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# Weekly Summary

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CONTENTS (January 30, 1976)

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, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology.

25X1



MIDDLE EAST  
AFRICA

- 1 Algeria-Morocco: Tensions Rising
- 2 Lebanon: Tenuous Truce; Soviet Reaction
- 3 Angola: Military;  
    Dos Santos Visit
- 7 Middle East: UN Debate Ends
- 8 Iran, Kuwait, and CEMA Countries
- 9 Indian Ocean: New Directions

EUROPE

- 11 Italy: Political Maneuvering;  
    Lira in Trouble
- 12 Spain: "...Without Haste or Pause"
- 14 Iceland-UK: Compromise Reached
- 16 Southern Socialists Meet in Paris
- 17 Greece-Turkey: Bleak Prospects
- 17 MBFR Talks Resume
- 18 CEMA: Summit Plans
- 18 Warsaw Ideological Conference

25X6

EAST ASIA  
PACIFIC

- 19 Indonesia: Moving Ahead on Timor
- 20 Japan: Lubricating Mideast Links
- 21 Laos-Thailand: Warming Trend

WESTERN  
HEMISPHERE

- 22 Peru: Promotion Problems

INTERNATIONAL

- 23 OPEC Production in 1975
- 24 IMF: Loans to Developing Countries

Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary, [redacted]

25X1

7

## ALGERIA-MOROCCO: TENSIONS RISING

Tensions between Morocco and Algeria sharply increased this week as clashes occurred well inside the Spanish Sahara between Moroccan forces and Algerian military personnel supporting guerrillas of the Polisario Front, a Saharan independence movement. Rabat and Algiers have so far carefully measured their response to the clashes, but both sides have expressed concern that the situation could get out of control. Algeria has contacted several Arab leaders for support, and Egypt, Syria, and Iraq have begun efforts to mediate the dispute.

The fighting began on January 27 when Moroccan forces attacked Algerian army troops some 25 miles south of Semara in Spanish Sahara. According to press reports, fighting continued for the next two days. Algiers claimed that its troops were merely transporting food and medicine to Saharans. This clash was the first confirmed encounter between troops of the two countries since the trouble over Spanish Sahara started, and the incident also brought the first open acknowledgment by Algiers that its forces are inside the territory.

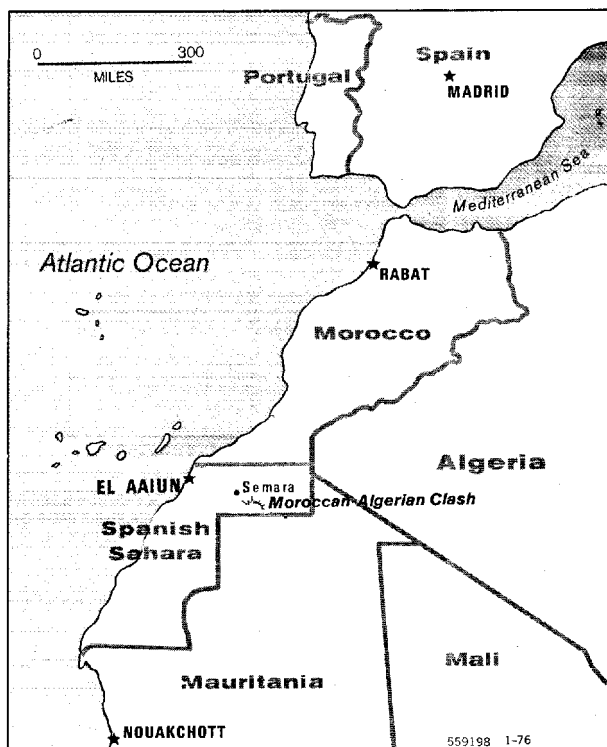
The Moroccans gave no indication of the size of the forces involved or the extent of the casualties. They did say that they captured 29 soldiers during the fighting. [redacted] the fighting took place in an area used by the Algerians to train Polisario guerrillas.

Later on January 27, Algerian President Boumediene convened an emergency joint session of the Revolutionary Council and the Council of Ministers to discuss the incident. A communique issued afterward charged that the Moroccan attack was "extremely serious" and warned that the situation could get out of hand if such incidents continued. The communique said that the government had decided to take measures to deal with the situation. Algeria quickly contacted other Arab states about the incident.

Egypt, Syria, and Iraq sent high-level envoys to Rabat and Algiers to try to mediate the dispute.

Both Morocco and Algeria are trying to line up international support for their respective positions. The Moroccans summoned the ambassadors of the five permanent members of the UN Security Council on January 28 to stress the gravity of the situation. They were clearly laying the groundwork for a possible call on the Council to discuss the matter. Algeria, for its part, has called on all nations to support self-determination for Spanish Sahara. Algiers will use its considerable influence as self-proclaimed head of the non-aligned states to whip up support for the Polisario Front [redacted]

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8

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**LEBANON: TENUOUS TRUCE**

The fighting in Lebanon came to an uneasy halt late last week after leaders of the private Christian militias, threatened by growing numbers of regular Palestinian forces from Syria, agreed to cooperate with Syrian mediators in negotiating a political settlement. Leaders of the various Lebanese political factions appeared near agreement this week on a package of political reforms, but continued to haggle over the details of a settlement. The extended debate and persistent cease-fire violations in the Beirut suburbs and in eastern Lebanon have kept tensions high and could still lead to a resumption of wider fighting.

The Palestinian regular troops in Lebanon, which number about 5,000, are theoretically under the command of a joint Syrian-Lebanese-Palestinian peace commission, but, in fact, are being directed from Damascus. With Lebanese leftist and Muslim militias, the Palestinians have encircled the core Christian areas of Lebanon and are, in effect, holding Lebanese army units hostage outside the Christian area. Although regular Syrian army troops have not been used to separate the warring factions, 60 Syrian officers have arrived in Beirut to serve on the joint commission.

Syrian Foreign Minister Khaddam, who was instrumental in arranging the cease-fire, has given repeated assurances that the Palestinian forces in Lebanon will be withdrawn to Syria as soon as order is restored and a settlement reached. According to press reports, Khaddam has said that some Palestinian troops could be returned in as little as ten days. Other sources tend to support Khaddam's claim that Syria does not intend to use the Palestinian troops as a permanent occupation force or to prolong their stay in Lebanon. Nevertheless, Damascus almost certainly sees this truce as its last chance to solve the Lebanese crisis without involving outside help and will probably maintain close supervision of the cease-fire until it is confident a durable settlement has been achieved.

Christian leaders, even the most conser-



Khaddam

vative, now seem to realize that they have little choice but to accept reforms that would give the Muslims a greater voice in government. None of the Christian leaders, however, has yet accepted the detailed proposals suggested by Damascus. They apparently are primarily concerned about the reaction of their ultraconservative followers and are seeking to demonstrate that they are driving a hard bargain while developing an acceptable justification for making concessions. Interior Minister Shamun, for example, has hinted publicly that he will not approve a settlement until Syria shows its good faith by withdrawing Palestinian troops.

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Prime Minister Karami has demonstrated confidence in the negotiations by formally withdrawing his resignation this week. He is again talking about renewing efforts to form an expanded cabinet that would include representatives of all significant Christian, Muslim and leftist groups.

Announcement of an agreement is not expected until President Franjiyah meets with President Asad in Damascus. Their meeting has been postponed several times already to allow resolution of last minute problems in the negotiations. Both sides now appear to be negotiating more for form than substance, but their commitment to the projected settlement is so tenuous that any one of several politicians could still raise objections serious enough to derail it. Cease-fire violations in Beirut and eastern Lebanon, although relatively minor and involving undisciplined fringe groups, could also delay final approval of an agreement.

**Soviet Reaction**

9-10

Moscow has welcomed the latest cease-fire in Lebanon and has expressed cautious optimism that it will help pave the way to a permanent resolution of the conflict. The Soviet media have applauded the role played by Syria in negotiating the military stand-down and in framing the broad outlines of an eventual political settlement.

A resolution of the Lebanon crisis along the lines worked out by Franjiyah and Asad would be to Moscow's liking. The Soviets would approve of the strengthening of the Lebanese left and the increased prestige for the Palestinians and the Syrians. They would applaud the fact that Egyptian President Sadat had been largely excluded from mediating a settlement. The Soviets might even seek to take some credit if peace were achieved. The Soviets could say that, unlike in 1958, the shadow of their military power forced the US to keep hands off Lebanon.

