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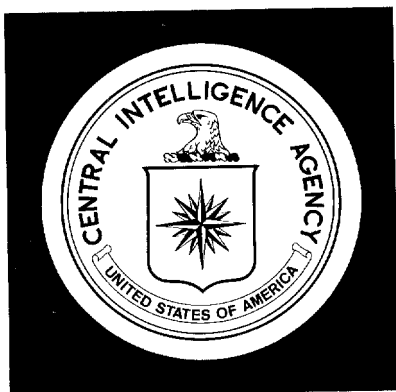
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Weekly Summary

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CI WS 76-043

No. 0043/76

October 22, 1976

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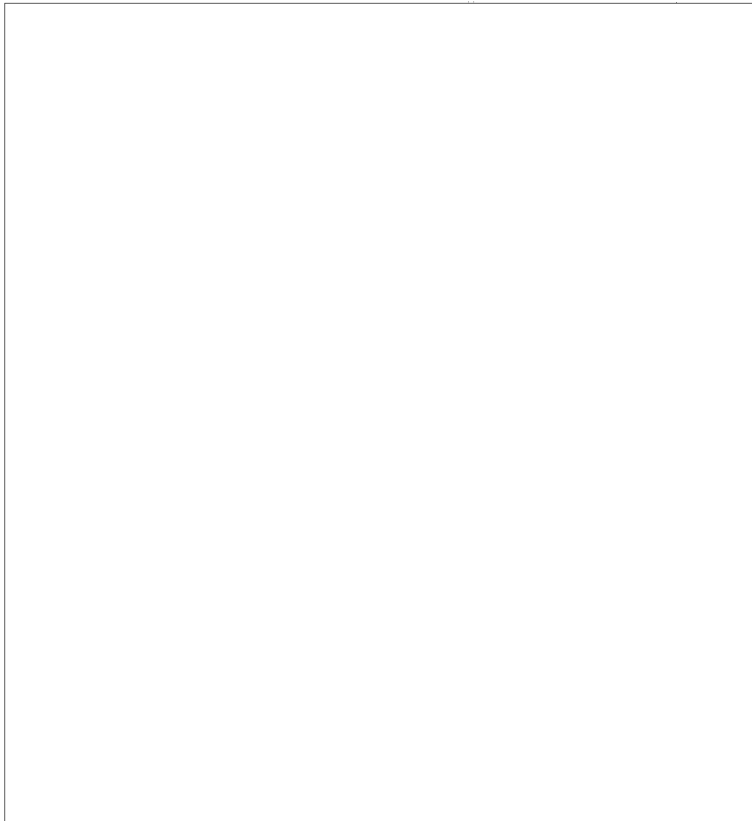


CONTENTS

October 22, 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.

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- 1 Middle East**
Lebanon; Egypt-USSR;
Egypt
- 2 Africa**
Rhodesia
- 3 Europe**
Italy; Poland; Currency Float;
USSR; USSR-China
- 6 Far East**
China; Thailand
- 7 Western Hemisphere**
Canada; Cuba; Guyana;
- 9 Libya: Military Program**
- 12 Cuba: Institutionalization Progresses**
- 14 Argentina: Junta Relations with Labor**
- 16 EC: Divisive Fisheries Issue**
- 19 International Impact of Oil Price Rise**

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

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At summit in Riyadh, King Khalid (r) of Saudi Arabia chats with presidents Sadat (l) of Egypt and Asad of Syria

Middle East

LEBANON 1-2

Syrian President Asad scored a major political victory this week at the six-party Arab summit in Riyadh, gaining a freer hand for Syria to bring the Lebanese civil war to an end on its own terms.

Asad, along with the heads of state of Egypt, Saudi Arabia, Kuwait, and Lebanon, and Palestine Liberation Organization chairman Yasir Arafat, agreed on October 18 to a nine-point formula for ending the fighting in Lebanon that in effect gives Syrian forces a dominant role.

Asad—mainly out of deference to the Saudis—papered over his bitter feud with Egyptian President Sadat. In doing so, Asad apparently succeeded in neutralizing Egyptian support for the PLO in exchange for the largely symbolic concession of implicitly acknowledging Sadat's claim to Arab leadership.

The PLO appears to have emerged as the main loser. Arafat has had to bow to the inevitability of a long-term Syrian military presence in Lebanon and to accept Syria as the enforcer of the restrictive Cairo accord of 1969 regulating the Palestinian presence in Lebanon. Arafat

did buy some time and room to maneuver and has managed at least temporarily to hang on to his position as head of the PLO and Fatah.

As a first step, the Riyadh peace plan calls for a general cease-fire by October 21 and subsequent withdrawals of all combatants from the major areas of fighting within another 5 to 10 days. The job of supervising these withdrawals and enforcing the cease-fire has been assigned to an expanded Arab League force of 30,000 men, ostensibly under the control of Lebanese President Sarkis. Syrian forces will almost certainly make up the bulk of this force and take their instructions from Damascus.

A full-scale Arab summit has been scheduled for October 25, presumably to endorse the Riyadh agreement and to try to keep implementation on track.

According to the present timetable, the provisions of the Cairo accord would be applied only after the withdrawals are completed. If the accord is strictly enforced, the Palestinians would be restricted to their refugee camps and have to give up their heavy weapons. In effect, they would be severing their political ties with the Lebanese left. The more radical fedayeen groups are certain to resist this, and Arafat himself is likely to try to avoid strict compliance in order to thwart Syrian efforts to gain greater control over the PLO.

The Syrians' Christian allies will probably be extremely reluctant to go along with all the provisions of the Riyadh agreement and have reportedly expressed private skepticism that the plan will work. Their forces continued to shell Palestinian positions in Beirut and Alayh this week and to press an assault on Marj Uyun, an important leftist stronghold in southeastern Lebanon near the Israeli border. The Israelis apparently have at minimum provided these Christian forces with artillery support from the Israeli side of the border.

Otherwise, all sides seem to be marking time until they can consult with their allies. Arafat flew to Baghdad after the Riyadh summit to confer with Iraqi leaders, who have provided him with arms and men, and then to Damascus to talk with Palestinian leaders there. Asad stopped in Amman to brief King Husayn on the outcome of the summit and will probably meet with Lebanese Christian representatives sometime soon.

Slippage in carrying out the Riyadh agreement seems inevitable. Should Arafat give the Syrians any opportunity to accuse him of bad faith, Asad would be in a stronger position to justify a renewal of military operations as a legitimate part of Syria's enhanced peacekeeping role in Lebanon. The Syrians may be hoping for just such an excuse.

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EGYPT-USSR

Egyptian Foreign Minister Fahmi may be planning a trip to Moscow soon, possibly as early as next week.

Although Fahmi's deputy denied to the US embassy on October 18 any knowledge of a visit, an American journalist says he learned from another "high official" that the visit is in the offing.

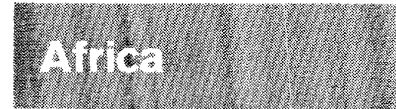
President Sadat has been under occasional pressure from Fahmi and other advisers to improve ties with the Soviets in order both to counter the impression that Egypt is wholly dependent on the US and to induce Moscow to resume deliveries of military equipment. Neither the Soviets nor the Egyptians, however, have followed through with any moves toward a significant easing of tensions.

Throughout the past summer, Sadat repeatedly attacked the Soviets in public

statements, often linking them to Libya's subversive actions in Egypt and elsewhere in the Arab world. Cairo may now feel it advisable to reopen the channel to Moscow in the period before the US presidential election.

The Egyptians are counting on the US to resume negotiations with Israel next year on a Middle East settlement and to consider substantial military aid for Egypt. They probably hope to restore a degree of amicability in their relations with the USSR, however, lest diplomatic and military assistance from the US not materialize.

Egypt no doubt expects little from the recent Soviet proposal to reconvene the Middle East peace conference at Geneva, but the Egyptians will want to appear to be supporting it in order to maintain pressure on the US to recommence peace negotiations. [redacted]

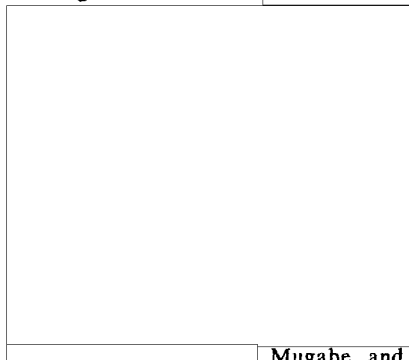


RHODESIA *5-9*

The British have delayed until October 28 the start of the Geneva conference on the formation of an interim government in Rhodesia to allow the participants more time to prepare.

