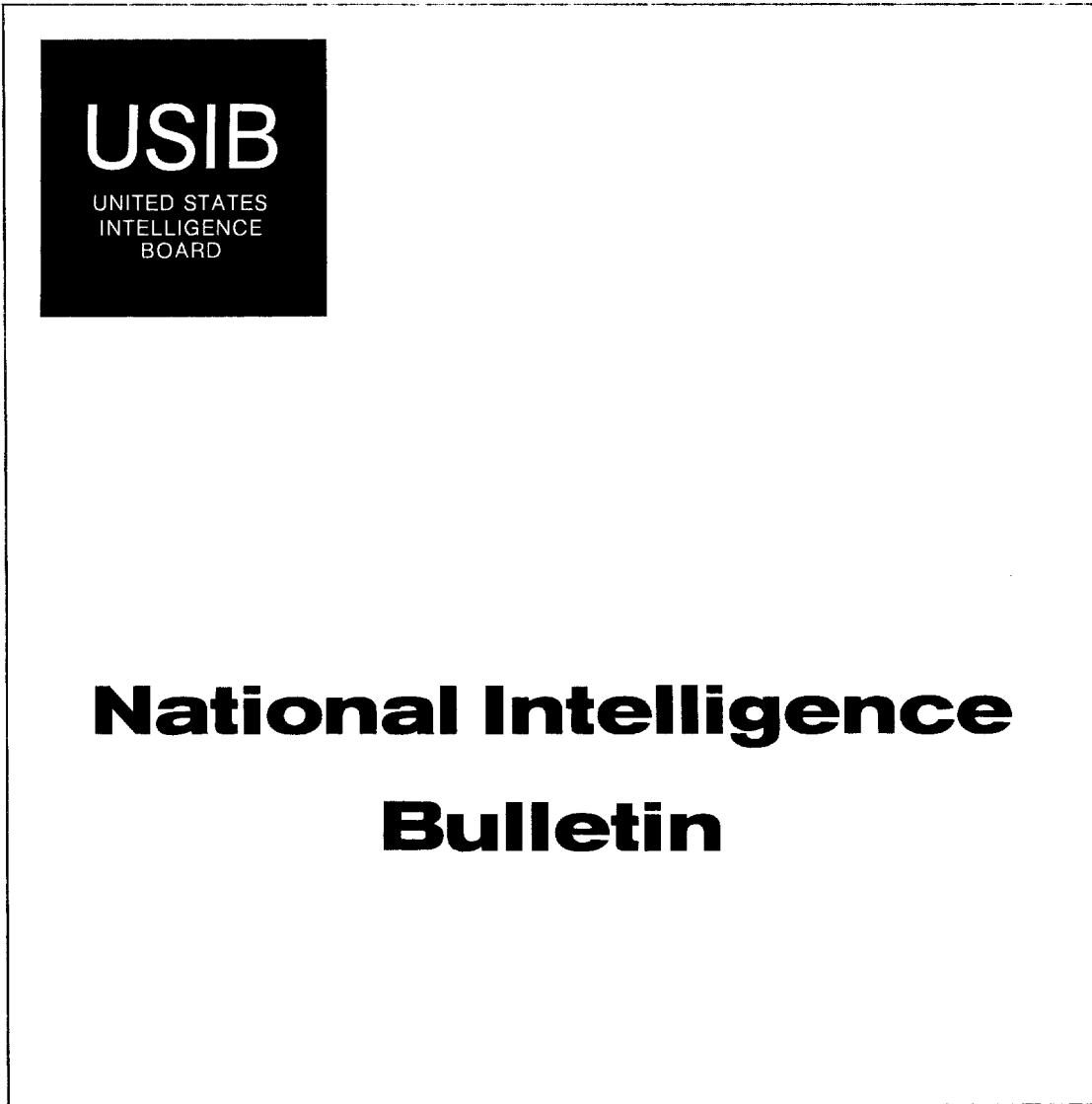


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ARAB STATES

The foreign ministers of Egypt, Syria, and Jordan and a representative of the Palestine Liberation Organization made only minor progress during two days of talks in Cairo on Saturday. The four agreed to meet in Damascus next month, in a further attempt to iron out differences between Jordan and the PLO.

