He also made a concession to Soviet sensitivities over improved ties between Cairo and Washington, asserting that Middle East peace efforts will not be confined to one big power.

Sadat's decision to swallow the Soviet rebuff docilely was undoubtedly not an easy one. In the absence of a practical alternative source of military equipment and spare parts, however, Sadat recognizes that he needs the relationship with Moscow. Moreover, the Egyptians feel that continued estrangement from the Soviets, coupled with closer ties to the US, creates problems for Cairo's relations with other Arabs. This situation also, in their view, presents an unwanted image to Israel of an Egypt too tame to warrant further serious moves toward peace negotiations.

It now appears clear that the postponement of Fahmi's visit to Moscow represents a Soviet attempt to increase pressure on Sadat to adopt policies more favorable to the USSR.

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[redacted] Brezhnev has just completed a trip to Poland, and he received the French foreign minister during the latter's visit from July 11 to 13.

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National Intelligence Bulletin

July 24, 1974

Soviet officials have been reticent about discussing Moscow's motivations for the postponement, but by a series of small actions the USSR appears to be putting a deliberate chill into relations with Cairo. Since the postponement the Soviets have:

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--given minimal publicity to the just-concluded visits of the Egyptian minister of industry to Moscow and a Soviet youth delegation to Cairo;

--canceled the scheduled visit to Cairo of a civilian aerial photographic airplane that had been on a Middle East sales tour;

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The Soviets may well be seeking some indication from Sadat that he intends to moderate his swing toward the US. Moscow, for example, might be seeking the removal of Fahmi, whose positive attitude toward the US has greatly irritated the Soviets. They may also hope to convince Sadat that he should drop his opposition to visiting Moscow.

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## National Intelligence Bulletin

July 24, 1974

ITALY

The papering over of differences at the Christian Democrats' National Council meeting late last week should postpone further challenges to the party leadership until the fall. It will also defer the question of closer Communist association with the government.

At the meeting, elements of the Christian Democratic left made clear their dissatisfaction with the party leadership and policies. They apparently were constrained, however, by the realization that an open left-right split within the party at this time could jeopardize Prime Minister Rumor's efforts to steer the government's economic program through parliament.

As expected, Foreign Minister Aldo Moro played a key role in keeping the party's fragile unity intact. Although Moro--the most influential of the party's left-of-center leaders--is also concerned over the recent decline in Christian Democratic fortunes, he chose not to break with party chief Amintore Fanfani at this time. Moro's decision made it impossible for leaders further to the left to turn their dissatisfaction into an effective challenge to Fanfani.

The left joined in supporting a bland resolution that affirmed traditional party positions in general terms, pledged support to the Rumor government, and emphasized once again the ideological differences that separate the Christian Democrats from the Communist opposition. Some left-wing leaders, however, made it clear during debate that they favored a more open attitude toward the Communist Party. Minister of Industry De Mita went so far as to call for an undefined "accord" with the Communists, while others labeled the Communist Party "democratic" and argued that national sovereignty would not be "wounded" if the party were to enter the government.

## National Intelligence Bulletin

July 24, 1974

The Christian Democrats' internal troubles are under control for the moment, but pressures will continue to build within the party. Moro's support for Fanfani will probably not last; Moro himself is a likely successor should Fanfani stumble. Other leaders--more toward the center of the party--are also maneuvering for advantage. Some conservative Christian Democrats, such as Defense Minister Andreotti, are mending fences with the party left. In short, all of the ingredients are still present for an eventual reshuffling of the party leadership and, possibly, for a redefinition of the party's program--although probably not until after the summer holiday. [REDACTED]

PORTUGAL-ANGOLA

The Portuguese government has decided to turn over administrative control of Angola to the military, according to an official communiqué issued Monday evening.

The government decision does not necessarily reflect a lessening of Lisbon's commitment to eventual self-determination for Angola. It was taken in response to recent civil disturbances--including racial clashes--in which some 40 persons were killed in Luanda, the territory's capital. The disturbances lasted several days, and the local government's inability to respond quickly and forcefully underscored the need to tighten up lines of command in the territory.

