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The President's Daily Brief

January 2, 1975

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USSR-EGYPT

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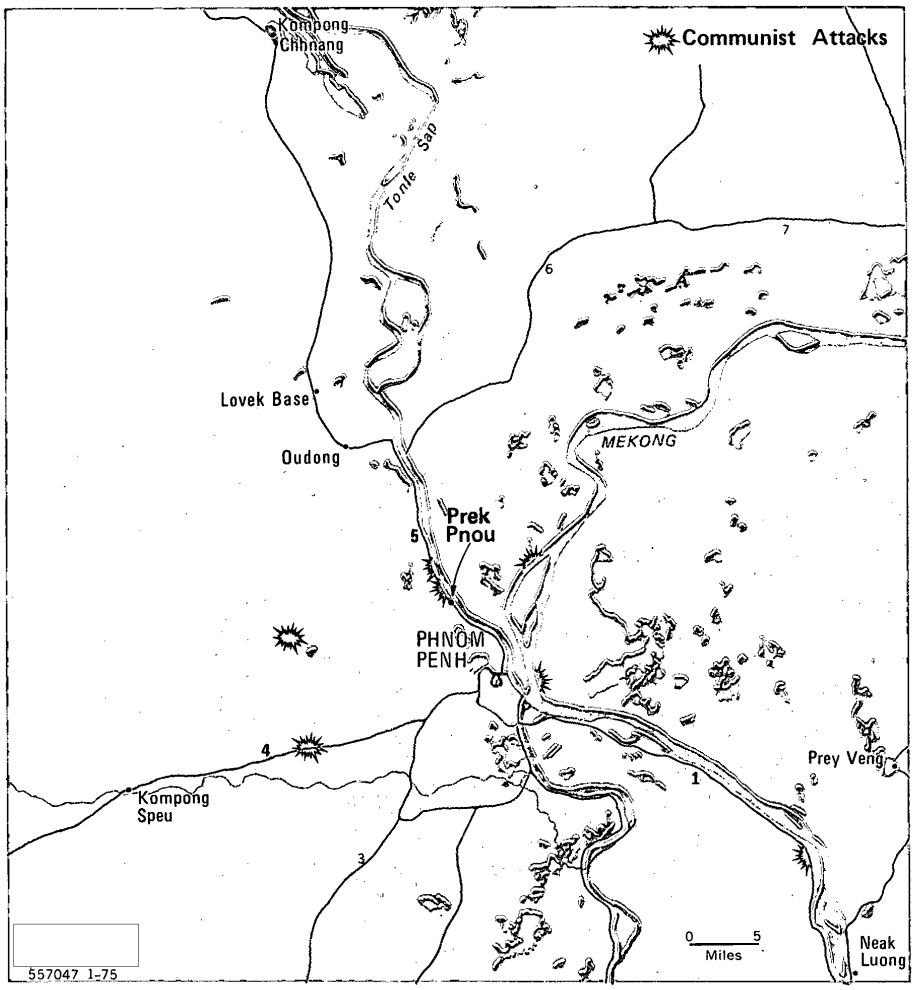
CAMBODIA: Phnom Penh Area



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CAMBODIA

The Khmer communists began their dry-season campaign yesterday with coordinated attacks near Phnom Penh.

Routes 4 and 5 have been cut and positions on both banks of the Mekong River near the capital have fallen. The communists have also launched heavy attacks against the Cambodian army's 7th Division northwest of Phnom Penh.

The most costly government territorial losses have occurred along Route 5 where heavy communist pressure has forced the abandonment of a military fuel depot at Prek Pnou. Government troops managed to take a ten-day supply of fuel with them and unconfirmed reports indicate that the depot was burning late yesterday.

Government forces were caught off guard by the attacks but are beginning to counterattack. Reinforcements have been sent to the east bank of the Mekong River in an attempt to push the communists out of rocket range of the capital in that sector. Other government troops are expected to begin clearing operations along Route 4 and northwest of the capital soon.

Despite the widespread attacks around Phnom Penh, there is no evidence that an all-out assault against the city is in the offing. The attacks may have been a diversionary effort to tie down forces around Phnom Penh and to mask the beginning of a major communist effort to interdict the lower Mekong. Communist units yesterday closed Route 1 near a river choke point some 25 miles southeast of Phnom Penh; other government outposts along the river are also under pressure.

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SAUDI ARABIA

The Saudis are prodding the US again to produce concessions from Israel, while they appear genuinely concerned by talk of a US invasion of some Arab oil-producing countries.

On instructions of King Faysal, acting Saudi minister of state for foreign affairs Masud called on Ambassador Akins on Tuesday. Masud produced excerpts of recent press attacks on Saudi policies by Iraq, Kuwait, Lebanon, Libya, and Algeria, as well as Saudi embassy reports indicating that those Arab governments are unhappy over Saudi support for US peace-making activities.

Masud also cited several articles in the US press concerning invasions of Saudi Arabia's oil-producing areas and what he termed "ambiguous denials" by US officials. The King, Masud said, wanted to know if the US was trying to frighten Saudi Arabia. The King wondered if the US wanted the total collapse of Western economies that would follow such an invasion.

Masud said the King remained convinced the US could reach a solution in the Middle East at any time, simply by informing Israel that aid would be cut off until it gave up Arab territories. Masud added that neither Saudi Arabia or any other Arab country would object to US security guarantees of Israel. Finally, he warned that it would be a mistake for the US to base its policy on the belief that Saudi Arabia would never turn to the Soviet Union to replace US assistance.

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CHINA

A joint editorial in Peking's major publications greeted the new year with a sober assessment of the past year and no confident predictions.

The editorial made no reference to convening the National People's Congress, China's rubber stamp legislature, although preparations have been under way for some months and seem to be continuing. Throughout December, leaders from Peking apparently conferred with Mao in Hunan Province, where he has been residing since last fall. Several personnel appointments in the national military hierarchy and in the provinces are indicative of the progress being made toward convening the congress, which is charged with ratifying government appointments.

There has apparently been less success in resolving the major problem of army-civilian relations. The editorial's routine praise for the army was followed immediately by a call to strengthen party leadership, suggesting continuing difficulties in bringing the army under firm party control. References to "national betrayal" and to national defense industries seem to be alluding to specific problems with the military. For the past year, certain important military men have been accused by innuendo of seeking accommodation with Moscow and pushing for greater reliance on nuclear weapons. Both concepts conflict with Peking's policies of maintaining hostility toward the Soviet Union and relying primarily on conventional weapons.

The editorial said that the anti-Confucius campaign will continue, with emphasis on study and criticism. This formulation has been used since early last summer to prevent the campaign from disrupting public order. References to "shooting the arrow at the target" and "dealing blows" to unnamed "counterrevolutionaries" suggest that the campaign is more than a study movement and is, in fact, directed at specific individuals.

On the economic front, the editorial did not repeat earlier claims of a "record" harvest but said only that 1974 saw an "all-around good harvest." By lumping agriculture and industry together, the editorial was able to claim an increase in total production over the previous year. Much of this increase probably results from the growth of China's oil industry.

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Peking's treatment of foreign affairs reaffirmed current policy lines. The editorial urged a continuation of "Chairman Mao's revolutionary line in foreign affairs"--a stock phrase for efforts to improve Sino-American ties. Not surprisingly, the Chinese continued to court the Third World by making much of the developing countries' struggle against "superpower" hegemony.

The editorial was interesting for what it chose not to say and, in this sense, seemed to take a modest view of foreign policy accomplishments in 1974. Whereas in the 1973 editorial Peking characterized the international situation as "excellent," this year it simply said that "new successes" had been achieved during the year. Moreover, the Chinese avoided mention of specific issues and adhered closely to general and familiar formulations.

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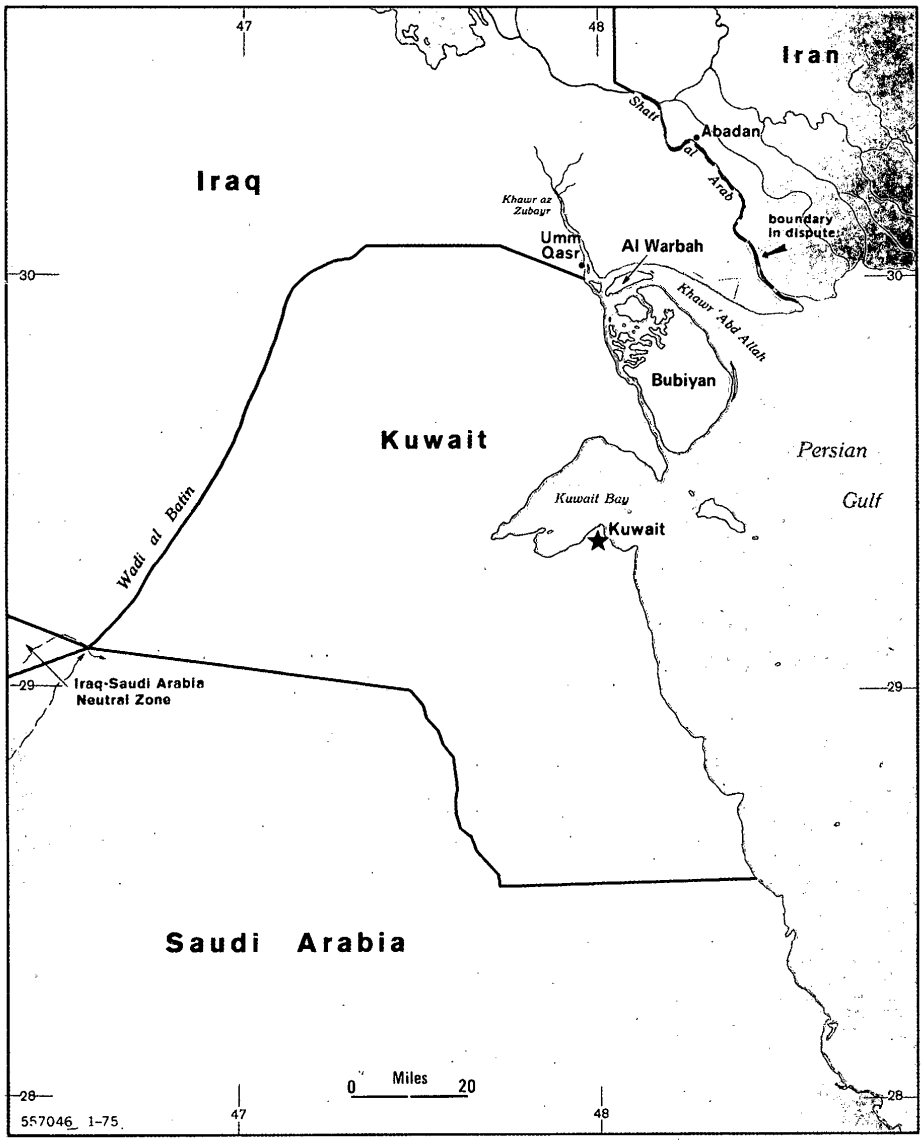

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IRAQ-KUWAIT

The Kuwaitis are concerned over a number of incidents which the Iraqis have staged over the last several months in a long-troubled sector of their border.

The Iraqis may be trying to pressure the Kuwaitis to lease two Kuwaiti islands strategic to Iraq, but the moves may also be part of an Iraqi effort to influence Kuwaiti national assembly elections to be held in late January.

Kuwaiti political leaders appear intimidated by the Iraqis but, [redacted] 25X1
[redacted] some members 25X1
of the Kuwaiti military are growing impatient with the government. The Kuwaiti army has moved additional forces, including tanks, to the border.

[redacted] the Iraqis have 25X1
sporadically harassed Kuwaiti border units in recent months; the border had been relatively quiet since March 1973, when Iraq seized a portion of the disputed territory. The most flagrant incident occurred in early November when Baghdad requested permission to hold maneuvers in another part of the disputed area. After Kuwait refused, the Iraqis planted their flag there.

[redacted] Iraqi strong 25X1
man Saddam Husayn Tikriti offered at the Arab summit meeting in Rabat in October to withdraw troops from the disputed area in return for a long-term lease on the islands of Warba and Bubayan, which flank the approaches to Iraq's important port of Umm Qasr on the Persian Gulf. Kuwait's Sheikh Sabah refused further discussion as long as Iraqi troops remained on Kuwaiti territory.

Iraq is also spending liberally to bring about the defeat of Kuwaiti parliamentary candidates whom it considers hostile. The Iraqis are spreading the word that the election of an assembly friendly to Iraq would encourage Baghdad to settle its border issue with its "Arab brothers."

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NOTES

Vietnamese *communist ground units supported by tanks overran the district town of Phuoc Binh in Phuoc Long Province on Wednesday.*

This was the fourth district town in the province to fall since early December and leaves only the provincial capital in government hands. Elsewhere, the communists yesterday fired a barrage of rockets at Bien Hoa airbase, but only minor damage resulted. Relatively light and inconclusive fighting continued on other battlefronts.

* * *

Egyptian, Syrian, and Jordanian *foreign ministers are scheduled to begin talks today in Cairo with representatives of the Palestine Liberation Organization.*

The meeting has been called to try to formulate a joint Arab strategy for future Middle East peace negotiations. The Syrians and Palestinians hope to block any independent Egyptian move toward a second disengagement agreement with the Israelis in the Sinai. The PLO will again seek to regain access to Jordanian territory for fedayeen strikes against Israel. Egypt and Jordan are unlikely to commit themselves to tactics that tie their fate to that of the Syrians or Palestinians.

* * *

Egyptian *workers and students demonstrating violently in Cairo yesterday over economic grievances called for a return to Nasirist socialism.*

Prime Miniter Hijazi was the chief object of the protesters' wrath, but President Sadat was also criticized for failing to bring about promised economic recovery after the October 1973 war. Discontent over shortages and inflation has been on the rise since last summer and this dissatisfaction has been compounded by restlessness over the pace of progress in peace negotiations. Additional disturbances over a wide range of issues are possible and, although President Sadat now intends to move against leftist agitators, yesterday's demonstration could give these elements and student malcontents further impetus.

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Israel *has appointed a leading atomic scientist to its Defense Ministry.*

According to the Jerusalem Post, Professor Saadia Amiel, a nuclear chemist at Hebrew University and a senior staff member at the Nahal Sorek experimental nuclear research facility will serve in the office responsible for strategic policy. Amiel is said to have been an adviser to the General Staff's planning branch for years. Dr. Yuval Neeman, President of Tel Aviv University and reputedly one of Israel's top atomic physicists, also is to be named a senior adviser to the Defense Ministry. The new assignments appear to be in keeping with Tel Aviv's policy of improving its strategic planning capabilities and of military intimidation toward the Arabs.

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The President's Daily Brief

January 3, 1975

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Lebanon-Syria: The Lebanese President and Syrian foreign minister met near the border yesterday. *(Page 7)*

Notes: USSR; China; Jordan *(Pages 8 and 9)*

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MIDDLE EAST - USSR

Some observers in the Middle East are expressing skepticism over reports that General Secretary Brezhnev postponed his trip to Egypt, Syria, and Iraq for health reasons, according to the US embassy in Beirut. The observers are attributing the postponement to Soviet displeasure with Egypt and Syria, primarily Egypt.

The embassy reports that Soviet officials in Beirut have been telling selected newsmen of Soviet dissatisfaction with President Sadat. They say that Sadat refused to meet Moscow's demands that Egypt take "concrete steps" in return for an improvement in Egyptian-Soviet relations. [redacted] 25X1 25X1 25X1 Moscow is "furious" over the fact that Brezhnev's visit to Damascus was originally scheduled to coincide with a visit by Saudi King Faysal. President Asad reportedly angered the Kremlin when he informed the Soviet ambassador that he could not reschedule Faysal's visit and that Moscow should understand that Syrian-Saudi relations are of the highest importance to Damascus.

Soviet and Egyptian media are still running commentaries in high praise of Soviet-Egyptian relations, but Moscow will probably not be pleased with a speech by President Sadat last night reiterating his confidence in US-sponsored peace negotiations and explicitly advocating a delay in reconvening the Geneva conference. Sadat said that he fears that, if "we do not reach agreement with the superpowers" before going to Geneva, the situation will return to "a state of polarization--with the Soviet Union supporting the Arabs and the Americans supporting Israel."

Sadat spoke warmly of the Soviets, asserting that he fully accepts Brezhnev's reason for postponing the trip and expects to begin a "new page" in Egyptian-Soviet relations when the trip is rescheduled. On the state of relations now, Sadat said only that "signs of a new phase began to emerge" during Foreign Minister Fahmi's visit to Moscow.

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USSR

Two officials of the USA Institute in Moscow told US embassy officers late last week that Soviet objections to the "Schlesinger Doctrine" on target selection are unaffected by the Vladivostok accord.

M. A. Milshtein, chief of the strategic studies department at the institute, and L. S. Semeyko, his deputy, asserted that the doctrine is unacceptable because it gives a national leader a choice of various modes of nuclear attack and thus makes nuclear war an option. They said the stress in the doctrine on the importance of missile accuracy implies an attempt to acquire a first-strike capability. Both men argued that the "race for accuracy" should be controlled, and Semeyko suggested the possibility of limiting the number of tests of new systems "perhaps to 10 or 15."

Both also mentioned, as they had in a recent article, that once the nuclear threshold is crossed, it would be impossible for the side under attack to determine within the time at its disposal whether the attack is limited or full-scale. Milshtein said that he could be comfortable with the doctrine only if both sides agreed to "rules of the game" which, he implied, would govern the steps in escalation to full war. He quickly added, however, that the Soviet Union would be unlikely to agree to such "rules."

Milshtein said that the Soviets would never make a nuclear first strike and that as a matter of policy, all Soviet missiles are aimed at military targets. Semeyko seconded this, but added that the term "military targets" is not defined in a narrow sense.

Another USA Institute official, foreign policy department chief G. A. Trofimenko, had expressed a somewhat different attitude toward the "Schlesinger Doctrine" in early December, also during a conversation with US embassy officers. Trofimenko had said that provision for such a large number of warheads in the Vladivostok agreement had reduced the importance of the main Soviet argument against the "Schlesinger Doctrine," the danger that in establishing the need for more targets, it would also

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create a need for more warheads. The Soviet attitude toward the doctrine "would still be negative," he had contended, but the terms of the Vladivostok agreement meant that the Soviet side could move to a similar strategy.

Milshtein and Semeyko revealed considerable interest in, and expertise on, Chinese strategic affairs. Semeyko repeatedly noted that the Chinese threat must be taken into account in any Soviet discussion of arms reduction. Milshtein alluded to the dilemma faced by the USSR in seeking to maintain an "assured destruction" capability against China. He said McNamara's "assured destruction" doctrine was effective when at least 25 percent of a nation's population and 50 percent of its industrial complex could be destroyed, but he noted, semi-seriously, that for China a 25-percent population loss might be viewed as an incentive, not a deterrent, to attack.

Milshtein, a retired lieutenant general and former dean of faculty at the General Staff Academy who apparently still moves in high military circles, also said that the harder line on the troubles in Western society taken recently by Soviet military publications was to be expected. One could not preach uninterrupted peace and harmony, he said, and expect military vigilance and combat readiness to remain at acceptable levels. He added, however, that the Soviet military has never spoken out against any agreement reached by the government and has kept its personnel aware of the process of detente.

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USSR

Press coverage of the US has become more critical and strident, probably as a direct result of the generally adverse Soviet reaction to the restrictive clauses affecting the USSR in the recently passed foreign trade legislation.

Moscow media have published a lengthy catalogue of US economic and social ills and are scoring the US in unusually explicit terms for alleged interference in the Middle East, Vietnam, and elsewhere.

The campaign appears to be primarily a reaction to restrictions on the amount of credits available to the USSR and the well-publicized efforts of some in the US to link the legislation to Soviet concessions on emigration policy. Moscow may also have decided that by playing up problems in the US and the West in general, it would be easier to maintain discipline at home and convince Soviet allies of the need to stand firm on ideological issues.

Despite the increased criticism, there has been no public questioning of the importance of continued detente. Izvestia on December 29 observed that "reliable peace is unthinkable without a fundamental normalization of US-Soviet relations," and the New Year's message to the Soviet people gave full praise to improved relations with the West.

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LATIN AMERICA

With the next meeting of the hemisphere's foreign ministers just over two months away, Latin Americans are growing less and less receptive to an inter-American dialogue with the US.

One of the carrots that sustained Latin American faith in the eventual productiveness of the hemispheric talks, the US Trade Reform Act, now looks like a stick to Latin American eyes. Many governments have denounced the inclusion of restrictions aimed against members of OPEC and other cartels, and the reaction has begun to go beyond rhetoric.

Ecuador has announced that it would not attend the Buenos Aires meeting in March if the legislation becomes effective. President Rodriguez probably will lobby for a boycott, especially on the part of fellow OPEC members. Venezuela's President Perez has complained about developed nations calling for dialogue while "threatening" less fortunate countries. Government-influenced media in Panama and Peru have also protested the trade bill as a violation of US commitments to Latin America.

Trade is but one source of growing frictions. The US is being criticized over numerous other economic issues and over political issues such as the sanctions against Cuba and CIA's clandestine activities. Restrictions on US firms abroad exporting to Cuba can have seriously adverse effects on relations with particular governments. Mexico, for example, has been pressing US companies to participate in Mexican-sponsored trade missions to Cuba. In Argentina, a congressman is calling for an investigation of CIA activities and for the expulsion of all CIA personnel. This kind of problem may spread after the publication of a Spanish version of a book by former CIA employee Agee.

Editorials from usually friendly Uruguay have been critical, claiming that the "famous new dialogue has been shown to be totally nonproductive." Talk in Montevideo and other capitals has begun to suggest the wastefulness of a foreign ministers'

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meeting in March and an OAS general assembly the following month. Various governments have emphasized the "noninstitutional" aspects of the foreign ministers' sessions and suggested that the OAS should be beefed up as a more enduring vehicle for inter-American cooperation.

The overall feeling among Latin Americans of increasing distance from the US probably will make alternative cooperative efforts more attractive. Venezuela and Mexico, for example, have begun to make some inroads on the skepticism that first met their call for a Latin American economic system that would exclude the US. Various Latin American summits have taken place recently and more are scheduled for 1975, all aimed at unifying Latin America and increasing Latin pressure on the US.

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LEBANON-SYRIA

Lebanese President Franjiyah yesterday held a hastily scheduled private meeting with Syrian Foreign Minister Khaddam near the border, according to unconfirmed reports in the Arab press. The two supposedly discussed military cooperation to defend southern Lebanon against increasingly serious Israeli attacks.

In addition, Beirut radio announced yesterday that Syria's President Asad will visit Lebanon next Tuesday. This activity is unusual, as the Lebanese are perennially suspicious of Syrian motives and offers of assistance. Syrian aid activity in Lebanon is usually limited to Palestinian fedayeen groups in the southern part of the country, who themselves pose a significant threat to the Lebanese army.

Syria last month promised Lebanon "full support"--presumably meaning military assistance--in its difficulties with the Israelis. 25X1 25X1 his return from a one-day visit to Damascus. This offer was made in response to Beirut's call for Arab aid to help prevent Israeli incursions into Lebanese territory.

Lebanon has appealed for outside assistance before--usually to assuage the government's leftist and Muslim critics--but has always backed away from accepting subsequent offers of sophisticated arms or foreign troops. President Franjiyah's personal involvement this time suggests that Beirut may go further and accept limited help from the Syrians, probably in the form of anti-aircraft weapons.

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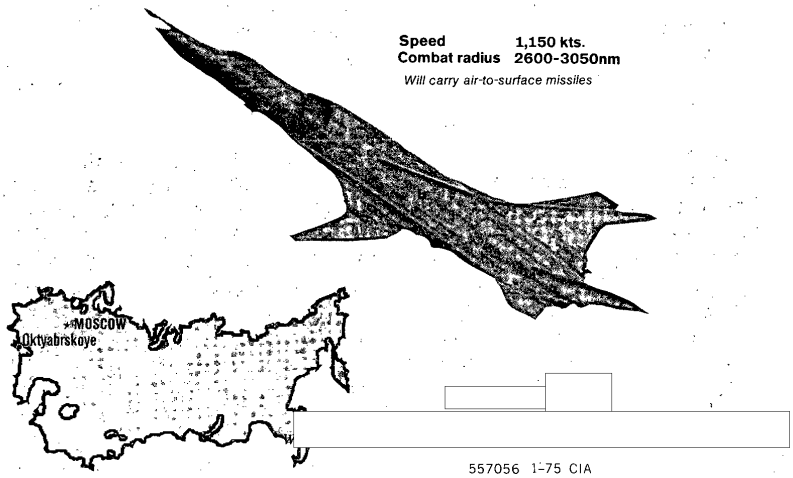
Backfire at Soviet Naval Aviation Training Base



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NOTES

Soviet [redacted] 25X1
25X1

[redacted] 25X1
25X1

[redacted] The Soviets probably plan to allocate 100 to 150 of the aircraft to naval aviation. Most of these planes will probably be assigned an anti-ship strike role in areas peripheral to the USSR; a few will probably be used for maritime reconnaissance.

* * *

[redacted] 25X1

* * *

China *appoints more civilians to top provincial party posts once held by military officers.*

New appointments in Fukien and Kiangsi are the fourth and fifth provincial vacancies filled in the past year, leaving only three provinces without publicly identified party leaders. The appointments seem to be part of a package worked out in Peking in preparation for the long-awaited 4th National People's Congress. Kiangsi and Fukien are badly factionalized provinces where armed clashes occurred between rival power groups during the anti-Confucius campaign. The new appointees, who are veteran civilian officials purged during the Cultural Revolution, face tough assignments in establishing their authority and reducing tension in these provinces.

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Jordan [redacted] 25X1
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At Annex we present the principal judgments of a National Intelligence Estimate: Soviet Naval Policy and Programs.

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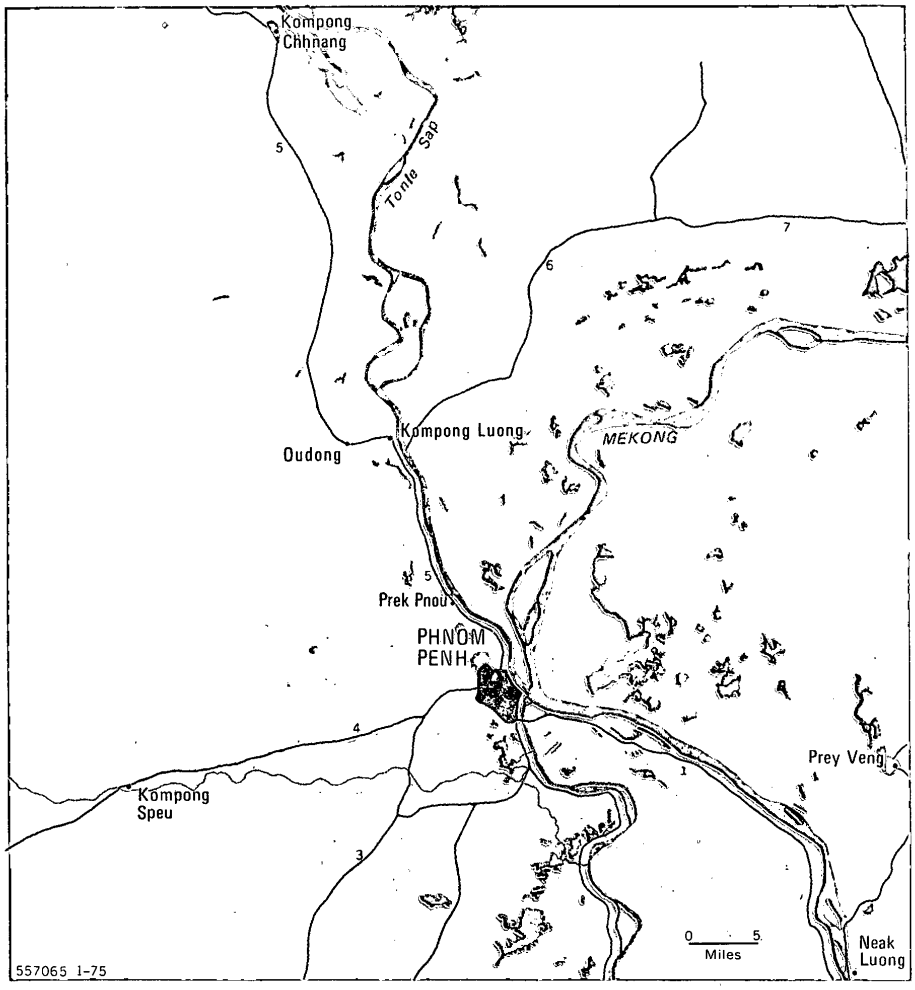
CAMBODIA: Phnom Penh Area



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CAMBODIA

Government troops have recaptured territory on both banks of the Mekong near Phnom Penh and along Route 4 southwest of the capital since the communists launched their offensive on New Year's Day.

Reports that the government had abandoned the military fuel depot at Prek Pnou have proved false. Cambodian forces still control the depot and are holding the garrison against continued communist attacks. Government clearing operations along Route 5 just north of the fuel depot, however, continue to meet stiff resistance and the road there remains cut. The government's 7th Division has made some progress in clearing a secondary road west of the fuel depot and in relieving some isolated units.

Intercepted communications from unidentified insurgent forces near Phnom Penh indicate that the communists plan terrorist action inside the city against government personnel and offices, military facilities, and marketplaces. While the insurgents could carry out some limited terrorist action in the city, the scope of action outlined in the message would seem to be beyond them.

Elsewhere in the country, insurgent forces have increased their holdings along the Mekong River corridor. The river remains open, but resupply convoys will be vulnerable unless government units are able to retake some of the lost terrain. The next convoy is scheduled to transit the Mekong from South Vietnam on January 7.

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IRAN-EGYPT-JORDAN

The Shah's state visits to Egypt and Jordan next week will be the latest steps in his effort to improve ties with moderate and conservative Arab countries. He has already wooed the Arabs by giving more lip service to the Arab cause against Israel. The Shah hopes that the trip will demonstrate his constructive, moderating influence in regional politics and help isolate radical regimes such as Iraq's.

The visit to Egypt is the Shah's first state visit there. Relations between the two countries were chilly during Nasir's tenure, but have warmed under Sadat. Both governments now favor limiting the influence of radical Arab regimes and hope to restrict the role played in the region by outside powers. The Shah and Sadat want to develop areas of mutual interest;

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Both sides have gained from closer relations. Sadat has endorsed the Shah's attempts to foster closer economic and security cooperation among Indian Ocean countries and has acquiesced in Iran's growing role in Persian Gulf security affairs. Cairo has also ignored Iraqi requests that it protest Iran's military support for the Kurds.

For its part, Cairo looks to Tehran mainly for economic help. Last May the Shah agreed to provide $870 million to support various Egyptian economic projects, including rebuilding Port Said. Tehran has also agreed to furnish 3 million tons of Iranian crude oil, but is still unwilling to give Cairo military equipment or money to purchase arms.

As for Jordan, the Shah has maintained good relations with King Husayn over the years. Iran loaned Jordan $15 million last year and delivered 11 F-5 jet fighters; another 11 will be delivered in 1975. Tehran has also provided flight training to Jordanian pilots. Both countries provide military aid to the Sultan of Oman for his fight against the leftist rebellion there.

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RHODESIA

Prime Minister Smith's truce agreement with black insurgent leaders appears to be taking effect gradually. Prospects are dim, however, for the early constitutional conference called for in the agreement.

Since Smith announced the truce on December 11, the government has released at least 50 of some 400 black political detainees. The government claims, however, that the insurgents are responsible for a number of recent small-scale attacks on farmers and security patrols, and Smith reportedly has informed Rhodesian nationalist leaders that captured guerrillas will be set free only after all political detainees are released. This enables him to hold the guerrillas hostage until terrorist incidents cease.

Smith and the black nationalists have been unable to agree on a site for the projected constitutional conference. The nationalists are opposed to Smith's plan to hold it in Salisbury, where they fear he would preside and play them off against each other. There are serious rivalries in the nationalist movement; three insurgent groups, for example, maintain separate offices in Lusaka, the capital of neighboring Zambia.

When British Foreign Secretary Callaghan visited Lusaka this week on his tour of six black African capitals, Zambian President Kaunda reportedly urged him to convene the constitutional conference in London. Bishop Muzorewa, the chairman of the Rhodesian African National Council, and the principal insurgent leaders also favor the London site. Smith is likely to resist such an arrangement. Callaghan is also going to South Africa today to consult with Prime Minister Vorster on the Rhodesian problem.

