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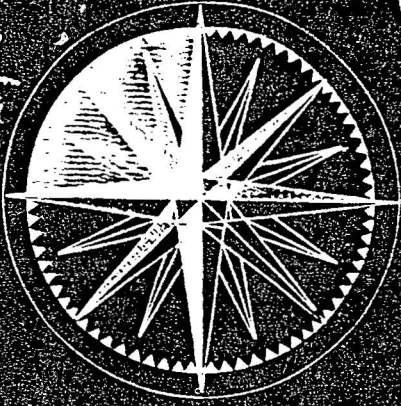
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OFFICE OF CURRENT INTELLIGENCE

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CUBA'S NEW COMPULSORY MILITARY SERVICE LAW

Cuba's draft law on compulsory military service, explained in detail by Raul Castro in a nationwide broadcast on 12 November, has far-reaching social and political ramifications. It is to be an important new instrument of control over the population and a means of "re-educating" Cubans who have not yet become adjusted to living and working in a "socialist" country.

When Fidel Castro first announced last July that such a law would be forthcoming, it was in the context of a bitter attack on the remnants of the Cuban middle class. He said the law would make Cuba a nation "more and more of workers and less and less of parasites" and ensure that the "sons of today's parasites do not become tomorrow's potential lumpen" (his word for recalcitrants and dissidents, whatever their class origin.)

In a talk to representatives of Cuba's central labor organization on 15 November, Raul Castro indicated that politically unreliable Cubans will be impressed into labor battalions rather than inducted into regular military units. He expressed confidence that many "lumpen" so impressed will be rehabilitated.

Raul Castro declared that the law will not be officially promulgated for another two or three weeks. In the interim, the "people" are to discuss and "approve" it in meetings of their "mass organizations."

The draft law makes all Cuban males between the ages of

17 and 45 liable to three years of active military service. Women between 17 and 35 who volunteer will be accepted for two-year terms. The law states that an individual may fulfill his obligations either by serving full time for three years or, at the discretion of the state, as a member of the reserves. Students and others whose civilian duties are judged to be of sufficient importance may be assigned to the reserves, but will nevertheless be required to take military training during certain periods of the year.

The pay for draftees on active duty is to be a token "allowance" of only seven pesos per month--as compared with the 60 to 80 pesos that the lowest ranking Cuban soldiers now receive. Castro justified this by indicating that all the draftee's personal needs, as well as those of any dependents he might have, would be taken care of by the state.

All eligible Cubans are to register during the month of December. Castro estimated that some 1.5 million Cuban males will participate in the initial registration. His calculations indicate that approximately 28,000 are to be called to active service each year. Thus, after the program has been in effect for three years, there will be about 84,000 men on active duty under this program. (CONFIDENTIAL)

TRAINING OF CUBAN MILITARY PERSONNEL

In his 12 November speech, Raul Castro stated that some 7,000 Cuban students had joined the armed forces when Fidel Castro asked for volunteers to train in the handling of special weapons. He added that he had recently attended the graduation of Cuban students completing the first phase of instruction for "antiaircraft missile troops."

Cuban surface-to-air missile (SAM) trainees recently

completed the four-month classroom phase of SAM instruction at San Julian airfield and are scheduled to begin field training at SAM sites this month. The 7,000 Cuban students said to be enrolled in "special weapons" courses probably include the SAM trainees as well as those training in radar, cruise missile, Snapper antitank rocket, and possibly FROG tactical rocket operations. (SECRET)

DEPARTURES OF SOVIET PERSONNEL FROM CUBA

JFK-Act 6 (1)(B)

Five Soviet passenger ships have arrived in Cuba and departed for home since 9 November. Four of these arrived directly from the USSR while the fifth came from Brazil.

The number and type of personnel arriving is unknown. Each ship normally carries 340 passengers.

[redacted] one vessel was to carry a full complement on the voyage to Cuba.

Available evidence indicates that about 1,000 Soviets--most of them probably military--left Cuba for the USSR aboard three of these ships, and suggests that another 700 departed on the remaining two vessels. (SECRET-KIMBO)

THE BARGHOORN CASE

The release of Professor Barghoorn on 16 November, two days after President Kennedy's public condemnation of Soviet behavior, apparently reflected a decision by the Soviet leaders to disengage as quickly as possible from this episode and to try to minimize the damage to Soviet-US relations.

Ambassador Kohler believes the Soviet authorities failed to anticipate the US reaction to Barghoorn's arrest and that they were bewildered and genuinely alarmed by the volume and intensity of US protests and actions. Moscow's terse announcement of Barghoorn's release stated that in view of the "concern of high US officials," the Soviet Government had decided "merely to expel him from the Soviet Union" rather than bring him to trial on espionage charges. Gromyko informed Kohler privately that this decision was the result of Khrushchev's personal intervention and requested that this be brought to the attention of President Kennedy.

Soviet propaganda has played down the incident, deplored the "hue and cry" raised in the US, and expressed the pious hope that Washington "will correctly evaluate the good will of the Soviet Government" in releasing Barghoorn.

In Ambassador Kohler's view, this episode does not reflect a deliberate decision to worsen relations with the US or to jettison the peaceful co-existence policy and move closer to Chinese Communist positions. Although the ambassador acknowledges that Soviet authorities regard an occasional espionage case as a useful device for warning the Soviet people against unmonitored contacts with Westerners, he feels the primary motive in the Barghoorn affair was the desire to secure a hostage for I. A. Ivanov, an employee of the Soviet "Amtorg" trade organization in New York who was arrested on 29 October. Gromyko told Kohler on 16 November that the USSR expects that the US Government "will take the necessary measures" to release Ivanov.

Moscow's apparent desire to avoid further damaging public exchanges over this case was evident in Gromyko's "confidential" warning to Kohler that if any US official publicly attempts to justify Barghoorn's behavior, thus casting doubt on the legitimacy of Soviet actions, the USSR "will reserve the right to publish materials of the investigation, including the deposition of P. Barghoorn himself." (SECRET NO FOREIGN DISSEM)

HARMONIZED ALLIED PROCEDURES

TEXT OF SUMMARY OF ALLIED PROCEDURES TRANSMITTED
TO SOVIETS ON 29 OCTOBER 1963SOVIET PROCEDURES AS COMMUNICATED TO
THE ALLIES ON 16 NOVEMBER 1963

ADVANCE NOTIFICATION

1. Advance notification will be given for convoys of eight or more vehicles.
2. Prior notification will be given orally not later than 15 minutes before arrival of convoy at Soviet checkpoint. Allies also agreed that this provision would not alter existing self-imposed restraints on sending convoys containing six or seven vehicles.

1. Not mentioned
2. Not mentioned

1. Advance notice must be given in accordance with established practice. Convoys of less than five vehicles are processed through without advance notice.
2. Not mentioned

DISMOUNTING

1. Drivers, co-drivers, and crew members do not dismount for headcount.
2. Passengers in buses, whether the buses are traveling singly or as part of a convoy, will not dismount.
3. Passengers in other single vehicles will not dismount, except that those in vehicles carrying 10 or more passengers will be prepared to dismount.
4. Passengers in any convoy with more than 30 passengers (not counting bus passengers) will be prepared to dismount.
5. Passengers in convoys with 30 passengers or less (not counting bus passengers) will not dismount, except that those in individual vehicles carrying 10 or more passengers, within the convoy, will be prepared to dismount.
6. Dismounting for headcount (if requested by a Soviet checkpoint officer) will be carried out under the following conditions:
 - a) Dismounting will be executed on order of the Allied convoy commander and not of a Soviet officer.
 - b) Allied convoy commander will determine where the troops should form for headcount, taking into account considerations of the danger of excessive public displays.
 - c) In event troops dismounted for headcount are photographed or exposed to propaganda broadcasts, distribution of propaganda pamphlets, or other forms of propaganda, or are otherwise harassed, they will promptly remount.
 - d) Headcount in no case will exceed 15 minutes in duration. Otherwise troops will remount.
 - e) Dismounting will not be performed in inclement weather (extreme cold, rain, snow, etc.)