Moscow has already sought to link Lebanese turmoil to a need for a Middle East settlement through the Geneva conference. *Pravda* last week went a step further when it implied that creation of a Palestinian state would enable "hundreds of thousands" of Palestinians to leave Lebanon.

Throughout the ten-month-old crisis, Moscow has urged a negotiated end to the fighting and has stressed the need for the Lebanese themselves to agree on political and economic reforms. *Pravda* has repeatedly called for an end to the "fratricidal war" and reiterated Soviet support for Lebanon's independence and territorial integrity. The Communist Party daily recently alluded to intrigues of "reactionary imperialist forces" against Lebanon and warned against Israeli "plans" to intervene in Lebanon.

Despite such bluster, there have been no solid indications, such as increased intelligence collection, that Moscow is concerned about foreign intervention. 25X1

13-23

**ANGOLA: MOVEMENT ON THE MOVE**

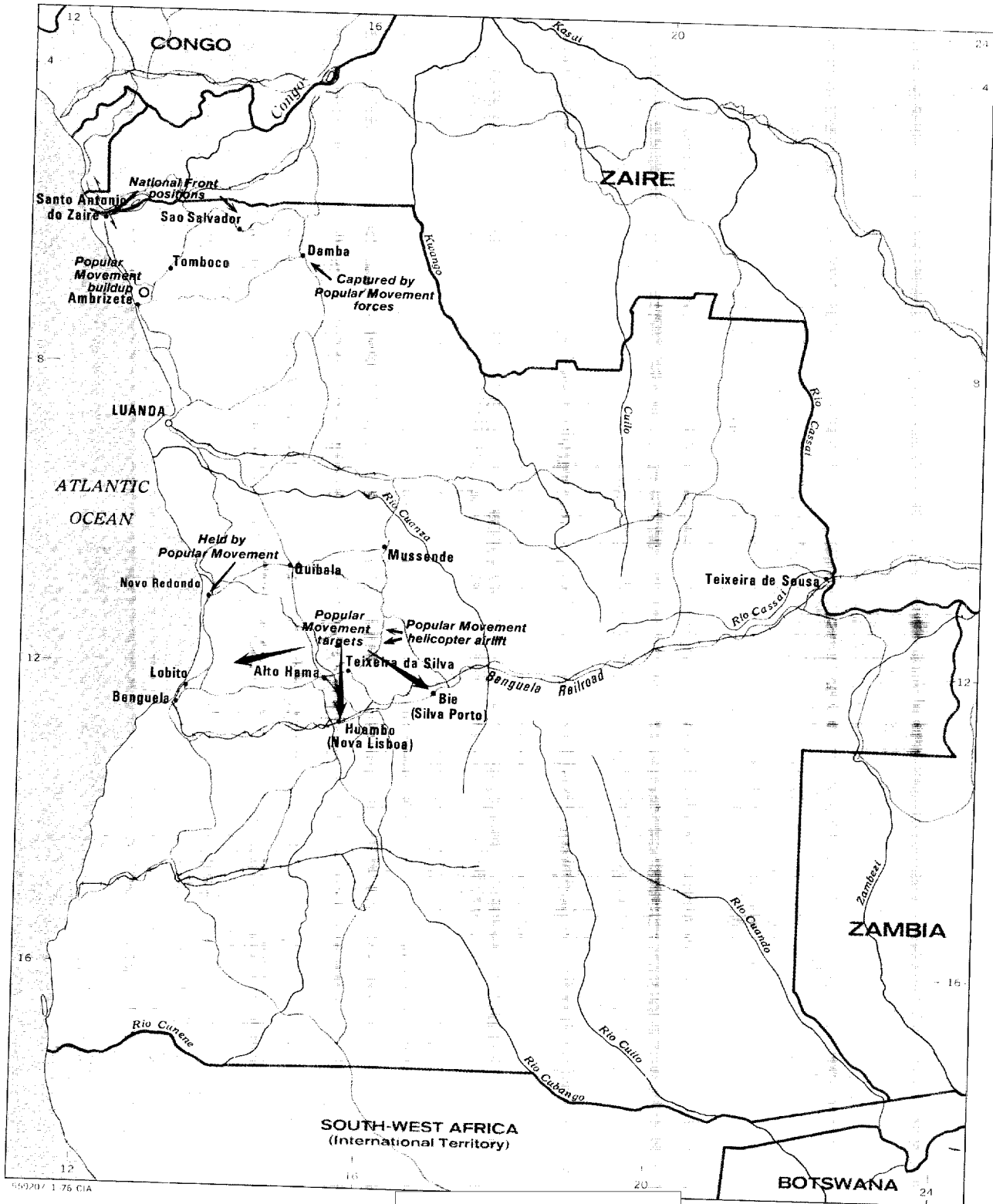
The Popular Movement, reinforced by some 11,000 Cuban troops and a continuing flow of Soviet military equipment, has gained a decisive military edge in the Angolan civil war. During the past week Popular Movement and Cuban forces in central Angola clearly began to make significant headway against the National Union as South Africa pulled back most of its troops that had been supporting Union units. It appears now only a matter of time before the Movement occupies most of the major urban centers in the central and southern parts of the country as it already has in the north. The Movement's sweeping success leaves its adversaries, including Zairian President Mobutu, with a choice between seeking an early accommodation on whatever terms they can get or pursuing the struggle on a guerrilla basis.

**Military Situation**

In the west central sector, forces of the Luan-da-based Popular Movement regime of Agostinho Neto are advancing, apparently from a starting point in the Quibala area, toward Huambo, Bie, and Lobito—three important towns in the heartland of the National Union's tribal support. The force moving toward Huambo, which

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reportedly was equipped with Soviet-made T-34 tanks, progressed along a main route this week at least to Alto Hama. Another group of Cuban and Popular Movement troops was airlifted by helicopter to points along the road connecting Mussende and Teixeira da Silva in the first such use of helicopters since the conflict began last year. The troops' primary mission may be to take Bie. A third strike force, targeted against the important port and railhead city of Lobito, took Novo Redondo last weekend.

With Neto's forces only some 50 miles from Huambo, National Union leader Jonas Savimbi this week moved his political headquarters from there to Bie, where his group's major military base is located. Huambo had also served as the seat of the nominal joint government proclaimed last November by the National Union and the northern-based National Front, which collapsed militarily earlier this month. Savimbi's withdrawal from Huambo apparently provoked renewed clashes between Union forces and troops loyal to Daniel Chipenda, a maverick Popular Movement military commander in southern Angola who defected to the National Front a year ago following a bitter leadership dispute with Neto.

In northern Angola, Popular Movement forces spearheaded by Cuban troops have resumed their advance against the National Front's few remaining positions. Late last week, they pushed the Front's troops out of Damba and occupied it. European mercenaries working for the Front are taking defensive measures aimed at checking an expected move by the force that took Damba toward Sao Salvador and Santo Antonio do Zaire, the Front's last two strong points in the north.

Along the coast, Popular Movement units from Ambrizete have apparently crossed the M'Bridge River. Movement commanders in this sector will presumably resume their northward march as soon as they have put enough troops across the river; the Front garrison at Tomboco may be an early target.

The mercenary group is also reportedly trying to organize Front troops at Santo Antonio do

Zaire into an effective strike force, but its chances of success are not bright. The morale of the troops has been shattered and they are having difficulty obtaining supplies.

By midweek it appeared increasingly likely that Neto's foes would probably not be able to carry on a conventional military struggle much longer, even with the help of the increased numbers of foreign mercenaries—especially Europeans—that both the National Front and National Union are hurriedly recruiting. In the absence of a political settlement, the two groups seem to be preparing for an early switch to guerrilla operations. On January 26, Savimbi was quoted publicly as saying that if his defense line collapsed, he would lead his men into the bush and wage a guerrilla war using tactics learned in years of fighting against the Portuguese.

