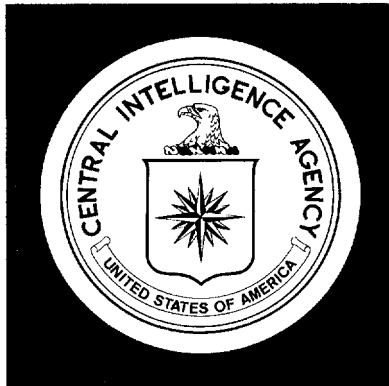


Secret



Weekly Summary

State Dept. review completed

Secret

22 February 1974
No. 0008/74

Copy No 58

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

WARNING

The WEEKLY SUMMARY contains classified information affecting the national security of the United States, within the meaning of Title 18, sections 793 and 794 of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

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A MINORITY GOVERNMENT

1 [After a week of intensive—and in the end fruitless—political bargaining, Prime Minister Meir on February 20 announced her decision to form the country's first minority government. The prospective coalition of her Labor Alignment and the Independent Liberal Party would control 58 of the 120 Knesset seats.]

1 [The Prime Minister acted after the National Religious Party's last-minute refusal to join the coalition. The party cited the decision of Israel's Chief Rabbinate Council not to approve the eleventh-hour compromise worked out with the Alignment on the National Religious Party's demand for more restrictive legislation on conversion to Judaism. Earlier this week, Mrs. Meir said she would not ask President Katzir to extend her mandate to form a new government when it expired on February 20.]

1 [President Katzir has given Mrs. Meir an additional week before she must present her cabinet
3 selections to the Knesset for a vote of confidence.

2 She has a reasonable chance of getting it. Foreign Minister Eban told Ambassador Keating last week that the Alignment had quietly obtained the agreement of the orthodox Agudah Religious Front, which has five Knesset seats, to support the government on confidence votes. The new Civil Rights Party, a liberal group with three Knesset seats, might join the coalition if the National Religious Party, with which it will not serve, decides definitely to stay out. Mrs. Meir would then have a one-vote majority.]

1 X [Mrs. Meir's most pressing task is to smooth the ruffled feathers of Defense Minister Dayan, who heads a faction within the Alignment that controls seven seats. His fears that he is becoming the scapegoat for the critics of the government's handling of the October war led him several days ago to proclaim publicly that he would not serve in the next government unless the Alignment leadership gives him clear and unequivocal backing. Dayan said later, however, that he would still support Mrs. Meir, and she has expressed the hope that he will stay on.]

3 [Although the minority government planned by Mrs. Meir would inevitably be shaky, she should be able to continue the peace talks with the Arabs. She will have to proceed cautiously, however, to ensure the full support of Alignment faction leaders such as Dayan. With this support, she can then probably count on sufficient backing from the liberal and leftist parties—and possibly even the Agudah Front—to ensure a majority in the Knesset on Middle East peace issues.]

1 [The Prime Minister clearly still hopes to induce the National Religious Party to reverse its decision. She plans to hold open three cabinet seats for the party until the deadlock on the religious issue is broken.]
3 [The National Religious Party is not bound by the rabbinate's decision, and practical political considerations may influence party leaders to reconsider. By remaining outside the coalition, the party stands to lose patronage and the ability to keep a close check on government religious policy. Presumably, the National Religious Party would be loath to leave the field to the liberal parties, whose policies on religious questions are diametrically opposed to its own.]

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KOREA: Incident at Sea

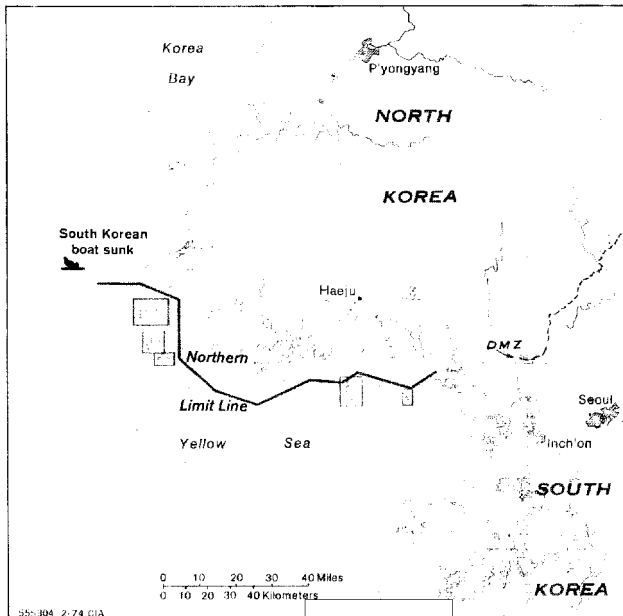
The sinking of a South Korean fishing boat off the west coast last week added a new element to the already tense relationship between the two Koreas. Although the circumstances of the February 15 incident remain somewhat obscure, it is clear that the boat sank after being rammed and possibly fired on by a North Korean patrol boat in an area north of the Northern Limit Line but—even by North Korea's tacit admission—in international waters. Despite the loss of the boat and all but one of the 12-man crew, the incident is likely to prove a propaganda boon to the Pak government and will complicate Pyongyang's effort to portray the South as the aggressive party in their current propaganda exchanges.

The North Korean action was probably not a deliberate provocation but rather an effort to discourage foreign—Japanese as well as South Korean—fishing boats from operating so far north in these contested waters. Like many other nations, North Korea is turning increasingly to the sea for protein; a Central Committee letter issued in Pyongyang only the day before the incident stressed the importance of the Yellow Sea fisheries. There is also some evidence that the North Koreans were initially uncertain of the nationality of the sunken fishing craft, and their subsequent actions indicate a desire to keep the situation from escalating militarily. But the naval incident has resulted in the most heated propaganda exchange between the two Koreas since the North-South negotiations began in 1971.

Seoul has condemned the sinking, while Pyongyang claims that the South Korean craft were engaged in espionage. Both sides are likely to stick to these lines when the Military Armistice Commission considers the incident.

It has already broadcast an alleged spying confession by the captain of a second boat captured in the incident.

For their part, the South Koreans are using the incident to bolster their current anti-



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Communist campaign; rallies on the issue have been conducted in major cities and more are planned. The government is trying to divert attention from its own problems—particularly its unpopular authoritarian policies—and apparently is succeeding to some extent.

Like Pyongyang, Seoul probably wants to keep the fishing incident within manageable bounds, but the incident may well reinforce the government's resolve to strengthen its military position in the contested area. Seoul is already planning to reinforce some of the islands it occupies south of the Northern Limit Line and has begun construction work. The present plan calls for a buildup in men and material—including large-caliber artillery and naval guns—to be completed by next autumn.

Pyongyang is certain to take a dim view of such South Korean moves. Since December, the North has been warning Seoul against bringing military craft or equipment through the waters surrounding the islands, which it claims are within its 12-mile territorial limit. The North has not protested this South Korean activity so far, possibly because it is waiting to determine its full extent, possibly because a verbal response would be ineffective in any case. Pyongyang continues to monitor Seoul's actions closely, however.

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JAPAN: ECONOMIC SLOWDOWN

(15-18)
Japan will experience its sharpest economic slump since the mid-1950s this year, but still is likely to achieve real Gross National Product growth of 3 to 5 percent. Energy supplies will not restrict growth, but the increase in oil import costs of at least \$11-billion will constitute a major drain on domestic purchasing power at a time when fiscal and monetary policies are being tightened to slow inflation.

fourth quarter,

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Prices began to move upward in 1972 and by late 1973 were soaring. In January 1974, consumer prices were nearly 25-percent higher than a year earlier, and wholesale prices were almost 35 percent higher. Supply constraints, higher prices for imported foodstuffs and raw materials, and strong demand were the principal factors. Although wage increases for the year approached 20 percent, productivity gains were nearly sufficient to offset them. The Tanaka government tightened monetary and fiscal policies progressively during 1973, but the boldest measures came after Takeo Fukuda's appointment as finance minister in November. The central bank hiked its discount rate two percentage points in December to an all-time high of 9 percent.

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Recent Trends

Real GNP grew 14 percent from the first half of 1972 to the first half of 1973, but growth slowed in the third quarter because of capacity constraints, and again in the fourth because normal oil deliveries were interrupted. On the demand side, private investment and consumer spending weakened only slightly during the

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The trade surplus continued to slip during the second half of 1973 as domestic demand remained strong and Japan was buffeted by unfavorable movements of prices and exchange rates; as imports surged, domestic demand and capacity constraints reduced the amount of goods available for export. The trade surplus was more than halved in 1973 to \$3.7 billion and, at the same time, long-term capital outflows reached a staggering \$9.7 billion.