1. (See 4 below.)
2. Passengers in buses, whether the buses are traveling singly or as part of a convoy, will not dismount.
3. Not mentioned
4. In any convoy with more than 30 passengers (i.e., exclusive of drivers, assistant drivers, and, in the case of specialized vehicles, other crew members), the passengers will be prepared to dismount for headcount.
5. Convoys with 30 passengers or less will not dismount for headcount, except that individual vehicles with 10 or more passengers, in the convoy, will be prepared to do so.
6. Dismounting for headcount will be carried out under the following conditions:
 - a) Dismount will be executed on order of the Allied convoy commander.
 - b) The Allied convoy commander will determine where the troops should form for headcount.
 - c) In the event troops dismounted for headcount are photographed or exposed to propaganda broadcasts, distribution of propaganda pamphlets, or other forms of propaganda, or are otherwise harassed, they will promptly remount.
 - d) Headcount will be performed expeditiously. Otherwise the troops will remount.
 - e) Dismounting will not be performed in inclement weather.

1. Drivers are not counted in determining whether a convoy should dismount.
2. Troops traveling in buses are checked without a lineup.
3. Troops traveling in single vehicles are checked without a lineup.
4. Allied troops traveling in convoys dismount and line up for verification. Two men may be left with each vehicle as guards.
5. Verification of personnel is allowed in the vehicles if the sum total does not exceed an average of two or three men per vehicle, not including drivers.
6. Not mentioned
 - a) Not mentioned
 - b) Not mentioned
 - c) Not mentioned
 - d) Not mentioned
 - e) A check of personnel will be made in the vehicles in case of bad weather, i.e., snow or rain, with the permission of the Soviet commander, as is the present practice.

INSPECTION

1. On vehicles carrying passengers, tailgates the tops of which are over six feet from the ground will be lowered at Soviet request. No tailgates six feet or lower will be lowered.
2. Only convoy commander's identity card will be presented to the Soviets together with freight documents.

1. On vehicles carrying passengers, the Allied convoy commander will be prepared to lower tailgates the tops of which are over six feet from the ground. No tailgates six feet or lower will be lowered.
2. Not mentioned

1. Verification can be made with tailgates down or with tailgates up if a count is then possible.
2. Allied convoys are processed by presenting established documents.

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USSR REJECTS ALLIED STATEMENT ON BERLIN ACCESS

Moscow's rejection of the Allied statement on harmonized procedures on the Berlin autobahn maintains the deadlock on the question of "control" over procedures and is another tactical maneuver to draw the West into a formal discussion of the whole question of access to Berlin.

The USSR's reply of 16 November dismissed the Allied statement as representing merely "internal instructions" and again emphasized its own claim to control the passage of persons and goods of Allied forces through Soviet checkpoints.

The Soviet response, delivered to representatives of the Allied military liaison missions, reiterated earlier remarks of Foreign Minister Gromyko in insisting that a 29 June 1945 meeting of Allied commanders in chief "exactly established" that Soviet authorities "take care of protection, control and traffic regulation" for access routes used by the Allied military forces.

The ambiguous presentation of Soviet procedures by the chief of the Soviet military liaison mission deliberately preserved wide lati-

tude for Soviet checkpoint commanders in processing Allied convoys.

In a further attempt to demonstrate Moscow's firmness on this issue, Gromyko told the Danish foreign minister that the USSR would not give in on the question of autobahn procedures. He also told the UK ambassador on 14 November that the 1945 agreement "could not be changed one iota."

A series of incidents in the Berlin air corridors between 14 and 16 November apparently were not staged to pose the threat of more serious and drastic harassment of the Allied access routes. Flares sighted by civil air pilots in the air corridors on 14 November were probably related to a Soviet military field exercise in the area.

The sporadic shining of high-powered searchlights on US civil aircraft on all three days may have been the work of local East German border troops acting without authority from higher military headquarters. The US representative at the Berlin Air Safety Center protested this action, and there have been no further incidents reported since 16 November. (SECRET KIMBO NO FOREIGN DISSEM)

PEIPING RENEWS ATTACK ON MOSCOW

The Chinese Communist leaders apparently regard Khrushchev's 25 October request for a cessation of polemics as an expression of Soviet weakness. They certainly view it, not as genuine, but as a tactical move aimed at gaining a needed respite. The Chinese have no intention of giving Khrushchev this respite.

Moscow's recent effort to arrange a stage-managed international

Communist meeting to condemn the Chinese was apparently resisted by other Communist parties. The Chinese probably believe that this was a significant setback to Khrushchev's attempts to isolate them. They therefore feel, as they did when he called for a cessation of polemics last February, that this is a good time to press the attack.

This emerges clearly from a 19 November combined Red Flag -

The Communist World

People's Daily article--the fifth in Peiping's current series of attacks on the positions outlined in the Soviet Union's 14 July open letter. A long commentary on the "questions of war and peace," the article advanced no new ideas of this oft-debated issue but concentrated on heavy personal abuse of Khrushchev. Just before the Soviet October Revolution celebrations on 7 November, when the Chinese were uncertain whether they would be faced with an extreme challenge from the USSR, their war of words with Moscow had taken on a more ambiguous tone. The fourth commentary, published on 21 October, did not attack Khrushchev with the customary vigor.

The flavor of the current article, however, is contained in the comment that the US imperialists have not become "beautiful angels in spite of Khrushchev's bible-reading and psalm-singing; they have not turned into compassionate Buddhas in spite of Khrushchev's prayers and incense-burning."

The Barghoorn affair gives the Chinese a ready-made example of how the Soviet leadership has abandoned principle and knuckled under to US pressure while gaining nothing in return. Peiping has lost no time interpreting it this way. Although there has been no editorial comment as yet, selective reporting in the Chinese press makes the point clearly. Using Western news stories, Pei-

ping details the forms of pressure the US applied to gain Barghoorn's release and then depicts Khrushchev's personal intervention as a hasty and complete surrender.

The Chinese realize that Khrushchev's requests for a tempering of the dispute are welcome among other Communist parties which find the constant cross fire difficult to escape. To counter this, Peiping has periodically cited the number of anti-Chinese articles which continue to appear in the Soviet press. In preparation for their renewed assault, the Chinese on 15 November printed a hasty and "incomplete" count which showed that more than 80 articles with anti-Chinese commentary had appeared in the Soviet press in one two-week period following Khrushchev's 25 October request for a pause.

Moscow, unless stung to a quick response by the fury of the Chinese attack on Khrushchev, will probably maintain its self-imposed ban on its polemics while it seeks a way to convince other Communist parties to join in the isolation of Peiping. The Soviets now have begun to hint that, instead of an international gathering, another bilateral meeting might be held. Moscow probably believes that the almost inevitable failure of bilateral talks would show that its constant attempts to be reasonable produce no change in Chinese behavior. (CONFIDENTIAL)

INDICATIONS OF ECONOMIC REAPPRAISAL IN THE USSR

The scheduling of a Soviet central committee plenum on the chemical industry for 9 December indicates that the 1964-65 economic plan now is ready for presentation. Completion of the plan was delayed apparently to reappraise the economy in light of the unusually poor 1963 harvest and the extraordinary purchases of Western grain.

Judging from the press discussion, the plan is predicated on the rules set out by Khrushchev last summer--greater concentration of investment to speed construction, a sharp boost in chemical output to support agriculture and industry, and stepped-up investment in irrigation. While Khrushchev continues to tell some Westerners that the program will involve cutbacks in military expenditures, he has told others that both agricultural and military needs can be met simultaneously. There are many signs in the press that Soviet industry is already being redirected to support the new program.

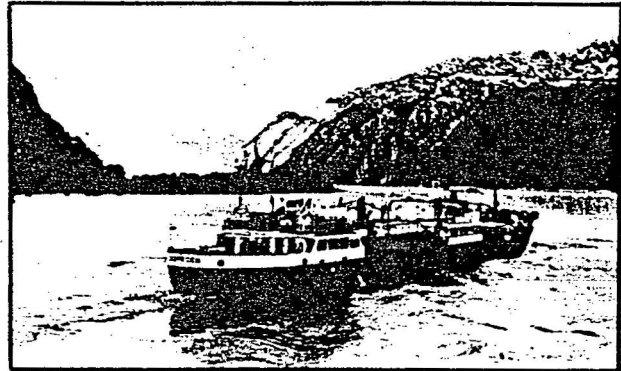
Khrushchev recently told visiting US businessmen that the crash fertilizer program would rapidly boost agricultural output. His statement that farm output depends neither on the capitalist nor the socialist system but on investment is in sharp contrast with the organizational manipulations which characterized his approach to the farm program for several years. His boast that the new program will enable the USSR to match US agricultural productivity overlooks production and allocational problems inherent in the undertaking and ignores serious soil and climatic handicaps.