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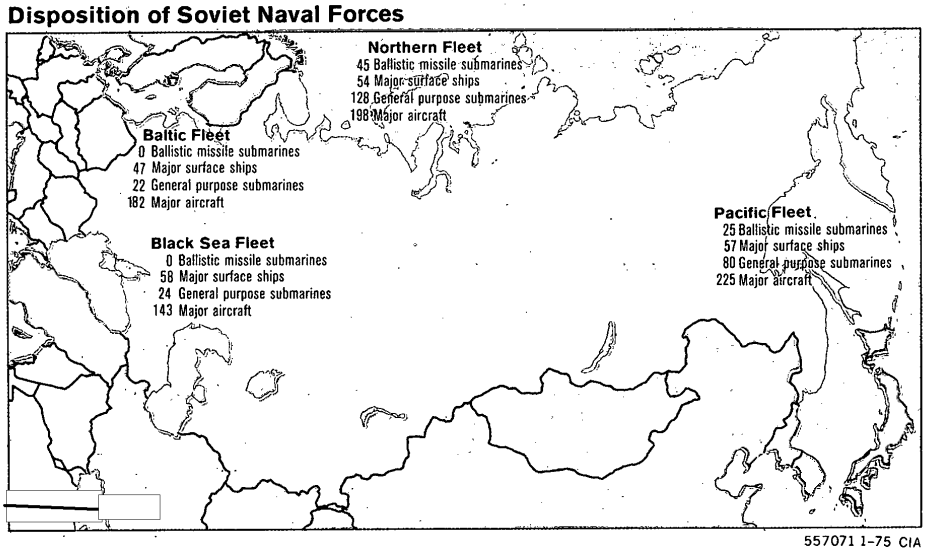
Disposition of Soviet Naval Forces



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ANNEX

SOVIET NAVAL POLICY AND PROGRAMS

We present below the principal judgments of a National Intelligence Estimate: Soviet Naval Policy and Programs, which was approved by the Intelligence Community on December 23, 1974.

A primary mission of the Soviet Navy is to furnish a deterrent to attack through the presence of a credible and survivable SSBN (ballistic missile nuclear submarine) force, and, in time of general war, to participate in the nuclear exchange and strike at soft targets such as military installations, industries and government centers.

The Soviets routinely maintain five of their operational SSBNs on station. The Soviets also appear to keep [redacted] SSBNs ready for deployment [redacted] the majority of these--the Y-class SSBNs--will take about a week to ten days to reach station after notice. This will change appreciably during the next decade since increasing numbers of D-class submarines will be within missile range upon leaving home port.

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Under conditions of sufficient warning to get additional forces to firing stations, the Soviets might currently expect as many as 400 sea-based missiles to reach their targets in an initial strike. Under conditions of no warning, successful NATO damage limiting operations, delays in command and control procedures, or deliberate Soviet decisions, the Soviets might be able to launch only a few score missiles from the Y-class and D-class SSBNs.

The Soviets are attempting to increase the survivability of their SSBN force in several ways. They are constructing tunnels near SSBN bases suitable for concealment and protection of the submarines and have built dummy SSBNs probably to conceal deployment levels during crises or to mislead NATO targeting.

We expect the Soviet SSBN force to expand to 62 modern units by the late 1970s. The 62nd unit is probably already under construction, and we believe all of them will be completed.

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If the proposed strategic arms limitation agreement covering the 1977-1985 period is successfully concluded, the Soviets will be limited to a total of 2,400 delivery vehicles--ICBMs, SLBMs (submarine launched ballistic missiles), and intercontinental bombers--with no sublimit on SLBMs. This would require some reductions in the numbers and probably some changes in the mix of Soviet strategic forces.

We believe the Soviets will retain a force at the level of 62 modern SSBNs until about 1980. But pressures will mount for change in the mix of strategic forces in the 1980s and we are uncertain how these will affect the SSBN force.

An extensive program to refit new and probably MIRVed missiles to the force is expected to start in the late 1970s, and to continue through the mid-1980s.

Nuclear War

The Soviets continue to believe that a war with the West will probably evolve into a short nuclear conflict, but they also see some increasing likelihood that a war could begin, and perhaps even remain, at a conventional level. Soviet doctrine calls for the earliest possible destruction of enemy nuclear capabilities, including naval, in the early phases of a conventional conflict.

Because the Soviets think it unlikely that a war with the West would remain conventional, we believe that they would seek to destroy SSBNs in the early stages of a conflict. However, it is possible, if the Soviets saw the opportunity to contain the conflict at conventional levels and given the low probability that they could actually destroy an SSBN, that the Soviet leadership would direct the Navy to refrain from attacking SSBNs in order to reduce the chances of escalation.

Soviet capabilities for combating Western carrier strike forces--to them a first priority task--include forces for the surveillance of NATO carrier task forces in peacetime, and a combination of air, submarine and surface forces for the destruction of those NATO carrier task forces in war.

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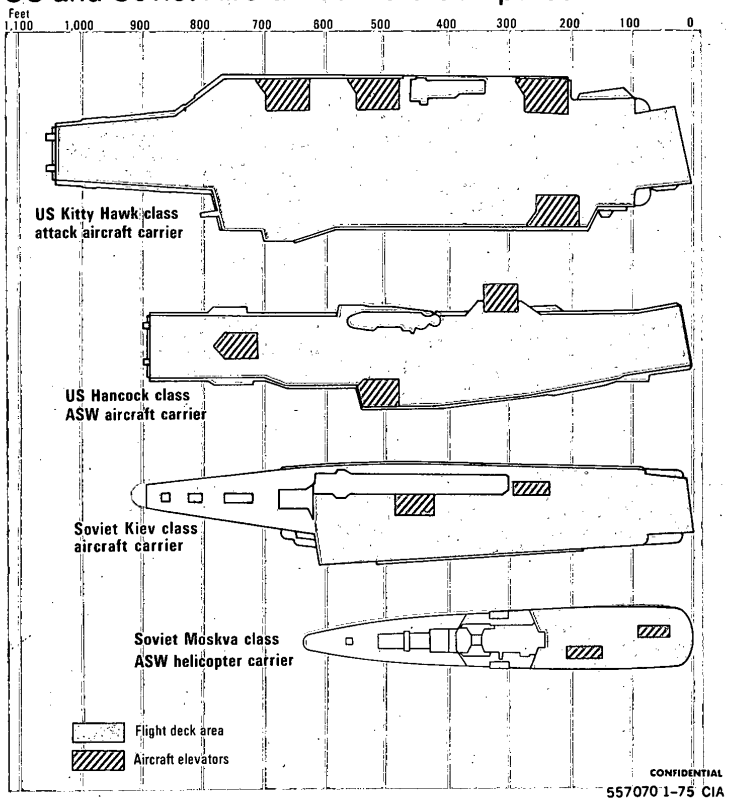
US and Soviet Aircraft Carriers Compared



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We believe that, given time to coordinate all of their surveillance assets, the Soviets would probably be able to locate and track most US aircraft carriers in the northeastern Atlantic, Norwegian Sea, northwestern Pacific Ocean and the eastern Mediterranean. We believe that coordinated strikes against Western carriers in these areas would be at least partially successful.

The degree of success would depend upon the location of the carriers, whether the Soviets use conventional or nuclear weapons, and whether surprise were achieved. If nuclear weapons were used in a surprise attack, most of the carriers in these areas could be destroyed. On the other hand, timely warning of a Soviet attack would allow the carriers to take action which would probably assure the survival of some carriers, especially against a conventional attack.

We expect the Soviets to maintain the high priority on combating enemy aircraft carrier task forces. [redacted] 25X1 25X1

Strike Capability

The strike capability of the Soviet Navy against Western surface forces will be significantly improved by the deployment with Soviet Naval Aviation of the Backfire ASM strike aircraft. The Backfire's increased range capability will give it coverage over all the major sea lanes leading to Europe and extend Pacific Ocean coverage to Hawaii--areas that were formerly out of range of the strike aircraft of the Soviet Navy.

Equally important, Backfire's capability for high-subsonic, low-level flight will also give it a better chance than the Badger of successfully crossing potentially hostile land areas such as Turkey and Greece in order to operate over the Mediterranean, an area over which, in practical terms, the Soviets could not now operate their naval strike aircraft.

The Backfire's variable-flight profile and high-speed capabilities--Mach 2 at high altitudes--will give it a higher probability of penetrating carrier defenses in the open ocean than is the case with the Badger aircraft.

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Soviet capabilities for anti-submarine warfare (ASW)--countering Western SSBNs and defending against attacks from Western general purpose submarines--are inadequate. We expect the Soviets to continue to pursue various approaches to anti-submarine warfare, with emphasis on the anti-SSBN problem. Improved ASW sensors and supporting systems and stand-off weapons will be more extensively deployed. The construction rate of ASW submarines probably will increase.

Although we believe the Soviets in wartime would attempt to attack Western SSBNs, they have no effective capability to do so in the open ocean and will probably not acquire such a capability during the next decade.

The Defense Intelligence Agency and the National Security Agency believe that several of the nonacoustic methods currently known to be under investigation by the Soviets offer potential for improving their detection of nuclear submarines and thus could provide them with a capability to threaten the survivability of a portion of the US SSBN force deployed in the open ocean. The Director of Naval Intelligence, Department of the Navy, shares this view.

We cannot exlude, however, the possibility that the Soviets might be able to detect a few SSBNs in limited areas such as the western approach to the Barents Sea or in strategic choke points such as the Greenland-Iceland-UK gap. We do not expect that Soviet forces will have systems for the reliable detection of Western attack submarines beyond the range of the latter's weapon systems during the period of this estimate.

We believe that, if a conventional war in Europe were to continue for some time, the Soviets would probably mount an interdiction campaign against Western sea lines of communications. The Soviets would have major problems in doing so.

They do not have forward bases for resupply, and attempts to operate their small number of resupply ships beyond Soviet-controlled waters could be easily countered. Thus their submarines would almost certainly have to return through choke points to an uncertain resupply situation.

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Moreover, the North Atlantic sea lanes are basically beyond the range of all but Bear and Backfire aircraft. In a prolonged conventional conflict, therefore, the Soviets could effect attrition on NATO shipping, but could not disrupt it completely. We believe it unlikely that, outside of direct involvement in a war with the West, the USSR would attack Western sea lines of communication, however vulnerable.

We do not believe the Soviets are building naval forces for intervention in distant areas against substantial opposition nor do we believe they have much capability for such intervention now. Soviet ability to sustain combat at sea for long periods would be severely circumscribed by logistics-related weaknesses.

Most of the new larger Soviet surface combatants have no reloads for their major offensive weapons systems, and the ships' limited underway replenishment capability constrain Soviet abilities for sustained combat at sea. The current forward posture of the Soviet Navy depends upon the support of auxiliaries and merchant ships in anchorages and in Third World ports, and presumes a non-hostile environment.

Since the mid-1960s, the Soviet Navy has diversified its areas of operation. However, the rapid growth rate in naval activity away from home waters that characterized the late 1960s has slowed in the 1970s. Virtually the only increase in the last four years has been related to unusual circumstances such as minesweeping operations in 1974 in the Gulf of Suez and the Bangladesh harbor-clearing operations in 1971.

We believe that the majority of the Soviet out-of-area operations, especially those in the Norwegian Sea and the Pacific Ocean, have been related primarily to training for operations against Western navies. But we also believe that many of the Soviet out-of-area operations reflect a Soviet decision to use naval forces more extensively in furthering Soviet foreign policy objectives in peacetime.

Policy Objectives

Through their naval operations in peacetime the Soviet leadership has sought to influence US

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actions at some cost and risk while at the same time keeping to a minimum the chances of actual US-Soviet conflict. We expect this approach to continue.

We believe that the level of Soviet naval out-of-area activity is approaching practical limits, given the USSR's current priorities. Over the longer term, as newer more capable ships enter the force, there will be a moderate but steady increase in the number of ships available for distant operations. Any rapid increase in sustained distant deployment probably would require a more intensive shipbuilding effort, not only of surface combatants, but also of logistic support ships.

Naval activity and port visits, particularly in the Third World, probably have improved the Soviet Union's position with some foreign political leaders, but it has irritated others. Still others--perhaps a majority of Third World leaders--show little outward concern about Soviet naval deployments.

In many countries, nevertheless, especially developed countries with a maritime tradition, naval activity is perceived as an important element in the international political balance. As long as this view continues to be prominent, the Soviet Navy's peacetime operations will have significant political impact.

We believe that future Soviet naval developments will bear a strong resemblance to the current trends. The Soviet Navy has been widely perceived as equal to or even superior to the US Navy, despite the many asymmetries in the two forces. This perception has given the Soviet Navy a degree of credibility which, while not always fully supported by its combat capabilities, has made it an important element in calculations of international political power.

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January 6, 1975

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USSR-EGYPT

The Soviets have made efforts to discount the importance of both Brezhnev's health and Soviet-Egyptian frictions as factors in the postponement of the General Secretary's trip to the Middle East. We continue to believe, however, that both factors did play a role.

The Soviet Foreign Ministry official responsible for Near East affairs, M. D. Sytenko, expressed to Ambassador Stoessel on Friday his annoyance with Western press speculation about the postponement. He said the move should not be considered unusual. Sytenko implicitly dismissed Brezhnev's health as a factor, noting that Brezhnev had met with the Egyptian foreign and war ministers when they were in Moscow last month.

Sytenko tried to put a good face on Soviet-Egyptian relations. He vaguely asserted that the talks with the Egyptians had been positive, although he indicated that there had been no new date set for Brezhnev's visit. Sytenko stressed several times the importance Moscow assigns to the Geneva conference and suggested that a new Sinai disengagement agreement would cause "others" to become suspicious. Pravda yesterday published a commentary criticizing "so-called quiet diplomacy which suggests that the Middle East problem be solved stage by stage."

A senior Egyptian official's claim last week that the Soviets have made any new arms agreement contingent on Egyptian acceptance of the Geneva conference approach to peace negotiations underlines how far apart the two countries are on political issues. The official did relate that the Soviets have said they would deliver within three months armaments promised to the Egyptians prior to the October 1973 war.

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EGYPT-ISRAEL

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ARAB STATES - PLO

The foreign ministers of Egypt, Syria, Jordan and a representative of the Palestine Liberation Organization made only minor progress during two days of talks in Cairo. The four agreed on Saturday to meet in Damascus next month in a further attempt to iron out differences between Jordan and the PLO.

The Jordanians made a small concession to the Palestinians by agreeing to hold bilateral consultations, and both agreed to refrain from "any measures or statements that do not contribute to the development of relations between Jordan and the PLO." The Jordanians have refused to meet officially with the Palestinians ever since the fedayeen were driven out of Jordan in 1970. Amman may further put off meeting bilaterally with the PLO until the Palestinians ease their propaganda attacks on King Husayn and indicate at least some willingness to reach political compromises.

The agreement of the four to continue consultations was couched in terms of their responsibility to organize against the Israeli military threat. Their communiqué Saturday did not indicate that the Palestinians had sought to portray this threat as sufficient justification for a renewed fedayeen presence on Jordanian territory. The PLO apparently considered it unwise to jeopardize Jordan's more limited concession on bilateral talks by making an issue of the PLO's desire to return forces to Jordan.

The communiqué avoided any reference to Middle East peace negotiations.

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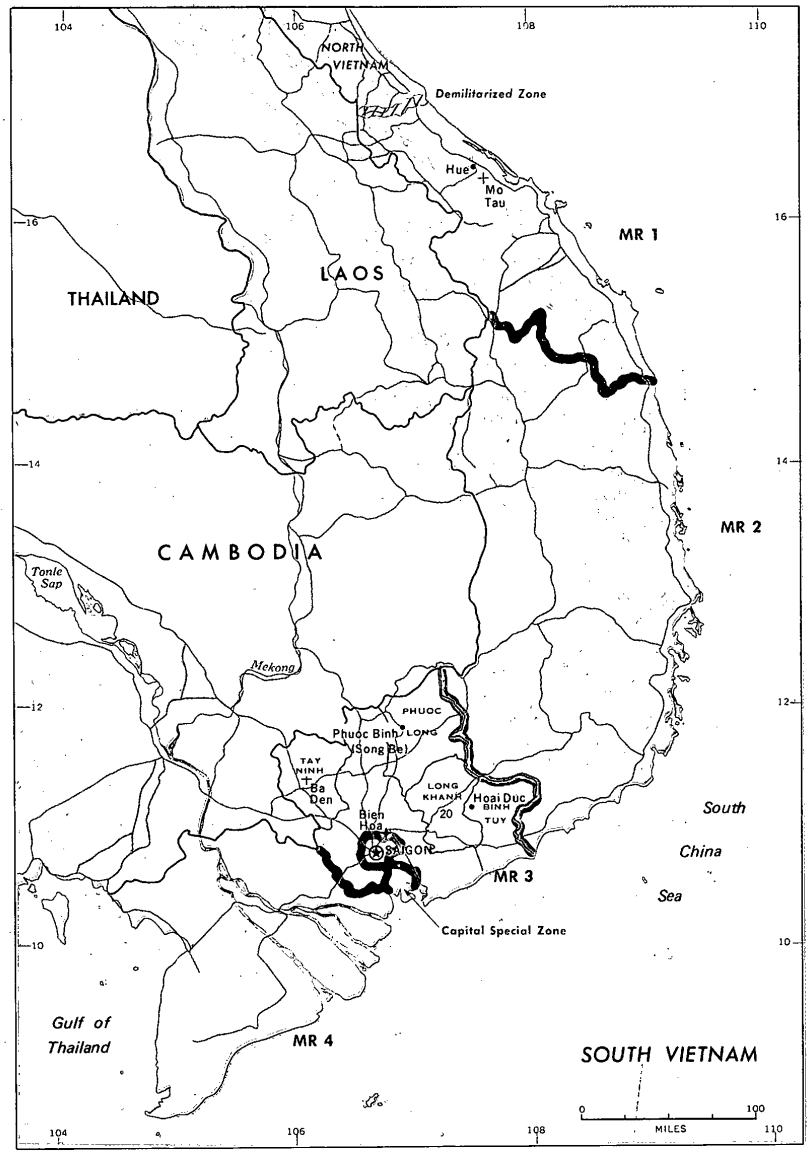

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SOUTH VIETNAM

South Vietnamese defenders at the capital of Phuoc Long Province were reinforced Saturday by a 300-man Ranger unit, but the situation is still serious.

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[redacted] additional reinforcement of Phuoc Binh is 25X1
not contemplated, and its defenders have been told to withdraw if their situation becomes untenable.

Communist attacks during the past four days have made heavy use of artillery and armor. All defending artillery has been destroyed. In addition, North Vietnamese 7th Division units appear to have entered the fight--the first time they have been used in combat since the communists stepped up the fighting in early December.

The government has been able to use air strikes effectively in the Phuoc Long area, and South Vietnamese commanders believe they can provide a minimum of 60 sorties a day by using aircraft from other parts of the country.

Elsewhere in Military Region 3, North Vietnamese troops are continuing to attack Hoai Duc district capital in northern Binh Tuy Province. A South Vietnamese regiment has been sent to reinforce the local defenders and to secure strategic Route 20 in Long Khanh Province. The South Vietnamese are concerned that the communists will be able to gain control over a corridor to the seacoast.

In Tay Ninh Province, a government communications site atop Ba Den Mountain remains under siege, but additional artillery units have been brought in to support the regional force units there. Communist rocket attacks against the Bien Hoa airfield over the weekend caused minor damage. The communists will probably try to continue to fire rockets at the air base in hopes of closing the air strip to government aircraft using it to support the Phuoc Long area.

Elsewhere, fighting is light to moderate. In the delta, the number of incidents continues to drop from the record levels of early December, but still remains well above "normal." In the northern part of the country, fighting continues around Mo Tau Mountain, south of Hue, but heavy rains are hampering major military operations.

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NOTES

Moscow *has yet to take a definitive public stance on the new US trade reform and Export-Import Bank legislation.*

Preliminary Soviet media reaction expresses dissatisfaction with the laws' "discriminatory reservations and limitations" concerning Soviet-American trade. Soviet accounts of the bill-signing ceremonies note, however, your objections to the provisions in question. Pravda commentator Yury Zhukov suggested over nationwide television on Saturday that the USSR would take its business elsewhere if the US persisted in limiting credits, but he concluded that Soviet-American economic cooperation will thrive, "no matter how the enemies of detente try to hamper it."

* * *

Ethiopia *seeking peaceful solution to insurgency in Eritrea Province.*

The ruling military council yesterday announced substantial concessions to Eritrean tribal and religious leaders, who had presented a list of demands to government representatives in Asmara last week. The council directed its forces in Eritrea to relax security measures and to exercise maximum restraint in carrying out their duties. It agreed to review the cases of all Eritrean political prisoners, except those charged with serious criminal offenses, with a view toward granting them amnesty or reducing their sentences. The council has authorized local leaders to contact Eritrean insurgents and to convey to them the need for a peaceful solution. According to some press reports, local leaders have already begun talks with insurgent leaders on a possible truce and direct negotiations between them and the council.

* * *

Mexican *cabinet secretary responsible for oil policies ousted.*

The departure of Secretary of National Properties Flores de la Pena, regarded as the most leftist member of the cabinet, will satisfy Mexican businessmen and others disenchanted with the more radically nationalistic aspects of the Echeverria administration. Flores pushed hard and often for full Mexican membership in OPEC, but the government seems to have opted for a "go-slow" approach in light of the US Trade Reform Act. The new secretary, Francisco Javier Alejo, is an economist who may have been a member of Echeverria's "kitchen cabinet."

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ISRAEL-SYRIA-LEBANON

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Israeli Defense Minister Peres yesterday allowed publicly that Palestinian guerrillas in Lebanon have been reinforced by Palestinian troops from Syria armed with anti-tank and anti-aircraft missiles. Peres said Israel would view any Syrian attempt to establish a "foothold" outside Syria as "the start of a confrontation and the extension of aggression." Lebanese Prime Minister Sulh promptly issued a statement denying that non-Lebanese troops had entered Lebanon or that Palestinian guerrillas in Lebanon had advanced weapons such as missiles.

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late last week, however, that he had noticed an increase in activity by Saiqa (Syrian-controlled fedayeen) forces in Lebanon. On January 3, he received a report of missile-carrying vehicles with Saiqa markings in southern Lebanon, and he has other reports of Saiqa cargo vehicles in the vicinity of Palestinian camps in Beirut.

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The increased anti-aircraft fire directed at Israeli aircraft during their December attack on Palestinian refugee camps in Beirut can be taken as confirmation that there are now greater numbers of SA-7 hand-held surface-to-air missiles and anti-aircraft guns available to the Palestinians. These weapons, particularly the SA-7s, are probably manned by Saiqa forces, which operate them with Syrian guidance. Saiqa forces have never been known to have any source of supply other than Syria.

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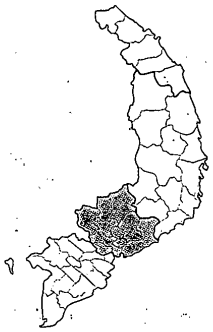
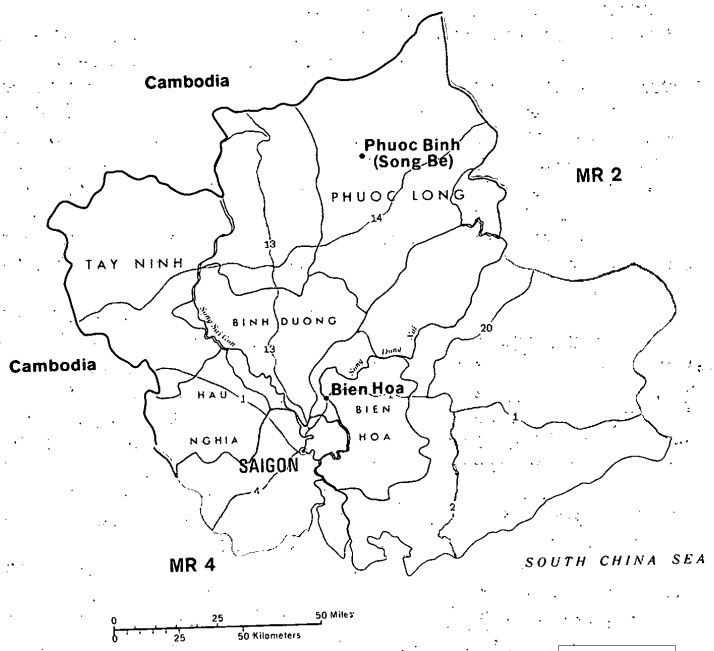


Military Region 3



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SOUTH VIETNAM

North Vietnamese forces, supported by heavy artillery and armor, yesterday morning forced the remaining government defenders to retreat from the capital of Phuoc Long Province. The battle for this remote government town may provide some indication of future capabilities and weaknesses of both sides as preparations are made for additional combat during the dry season.

The taking of Phuoc Binh can hardly be considered a major strategic victory for the communists. The North Vietnamese committed well in excess of a division to the fighting, and, despite heavy armor and artillery support, they did not easily win out over the government's outnumbered local-force defenders. The fighting at Phuoc Binh suggests that South Vietnamese regular army troops will be more than able to hold their own in future battles. The outcome of such battles may well rest on the government's willingness or ability to match North Vietnamese artillery and armor. This appears to be the most important question in the minds of many South Vietnamese commanders.

When the communist campaign began in early December, South Vietnamese commanders in Military Region 3 decided that they would not commit main-force government units to the countryside in defense of isolated towns and remote outposts. In the Phuoc Binh fighting, South Vietnamese commanders were generally pessimistic about the government's ability to hold the town without substantial reinforcements. Territorial units in the city, which were composed mostly of ethnic Montagnards, were viewed by the South Vietnamese as poor fighters. This ethnic bias also probably contributed to the government's initial decision not to reinforce the garrison, preferring to hold Vietnamese strength for defending exclusively Vietnamese targets.

After the initial assaults, however, the government's attitude appears to have changed. The Montagnards held off the initial attacks and inflicted heavy casualties on communist troops and armor. By the third day of the assault, government commanders at Bien Hoa decided to send reinforcements. In addition, the government ordered increased air strikes in the area. Air resupply to

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the town initially was successful, but North Vietnamese anti-aircraft defenses stiffened and forced the South Vietnamese to drop supplies at such high altitudes that most of them fell outside the town's defenses.

By the sixth day, General Dong, the government commander for the region, apparently decided that the defense of Phuoc Binh was important and proposed that President Thieu send additional reinforcements. His proposal, however, came too late, and the loss of Phuoc Binh thus may have been more of an example of South Vietnamese indecision than North Vietnamese tenacity.

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The Phuoc Binh attacks may set the pattern for future North Vietnamese operations. The initial assaults were conducted by local forces supported by heavy artillery. When these proved unsuccessful, main-force North Vietnamese units supported by heavy artillery and armor were used.

The North Vietnamese also made considerable use of their air defenses, forcing the South Vietnamese to be cautious in using tactical air strikes and helicopters to support and reinforce the beleaguered garrison. More ominously, there are as yet unconfirmed indicators that the communists may have brought the SA-2 missile system into southern South Vietnam.

The Phuoc Binh campaign also has pointed out how far along the communists are in reorganizing their main-force units in the southern half of the country into new divisional commands. In the provinces around Saigon, two new divisions have come into operation recently--the 3rd and 303rd, both formed from forces already in the South.

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VENEZUELA-ECUADOR

Venezuela and Ecuador have called for a special session of the OAS to discuss what Venezuelan President Perez charges is the economic aggression and political pressure represented by the US trade reform act. Yesterday Peruvian President Velasco charged that the act has "coercive and discriminatory" terms that threaten Latin American development. He sent notes of support to his colleagues.

The call by Venezuela and Ecuador caps several weeks of angry reaction--particularly in Venezuela--to those provisions of the act that would deny US tariff preferences to members of cartels that raise prices on vital commodities. Perez believes such provisions are aimed specifically at Venezuela and other OPEC countries.

In his New Year's Day address to the nation, Perez criticized the US for actions that "create a climate of confrontation." In a public telegram sent to Ecuadorean President Rodriguez on Saturday, Perez stated that the "new dialogue" promised by Secretary Kissinger with Latin America is inconsistent with your decision to sign the trade bill. 25X1

Perez supports Rodriguez' decision not to attend the meeting of foreign ministers of OAS countries in Buenos Aires in March, and there are indications that Venezuela may also boycott the meeting. 25X1

Perez is in an emotional frame of mind, which is being reflected in Venezuela's reaction to the trade act. It is apparent that Venezuela is seeking to unify Latin American countries in the OAS to oppose the act as contrary to the interests of all Latin American countries. At the same time, Perez is trying to strengthen further his position as a leader in the hemisphere.

The petroleum, finance, and foreign ministers of the OPEC countries will hold a special session in Algiers on January 24 to discuss "worldwide economic strategy" on matters that will include the US trade act.

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NOTE

Argentina's *ambitious Minister of Social Welfare Lopez Rega has gained a new position of dominance over other government officials.*

Lopez Rega now heads a newly structured presidential secretariat that will "coordinate" all of President Peron's audiences with ministers and state secretaries. In addition, the head of the presidential military household and several of his aides have been replaced. Even before this new appointment, the papal nuncio said that Mrs. Peron was completely under the dominance of Lopez Rega.

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The President's Daily Brief

January 8, 1975

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~~*Top Secret*~~ 25X1

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At Annex we compare Soviet and US defense spending.

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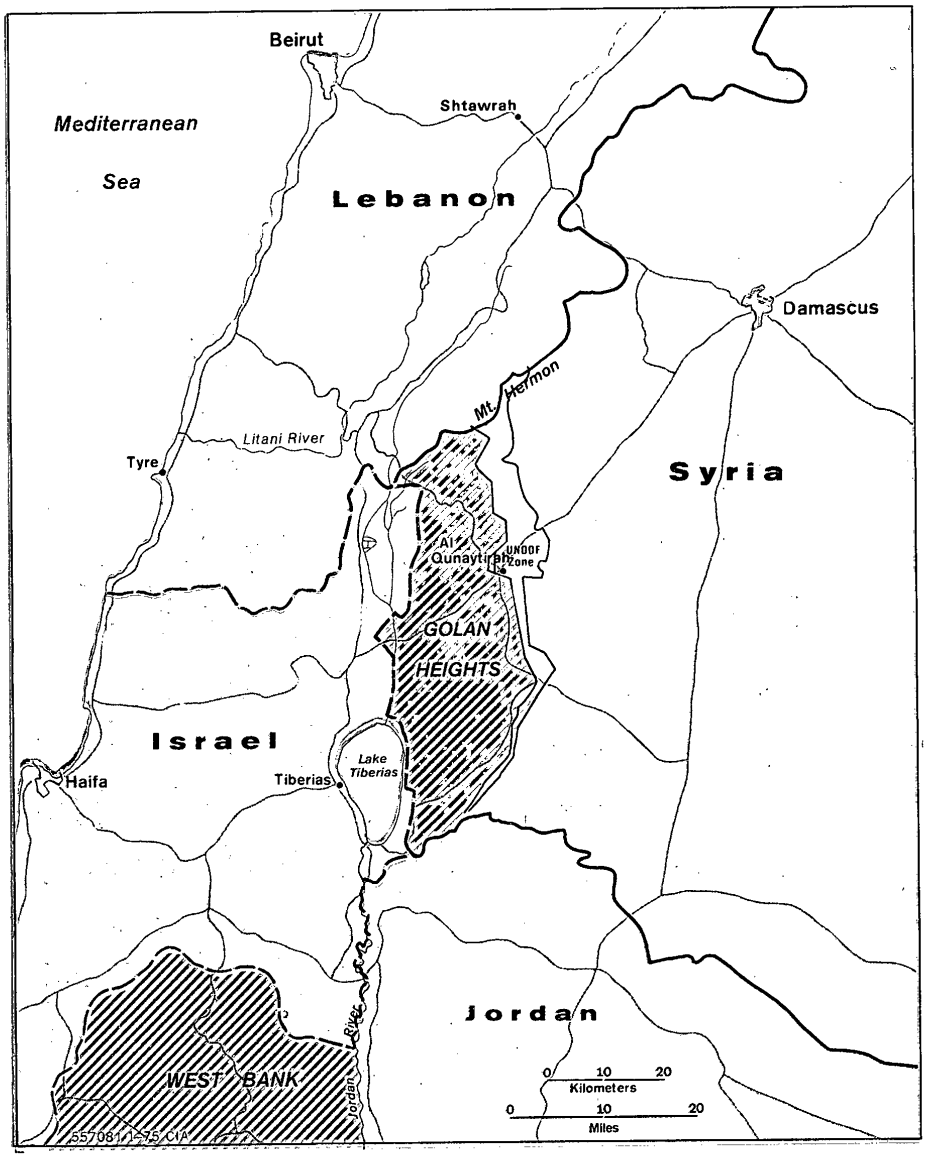

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SYRIA-LEBANON

Syrian President Asad concluded a day of talks with Lebanese President Franjiyah at Shtawrah yesterday by publicly promising full and unconditional support for Lebanon. Asad said that Damascus will "regard any attack on Lebanon as an attack on Syria itself."

Although Asad pledged in a joint communiqué to meet any Lebanese requests for help, there is no indication of what military hardware, if any, Syria would provide. Franjiyah is believed willing to accept conventional anti-aircraft weapons, but reluctant to receive more sophisticated weapons, such as the SA-6 anti-aircraft missile system, that might bring Syrian or other foreign troops to Lebanon, possibly inviting strong Israeli reaction.