The "front-line" African presidents and the Rhodesian nationalists are still insisting publicly that the conference must effect an immediate transfer of power to the black majority and that Britain must play a major role in Rhodesia during the transition period. Rhodesian Prime Minister Smith, on the other hand, continues to maintain that the settlement terms he announced last month are non-negotiable and that the security forces must remain under white control throughout the period of interim government.

The "front-line" presidents are aware that continuing nationalist disunity could threaten the transition to black rule by allowing Smith to play off the rival factions against one another. [redacted]



[redacted] Mugabe and Nkomo have publicly joined forces in a temporary "patriotic front," and Muzorewa may enter the alliance. The three nationalist leaders continue to distrust each other, however, and each will be seeking opportunities to enhance his own position.

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3-4

Egypt Seeking Financial Support

Egypt is trying to muster an additional \$1 billion in balance-of-payments support to prevent a substantial cutback in imports and consumption in the coming months.

Last year, Arab cash aid covered about two thirds of Egypt's \$3-billion external financial gap. Only about \$1 billion in Arab aid has been disbursed so far this year, and unless more cash aid is received over the next two months Egypt may be forced to cut back drastically on imports of food, consumer durable goods, and industrial inputs.

Egypt has postponed payment on many of its foreign debts to free cash for needed imports. Last month, debt service arrears totaled \$700 million—equivalent to 70 percent of the balance-of-payments financing that Cairo is still seeking for 1976.

During the last several years, Egypt's creditors have tolerated periodic delays in repayment on the assumption that Arab aid would be forthcoming. Now, with both Saudi Arabia and Kuwait advertising their dissatisfaction with Egyptian financial practices, creditor patience is

waning. US banks reportedly are reluctant to refinance even relatively small \$1-million to \$10-million 180-day credits.

The newly established Gulf Organization for Development in Egypt may provide half the sum that is needed this year. The organization probably will guarantee \$250 million in Western bank loans and has offered an additional \$250 million in direct balance-of-payments support, although negotiations have bogged down.

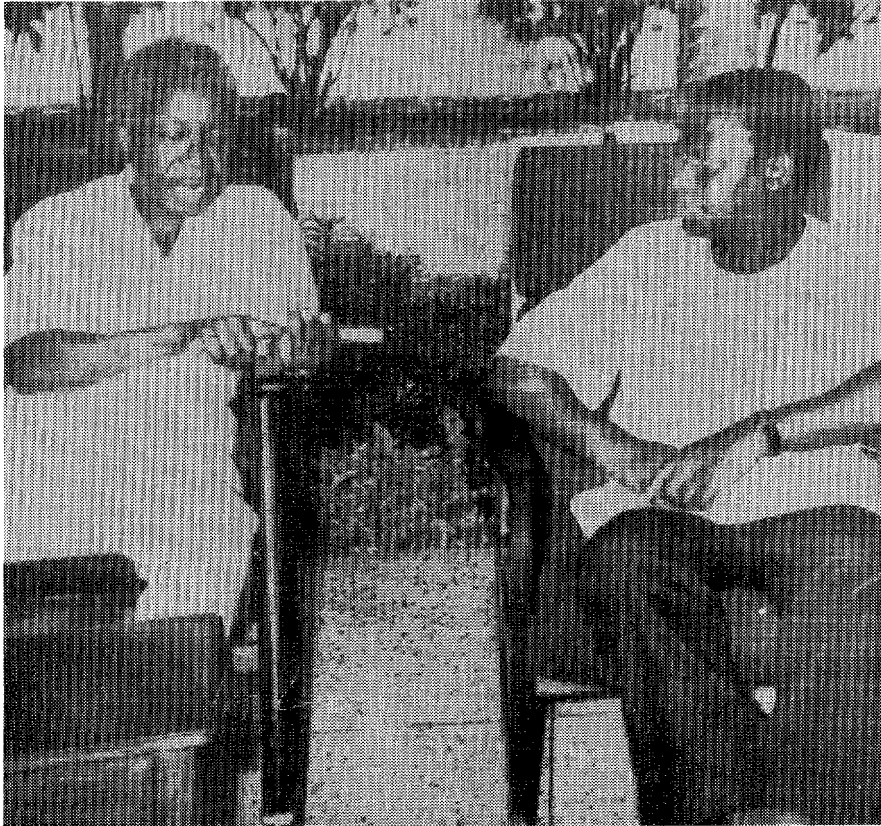
Egypt also hopes Iran will provide \$250 million in loan guarantees. If all these funds materialize, the remaining shortfall could be financed with a rollover of short-term debt or continued deferment of repayments.

Egypt's balance-of-payments problems will continue into 1977 even if Cairo obtains the credits it is seeking. Population growth and investment under the five-year plan probably will inflate imports, and exports will be hampered by capacity constraints and Israeli harassment of offshore oil development. [redacted]

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ZANU President Ndabaningi Sithole (r) at recent meeting in Dar es Salaam with President Julius Nyerere of Tanzania

modification of individual measures in Parliament, he would resign if the stabilization program as a whole were seriously challenged. The directorate, like the party's national council before it, passed a resolution unanimously approving the government's actions.

Addressing a meeting of the Communist Party central committee that was marked by dissension over Communist cooperation with Andreotti, Berlinguer suggested that the Communists have no alternative but to abstain on the government program. A vote against the program, he implied, would be irresponsible and would bring the economy to the brink of ruin, with grave consequences for Italian workers.

The Communists, by virtue of their parliamentary strength and their important assets in the labor sector, have become Andreotti's strongest ally in his struggle to gain acceptance for the stabilization measures. Last week, Communist Party and labor officials spearheaded a joint effort with Christian Democratic and Republican labor leaders to head off a nationwide general strike. Although the general strike was averted, localized work stoppages are being held to dramatize the workers' displeasure.

Despite an apparent realization among major labor leaders that the stabilization measures are needed, Andreotti's task remains gargantuan. When a two-week emergency surcharge on foreign currency purchases was lifted on October 18, the lira plummeted, prompting strong intervention by the Bank of Italy. The lira's future remains cloudy, and most brokers are forecasting further depreciation in the coming weeks. At the Italian stock exchange, the index hit a 19-year low.

Despite the new stabilization measures, Italy will soon have to seek additional credits abroad. An Italian delegation is expected at the International Monetary Fund within the next two weeks, and, although it has been officially denied, Andreotti is rumored to be seeking massive new foreign credits beyond the approximately \$500 million he hopes to get from the IMF.

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Europe

ITALY 12-15

Prime Minister Giulio Andreotti and Communist Party chief Enrico Berlinguer both sought this week to rally support from their respective parties for the government's new economic program in the face of a further assault on the lira and continuing labor unrest over proposed new austerity measures.

Andreotti told a meeting of the Christian Democratic directorate on October 18 that, while he would accept some

[Redacted]

Earlier this week, the British belatedly invited Sithole to participate in the Geneva meetings at the request of the "front-line" presidents.

Sithole, although the founder of ZANU, has lost influence within the nationalist movement.

[Redacted]

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POLAND 19-21

Dissident intellectuals are keeping pressure on the Gierek regime on behalf of workers who have suffered reprisals for their part in the demonstrations last June. The US embassy in Warsaw believes this campaign has been effective.

Last month, the intellectuals organized a "Workers Defense League," which issued an "Appeal to the People and Authorities in Poland." The document, signed by 14 well-known intellectuals, declared that the workers have been brutally persecuted for making demands that, in fact, were backed by almost all Poles. The appeal said that the only way to defend the workers successfully is to publicize government injustices.

In a subsequent "communique," the League alleged that 126 persons had been penalized by imprisonment or loss of jobs at Ursus and that 25 persons had been killed and more than 2,000 jailed in Radom. These figures are much higher

than those reported before.

The communique presented a financial statement for the League listing donations received and the amounts needed to support jobless families. One dissident told a US embassy officer that door-to-door solicitations are being made and that money is coming in through the mail. Some members are reportedly optimistic about the chances of civil liberties being recognized in Poland. Others, however, are warning that it is only the regime's weakness in the face of an impatient and unpredictable population that forces it to tolerate this kind of activity.

The Polish regime has shown itself sensitive to the criticism. In September, the Supreme Court revoked the sentences of seven workers who were given 3- to 10-year jail terms for their part in the Ursus demonstrations, and the regime has postponed or canceled further trials.

Last week, party leader Gierek reacted sharply to "opponents" who, he said, close their eyes to Polish achievements

and parade as "spokesmen of democracy, 25X1 protectors of national sovereignty, and even of the economic and social rights of the working people." [redacted]

USSR N.S.,

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The USSR Supreme Soviet is scheduled to convene on October 27. Sessions usually last one or two days. The meeting is expected to approve the new five-year plan, which was presented in skeletal form to the party congress last spring. It will also approve the annual plan and budget for 1977. If protocol is followed, Premier Kosygin will address the meeting and present the plan.