Apparently there is concern in some Soviet circles that these problems are being underrated. On 17 November, Pravda published a letter from several prominent scientists who cautioned that agriculture does not have enough storage facilities and machinery to utilize additional fertilizer, that the country now is wasting virtually half the fertilizer already being produced, and that some of the plans put forth by the Ministry of Agriculture are unrealistic. The scientists suggest that some of the increased investment for new fertilizer capacity be used for more urgent farming needs. The regime's purpose in permitting this letter to appear was perhaps to underscore the need to effect a wide range of resource shifts in favor of agriculture, but also to indicate that certain elements in the program are still open for debate.

1964-65 planning was delayed by recent events--particularly the unexpected requirement to spend a large amount of gold for Western grain. Soviet planners are considering steps to speed up the expansion of gold production, but that the increases envisaged would be relatively modest and would do little to ease the balance-of-payments problems. The 1964 increase under discussion for the chief gold-producing region apparently amounts to one or two tons (worth \$1 to \$2.25 million)--only about one percent of total Soviet output. Plans in other gold-producing areas are not known. (TOP SECRET DINAR)



Rumania's Gheorghiu-Dej
is visiting Yugoslavia...



... to sign an agreement for develop-
ment of the "Iron Gate" of the Danube.



He was preceded in Yugoslavia
by Khrushchev in August



... and Hungary's Kadar
in September.

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RUMANIA OPENS DOORS FOR COOPERATION WITH YUGOSLAVIA

Rumanian party First Secretary Gheorghiu-Dej arrived in Belgrade on 22 November as leader of the highest ranking group from the Soviet bloc to visit Yugoslavia since its rapprochement with the bloc began nearly two years ago. Although ostensibly for the purpose of signing an agreement for construction of an ambitious hydroelectric and navigation project on the Danube border --the so-called Iron Gate-- the eight-day visit will undoubtedly be the occasion for party and governmental talks on a wide variety of subjects.

For Yugoslavia, Dej's visit will complete the process of re-establishing contacts at a high level with all the states of the Soviet bloc. During the past year, Khrushchev, Bulgarian party chief Zhivkov, and Hungarian party First Secretary Kadar have visited Yugoslavia. Tito has been to the USSR and Hungary and is expected to visit Poland in the spring. Visits by delegations at the politboro level have already been exchanged with Czechoslovakia and Poland, and Belgrade sent an important delegation to East Germany's party congress last January.

While Rumania did not participate in the last anti-Yugoslav campaign as heartily as

most bloc states, it has lagged behind these states in recent months in improving its relations with Yugoslavia. This demonstration of reserve toward Belgrade has complemented Bucharest's failure to attack the Chinese directly in the Sino-Soviet dispute and has apparently been intended in part to demonstrate Rumanian independence from the USSR.

Before accepting Tito's invitation Dej reportedly insisted on certain economic preconditions, the Iron Gate agreement being the most significant. The contrast between Bucharest's tough internal orthodoxy and Belgrade's relatively liberal domestic policies has apparently also been an impediment to closer Yugoslav-Rumanian relations.

Now, the fact that both countries, Yugoslavia more so than Rumania, refuse to subordinate their national economic programs to Soviet bloc interests provides a basis on which their relations could be rapidly improved. Both countries obviously attach considerable importance to the visit. The Rumanian delegation includes four key regime figures in addition to Dej, and there has been an enthusiastic press build-up in both states. (CONFIDENTIAL)

SATELLITES UNDERMINE GDR'S POSITION ON BERLIN

The terms of trade agreements concluded between several East European countries and West Germany undercut basic East German positions on the Berlin and German questions. This development reflects the greater willingness of the East European countries to put their national interests ahead of those of the Soviet bloc and has the effect--whether intentional or not--of isolating the GDR from its Eastern neighbors on the Berlin issue.

Both the Rumanian trade protocol with West Germany--initialed on 17 October--and the Hungarian agreement signed on 9 November contain a "Berlin clause"--i.e., a declaration that the agreement is applicable to the currency area of the Deutsche Mark West, which includes West Berlin. They resemble the Polish - West German agreement signed last March which included a secret protocol to this effect.

Any public acknowledgment of West Berlin's ties with the Federal Republic is anathema to the East German regime, which maintains that West Berlin is an entity separate from the Federal Republic. The USSR also has pressed Bonn hard to avoid any reference--any written one, at least--to this subject in connection with the Soviet - West German trade agreement.

In addition, the opening of West German trade missions in Eastern Europe will detract from the GDR's claim to be the sole representation of Germany in the satellite capitals. The situation is aggravated from the GDR's point of view by the fact that the new

West German offices will have a semidiplomatic status.

Walter Ulbricht displayed his annoyance in a speech on 11 November to the GDR State Council in which he commented on Bonn's "more flexible tactics" toward Eastern Europe. "The reduction in tensions is being exploited by imperialist forces in Bonn," he said, "to penetrate into the GDR and the people's democratic countries by changed methods." While the East German leader did not expressly refer to the recent West German trade pacts, this is the one area where the more elastic policies forecast by West German Foreign Minister Schroeder in August 1962 have shown results for Bonn.

In the case of the Rumanian agreement, Bucharest reportedly took careful steps to keep the GDR--and perhaps the USSR--in the dark on the progress of negotiations. The British minister in Bucharest had heard that the GDR Embassy was "extremely discomfited" by the signing of the agreement and expected a new chill in East German - Rumanian relations, already none too cordial.

Meanwhile, Czech party leader Novotny has also made a bid to negotiate an exchange of trade missions with Bonn. Bulgaria, too, has shown a willingness for talks and may have begun negotiations this week. Berthold Beitz, Krupp's effective and ubiquitous general manager, was in Sofia in September as a guest of the Bulgarian premier and has been invited to visit Czechoslovakia in December. Negotiations for the renewal of the Soviet - West German trade agreement are tentatively scheduled for January. (SECRET NO FOREIGN DISSEM)

COMMUNIST CHINA'S LEGISLATURE CONVENES IN SECRET

With little to brag about, the Chinese Communists again this year are holding their rubber-stamp legislature, the National People's Congress (NPC), behind closed doors. It convened in Peiping on 17 November, attended by Mao, other top leaders, and more than 1,000 delegates including some Overseas Chinese. Past NPC meetings have lasted from 11 to 25 days.

Before the collapse of the Leap Forward in 1960, the NPC had been a major annual forum for publicly boasting about achievements and for presenting national policy. It did not meet at all in 1961, however, and the 1962 session was held in secret. This year's session, originally scheduled for the second quarter, was postponed, partly because it would have interfered with preparations for the 5 July confrontation with the Soviets in Moscow.

The opening of the session was preceded by secret meetings on 15 and 16 November of the Supreme State Conference, a select forum often used by the chief of state to publicize major policy pronouncements. This time, however, Peiping merely announced that Liu Shao-chi, in his capacity as chief of state, and Premier Chou En-lai had made "important speeches on the present international and domestic situation and future tasks."

The agenda of the NPC has not been announced, but Foreign Minister Chen Yi told a group of visiting Japanese newsmen on 28 October that the meeting would deal chiefly with economic questions. These include a "new national economic program," which,

according to Chen, may involve a stretch-out of the existing Five-Year Plan (1963-67) schedule to a seven- or ten-year period. The leadership probably sees benefits in setting goals far enough in the future to relieve the regime of pressure to show immediate results.

One of the few surprises of the NPC thus far has been the announcement that Vice Premier Li Fu-chun presented the keynote speech. He had been out of public view for four and one-half months.

Li's report, describing the economic situation in 1963 and the 1964 plan, was followed by a financial report by Vice Premier Li Hsien-mien. Their reports probably were cast in highly somber terms to condition delegates for a continuation of hard times. Late-season floods reduced the food-grain harvest probably to a level slightly less than the mediocre harvest of 1962.

