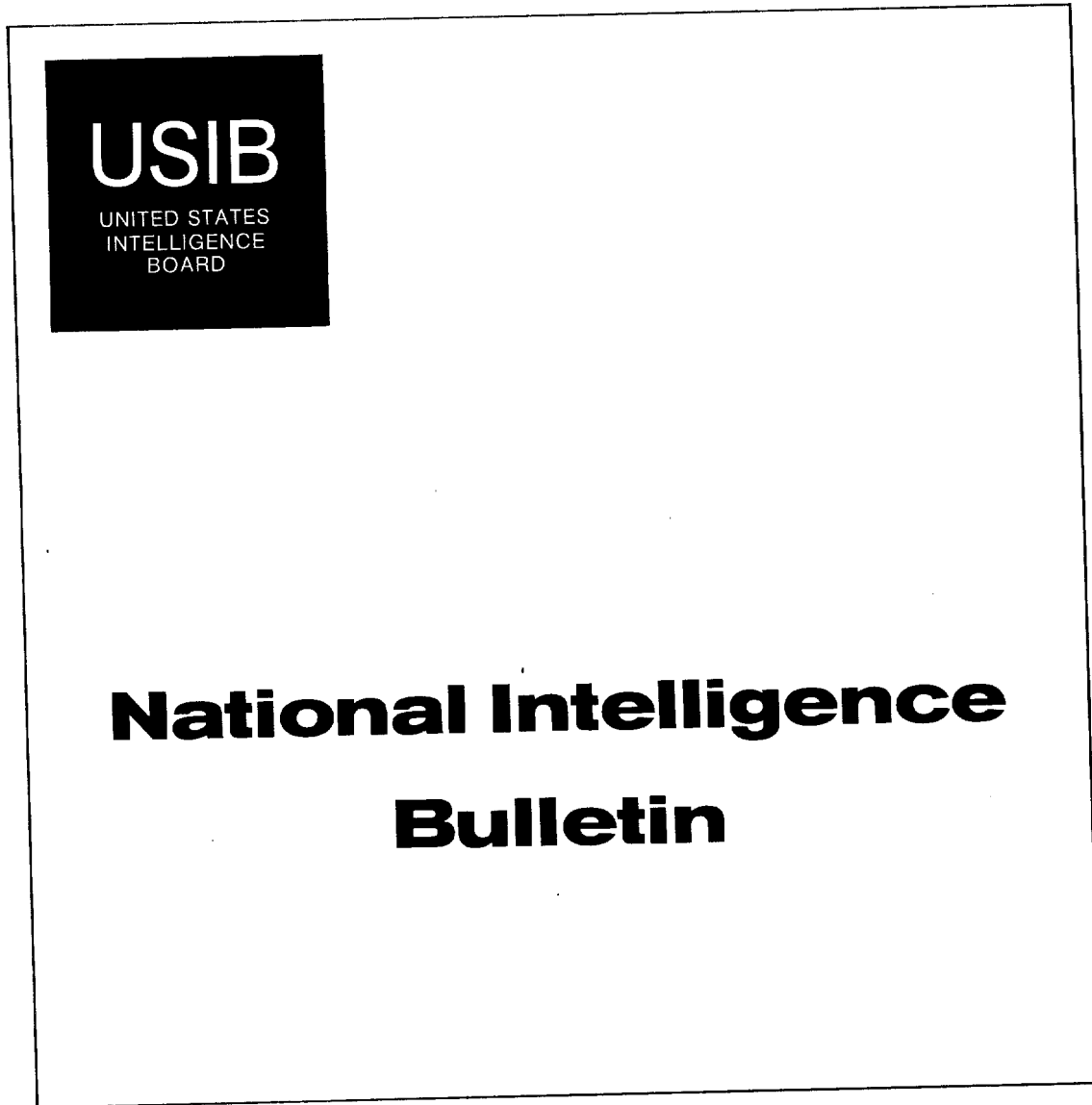


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State Dept. review completed

DIA review(s) completed.

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CYPRUS

The leaders of the Greek and Turkish Cypriot communities agreed yesterday to release all prisoners and detainees who are very old or under the age of 18. They also agreed to free the sick and wounded, and university students and teachers.

The release date will be announced tomorrow at the scheduled meeting between acting President Clerides and Vice President Denktash. International Red Cross officials will provide Clerides and Denktash with a list of all remaining prisoners.