Prospects for 1974

Real growth will slow sharply in 1974 because of efforts to dampen demand and the restrictive impact of higher oil prices. Depending on the size and timing of Tokyo's moves to support demand, real growth will be somewhere between 3 and 5 percent.

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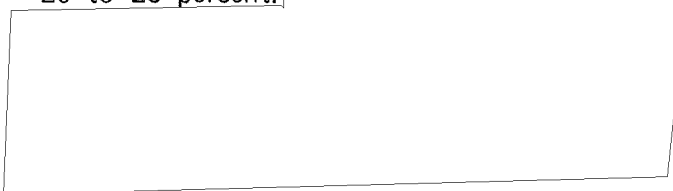
Assembling sewing machines in Nagoya
Ample capacity to produce...

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A basic factor in the economic slowdown will be a slackening in private investment, which constitutes about one third of GNP. A sharp drop in orders for machinery in December and announcements of cutbacks in major firms' expansion plans presage the downturn. A decline in inventory investment probably is under way and is likely to accelerate as demand slips and firms' cash positions tighten.

Slowing inflation will be difficult this year because industry will face severe cost pressures. Recent oil price hikes will directly boost manufacturing costs by about 5 percent, and labor probably will win wage increases on the order of 20 to 25 percent.

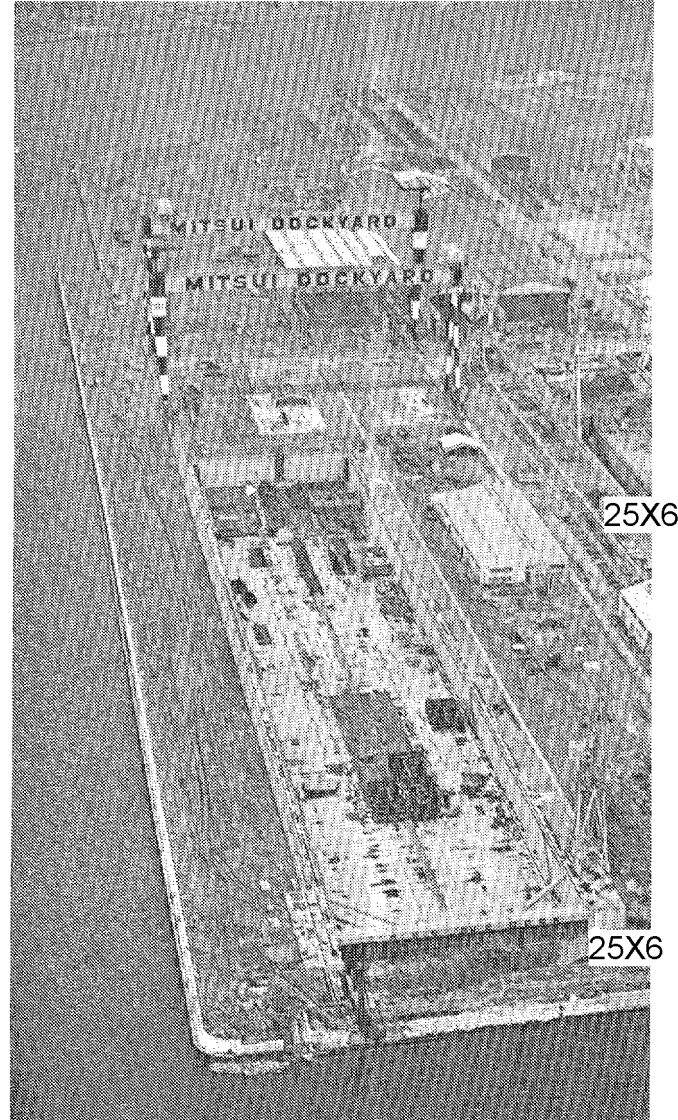


Higher oil prices will boost the import bill in 1974 by about one third, to an estimated \$43 billion, and Japan will need to increase exports nearly 20 percent to avoid a trade deficit. Achieving such an increase will be difficult at a time when other countries' import demand is likely to be weak.



The auto industry, for example, plans to increase export volume by one third this year. Exporters almost certainly will concentrate more on the US market this year. Sales volume here fell by an estimated 10 percent in 1973, partly because of currency changes, but the yen's recent depreciation has reduced the disadvantage.

Japan probably will have a current-account deficit of about \$6 billion this year. To ease the drain on foreign-exchange reserves, Tokyo is moving to alter policies that encouraged capital outflows and restricted inflows. As a result of such moves, Tokyo expects to reduce net long-



The Mitsui dockyard
...but fewer customers are buying

term capital outflows to \$4 billion. Dollar holdings not counted as official reserves also are being drawn upon to slow the decline in official reserves. These non-official holdings now amount to about \$10 billion, almost matching the \$11.5 billion in official reserves. [REDACTED] STAT

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SHAKE-UP IN SAIGON

19 } The government changes announced this week reflect a decision by President Thieu to upgrade the status of Prime Minister Khiem and to put greater momentum behind economic policies. The changes do not significantly alter the government's political make-up, but Thieu hopes they will improve the efficiency of the administration.

when other economic and financial officials were changed, probably because of his good rapport with Americans. Thieu's unhappiness with economic policy apparently centered on Ngoc, inasmuch as the ministers appointed in October continue in the new cabinet.

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21 } Certain responsibilities have been transferred from the president's office to that of the prime minister, although Thieu will remain the ultimate authority for all major decisions. The naming of controversial presidential aide Hoang Duc Nha as information minister enables Thieu to formalize Nha's recent authority over information activities while moving him, at least ostensibly, under Khiem. The latter has been unhappy over Nha's extensive influence, but it remains to be seen whether the change will weaken Nha's clout.

CAMBODIA: THE GOVERNMENT'S ROUND

22 } Khmer Communist military pressure against Phnom Penh slackened this week as the insurgents continued to prepare for a heavier offensive against the capital's defenses. Cambodian Army units took advantage of the lull by moving out on several battle fronts around the city. Government troops scored their biggest success northwest of Phnom Penh, where infantry and armor units—supported by artillery and air strikes—forced insurgents from an area within four miles of Pochentong airport. Local government commanders reported capturing significant numbers of weapons, and prisoner reports indicate that the Communists have taken sizable losses in this sector.

23 } Thieu clearly wants to assuage any discontent on Khiem's part. The President met with the Prime Minister recently and informed him of the forthcoming government shake-up which, he said, would greatly increase Khiem's authority. At the same time, Thieu said he would run for re-election next year but that Khiem could run for president in 1980 and would surely win.

24 } Two new deputy prime ministers have been appointed to oversee welfare and development activities. Pham Quang Dan, a cabinet holdover, and Tran Van Don, a retired general and Lower House deputy, are activists, who presumably are expected to bring stronger direction to the economic ministries, which are now headed by able technicians and bureaucrats. A third deputy prime minister, Nguyen Luu Vien, retains his post and apparently will continue to serve as Saigon's chief negotiator in Paris.

25 } The cabinet shuffle offered Thieu an opportunity to drop a handful of ministers whose performances he considers unsatisfactory. The chief casualty was Pham Kim Ngoc, who has been replaced as commissioner of planning by Nguyen Tien Hung. Ngoc had been retained last October

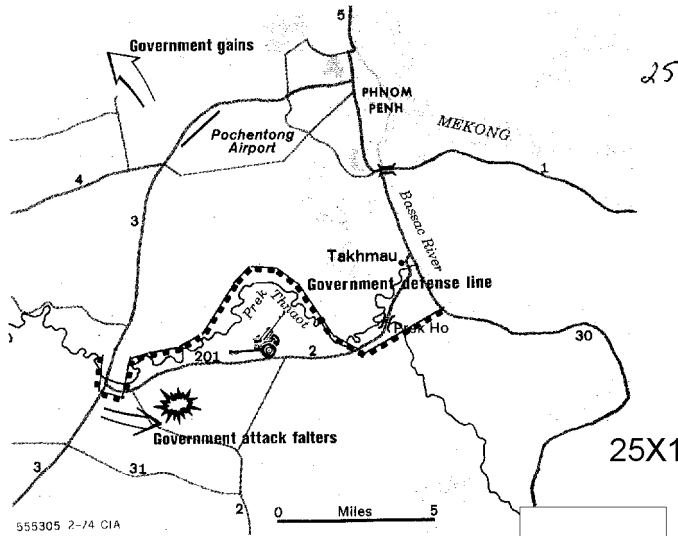
22 } In the southwest, government troops near Route 3 mounted a drive to expand their holdings on the south bank of the Prek Thnaot River. The Communists are fighting to prevent the envelopment of some of their units, including the artillery that has been shelling Phnom Penh. The only major Communist initiative of the week came in the Mekong River corridor, where insurgent gunners carried out the heaviest shelling of the dry season against a resupply convoy.