The prospect of a decline in the already meager food rations has made regime pronouncements understandably more cautious since mid-September. For example, Chou En-lai on 1 October spoke only of a "trend of general improvement" since the disaster years of 1959-61, made no comparison between 1963 and 1962, and admitted that "there is no lack of shortcomings and mistakes in our work." Chen Yi recently said that 1964 will be another year of economic "readjustment," a euphemism the Chinese have been using in the past three years to describe the severe retrenchment. (CONFIDENTIAL)

PEIPING SEEKS LARGER Foothold IN LATIN AMERICA

The Chinese Communists have recently stepped up efforts to develop more press and trade representation in Latin America. Lacking diplomatic recognition by any Latin American country except Cuba, Peiping has been forced to depend on its New China News Agency (NCNA) offices and unofficial commercial missions to support political and subversive efforts.

Mexico, the center for Communist subversive activities in Central America, is currently the target for renewed Chinese approaches. A Chinese trade fair is scheduled to open there in December. A delegation headed by Kuo Mo-jo, a high-ranking cultural propaganda specialist, will be in Mexico City to open the exhibit. Kuo is the most important Chinese official ever to visit Latin America--except for Cuba. The fair is the largest such venture on the mainland to date.

This year China has signed agreements to purchase 300,000 metric tons of wheat and 16,000 bales of cotton from Mexico. These transactions, although comparatively small, are a dramatic increase over the negligible Sino-Mexican exchange in 1962 and would provide a talking point in attempts to establish permanent Chinese trade representatives in Mexico. Two

NCNA correspondents who arrived in Mexico City last July on temporary visas are still there and may be trying to set up a permanent office.

The Chinese trade fair may move on to Brazil after its Mexican engagement. Last July a Chinese delegation met with officials in Brasilia to discuss the possibility of a cultural and trade exhibit in Sao Paulo and other large Brazilian cities.

[redacted] more than nine Chinese were scheduled to go to Rio, apparently for an exhibit, and that Peiping will send two unofficial trade representatives to Brazil on permanent assignment to promote Sino-Brazilian trade. The Chinese first established an outpost in Brazil in 1961 when NCNA sent two correspondents to staff an office in Rio.

Peiping's commercial mission in Chile--established in 1961--has apparently had ample time for activities other than trade. Its recent offer to purchase 10,000 tons of Chilean copper--worth about \$6 million--is the first significant Chinese trade overture there since 1959. Officials from this office visited Uruguay during July and August this year to explore the possibility of setting up a new trade post in Montevideo. (SECRET SABRE NO FOREIGN DISSEM)

SOUTH KOREAN NATIONAL ASSEMBLY ELECTIONS

The governing junta's Democratic Republican Party (DRP) is running scared in the campaign for the 26 November elections to the South Korean National Assembly. Opposition forces are likely to obtain a nominal majority and secure a forum for harassing President Pak Chong-hui's regime. Nevertheless, the junta should be able to dominate the new assembly through bribes and coercion and by making the most of the strong powers vested in the executive.

The assembly will be the first to meet since the present regime seized power in May 1961. Nearly 1,000 candidates representing five major and seven minor parties are competing for the seats of the 131 single-member districts; an additional 44 seats are to be apportioned according to the over-all popular vote.

The four main opposition parties are trying to exploit widespread public concern over deteriorating economic conditions and disenchantment with the regime's authoritarianism. Their candidates are generally better known than the DRP's and have stronger local ties. Nevertheless, these parties are hampered by a lack of financial support and by an excessive number of candidates competing against one another. Already divided by long-standing personal and factional differences, they are also reluctant to make any deals involving withdrawal of candidates because this would reduce party chances of gaining seats

under the second-stage apportionment. At the same time the need for funds reportedly has led to the sale of some positions on opposition tickets to covert regime backers seeking a more popular label.

Shaken by Pak's narrow margin in winning last month's presidential race, the DRP claims that only a victory for its candidates can assure the country political stability. The campaigns of regime candidates are being supported by the government administrative apparatus and are lavishly financed. The police are being used to a greater extent than last month to put pressure on the electorate and harass the opposition. The regime also appears to be financing most of the minor parties with a mind to splitting the opposition vote.

Both the DRP and the opposition have generally indicated their support for continued cooperation with the United States. The major exception is former security chief Kim Chong-pil. Kim reportedly aspires to become premier in a DRP government. In the course of a highly nationalistic address to college students on 4 November, he delivered a diatribe against "Yankeeism"--a protest which he claimed was distinct from anti-Americanism. The generally favorable reaction suggests that Kim may be able to use this theme in the future to whip up support from among the volatile Korean students. (CONFIDENTIAL NO FOREIGN DISSEM)

PROBLEMS MOUNT FOR NEW SOUTH VIETNAMESE REGIME

Problems are increasing for the new regime in Saigon as it begins to grapple with the task of governing South Vietnam.

General Ton That Dinh may be using his position as security minister to build up an independent political base. After the coup, he portrayed himself to the press as its real instigator, and has put himself further in the limelight by a tour of several provincial cities where he held rallies to drum up public support. A recent intercepted directive from his ministry requesting all province chiefs to report daily on the local political situation may be indicative of his personal ambitions.

The regime faces potential difficulties in its efforts to garner support from traditional opponents of the Diem regime. Various remnants of the once-powerful politico-religious sects are being encouraged to rally, but may attempt to set conditions for active support of the regime. Their factional activities were a weakening element in South Vietnam before they were forcibly suppressed by Diem in 1954-55.

Disagreements over the role of the prospective civilian "council of sages," which is to advise on the transition to a permanent government, may encourage some politicians to remain aloof. Phan Huy Quat--a leader in the Dai Viet party, which wants the council to be an embryonic national assembly responsible only to the military junta--asserts that he is becoming disillusioned. He objects to Premier Tho's plans to have a small council subordinated to

his provisional cabinet and to the scheme of some officers on the junta's political staff to make the council a vehicle for setting up a manipulated two-party system.

Meanwhile, there are reports of lower morale in the national police directorate where the new chief, General Xuan, is filling key posts with his personal followers. Air force officers are criticizing their new commander, whom they consider poorly qualified and politically minded. The Information Ministry reportedly has ordered newspapers not to criticize the armed forces or publish divisive articles on religion. One military officer claims the generals have been disgusted by the unprincipled behavior of the press since the lifting of restrictions.

Vietnamese Communists in Cambodia reportedly have been told that the Viet Cong plan, by inciting the South Vietnamese people to make impossible demands, to force the new military rulers to follow "the road of the Diem regime" by resorting to repressive measures.

The intensified Viet Cong military drive appears to have slackened after reaching an all-time high in the week of 5-11 November with over 1,000 incidents including 233 armed attacks. The attacks, however, were primarily small scale and apparently designed as much for psychological impact as for actual military gain. (SECRET SABRE NO FOREIGN DISSEM)

CAMBODIA RENOUNCES AMERICAN AID

Cambodia's renunciation of US aid and demand for withdrawal of American military advisers marks a new departure in Prince Sihanouk's strategy for maintaining his country's independence and neutrality. Sihanouk announced the moves before a mass rally in Phnom Penh on 19 November, and the next day gave formal notice to the US Embassy.

His actions followed weeks of fulminations against alleged US support of dissident Khmer Serei (Free Cambodia) elements who have been beaming anti-Sihanouk broadcasts into Cambodia from mobile transmitters in South Vietnam and Thailand. Even though this ragtag group does not threaten his firm control over Cambodia, Sihanouk has always reacted violently whenever Khmer Serei activities have flared up. He believes, moreover, that the US played a major role in the overthrow of the Diem-Nhu regime in Saigon, and so considers the current Khmer Serei operations more ominous than usual. His emotional speeches earlier this month contained frequent references to the possibility of his assassination, and he even designated a successor--his 18-year-old son

Naradipo, now studying in Peiping.

Sihanouk had long wished to revise the terms of US aid to Cambodia. He was already moving in the direction of breaking the West's monopoly on military assistance, having recently accepted a few jet fighters and anti-aircraft guns from the USSR as a "personal gift." Sihanouk also partly blamed US aid operations for Cambodia's economic stagnation. He thus criticized the Commodity Import Program for allocating foreign exchange to the private sector of the economy, and has announced plans to nationalize Cambodia's import-export firms as of 1 January.