The status of these remaining prisoners is complicated by disagreement over where they are to be released. Clerides wants the prisoners and detainees released at the place of their capture or origin. He will not agree to transfer Greek Cypriot - held prisoners to the Turkish-controlled sector in the north because it smacks of a population exchange, which the Greeks and Greek Cypriots adamantly oppose.

Denktash considers Clerides' position unacceptable because in most cases, Turkish Cypriot detainees would have to return to villages within the Greek Cypriot sector. The partial agreement yesterday appears to have skirted the issue, and the real test will come tomorrow when a general release of prisoners is considered.

Clerides, meanwhile, continues to be concerned about the activities of Archbishop Makarios, who declared after meeting with Greek Foreign Minister Mavros last weekend, that he would return to Cyprus soon, possibly within a month.

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UK

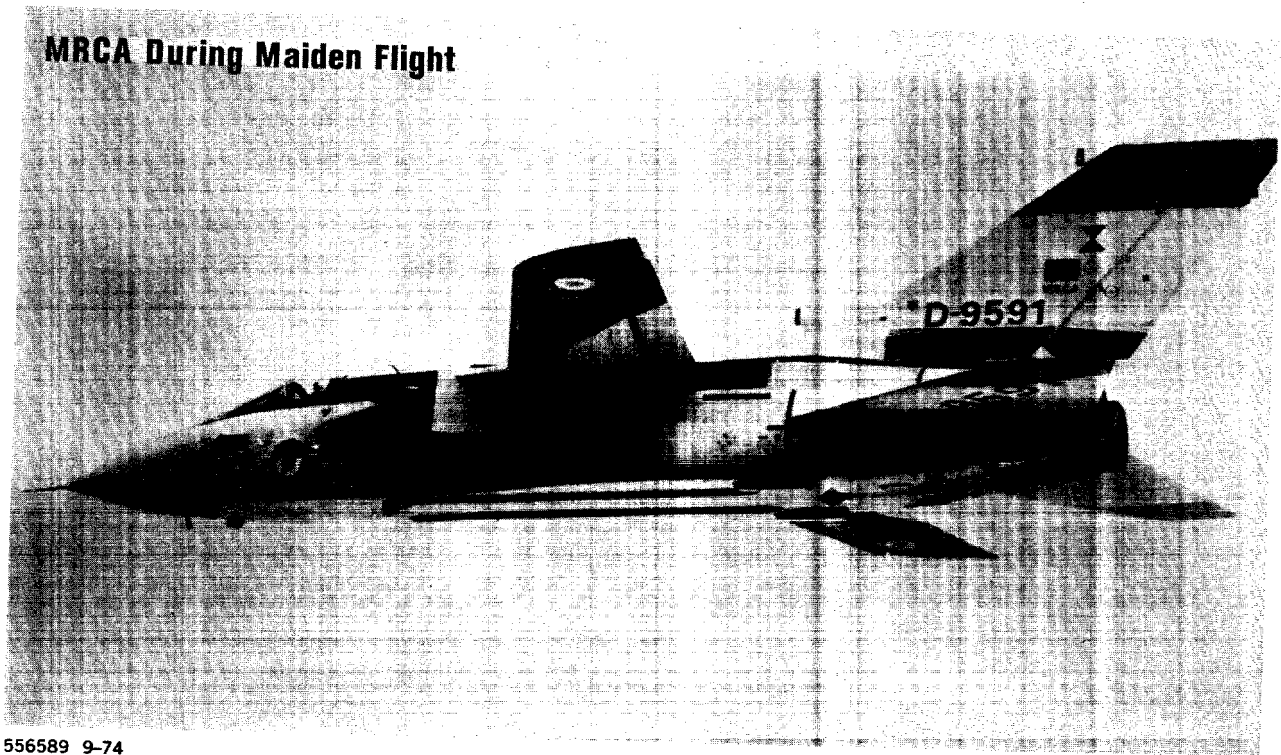
Defense Minister Roy Mason, recently discussing Britain's review of its defense expenditure [redacted] reaffirmed that NATO remains the first priority in the British defense effort. On September 10, the US embassy received similar assurances from other defense officials. It is unlikely, however, that cuts sufficient to meet the defense budget ceiling can be made on other expenditures.