Although a new civilian governor general was appointed over a month ago, his authority was split with the local military commander, and both lacked a clear idea of their respective responsibilities. [REDACTED]

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**National Intelligence Bulletin**July 24, 1974

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PORTUGAL

Foreign Minister Mario Soares has characterized Prime Minister Goncalves' new government as much more cohesive than its predecessor and more united on the program it should follow. The minister told the US ambassador that the sole objective of the new government is to establish a democratic society along Western lines, and he appealed for strong US support.

Soares, the leader of the Socialist Party, stressed that the most important aspect of the cabinet reorganization was the ouster of minister without portfolio Pereira de Moura, which marked the end of Pereira's People's Democratic Movement. The movement was ostensibly a coalition group, but Soares characterized it as a Communist front organized in the hope of gaining a large vote in the rural regions, where Communism amounts to a kiss of death. According to Soares, the entire cabinet agreed that there was no place in the new government for a front organization.

Soares assessed the eight military officers in the 17-member cabinet as able and patriotic, with no party orientation. He described them as liberals, and stressed that none belongs to either the Socialist Party or the Communist Party.

Soares maintained that the new cabinet would successfully speak with one voice, even on the troublesome economic and labor issues, but his optimism may be premature. Even though some obstructionists have been removed from the cabinet, its degree of unity will become more evident when it produces economic and labor legislation that was stymied in the previous cabinet. [REDACTED]

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## National Intelligence Bulletin

July 24, 1974

ICELAND

Independence Party leader Geir Hallgrimsson reportedly has failed to form a conservative-led coalition. This leaves the way clear for Olafur Johannesson, the incumbent prime minister and head of the Progressive Party, to try his hand at putting together a left-of-center coalition.

Hallgrimsson is expected to concede failure formally today or tomorrow. President Eldjarn probably will then ask Johannesson, as leader of the second largest party, to try to form a government.

Johannesson appears to stand a good chance of reaching agreement on a coalition with the Communist-dominated People's Alliance, the Liberal Leftist Organization, and, possibly, the Social Democrats, whose leader was recently elected president of the new parliament. Socialist chairman Gylfi Gislason received the backing of all Icelandic parties except the Independence Party at a special session of the Althing on July 22.

Gislason denied that his election was conditional on bringing the Social Democrats into a leftist government. Nevertheless, there is speculation in Reykjavik that, as the new formateur, Johannesson will try to persuade the Social Democrats to join a four-party, center-left coalition. Johannesson's coalition would control only 30 of the 60 seats in parliament if the Social Democrats decided not to participate.

The emergence of another leftist government would increase the uncertainty concerning negotiations to retain the US-manned NATO base at Keflavik. Nevertheless, if such a government included the Social Democrats, it might give the next leftist coalition more balance than its predecessor.

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National Intelligence Bulletin

July 24, 1974

BURMA

Thai police have arrested the leader of a major Burmese insurgent group that engages in narcotics smuggling in the Thai-Burmese border area. The arrest reflects growing Thai sensitivity to pressure from the US and Burma over the activities of rebel groups that have been operating in northern Thailand with Bangkok's tacit approval.

Bangkok is holding the Kachin leader, Zaw Seng, on immigration charges, but has not indicated whether he will be handed over to Rangoon, as was done with another trafficker arrested last year. The Kachins' drug smuggling activities are on a relatively small scale, compared with those of several other groups in the area.

There is no indication that the Thais are planning any moves against the more important drug trafficking groups, but Zaw Seng's arrest may, nevertheless, create uncertainty among them and cause some temporary scaling down of their operations. The Thai deputy foreign minister told the press this week that firm measures would be used to curb "illicit activities" of the rebels, and suggested greater cooperation with Burma in dealing with the problem.

Cooperation between Thailand and Burma against the narcotics trade has been minimal thus far, and any agreement on joint action would be an important step forward. Rangoon has been increasing efforts to disrupt smuggling activities in the border area.

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**National Intelligence Bulletin**July 24, 1974

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BANGLADESH

The country's severe economic situation has prompted Dacca to ask for emergency assistance from previous aid donors and international agencies. Last month, approaches for increased assistance were made to US officials, other donors, and to representatives of several oil-producing countries.