Sihanouk's actions have already disrupted business activity, led to a currency devaluation, and dismayed his conservative advisers and others in the royal family. These repercussions may yet lead him to moderate his course and seek to renegotiate the terms of US aid. (SECRET)

TENUOUS "CEASE-FIRE" IN LAOS

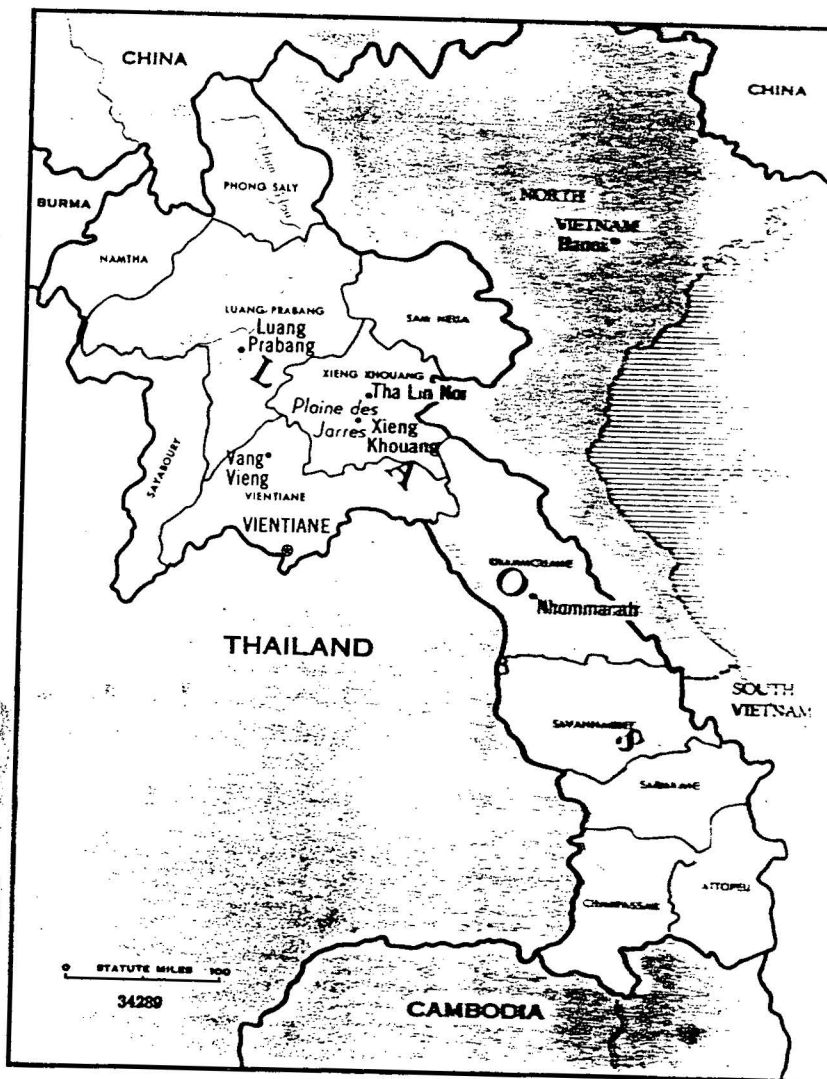
Laotian neutralist commander Kong Le and Pathet Lao military chief Singkapo on 16 November agreed to a cease-fire on the Plaine des Jarres. Subsequent meetings were set to work out details, and "to create a favorable atmosphere" for an eventual meeting of Premier Souvanna Phouma and Pathet Lao leader Souphannouvong. In a meeting on 19 November, however, the military leaders made no significant progress, agreeing only to another conference on 26 November.

The reasons behind the Pathet Lao's willingness to enter into negotiations are unclear. They may be seeking a temporary detente to gain time for broader military ventures, or they may be hoping to undermine the neutralist-rightist alliance by offering minor concessions to the neutralist faction.

While fighting on the plain has slackened, the cease-fire is unlikely to end all fighting there. Occasional shellings in violation of the agreement have been reported.

In other areas, there are reports of continued military activity. Near Xieng Khouang town rightist units have taken commanding positions in nearby hills, while to the north they are persisting in their efforts

to recapture a key mountain post at Tha Lin Noi. In the Vang Vieng area, neutralist forces are pressing their efforts to drive the Pathet Lao troops from the town. Farther south, near Nhommarath, Pathet Lao and neutralist forces continue to jockey for position. (CONFIDENTIAL)



ARMY TAKES OVER IN IRAQ

Following a week of maneuvering among factions of the ruling Baathists, the army took control of Iraq on 18 November. The political complexion of the new regime is still not clear, however.

President Arif, a non-Baathist "Arab nationalist" with past ties to Cairo, was evidently able to achieve united army action against the former government by playing on almost universal army disgust with the role of the national guard--the paramilitary organ of the Baath Party--in the events of the preceding week. Arif has himself assumed most of the executive power of the state. The military governor general, also a non-Baathist, remains at his post and has taken over the Interior Ministry.

Arif has issued appeals of friendship to both Egypt and Syria, and Baghdad radio has broadcast songs praising Nasir. Egyptian spokesmen have welcomed the coup. At Baghdad's request, Cairo has also agreed to supply radio and television propaganda materials to Iraq.

However, the new regime still retains some Baathist coloration. There appear to have been no changes in command in the army, and Baathist officers continue to hold positions of considerable importance in the military. The regime's second in command is General Hardan Tikriti, a Baathist of long standing who played a major part in last February's coup.

Former Premier Bakr has been appointed vice president in the new government, and the new premier cooperated closely with the Baath during its period of ascendancy. It is not certain, however, if these elements consider themselves bound by the decisions of the Baath Party international command.

The new cabinet is a coalition of Arab nationalist elements and is dominated by the military. Arif probably expects to play off contending elements in the coalition to maintain his present powerful position.

The army takeover appears to have made a dead issue of any meaningful union between Iraq and Syria.

[redacted] the Syrian Army forces stationed in northern Iraq are concentrating, preliminary to withdrawal. However, Syrian leaders may expect to reach some accommodation with the new regime. Syrian Premier Hafiz and other members of the Baath Party international command caught in Baghdad by the coup have flown to Damascus, where talks on the Iraqi situation are under way.

A modus vivendi with the Iraqis would reduce the Syrian regime's present isolation and probably improve its short-term chances for survival. However, Cairo is calling for a "nationalist revolution" in Syria, similar to what occurred in Iraq. (TOP SECRET DINAR)

JFK Act 6 (1) (B)

AFRICANS DEAL WITH ALGERIAN-MOROCCAN DISPUTE

The territorial dispute between Morocco and Algeria has been temporarily shelved following the selection of a conciliation commission by the Organization of African Unity (OAU)--meeting in Addis Ababa from 15 to 18 November. The respite will allow both antagonists to improve their military positions.

The seven-nation commission --Ethiopia, Mali, Senegal, Ivory Coast, Sudan, Tanganyika, and Nigeria--will seek to fix responsibility for the outbreak of hostilities on 8 October and make recommendations for a solution of the territorial dispute. It will attempt to win agreement from the disputants to an outline of a bilateral accord. The commission will meet initially in Ivory Coast on 2 December and may be prepared to report its findings in February to the next meeting of OAU foreign ministers in Nigeria.

