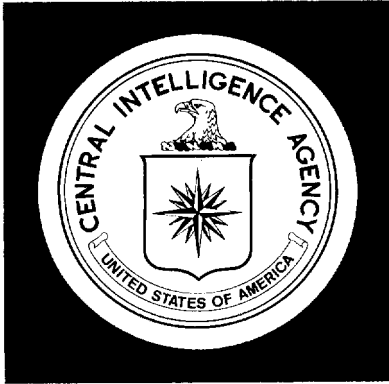


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Weekly Summary

State Dept. review completed

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No. 0007/75
February 14, 1975

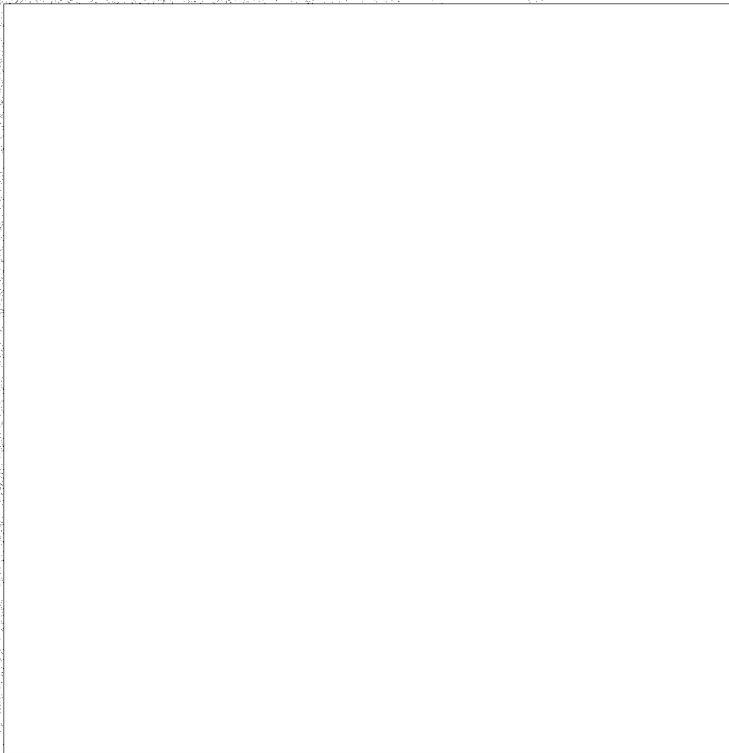
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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of 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.

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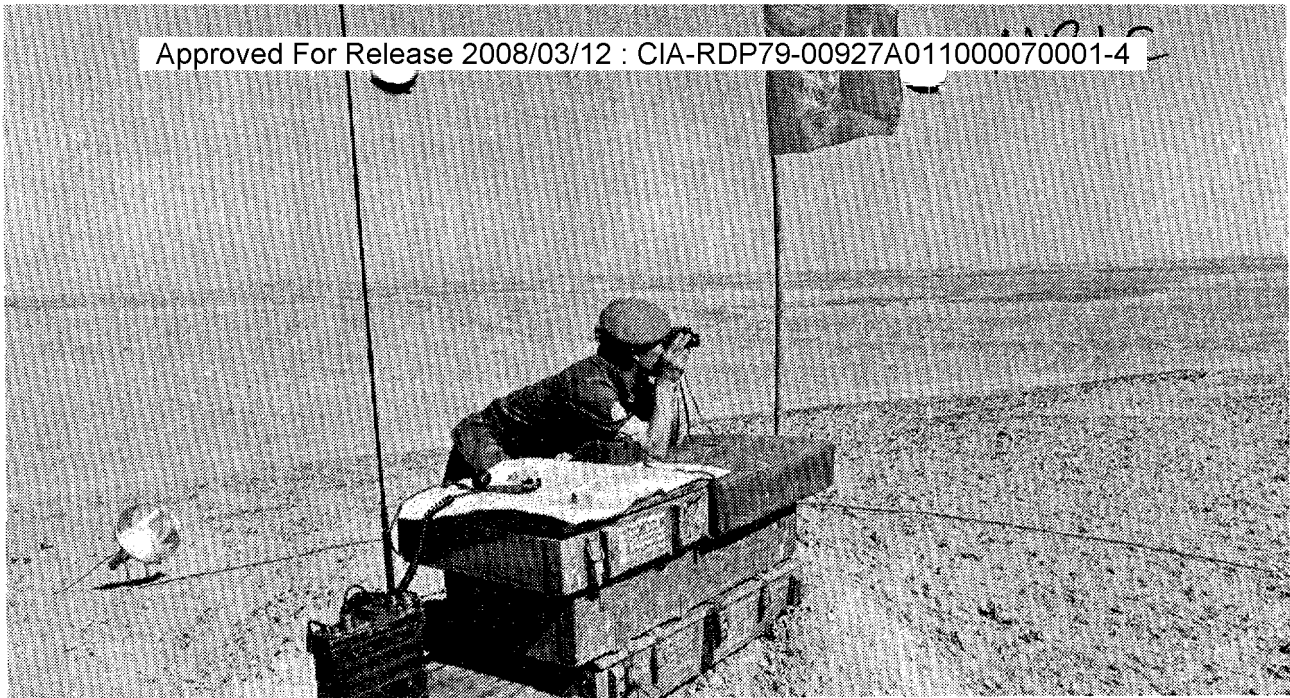
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Middle East: Setting the Stage

[1-5]

Neither the Egyptians nor the Israelis have publicly disclosed their terms for achieving a second-stage disengagement in the Sinai. Early this week, the Israeli press reported sharp divisions within Prime Minister Rabin's cabinet over possible concessions to Egypt, and there were signs of growing Israeli disenchantment with the step-by-step approach to negotiations. In Cairo, the press reacted harshly to Rabin's call for a formal commitment to non-belligerency by Egypt as the price for a major Israeli withdrawal in the Sinai, and Egyptian officials were busy reassuring Palestinian and Syrian representatives that Egypt would make no concessions to Israel that could be construed as a separate peace.

Both sides have done little more than reiterate their standard litany of what is required for a breakthrough in negotiations. Rabin continued to demand that Egypt guarantee "a protracted period of calm" in return for the strategic Sinai passes and the Abu Rudays oilfields; the Egyptians are still insisting that some Israeli satisfaction of Syrian and Palestinian claims be linked to progress on the Sinai front. President Sadat amplified this position slightly in a press interview this week in which he noted his hope that Secretary Kissinger could secure an Israeli "agreement

in principle" on withdrawal from the Golan Heights and the West Bank prior to the start of negotiations with Egypt.

Along with the rhetorical posturing, some hopeful notes were sounded. In his press interview, Sadat said he was optimistic about negotiations

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The obvious Egyptian concern to reassure the Syrians and Palestinians this week is probably more a reflection of Cairo's anxiety to prepare the ground for a negotiating breakthrough than a sign that it feels unduly constrained by Arab criticism of another agreement with Tel Aviv.

The Syrians, who remain suspicious of Sadat, are continuing to play their cards close. Damascus appears to have accepted the inevitability of another round of separate Egyptian-Israeli negotiations, however, and may now be hoping to capitalize on a Sinai agreement to obtain another partial Israeli withdrawal on the Golan Heights before going to Geneva.

Rabin has not echoed Sadat's optimism, although he has emphasized the importance of

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negotiations and has hinted at some flexibility in the political concessions that Israel would demand in return for a second agreement. Last week, he played down the importance of "symbolic acts" such as the passage of Israeli ships through the Suez Canal, noting instead that "undefined arrangements in the interest of both parties" would be more likely to be effective.

If a breakthrough is to be achieved, it appears almost certain that the Israelis will have to be satisfied with secret guarantees from Egypt on such issues as the prolongation of the UN observer force mandate. Sadat is in no position to make sweeping public concessions, because his adherence to the step-by-step approach is still viewed by many other Arabs, particularly the Palestinians, as indicative of a willingness to abandon the Arab cause. Such criticism requires him to satisfy the other Arabs that a partial Egyptian-Israeli agreement will not constitute the basis for a unilateral final settlement with Israel.

Rabin faces a similar but more direct problem. At a minimum, he must satisfy hard liners within his own government and the Knesset that he would not be endangering Israel's security by agreeing to a further withdrawal. More than that, he must deal with increasingly strident demands that Israel not give away something for nothing. This week, the US embassy in Tel Aviv reported a growing conviction among Israelis that there need be no hurry to reach an agreement with Egypt and that they are in a position to drive a hard bargain. The conviction is said to be based on the assumption that war will not necessarily break out if Secretary Kissinger's mediation effort fails, and that even if war comes, Israel's military forces are prepared to handle it.

According to the embassy, many Israeli politicians doubt that Sadat will be able to make the necessary concessions, including agreement to a state of non-belligerency. Sadat himself reiterated this week that a declaration of non-belligerency could only be given as part of a final settlement. The Israelis also believe that the Egyp-



Sadat

tians will be unwilling to grant the long-term guarantees that Israel requires.