The Supreme Soviet gathering, and the more important meeting of the party's Central Committee that will precede it, will provide opportunities to announce changes in the leadership. Reports that Kosygin is recuperating from a heart attack or stroke have intensified speculation about possible important shifts at the coming meetings, but in the past the leadership has repeatedly passed by opportunities to make major changes.

General Secretary Brezhnev told Ambassador Averell Harriman last month that Kosygin would be returning to work "in several weeks." Last week, in his first public appearance since July 22, Kosygin greeted Mongolian party chief Tsedenbal at Moscow airport.

Among the party shifts that may be announced at the Central Committee plenum is the promotion to the Politburo of Nikolay Tikhonov, who was recently appointed first deputy premier, possibly to lighten Kosygin's workload. Another is the formal dropping of Defense Minister Ustinov from the party Secretariat, a move normally required by a ministerial appointment. Ustinov, a member of the Politburo, became defense minister last April.

Yugoslav Ports 25-27

Three Soviet warships—the 25X1 Moskva-class antisubmarine warfare

16-19

European Currency Float

The readjustment last weekend in the parities at which the currencies of the members of the European joint float are officially maintained against one another was probably a compromise solution. The West German mark was revalued 2 percent against the Belgian franc and the Dutch guilder, 3 percent against the Swedish and the Norwegian crowns, and 6 percent against the Danish crown.

By minimizing parity changes within the snake, Belgium and the other smaller members are trying to avoid some of the costs of their more expansionary domestic policies. West Germany is in essence forced to pick up part of the bill for these policies in the form of higher import costs and support of the other members' currencies in the exchange market. In return for agreeing to small rate changes, West Germany probably exacted promises of closer economic policy coordination from its snake partners.

Although the mark revaluation may have a psychological impact, it may not have lasting economic effects. Since the last mark revaluation in June 1973, the economic performances of the snake members have diverged more than the 2 to 6 percent of the latest realignment.

The new realignment made up less than one third of the difference in price increases between West Germany and the other joint float members since mid-1973. Moreover, inflationary pressures still diverge widely. For example, wages are increasing three times as fast, on an average, in the five smaller joint float members than in West Germany.

The exchange markets are pessimistic about the realignment. Bankers and currency traders seem to think a change of two to three times the magnitude of the one made would be necessary to reflect economic reality. [redacted]

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UPI

USSR-CHINA 28-29



Premier Kosygin (l) at Moscow Airport last week

Last week, the Soviet "journalist" Victor Louis wrote an article for *France-Soir* expressing Moscow's delight over the ouster of China's leftists, particularly Mao's widow, Chiang Ching. The article was almost certainly authorized at a high level.

Louis' main point was that if China's moderates are inclined toward less hostile relations with the USSR, they should give some positive sign to Moscow within the next month. He mentioned "new" anti-Soviet statements by the Chinese leadership, implying that a decrease of such propaganda would be one appropriate signal.

In a disingenuous invitation to China to profit from the alleged political alignment in the USSR, Louis asserts that older Soviet leaders are inclined to give the Chinese more time to sort themselves out but are under pressure from younger, less "sentimental" officials. Louis implied that this could be China's last chance to prevent hard liners in the USSR from getting Moscow to make "irreversible" decisions on China.

Louis also made a blatant appeal to China's older military men whom he credited with appreciating the Soviet role in China's development and Soviet military might.

By publicly setting a time limit and making thinly veiled threats about irreversible decisions, the Louis article is certainly not conciliatory. The Soviets may calculate, however, that the Chinese moderates will be more responsive to pressure now that they are unencumbered by the ideologues. The Soviets must be aware of reports over the years that some moderates favor less confrontational tactics in dealing with the USSR.

The Soviet tack worked once before. In August 1969, an article by Louis about the possibility of a pre-emptive Soviet strike on China's nascent nuclear force was undoubtedly a factor in China's decision to agree to the Sino-Soviet summit in 1969 and to participate in border talks.

helicopter carrier Leningrad, a Kashin-class guided-missile destroyer, and an F-class diesel-powered attack submarine—left Split, Yugoslavia on Tuesday after a five-day port visit.

The ships are under the command of Rear Admiral Dvindenko, who is probably the surface force commander of the Soviet Mediterranean squadron. The most recent previous Soviet port visit to Split occurred last April when a Sverdlov-class cruiser, a Kashin-class destroyer, and an F-class submarine called.

As a result of their eviction from Alexandria, Egypt, in April, the Soviets have been actively seeking alternative port facilities in the Mediterranean. During a visit to Yugoslavia in August, Soviet navy commander Admiral Gorshkov discussed the use of Yugoslav ports for repair of Soviet ships.

Even if the use of Yugoslav facilities for Soviet naval repairs is expanded somewhat, it cannot adequately compensate for denial of access to the Alexandria facilities. The Egyptians permitted the Soviets free access to the large and well-equipped shipyard that they used for major repairs; it is unlikely the Yugoslavs would agree to such an arrangement.

[redacted] the number and type of Soviet ships under repair in Yugoslav

shipyards may exceed what is permissible under Yugoslav maritime law, which, among other things, prohibits the repair of naval ships in commercial ports. Three Soviet naval auxiliaries—all apparently declared as merchant ships—have recently been under repair at two commercial ports. Two of them are still undergoing repairs.

Two Soviet warships have been undergoing repairs in Tivat, a designated naval shipyard, for several months. A third ship spent 18 days there in September either under repair or visiting. According to the law, not more than two naval ships from the same country may be repaired at one port simultaneously. The same law restricts visits by foreign naval ships to the ports of Split, Rijeka, and Dubrovnik and sets a time limit of 10 days.



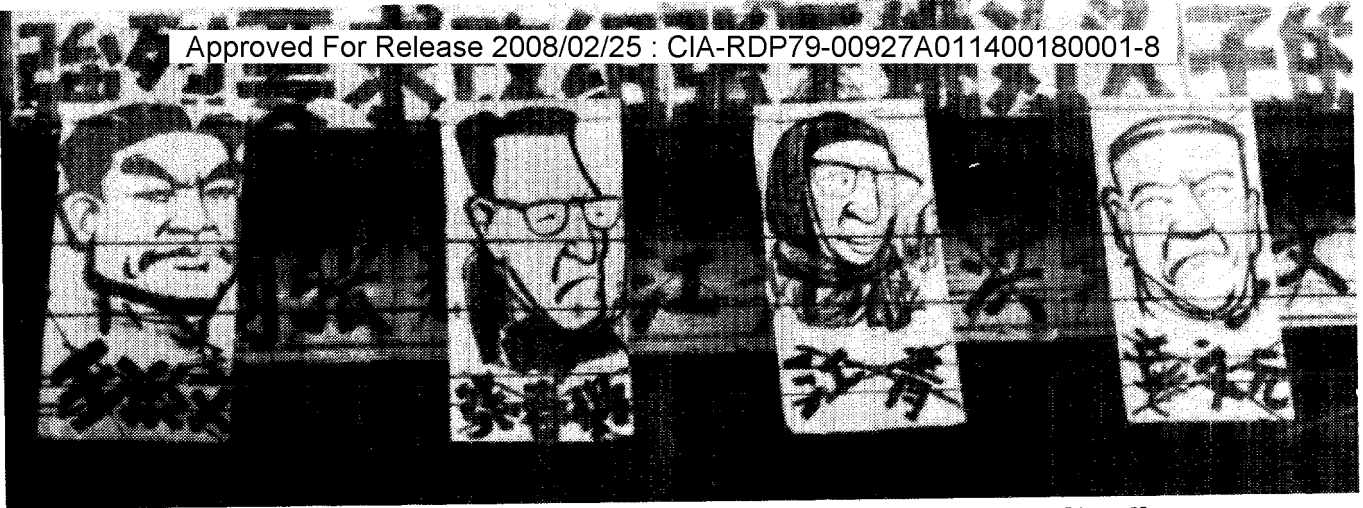
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Wall posters in Shanghai on October 17. Pictures are of the four purged party leaders: Wang Hung-wen, Chang Chun-chiao, Chiang Ching, and Yao Wen-yuan

Far East

CHINA 30-33

There has still been no official announcement of the appointment of Hua Kuo-feng to succeed Mao Tse-tung or the arrest of the four leading leftists on the Politburo. The Chinese people are obviously aware of both moves, and the purge of the leftists has prompted responses in several major cities.

Posters denouncing the leftists have appeared in some cities, especially in the leftist stronghold of Shanghai, and rallies supporting the arrests have been held in some areas. The most vicious of the poster attacks seem to be reserved for Mao's widely hated widow, Chiang Ching.

