

**Top Secret**



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# **National Intelligence Bulletin**

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25X1

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**Page Denied**

# National Intelligence Bulletin

November 11, 1974

## CONTENTS

ISRAEL: Measures announced to reduce trade deficit and preserve foreign exchange reserves. (Page 1)

[Redacted]

25X6

JAPAN: Tanaka continues "resource diplomacy." (Page 4)

JAPAN-USSR: Joint Economic Committee makes modest progress. (Page 5)

[Redacted]

25X1

USSR: Construction of second Trans-Siberian railroad to be accelerated. (Page 9)

[Redacted]

25X6

ITALY: Political stalemate heads into its sixth week. (Page 12)

[Redacted]

25X1

BOLIVIA: Abortive coup attempt gives Banzer excuse to ban political activity and postpone elections. (Page 15)

PORTUGAL-EC: Lisbon seeks foreign aid. (Page 16)

FOR THE RECORD: (Page 18)

25X1

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## National Intelligence Bulletin

November 11, 1974

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### ISRAEL

The cabinet yesterday announced a series of economic measures highlighted by a 43-percent devaluation of the pound. The new measures are the latest in a series of steps designed to reduce the country's staggering trade deficit and preserve foreign exchange reserves.

The measures include:

- an immediate devaluation of the pound from 4.2 to 6 per US dollar;
- a six-month prohibition on imports of certain luxury goods, including autos;
- an increase in the foreign travel tax.

In addition to the trade measures, the cabinet also announced steps designed to reduce domestic purchasing power, including:

- sharp increases in the prices of petroleum products;
- reduction of subsidies on many basic commodities which will substantially increase prices of goods such as sugar and bread;
- a one-year extension of the national wage agreement and exclusion of the effects of the devaluation and tax increases when calculating cost-of-living allowances to be made under the agreement.

The Finance Ministry estimates that the measures will cause an immediate increase of 17 percent in the cost of living, reduce purchasing power by up to \$1 billion, and improve the trade balance by \$700 million per year. Inflation is currently running at annual rate of nearly 40 percent. Israel's current account deficit for 1974 will be about \$3.3 billion. The deficit has depleted Israel's official reserves to \$900 million at the end of September from about \$1.8 billion at the start of the year.

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## National Intelligence Bulletin

November 11, 1974

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Some of the announced measures such as the devaluation will be taken immediately under the cabinet's emergency powers. The government will have to seek agreement with Histadrut, the national labor union, before imposing the wage measures, however.

Rioters in a slum section of Tel Aviv protested the austerity measures yesterday, blocking streets, looting, and stoning vehicles and policemen. In spite of such expressions of frustration by the poorest Israelis, chances are that the general public will accept the program with some grumbling. The government had been under criticism since summer for failure to counter the deteriorating economic situation.

The Histadrut may drag its feet before agreeing to the program, particularly because in effect it calls for the downward adjustment of cost-of-living allowances.

25X1

25X1

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## National Intelligence Bulletin

November 11, 1974

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### JAPAN

Prime Minister Tanaka returned to Tokyo Friday after a successful 12-day swing through New Zealand, Australia, and Burma--his third tour this year aimed at promoting Japan's "resource diplomacy." The trip will have no early political impact, but it clearly helped fulfill some of Tokyo's economic needs.

While in Canberra, Tanaka obtained an Australian commitment to expand coal production to meet Japanese requirements, a firm contract for uranium ore, and an easing of restrictions on foreign investment in Australian mining enterprises. The Australians were less successful in persuading the Japanese to reopen their markets to Australian wool and beef and to restrain automobile exports to Australia. The Japanese, however, did agree to consider the feasibility of a joint uranium-enrichment facility in Australia.

In Rangoon, Japan's economic importance to the Burmese was underlined with the announcement of a new credit agreement. Additional Japanese aid was also pledged for the construction of an oil refinery and a pulp plant. In contrast, little was accomplished in Wellington, largely because of New Zealand's lesser economic importance for Tokyo.