If another Egyptian-Israeli agreement fails to materialize, there is some risk that both Egypt and Syria, in an effort to increase the pressure on Israel, would allow the UN observer force's mandates to lapse when the present mandates expire in April and May. None of the parties appears anxious to provoke hostilities, however, and all apparently view a return to Geneva as the next stage if the step-by-step approach falters. The Syrians have repeatedly called for this, and the Egyptian press this week reiterated Cairo's commitment to achieving a comprehensive settlement at Geneva. Now, many politicians in Israel are reportedly contending that a return to the conference would enable Israel to retain its bargaining leverage until Arab intentions are clarified once and for all.

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Ethiopia: Fighting Less Intense

[9-17]

Fighting in Eritrea Province between government forces and insurgents, now entering its third week, has been light in recent days, but the tempo could quickly increase. Although government forces retain control of urban areas, they have been unable to prevent raids on the provincial capital of Asmara or to dislodge the rebels from positions along the roads leading into the city. Only a few vehicles have managed to enter Asmara, and government forces continue to rely mainly on airlifts for resupply.

Early on February 8, the insurgents attacked two tracts of Kagnew Station, the US communications complex in Asmara. Rockets were fired at fuel storage tanks; small arms fire, apparently aimed at oil barrels, struck trailers occupied by US personnel, but caused no casualties. Two days later, the rebels again fired heavy automatic weapons and rockets into Asmara. For the most part, they shot at Ethiopian military facilities, but some rounds were aimed at the US portion of the Kagnew facility, which is occupied by both a US naval communications unit and the Ethiopian army. Kagnew's fuel and generators have apparently become prime targets for the rebels.

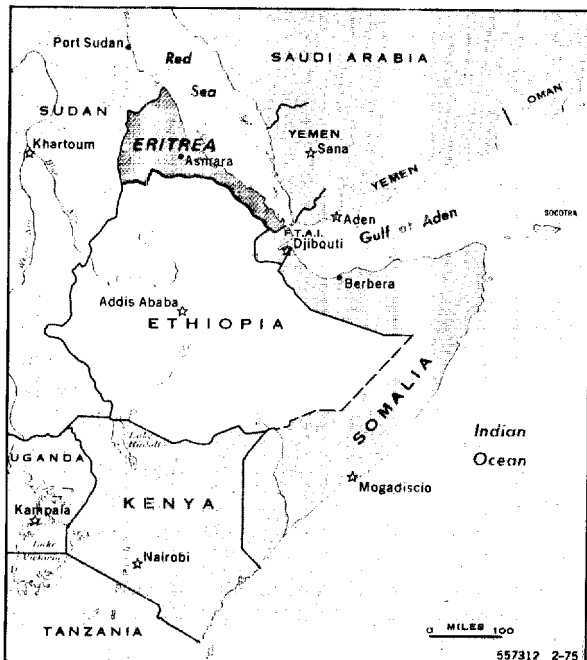
Insurgent fire has already knocked out the main power station north of Asmara.

Government forces are facing supply shortages, but they apparently do not have major logistic problems at this time. Some units in areas north and south of Asmara reportedly continue to experience shortages of ammunition, fuel, and food. The air force resumed attacks on rebel positions early in the week after a standdown of about three days, probably because of a lack of fuel.

The performance of the army improved this week with the arrival in Eritrea of the army commander to take personal charge of operations. Troops are showing more fire discipline; their indiscriminate shooting last week rapidly depleted ammunition supplies. Government forces still have serious morale and leadership problems, and there is serious disaffection in the air force. Many pilots and technicians are Eritreans or are married to Eritreans. A large number have defected, refused to engage in combat operations, or instituted maintenance slowdowns.

The army has suffered about 1,000 casualties, including about 75 killed. Rebel losses are believed to be much lower. Civilian casualties may exceed 5,000.

President Numayri of neighboring Sudan appealed to the rebels and to Ethiopia's ruling military council on February 8 for an immediate cease-fire and the beginning of negotiations. Neither side seems willing to accept his proposal. Spokesmen for one of the two main rebel factions rejected Numayri's appeal because it does not make the principle of Eritrean independence—the major rebel demand—a precondition for a cease-fire.



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Peru: The Aftermath

[18 - 22]

Important issues remain unresolved in the wake of the violence that shook Lima on February 5 and 6. The civil guard may go on strike again if, as seems likely, its demands are not met. Inside the regime, debate undoubtedly continues over the handling of the trouble and over how to avoid further outbreaks of violence. President Velasco's support has been shaken, but his position does not yet appear to have been critically weakened.

even more radical domestic policies. These officers already are upset over Velasco's increasingly repressive tactics. The moderates, and probably a number of radical officers as well, may be concerned that Velasco's continuation in power will only widen the gulf between the military and the majority of the population.

One matter that is stirring debate within the regime is the proposed formation of a pro-government political movement to drum up support for the military's programs and to counter civilian opposition. Any rush to proclaim a pro-government party, however, would exacerbate long-standing antagonisms between so-called moderate and radical officers at a time when unity is crucial to Velasco's ability to govern effectively.

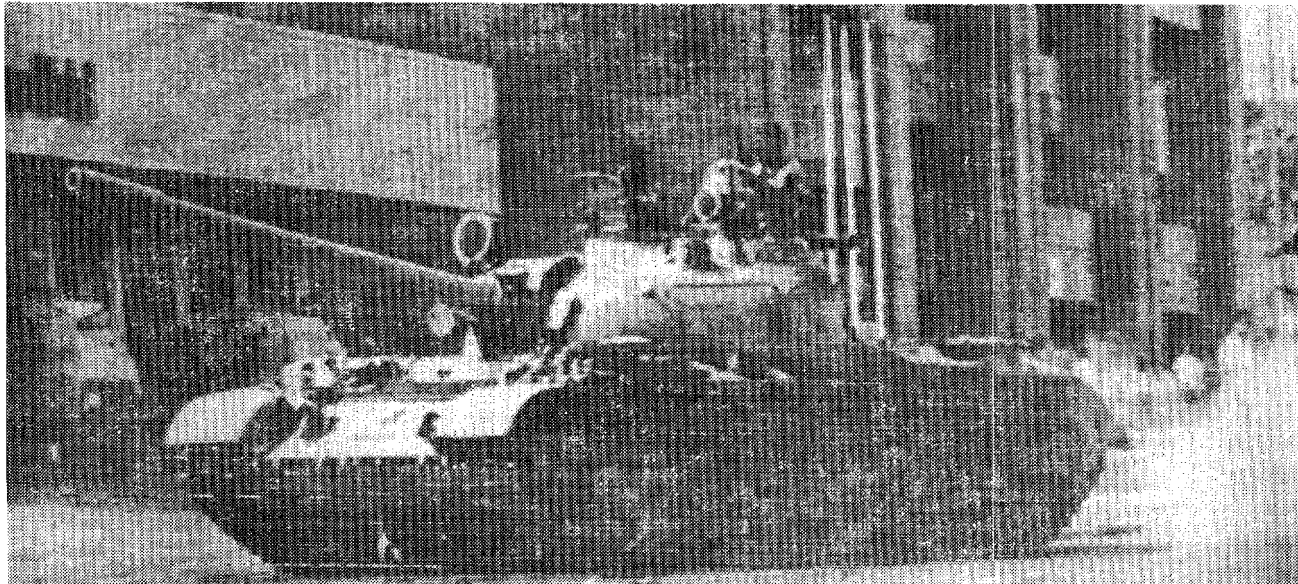
Civilian opponents of the government may be counting on the new prime minister, General Francisco Morales Bermudez, to assert himself and either force Velasco from office or persuade him to pursue a more moderate tack. In the short term, however, it is highly unlikely that any military leader would champion the cause of groups that were involved in clearly anti-military violence. The issues underlying the disturbances are fundamental and no quick solutions are in sight. Even if no further violence occurs over the short term, political activity both within the military and among civilians is certain to intensify. In the balance will be the future course of Peru's six-year-old, military-led revolution.

The more moderate officers probably fear that a government party would be difficult to control and would be a source of pressure for

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Russian-made T-55 tank patrols downtown Lima



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Clerides and Denktash

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The Turkish Cypriot declaration of autonomy came a few days after Greek Cypriot negotiator Clerides presented his proposals for a settlement to the UN special envoy to the talks. These proposals were to be transmitted to Turkish Cypriot negotiator Denktash, who had asked for a postponement of the session on February 10 in order to have more time to complete his proposals. The Greek Cypriot draft called for:

- A multi-regional federation with a strong central government;
- A large Turkish Cypriot zone between Nicosia and Kyrenia on the north coast, along with several smaller zones, comprising an area that would approximate the Turkish Cypriot proportion of the island's population;
- Strong guarantees for members of the opposing community living in the Greek and the various Turkish Cypriot zones;
- Freedom of movement for all Cypriots, and the right to own property anywhere on the island.

