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Prospects for Indonesia

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The following intelligence organizations participated in the preparation of this estimate:

The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, and NSA.

Concurring:

Director of Intelligence and Research, Department of State
Director, Defense Intelligence Agency
Director of the National Security Agency

Abstaining:

The Atomic Energy Commission Representative to the USIB and the Assistant Director, Federal Bureau of Investigation, the subject being outside of their jurisdiction.

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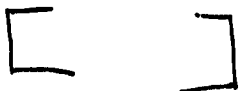
Prospects for Indonesia

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PROSPECTS FOR INDONESIA

THE PROBLEM

To examine the major trends in Indonesia and to estimate probable developments, taking into account implications of the campaign against Malaysia.¹

CONCLUSIONS

A. President Sukarno remains virtually all-powerful in Indonesia and there is almost no chance that his rule or his policies will be effectively challenged by any group, movement, or individual during his lifetime. Neither increased economic stringency nor dissidence in the outer islands is likely to threaten Sukarno's position seriously. (*Para. 3*)

B. Over the past year Sukarno has tended to reinforce the position of the Indonesian Communist Party (PKI) and reduce the political influence of the military. Although PKI influence in the government remains relatively limited, it is likely to continue growing as long as Sukarno remains in power. Sukarno does not seek to establish PKI dominance but, over the long term, to fuse it with other radical and nationalist elements that he has slowly drawn into supporting his objectives. The PKI, well aware of his tactic, will probably continue ostensibly to support Sukarno, in the belief that in the long run the Communist cause will be the chief beneficiary of the economic, social, and political disarray he will bequeath to Indonesia. (*Paras. 2-14*)

¹ See also NIE 55-63, "Indonesia's International Orientation," dated 10 April 1963; and NIE 54/55-63, "The Malaysian-Indonesian Conflict," dated 30 October 1963. The judgments in both estimates remain essentially valid.

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C. Sukarno's campaign to disrupt Malaysia—"confrontation"—has helped accelerate the drift toward the radical left and will do so further if, as seems likely, the campaign continues. Sukarno will probably continue to seek to avoid open hostilities with British Commonwealth forces, because of the uncertainty of victory. A decisive trend in the struggle in South Vietnam, either way, would have some effect upon political forces in Indonesia and upon the pitch of the anti-Malaysia campaign. But, in any case, the mainsprings of Sukarno's foreign policy actions will continue to be found primarily in purely Indonesian considerations. (*Paras. 1, 33, 36*)

D. Confrontation has speeded the deterioration of the Indonesian economy. The most serious short-term problems are growing shortages of foodstuffs and other consumer necessities, and a heavy balance of payments deficit; prospects for improvement are not bright. The political impact has thus far been slight, but if food shortages persist, the problem of maintaining public order in urban areas could become serious. (*Paras. 17-32*)

E. These developments will probably not lead to any marked changes in Indonesian foreign policy over the next few years. Indonesia's growing cordiality with Communist China will probably continue, based on a near identity of short-term interests in the Afro-Asian world. The USSR, clearly disappointed by its failure to achieve predominant influence in Indonesia, even in the PKI, possesses only limited influence with Sukarno despite its vast military assistance to confrontation. (*Paras. 34-35*)

F. The road ahead for Indonesia is a troubled one of domestic deterioration, external aggression, and overall Communist profit. This prospect will not brighten until and unless Indonesia's energies are turned from foreign ambitions, which probably include Portuguese Timor and, in due course, the rest of New Guinea, and are devoted to the development of this potentially rich country. It is unlikely that such a shift will occur so long as Sukarno dominates Indonesia. (*Para. 37*)



DISCUSSION

I. INTRODUCTION

1. President Sukarno's campaign against Malaysia—"confrontation"—continues to dominate Indonesian foreign policy. Confrontation has come to encompass the use of all means short of overt hostilities to detach the territories of northern Borneo from Malaysia and drive the British from Southeast Asia. Confrontation also serves to bolster Sukarno's claim to be a leader of the "new emerging forces" of the underdeveloped world and provides him with justification for his buildup of Indonesian military power. Like the West New Guinea campaign which it followed, confrontation has worsened the relations of Indonesia with the Western powers and increased its inclination toward the "socialist camp" upon which it now depends almost exclusively for military equipment and political support. Yet despite this dependence and an almost complete identity of positions on most cold war issues, Sukarno has managed to remain politically independent of the Communist world and to retain most of his links with the West.