22 } In the countryside, government units from the isolated provincial capital of Kompong Thom, some 75 miles north of Phnom Penh, have recently completed several highly successful forays into Communist territory. Over 22,000 villagers—resentful of oppressive Communist administration—have come out with the government troops to resettle around Kompong Thom. The Communists have stripped their military forces in the province as part of the buildup around Phnom Penh.

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LAOS: PUSHING FOR A COALITION

26 [Prime Minister Souvanna failed to meet his self-imposed deadline for forming a new coalition government by the first anniversary of the Laos peace agreement on February 21, but he appears to be on the verge of at least naming its membership.] He has achieved significant progress in resolving the differing viewpoints of the King, the National Assembly, and the Communists over the proper procedure for the coalition's investiture—the last significant sticking point in the protracted negotiations.]

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[Souvanna claims that he has the King's agreement to formally invest the new government even if the assembly has taken no legislative action. The King previously had maintained that the constitution required assembly approval of the new cabinet prior to royal investiture. The King has indicated to Souvanna that he was willing to dissolve the assembly pending new legislative elections.]

24 [The threat of such a move may in part explain an apparent willingness by the assembly to soften its earlier insistence that it must approve

25 [the entire membership of the new government.] Souvanna's offer to appoint one incumbent assembly deputy from each province to the Joint National Political Council, the principle advisory body to the new coalition cabinet, may also have enhanced the prospects for compromise. In addition, recent threats by student activists to make the assembly a prime target of future large-scale demonstrations may also have helped reduce legislative opposition to Souvanna's plans to form the new government by direct royal investiture. On February 20 the Sananikone clan, which dominates the rightist-oriented assembly, publicly endorsed Souvanna's efforts to form the new coalition.]

24 [The Prime Minister has informed the US ambassador that the last major impediment to establishment of a coalition government has now disappeared. Souvanna this week convened the government's Council of Ministers, a high-level policy-making group of senior cabinet officers that has long been inactive. The council was tasked with making final selections of government candidates for positions in the new coalition cabinet and the Joint National Political Council.]

25 [Souvanna also met with chief Pathet Lao negotiator Phoun Sipraseuth this week to inform him of the King's new position on investiture, which is in line with the Communists' view that the coalition represents a "special" government requiring only royal approval.] Whether this will be enough to satisfy another important Pathet Lao precondition for forming the new government remains to be seen.]

26 [The Communists have steadfastly held that effective neutralization of Vientiane and Luang Prabang must precede the new coalition's formation. While neutralization of the twin capitals is proceeding smoothly, it will be some weeks before the process is completed. The Lao Communist leadership in Sam Neua may therefore be reluctant to send its ministers to the two cities until their safety is assured.]

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SECRET**INDONESIA: MESSAGE IN THE STARS**

One tenet of Indonesian political philosophy holds that the fall of a dynasty is foretold by such signs as divisions within the ruling elite, decline in public morality, rising social discord, and the appearance of new prophets.

President Suharto, who in times of national stress consults his spiritual teachers more often than his cabinet, doubtless interpreted the upheaval in Jakarta last month as an ill omen indeed. His reaction has been to project a new public image of firmness and authority in order to restore confidence in his government's durability.

Suharto's new leadership style may also signify a shift in the power balance within the government. His position among the military elite has long been characterized as that of primus inter pares, but he is now behaving like a man who believes he has supreme authority. He has reshuffled security and intelligence personnel, putting men considered personally loyal to him in key positions and removing those believed either too independent-minded or too close to General Sumitro, Suharto's most powerful subordinate.

This new presidential firmness is also being exercised with the public at large. Reversing a long-standing policy that allowed relatively free expression, the government now intends to take a hard line against critics because Suharto believes that the former permissiveness contributed to social and political instability. Under the new policy, five newspapers and three weekly periodicals have been closed, their publishers banned from future publications, and their staffs provisionally blacklisted. Officials have promised that new papers will eventually be permitted, possibly with government participation. All publications must now conform to strict government guidelines designed to eliminate articles that could "foment conflict between races, religions and social forces" or "discredit national leadership."

This new assertion of presidential authority may cause some grumbling within the military



Suharto and wife
A new presidential style

establishment. Although the defense department has an ex officio representative on the newly established political and security stabilization council that ratified Suharto's measures, the council is largely a rubber stamp. Since taking over in 1966, Suharto has fostered greater centralization of authority in the Jakarta bureaucracies. His latest actions suggest he now wants to go one step further and absorb all power into the presidential palace, a move that could cause some complications with his military colleagues.

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EUROPEAN SECURITY: INCHING FORWARD

412 ~~32~~ Representatives from the 35 states participating in the Conference on Security and Cooperation in Europe held their breath as the drama of Aleksandr Solzhenitsyn was played out last week. When Solzhenitsyn arrived in the West, they breathed a collective sigh of relief and resumed their work. Most delegates from the Western and neutral states believe that, in the long run, the Solzhenitsyn affair could harden both Eastern and Western positions. It appears likely, for example, that the Western representatives will press the Soviets harder than ever for an agreement on freer movement of people and communication of ideas between East and West. 7

42 ~~32~~ The Soviet delegates, also relieved that the dissident author was expelled, reaffirmed the USSR's interest in detente. Although they have suggested that Moscow might be willing to make some compromises, the Soviets will continue to probe the Western side for weaknesses and will not make concessions until absolutely forced to do so. Resolution of substantive differences probably is still several months off. In the meantime, the conferees will continue the slow process of drafting the final conference documents. 7

42 The problems to be resolved have not changed. The Soviets hope to obtain multilateral recognition of the permanence of Europe's post-war borders, while the West hopes to gain acceptance of the possibility of peaceful changes of existing frontiers. Despite some earlier hints that they might be flexible on this matter, the Soviets and their allies last week stubbornly resisted Western formulas that would permit peaceful changes. The Western delegates, especially the EC Nine, have made it clear that they will not compromise on this issue unless the Soviets make concessions on the proposals for freer movement between East and West. 7

42 In discussions of freer movement, however, the Soviets and their allies continue to insist that the Western allies agree to a declaration of principles that would serve as a preamble to any specific agreements on humanitarian cooperation. These principles of sovereignty, non-interference in the internal affairs of states, and respect for national laws and customs would have the effect



Solzhenitsyn

A collective sigh of relief

of emasculating the specific measures designed to bring about freer movement. 7

43 Discussions of the military aspects of security are now focused on a British draft resolution on confidence-building measures—steps designed to limit military activity. The British propose that the participating states accept a non-binding agreement to give prior notification of major military maneuvers and movements in Europe and to invite other states to send observers to maneuvers. A Soviet delegate has suggested that Moscow might be prepared to compromise on some aspects of the proposal. This hint of flexibility has intrigued Western delegates—and could cause some problems for the US, which is opposed to discussing military movements at the Security Conference because this would make it harder to obtain a binding agreement on the subject at the force reduction talks. 7

44 Another of Moscow's major goals is to institutionalize the Soviet voice in European

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developments through the adoption of some type of post-conference political machinery. Acting at Moscow's behest, the Czechoslovaks have proposed creating a consultative committee that would meet regularly, ostensibly to implement the work of the conference. The EC Nine recently agreed not to accept this proposal, however, and will suggest instead that appropriate officials meet after several years to determine whether the agreements signed at the conference have been carried out. The Soviets and their allies will doubtless oppose this suggestion.

The Soviets continue to insist that the final stage of the conference take place early this summer and at the summit. Party boss Brezhnev made these points in recent letters to Chancellor Brandt and President Pompidou. The Western representatives maintain that the timing and level of the concluding stage depends on the results of the current one.

The dissidents, the self-styled Military Station's Opponents, then passed a resolution criticizing the People's Alliance for "favoring a continued NATO presence in Iceland." The Communist leadership faces a dilemma in dealing with the base issue. As the architects of the agreement among the governing parties that calls for troop withdrawal, the Communists are under extreme pressure to uphold that line but, by doing so, they risk toppling the coalition and being excluded from the successor government.