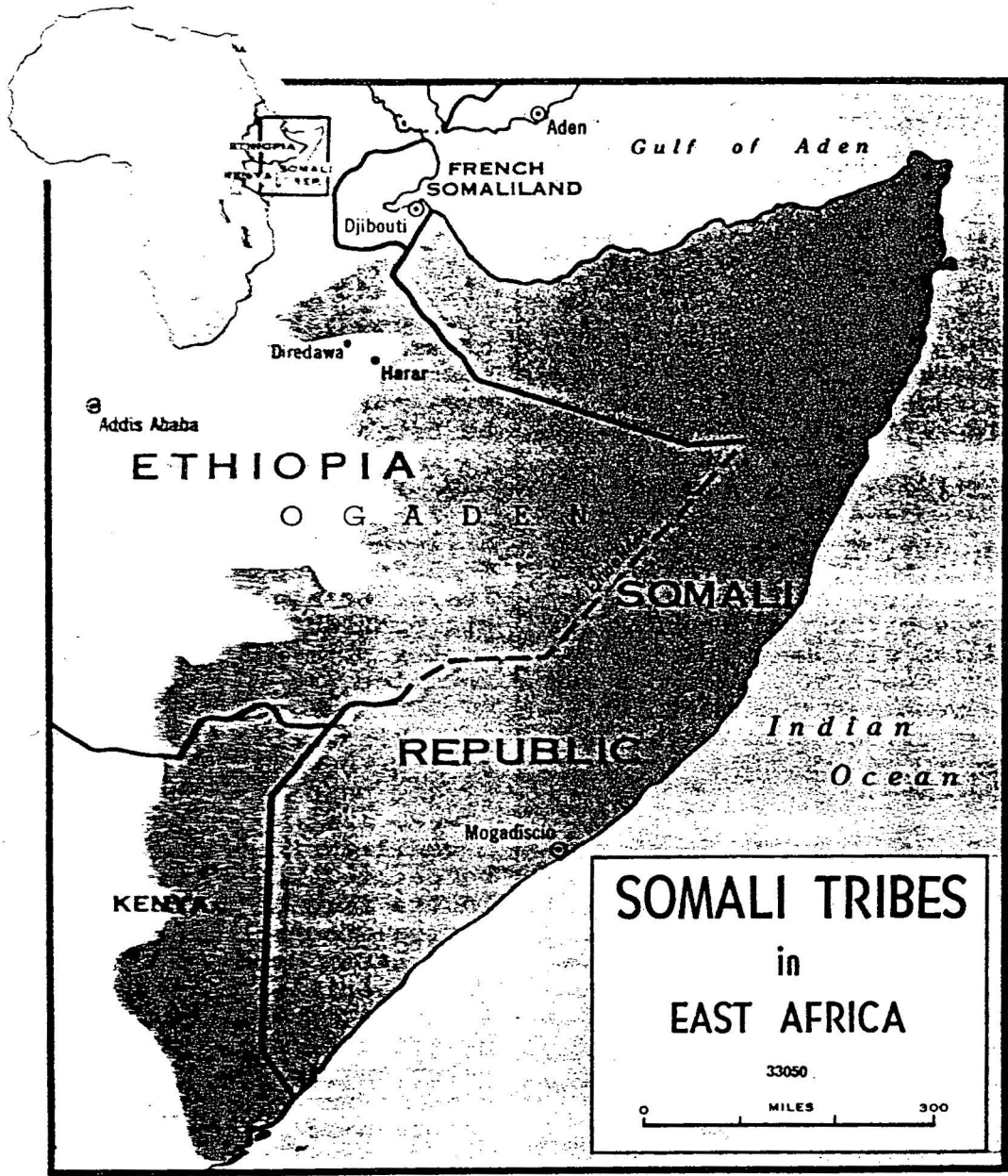
Ethiopian Acting Foreign Minister Ketema, who played a leading role at the conference, has informed the American ambassador that a "kind of understanding" was reached on a limitation of arms during the cooling-off period. The intervening months nevertheless will provide time for Egyptian and other foreign instructors now in Algeria to train Algerian forces in the use of equipment supplied in the past six weeks by Egypt, Cuba, and the USSR, and for Morocco to pursue its own training programs.

At the conclusion of the Addis meeting the prevailing mood among most of the 32 OAU members was one of general self-satisfaction over what they regarded as a demonstration of the organization's ability to function in a crisis. As for the future, the delegates probably widely shared Ketema's view that the commission's recommendations, while not legally binding, would in fact become mandatory because of the Africa-wide moral pressure which would be behind them.

The conference pushed the soaring prestige of Ethiopia's Haile Selassie still higher. Ghana's frenetic Nkrumah, on the other hand, once again found his spokesman's efforts to preempt a prominent role for Ghana thwarted.

Meanwhile, the four-power commission--Mali, Ethiopia, Algeria, and Morocco--set up at Bamako last month to establish a demilitarized zone along the border is just getting organized. In the face of Morocco's adamant refusal to pull back its forces from Hassi Beida and Tinjoub, and Algeria's insistence that it do so, prospects are not bright that it can be effective. Nevertheless, no new border incidents have occurred, although communications reveal continuing aerial reconnaissance and a general strengthening of forces along the border. (TOP SECRET DINAR)

JFK Act 6 (1)(B)



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NEW SOMALI-ETHIOPIAN TENSIONS

Fighting between Ethiopian security forces and Somali tribesmen in Ethiopia's Ogaden region has recently increased sharply. Although full-scale hostilities between Ethiopia and the Somali Republic--which claims the Somali-inhabited areas of the Ogaden--are not likely, serious incidents could occur at any time. The increased tension will probably lead to a renewal of vituperative propaganda exchanges, with the Somalis seeking international support for their territorial claims.

JFK Act 6 (1)(B)

Somali dissidents, well armed and frequently wearing captured Ethiopian uniforms, have attacked both Ethiopian Army troops and police outposts in several areas. On 6 November, 29 Ethiopian soldiers were killed in an ambush--the largest number yet noted in a single attack. The Ethiopians believe that some of the dissident bands number 300 or more.

Ethiopian commanders admit that they are hard pressed to maintain order. One division commander recently requested two additional battalions and as many vehicles as possible, because "the security situation is getting worse from day to day." On 9 November, Addis Ababa replied that a force of brigade strength would be sent.

Addis Ababa, convinced that the dissidents are receiving aid from the Somali Government at Mogadiscio, has reacted sharply both to the stepped-up attacks and the \$40-million arms

aid--reportedly to include MIG-17 aircraft--which Mogadiscio recently accepted from Moscow.

The Ethiopians appear to be planning reprisals against the Somali population in the area of the ambush, Addis Ababa apparently having concurred in the local commander's recommendation that the area be "thoroughly devastated by air and by land." On 13 November Emperor Haile Selassie told the US ambassador that the Somali-Soviet arms deal could have "grave consequences," and the Ethiopian press and radio are charging it is evidence of Somalia's intention "to achieve territorial aggrandizement through the sheer force of arms."

According to a reliable clandestine report, however, the Emperor has given firm orders that Ethiopian troops will not violate the Somali border, or take actions that would permit Mogadiscio to make the situation "a cause for international concern." Local Ethiopian commanders might still be goaded into incursions on their own initiative along the largely unmarked border.

[redacted] have, in fact, spoken of dissidents being "assisted" with rations and secretly delivered materiel, but on Somali territory. Such support might soon become overt, as the Mogadiscio government is deeply committed to Somali irredentism, and faced with difficult municipal elections later this month and general elections in March. (TOP SECRET DINAR NO FOREIGN DISSEM)

NEGOTIATIONS FOR A CABINET IN ITALY

Disagreements over the prospective government program are retarding the negotiations in Italy for a center-left coalition. Several of the current difficulties seem to relate to the proposals for decentralizing Italy's administrative structure.

The most important problem is that of decentralizing the large organization which controls the bulk of the nation's agriculture. This organization is dominated by the confederation of small farmers which is powerful in the Christian Democratic Party. Secondly, a compromise previously reached on setting up regional administrations been complicated by an accord reached a few days ago in the Aosta Valley region, where Socialists and Communists have agreed to continue their cooperation in the government at this local level. A third difficulty centers on the urban redevelopment program.

The negotiations are being conducted in an atmosphere of rising tension as powerful opponents of a center-left regime on both right and left continue to maneuver to block its formation. The Communists sparked two more strikes this week and can be counted on to miss no

opportunity to embitter relations between the Socialists and Christian Democrats, even to the point of provoking violence.

Right-wing Christian Democrats have been no less assiduous in trying to prevent a rapprochement with the Socialists. To this end, they are attempting to exploit the Socialists' unwillingness for the government to undertake further MLF commitments during its first few months. President Segni earlier this month went so far as to send word to the Socialists that the US was pressing for a definite MLF commitment "now." This particular ploy seems to have been scotched, but the two sides are still unable to agree on a policy statement concerning the MLF.

Premier-designate Moro also is under direct pressure from rightist elements in his party. These are suggesting that he is bargaining away too much of the Christian Democratic position and that, in so doing, he could turn the country over to the Communists. Thus, even if a center-left government is eventually installed in office, it is bound to be in for rough sledding during its shakedown period. (SECRET)

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NO FOREIGN DISSEM

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THE MANSHOLT PROPOSALS

The Mansholt proposals are designed to pave the way for free trade in grains and derivative products within the European Economic Community by harmonizing the support-price levels for grains in the six member countries. Price levels now vary from about \$82 per metric ton for wheat in France to about \$108 in West Germany. Commissioner Mansholt proposes to effect the adjustment in one step to a level which, in 1964, would be roughly 11-15 percent below the German price, but 8-16 percent above the French price. The single Community price would be subject to annual adjustments, taking into account agricultural incomes, production costs, consumer prices, and supply and demand.