In Cairo, the Jordanians and Palestinians agreed in principle to hold bilateral consultations and to refrain from "any measures or statements that do not contribute to the development of relations between Jordan and the PLO." This represents a modest concession by the Jordanians, who had refused to meet officially with the Palestinians since 1970, when the fedayeen were driven out of Jordan.

The Palestinian news agency, however, yesterday accused the Jordanians of having "dodged basic questions" during the talks in Cairo. Amman may delay any bilateral meeting with the PLO until the Palestinians cease their propaganda attacks on King Husayn and indicate at least some willingness to compromise with Jordan on political issues.

The agreement to continue consultations among the four parties was couched in terms of their responsibility to organize against the Israeli military threat. The conference communiqué did not, however, indicate that the Palestinians had sought to portray this threat as sufficient justification for a renewed fedayeen presence on Jordanian territory. PLO delegates, who had been expected to raise this question, apparently considered it unwise to jeopardize Jordan's limited concession on bilateral talks by making an issue of the Palestinians' desire to return their forces to Jordan.

The communiqué--and, perhaps, the conference itself--avoided any reference to Middle East peace negotiations. This is in keeping with the wishes of President Sadat, who in late December elicited from President Asad a commitment to restrict the meeting to a discussion of relations between Jordan and the PLO. Cairo had been

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apprehensive that Damascus would use the conference as a forum to promote Syria's preference for a Geneva peace conference over the step-by-step approach favored by Egypt.

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USSR-EGYPT

A high-ranking Soviet Foreign Ministry official has sought to discount the importance of both Brezhnev's health and Soviet-Egyptian frictions as factors in the postponement of the party boss' trip to the Middle East. Despite his casual attitude toward the postponement, both factors apparently played a role in Brezhnev's decision, although their relative importance remains uncertain.

The Soviet Foreign Ministry official responsible for Middle East affairs, M. D. Sytenko, in a conversation on January 3 with Ambassador Stoessel, expressed annoyance with Western press speculation about the postponement, saying it should not be considered unusual. While he did not flatly deny that Brezhnev's health was involved, he implicitly dismissed it, noting that Brezhnev had received an Egyptian delegation in late December.

Soviet officials in Cairo have expressed similar irritation with Egyptian press reports on Brezhnev's health. Despite their remonstrations, the Egyptians have continued to print details on Brezhnev's condition, even noting that Foreign Minister Fahmi and War Minister Gamasy had to don white coats when they met with Brezhnev in a hospital. Although Brezhnev has not made a public appearance in over a week, his reception of the Egyptians on December 29 suggests his illness was not critical.

In his discussion with Stoessel, Sytenko made an effort to put a positive face on Soviet-Egyptian relations. He vaguely asserted that the talks with the Egyptians had been positive, but he indicated that there had been no discussion of a new date for Brezhnev's visit.

Sytenko, however, stressed several times the importance Moscow assigns to the Geneva conference and suggested that a new Sinai disengagement agreement would cause "others" to become suspicious. These are precisely the issues on which Moscow and Cairo remain at odds. Pravda yesterday offered a commentary criticizing "so-called quiet diplomacy, which suggests that the Middle East problem be solved stage by stage."

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Sytenko was reticent in discussing Soviet-Egyptian military cooperation, merely implying that the Egyptians had pressed Moscow for new, sophisticated weapons.