CYPRUS: TURKISH CYPRIOT AUTONOMY

[Prospects for a negotiated settlement appear dimmer than ever following the announcement on February 13 by the Turkish Cypriots that they were establishing an autonomous wing of a proposed federal state. ^[23-26]

Turkish Cypriot officials declared in Nicosia yesterday that it was no longer possible for the two communities to live together and that the Turkish Cypriot community would reorganize its administration and operate as an independent entity pending a final settlement based on a geographically based, bi-regional federation. To this end, a constituent assembly would be formed that will act as the legislative body under the chairmanship of Rauf Denktash.

Turkish Cypriots intend to follow up this action with a position paper setting out terms for a final settlement. Yesterday's declaration rejects the Greek Cypriot insistence on a multi-regional federation and leaves only the powers of the central government and the size of the Turkish Cypriot region as topics for further discussion. Previous Turkish Cypriot statements suggest that their forthcoming position paper will call for a weak central government and a substantially larger zone for themselves than warranted by their ratio of the population—18 percent.

The draft also called for implementation of the UN Security Council resolution that provides for the withdrawal of foreign troops and the return of refugees to their homes. The Greek Cypriots cited, moreover, the need for "effective and wide" international guarantees for the final settlement, suggesting that they were still pressing for abandonment of the previous arrangement—which gave Turkey as well as Greece and the UK the right to intervene—in favor of some type of UN guarantee.

By presenting the Greek Cypriot proposals at this time, President Makarios had hoped to force the Turkish Cypriots to reveal their hand and provide some clues as to whether a solution could emerge from the talks. Makarios believed that if the talks were allowed to drag on inconclusively, the Cyprus problem would fade from the limelight and international pressure on the Turkish side to make concessions would lessen. Makarios had already stated his intention to internationalize the issue and to turn to the UN

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Security Council if the talks become deadlocked. The Turkish Cypriot declaration of autonomy will likely strengthen Makarios' inclination to internationalize the problem, but he will probably not make any moves until the contents of the Turkish Cypriot position paper are revealed. [redacted]

to be Thatcher's deputy party leader, adding some liberal balance.

Thatcher's future as party leader is unclear. National elections probably will not be held for several years, and the selection procedure for party leaders could lead to her ouster in the meantime. On the other hand, even if she takes the party to the right, the ruling Labor Party and the opposition Liberals may not find her the easy target that many detractors expect. She is an accomplished debater and has had considerable experience in government. Thatcher's political future depends not only on her effectiveness as the leader of the opposition to the Wilson government, but also on how well the Tories fare in opinion polls.

UK: A NEW LOOK FOR THE TORIES

[27-29] Britain's Conservative Party appeared to embrace more traditional Tory policies this week with the victory of 49-year-old Margaret Thatcher as the party's new leader. Thatcher easily outdistanced four other contenders, including William Whitelaw, the unofficial candidate of the party's moderate establishment, by garnering the support of 146 of the 276 Tories in Parliament.

The desperation of the increasingly dispirited Tories became apparent last October after former leader Ted Heath led the party to its second national election defeat in one year. Backbenchers forced the party to accept a cumbersome new mechanism for selecting leaders in place of the "Old Boy" procedure, but Heath refused to step aside until embarrassed by Thatcher in the first round of elections on February 4.

Because of the magnitude of the problems facing Britain, Thatcher will have little time to bask in her victory. She is committed to keeping the UK in the EC, but she probably will not campaign in the referendum this June with the same enthusiasm as Heath would have demonstrated. She admits to having virtually no experience in foreign affairs. With parliamentary debate on the UK's defense review only a few weeks off, she presumably will rely on her lieutenants to lead the party's criticism of the Labor government's projected cuts in defense outlays. [redacted]

Thatcher has promised both "continuity and change" to revitalize the Conservatives. Her right-of-center background suggests that the party majority expects her to revive the old party commitment to free market policies that Heath, Douglas-Home, and Macmillan eroded. On the other hand, she is astute enough to realize that such policies would further polarize the party and further restrict its relatively narrow base of popular support. Her program probably will be eclectic and will be previewed when she forms her shadow cabinet in the next few weeks. Sir Keith Joseph, an outspokenly conservative economist reportedly in line to become shadow chancellor of the exchequer, will put a strong imprint on party strategy. Heath reportedly has refused to join the shadow cabinet, but Whitelaw has agreed



Thatcher with Whitelaw

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ITALY: FANFANI SURVIVES

The meeting last week of the Christian Democrat Party's national council—the party's highest deliberative body—was marked by a divisive debate over the leadership and policies of Amintore Fanfani. Fanfani came out on top, but he will clearly be on trial in the coming weeks as the Christian Democrats prepare for crucial nationwide local elections to be held in May or June.

Christian Democrats have always come in many colors, and it is not unusual for the party's six highly organized and independently financed factions to be at odds. Factional strife has intensified during the last year, however, as evidence has mounted that the Christian Democrats are in danger of losing the dominant position they have held in Italian politics for 30 years. Many Christian Democrats hold Fanfani responsible for the party's losses to the left last year in the divorce referendum, the Sardinian election, and other balloting at the local level. They also blame him for the public disenchantment with the Christian Democrats and the growing popularity of the Socialists and Communists, as suggested by recent polls.



L'ESPRESSO

[30-32]
The debate within the party focuses on measures to stop the erosion of the Christian Democrats' strength. The central question at the national council meeting was how to avoid a major loss to the left in the local elections this spring. Discussion focused on the program put forward by Fanfani as the basis for the party's campaign. Its most controversial points were:

- Firm opposition to closer relations with the Communists. Fanfani flatly ruled out an accord with them at the national level and condemned recent moves toward local collaboration with the Communists by Christian Democrat organizations in Venice and three other localities.

- Rejection of the Socialist Party's recent demand for more influence in future center-left coalitions. The Socialists argue that their recent successes at the ballot box entitle them to more ministries and to a larger say in the formulation of legislative proposals.

- Tougher law-and-order measures. Fanfani seems determined to make this the centerpiece of his campaign; he insisted last week that law enforcement should take precedence over all of Italy's other problems.

Four party factions—about 80 percent of the membership—eventually lined up behind Fanfani. The remaining 20 percent, concentrated in two left-wing factions, continued to oppose him on all points except his call for support for the Moro government and for a party assembly this spring to refine election strategy. The opposition of the left-wing factions means that they will no longer be represented in the party secretariat. Thus, for the first time since Fanfani took over in mid-1973, the party is divided into formal majority and minority groupings.

The left contends that Fanfani is wrong in giving the party a conservative cast at a time when most evidence indicates that the electorate is in a mood for change. They believe that events during the last year demonstrate that the anti-Communist theme is no longer an effective vote-getter and that it is time to improve relations with the

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Communists, short of actually bringing them into the government. Most left-wingers, moreover, reason that strengthened ties between the Socialists and Christian Democrats would be the best way to avoid having to deal directly with the Communists.

Although the majority behind Fanfani is large numerically, there are signs that moderates in this group share the misgivings of the party left. Major figures such as Moro and Foreign Minister Rumor supported Fanfani at the meeting, but they dealt less harshly with the Socialists and Communists. Moro, for example, is known to favor preferential treatment for the Socialists. Although Moro and others are not enthusiastic about Fanfani's ideas, they have apparently concluded that the party cannot afford an internal fight on the eve of major elections.

The leadership meeting was thus a qualified success for Fanfani. The question of the party's relations with the Socialists and Communists is by no means closed, however, and the continuation of Fanfani's mandate and policies will depend above all on whether he can avoid another loss to the left in the coming elections. [redacted]

CSCE: AT A CRUCIAL POINT

[33-35]

Both East and West would like to see the substantive work of the Conference on Security and Cooperation in Europe conclude this spring. If the Soviets maintain their tough stand, however, this may not be possible despite the West European willingness to compromise.

Since the beginning of this round on January 20, the Soviets have been digging in their heels on practically all conference topics. They assume that their idea of concluding the conference at the summit level this summer has been accepted by most of the Western participants. They seem to think, therefore, that they can buy Western approval of watered-down proposals by making only minimal concessions in the final stages of the conference's substantive work. The Soviets have continued to scoff at Western proposals on mili-

tary-related "confidence-building measures" and have been unyielding on "human contacts" issues.

The major West European powers, weary of the proceedings in Geneva, are clearly in a mood to compromise. The French, in an effort to be as forthcoming as possible during the Brezhnev-Giscard summit in December, came close to agreeing to the Soviet demand that the security conference have a summit finale, and other West European countries are known to be leaning toward such a conclusion. The British, hoping for the success of Prime Minister Wilson's visit to Moscow this week, have suggested a number of concessions the Western side might make. Recently, there have been signs that the British and French are becoming less insistent on certain humanitarian issues, on which all the West Europeans have heretofore been particularly stubborn. Only the Netherlands now appears to be hewing to a hard line on nearly all these issues.

