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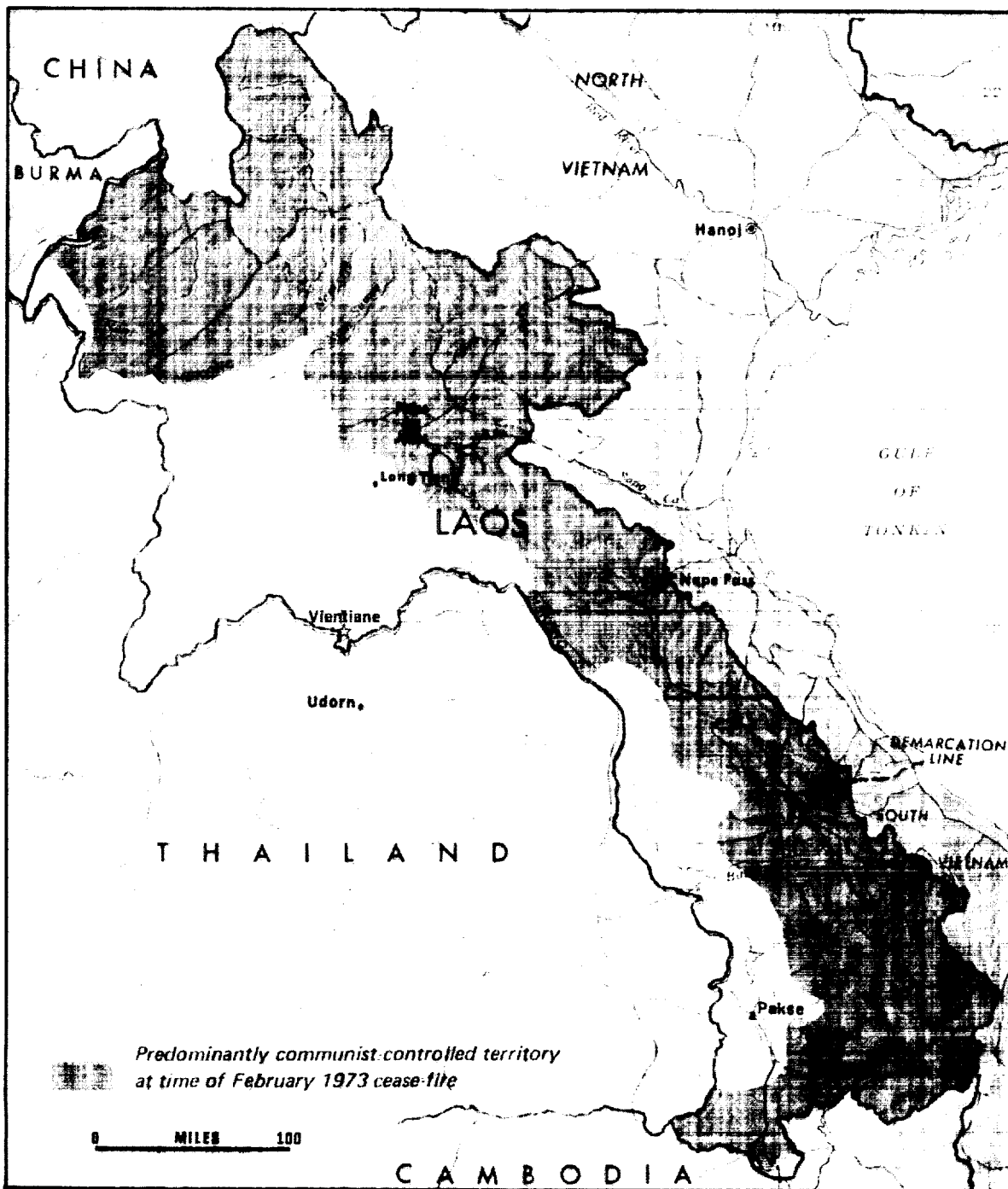
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LAOS

Prime Minister Souvanna Phouma is still trying to calm tensions in Laos, but the Pathet Lao appear intent on keeping the pot boiling.

Speaking over the national radio network yesterday, Souvanna described the present situation as "not serious" and called on his countrymen to remain calm. He reassured his audience that the government has not changed its role or policies and that it will continue to apply firmly the principles of the Laos peace accords of February 1973.

The newly appointed acting defense minister, General Khammouane Boupha--technically a "patriotic neutralist" but in reality squarely in the Pathet Lao camp--took a belligerent stand in the course of several radio addresses he made yesterday. Using inflammatory language, he lashed out at the US and its conservative Laotian "stooges." He argued that Laos' present difficulties had been caused by "American imperialists and extreme right-wingers," who have set out to destroy the 1973 peace accords, the coalition government, and the economy.

