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The President's Daily Brief

February 12, 1975

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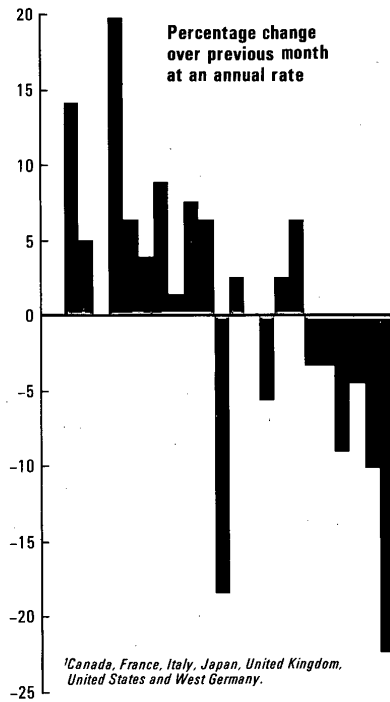
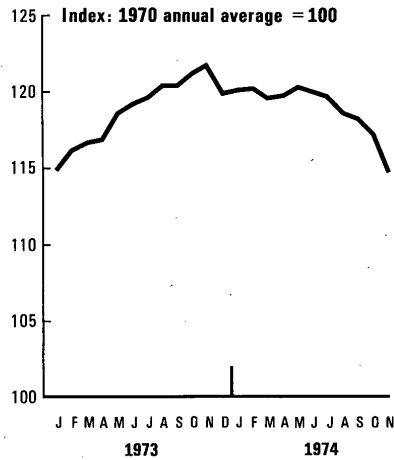
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**DEVELOPED COUNTRIES:
Trends in Industrial Production¹**
(seasonally adjusted)



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INDUSTRIAL PRODUCTION

Industrial production in the major countries has dropped in recent months at the sharpest rate since World War II.

Production has been falling steadily since last May, after marking time for five months at reduced levels brought on by the oil embargo. The annual rate of decline accelerated to 18 percent in October and November; fragmentary information points to an even steeper descent in December and January.

--Japan: Production slipped throughout 1974, with the annual rate of decline reaching 18 percent in June through November and 35 percent in December.

--Italy: After rebounding to an all-time high in June, production fell at an annual rate of 30 percent in the second half of 1974, to the early 1973 level.

--France: Production climbed through August, then declined at a 25-percent annual rate.

--West Germany: After stagnating for a year, production declined at an annual rate of 10 percent in June through September and an estimated 20 percent in October and November; mass industrial layoffs continued in December and January.

--Canada: Since peaking in March, industrial activity has slipped at an annual rate of 7 percent.

--UK: Production plummeted during last winter's coal strike, rebounded to the prestrike level by August, and then began to sag; output is now roughly 3 percent below the prestrike rate.

Most major industries have been caught in the downward spiral. From June to November, automobile production dropped precipitously in all countries except France and Canada. West German output showed

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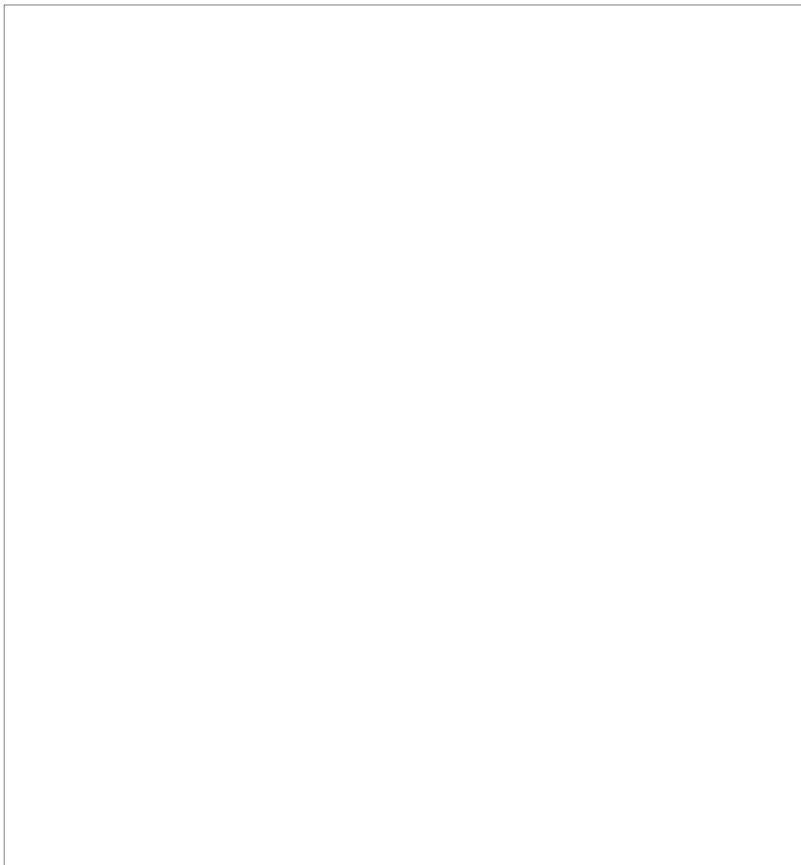
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the sharpest rate of decline, 25 percent. The decline in the Japanese automotive industry amounted to only 6 percent because a rapid buildup in inventories offset much of the drop in sales. Chemical production slumped in nearly all countries, with the drop most pronounced in West Germany. Japan led the falloff in textiles, machinery production, and steel.

