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Weekly Summary

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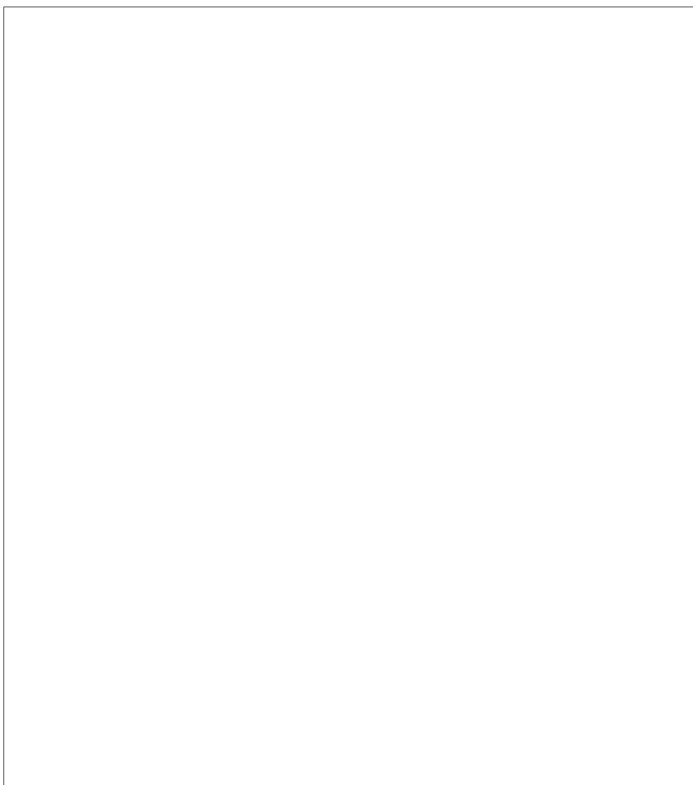
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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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The Soviet Union

BREZHNEV'S POLITICAL HEALTH

Soviet authorities are making a concerted effort to dispel rumors circulating in Moscow about political differences within the Soviet leadership. On January 8, Tass strongly denied an article in *Le Monde* speculating along these lines. Tass also reported that Brezhnev, who has been periodically hospitalized over the past two weeks, attended the lying-in-state of his mother. The report did not specifically note that he attended the funeral, although his car was seen at the cemetery.

The rumors followed a period in which some of Brezhnev's programs and initiatives struck snags, and there was much speculation about the nature of the General Secretary's illness. There is no sign, however, that the essential elements of his policies or authority are under attack. Among the policy snags was the postponement of Brezhnev's highly touted visit to Egypt. His health problems clearly played a part in the decision to put off the trip, but it is also likely that Moscow had been unable to gain Cairo's agreement on political questions, particularly those related to the Soviet role in Middle East peace negotiations.

In addition to his problems with the Egyptians, difficulties surfaced last month regarding Brezhnev's twin programs of consumer welfare and detente—particularly, economic relations with the US. A plenary meeting of the party Central Committee opened and closed on December 16, leaving an unusual one-day gap before the USSR Supreme Soviet session convened on December 18. A two-day plenum may have been planned and then, for unknown reasons, cut short. Brezhnev spoke on domestic and foreign policy at the plenum.

The Central Committee and the Supreme Soviet approved the economic plan for 1975, specifying that producer goods industries would grow at a higher rate than would consumer goods industries. This scheme reverses the rates of growth set forth in the 1971-75 plan. Those rates

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were linked, at least in propaganda, with Brezhnev's promise to improve living standards, which was called the "main task" of this and future five-year plans.

Two days after the plenum, Moscow published Foreign Minister Gromyko's letter of October 26 to Secretary Kissinger and a Tass statement, both of which denied that the USSR had agreed to foreign demands on emigration in connection with US foreign trade legislation. Soviet media have also turned from euphoric treatment of the recent US-USSR summit to criticism of US trade restrictions and to hints of negative consequences for relations with the US.

Some of these developments were beyond Brezhnev's control, but they do constitute setbacks to policies closely associated with him. Furthermore, the policies affected are among those that have always been viewed skeptically by at least some members of Soviet officialdom.

Thus far, Brezhnev's authority does not appear to be impaired nor does there seem to have been any shift in Soviet policy. Despite the efforts to put down the rumors of trouble within the leadership, however, there are many unknowns in the present equation. If Brezhnev is unable to return to work soon and to demonstrate that he retains the initiative in policy matters, his political position would almost certainly be weakened.

SOVIETS HIT US, PRAISE DETENTE

The Soviet media have taken a harsher view of the US as the after-glow of Vladivostok has given way to more frequent and explicit criticism on a wide range of issues. There is no evidence, however, that the Soviet commitment to detente has changed. Moscow is expressing pique and frustration over specific foreign policy disappointments, particularly recent US trade legislation. In addition, the Soviets have been unwilling to forgo the propaganda opportunities offered by Western economic and political difficulties. With Soviet doubts about the Ford administration allayed by the November summit and with the trade reform

bill now on the books, Moscow may believe it has a freer hand to criticize the US. The leadership may have an interest in taking a tougher line toward the US to show any present or potential domestic critics that it has not been unduly solicitous of the US.

The Soviets have yet to take an official public stand on the US trade reform act that links most-favored-nation status with Soviet emigration and on Export-Import Bank legislation limiting credits to the USSR, but press reaction has been negative.

[redacted] Attributing the congressional action to a minority of cold-war advocates and Zionists, Soviet media have repeated reservations expressed by President Ford and Secretary Kissinger about both bills.

Moscow has refrained from mentioning specific plans for retaliation, but has endeavored to portray the US as the ultimate loser, hinting that the Soviets can always take their business elsewhere. Some of this is bluff, and Deputy Foreign Trade Minister Alkhimov [redacted] is optimistic about the future of US-Soviet economic ties.

Nevertheless, Soviet disappointment with the provisions of the trade bill has carried over to its treatment of the US on other issues. Soviet media have fanned speculation that the US is preparing for military action in the Middle East; they have reacted with obvious relish to allegations of CIA misdeeds; and they have commented at length on the troubles of Western economies.

The Soviets have endeavored to keep these harsh notes from jeopardizing more fundamental interests. They have consistently hewed to their standard line on the necessity for US-Soviet detente and the importance of the arms limitation goals agreed on at Vladivostok.

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Venezuela Protests US Trade Law

The US trade reform bill signed into legislation last week has provoked sharp opposition from business and political leaders in Venezuela and has brought the Perez administration into its first major confrontation with the US since it came to power nine months ago.

Both Caracas and Quito have called for a special session of the Organization of American States to discuss what Perez charges is a "clear act of economic aggression and political pressure." In a letter on January 4 to Ecuadorean President Rodriguez, Perez pointedly expressed support for the recent statement of Ecuador's foreign minister concerning his country's intention not to attend the meeting of foreign ministers in Buenos Aires in late March because of the trade act. Later, in a news conference, Foreign Minister Schacht told reporters that Venezuela is also inclined not to attend the Buenos Aires meeting.

The call for OAS action by Venezuela and Ecuador caps several weeks of angry reaction—particularly in Venezuela—to those provisions of the trade act that would deny US tariff preferences to members of cartels that, in effect, withhold supplies of vital raw materials from the world market. Perez believes that such provisions are aimed specifically at his country, not only because of its membership in OPEC but also because of its well-publicized efforts to work out a new economic relationship between producers and consumers that would improve the terms for exporters of raw materials or commodities.

In his New Year's Day address to the nation, Perez criticized the US for actions that "create a climate of confrontation." Later, he raised the intensity of the verbal attacks a few notches by calling into question the sincerity of recent US efforts to open a new dialogue with Latin America, charging the US with discriminating against Venezuela. Perez apparently also intends to carry the issue of the trade act to other forums besides the OAS. OPEC finance, petroleum, and foreign ministers will meet in Algiers on January 24 to discuss world economic strategy, and Venezuelan



Perez

delegates intend to raise the trade act. The Venezuelans may try to argue that the recently enacted legislation violates the UN's Charter of Economic Rights and Duties of States.