Some local officials in Shanghai are under wall poster attack for their relationship with the leading leftists in Peking, three of whom come from Shanghai. A roundup of other leftists has extended to those areas where the left was most influential—in the fields of propaganda, education, and culture.

No official charges have been made public against the leftists, but a *People's Daily* editorial of October 19 seemed to lay the groundwork for a charge—used widely in the wall posters—that the left was plotting a coup. The editorial attacked unnamed persons who tried to "usurp party leadership." An official Chinese news release made a pointed reference to Chiang Ching in an attack on "snake-like scoundrels" who disguise

themselves as beautiful girls.

The move against the left may already be having beneficial effects on those who were in political trouble during the antirightist campaign before Mao's death. The minister of railways, who was allegedly dismissed during that campaign, has reportedly resumed his duties. Other Chinese officials are now acting with growing confidence.

The minister of foreign trade apologized to foreigners that trade had come to a standstill but promised that the situation would change for the better and trade would progress. The foreign trade policy had been under attack during the antirightist campaign. [redacted]

THAILAND 34-42

Thailand's ruling National Administrative Reform Council shows increasing signs of splintering into rival cliques. The ambitious General Yot, deputy army commander and recent commander of the First Army, is largely responsible. He has been maneuvering with his First Army colleagues for a dominant position in the Council. Admiral Sa-ngat, chairman of the Council, clearly fears he is losing control.

In his efforts to move the military into the background, Sa-ngat has the support of army commander General Soem, but Soem himself appears to have little influence in the First Army. The support of this unit, which is located in the Bangkok area, is crucial to any future regime. For the moment, Yot's attempts to dominate

the Council are restrained by Soem's ranking position and by the apparent support of the other regional commanders for Sa-ngat.

Sa-ngat hopes to frustrate Yot's personal ambitions by putting together a civilian administration rapidly. A cabinet has been appointed, heavily weighted with technocrats, and the new foreign minister, Upadit Pachariyangkun—now ambassador in Washington—apparently was chosen with an eye toward fostering better relations with the US.

New Prime Minister Thanin thoroughly aired his twin obsessions—communism and corruption—in his initial speeches to the nation, and the ruling military council has already launched a purge of leftist activists. The left's potential for making trouble is fairly limited, and although the roundup has been more restrained than press coverage would suggest, it is a campaign alien to Thai tradition. If carried to excess, it could swing public opinion against the government. Few abuses by security forces have come to light, but the opportunity for settling private scores as well as for graft is obvious. 25X1

Thus far, public reaction to the purge seems to range from apathy to approval. Initial fears that substantial numbers of students and other urban activists would join the rural insurgency appear to have been unfounded. [redacted] 25X1

most of the former activist students seem more interested in clearing their names and remaining in school than in opting for the rigors of the jungle. [redacted]

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Western Hemisphere

CANADA

45-51

Canadian Prime Minister Trudeau encountered bad news on every front this week. A Gallup poll released last weekend showed that opposition Progressive Conservative leader Joe Clark was favored nationally over Trudeau by 36 percent to 28 percent. The poll undermined the Liberals' hope that Trudeau remained the choice of the people and could make up for the party's lack of appeal.

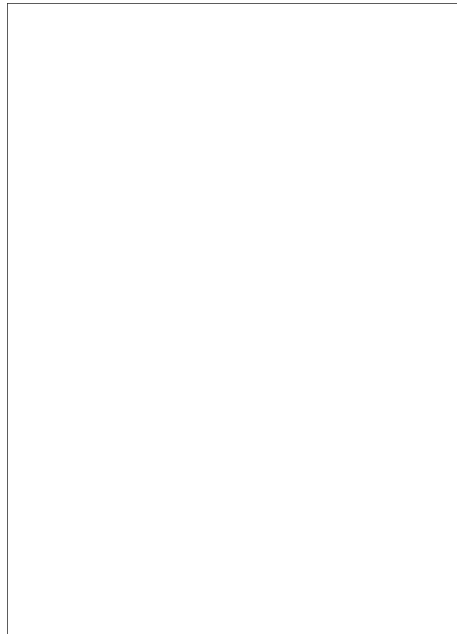
The victories of the Progressive Conservatives in two federal by-elections on October 18 underscored the extent of pop-

ular dissatisfaction with both the Liberals and Trudeau. The loss of a seat in Newfoundland was expected, but loss of the Ottawa-Carleton seat—which the Tories had not won for 94 years—was especially damaging.

Another gesture of nonconfidence in Trudeau's policies was Quebec Liberal Premier Bourassa's announcement on October 18 that there will be a provincial election next month. Bourassa obviously believes he must act now before the national Liberal Party's sagging fortunes and Quebec's deteriorating economy work to undermine seriously his own popularity. Bourassa had earlier indicated that he would go to the electorate if Trudeau did not forcefully advocate protection for French language interests.

Although the election will not be held until November 15, both the Liberals and the separatist Parti Quebecois have been

on the campaign trail for the past two weeks.



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Prime Minister Trudeau



Tory leader Joe Clark

CUBA

43-44

Speaking on October 15 at a mass rally in Havana to pay tribute to the victims of the bombing of a Cuban airliner, Prime Minister Fidel Castro charged that the US was directly involved. He offered to discuss a solution to the terrorist problem with the US, but said that such a discussion could only take place if there is a "definitive end" to all hostile and aggressive acts against Cuba.

Castro said the US is incapable of fulfilling the spirit and letter of the 1973 bilateral agreement on hijacking, and he announced his decision to terminate it as of April 15, 1977. He asserted, however, that if a US commercial plane is hijacked to Cuba after the agreement expires, Cuba would return the aircraft, crew, and passengers to the US and would not "put up with" the hijackers.

He also said Cuba would continue to honor fully the similar bilateral agreements now in force with Canada, Mexico, Colombia, and Venezuela.

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Castro's renunciation of the agreement with the US appears to be little more than a symbolic gesture designed to impress the Cuban public and to put pressure on the US to take action against Cuban exile terrorists. The flimsiness of his charges that the CIA was involved in the bombing suggests that he finds the accusation merely another convenient means of exerting leverage on the US.

Castro also made a point of absolving the Venezuelan government of any blame in the bombing incident. His detailed description of the role that Venezuelan citizens and Cuban exiles in Venezuela played in the bombing, however, and his comment on the access some exiles have to "certain political circles" in Venezuela were probably intended to stress that Cuba takes a dim view of the support and freedom of action militant exiles have in Venezuela.

The speech leaves the impression that Castro, frustrated by a string of terrorist incidents that have cost the lives of almost 80 people since last April, is seeking a means of putting a stop to the violence. *(An analysis of the restructuring of the Cuban government along lines set down at first congress of the Cuban Communist Party appears in the feature section of this publication.)*



Prime Minister Burnham

assassination by Cuban exile organizations.

Despite the Prime Minister's tough talk, he probably realizes that in the absence of significant economic and financial assistance from his socialist allies, he will need Western assistance, principally from the US, to finance economic development and to secure badly needed food crop loans.

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GUYANA

52-59

Prime Minister Burnham of Guyana sharply criticized the US in a major speech honoring the victims of the Cuban air crash off Barbados last week.

Burnham stopped short of accusing the US of complicity in the terrorist act that claimed the lives of 11 Guyanese, but insinuated that the US government was at least morally responsible because of its support for Cuban exile organizations.

The Prime Minister also used the occasion to repeat allegations that since 1972 the US has tried to deter Guyana from having friendly relations with Cuba and embarking on its own "socialist" path. He repeated charges that Guyana is threaten-

ed by a campaign of "destabilization."

Burnham seemed to invite demonstrations against the US embassy when he warned that "those who perpetrate violence must now expect they will have violence visited upon them." We have no evidence, however, that the government is planning a campaign of harassment or violence against the embassy or its personnel.

The Prime Minister's emotional language reflected in part the fact that the Guyanese victims were people he had personally selected for training in Cuba. He was also irritated by what he considered an inadequate effort by the US in curbing exile activities.

Burnham's speech strongly demonstrated the Guyanese leader's increasing obsession with his personal security and fears that he and other government officials are targets for

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President Qadhafi's effort to make Libya a major military power in the Middle East has resulted in a massive accumulation of weaponry—and little else. The armed forces are so undermanned and poorly trained that they cannot even maintain much of their sophisticated equipment.

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Libya: Military Program

ment should be delivered within the next five years.

In pursuit of his military program, Qadhafi has made the Libyan armed forces the most heavily equipped in North Africa. Libya may eventually match or even surpass Egypt in numbers of tanks and modern jet fighters.