Young members of the Progressive Party, the main component of the coalition, attacked their leaders for violating the "will of the majority" by calling for only a reduction in base personnel rather than for complete troop withdrawal. Their charge probably resulted from recent remarks by party chairman and Prime Minister Olafur Johannesson, who claimed that the coalition platform agreement never specified that the defense force must leave during the present electoral period.

ICELAND: WRANGLING OVER THE BASE

Although differences still exist, all three of Iceland's governing parties, including the Communist People's Alliance, are publicly backing away from the coalition's previously expressed aim of achieving total withdrawal of US forces from the NATO base at Keflavik during the government's current term. Youth groups in these parties, however, are criticizing their leaders and resisting this shift in policy.

The government's temporizing attitude toward the base issue probably is attributable to the success of a pro-base signature campaign, which reached the 46,000 mark earlier this week. Politicians apparently view the drive's early success as a good indication that a majority of the people support the base.

Even Communist opposition is flagging. Party chairman Ragnar Arnalds was forced to stop a speech he was giving to a Communist-front youth organization when the audience jeered his rationalization of the party's new approach to the

The third coalition partner, Hannibal Valdimarsson's Liberal Left Organization, also is split over the base issue. The party's Reykjavik branch rejected Valdimarsson's recent comment that it would be in Iceland's interest to retain the base. The "generation gap" also extends to the opposition Social Democratic Party, which has generally supported the base. The party's youth organization takes the position that party leaders should be striving to rid Iceland of the defense force, not supporting its retention.

After postponing the next round of base negotiations three times, Foreign Minister Agustsson recently told the US Embassy he has no specific date in mind but would give seven days' notice when the government was ready to reopen the talks. The government, as well as the political parties, currently is preoccupied with efforts to avert a general strike and is unlikely to address the base issue again until a wage settlement is achieved and the strike threat has passed.

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SOUTH CHINA SEA: ISLAND DISPUTES

32- The offshore island disputes received verbal attention during the past week, but military action was limited to patrolling in the Spratly Island waters by warships of some of the countries concerned. South Vietnam, Nationalist China, and the Philippines all restated their various claims in public statements but avoided any suggestion that they were ready for a military confrontation.

32- Saigon softened its earlier statement, which had promised to defend claims to both the Spratlys and the Paracels, by noting that it is "disposed" to settle territorial disputes by negotiation. A South Vietnamese Foreign Ministry spokesman declared that Saigon approves "in principle" a Philippine proposal to discuss the question of sovereignty over the Spratlys, but he was careful not to commit South Vietnam to consider any "pie splitting" arrangement with Manila, much less with Peking. For its part, in an apparent gesture toward defusing tension over the islands, Peking on February 17 released all of the remaining South Vietnamese prisoners it had captured last month in the Paracels.

between Soviet support for the idea and the alleged bellicosity of the US move at Diego Garcia.]

5-3 [There will be more along these lines. The Soviets may, for example, revive Brezhnev's 1971 proposal to limit great power naval deployments far from their own shores. The Soviets never really followed up on Brezhnev's suggestion, but they have kept the idea alive in various journals and alluded to it in the central press last November when the US deployed a carrier task force into the Indian Ocean after the Middle East war. At a minimum, the Soviets will exploit the opposition of many littoral states to great power naval rivalry in the Indian Ocean, hoping to increase the political costs for the US of the decision to make greater use of Diego Garcia.]

5-3 [The USSR may increase its efforts to persuade India to grant the Soviet Navy privileged access to Indian ports, although it is unlikely that New Delhi will change its present even-handed policy. The Soviets will probably also make new attempts to get naval reconnaissance facilities in the area. They are building an airfield for the Somalis near Mogadiscio, for example, which could ultimately support Soviet naval reconnaissance aircraft.]

SOVIETS PLAY UP DIEGO GARCIA

51 [Soviet propaganda has been highlighting the danger to the littoral countries of the Indian Ocean stemming from the US-UK agreement to expand the naval base at Diego Garcia. *Pravda*, for example, charged on February 10 that the construction of another US base in the area was proof that the Pentagon plans to intimidate African liberation movements and countries striving for their political and economic independence.]

51 [Moscow has also warmed up to the Ceylonese proposal that the Indian Ocean be declared a zone of peace and has pointed to the contrast

5-3 [Moscow is genuinely concerned that the US decision presages a larger US naval presence in the Indian Ocean. The Soviets are afraid that the US eventually intends to move at least some of the naval forces now off Vietnam to a permanent station in the Indian Ocean, where they would impinge more directly on Soviet interests.]

5-3 [In all likelihood, Moscow will increase the size of its own naval forces in the area. It would have taken this step no matter what the US did since the Soviet force in the Indian Ocean is still not as large as that of the Western navies, but the recent US announcement probably means that

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Moscow will have to act sooner than it had planned. Any permanent increase in the near future will require the USSR to draw down forces elsewhere.

In sum, Moscow's military options are not attractive. Realization of this could cause the USSR to give serious attention to the various Indian Ocean disarmament schemes rather than simply trying to exploit them for propaganda purposes.

In the other Arab capitals, Ceausescu received more guarded treatment; Romania's diplomatic ties with Israel were clearly the sticking point. In every instance, however, communiqués summarizing the talks managed to paper over contentious issues and to call for increased economic and political cooperation. The sensitive matter of a threatened Arab boycott of Romanian goods was studiously avoided in public, but it doubtless came up during private talks.

Throughout the tour, Ceausescu emphasized that Romania stood behind the "just cause" of the Arabs. Without showing any willingness to alter his country's attitude toward Israel, he implied a readiness to use his influence in Tel Aviv in support of Arab interests.

Romania's capability to influence the Israelis is evidently quite limited.

On balance, the tour underscored Romania's determination to continue to seek a constructive, activist role in Middle East peace efforts. In that context, the trip may help salve the bruised pride Romania suffered from the rejection last fall of its efforts to participate in the UN's peace-keeping force.

CEAUSESCU'S MIDDLE EAST GAMBIT

President Ceausescu's nine-day whirlwind tour of Libya, Lebanon, Syria, and Iraq dramatized the flexibility of Romanian foreign policy, but the tour was essentially a triumph of image over substance. Nevertheless, the result is important to Bucharest, which probably recognized from the outset that Ceausescu's talks with some of the Arab world's more immoderate leaders would not produce significant results.

Ceausescu's first stop, in Tripoli, brought the most hospitable reception of the tour. Anxious to improve his tarnished international image, President Qadhafi overlooked Ceausescu's sympathies toward Israel and warmly welcomed the Romanian leader as the first East European head of state to visit Libya. Six bilateral cooperation agreements were signed, and the establishment of diplomatic ties was approved in principle.

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POLAND: HIERARCHICAL REPAIRS

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The changes in Poland's party and government on February 15 are part of party chief Gierek's continuing effort to improve administrative efficiency and tighten control over key sectors of Polish life.

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In the most significant moves, Kazimierz Barcikowski replaced Jozef Okuniewski as minister of agriculture, and Jozef Tejchma took over from Stanislaw Wronski as minister of culture and art. Both new ministers are 46 years old and belong to the postwar generation of Polish officialdom—well-educated and ambitious—that came into its own under Gierek. Both men have served as party experts in their fields and appear well suited for posts that are destined to take on added importance.

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Gierek has recently been stressing that increased agricultural production is the key to economic success. In Barcikowski the party boss has a top-flight, experienced, and loyal administrator. Gierek is also well aware of Moscow's push for bloc unity on ideological matters—especially in

light of Solzhenitsyn's exile and has apparently given Tejchma, a recognized liberal, the task of tightening up Poland's pragmatic and flexible cultural policy. Tejchma could be the man to introduce low-key restraints without causing undue alarm among Polish intellectuals.

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These changes were accompanied by shifts in the party designed to increase flexibility and expertise. Tejchma and Barcikowski remained on the powerful Politburo, as full and candidate members, respectively. Because of his ministerial appointment, Barcikowski had to give up his post as party secretary. Three newly appointed secretaries, however, increased Gierek's pool of readily available talent. Jozef Pinkowski is qualified to carry some of the heavy burden in economic planning, while Andrzej Werblan is a veteran theoretician adept at adjusting ideology to the needs of the moment and to Soviet desires. Also well grounded in ideology, Wincenty Krasko supplies an added dimension as an expert in Western affairs.