The Lebanese did not accept offers of assistance tendered by other Arab states at a meeting of the Arab League Defense Council in Cairo last July. The more radical states, particularly Libya, have renewed their offers since then.

Franjiyah's purpose in pursuing cooperation with the Syrians at this time is chiefly to silence criticism he is receiving from his leftist and Muslim domestic opponents. With Israeli incursions into southern Lebanon continuing, these critics refuse to be satisfied with the government's resort to its usual strategy of complaining to the UN Security Council and promising to strengthen Lebanese forces in southern Lebanon.

The Lebanese have long been concerned that the Israelis are looking for an excuse to occupy southern Lebanon as far north as the Litani River. The Israelis deny any such intent, but only this week issued a warning that any movement of Syrian troops into the area would constitute a "continuance of aggression."

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USSR

Rumors of disagreement among Soviet leaders follow a period in which some programs and initiatives closely associated with General Secretary Brezhnev have struck snags. Furthermore, these are policies that at least some members of Soviet officialdom have viewed skeptically. Brezhnev's authority apparently is still intact, however, and the direction of Soviet policies remains unchanged.

Postponement of Brezhnev's highly touted visit to Egypt is an unwanted embarrassment. Although the General Secretary's health problems played a part in the decision to put off the trip, it is also clear that Moscow was unable to gain Cairo's agreement on political questions, particularly regarding the Soviet role in Middle East peace negotiations.

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Difficulties had surfaced in December over Brezhnev's twin programs of consumer welfare and detente--particularly economic relations with the US. A meeting of the party Central Committee opened

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and closed with seeming abruptness on December 16, and the USSR Supreme Soviet session convened on December 18. Brezhnev spoke to the Central Committee on domestic and foreign policy. The US embassy reports rumors that dissatisfaction was voiced at the party plenum about the US trade legislation and the compromise on emigration, with local officials complaining about the problems posed for maintaining local controls.

The plenum and the Supreme Soviet approved an economic plan for 1975, specifying group A industries (largely producer goods) are to grow at a higher rate than group B industries (largely consumer goods). This reverses goals for growth laid down in the 1971-75 plan, which were linked, at least in propaganda, with Brezhnev's promises to improve living standards.

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

It remains uncertain how much of all this can be ascribed to circumstantial events, to Brezhnev's health problems, to his own decision to pull back on some policy initiatives, or to pressures exerted by other leaders on specific elements of policy. If Brezhnev is unable to return soon to work and demonstrate that he retains the initiative in policy matters, his political position would almost certainly be weakened.

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CYPRUS

Greek Cypriot negotiator Clerides and Turkish Cypriot negotiator Denktash will meet today in another attempt to reach agreement on the terms of reference for the substantive negotiations on a Cyprus settlement.

A snag developed in the talks last month over the question of who will guarantee the final settlement. The Turkish side favors the previous arrangement, which designated Greece, the UK, and Turkey as the guarantors. Such an arrangement would give the Turks the right to intervene if the settlement was violated. The Greek side has taken the position that there must be progress on substantive issues before the question of guarantees is tackled.

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Denktash's tough bargaining position has been endorsed by Republican Party leader Bulent Ecevit, the former Turkish prime minister who visited Cyprus last week. In Nicosia, Ecevit publicly rejected the legal basis of Makarios' presidency, and reiterated that Turkey would not abandon its guarantor role or accept an "artificial increase" in the number of guarantor powers. He also stated flatly that important issues could not be addressed in the intercommunal talks until Turkish Cypriots still in the south or in the British bases are allowed to move north. Ecevit's remarks drew immediate fire from Greek and Greek Cypriot officials.

Ecevit's visit to Cyprus, however, was primarily staged to remind his countrymen on the Turkish mainland that it was he who had engineered the Cyprus victory. In this way, he probably hoped to consolidate his support within the armed forces and head off Justice Party leader Demirel who is close to obtaining the absolute majority that would enable him to form a center-right government. Ecevit is still seeking a formula to end the Turkish government crisis--now in its fourth month--that would include a call for early elections, which he believes would return him to power with a parliamentary majority.

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The problem of establishing satisfactory negotiating procedures, meanwhile, has been complicated by uncertainty about President Makarios' role in the process. Makarios is not trusted by the Turkish side, and Denktash is uneasy about the prospect that any agreement he negotiates with Clerides must be approved by Makarios.

Makarios has been devoting much of his time to the formation of his cabinet, which is expected to be announced this week. Once that hurdle has been surmounted, he probably will direct his attention to the negotiations.

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EGYPT

Egyptian security authorities have arrested several hundred members of the outlawed, but recently resurgent, Communist Party, as well as some radical leftist youths as a result of the violent labor demonstration in Cairo last week.

Leftist agitators for some time have been attempting to stir up trouble among labor and student groups. Officials say that 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 pending. [redacted] 25X1 25X1

Although there is no solid evidence of Soviet involvement with Egyptian communist or leftist elements, Moscow may well have discreetly encouraged the communists to exploit legitimate popular grievances in the hope of increasing pressure on President Sadat. Despite the openly pro-Soviet line espoused by some of the agitators, the Egyptian government has made no charges, either publicly or privately, that Moscow is involved. In any case, the Soviets will obviously not be pleased by the arrests.

While the Egyptian government is moving forcefully against agitators, it is also attempting to respond to popular grievances. Even before the demonstrations, the cabinet had decided to allocate additional funds for the immediate import of consumer goods that are in short supply. The government has also promised to review the draft of an unpopular labor reform bill. Neither of these measures are likely to satisfy the public. Discontent, therefore, is likely to continue for some time and could lead to further disturbances.

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Nui Ba Den, Tay Ninh Province

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NOTES

South Vietnamese *lose Nui Ba Den.*

The South Vietnamese were forced from their position atop Nui Ba Den--Black Virgin Mountain--just outside Tay Ninh City yesterday, following several weeks of determined communist attacks. Nui Ba Den is a geographical oddity rising abruptly to over 3,000 feet from the flat surrounding countryside; it has been used since 1964 by the South Vietnamese as an observation post and communications site. The government was unable to resupply the beleaguered outpost because of intense communist anti-aircraft fire.

* * *

Ireland's *Foreign Minister Fitzgerald is in Washington for a brief round of talks.*

Since Ireland joined the EC, it has replaced the US and the UK as the focus of Irish foreign policy. Now that Ireland has taken over the presidency of the EC, the Irish hope to use the position as the principal channel for US-EC consultations. They are aware that this practice is only now evolving, and they wonder whether Washington will pursue consultations in this manner when a small country, such as theirs, holds the post.

* * *

Panama's *Foreign Minister Tack may be ousted in a dispute over the handling of canal treaty negotiations.*

Foreign Minister Juan Tack's dissatisfaction with the way the Torrijos government is handling the canal treaty negotiations may lead to his departure from the cabinet [redacted] 25X1 25X1 The Foreign Minister's complaints have become so vehement that Torrijos reportedly is ready to fire him after the next round of talks with Ambassador Bunker, which will begin in Panama on Friday. Although Tack has had a central role in the negotiations since they began over a year ago, Torrijos himself is the final authority on all aspects of the negotiations. The Foreign Minister's departure would, if anything, make the deliberations easier.

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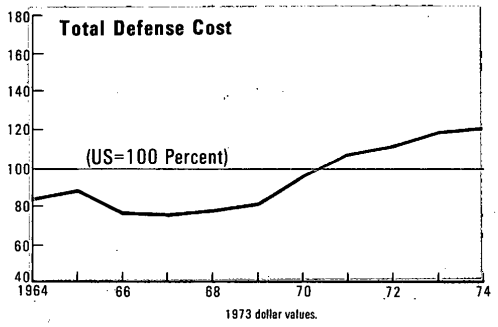
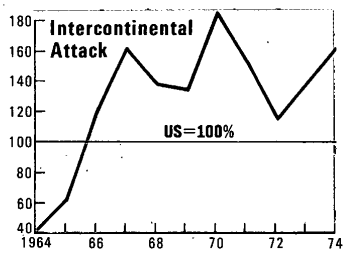
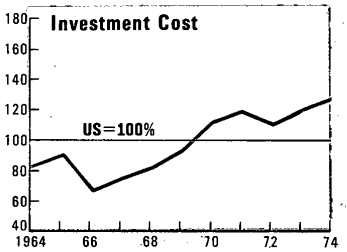
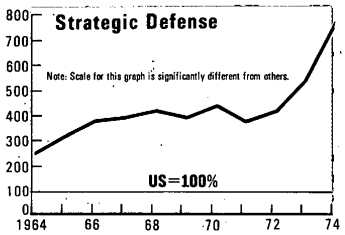
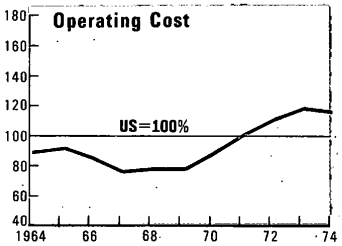
Dollar Cost of Soviet Programs as a Percent of US Defense Expenditures*

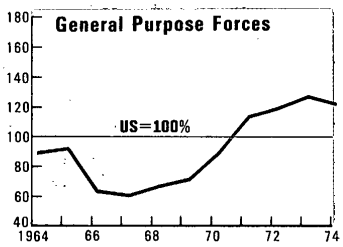


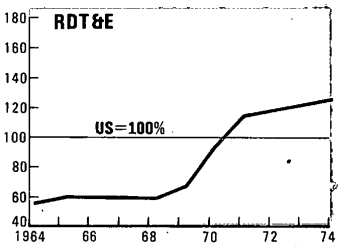












Note: Percentages calculated from 1973 dollar values.

*Department of Defense data has been adjusted for comparable coverage.

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ANNEX

USSR DEFENSE SPENDING

A soon to be released CIA report on Soviet spending for defense presents estimates of the dollar costs of Soviet defense forces and programs for the years 1964 through 1974 as rough approximations of what observed Soviet defense activity would have cost to reproduce in the US in 1973. These estimates are compared with US outlays for the same years.

The main points of the report are subject to some caveats because of differences in mission, composition, and characteristics between the Soviet and US military establishments.

--The comparisons of US defense spending with the estimated dollar costs of Soviet defense programs should not be used in isolation to draw conclusions about the relative military effectiveness or capabilities of US and Soviet forces.

--The US Department of Defense budget data have been adjusted to achieve comparable accounting coverage with the dollar estimates made for the USSR.

--While the dollar costs of Soviet programs reflect the magnitude of the Soviet defense effort in terms that are comparable to the US effort, they do not reflect the way the Soviets measure their own defense effort.

Key Findings

In every year since 1971 the dollar costs of Soviet defense programs have exceeded comparable US defense outlays. In 1974, these costs--over 93 billion dollars in 1973 prices--were about 20 percent higher than US outlays. If the costs of pensions and reserves are removed from both sides, 1974 Soviet costs exceeded the US total by about 25 percent. Cumulatively over the preceding decade--1964-1973--the Soviet defense effort represented about 90 percent of US costs. US outlays were greater through the Vietnam war period. With the reduction in US spending as that war wound down, Soviet expenditures began to exceed those of the US.

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Intercontinental Attack Forces

Estimated dollar costs of Soviet intercontinental attack programs have exceeded US outlays every year since 1966--most US systems were operational by then--and were some 60 percent higher than those of the US for the year 1974.

If the Soviet peripheral attack forces--primarily intended for use on the Eurasian continent--are included (the US has no counterpart for these forces) the gap is widened to twice that percentage.

--Soviet ICBM programs would cost about three times as much as US ICBM programs over the period as a whole.

--In 1974, the Soviet costs reached almost four and one half times the US level, reflecting the four new Soviet ICBM systems coming into operational status.

--The costs of Soviet submarine launched ballistic missile programs have exceeded US SLBM costs since 1969 and were almost 30 percent greater than US costs in 1974.

--US intercontinental bomber programs have amounted to about five times the estimated costs of Soviet intercontinental bomber programs over the period as a whole.

Strategic Defense Forces

The USSR has traditionally maintained much larger strategic defense forces than the US. The cumulative dollar costs of Soviet programs over the 1964-1974 period were more than four times US spending, the biggest difference being in surface-to-air missiles and fighter-interceptor programs.

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.

General Purpose Forces

During 1964-1974, the USSR spent steadily increasing amounts on general purpose forces. By 1971, Soviet dollar costs had surpassed those of the US, and in 1974 exceeded them by 20 percent. The costs of Soviet ground forces are now more than twice US costs, reflecting the much higher levels

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of Soviet manpower. The costs of naval forces are about the same for both countries. The costs of Soviet tactical air forces have been growing rapidly since 1969 but are still only about half the US level.

A Different Look at Defense Costs

Overall expenditures for military forces can also be divided into research, investment, and operating costs for comparison purposes. Investment in each category is made up of hardware and facilities acquisition. Operating costs include fuel, ammunition, and salaries.

In 1974, the estimated dollar costs of Soviet military research, development, testing, and evaluation exceeded US outlays by about 25 percent. US expenditures measured this way exceeded estimated Soviet dollar costs by a little over 50 percent from 1964 to 1970. Since 1971, however, Soviet dollar costs have been higher.

The estimated dollar costs of Soviet weapons acquisition programs have exceeded US outlays for comparable programs since 1970, and in 1974 were about 25 percent larger than US programs.

Because of initial procurement costs for the new generation of Soviet ICBMs and the costs of deploying modern tactical aircraft, missiles and aircraft have been the fastest growing elements of Soviet procurement in recent years.

The costs of ships and boats have exceeded US outlays by 50 percent over the 1964-1974 period, and were about one-third greater in 1974.

Soviet land armaments procurement amounted to over three times US expenditures for the 1964-1974 period.

For both the USSR and the US, the cost of military personnel account for the largest part of the operating budget. Costs for Soviet military personnel--at US 1973 pay scales--rose steadily over the 1964-1974 period, whereas US military force reductions since 1968 have lowered comparable US expenditures. In 1974, total dollar costs for Soviet military personnel were almost 50 percent higher than corresponding US costs.

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The President's Daily Brief

January 9, 1975

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USSR

Tass yesterday denounced Western speculation about political instability in the Kremlin. The article was the first public comment on the subject by Soviet authorities. The US embassy in Moscow, meanwhile, has learned that a Soviet Foreign Ministry official told the Italian embassy on Monday that Brezhnev had resumed his normal work schedule.

The Tass statement did not specifically address the question of Brezhnev's health. A few hours earlier, however, Tass noted that the General Secretary and his family yesterday attended the funeral of his mother, who died Tuesday. That report did not mention Brezhnev's presence at the burial, but a Tass spokesman later told [redacted] that Brezhnev was there. 25X1

French and West German diplomats have reported that during the past few mornings, Brezhnev's car has been seen leaving the building where he maintains an apartment at his normal hour of departure and traveling toward the Kremlin.

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ISRAEL-PLO

Press disclosure of an Israeli contact with a PLO official a month ago has caused heated comment within the ruling Labor coalition as well as among the opposition. The contact took place in Prague at a preparatory meeting of the World Peace Conference.

Naftali Feder, the political secretary of Mapam, the leftist partner in Prime Minister Rabin's coalition, has given the US embassy in Tel Aviv an account of his "informal" discussion. Feder said the discussion was initiated in a hotel dining room by the junior PLO delegate to the conference and lasted an hour and a half. The PLO official suggested that:

--Israel and the PLO meet in Geneva to arrange a modus vivendi, with neither side having to agree to recognize the other in advance.

--Both sides could arrange some long-term accommodation without either having to renounce its ultimate objectives.

--Neither PLO chairman Arafat's vision of a secular Palestinian state absorbing the present state of Israel nor the Zionist dream of settling all of the historic land of Israel need be barriers to an accommodation.

--Palestinian demands that Israel return to borders created by the UN partition in 1947 represent little more than a bargaining position and need not be considered seriously.

Feder said he told the PLO representative that Israel would not negotiate with terrorists and that, in any case, there is no basis now for such talks. The situation might change, he told the PLO member, if the PLO made public the same statements that were being made privately.

The Israeli government has refrained from any public comment on Feder's meeting, perhaps because it considers the fedayeen approach a trial balloon. Feder, however, was sharply criticized at a meeting Tuesday of the Labor Alignment's parliamentary caucus for violating the government's policy against talks with the PLO. The opposition parties may demand a Knesset debate on the matter.

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There has been no indication that the government contemplates backing off from its firm refusal to deal with the PLO. In several recent and widely reported press interviews, Prime Minister Rabin has emphasized his conviction that, if Israel held firm in its refusal to deal with the PLO, the Arab states would eventually accept the Israeli position that the Palestinian problem can only be solved through Israeli-Jordanian negotiations.

Confirmation of the party official's meeting follows recent reports--vigorously denied by the Israeli Foreign Ministry--of official contacts with the PLO in Europe. Despite the denial, the Feder conversation may not have been an isolated incident.

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LEBANON

President Franjiyah has contacted the leaders of Syria, Jordan, Egypt, Saudi Arabia, and Libya for help in strengthening Lebanon's defenses against Israeli air and ground attacks. He reportedly has received offers of assistance.

Franjiyah is said to be proceeding with his usual caution in considering how to respond to these offers. His advisers, however, have been urging him to endorse a course of action that would move Lebanon a big step closer to Syria. Their recommendations would place fedayeen in southern Lebanon under command of the Syrian army and allow Syrian forces to occupy strategic positions in southern Lebanon and the area of Mount Hermon.

Franjiyah would present two preconditions to Syria before accepting such proposals:

--Syria would have to assist in controlling and disarming Palestinian refugee camps near Beirut.

--Syria would have to help in concentrating and controlling fedayeen units in southern Lebanon.

Franjiyah probably expects that Damascus will be unwilling to go along, and he will be relieved of the necessity of allowing Syrian troops into Lebanon. The US embassy in Beirut reports that Franjiyah turned aside an offer from Asad on January 7 to station Syrian troops on Lebanese soil. Asad did not press the offer.

Israeli Foreign Minister Allon told Ambassador Keating Tuesday of Israel's apprehension about recent developments in the Lebanese-Syrian-fedayeen relationship. He said that the public warning issued by Defense Minister Peres early this week was designed to help Lebanon resist Syrian pressure for stationing Syrian forces on Lebanese soil. Allon expressed a fear that within a few months the current buildup of Syrian-controlled Saiqa forces in southern Lebanon will shift the balance decisively against the Lebanese army.

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In another move designed to thwart Israeli strikes into Lebanon, 40 Soviet experts are reported to have arrived in Lebanon from Syria within a few days of the December 12 Israeli air strike on Palestinian camps in Beirut. The Soviets may have considered the time opportune for responding to requests for additional military assistance that were presented by PLO chief Yasir Arafat while he was in Moscow during November.

The Soviets have in the past provided training to fedayeen units only on Syrian territory or in the USSR. Any movement of Soviet personnel to Lebanon would be intended to curry favor with the Palestinians and Syrians at a time when Soviet-Egyptian relations are still uncertain.

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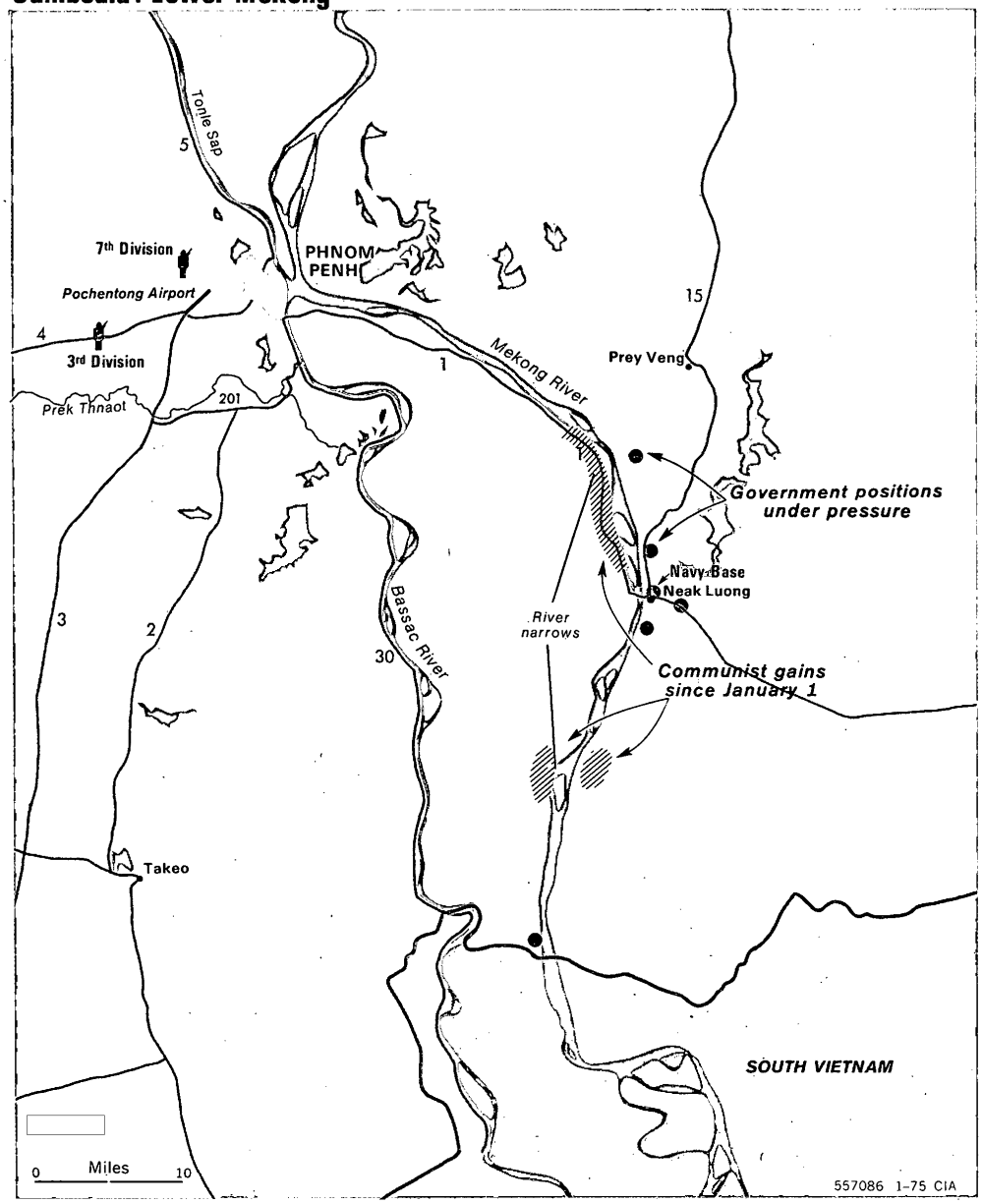
Cambodia: Lower Mekong



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CAMBODIA

Government forces have regained the initiative around Phnom Penh, but the situation along the lower Mekong River is still serious.

Units of the Cambodian army's 7th Division, with the help of heavy air support, have relieved all previously isolated positions on the capital's northwestern defenses, and units of the army's 3rd Division are doing well near Route 4 southwest of Phnom Penh. Insurgent gunners remain within range of Pochentong airport and the city proper, but shellings have been sporadic and ineffective.

If the situation around Phnom Penh continues to improve, military leaders may soon be able to turn their attention to the Mekong River corridor southeast of the capital. Government forces there have been unable to regain any ground along Route 1, and some ten miles of highway paralleling the Mekong upstream from the navy base at Neak Luong remain in communist hands.

Government positions on the east bank of the river opposite Route 1 are under pressure, and intercepted messages indicate that insurgent forces are preparing for a major push against Neak Luong. Government holdings south of Neak Luong have been reduced to a few small outposts near the border with South Vietnam.

Navy commanders apparently still plan to send a supply convoy from South Vietnam upriver to Phnom Penh late this week. At this time, rice and most fuel stocks in the capital are sufficient to meet civilian and military needs for a month, and enough ammunition is on hand to support the fighting at its present level, at least through the end of the month.

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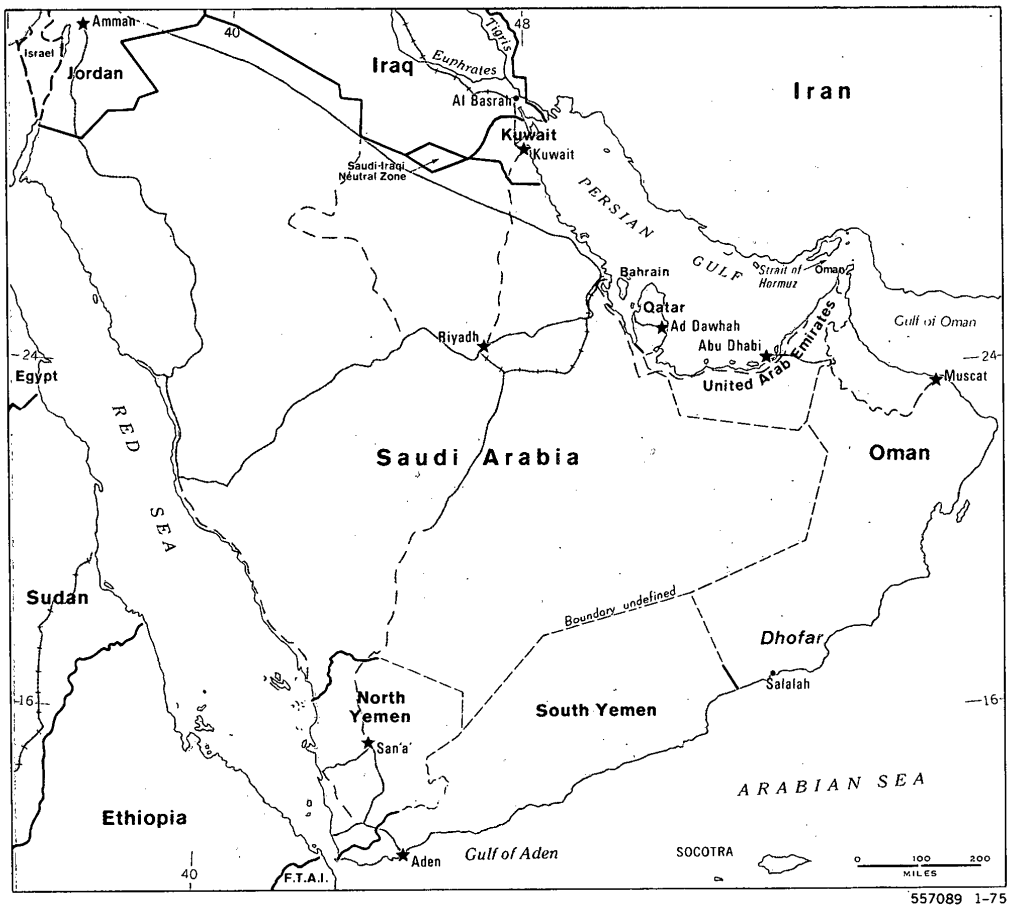

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PORTUGAL

Foreign Minister Mario Soares will face some hard decisions when he returns home this week from a visit to a number of communist and neutral states. The decisions concern the problems of the Socialist Party, which he heads and which is shifting sharply to the left. Soares' first decision will be whether to resign his cabinet post to devote full energy to party matters.

The party's congress last month served to sharpen its divisions and reveal its general disorganization. Soares reportedly promised his supporters after the congress that he would resign from the government this month. He has not, however, been showing much enthusiasm or ability for party work, having become fond of the prestige and influence that go with being foreign minister.

The congress failed to make decisions on many key points in the party's program. The short-term social and economic measures that were adopted by the congress are more radical than those advocated by any other major Portuguese party, including the Communist. The US embassy in Lisbon reports that attempts to get the congress to accept a more moderate program were rejected overwhelmingly.

The delegates devoted most of their time to electing a slate of party leaders. Two slates were offered for the party's 151-member national commission. Although the slate led by Soares won, the commission has a more leftist cast than the party membership as a whole. This cast is likely to be strengthened when the 20 seats allotted to youth are filled at the Socialist Youth Congress later this month.

A temporary secretariat has been named, and by the time a permanent one is to be selected, the Socialist youth representatives will be on the national commission, which selects the leadership. Soares, however, probably will survive as secretary general.

The congress has given the commission authority to complete those portions of the party's program that were not addressed at the congress. A draft of the program calls for gradual Portuguese withdrawal from all political and military blocs. Some would like to write in provisions for establishing a common election front with the Communist Party. Soares has taken a stand against both, but he will be under intense pressure to radicalize the party's program.

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MEXICO

Mexico has decided not to seek full membership in the Organization of Petroleum Exporting Countries. The new Secretary of National Properties stated Saturday that Mexico should remain in consultation with OPEC; a ministry spokesman added that Mexico will be an observer at OPEC meetings but has no interest in membership.

The statements followed by only one day the surprise firing of the leftist Secretary of National Properties who had vigorously supported Mexican membership in OPEC. Pemex, the state oil monopoly, had maintained that Mexico can derive the benefits of high oil prices without joining the organization. President Echeverria may have been influenced to accept the Pemex argument by the fact that OPEC membership would mean exclusion from preferential treatment under the US Trade Reform Act.

Last week, Mexico criticized OPEC countries for not using their wealth to improve the lot of their citizens. This criticism of OPEC and emphasis on state ownership of the oil industry probably are intended to deflect domestic charges that US pressure--from the trade act--has deterred Mexico from joining OPEC.

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NOTE

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January 10, 1975

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WORLD OIL

Barring major new political or military developments, we foresee the following situations in the international oil market this year:

--The price of oil to the international companies operating in the Middle East will average between $10.15 and $10.50 per barrel through next September, in accordance with the recent OPEC decision.

--By mid-summer the demand for OPEC oil will probably fall by at least 3 million barrels per day as a result of high prices, conservation measures, the seasonal pattern of oil consumption, and the continuing high level of stocks. This estimate does not assume a sharp drop in US imports, which would be additional.

--OPEC members are likely to maintain prices by cutting production. Excess production capacity would then exceed 11 million barrels per day.

--At the expected price and output levels, OPEC members will earn about $109 billion, and their foreign assets will increase by $55 billion to $65 billion, reaching $135 billion to $145 billion by the end of the year.

--Despite efforts to diversify, a disproportionate share of OPEC countries' assets will continue to be held in dollars.

--Problems of financing oil deficits will increase, even though additional recycling schemes are likely to be initiated.

--High oil bills will continue to slow recovery from the worldwide recession.

--Saudi Arabia will take 100-percent control of the Arabian American Oil Company (ARAMCO) early this year, and most other Arab producers will fully nationalize their industries soon thereafter.

--Venezuela also will nationalize foreign oil company holdings sometime during the year.

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--The OPEC nations probably will adopt an indexing scheme, tying the price of oil to the prices of selected industrial commodities. The scheme is unlikely to be introduced before the fourth quarter unless inflation in industrial countries intensifies.

--Oil exploration activity around the world is likely to remain at 1974 peak levels, yielding numerous discoveries.

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EGYPT

President Sadat's public charges this week that the Soviet Union still has not rearmed Egypt fully may be an effort to justify to other Arabs his readiness to conclude another agreement with Israel. His complaint, however, endangers those military deliveries the Soviets recently promised.

In the course of an interview, carried in a Beirut newspaper Wednesday, Sadat acknowledged that Soviet leaders agreed, during Foreign Minister Fahmi's recent visit to Moscow, to provide "a part" of Egypt's arms demands. He asserted that this will not meet Cairo's needs for either replacements or new arms. Addressing his remarks to "every Arab," Sadat contrasted Egypt's situation with that of Syria and Israel. He said Syria has received full "compensation" from the Soviets for war losses, and Israel has acquired both compensation and new types of weapons from the US, while Egypt has received only "a few arms" and small quantities of ammunition and spare parts.

Sadat indirectly accused the Soviets of involvement in recent leftist-inspired demonstrations in Cairo. He said there is "no room" in Soviet-Egyptian relations for interference in domestic affairs, and that if the left is "exploited for sabotage," it will be dealt with like "any other group of saboteurs."

Sadat's complaints are the strongest since his critical public statements last spring, which probably played a large part in Moscow's suspension of arms deliveries between April and August.

Sadat's implicit message to other Arabs may be that Egypt is justified in taking what it can get from US diplomatic efforts in negotiations because Syria gets what it wants from the Soviets. In a second installment of his interview published yesterday, Sadat reinforced this impression. He observed that the Geneva conference should not be reconvened until the US and the USSR themselves agree on strategy. He said that, in the meantime, no Arab should disregard any "opportunity" for "other steps toward peace."