The rapid growth in Libya's arms inventory, however, has not been matched by an equivalent advance in the numbers or capabilities of its armed forces personnel. The undermanned and poorly trained Libyan military remains ineffective as a combat force. A severe shortage of trained, experienced technicians makes

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President Qadhafi wants to create a modern, powerful military that will enable Libya to exercise major influence in the Middle East, and he has sufficient oil revenues to purchase seemingly endless quantities of arms. About half of the six to eight billion dollars a year that Libya receives for its petroleum is spent on economic development projects, leaving more than ample funds for making whatever military purchases Qadhafi wants.

In recent years, Qadhafi has increasingly turned to the USSR as his major arms supplier. A 1974 arms deal, worth at least \$730 million, has already provided more Soviet arms than the Libyan armed forces can use, and substantial amounts remain to be delivered. The contract includes medium tanks, armored personnel carriers, artillery, MIG-23 fighters, TU-22 medium bombers, naval craft, and surface-to-air and Scud missiles.

East European deliveries since 1974 account for an additional \$110 million in equipment, including well over 400 tanks from Czechoslovakia and Poland.

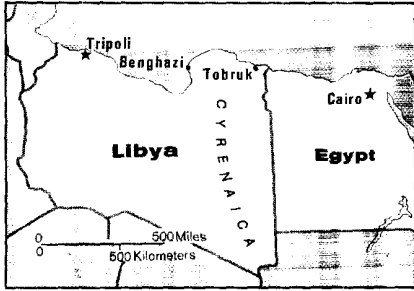
In addition to Soviet and East European arms, Libya has purchased some \$970 million in equipment from Western nations in the past two and a half years. Italian corvettes, French guided-missile patrol boats, Spanish-built submarines, and French Mirage F-1 fighters make up the bulk of the total value. This equip-



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it virtually impossible for Libya to maintain much of the modern weaponry that it purchases.

As a result, Libya's ability to affect the outcome of any future Arab-Israeli war by direct use of its military forces will be limited, although it could play a role as a supplier of military equipment. Of more immediate concern to Qadhafi is the fact that his weapons acquisitions have done little to alter Libya's strategic military inferiority to Egypt, while exacerbating Egypt's suspicions about the intentions of its volatile neighbor.

The Army

The army is the dominant military service and the primary recipient of the arms buildup. At the time of King Idris' ouster in 1969, the Libyan army had 6 tanks, some 100 armored personnel carriers, and about 35 field guns.

Libya now has over 1,500 medium tanks, nearly 1,100 armored personnel carriers, and about 200 artillery pieces.

The approximately 25,000-man army, currently organized into five combat brigades, is not large enough to absorb this equipment. As a result, most of the tanks and over half of the armored personnel carriers are in storage.

Poor training compounds the army's lack of personnel to use its modern equipment and attain a high level of combat proficiency. There are indications that the army has difficulty finding adequate

numbers of qualified instructors, a problem that will worsen as the army expands.

The Libyan army also suffers from an inefficient logistic system. The main storage depots in Benghazi and Tripoli contain ample reserves of most items of equipment and probably sufficient supplies of ammunition and spare parts. The haphazard distribution system and a poor transportation network make it impossible to move large amounts of supplies quickly, and the Libyans would have problems adequately resupplying units in the field.

The Soviets could provide much of the assistance the Libyan army needs to solve its training and logistic problems, but Qadhafi deeply distrusts the Soviets and will not allow Soviet military advisers to work with the Libyan army.

The Air Force

The Libyan air force, which had some 10 combat planes in 1969, now possesses nearly 190 jet fighters, bombers, and trainers. Libya has received 57 MIG-23 fighters, the most modern fighter aircraft the USSR now exports. This is more than double the number of MIG-23s sold Egypt. Of Middle East countries, only Iraq, with 83, has received more MIG-23s. We do not know how many more MIG-23s Tripoli may have on order.

The Libyans also have some 95 Mirage 5 aircraft, ordered from France in the early 1970s,

The Libyans have six Soviet-built TU-22 jet bombers;

[Redacted]

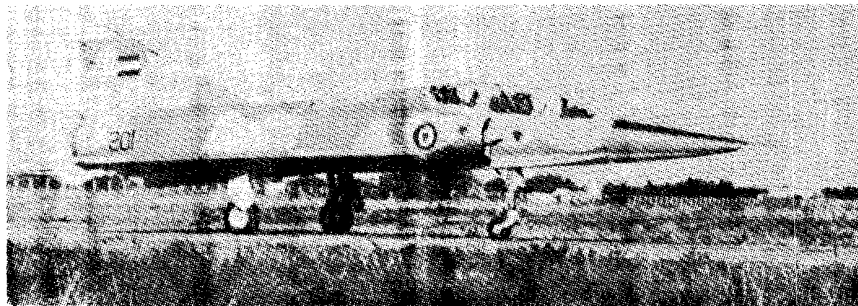
Out of an estimated 4,000 Libyan air force personnel, only about 80 to 100 pilots are jet qualified, and less than a quarter of them probably are qualified to fly in combat. The air force already has more combat aircraft than it can use. Monthly flying time is scarcely sufficient to meet safety standards and maintain basic skills, much less to develop expertise in combat maneuvers. Training is almost always conducted in daylight during good weather and seldom under realistic combat conditions.

The air force probably can perform some ground-controlled intercepts and air combat maneuvers, but it does not have an effective overall air defense or ground support capability.

[Redacted]

Libya must rely heavily on foreign technicians—mainly French, Soviet, and Pakistani—to maintain its aircraft. The proportion of Libyan aircraft in commission at a given time is low.

In addition to an insufficient number of foreign technicians, Libyan aircraft maintenance is hampered by limited repair facilities and difficulty in procuring spare parts for some of the Western aircraft. For several months, Libya has been



Libyan Mirage

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attempting to buy spare parts for its US-built C-130 transports through European sources, and it is also trying to circumvent US-imposed sanctions by purchasing additional C-130 aircraft illegally.

The Navy

25X1 Libya now has a frigate, three fast, light guided-missile boats, one guided-missile patrol boat, and 15 other patrol boats.

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New ships are unlikely to improve the navy's combat capabilities substantially in the near future. The navy has only 2,700 men, and some units reportedly are understrength. It must compete with the other services for the already limited supply of manpower; adding new ships will only aggravate personnel shortages.

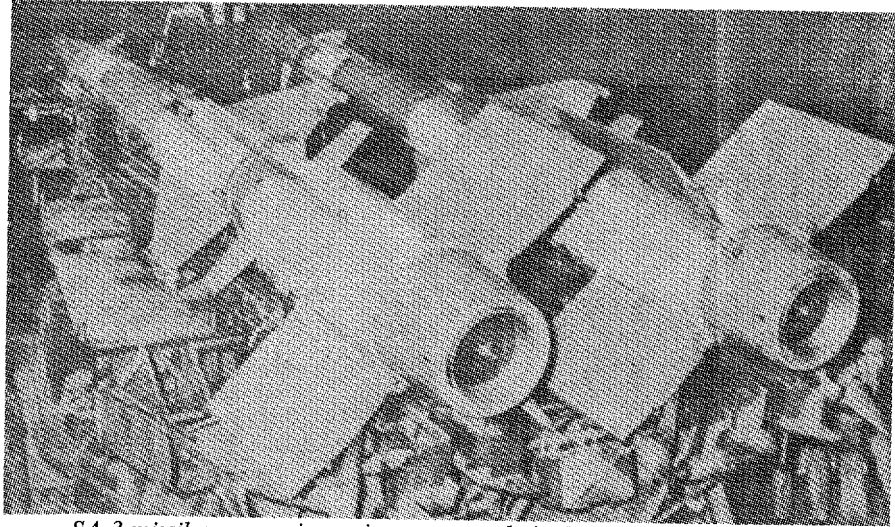
25X1 As with the other services, the navy suffers from inadequate training. Libya also lacks major naval support facilities, and it probably will be several years before planned expansion and improvements of installations can be implemented. For the foreseeable future, the navy will have only a limited capability to perform even a coastal defense mission.

The Air Defense Forces

The air defense command was established as a separate branch in the early 1970s and is still in the process of formation. Although equipped with modern Soviet- and French-designed surface-to-air missiles and Soviet anti-aircraft artillery, the command has not attained a high degree of combat proficiency. It is handicapped by a lack of trained personnel, poor coordination with the army and air force, and the fact that much of the newer equipment is not operational.

Military Outlook

It is unlikely that the Libyan armed forces will ever become strong enough to put Libya on a par with such Middle East powers as Egypt and Syria. Continued deliveries of sophisticated military hardware, while improving Libya's



SA-3 missiles appear in anniversary parade in Tripoli on September 1

holdings, also increase its maintenance and training problems and do little to improve force capabilities.

Qadhafi has attempted for years to expand his armed forces to man the growing stocks of Soviet and Western weaponry.