In its renewed appeals, Dacca describes the country as being "on the brink of collapse." Foreign exchange reserves are so low that exporters will not accept letters of credit on the state-owned Bangladesh bank unless they are backed by a foreign bank. Dacca has been unable to pay for some purchases and has canceled over 100,000 tons of foodgrain imports.

Dacca wants cash and commodities, including foodgrains, over and above that already scheduled, and would like to convert project aid into commodity aid. Around \$700 million of aid extended by the US and other donors is available, but most is tied to specific projects and cannot be used for commodity imports.

In a related effort, Dacca has drastically liberalized its investment restrictions to attract private foreign investment. The new policy raises the limits on individual private sector investments from \$330,000 to \$4 million and drops a 49-percent limit on foreign equity. A similar equity limit on investment in the public sector was removed last year. The government also extended its moratorium on nationalization from 10 to 15 years. In the event of nationalization after that period, investors would be compensated on a fair and equitable basis.

The government currently owns about 85 percent of industry, and the new measures are not likely to lead to any significant change. Despite the more liberal terms, few investors are likely to perceive opportunities for profitable investments in Bangladesh. [REDACTED]

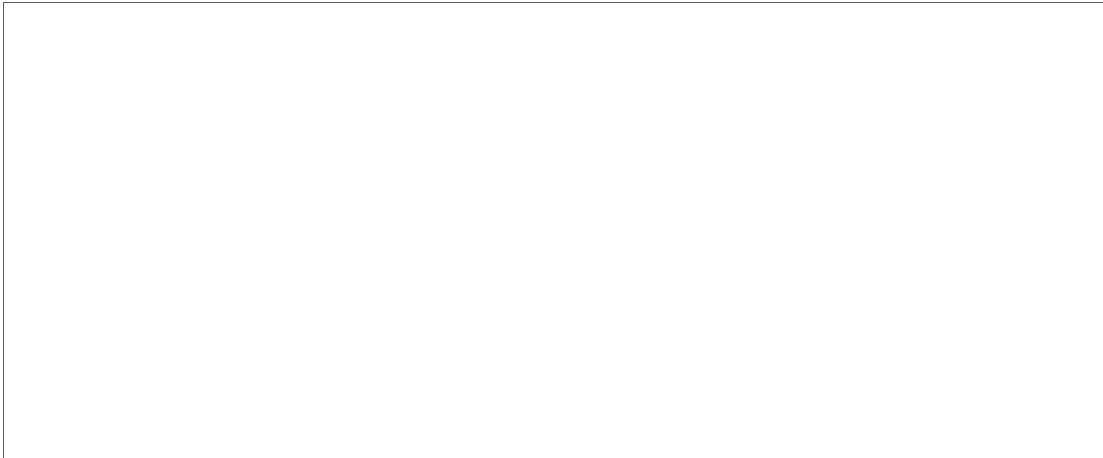
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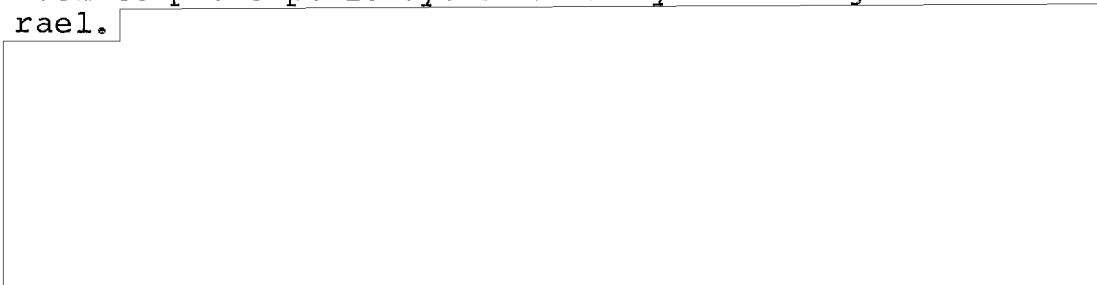
National Intelligence Bulletin

July 24, 1974

FOR THE RECORD



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Israel-Lebanon: Israeli aircraft bombed fedayeen targets in southeastern Lebanon yesterday--the first such strikes since mid-June. Preliminary press reports indicate that homes and farms in the area were damaged, but no casualties were suffered. The attacks may have been to pre-empt fedayeen military action against Israel.



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