#### Political Developments

Clearly, Savimbi would prefer to strike a deal with Neto that would give the National Union some role in an Angolan government. With the Front now eliminated as a significant political factor, Savimbi has abandoned his previous insistence that a settlement must include all three groups and appears willing enough to conclude a two-party arrangement with the Popular Movement. Last week he asked the Kenyans to mediate with the aim of establishing such a coalition; Nairobi had played a role in bringing about the late 1974 agreement among the three Angolan factions that enabled them to negotiate an independence accord with Lisbon a year ago.

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With Neto's forces approaching Angola's northern border with Zaire, from where they will be in a position to menace Kinshasa's water lifeline to the sea, Mobutu has apparently concluded he must seek an accommodation with the Popular Movement despite his continuing deep distrust of Neto's group and its Soviet patron. Popular Movement forces have for some time been in control of a segment of the Benguela Railway—Zaire's other major lifeline—at Teixeira de Sousa in eastern Angola. Service on the line, which had carried a major part of Zaire's vital copper exports, has been interrupted for months by the fighting.

Neto, for his part, has long rejected any political solution to the Angolan conflict, and he is hardly likely to be more amenable now that his forces are scoring a decisive victory in the conventional fighting. Even before they made major gains this month, he was reported determined to resist all pressures to accept a political compromise. He is especially adamant about the exclusion of Savimbi and National Front leader Roberto from any future political role; he is said to have vowed to kill both if he gets the chance. He will surely drive a hard bargain in any negotiations with the vulnerable Mobutu.

#### African Support

Neto's principal African supporters, their hand strengthened by the Movement's military successes, are pressing more African states to formally recognize the Luanda regime. This week they won Sierre Leone to their side after high-level delegations from Guinea, Nigeria, and Tanzania had visited Freetown. Several other countries among those that held out for a government of national unity at the special African summit meeting early this month are apparently also wavering.

Neto can now count on the backing of at least a simple majority of the 46 members of the Organization of African Unity. With more endorsements sure to follow in the near future, his

regime seems certain to be seated as the only legitimate government of Angola at the OAU ministerial-level meeting scheduled for March, if it is held.

#### Dos Santos Visits USSR 24-27

The Popular Movement's "foreign minister," Jose Eduardo Dos Santos, expressed "profound gratitude" for Moscow's "all-round and disinterested" support while on a brief visit to the USSR last week. He predicted closer party and government ties between the Luanda regime and the Kremlin.

There were some unusual aspects to Dos Santos' visit. Soviet handling of the visit suggests that Moscow viewed it as primarily a party-to-party occasion, rather than a government affair. Dos Santos met with Boris Ponomarev, a Politburo candidate-member and the party secretary responsible for relations with non-ruling communist parties, and with a deputy director of the Central Committee's international department. He delivered messages from Popular Movement leader Agostinho Neto for General Secretary Brezhnev and Premier Kosygin during meetings with Deputy Premier Arkhipov and Deputy Foreign Minister Ilichev.

Soviet Foreign Minister Gromyko failed to meet with Dos Santos. This may have reflected Soviet reluctance to accentuate government support for the Popular Movement during Secretary Kissinger's presence in Moscow or simply Gromyko's heavy schedule during the Secretary's visit. Dos Santos cut short his Moscow stay by two days. The reason given by his Soviet hosts was flight-scheduling problems.

In the aftermath of his visit, there has been no sign that Moscow has any intention of modifying its Angolan policy. An *Izvestia* editorial this week—the first authoritative commentary on Angola since both the Kissinger and Dos Santos visits—threw ice water on the coalition idea, condemned alleged strong-arm tactics by the West at the OAU summit, and demanded the withdrawal of "imperialist" and racist forces.

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28-39

**MIDDLE EAST: UN DEBATE ENDS**

Two weeks of debate on the Arab-Israeli conflict in the UN Security Council ended on January 26 with the US veto of the pro-Palestinian resolution. The Arabs, while hardly surprised, are expressing disappointment and denouncing the US. The Israelis are satisfied for the moment but fear they have not finally escaped pressure for recognition of the Palestinians.

The resolution called for Israeli withdrawal from all territory occupied in 1967 and urged recognition of the Palestinians' "inalienable national rights" to self-determination and an independent state in Palestine. The resolution obtained only nine favorable votes; three members formally abstained and two did not participate.

At the outset, the Arabs seemed seriously interested in avoiding a US veto, but they apparently concluded quickly that they could not gain acceptance for their minimum demands. The US statement in November underscoring the importance of the Palestinian problem had encouraged some Arabs to believe the US might be ready to go beyond its position recognizing Palestinian "interests." They may have felt initially that Washington could accept a compromise formulation that called for recognition of Palestinian "rights" without further elaboration.

Although apparently surprised by the large number of abstentions, the Arabs are nonetheless hailing the vote as a moral victory. Syrian newspapers trumpeted that it meant the "world" recognized Palestinian national rights and backed a total Israeli withdrawal from the occupied territories. Damascus radio quoted a Palestine Liberation Organization spokesman as saying that the holding of the debate had succeeded at last in raising the Palestinian issue to a political level involving more than the question of refugees.

The Syrians, who promoted the debate, have come down hard on the US. Deputy Foreign Minister Rafai called in Ambassador Murphy on January 28 to express Syria's "deep dissatisfaction" at the US veto. He said the US had created

an impasse in the peace process and blocked the way toward a durable peace.

An earlier public Syrian statement, echoed by Syrian media commentators, charged that the US is using "flimsy excuses" to cover up a maneuver to gain time for the furtherance of Israel's objectives. The statement asserted that the US "persistently antagonizes" the Arab people and bears a great responsibility for wasting an opportunity to further peace. An authoritative Damascus newspaper called on the Arabs to revise their attitudes toward the US.

Egypt, although long since resigned to a US veto, was nonetheless discomfited by the outcome because it provides the Sadat regime's foes with a new opportunity to charge that his friendship with the US has brought no benefit to the Palestinians or the other Arabs. Cairo's semi-official *Al-Ahram*, defensively taking a line similar to Syria's, has charged that the US action proves Washington is still uninterested in a "just" peace. The paper said the veto contrasts with the impression the US has been attempting to convey for the past few years that it is seeking a satisfactory settlement.

An Egyptian spokesman who refused to be identified told the press, in one of Cairo's toughest statements in some years, that the US position is now "not only isolated but untenable." He served up criticism of the Arabs in equal measure, noting that they had attempted to put "too much into one measure at the wrong time." In fact, however, the Egyptians, anticipating Arab charges of selling out to the US, made little effort during the debate to press a more acceptable draft on the other Arab delegations.

The Israelis, who boycotted the debate because the PLO was allowed to participate, have breathed an audible sigh of relief at the US veto. An official communique, repeating a statement by Foreign Minister Allon, praised the US stand for frustrating a Syrian-PLO effort to bypass the Geneva conference and to undermine UN resolutions 242 and 338, which Israel accepts as

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the only basis for peace negotiations with the Arabs. Israeli commentators have characterized the defeated resolution as a Syrian-PLO "plot" to disrupt the negotiating process and charged that the debate underscored the Syrians' preference for imposed resolutions in international forums over serious negotiations.

The Israelis are nonetheless not confident that the US will maintain its position on the Palestinians. The leading newspaper *Maariv* commented after the vote that the debate had in fact put increased pressure on Israel by raising the Arabs' hopes that they might do better at some later stage "if and when the US position erodes."

In an effort to head off such an "erosion," Israeli officials are trying harder to cast their negotiating policy in positive terms. Prime Minister Rabin, for example, has repeatedly called for reconvening the Geneva conference—limited to the original parties—during his public statements in the US this week. In addition, the Israelis intend to emphasize a willingness to make some territorial concessions to Syria in return for a peace agreement. Moreover, instead of reiterating their refusal to negotiate with the PLO, they are stressing their readiness to treat the Palestinian issue in the context of Jordanian-Israeli negotiations. [redacted]

35-39

### IRAN, KUWAIT, AND CEMA COUNTRIES

The USSR and countries of Eastern Europe are developing a new economic relationship with Iran and Kuwait. The Communist countries are trying to obtain long-term financing from these OPEC states and to arrange favorable oil barter deals. They have already succeeded in obtaining \$1 billion in credits. Iranian and Kuwaiti negotiators are discussing several joint ventures that would combine OPEC money with Communist technology and skills.