[Redacted]

Qadhafi is unlikely to succeed. Libya has a small population—about 2.5 million—and few eligible males not already employed in essential civilian jobs have the technical skills needed for military service.

Making the Soviets Libya's principal arms supplier also poses special problems for Qadhafi. Despite his distrust of Moscow, he may have to accept more Soviet advisers into Libya, or his armed forces will not be able to maintain and operate their new and expensive Soviet hardware adequately.

Many Arabs, including some Libyans, question the wisdom of Qadhafi's large military purchases and foreign adventurism. As the Libyan arms inventory grows, Qadhafi's potential as a dangerously destabilizing element in the Arab world also increases. This has tended to isolate Libya and encourage those who would welcome, and support,

Qadhafi's ouster.

Libya stores substantial amounts of its unused tanks, armored personnel carriers, artillery, and trucks in Benghazi—offering an equipment-short Egyptian army a very tempting target in the event of hostilities between the two quarreling neighbors.

This equipment could easily be assimilated into the Egyptian army, and it would alleviate some of the problems caused by the cessation of Soviet aid to Egypt.

[Redacted]

the Libyan armed forces are probably incapable of withstanding a determined Egyptian assault across northeastern Libya. Cairo would, however, have to add substantially to its two lightly armed special forces brigades currently in western Egypt to ensure the success of a major offensive in eastern Libya.

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Major changes are being made in the government's structure. As far as the average Cuban citizen is concerned, however, the changes will mean little.

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Cuba: Institutionalization Progresses

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Cuba is in the final stage of restructuring its governmental apparatus in line with the decisions proclaimed last December at the first congress of the Cuban Communist Party.

The changes, some six years in gestation, are designed in theory to institutionalize Cuba's governmental system and permit the Communist Party to perpetuate its control whoever happens to be Cuba's leader. In fact, however, we do not expect any early reduction in Prime Minister Fidel Castro's political power.

The changes are designed also to improve administrative efficiency and to give the public a sense of greater control in local affairs. Here again, results are not likely to come up to expectations.

The current phase of the process of institutionalization began on Sunday, October 10, with the election of delegates to people's assemblies at the municipal, the lowest, level. The process will come to a close in early December when the first National People's Assembly—the national legislative authority—will be convened in Havana to reorganize the governmental leadership, approve a scaled-down version of the five-year economic plan for 1976-80, and put a new constitution into effect.

The National People's Assembly will appoint a Council of State to function in its stead when the assembly—which is required to meet twice annually—is not in session. The council will have a president as chairman, a first vice president, five additional vice presidents, 23 officers, and

one secretary.

Under the new constitution, which was approved by the party congress in December and by a public referendum in February, the president of the Council of State will not only be head of state and head of government, but will also have the power to take over the direction of any government ministry or central office and to assume command of the armed forces. Fidel Castro is not likely to entrust such a concentration of power to anyone but himself. First Deputy Prime Minister Raul Castro is likely to move into the new post of first vice president.

Political Bureau

Present members of the Communist Party's Political Bureau will most likely be named to the five other vice presidential posts, and others among the party elite will fill the 23 other positions. The post of secretary, not included in the original plans for the council, was probably created specifically for Celia Sanchez Manduley, a confidante of Fidel who has served as his personal aide since the guerrilla days in the Sierra Maestra.

Important posts doubtless will be found for Osvaldo Dorticos, now the president, and for Carlos Rafael Rodriguez, the present vice prime minister for foreign affairs—a brilliant administrator and theoretician whose close ties to Moscow date back more than 30 years.

Elsewhere within the leadership elite, responsibilities may change hands, but the faces will remain the same. Castro's loyal supporters from the early days of his political career will continue to rule, reinforced by a strong representation from the prerevolutionary communist party.

Farther down the chain of command the story may be different. Ministries and government agencies are probably in for some streamlining in the interests of greater efficiency, and this is likely to make some personnel—officers as well as functionaries—surplus. In addition, some heads are likely to roll as Castro seeks scapegoats for economic problems. Incompetent bureaucrats may well be sacked in favor of rising technocrats who have proved their mettle.

Some government officials at the national level have already become scapegoats for the recent economic decline. Four senior officials who negotiated contracts for Cuban purchases abroad were put on trial earlier this year for "economic crimes." They appear to have erred by approving a contract with a price escalation clause that eventually cost the government an additional 12 percent for Austrian irrigation equipment. They compounded their sin by accepting over the past several years the usual token gifts from representatives of Western companies at contract-signing time.

Although the Cuban press made no mention of the trial, the proceedings were held in a hotel ballroom and recorded on film. Officials from other government agencies that deal with foreign companies were compelled to attend. The unfortunate four were given 20-year sentences—an object lesson that will not be lost on the bureaucracy.

A New Political Map

Streamlining of the government will also take place below the national level. The current 6 provinces, 55 regions, and 400-plus municipalities will be replaced by

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14 provinces and 169 municipalities, eliminating at one stroke almost 300 governing entities. One objective is more efficient utilization of Cuba's scanty supply of administrative personnel, and another is the creation of more manageable political-administrative jurisdictions. One unheralded result will be the dissolution of Oriente Province, known in Cuban history as the birthplace of revolutions.

Because the party and the mass organizations are also organized according to the present political-administrative structure of the country, all will have to be restructured. The party's youth arm has scheduled a congress for next April to accomplish this; the National Small-Farm Owners Association—the mass organization for peasants and rural communities—will do it in January. No date for the party reorganization has been made public. Some officials will be promoted, but a large number will have their areas of jurisdiction reduced or eliminated altogether.

The elections on October 10, the 108th anniversary of the beginning of Cuba's wars for independence, decided the appointment of over 7,900 delegates to municipal assemblies, but 2,800 others had to await run-off elections on October 17. On October 31, the 10,725 delegates will meet in their respective municipal people's assemblies to elect delegates to the assemblies at the provincial level. In early November they will meet a second time to elect deputies to the National People's Assembly.

The candidates for the provincial and national bodies will be nominated by special panels made up of representatives of the party, its youth arm, and the mass organizations—belying the regime's assertion that candidates for national office are nominated by the public at large. The candidates do not have to be municipal delegates, which provides a second chance for those loyal to Castro who do not fare well in popular elections or who through some oversight are not nominated at the municipal level.

Of the elected municipal delegates, 69 percent are members of the party, according to press reports. Despite the strong urging of top regime leaders that women be well represented, only 8 percent of those elected are women. Voting was not compulsory, but strong social pressure resulted in a turn-out on October 10 of 95.2 percent of the more than 5.6 million registered voters.

The municipal assemblies will be responsible, at least in theory, for the operation and performance of virtually all government facilities, enterprises, and services at the local level. The provincial assemblies will assume pertinent responsibilities at their level. Castro has already warned that no one should expect this effort at decentralization to result in any dramatic improvement in government.

Castro's warning suggests he is fearful that all the fanfare associated with the changes may have raised expectations at the very time the government's ability to satisfy them has taken a turn for the worse. He is clearly concerned at the worsened economic outlook and is

probably anguished at the cutbacks that must be made in the five-year plan. The treatment accorded the four officials put on trial for economic crimes suggests that Castro realizes there is an urgent need to revive flagging revolutionary enthusiasm and to instill a willingness to sacrifice.

Although the process of institutionalization will theoretically draw to a close on December 2 with the convening of the National People's Assembly, the inauguration of the new constitution, and the readjustment of internal boundaries, much will remain to be done before this stage of Castro's revolution can be concluded.

Much of what was so carefully planned may prove to be confusing or impractical upon implementation, and it is likely to be some time before the population can digest the rapid changes. The organizational changes may eventually improve efficiency, but the Cuban tendency toward burgeoning bureaucracy is likely to dilute the gains considerably. Frequent antibureaucracy campaigns in the past, although not so sweeping as the pre-



Fidel and Raul Castro

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sent one, have rarely resulted in substantial long-term savings.

Austerity, perhaps tinged with repression, will probably be the most outstanding characteristic of the Cuban domestic scene for some time to come, and disgruntlement is likely to come to the surface despite the facade of democracy that is now being erected. The Cuban press has

increased its crime reporting in recent months, suggesting a rise in incidence sufficient to provoke an official reaction. Refugees are again beginning—though in very small numbers—to look to small boats and the fence line at the US Naval Base at Guantanamo Bay as means of escape.

Castro at one time may have hoped that

giving the people some control over local affairs would deflect criticism from the administration in Havana. If so, he is likely to be disappointed. The people have become so accustomed to looking to Havana and to him personally for solutions and leadership that they are not likely to change now.

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Organized labor, long a formidable political power in Argentina, is growing restive after six months of restrictive military government. Military leaders are divided on whether to crack down on or seek an accommodation with labor.

