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The President's Daily Brief

July 31, 1975

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July 31, 1975

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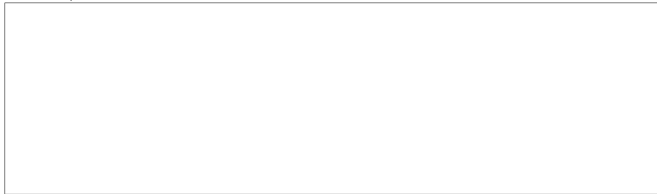
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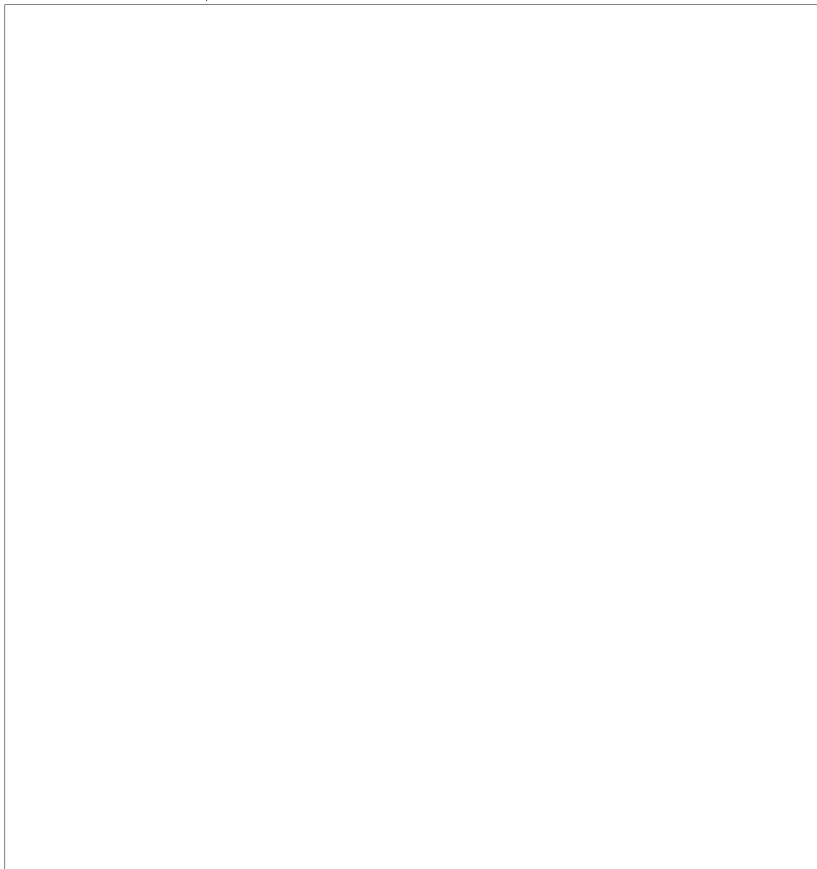
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TURKEY



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PORTUGAL

The new executive triumvirate met for the first time yesterday following the return of General Otelo de Carvalho from Cuba, presumably to discuss the new government.

The Revolutionary Council, now reduced to an advisory role, met for 12 hours last night to discuss Prime Minister Goncalves' proposed cabinet. The meeting was attended by Foreign Minister Antunes and other moderates, who had refused to participate in last week's meeting of the Armed Forces Assembly that had turned over power to the triumvirate.

A communiqué issued after last night's session declared that the members of the Revolutionary Council have delegated all their powers to the triumvirate. According to a Council spokesman, the composition of the new government has not been decided. He said that because President Costa Gomes is departing for the Helsinki summit tomorrow, a new government will not be sworn in for the next few days.

Upon his arrival in Lisbon, Carvalho repeated comments he made several weeks ago to the effect that it is no longer possible to carry out a socialist revolution in Portugal by peaceful means and that he is prepared to use force. Even allowing for his flamboyant personality, Carvalho's remarks sound ominous and may intimidate the moderates.

The three-day national labor congress that ended on Sunday confirmed the determination of the Communists to retain their grip on the upper echelons of the trade union movement. The congress was convened at this time in order to install a Communist-dominated national leadership before the individual unions--in which the non-Communists have been showing some strength--could hold their internal elections.

The congress approved with only minor changes an "orientation and action" program prepared by the national confederation and heard a speech from Prime Minister Goncalves--characterized by the embassy as "ranting"--in which he said that the unions' struggle is a "fight to the death against capitalism."