Venezuela's primary tactic is to seek a united position of Latin American countries in the OAS opposing the law as contrary to the interests of all Latin American countries—not just Venezuela and Ecuador, the two countries most directly affected. At the same time, Perez is trying to further his position as leader in the hemisphere, a role that he disclaims for himself but that—privately—many Venezuelans support. Perez is an astute observer of public opinion and has been successful in measuring the feelings of Venezuelans on international and domestic issues. His charge that the US is insensitive to his country's call for a new economic relationship between producers and consumers of raw materials reflects the view of most of his countrymen. He has received support across the political spectrum in Venezuela for his efforts to bring the country forward as a major power as well as for recent steps toward eliminating foreign control over the country's raw materials. These

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latest moves will further enhance his popular support.

In the meantime, the strong reaction to the trade law is expected to gather further momentum as the Venezuelan congress, political parties, and other institutions add their voices to those of President Perez, Foreign Minister Schacht, and other government officials, who apparently are waiting for the US to make the next move.

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Mexico: The OPEC Question

The question of whether Mexico should seek membership in the Organization of Petroleum Exporting Countries was resolved last week by the firing of Horacio Flores de la Pena, the cabinet minister who handled government policy on oil and other natural resources. Flores was removed from his job as secretary of national properties, apparently because he had, among other things, pushed too hard publicly for full Mexican membership in OPEC at a time when President Echeverria evidently thought it wiser to adopt a go-slow approach.

Mexico will not collaborate with OPEC countries where possible on matters of common interest nor that Mexico will abandon its policy of selling at OPEC prices. Rather, Mexico will continue to set top prices for its oil, both to increase much-needed revenues and to justify remaining outside the organization.

Echeverria doubtless chose a cautious course toward OPEC in part because of the anti-cartel provision in the recently enacted US Trade Reform Act. Under this bill, OPEC membership means exclusion from preferential trade treatment. Although the trade bill has been harshly criticized by the Mexican press, the government nevertheless believes it offers some advantages. Mexico, for example, wants to be designated a beneficiary developing country eligible for the generalized system of tariff preferences as provided in the bill. Even more important, it is looking forward to the opportunity offered by the bill to negotiate US tariff and non-tariff barriers, which the Mexicans have long regarded as restraints on trade with the US. Mexico insists that it must improve its trade position in order to maintain a high rate of economic development. Officials are optimistic that the US trade law will offer new opportunities to increase Mexico's exports to the US.

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Flores' replacement. Francisco Javier Alejo, set the record straight in his first public statement in his new job, saying that Mexico should consult with OPEC but not become a member. Indeed, according to the US embassy, the decision to shun OPEC membership does not mean that

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Egypt: Moving Against Protesters

Government authorities have responded to the labor demonstrations in Cairo last week with a combination of punitive moves against suspected agitators and measures to help ease legitimate economic grievances. The crackdown will remove from the scene many protesters prone to violence, but the measures intended to satisfy disgruntled consumers fall short of what is required.

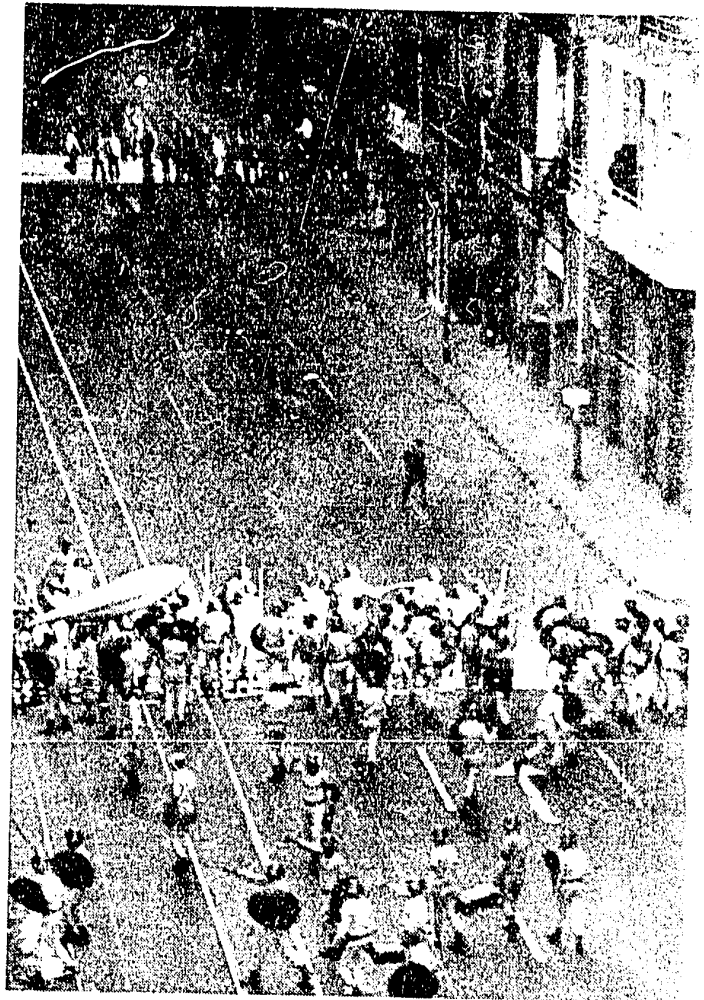
On New Year's Day, laborers from Hulwan, an industrial city south of the capital, tied up downtown Cairo with a violent demonstration against shortages of consumer goods, high prices, and low wages. Students joined the protesters, swelling their ranks to over 2,000. For the next several days students at Cairo's two universities held campus rallies in sympathy with the laborers.

The government apparently first believed the demonstration was spontaneous, but subsequent indications have pointed to leftist influence. Elements from Egypt's small but recently resurgent Communist Party, as well as radical leftist youth, have for some time been attempting to stir up trouble, particularly among students. Government authorities believe these activists had begun to operate with relative impunity in the expectation that the government would not interfere while the visit of Soviet party chief Brezhnev was still pending.

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[redacted] the postponement of that visit and the demonstrations last week led Cairo to crack down. At least 200 and possibly as many as 400 Communist Party members and other leftist activists have been arrested. The government also has issued stern warnings against future disturbances.

Meanwhile, the government is attempting to respond to popular grievances. The cabinet this week announced a decision, actually reached before the demonstration, to allocate additional funds for the immediate import of consumer goods. The government has also promised to review the draft of an unpopular labor reform bill.



Police fire tear gas on demonstrators

These measures will not satisfy basic consumer demands as the country's modest resources, limited port capacities, and inadequate internal distribution system preclude any early increase in consumer goods. Popular discontent is thus likely to continue for some time. This could stimulate further disturbances over political and economic issues, despite government moves to corral known agitators. [redacted]

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PORTUGAL

RELATIONS WITH THE USSR

Portuguese Foreign Minister Soares' trip to the USSR early this month is a further indication of the interest Lisbon and Moscow share in establishing closer ties. It was the first visit by a high-level Portuguese official since Communist leader Cunhal made a ministerial visit to Moscow in October, and the first time a Portuguese foreign minister had gone there since the Bolshevik revolution. Gromyko accepted an invitation for a reciprocal trip to Portugal, but no date was set.

At a dinner for the visiting foreign minister, Gromyko said the Soviets wanted to expand and strengthen bilateral relations and, predictably, praised Portuguese decolonization in Africa. In a statement released at the end of the visit, the Portuguese endorsed the Soviet call for an early end to the European Security Conference and for holding its concluding stage at the summit level. Nothing was said publicly on sensitive subjects such as Portugal's domestic politics, its role in NATO, or the US base in the Azores.

Although no new undertakings were announced during the visit, several bilateral agree-

ments had been reached before the trip. A trade agreement concluded on December 19 included most-favored-nation status for each country and provided for the establishment of reciprocal trade missions in Moscow and Lisbon. An agreement signed December 20 stressed the development of direct shipping links and increasing shipments in one another's carriers. An air agreement of December 11 had provided for direct flights between the two countries.

These agreements do not go beyond those that the Soviets have with many other Western countries. While Moscow wants to improve relations with Portugal, it is still moving cautiously, in part in order to avoid arousing suspicions in other Western nations or among anti-Communist domestic forces in Portugal. The Soviets have stopped well short of making an explicit or implicit commitment to the present Lisbon government and of giving it any significant economic assistance. The subject of economic aid was raised by Cunhal in October without eliciting a positive Soviet response, and the evidence suggests that Soares also failed to make any great headway.