[redacted] the short-range reductions already planned in expenditure levels in this fiscal year can be realized without immediate major program or manpower dislocations. They hope that any reductions in their NATO-committed forces can be made in the context of an eventual force reduction (MBFR) agreement. In June, the UK informed NATO for the first time of its willingness to reduce its forces in a second phase of MBFR if certain conditions are met.

[redacted] any major NATO-related reductions will affect the British Army of the Rhine and the Channel/Eastern Atlantic forces. Cuts made in these forces probably would touch off less domestic controversy than cuts made in the remaining two British NATO elements, both based in the UK--the home defense and nuclear deterrent forces. Should NATO cuts become necessary in addition to any negotiated in MBFR, they would meet stiff opposition from NATO's Defense Planning Commission.

Decisions concerning NATO-related reductions would not be made public and would involve only long-term cuts that could be included in agreements reached in the MBFR negotiations. The Ministry of Defense has suggested that tentative decisions of the review will be passed to Washington for comment. US reactions will be considered before any final decisions are reached--probably not until after the coming national elections.

A Tory victory in the coming elections would probably have little effect on long-term British views on their need for defense cuts. Although the Labor Party takes a keener interest in reducing foreign expenditures, the nation's economic difficulties would also force a Conservative government to seek savings in its defense program. [redacted]



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WEST GERMANY

The West German Ministry of Defense has tentatively decided to go through with its agreement to purchase the new Multi-Role Combat Aircraft, but to reduce its order from 322 to 200 units.

The aircraft, which has been under joint development by the UK, West Germany, and Italy for some five years, has experienced a number of serious development problems, but has recently completed two successful test flights. The West Germans feel that, at this point, it would be less costly to continue with the program and to buy 200 of the aircraft than it would be to pay cancellation costs and purchase 200 different aircraft.

The production-run cutback resulting from Bonn's decision will increase still further the cost per unit of what already is becoming the world's most expensive fighter-bomber. [REDACTED]

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Viggen Multipurpose Fighter



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WESTERN EUROPE

The defense ministers of Belgium, the Netherlands, Norway, and Denmark will meet today and tomorrow in Washington with Secretary of Defense Schlesinger to discuss candidates for replacing their aging F-104 Starfighters. The four ministers have recently completed a similar fact-finding mission to France where they discussed the Super Mirage F-1 with Defense Minister Soufflet.

The four countries have formed a consortium in hopes of being able to choose a common replacement for their F-104s. They agreed earlier this year to try to reach a decision by the end of September, but there are indications that the decision will be postponed at least for several months. Dutch Prime Minister den Uyl stated flatly last week that the Netherlands would not make a decision until early next year, and Danish Defense Minister Brondum said in a press statement earlier this week that Denmark would make no decision this year. Norway is in no hurry, and Belgium, most anxious of the four to conclude negotiations, is likely to postpone its vote too

A delay of the decision until January 1975 would most likely benefit one of the two US competitors-- Northrop's YF-17 and General Dynamics' YF-16. The US air force is scheduled to decide in January which of the two US prototypes it will buy. If the four European countries are to choose one of the US contenders, they would wish to make sure it is the same one chosen by the US air force--partly because the large order would reduce production costs per unit and partly because it would ensure availability of spare parts.

Meanwhile, the US defense attache in Stockholm reports that Sweden has moved up its decision to purchase additional Swedish-built fighter planes in an apparent attempt to influence the decision of the four NATO countries in favor of the Saab-produced Viggen. According to Swedish press reports, the air force placed an order

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on September 9 for 30 interceptor versions of the AJ-37 Viggen multipurpose fighter. The order reportedly was placed eight months earlier than planned. The attache believes the order probably is intended to be at least a token effort to match French and US offers to the four-nation consortium and also serves notice that Sweden has not quit the race.

The press reports also indicated that Sweden will formally invite the defense ministers of the consortium to Sweden in October for further discussion on the purchase of the Viggen.

there has not been much optimism for the Viggen's chances. Technical and economic considerations aside, the US and France have an immediate advantage over the Swedes because Sweden belongs neither to NATO nor to the EC. To counter these disadvantages, the Swedes said earlier this summer that their fighter could be built by companies entirely within EC and NATO countries should the four nations opt for the Swedish aircraft. As an added inducement to Brussels, the Swedes also offered to set up in Belgium a new Saab automobile plant, a Volvo truck factory, a Saab aircraft plant, and an electronics manufacturing facility.