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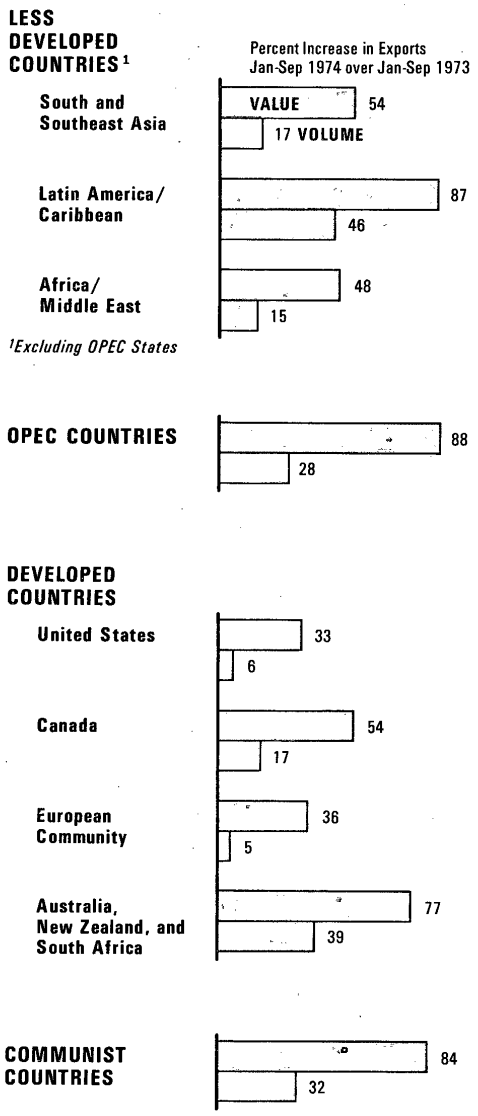
JAPAN: Export Trends



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JAPAN

Japan successfully offset the rise in its oil import costs in 1974 by boosting exports faster than any other developed country.

Prodded by the weakness in domestic demand, the Japanese raised exports by 50 percent, to $54 billion. This remarkable achievement, together with slack demand for imports, produced a trade surplus of about $1.4 billion despite a $14-billion jump in Japan's oil bill. The current account as a whole was in deficit by $5 billion in 1974, compared with a deficit of $100 million in 1973.

The physical volume of Japanese exports rose 15 percent in the first nine months of 1974, with sales to less-developed and Communist countries showing by far the largest gains. Export prices were up by 25 to 50 percent in the major markets. As a result, Japan was able to increase its trade surplus in 1974 with every major group of countries except OPEC.

--The surplus with non-OPEC less-developed countries nearly doubled, to $9.5 billion--roughly one third of the overall trade deficit of these countries.

--The surplus with developed countries increased by $2 billion, reaching $3.7 billion--one half of this with the United States.

--The surplus with Communist countries rose from $30 million to $800 million.

--The deficit with OPEC countries totaled $13 billion, up from $3.6 billion in 1973.

--Japan, nevertheless, made its most striking export gains in OPEC countries, nearly doubling sales to $5 billion. Much of the increase consisted of steel products. The rise in exports to OPEC states offset about one fifth of the increase in oil payments.

Tokyo has a good chance of realizing its goal of a $6-billion trade surplus in 1975. Even though export growth will drop sharply, we estimate that export value will still rise by 15 percent, while there will be a small gain in volume of exports. Most of this latter gain will come from sales to OPEC and Communist countries. At the same time, sluggish domestic economic activity will limit the growth in import costs to about 10 percent, with most of this increase reflecting higher average prices for oil and manufactured goods.

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SOUTH VIETNAM

President Thieu is attempting to rally international and domestic support for his government in the wake of recent military setbacks.

In an address to the nation planned for today, Thieu, [redacted] will make the following points: 25X1

--The Communists have launched a general military and political offensive to overthrow the government in serious violation of the cease-fire agreement.

--The loss of Phuoc Binh was due to overwhelming Communist military force and not to ineffective government leadership as some opposition elements have claimed.

[redacted] 25X1

[redacted] the government intends to bolster public confidence by emphasizing that it retains strong US support. The pending visit of the US Air Force chief of staff will be made known publicly. Government spokesmen also will not discourage rumors now circulating in Saigon that Washington's Special Action Group has met to discuss possible US intervention in Vietnam and that a US naval task force may be stationed off the South Vietnamese coast. The government will almost certainly encourage speculation that supplemental US military aid will be provided. 25X1

The initial reaction to the loss of Phuoc Binh within official circles has been relatively mild. Senior military commanders concurred in Thieu's decision not to reinforce the province, realizing that it would have weakened government defenses in other more strategic areas and would have imposed severe strains on resupply capabilities. Although viewed seriously, the loss thus did not have the shock impact that the unexpected fall of Quang Tri City had in the 1972 offensive.

There is more apprehension, however, among middle grade government officials and military officers that the Communists will be able to take over other towns and provinces. At this level, the recent losses are attributed to a combination of reduced US support, as well as to inept leadership, and corruption. The psychological boost gained by the seizure of Phuoc Binh may increase Communist willingness to test Saigon and US reaction by assaulting a more significant provincial capital.

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FRANCE

The French are moving directly to the development of a multiple independently targetable re-entry vehicle (MIRV). [redacted] 25X1

The MIRV warheads will be installed on the M-4 submarine launched ballistic missile. The missile and the MIRV warheads are expected to be used with France's sixth nuclear powered submarine [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

One of the major goals of France's 1974 nuclear test series in the South Pacific was to test nuclear components for MIRVs. [redacted] 25X1 25X1

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CYPRUS-TURKEY

The Turks are currently engaged in a well-publicized effort to obtain the release of the Turkish Cypriots who sought refuge at a British Sovereign Base in southern Cyprus during the fighting last summer. The British resisted earlier Turkish representations on this issue in an effort to strengthen the Greek Cypriot bargaining position, but they reportedly are now preparing to release the refugees in the face of the well-orchestrated Turkish campaign.

[redacted] 25X1

passed a personal message [redacted] 25X1

[redacted] to Archbishop Makarios stressing the 25X1 problems arising because of the refugees. The message reportedly concluded with a warning to Makarios that unless there were positive developments [redacted] would be forced to release the Turkish Cypriot refugees. [redacted] 25X1 25X1 25X1 25X1

Feeling sure of their ground, the Turks may be publicizing their current effort on behalf of the refugees to gain credit for a diplomatic victory. Such a success in turn could enable the Turkish government to show more flexibility in the forthcoming Cyprus talks. The Turks are still grappling with their domestic political problems, and the appearance of bowing to US pressure makes it more difficult for Ankara to give the kind of concessions necessary for a settlement.

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NOTE

Ethiopia's *Eritrean rebels threw grenades into the USIS library in Asmara on Wednesday as a symbolic protest against US military aid to the Ethiopian government, in the opinion of the US embassy in Addis Ababa.*

The attack came after the library had closed for the day, and the perpetrators fired warning shots before throwing the grenades. The attack may mean the Eritrean insurgency has entered a phase more directly dangerous to the US presence in that province. It does not necessarily signal the opening of indiscriminate attacks on American nationals or installations there, however.

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January 11, 1975

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USSR

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SYRIA

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CHINA

China's long-delayed Fourth National People's Congress either has just begun or is about to be convened.

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The National People's Congress deals strictly with government, as opposed to party, affairs. Documents related to the congress, when released, should spell out China's programs and policies, particularly in the domestic area, in greater detail than at any time since the onset of the Cultural Revolution. Moreover, a number of important appointments presumably will be announced, including that of defense minister, a post vacant for over three years.

Convening the congress does not mean, however, that Peking's divided leadership has composed its differences, although some progress in this direction has probably been made. The pattern of secrecy surrounding this National People's Congress closely parallels that of the Tenth Party Congress of mid-1973, which merely papered over leadership differences that quickly resurfaced in the divisive anti-Confucius campaign.

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OIL PRICES

OPEC countries outside the Persian Gulf appear to be holding the average price of their oil near fourth-quarter levels, in spite of the recent decision in Vienna authorizing increases of about 4 percent for Saudi benchmark crude. Most non-Gulf producers probably are reluctant to raise their prices at this time, since plummeting tanker rates have put them at a competitive disadvantage relative to Gulf producers.

In typical OPEC fashion, members have responded in various ways to the pricing decision that their oil ministers reached last month.

--Algeria's national oil company, Sonatrach, has cut its price for government-owned oil from $12.30 per barrel (plus a 20-cent penalty if the buyer is not investing in local exploration) to $12.00. Government revenue taxes and royalties on company-owned oil and from direct sales of government oil to third parties averaged about $11.00 in the fourth quarter. Considering the high quality and advantageous location of Algerian oil, this average is in line with the average government take of $10.12 per barrel that the OPEC ministers established for Saudi benchmark crude in the first three quarters of 1975.

--Ecuador is expected to announce a new structure of taxes and royalties that will yield $10.12 per barrel--about the same as before. With the addition of line costs and other fees, the average cost of oil to the producing companies will continue to run about $11.04.

--Indonesia, after consulting with the producing companies, has decided against changing its price of $12.60 per barrel of crude. With production reportedly down 25 percent in December from the January-September average, Jakarta has good reason to hold off on a price increase.

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--Libya has lowered the price of government-owned crude to $11.86 per barrel from the previous range of $12.00 to $12.50. Meanwhile, the cost of the producing companies' equity oil has been increased by 65 cents, to about $11.50. The average cost of all exported oil should remain near the fourth-quarter level of $11.70.

--Nigeria has not commented officially on the new OPEC price arrangement. In early December, Lagos increased the cost of equity oil and reduced prices for buyback oil in response to the decisions at the Gulf oil conference in November. Nigeria's action--unlike those in the Gulf--left the average cost of oil unchanged.

--Venezuela is the only OPEC member outside the Persian Gulf that is likely to raise prices. Some government officials favor a government take of $10.12, which would mean an increase of about 50 cents per barrel. Others favor the 38-cent increase suggested by the OPEC ministers at Vienna.

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PORTUGAL

The moderate Popular Democratic Party has threatened to withdraw from the provisional government's three-party coalition if a Communist-supported draft labor law providing for a single labor confederation is passed.

The draft law, prepared by the former minister of labor, a member of the Portuguese Communist Party, represents an attempt by the Communists to institutionalize an umbrella labor organization established by the Salazar regime and now controlled by the Communists. The bill was presented to the cabinet early this week, following approval by the Superior Council of the Armed Forces. The Socialists argued strongly against the bill, but they did not commit themselves to quit the government along with the Popular Democrats.

Debate on labor legislation is to resume on January 17, but the Communists are scheduling labor demonstrations on January 14 to enlist popular support for their position. The last time labor was organized to bring pressure on a political issue was in connection with the events that led to President Spinola's resignation.

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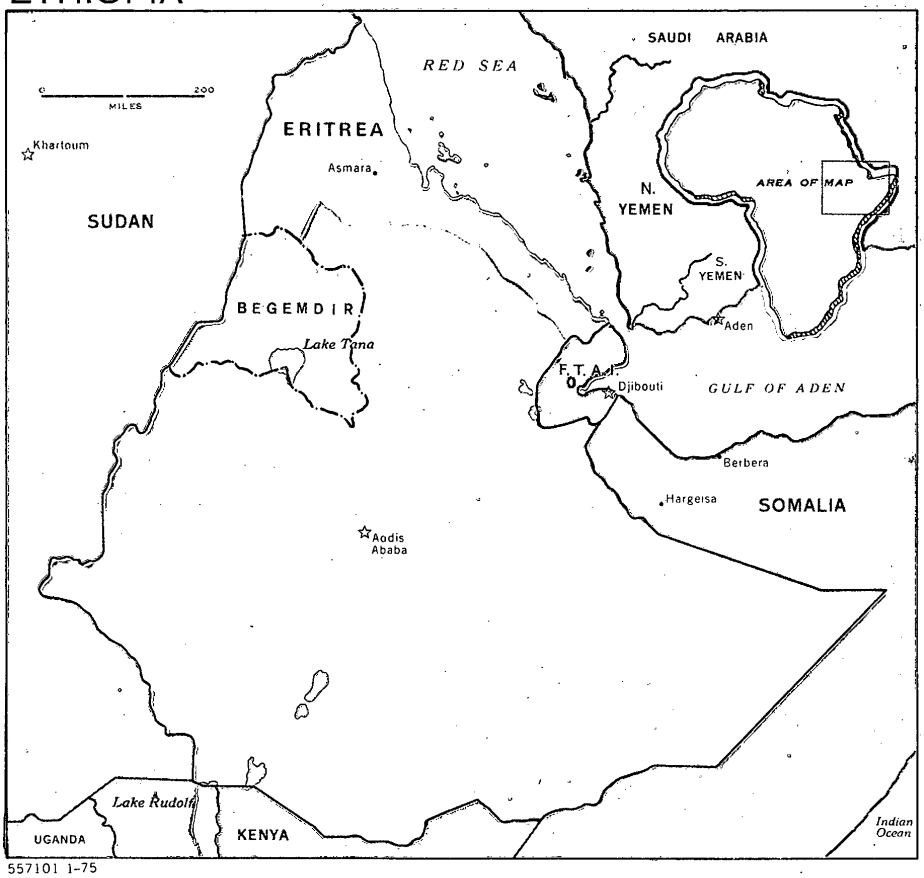
ETHIOPIA



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NOTE

Ethiopian *insurgents in Eritrea reportedly have agreed to a truce.*

Tribal and religious leaders in the province who arranged the cease-fire are now exploring the possibility of arranging direct negotiations between the rebels and the ruling military council. Factional rivalries within Eritrea and differences between the guerrilla leaders in the province and political leaders in exile will, however, complicate efforts to develop insurgent negotiating positions. Meanwhile, there are reports of increasing disaffection in Begemdir Province, in the northwest, [redacted] 25X1 the military council. The unrest in Begemdir may encourage tribal elements who reportedly are plotting against the council to step up their efforts.

* * *

The Soviets *launched Soyuz 17 into orbit from Tyuratam yesterday with two cosmonauts aboard.* [redacted] 25X1 25X1 25X1

* * *

Indonesian *Foreign Minister Adam Malik's recent visit to Moscow produced no surprises but affirmed a year-long warming trend in Moscow-Jakarta relations.*

Malik had a successful trip; he signed a general agreement on economic and technical cooperation and got a green light for a visit to Indonesia by Soviet Foreign Minister Gromyko this year. Malik's recent travel also took him to East Germany and Hungary, where he signed trade agreements to add to those reached earlier in 1974 with Yugoslavia, Romania, and Poland. These moves result from a deliberate policy decision by President Suharto to improve ties with communist states. Suharto sees Soviet foreign policy toward the Western states as becoming more moderate, and the Indonesians want to balance growing Chinese influence in Southeast Asia. Indonesia also wants to explore new sources of credit.

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SAUDI ARABIA - ARAB STATES

King Faysal's trip to Syria, Jordan, and Egypt this week will give Arab leaders a chance to assess their situation with regard to Israel and examine future options.

Faysal is scheduled to stop first in Syria tomorrow. Since 1971, Saudi policy has been directed at bringing Damascus closer in line with the views of Saudi Arabia and Egypt on Arab-Israeli and inter-Arab questions, at urging Asad's regime to adopt a moderate approach to internal and external problems, and at trying to limit Syrian-Soviet ties.

Saudi aid--approximately $200 million last year--gives Faysal a fair amount of leverage. The Syrians are certain to ask for an increase in this aid. They may also try to get the King to make a firm commitment to use the oil weapon in the event that negotiations are stalemated or new fighting begins.

Faysal's second stop will be in Jordan. King Husayn is unhappy about Faysal's support of the fedayeen over the years, and probably feels Faysal could have done more to prevent the endorsement of the Palestine Liberation Organization at the Rabat summit conference. 25X1 25X1

In any case, Husayn's potential animosity has been tempered by the fact that Saudi Arabia has been giving money to Jordan since the war in 1967. Amman received $50 million last year, and on January 11 Saudi Arabia transferred another $50 million in accordance with pledges made at the Rabat conference.

Faysal's last stop will be in Cairo. The tie between Saudi Arabia and Egypt has been a key element of Arab politics since the October war, although there have been signs of friction. Sadat has chafed at his economic dependence on Faysal, and Cairo has been upset by what it regards as Saudi stinginess and aid restrictions. Egyptian requests for money, often couched more like demands, have irritated the Saudis. There are, however, no indications of a divergence in policy. The recent cooling in Cairo's relationship with Moscow will move Egypt even closer to Saudi Arabia.

Last year, the Saudis gave the Egyptians $500 million. They also promised a sizable amount to the defense fund set up at the Rabat summit, $161 million in project aid, and possibly additional cash.

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INTERNATIONAL MONETARY FUND

Japan will join members of the EC in lobbying at the IMF meeting this week for expansion of the IMF-based, oil-related lending facility and for raising the quotas of IMF members.

Japan and members of the EC want to enlarge the lending facility this year from the current $3.6 billion to as much as $10 billion. They would like it to be the primary source of funds to supplement borrowing both from the oil exporters and from the international capital market.

The EC finance ministers had agreed last week to study the US recycling plan for possible use in conjunction with the IMF scheme. Officials of several EC states have stated that the EC will wait until after the IMF scheme is approved before considering an additional plan.

On the matter of quotas for IMF members, Japan and most EC members agree that the total should be increased by up to 35 percent. Most favor the doubling of quotas for OPEC members, a freeze of those of other developing countries, and selective changes in the quotas of developed countries. No agreement has been reached yet on how to redistribute quotas among developed countries.

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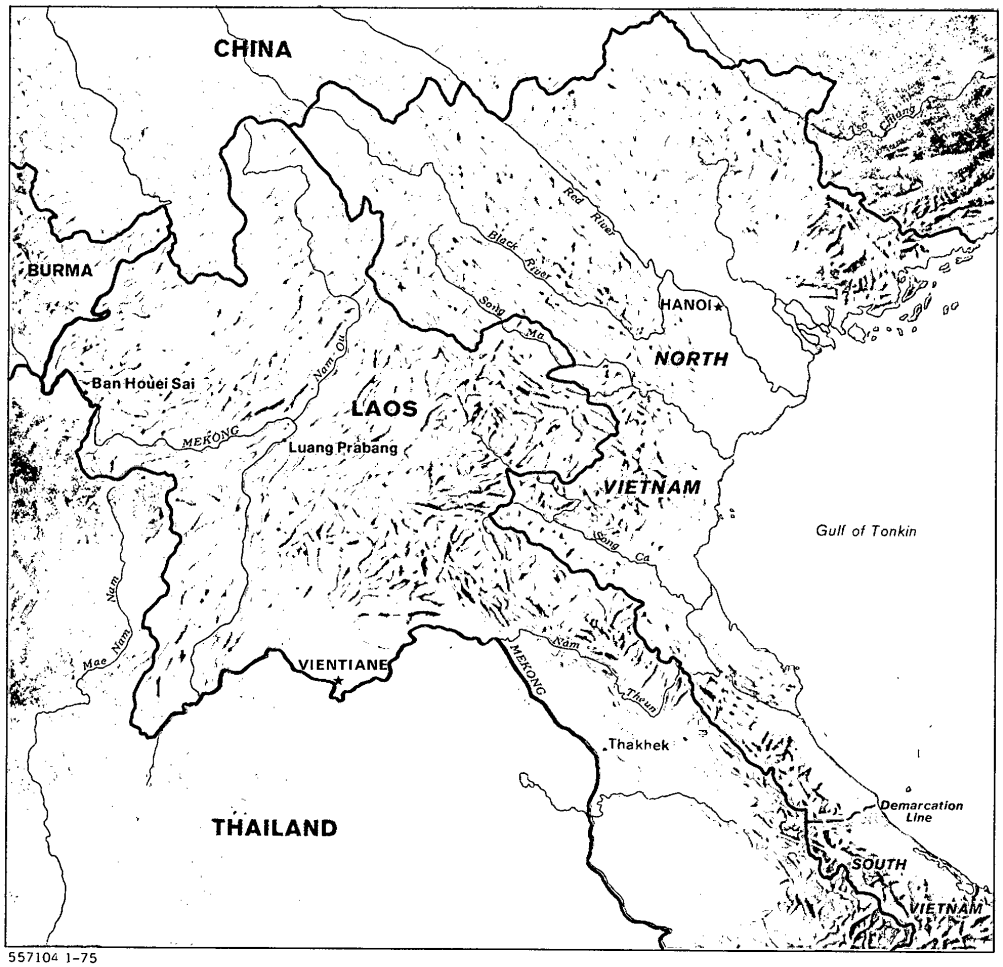

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NOTE

The Royal Lao Army *reportedly has placed the provincial capital of Thakhek under martial law following a week of civil disorder.*

There has been no violence within the city thus far, however, and, unlike last month's embarrassing uprising at Ban Houei Sai, no dissident non-communist forces or Pathet Lao troops have been involved. The non-communists insist that they are firmly in control of Thakhek, but prolonged occupation of the city by the Royal Lao Army--especially if disturbed by a shooting incident involving civilian casualties--could backfire on them.

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SOUTH VIETNAM

President Thieu [redacted] government's principal task during the next few weeks is to lobby in the US for more assistance. 25X1 25X1

The President, who no doubt hopes that the recent loss of Phuoc Long Province will help his appeals, will soon send you a letter asking for identification of specific areas where additional aid can be provided. The letter will be drafted by the South Vietnamese embassy in Washington.

[redacted] a high-level delegation to come to Washington in order to proselytize on Capitol Hill and, perhaps, invite some influential congressmen to Vietnam to inspect the situation. The lobbying campaign will include appeals to US organizations such as the AFL-CIO, the American Legion, and the Red Cross. 25X1

Meanwhile, the President apparently intends to continue to pursue his conservative military policy of holding main forces to defend key towns and other strategically important areas. He now acknowledges that he has no plans to recapture Phuoc Long Province. Moreover, his military [redacted] believes that the provincial capitals of Kontum and An Loc are equally "indefensible," and that they could fall "whenever the communists decide they want to take them." 25X1

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USSR

Private comments by Soviet bureaucrats indicate that the leadership has not yet provided definitive guidance on what line to take regarding the impact on US-Soviet relations of the US Trade Reform Act and the ceiling on credits the Export-Import Bank can extend to the USSR. Critical press commentary on the trade legislation and the emigration issue has tapered off to occasional sniping, but negative treatment of the US on other issues remains at unusually high levels.

US embassy officials have detected no firm pattern in discussions with representatives of ministries directly affected by the trade issue. A young staff member of the foreign ministry last week described the congressional stipulations and limitations as a "gross insult." A foreign trade ministry official concerned with US-Soviet commerce termed current prospects for expanded bilateral trade "not bright."

Other Soviets have been less negative. A deputy minister of the timber and wood-processing industry said, without animus, that the legislation is an "internal matter" for the US. Several officials, including some involved with fossil-fuel development projects, have sought clarification of the practical effects of the new Export-Import Bank credit ceiling. They and others seem to be proceeding on the basis of US-Soviet business as usual.

Moscow can probably continue to finesse the issue unless the US presses for some indication that the Soviets will resume payments on the Lend-Lease debt in return for the US grant of most-favored-nation status; the first payment will be due this July if the USSR has received formal notification by May 31.

The Soviets will carefully consider the political implications of any response. They have argued in the past that political detente cannot flourish without economic cooperation.

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Since they have shown no serious sign of forsaking their "peace program," despite increased criticism of the US in recent weeks, they may prefer to settle for little more than verbal remonstrances. If, however, the emigration issue and credit restrictions are causing real pressure on the leadership, as fragmentary and circumstantial evidence suggests, the Politburo may decide to harden its policy toward the US, even at some cost to the momentum of detente.

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LIBYA-US

Libya's decision to handle its complaint about alleged US violations of Libyan airspace last Friday through diplomatic channels, and the tone of the note, are uncharacteristic and may reflect a genuine desire to avoid an incident.

The protest and the circumstances surrounding it have not been publicized, despite widespread local knowledge that Tripoli airport was closed and that Libyan air defense units had been placed on alert at the time of the US Sixth Fleet exercise. This suggests that Tripoli hopes to minimize the event.

The Libyan official who delivered the message made a special point of Libya's "unilateral" overtures to Washington, mentioning Tripoli's recent decision to lift its oil embargo against the US--ten months after the other Arab producers--as one example of Libya's good intentions. He said his country would take other positive steps and expressed his personal hope that the two countries could put aside their differences on the "Palestine question" and work together in other areas.

The Libyans may be carefully measuring their reactions out of fear that the US intends to launch an invasion. Press stories of US plans to seize Libyan oil fields have kept the Libyans on edge for months, but until recently they have reacted only by reinforcing security forces regularly assigned to protect petroleum installations.

In late December, however, there were indications that regular military units--perhaps three battalions--were moved to the eastern province of Cyrenaica, where most of the country's oil fields are located. The deployment may have been prompted by Sixth Fleet activities last November 23 similar to those carried out last week.

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GREECE-TURKEY

Greece and Turkey have exchanged tough statements again over their rights in the Aegean Sea. [redacted] 25X1 25X1

US military personnel in Turkey report alert activities at four Turkish air bases. Fighter planes were observed being fitted with bombs, and additional aircraft were placed on runway alert. At one air base, anti-aircraft guns were in place around the base perimeter. [redacted] 25X1 25X1

These moves follow an exchange of tough statements by the Greek and Turkish defense ministers. At the swearing-in of the new Greek naval chief last week, Defense Minister Averoff said that Greece would aggressively defend its rights in the Aegean, which he referred to as a "Greek sea."

The Greek government also announced last week that it has authorized a foreign contractor to conduct oil exploration in the Aegean. [redacted] 25X1 25X1

Former Turkish prime minister Ecevit has charged that the Irmak government has been negligent in pressing Turkey's claims in the disputed area and that the Greeks were taking advantage of this apparent timidity. Seeking to make political capital on another nationalistic issue, Ecevit has called on the Irmak government to begin oil explorations of its own in the Aegean as soon as possible. Irmak, on the defensive, has responded that his government will take all necessary measures to protect Turkish interests in the Aegean.

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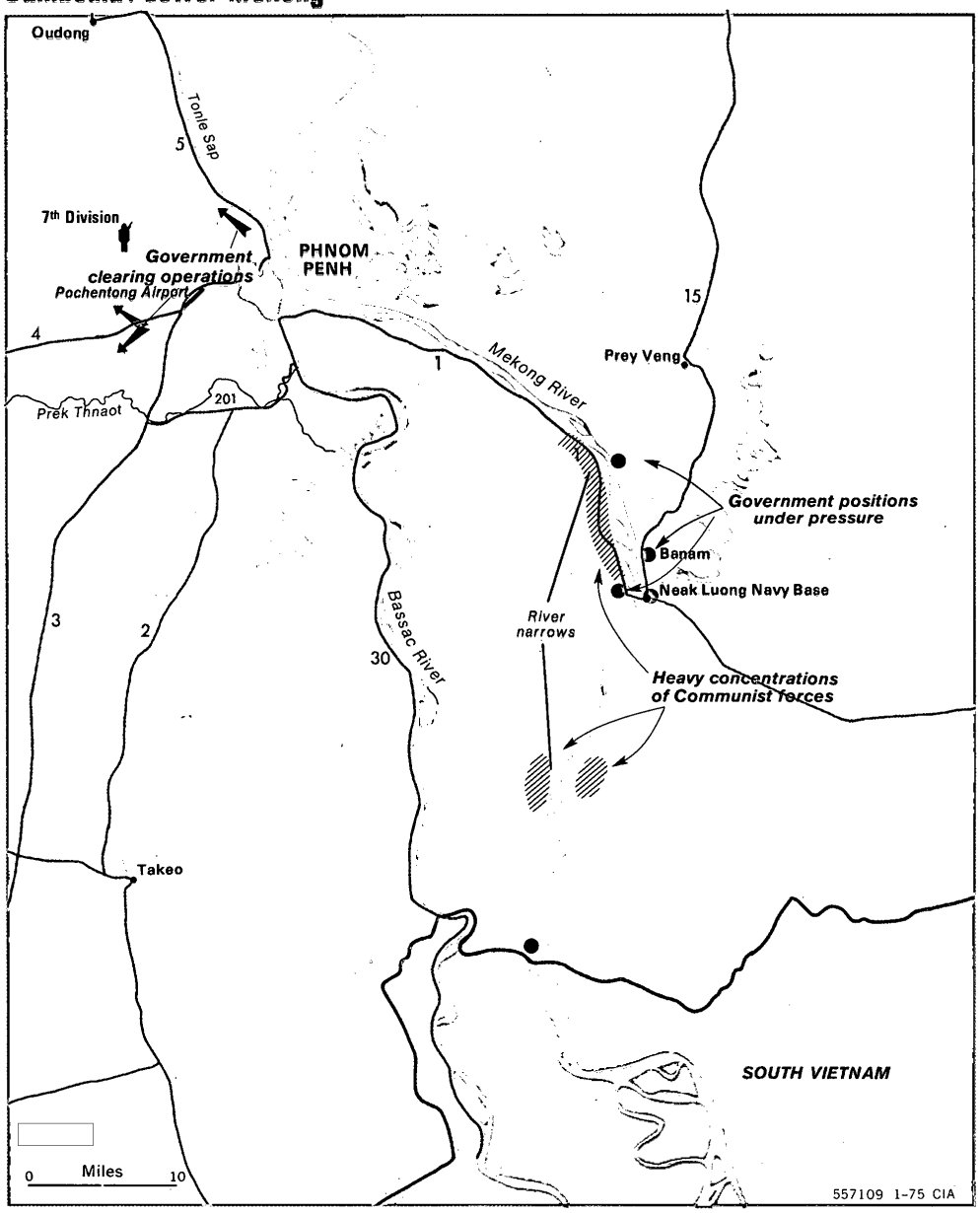
Cambodia: Lower Mekong



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CAMBODIA

Khmer communist ground units over the weekend kept up pressure against government positions on the east bank of the Mekong some eight miles upstream from the Neak Luong navy base and around the town of Banam. Government defenses on the west bank opposite Neak Luong are also under attack.

Neak Luong itself has been hit by sporadic shellings but has not yet been the target of infantry attacks. Government units have held their ground in these areas; intercepted messages reflect communist plans for a major push against the base in the near future.

Despite heavy insurgent fire from the shore, three Cambodian naval convoys have shuttled supplies and reinforcements to Neak Luong since Friday. A government counterattack down Route 1, however, has bogged down some 15 miles southeast of Phnom Penh. Military leaders are planning to bring a resupply convoy upriver to Phnom Penh from the South Vietnamese border sometime this week. The last river convoy arrived in the capital on December 29.

Meanwhile, fighting has slackened somewhat in the Phnom Penh area. Communist attacks have forced government troops to abandon additional outposts on both banks of the Mekong near the capital, but government clearing operations are continuing on the major battlefronts northwest and southwest of the city. Communist rocket attacks against downtown Phnom Penh and against Pochentong airport have caused little damage. Intercepted messages reveal that a major conference of insurgent commanders from the capital area will be held this week, and any significant shift in communist strategy should be disclosed in new orders that go out to individual units.

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NOTE

Lebanon's *requests for assistance* [redacted] 25X1
[redacted] *to defend against Israeli air and ground at-* 25X1
tacks have been only partially fulfilled so far.

[redacted] reportedly have provided some 25X1
air defense equipment, but [redacted] will probably play 25X1
the largest role in helping Lebanon defend its territory. Two Palestine Liberation Army brigades operating in the southeastern part of Lebanon reportedly have been armed with SA-7s and other anti-aircraft weapons. [redacted] also reportedly is about 25X1
to train 200 Lebanese troops [redacted] 25X1
[redacted] and later provide them with the weapons. [redacted] 25X1
[redacted] continues to refuse offers to station [redacted] 25X1
troops in Lebanon.

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USSR-MIDDLE EAST

[redacted] 25X1

has made a bearish assessment of Moscow's prospects in the Middle East.

[redacted] 25X1

[redacted] 25X1

[redacted] 25X1

This recently expressed Soviet attitude does not mean that the USSR will forgo manuevering to regain influence in the area. Moscow will certainly continue to cultivate the Arabs while indicating to leaders, such as Sadat, that they must make concessions to Soviet views if they are to receive aid.

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USSR-US

The USSR's decision to renounce the 1972 trade agreement with the US represents a significant change in the Soviet position that may have come about only in the past few weeks.

It was not until December 18, when Congress was about to vote on the trade reform legislation, that Moscow made public the letter Foreign Minister Gromyko had sent to Secretary Kissinger on October 26 denying any obligation to alter emigration policy. Soviet media treatment of the issue subsequently made clear that Moscow is also unhappy that the US is placing limits on the amount of credits available to the USSR and on how those credits could be used.

Two days before the publication of the Gromyko letter, the issue may have been considered at the Central Committee's plenary session. The Central Committee may have approved a tougher line, but it is more likely that the Soviets did not decide to take the final step until sometime last week. Some knowledgeable Soviet officials, for example, until very recently have been telling their US counterparts that all would be well in US-Soviet economic relations.

However the details sort out, there can be no mistaking that Moscow's action is a setback to the USSR's detente-oriented foreign policy line. The prospect of closer economic relations with the US has been a significant factor behind Moscow's desire for detente.

The importance of the economic factor will be indicated by the extent to which the Soviets move to shore up the other aspects of their foreign policy line. The arms limitation agreement reached at Vladivostok may be crucial in this respect; it may turn out to be significant that over the past few weeks the Soviets have continued to say positive things about your summit meeting despite their bitter criticism of the US trade legislation.

Moscow will probably move quickly to give some assurances regarding its foreign policy line in the aftermath of yesterday's revelation, unless there has been a more far-reaching reappraisal than now seems likely to have occurred.