Tanaka's tour followed a similar resource-oriented mission to Mexico, Brazil, and Canada in September. The relative success of both of these trips is undoubtedly welcome to the Japanese, especially after Tanaka's ill-fated Southeast Asian tour last January when smoldering resentment of Japanese business practices erupted into demonstrations in Bangkok and riots in Jakarta.

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## National Intelligence Bulletin

November 11, 1974

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### JAPAN-USSR

The Soviet-Japanese Economic Committee meeting in Moscow, which ended on November 1, made modest progress.

The committee, which had not met for three years, reviewed the status of various Siberian development projects and agreed to discuss new proposals.

--The two sides agreed to begin serious negotiations on expansion, with Japanese assistance, of two pulp and paper plants in Siberia.

--Tripartite negotiations on the Yakutsk gas project with El Paso Natural Gas Company were set for November 12 in Paris. Japan anticipates that a general agreement on exploration plans will be reached before the end of the year.

--Negotiations on the Sakhalin gas and oil project--involving Gulf Oil Company as well--are continuing in Moscow. Differences over interest rates and gas prices are holding up signature of an agreement.

--The Japanese again flatly refused to participate in the Tyumen oil project, citing the uncertainty of the extent of oil reserves, the Soviets' inclusion of a second Trans-Siberian railroad instead of a pipeline, and the enormous cost.

--Other potential joint development projects, including copper mining, an oil refinery, and atomic power plants, were again proposed by the Soviets, but the Japanese continued to show little interest in them.

Moscow used the meeting to press Tokyo again for quicker action, particularly on the energy projects. From Kosygin down, the Soviets warned that other countries were ready to participate if Japan does not, but the Japanese were unimpressed, having heard this line before.



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**National Intelligence Bulletin**

November 11, 1974

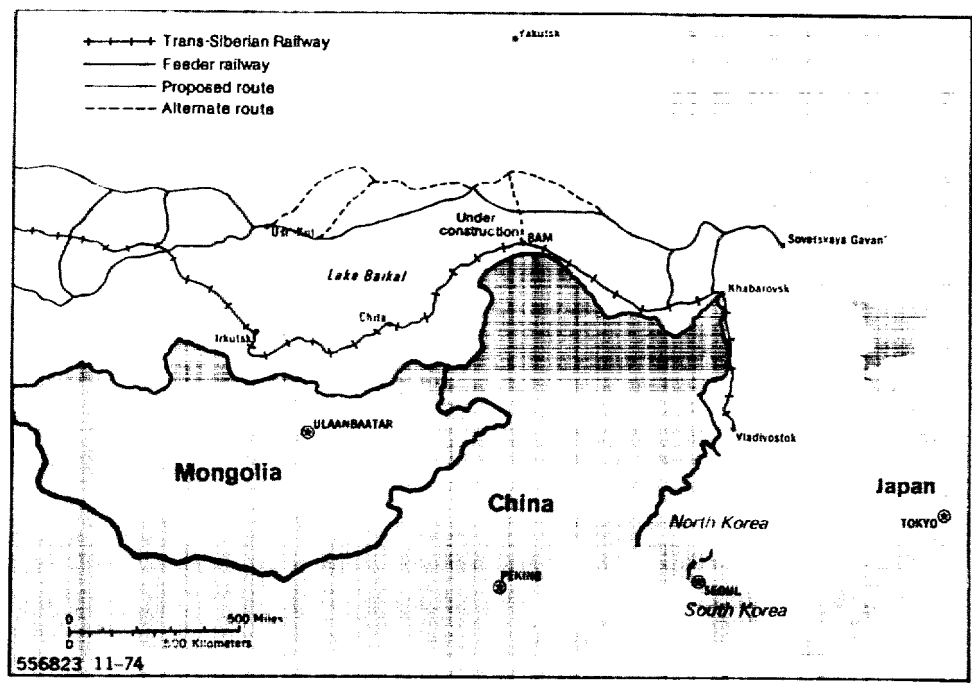
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Limited progress at the meeting notwithstanding, Soviet-Japanese negotiations on Siberian development have made steady progress this year. Two basic agreements were concluded in July, and long-term credits have been arranged for \$1 billion in Japanese assistance in developing Siberian timber and coal reserves. In return, the USSR has agreed to provide Japan with long-term deliveries of coking coal and timber. Japan has also agreed to provide the USSR with \$200 million in credits for the exploratory phases of the Yakutsk and Sakhalin gas and oil projects. These latter two deals, however, remain contingent on US capital and technical participation.