2. Within Indonesia, Sukarno has also sought to maintain a balance between Communist and non-Communist forces, in this case the Indonesian Communist Party (PKI) and the Indonesian military, the only significant contenders for political power. There has been, however, a steady accretion of Communist influence with Sukarno's acquiescence, especially over the past year. To some extent, this drift to the left is attributable to Sukarno's need to protect his personal position against Communist attempts to exploit growing economic discontent. There is, however, a high degree of volition to Sukarno's support of the PKI, stemming mainly from his basic philosophic commitment to authoritarian and socialist forms of government, and from an obsessive anti-colonialism that has found its most powerful allies among Communists. These factors have induced Sukarno to increase Communist participation in the government and further to intimidate political moderates and potential dissenters. In the context of confrontation, which is strongly supported by both the PKI and the military, Sukarno is able to take such actions in the name of national unity.

II. THE POLITICAL SITUATION

3. *Sukarno.* Sukarno remains the unchallenged leader of Indonesia. Although his personal popularity has been on the wane for several years, he retains two key assets in maintaining his controlling position: a mystique among Indonesians stemming from his role as the leader and symbol of the Indonesian revolution; and a consummate skill in the manipulation of individuals, groups, institutions, and issues. Neither the PKI nor the military is prepared to challenge his political pre-eminence, and Sukarno continues to be successful in balancing them against each other while retaining for himself the controlling power



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position. Nor does the nation's economic distress yet constitute an immediate danger to him. Faced with the police controls of a "guided democracy" and bemused by the nationalistic uproar against Malaysia, most Indonesians appear to have passively accepted economic stringency. The recent increase in armed dissidence in the Celebes poses no real threat to Sukarno's position. The Army is moving vigorously to suppress the rebels and will probably succeed shortly in confining them to the hilly interior. There are very minor problems of armed dissidence in Ceram and potential trouble spots in Sumatra and West Irian, but none appears likely to develop into a serious security problem.

4. *The Armed Forces.* The Indonesian military leadership is basically a conservative force; in foreign affairs it is ultranationalist and in domestic affairs it is interested primarily in maintaining the considerable economic and political position it has won over the past decade. While overwhelmingly non-Communist, its opposition to the PKI is based more on its desire to safeguard this position than on ideology. Though the military leaders retain considerable power, they have lost many of their political prerogatives and government positions over the past year or so, mainly because Sukarno views them as a greater potential threat to his achievement of absolute power than the PKI and has accordingly acted to erode their position.

5. Until recently, the Defense Minister and Chief of Staff of the Armed Forces, General Nasution, as the most prominent spokesman for the military, has been a major force in Indonesian politics. He is basically loyal to Sukarno whom he sees as the irreplaceable leader of the nation, but he has always been opposed to any encroachment on Army interests, especially Sukarno's efforts to enlarge the PKI's role in national life. A series of cabinet reshuffles following the death of First Minister Djuanda in late 1963 moved Nasution from the inner circle of top policymakers to a position below that of three Vice Prime Ministers, who, with Sukarno, now comprise the Cabinet Presidium. The realignment also introduced pro-Communist elements into the Cabinet and reduced the number and status of portfolios held by the military.