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More loyal and experienced...



Kazimierz Barcikowski



Gierek

...Less flexible and pragmatic



Jozef Tejchma

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ISLAMIC LEADERS MEET IN LAHORE

(82-86)

Representatives from almost all Muslim countries, including many chiefs of state, will convene on February 22 in Lahore, Pakistan. A preliminary meeting of foreign ministers began on Tuesday. Largely as a result of the efforts of King Faysal of Saudi Arabia, the chief promoter of Islamic solidarity, annual foreign ministers' meetings have been held since 1970. The only previous summit was at Rabat in 1969.

The Lahore conference was proposed by Pakistani Prime Minister Bhutto shortly after the latest Arab-Israeli war. Because of the reluctance of some leaders to attend, it has been postponed several times. President Suharto of Indonesia, the Shah of Iran, and King Hassan of Morocco still have doubts about the usefulness of a meeting at this time and will not attend, although their countries will be represented.

The main points on the agenda will be the status of Jerusalem, a settlement in the Middle East, and several proposed joint projects, such as a development bank to be financed by the oil-producing nations. King Faysal—who is footing much of the bill for the meeting—is particularly concerned about Jerusalem. He feels he has a special responsibility to see that the area of the Dome of the Rock, the third holiest shrine in Islam, is returned to Arab control.

Saudi Arabian Minister of State Saqqaf has flown directly from the US to Lahore, presumably to report to Faysal and other Arab leaders on his talks in Washington. Leaders of the four countries that met in Algiers last week—Saudi Arabia, Egypt, Syria, and Algeria—may use the occasion for informal consultations on the results of the mission undertaken by Saqqaf and Egyptian Foreign Minister Fahmi.

The delegates to the summit will probably make an effort to avoid disagreement, at least in

public, and the final communique of the meeting is likely to be little more than a pro-forma statement. In private, however, there are a number of issues that could prove divisive.

Oil could be one such troublesome issue. Although the continuation of the embargo against the US and other countries will probably come up, the emphasis is more likely to be on the damage done to Muslim countries that do not produce oil by the sharp rise in the price of crude. These countries will be seeking an arrangement to cushion the effects of their higher costs.

President Qadhafi of Libya had been expected to lead the Arabs who oppose negotiations with Israel. His recent reconciliation with Sadat and his reported fence-mending with Faysal, however, suggest that he has become worried about his isolation from the Arab mainstream. He may, as a result, adopt a less radical stance. Moreover, Sadat is probably right in expecting that a moderate position on negotiations will receive the backing of most non-Arab Muslims.

Other problems could arise at the summit. King Husayn's dispute with the Palestine Liberation Organization may not arise in formal sessions, but Yasir Arafat's acceptance of an invitation to attend contributed to Husayn's decision not to participate. Pakistan will try to avoid mention of bilateral problems with Bangladesh, which is not yet committed to attend, and with Afghanistan, which is expressing its displeasure with Bhutto by sending only an ambassador to Lahore. Iraq will send only an observer, so its problems with Iran may not become an issue. Malaysia apparently plans to seek support for the Philippine Muslims, although many delegations would rather not discuss the issue. Black Africans can be expected to denounce the racial policies of Portugal, Rhodesia, and South Africa.

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IRAN-IRAQ: MILITARY BUILDUP

69 No fighting has been reported along the Iraqi-Iranian border since early last week and diplomatic efforts to ease tensions are under way. Despite considerable movement by both sides to strengthen their military positions, both Baghdad and Tehran appear to want to avoid large-scale hostilities. Both armies are in a high state of alert, however, and a minor border incident could escalate into a major clash.

69 Iranian officials still seem to regard the clash as the culmination of a series of isolated incidents—albeit serious ones—and not sufficient cause to end the recently revived diplomatic relationship with Iraq. During an audience on February 16 at which the Shah accepted the credentials of the Iraqi ambassador, last week's clash reportedly was not discussed. Tehran media depicted the new Iraqi envoy as highly pleased by the cordiality of the meeting. The Iranian ambassador-designate flew to Baghdad this week.

69 At the UN, a Security Council showdown on the dispute was deferred on February 20 when the Iraqi representative agreed to refer an alternate proposal to Baghdad for consideration after learning that at least seven of the fifteen council members planned to abstain on an Iraqi-backed resolution. The proposal calls for a Security Council consensus statement asking the Secretary General to send a representative to the disputed area to investigate the situation.

who became the focus of much of the discontent that surfaced during the mutiny. Husayn, however, is unlikely to replace either man soon for fear of giving the impression that he is giving in to the mutineers.

71 The King no longer seems to believe—if he ever really did—that the army dissidence was the work of disloyal conspirators or foreign agents. As a result of the official inquiry and his own visits to military units, Husayn has become aware of some of the enlisted men's legitimate grievances and also that several officers have been guilty of negligence. In some instances, he has already issued orders to rectify problems and is reportedly planning to take additional steps to improve troop morale.

69A Husayn has not yet indicated publicly what disciplinary action he intends to take against the Bedouin soldiers who were arrested for taking part in the mutiny. There now seems to be a good possibility, however, that he will punish some negligent officers and let the mutineers off lightly. This would have a salutary effect on the army as a whole and would please some important disaffected tribal leaders who fear the King intends to punish the dissidents severely for airing their grievances.

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JORDAN: HUSAYN IN CHARGE

70 King Husayn consulted with parliamentary and tribal leaders this week and visited army units throughout the country in order to demonstrate that he is in full control in the wake of the recent mutiny. Although there is still some grumbling and uneasiness among the ranks, the army appears to have calmed down.

72 The King is still being urged to dismiss Prime Minister Rifai and army chief of staff Bin Shakir,

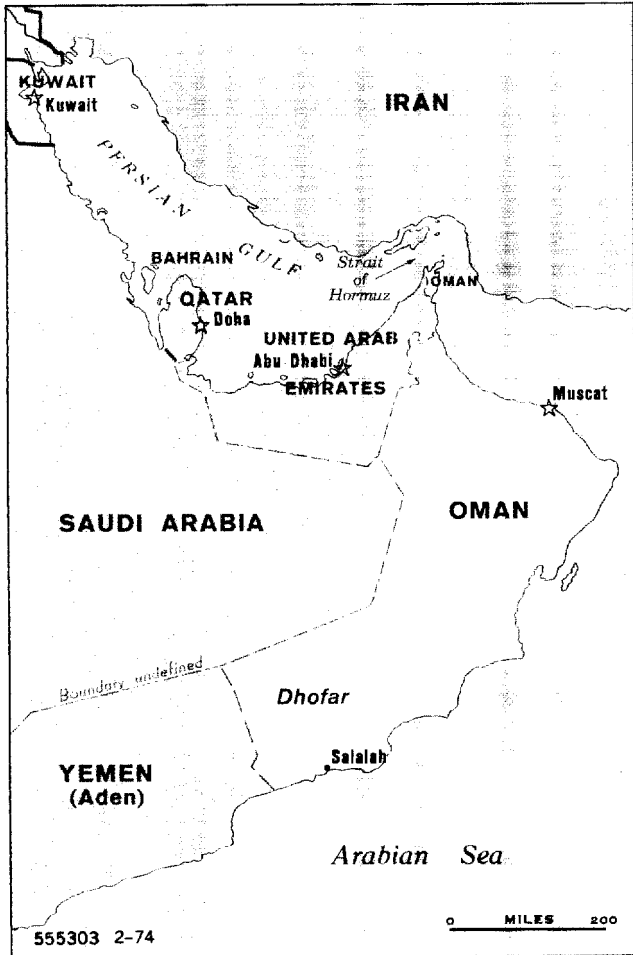
OMAN-IRAN: MUTUAL SECURITY

73 Following several postponements, Sultan Qabus of Oman and his foreign minister are scheduled to visit Tehran on March 1 to discuss, among other things, an agreement for defense of the entrance to the Persian Gulf. The Shah wants to conclude a security pact with Oman to ensure that the Strait of Hormuz—through which all oil exported from Iran must pass—remains in friendly hands.