Moscow may have overestimated the extent to which the West Europeans are willing to make concessions, however, as nearly all of them have conference goals they will be reluctant to abandon. If the Soviets do not show signs soon of being willing to bargain meaningfully, the compromising mood of the West Europeans could evaporate and the conference could be prolonged. Some of the Europeans have already told the Soviets that if Moscow is not more forthcoming on the "confidence-building measure" calling for advance notification of military maneuvers, the Europeans might hold up progress on security principles of interest to the Soviets.

Even if real bargaining gets under way soon, the conferees will have to move briskly in order to meet the tentative timetable being discussed in Geneva, which envisages completion of substantive work in April or May and a formal conclusion in June or July. Once agreement is reached on outstanding issues, there will still be the laborious process of producing final texts acceptable to all 35 participants. [redacted]

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EC-CEMA: DIALOGUE OF THE DEAF

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[The first formal meeting between officials of the EC Commission and CEMA ended last week in disarray. The session in Moscow confirmed for the EC the disparate nature of the two organizations, but even commission officials were surprised by the stubbornness, secretiveness, and poor preparation on the Communist side.]

The Soviets had looked on the meeting, billed as preparation for a visit to Moscow by EC Commission President Ortolí, as Western recognition of equality between the community and CEMA. Moscow could then hope to delay or circumvent implementation of EC controls on trade with the various East European states by demanding that commerce be governed by EC-CEMA agreements. At the same time, Moscow

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could use CEMA's enhanced international status to promote closer economic integration within the East European bloc. The Soviets have been having trouble getting the Romanians as well as other East Europeans to sanction an unlimited negotiating mandate for CEMA's secretary general.

At the three-day Moscow session, the two sides talked past each other, with the CEMA group—characterized by one EC official as “unimpressive aging bureaucrats”—concentrating single-mindedly on trying to arrange a schedule for Ortoli's visit and the commission delegation attempting to get a dialogue going in such areas of possible EC-CEMA cooperation as standardization, environmental protection, and statistics. The commission is anxious to discuss technical areas in order to underline its view that CEMA has authority here but, unlike the EC, has no comparable jurisdiction over trade policy.

However disappointed commission officials are by the meager results of the trip to Moscow, they feel they at least prevented Ortoli from being involved in this “disaster” and gained useful insights into the workings of CEMA. They believe they also made clear that CEMA members must deal directly and individually with the commission in areas where it represents community policy.

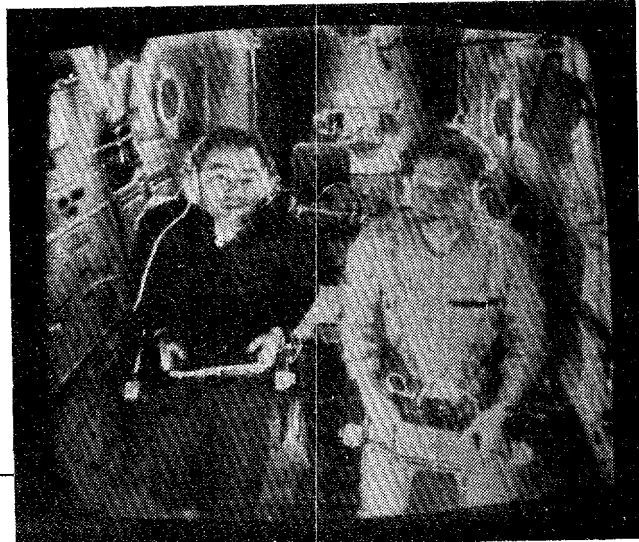
CEMA remains publicly committed to establishing links with the EC and will probably take

up the commission's invitation to send experts to Brussels to continue the discussions. Soviet media have already begun to restructure the facts of the EC-CEMA meeting in order to meet the USSR's political objectives. *Izvestia*, for example, claimed that the session had been “useful” and that “progress was achieved in preparations for a proposed meeting of the leaders of the two organizations.”

The EC, despite its near contempt for CEMA, will also seek to develop a dialogue. In the view of a commission official, public opinion in the community would not allow the EC to ignore CEMA overtures. More important, perhaps, is the EC desire to avoid any snub that could complicate community efforts to reach bilateral arrangements with CEMA members.

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SOV PHOTO



The cosmonauts in flight

USSR: SOYUZ 17 COSMONAUTS RETURN

[52, 54, 56]
Two Soviet cosmonauts returned to earth on February 9 after 30 days in orbit, 28 of which were spent aboard the Salyut 4 space station. According to Tass, the cosmonauts are in good health. As reported earlier, the crew completed a wide variety of scientific experiments in astronomy, astro-navigation, and space biology and medicine during their four weeks aboard Salyut 4.

By agreement with NASA, the results of medical experiments performed aboard Salyut 4 will be compared with similar tests conducted on the US Skylab. The crew's stay surpassed the previous Soviet record of nearly 24 days in space set by the Soyuz 11 crew in Salyut 1. The US still retains the world record of 84 days, set in early 1974 by the third crew of astronauts to visit Skylab.

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BERLIN: ENDLESS NEGOTIATION

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In a time of detente, Berlin is no longer the bunion that the Soviets, in Khrushchev's phrase, could step on whenever they wanted to give the West a pain. The passing of the age of sharp confrontation and the signing of the 1971 Quadripartite Agreement on Berlin do not mean, however, that the Berlin question has disappeared, but merely that the debate is now conducted on a different level and in more muted tones. The Quadripartite Agreement incorporates each side's philosophy—stating with blithe inconsistency that West Berlin is not a constituent part of West Germany and shall not be governed by it, but also that ties between West Berlin and the FRG shall be strengthened. Differences in interpretation of the agreement are therefore inevitable, and, in fact, were anticipated.

In recent weeks, the Soviets have made a number of complaints about Berlin matters in conversations with West German and Allied diplomats. They have protested:

- Plans to establish an EC vocational center in West Berlin.
- Establishment last year of the FRG Federal Environmental Agency office in West Berlin.
- West German extension of the 1972 FRG-Austrian consular treaty to "Land Berlin."
- Nomination of West Berlin Governing Mayor Schuetz as a plenipotentiary in cultural matters under the 1963 French - West German friendship agreement.
- Decisions by the Western Allies to grant landing rights in West Berlin to airlines of countries other than the three powers, a long-standing controversy.
- Allied toleration of the right-wing Bund Freies Deutschland party in West Berlin.

The Soviets have also expressed disappointment over the cool Western response to their

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proposals for a lavish celebration in Berlin of the 30th anniversary of V-E Day. The Soviets apparently intended these ceremonies to take place entirely in West Berlin, thereby strengthening their role there without a corresponding increase in the residual Allied presence in East Berlin.

With these protests as a backdrop, Soviet Deputy Foreign Minister Zemskov recently told West German Ambassador Sahm that the FRG was violating the Quadripartite Agreement by "creating precedents." Sahm was taken aback by Soviet accusations that the FRG had reneged on agreements reached during the Schmidt visit to Moscow last December. Indeed, the West Germans thought that Schmidt had obtained the Soviets' agreement that individual West Berliners would be covered by agreements the FRG made with third countries.

In a broader sense, the sniping on Berlin issues reflects a nagging Soviet suspicion that the idea of a united Germany is still a long way from extinction in the minds of West Germans. Recent West German protests over the concept of an East German citizenship in the consular treaty between the GDR and Austria may have aroused underlying Soviet concerns that the German reunification issue can still influence West German policy and, indeed, may never vanish. The FRG-Soviet dispute over the "peaceful change" formulation at CSCE has probably had a similar effect, since the problem essentially concerns West German efforts to leave open a legal path to eventual reunification of the two Germanies.

