



The President's Daily Brief

March 24, 1975

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~~Top Secret~~ 25X1



Exempt from general
declassification schedule of E.O. 11652
exemption category 5B(1),(2),(3)
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FOR THE PRESIDENT ONLY

March 24, 1975

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ARAB STATES - ISRAEL

Israel and Egypt, as might be expected, are blaming each other for the collapse of the latest round of negotiations.

The Israelis, in their statements, tried to leave open the faint possibility that the US's step-by-step approach might be revived, but Egyptian Foreign Minister Fahmi stated flatly that this approach has come to an end. He said that Cairo now plans to consult with the Arab states and the Palestine Liberation Organization, and then request a resumption of the Geneva peace conference.

Fahmi avoided blaming the US for the diplomatic stalemate, saying that "it is abundantly clear by now that Dr. Kissinger tried very hard to succeed." Yesterday he said that US-Egyptian relations will continue on an amicable course. A commentary in the semi-official Cairo daily al-Ahram, however, blamed Washington for not pressuring Israel enough.

Cairo radio announced yesterday that Fahmi would make an important speech today at the Arab League foreign ministers' meeting in Cairo. President Sadat is expected to address his nation later this week; Prime Minister Rabin will make a formal statement to the Knesset today.

The Israeli cabinet has received widespread popular support. Spokesmen for liberal and conservative political parties alike praised its stand as the only proper response under the circumstances.

Syria has not yet reacted. President Asad reportedly met last night with Palestine Liberation Organization chairman Arafat to discuss the situation.

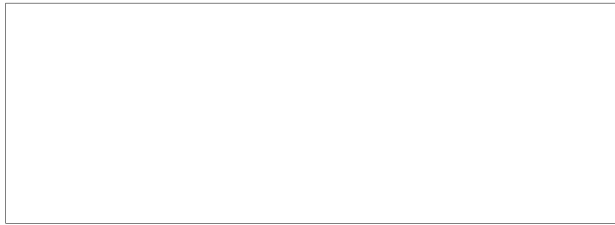
A PLO spokesman, obviously elated by the breakdown of the talks, said it should serve to unify the Arabs and implied that the only answer to the Israeli stand is force.

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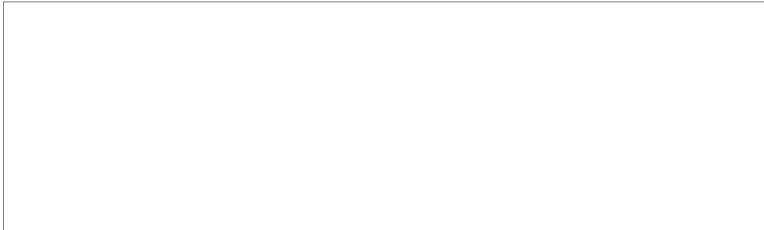
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The incident between fedayeen and Israeli forces reportedly occurred when a platoon-size Israeli force crossed the Lebanese border. The Israelis report five terrorists were killed; fedayeen forces have been placed on alert in anticipation of further Israeli attacks. At the time of the clash, Israeli aircraft were conducting flights over Lebanon and the Golan Heights. There was no apparent reaction by Syrian aircraft.



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Egyptian military preparations for the past three months and that they amount to an "early warning" of possible military action. [redacted] it is not clear whether these preparations have been coordinated with diplomatic moves or were undertaken as a contingency should diplomatic talks fail. [redacted] [redacted] preparations could be strictly precautionary [redacted]

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Israel began a "limited response" to Egyptian actions on Friday. These include the mobilization of some reservists and the increase of troop strength in the Sinai by about 1,000 men. [redacted] [redacted] Israel had "no offensive intentions," would not break the cease-fire, and had no desire to escalate or dramatize military activity.