6. Perhaps Sukarno's most important step in reducing Nasution's influence has been to raise the status of the more pliable Army Chief of Staff, General Yani, a former Nasution protege. Since early 1962, Yani, whose professional ability is highly respected, has had the direct control of the Army once held by Nasution; he has been given a leading role in the Malaysian confrontation; and, most important, he is "in" with Sukarno. Yani, although reputed to be anti-Communist, has acquiesced, apparently for opportunistic reasons, in the removal of certain militantly anti-Communist regional commanders, and has shown a tendency to accommodate to the leftists. Nasution's passive acceptance of these actions and Yani's personal ambition have weakened the military as a force capable of arresting the apparent slide toward the left []

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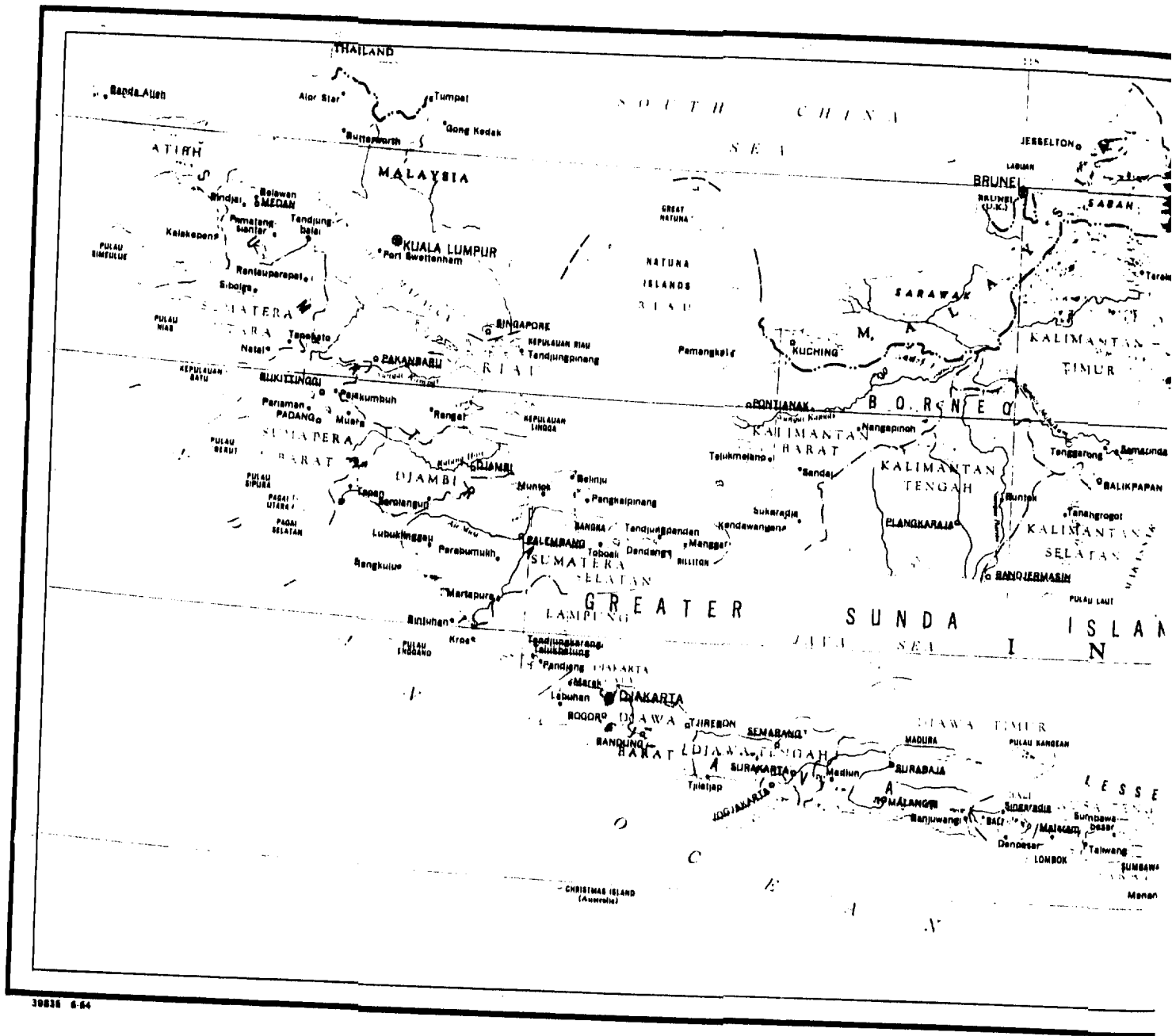
7. The military leadership still exerts a prominent and influential administrative role. Officers occupy many positions in central government organs and participate fully in local government. In certain regions outside Java, regional commanders continue to exercise predominant political power and in many cases have moved to check the PKI. PKI penetration of the armed forces is probably minor among officers; perhaps a few hundred are under Communist influence. We lack information from which to estimate Communist influence within the lower ranks. The greater danger to the position of the military, however, is that it will continue to accept Sukarno's whittling away of its political influence to the point where it cannot or will not oppose any of his policies.