To assist producers hit by the proposed price reductions (i.e., farmers in West Germany, Italy, and Luxembourg) the Mansholt plan provides for various kinds of compensatory payments totaling \$206 million in the first year, but declining somewhat in subsequent years. These payments would be financed initially from the Community budget--presumably out of receipts from the variable levies on imports of agricultural products. Mansholt also proposes that the Community assume from the member states the costs of subsidizing exports of grain, flour, poultry, eggs, and pork to nonmember countries.

As a leading supplier of grains to the EEC, the United States is concerned primarily about the plan's expected impact on production in France, where the expansion potential is greatest. US experts believe that total returns to the French producer under the plan are likely to exceed considerably the specific increase in French prices and that a sharp increase in production is therefore probable. While part of this increase will be absorbed by the expanding intra-EEC market, one official US estimate suggests that net annual EEC imports of grains from all sources are likely to decline from the 10.6 million metric tons of the recent past to 8.5 million metric tons by 1970.

This particular study notes, however, that continuation of the present rate of inflation in France might well produce about the same price/production pattern in 1970 even without the Mansholt plan. Moreover, with or without the plan, the modernization of European agriculture is expected sooner or later to mean considerable adjustments in the EEC's trade relations with its present major suppliers.

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NR Europe

MANSHOLT PLAN FOR SETTLING EEC GRAIN CONTROVERSY

EEC Commissioner Mansholt's proposals for early unification of grain prices in the Common Market appear to hold increasing promise of averting a crisis over agriculture, but perhaps at the expense of causing one in the EEC's relations with the US and other major agricultural producers.

The member states have begun an intensive study of the complex proposals in preparation for formal discussion scheduled for mid-December. Whatever comes of it, there is general recognition that Mansholt, a former Dutch minister of agriculture, has been ingenious in his efforts to find a solution to the Community's most vexing problem.

From Mansholt's point of view, Bonn's mildly favorable initial response--despite the vigorous and continuing opposition from West German farm groups--has been particularly gratifying. This positive reaction appears due, at least in part, to effective lobbying by EEC President Hallstein, who has warned Chancellor Erhard that Bonn is certain to be outvoted in the EEC in 1966 when the majority rule comes into effect on the grain price question. Under these circumstances Erhard's Christian Democratic Union could not expect to deliver on any promises it might make in the 1965 elections not to reduce support prices.

The Mansholt initiative is potentially of great importance to the broader question of European union. Under his proposals a degree of agricultural integration would be achieved in the next year or so which the EEC treaty had not

envisaged before 1970. Such a rapid advance would probably necessitate acceleration in other fields. The prospect of an EEC bureaucracy spending several hundred millions annually on a farm program would, for example, make more imperative than ever the establishment of an effective European Parliament.

These wider implications deepen the dilemma for outsiders who are committed to support progress toward European union, but who may stand to lose in the way of trade. The US is concerned that increases in EEC production consequent to the rise in French grain prices will reduce EEC grain purchases from the US. Moreover, US trade officials seriously question whether the Mansholt scheme will be the subject of bargaining in the Kennedy Round, or whether it is the EEC intention merely to offer not to increase the new and higher level of protection the plan is believed to involve.

The immediate tactical and substantive problems these possibilities raise are difficult ones indeed. Past experience has shown that the EEC would find it extremely hard to make any major adjustments in the plan once it has been negotiated through the complex EEC machinery. It is almost equally doubtful, however, that the Kennedy Round can go ahead at all unless some more or less final settlement of the EEC's agricultural policy is reached. (CONFIDENTIAL NO FOREIGN DISSEM)

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Europe

CHANGING BRITISH LABOR PARTY DEFENSE POLICY

Leaders of the British Labor Party have recently indicated that there has been some modification in the party's flat opposition to the MLF and retention of an "independent" British nuclear deterrent. One factor pushing them in this direction may be a growing nervousness over how well they could defend their position against sharp challenges by the Conservatives in the approaching election campaign or, beyond that, as ministers in a Labor government.

Patrick Gordon Walker, presumptive foreign secretary in such a government, delivered a carefully worded statement on defense early this month in which he put new emphasis on the role of conventional forces in Britain's future defense establishment. He was silent, however, on the question of whether Labor would eliminate Britain's deterrent when it came to power.

Gordon Walker went on to reject the idea of British participation in any effort to form a purely European nuclear deterrent force, proposing instead the establishment of a four-power NATO directorate--including Germany--which would formulate the Alliance's nuclear strategy. In this scheme, the US would retain the ultimate decision on the use of nuclear weapons.

On 14 November, George Brown, the party's deputy leader, repeated the usual Labor asser-

tion that the British deterrent is a spurious one, but left the party leeway to change its position. He said that an incoming Labor government would undertake an extensive review of existing weapons development programs before deciding whether or not to proceed with them. He mentioned, as examples, Britain's Polaris submarines and its controversial TSR-2 plane--which are designed to give Britain a nuclear delivery system through the next decade.

Brown also intimated that Labor might be amenable to pooling Britain's existing nuclear weapons in return for a greater sharing of command and control over NATO's nuclear arsenal. Such an arrangement, he felt, would eliminate pressures for nuclear proliferation.

Party leaders still oppose the MLF, but appear to have become less rigid on this issue. Denis Healey, the defense spokesman, is on record as saying that a Labor government might eventually commit the UK "to join" the MLF but only if party leaders were satisfied that no other method of sharing control of all nuclear weapons within the NATO framework is feasible. According to Healey, this view was shared by party leader Harold Wilson and by Gordon Walker, although Healey added that, for obvious reasons, it could be found only in the "small print" of the party's statements on the MLF. (SECRET NO FOREIGN DISSEM)

AREA NOTES

Europe

The British Communist Party has expelled a small pro-Chinese faction which issued a manifesto bitterly criticizing some of the party's top leaders for supporting Moscow in the Sino-Soviet ideological dispute. The specific charge is that these leaders have abandoned Marxist-Leninist principles and are turning the party into nothing more than a radical appendage of the British Labor Party.

The decision of the pro-Chinese to bring their dispute

with the hierarchy into the open probably stems in part from growing frustration over the party's consistently poor showing at the polls--in the recent Luton by-election, the Communist candidate came in last with 490 votes out of 44,000. Any widening of the cleavage among British Communists may force the party to recast its plans to put up a record number of candidates in next year's general election. (CONFIDENTIAL NO FOREIGN DISSEM)

Western Hemisphere

Canada: - The Pearson government continues to stress its intention of lessening US "domination" of Canadian industry and stemming Canada's balance-of-payments deficit with the US. In the opinion of Ambassador Bütterworth, Ottawa's concern with the "domination" question has reached the point of obsession, and only vigorous countermeasures are likely to forestall increasing intervention in the operations of American-owned subsidiaries.

Canadian officials believe that the country's basic economic problems of slow growth, idle capacity, and continuing trade deficits are attributable--directly or indirectly--to the policies of absentee US owners who control the bulk of Canada's secondary industry. The measures the government is searching for would encourage the expansion of such industry but assure at the same time that US-owned subsidiaries exported more while Canada as a whole imported less.

The government on 1 November instituted a tariff rebate scheme designed to encourage some \$200 million in sales abroad of automotive products manufactured in American-owned subsidiaries. This plan calls for Canada to remit import duties on parts imported from the US if exports of the finished product exceed a certain level, thus avoiding the need to raise tariffs and risk US retaliation. While the profits of such increased sales would accrue to the US parent companies the sales would at the same time bring more US dollars into the Canadian treasury.

The Department of Industry is reportedly being flooded with requests from other manufacturers to be included under this kind of rebate scheme. Despite official assurances that this specific plan would not be extended to other products, the US Embassy is convinced the government is attempting to devise other forms of intervention to produce similar effects on other industries. (CONFIDENTIAL NO FOREIGN DISSEM)

ARGENTINA ANNULS OIL CONTRACTS

President Illia's annulment of Argentina's petroleum contracts with nine foreign and two Argentine companies fulfilled one of his party's chief electoral campaign commitments, and thus came as no surprise. Illia, however, acted in haste out of deference to his more nationalistic advisers.

The explanatory clauses of the annulment decrees underscore the Illia administration's contention that the Frondizi government used inappropriate procedures in negotiating the contracts and assert that Frondizi had no legal right to approve them by executive action. They also state that there is ample legal precedent for annulling an executive decree by simply issuing another.