The foreign policy line of detente and the Soviets' desire for good relations with West Germany affect the means they employ, but Moscow's basic objective of defining West Berlin as a separate entity will remain unchanged. The Soviets may tolerate certain actions with which they disagree, such as establishment of the Federal Environmental Agency in West Berlin, but they will never legally recognize any step that seems to violate the dictum that West Berlin is not a constituent part of the FRG. In a sense, the adversary process of seeking precedents and establishing limits amounts to a continuous renegotiation of the Quadripartite Agreement. [redacted]

ROMANIA-YUGOSLAVIA: DRAWING CLOSER

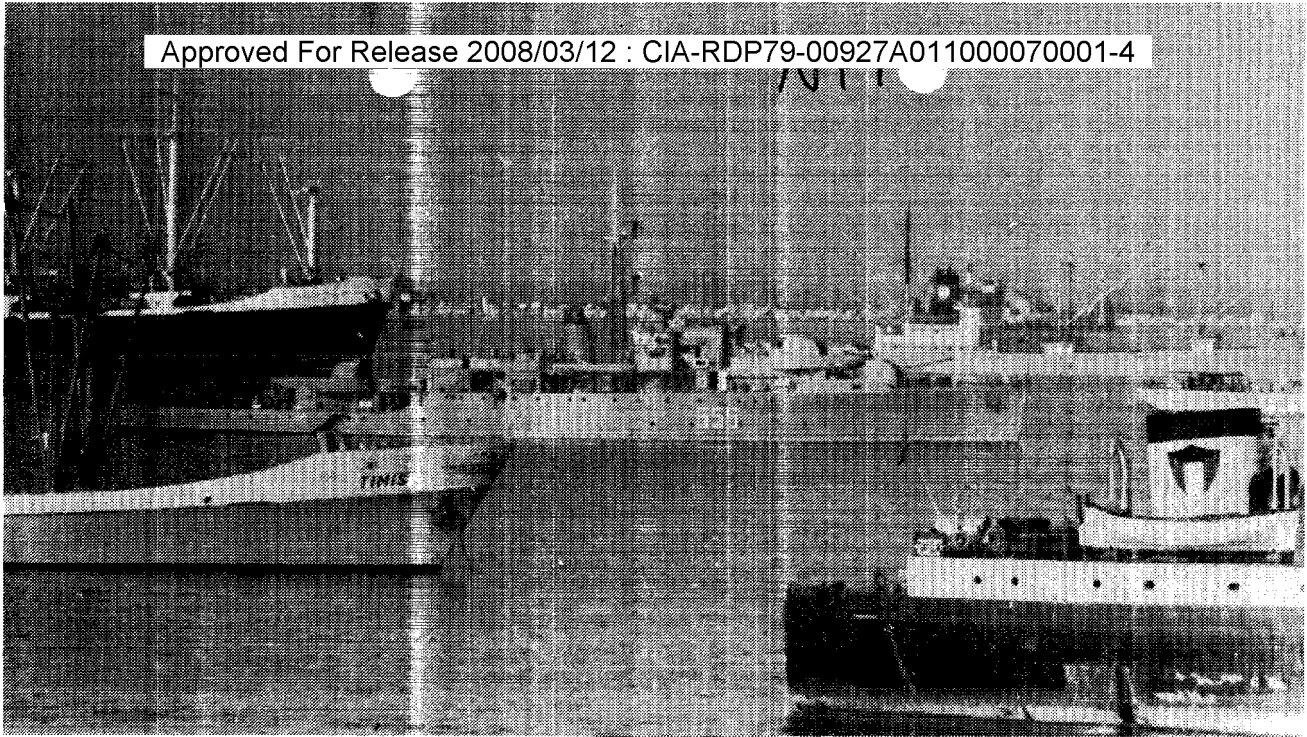
[57, 58]
 [Uncertainties about major international developments are drawing Belgrade and Bucharest into closer cooperation. At the end of January, Tito sent Stane Dolanc, his second-in-command in the party, to Romania for two days of talks with President Ceausescu on international issues and bilateral party cooperation. The session was in keeping with the practice of regular high-level contact between the two countries, but the shared concern over a series of major developments since Dolanc and Ceausescu last met—at the Romanian party congress in November—may have caused Belgrade and Bucharest to compare notes sooner than planned.

The hint of urgency in the meeting gained substance the next week, when Romanian Defense Minister Ionita suddenly showed up in Yugoslavia for three days of discussion of "cooperation between the friendly armies." Like the party talks, regular military contacts are a well-established practice between the two states, but Ionita's talks were more prolonged than any in recent years. Ionita spent some time near Tito's current residence at a Montenegrin spa, where he may have met with the Yugoslav leader.

There are several signs that both sides are worried by uncertainties over the stability of the Kremlin leadership and by the future of US-Soviet detente. These subjects were probably high on the Dolanc-Ceausescu agenda. The two men also undoubtedly discussed the Arab-Israeli situation and Cyprus, both of which could have spill-over effects in the Balkans. The economic problems caused by the recession in the West, and apprehension that Moscow might try to take advantage of these problems to extend its economic influence, were probably also reviewed.

These problems, along with the force reduction and European security negotiations and the European Communist party conference, require the two sides to coordinate their tactics and overall strategy as closely as possible. Both regimes hope to avoid a repetition of the misunderstandings and bitterness between them that lasted for six months after the 1973 Arab-Israeli war. [redacted]

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The harbor at Alexandria

EGYPT: PORT PROBLEMS MOUNT

[Acute congestion in the port of Alexandria continues to cause serious economic problems for Egypt. Deliveries of consumer goods, raw materials for industry, and capital goods for development programs are being delayed despite government efforts to expedite unloading and transshipment.

Facilities in Alexandria have been subject to increasing strain since the canal area ports of Ismailia, Port Said, and Suez were evacuated after the 1967 war. Unloading facilities, warehouse space, and internal delivery systems were barely adequate to handle the 3 million tons of cargo diverted from those ports even during the depressed inter-war years.

Conditions rapidly grew worse after the 1973 war, when extra imports, purchased with wartime Arab aid, began to arrive. In late June 1974, with almost a million tons of goods piled up on the piers and some 40 vessels waiting for berthing space, the port was placed on 24-hour operation. To assist overburdened civilian transportation facilities, troops and military vehicles were called out in November to help remove goods from the docks. Although the arrival of 22 ships was indefinitely postponed, by mid-December the queue of ships outside the berthing

[74,75]

area had almost doubled, and turnaround time had lengthened from two weeks in 1973 to two months. The Egyptian government paid stranded ships nearly \$40 million in demurrage penalties in 1974, and, by the end of the year, many carriers were refusing to handle goods bound for Alexandria.

According to the US consul in Alexandria, normal unloading conditions exist only at specialized wheat piers, largely because postwar grain stockpiling appears to be complete, freeing the area for current deliveries. Congestion elsewhere remained at peak levels late in January.

Port clearance problems are likely to continue to hamper Egyptian economic progress. The reopening of the Suez Canal ports should permit canal area rehabilitation plans to be implemented on schedule over the next year or two. Conditions in Alexandria may be alleviated by more intense nighttime activity, by elimination of deliberate "shakedown" attempts by stevedores, and by acquisition of additional surface transportation facilities. Until a new port area in the Dekheila area of Alexandria is completed in late 1977, however, investment and consumption in the interior will continue to be constrained by inadequate port facilities.

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PAKISTAN: BHUTTO CRACKS DOWN

The government has moved to suppress Pakistan's main opposition party, following the assassination last weekend of Prime Minister Bhutto's chief political lieutenant in the North-West Frontier Province. The crackdown against the National Awami Party is sure to intensify friction between Bhutto and his political foes and is likely to further strain Islamabad's poor relations with Afghanistan, which has long been a supporter of the Awami party.

Hayat Mohammad Sherpao, the leader of Bhutto's party in the North-West Frontier and the dominant figure in the provincial government, was killed in a bomb explosion on February 8 in Peshawar, the provincial capital. Although no one apparently has been formally charged in Sherpao's murder, some Pakistani officials and the government-controlled media are blaming it on the National Awami Party and the Afghans. The party has been outlawed, and its leader, Wali Khan, has been arrested along with hundreds of party members.

In the past, Bhutto has frequently accused the Awami group of seeking, with Afghan support, to promote secession in the North-West Frontier and in Pakistan's other border province, Baluchistan. Most of the party's strength is concentrated in these two provinces. Islamabad has claimed that the Afghans have trained and equipped Pakistani extremists affiliated with the party and that these extremists have carried out a number of bombings in Pakistan in recent months.

Bhutto's government has periodically arrested Awami party workers, but until last weekend it had refrained from banning the party or moving directly against Wali Khan. Bhutto may have viewed the murder of Sherpao both as an atrocity that required a show of strength by the government and as an opportunity for silencing the National Awami party and Wali Khan, his most vociferous domestic critic.

Afghanistan has provided propaganda support and some material backing to the National Awami Party, but both the Afghans and party leaders have denied that they support the break-up of Pakistan or were responsible for the bomb-

[76-83]

ings. They claim to seek—through peaceful means—greater autonomy for the two border provinces, whose people are ethnically more closely related to the Afghans than to other Pakistanis.

Some observers in Pakistan have suggested that young pro-Awami extremists, including students, may have carried out the bombings in disregard of the wishes of party leaders. There is a strong possibility that student extremists were involved in the Sherpao incident, inasmuch as he was killed inside Peshawar University.

So far, the official Afghan response to the arrests of Awami partisans has been relatively restrained. Further Afghan reaction will depend to a large degree on how far Bhutto goes in holding Afghanistan responsible for Sherpao's death. In the North-West Frontier there is little immediate danger that the provincial coalition government led by Bhutto's party will collapse. Awami supporters may resort to further bombings, however, and Bhutto will be hard pressed to find another strong and reliable lieutenant to replace Sherpao.

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OPEC: TRIPARTITE INVESTMENT

{ 88 - 97 }

[Some members of the Organization of Petroleum Exporting Countries, in an effort to diversify investment and blunt criticism by the developing countries, are turning to tripartite investment. Such ventures would bring together surplus oil funds and Western technology in third countries, thus enabling the oil producers to increase safe investments in the developing countries without using their own scarce manpower. This sort of investment, however, is likely to be concentrated in a handful of developing countries, mainly Arab ones.