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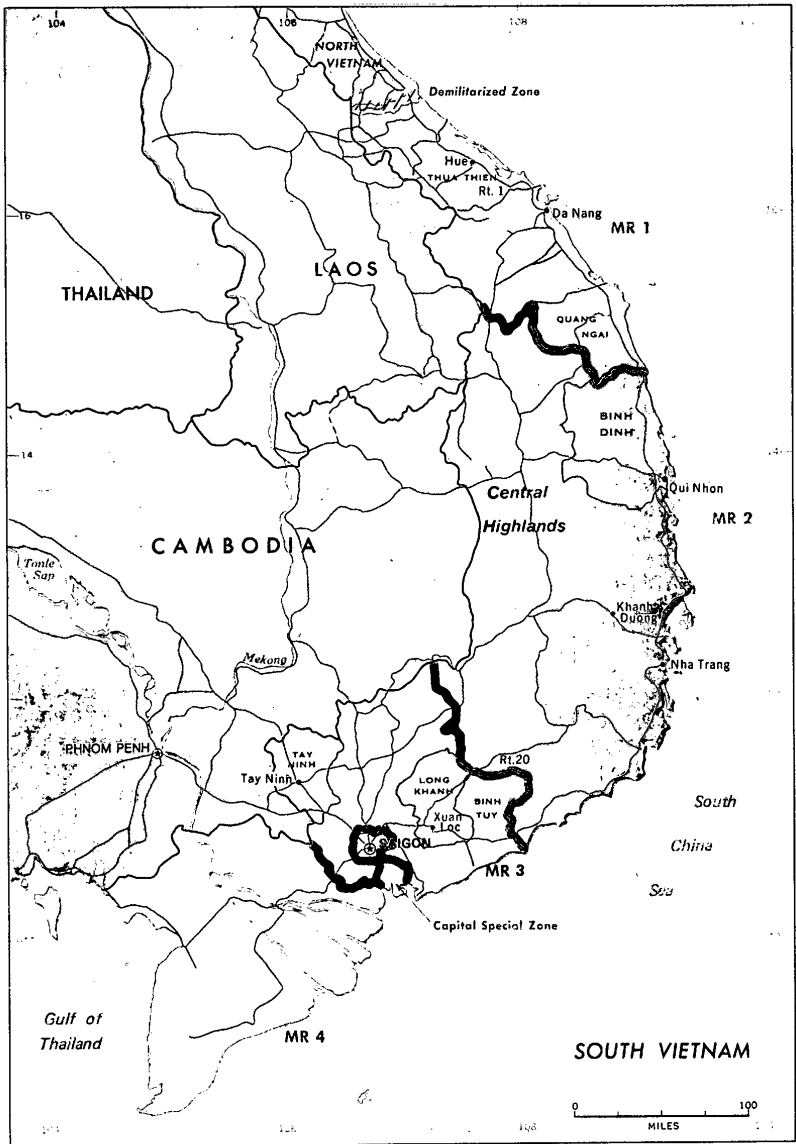
[redacted] there was no evidence of any Syrian military moves, [redacted] Syria would not stand by if Egypt should initiate military action. [redacted] Damascus might undertake some limited action, such as an assault on Mount Hermon or the occupation of the UN buffer zone.

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SOUTH VIETNAM

The South Vietnamese position in the northern provinces is rapidly deteriorating. The defense line north of Hue is crumbling, and the Communists have cut Route 1 south of the city; an assault appears imminent. To the south, North Vietnamese troops today overran Tam Ky, the capital of Quang Tin Province.

Pressure is building around major cities of the central coast. Ground attacks and shellings near Qui Nhon may dictate the movement of South Vietnamese units from outlying northern districts in Binh Dinh Province to strengthen Qui Nhon's defenses.

The Communists are also pushing out of the mountains northwest of Nha Trang. A tank-led Communist force is in a good position to outflank a South Vietnamese airborne brigade and move directly toward Nha Trang.

Pressure has increased on Tay Ninh. With the prospect of three Communist divisions converging on the province, some senior government commanders are now questioning the wisdom of defending Tay Ninh.

To the northeast of Saigon, Communist forces continue to expand their holdings along Route 20 which links Saigon with the southern highlands.

[redacted] the Joint General Staff was uninformed about President Thieu's plans to withdraw from the highlands and from north of Hue. Staff officers privately express lack of confidence in Thieu, and General Truong, commander of Military Region 1 and probably the best South Vietnamese battlefield commander, has criticized Thieu's decision as "basically wrong."

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Some officers are privately speculating that the best course would be for Thieu to step aside as a move toward a political solution. Prime Minister Khiem has privately observed, however, that there is no indication that the North Vietnamese are willing to compromise or even to consider negotiating.