Gromyko meets with Foreign Minister Soares (right rear)



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Mario Soares at the Socialist Party congress

SOCIALISTS DIVIDED

When Foreign Minister Soares returned from his visit to Communist and neutral states, he faced some hard decisions concerning his own political future. He must decide soon whether to retain his cabinet post or resign and devote his full energies to healing the deep divisions in the Socialist Party that he heads. The party congress last month only served to sharpen these divisions and reveal the general disorganization within the party.

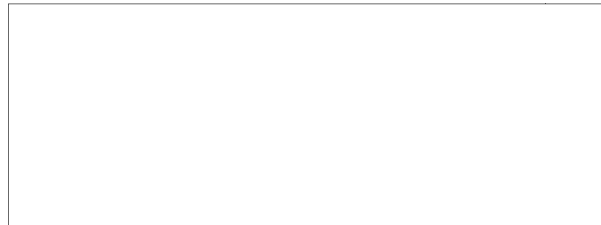
The congress failed to resolve many key points in the party's program, and debate on these issues has been postponed until later this month. The decisions that were made at the congress reflect a marked shift to the left. The US embassy reports that attempts by Social Democratic elements to get the congress to accept a more moderate program were overwhelmingly rejected. The short-term social and economic measures adopted by the congress are more radical than those advocated by any other major Portuguese party, including the Communists.

The delegates devoted most of their time to electing a slate of party leaders, but even this question was not fully resolved. Two slates were offered for election to the party's 151-member national commission. One was led by Soares and the other by Manuel Serra, a strong proponent of direct revolutionary action.

Soares' list won by a comfortable margin—67 percent—but the price was high. Many moderate colleagues of Soares volunteered to drop off his list and be replaced by members of the party's left wing in order to ensure victory. The leftist orientation of the national commission is likely to be strengthened when the 20 seats allotted to Socialist youth are chosen at the Socialist Youth Congress later this month.

The leadership battle resumed shortly after the congress when the national commission—minus the Socialist youth representatives—convened to select the 13-member secretariat. The Soares slate won again but by a slimmer margin—55 percent—than in the vote to select the national commission at the party congress.

Even these results are temporary. New elections for the secretariat and a 39-member directorate will be held after the Socialist youth representatives join the national commission. Their addition is likely to trim Soares' majority further or even destroy it. Soares probably will survive as secretary general, however, since both his name and Serra's have always appeared on both slates.



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The congress, meanwhile, has given the commission, which is now more leftist-oriented than the party's base, authority to complete those portions of the party's program that were not addressed at the congress. The draft text of the program, for example, calls for the progressive withdrawal of Portugal from all political and military blocs. The possibility of establishing a common electoral front with the Communist Party will also be discussed. Soares has taken a stand against both of these proposals, but he will be under intense pressure to radicalize the party's program.

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CHANGING ECONOMIC POLICY

The Portuguese apparently are leaning toward a moderate economic policy based on a retention of private enterprise. This course is in line with the recommendations of Erik Lundberg, a distinguished Swedish economist, who has just completed a report for the government.

Lundberg estimates that, despite the political upheaval, Portugal's economy grew 2 or 3 percent in 1974. He then points out, however, that real problems have developed. Prices are up over 30 percent compared with a year ago, unemployment is increasing rapidly, investment has decreased, and the balance of payments is now in deficit. Lundberg says these problems will get worse unless the government quickly changes its economic policies. He recommends that top priority be given to achieving and maintaining full employment, even though this will require expansionary measures that could add to inflation and the payments problem.

Price increases would be slowed by means of a price and income policy focusing on the stabilization of wages. The payments deficit will be allowed to continue, but it can be covered by Portugal's large foreign-exchange reserves. These reserves total about \$6 billion, including gold valued at the free market price. This amount would pay for almost two years of imports at the present rate.

Lundberg concludes that radical changes in Portugal's economic structure should be avoided. The government's share of the gross national product, he believes, should be expanded somewhat from its present small size, but Portugal's economy should continue to be based on free enterprise. In fact, Lundberg emphasizes the need to restore business confidence, which he recommends be done by clearly limiting the government's economic role.

Economists in the Finance Ministry reportedly hold views similar to Lundberg's, and his report has given them and other moderates in

Lisbon ammunition to use against radicals in the government. Two of his recommendations already have been adopted: the Portuguese stock market has been reopened; and the government will soon announce an economic program designed in part to reassure the private business community.

The direction of Portugal's economy will not be set until after the election this spring. Lundberg's report, however, appears to have lessened the chances that Portugal will move to a centrally directed economy.

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EC PREPARES FOR TRADE TALKS

In the coming weeks, EC officials will be working to resolve their differences on an initial negotiating position for the multilateral trade negotiations that begin in earnest in Geneva next month. The EC Council will address the problem at the end of the month, but more than one meeting may be necessary to reach agreement on all major points. The EC Commission has been working all along on a common position for the talks, but the council had withheld negotiating authority until the US passed its own authorizing legislation.

The trade negotiations, which—like the Kennedy Round of the mid-1960s—are aimed at reducing obstacles to trade, have been under preparation since the talks were agreed to in Tokyo more than a year ago. Deteriorating world economic conditions since that time have prompted most EC members to re-emphasize the need for starting trade negotiations, if only to head off protectionist tendencies that could develop in severely affected states. France and Italy, however, have cautioned that community concessions at the talks should be weighed against the impact on the present poor condition of European economies and in particular on the employment situation.

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The issues on which the community remains most divided are the method of achieving tariff reductions and how to handle negotiations on agriculture. At the heart of the debate, however, will be the question of how much independence to grant the community's negotiators. The commission and most of the members would like the EC to go to Geneva with a mandate sufficiently broad to allow considerable negotiating flexibility. The French want to require the negotiators to return frequently to the council for instructions.

Tariff Reductions

EC ministers disagreed in December over a formula for tariff reductions. The EC holds that its tariff structure is generally lower than those of the US, Canada, Australia, and Japan. All members agree that the EC should reject reducing the tariffs of all participants in the talks by equal percentages—which would leave some EC tariffs near zero. France insists that "harmonization" of tariff levels should be the primary goal and that tariff reductions are incidental to this. Both the UK and Germany feel that the paramount goal is tariff reduction and that harmonization should simply be the vehicle.

Agriculture

All community members agree that agricultural negotiations should be treated apart from talks on industrial goods and that the basic principles of the EC's common agricultural policy are not subject to negotiation. The Nine agree that their best negotiating strategy lies in proposals for world-wide commodity arrangements. The commission has proposed agreements for cereals, rice, sugar, and milk products. The commission has also proposed as yet ill-defined "international disciplines" for those agricultural products that do not lend themselves to commodity agreements.

France supports the negotiation of commodity arrangements but opposes the "dis-

ciplines" because these might bring into question the protective mechanisms of the common agricultural policy. Both the British and the Germans are skeptical about the commission's detailed proposals for commodity arrangements. London feels that they may be too limited in scope. The Germans want to be sure that Bonn is not made to foot the bill for costly stockpiling arrangements that commodity agreements might entail.

Other Issues

Other topics on which the council will give guidelines include:

Non-Tariff Barriers—The community is committed to the reduction of non-tariff barriers, although it has yet to decide on the relative priority of the barriers to be negotiated.

Export Restrictions—The commission has proposed a code of conduct to regulate export restrictions; since the oil embargo, the Nine have been concerned with a guaranteed supply of raw materials.

Safeguards—The EC feels that existing rules protect a nation's right to defend itself against massive import surges but will agree to discuss more orderly ways of implementation.

Eastern Europe—The community has agreed to recognize the difference between state trading and market economies in the negotiations. In exchange for concessions, the community will seek better access to markets and clarification of marketing procedures.

Developing Countries—The EC is in general agreement on the need to consider the implications of trade liberalization for developing states.