Among the Middle East producers, Kuwait is the most likely to pursue tripartite ventures. At least half a dozen Kuwaiti financial institutions are already active in developing countries. The Kuwaitis have recently agreed to build a power plant in Jordan and to organize agricultural development in Yemen, using mainly US consultants and contractors. Kuwait is also involved in joint projects with the World Bank and its subsidiary, the International Development Association.

The Saudis plan to channel an increasing share of their investment into developing countries. They have already undertaken to build a sugar-processing complex in Sudan as a joint venture with Japanese and US firms. The Saudis also are considering projects in Egypt in cooperation with US, British, and Italian firms.

Tripartite investment will do little to offset the current-account deficits of most developing countries this year. The amount involved will remain small, and will often just replace funds earmarked for direct grants or loans.

MALAGASY REPUBLIC: MORE PROBLEMS

{ 86, 87 }

[Continuing ethnic tensions were apparently the main factor behind the assassination this week of Colonel Richard Ratsimandrava just six days after he had assumed power as head of state and government. A 19-member national military committee, on which all regional and tribal groups are represented, has taken over, but a struggle for power among Madagascar's badly divided military and civilian leaders appears likely.

Ratsimandrava was fatally wounded on February 11 in an ambush of his car in Tananarive, the capital. The new military committee blamed the slaying on members of a mobile police force camp that has been the center of anti-government activity in recent weeks. Army units forced the camp to surrender on February 13.

The paramilitary police force is made up mostly of coastal tribesmen who are traditional rivals of the inland Merina tribe of Ratsimandrava and his immediate predecessor, General Ramantsoa, who stepped down on February 5. A group of dissident army officers, also from coastal tribes, took refuge in the police camp in early January after failing in an effort to overthrow the government.

The military committee is headed by General Gilles Andriamahazo, a respected senior officer of the armed forces. He was a minister of state in Ratsimandrava's short-lived cabinet, but is not regarded as a strong political leader. Former foreign minister Ratsiraka—the driving force behind the militantly nonaligned policy the country has pursued since 1972—is also on the committee.

The new government's most urgent task is to defuse the growing ethnic unrest on the Indian Ocean island. The coastal people, who make up the bulk of the population and who were politically dominant from independence in 1960 until 1972, have been demanding a bigger voice in public affairs. A widening ethnic split could pose a serious threat to public order and stability and could possibly pit the gendarmerie—a significant military force that is, like the mobile police, predominantly coastal in composition—against the army, which is largely a Merina preserve.

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CAMBODIA: THE STRANGLEHOLD TIGHTENS

[98, 99]

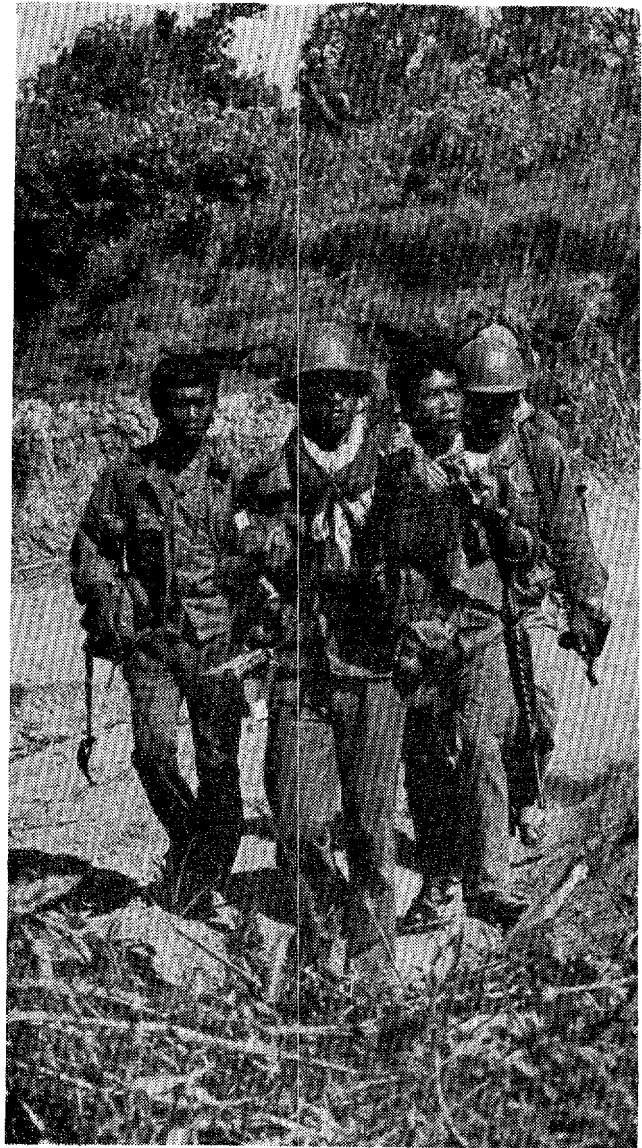
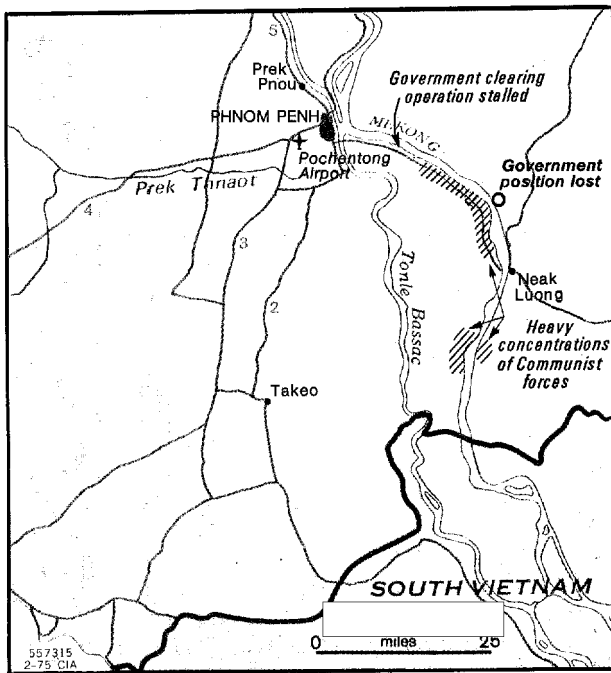
At mid-week, Khmer Communist forces captured the last government position near a vital Mekong River narrows some 25 miles southeast of Phnom Penh. Although government troops still hold positions around the Cambodian navy base at Neak Luong and several beachheads along the lower reaches of the river, the insurgents now control all key riverside terrain below Phnom Penh. Government forces will now have to re-establish at least partial control of the narrows upstream from Neak Luong before attempting to regain territory elsewhere along the river.

the Communist offensive. The insurgents, however, are keeping the Cambodian army's 7th Division northwest of the city under steady pressure and are continuing to launch sporadic rocket attacks at Phnom Penh proper and at outlying facilities—including Pochentong airport. Government commanders in some sectors have felt the ammunition pinch and, on occasion, have reduced artillery fire.

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Meanwhile, ammunition stocks in Phnom Penh have sunk to the critical level, and civilian airlines are preparing to double their deliveries of military equipment. With the prospects for bringing a resupply convoy up the Mekong in the near future growing dimmer, the government has implemented electrical blackouts to conserve fuel. Rice stocks at the beginning of the week stood at a 36-day level, and the government has not yet had to increase rationing.

Ground combat around the capital remains much less intense than during the initial weeks of



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AUSTRALIA: LABOR PARTY CONFERENCE

[100 - 103]
In the foreign policy discussions at the Labor Party's biennial policy conference last week, Prime Minister Whitlam gave his strongest defense to date of the presence of US defense and scientific installations in Australia, which he sees as benefiting his country. His strong support of close alliance with the US in this area was diluted, however, by his lengthy reiteration of his views on Vietnam, which are at variance with those of the US.

Whitlam put down a leftist proposal to change the wording of the party platform to imply that the presence of the US bases impinges on Australian sovereignty and is therefore unacceptable. He declared that changes over the past year to bring all the bases under joint administration satisfied Australian sovereignty. Whitlam also turned aside leftist objections to the secrecy of some of the installations, saying that he and other officials with a need to know were fully informed as to their functions.

The Prime Minister underscored his defense of the bases by emphasizing that Canberra would not exercise its option to give notice later this year of an intention to terminate the lease of one of the facilities.

While supporting the US on the bases, Whitlam's lengthy comments on Vietnam at the conference reflected his opposition to US policies there and his strong bias against the Saigon government. He made clear his hope for the early demise of the Thieu regime.