The AJ-37 Viggen is a Mach 2, single seat, short-take-off-and-landing aircraft, designed to operate from dispersed runways and roadways. Limited numbers of the attack and trainer versions are already in service with the Swedish air force. The interceptor version will require considerable development work before series production can begin. The program is fully funded for development, however, and test flights are programmed for later this fall. Deliveries are scheduled to start in 1978.

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FRANCE-EC

The director of economic affairs at the French foreign office has offered an explanation for President Giscard's recent efforts to revive movement toward West European unity and for some of the specific proposals he is considering.

The French official said that the effort of Community members to try to solve their economic problems separately, and the UK's ambiguous feelings toward EC membership have halted progress toward greater EC unity and even threaten such cohesiveness as there is.

He went on to say that inflation precludes significant progress toward economic and monetary union. Paris, therefore, has concluded that moves toward European unity would have to be directed primarily toward strengthening the political side of the EC through improved decision-making procedures.

Giscard hopes for an EC summit meeting before France's term as EC president ends in December. The meeting could serve as a forum for initiating such moves to better decision-making.

The French leader would like first to be sure that significant progress is really possible. He thus invited his EC partners to meet with him on September 14 to explore their views on these problems.

The official outlined some of the ideas that the French have considered.

--More frequent meetings of heads of government in an EC framework.

--Majority voting procedures in the EC Council of Ministers by defining more precisely what questions do not require unanimous approval.

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--More power for the European parliament.

--Greater cooperation on European transport and environment policies.

--More intergovernmental cooperation in areas, such as civil aviation and education, which are not covered by the Treaty of Rome.

He characterized these proposals as a random collection, all of which are relatively modest and not particularly novel. The proposed strengthening of the European parliament and majority voting in the Council are a considerable departure from the views of Giscard's predecessor.

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National Intelligence Bulletin September 12, 1974ITALY

Rome is considering the gradual removal over the next several months of its import deposit scheme, imposed last May. The government already has promised the International Monetary Fund that it will terminate the deposit scheme by March 31, 1975--an action that paves the way for further use of a \$1.2-billion standby credit.

Amendment of the deposit requirement, whereby importers must place 50 percent of the value of certain orders in interest-free accounts for six months, was discussed at an interministerial meeting early this week. Apparently the government soon intends to loosen the requirement on imports of raw materials and semi-finished goods. Capital goods, which represent the bulk of Italy's imports from the US that are affected by the import deposit scheme, would be liberalized at a later date.

The deposit requirements, originally covering about half of Italy's imports, have already been amended several times and now cover about \$8 billion, or 20 percent of total Italian imports. Applications for exemptions from the scheme number in the hundreds and total about \$3 billion.