Kuwait has bought \$200 million in Hungarian and Romanian 8-year bonds, carrying 9.5- to 10-percent interest rates. Poland and the USSR are also reported to have obtained large credits, but the amount and terms have not been revealed. In November, Romania agreed to buy Kuwaiti oil with hard currency at a rate of 20,000 barrels per day over a three-year period—the first long-term agreement by a Communist country to purchase oil from Kuwait. Romania and Kuwait also signed a 5-year general economic agreement in 1974 for joint projects in the chemical, petroleum, and construction industries.

In October, Poland agreed to assist in developing the Kuwaiti petrochemical industry. Poland also hopes to conclude a long-term agreement for the purchase of oil. Although Moscow has succeeded in expanding economic contacts with Kuwait, Kuwait retains reservations about the quality of Soviet technology and is wary of having large numbers of Soviets working in the country. Despite an accelerated sales campaign, the USSR has not yet been awarded contracts on any Kuwaiti development projects.

In 1975, Iran for the first time extended economic aid to three East European nations and agreed in principle to provide Moscow with long-term credits. Tehran has loaned \$780 million to Romania, Poland, and Bulgaria to build food-processing and light industrial plants whose output will be exported to Iran in repayment. This is nearly three times the amount the three Communist countries had committed to Iran in past years. The loans provided by the Communist countries had concessional features, but the Iranians are charging commercial interest rates.

An Iranian-Soviet agreement signed in 1975 greatly broadens the scope of their economic relations. It envisions joint undertakings in both countries that could eventually reach \$3 billion. Tehran already has agreed in principle to provide credits to build a paper complex in the USSR, to be repaid in paper products. [redacted]

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Didier Ratsiraka

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40-45

### INDIAN OCEAN: NEW DIRECTIONS

Significant political developments occurred this month in three island countries in the western Indian Ocean. In the Malagasy Republic, Didier Ratsiraka, the leftist who emerged on top last summer after months of jockeying in the military, formed a new government charged with implementing his plan for a centralized, socialist state. The Seychelles Islands, a British dependency, was promised independence next June. The Comoro republic was finally formally recognized by Paris despite a lack of agreement on the new state's territorial extent; the former French colony had unilaterally declared independence last July and was admitted to the UN in November.

#### Malagasy Republic

The 39-year-old Ratsiraka, a naval officer and architect of the radical nonaligned foreign policy Tananarive adopted in 1972, was inaugurated president on January 4 after consolidating his position in a referendum in late December. With moderate and conservative political forces in disarray following years of restrictions on their activities, Ratsiraka received a 95-percent "yes" vote on a measure making him president, adopting his constitution for the second Malagasy Republic, and approving his blueprint for a sweeping socialist revolution. Nine days after his inauguration, Ratsiraka named a new ministerial team that will clearly be expected to do his bidding.

Despite what appears to be a ringing endorsement of his radical program, the new President may have difficulty in getting cooperation from the passive and conservative peasantry of

Madagascar. Rather than aggressively pursuing nationalization and other planned measures, Ratsiraka may well decide to emphasize political organization and indoctrination for the next few months. He will probably move quickly to establish the single political party called for in the constitution, organize the "popular army" of young Malagasy that he proposes to send to the countryside to spread his gospel among the peasants, and put his imprint on the media and on the educational system.

In foreign affairs, Ratsiraka can be expected to continue a policy that emphasizes close cooperation with communist and radical third-world countries. He has developed particularly close ties with Peking. An economic and technical cooperation agreement signed last July provided Tananarive with by far the largest loan it has received from any single source in recent years. An aid agreement was concluded with the Soviet Union in October, but Moscow was much less generous with its largesse than the Chinese. In his inaugural address, Ratsiraka reiterated Tananarive's support for revolutionary causes everywhere. He called for the dismantlement of all foreign bases in the Indian Ocean, particularly the US facility on Diego Garcia.

Ratsiraka has shown no willingness to resolve the stalemate with Washington over the NASA tracking station he ordered closed last summer until the US pays rent he claims it owes. Malagasy security forces sealed off the station, and the US—which has accepted the closing as final—has been unable to recover its equipment.

#### Seychelles Islands

London announced last week that it will grant independence to the Seychelles on June 28. The announcement followed four days of talks between British officials and leaders of the self-governing colony, which has a population of approximately 60,000. The agreement makes provision in principle for continuation of the US satellite tracking station on the island of Mahe, for regular use by US and UK military aircraft of the civilian airfield on that island, and for denying use of the archipelago to hostile powers.

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The UK also agreed in principle to transfer back to the Seychelles sovereignty over three small islands detached in 1965 to become part of the far-flung British Indian Ocean Territory. The territory was created to provide sites for UK and US military facilities, but no installations have been established on the three former Seychelles islands. The territory includes the Chagos Archipelago—where Diego Garcia is located.

### Comoro Islands

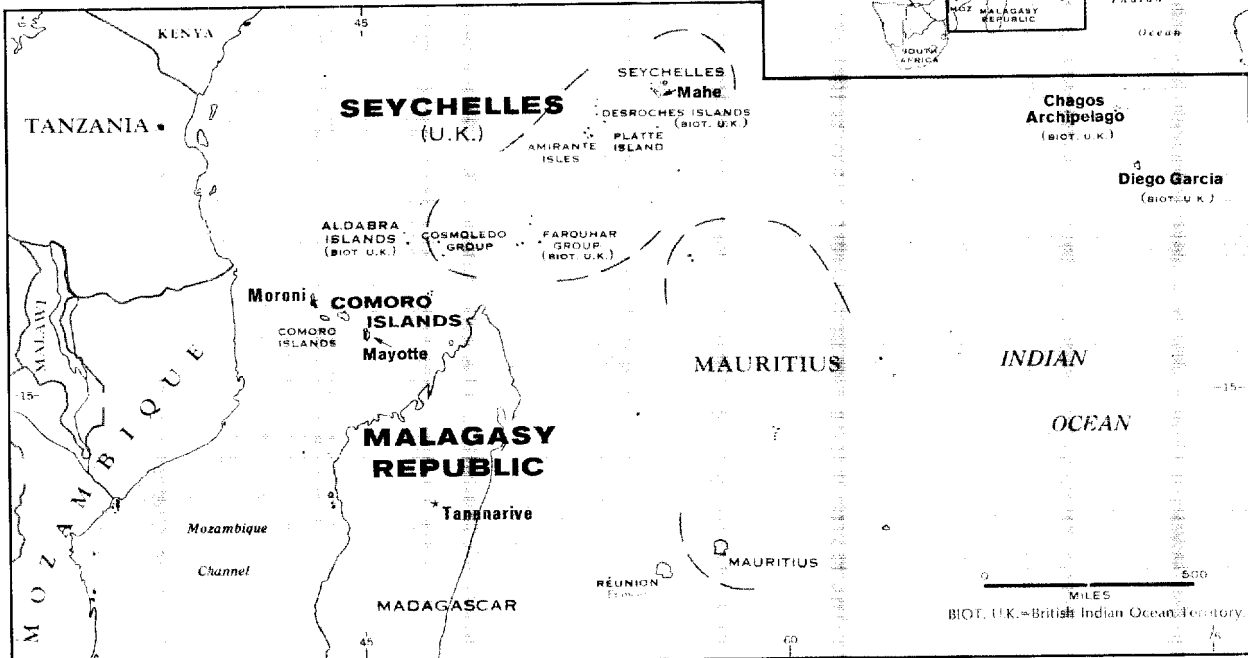
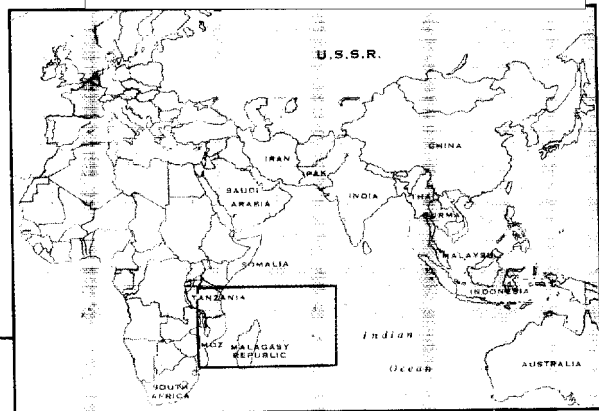
Relations between France and the Comoran government have been strained since the Comoros' independence declaration because of a dispute over the breakaway island of Mayotte. Mayotte culture is heavily French and Christian, and its inhabitants want to remain under French rule. Muslim culture predominates on the other islands, and Arabs dominate the central Comoran government.