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ISRAEL

The Israeli air force yesterday conducted one of its largest exercises since the October 1973 war over the northern Sinai. It was preceded on Monday by a large air force exercise over the Golan Heights.

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ARAB STATES

Arab League representatives apparently failed to recruit Libya and Algeria as contributors to the Arab War Fund at their meeting in Cairo last week. The total for 1975 still stands at $1.365 billion--the amount pledged by Middle East oil producers immediately after the Rabat meeting in October 1974.

Algerian President Boumediene and Libyan President Qadhafi, although still willing to provide arms for an Arab-Israeli conflict, apparently have refused to contribute untied cash to the fund. Neither leader is convinced that the "belligerent" countries are committed to a sufficiently hard line against Israel. Moreover, with revenue prospects uncertain, both leaders are beginning to feel some financial pinch.

In view of the shortfall in pledges, Syria and Egypt will now receive $580 million each, Jordan $175 million, and the Palestine Liberation Organization $30 million. Although this is only 58 percent of the original aid allocation of $2.3 billion specified at the Rabat meeting, these sums amount roughly to the cash contribution (as distinct from project aid) that belligerent states expected to receive.

Jordan recently announced that it has received $51 million from the fund. [redacted] 25X1

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TURKEY

The Turkish government is seeking alternative sources of armaments in expectation that US military assistance will end in early February.

Turkish officials previously assumed that a way would be found to avoid the aid cutoff, but the temporary ban instituted last month shocked them out of their complacency.

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Sixteen deputies of the Republican People's Party have reacted to the prospect of an aid cutoff by calling for parliamentary debate on Turkish-American relations, and a Turkish senator is pressing for a senate investigation. These deputies be-

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PORTUGAL

The Popular Democrats and the Socialists are threatening to walk out of the three-party coalition government if the Communists succeed in pushing through a law allowing only a single labor organization.

Leaders of the Armed Forces Movement are trying to placate both sides; they are making concessions to the Popular Democrats and the Socialists on the proposed national economic plan that could lead them to withdraw their objections to the Communist-sponsored labor law. A cabinet meeting scheduled for Friday has been advanced to tomorrow.

The Communists will not surrender the control they have over the labor movement. Furthermore, they think they have found an issue that will cause considerable disarray in the government and may even lead to postponement of the election now expected in April. The Communists have been searching for ways to delay the election until they can build up their strength. The Communists held a mass rally last night to demonstrate "popular support" for their labor law; the Socialists are planning a counterdemonstration tomorrow. The scheduling of these rallies has increased speculation that one side or the other might try a coup in connection with the demonstration.

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TURKEY-GREECE

The Turks have apparently decided to go ahead with oil exploration in the Aegean--an action likely to lead to an increase in tension with Greece.

In responding to charges of negligence in his Aegean policy, Prime Minister Irmak confirmed yesterday that a Norwegian seismic survey ship under contract to Turkey would begin prospecting "before long" off Turkey's western coast. This would place the ship in the disputed zone of the Aegean, where it could be used by the Turks to reinforce their claim. Irmak also repeated Turkey's request that the Greeks agree to a new demarcation line in the Aegean or to a proposal for joint prospecting.

The US embassy in Ankara reported yesterday that the Turkish military alert apparently has been extended to include some ground force units west of Istanbul. A Turkish pilot based at one of the airfields on alert has said that military readiness was increased because of pending Turkish oil exploration in the Aegean.

The embassy has concluded, however, that alert measures taken thus far do not mean that the Turks intend to initiate military action.

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CYPRUS

President Makarios yesterday announced the formation of a new cabinet made up of men who have proved their loyalty to him in the past.

Having excluded all but his supporters from the cabinet, Makarios will probably seek regular consultations with political party leaders in order to maintain a semblance of Greek Cypriot unity.

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Makarios is particularly suspicious of Clerides and will probably try to take credit for any successes in the intercommunal talks that Clerides is conducting with Turkish Cypriot leader Denktash. Clerides and Denktash yesterday began preliminary discussions of political issues and will meet again tomorrow to discuss reopening Nicosia airport and the island's seaports, particularly Famagusta.

The British, in the meantime, are reportedly planning to begin on Saturday to evacuate to Turkey those Turkish Cypriots living in the sovereign British base area in the southern part of Cyprus. Turkish and Turkish Cypriot leaders had earlier voiced concern about the Turkish Cypriots on the base. They will now be under pressure to reciprocate by responding to the humanitarian concerns of Greek Cypriots.

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LAOS

Prime Minister Souvanna Phouma's convalescence seems to be proceeding satisfactorily, but the US embassy is concerned that his half-brother, Lao Communist leader Prince Souphanouvong, is gaining too much influence over him.

Senior non-Communist members of the coalition, who are based in Vientiane, have only limited access to the Prime Minister, who has secluded himself in the royal capital of Luang Prabang, where Souphanouvong resides. Souvanna certainly is no pawn of the Pathet Lao, nor is there any evidence that he deliberately wishes to complicate US-Lao relations or to seriously undercut the political position of the non-Communist side. His recent actions, however, do suggest he has concluded that if Laos' third coalition experiment is to succeed, the non-Communists must ultimately yield on all but the most important issues in the face of Pathet Lao intransigence.

Ambassador Whitehouse believes that constant exposure to the Pathet Lao point of view has colored Souvanna's judgments and increased his long-standing suspicions of right-wing political and military leaders. This could contribute to Souvanna's inclination to minimize the threat posed by the Pathet Lao's drive for greater power and authority.

The embassy has learned, for example, that the Prime Minister's New Year's address was drafted by either Souphanouvong or Communist Deputy Prime Minister Phoumi Vongvichit. One passage singled out the US as having special responsibility for "healing the serious wounds of war in Laos"--a propagandistic formulation long pushed by the Lao Communists.

Souvanna also recently endorsed Souphanouvong's 18-point national political program, a comprehensive set of domestic and foreign policy guidelines for the coalition government. The program had been pending before the cabinet for more than six months because the non-Communists objected to several controversial provisions. Souvanna, however, appears to have approved Souphanouvong's original proposal more or less intact--almost certainly in response to pressure from the "Red Prince."

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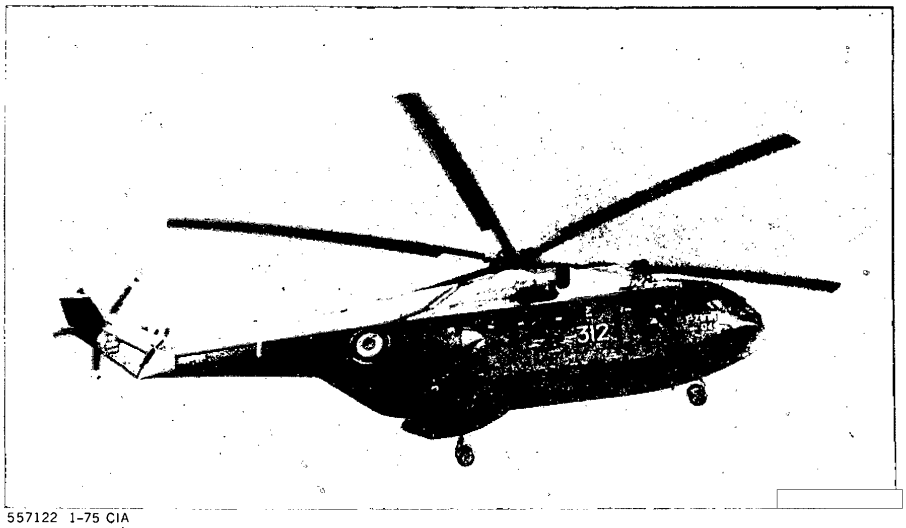
French Super Frelon Helicopter



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NOTES

China [redacted] 25X1
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* * *

Cuban *leader Castro took the position in a press conference last week that the danger of US aggression against Cuba has diminished.*

During the remainder of the conference--as reported by the official Cuban news agency--Castro made clear that he has no intention of relaxing his efforts to promote confrontation between the US and the countries of Latin America. Although he hinted that Havana is no longer exporting revolution, he pledged to support "every continental anti-imperialist policy" and to search for any means to counter US influence in the hemisphere.

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The President's Daily Brief

January 16, 1975

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~~*Top Secret*~~ 25X1

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January 16, 1974

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USSR

Moscow, thus far, seems to be playing down the broader implications for detente following its rejection of the US-Soviet trade agreement.

Premier Kosygin made repeated references to the necessity of continuing detente in the course of a banquet speech on January 14 honoring Australian Prime Minister Whitlam. Kosygin, the first Soviet leader to speak on foreign policy issues since the USSR's note to the US last Friday, specifically reiterated Moscow's goal of making detente "irreversible." His evident effort to indicate, without mentioning the US, that detente is still on the track will be reinforced for the Soviet public by an otherwise routine Soviet press announcement Wednesday regarding the resumption of SALT.

Moscow Radio informed its domestic audience of Secretary Kissinger's statement in a Tass summary broadcast 12 hours after the US announcement. The Tass summary, carried in Izvestia on January 15, said the Secretary noted the Soviet government's message that it does not intend to accept a trade status which is discriminatory and subject to political conditions and accordingly would not bring into force the 1972 trade agreement. The report concluded with the Secretary's assurance that the administration would continue to pursue all avenues, including legislation, to promote mutually beneficial trade relations.

A possible sign that the leadership has hope of an eventual reversal of its fortunes on the trade issue occurred on Tuesday when a Soviet commentator laid the blame for the trade impasse on an anti-detente faction in the outgoing Congress. He said that many of this faction remain in the new Congress, but he also noted that the new Congress would have a different complexion. Moscow may hope that its tough line will convince Congress to reconsider its action.

Internal Impact

The decision not to accept the conditions of the US trade and Export-Import Bank bills, and the events that led up to it, were a sharp setback to

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a major element of General Secretary Brezhnev's detente policy and may ultimately affect his basic political position. He has also suffered a recent setback in his consumer program and an embarrassing postponement of his visit to Egypt.

Brezhnev has remained out of public sight since December 24, except for attendance at the funeral of his mother on January 8. He entered the hospital on December 26, and returned there after the services on January 8. [redacted] 25X1 25X1

There is no evidence of a crisis atmosphere within the leadership or signs of a concerted challenge to Brezhnev's position. He faces the problem, however, [redacted] from leading to an erosion of his authority. To prevent this, he must resume an active work schedule and give a new impetus to domestic and foreign policies. The pressures to take an active role will increase as politicking for next year's party congress picks up. 25X1 25X1

Economic Impact

The Soviet rejection of the agreement should not substantially affect the volume of US-Soviet trade in 1975. Two-way trade was approximately $1 billion in 1974--down from a high of $1.4 billion in 1973, when the USSR imported large quantities of grain. Trade in 1975 is expected to be above the 1974 level. Exports of US capital goods to the USSR in 1975 will be determined largely by Soviet orders placed in 1972-1973, when Export-Import Bank credits were available. Three fourths of the roughly $1 billion in US orders backed by Export-Import Bank financing have yet to be exported. US exports also will be boosted by deliveries of some $350 million in grain previously ordered by the USSR.

The lack of Export-Import Bank financing could, however, reduce substantially the volume of future contracts placed in the US. Western Europe and Japan, which continue to grant lower interest credits, could be the principal beneficiaries.

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The Soviets may be able to obtain commercial loans from US banks to cover US exports of equipment as long as the USSR is willing to pay market interest rates and guarantee the loans. Furthermore, the USSR currently enjoys the strongest financial position it has had at any time in its history, and could keep buying from the US even on a cash basis. The prospects of major cooperative projects such as the development of Yakutsk natural gas will be dimmed considerably, however, without Export-Import Bank funds.

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EGYPT

President Sadat has linked the continued presence of the UN Emergency Force in the Sinai Peninsula to further Israeli withdrawals on all Arab fronts. He stopped short, however, of imposing conditions for the extension of the UN Sinai mandate, which expires on April 24.

According to an authoritative Cairo news service account of the President's meeting with a group of French legislators, Sadat said, in a reference to renewal of the mandate, that Israel "must withdraw a further distance on the three fronts"--Sinai, the Golan Heights, and the West Bank. He did not explicitly demand, however, further pullbacks on all fronts before the status of UN forces in the Sinai comes up for review. He noted only that Egypt would decide the mandate issue "in the light of the situation and of Israel's behavior."

Sadat probably intended by his remarks to press for quick progress on a second-stage Sinai withdrawal by hinting he would not renew the UN mandate unless a withdrawal agreement has been concluded by late April. He may, in fact, intend to cancel the mandate if there is by then no satisfactory progress toward an agreement.

Despite Sadat's linking of the situation on the other Arab fronts with the status of UN forces in the Sinai, it is unlikely he would condition continuance of the UN Sinai mandate on agreements in the other areas. Should Egypt achieve an agreement with Israel in the Sinai by April, cancellation of the UN mandate would jeopardize that agreement by removing the force that polices the disengagement lines and keeps Israeli forces behind those lines.

Sadat also told the Frenchmen that when the Suez Canal is reopened, Egypt will permit passage by ships of "all nations except Israel as long as the state of war continues." This restriction would not necessarily preclude the passage of Israeli cargoes and crews in ships flying the flags of other nations. The Israelis have said that these indirect passage rights were part of the disengagement agreement last year, and they will insist on a recommitment from Egypt in return for another withdrawal in the Sinai.

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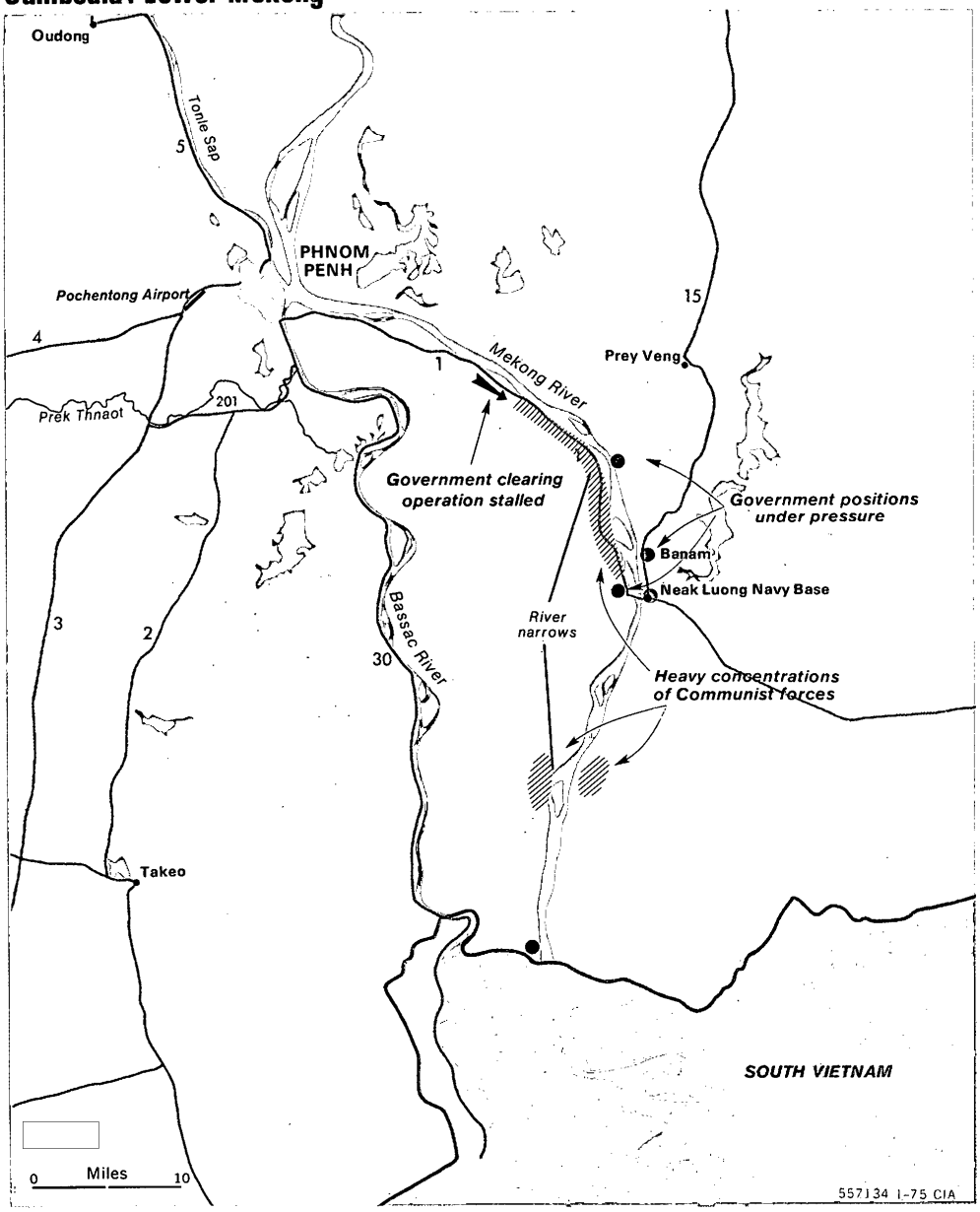
Cambodia: Lower Mekong



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CAMBODIA

Heavy fighting along the Mekong River north of the navy base at Neak Luong and continued Communist control of the river banks south of Neak Luong have forced the postponement of a large resupply convoy originally scheduled to move upriver from South Vietnam at mid-week. Phnom Penh has a five-week supply of rice and enough fuel and ammunition to support military operations through the end of the month. These stocks are being supplemented by increased air deliveries.

Communist ground attacks in the Neak Luong area are still centered on the town of Banam and on government positions on the west bank of the river opposite the navy base. Government troops are fighting well; navy convoys from Phnom Penh are still getting through to Neak Luong but are running into heavy Communist shellings. Government forces trying to push down Route 1 toward Neak Luong are still meeting stiff resistance some 15 miles southeast of Phnom Penh.

In the immediate Phnom Penh area Communist initiatives remain limited to shellings and ground probes--primarily against the Cambodian army's 7th Division northwest of the city. Government counter-attacks on the east bank of the Mekong opposite the capital are beginning to make some progress.

Insurgent commanders have exhorted units in outlying areas to increase pressure against a number of government-held provincial capitals, but so far only small-scale attacks have materialized.

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OPEC INVESTMENT

OPEC states quadrupled their holdings of dollar assets, including Eurodollars, during the first nine months of 1974. At the end of September, they held at least $34 billion. Unless OPEC members reduce the dollar component of their total investment, their dollar holdings will approach $100 billion by the end of 1975.

The foreign official assets of the OPEC states grew from $21 billion at the end of 1973 to $52 billion at the end of the third quarter of 1974. Dollar-denominated holdings increased from about $8 billion, 40 percent of the total, to at least $34 billion, or nearly two thirds of the total.

The growing concentration in dollar holdings reflects both the ability of international dollar markets to satisfy OPEC investment goals and the lack of attractive alternatives. The depth and versatility of the Eurodollar and US capital markets have enabled producers to retain effective control over their investment, to earn a reasonable return, and to minimize the risk of political seizure. Investment in other currencies has been constrained by greater concern over devaluation (as in the case of sterling), by capital controls, and by the limited size of domestic markets.

About 45 percent of OPEC dollar holdings are located in the London Eurodollar market and 35 percent in the United States. The remainder has been placed in other European countries, Canada, and Japan and with international organizations.

$34
35
170
102
$12 mostly U.S
19
$11 in US
short term

Because of the premium placed on security and liquidity, short-term bank deposits and government securities account for 90 percent of OPEC dollar assets. Holdings of real estate and equities rose from 5 percent of the total in December 1973 to 10 percent in September 1974.

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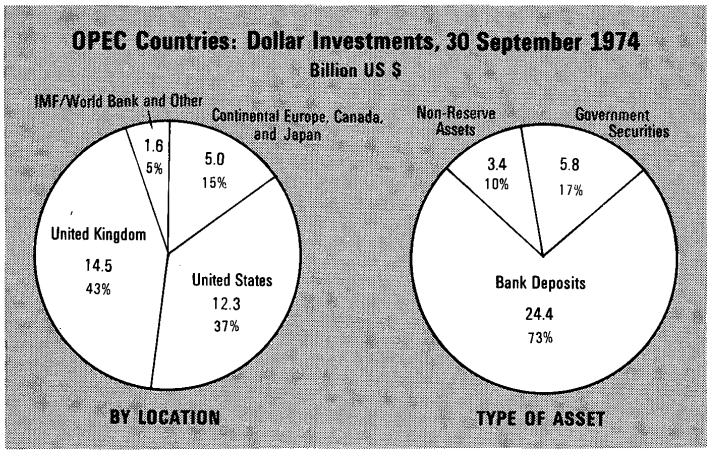

Four countries--Saudi Arabia, Kuwait, Iran, and Venezuela--accounted for 80 percent of OPEC dollar holdings on September 30, 1974. Saudi Arabia alone accounted for about 35 percent. Venezuela, Saudi Arabia, Kuwait, and Nigeria were the largest holders in the United States, with more than 75 percent of that total.

The dominance of the dollar in international trade and finance assures a continued heavy inflow of OPEC investments. Assuming stable oil prices and output, foreign official holdings of OPEC states should increase by about $60 billion in 1975. If the shares of investment in dollars remain unchanged, OPEC dollar holdings will grow to almost $100 billion. Even in the event of a sharp decline in US and Eurodollar short-term interest rates, we would not expect a substantial drop in the share of OPEC wealth going into dollar assets. A fall in short-term interest rates could, however, force a larger share of OPEC dollar holdings into assets with longer maturities.

The continued concentration of OPEC investment in dollar-denominated assets intensifies the recycling problem. Because banks are unwilling to undertake a substantial long-term exchange rate risk, consuming countries are forced to borrow dollars to finance oil-induced balance-of-payments deficits. Dollar liabilities, unlike those denominated in domestic currencies, carry the additional burden of an exchange rate risk. The potential loss from currency realignments and other international payments uncertainties could reduce consumer-country willingness to finance higher oil import costs for a sufficient period to allow gradual adjustment to an acceptable pattern of current account deficits.

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UNITED KINGDOM

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MULTILATERAL TRADE NEGOTIATIONS

Multilateral trade discussions resume in Geneva next week, in the wake of the enactment of the US Trade Act of 1974. In spite of the precipitous rise in oil prices and emergence of widespread stagflation since the Tokyo discussions of 1973, some of the basic positions of the participants remain unchanged. Certain countries will doubtless voice concern about liberalizing trade in the midst of recession. Differences over the use of export controls will also emerge.

One of the major issues of concern within the EC, particularly in France and Italy, is that new trade concessions will increase domestic unemployment. In this connection, the European and Japanese press characterize the US Trade Act as a "double-edged sword" with protectionist provisions that could be invoked if the economic decline continued.

Assured access to goods in short supply also has become a major issue. Japan and the EC favor substantial limitations on the use of export controls. Canada and Australia, however, regard control over raw material supplies as their main bargaining chip and will probably use their leverage in this area to obtain concessions in others. LDCs, meanwhile, prize their new-found market power and will try to maximize their benefits without conceding any freedom to restrict supplies.

Objectives of the Developed Countries

Overall, the EC has more limited objectives in the trade negotiations than does the US. The Community views the talks as a means of preserving economic peace with the US and avoiding a trade war. The EC has two basic aims: preservation of Community institutions and maintenance of trade peace. The EC will push for harmonization of tariffs on industrial goods (reducing high tariffs by a greater percentage than low tariffs) and for international agreements covering all aspects of trade in major agricultural commodities. While it recognizes that it may have to make concessions allowing freer access to community markets for some commodities, the EC intends to preserve the basic principles of the Common Agricultural Policy (CAP). The Community position will represent a compromise between the limited objectives of the French and the more liberal aims of the British and Germans.

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Paris views the EC as an integrated independent grouping that should be largely free of external influence. It regards the Common External Tariff and the CAP as linchpins of European unity and will resist any changes that would weaken these. As the French see it, the harmonization principle could involve raising as well as lowering tariffs.

Bonn believes that tariffs should be cut appreciably and that harmonization is not an end in itself. West Germany is more willing than France to negotiate on agriculture, since it is disenchanted with various aspects of the CAP. While the Germans support the idea of world commodity agreements, they oppose the inclusion of food aid and internationally supervised storage facilities in such arrangements.

London shares Bonn's positions on tariffs and agriculture. Though favorably disposed toward the talks, the British feel that current economic uncertainties could stifle progress at Geneva.

Less is known about the Japanese and Canadian negotiating positions, since they, unlike the US and the EC, do not have to develop a negotiating mandate. Japan favors uniform percentage reductions in tariffs on all industrial products and supports the concept of agricultural commodity agreements. The Canadians want to negotiate tariff reductions sector by sector rather than to apply an overall formula. While Ottawa is closer to the US than to the EC position on agriculture, preferring freer market access for agricultural products, it probably will not vigorously oppose the Community proposals.

LDC Positions

The less developed countries are expected to insist on preferential application of any new trade arrangements. They are concerned about market access for their products and the effects of tariff reductions on advantages conferred by trade preferences. They are likely to push hard for improvements in the generalized system of preferences.

Exclusion of OPEC members from the trade preference provisions of the US Trade Act has evoked sharp criticism from many LDCs, particularly in Latin America. Venezuela and Ecuador protest that they have not restricted oil supplies to the US and that their exclusion from the generalized preferences offered non-OPEC LDCs undermines hemispheric cooperation.

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NOTE

Large Israeli *air force exercises that began over the northern Sinai on Tuesday continued yesterday.*

[redacted] 25X1

The Israelis probably are continuing to 25X1
practice ground support tactics [redacted] 25X1
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ANNEX

Prospects for Hostilities in the Middle East

We see little incentive for resumption of hostilities by the front-line countries in the Middle East during the next two or three months as negotiations move ahead toward an Egyptian-Israeli agreement in the Sinai. Beyond that period, the likelihood of war rises sharply.

--Fedayeen and Israeli raids along the Lebanese border probably will increase and could escalate into wider hostilities.

--Syria may adopt a more militant stance if it sees no prospect for negotiations on the Golan front.

--Israel would seriously consider a first strike if it believed Syria to be on the point of resuming hostilities.

The period just before and after the expiration of the UN mandate on the Golan Heights in late May will be particularly critical.

Syria

Syrian President Asad seems resigned to another Egyptian-Israeli agreement, and if one should be reached within the next two or three months, Syria will be looking for similar progress on its own front. Moreover, Asad's renewal of the UN mandate last November implied an expectation that broader steps toward a settlement--such as the reconvening of the Geneva conference--would be taken within six months. We doubt that Syria would again renew the mandate solely on the basis of promises of future progress toward Syrian and pan-Arab objectives.

Damascus would not necessarily opt immediately for renewed warfare. The mere decision to let the mandate expire would be viewed by Syria as placing strong pressure on the US and Israel. Damascus would also agitate for a new oil embargo as a further means of forcing serious negotiations on the Syrian question. All this would be accompanied by a build-up in the Golan Heights disengagement zones to increase tensions just short of war.

The Syrians might also exploit the current situation along the Lebanese-Israeli border for their own purposes. 25X1

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We believe Syria is supporting the fedayeen in southern Lebanon for defensive purposes--in reaction to Israeli raids into Lebanon and out of fear that Tel Aviv may be getting ready to occupy Lebanese territory.

The Syrians may view the situation differently several months from now, particularly if they should see no hope for negotiating progress on the Golan. They might then actively support increased fedayeen forays into Israel. The risk of escalation would be great, but we think the Syrians would be willing to take that risk to break the deadlock.

Israel

There is always the danger that Israel will strike first against Syria in the months ahead. It is hard to predict just when such a decision might be made, for it could be largely a matter of Israel's perception of the threat against it, rather than an accurate reflection of the actual threat. The danger obviously will increase as the date for the renewal of the UN mandate on Golan approaches.

As long as negotiations for a Sinai disengagement are in train, we do not think Israel would risk blowing up these talks--and drawing Egypt into another war--by launching an attack against Syria. If an Egyptian-Israeli agreement is arranged, however, and Syria steps up the pressure for similar progress on the Golan front, the Israelis may calculate that a more satisfied Egypt would not come to Syria's aid, at least not right away.

Israel's concern over US reaction would clearly be a constraint on a first-strike option. The Israelis might calculate, however, that a quick victory over the Syrians could leave the US with little choice but to acquiesce. Many Israelis also seem to see hope that they can count on US public opinion to counter whatever pressures the US government might exert on them. They might bank on this sentiment in the event of a rapid first strike against Syria.

Egypt

Should no Sinai disengagement develop within the next several months, the Egyptians would probably start planning with the Syrians for a two-front attack, probably reserving a decision to go to war

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again until the political possibilities were exhausted. If Syria were attacked, Cairo would not hesitate to open a second front.

A second-stage Sinai withdrawal would make the Egyptians reluctant to join new hostilities and jeopardize their new agreement. But even in this instance, fighting on the Golan Heights, particularly if initiated by Israel, would find Egypt unable to remain on the sidelines for long.

Sadat has lost much of the popularity he won during the 1973 war and, with it, much of his ability to act independently of the other Arabs. He would be under intense pressure to demonstrate that the gains he had won for Egypt did not mean he had abandoned the Arab cause.

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USSR

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Throughout the manned Soyuz and Salyut space flight programs, electrical and electromagnetic components have been prone to malfunction and failure. The concurrent potential for dangerous electric overloads has raised the risk of fire.

The Salyut-1 crew that perished in 1971, when their space capsule pressurization failed on return to earth, had an electrical fire early in their mission. The crew of Soyuz-16, the precursor for the joint US-USSR manned mission, also encountered electrical overloads and overheating of components during their mission last December.

The apparent low level of Soviet preparations for handling such problems has a direct bearing on the safety of the joint Soyuz-Apollo project this summer; US authorities had already taken steps to provide additional fire-emergency training for Soviet crews before this latest incident.

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EGYPT

President Sadat has raised the pitch of his rhetoric to fend off Arab criticism of his continued involvement in negotiations for another agreement on withdrawal in the Sinai Peninsula.

He seems also to be signaling Israel, while Foreign Minister Allon is in Washington, that a Sinai withdrawal will not mean the end of Arab demands on Israel.

Sadat told a Beirut newspaper interviewer yesterday that he "will not accept anything short of Israeli movement on the three fronts within three months." The Arabic word Sadat used for "movement" has been translated by the press as "withdrawal," but this word is not usually used when a pullback of troops is clearly meant.

Sadat probably intended to be deliberately unclear about whether he is demanding diplomatic movement on the Golan and the West Bank fronts or an actual withdrawal of Israeli troops. There seems no doubt, on the other hand, that as far as the Sinai front is concerned, he does mean withdrawal. He reiterated his now standard position that it would be "treason" for any Arab state to refuse any territory that Israel is willing to return.

By being deliberately vague in his meaning, Sadat does not commit himself to anything except diplomatic action on behalf of the other Arabs' negotiating demands, but he does let them know that he will not conclude a unilateral final settlement with Israel. He also reassures the Arabs, particularly Syria, that he will turn his efforts to gaining progress on other fronts when and if a second-stage agreement on the Sinai is concluded.

Sadat undoubtedly intended to convey the same message in a statement to a group of French legislators earlier this week in which he linked, equally vaguely, progress on all three fronts with a decision to extend the mandate of the UN Emergency Force in the Sinai. The mandate expires on April 24.

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In this connection, Sadat probably will let the UN mandate lapse in the Sinai if there is no satisfactory progress by late April toward an agreement there. It seems unlikely, however, that he would condition continuance of the mandate on withdrawals, or even negotiating progress, on the other Arab fronts. Should Egypt achieve an agreement with Israel in the Sinai by April, a decision to allow the mandate to expire would jeopardize that agreement by removing the force that polices the disengagement lines and keeps Israeli forces behind those lines.

Sadat has recently come under increasing criticism in the Arab press for again moving ahead of the other belligerents in negotiations. The Beirut press, particularly Palestinian and Iraqi-backed newspapers, have picked up a month-old Israeli news report indicating that Tel Aviv had asked for an Egyptian commitment to a 12-year suspension of belligerency in return for a pullback in the Sinai. Arab commentators are attacking Egypt for allegedly acquiescing in this demand.

Sadat further emphasized his continuing commitment to the Arab cause by asserting in the interview yesterday that Egypt would "take action and intervene" if Syria were attacked by Israel. This is the most direct Egyptian statement of a readiness to aid Syria if it comes under attack. Sadat avoided a direct pledge to open a second front under these circumstances, but we believe Egypt would find it difficult to remain out of the fighting for more than a few days.

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USSR

The number of Soviet Jews granted permission to emigrate to Israel declined 42 percent last year from the 1973 total.

According to the Dutch officials, who deal with Soviet citizens applying for emigration to Israel, they processed approximately 20,200 emigrants during 1974, down from 34,800 in 1973, and 31,300 in 1972--the peak years. The number of persons emigrating to Israel dropped sharply from the last quarter of 1973 to the first quarter of 1974, but has held steady since last April at approximately 1,600 a month. An additional 800 Soviet Jews emigrated directly to the US and other Western countries last year.