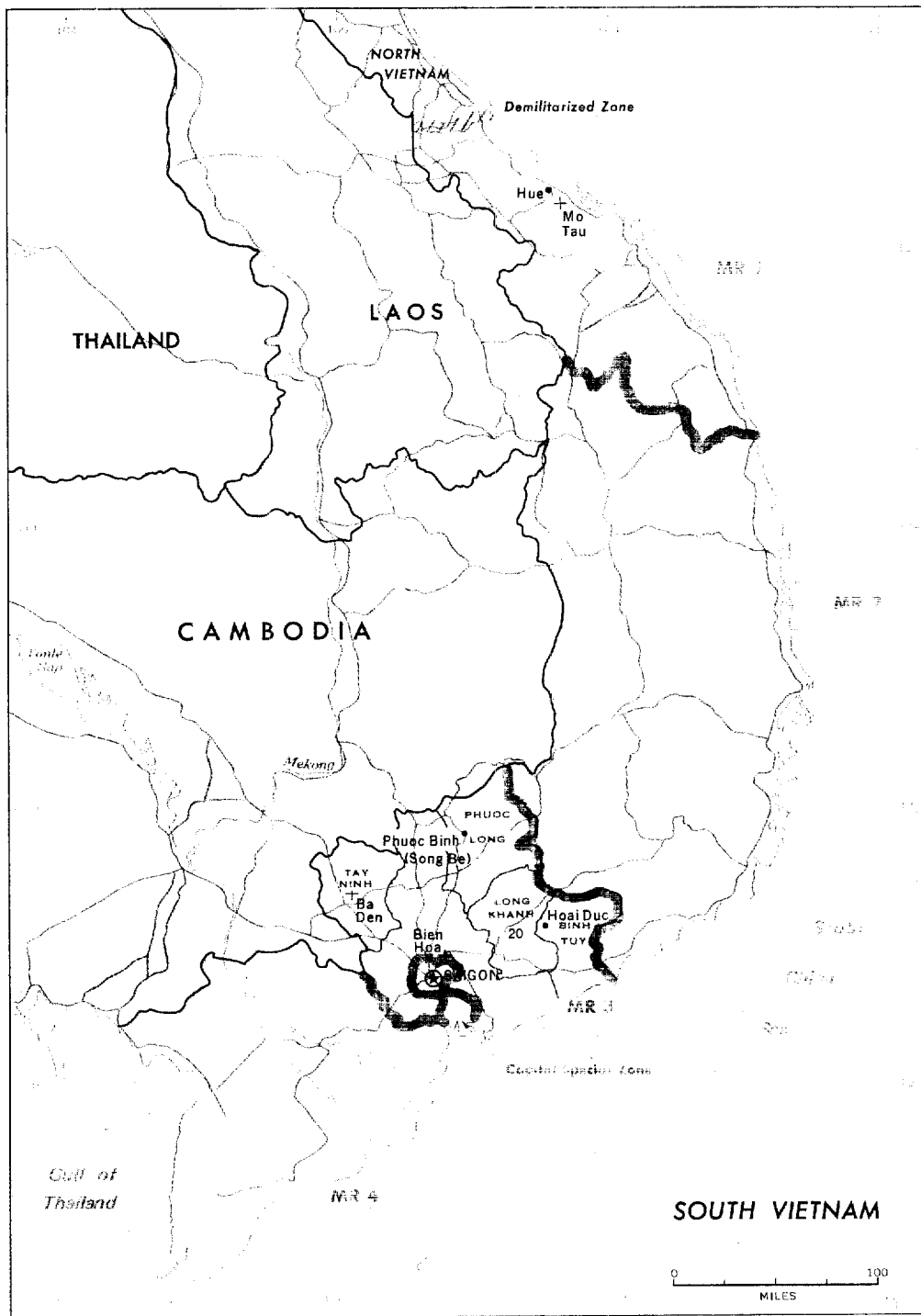
A senior Egyptian official last week told the US that the Soviets had said they would deliver, within the next three months, the weapons they promised the Egyptians prior to the war in October 1973. He said these weapons will include MIG-21 and MIG-23 fighters and SU-20 fighter bombers; only the MIG-23 would be new to the Egyptian inventory.