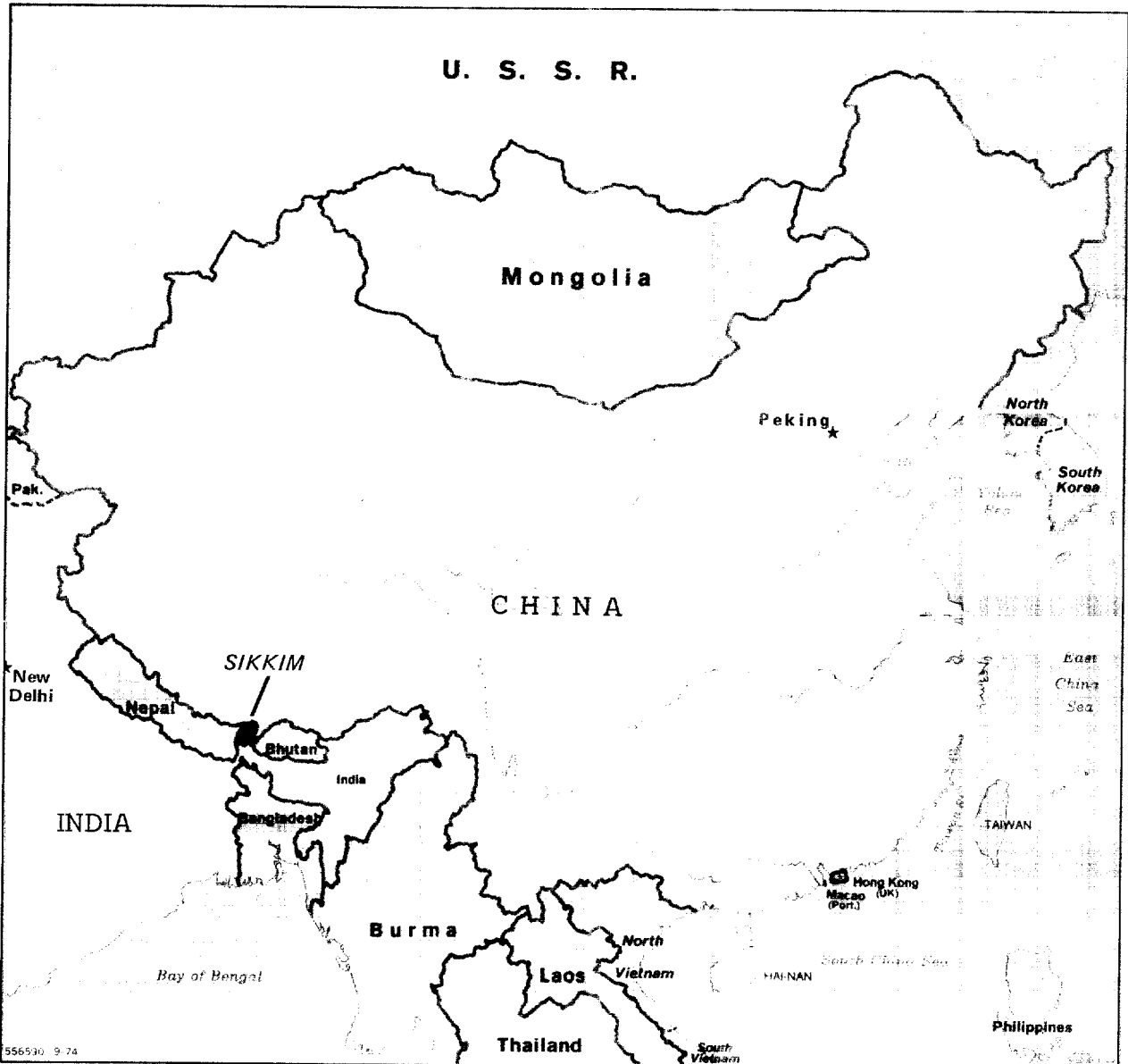
The softening in Rome's attitude probably reflects some easing in immediate balance-of-payments pressures. Last month the parliament passed an austerity fiscal package that will help hold the trade deficit to \$11 billion this year. Rome also has obtained a \$2-billion credit from Bonn to help finance the payments deficit expected during the rest of 1974--possibly several billion dollars--and may receive some long-term EC assistance.

Nevertheless, should a heavy run on the lira develop in response to the expected political crisis this fall or early next year, Rome could revert to an autarkic import policy to avoid depreciation of the lira. Even with the German loan and various credits from the International Monetary Fund, Italy's foreign exchange resources would last only three or four months if the central bank had to resume intervention to the tune of \$50 million a day as it did last spring. [redacted]

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National Intelligence Bulletin September 12, 1974CHINA-INDIA

India's recent actions in its protectorate of Sikkim have prompted Peking's strongest and most authoritative attack on New Delhi's policy to date.

A Foreign Ministry statement, issued yesterday, expressed the "indignation" of the Chinese government and people and noted that Peking does not recognize India's "annexation" of Sikkim. The statement aligned Peking with Sikkim's "just struggle for national independence and sovereignty" and implied Chinese approval for those in Sikkim and India--clearly in the minority--who resist New Delhi's policy.