The Dutch attribute the decline in emigration partly to harassment by Soviet authorities and partly to the growing indecision of potential applicants. The Soviets have recently increased the bureaucratic red tape involved in exit applications, although threats that applicants will lose their jobs seem to have diminished. The Dutch doubt that the present lower levels of Jewish emigration will change. So far, there has been no indication of what effect Moscow's denunciation of the US-Soviet trade agreement will have on the situation.

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ISRAEL-LEBANON

Lebanese forces, rather than the fedayeen, yesterday fired on Israeli vehicles and artillery positions. They may also have shelled the Israeli border settlement of Metulla. After breaking off for a while, fighting was renewed last night.

The Lebanese action is of greater political than military significance. It represents an attempt by the Beirut government to quiet its domestic critics, who, after almost a week of small clashes along the border, are again decrying the army's inability to stop Israeli incursions. Villagers from southern Lebanon, reportedly egged on by communist, Baathist, and pro-fedayeen agitators, this week attempted to occupy a district commissioner's office to protest the government's failure to protect them.

Beirut's inability to restrict the initiatives of either the fedayeen or the Israelis in southern Lebanon has been further exposed by the fedayeen's newfound willingness to stand and fight and by the Israelis' determination to drive them out of the border villages. Yesterday's incident, in fact, apparently began as the Israelis attempted to dislodge some fedayeen forces from such a village.

The fedayeen for the time being appear to have shifted from cross-border terrorism to more conventional military action. This strategy apparently is designed to throw the Israelis off balance and win acclaim for fedayeen willingness to defend southern Lebanon.

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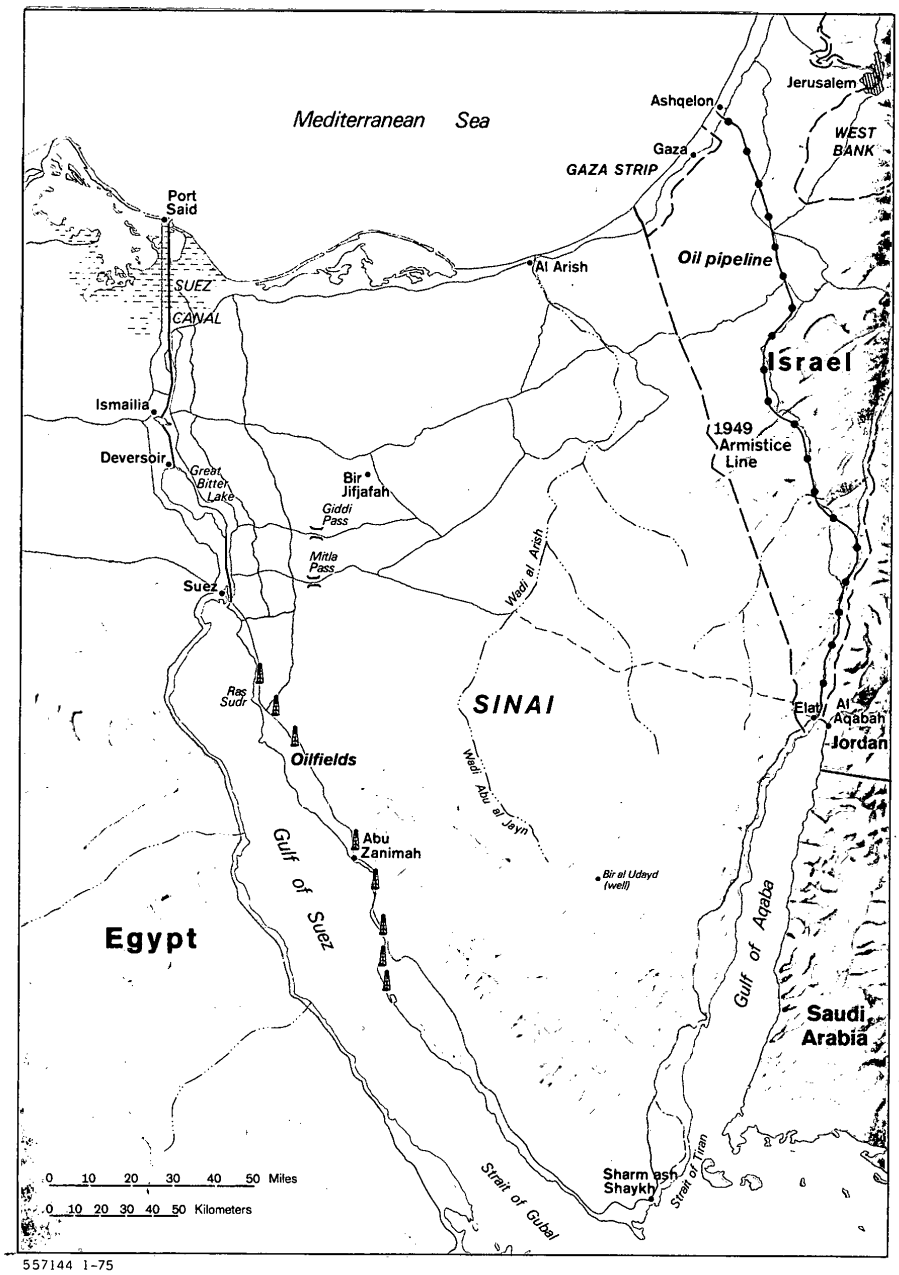

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ISRAEL

Israel is pumping 100,000 barrels of oil per day from Sinai oil fields--a quantity that amounts to 70 percent of its daily requirement. In the past three years the entire increase in Israel's domestic oil consumption has been met by stepped-up production from Sinai.

Sinai oil has been a boon to Israel in view of the rise in cost of imported oil and the increased pressure made by military expenditures on foreign exchange reserves. Oil from Sinai fields in 1974 would have cost Israel about $400 million at the price it paid for purchases made from Iran.

The major cost to Israel of Sinai oil is a royalty payment, set aside to compensate an Italian firm that has an interest in the fields. That payment, [redacted] and other minor foreign exchange costs, are believed to have amounted to no more than $50 million last year. 25X1

The present rate of production in Sinai will exhaust those fields in five to seven years. Tel Aviv has made no significant effort in the past few years to develop new reserves in Sinai presumably because it views use of the Sinai fields as an expedient and because oil there is vulnerable in the event of hostilities. Not only are the fields exposed, but at present the oil must be moved by tanker to Elat, a route easily attacked.

Israel has established a six-month reserve of oil currently stored in aboveground facilities. Tel Aviv is planning to build more secure underground facilities that would permit storage of a larger reserve.

Israel's sole foreign source of oil is Iran. In addition to the $200 million worth purchased from Iran last year for domestic consumption, Israel processed for re-export 40,000 barrels a day of Iranian oil. Another 600,000 barrels a day of Iranian oil for Europe transits the Elat-Ashqelon pipeline. Tel Aviv offers an attractive price to Iran for this service.

Israel's confidence in Iran as a source of oil was shaken by the Shah's recent expressions of solidarity with the Arabs. There is no evidence, however, that the Shah intends to stop selling oil to Israel.

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WEST GERMANY

Rumors of potential takeovers by oil producers have prompted the government to encourage West German banks to make pre-emptive purchases of stocks in key corporations.

As a result of such prompting after the Kuwaitis purchased 14 percent of Daimler-Benz in November, West Germany's largest commercial bank has agreed to double its holdings by buying 29 percent more of the company. Bonn officials have assured the public that the bank's new shares, worth more than $800 million, will be resold during the year to a domestic buyer. Another bank recently made a similar move to keep a major machine tool builder in West German hands.

Chancellor Schmidt has repeatedly said that oil dollar investment in West Germany is welcome as long as it does not involve a significant share of a strategically or politically important firm. It appears that these categories include those financially sound, heavy industrial firms that the oil exporters so far have shown the most interest in purchasing.

German private business is against a proposed law that would strengthen reporting requirements regarding sales of stock to foreigners. Banking and industry representatives are formulating a code of behavior as an alternative. The recent pre-emptive stock purchases may help to defuse public demands for greater controls.

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NOTE

Turkish Cypriot *refugees are to be evacuated by the British from the British Akrotiri air base in southern Cyprus beginning tomorrow.*

The British are hopeful that the evacuation, which will be carried out by Turkish aircraft, can proceed without incident. Several small-scale demonstrations by Greek Cypriots, however, have already taken place. Greek and Greek Cypriot officials have protested the move, because the 8,000 to 9,000 refugees are one of their few bargaining cards in the intercommunal talks. The Turkish government is expected to resettle the evacuees in the Turkish sector of Cyprus.

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LATE ITEM

Cyprus: Thousands of anti-British Cypriots demonstrated violently in Nicosia this morning to protest the evacuation of Turkish Cypriot refugees from the British base at Akrotiri. About 2,000 of them broke into the British consulate, threw its contents into the street, and set the building afire.

Demonstrators also attacked the US embassy with stones and later broke into the compound, setting a vehicle on fire. At last word, the demonstrators were attempting to enter the embassy building.

Another mob was reported heading for the offices of the British Council, a semiofficial trade and cultural group. Police so far have appeared powerless to control the mobs and have called for help from the Cypriot National Guard.

Even while demonstrators were preparing for action this morning, the first planeload of refugees left Akrotiri for Turkey. For now, at least, the British appear to be in control of the road from Episkopi to the airfield and two more trips are planned for the Turkish evacuation plane today.

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As of 0530 EST this morning, the demonstrators were reported out of the US embassy.

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China: The long-awaited National People's Congress may now be in session. *(Page 1)*

USSR: The USSR is developing at least one and possibly other new nuclear weapons test areas. The first silos for the SS-X-18 Mod 1 and SS-X-19 are now operational. [redacted] 25X1

[redacted] 25X1

Cyprus: Greek Cypriots are protesting the evacuation to Turkey of Turkish Cypriot refugees who have been living on a British sovereign base. *(Page 5)*

Portugal: The cabinet met yesterday to discuss the Communist-sponsored unitary labor law that has severely strained the three-party coalition. *(Page 6)*

Notes: Israel-Lebanon; North Vietnam *(Page 7)*

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CHINA

The long-awaited National People's Congress may now be in session.

The Chinese announced yesterday that the party Central Committee had met the preceding week to deal with issues connected with the congress, which is the highest government "legislative" organ. The delay of a week in reporting the plenum suggests that the announcement it had taken place coincided with the opening of the congress. High-ranking officials who had been brought to Peking for the plenum are still in the capital, and press reports indicate that a large meeting took place last night in the Great Hall of the People.

It is not yet clear how long the congress will last, or whether Peking will release documents connected with its work while the meeting is in session. Chinese officials have restricted travel to Peking, but not to other cities, until mid-February, which suggests the meeting may be fairly lengthy.

The communiqué reporting on the Central Committee plenum indicated that a new state constitution had been approved. Controversy over this document had been a factor in the many postponements of the congress; presumably these debates, in particular the one over whether or not the post of chief of state should be abolished, have now been resolved. The communiqué also reported that the plenum approved a list of state council appointments. Some of these appointments, especially those involving the military, were almost certainly also controversial and were factors in previous postponements of the congress.

Teng Hsiao-ping, a veteran civilian administrator who had been a major victim of the Cultural Revolution, but had been "rehabilitated" in April 1973 and named to the Politburo in December of that year, was further elevated at the plenum to the Politburo standing committee. He was also named a vice chairman of the party. These appointments vault Teng over Chiang Ching and Yao Wen-yuan, the ranking active members of the full Politburo. As members of the notorious Cultural Revolution Group, these two had helped engineer Teng's purge in 1966. The new appointments also elevate Teng above Li Hsien-nien, with whom he has been sharing duties in the day-to-day running of the government since the illness of Premier Chou En-lai.

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Teng's new titles cement his position as Chou's de facto successor as head of government; it is possible that the congress will further confirm this position by formally naming him premier. In any event, Teng's advancement strongly suggests that policies adopted by the congress will not depart markedly from those of the past several years and will not be especially "radical" in flavor.

Mao Tse-tung remained in Changsha, in Hunan Province, throughout the Central Committee plenum. He still appears to be in southern China, and it therefore seems likely that he will miss at least the opening phases of the congress. Mao does not hold a government post and he is not obligated to attend a strictly governmental conclave such as this. He did, however, attend the previous National People's Congress ten years ago as a delegate from Peking. The Chairman has remained out of the capital since July, about the time that central directives first indicated that active preparations for the congress were under way.

Mao's prolonged absence from Peking while important events were transpiring there is not easily explainable. He has met with a steady stream of foreign visitors, which tends to indicate that health is not a limiting factor on his movements. Mao has obviously been kept informed of developments in the capital, and an air shuttle has operated between Peking and his residence in Hunan.

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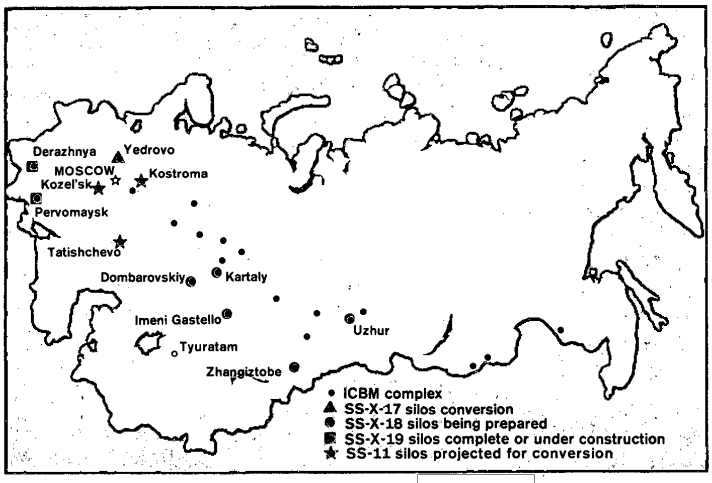

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USSR

The USSR is developing at least one and possibly other new test areas at the Semipalatinsk Nuclear Weapons Proving Ground, apparently in anticipation of implementing the US-Soviet nuclear threshold treaty in April 1976.

Once the treaty becomes effective, the Soviets will be required to provide specific test information, such as calibration yields and geologic data, for those test areas used after the treaty enters into force. Information provided on older areas, where existing weapons were developed, would permit the US to refine its estimates on the yields of these weapons. Soviet concern over this prospect probably is prompting the development of the new test areas.

* * *

The first silos for two of the new Soviet ICBMs, the SS-X-18 Mod 1 and SS-X-19, probably are now operational. Work is continuing on additional silos for these missiles as well as a group for the SS-X-17. The SS-X-19, which carries six warheads, is the first Soviet strategic missile with MIRVs to be installed at an operational complex.

The first launch group of ten silos for the SS-X-18 was completed at the Dombarovskiy ICBM complex late last year. [redacted] 25X1
[redacted] in early December the Soviets were in 25X1
the process of installing a missile canister in one of the silos. By now, missiles probably have been installed and checked out in all ten silos in the group.

The SS-X-18 Mod 1, which carries a large, single warhead, is believed to be the missile system being installed in the newly completed silos. The Mod 2, the MIRV version of the SS-X-18, has been fired 14 times and probably will require additional testing before it is ready for the field.

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The Soviets may be testing several different MIRV payload configurations on the Mod 2. Since last summer, SS-X-18s have carried four re-entry vehicles similar to those in previous MIRV tests and four smaller ones with higher re-entry speeds.

A group of ten SS-11 silos has been converted to the SS-X-19 silo configuration at the Derazhnya ICBM complex. [redacted] 25X1
[redacted] that one missile in the group was being fueled. A similar group at the Pervomaysk ICBM complex may also be complete. 25X1

Developmental flight-testing of the SS-X-19 evidently has been completed, and series production of the missile probably is under way. Crew training firings may also have started. For these reasons, we believe that the recently converted silos are equipped with SS-X-19 missiles.

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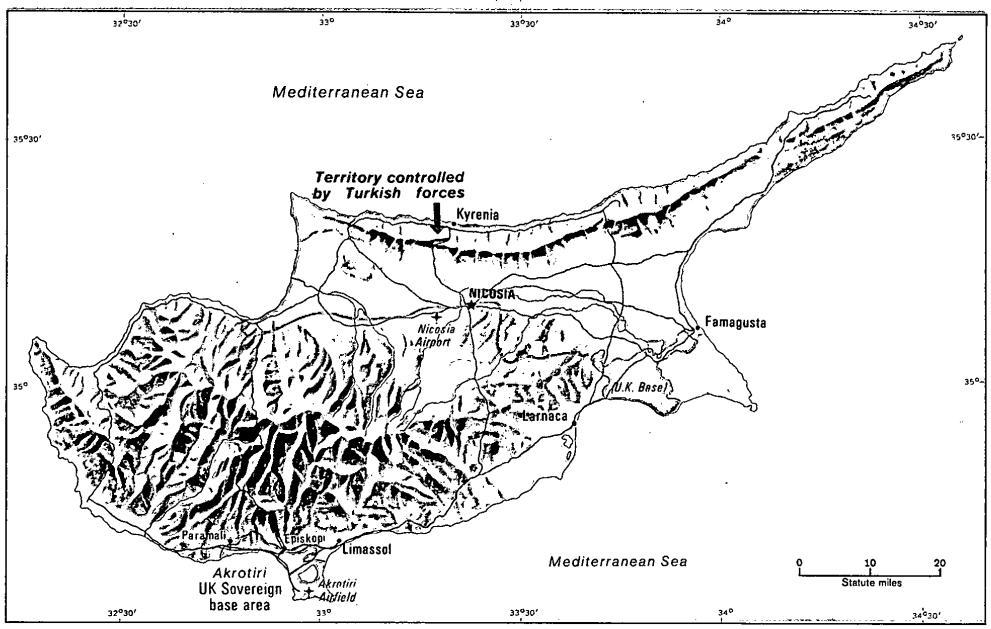

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CYPRUS

Tensions are high around the British sovereign base of Akrotiri, in southern Cyprus, following a violent clash yesterday between Greek Cypriot demonstrators and British base personnel. More demonstrations are planned this weekend. The demonstrators are protesting British plans to begin evacuating several thousand Turkish Cypriot refugees to Turkey today.

British officials state that a group of about 500 demonstrators clashed with British forces at the edge of the base yesterday, resulting in injuries on both sides and the death of a Greek Cypriot youth. The British are bracing for more violence, particularly when the funeral for the youth is held, probably today or tomorrow. The principal British concern is to keep open the main road separating the Turkish Cypriot refugees in Paramali and Episkopi from the evacuation airfield in the southern part of the base. The two are separated by some ten miles of open country and the refugees' movement to the air base could be subjected to interference by Greek Cypriots at many points.

The potential for trouble will increase if Greek Cypriots prevent the airlift by blockading the Turkish Cypriots or if intercommunal clashes occur outside the British base. In case of a blockade, which the British would be unwilling to break, the Turkish government might consider a sea-lift of the refugees. Should Turkish Cypriots outside the base be threatened, Ankara might well order its forces on the island to move into the Greek Cypriot sector in a rescue operation.

Anti-British demonstrations in all major Greek Cypriot towns yesterday and Thursday were generally orderly, but two British properties in Limassol were bombed and several vehicles burned. More protest marches are planned for this weekend and, in view of rising tensions, they are likely to be less orderly. Greek Cypriots, many of whom are refugees driven from their homes in the north, are particularly incensed that the Turkish Cypriot refugees will eventually be resettled on Greek Cypriot properties in the Turkish-held sector of the island.

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PORTUGAL

The Portuguese cabinet met yesterday to discuss the Communist-sponsored unitary labor law that has severely strained the three-party coalition. Results of the meeting are not yet available.

The non-communist parties in the government oppose the law because they believe it will facilitate the Communist Party's control of the country's labor movement. The Communists already dominate the nation's single labor confederation.

The Armed Forces Movement, which shares power with the three political parties, has announced its support for the law. Some of the Movement's leaders may be having second thoughts, however, because of the heavy opposition the law has encountered.

The Lisbon press yesterday gave considerable coverage to a Socialist Party rally at which the monolithic labor concept was denounced and the need to preserve workers' freedom emphasized. Justice Minister Zenha told an enthusiastic audience at the rally that "the working class is not the property of any political party or of the state."

Failure of the cabinet to approve the law would be the most serious defeat the Communists have sustained since they entered the government. It could reduce their influence among a group in which they have been strong. Most of the other setbacks they have suffered have been among groups in which they were trying to establish or increase their influence.

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NOTES

Israeli *and* Lebanese *forces exchanged artillery fire again yesterday, but fighting in southern Lebanon generally slackened.*

Israeli patrols and fedayeen guerrillas fired across the border at each other Thursday night. The Israelis have made no incursions into Lebanon since Thursday, according to the Lebanese defense ministry.

* * *

North Vietnam *is maintaining a moderately heavy flow of troops through the infiltration pipeline this dry season.*

We estimate that some 30,000 troops have moved south in the past two months. Total numbers are still below those of previous years when heavy fighting has taken place. Of the total, more than 16,000 are destined for southern South Vietnam, about 8,000 for the central highlands, and approximately 1,000 for the northern provinces of the country. The other 5,000 probably will be used to strengthen combat and logistic units along the infiltration system. Some of the troops apparently have already arrived in the provinces north of Saigon, and others in the pipeline probably will reach their destinations during the next few weeks. The new troops should enable the communists to sustain their forces in moderate fighting for this dry season.

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CHINA

The appointments and policy statements approved by the Fourth National People's Congress are clearly designed to stress moderation and continuity. Nevertheless, the brevity of the congress--the first in a decade--and the initial secrecy in which it was held suggest that lingering leadership differences have not been fully ironed out. Although Chairman Mao Tse-tung did not attend the congress, he appears to be still a very active force in Chinese politics.

The reappointment of Chou En-lai as Premier and the naming of his close ally, Yeh Chien-ying, to the sensitive post of defense minister underscore Chou's continuing power and prestige as a senior policymaker. Teng Hsiao-ping, elevated to the Politburo standing committee and named a vice chairman by the central committee plenum which preceded the congress, appears to be Chou's logical successor.

Chairman Mao

Chairman Mao Tse-tung, who did not attend either the plenum or the congress, has now been away from Peking for over six months. He has only once been absent from the capital for a longer period of time, and that was immediately before the onset of the Cultural Revolution when, he subsequently claimed, he was being circumvented and ignored by political opponents. Mao's continuing meetings with foreign visitors indicate that his health remains reasonably good and suggest that his absence from Peking may have a political justification.

It is possible, for example, that Mao may have been upset with the decision to wind down the anti-Lin, anti-Confucius campaign in July. Propaganda articles issued as late as November, which may well have been reflecting the Chairman's personal views, appeared to be calling for a further effort in the campaign, particularly as it related to an assault on the military's political position.

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If Mao has remained in the countryside as a political gesture, it is likely that he is "sulking in his tent" and has not been deliberately excluded from the capital. The Chairman has clearly kept in touch with developments in the capital [redacted] 25X1

[redacted] 25X1

Although the communiqué issued at the conclusion of the congress makes relatively little mention of Mao personally, the guiding role of "Mao Tse-tung Thought" was written into the new constitution, and the party chairman was designated commander of the armed forces. Moreover, in the course of discussion of the constitution it was specifically noted that one clause in the document was written in at Mao's behest.

Vice Premiers and Ministers

The congress approved a list of 12 vice premiers. Teng Hsiao-ping leads the list, followed by Shanghai party boss Chang Chun-chiao, who gave the report on the revision of the state constitution on behalf of the party central committee. This assignment is another indication that Chang is acting in the post of party secretary general, although he has never been publicly identified in that role.

Only one military figure, Peking Military Region Commander Chen Hsi-lien, was included in the list of vice premiers. This contrasts with four who served in this capacity before the Cultural Revolution, a change that indicates the military has been further circumscribed in its political role.

Even more striking is the downgrading of the political "left." With the possible exception of Chang Chun-chiao, who rose to prominence during the Cultural Revolution but has long seemed to have moderated his political views, no easily recognizable "leftist" was named vice premier. The two most prominent of these figures, Chiang Ching and Yao Wen-yuan, both of whom had claims to important government jobs, were passed over.

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There are now 29 ministries, compared with the 40 that existed before the Cultural Revolution. The great majority of ministers are veteran bureaucrats, and a number were severely criticized during the Cultural Revolution.

The position of state chairman, which had been held by the disgraced Liu Shao-chi and had figured prominently in the Lin Piao affair, has been abolished. According to Chang Chun-chiao's speech, this and other constitutional revisions were designed to strengthen the party's control over the state structure.

Constitution

The new government constitution, which is less than one third the length of the old one, repeats the fundamentals of moderate economic policies. Compromise is evident, however, in articles which guarantee the right to criticize officials and policies through public debates and wall posters and which state that revolutionary committees will remain as permanent government bodies. Both provisions appear to be a sop to the political left.

Chang Chun-chiao's speech did provide a hint that there may be friction ahead. He noted that while state enterprises have the form of socialist ownership, in some cases leadership is not in the hands of real Marxists and the worker masses. The implication of this phrase is not clear, but it may mean that new political attacks may develop as the "New Leap" economic campaign, now apparently beginning, gathers steam.

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CYPRUS

The US embassy in Nicosia is bracing for another assault today. Despite assurances from the Cypriot government that stronger security measures will be in force, there is concern that a determined mob could again break into the building.

Initial reports indicated that the police were breaking up groups of demonstrators as they formed in various locations. The embassy believes, however, that the demonstration planned by government workers, shopkeepers, students, and teachers could grow to 15,000 persons and turn violent. Leftist extremist members of Vassos Lyssarides' party, who have reportedly been in the streets whipping up emotions, may well provide the spark and organization for the day's activities.

Police officials now responsible for embassy security are known to be politically reliable and committed to maintaining order. Lower police and national guard ranks, however, many of whom share the sentiments of the man in the street, may not follow the orders of their superiors. Although embassy officials were "reasonably confident" yesterday that evacuation of embassy personnel would not be required, they did not rule it out.

The situation was generally calm yesterday. The funeral in Limassol of the Greek Cypriot youth killed Friday in a clash between demonstrators and British personnel took place without sparking major protests. This can probably be attributed to tight security measures by Greek Cypriot authorities.

The evacuation of Turkish Cypriot refugees from the British base at Akrotiri continued unimpeded over the weekend and is scheduled to be completed within a week. The road from the refugee area to the Akrotiri airstrip has remained open, and Greek Cypriots have made no effort to interdict traffic.

Turkish Cypriot leader Denktash has made what appears to be a reciprocal gesture for the release of the Turkish Cypriot refugees. At the intercommunal talks on Friday he offered to discuss with the Turkish army a plan whereby some 10,000 Greek Cypriot refugees would be permitted to return to their homes northwest of the British base at Dhekelia.

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EGYPT-ISRAEL

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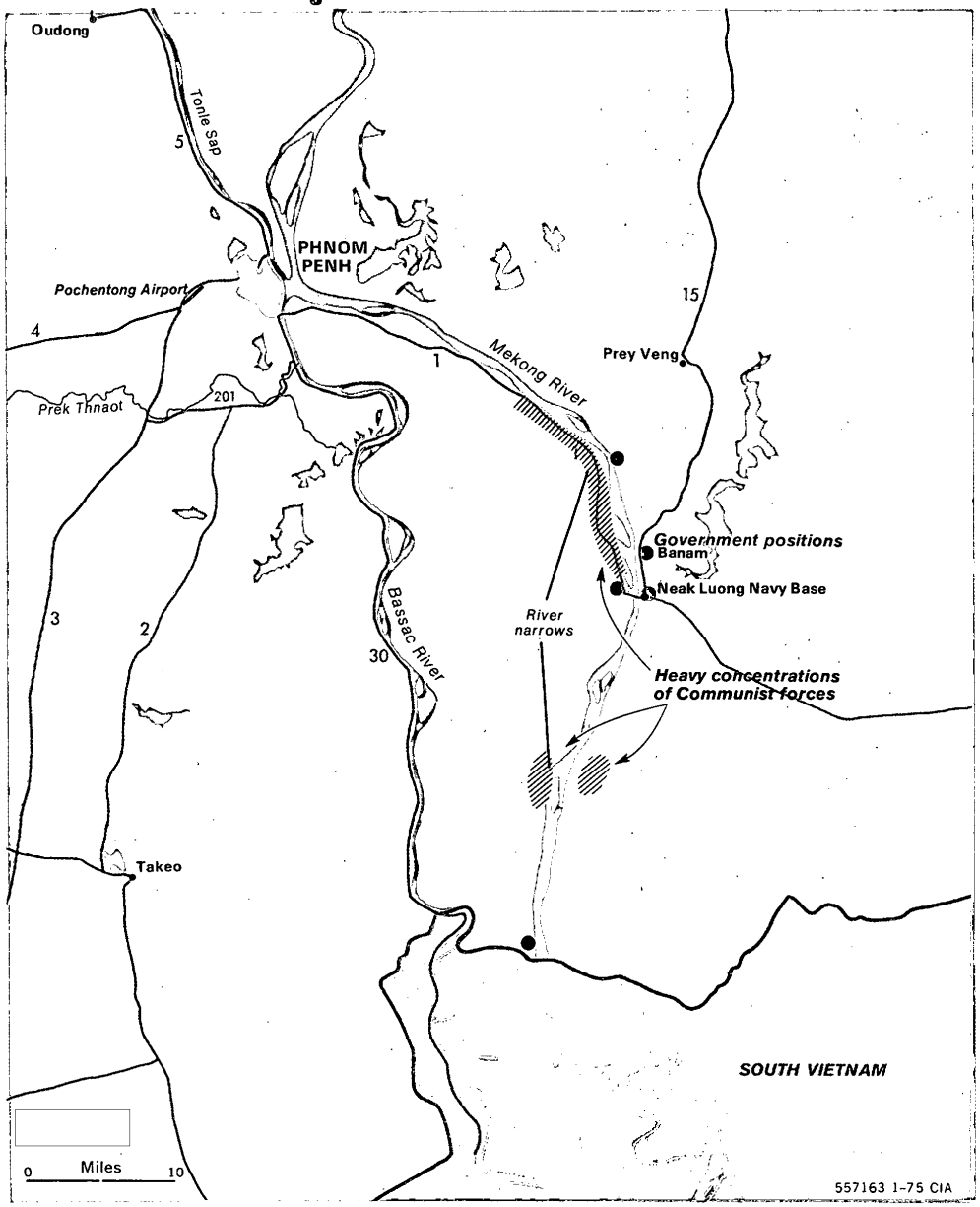
Cambodia: Lower Mekong



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CAMBODIA

Government forces are taking advantage of reduced Communist pressure in the Phnom Penh area to press a major ground and air effort to reopen the Mekong River corridor.

Supported by heavy air strikes, Cambodian army forces yesterday conducted apparently successful amphibious assaults against several Communist positions along the lower Mekong south of Neak Luong. The assaults are being staged from the Neak Luong area some 30 miles downstream from Phnom Penh.

The first resupply convoy to move up the Mekong from South Vietnam in three weeks may try to get under way today. A successful breakthrough by the convoy, however, depends on the effectiveness of escort security provided by Cambodian air and naval units.

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PORTUGAL

The Portuguese cabinet failed to reach a compromise on the controversial labor law Friday and expects to resume debate today. Socialist Party leaders, fearing they will lose the issue to the Communists, planned to meet yesterday to decide whether to leave the coalition if the law should be passed.

In the course of a seven-hour cabinet session Friday, the governing Armed Forces Movement was unable to gain acceptance for a compromise proposal that would trade passage of the Communist-backed labor law for a moderate economic plan favored by the non-communist parties in the coalition.

Communist leader and Minister Without Portfolio Cunhal has said that the cabinet is irreparably split over the dispute. He urges that the coalition be maintained, however, at least until the constituent assembly elections, tentatively set for April.

Socialist leader and Foreign Minister Soares told US Ambassador Carlucci on Saturday that he opposed a walkout and hoped to convince his colleagues to remain in the government. He believes the Popular Democrats will follow the Socialist lead.

The Catholic Church broke its usual silence on political matters Saturday to issue a communiqué opposing the labor law and upholding the rights of workers to select their own unions. The bishops' statement carefully avoided identifying the church with any political party.

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OAS

The special meeting of the OAS Permanent Council opening today in Washington could have an important impact on the dialogue between the Latin Americans and the US. The session is being held in response to Venezuela's charge that the US Trade Reform Act constitutes "economic aggression."

We have no evidence that Venezuela has abandoned its original plan to have the Permanent Council convoke a special consultative gathering of OAS foreign ministers, which in effect would act as a "court" with the US in the dock. If the Perez government opts for this, it will be difficult for other Latin American nations to oppose.

Most of the large Latin American nations, including Brazil and Mexico, have sharply criticized the Trade Reform Act. They would, however, probably be content with an agreement to talk the problem out at the hemispheric foreign ministers' meeting in Buenos Aires in March, or at the next OAS General Assembly meeting in April.