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Argentina: Junta Relations with Labor

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After six months of tight wage limits and stringent political controls, Argentina's heavily politicized labor unions are becoming increasingly restive. Light and power workers have been striking in the nation's capital; earlier, thousands of disgruntled auto workers laid down their tools in a number of major plants. The highly organized workers are probably a more formidable potential opponent than even the leftist terrorists, and the recent strikes are the most serious challenge yet faced by the junta.

Worker dissatisfaction poses a vexing problem for the generals. The junta, which banned all strikes after it seized power last March, is loath to alienate labor irrevocably by using force against the workers. At the same time, it cannot afford to allow its decrees to be disobeyed with impunity. Thus far, the government has limited its response to arresting or ordering the dismissals of strike leaders.

Labor restiveness will complicate and add urgency to a divisive debate that has been going on for some time within the armed forces. The more vindictive officers

argue for dismantling the labor movement, the biggest and best organized in Latin America. The more conciliatory—and this group includes President Videla—advocate some degree of accommodation relatively soon.

Policy Drift

The government has yet to decide what course to take. Last March, the junta placed federal administrators in key unions and in the Peronist labor confederation, and jailed or exiled the most corrupt unionists. At the same time, the junta launched a determined effort to reverse economic deterioration. The resulting austerity measures hit the workers harder than any other group.

The military probably doubted that the workers would remain intimidated indefinitely. Many officers, in fact, probably were surprised that workers waited as long as they did before protesting.

The search for a permanent labor policy is greatly complicated by the emotionalism that surrounds military-labor relations. Juan Peron, the man who gave labor its political awareness and made it a force to be

reckoned with, was a military man, but he was ultimately deposed by the military. Workers to this day retain a strong loyalty to Peron and see the armed forces as unalterably opposed to his populism. Many officers, on the other hand, blame the Peronists and unionism for virtually all the ills Argentina has suffered for more than a generation.

The junta's policies to date have, if anything, added to the distrust that workers feel toward the military. Workers have been unable to keep up with the rising cost of living because wages are being strictly controlled while prices are not. Unemployment increased, although less than originally anticipated, in the face of declining demand. Incentives for business and agriculture have added to worker skepticism.

Efforts by the left to exploit worker frustration have been largely unsuccessful thus far, but the appeal of the left could be enhanced if labor came to view the junta as hopelessly antilabor.

The government's delay in implementing a definite policy may be contributing to its image of indecisiveness and inviting further challenge. Continued

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delay could embolden the President's conservative military critics who are pushing for a harsh line toward labor. At the same time, labor itself may take the junta's hesitation as an invitation to press its demands more strenuously.

New Labor Leaders

A new crop of labor leaders has supplanted those displaced by the coup. The newcomers are busy trying to establish themselves in the eyes of both the workers and the military. They are fully aware that they could play an influential role if the junta decides to bring labor back into the national decision-making process.

These leaders face a dilemma. They must earn the support of the rank and file, and perhaps the only way to do this is to produce some tangible gains for the unions. Even this would not assure success, however, because workers have become highly suspicious of union leaders, often regarding them as corrupt and unable or unwilling to deliver on their promises.

On the other hand, labor's current leaders cannot afford to become identified with too much worker activism lest the junta conclude they cannot keep the lid on disruptive activity.

Labor's success or failure in walking this fine line could tip the balance of military opinion for or against those who favor an accommodation with labor.

Declarations of the government's intent to "normalize" relations with labor have become more frequent in recent months but are couched in vague terms. Thus far, the junta has not altered the basic laws governing labor; it has merely set them aside temporarily. Until it decides either to reaffirm these laws or to scrap them for new ones, labor will remain in a state of political limbo that is frustrating for workers and therefore potentially dangerous for the junta.

Some Signs of Optimism

Top unionists express optimism that reform of the basic laws governing labor is in progress and that the final product will not drastically alter the union structure. The union bosses are betting that the military, in the final analysis, will con-



President Videla (c) with other generals at recent army celebration

clude that any effort to break up the unions would irretrievably alienate workers and ultimately radicalize them. Labor leaders lose no opportunity to impress upon the military the belief that the unions are now relatively conservative and stand as a bulwark against communism and other leftist influence.

Opinion within the Labor Ministry echoes this optimism. According to the US embassy in Buenos Aires, ministry officials generally believe the junta will eventually decide to retain the basic labor principles now in effect:

- Maintenance of a single labor central, the General Confederation of Workers.
- Adherence to the practice of having only one union in any industry.
- Prohibition of company unions.

The embassy reports, however, that it is widely assumed that there will be measures to limit labor's political role. The government, for example, may put strict controls on union funds, possibly assuming some of the social service functions long performed by the unions.

Videla knows as well as anyone else that organized labor, more than any other group, has the potential to undo much of what the junta is striving to accomplish.

By being off the job, workers reduce badly needed productivity. Worse than that from the government's viewpoint, strikes could undermine the junta's authority in a way nothing else could. This in turn would stiffen the resolve of those officers who call for punitive action against unions. Videla wants at all costs to keep the nation from once again entering this vicious circle.

The President will probably opt for further token wage hikes, perhaps at shortened intervals, and gradual restoration of normal activity in some carefully selected unions. Not even the relatively liberal Videla, however, would countenance a return to the freewheeling ways that characterized labor before the coup.

Videla will probably be strengthened in his efforts by the recent creation of the Ministry of Planning, which will coordinate the policies of all the other ministries and increase Videla's authority over the government as a whole. The President will also benefit from naming the tough General Diaz Bessone to head the new ministry. Military conserva-25X1 tives, with one of their own in the cabinet, will not attempt to undermine Videla's efforts.

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Failure of the UN Conference on the Law of the Sea to make significant progress last summer has led the EC to push for the declaration of a 200-mile EC fisheries zone in the Atlantic and North Sea. The EC Nine are seriously divided, however, over how to allocate the catches among themselves.

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EC: Divisive Fisheries Issue

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The dispute over fishing rights in prospective EC waters threatens to divide the Community more deeply than any other issue in recent years. It also promises to have a significant impact on EC relations with most countries that fish in the waters to be regulated by the EC.

EC foreign ministers failed to adopt a resolution this week establishing a 200-nautical mile (370-kilometer) fisheries zone because of Irish insistence that the Nine reach agreement simultaneously on an internal fisheries policy and on guidelines for negotiating fishing agreements with third countries.

Ireland, as well as the UK, opposes Commission proposals calling for an exclusive 12-mile (22-kilometer) coastal zone, arguing that a zone of up to 50 miles (93 kilometers) is necessary to protect their domestic fishing industries. The UK, while willing to negotiate this issue separately, has considered blocking Community farm price increases next spring if the EC balks at a 50-mile fishing zone.

The UK and West Germany are most anxious that negotiations with Iceland, Norway, the US, and Canada get under way as soon as possible. They, and most other EC members, will probably press the Irish hard when the foreign ministers meet in special session later this month to break the deadlock.

The EC Commission wants member states to declare a 200-mile exclusive fishing zone in the North Atlantic and the

North Sea beginning January 1. Extending the EC zone from 12 miles to 200 miles would enable the Commission:

- To negotiate more effectively to ensure access for EC fishermen to other countries' 200-mile zones.
- To regulate, and in some cases exclude, third-country fishing in EC waters.
- To adopt appropriate conservation policies.

The EC Commission proposes to implement conservation policies by setting limits on catches for each state. Under the quota system, all EC members would suffer a major reduction in the size of their catches. Restrictions would be even more stringent on third countries, and some would be excluded totally from EC waters.

Management of the EC's common fisheries policy will require a bureaucracy comparable to the one that now serves the Community's common agricultural policy. Although the Commission will assume responsibility for setting catch quotas and negotiating with third countries, enforcement will probably be left up to individual member states.

The 200-mile Declaration

The European Council—the EC heads of government—indicated last July that a decision to establish a 200-mile zone would be taken only in accord with the results of the UN Conference on the Law of the Sea. The Conference failed to make any substantial progress during its most recent session, however, and the Dutch

and the West Germans have agreed to support the UK position that action must be taken now if the legitimate interests of Community fishermen are to be protected.

The UK and Ireland have pushed hardest for a 200-mile zone, arguing that foreign trawlers will flock to EC waters as other countries with rich coastal fishing grounds extend their fishing zones unilaterally in the North Atlantic to 200 miles. Iceland has already declared a 200-mile zone; Canada and Norway plan to do so on January 1; and the US will follow suit on March 1.

British fishermen say Soviet, Romanian, Bulgarian, and, possibly, Cuban boats are already catching mackerel in large quantities off the Cornish coast. Soviet and East European trawlers pose the greatest threat to EC fish stocks because their suction-operated scoops indiscriminately harvest all fish in the area.