76 Since August, the two countries have been holding intermittent secret talks in Geneva on

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76 } The dilemma Qabus will face in Tehran is how to be cooperative with the Shah without alienating the Arab states bordering the gulf. Some Arab states—and not just radical ones—have already noted the large Iranian manpower commitment and are suspicious of the Shah's intentions. There have been rumors—denied by Oman—that, in exchange for military assistance, the Sultan has agreed to cede to Iran several small islands, thereby ensuring Tehran's control of access to the Gulf

74 } In Dhofar, meanwhile, fighting continues between government forces and guerrilla bands of the Popular Front for the Liberation of Oman and the Arab Gulf. In late December, the newly arrived Iranian airborne brigade succeeded in opening the only road from the interior of the province to the important coastal town of Salalah. Although still subject to occasional attack, military and supply vehicles can now move on the road for the first time since 1970

76 } Because of Oman's dependence on aircraft for moving troops and supplies to isolated posts in the mountains and for conducting strikes against Popular Front units, the government is moving to augment its helicopter fleet in 1974. In recent weeks only two of Oman's seven helicopters have been in operation; the 10-12 Iranian helicopters in the country are used primarily to support the Iranian airborne brigade

81 } In late January, five Bell 205 A-1 helicopters and spares valued at \$3.6 million were ordered from the US. These helicopters, along with seven AB-205 purchased from Italy in 1973, were originally scheduled for shipment in 1975, but will now be delivered later this year.

76 } questions of a median line, territorial waters, and the continental shelf. Decisions on these subjects could have significant implications for defense of the strait as well as for oil exploration

76 } Qabus is likely to be receptive to Iranian proposals. Last fall, the Shah authorized a substantial increase in Iranian military assistance for the Sultan's continuing fight against leftist guerrillas in Dhofar Province. By the end of December, the promised 1,200-man Iranian force had arrived in Oman to augment the 150-200 Iranians who have served there since January 1973.

The acquisition of [redacted] helicopters during 1974 will enable Omani forces to diversify tactics against the guerrillas. [redacted]

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SECRET**CUBA: LOOKING TO MEXICO CITY**

(87, 88)
 There are signs that Havana is acutely interested in the meeting of foreign ministers now taking place in Mexico. In light of the significant progress made recently by the US toward solving long-standing problems with both Peru and Panama, the Castro regime is apparently wondering if Washington may be willing to make concessions at the meeting in order to maintain the momentum of the present favorable trend in US - Latin American relations.

Fearful of missing an opportunity to benefit from that momentum or—even worse—of being bypassed by events, the Cubans have indicated that they may be ready to respond in a positive manner to any US initiative aimed at overcoming the impasse. There is no evidence, however, that Havana has retreated on any of the demands it says must be satisfied before formal relations can be restored. In fact, Havana has repeatedly emphasized that the US must make the first move and must unilaterally terminate the so-called economic blockade before any negotiations.

During a monthly luncheon of the diplomatic club in Mexico City earlier this month, a relatively obscure Cuban diplomat persistently queried a US Embassy official on the Mexico meeting. He repeatedly emphasized that Secretary Kissinger's remarks at the conference would be a key factor in determining the Cuban attitude toward the US. The Cuban diplomat was apparently sent to Mexico specifically to cover the foreign ministers meeting, and, in view of the Castro regime's extreme sensitivity on the subject of rapprochement with the US, it is likely that he was speaking with Havana's authorization.

Despite receiving no encouragement to continue the conversation, the Cuban probed for a reaction to US industrialist Cyrus Eaton's remarks on the need for a change in US policy. He said he thought the comments of the Cuban ambassador to Mexico at a press conference last month—and a subsequent clarification by Cuba's foreign minister—were meant to signal the US that the Castro government is interested in seeking some kind of accommodation. He surmised that eventual reintegration into the Organization of American States "might perhaps be the ideal path to

accommodation," but then acknowledged that this would place the Cuban Government in the dilemma of having to overcome its contention that Cuba was illegally expelled from the OAS.

Although this may be a serious Cuban initiative to bring about a thaw in relations with the US, several other motives could also be involved. The Cubans may feel that they are being left in the backwash of events and must give some evidence of a willingness to negotiate in order to avoid being considered irrelevant in the context of US - Latin American diplomacy. They may also hope to encourage speculation among other nations in the hemisphere that a major change in the Cuban-US relationship is imminent and thus precipitate a rush of diplomatic activity by countries anxious to avoid the embarrassment of being the last to restore formal ties with Havana. Or the Cubans may merely hope to raise expectations so high that when they are not realized, the meeting will be considered a failure and the US can be made the scapegoat.

By adding fuel to the rumors of an impending change in the US position, Havana may be trying to encourage the foreign ministers to urge Secretary Kissinger to effect just such a change. In Cuba's eyes, a US refusal would antagonize many Latin Americans and would put the US on the defensive. An acceptance, on the other hand, could be portrayed by Havana as a victory over "imperialism."

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BOLIVIA: MORE CABINET CHANGES

89 } Last week, President Banzer reorganized his administration in an attempt to shore up his position and improve government efficiency. Although Banzer has frequently reshuffled his cabinet, past shifts have involved individual posts rather than structural change. This time, four cabinet posts have been combined into two, and have been filled by technocrats who can act as buffers between President and critics.7

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87 One of the new posts, minister coordinator of the presidency, has been filled by Roberto Capriles, one of Banzer's close advisers. He apparently will be in charge of day-to-day operations, thus freeing Banzer to concentrate on major political and military developments. The President also expanded the authority of Minister of Agriculture Natusch Busch by giving him control over campesino affairs.

[Redacted]

[Redacted]

Banzer continues to display remarkable staying power in the face of deteriorating political support and a worsening economic situation.

[Redacted]

ECUADOR: MILITARY ANNIVERSARY

90 The Rodriguez administration has quietly celebrated its second anniversary, belying early pessimistic forecasts by local observers of its longevity. Indeed, the military government has become sufficiently institutionalized to permit a surprising degree of generalized criticism, although criticism of individual members of the administration remains tacitly proscribed. In an anniversary speech last weekend, the President asserted the irreversibility of the military revolution and scorned any thought of a return to democratic government.

94 The military coup of February 1972 coincided with the beginning of the country's petroleum production, which has since brought income and a certain amount of international leverage to the government. Substantial economic agreements have been concluded or are in the offing with the Soviet Union, Poland, Romania, North Korea, Spain, Japan, and the EC. In addition, Ecuador has managed to secure a preferential position in the Andean Pact.

100 The country's stance in the Organization of American States and at the foreign ministers'

meeting in Mexico this week has been generally friendly to the US. One long-standing problem in US relations is on the verge of being settled with Ecuador's agreement to pay its outstanding debt for US military sales. At the same time, Foreign Minister Lucio Paredes has shown some interest in a negotiated settlement of the perennial tuna fishing dispute, although he has implied that what Ecuador views as restrictive US legislation—such as the Fishermen's Protective Act—must first be repealed. Meanwhile, US tuna boats fishing inside Ecuador's claimed 200-mile territorial waters remain liable to seizure and fines. The absence of such incidents this season can be credited largely to the poor tuna run rather than to any major change of policy.

99 The unfolding of the third year of military rule will see a continuation of nationalism, particularly in regard to oil. The government is likely to maintain its independence within OPEC, retaining the option to disregard any future policy of the group that might be inconsistent with Ecuador's desire to sell as much oil as possible at the highest price. As oil replaces tuna-boat seizures as a source of nationalistic pride, the government's future interest in seizing boats is likely to decline.

96 Domestically, there is more uncertainty. Last week, the almost routine character of student demonstrations suddenly altered with the fatal shooting of a respected professor. Also last week, the government issued an order for the arrest of the Socialist Party leader for "injurious expressions" favoring renewed political activity. These two acts are likely to spark additional protests. A more positive government response—this one dealing with labor—was a recent decree law closing a loophole in the Labor Code by which management had been able to reopen settled disputes arbitrarily. The question for Rodriguez' third year in office is whether he will be able to translate to the domestic scene some of the forward movement his government is enjoying in the area of foreign policy.

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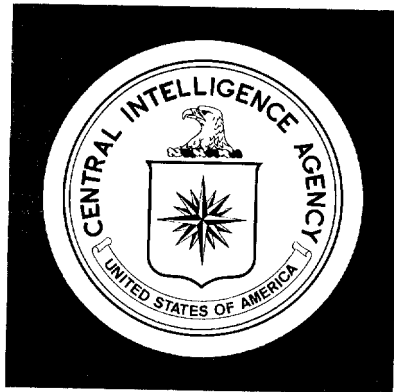
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Weekly Summary

Special Report

Venezuela: Prospects Under Perez

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№ 58

February 22, 1974
No. 0008/74A

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VENEZUELA

Prospects Under Perez

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The landslide proportions of Carlos Andres Perez' victory in the presidential election and the unprecedented majority his Democratic Action Party won in Congress give his government the potential to be the strongest Venezuela has had since that of Romulo Betancourt (1958-63). In contrast to President Caldera, who was short on both public support and congressional backing throughout his term, Perez will begin with a secure position of leadership and a generally free hand as president.