In formally recognizing the Comoros as a sovereign state, the French did not concede the

inclusion of Mayotte as demanded by the government in Moroni. Instead, Paris announced that a referendum will be held within two months in Mayotte to determine whether it will stay French or join the other three islands in the independent state. The residents are almost certain to vote to remain with France. A second referendum will then be held to determine the form of Mayotte's future association with Paris.

The Comoran government is sure to be incensed by such developments. It can be expected to continue to challenge France's right to keep Mayotte and may well raise the issue in the UN and OAU.

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ITALY

46-48

**OPTIONS NARROWING FOR MORO**

Early parliamentary elections are a stronger possibility now than at any time since Aldo Moro began his search for a new government three weeks ago. Moro is having considerable trouble in his effort to form a caretaker government composed solely of Christian Democrats. Negotiations for such a stopgap solution began early this week after previous bargaining had failed to produce agreement on any formula for a coalition with two or more of Italy's four center-left parties.

Moro initially aimed for a revival of the center-left coalition of Christian Democrats, Socialists, Social Democrats, and Republicans that has governed Italy for most of the last 15 years. The Socialists, who brought down Moro's previous government on January 7, ruled that out immediately. A key tenet of current Socialist policy is that the traditional center-left is "dead"—discredited with the voters. Moreover, it failed to recognize the pivotal role of the Socialists in assuring the Christian Democrats a non-Communist majority in parliament.

The Socialist counterproposal was for a coalition between themselves and the Christian Democrats only. Most Christian Democrats, however, are unwilling to split the cabinet portfolios evenly with the Socialists and fear that an alliance with the Socialists alone would enhance the Communists' ability to influence the government indirectly.

The Socialists next ruled out a Christian Democratic offer of a coalition with themselves and the Republican Party. The latter, in turn, could not be persuaded to form a coalition with the Christian Democrats and Social Democrats that would depend on Socialist parliamentary support. The failure of these alternatives reflects the long-standing economic policy dispute between the Socialists and the austerity-minded Republicans. Among the center-left parties, the Republicans have registered the strongest objections to the demands of the Socialists that their

economic program be substituted for the one unveiled by the previous government late last year.

In addition to economic policy differences, Moro's negotiations have foundered on continued Socialist insistence that the Communists be consulted more openly by any new government—a condition the Christian Democrats are unable to accept. Moro's latest problem, however, came late last week when his Christian Democrats said they were unwilling to form a caretaker cabinet unless Moro could first persuade the other three parties to pledge parliamentary support for a package of emergency economic measures. Moro's task would have been easier if his party had told him merely to get enough support for a majority. In that case, an agreement with the Socialists, though difficult to get, would have been sufficient.

Now, however, Moro must resume the difficult search for a compromise on economic policy between the Socialists and Republicans. Neither party seems in the mood for compromise, and both are saying they will not decide whether to support a Christian Democratic cabinet until Moro presents an economic program.

The obstacle course set up for Moro by the Christian Democrats suggests that they now see more advantages than disadvantages in early parliamentary elections, particularly if the alternative is a one-party cabinet that would leave the Christian Democrats open to attack from all sides. The Christian Democrats are striving, however, to create the impression that they are exhausting all alternatives in order to be able to blame the other parties if early elections become inevitable.

Few Christian Democrats can match Moro's negotiating skill, and he may yet produce an agreement. If he cannot find a compromise—one well-placed Christian Democrat has already predicted failure—his party will have to decide between asking another Christian Democrat to try to form a government or sending Moro's outgoing coalition to parliament for a confidence vote. Barring a last minute retreat by the Socialists in

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such a vote, Moro would lose—a development that would likely set the stage for early elections.

**LIRA IN TROUBLE**

49-53

The lira declined 6.4 percent between January 21, when Italian monetary authorities suspended official foreign exchange operations following Socialist withdrawal from the coalition government, and Wednesday, January 28. Rome threw in the towel after spending nearly \$1 billion during the preceding seven weeks to support the lira. The caretaker government is trying to line up credits to replenish foreign reserves, now at a dangerously low \$600 to \$700 million, exclusive of gold.

Capital flight is at the root of the lira's problems. A retreat from the more conservative policies that have brought Italy back from the brink of international bankruptcy and the threat of formal Communist involvement in government have resulted in a movement of capital out of the country. The January 14 disclosure of a report by the US Comptroller of the Currency that US commercial bank loans to Italy are classified as a poor risk added fuel to the fire.

Ironically, Rome's currency problems come on the heels of a dramatic recovery in the Italian current accounts position. The 1975 current account was in the red by less than \$200 million, compared with a \$7.8-billion deficit in 1974. The turnabout reflects a \$7-billion improvement in non-oil transactions that was achieved by raising exports while a severe economic contraction was cutting imports. With only a weak economic recovery in prospect and barring drastic policy changes, Italy should be able to maintain a close current accounts balance at least through the first half of 1976.

Preferring not to touch its gold, Rome is attempting to augment its meager foreign exchange reserves by obtaining credits from a variety of sources:

- Rome will probably request additional funds against its existing \$3 billion line of credit with the US Federal Reserve.

- Under recent changes in International Monetary Fund rules, Italy qualifies for a maximum \$530 million in additional drawings.

- The West Germans have offered to negotiate relending \$500 million Rome repaid under a \$2 billion gold-backed loan.

- Italy may also seek credits from the EC common borrowing facility.

The lira is unlikely to stabilize until either the political crisis is resolved or the central bank resumes intervention. If a new government can be formed without increased Communist influence, movement of capital into Italy would probably buoy the lira. The central bank will probably not step in until reserves are replenished through borrowing. West Germany and other EC members may tie credit access to limitations on Communist participation in the new government.

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**SPAIN: "...WITHOUT HASTE OR PAUSE"**

Prime Minister Arias' policy speech to the Spanish parliament on January 18 was more a declaration of intentions than the concrete program for change many Spaniards had hoped for. The general nature of his speech and the omission of several important reforms have disappointed both the leftist opposition which demands fundamental changes and the members of the establishment who favor opening up the regime. If the government continues along the path it has marked, it will encounter strong pressure from the left to increase the pace of liberalization and to broaden the extent of the reforms.

More significant, perhaps, will be the opposition from the entrenched far right which continues to dominate the Franco institutions. Some of the measures contemplated by the government, cautious though they are, will in effect ask

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Arias

ultrarightists to approve changes that will unseat them from positions of privilege and influence. Sooner or later—later, judging by the guarded tone of Arias' speech—there may be a head-on confrontation between the reform-minded government and Francoists who oppose all change.

The first skirmish came on January 23 when the Council of the Realm—a senior advisory body that forms part of the checks-and-balances system limiting the power of King Juan Carlos and his government—apparently vetoed the government's decree postponing parliamentary elections for one year. The government wanted

additional time to implement reforms that would make the new parliament more representative. The council reversed its vote three days later, but the far right had served notice that reforms will not go by unopposed.

The constitution is sufficiently vague as to leave unclear whether the two rightist strongholds—parliament and the Council of the Realm—can prevent the King and cabinet from redistributing power. The cabinet would prefer to have cooperation from the right, however, and will strive for a compromise solution. Arias may have struck such a compromise with the council last weekend by promising to modify the pace of reform in return for a retraction of the council's veto on the election postponement.

Arias' effort to conciliate the right was apparent in the glowing praise he accorded Franco and his legacy. He stressed gradual change "without haste and without pause" and carefully balanced his vague and restricted proposals for reform with heavy emphasis on law and order.

Notably absent from the prime minister's proposals was any direct mention of a constitutional referendum—which would be necessary for any meaningful reshaping of the Franco institutions—or of labor reforms. Apart from inflation, unemployment, and the wage ceiling, the major cause of labor trouble in Spain today is the anachronistic corporate labor structure. The government has spoken vaguely of improvements, but the recent wave of strikes may have set back planned reforms.