The Egyptian added that the Soviets had made new arms agreements contingent on Egyptian acceptance of the Geneva conference approach to peace negotiations. If the Soviets follow through on their promise to make good on the old contracts, however, Egyptian President Sadat probably will gain some relief from pressures of the Egyptian military and a breathing space in which to continue to seek progress in peace negotiations through the step-by-step approach sponsored by the US.

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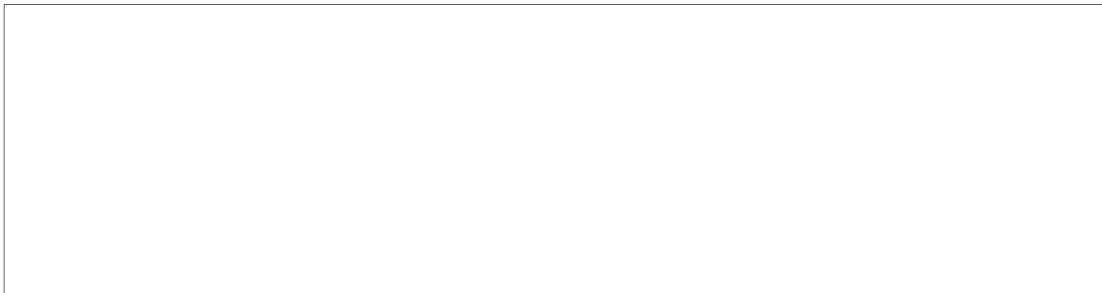
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SOUTH VIETNAM

South Vietnamese forces remain in control of Phuoc Binh, the capital of Phuoc Long Province, but heavy fighting continues around the city.

South Vietnamese defenders in the town were reinforced Saturday by a 300-man Ranger unit, but the situation there is still serious. All artillery guns have been destroyed by North Vietnamese fire from a high point south of the city, and the only means of resupply is by air.



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In their attacks during the past four days, the Communists have made heavy use of artillery and armor. In addition, elements of the North Vietnamese 7th Division appear to have entered the fight in support of local Communist units. This is the first time the 7th Division has been used in combat since the Communists stepped up the fighting in early December.

Elsewhere in Military Region 3, North Vietnamese troops are continuing to attack Hoai Duc district capital in northern Binh Tuy Province. A South Vietnamese regiment has been sent into the area to reinforce the local defenders and to secure strategic Route 20 in Long Khanh Province. South Vietnamese commanders are concerned about the possibility that the Communists will be able to gain control over a corridor to the seacoast in northern Military Region 3.

In Tay Ninh Province, a government communications site atop Ba Den Mountain remains under siege, but the facility is still being held by government regional

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force units. [redacted]

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[redacted] Communist rocket attacks against the Bien Hoa airfield over the weekend caused minor damage. The Communists will probably try to continue firing rockets into Bien Hoa in hopes of closing the airfield to government aircraft using it to support the Phuoc Long area.

Elsewhere in the country, fighting is light to moderate. In the delta, the number of incidents continues to drop from the record levels of early December, but still remains well above "normal." In the northern part of the country, both sides continue fighting around Mo Tau Mountain, south of Hue, but heavy rains are hampering major military operations.

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USSR-US

Moscow has yet to take a definitive public stance on the US trade reform and Export-Import Bank legislation signed by President Ford last week.

The preliminary Soviet reaction expresses dissatisfaction with the laws' "discriminatory reservations and limitations" concerning Soviet-American trade. Soviet accounts of the bill-signing ceremonies note, however, that President Ford voiced his own objections to the provisions at issue.

Soviet commentators have also reported that Secretary Kissinger, in his interview in Business Week, criticized the limitations on credits to the Soviet Union. They point out that the interview, published in Pravda on January 4, has the Secretary expressing the belief that these limitations will have an unfavorable influence on Soviet-American relations.

Pravda commentator Yury Zhukov, speaking on nationwide television on January 4, suggested that the USSR could take its business elsewhere if the US persisted in limiting credits to the Soviet Union. He refrained from saying that Moscow plans specific retaliation, but said that the low credit ceiling will "strike like a boomerang" against US interests. Avoiding the emigration issue, Zhukov concluded his commentary on a hopeful note, stating that Soviet-American economic cooperation will thrive, "no matter how the enemies of detente try to hamper it."