The State Oil Company (YPF) is authorized to take any measures necessary to maintain normal output of petroleum. The foreign companies continue to operate, and some are reported to have worked out temporary arrangements with the YPF.

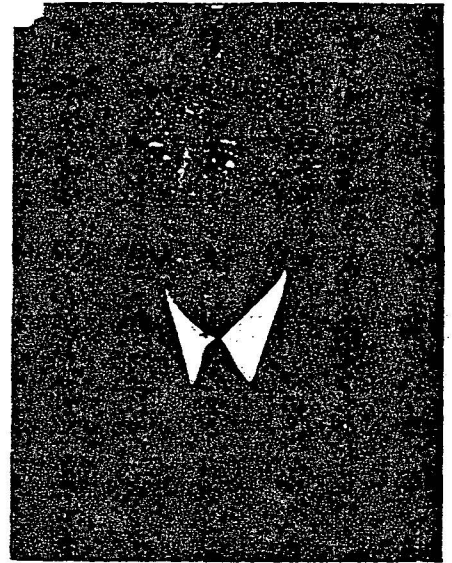
One of the most troublesome aspects of the annulment action is the call for a detailed report by the Treasury's attorney general on the companies' operations and financial accounts. This report is to provide a basis for determining compensation due the companies, but could also be used as a bargaining weapon in negotiations for new contracts.

The report is to include a rundown on such imprecise matters as "economic damage" caused by "inefficient" management and the amount of taxes that had been excused by the Frondizi regime. In accordance with Illia's decrees, the attorney general filed a petition in federal court on 18 November asking the court to determine the financial position of the companies vis-a-vis the government. YPF President Suarez said that three drilling contractors were excluded from this petition, since their work was completed. Presumably these would be the Italian state oil company and two US firms mentioned in the second decree.

While leftist groups have hailed the annulment action, there has been strong criticism from other elements over the way Illia went about it, particularly his failure to seek a prior court decision on the contracts' validity. The influential independent press points out that the action reflects adversely on Argentina, and might result in a reduction of foreign investment and of US aid, not only in Argentina, but in all of Latin America. Army and air force officers are worried about the disruptive effect the oil controversy may have on US-Argentine relations, but indicate an intention to try to stay out of the matter. (CONFIDENTIAL)



**LEONI
PRESIDENTE**



ARTURO ES EL HOMBRE



BEDI

CALDERA



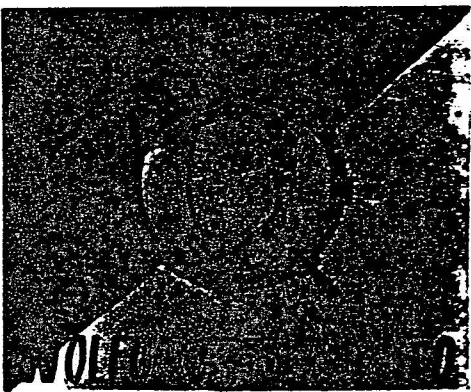
**EL MEJOR
VOTA VERDE**

**VENEZUELAN
ELECTION
POSTERS**

RAMOS GIMENEZ



**UN PRESIDENTE JOVEN
PARA UN PUEBLO JOVEN**



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THE OIL CONTROVERSY IN PERU

Peru's President Fernando Belaunde Terry appears to be adopting a more conciliatory position in his handling of the controversy which has arisen with the US-owned International Petroleum Company (IPC).

On 29 October, Belaunde sent a bill to congress calling for a new, much higher tax schedule for the company. IPC officials claim that the proposed schedule would result in "economic confiscation" since the taxes would amount to more than 100 percent of the company's gross profits. Belaunde countered by threatening to turn over the company's entire \$190 million worth of assets to the state petroleum corporation should Congress pass the bill and the company refuse to abide by its terms.

Congress was quick to act on a part of the President's bill. It passed, almost immediately, that portion nullifying a 1922 internationally arbitrated decision which has permitted the IPC to operate under relatively lenient tax schedules. This fulfilled a Belaunde election pledge to "do something" about a matter which has been a Peruvian political issue for over 40 years. The IPC continues to operate under the 1922 tax schedules pending the establishment of new ones.

Congress, however, has been much slower to act on the administration's proposed tax schedules. This is because the APRA party--which controls the largest bloc of congressional seats--opposes the measure, fearing the international repercussions which could result

from the President's stringent tax revision program. Thus, the prospects are that the bill will languish in various legislative committees for weeks and perhaps months. APRA congressmen hope that in the interim the government and IPC will negotiate a compromise which will obviate the need for congressional action.

Belaunde, in recent days, has indicated a tendency to back away from taking precipitous action against IPC, also largely because of the adverse international reaction it would provoke. He now seems to be acutely aware that such reaction might spoil Peru's prospects for new and badly needed foreign private investments. It might, for example, upset current negotiations with automobile firms for the establishment of assembly plants in Peru, or jeopardize talks with two other US oil companies which have expressed an interest in investing in the country. Belaunde also may be concerned that a move against IPC could disrupt proposed US aid programs.

For the moment, the President appears to be satisfied to allow his bill to be subjected to prolonged congressional review, and has said he expects no legislative action until after the municipal elections which are to be held in mid-December. Moreover, Belaunde's new-found caution is reflected in a report which quotes him as saying that if IPC could prove to Congress that the government's bill would force the company to operate at a loss, then adjustments "obviously" would have to be made. (SECRET)

VENEZUELAN PRESIDENTIAL ELECTION ON 1 DECEMBER

More than 3 million Venezuelan voters will go to the polls on 1 December to elect a successor to President Betancourt from among seven candidates. The main issues in the campaign are national petroleum policy, acceleration of reform programs, and unemployment.

Casting a pall over what otherwise promises to be a colorful event--for the benefit of the illiterate, each party has sought to associate its ticket with a distinctive color combination--is the rising tempo of Communist-inspired violence aimed at disrupting the elections. There also remains the tacit threat by military leaders to intervene if the electorate chooses an unacceptable candidate.

The front-running candidate is still Raul Leoni of Betancourt's Democratic Action (AD) party. Leoni's chances of victory are based more on the AD's excellent party organization than on his lackluster personality. As president, Leoni probably would continue existing policies, but without Betancourt's imagination or skill.

Leoni's chief rival is Jovito Villalba of the Republican Demo-

cratic Union (URD), the AD's erstwhile coalition partner. Villalba is a popular candidate of moderate socialist tinge, who is backed by a party machine second only to that of AD. URD leaders have attempted unsuccessfully to induce other opposition candidates to pull out of the race in his favor. Although the Communists have vowed to boycott the elections, they might vote for Villalba should they come to believe that their support would turn the tide against Leoni.

Independent Arturo Uslar Pietri is in third place, thanks to an unexpectedly effective campaign. He is considered a rightist because he does not favor nationalization of the oil industry. He may carry Caracas, but he has little hope elsewhere.

Regardless of who wins the presidency, no party will have a majority in the new congress. Thus, the viability of the new government will depend primarily on the future president's skill in creating and maintaining a working coalition. (SECRET)

VENEZUELAN ELECTORAL PATTERNS

Party	1958 Presidential Elections			1958 Congressional Seats	1963 Presidential Candidate
	Candidate	Votes	Percent		
Democratic Action (AD)	Romulo Betancourt	1,284,092	49.2	105*	Raul Leoni
Republican Democratic Union (URD)	Wolfgang Larrazabal**	903,479	34.6	45	Jovito Villalba Gutierrez
Social Christian Party (COPEI)	Rafael Caldera***	423,262	16.2	25	Rafael Caldera
Venezuelan Communist Party (PCV)	----	----	----	9	(Disenfranchised)
National Unification Front (FUN)****	----	----	----	0	Arturo Uslar Pietri
Popular Democratic Force	----	----	----	0	Wolfgang Larrazabal
AD - Opposition (AD-ARS)	----	----	----	0	Ramos Gimenez
National Action Movement (MAN)	----	----	----	0	German Borregales

*Before the 1960 split into AD - Government and AD - Opposition.

**Also supported by the National Independent Electoral Movement (MENI) and the Venezuelan Communist Party (PCV).

***Also supported by the Socialist Workers Party (PST) and the Republican Integration Party (IR).

****A coalition of nine minor parties. The leaders hope that other groups will join the FUN and back Uslar.

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