25X1

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25X1



**National Intelligence Bulletin**

November 11, 1974

USSR

Moscow is planning to accelerate construction of the eastern segment of the Baikal-Amur, the second Trans-Siberian railroad. [REDACTED]

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Suslov's statement fits in with recent news of a \$100-million Soviet contract for 700 US crawler tractors to be used specifically on this project. A lesser Soviet official has said that Japanese participation would shorten the construction period by yet another year, but the Japanese are unlikely to participate.

The 2,000-mile line, widely heralded and romanticized in the Soviet press, was originally scheduled for completion in 1982. Shortening the date to 1979 or 1980 may presage a larger role for eastern Siberia and the Soviet Far East in the forthcoming 15-year plan.

Unlike the present Trans-Siberian railroad, the new route cuts through a zone rich in fuel and mineral resources. After 1980, when proven oil reserves become insufficient to meet Soviet needs, the USSR will have to rely more on eastern Siberian energy resources. The new railroad could be used in conjunction with pipelines and rail spurs to tap the northern resources of Siberia, particularly the natural gas deposits around Yakutsk. It would also play a basic role in overall Siberian development.

The continuing concern over the Chinese border problem is also a consideration--the new route is 100 to 500 miles north of the present railroad, which closely parallels the Soviet-Chinese border. [REDACTED]

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25X1

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## National Intelligence Bulletin

November 11, 1974

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### ITALY

Foreign Minister Aldo Moro is continuing his search for a new government as the political stalemate heads into its sixth week. Meanwhile, the investigation into coup plotting by right-wing elements is generating tension, and organized labor continues to press for higher wages and benefits.

During more than a week of bargaining, Moro has been dogged by the same interparty differences that prevented Christian Democratic Party chief Fanfani from forming a government. Moro now appears ready to settle for a "monocolore"--all Christian Democratic--caretaker government, supported in parliament by all or most of the other coalition parties.

The "monocolore" alternative is an established way of letting the dust settle after a major political blow-up in Italy, but Moro is even having difficulty securing an agreement on this formula. The Christian Democrats, Socialists, and Republicans are willing to go along, but the Social Democrats are not.

The Social Democrats are keeping alive a feud between themselves and the Socialists over relations with the Communists. The Social Democrats maintain that any government which relies on Socialist support will be strongly influenced by the Communists, unless the Socialists give strict guarantees of their independence from the Communists. The Socialists have shown some flexibility on this question, and Moro would like to gloss it over for the time being. He wants to focus on economic differences; the parties here are close to an accord.

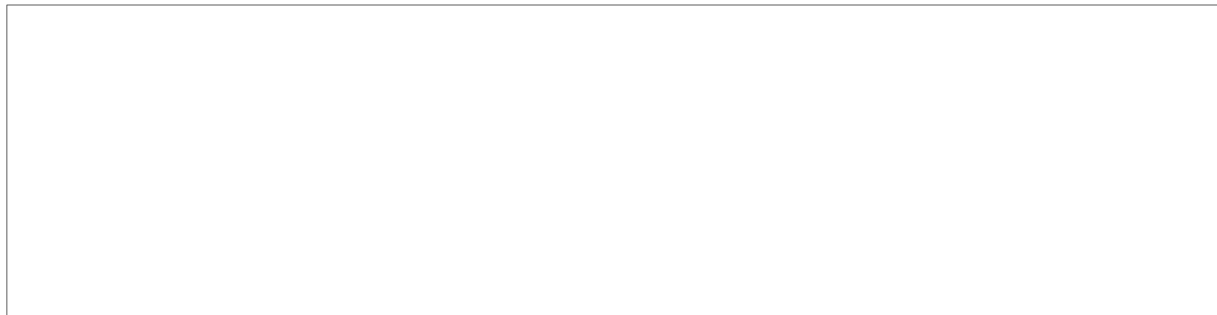
If the Social Democrats stand pat, the Christian Democrats will have to choose between them and the Socialists in order to set up even a "monocolore" cabinet. The Christian Democrats are loath to make such a decision, since it would require a clear choice between left and right--something the Christian Democrats have always tried to avoid.