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US-USSR: DEFENSE COSTS COMPARED

Interest in the relative size and strength of the US and Soviet military forces has heightened in recent years with the rapidly growing size and technological capability of Soviet forces. Differences in missions, composition, and characteristics of the Soviet and US military establishments, however, make it difficult to compare their relative size and strength. Nevertheless, the dollar costs of Soviet defense forces and programs for the years 1964 through 1974 can be estimated by making rough approximations of what observed Soviet defense activity would have cost to reproduce in the US in 1973, and these figures can be compared with US outlays for those years in 1973 dollars.

The comparison relates solely to the costs of the defense effort and not to relative military effectiveness or capabilities. Further, the dollar costs of the Soviet program are presented in terms comparable to the US effort. The dollar costs so derived do not reflect the Soviet view of their defense spending; this view would be based upon a different set of costs—rubles—that Soviet defense planners and leaders must consider.

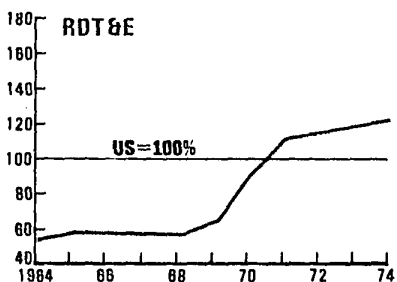
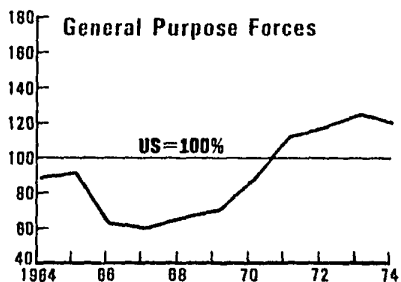
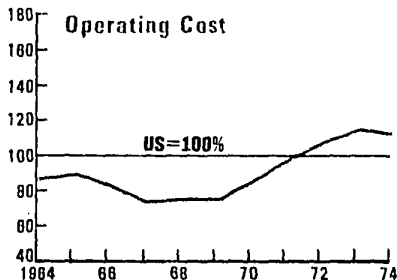
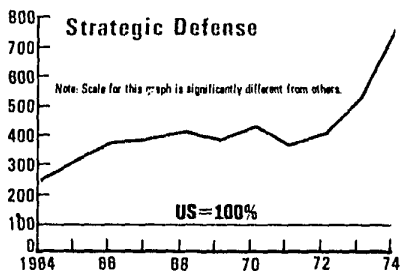
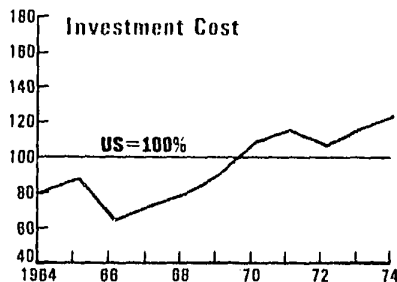
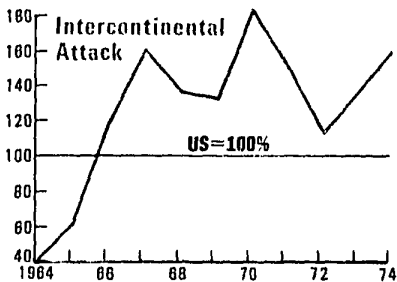
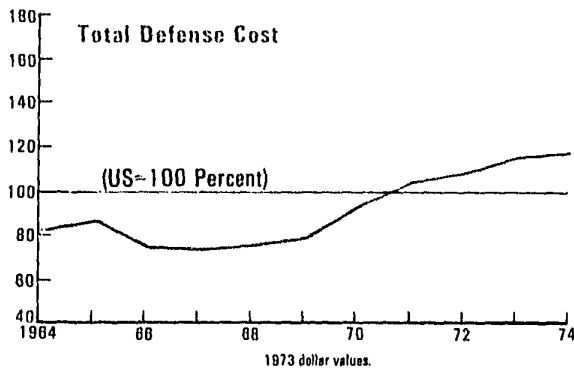
US outlays were larger through the Vietnam war period, but as that war wound down, US spending eased. As a result, Soviet costs began to exceed those of the US in 1971. For every year since 1971, the dollar costs of Soviet defense



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Dollar Cost of Soviet Programs as a Percent of US Defense Expenditures*



Note: Percentages calculated from 1973 dollar values.
 * Department of Defense data has been adjusted for comparable coverage.

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programs were greater than comparable US defense outlays. In 1974, costs—over \$93 billion in 1973 prices—were about 20-percent higher than US outlays. If the costs of pensions and reserves are removed from both sides, 1974 dollar costs for the Soviets exceeded the US total by about 25 percent.

Total defense outlays can be analyzed in two ways: according to the costs of the various military missions, such as strategic attack, strategic defense, and general purpose forces; or according to such costs as research, investment, and operating expenses.

Strategic Attack Forces

The estimated dollar costs of Soviet intercontinental attack programs have exceeded US outlays in every year since 1966—most US systems were operational by then—and were about 60-percent higher for 1974. If the Soviet peripheral attack forces are included (the US has no counterpart for these forces), the gap is widened to 120 percent.

Soviet ICBM programs cost about three times as much as US ICBM programs in the 1964-1974 period. For 1974, the Soviet costs were almost 4.5 times the US level, reflecting the four new Soviet ICBM systems coming into operation. The dollar costs of US and Soviet submarine-launched ballistic missile programs for the period 1964-1974 were about the same, but by 1974 the Soviets were spending almost 30-percent more than the US.

Other Forces

The USSR has maintained much larger strategic defense forces than the US. The cumulative dollar costs of such Soviet programs over the 1964-1974 period were more than four times the US level. The biggest differences were in surface-to-air missiles and fighter interceptors. In 1974, the dollar costs of Soviet strategic defense programs accounted for almost eight times US expenditures for strategic defense programs.

Spending by both countries on anti-ballistic missile programs was negligible.

During the 1964-1974 period, the USSR spent steadily increasing amounts on general purpose forces. By 1971, the dollar costs of Soviet programs had surpassed those of the US; in 1974, Soviet spending on general purpose forces was 20-percent larger than similar US expenditures. Soviet ground forces have cost more than twice those of the US, primarily because of the much larger size of the Soviet army. The costs of naval forces were about the same for both countries. The costs in dollar terms of Soviet tactical air forces have grown rapidly since 1969, but last year were still only about half the US level.

Research, Investment, and Operation

The estimated dollar costs of Soviet weapons acquisition—research, development, test, and evaluation plus investment—have exceeded comparable outlays in the US for several years. US expenditures for these purposes exceeded estimated Soviet dollar costs by a little over 50 percent from 1964 to 1970. Soviet dollar costs have been higher since 1971; last year they were about 25-percent larger than US programs.

Missiles and aircraft have been the fastest growing elements of Soviet procurement costs in recent years. The costs of ships and boats exceeded US outlays by 50 percent over the 1964-1974 period; these costs were about one third greater than those of the US in 1974. The Soviets spent over three times as much as the US on land armaments in the 1964-1974 period.

In both the USSR and the US, military personnel costs accounted for the largest part of the operating budget. These costs in the Soviet Union—at US 1973 pay scales—rose steadily over the 1964-1974 period; cuts in US military forces since 1968 have reduced comparable US expenditures. In 1974, dollar costs for Soviet military personnel were almost 50 percent higher than corresponding US costs.

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BULGARIA-US: FRIENDSHIP OFFENSIVE

Sofia has stepped up its year-long campaign to improve relations with Washington, presumably in an effort to increase its share of the economic benefits of detente.

As evidence of its good will, the regime recently approved a number of long-standing requests by the US ambassador for courtesy calls on high-level Bulgarian officials. Last month, for example, Ambassador Herz was received by Politburo member Boris Velchev (a top candidate to succeed party chief Zhivkov), and by the two first deputy chairmen of the State Council. One of the deputy chairmen claimed that Zhivkov would be pleased to receive the ambassador at any time, "even when there is no particular problem to discuss."