As criticism grows against President Thieu, anti-Americanism threatens to reach serious proportions. Many South Vietnamese, who have long cooperated with Americans, believe that insufficient US material support was a key factor in last week's events.

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THAILAND-CAMBODIA

Thai Prime Minister Khukrit Pramot, contrary to his public stand of two days ago, has secretly decided to permit the continuation of ammunition flights to Cambodia from Thailand. Army commander Krit Siwara, [redacted]

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[redacted] confirmed that it is government policy to continue the flights but to "confuse" the issue in public statements.

Khukrit reportedly agreed to let the flights continue after being told by his advisers that Phnom Penh would probably fall if the flights were terminated. [redacted]

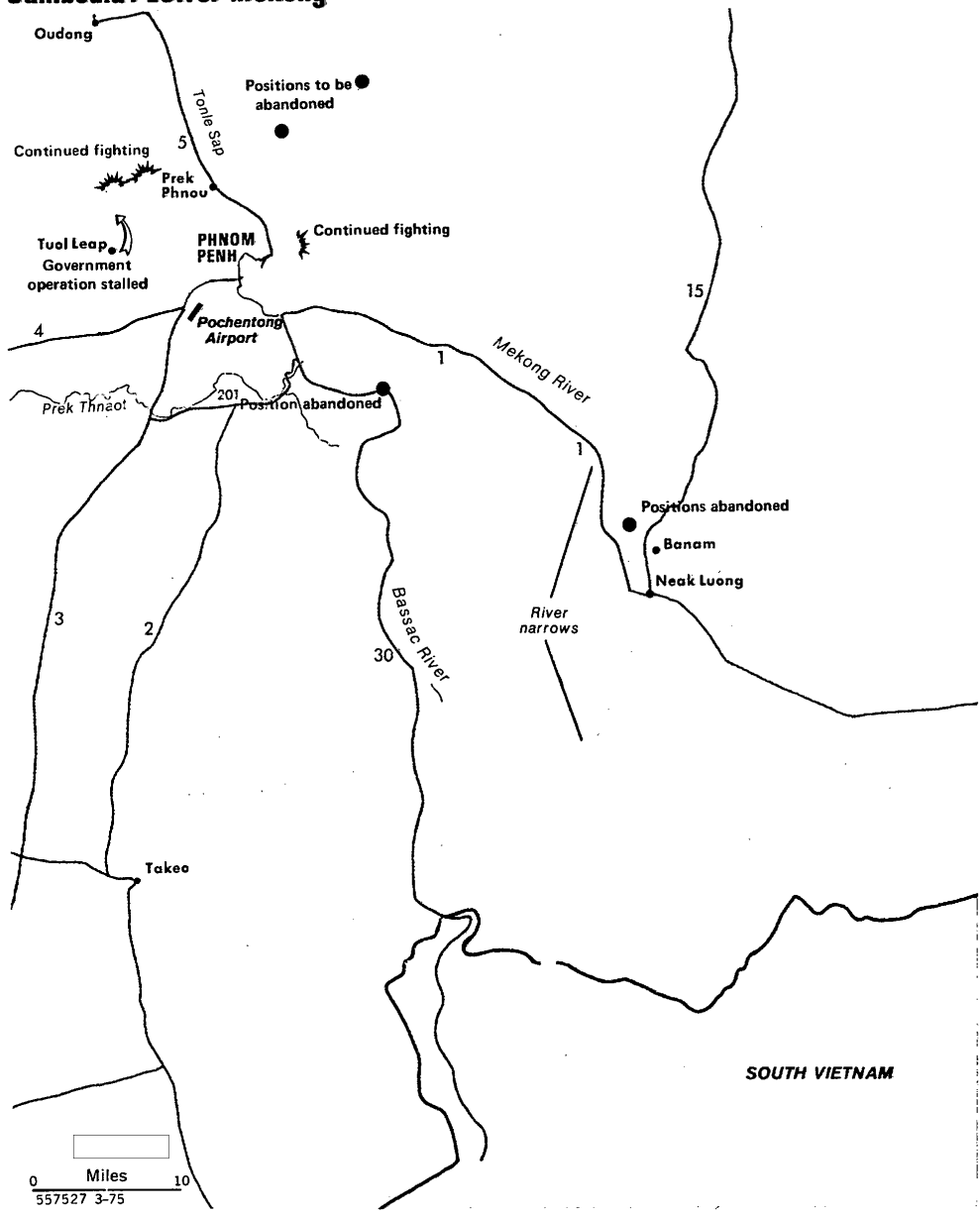
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Khukrit overrode the views of his defense and foreign ministers, who urged a halt to the flights during a meeting of the national security council on Friday. The Prime Minister instructed the council "not to think" about the ammunition shipments and to avoid any speculation or comment on the subject.