The short-term outlook for industrial production is poor. Inventories remain high and will retard recovery. Demand, domestic and foreign, is expected to be weak, moreover, for several more months. The decline in industrial activity probably will bottom out before midyear, but production almost certainly will be lower in the first half of 1975 than in the second half of 1974.

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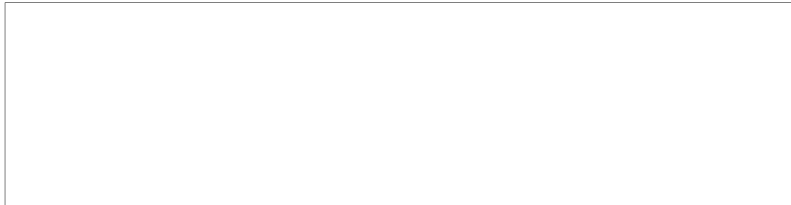
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SYRIA-ISRAEL



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PORTUGAL

The Armed Forces Movement's weekly bulletin yesterday announced the formation of special "internal information and public relations teams" that will be empowered to interpret army directives and accompany commanders to regional army meetings.

The announcement acknowledges for the first time that the Movement does not command unanimous support within the military. It admits the army is "not easily accepting" the consequences of the coup last April.

Billed as an official order, the announcement says the teams will be composed of "ordinary soldiers and possibly civilians." While we believe it is too early to make a firm judgment, this order has the earmarks of the establishment of a political commissar system. Responsibility for publication of the bulletin, however, has been in the hands of more radical elements of the Movement, and they may have overstepped their authority. It is possible that a majority of the membership of the Movement may not favor this order.

In any case, command-rank officers will not welcome the order. It is likely that if the order is implemented, differences existing between some members of the Movement and the majority of the armed forces will widen.

Debate continues, meanwhile, within the military over the future role of the Armed Forces Movement in Portuguese politics. There are rumors that the Movement will be reorganized to give it a formal position within the government.

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PANAMA

Panamanian negotiators are optimistic that the draft of a new Panama Canal treaty will be completed this summer, and Panamanian leaders are trying to sell the treaty to their people.

In a press interview last Friday, Foreign Minister Juan Tack gave a broad accounting of the progress that has been made since he and Secretary Kissinger agreed on a treaty framework a year ago. Throughout the interview, Tack stressed the spirit of compromise exhibited by both sides. He noted that the 1903 treaty had given the US the right to operate, maintain, and protect the canal in perpetuity. Thus, any change in these terms would benefit Panama and contribute to its fundamental objective of taking control.

Tack said that probably the most important concession the Panamanians will need to make is to allow some US military bases to remain. He added that Panama is prepared to grant the US a transition period to withdraw from the present Canal Zone, and to give the US the use of certain facilities as well as the right to operate and protect the canal during the life of a new treaty. Panama would share these responsibilities until the pact's expiration, and then would exercise them exclusively.

Tack's statement is indicative of the growth of the Torrijos government's commitment to a new treaty. Torrijos and Tack are strong nationalists, and compromise has not come easily to them. They now are convinced that the treaty evolving from the current negotiations is probably the best they can get, and they have characterized it to the Panamanian people as a "bridge" from present US management to eventual Panamanian control of the canal.