8. *The Indonesian Communist Party.* The PKI is the largest and best organized political party in Indonesia. It has a young and vigorous leadership and now claims 3,000,000 members. The total membership of its principal front organizations—SOBSI (labor), BTI (peasants), *Pemuda Rakyat* (youth), and *Gerwani* (women)—is even greater. The PKI also controls, dominates, or has heavily infiltrated other leftist political parties, including some small ones close to Sukarno, and such quasi-political groups as *Baperki*, comprised of ethnic Chinese. Above all, over the past decade, the PKI has exploited nationalistic issues and Sukarno's benevolence to gain a respectability scarcely approached by a Communist party in any other non-Communist country.

9. Although the PKI did not achieve its long sought goal of overt cabinet membership in the reshuffle of late 1963, pro-Communists gained the posts of Minister of Justice, Minister of the Central Bank, and Minister assigned to the Cabinet Presidium. Under the new Justice Minister, the judicial system (which has been nothing more than an arm of the executive in recent years) is being systematically opened to Communist manipulations, particularly in connection with plans for administering the complex and poorly conceived land reform law. Sukarno has urged the Justice Minister "to retool (i.e., replace) all legal personnel who fail to understand the elements of the revolution and especially those who oppose it." The third mentioned pro-Communist minister, an ethnic Chinese, has access to inner Cabinet proceedings. Sukarno has also replaced certain anti-Communist governors and confirmed the PKI as the dominant policy voice in the management of *Antara*, Indonesia's government (and only) news agency. PKI influence has also become stronger in the secretariat of the National Front, the quasi-official federation of all political parties and mass organizations in Indonesia.

10. While ostensibly backing Sukarno on most issues, the PKI has taken a more aggressive course in the past year. It has renewed its campaign for representation in the cabinet and greater participation at all levels of government and has attacked the government's economic policies, focusing on shortages of food and consumer goods, inflation, and neglect of the peasantry. These pressure tactics and the patriotic cover offered by its shrill advocacy of confrontation, have facilitated PKI infiltration into various elements of Indonesian society. Under the guise of achieving national goals, the party has also taken the lead

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in discrediting the Western political position in Indonesia and in agitating
against Western economic investment. []

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11. Despite its considerable gains, the PKI can still exert only limited influence on formulation of national policy and control of government machinery. Communist membership in policymaking bodies is small and usually only advisory in nature. Sukarno has been slow to give the PKI increased representation in government and will probably continue to be so. On the other hand, even limited participation in the government associates the party with government policies, blunts its ability to open full-scale attacks on the government's gross mishandling of the economy, and tends to reduce the revolutionary zeal of party members. Nevertheless, the party continues to view the policy of cooperation with Sukarno as in its best short-term interest.

12. The PKI is now clearly committed to the Peiping side in the Sino-Soviet dispute; the major differences within party councils now revolve around the precise degree of contact to be maintained with the CPSU. The views of the PKI and, for that matter, of Sukarno, on the necessity for militant support for "national liberation" movements accord well with those of Peiping. This congruence of views, more than any other single factor, accounts for Sukarno's current flirtation with Peiping, his benevolence toward the PKI, and the growing coolness in Djakarta toward Moscow.