In their talks with other US diplomats, the Bulgarians have indicated that they are willing to discuss a variety of issues, including cultural relations, but they continue to stress economic and trade matters. They have presented several drafts of proposed scientific and economic cooperation agreements

[redacted] To gain



Zhivkov

added exposure, the Bulgarians are pressing for the opening of two additional commercial offices in the US. They probably intend for these offices to be used as much to acquaint US businessmen with opportunities in Bulgaria as to promote Bulgarian exports to this country. In addition, Sofia has agreed to move forward with discussions on the long-standing claims of US citizens who hold Bulgarian pre-war bonds and may indeed be close to making a deal on the issue.

Although the Bulgarians see opportunities for improved trade relations with the US in a number of areas, they are probably interested particularly in easing their growing hard currency debt by obtaining US technology and the low-interest Eximbank credits that would allow them to purchase the goods on more favorable terms. Sofia is acutely aware that Bulgaria's trade with the US, as compared to total foreign trade with the industrial West, remains small. In 1973, US exports to Bulgaria represented only one percent of Bulgaria's total imports from developed countries in the West.

In the political sphere, the Bulgarians have long felt themselves to be at the bottom of the list of US priorities in Eastern Europe. Sofia would like to improve its position and is anxious to have a high-level American visit sometime this year. The Bulgarians are especially interested in receiving Secretary Kissinger. According to the Soviet ambassador in Sofia, the Bulgarians were somewhat miffed that the Secretary had overflown their country without stopping "even for an hour," and are sensitive to the fact that Bulgaria is the only East European country that has never been visited by a US secretary of state.

Meantime, the Bulgarian press has prepared the public for a new phase in relations with Washington by publishing portions of notes exchanged between Zhivkov and President Ford. The Bulgarians have chosen to release only that portion of the exchange that stresses positive economic aspects in bilateral relations. [redacted]

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INTERNATIONAL: BREAK IN GOLD PRICE

The price of gold declined sharply last week as the level of US demand fell short of market expectations. In London, the price declined from \$195.25 an ounce on December 30 to \$169.50 on January 7, before rebounding to \$179 an ounce on January 9 in the face of next week's meetings of the International Monetary Fund and Paris' announcement that its official gold reserves would be revalued. The lack of demand at the US Treasury auction on January 6—only 750,000 ounces were sold—confirmed that traders had overestimated the US market's potential, at least in the short run.

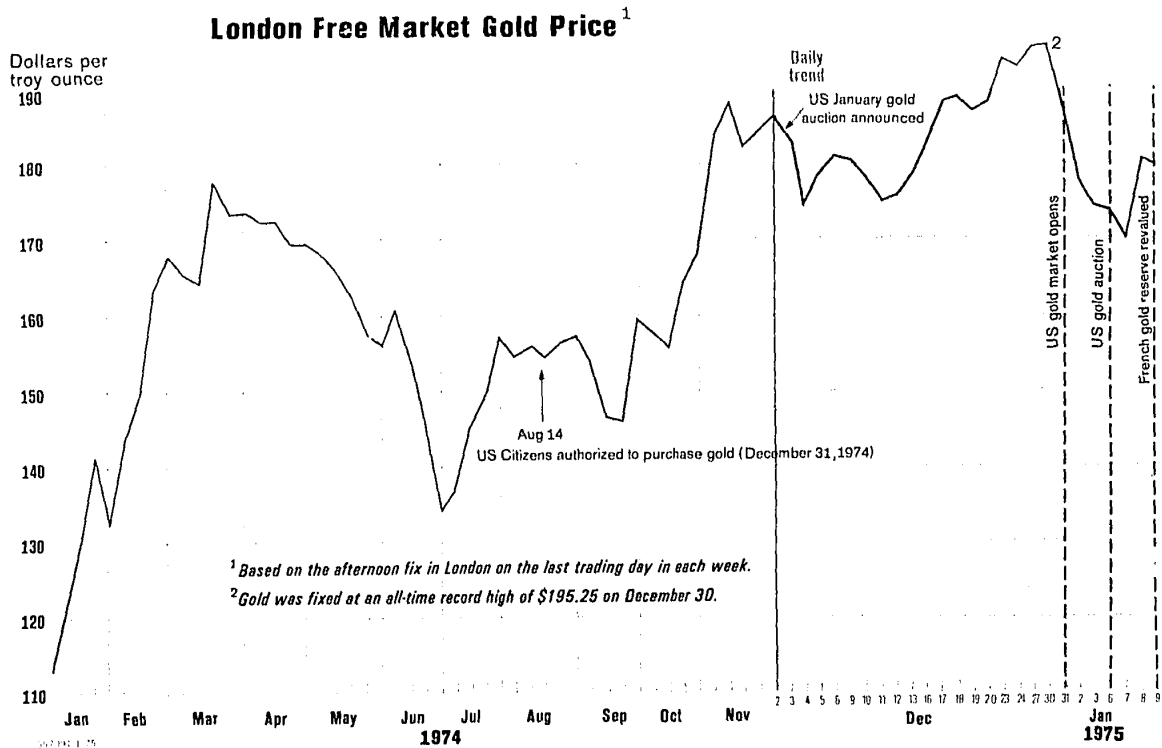
Major gold producers have not yet reacted to the sharp price decline. South Africa and the Soviet Union could restrain supply sufficiently to counter any further weakening in price. Pretoria has left open its option to reduce sales, but it will probably sell enough gold to cover foreign-exchange needs. The USSR can afford to cut sales

in 1975 and is likely to do so should the market weaken further.

The legal entry of US citizens into the gold market and the US Treasury's policies with respect to gold have been the dominant factors in the market since mid-1974. Before US citizens entered the market, prediction by European dealers that the price of gold would hit \$200 an ounce had helped drive up prices by more than \$40 from mid-October to December 30. The Treasury Department's announcement in early December that it would sell up to 2 million ounces caused only a temporary drop in price.

The price of gold in 1975 will hinge on a number of factors, including the market's perception of US intentions, the results of IMF discussions on gold scheduled to begin next week, and possible changes in other countries' policies on gold.

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From the left: Arab League Secretary Riad and Foreign Ministers Rifai of Jordan, Khaddam of Syria, Fahmi of Egypt, and PLO representative Kaddoumi

ARAB STATES: MEETING IN CAIRO

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 late last week. 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 both sides. The Jordanians have refused to meet officially with the Palestinians since 1970, when the fedayeen were driven out of Jordan, and radical fedayeen elements have refused to give up their plotting against King Husayn.

In spite of the agreement, the Palestinian news agency almost immediately accused the Jordanians of having "dodged basic questions" during the Cairo talks. Amman may delay any bilateral meeting with the PLO until the Palestinians cease their propaganda attacks 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 communique did not suggest, however, that the Palestinians were successful in portraying this threat as justification for a return of fedayeen troops to Jordanian territory. PLO delegates may have considered it unwise to jeopardize Jordan's limited concession on bilateral talks by making it an issue.

The communique avoided any reference to Middle East peace negotiations. This was in keeping with the wishes of Egyptian President Sadat, who in late December had elicited a commitment from Syria's President Asad to limit the meeting to a discussion of relations between Jordan and the PLO. Cairo had been 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 the Egyptians.

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SYRIA-LEBANON: PROMISING SUPPORT

On January 7, Syrian President Asad concluded a day of talks with Lebanese President Franjyah by publicly promising Syria's full and unconditional support for Lebanon. Asad's visit, the first ever by a Syrian head of state, is the latest of several signs that the usually strained relations between the two governments are improving.

Asad stated that Damascus would regard an attack on Lebanon as an attack on Syria itself and pledged in a joint communique to meet any Lebanese requests for help. The statement did not indicate, however, what specific military assistance, if any, Syria will provide. While Franjyah is probably willing to accept conventional anti-aircraft weapons, he is likely to be reluctant to receive weapons like SA-6 anti-aircraft missiles that might bring Syrian or other foreign troops to Lebanon and might invite a strong Israeli reaction.

Franjyah's purpose in cooperating with the Syrians is largely to still the criticism he is getting from domestic opponents. With Israeli incursions into southern Lebanon a daily affair, these critics have not been satisfied by the government's usual response—a complaint to the UN Security Council and a promise to strengthen Lebanese forces in southern Lebanon. Early this week, the leader of

southern Lebanon's important Shiite Muslim sect publicly spoke of a "big probability" that Israel would occupy southern Lebanon during the first half of 1975.