In spite of its shortcomings, however, Arias' speech did outline a cautious program of liberalization. He promised the government would set up a bicameral legislature, draft a new election law, and give political parties—except Communists and extremists—a chance to participate in the political system. Arias also proposed to relax restrictions on freedom of assembly and demonstration and spoke freely of establishing a "Spanish-style" democracy—a word Juan Carlos had hesitated to use when he addressed parliament at his installation three months ago.

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Prime Minister Wilson greets Icelandic Prime Minister Hallgrimsson during recent talks

56-57

**ICELAND-UK: COMPROMISE REACHED**

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Icelandic Prime Minister Hallgrimsson and British Prime Minister Wilson agreed ad referendum on a series of compromises to end the protracted fishing dispute between the two countries. The details of the agreement are being withheld pending approval by both governments, but Britain appears to have capitulated to most, but not all, Icelandic positions.

Since Hallgrimsson has been under heavy political pressure at home not to make any concessions, he intends to present the agreement to parliament for approval. The government's junior coalition party, in particular, has demanded that Iceland drive a hard bargain and could cause political trouble for Hallgrimsson if it appears that he has not held the line.

The key issue in the talks was conservation of cod stocks, traditionally the bulk of the British catch in Icelandic waters. Any new agreement will have to provide for a reduction of cod in the British annual catch. Reykjavik maintains that unless annual catches of cod are drastically reduced, supplies will be exhausted within the next four or five years. If the proportion of cod in the annual

catch is cut back, the Icelanders may be more willing to settle for a higher catch limit. The British press, however, recently claimed that Iceland is now seeking to limit British fishermen to an annual catch of 45,000 tons. Meanwhile, the British Trawler Association continues to argue that any agreement below 80,000 tons would severely harm the British fishing industry. In addition, Britain argues that 10,000 fishing-related jobs are in jeopardy at a time of soaring unemployment in the UK. The talks broke off last November after Iceland refused to budge beyond 65,000 tons and London insisted on 110,000 tons.

An eleventh hour challenge by Iceland almost scuttled the talks. Just hours before Hallgrimsson was scheduled to leave for London, the government's coalition partner forced Hallgrimsson to demand that London remove its trawlers from the disputed waters before talks could begin. The UK agreed to reduce the number of trawlers within the disputed zone and urged its fishing fleet to stay within a restricted area while the talks were in progress.



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61-62.

### SOUTHERN SOCIALISTS MEET IN PARIS

Representatives of a number of Socialist parties, predominantly from Mediterranean countries, discussed the role played by Communist parties in their respective countries at a meeting in Paris last weekend. Each stressed the uniqueness of his national situation.

French Socialist leader Mitterrand pointed to the French Communist Party's movement away from orthodoxy and said this had been fostered by the Socialist-Communist political alliance and common program. In sharp contrast, the Portuguese representatives described the Portuguese Communist Party as following a Stalinist model and said Portugal has chosen socialism, "which guarantees democracy," over the extremes of left and right.

The Spanish made clear that common programs and alliances on Mitterrand's model are not in the cards for them, at least for some time.

Spanish Socialist leader Gonzalez advocates legalization of Spain's Communist Party to prevent its profiting from a martyr role and to discourage Communist infiltration of Socialist groups. He did suggest, however, that his party would consider joining a broad coalition of all left-of-center opposition forces.

Italian Socialists, with an eye to negotiations then under way for a new government in Rome, made only noncommittal statements.

The most emotional exchanges of the conference came over an effort to condemn CIA along with such traditional targets as imperialism and colonialism. The final resolution—the result of compromise language suggested by Mitterrand—condemned "interference by intelligence services, actions such as have been underscored by the recent investigations in the United States."

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Mitterrand (l) confers with Italian representative Mario Zagari(r)



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63-67

**GREECE-TURKEY: BLEAK PROSPECTS**

Greece and Turkey have made little progress in off-and-on talks to resolve their disputes over the Aegean and Cyprus, despite the hopes raised late last year by a productive meeting between the Greek and Turkish foreign ministers in Brussels.

Talks on airspace rights over the Aegean were resumed in Athens on January 13 after being stalemated for several months. They broke up on January 24, however, without making any progress on the question of advance notification for military flights which has been the major stumbling block all along. Ankara insists on a "security zone" extending several miles out from its Aegean coast. It would require the Greeks to provide advance notification for military flights entering or originating in the zone. Athens sees this as an infringement of its sovereignty over the Greek islands off the Turkish coast and has refused to consider it unless the Turks are willing to give similar notification for their military flights within a zone extending an equal number of miles inland from the Turkish coast. Ankara apparently again refused to consider full reciprocity at the latest round of talks.

The foreign ministers' agreement to begin meaningful negotiations on the Cyprus controversy is also not faring well. A new round of intercommunal talks is tentatively set to begin in Vienna on February 17. It is becoming increasingly unlikely, however, that the negotiators will come to grips with substantive issues. The two sides threaten to become bogged down in a wrangle over procedural questions, largely because the weak coalition government in Ankara seems unwilling to make the politically risky decisions necessary for serious talks and to prod the Turkish Cypriots to follow suit.

The breakup of the talks on airspace rights and the continued stalemate on the Cyprus problem will probably adversely affect the two countries' talks on the important continental shelf issue. These will commence in Berne on January 31 after several months of haggling over an agenda. The Greeks had insisted that the meetings deal

solely with formulating the terms of reference for submission of the issue to the International Court of Justice, while the Turks want the issue to be settled in bilateral talks. Agreement to hold the talks was finally reached when the Greeks offered to consider any proposals submitted by the Turks that might narrow the differences between them before they considered terms of reference for the Court.

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**MBFR TALKS RESUME**

The eighth round of force reduction talks between members of NATO and the Warsaw Pact began in Vienna this week. The previous rounds had produced little tangible progress, but toward the end of the last session, NATO tried to give the talks new impetus by offering to reduce some of its nuclear forces in Central Europe in return for the withdrawal of a Soviet tank army.

The Warsaw Pact, which had expected the proposal for some time, promised to give an official response this round. A recent detailed commentary that appeared in *Izvestia* said that the offer was merely a continuation of NATO's efforts to obtain a unilateral advantage, indicating that the proposal will be unacceptable in the form presented.

The Soviets, however, might like to retain one ingredient of the NATO proposal—acknowledgement that nuclear forces should be reduced. So far the Soviets have given no hint as to how they will try to extract the desirable elements of the proposal from the remainder. It is possible they will not give a formal reply or make a counterproposal until after their party congress, which opens late next month.

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### CEMA: SUMMIT PLANS

A leading Soviet economist says that the CEMA summit will definitely take place "this summer." The summit would differ from the annual CEMA meetings in that the countries would be represented by party, as well as government leaders.

The meeting, which was originally planned for last November in Moscow, has run into a series of snags. The parties had a problem working out the details of plan coordination and trade for the 1976-80 period, which had to precede a meeting of the top leaders. There was also disagreement between Romania and the USSR about the direction of CEMA in several key areas.

The Soviets say that the summit will discuss further CEMA integration, especially in the agricultural and machine building sectors of the economy. They argue that coordination and specialization of production promotes greater efficiency and guarantees the East Europeans a market in the USSR for products often not wanted by the West.

The Soviets claim that Romania often

declines to participate in coordination projects at the outset, but usually joins in when it sees the practical advantages. Even so, Romania and presumably other CEMA member states are reluctant to give up control over the economic decisions that integration would entail.

Another sharply debated subject has been the proper relationship between the CEMA countries and the EC. The Romanians want as much flexibility as possible in dealing with the EC directly without going through the CEMA structure. The Soviets want to maximize CEMA's role.

The Romanians have agreed to a recent CEMA decision to negotiate a framework agreement with the EC, which would be signed by both organizations and their individual member states. Bucharest believes that such an agreement will open the way for concluding separate agreements between the EC and the East European states. The Soviets, on the other hand, believe that the framework agreement will establish the principle that CEMA has an important role to play in relations with the EC [redacted]

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### WARSAW IDEOLOGICAL CONFERENCE

Party secretaries from the Warsaw Pact countries, Cuba, and Mongolia met in Warsaw Monday to discuss the Helsinki accords and intensified efforts to counter the corrosive effects of detente on Communist discipline. They may also have discussed coordination of foreign policy and propaganda.