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January 23, 1975

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USSR: The Soviet Union continues to offer assurances that collapse of the US-Soviet trade agreement does not signal a turn from detente. *(Page 1)*

MBFR: The Soviets have laid out their negotiating position for the fifth round of the Mutual Balanced Force Reduction talks, scheduled to begin next week. *(Page 2)*

Cambodia: The small ammunition convoy that was stalled yesterday in the lower Mekong River reached Phnom Penh last night. *(Page 3)*

Portugal: The cabinet has completed work on the controversial labor bill, and passage now seems assured. *(Page 4)*

Panama: The round of canal treaty negotiations just concluded brought considerable progress on the status of forces agreement that would be a key part of a new treaty. *(Page 5)*

Notes: OPEC; Mexico *(Page 6)*

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USSR

The Soviet Union continues to offer public and private assurances that collapse of the US-Soviet trade agreement does not signal a turn from detente. At the same time, Soviet criticism of the US, particularly as expressed in the media, remains at the unusually high levels of the past month.

The Soviets may have enlisted their allies in the effort to reassure the US on detente. A Polish Central Committee member sought out a US official last week to rebut as "nonsense" Western speculation about a return to the cold war.

[redacted] 25X1
25X1

[redacted] The Soviets reportedly are concerned that the West Europeans might interpret action on the trade agreement as marking a change in the USSR's attitude toward detente in Europe. 25X1

The Soviet central press continues to affirm Moscow's commitment to detente and to give heavy coverage to recent statements by you and Secretary Kissinger that detente with the USSR will be continued and strengthened. Soviet media have resumed frequent and positive reference to the Vladivostok arms control understandings, presumably in an effort to offset the "step backward" in trade relations.

Otherwise, criticism of the US in the media remains high. The Soviets are concentrating on US domestic economic problems, Washington's policy toward the Middle East, alleged abuses by the US intelligence community, and continued US support of South Vietnam.

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MBFR

Chief Soviet delegate Khlestov discussed prospects for East-West force reductions in his dialogue with Ambassador Stoessel in Moscow on Monday. The fifth round of the negotiations begins next week in Vienna.

Khlestov claimed he is optimistic about the negotiations and said the Soviets still are interested in reaching an agreement. He declared that the negotiations are "condemned to succeed," but he gave no indication of any new flexibility on the part of the Soviets. Instead, he called for the US to put pressure on its NATO allies to move the negotiations along. The tenor of his remarks suggests that the USSR expects another lackluster round of talks.

Much of Khlestov's presentation was a reiteration of standard Soviet positions. For example, he stressed the need to reduce West German forces from the outset, arguing that it is especially important to resolve this issue during 1975, the 30th anniversary of the end of World War II. This appeal prompted Ambassador Stoessel to ask whether the Warsaw Pact had not, in fact, already agreed to US-Soviet reductions as an initial phase. Khlestov maintained that that concession had been made in the Warsaw Pact's proposal for "symbolic reductions."

When asked about NATO's objective of reaching a "common ceiling," Khlestov did not reject the concept outright but repeated the usual Soviet argument that Moscow could not accept a disadvantageous agreement. He added that any reductions should consider total "firepower," reflecting the Soviet position that reductions limited to ground forces would be unsatisfactory.

Khlestov perhaps also was suggesting that the Soviets eventually might be willing to accept unequal reductions of ground forces if they were accompanied by cuts in air and nuclear elements.

Khlestov explained that the Warsaw Pact's proposal of November 1973 to reduce each alliance's forces by approximately 15 percent still is valid, and has not been replaced by subsequent attempts to win acceptance for various concepts of token reductions.

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CAMBODIA

The small, heavily escorted ammunition convoy that was stalled yesterday in the lower Mekong reached Phnom Penh last night. Its arrival will boost morale in the capital but will do little to ease the tight civilian supply situation. The government will try to get a larger convoy through shortly.

Effective support from the navy and air force, amphibious landings at several points along the river, and the destruction of a communist-built barricade at a vital river narrows made the 60-mile run possible. Intercepted messages indicate the Khmer communists will keep heavy pressure along the river, and the growing reluctance of crews and river pilots to risk the trip could become a major problem for the government.

In Phnom Penh itself, rice and fuel are being rationed. The city continues to be hit by rockets. Civilian deaths are mounting, partly because of the influx of refugees from outlying areas. Fighting has also picked up outside the city, and the US embassy reports that since widespread fighting began on January 1, casualties on both sides have averaged about 1,000 a day--the heaviest of the war.

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PORTUGAL

The Portuguese cabinet completed deliberation yesterday on the labor bill that has caused serious division within the Armed Forces Movement as well as in the three-party coalition government.

The cabinet vote reportedly ended in a tie; it was broken by Prime Minister Goncalves, who favors the bill. The bill will now be considered by the legislative council of state; two thirds of the 21 members are military men, and passage seems assured.

Reports circulating in Lisbon indicate that the Armed Forces Movement was not as united on this issue as its press releases had suggested. According to these reports, the Movement's 200-member assembly failed to reach agreement in an unruly session and bucked the problem to the superior council of the Movement, where the vote was 11 in favor and 9 opposed.

Many moderates within the Movement may be uncomfortable about their apparent alliance with the Communist Party on this issue. As if to dispel this notion, the superior council issued a communiqué last weekend restating its determination to hold a national election on schedule this spring. The Communists have been searching for ways to block an election.

The leaders of the Socialist Party are planning to meet on Sunday to decide whether to remain in the government. Foreign Minister Soares, the Socialist leader, is opposed to withdrawal but says there is considerable pressure in the party for such a move. Soares told Ambassador Carlucci yesterday that the bill as now drafted would enable the Socialists to participate in the labor movement despite Communist control of the leadership of a single labor confederation. Other reports throw doubt on this assertion.

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PANAMA

The round of canal treaty negotiations just concluded in Panama brought considerable progress on the status of forces agreement that would be a key part of a new treaty. The Panamanian negotiators seemed particularly concerned with acquiring the symbols of sovereignty, such as flying their country's flag over defense sites that the US would retain under a new pact. Discussions will continue during the next round of negotiations, scheduled to begin in Washington on January 27.

General Torrijos' public and private statements reflect his confidence that a new treaty can be drafted this year. He has lived up to his commitment to keep the details of the bargaining confidential. Within this limitation, the administration has launched a campaign to prepare the public for a treaty that will not be "perfect" from Panama's point of view, but that will achieve many of its basic goals. This includes setting a specific date for the transfer to Panama of all responsibility for defense and operation of the canal.

Torrijos actually would prefer to hold off public debate until the entire draft agreement has been completed. He has had to start defending his handling of the negotiations because of criticism from ultra-nationalists that he is acting in secrecy and is giving away too much. These critics maintain it is a mistake to sign a new treaty now, because they believe that within a few years the pressure of world opinion will oblige the US to withdraw unilaterally from the canal area.

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NOTES

OPEC *states' oil, finance, and foreign ministers are scheduled to meet in Algiers on Friday to begin preparations for an OPEC chiefs of state summit conference.*

The participants will attempt to develop a common strategy for the proposed joint conference of oil-producing and oil-consuming countries. They probably will discuss the recycling issue and a guarantee against inflation's weakening the value of OPEC members' investments in developed countries. They will be principally interested in tying oil prices to other prices. Considerable attention also is likely to be focused on the new US trade law, which excludes OPEC members from preferential treatment.

* * *

Mexican *authorities have had major successes against narcotics traffickers this month.*

25X1

25X1

Despite this success, Mexico remains the leading source of heroin smuggled into the US. In fact, more than 60 percent of the heroin seized or purchased by our narcotics agents last year was of Mexican origin. US assistance to the Mexican police effort against traffickers is helping, but Mexico for the foreseeable future will remain a convenient country for narcotics growers and smugglers.

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Thailand: A conservative coalition government is likely to result from parliamentary elections this Sunday. *(Page 4)*

Notes: Jordan; PLO; Turkey; Cuba *(Pages 5 and 6)*

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INTERNATIONAL OIL DEVELOPMENTS

Demand for oil in Western Europe and Japan is running below expected levels.

In Western Europe an unusually warm winter has resulted in an extraordinary buildup of heating oil stocks, and the economic slump has reduced demand for industrial fuels. In Japan, industrial output is continuing to fall and with it the demand for oil products. Industry accounts for the bulk of Japan's oil consumption.

The reduction of oil demand in Western Europe and Japan has led to a virtual collapse of the oil product spot markets and a major slowdown in refinery operations. Refiners geared to export markets have been particularly hard hit. Rotterdam and English Channel refineries are down to about 55 percent of capacity, while those in the Mediterranean and Singapore are operating at about 50 percent. Some Persian Gulf refineries are operating at 75 percent of capacity, but the market is forcing them to offer substantial discounts on some products.

Refineries supplying the US market are an exception to this trend. Relatively high US demand has kept domestic refineries running at 90 percent of capacity, while Caribbean refineries that supply the US market are running at nearly 85 percent.

On the supply side, we are seeing some readjustments in the crude oil market. Iraq, Algeria, and Libya cut prices on their government-owned crude oil effective January 1. This action reduces the now overvalued transportation and quality differentials these countries maintained last year and is designed to restore their competitiveness with crudes produced in the Persian Gulf. All three countries saw their exports and market share decline and are lowering prices to increase sales.

Venezuela also slashed its freight premium by 77 cents per barrel, but increased its income tax rate. As a result of these adjustments, its government revenue will increase 38 cents per barrel, and its competitive position relative to Persian Gulf producers will not change materially.

The transportation differentials built into the prices of Mediterranean, Caribbean, and West African crude oil were undercut by the sharp decline in long-haul tanker rates. Tanker business is so bad that a very large new French tanker was laid up immediately after it was launched.

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Free World crude oil output dropped more than 1 million barrels per day last month, partly as a result of reduced demand. Kuwait and Libya cut production 220,000 and 125,000 barrels per day, respectively, because of reduced liftings. According to Aramco, a reduction of 750,000 barrels per day in Saudi oil production was caused by storms at its loading ports.

According to press reports, Kuwait is attempting to stimulate its oil sales by offering more liberal credit terms. Gulf producers had been allowing a maximum of 30 days to pay for their oil without incurring additional charges, but Kuwait now is allowing 60 days' credit on its open market sales. The extra 30 days' credit is equivalent to a price discount of about 10 cents per barrel on Kuwaiti crude.

If the price adjustments in Iraq, Algeria, Libya, and Kuwait lead to increased oil sales in those countries, other OPEC producers will have to make additional production cuts to hold the line on prices. Last month we estimated that by late spring there would be a surplus of at least 3 million barrels per day on the world crude market unless production were further reduced. The cuts made in December go part of the way toward eliminating the surplus, but more cuts will be needed. With several producers now trying to boost sales, it is not clear where these cuts are likely to occur.

A special meeting of OPEC's oil ministers, finance ministers, and foreign ministers opens in Algiers today. The meeting is expected to focus on establishing a coordinated OPEC position on a wide range of oil-related economic issues in preparation for a summit meeting of OPEC chiefs of state later this year. Items on the agenda for the meeting include mechanisms for recycling petrodollars, oil price levels, a joint strategy for the proposed meeting of oil producers and consumers, and the relation of oil prices to the prices of other commodities through indexing.

The OPEC ministers are also likely to discuss recent actions by the US that affect their interests. The Latin American members are still up in arms over their exclusion from the trade benefits in the recent Trade Reform Act. The Middle Eastern producers have so far made little comment about either the trade bill or your tariff of $3 a barrel on imported oil. Presumably the OPEC members will develop a position on these matters at their meeting.

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USSR

The Soviets conducted the fourth flight test of their new solid-propellant IRBM--the SS-X-20--from Kapustin Yar yesterday.

25X1

The new missile may be mobile. It is apparently being fired from a launch site used in tests of the SS-14, a mobile, solid-propellant IRBM tested in the late 1960s.

25X1

A canister similar to the one used to launch the SS-X-16 was seen recently on the launch pad where the SS-X-20 is apparently being tested. The SS-X-20, although smaller than the SS-X-16, may use the same size canister. If so, it may be difficult to distinguish between the two missile systems when they are assigned to operational units.

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THAILAND

Thai parliamentary elections on Sunday will conclude a 15-month transition from military to paramilitary rule. The new government is likely to be a conservative coalition.

The US embassy predicts that no one party will gain a majority in the elections but that four conservative parties will win the largest bloc of seats. Of these four, the Social Justice Party--backed by army strongman Krit Siwara--is likely to poll the greatest number of votes.

Should this forecast prove accurate, Krit, who is also supporting two other conservative parties, will remain the power behind the scenes, and the military will retain its considerable influence over the government. Politicians will find it difficult to form any government that will last very long without Krit's blessing.

Whatever the leadership of the next cabinet, there is little chance that the new government will alter radically Thai domestic or foreign policies. On the domestic front, the new government must continue to grapple with nagging economic issues such as inflation and land reform. In the foreign policy field, it will want to preserve Thailand's close relationship with the US, while at the same time appearing responsive to domestic pressures for greater independence of the US. The new government would probably be reluctant to give active support to US policy objectives in Indochina if this would seriously retard Thailand's efforts to improve relations with its neighbors, particularly Hanoi and Peking.

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NOTES

Jordan *will pay its way this year on both defense and development programs as the result of increased Arab aid and record foreign exchange earnings from the country's major industry--phosphate production.*

Arab transfer payments in 1975 will probably exceed $340 million--over two and a half times the support received last year from Arab sources. US budget and military support for 1975 will push total payments to Jordan to more than $500 million. With world demand for phosphate fertilizers soaring, Jordan's earnings from phosphates are expected to increase from $60 million last year to $150 million in 1975.

* * *

The Palestine Liberation Organization *has asked the UN for permission to establish an observer mission in Geneva. Once the UN forwards the request to the Swiss government, Bern will have little choice but to comply.*

The PLO has focused on Geneva because the city serves as European headquarters for the UN and because it is frequently the site of major international conferences. The PLO, which already has observer status at some UN specialized agencies, would use its Geneva base to try to attain full membership in them. The PLO may aim first at the World Health Organization, which requires only a simple majority vote for admission.

* * *

Turkey's *First Army in Thrace was placed on alert on January 20* [redacted] 25X1 25X1

The alert reportedly is intended as a gesture to support Turkey's announced intention to resume oil exploration in the Aegean in February [redacted] 25X1 25X1 That alert followed the exchange by Turkish and Greek leaders of tough statements on their rights in the Aegean. 25X1

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* * *

A high Cuban *official who knew that his comments would reach the US government has elaborated on the approach now being considered among Cuban leaders for reaching a rapprochement with the US.*

He spoke in hypothetical terms, and his ideas were expressed vaguely. He thought some arrangement could be found to solve the issue of reparations to US citizens and companies whose properties had been seized, and he said Cuba might "respond favorably" to a gradual lifting of the US embargo. This is the first evidence that senior Cuban officials are considering concessions as a step toward normalizing relations with the US.

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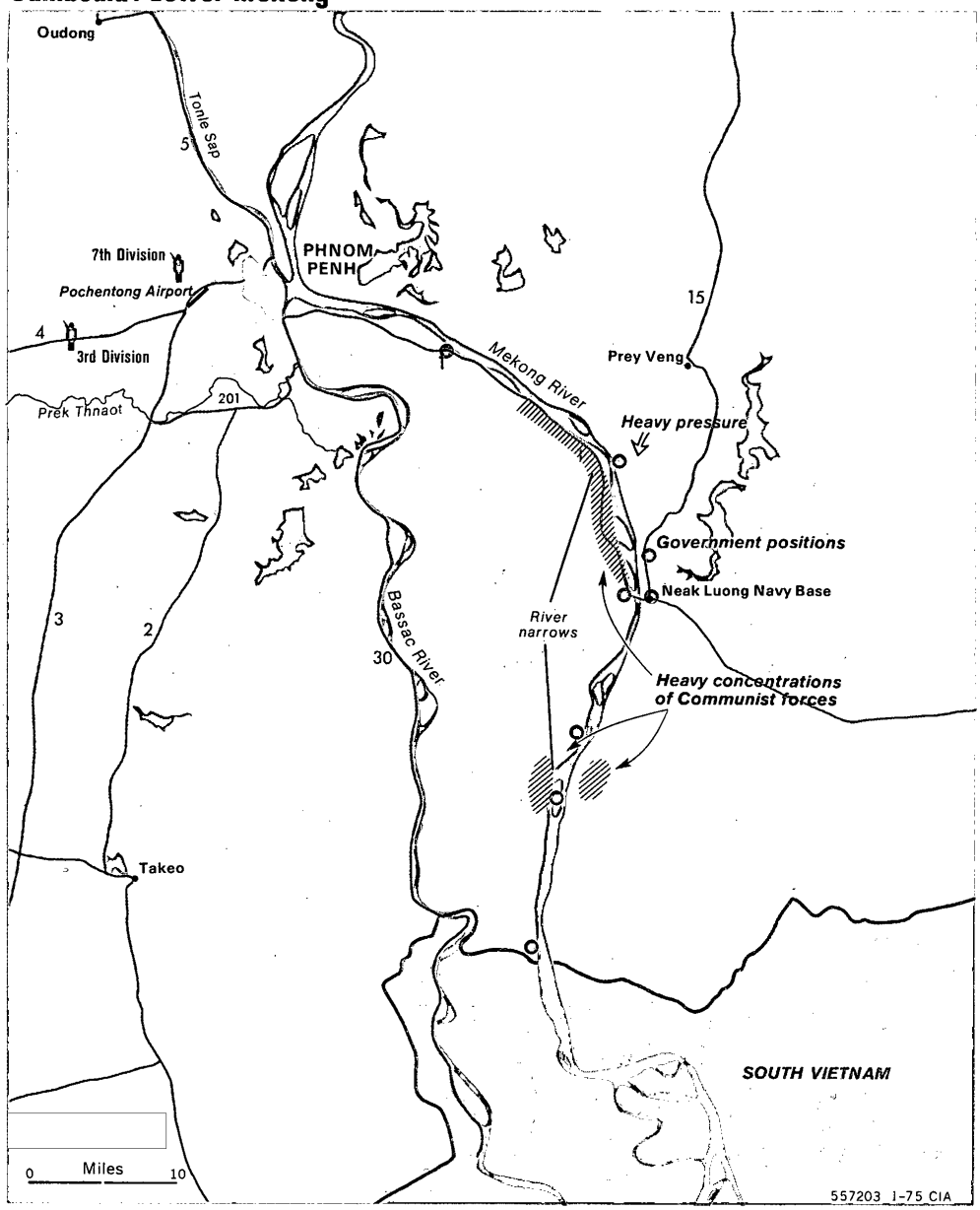
Cambodia: Lower Mekong



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CAMBODIA

A second Mekong River convoy began the 60-mile run upriver to Phnom Penh today. Its size and makeup will make it more vulnerable than the previous one to communist attack.

The convoy consists of two tankers, two ammunition barges, and a large Cambodian navy escort. At the last minute, two coastal steamers carrying rice refused to leave. The convoy will be protected by shield barges.

In terms of who controls what along the lower Mekong, the situation remains unchanged. Government troops still hold several recently established beachheads south of Neak Luong--including one at a river narrows. Insurgent forces hold most of the riverbanks along the lower reaches, however, and are keeping heavy pressure on government riverside positions north of Neak Luong. They have directed heavy fire against navy vessels trying to provide support to these positions.

In the Phnom Penh area, combat has picked up considerably in the past few days. Elements of the Cambodian army's 3rd Division have fought several sharp engagements with insurgent units near Route 4 west of Phnom Penh, and the army's battered 7th Division on the city's northwestern defenses is again under pressure. Pochentong airport continues to be the target of sporadic rocket attacks, and shellings against the military fuel depot on Route 5 north of the city have destroyed some stocks.

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UK-CSCE

The British, who have been reluctant to offer concessions to the East at the European security conference in Geneva, now advocate compromise. They have also suggested that the pace of work be accelerated in order to wind up the negotiating stage of the conference around the end of March.

Delegates from EC countries speculate that the British may be seeking to lay the groundwork for a successful visit by Prime Minister Wilson to Moscow next month. The British suggestion would be welcome in Moscow. The Soviets want the negotiations to be over this spring so that a summit finale to the conference can be held this summer. Some of the Nine, particularly the West Germans, oppose the setting of a specific date.

Foreign Secretary Callaghan has said he wishes to discuss the security conference when he meets with Secretary Kissinger next week. He will probably solicit US views on the new British proposals, which also include:

--A proposal that NATO signal the Soviets that the West is willing to drop one of its demands concerning military-related "confidence-building measures."

--A suggestion that the West offer a compromise on the issue of follow-on machinery to the conference; the British favor a regular meeting of senior officials to review the general East-West situation, with the first meeting to take place a year after the conference ends.

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VENEZUELA

The Venezuelan government may be planning to retaliate against the US if provisions of the Trade Reform Act discriminate against Venezuelan interests.

[redacted] Venezuela's plan would involve a significant increase in the royalties foreign oil companies are required to pay, as well as a cut in overall petroleum production by 14 percent, rather than the 10 percent announced earlier this week as a conservation measure. Income taxes Venezuela levies on the companies might also be raised above the new rate announced this week. 25X1

The possibility that Venezuela is planning retaliation came to light as the OPEC countries met in Algiers yesterday. Caracas planned to play an active role at the meeting in discussing the trade act's implications for OPEC.

Venezuela hopes all the oil-producing countries will take a strong position on the act. Although a projected world oil surplus in late spring would dampen the effect of a Venezuelan cutback, Caracas apparently is prepared to implement its plan unilaterally if necessary.

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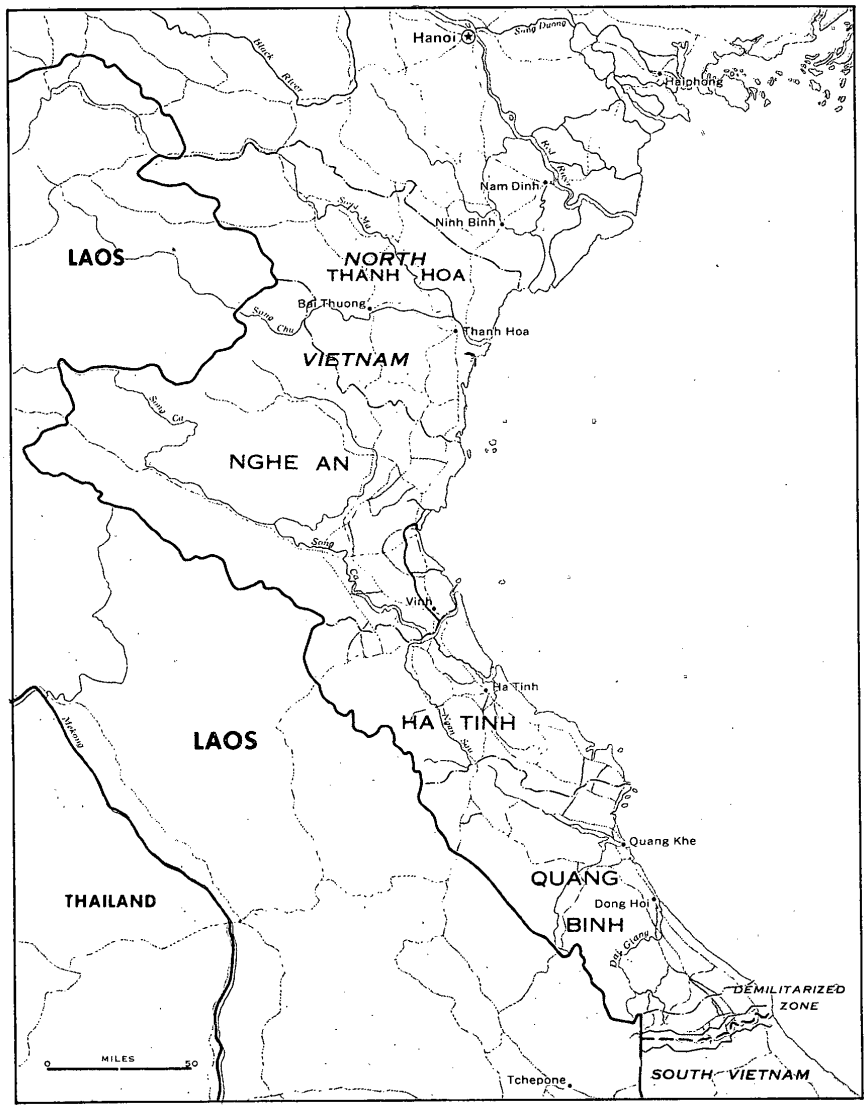

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NOTES

North Vietnam's *316th Division, or at least part of it, may be moving to South Vietnam from its normal area of operations in Nghe An Province of North Vietnam.*

Personal messages sent by members of the division suggest this. One came from Quang Binh Province, the southernmost province in North Vietnam; another indicated that its sender was "en route to South Vietnam." The division's communications pattern has changed slightly; there have been no intra-division communications noted since January 18, and the division headquarters has not been observed communicating with its military region since January 20. This evidence is far from conclusive, but if the 316th Division does move into South Vietnam it would be the first North Vietnamese division to do so since the cease-fire agreement.

* * *

Bahrain *is demanding formal reassurance that the US will not use facilities on the Persian Gulf island for hostile military action against any Arab state.*

The Bahraini foreign minister has assured the US ambassador that the government has no intention of submitting the Middle East force stationing agreement to the National Assembly for approval, but that a scheduled debate could bring a "sense of the assembly" motion criticizing the stationing agreement. The foreign minister also insisted that the government needs to be able to demonstrate that the US presence brings tangible benefits. This, he said, would require that the annual rent for the lease agreement be increased to $4 million, a sixfold rise over the amount agreed to in the accord of 1971.

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Japanese *unemployment unexpectedly rose about one third in December and further increases are likely over the next few months.*

The 1 million unemployed are still only about 2 percent of the labor force, but the number is up from 700,000 in November and is the highest figure in about 20 years. Most of the unemployment increase has occurred in manufacturing, where producers appear to have given up on a quick upturn in sales and are trying to reduce record inventories by temporary closings or work force reductions. A record number of bankruptcies and unemployment benefit applications point to rather serious strains on the system, and Tokyo is under increasingly heavy pressure to ease its anti-inflationary policies to boost demand and production. Industrial output levels are nearly 15 percent below the levels a year earlier, and producers' stocks of unsold goods are still on the rise. Further production cuts have been announced for the next several months in many industries.

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January 27, 1975

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USSR-EGYPT

Foreign Minister Gromyko's trip to Cairo next week appears to be intended to prevent further deterioration of Soviet relations with Egypt.

The Soviets, irritated by President Sadat's renewed public criticism of the USSR, are probably concerned by the threat he made in a Le Monde interview last week to abrogate the Soviet-Egyptian friendship treaty. Egyptian Foreign Minister Fahmi indicated Saturday that Gromyko's visit is the result of continuing exchanges between General Secretary Brezhnev and Sadat.

The Soviet foreign minister will probably seek a reading of the state of Egyptian-Israeli disengagement talks while he is in Cairo, particularly in view of reports that Secretary of State Kissinger plans to visit the Middle East next month. Gromyko's visit will give international and home audiences a picture of active Soviet involvement in the region.

The contentious subject of Soviet arms supplies is certain to be raised during Gromyko's visit. Only one Soviet ship carrying military equipment has arrived in Alexandria since Fahmi visited Moscow in late December. At that time, the Soviets pledged to supply Egypt with the weapons it had ordered prior to the October 1973 war.

No new date for a Brezhnev trip is likely to be set, in view of the strains in relations and Brezhnev's uncertain health. A Soviet press officer recently told a US embassy official that he did not expect Brezhnev to go soon to the Middle East.

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OIL

The oil, finance, and foreign ministers of the members of the Organization of Petroleum Exporting Countries concluded their session in Algiers yesterday with a call for meetings of the OPEC chiefs of state, and between oil exporters and importers. From the importers' point of view, the outcome of the conference probably was as good as could be expected. The final communiqué was moderate, and various participants indicated that the prevailing approach would be cooperation rather than confrontation.

The OPEC summit, scheduled for sometime between February 21 and March 8, will focus on developing a coordinated position for discussions with oil importers. The ministers agreed that the meeting with importers should follow the pattern proposed by the French, who want representation from developing as well as industrialized countries.

[redacted] a preliminary exporter-importer meeting could be held in late March to set an agenda for a full-scale conference at an as yet undetermined time and place. At the OPEC ministerial session, the Algerians proposed a continuation of the freeze on oil prices through 1975. Price increases were urged for 1976 and 1977, correlated with the rate of inflation. 25X1

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PORTUGAL

Politically motivated street violence occurred in Portugal over the weekend, and more is expected this week. Rumors of coup plotting, meanwhile, continue to circulate.

The forced cancellation of the first congress of the Social Democratic Center Party by radical left-wing groups bodes ill for free and orderly elections this spring. Leaders of the Social Democratic Center, dubbed "fascist" by the left, had anticipated violence; groups of extreme leftists had ransacked their headquarters and broken up a party youth rally late last year, and the far left had said it would prevent the congress from taking place. Extremist groups calling for the dissolution of the Social Democratic Center held another demonstration in Oporto yesterday with security forces present. Democratic Center leaders reportedly are considering disbanding; if they do, no right-of-center party worth mentioning will participate in the constituent assembly elections.

The Communists, meanwhile, have announced they will hold a demonstration in Lisbon on Friday to compete with one already scheduled by the Socialists. The Socialists have called for their demonstration to show continuing opposition to the unitary labor law approved by the cabinet last week. The Communists, who reportedly believe the Socialist rally will be successful, hope to draw off some of its support. Tensions are rising, and a clash between the two groups could become serious.

[redacted] a coup is being planned by left-wing members of the Armed Forces Movement in cooperation with the Communist Party. [redacted] 25X1 25X1 25X1

The Communists may believe their fortunes have peaked with their labor law victory and may, therefore, decide to take steps to preclude a moderate reaction against them. Their counterdemonstration could be a cover for a coup attempt. Radical officers also might try a coup because of disagreements among the military over the labor law. In this case the Communists might play only a supporting role. [redacted] 25X1 25X1 25X1

[redacted] Rightists reportedly are circulating stories of leftist plots, perhaps to provide an excuse for taking action themselves.

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VIETNAM

Vietnamese communist commentary on the second anniversary of the Paris cease-fire agreement predictably blames Saigon and Washington for the continued warfare in South Vietnam.

The Viet Cong's Provisional Revolutionary Government on January 17 repeated its statement of last October which demanded the resignation of President Thieu and the cessation of all US aid to South Vietnam before serious consideration could be given to resuming negotiations. The Viet Cong have also issued a lengthy "white paper" which details alleged US and South Vietnamese cease-fire violations over the past two years. The North Vietnamese yesterday reiterated their support of the Viet Cong position.

The communists have reacted strongly to your statement that you will request supplemental military assistance for the Saigon government. In an authoritative article in their party daily, the North Vietnamese vigorously attacked the aid request as an indication of the US unwillingness to implement the cease-fire agreement. The article attempted to portray continued US assistance to Saigon as ample justification for the communists' current military campaign in the South.

The communists have also given prominence to UN Secretary General Waldheim's recent decision to allow the Viet Cong to open a liaison post with UN humanitarian offices in Geneva. They have pointed to the description of "two South Vietnamese parties" in the Paris Agreement as tantamount to recognition of the Viet Cong's Provisional Revolutionary Government as a legitimate and co-equal South Vietnamese governmental entity. Communist stress on this line is intended to support the Viet Cong's efforts to gain at least observer status to other UN forums.