Whitlam did oppose and lead the defeat of a proposal for immediate recognition of the Viet Cong's provisional government made by Deputy Prime Minister Cairns, the party's most prominent leftist and a long-time Viet Cong sympathizer. The Prime Minister emphasized, however, that his opposition was based on a belief that Australia should continue its recognition of an incumbent government as long as it controlled the national capital and a significant proportion of the population. His strongly negative remarks about the

Saigon government probably reduced the unhappiness of Cairns and other leftists over the rejection of immediate Viet Cong recognition.

Whitlam underlined his sympathies by supporting a subsequent proposal permitting an unofficial Viet Cong information office to be set up in Australia. Contrary to initial reports, Whitlam did not merely accede to this proposal, but may have engineered its submission.

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SOUTH KOREA: THE REFERENDUM

[104 - 109]
With 73 percent of the ballots in his favor, President Pak won the national vote of confidence for which the referendum on February 12 was organized. The South Korean political stage is now set for a series of initiatives designed to strengthen the government's hand in coping with its domestic opponents.

It is still unclear exactly how Pak intends to proceed. According to government strategists, if his opponents do not become too noisy, Pak may follow up the referendum with a major restructuring of the government party and dramatic changes in the cabinet. Pak's victory statement spoke of a "nonpartisan national political system." This appears to be a reference to a rumored conversion of the party/cabinet system of the past 12 years into a kind of national front—a non-partisan coalition of political and functional groups deemed reliable by the government.

There have also been reports that Pak might soon release some political prisoners and authorize a new government dialogue with the opposition. If Pak's opponents once again take to the streets, however, the government hints of a "crackdown." At the moment, many South Korean officials appear to find this the more likely contingency.

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LAOS: PONDERING A SHIFT

The non-Communists are considering a shake-up in their coalition leadership that could have an important bearing on the matter of succession, if and when it becomes necessary to replace Prime Minister Souvanna Phouma.

Rightist Finance Minister Ngon Sananikone, regional field commander General Vang Pao, and a number of other prominent non-Communist political and military officials are seeking the ouster of southern conservative Leuam Insiengmay as the coalition's deputy prime minister and as the official leader of the non-Communist side. As grounds for dismissal, these officials charge that Leuam has consistently failed to defend vital non-Communist interests and to provide the non-Communists with the strong leadership required to compete effectively with the Pathet Lao in the coalition's political arena.

Their choice as a replacement for Leuam is Interior Minister Pheng Phongsavan, who has indicated he would gladly accept such an offer. The opportunistic Pheng has made no bones about the fact that he would view his new role as a stepping-stone to the prime ministership, a position he covets and one for which he has been busily grooming himself.

Pheng has long been considered a potential compromise candidate in the succession sweepstakes. He has a reputation as a neutralist and is rumored to be generally acceptable to the Pathet Lao and to most of their foreign Communist supporters. If Pheng becomes one of the coalition's two deputy prime ministers, his chances for succeeding Souvanna would be significantly enhanced.

The non-Communists almost certainly do not look to Pheng as a panacea for the strong leadership they so sorely lack. Indeed, the rightists and their colleagues in the military have long suspected the interior minister of harboring pro-leftist sympathies and, for this and other reasons, have never fully trusted him. Rather, it would

appear that they are advancing Pheng's chances for a shot at the top job as a contingency measure against the possibility of Communist leader Souphanouvong's becoming prime minister when Souvanna steps down. The non-Communists probably calculate that Pheng, for all his faults, would be preferable to Souphanouvong, who remains anathema to most rightists.

Replacing Leuam with Pheng may prove to be easier said than done. Although Leuam's lackluster style and general incompetence are well-documented political liabilities, his southern rightist benefactors might argue—with some justification—that he is being made a scapegoat for the collective failings of the entire non-Communist side. In any case, the southerners would almost certainly be reluctant to relinquish their hold on such a high-level position without some sort of political compensation.

Souvanna's position on the proposed change is not known, but he might logically be expected to support Pheng—a fellow neutralist and former political ally—for the position of non-Communist deputy prime minister. Souvanna, however, would no doubt feel compelled to check out the acceptability of such a move with the Lao Communists.



Pheng Phongsavan

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President Rodriguez meets representatives of the armed forces and national police.

ECUADOR: PERILS OF PROSPERITY

[On February 15, the Rodriguez administration will mark the third anniversary of the coup that brought it to power. The military government's increasingly evident competence, after a halting start, readily distinguishes the present regime from its predecessors. In no small way, this has been made possible by the profitable exploitation of petroleum, which began in late 1972.

Petroleum has also created problems for the government. Revenues from oil, some of which have been channeled into modernizing public works facilities, transportation, schools, and military hardware, have led to excessive expectations and indirectly to inflation. A chronic teacher shortage leaves new schools unopened; antiquated cars and trucks limp along modern highways; peasant families without plumbing have little use for new water and sewage treatment plants. Many Ecuadoreans believe that oil is destined to enrich their country as it did Venezuela, despite their government's 210,000-barrel ceiling on daily oil production. Widespread construction has almost eliminated unemployment, enlarging the worker's stake in the future and creating a new mass political awareness—at a time when the armed forces have announced their intention to retain power indefinitely.

The most significant frustrations are within the military institution itself. The long-standing

[119]

rivalry between army and navy officers has become a government weakness, reinforced by traditional social and ethnic hostility between the Andean highlands, which are the army's preserve, and the coastal lowlands, where the navy dominates.

Rodriguez, an army general, has maintained the army's control of the government. He had sought to placate the navy with the governorship of coastal Guayas Province and control of the economically important natural resources ministry, which manages both petroleum and tuna fishing. Within the past four months, however, the powerful and ambitious Admiral Gustavo Jarrin has been replaced as head of the ministry, and an army officer has been appointed to the governorship. In addition, the navy has begun to realize that much of the country's new wealth is going into large orders for aircraft, tanks, and artillery, with only token upgrading of the fleet. A further irritant to navy and air force officers and even some army generals is Rodriguez' failure to honor his early pledge to rotate the presidency among the services.

Although coup-plotting is a national sport in Ecuador, the present circumstances may be more propitious than usual for a change in leadership because Rodriguez could fairly easily

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be removed without the necessity for an actual change of government. A possible scenario would call for his resignation after designating a successor, the latter being carefully selected by the joint command.

In any event, the military government will enter its fourth year with an embarrassment of riches. The treasury has benefited not only from petroleum, but also from this season's excellent tuna run, which produces revenue directly through the Ecuadorean fishing industry and indirectly through fines of unlicensed foreign tuna boats. The tension that this wealth produces within the military is likely to lead to less monolithic government during 1975 and to a corresponding lowering of administrative efficiency. This in turn could fuel existing frustrations, sully the military's generally good public image, and provoke a major change in the government's outlook. At that juncture, inter-service rivalries would take a back seat to officers' personal ideologies, with some seeking to emulate the authoritarian Brazilian example and others looking to the "revolutionary" Peruvian model.

[Redacted]

probably was behind Falcao's inordinately prominent role in an earlier announcement of moves against the Communist Party.

The US embassy also interprets a recent optimistic speech by the new president of the Senate as another sign of progress in the liberalization process. The senator stressed that President Geisel is committed to a gradual easing of political controls in company with the pursuit of the revolution's other goals. In this process, the senator noted, the cooperation of politicians is "indispensable." While this statement—even though it emanates from the leader of the government party—is in no way binding on the administration, it probably was not issued without the approval of the President or his closest advisers and does seem to reflect Geisel's general intentions.

Other government moves also seem to signal at least a desire to ease controls in several areas. Over the last six months, for example, the Labor Ministry has removed government interventors from a third of the nation's labor unions. Moreover, formal censorship appears to have ended at virtually all newspapers, although tacit restrictions remain.

BRAZIL: PACE OF LIBERALIZATION

(Recent developments appear to have strengthened the process of gradual relaxation of social and political controls. ⁽¹²⁰⁻¹²⁴⁾)

Local observers have noted, for example, Justice Minister Falcao's response last week to public and congressional inquiries into the fate of political prisoners. Although his remarks were noncommittal, if not a whitewash, they were still an unprecedented step because the government heretofore has not reacted at all to this sensitive issue. Falcao's latest announcement reinforces the view that the Geisel regime is seeking to centralize security responsibilities and to lessen the armed services' role in such activities. A similar motive

Early tests of the commitment to liberalization will come in at least two areas. One stems from the recent election of an anti-government slate in an important labor union in Rio de Janeiro. There is some doubt that the government will allow the seating of the insurgents, given the politically turbulent history of the union.

A more far-reaching test will come next month when congress convenes with vastly increased opposition representation. Defiant attitudes on the part of dissident legislators could provoke a right-wing reaction that would hinder further liberalization. Nevertheless, the process of selectively easing controls, widely known as "decompression," is an established part of the Geisel program.

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PANAMA: OPTIMISM ON CANAL TREATY

[125, 126] Panamanian negotiators are optimistic that a draft of a new canal treaty will be completed this summer. General Torrijos and other government leaders are focusing public attention in Panama on the positive aspects of a new treaty.