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AZORES-PORTUGAL

The military governor of the Azores, General Magalhaes, reportedly "shocked" the armed forces general assembly in Lisbon [redacted] when he stated that there is a real danger of Azorean independence.

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[redacted] Azorean demands for self-rule. [redacted]

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--The majority of the population in the Azores supports independence.

--The majority of the Portuguese military on the islands is also sympathetic.

--Establishment of a governing board for the Azores composed of leftists will be met with violence.

--The Azoreans identify more with the US than with Portugal.

The new leadership in Lisbon is unlikely to go as far as granting the Azoreans complete self-rule. [redacted]

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[redacted] Magalhaes is extremely popular in the islands, but Azoreans fear that Portugal's radical leaders will try to appoint a majority of local communist sympathizers and leftist nationalists to such a board--a move that would almost certainly be met by a storm of protest. Conceivably it could trigger a move for independence.

The islands are an important bargaining chip in Portugal's relations with the US and perhaps its greatest source of leverage with the West. These considerations are expected to weigh heavily in determining Lisbon's response to sentiment in the islands.

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USSR

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The USSR will incur the largest hard-currency deficit in its history this year--perhaps on the order of \$3 billion. Imports of Western equipment and grain will be up substantially, and export growth will be negligible because of recession in the West. The USSR will have no difficulty in financing this anticipated deficit by gold sales and credits.

Last year the Soviets incurred a hard-currency deficit of only \$900 million. Higher prices for Soviet exports--particularly oil and raw materials--led to a 58-percent increase in hard-currency earnings to \$7.6 billion; imports were up 30 percent to \$8.5 billion. In the fourth quarter of 1974, however, exports went down and Soviet imports rose rapidly, both developments being a result of the growing recession in the West.

Since last October, the USSR has incurred monthly trade deficits with its principal Western trading partners. Continuation of this pattern would mean a Soviet deficit of \$3 billion or more in hard-currency trade by the end of 1975.

--Imports of machinery and equipment this year, based on the large volume of Soviet contracts for Western plants and equipment placed in 1973 and 1974, will reach a level of \$3.3 to \$3.8 billion.

--Recent contracts for Western grain will bring Soviet grain imports this year to roughly \$1 billion--double the 1974 level. Additional Soviet grain purchases are likely, perhaps some for 1975 delivery.

--Increases in sugar imports will exceed decreases in meat imports by about \$200 million.

--Imports of steel products will approximate last year's high level of \$1.9 billion.

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--The continuing Western recession will make it difficult for the USSR to increase its hard-currency exports.

Moscow is in good shape, however, to finance a deficit of \$3 billion in 1975. Its cash position improved in 1974 despite the trade deficit. The Soviets sold roughly \$700 million in gold, obtained a net of \$600 million in medium- and long-term credits, and earned several hundred million dollars from arms sold to the Middle East after the October 1973 war.

A large part of the Western machinery and equipment delivered in 1975 will be covered by long-term credits. Net credits should exceed \$1.4 billion. Moscow has already obtained \$350 million in medium- and long-term Eurocurrency loans since December. Western bankers say that the Soviets could raise substantially more on the Eurocurrency market.

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The USSR has lots of gold to sell. It produces more than 300 tons of gold annually and has more than six times that amount in reserves. Sixty-two tons, worth \$325 million, reportedly were sold in the West in the first half of 1975, and an additional 50-ton sale to Arab buyers has been rumored. Soviet gold sales during the balance of the year could rise considerably without depressing prices if as we expect, South Africa sells less.

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By late 1975 or early 1976, Soviet exports should resume their growth in response to the expected recovery of Western economies. To avoid a further deterioration of its debt position, Moscow probably will then give priority to cutting the trade deficit rather than to further expanding imports.

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NOTES

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[Redacted] Saudi Arabia
 and France [Redacted]
 [Redacted]

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South Korea's renewal of its application for UN membership yesterday is likely to present the Chinese and Soviets with difficult decisions in the Security Council.

In the past, Moscow and Peking have supported North Korea, which has opposed UN membership for the two Koreas on grounds that this would ratify the division of the country. This year, South Korea has linked its application with those of the two Vietnamese states by getting US agreement to veto one or both of the Vietnamese applications if the Chinese or Soviets should veto South Korea's. The Vietnamese will probably ask the Chinese and Soviets to avoid taking any action that would jeopardize their applications. The Soviets have been non-committal; the Chinese would almost certainly side with Pyongyang if they have to choose between the Vietnamese and the Koreans.

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