Boupha's former boss, ousted rightist Sisouk na Cham-passak, repeatedly and successfully frustrated all efforts by Boupha to wield influence in the Defense Ministry. This may account for some of Boupha's present feistiness, now that he is number one.

The US chargé has made a strong protest to Pathet Lao Deputy Prime Minister Phoumi Vongvichit over Boupha's statements. He told Phoumi that such a statement in the present overcharged atmosphere was explosive. He said it was one thing for a newspaper to criticize Americans but a very different matter when such public criticism came from a "responsible" cabinet minister.

Phoumi, as might be expected, made light of the incident and promised to rein in Boupha as well as the Pathet Lao Minister of Information Souk Vongsak. Phoumi reaffirmed the Pathet Lao's determination to maintain the coalition government and its present policy, and to have "good relations" with all "friendly" countries.

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Meanwhile, Bouppha has moved swiftly to assert Pathet Lao control over all non-communist forces in Laos. In an official communiqué broadcast nationally yesterday, he forbade the movement of troops, aircraft, armor, or artillery without Defense Ministry authorization and warned of "drastic" punitive action against any units or individual "traitors" who did not comply. The communiqué also demanded that all non-communist forces declare their loyalty to the coalition government.

Royal Lao Army commander Bounpone, one of the few senior rightist officers still in Laos, has pledged his support and cooperation to Bouppha and has urged all non-communist forces to follow suit. Although he has been permitted to stay on as nominal army chief, Bounpone realizes he now heads a military force that is being effectively dismantled. Consequently, he is seriously considering joining his fellow rightists in exile.

Thai Prime Minister Khukrit Pramot, at a press conference yesterday, said that Vang Pao is in Thailand. We have no official confirmation of this,

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Bouppha insists that Vang Pao is a potential threat to the coalition government and that he and Meo tribesmen in northern Laos must be "destroyed." Souvanna has ordered Bouppha to stop further harassment and not to attack Long Tieng, but the Prime Minister's orders no longer carry much authority.

In any case, Souvanna and Bouppha have ordered Vang Pao to come to Vientiane for "talks"--a move that could be suicidal for the Meo chieftain unless his safety is assured. An ICC delegation headed by one of Souvanna's sons is scheduled to arrive in Long Tieng today in an effort to persuade Vang Pao to appear in Vientiane.

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Civil unrest inspired by the Pathet Lao continues in Pakse and is threatening to spread to Savannakhet and other urban areas in southern Laos controlled by non-communists.

At last report, several thousand demonstrators--calling themselves the "Pakse Liberation Movement"--had blocked all commerce into and out of Pakse and had seized a number of rightist provincial governors. The demonstrators are demanding the ouster of these and other rightist officials, resolution of the economic problems plaguing Pakse, and "neutralization" of all of southern Laos.

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ASEAN

The three-day annual meeting of the foreign ministers of the Association of Southeast Asian Nations (ASEAN), which opens in Kuala Lumpur today, will focus on the implications of recent communist successes in Indochina. All of the members--Malaysia, Singapore, Thailand, Indonesia, and the Philippines--feel an increased threat but in greater or lesser degrees.

Their divergent interests make it difficult for the five nations to reach a consensus, but they did agree earlier--at Bangkok's instigation--on a joint statement of recognition of the new regime in Phnom Penh. Malaysia, to the annoyance of Thailand and perhaps other members, subsequently went ahead on its own to recognize the Provisional Revolutionary Government in Saigon. Kuala Lumpur's rationale was that it alone had kept sufficient distance from the Vietnam conflict to be accepted immediately by the new government.

Malaysia will seek to capitalize on its partners' concern over Indochina by again pushing its long-standing proposal for creation of a Southeast Asian neutral zone. A preliminary session of senior officials was held over the weekend to draft a blueprint for declaring a neutral zone free of foreign bases. This topic has been discussed at previous meetings, but thus far the members have endorsed only a vague statement on its desirability as a long-term goal.



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Indonesia and the Philippines are showing interest in an ASEAN summit meeting this summer. Such a proposal is likely to be resisted by the other three members, probably on the grounds that a great deal of spadework must be done before such a get-together would be productive. Other important questions likely to be discussed are a proposal for settling disputes among members and the structure of a permanent secretariat.