Zhukov's remarks suggest that the official Soviet reaction, when it appears, may not be wholly negative. It may well be that the Soviets are counting on American businessmen to insist that competitive financing arrangements somehow be achieved, despite the restrictive provisions of the new laws.

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ETHIOPIA

Ethiopia's ruling military council is apparently trying to find a peaceful solution to the insurgency in Eritrea Province. Yesterday, it announced substantial concessions to Eritrean tribal and religious leaders, who had presented a list of demands to government representatives in Asmara last week.

The local leaders had demanded that the government confine troops to barracks and stop all military operations in the province. In its announcement, the council said it had directed its forces in Eritrea to relax security measures and to exercise maximum restraint in carrying out their duties.

The council also agreed to review the cases of all Eritrean political prisoners, except those charged with murder or serious criminal offenses, with a view toward granting them amnesty or reducing their sentences. The local leaders had asked for the release of all Eritrean political prisoners.

The council said it would make "special arrangements" for Eritrea with regard to a national program for sending students into rural areas to undertake economic development projects and to explain the political changes since the revolution. The Eritreans had demanded that their province be excluded from the program.

The broadcasting over Addis Ababa radio yesterday of the council's reply met the Eritreans' demand that the council publicize the meetings in Asmara last week. Until yesterday, the controlled media in Addis Ababa had not reported the meetings.

On Saturday, the council sent Information Minister Mikael Imru to Asmara to convey the council's reply personally to the local leaders. The council, in its statement, said the local leaders were authorized to contact Eritrean insurgents and to convey to them the need for a peaceful solution to the conflict.

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The council had agreed last week to hold direct negotiations with the rebels, meeting a key demand of the local leaders. The Eritreans, in return, agreed to urge the insurgents to accept a cease-fire. According to some press reports, local leaders have already begun talks with insurgent leaders on a possible truce and direct negotiations between them and the council.

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MEXICO

Secretary of National Properties Horacio Flores de la Pena was fired unexpectedly on Friday from his cabinet post, which gave him power over government policy on oil and other national resources.

The departure of Flores, the most leftist member of President Echeverria's cabinet, will please Mexican businessmen and others disenchanted with the more radically nationalistic aspects of the Echeverria administration. Flores' replacement, Francisco Javier Alejo, is a young economist who is thought to have been a member of Echeverria's "kitchen cabinet" of advisers.

Flores left ostensibly to "turn the job over to a younger man," but it is more likely that he was let go because he fell into disfavor with Echeverria over the issue of Mexican membership in the Organization of Petroleum Exporting Countries. Flores had pushed hard and often for full Mexican membership in OPEC. Echeverria and other high officials, however, presently seem, in light of the US Trade Reform Act, to be adopting a "go-slow" approach toward OPEC membership. Flores had been prone to make misleading statements on Mexico's oil-export policy, and he had also embarrassed the government with disconcerting public statements regarding his personal life.

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COSTA RICA

Nearly the entire Costa Rican legislative assembly leaves today for a one-week stay in Cuba as guests of the Castro government.

The trip's promoter is assemblyman Eduardo Mora, a leader of the Costa Rican Communist Party. Mora hopes that the good-will jaunt will have favorable repercussions throughout Latin America, as well as foster renewed diplomatic relations between San Jose and Havana.

Costa Rica's flamboyant foreign minister, Gonzalo Facio, has long advocated the lifting of sanctions against Cuba so that Havana's relations throughout the hemisphere could be normalized. Since the Organization of American States failed to remove sanctions in November, President Daniel Oduber has publicly welcomed trade, but denied interest in renewing diplomatic relations. Following the line of still-active former president Jose Figueres, Oduber has stated he will not agree to move on the diplomatic front until Castro frees all political prisoners.

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