Khukrit's strategy could quickly unravel. Khukrit's political opponents or Bangkok's free-wheeling press may well choose to make an issue of the flights. The ministers of defense and foreign affairs are both key leaders of the right wing with political ambitions of their own. They could leak the council's deliberations to the press in an effort to dissociate themselves from the decision and to embarrass Khukrit. The defense minister, for example, told reporters Saturday that "he will not allow" the US to continue the airlift. A broadcast from Hanoi over the weekend has aroused anxieties by attacking the new government for its "indecisive" attitude toward the arms shipments.

Should public pressures continue to build and if Khukrit should perceive it to be in his political interest, he is quite capable of reversing himself on the ammunition flights.

Cambodia: Lower Mekong



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CAMBODIA

Rockets struck facilities on the military side of Phnom Penh's Pochentong airport again yesterday, but airlift operations resumed today.

Government operations against suspected rocket-launching sites northwest of the airport remain stalled. The local commander has diverted some units back to Tuol Leap, where Communist attacks have forced his troops to abandon a number of positions. North of Phnom Penh, units of the Cambodian army's 7th Division are still under heavy pressure and are cut off from government lines around Prek Phnou.

The sea-saw battle continues on the east bank of the Mekong River where Communist forces over the weekend again penetrated an area directly opposite Phnom Penh's waterfront. Recent intercepted messages have shown a build-up of insurgent forces along the Bassac. On the lower Mekong, the government enclave at Neak Luong remains the target of heavy shelling.

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WESTERN EUROPE - PORTUGAL - USSR

West European leaders are increasingly concerned over developments in Portugal. Willy Brandt, leader of the West German Social Democratic Party, plans to discuss the situation with you this week. NATO chiefs of mission met yesterday in Brussels, and NATO ambassadors held talks yesterday in Lisbon and will meet again after the new Portuguese cabinet is formed.

[redacted]
an emissary of Portuguese Socialist Party [redacted]

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[redacted] asked
Brandt to:

--tell his Soviet contacts that the USSR should rein in the Portuguese Communists;

--describe the Portuguese situation to US leaders during Brandt's visit to Washington and impress upon them that Portuguese Socialists count on US assistance; and

--take any action that Brandt believes would help non-Communist forces in Portugal.

West German Chancellor Schmidt on Friday evening told the Soviet ambassador to Bonn that any nation which had influence in Portugal should use it to prevent chaos in Lisbon. He did not allude to any connection between events in Portugal and detente. The West German government would like the NATO allies to make similar representations to local Soviet ambassadors.

The West Germans also took the lead in the NATO chiefs of mission meeting. The West German representative said his government had asked the Irish president of the EC to have that body make a collective representation in Lisbon expressing the community's concern. Bonn thinks this should be followed by bilateral approaches by EC and NATO members. The Portuguese should be told that their alliance with the West would be adversely affected by the suppression of pluralistic democracy.

The Italians have already called in the Soviet ambassador to discuss Portugal. Most of the allies seem reluctant, however, to follow West Germany's lead until they hear how the US plans to approach this problem. The NATO chiefs of mission will meet again today.

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PORTUGAL

The new cabinet that is likely to be announced early this week will almost certainly be in accord with the radical views of Prime Minister Goncalves. The Communist-dominated Democratic Movement, which has the status of a separate party, is expected to join the three-party coalition of Socialists, Communists, and Popular Democrats. It is widely rumored that each party will be given equal representation and that each party leader will be appointed minister without portfolio.

Socialist Party leader Mario Soares reportedly opposes this scheme. He prefers to remain foreign minister and is also arguing to keep on the Socialist justice minister. Perhaps to bring additional pressure on the Socialists to agree to his plans, Goncalves consulted over the weekend with the leaders of two other left-wing parties that are known to have close associations with the Communists.