Since its founding in 1967 as an economic and social organization, ASEAN has gradually evolved as a forum for discussion of common political and security problems. Indonesia, in particular, has actively encouraged this development and would like to see the ASEAN forum consider regional defense problems. The ASEAN states will continue to oppose any formal security arrangement, but the changing situation in Indochina will make them more receptive to Jakarta's desires to expand the range of issues discussed.

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NEW ZEALAND

Wellington has decided to cut licensed imports about 15 percent, starting July 1. Autos, which will be held to 50 percent below the fiscal 1975 level, will be most affected.

Only 30 percent of the goods New Zealand imports require a license, but Wellington will consider licenses for other items if necessary. Japan, the UK, and Australia will be hit hardest by the restrictions.

New Zealand's imports were up 68 percent last year because of a large increase in purchases of US- and Japanese-manufactured goods and higher oil prices. Imports of assembled autos doubled in volume. Exports dropped 6 percent, shifting New Zealand's current account from a surplus in 1973 to a deficit of \$1.1 billion last year, equivalent to 10 percent of GNP.

To finance the deficit, Wellington was forced to draw down foreign exchange reserves by 30 percent, or \$340 million, and to borrow heavily abroad. Wellington will seek further foreign borrowing this year.

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NATO

The defense ministers of nine European members of NATO agreed last week to seek talks with the US to get a better balance between US- and European-produced weapons systems in the programs for military procurement and standardization of equipment.

The ministers also agreed to try once again to persuade France to cooperate with the Eurogroup, the informal caucus of most of the European members of NATO. France is not a member.

UK Defense Minister Mason suggested that the Eurogroup might propose that the West Europeans purchase \$5 billion of US equipment, in return for an agreement by the US to purchase \$2.5 billion of materiel produced in Europe. The target figures will not be mentioned in the letter Mason intends to write to Secretary Schlesinger to signal the European initiative. The Europeans hope to discuss their offer when NATO's defense ministers meet later this month.

The Europeans believe that they must sell equipment to the US in order to maintain a stable and technologically advanced European arms industry. They also believe that NATO's efforts to standardize equipment will be greatly aided if the US buys European.

The defense ministers also agreed that the Eurogroup should invite France to participate in the procurement and standardization projects being carried out under the group's auspices. According to the defense minister of Luxembourg, French cooperation will be sought by promising that the Eurogroup states will purchase French military equipment if France joins one of the Eurogroup's affiliated organizations.

Previous Eurogroup efforts to obtain France's cooperation have failed. It would be a major policy change for President Giscard to alter France's attitude. At a minimum, Paris would be likely to require the Eurogroup states to make firm large-scale commitments to buy French military equipment.

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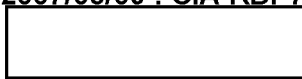
Continuing Problems Facing Greek Government

Attempts by Greek Prime Minister Karamanlis to solidify his political base and establish political structures that will survive him will continue to be inhibited by both external and internal problems. Failure to make headway on the Cyprus and Aegean issues, deteriorating armed forces morale, and a worsening economic situation are all factors that could bring the military back into politics. Karamanlis has yet to resolve the conflict between popular support for an extensive purge of the armed forces and resistance to such an action within the military, who fear that national security as well as their careers are being jeopardized for the sake of internal politics.

Relations with Turkey

Prospects for improved relations with Turkey hinge on the outcome of the disputes over Cyprus and the Aegean. Turkish inflexibility on these issues has impeded the Prime Minister's efforts to reach a solution acceptable to the Greek people. Should Karamanlis adopt too weak a position or appear to capitulate to the Turks on either of these key questions, a military coup could result.

Conversely, Greece's military inferiority vis-a-vis the Turks makes it difficult for the government to take a strong aggressive stance, at least for the near term, in dealing with its historical adversary. The Greek position is improving, however, as a result of arms acquisitions and the cutoff of US military aid to Turkey.



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A Turkish victory in any confrontation would generate serious political and economic turmoil within Greece and would in all probability cause the government to fall.

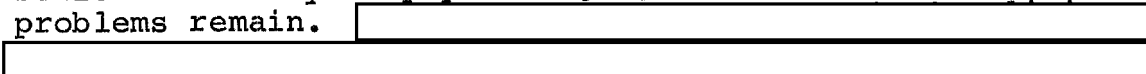
The Military's Role

The purge of former junta supporters remains one of the most divisive issues in Greece. While Karamanlis



originally may have intended that only a few junta members be brought to trial, public opinion and parliamentary debate dictated that he thoroughly purge the military of all vestiges of the junta, and he was therefore forced to widen the purge. This action has severely lowered morale within the officer corps and weakened the capability of the armed forces by removing experienced leaders from key military positions. Even though the trials have been suspended and there is a possibility that many of the indicted officers will never be tried, the issue will remain volatile.