**National Intelligence Bulletin**

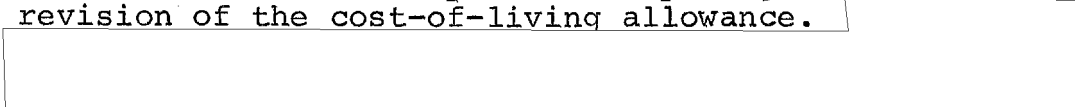
November 11, 1974

As the leader of the Christian Democratic left, Moro undoubtedly leans toward the Socialists. The Christian Democratic right and center would be reluctant to drop the Social Democrats, even though their votes are not required for a majority. The Christian Democrats may be forced to exclude the Social Democrats, however, in order to form a government and avoid early elections, which all elements of the Christian Democratic Party oppose.

While Moro was holding talks, several more arrest warrants were issued in connection with the investigation into coup plotting by right-wing civilian and military elements. Last week, the former head of the intelligence service, General Miceli, was arrested for alleged complicity in such schemes.



Unemployment is rising rapidly, meanwhile, and organized labor expressed its discontent by calling another nationwide general strike yesterday--the second since the government crisis began. Labor is pressing management for a costly benefits package and an upward revision of the cost-of-living allowance.



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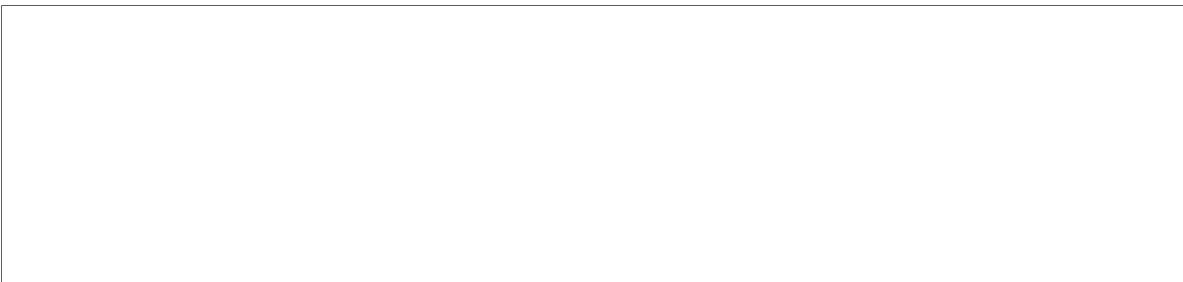
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**National Intelligence Bulletin**

November 11, 1974

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25X1



BOLIVIA

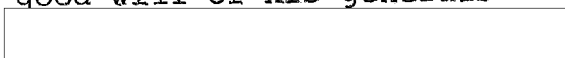
President Banzer is trying to strengthen his position by using the abortive coup attempt of last Thursday as justification for banning political activities and postponing elections.

25X1



The President has also seized the opportunity of the revolt to take other measures to stabilize his government. Official charges of subversion against two cabinet ministers who had been involved in previous moves against the President have resulted in a minor cabinet reshuffle.

Although military support has rallied behind Banzer for the time being, the situation remains fluid, since he now depends solely on the good will of his generals for his political survival.



25X1

25X1

## National Intelligence Bulletin

November 11, 1974

### PORTUGAL-EC

Lisbon, faced with a deteriorating balance of payments and a slumping economy, is seeking extensive financial assistance and trade concessions from many quarters. Practically all the EC and EFTA members, the US, and the USSR, have been approached.