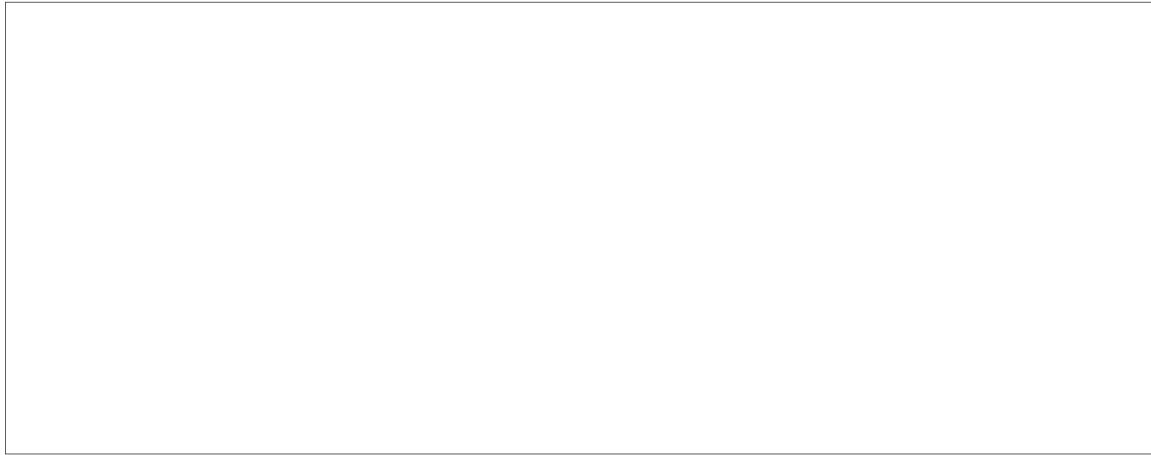
The Chinese press, at times using harsh language normally reserved for the USSR, has recently been engaged in a propaganda attack on India stronger than any in several years. Peking has accused India of wanton expansionism in South Asia at the expense of more pressing domestic needs, compared India's actions in Sikkim with the Soviet invasion of Czechoslovakia, and personally attacked Indian leaders, including Mrs. Gandhi.

Peking's harsh reaction appears to reflect concern over the security implications of a stronger Indian position along China's southwest frontier, particularly in light of India's treaty ties to Moscow and India's potential nuclear strength.

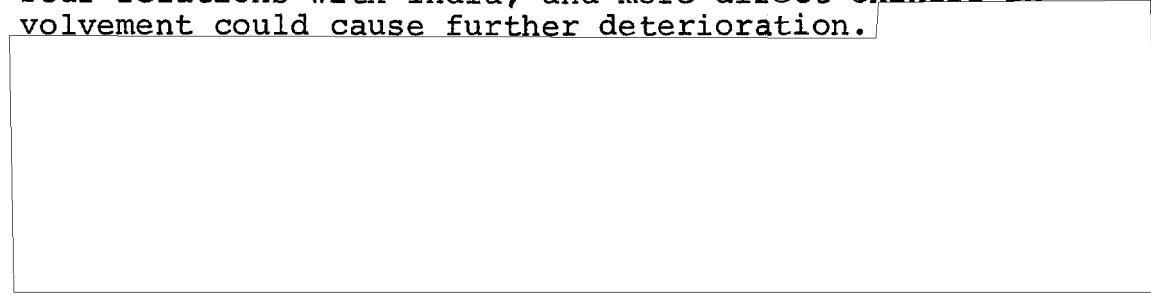
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The Sikkim issue plainly has caused a further regression of prospects for improvement in China's already sour relations with India, and more direct Chinese involvement could cause further deterioration.



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ETHIOPIA

The military deposed Emperor Haile Selassie early this morning.

Preliminary reports indicate that the monarch's 58-year-old ailing son Asfa Wossen will succeed him on the throne. The ruling Armed Forces Coordinating Committee also has dissolved parliament and suspended the constitution. Military courts are being formed.

Troops and tanks were in evidence in Addis Ababa early today, but the city otherwise was calm. A daily curfew between 1930 and 0500 has been instituted; demonstrations and strikes are banned. There have been no reports of disturbances in the provinces.

The international airport at Addis Ababa is reportedly closed and all flights are suspended. [redacted]

[redacted]

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JAPAN - SOUTH KOREA

Last minute efforts to ease tensions between Japan and South Korea foundered when Seoul rejected a draft of Japanese Prime Minister Tanaka's personal letter to President Pak. Foreign Minister Kim told the US chargé that the major difficulties Seoul had with the letter were that Japanese admissions of responsibility for not preventing the assassination attempt on Pak were "too obscure" and that Japanese promises to curb terrorist actions aimed at South Korea were "too weak."

Although Seoul has apparently indicated a willingness to negotiate further, Tokyo maintains that the rejected draft is a "final position." Kim claimed that, barring any new signal from Tokyo, his government is prepared to proceed with its "previously prepared position"--presumably the recall of its ambassador to Tokyo.