In a press interview last week, Foreign Minister Juan Tack stressed that a spirit of compromise by both sides, but particularly Panama, has permitted progress to be made since he and Secretary Kissinger agreed on a treaty framework a year ago. Tack said that Panama has been forced to compromise because it is faced with the 1903 treaty that gives the US the right to operate, maintain, and protect the canal in perpetuity. Any change in the status quo, he argued, will advance the government's fundamental objective of taking control of the canal.

The foreign minister declared that probably the most important concession the Panamanians will be asked to make is to allow some US military facilities to remain in their country. In his view, there is absolutely no way the US can be forced to dismantle them the day after a treaty is signed. Tack said that Panama is prepared to agree to a transition period for the US to withdraw from the present canal zone and to give the US the use of certain facilities and rights to operate and protect the canal during the life of a new treaty. Panama would share in these responsibilities until the pact's expiration and would thereafter exercise them exclusively.

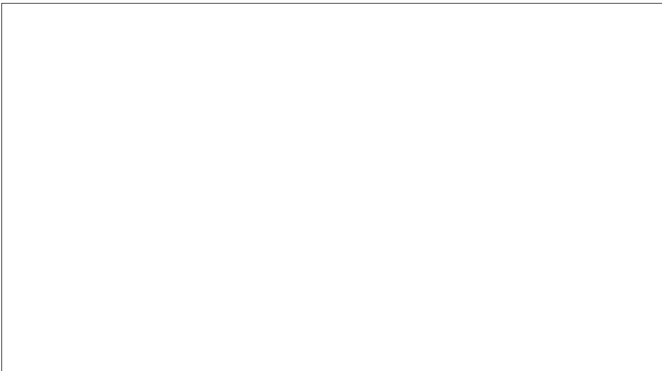
In response to questions about timing, Tack said the two sides were working to have a draft treaty ready this year, but that the concentration is on substance rather than on a deadline.

The minister's statement is a measure of the growth of the Torrijos government's commitment to a new treaty. Torrijos and Tack are strong nationalists, and recognition of the need to compromise has not come easily to them. They now seem convinced that the treaty evolving from the current negotiations is probably the best they can get, and they are trying to sell it to their people as a bridge between the present US control of the canal and eventual total Panamanian control.

ARGENTINA: GUERRILLA SWEEP

[127, 128] After more than a year of resisting presidential efforts to give the army a major role in the counter-terrorist campaign, army commander General Anaya is at last preparing to direct a sweep on one of the guerrilla strongholds. The turnabout can probably be attributed to the military's dissatisfaction with police ineffectiveness and the conviction among army leaders that public opinion now is prepared psychologically to accept the fact that the police alone cannot stamp out terrorism.

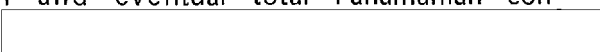
The first target of the army drive is in the northwest province of Tucuman, where the People's Revolutionary Army has its stronghold. The guerrillas have long had the sympathy of local workers in the depressed sugar industry, and some of the principal training camps for the insurgents are in the nearby mountains. Government forces have attempted to destroy this guerrilla bastion before, but poor police and military coordination, a failure to act promptly on intelligence, and difficult mountain and jungle terrain have hampered them.



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The People's Revolutionary Army, which has suffered setbacks in Cordoba and elsewhere as a result of the government crackdown, will probably have its activities in Tucuman disrupted by the new campaign. Nevertheless, it can be expected to react by stepping up terrorism in Buenos Aires, where the police have been less effective in dealing with the underground organizations.

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VENEZUELA: OIL DIPLOMACY

~~[129, 132]~~ [129, 130, 132]
President Carlos Andres Perez' oil diplomacy has scored several successes in past weeks. Although Venezuela is increasing its political and economic influence in the hemisphere through petroleum and assistance agreements, this is raising doubts among some Latin countries over Perez' ultimate intentions.

Last week, a Peruvian delegation led by the minister of energy and mines, Fernando Maldonado, returned to Lima with an agreement from the Venezuelan state petroleum corporation to supply Peru with 14.6 million barrels of oil for the next two years. The Peruvians will pay half in cash, with the rest to be paid from Peru's growing oil production after the two years expire. The agreement comes on the heels of Peru's support for Venezuela in its dispute with the US over the Trade Reform Act, and further solidifies cooperation on hemispheric issues between the two countries.

The most significant agreement, however, was reached with Surinam. If ratified by both countries and fully implemented, the accord will tie Surinam's future economic growth with that of Venezuela, and will establish a basis for a special political relationship as well. The agreement provides for joint development of Surinam's bauxite deposits, with much of the bauxite and alumina produced to be shipped to Venezuela. In return, Venezuela is to become Surinam's major, and perhaps exclusive, supplier of petroleum and petroleum products. Caracas has also offered to do a feasibility study on the construction of an oil refinery, which it would build, finance, and provide with technical assistance.

Even more pacts may be in the offing when Perez meets soon with Caribbean leaders and holds a second round of talks with the Central American presidents next month. The Caribbean is vital to Venezuela in terms of security and economic potential, and Perez has pledged economic assistance. He may be prepared to offer the Caribbean importers of Venezuelan oil a government-to-government arrangement similar to the agreements reached with the Central American presidents in early December. At that time, the

Central American countries agreed to pay Venezuela about half the market price for petroleum, with the difference to be held in local currency in time deposits. This fund would draw interest for Caracas and at the same time could be used by the Central Americans for development projects.

These arrangements, while advantageous to the Central Americans, are meant primarily to serve Perez' main economic and political objectives:

- To become an investing nation on which other nations depend for capital and badly needed petroleum.
- To place overseas the surplus oil riches that would be inflationary and difficult to invest within the country, and to earn interest income from abroad.
- To develop a leadership role for Venezuela among the less developed countries that produce raw materials, and to create client states that will follow Venezuela's lead on hemispheric issues.

Although some Latin governments have privately accused the Venezuelans of "wielding a big stick" in inter-American affairs and of being a "nouveau riche" country, their need for Venezuelan petroleum and assistance precludes open expressions of irritation or opposition to Perez' claims of leadership. Moreover, Perez has been adroit in casting the present dispute with the US in terms of broad Latin interests and unity rather than as a narrow dispute between Venezuela and Washington.

In the coming months, Perez evidently intends to accelerate the pace of his oil diplomacy through additional agreements and personal trips to several Latin countries. He is already planning for a summit meeting of all Latin American states, which will deal with Latin problems and give Venezuela an opportunity to exploit its self-assigned role as a leader in hemispheric affairs.

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CANADA: URANIUM ENRICHMENT

[Plans for a joint Canadian-French uranium-enrichment plant in Quebec have run up against Ottawa's reluctance to approve the project. The French Atomic Energy Commission and two Canadian firms agreed last fall to participate in a feasibility study for a \$6-billion project in the James Bay area of Quebec. It would include a gaseous-diffusion enrichment plant and enlargement of the James Bay hydroelectric plant to provide the necessary electric power.

Last week in the House of Commons, Prime Minister Trudeau was forced to make public his government's reservations about the project. Trudeau's admission came as a result of press leaks of two internal government memoranda from Energy Minister Macdonald and Deputy Minister T.K. Shoyama, both written last November, warning of the dangers of the uranium plant deal.

The Prime Minister emphasized that his reservations were based on the fact that there is no domestic need for an enrichment facility, since the Candu reactors produced by Canada use natural uranium. Production of enriched uranium for export, moreover, would undercut foreign sales of the Candu reactor. Trudeau also indicated that the large capital expenditures required to meet Canadian energy needs give a very low priority to outlays for enrichment facilities.

Quebec Premier Robert Bourassa took issue with Trudeau's remarks by informing the press that his technical advisers believe it would be possible to modify the Candu reactor to enable it to operate with enriched uranium. The Quebec

government has urged adoption of the James Bay proposal because it would lead to a heavy infusion of French capital and expanded employment opportunities in the province. The project was on the agenda of Quebec Premier Bourassa's talks with French officials in Paris last December.

Trudeau maintained that he had explained his reservations to Bourassa both before the premier's trip to Paris and again only two weeks ago. The Prime Minister also informed the French of Ottawa's position, and Paris has apparently chosen to bide its time while awaiting a final decision by federal authorities in Ottawa. The French are also awaiting the results of the feasibility study, which are due next month.

Trudeau did not, however, entirely close the door on the project. He told Commons that Ottawa is still prepared to consider the feasibility of such a facility if a convincing case can be made for it. Energy Minister Macdonald said in a recent interview that he would have to look at the trade-offs involved if an application is made for a federal license to build the plant and export the enriched uranium.

The Prime Minister will have to balance his reluctance to build the enrichment plant against certain political considerations, such as the benefit to Quebec's Liberal government of many new jobs. He may also be influenced by the opportunity to expand economic relations with France as part of his foreign policy goal of increasing Canada's ties with EC countries.

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