The Lebanese have long been concerned that the Israelis are looking for an excuse to occupy a large part of southern Lebanon. The Israelis have denied such an intent, but have insisted on their right to "clear out" border areas in cases where the Lebanese army fails to prevent fedayeen cross-border raids on Israel.

Israeli Defense Minister Peres charged this week that Palestinian guerrillas in Lebanon have been reinforced by Palestinian troops from Syria armed with anti-tank and anti-aircraft missiles. He warned that Israel would view any Syrian attempt to establish a "foothold" in Lebanon as the "start of a confrontation and an extension of aggression."

[redacted] the strength of Syrian-controlled fedayeen elements in Lebanon has grown in recent weeks, particularly around Palestinian refugee camps. Contingents of the largely Syrian-controlled Palestine Liberation Army have been present for some time in the camps and in Lebanon's remote Rashaya District near the border with Syria. [redacted]

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Franjyah



Asad



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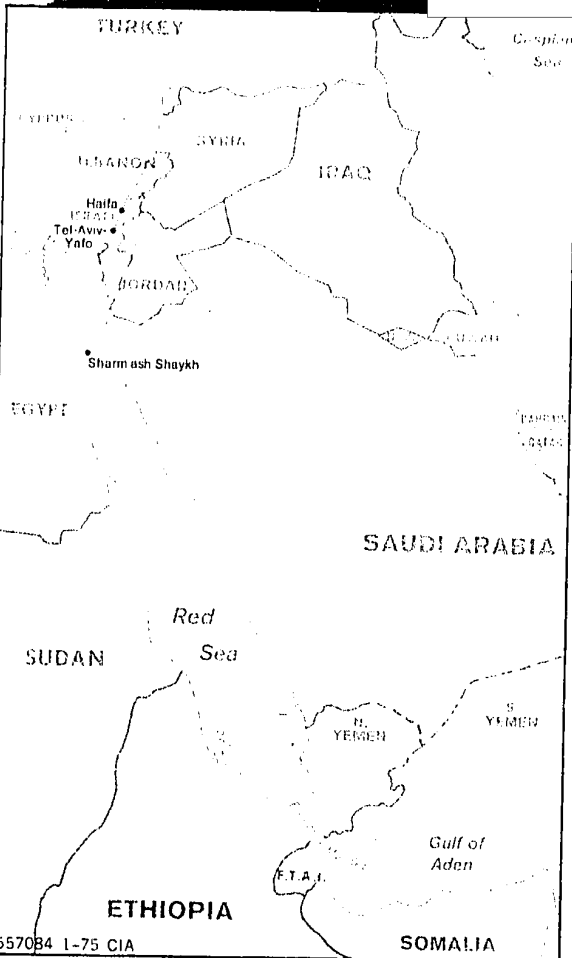
ISRAEL: MORE GUIDED MISSILE BOATS

Over the next few years, the Israeli navy plans to increase its fleet of Reshef-class guided-missile patrol boats from six to twelve vessels. Construction of the first of the additional craft is to begin at the Haifa shipyard in April; launching will probably not occur before late next year or early 1977. The Israeli navy chief told the US naval attache in Tel Aviv in mid-November that he was able to obtain funds for the boats only after a long and heated debate among Israeli defense officials.

Israel has already built five Reshef-class boats, and the sixth is nearing completion. The Reshefs were specifically designed to operate in the Red Sea, and four are stationed there now. Tel Aviv had originally planned to send all six of the original Reshefs to the Red Sea, but the remaining two boats will apparently be assigned to the Mediterranean.

The Reshef is based upon the smaller French Saar-class guided-missile boat, but is more heavily armed and has been modified to permit long-range operations at sea. The Reshefs can carry as many as eight Gabriel anti-ship missiles, of which the Israelis are currently producing at least one version with a range of 11 nautical miles. Another version of the missile with twice this range has been under development in Israel for several years and may also be in service with the Israeli navy.

Israel has long been concerned about Egypt's ability to close the Red Sea to ships carrying Israeli cargoes. Israel had no Reshef boats in the Red Sea during the last Middle East war and was unable to challenge the Egyptian navy's blockade of the Bab el Mandeb. The Reshefs now stationed in the area will be able to operate in the Bab el Mandeb, although they will be beyond the range of continuous Israeli air cover.



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ETHIOPIA: CONCESSIONS ON ERITREA

The ruling military council is taking steps to carry out its recently announced decision to pursue a peaceful solution to the insurgency in Eritrea Province. On January 5, the council announced substantial concessions to Eritrean tribal and religious notables. The local leaders, who apparently have been in contact with the insurgents, had presented a list of demands to government representatives in Asmara last week. Despite the government's concessions, some elements of the Eritrean Liberation Front have rebuffed the council's offer to negotiate a political settlement.

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 provincial leaders had demanded that the government confine troops to barracks and stop all military operations in the province. The council also agreed to review the cases of all Eritrean political prisoners and held out the prospect of granting them amnesty or reducing their sentences; the council excluded prisoners charged with murder or other serious criminal offenses. The local leaders had asked for the release of all Eritrean political prisoners.

In response to a demand by the notables that Eritrean students be excluded from the government's nationwide rural development program, the council said it would make "special arrangements" for Eritrea. The council also met an Eritrean demand that it publicize the meetings in Asmara. Previously, the government-controlled media had not reported the sessions.

The council sent Information Minister Mikael Imru to Asmara to convey personally to the local leaders its reply to their demands. In its statement, the council said the local leaders were authorized to contact "Eritrean insurgents" and to convey to them the need for a peaceful solution to the conflict. This was the first time an Ethiopian government has referred to Front members as insurgents; previously they had been labeled "bandits."

Last week, before making these concessions, the council had agreed to hold direct negotiations

with the rebels, meeting a key demand of the local leaders. The provincial notables, in return, agreed to urge the insurgents to accept a cease-fire. Local leaders are alleged to have already begun talks with the insurgents regarding a possible truce and direct negotiations between them and the council.

According to initial press reports, exiled leaders of one of the Front's two major factions issued a statement in Cairo on January 6 refusing to negotiate with the council except to arrange for the withdrawal of army troops from the province. Leaders of this group reiterated their demand for complete independence for Eritrea and said their group was ready to increase its combat operations. This group does not speak for the entire Front, however, and the insurgents who reportedly have been holding talks with the local Eritrean leaders may not have approved the Cairo statement.

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ANGOLA: GETTING TOGETHER

The leaders of Angola's three rival liberation groups are to meet this weekend with officials in Portugal to discuss formation of a transitional government that Lisbon hopes will lead Angola to independence this year. The nationalist leaders now appear willing to set aside, if only for the time being, their long-standing personal and political differences in order to revive the flagging decolonization effort in the territory.

Following two days of talks last weekend in Mombasa, Kenya, the three leaders—Holden Roberto of the National Front for the Liberation of Angola, Agostinho Neto of the Popular Movement for the Liberation of Angola, and Jonas Savimbi of the National Union for the Total Independence of Angola—issued a joint communique in which they pledged to work together for an independent, democratic, and multiracial Angola. In a separate agreement, the two most important nationalist chiefs, Roberto and Neto, who have been archrivals for more than a decade, promised to end all hostile political and military actions against each other.

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During the years of insurgency in Angola, armed clashes sometimes occurred between the two groups. Since the coup in Lisbon last year, the two men, supported by rival foreign patrons, have waged an incessant propaganda battle against each other. For the past year or so, Roberto has assisted a faction within Neto's organization that has unsuccessfully sought to oust Neto from leadership of the Popular Movement.

The Mombasa communique gave no details on how the three leaders are likely to deal with a number of difficult issues that seem sure to provoke hard bargaining at the session with the Portuguese. In the short time devoted to the talks, they could hardly have concerted their positions on such matters as ground rules for political activity and how their groups will share military and security responsibilities during a transitional period. Nor, in all probability, did they give much thought to the future of Angola's 500,000 fearful whites—a prime concern of Lisbon. The insurgents' basic position is that the territory's whites should cease considering themselves a separate power bloc and should join one of the three liberation groups.