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MOZAMBIQUE

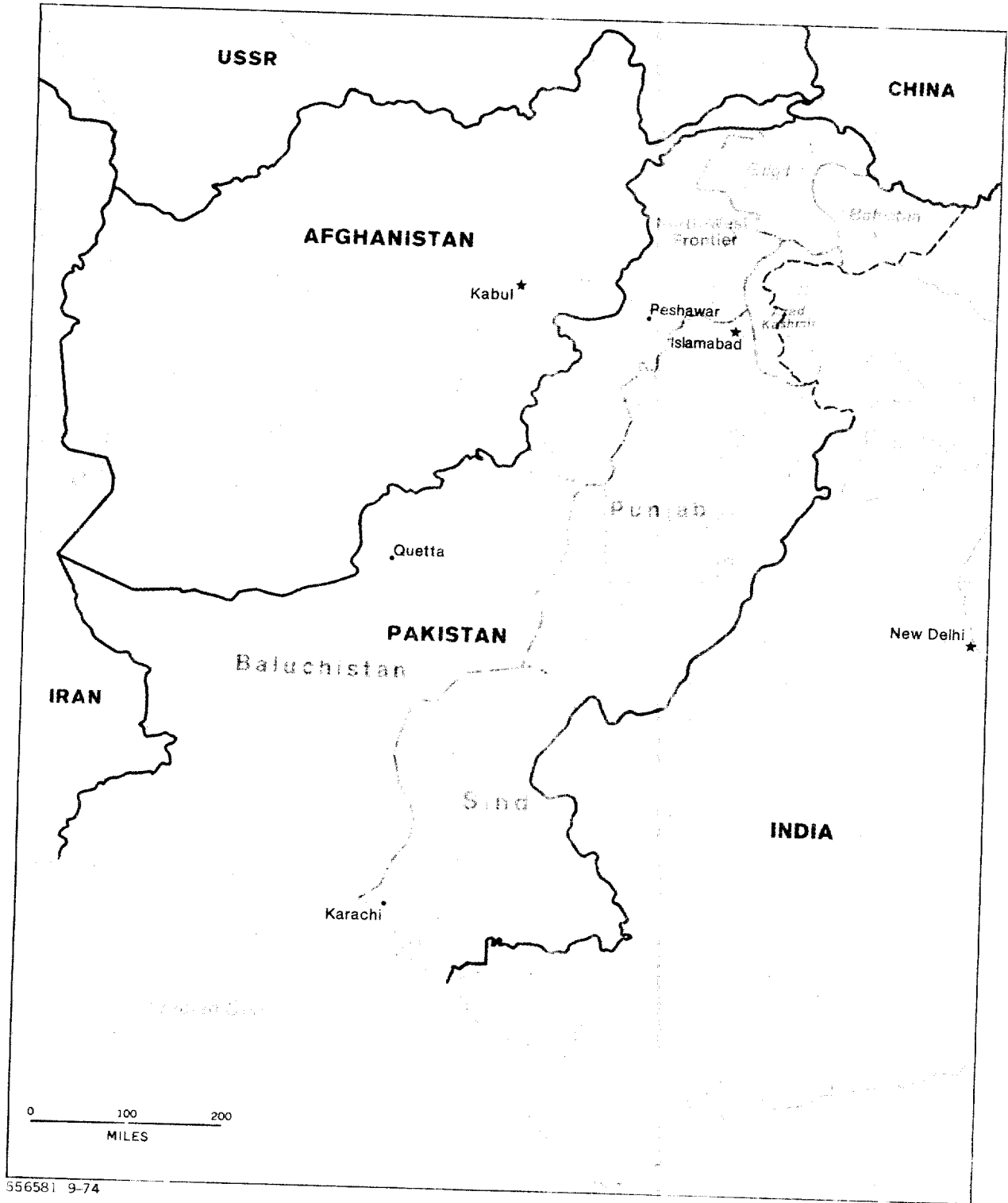
Security forces in Lourenco Marques yesterday encountered difficulties in restoring order following the collapse Tuesday of an incipient rebellion by dissident whites. According to an official communiqué from Lisbon, by last night a total of 100 persons had been killed and 250 wounded in the five days of unrest.



Local authorities in Lourenco Marques declared martial law and instituted a curfew in an attempt to stem the continuing vandalism, looting, and arson. These authorities and leaders of the Front for the Liberation of Mozambique have publicly appealed for calm, and the military command has announced a program to provide emergency food relief to the African population.

The street violence apparently has been confined primarily to the black areas of the city, where the rebellion was interpreted as an attempt by whites to seize control of the government. The whites had announced only that they sought equal participation with the Front in the transitional government that will prepare for independence next June.