Although the threat of war with Turkey will inhibit serious military coup planning against the government, problems remain.



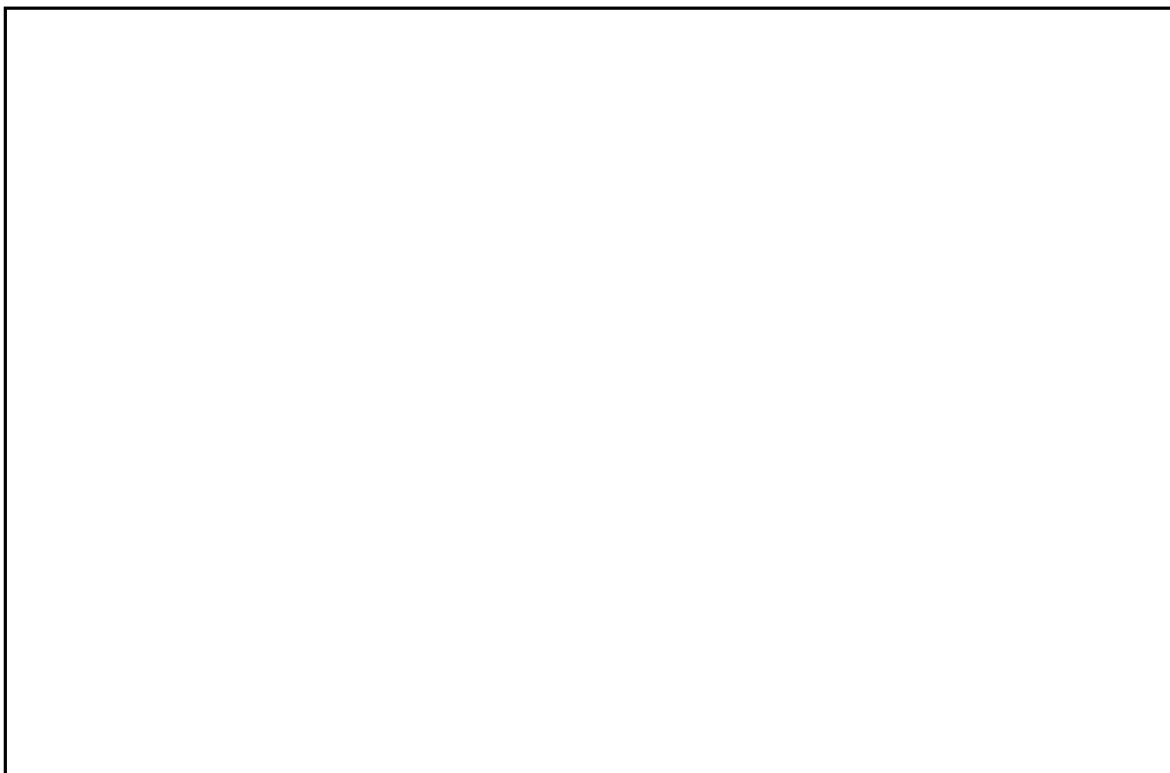
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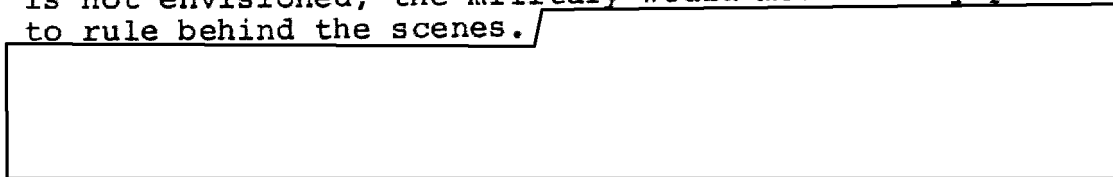
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Outlook

A continuation of the stalemate over Cyprus and the Aegean, civil actions against the military, and civil disorders caused by leftist agitators will continue to cause discontent within the military. Although Karamanlis remains the dominant figure in Greece, the euphoria that followed his return is ebbing. Should he be unable to maintain his current prestige and popular backing, the military may try to replace him with a more acceptable politician.

If Karamanlis should leave or be replaced, the chances for a more direct military role in government would increase significantly. A junta-type government, however, is not envisioned; the military would most likely prefer to rule behind the scenes.



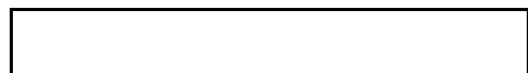
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