His chances to sustain this strength appear good. Despite his background as a controversial political figure over the years, the vigor and decisiveness he displayed in his bid for the presidency clearly appealed to the electorate. During the pre-inaugural period, he has worked to nurture the new spirit of dynamism by conducting an intense round of press conferences, TV appearances, newspaper interviews, and consultations with advisers and experts. He means to give substance to his campaign motto, "Democracy with Energy," throughout the five-year term that begins on March 12.

He intends to focus on domestic matters, where his philosophy is mildly leftist and reformist. Venezuela's oil boom and high per capita income have created a picture of prosperity that is still unavailable to large segments of the population. The conspicuous consumption of the privileged has created severe social tensions, which the new government is intent on easing. Perez intends to build on the industrial development programs launched by his predecessors and to assist Venezuela's long-neglected farm population, hoping to make agriculture an "engine of development."



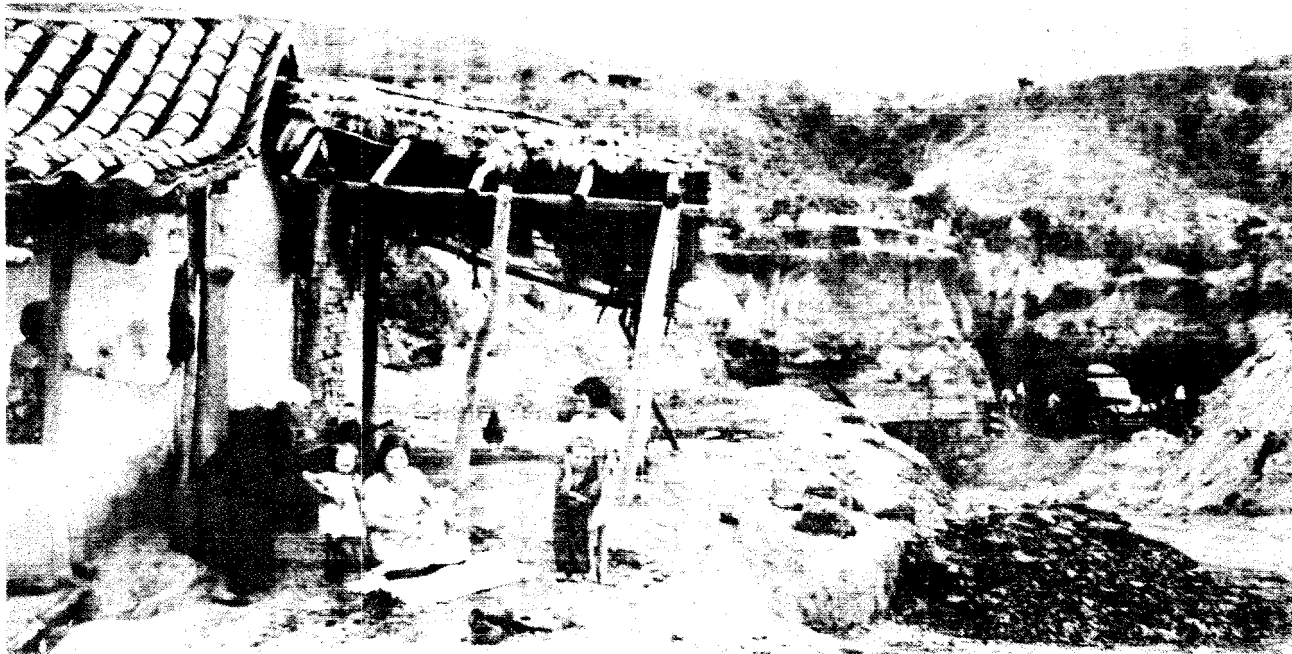
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Venezuela's oil boom and high per capita income have created a picture of prosperity that is still unavailable to large segments of the population.



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Oil: A Tool and a Symbol

Perez feels that the domestic programs he envisions can be realized only by better management of the country's oil resources. He believes that Venezuela's oil treasure represents a powerful tool from which he can extract both the funds and concessions needed to implement his programs. His determination to make oil work more effectively for Venezuela's needs is reinforced not only by the heavy world demand for petroleum, but also by the political necessity to respond to the nationalist mood in Venezuela.

For the Venezuelan public, the foreign-operated oil industry has the same symbolism as did copper in Chile. Besides their deep resentment of the very visible role of foreigners in economic and cultural affairs, Venezuelans at all levels of society feel the need to express their new-found sense of national identity, and are increasingly protective of their national assets.

The rising spirit of nationalism has also fed Venezuela's desire for a leadership role in the hemisphere, and oil serves that ambition as well. Perez has already put his prestige on the line by announcing that he will use his oil policy to break down the "totalitarian" trade policies the industrialized nations adopt in dealings with the developing countries. Perez told visiting economic ministers from oil-short Central America that his administration plans to use its increased oil revenues to help the less-developed countries. He ruled out any special price on oil for these countries, but indicated that he would consider providing long-term, low-interest financing for petroleum sales at market prices. He also guaranteed that Venezuelan oil would be available to the Central American states.

In protecting the country's independence, particularly in oil matters, Perez must be even bolder than his predecessor, who was able to provide for government exploitation of gas reserves and to decree a host of minor controls over foreign oil interests—despite their vigorous pro-

tests. In fact, because of accusations that he and other Democratic Action administrations have been friendly toward US business interests, Perez may lean over backwards to avoid seeming to favor US corporations operating in the country.

Caldera will not give Perez an easy starting point. In his few weeks left as president, Caldera has already expropriated two almost-defunct portions of Creole oil concessions and plans other nationalist measures, such as converting foreign-owned milk and electric power concerns into mixed enterprises with Venezuelan Government participation. Party leaders are preparing a draft bill calling for immediate nationalization of the oil industry when the new congress convenes on March 2. Complete nationalization at this time is a highly unlikely possibility, yet an idea worth plenty of political capital. In an action designed in part to counter the opposition's political gambit, Perez told a number of journalists recently that present foreign oil holdings will revert to the state within two years after his government takes office.

In the new congress, Caldera's Social Christians, as the major opposition party, will beat the drums of nationalism whenever the new government exhibits apparent weakness in its dealing with the oil companies or the US. The party's courses of action are somewhat circumscribed by the fact that it is still in considerable disarray following the elections. A party congress, reportedly scheduled for June, has been put off until later in the summer

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Venezuela's Market: The US

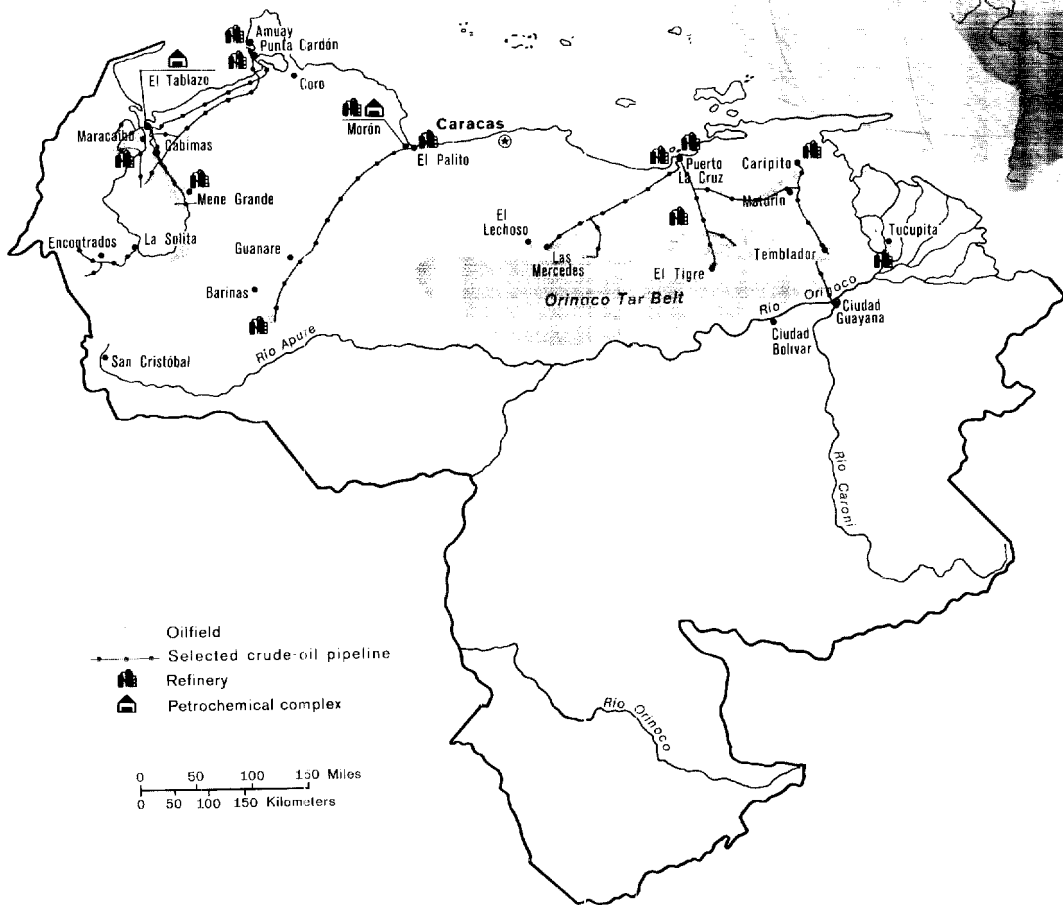
It is with this set of convictions and pressures that Perez will launch his effort to secure a better deal from the US, Venezuela's traditional and still-favored market. But his approach and