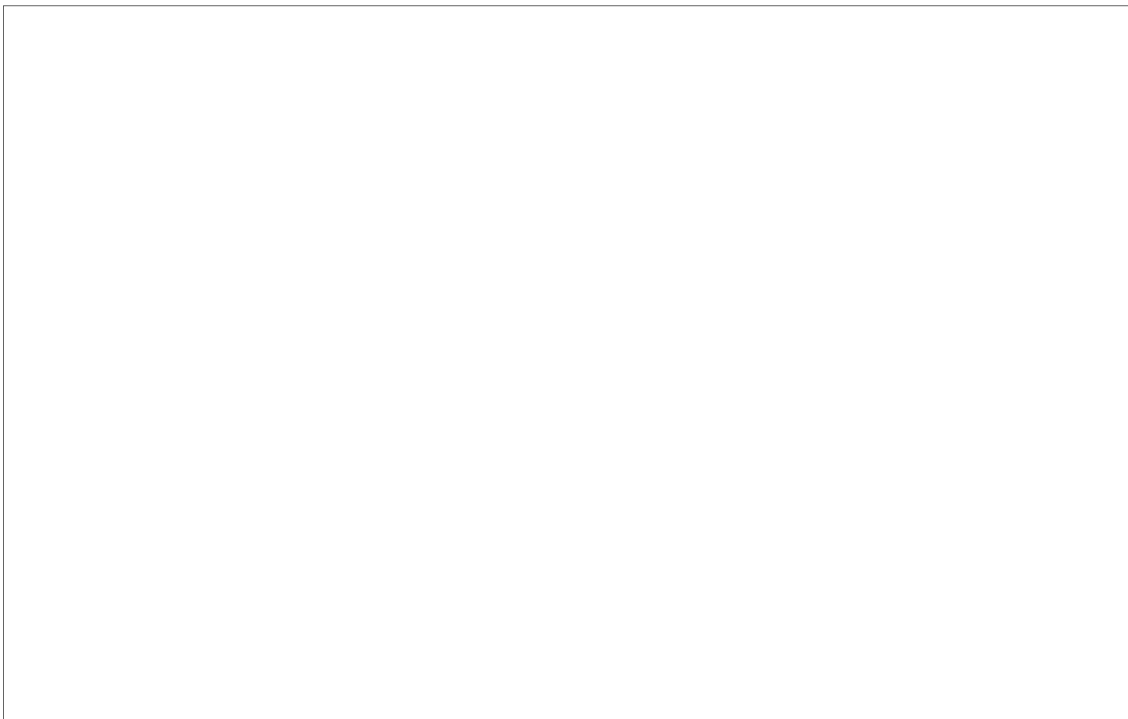




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PAKISTAN

Prime Minister Bhutto appears to be stepping up military operations against tribal insurgents in Baluchistan Province. He may even have initiated a major new offensive against them well ahead of his earlier timetable.



Bhutto had originally planned to give the rebels until October 15 to lay down their arms before launching his offensive. The US defense attaché in Islamabad reports that, [redacted] the government now has decided to make its move earlier.

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[redacted] the government in recent weeks has been arresting hundreds of officials of the National Awami Party, the main political organ of opposition forces in Baluchistan and in the neighboring Northwest Frontier Province.

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In Afghanistan, where sympathy is strong for Pakistan's frontier dissidents, no reaction to the latest Pakistani moves has been reported so far. Islamabad reportedly is limiting this operation to Pakistani territory

CHILE

The military government's first anniversary celebration went smoothly yesterday. Leftists apparently failed even to attempt disruptive activity.

Junta President Pinochet's announcement of an end to the year-old state of internal war has important juridical implications, but security measures will remain stringent under the continuing state of siege. Pinochet declared that the government is "disposed" to release prisoners en masse, but it is unclear whether positive Cuban and Soviet response to his challenge that they do likewise are prerequisite to Chilean action.

Pinochet also disclosed that quarterly wage readjustments henceforth will fully keep pace with increases in the cost of living. This move to ease the economic squeeze on wage and salary earners may help keep popular disaffection with the government in check, but it also will hinder the fight against inflation.

The unlikelihood of an early return to civilian rule was emphasized by some of the strongest language yet on political activity. Pinochet declared that the political "recess" would continue until the appearance of a "new generation" of Chileans dedicated to national rather than partisan causes.

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