The Mombasa agreement did suggest, however, that the rival leaders may at last be ready to enter a transitional government, a development the Portuguese have been trying to bring off for some time. Until now, each of the three nationalists has refused to share power with the others in the hope that he could maneuver himself into a dominant position at the outset of a transitional government. Such a position, each reasoned, would go a long way toward securing his political supremacy upon independence.

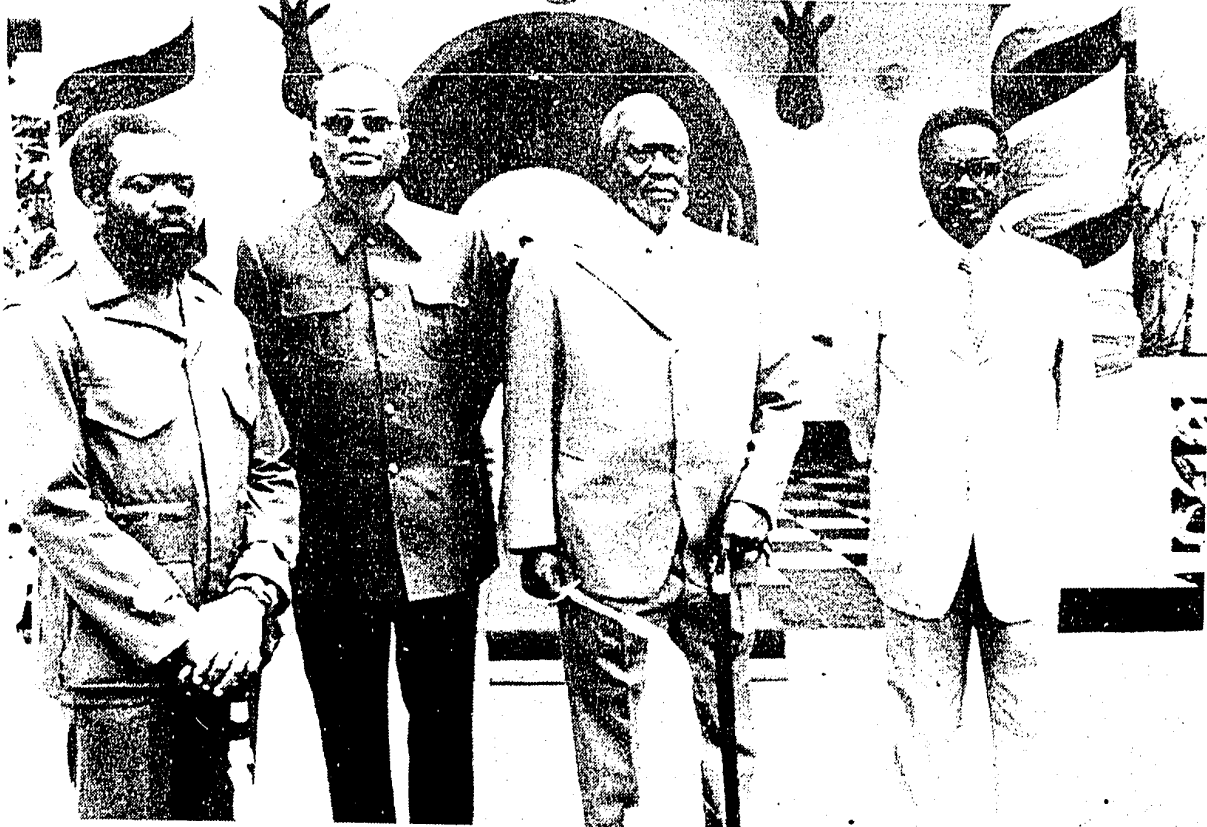
Despite the modest step forward represented by the Mombasa accord, cooperation among the rebel leaders could be short lived. The personal ambitions and conflicting political ideologies of Roberto and Neto, and the deeply rooted ethnic antagonism between the groups they lead—representing two of Angola's largest and most powerful tribal communities—are likely to impose severe strains on a transitional government. How serious the rebel leaders are about avoiding these strains should become more evident during their coming negotiations with the Portuguese.

Jonas Savimbi

Holden Roberto

President Kenyatta

Agostinho Neto



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CAMBODIA

Fighting Back Around Phnom Penh...

The war remains within earshot of Phnom Penh as government forces slowly push the Khmer Communists back from the city's outer defenses. Despite some shaky moments early in the week, the Cambodian army's 7th Division, with the help of heavy air support, has now blunted a major Communist drive against the capital's northwestern defenses. Nearby government units along Route 5 are holding their ground, including the oil depot at Prek Pnou. The facility is within range of insurgent gunners, however, as are some parts of the capital itself.

COMMUNIST GAINS ALONG THE LOWER MEKONG HAVE BEEN SUBSTANTIAL, AND THE THREAT TO SHIPPING HAS FORCED THE DELAY OF A RESUPPLY CONVOY. ALTHOUGH THE SUPPLY SITUATION IN THE CAPITAL IS NOT YET CRITICAL, CIVILIAN AND MILITARY MORALE MAY SUFFER IF A CONVOY DOES NOT STEAM NORTH SOON.

West of Phnom Penh, a Communist effort to drive through government positions near Route 4 has foundered. Army units late last week cleared Communist troops from several roadside villages within ten miles of Pochentong airport, and since then armored units supported by air and artillery strikes have inflicted heavy casualties on insurgent forces caught in the open terrain on both sides of the highway. At week's end, some insurgent units were withdrawing from this area although the airport remained the target of sporadic and ineffective rocket attacks.

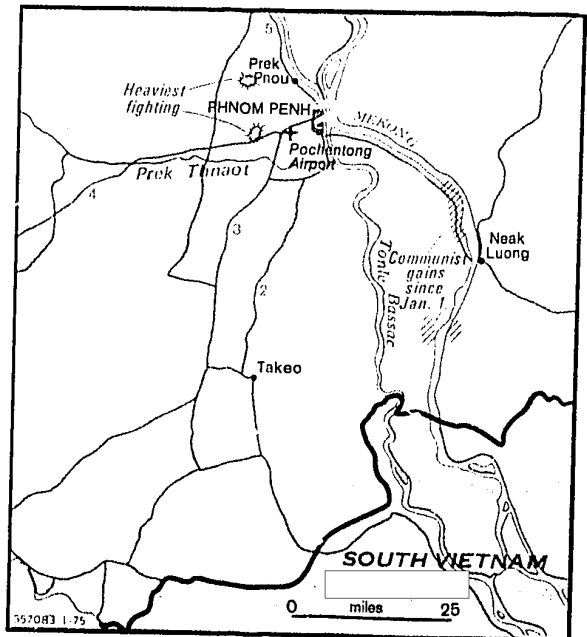
...But Not Along the Mekong

The fighting around Phnom Penh has effectively diverted government attention from the lower Mekong River where Communist gains have been substantial. Insurgent forces now control

most of the riverbank south of the navy base at Neak Luong and at least nine miles of Route 1 paralleling the river north of Neak Luong. Early this week, the threat to shipping forced the government to delay the resupply convoy scheduled to make the run upriver from South Vietnam.

A temporary closure of the Mekong will work no immediate hardship on either the armed forces or Phnom Penh's civilian population. Rice and most fuel stocks in the capital are sufficient to meet all needs for over a month, and enough ammunition has been stockpiled to sustain a heavy level of fighting for almost six weeks. Past experience, however, shows that civilian and military morale is affected when stocks sink low, and the government will probably have to order a convoy north soon. Until ground units are able to retake some of the lost riverside positions, the air force and navy will have to bear sole responsibility for convoy security.

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Nui Ba Den
(Black Virgin Mountain)

VIETNAM: SAIGON SUFFERS SETBACKS

Communist forces completed the take-over of Phuoc Long Province by seizing the provincial capital of Phuoc Binh early this week. The Communists have long controlled most of the remote areas of the province and captured the three outlying district capitals during the past few weeks. The province capital withstood six days of tanked ground assaults supported by heavy bombardments from mortars, rockets, and artillery before the 1,200 or so defenders were forced to abandon their positions.