Whatever the final makeup of the cabinet, the real power in Portugal will be exercised by the newly established revolutionary council, which acts as the executive body of the Armed Forces Movement. Four new members of the council, who hold relatively moderate political views, will not participate fully as long as they hold their current jobs. One of these individuals is expected to be Portugal's next ambassador to the UN, a post that would remove him from a position of influence.

The revolutionary council has assigned itself the task of implementing the "necessary structural reforms" of the economy. This will presumably enable the council to set aside the moderate, three-year economic program that was approved with much difficulty only a few months ago.

The campaign for electing a constituent assembly, scheduled for April 25, continues, but moderate parties are in disarray. The Social Democratic

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Party, the only center-right party left in the election, has announced it will stay in the campaign even though intimidation has reached the point that party leaders no longer sleep at home. [redacted]

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The Portuguese military also seems to be in a state of disarray since the abortive coup of March 11. [redacted] that discipline within the ranks is practically non-existent, partly because the chain of command has been so disrupted. A highly placed member of the army staff reports that there is not a single unit which, if called upon, can be counted on to respond.

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A military spokesman for the government, meanwhile, has stated that the "Portuguese Liberation Army," a right-wing guerrilla organization based in Spain, may have been involved in the abortive coup earlier this month. No direct accusation against the Spanish government was made and the government moved to squash rumors that the US had any connection with this rightist organization. In Madrid, Foreign Ministry officials reiterated the Franco government's stated policy of non-interference in Portuguese affairs. The leftist press, nevertheless, is likely to allege CIA involvement.

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INTERNATIONAL OIL DEVELOPMENTS

The economic performance of the major industrial countries will be the single most critical factor determining oil demand in non-Communist countries over the next three years. Industrial production is falling in nearly all these countries, but recovery generally is expected to begin by the end of the year.

Barring petrodollar recycling difficulties, we expect production in major industrial countries to rise by about 4 percent next year and 7 percent in 1977, as the recovery gains momentum. This growth--combined with continuing importer reaction to high oil prices and the impact of any policy decisions to suppress oil demand--will determine the demand for oil from members of the Organization of Petroleum Exporting Countries.

The pattern of oil import demand this year will be significantly different from that in years past. Importers will enter the spring with full stocks. Import demand will slump sharply during the second and third quarters--to only about 25 million barrels a day, compared with about 27 million barrels a day this past February. It will then rise sharply to about 29 million barrels a day during the fourth quarter. Demand for OPEC oil during 1975 as a whole will be down about 8 percent.

Economic recovery will cause demand for OPEC oil to increase above the 1975 level. Demand for OPEC oil should grow by about 2 percent, or by 600,000 barrels a day in 1976. More rapid economic growth will cause OPEC sales to increase by a further 7 percent, or by 1.8 million barrels a day in 1977. OPEC's export volume, however, will still be lower in 1977 than it was in 1973.

Had it not been for the Saudi production cut-back, the next few months would have been somewhat difficult for OPEC because of declining importer demand. The Saudi action has largely eliminated the threatened surplus. As fall approaches, OPEC's task will shift from one of informally allocating production cuts to determining in the same informal way the members' share of the production increases that are certain to occur.

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We do not see this new issue of determining the share of increased demand as a problem for the cartel. We believe that large OPEC producers will meet less of the new demand from their own production and will tacitly allow those countries that need more revenue to raise oil production.

During 1975-77, OPEC countries collectively will accumulate surplus funds averaging \$60 billion a year. Only Algeria, Ecuador, Indonesia, Venezuela, and perhaps Libya will have current account deficits. Other OPEC members will continue to accumulate large surpluses. By the end of 1977, OPEC states will have accumulated a total investable surplus of about \$265 billion. We see no particular stress on the cartel through 1977, so long as Saudi Arabia continues generally to support OPEC pricing policy.

Beyond 1977, the situation is much less certain, but OPEC exports clearly will slump sharply by 1980--probably to only about 22 to 24 million barrels a day. At this level, only Saudi Arabia and Kuwait will have sizable surplus earnings, and the cartel would be under substantial stress. Pressures will be strong on OPEC countries collectively to boost the real price of oil substantially and on some members to try to raise output. The outcome will be heavily influenced by political developments both within and outside the cartel.

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