Lisbon's search for financial help has obvious political implications. EC Commission Director General Wellenstein told US officials recently that during his visit to Lisbon last month, Foreign Minister Soares told him Portugal wants economic support from the West in order to counterbalance "extensive" Communist offers. In this connection, Alvaro Cunhal, head of the Portuguese Communist Party and minister without portfolio, gave a rosy, if very generalized, account of future trade prospects with the USSR following his trip to Moscow earlier this month.

Cunhal does not, however, appear to have clinched any specific deals, and Lisbon's NATO representative claims that, contrary to press reports, Soviet economic aid had not even been discussed. The joint communiqué noted that a bilateral trade agreement is to be concluded by the end of this year, and referred to plans for scientific and technical cooperation agreements. A second Portuguese trade delegation is to visit Moscow later this month.

In recent conversations with representatives of Western governments, Portuguese officials have stressed the importance of receiving aid commitments from the West before the elections next spring so as to enable the government to demonstrate convincingly to the electorate that Western Europe is prepared to provide meaningful support. An announcement of EC concessions might also increase the confidence of domestic investors who have been holding back because of the uncertain political situation and labor disorders.

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## National Intelligence Bulletin

November 11, 1974

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Although Portugal does not intend to ask for negotiations looking toward an association agreement with the EC anytime soon, it has now provided the EC Commission with some detailed proposals for assistance. The Portuguese have requested EC agreement for:

--access to the European Investment Bank--now limited to EC members and certain associated states--in order to get a line of credit at prevailing interest rates to cover the foreign exchange costs of investment projects. Wellenstein estimates that the credit could amount to as much as \$200 million, but doubts that enough sound projects could be found to utilize a loan of this size.

--improved working conditions for the approximately one million Portuguese migrant workers in EC countries, presumably to include social security benefits and a guarantee to maintain the number of workers abroad at current levels.

--amendments to the EC-Portuguese trade agreement to provide for trade concessions for such principal Portuguese exports as textiles, cork, wine, and certain food products. Although foreign exchange reserves still exceed \$2 billion, support for the balance of payments is needed because a deficit of about \$500 million is expected this year and a turnaround is not yet in sight.

--concessions that will allow retention of protective tariffs and postponement of reductions in customs duties.

Although certain of Lisbon's requests present problems, the Nine are anxious to help the new government meet its problems and can be expected to make a real effort to accept Lisbon's proposals wherever possible. The Commission has already prepared its "positive recommendations" for consideration at the Council meeting tomorrow. The EC's counterproposals may then be discussed with the Portuguese minister of economic affairs during his visit to Brussels in mid-November and by the EC-Portuguese Joint Committee during meetings in late November in Lisbon.

**National Intelligence Bulletin**

November 11, 1974

Minister Without Portfolio Alves, accompanied by other high-level officials, is currently visiting five EC capitals--Paris, Rome, Bonn, London, and Brussels--in an effort to reassure those governments about prospects for stable political development in Portugal.

25X1

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As an EFTA member, Portugal is also hoping for considerable aid from that organization. At its ministerial meeting in early November, EFTA decided to move promptly to extend assistance to Portugal.

25X1

FOR THE RECORD

USSR-Cuba: The two guided-missile light cruisers that arrived in Cuban waters in late September left the port of Cienfuegos late Saturday in company with an armed replenishment oiler. The group has since moved southeasterly off the coast of Cuba and is probably bound for the Atlantic and a passage to home waters. During their deployment the cruisers paid port visits to Havana and Cienfuegos and conducted operations in the Gulf of Mexico. Before returning to the Soviet Northern Fleet, the ships may operate briefly in the Mediterranean.

25X1

South Vietnam: The Vietnamese Communists have rejected South Vietnam's call to resume negotiations in Paris. The statement, issued Saturday by the deputy chief of the Viet Cong's military delegation in Saigon and replayed by the Communist delegation in Paris, termed the offer a "deceptive move" to confuse public opinion. The spokesman repeated earlier Communist conditions, set forth on October 8, that the Paris talks cannot be resumed until President Thieu is removed and the US ends its military assistance to South Vietnam.

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