When the Communist dry-season campaign began in early December, South Vietnamese commanders in Military Region 3 decided that they would not commit their regular forces to defend remote outposts or isolated towns such as Phuoc Binh. The Montagnard territorial forces defending Phuoc Binh put up a stubborn defense, however, inflicting heavy casualties on Communist troops and armor. After three days of intense fighting, the government sent a token force to the beleaguered town to reinforce the defenders and boost morale. To take some of the pressure off the defenders, the South Vietnamese also increased air strikes in the area in hopes of destroying North Vietnamese gun emplacements and armor. Air resupply initially was successful, but North Vietnamese anti-aircraft defenses intensified and forced the aircraft to drop supplies from such high altitudes that most fell outside the town's defenses.

The attacks on Phuoc Binh may set the pattern for future North Vietnamese operations

during the dry season. The initial assaults were conducted by Communist local forces supported by heavy artillery. When these attacks proved unsuccessful, the North Vietnamese committed main-force units supported by both artillery and armor. The large number of rounds fired against Phuoc Binh and the three district towns suggests that future government targets will experience a heavy pounding prior to infantry assaults.

Shortly after Phuoc Binh was captured, the South Vietnamese also lost their communications and observation site atop Nui Ba Den—Black Virgin Mountain. The elimination of this government position just outside of Tay Ninh City does not give the Communists much of an additional military edge in the Tay Ninh area since the slopes of the 3,000-foot mountain have long been in their hands. It does, however, represent something of a psychological reverse for the government because the mountain is considered sacred by the dominant Cao Dai religious sect in Tay Ninh.

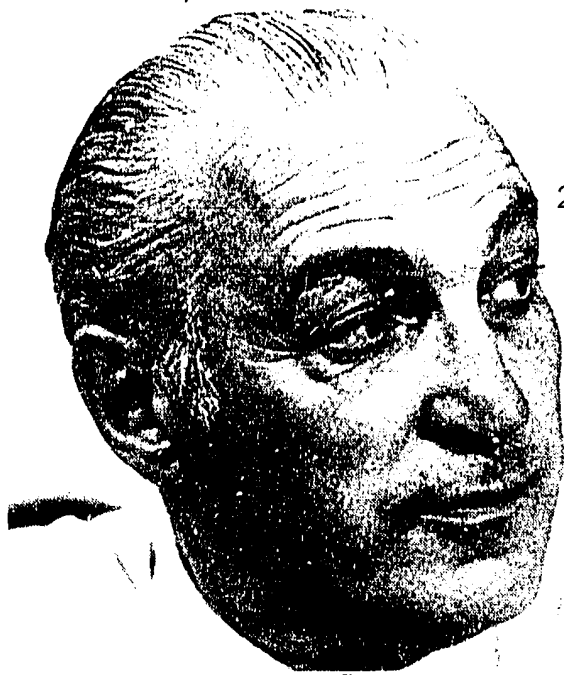
These latest Communist attacks may have been intended to gauge the willingness and the ability of South Vietnamese forces to hold a target against heavy North Vietnamese assaults.



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Lopez Rega

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usher in a period of instability that might necessitate their active intervention. The generals want to avoid another period of unconstitutional rule,

Even before these changes, the papal nuncio in Buenos Aires had told the US ambassador that Mrs. Peron was no longer turning to him for spiritual advice and that "she now is completely under the domination of Lopez Rega." Certainly many Argentines believe that Lopez Rega has too much influence over the President. If he continues to assert himself, greater efforts are likely to be made to force his ouster even at the risk of Mrs. Peron's resignation.

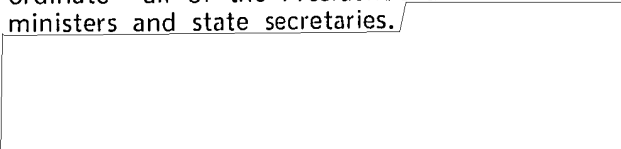
ARGENTINA: ELEVATING LOPEZ REGA

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Recent changes in President Peron's staff strengthen the power of Lopez Rega, the controversial minister of social welfare, creating almost certain alarm among military leaders, and within the opposition parties, and even the Peronist movement.

The ambitious minister, who serves as mentor to the President, will head a newly restructured presidential secretariat that will "coordinate" all of the President's audiences with ministers and state secretaries.

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Cabinet ministers who have voiced resentment over Lopez Rega's interference and overshadowing position will see his new post as increasing his power to isolate the President and control governmental decision making. The military high command also can be expected to react negatively and possibly to step up pressure for Lopez Rega's removal. There are growing signs that army leaders want him eased out. They apparently are uncertain about how to proceed, however, particularly since any move against Lopez Rega might cause Mrs. Peron to resign. The military fears that such a development would

LATIN AMERICA: SEEKING NEW ALLIANCES

Disarray in inter-American affairs and Latin American skepticism about US sincerity in hemispheric relations are increasing the attraction to the Latin American countries of forms of union or association that exclude the US.

The upbeat mood that was created last year by US offers of a new dialogue will be difficult to recapture at pending inter-American conferences. Some of the more nationalist governments have strayed so far from a spirit of cooperation that they are proposing formal charges against the US for alleged economic aggression. This maneuver, led by Venezuela and Ecuador, will probably not prosper now that US leaders are trying to correct the discriminatory legislation that triggered the reaction. Still, several governments are sympathetic with Ecuador's suggestion of a boycott of the meeting of the hemisphere's foreign ministers set for Buenos Aires in March, and there is some chance that this meeting will fail to come off as planned. Even friendly Uruguay has criticized the non-productiveness of this kind of forum and has questioned the value of having both a foreign ministers meeting and an OAS General Assembly this spring.

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Despite broad disappointment in the OAS, many Latin Americans have come to feel that the non-institutional, informal meetings with the US secretary of state are even less promising. They would prefer to have US commitments occur within a structural framework, and they will probably make a strong effort to loosen up the many rigidities and cumbersome procedures of the OAS to make this a more useful, dynamic organization.

Achieving consensus on how the US and Latin America can form a working partnership may, however, be impossible during this period of friction. The US is still under heavy criticism about the continuing sanctions against Cuba, and bilateral difficulties seem likely to arise with some governments over US restrictions against exports to Cuba. Intelligence activities are still in the Latin American news and will probably become an even more important topic after the publication of the Spanish version of a new "exposé" by a former US intelligence agent. Various broad issues under discussion in hemispheric working groups remain unresolved, largely because the Latin Americans believe the US is reluctant to promise them assistance that might be politically

or economically unwelcome to US private industry. Particular bilateral frictions involve a wide range of disagreements over such matters as arms procurement, voluntary export restraints, immigration, and trade.

Overall, Latin Americans feel the US is becoming increasingly distant, and they are exploring ways to pursue their interests without expecting generosity from Washington. Cooperative efforts outside the traditional vehicles such as the OAS therefore are having greater appeal. Venezuela and Mexico, for example, have begun to receive a more positive response than first met their call for an economic system embracing Latin America and excluding the US.

A number of Latin American summits have taken place recently and more are scheduled during the course of this year. They will be aimed at unifying Latin America and stepping up pressure on the US and the rest of the developed world to change policies that the underdeveloped consider discriminatory.

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BOLIVIA: LOOKING WESTWARD

The Bolivian government is reaping political and economic gains from the continuing tension between its western neighbors, Chile and Peru. Two months ago, President Banzer imposed additional dictatorial controls on the grounds that he had to prepare for a potential Andean conflict that could involve Bolivia's national security. Since then, he has obtained major economic concessions from Chile, and his cordial meeting with President Velasco in Lima last month may lead to closer diplomatic ties with Peru.

While Banzer stands little chance of securing his long-sought goal of access to the sea through either country, he has persuaded the Chilean junta to revise the 1937 treaty regulating transit

of Bolivian goods through the ports of Arica and Antofagasta. The Chileans have lowered fees for their port services below the break-even point and have constructed two oil storage tanks for the Bolivians at Arica.

This warming trend, combined with Bolivia's new economic muscles of oil and natural gas, could reorient Banzer and his successors away from a traditional dependence on Brazil and Argentina. Although trade relations are still close, the Bolivians have recently displayed a coolness and independence of spirit toward both of their eastern neighbors in current economic negotiations.

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