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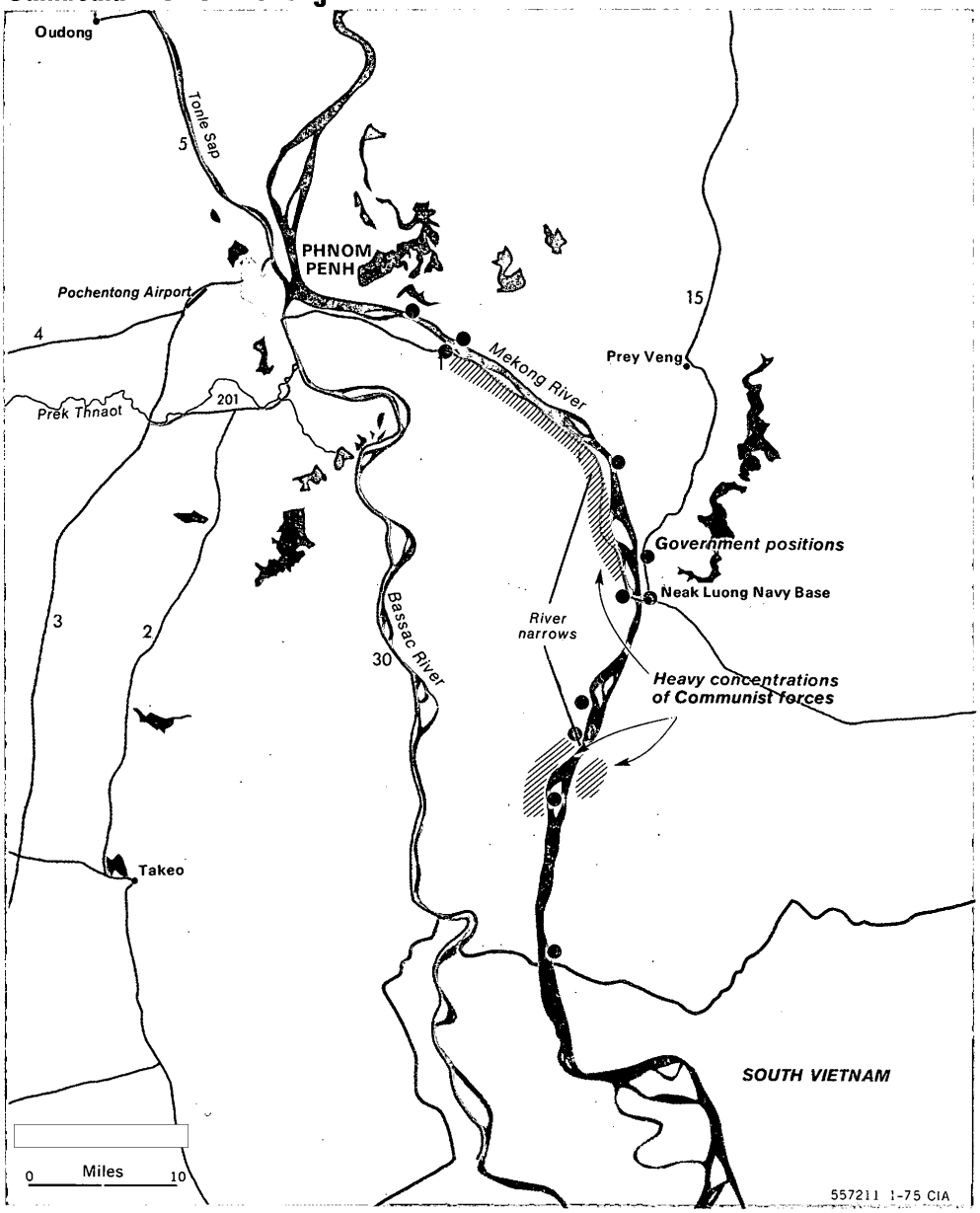
Cambodia: Lower Mekong



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CAMBODIA

A tanker and two supply barges escorted by 18 naval craft arrived in Phnom Penh Saturday night carrying much-needed petroleum and ammunition. This was the second convoy to arrive in three days.

A second tanker was delayed by communist attacks, but arrived in Phnom Penh late yesterday. The success of these two convoys will provide a psychological lift to the Cambodians, whose Mekong lifeline has been cut since early this month.

Intercepted messages indicate that the Khmer communists intend to continue their interdiction effort. Orders are being issued to construct more river barricades, lay additional mines, and retake shore positions lost last weekend.

Communist forces are also continuing rocket attacks on Phnom Penh and nearby Pochentong airfield. They may be trying to get close enough to the airfield for more accurate rocket and howitzer attacks.

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ECUADOR

The navy seized four US tuna boats Saturday for alleged illegal fishing within Ecuadorean waters, the first seizures since the 1972-73 fishing season.

Navy headquarters in Guayaquil announced the boats were seized "40 miles off the coastline." This formulation may be deliberate; it gives Ecuador the option of treating the matter as a simple case of unlicensed fishing within Ecuador's 200-mile territorial limit or, more seriously, of fishing in the 40-mile prohibited zone along the coast. The first case would probably mean heavy fines. The second case could mean confiscation of the fish catch and the boats, and even jailing of the crews, in addition to fines.

President Rodriguez has recently charged that the new US Trade Reform Act discriminates against Ecuador because it is a member of the Organization of Petroleum Exporting Countries. Ecuador may take a strong initial position in dealing with the boat crews, their parent companies, and US consular officers. By pegging the seizure to the far limit of the 40-mile zone, the government may, however, be suggesting a willingness to temper enforcement to match US flexibility in bilateral relations.

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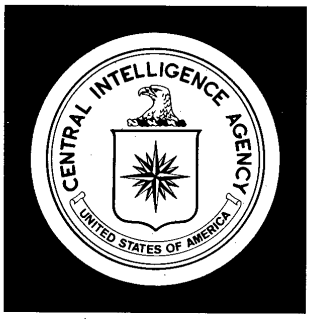

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January 28, 1975

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PORTUGAL

We present below the summary of an interagency intelligence memorandum produced on January 27 dealing with Portugal: Recent Developments and Short Term Prospects.

Evidence is accumulating that growing tensions of recent days may result in major changes in the Portuguese leadership, which would have considerable impact on future policies. One catalyst is the approach of constituent assembly elections, promised by the end of March. Time seems to be running out for the present coalition government which, unable to resolve contentious issues in the pre-election period, is at the breaking point. More important, officers in the Armed Forces Movement may be about to fall into internecine strife avoided thus far.

Although we still know relatively little about the officers of the Movement, the past several weeks have taught us something about what drives them. First and foremost all of them fear reaction from the right and a return to the status quo before the coup of last April. This largely accounts for their susceptibility to pressure from the left reflected, for example, in the recent decision favorable to the Communists on the unitary labor law. But the moderates also have grounds for fearing the left. These apprehensions will dissipate very slowly, if at all. Until they do, the officers in the Movement will behave as a beleaguered but also divided group.

Events over recent weeks suggest that:

--Those within the Movement who advocate moderation have been increasingly on the defensive.

--Many influential figures in the Movement have come to the conclusion that the populace cannot be counted on to choose wisely in free elections, and that the Movement will have to remain as the final arbiter for a long time to come.

--Chances are better than even that, if elections are permitted this spring, they will be accompanied by measures by the Movement--with strong Communist support--to prevent the center and right from gaining a significant share of power.

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PORTUGAL

Coalition unity evaporated yesterday as major party leaders traded accusations.

Foreign Minister Soares, who also heads the Socialist Party, told a press conference that the Portuguese Communist Party is anti-democratic. He said that the unitary labor law was an error which the working class would correct, and warned that "extremist solutions" could lead to civil war.

Communist leader Cunhal responded by calling those who talk of war "fascist reactionary plotters." He denied that his party was planning a coup and said that those who agitate about coups are merely covering their own intentions.

Both the Socialists and Communists are preparing large public rallies in Lisbon on Friday night. The rallies will be held in close proximity and at virtually the same time. The potential is great for violence, which could lead to a declaration of martial law and the canceling of the spring elections. One minister says there will be no clashes because both rallying groups are supposed to use different routes.

According to an aide of Soares, Prime Minister Goncalves asked the Communists to hold a demonstration similar to the Socialist rally in order to have a pretext for canceling both events.

Rumors are circulating in Lisbon of imminent changes in the leadership. Minister Without Portfolio Vitor Alves, who opposed the labor law, is one of those rumored to be on the way out.

In each of the two past shakeups of the provisional government the complexion of the cabinet has shifted more to the left. A gradual assumption of power by some combination of Communists and radical leftists seems to be a greater possibility than a sudden coup. The latter would be more likely if there were a series of events that the left would regard as fatal to their cause.

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ARGENTINA

Foreign Minister Alberto Vignes announced yesterday that adoption of the US Trade Reform Act is responsible for the postponement of the meeting of Latin American foreign ministers scheduled for March in Buenos Aires.

The move is another blow to the dialogue between the hemispheric foreign ministers and Secretary Kissinger, but the session would almost certainly have been rancorous. Vignes cited the tense atmosphere created by the Trade Reform Act as the reason for putting off the meeting. He said a new meeting would not be scheduled "until a solution is found" for the divisive situation created by the Trade Reform Act and "until the new dialogue takes on a meaning which it was supposed to have had at the outset."

Last Friday, a special session of the OAS permanent council issued a resolution declaring that the Trade Reform Act violated commitments the US had made to developing countries. The resolution recommended that the issue be discussed at the next OAS general assembly in April. Several Latin governments--particularly the Venezuelans--have expressed strong reservations about conducting the hemispheric dialogue in foreign ministers' meetings. Venezuelan President Carlos Andres Perez has argued strongly that any issue between Latin countries and the US should be discussed only in the OAS where "agreements are more binding"--a reflection perhaps of the suspicion and lack of confidence that characterize current Latin attitudes.

Although reactions of Latin leaders to the postponement are not yet available they can be expected to support the Argentine decision as regrettable but necessary. Venezuela, a vociferous critic of the Trade Reform Act, will interpret the postponement as a diplomatic triumph for Perez' policy, and one which further enhances his reputation as a hemispheric leader.

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ETHIOPIA

Army officers in Addis Ababa reportedly are planning a coup against the ruling military council. The coup leader, who opposes the council's leftist policies, may act as early as next week. He appears to have a good chance of success.

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the leader of the coup is Colonel Gebre-Yesus Mikael, a brigade commander who controls key units in Addis Ababa, including some of the units that protect the council's headquarters. These troops are to provide the main strike force, and Gebre-Yesus reportedly has received assurances from officers who command police and other army units in the capital that their men will either support the coup or be passive.

Gebre-Yesus expects to receive support from veterans groups, many of which are armed and could be of significant help in a coup attempt. Gebre-Yesus is sounding out important unit commanders in the provinces, and is making preparations to neutralize air force and paratroop commands near Addis Ababa, should they try to stop the coup.

The coup leaders believe the council's policies, including its adoption of socialism and nationalization of businesses, are too radical for Ethiopia. Gebre-Yesus is particularly concerned that civil war will break out if the council attempts a radical land reform program. He also apparently opposes the council's loosening of ties with the West in favor of improving relations with communist governments.

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SYRIA-ISRAEL

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THAILAND

The Democrat Party has won the largest number of seats in the new parliament, but its 72 seats are far short of the 135 needed for a majority in the lower house. The Democrats will have to enter into a coalition with at least four other parties to form a government.

The Democrats, moderate and middle-of-the-road, have for many years represented the only organized opposition to military rule. Their strong showing in the election on Sunday indicates a lack of voter confidence in the wealthy, conservative parties backed by the military and business elite. The support of some conservatives, however, will still be necessary for the Democrats to form a government. Fragmentation of the votes, not all of which are in yet, was greater than anticipated, apparently because the military did not instruct their troops to vote en masse for any particular party.

If the Democrats succeed in forming a government, their leader, Seni Pramot, will most likely become prime minister. Such a government would tend to be more responsive to press, student, and intellectual clamor for an early withdrawal of US forces than would a conservative coalition. Even so, the Democrats are not likely to take any precipitous action affecting US interests in the face of opposition from conservative politicians and the military.

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NOTES

Greek Prime Minister Karamanlis proposed yesterday that the potentially explosive Aegean dispute with Turkey be taken to the International Court of Justice.

The Turkish government has not yet responded officially but the press quotes a military source as saying that Ankara would back such a proposition. In the past, Ankara has pointed to earlier Court decisions to help support its claim to a share of mineral resources under the Aegean. The Turks may in any event have some difficulty in implementing their announced plan to explore for oil in the Aegean, because the owners of the Norwegian research ship they had contracted to use have reportedly refused to permit it to sail into disputed waters. The Irmak government was reacting hastily when it announced it would explore in the Aegean, and the Greek offer might provide a face-saving way out of the situation.

* * *

Bahrain is demanding formal reassurance that the US will not use facilities on the Persian Gulf island for hostile military action against any Arab state.

The Bahraini foreign minister has assured the US ambassador that the government has no intention of submitting the Middle East force stationing agreement to the National Assembly for approval, but that a scheduled debate could bring a "sense of the assembly" motion criticizing the stationing agreement. The foreign minister also insisted that the government needs to be able to demonstrate that the US presence brings tangible benefits. This, he said, would require that the annual rent for the lease agreement be increased to $4 million, a six-fold rise over the amount agreed to in the accord of 1971.

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The President's Daily Brief

January 29, 1975

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CYPRUS-USSR

The lack of progress in the intercommunal talks has reportedly prompted President Makarios to consider greater Soviet involvement in the Cyprus problem. Makarios' interest follows on the heels of a Soviet demarche to the interested parties calling for a solution similar to the Greek Cypriots' proposals.

The Soviet demarche, made recently in Athens, Ankara, and Nicosia, opposes the Turkish proposal for a biregional federation with a weak central government, and supports instead a cantonal or multiregional solution under a strong central government. Moscow also backs the Greek side's demand that all refugees be allowed to return to their homes.

Makarios is reported to be consulting with his advisers on how to make the best use of Soviet support. [redacted] 25X1 25X1 Makarios is certainly aware that there is a limit to the amount of pressure Moscow is willing to put on Ankara. He probably believes, however, that he can still get a better deal by internationalizing the talks and giving the Soviets a larger role.

To gain a role for itself, Moscow had earlier pressed for a wider forum to deal with the Cyprus issue instead of direct negotiations between the interested parties. More recently, the Soviet ambassador in Nicosia hinted to Makarios that Moscow would be interested in some sort of guarantor role, perhaps indirectly through the UN Security Council. Makarios might press for a guarantor role for Moscow if he decides to abandon the intercommunal talks in favor of "internationalizing" the Cyprus issue. He may also press London to give up its Cyprus bases, which Moscow would like to see dismantled.

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Makarios' consideration of a greater Soviet role rises out of frustration with the slow pace of the intercommunal talks and the rigidity of the Turkish and Turkish Cypriot negotiating position. He recently demonstrated his intention to seize the negotiating initiative by submitting a position paper to the Turkish side dealing with all issues under discussion. Makarios believes that if no agreement is possible, it should be determined soon so he can turn to a different forum.

The Greek government and Greek Cypriot negotiator Clerides are likely to press Makarios to give the intercommunal talks more time to succeed. In the event of a deadlock in the talks, however, Makarios may yet seek a broader forum and greater Soviet involvement.

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NATO

With the convening of the fifth round of the force reduction talks in Vienna tomorrow, the NATO allies have accepted, in principle, a US suggestion on how the West should reply to the "freeze" proposal submitted by the Soviet delegation last November.

The Soviets proposed that each direct participant in the force reduction talks freeze the size of its forces in Central Europe for the duration of the negotiations.

The US has suggested that the West inform the Soviets that their proposal is unacceptable; that a freeze agreement should be negotiated only as part of an agreement to reduce forces; that a freeze could come into effect when a reduction agreement is signed; and that discussions of reductions should have priority.

The US suggestion is designed to prevent the Vienna talks from being diverted from their main task of negotiating reductions in forces. It is a compromise that takes into account the desire of the West Europeans not to appear to reject the Soviet proposal flatly. Some of them had wanted to make a specific counterproposal because they feared a possible adverse public reaction if they rejected the Soviet offer out of hand.

All the NATO allies welcomed the US suggestion, although the West German representative in NATO's senior political committee has suggested amendments. The committee will continue its deliberations this week, and the North Atlantic Council will probably consider the matter at a special meeting on January 31.

The Western Allies hope to reach final agreement by that time, and make their definitive reply as early as possible in the new round of negotiations.

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LAOS

Nearly two years after the cease-fire, major steps are finally being taken to resettle the country's large number of refugees. The Pathet Lao may be in line for a population windfall if these refugees opt to return to their homes in the Communist zone. Their presence there would be extremely valuable to the Communists when national elections are eventually held.

Estimates of the total number of refugees in Laos vary widely. USAID, which has for years been deeply involved in providing material assistance and food support for refugees in the non-Communist zone, estimates that there are some 700,000. Prime Minister Souvanna Phouma, on the other hand, claims that fully 1,000,000 of the nation's population of 3,000,000 fall into the category of displaced persons or refugees. Other coalition government officials believe the figure to be in the range of 400,000 to 500,000. Regardless of the specific number, refugees constitute a significant percentage of the Lao population.

The Pathet Lao--who control two thirds of the country, but less than one third of the population--are fully aware of the refugees' potential significance. The Communists have been waging an intensive propaganda campaign among the refugees in an attempt to persuade or coerce them into returning to their native lands. The effectiveness of the propaganda effort has been enhanced by the refugees' own sense of neglect and the non-Communists' failure to convince them to remain in place.

Given the enormous logistic problems involved, however, and the extreme weakness of the coalition government's administrative machinery, it is likely that only a relatively small number of refugees will actually be resettled in the next few months.

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Israel [redacted] 25X1
[redacted] 25X1

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The latter could become vulnerable to Egyptian observation and artillery fire after any further withdrawal of Israeli forces in the Sinai.

* * *

A Soviet *nuclear-powered submarine--an E-1 torpedo attack unit--*[redacted] 25X1
in the port of Berbera, Somalia [redacted] *thus confirming the use of facilities there by nuclear units.* 25X1

Two Soviet nuclear-powered submarines were in the area last March, but it was not clear whether they entered the port. Aside from ports in Cuba--and now Berbera--Soviet nuclear-powered submarines normally do not make port calls.

* * *

China *has canceled contracts for 601,000 tons of US wheat scheduled for delivery this year and is negotiating for the cancellation of an additional 500,000 tons.*

These contracts--worth about $160 million--represent all of the current commitments of US grain to China. China's reasons for cancellation probably include over-contracting in 1974, a better grain harvest last year than expected, a tight foreign exchange situation, and lower prices now than when the contracts were negotiated. China still plans to purchase 5.6 million tons of grain for delivery this year.

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* * *

Chinese *Premier Chou En-lai, in his report of January 13 to the National People's Congress, charted a course of carefully planned but comparatively slow growth for China's economy over the next five years.*

The Chinese economy appears to have grown in 1974 by about 4 percent--down from the 7 percent gain of 1973. Among the factors holding back the rate of industrial growth last year were the persistent imbalances among the extractive, processing, and finishing industries, highlighted by shortages of coal and scrap steel; the overburdening of railroads and congestion at major ports; and sporadic work stoppages, lowered worker morale, and reduced productivity. A respectable increase in agricultural output was not enough to offset these problems.

* * *

Canada *intends to propose changes in the bilateral North American Air Defense treaty, which expires in May.*

Ottawa wants more effective control over the use of its own military forces during emergencies and greater US respect for Canadian airspace. Canada may offer to make the new accord effective for five years, rather than two as in the present agreement. A spokesman for Canada's External Affairs Ministry has said that his government planned to reach agreement with the US well before the expiration date.

* * *

Ecuador *has levied heavy fines against the US fishing companies that operate the four tuna boats seized on Saturday for unlicensed fishing inside the country's 200-mile territorial sea limit.*

The fines total more than $250,000, and the confiscated catch, which may be offered for sale back to the companies, is valued at $235,000 or more. Thus far, Ecuador has not invoked its new law prohibiting all foreign fishing boats, even those with licenses, from a 40-mile zone along the shoreline. Nevertheless, the authorities' insistence that the four boats were seized near the 40-mile limit leaves open the possibility of harsher penalties after ships' logs and other data--including the US reaction--are studied.

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The President's Daily Brief

January 30, 1975

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SAUDI ARABIA

The Saudis may substantially increase their investment in US private equities, US government securities, and--to a lesser extent--real estate this year.

Major Saudi investment plans include:

--Purchase, barring adverse US reaction, of up to $1 billion in US equities this year. The limit will be 5-7 percent of the shares of any single company.

--Purchase of between $1.5-$2.5 billion of US Treasury bills through the Federal Reserve Bank of New York in the first quarter of this year. Additional purchases are expected in the spring.

Saudi investment institutions will be modified to facilitate the shift. An investment advisory board composed of US and European financial experts will assist the Saudi Arabian Monetary Agency in evaluating equity and government security purchases. This monetary agency is to have representation in London and possibly in New York. A real estate advisory board is also planned.

In the past, the Saudis have been very conservative in the placement of their surplus oil revenues. At the end of 1974, over four fifths of Saudi Arabia's minimum total of $18.7 billion in foreign holdings were held in bank deposits and other liquid assets. About 80 percent of Saudi foreign assets were dollar-denominated.

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EGYPT-FRANCE

President Sadat left Paris yesterday with the promise of sizable French arms sales. The French will also consider a wide range of economic projects in Egypt.

Sadat announced at a press conference in Paris that Egypt would be buying Mirage F-1 aircraft. Unnamed French sources have told the press that 50 planes are involved.

Egypt is already taking delivery of other Mirage aircraft, thought to be Mirage 5s, under agreements concluded by Saudi Arabia, Kuwait, and Abu Dhabi on Egypt's behalf. As many as 72 aircraft may eventually be delivered; by February, nine of these planes may be in Egypt.

While in Paris, Sadat made a much-publicized tour of Thomson-CSF, the producer of Crotale surface-to-air missiles and electronic equipment. War production minister General Badri is remaining in France for further discussion with Thomson officials.

A pointed reference in the communiqué issued at the end of the visit--France's agreement to sell Egypt arms as partial compensation for war losses--probably was included at Sadat's request. Sadat has made much in recent public statements of Moscow's failure to provide Egypt with replacement equipment. His activity in Paris is yet another reminder that he can go elsewhere to obtain at least some of Egypt's military needs.

Sadat took care during his press conference to avoid giving the impression that new arms will impede the progress of talks with Israel. He repeatedly emphasized that delivery of the Mirages will take several years. He also reiterated his position that Egypt and Syria have no intention of starting a new war.

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Few firm agreements appear to have been made for French economic cooperation, although Sadat and French President Giscard held extensive economic discussions. Agreement was reached on construction of a conventional electric power plant and on a system for color television.

The communiqué's call for "guaranteed borders" adds a refinement to the language of UN Resolution 242, which calls only for "secure and recognized borders," reflecting France's desire to take part in settlement efforts.

Sadat said he would welcome French troops to guarantee the border in a final peace settlement, if they were positioned on both sides. He firmly discounted rumors that he would ask for French involvement in current negotiations, but did say that "in a coming stage" France and all of Western Europe should play a role.

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PORTUGAL

The Communist Party and some other leftist groups have called off the demonstration they had scheduled in Lisbon Friday. If the Socialists cancel their demonstration as well, the chances of violence this weekend will be reduced.

The Communists' cancellation came in response to an announcement by the Armed Forces Movement that demonstrations should not take place. The Communists, whose demonstration had been planned to draw off support from the Socialist rally that they expected to be a big success, were no doubt gratified by the government's announcement. The announcement indicates that the Armed Forces Movement can still act as a body, even though seriously divided between moderates and radicals.

The government's concern over the rival demonstrations increased yesterday when a Maoist party announced it planned to meet at the same location as the Socialists. The Socialists, at the time determined to make their show of strength in spite of competition, changed locations to avoid conflict. The announced times and places of the three demonstrations, however, were so close that planned or spontaneous clashes were still possible.

Before the announcement by the Armed Forces Movement, the Socialist leader, Foreign Minister Soares, told Ambassador Carlucci that his party would go ahead with its demonstration, even if the government canceled it. The Socialists, nevertheless, may now back down.

The Maoist group may not be as willing to follow suit. Press reports indicate that the party is prepared to hold its demonstration in defiance of a government ban.

If the Maoists do not have the Socialists to demonstrate against, they may substitute a new cause--the ten-day NATO antisubmarine exercise that began yesterday in international waters near Lisbon. The Maoists have been joined in condemning these operations by the Popular Socialist Front, a radical Catholic group that recently split from the Socialist Party.

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GREECE-NATO

The Greek government apparently is not yet ready to discuss in detail the consequences of its decision to withdraw from NATO's integrated military command.

Athens had informed NATO on December 4 that it was prepared then to discuss questions raised by its decision to withdraw. In a conversation on January 28 with our ambassador in Athens, however, a high Foreign Ministry official noted his desire not to cause unnecessary problems for NATO activities in Greece. In particular, Athens wants to ensure the continued operation of the NATO missile firing installation on Crete. The official explained that his government was still in the process of determining its relationship with NATO and would, therefore, prefer not to take a position on the fate of specific NATO facilities in Greece at this time.

The Greek military establishment seems to favor the maintenance of as many ties to NATO as politically possible. While Prime Minister Karamanlis probably sympathizes with this position, he is also mindful of the popularity of last summer's decision to withdraw from NATO's integrated military command.

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CHINA

The appointment of two high-ranking officials--Teng Hsiao-ping and Chang Chun-chiao--as army chief of staff and head of the army's political department respectively, strengthens party control over the armed forces. Both Teng and Chang are civilian members of the Politburo standing committee.

Teng Hsiao-ping is the ranking vice premier and has been filling in for Premier Chou En-lai since the Premier entered the hospital last year. Teng had a distinguished military career during the civil war, but has been a party and government administrator since then.

Chang Chun-chiao, the new head of the army's General Political Department, is also a vice premier. He rose to the top party post in Shanghai as a result of the Cultural Revolution, but appears to have been working fairly closely with moderate elements in the leadership for the past several years. [redacted] 25X1
[redacted] he has moved toward the political center. Chang does not have an extensive military background and is reported to have clashed on a number of occasions with powerful professional military figures. 25X1

Defense Minister Yeh Chien-ying, a senior party vice chairman, outranks Teng and Chang within the party hierarchy. In the government, however, they outrank him since they are both vice premiers and he is not. Party ranking is, of course, more important, and the bureaucratic demotion of the defense portfolio appears to be a downgrading of the military establishment rather than of Yeh Chien-ying himself.

Teng's appointment apparently reflects the wishes of Chairman Mao Tse-tung. Mao reportedly told a Politburo meeting in December 1973 that Teng would make "an excellent chief of staff." There was almost certainly opposition from the political left to Teng's appointment; he had been purged during the Cultural Revolution.

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Although Teng will probably enlarge his role in military policy making, it is not yet clear whether he will handle day-to-day military affairs. His broad government duties would seem to demand much of his time unless Premier Chou's health permits Chou to resume a more active role in government affairs. Teng may rely heavily on his eight deputy chiefs of staff, several of whom possess the necessary experience to fill the job themselves.

Chang Chun-chiao will oversee the implementation of party policy in the armed forces. This job is congruent with that of party secretary-general, which Chang also seems to have been filling.

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WESTERN HEMISPHERE

Some hemispheric countries are beginning to press local subsidiaries of US companies to do business with Cuba. This pressure has become stronger since the US authorized sales to Havana by US auto subsidiaries in Argentina.

Mexico is in the forefront of this activity, but Canada and Colombia also could play a significant role.

Subsidiaries of US automotive manufacturers were told flatly last week by the Mexican government that they must obtain whatever permission is necessary so that they can export to Cuba. The Institute of Foreign Trade also asked all firms with an exporting capability to participate in Mexico's March trade fair in Cuba.

Failure to respond to these requests undoubtedly will jeopardize the Mexican operations of those US companies which work under a system that links production and component import quotas partly to export performance. If the trade requests are not favorably received in Washington, the Mexican reaction most likely would be orchestrated criticism. Furthermore, although there have been no threats of such action, Mexico has legislation that could be invoked to nationalize the US subsidiaries if they refuse to sell to Cuba.

Canada, prompted by a US firm's recent cancellation of a contract between its Canadian subsidiary and Cuba, is in the process of passing legislation guaranteeing Canadian control over multinational corporations operating there.

Colombia recently has joined the growing list of hemispheric countries doing business with Havana. The government has stated that subsidiaries of multinational corporations will be "allowed" to participate in this trade.

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NOTES

Iraq *and the* USSR *reportedly concluded a major arms agreement late last year.*

The new arms package, which appears to have grown out of Soviet Chief of Staff Kulikov's trip to Iraq last November, is the latest sign that Moscow and Baghdad have set aside their differences, at least for now. The USSR is to provide Iraq with additional Scud surface-to-surface missiles, a MIG-23 squadron, two MIG-17 squadrons, and some MI-8 helicopters.

* * *

Ecuador's *plan to buy $91 million in arms from* France *will, when executed, be the largest single purchase of ground force equipment by any Latin American country.*

A letter of intent signed last month provides for the purchase of 72 AMX-13 tanks, 12 armored personnel carriers, at least 68 other armored support vehicles, and 12 155-mm. self-propelled howitzers; $26 million in ammunition is included. An Ecuadorean army delegation is looking over other West European artillery and surface-to-air missiles and is to go to Israel in February to examine towed howitzers made there.

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The President's Daily Brief

January 31, 1975

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~~*Top Secret*~~ 25X1

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ISRAEL

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TURKEY

The Turkish government appears to be moderating its hard line with regard to Cyprus and the Aegean dispute as the February 5 deadline for a cutoff of US military assistance approaches.

Following meetings with his National Security Council and political party leaders, Prime Minister Irmak announced on Wednesday that Nicosia airport may soon be opened under joint management and that the port of Famagusta would be reopened to international navigation. 25X1

Turkish Cypriot leader Denktash [redacted] will propose the following at his meeting with Greek Cypriot negotiator Clerides today: 25X1

--The opening of the Turkish-controlled port of Famagusta to Greek and Greek Cypriot shipping in return for similar facilities for Turkish shipping through Limassol.

--The return of about 5,000 Greek Cypriots to certain villages near the edge of Turkish-controlled territory.

--A guarantee by the military that Greek Cypriots would not be harassed.

[redacted] there would be no early withdrawal of the Turkish front line. 25X1

The positions of the two sides have been so far apart on the question of the ports that there is little prospect that the issue will be resolved by February 5.

On the dispute with Greece on the Aegean, Irmak told the press that "in principle" Turkey favors taking the controversy to the International Court of Justice as the Greek prime minister proposed earlier this week. Irmak noted, however, that Turkey still intends to carry out seismic exploration in the Aegean beginning next month.

[redacted] the Turkish National Security Council agreed with the General Staff assessment that action must be taken to try to avoid the threatened halt in US military assistance. The announcement that a commando brigade of some 1,000 troops was being withdrawn from Cyprus was part of this effort. [redacted] 25X1 25X1
[redacted] no further troop reductions are expected before February. 25X1

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FRANCE-EGYPT

French Foreign Minister Sauvagnargues yesterday gave the US ambassador in Paris some views on Egyptian President Sadat's visit.

The French minister confirmed that France would supply Egypt with 50 Mirage fighter aircraft. Continuing negotiations will determine whether Egypt gets model III or the newer F-1. Sauvagnargues did not detail other arms sales, but General Badri, Egypt's minister of war production, is still in Paris talking to suppliers.

Sadat asked President Giscard for agreement in principle to supply Egypt with an 800-megawatt nuclear reactor--to be used solely for industrial purposes. Giscard did not refuse, but said formal approval would depend on the outcome of talks on controls and guarantees. Sauvagnargues said France is looking for a middle way between safeguards such as those defined by the International Atomic Energy Agency--which the French believe are not strong enough--and more stringent safeguards which impose control over the entire nuclear cycle of the importing country.

Sauvagnargues told Ambassador Rush he had been reluctant to include in the final joint communiqué the statement that French military sales would partially make up for Egypt's 1973 war losses. France wished to avoid the implicit insult to the Soviets, but Egyptian Foreign Minister Fahmi was insistent.

Giscard expressed amazement over Sadat's vehement criticism of the Soviets, according to Sauvagnargues.

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NOTES

Pakistani [redacted] 25X1

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The USSR *recently canceled some wheat contracts in what appears to be a reaction to commodity market price fluctuation rather than any basic change in the USSR's demand for grain.*

The Soviets originally contracted for almost 7 million tons of wheat and corn for delivery in fiscal 1975, some at a peak price of $200 per ton. A major portion was bought to meet Soviet grain requirements without drawing down stocks because the 1974 grain harvest was below expectations. A small part of the imports, however, probably represented a hedge against tight world supplies and a shortfall in Soviet grain output in 1975. Grain prices have dropped to about $160 per ton and may go lower, and the Soviets apparently want to get out of their hedge contracts in light of good prospects for Soviet winter grain. Some 100,000-200,000 tons of US wheat may be involved in current negotiations the Soviets are conducting to cancel contracts or switch them to corn.

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The UK *has announced a four-year plan to decrease its current account deficit of $8.7 billion by shifting resources from consumption to investment.*

The Labor government intends to halve food subsidies and subsidies to unprofitable nationalized industries while increasing investment in industry and agriculture, particularly in the coal and gas sectors. It is aiming for an average annual growth rate of 3 percent in gross domestic product in the next four years while holding the rise in living standards to a range of 0.4 to 1.7 percent a year. Britain's intentions, however, may be overtaken by short-term financing difficulties. If a sell-off of sterling by private holders should develop this year, the government might have to tighten up on private consumption even more rapidly than indicated in the White Paper.

* * *

Thailand's *Democrat Party leader Seni Pramot may be able to form a viable government despite the lack of a clear mandate from the election last Sunday.*

25X1

conservative parties throw their support behind the politically moderate Democrat Party. If this were done, the Democrats would have a working and perhaps stable majority in the lower house. There is some evidence that Seni would be amenable to such a solution; it is far from clear, however, that the Democrat Party membership is ready to endorse a coalition with the right.

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Portugal's *moderates appear to have emerged somewhat strengthened and more cohesive from the political maneuvering of the past week.*

The violence last weekend by leftist extremists against the first congress of the center-right party and the threat of new violence in demonstrations that had been scheduled for today seem to have alerted moderates inside and outside the armed forces to the danger from the left. If the most violence-prone extremist group defies the government ban on demonstrations today, the government may declare the organization illegal. Moderates are said to be encouraged by the aggressiveness of the Socialist Party in opposing the Communists and the more extremist groups.

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