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NOTES

Turkey is pushing forward with oil exploration in the Aegean Sea, despite having agreed to submit its territorial sea controversy with Greece to the International Court of Justice.

The Turks have leased a vessel to conduct seismic or geophysical research in their territorial waters. Under the terms of the contract, no research will be done in disputed areas. [redacted]

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[redacted] In this somewhat tense situation, there is always the possibility that the vessel could stray off course and provoke an incident:

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Soviet President Podgorny's visit to Tanzania has apparently been postponed again.

[redacted] the visit was to have begun on February 21. [redacted]

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[redacted] the trip would be put off until later this year. Podgorny was scheduled to go to Tanzania last December, but that visit also was postponed at the last minute. No explanation was offered either time.

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PERU

We present below the principal judgments of an intelligence memorandum on Peru's Stalled Revolution: Implications and Prospects, prepared by our Office of Political Research.

For the past six years, the Peruvian military government, spearheading a revolution from above, has sought to bring radical social and economic change to Peru--and to do it peacefully. For the most part, the revolution has been genuine; in some respects, it has been successful. The government has:

--Carried out one of the most extensive agricultural reforms in the history of Latin America and with far less disruption than the agrarian reform in Chile under Allende.

--Initiated programs that will eventually give industrial workers a significant share in company profits and a voice in management.

--Greatly expanded the role of the state in industry and gained control of large segments of the economy that had been foreign controlled.

Public Dissatisfaction

The government has failed, however, to engender significant popular support for its revolutionary programs. Throughout the country, skepticism persists toward the revolution in general and toward the military government in particular. Almost all groups of Peruvians have been alienated. Growing public dissatisfaction vented itself first in organized demonstrations, and recently in urban terrorism.

The urban and rural poor are unhappy because their expectations have outraced the accomplishments of the revolution; the middle class is disturbed because it holds the government responsible for rising inflation and high taxes; private business is fearful that the government means to destroy private enterprise; and the wealthy families are upset because the government has destroyed their dominance in economic and political matters.

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The military government has been in firm control of the country since it took power in 1968. The populace has been relatively passive, the political opposition has lacked effective leadership, and the military holds a monopoly on power. The government has repeatedly vowed that it will remain in power until its revolution has become irreversible.

Peru's military leaders are acutely aware, however, that their ability to govern the country is threatened by an increasingly dissatisfied and restive citizenry, as well as by divisions within the junta over how best to cope with popular unrest.

For the short term, the government is likely to just muddle along, trying to overcome internal dissension and counteract growing opposition to control by the military.

If factionalism within the military increases and popular opposition to its rule grows, the armed forces may be forced to change political course. There seem to be several ways they might turn.

Toward a More Radical Dictatorship

President Velasco might accelerate movement toward a more authoritarian regime, attempting to harden his revolution, which, from the outset, has been neither violent nor severely repressive.

If the government now resorts to harsh, repressive tactics to control the maturing but still unorganized opposition, the outcome might be a mutually destructive spiral of violence.

Toward an Alliance with Civilian Groups

The military government may decide that it would be better to move toward some arrangement to share power with civilians if it is to make sure the revolution survives. Such a course would be more likely if a moderate succeeds Velasco to the presidency.

A power-sharing arrangement, however, is not likely to come about easily, or soon. The military would be reluctant to concede a significant measure of its power. It would be wary of risking a free election, and a civilian-military alliance would be fragile at best.

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The only political party sufficiently well organized to help govern the country is the American Popular Revolutionary Alliance. Its leaders once favored radical reforms, but in recent years have grown relatively moderate.

They still share some of the military's goals for Peru, but young radicals in the party are pledged to topple the military from power. Clearly, factional rivalries inside the party would have to be resolved before any agreement could be reached on sharing power with the military.

Toward Military Disengagement

The military might some day bow out of politics rather than face serious civil unrest. The armed forces are so thoroughly committed to carrying out the revolution, however, that it would take a series of severe jolts to move them off the political stage. Disengagement from politics seems the least likely of the three alternatives facing the military.

Whatever happens, the revolution brought by the military has had a profound and probably a lasting impact in Peru. Even though the revolution now appears to be stalled far short of its ambitious goals, two of its major programs--nationalization of major industries and national economic independence--are not likely to be undone by any successor government, military or civilian.

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