The participants, led by Soviet Politburo candidate-member Boris Ponomarev, are responsible for interparty relations and propaganda. Their ideological duties and the treatment of their talks in Communist media suggest that the meeting was similar to those held in Moscow in late 1973 and early 1974 and in Prague last March. This time, as on those occasions, the participants called for increased efforts to hit back at alleged Western attempts to

75-76

"distort the policies of the socialist countries." They also reaffirmed their determination to tout the "true achievements of socialism" to all the world.

The meeting followed a crescendo of Soviet press articles citing the threat of "ideological penetration" and calling for increased unity and solidarity throughout the Soviet orbit. Moreover, simmering differences had appeared in East Berlin at this month's preparatory session for the European conference of Communist parties. Given Moscow's continuing difficulties in obtaining agreement at the East Berlin meetings, the Kremlin probably wanted to pursue its quest for greater unity in a more friendly forum. [redacted]

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### INDONESIA: MOVING AHEAD ON TIMOR

#### A Stage-Managed Visit

Secretary General Waldheim's special representative left Timor on January 22 after a three-day fact-finding mission. The Indonesians made meticulous preparations for this trip, clearing up war damage and concealing the presence of heavy military equipment and Indonesian regulars. The carefully coached leaders of the pro-Indonesian regime in Dili assured the UN representative that they are in control and that they did not want any referendum on the territory's future because they had already decided to integrate with Indonesia.

The Indonesian-controlled Timorese leaders used poor weather and lack of adequate landing fields to frustrate the fact-finder's plans to visit areas not yet under full Indonesian control. The UN representative on his return to Jakarta said that he was fully aware he was on a conducted tour, but admitted that he was impressed with the competence of the Timorese leaders he had met. He said he had detected no sign of Indonesian military forces.

Jakarta may yet encounter some problems with the UN visit. Lisbon Radio on January 28 announced that Portugal was willing to use a Portuguese frigate that has been operating in the Timor area for some time to carry the fact-finder

to the southern coast to contact Fretilin leaders. Even if the UN mission were to make a report critical of Indonesia, however, there would be little sentiment at the UN to renew debate on the Timor issue.

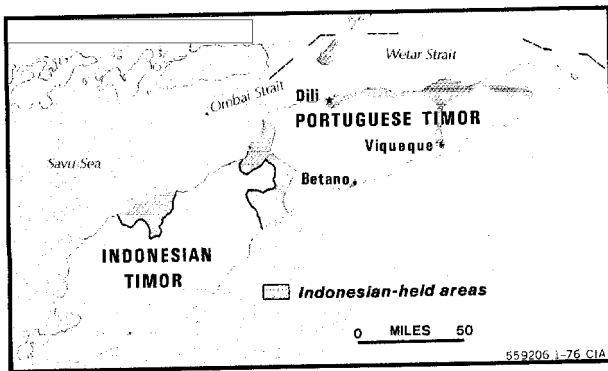
#### Military Campaign Advances

Indonesian forces are continuing gradually to reduce areas controlled by Fretilin in East Timor. Army and marine units on January 27 landed on the south coast and quickly captured the town of Betano. Another force from the north moved into Viqueque, a district capital and Fretilin stronghold. The Indonesian forces intend to move on to capture the few remaining towns in this area, close resupply and escape routes, and force the dissidents back into more sparsely populated areas.

Most significant towns were captured shortly after the Indonesian landing on the north coast in early December. Heavy monsoon rains and rugged terrain plus lackluster leadership and poor troop performance have slowed operations. The Indonesians have also suffered unexpectedly high casualties with some units reporting losses as high as 10 percent. Nevertheless, Jakarta's forces should secure the few remaining towns by the end of February.

Faced with declining morale and overwhelming Indonesian strength, Fretilin leaders are using hit-and-run tactics.

Such activity, however, is not apt to pose a serious threat to Jakarta's control. Fretilin will have great difficulty securing outside assistance. The insurgents lack any secure sanctuary, and the island is far from possible sources of supply. A hard core of resistance could continue for some time, however, forcing Jakarta to maintain substantial forces in East Timor.



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Komoto

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### JAPAN: LUBRICATING MIDEAST LINKS

Trade and Industry Minister Komoto's visit to the Middle East earlier this month—the first by a Japanese minister in two years—was a notable step in Japan's efforts to strengthen its ties with Iran and the Arab world. Tokyo initially overreacted to the oil embargo in 1973 by making massive commitments of aid and investment to the key Middle Eastern nations. It then dragged its feet after oil supplies became more plentiful. Tokyo has been unsuccessful in appreciably reducing its dependence on Middle Eastern oil, however, and is again seeking a more substantial involvement in the Middle East.

Already, overall annual trade has expanded to some \$16 billion a year, and Japan's share of the Middle Eastern market is growing faster than most other developed countries. The Japanese are running a substantial deficit in their trade balance with the Middle East—about \$9 billion in 1975. Japanese investment in the Middle East totals

about \$1.5 billion, placing Japan fourth behind the US, the UK, and the Netherlands. The Japanese now supply 17 percent of all technology imported by the Middle Eastern countries, and Arab leaders have been very laudatory of Japanese technical know-how.

Komoto visited Iran, Iraq, Egypt, and Saudi Arabia. In Iran, he reached a compromise on a long deadlock over financing of a huge petrochemical complex and discussed the construction of an export oil refinery. Under instructions to avoid new aid commitments where possible, Komoto avoided outstretched palms in Iraq. In Cairo, the trade minister offered the Egyptians an additional \$100-million ExIm Bank line of credit over the next three years for the purchase of Japanese goods, but because Egypt has little to offer Japan economically, future aid is not likely to be overly generous. In Saudi Arabia, agreement was reached on establishing a joint committee to deal with industrial and technical cooperation, and various joint venture proposals were also discussed.

Basically, Tokyo continues to pursue the three occasionally incompatible objectives of satisfying Japan's resource and commercial needs, keeping in step with US diplomatic efforts, and making at least a partial effort to support Arab political and diplomatic positions.

The Arabs, for their part, continue to press for more Japanese political support, particularly in the UN. In response, the Japanese have taken a number of steps recently to appear more forthright. This week, they supported the UN Security Council resolution calling for an independent Palestinian state and Israeli withdrawal from all Arab territories occupied in the 1967 war.

Japan has also agreed to a PLO information office in Tokyo, but without diplomatic status. In general, the Japanese government believes that respect for Palestinian rights to self-determination is indispensable to a Middle East settlement and that Israel must withdraw to the boundaries existing prior to the 1967 war. However, Japanese officials are clearly reluctant to state this too openly lest Japan harm US diplomatic efforts.

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Tokyo also fears that if international pressure on Israel becomes too great, the Arabs will be encouraged to make unrealistic demands and Israel, feeling more isolated, will only adopt a harder line. Furthermore, Japanese officials realize that the Arabs consider Japan the "weakest link in the Western chain," leading them to exert special pressures on Tokyo. Prime Minister Miki would like to visit the region at some point and has invited several leaders to visit Japan later this year, including Jordan's King Husayn, Moroccan Premier Osman, and Egyptian President Sadat.

Tokyo, wherever possible, will continue to seek cooperation and coordination with the US in dealing with the Arabs, not only diplomatically but commercially. In the economic field, the Japanese want to avoid excessive competition with the US, which would strengthen the bargaining position of Middle Eastern countries.

the Mekong, imposing an economic blockade that was only partially lifted in early January. The severe economic dislocations that Vientiane experienced during the blockade may have convinced the Lao that they must continue to depend on Thai transit routes and sources of supply to obtain needed goods and basic commodities.

The Thai will be reluctant to abandon this chief point of leverage with the Lao before obtaining some agreement on other issues, including arms smuggling into Thailand and the continuing small influx of Lao refugees. The Khukrit government is anxious to show that its policy of accommodation with neighboring communists is succeeding, but, if Chatchai does go to Vientiane, he is not apt to make any major or unilateral concessions to the Lao that would invite more criticism from right-wing elements in the Thai military

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[Redacted]

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**LAOS-THAILAND: WARMING TREND**

The Lao communists have apparently agreed to hold talks on border issues with the Thai government. Thai Prime Minister Khukrit announced the forthcoming talks last week following a meeting with a Lao official visiting Bangkok. A Thai Foreign Ministry spokesman has said that Foreign Minister Chatchai is "free" to visit Vientiane early next month, and Chatchai claims the Lao have agreed to reconvene the existing border committee, which last met in January 1975.