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style will be those of a pragmatic businessman, not those of a demagogue or ideologue. Perez is unencumbered with the ideological baggage of his Social Christian predecessor, and he senses no practical or political advantage in joining the ranks of Yankee-baiters. He has gone along with Caldera's decision to take a percentage of oil royalties in kind, but has passed up opportunities to threaten a forced lowering of production during the oil crisis. In essence, Perez has no basic disposition to be an adversary in relations with the US, with which Venezuela—and his party particularly—has enjoyed cordial ties for a long time.

Yet Perez has expressed dissatisfaction over what he sees as disequilibrium in US-Venezuelan relations. Venezuela, he believes, should receive more from the US in exchange for being a dependable supplier of oil—more, that is, than high prices and an assured market. Specifically, Perez hopes to achieve:

- the removal of trade barriers to non-traditional exports that he hopes to develop, such as metal products, chemicals, and petrochemicals;
- assured adequate supplies of industrial raw materials and agricultural products (cotton, black beans, wheat, soybeans, pulp and newsprint, synthetic fibers, stainless steel, ferrous scrap, and equipment such as farm machinery—all of which are in short supply world-wide);
- technical and managerial assistance for development projects at reasonable prices.

Perez will probably be most interested in negotiating the general terms of an over-all economic agreement that includes oil, trade, tariffs, and other pertinent fields. He will be hesitant to negotiate a government-to-government agreement based strictly on oil, having already expressed his concern about the pitfalls of such an agreement.

He will want to keep fairly open the range of options he has in such matters as the nationalization of the oil industry, a goal Venezuelans in general want to achieve during the new presidential term rather than in 1983, as now officially scheduled to begin. As a first step, Perez reportedly plans to set up an autonomous government organization that will be responsible for planning and managing the early reversion to Venezuela of foreign-owned oil companies. The organization would be a cabinet-level office separate from the Ministry of Mines and Hydrocarbons, which would concern itself only with the day-to-day short-range management of petroleum matters other than reversion.

Perez is likely to be a tough but not intractable bargainer. His hand is strong because he has both alternative markets for oil and other sources of investment as well as a huge budgetary leeway for absorbing the initial losses that would probably follow any reorientation of Venezuela's markets and trade relationships. If, despite his preference for good relations, he eventually arrived at an adversary relationship with the US, he could, with Venezuela's resources, break past ties with the US without risking an economic crisis. Perez is confident, however, that the US interest in continuing good relations with an important neighbor and in maintaining access to Venezuelan oil will lead to eventual accommodation to Venezuela's needs.

Venezuela has had oil development and market offers from Japan, Romania, Western Europe, and Brazil, but the US remains Venezuela's most attractive economic partner. This partnership is natural from a geographical standpoint and because of the history of a long political friendship during which abundant and varied lines of contact have developed. Because the great bulk of technical equipment throughout Venezuela's modern sector is made in the US, it will be much easier and less expensive for Venezuela to maintain its ties with the US than to break them. The frequent consonance of views in international affairs reinforces the comfortable relationship.

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The Petroleum Picture

Current oil production, around 3.2 million barrels a day, is about 3 percent above 1972 levels but is very near capacity. Recently tightened conservation restrictions could reduce 1974 production about 200,000 b/d. Production potential has declined because of limited exploration; proved reserves have declined and are now equal to about 11 years' production at current rates. The concession agreements call for reversion of concessions to the state beginning by 1983 without compensation. The net book value of US investment in the Venezuelan petroleum sector declined from almost \$2 billion in 1960 to about \$1.5 billion in 1972. Drilling activity was down from 632 wells in 1970 to 490 in 1972, and of these only 64 were exploratory.

Petroleum generates about one fifth of GNP, two thirds of government revenues, and 90 percent of export earnings. Revenues from oil have risen from \$1.8 billion in 1972 to an estimated \$2.8 billion in 1973. For the current year, revenues could reach \$8-11 billion. In 1973, the government's budget amounted to only \$3.4 billion.

Development of the Orinoco Tar Belt, which contains an estimated 700 billion barrels of heavy oil (of which about 10 percent is recoverable under current technology) will require estimated outlays of \$4-6 billion to develop production of one million barrels daily and to acquire complex new technology.

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Views of the Oil Firms

US oil companies are generally optimistic about the new phase in relations that they believe is at hand. None realistically expects a return to the "good old days" of the early 1960s when Venezuela was content to play a secondary role in reaping the benefits from the exploitation of its own basic natural resources. Oil company officials are convinced that foreign firms have a definite role to play in the future of Venezuelan oil but not to the same extent as now. Venezuela, they feel, does not have the ability to handle the entire oil industry, including the development of the Orinoco Tar Belt, by itself and will need foreign know-how.

All company officials accept the inevitability of change in government-industry relations, are alive to the opportunities they believe can lie ahead, and have been seeking useful discussions with prospective officials of the incoming government. Different positions, scale of operations and corporate philosophies have given rise to differing tactical approaches. Although there are some differences of opinion as to the exact form the new company-government relations will assume, most US companies believe the Perez administration might promote a series of regional consortia, possibly with already established companies given a lead role, that would assimilate the existing patchwork of concessions. There is general belief that the next administration will probably move toward some Iranian-type arrangement whereby Venezuela will assume full ownership of producing areas with private companies providing services in exchange for assured purchase rights.

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[redacted] There will probably be some compensation paid, and in oil rather than cash. Although Venezuelan nationalism is worrisome, and tax and price conditions can change overnight, several companies are prepared to invest in a joint venture with the government to exploit oil reserves in eastern Venezuela.

The US Embassy regards as a particularly encouraging aspect the widespread tendency among the oil companies to emphasize flexibility in dealing with the emerging petroleum situation. There is little of the pessimism and back-to-the-wall philosophy that was prevalent only last year.

Whether the present optimism is merely a lingering afterglow from the election results, or a realistic assessment of their position vis-a-vis the new government, is yet to be determined. The first few months of the new administration will set the tone. If the Venezuelans perceive a genuine willingness on the part of both the oil companies and the US to establish a dialogue with them on oil policy, then an important first step will have been taken to settle an issue that has come to cloud relations with the US.

Outlook

The generally auspicious outlook for US-Venezuelan relations would probably change only if Perez came to believe that the US was unwilling to consider and try to meet Venezuela's minimum needs. Meeting Venezuelan demands will not be easy for a variety of reasons, including legislative or treaty inhibitions on granting certain privileges and the scarcity of some of the goods Venezuela wants. Perez will probably argue, as Venezuelans have in the past, that "special relationships" like those they believe the US has with Mexico and Canada can be worked out.

Because of the highly charged environment of the oil crisis and Venezuelan antipathy toward the oil companies, frictions in bilateral relations are inevitable. These probably will not pose a serious obstacle to a working arrangement that assures delivery of oil to the US, however, so long as Perez and his negotiators believe the US is responsive to what they see as economic and political necessities.

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