13. *Prospects.* These trends are unlikely to change significantly over the next year or so. Sukarno will remain the prime mover, with nearly absolute power of decision in both domestic and foreign affairs. He will continue to seek the eradication of Western influence in Indonesia and its environs, and the expansion of Indonesia's and his own prestige and influence. For these purposes, he will seek support at home and abroad wherever he can find it. Sukarno will need the PKI to handle his agitprop chores, to help bring recalcitrant moderates into line, and to balance the influence of the military. He hopes ultimately to fuse the PKI with other radical and nationalist elements that have gradually been drawn into supporting his objectives. At the same time, he will need the military to maintain public order, implement his expansionist policies, and provide insurance against a PKI bid for power.

14. The PKI will probably continue to move essentially in tandem with Sukarno. To be sure, the party will seek to add to its popular appeal by criticizing government economic policies and portraying itself as the spokesman of the deprived. It will force the pace of the nationalization of Western assets. As long as Sukarno remains in active control of Indonesia, however, the PKI will almost certainly maintain a basically nonviolent course. It does not have the organization, training, or broad geographic base to seize power, and any attempt to do so would probably fail because of the superior force of the Army and Sukarno's substantial popularity. Even if successful in seizing power in its Java-

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nese stronghold, the party would face the certainty of rebellion in the rich outer islands and the possible fragmentation of the Indonesian state. The PKI leaders apparently hope that somehow, while the party is still under Sukarno's protection, it will become so deeply entrenched in the government that, when Sukarno leaves the scene, the military will have no choice but to acquiesce in a continuation of the PKI's role. Any sudden shift in party tactics before Sukarno's death would probably be in response to provocation, e.g., an Army crackdown.

15. *The Succession.* In the event of Sukarno's death, incapacity, or—as seems highly unlikely—his removal from office within the next few years, the most likely successor government would be a non-Communist military and civilian group. The military would probably exercise much greater authority than at present because its support would be essential to the maintenance of public order. The PKI, restrained by its limited potential for insurgency and its desire to avoid provoking the Army into a complete takeover, would announce support for a speedy civilian succession. A period of political ferment would be likely, during which competing forces, including political groups now in eclipse or outlawed, would jockey for position. The PKI would seek to strengthen its alliances with non-Communist opportunists, like Subandrio, with whom it has already developed mutually profitable relationships. The resultant political interplay would provide opportunities for a realignment of domestic political forces. The outcome cannot be estimated.

16. It is unlikely that Indonesian domestic or foreign policies would change in any major way, at least initially. The drive toward socialization might slacken, but the aggressively nationalistic doctrines of the Sukarno era, the broad commitment to regional hegemony, and the desire to remain on good terms with its chief military supplier, the USSR, would persist and hinder any shift toward pro-Western positions in foreign policy. The new leaders would probably continue to focus on appeals to nationalist emotions rather than on efforts to solve practical problems, and would probably persist in the confrontation campaign even if only in low key. Lacking Sukarno's unequalled gifts for sloganeering and expansionist campaigns, they might be unable to contain the economic discontent and the regional separatist pressures that he has kept under control.

III. THE ECONOMIC SITUATION

17. *Trends.* Confrontation has greatly aggravated Indonesia's chronic problems of economic mismanagement, inflation, declining industrial production and falling raw material exports, foreign exchange shortages, and the growing burden of repayment obligations. The heaviest economic burdens of the campaign against Malaysia have been the cessation of legal trade with the Singapore entre-

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18. The immediate economic impact on confrontation fell most severely on exports of smallholder rubber from northern Sumatra and Borneo which had formerly been taken to Singapore for processing and sale. Initial trade losses were very heavy, but Indonesia has managed to move much of the rubber directly to overseas markets and smuggling has further reduced stocks on hand; the loss in earnings may no longer be very great. Estate rubber exports, usually shipped directly to consumers, were not affected, but production has been reduced by the seizures of some British plantations. Tin output has declined severely and tin earnings even more because of the increased costs incurred in shipping ores to the Netherlands for smelting rather than to nearby Penang. Foreign exchange earnings have also suffered because of inadequate shipping facilities to replace those once supplied by Singapore traders to move Indonesian cargoes.