The Thai may be premature in announcing new talks. The Lao have not yet made an official announcement of any impending visit by Chatchai; they have hinted, moreover, that they may insist on some prior concessions as evidence of Thai goodwill before talks are held.

The main objective of the Lao is apparently to persuade Bangkok to relax its restrictions on Thai-Lao trade. The Thai closed the border in mid-November following a serious clash along



Prime Minister Khukrit

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## PERU: PROMOTION PROBLEMS

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The military government's efforts to cope with the country's grave economic problems have been complicated by maneuvering for the annual round of military promotions and reassignments scheduled for next week. The most troublesome personnel problem for President Morales Bermudez is whether to promote Army Chief of Staff Fernandez Maldonado to prime minister and minister of war. A number of officers in all three services reportedly believe that Fernandez Maldonado's leftist views would be particularly disruptive in the present economic circumstances.

As army chief of staff, Fernandez Maldonado is next in line for the prime minister post, but the issue presents Morales Bermudez with a difficult decision. On the one hand, the President does not share Fernandez Maldonado's radical ideology and would prefer having as prime minister an officer more inclined to support the economic austerity measures now backed by the civilian economy minister. Also, the President would like to avoid possible criticism from more moderate members of the military who may believe he is unwilling to move decisively against leftist-leaning officers closely associated with former president Velasco.

At the same time, if Morales Bermudez forces Fernandez Maldonado into retirement for political reasons, he leaves himself open to charges that, like Velasco, he is circumventing established lines of military advancement. The President also has to worry about opposition to Fernandez Maldonado's ouster from leftist civilian groups. Leftist representatives of the unions and the news media, with which Fernandez Maldonado maintains ties, were sharply critical of the administration last fall after Morales Bermudez ousted two other radical generals.

As things now stand, it appears likely that Fernandez Maldonado will assume the post of prime minister on February 1, but the President will keep close tabs on his activities so he cannot use his new position to obstruct socioeconomic



Morales Bermudez

policies favored by the President. Thus, Fernandez Maldonado's prospects for retaining the prime ministership for an extended period are not bright and are likely to depend in part on the administration's success in solving economic problems.

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**OPEC PRODUCTION IN 1975**

For OPEC as a whole, 1975 was a year of wide fluctuations in production caused by price changes and inventory adjustments. Crude oil production averaged 27.2 million barrels per day, the lowest level in three years. Sharp swings in output caused considerable concern to the oil-exporting states, yet the cartel remained stable.

The market shares of most OPEC states show little change when production for the whole of 1975 is compared with annual output of previous years. During the year, however, there were extremely wide, almost traumatic, shifts among individual OPEC members. Even those managing to keep their share of overall oil sales relatively stable found their revenue positions weakened by the contracted market.

As OPEC production was declining from January to April, countries exporting high-quality (low-sulfur, high-gravity) crudes were bearing a disproportionate burden of cuts. The companies deemed this crude overpriced in view of the selling price for its derived products. The pricing problem was compounded by depressed tanker rates, which led to overpricing in exporting states closer to the market. Coincidentally, several producers of high-quality crude retained the transportation premiums. Drawdowns of excessively high crude inventories by major companies reduced the need for oil from OPEC states, further exacerbating the situation.

Particularly hard hit were Libya and Abu Dhabi. Libyan production fell to less than one million barrels per day in the first quarter of 1975, a level insufficient to cover foreign payments requirements, and Tripoli was forced to cut prices. Abu Dhabi's output was cut to 750,000 barrels per day, a 40-percent drop, in a price dispute with the foreign operators.

The cartel members accepted a certain degree of price shaving to try to keep sales from declining. Iraq had already been taking advantage of price cutting, apparently well beyond OPEC-sanctioned levels, to boost sales to record levels. Baghdad registered the largest gain in OPEC market shares in early 1975. Iran also improved its

market position. Venezuelan oil sales declined, largely because of government conservation measures, while its market share remained stable. Saudi Arabia, in the role of swing producer best able to sustain sizable production cuts, absorbed the largest portion, easing the pressure on other cartel members.

New demand patterns and changing refinery profits from using various types of crude radically altered the pattern of OPEC oil exports set in early 1975. By late spring, OPEC production was on the upswing, with producers of light crude garnering most of the additional sales. Record sales of gasoline were achieved in the summer, a season that generally favors relatively higher demand for light products and thus light crudes. Output in Libya and Abu Dhabi rebounded. Both countries imposed production ceilings to prevent the companies from taking excessive volumes of their crude in lieu of crude from other OPEC states.

In the fall, demand for heavy products was still lagging while heavy fuel oil inventories—built up as a major byproduct in the manufacture of gasoline—flooded the market. Extreme pressure was placed on OPEC countries with large volumes of heavy crude—Iran, Kuwait, and Venezuela—to shave prices. The latter two countries were in the midst of negotiations to fully nationalize their oil industries, a factor also contributing to uncomfortably low production levels. Other cartel members being increasingly squeezed by reduced oil exports began to attack Iraq's pricing policy late in the year.

OPEC output started a gradual recovery during the last two months of 1975, with the trend likely to continue this year. December production was almost 400,000 barrels per day greater than last January, and the normal seasonal upswing in demand should boost output further during the next month or two. With economic recovery under way in the US and Japan and with upturns expected in several major West European countries this spring, second quarter consumption should run ahead of last year. Almost all of the growth in oil supplies will come from OPEC states.

The immediate outlook for producers of

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heavy oil, however, is not good. Economic recovery is not likely to be fast enough to soak up the current oversupply of heavy oil. Some markets for heavy fuels have been lost indefinitely to natural gas and coal. OPEC states that were relatively unscathed in the early months of 1975

will be forced to press for a realignment of OPEC differentials. This could benefit the light crude producers, several of which have already raised prices in the absence of sufficient price cutting by heavy crude producers. [redacted]

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**IMF: LOANS FOR DEVELOPING COUNTRIES**

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The access of developing countries to International Monetary Fund resources will increase by up to \$4.5 billion as a result of decisions made at the IMF meeting in Jamaica earlier this month. The developing countries will further benefit from the sale of part of the fund's gold holdings, which could add another \$2 billion to available funding over a period of years. The increase in fund credit lines to developing countries, at least in the short term, will more than offset the loss of credit available from the fund's Oil Facility, which is being phased out. In 1975 developing countries drew roughly \$1.7 billion from the fund, mainly from the Oil Facility, to help cover their \$39-billion current account deficit.

tries' access to the fund's compensatory financing facility. The aim of this facility, which has been in operation for 12 years, is to extend balance-of-payments support to exporters of primary products when their earnings dip because of periodic price declines.

Of the \$4.5-billion total new access, \$3.5 billion comes from a temporary 45-percent increase in developing countries' drawing rights against their fund quotas. Most developing nations will not fully utilize the higher quota rights. Some do not need fund credit, and others prefer to use alternative sources of credit with fewer strings attached or more favorable interest rates. We estimate ultimate developing-country drawings against the new quota lines at about \$1.5 billion. Once the revised IMF articles are ratified, perhaps 18 months from now, the temporary 45-percent increase in access will be replaced by a permanent 31-percent increase; this will trim the \$3.5-billion increase in available funds to \$2.4 billion.

A trust fund established with the profits from the sale of roughly 18 million ounces of fund gold will provide highly concessionary long-term assistance to poorer developing nations. The amount realized will depend on the market price of gold. If central banks step in and purchase gold to prevent the fund sales from driving down market prices, the gold sale could produce more than \$2 billion. Fund auctions without substantial central bank purchases would likely drive prices down, reducing the amount the developing countries will receive.

The remainder of the \$4.5 billion comes from a \$1-billion increase in developing coun-

In 1975, fund lending covered approximately 4 percent of the combined \$39-billion current account deficit of developing countries, and it should cover a similar proportion of the somewhat smaller 1976 deficit. Once the trust fund established from the gold sale starts operating, it could prove the most important source of financing for the developing nations. The timing and nature of these operations have yet to be decided. Nearly 95 percent of the 1975 fund lending was done via the Oil Facility with few conditions attached. The shift to other types of fund credit this year means more of the lending will carry stricter economic policy conditions [redacted]

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