19. These short-term effects of confrontation have intensified more fundamental problems in the economic sphere. Foreign trade in 1963 dropped 18 percent below 1962: exports dropped 5 percent, and imports, including much needed machinery, spare parts, and industrial raw materials, dropped 30 percent. A commodity trade surplus of \$189 million was not sufficient to offset transport costs, remittances by foreign enterprises, and other services, plus a substantial capital outflow in debt repayments. The result was a heavy deficit in balance of payments which was met through foreign aid and drawing on gold and other foreign exchange reserves. Total reserves at the end of 1963 were only \$96 million, less than one-fourth of the figure in 1960 just before the West New Guinea crisis. Reserves may now be close to the vanishing point.

20. With declining exports, a debt repayment burden estimated at \$190 million per year,² and a rice import requirement of at least \$100 million, the avenues open to Indonesia in balancing its international payments are limited: imports could be cut even further; it could demand further rescheduling of payments; or it could default on its debts. Least likely of all, it could abandon the truculent posture toward Malaysia which has cost it Western financial assistance.

21. As is the case with other underdeveloped countries the revenues of the Indonesian Government depend heavily on foreign trade. Declining trade has meant increased budget deficits to be met by borrowing from the Central Bank—i.e., the printing press—and inflation is rampant. In the six months following the September 1963 announcement of confrontation, the money supply increased 50 percent and the cost of living 120 percent.

22. To the average Indonesian, the problem of rising prices and commodity shortages focuses on food. Production of foodstuffs in Indonesia, always highly inefficient, has not kept pace with population growth, and per capita consumption is steadily declining; the point may have been reached at which severe food shortages in certain less-favored agricultural areas of Java could become a regular occurrence between the October and April harvests. There was some

² Indonesia's total foreign debt is \$1.0 billion. \$900 million is owed to Communist countries, mainly for military equipment, and \$188 million to the US.

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starvation in eastern and central Java and on Bali earlier this year. Deficiencies in food production are aggravated by increased demand and a poor distribution system. Military activities in Borneo and the inclusion of West Irian and the islands of the Riau Archipelago (off Singapore) in the government distribution area during the past year compound the problem. The government is trying to supplement the domestic rice harvest by importing about one million tons annually at a cost of \$100 million or one-fifth of total import expenditures. There is little prospect of procuring additional rice and other foodstuffs under long-term credit arrangements or of allocating much more of the scarce foreign exchange to foodstuffs. Thus far, however, the food shortage has apparently had little political impact.

23. The decline in the economy almost certainly cannot be halted without extensive foreign assistance, especially to finance imports of food, consumer goods, and industrial raw materials. Prospects in this regard are poor. Communist China cannot and the USSR probably will not make the required heavy and continuing expenditure, although Peiping has agreed to deliver 30,000 tons of rice in 1964 under a commercial arrangement involving no cash payment and the USSR will almost certainly provide some assistance, such as liberalized credit for Indonesian purchases. Confrontation has removed the once-bright prospect of a coordinated Western program of financial assistance [] A recent effort to secure this type of aid in Western Europe alone has apparently failed.

24. *Foreign Aid and Investment.* Economic aid from the Bloc is now almost entirely confined to specific development projects, though local currency shortages have caused many of these to be postponed. The Communist countries have rescheduled Indonesia's repayments for the vast amount of military hardware provided over the past several years, but repayment obligations remain substantial—\$25 million annually in the case of the USSR.

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30. It is the stated policy of the Indonesian Government—for which the legal framework already exists—that direct foreign investment shall be gradually eliminated. New foreign investment is limited to production-sharing ar-

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rangements, an Indonesian device for obtaining foreign capital on a medium-term, self-liquidating basis. The time span for nationalization of existing direct foreign investment varies from 15 to 30 years, depending on the company involved, but the pace could be quickened by political developments. Agricultural estates are particularly vulnerable to takeover, and complete nationalization of these holdings is likely to come first. Least vulnerable are the foreign oil companies, now operating as contractors to the Indonesian Government under recently signed agreements.

31. *Prospects.* The Indonesian economic situation will continue to deteriorate. Far-reaching internal reforms and large-scale foreign aid are necessary to halt the decline, but these requirements will almost certainly not be met. As long as confrontation is continued, Western countries are not likely to extend the economic assistance needed. Neither the USSR nor other Communist countries are likely to fill the financial gap. Improved distribution methods and increased agricultural efficiency could, in time, reduce the need for heavy rice imports and thereby release substantial foreign exchange for other urgently needed imports. However, there is little chance of any immediate improvement in this respect.

32. The rural masses, who make up about 80 percent of the Indonesian population and to a large extent comprise a subsistence economy, will probably remain passive in the face of economic distress. Urban living standards will probably continue to drop rapidly in the absence of substantial outside aid. In the cities, the problem of public order could become critical if food shortages persist and public services continue to deteriorate. If so, the normal governing process might cease to function, and martial law might have to be declared. The Communists would greatly benefit if troops became involved in heavy-handed suppression. The economic situation may contribute to dissidence in the outer islands, as Djakarta continues to exploit their natural resources for the benefit of the Javanese economy. []

IV. FOREIGN POLICY

33. *Confrontation.* We believe that Sukarno intends to continue confrontation, at varying levels of intensity, until the way is opened for the achievement of his objectives, through the withdrawal of Commonwealth forces from Borneo or the weakening of the Kuala Lumpur government. In carrying out his campaign, Sukarno will seek to avoid provoking open war, but he may miscalculate the UK response to his actions. []

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34. *Prospects.* Over the next few years, we look for a continuation of confrontation and the drift to the left which has accompanied it. Indonesia's growing cordiality toward Communist China will probably continue; it is based on a near identity of short-term interests in the Afro-Asian world and Sukarno's admiration for Mao. The two have cooperated to mutual advantage in the organization of several Afro-Asian conclaves, and Chinese leftists in Malaysia, probably with Peiping's concurrence, are cooperating in Indonesian subversive efforts there. Such ties are likely to become closer, even though Sukarno and most of his top leaders are aware of the long-term dangers of growing Chinese strength in Southeast Asia. Most, however, see the Chinese threat as a distant one, to be considered when more immediate obstacles to their ambitions are overcome.

35. The USSR has been disappointed at the meager gains achieved in Indonesia at so much cost in military hardware. At a minimum, Moscow had hoped to become the predominant foreign influence in Indonesia, but today the USSR clearly ranks behind Peiping in the affections of Sukarno and those of the PKI. Moreover, Moscow has been unable to obtain significant Indonesian support for Soviet participation in the forthcoming Afro-Asian conference. The greatest Soviet asset in their effort to retain some influence with Sukarno is their vast military assistance program. Sukarno's need to retain Soviet aid and to service and replenish the weaponry already acquired from the USSR will deter him from following policies openly offensive to Moscow. He might even grant to the USSR such tangible concessions as satellite tracking stations and the limited use of Indonesian air and naval facilities.

36. Events elsewhere in Southeast Asia where the "new emerging forces" are clashing with the West will have some impact in Indonesia. Victories for the Viet Cong or Pathet Lao might embolden Sukarno to more forceful action against Malaysia. []

[] Sukarno would probably continue his vocal support for the "national liberation" movement in almost any circumstance. The mainsprings of Sukarno's foreign policy actions will in any case continue to be found primarily in purely Indonesian considerations.

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37. The road ahead for Indonesia is a troubled one of domestic deterioration, external aggression, and overall Communist profit. This prospect will not brighten until and unless Indonesia's energies are turned from foreign ambitions, which probably include Portuguese Timor and, in due course, the rest of New Guinea, and are devoted to the development of this potentially rich country. It is unlikely that such a shift will occur so long as Sukarno dominates Indonesia.

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