Earlier this month, the Irish impounded a large Soviet trawler and a Bulgarian factory ship for fishing within 12 miles of the coast. The Irish navy estimates that there are several hundred trawlers now off its shore, and Irish Foreign Minister FitzGerald has vowed to press his case strongly.

The Commission is proposing the extension of a 200-mile zone only in the North Atlantic and the North Sea because it sees no threat, at this time, of a Baltic or Mediterranean state declaring a 200-mile zone. Swedish fishermen, however, are asking their government to

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declare a 200-mile zone in the Baltic, and the Danes will probably push the EC for similar action in order to protect their Bornholm fleet, which regularly fishes the Baltic for salmon, cod, and herring.

The EC declaration would pertain only to fishing; it would not establish an exclusive economic zone extending control over the seabed resources. The Nine have made considerable progress recently in developing common positions on most issues relating to the exclusive economic zone—pollution, shipping, navigation, and research rights. Differing claims to oil and mineral rights on the shelf, however, could still spark heated debate among the Nine.

Establishment of a 200-mile zone will depend on the ability of the member states to pass necessary implementing legislation in time to meet the January 1 deadline. France is the only member so far that has completed the legal process, although the UK and Denmark have begun to prepare appropriate legislation.

Internal Fisheries Policy

Fish stocks, particularly in the North Atlantic and the North Sea, are rapidly being depleted. The herring catch, for example, is only 20 percent of what it was 15 years ago. Arctic herring is virtually extinct, and scientists insist that a complete ban on fishing North Sea herring will be necessary if that species is to survive.

The Commission is proposing a quota system restricting the quantity and species of fish that can be caught for a period to allow for a recovery of stocks. The Commission is also proposing complementary measures to regulate fleets and ban fishing in some areas.

The catch allocated to each member would be based on several criteria, including traditional fishing practices and the size of its catch in non-EC waters. The Irish, who catch most of their fish within 50 miles of their coast, view the proposed quota system as a serious threat to their nascent fishing industry.

The UK has labeled the quota system unworkable and unfair. The UK and Italy take almost no fish from the waters of other members, and 60 percent of the fish

the EC proposes to divide up would be within Britain's 200-mile zone. A 12-mile zone, according to the UK, would encompass only 25 percent of its resources, a 25-mile zone some 50 percent, and a 50-mile zone over 70 percent. The UK, with the support only of the Irish, has launched a spirited campaign for a 50-mile exclusive national zone.

UK Foreign Secretary Crosland, who represents one of his country's foremost fishing ports—Grimsby—in Parliament, doubts that the dispute over an internal fisheries regime can be resolved before the end of the year. A delay might favor the British, who will be in a somewhat stronger position in January when they assume the EC presidency for six months.

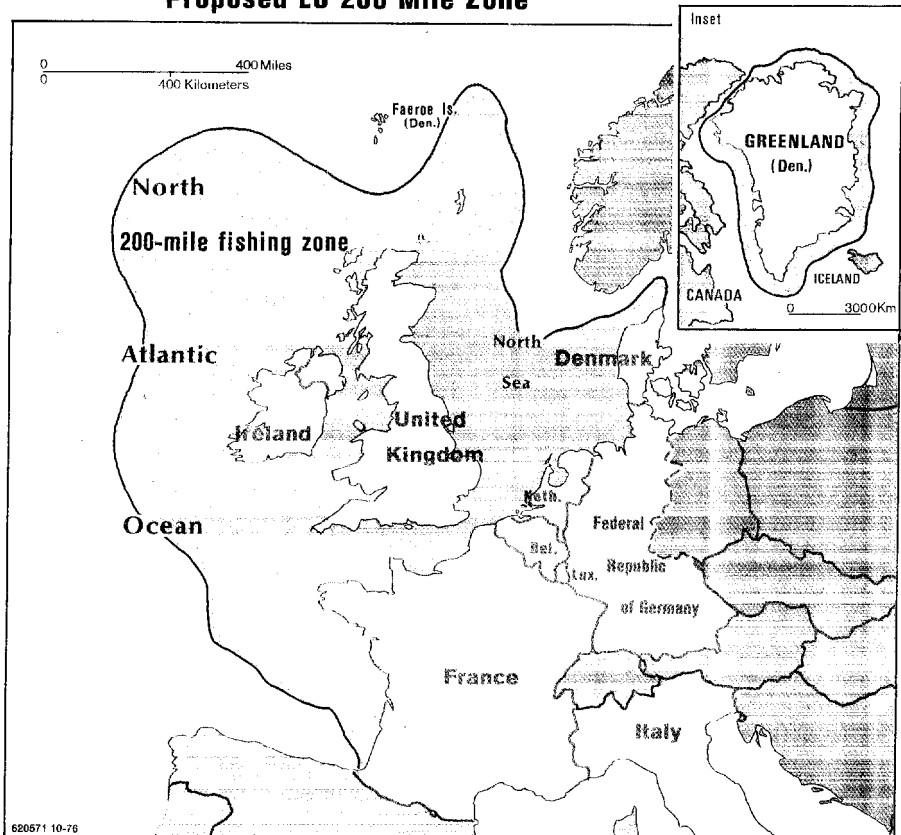
The seven other EC members, led by France, support the principle of equal

access for all Community fishermen and have opposed even a 12-mile national zone, although in the end they would probably be willing to accept it. Denmark, in particular, is strongly opposed because approximately 70 percent of the Danish catch is taken within 50 miles of the UK coastline.

The original six EC members contend, moreover, that there is no legal basis to extend the zone beyond 12 miles and that the UK and Ireland passed up their chance to negotiate this issue in 1973 when they signed the Treaty of Accession to the EC. The UK, on the other hand, argues that this policy was adopted "in indecent haste" just before negotiations on the enlargement of the Community began.

The seven opposed to the British and Irish positions believe the supplementary

Proposed EC 200-Mile Zone



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WHAT THE EC MEMBERS CATCH†

| | Catch in 1,000 tons | Catch in own territorial waters and adjacent na- tional zone* | Catch in other EC members' zones* | Catch in zones of third countries* |
|--------------|------------------------|---|--|---|
| Denmark | 1,453 | 68 | 18 | 14 |
| UK | 1,049 | 63 | 1 | 36 |
| France | 594 | 27 | 46 | 27 |
| West Germany | 418 | 5 | 27 | 68 |
| Italy | 290 | 66 | -- | 34 |
| Netherlands | 220 | 36 | 61 | 3 |
| Ireland | 80 | 90 | 10 | -- |
| Belgium | 49 | 53 | 31 | 16 |
| EC total | 4,153 | 53 | 20 | 27 |

†based on 1973 figures

**percentages, assuming a 200-mile zone*

quotas and financial aid the Commission has proposed as compensation for states that would be adversely affected by the new regime are more than adequate. Higher quotas would be granted on the basis of past fishing practices, social and economic impact, and losses sustained by a state excluded from non-EC waters—such as off the coast of Iceland.

According to the Commission, about \$480 million would be allocated from the agricultural fund over five years for restructuring the fishing industry and for marine research. The Commission is also looking to the EC social and regional development funds and the European Investment Bank to assist those fishermen—particularly in northern England, Scotland, and Ireland—hit hardest by the new policies.

The Community takes 27 percent of its fish from non-EC waters. If the Nine lost all fishing rights in waters adjacent to other countries and excluded all third countries from EC waters, the total catch of Community fishermen would be roughly unchanged.

In terms of value, however, the EC would be a net loser. Over half the cod the EC catches, for example, comes from non-EC waters while most of the fish caught in EC waters is used for fertilizer and livestock feed. Within the EC, the UK would suffer most, followed by Denmark and West Germany.

The West Germans argue that EC failure to reach agreement on an internal fisheries policy should in no way impede negotiations with third countries. The Germans fear they will be excluded from non-EC waters—where they catch two thirds of their fish—and have threatened to initiate bilateral talks with the US, Canada, and Norway if the Nine fail to approve negotiating mandates for the Commission by January 1.

Negotiations with Third Countries

The Commission proposes to notify all third countries that fish in EC waters that they may continue to do so only if they negotiate a fisheries agreement with the Community. The Commission is now seeking the foreign ministers' approval of guidelines setting out general principles

for “framework agreements”; specific tonnages or quotas would be fixed later during annual negotiations.

The Commission expects few problems with the US and **Canada**, once negotiations are initiated, because neither is seeking reciprocal fishing rights in EC waters. The EC has substantial interests off the North American coast; many vessels have been expensively equipped for fishing these waters.

The EC recently concluded an economic cooperation agreement with **Canada** and Ottawa has already promised the Nine that quotas previously negotiated with the International Commission for North Atlantic Fisheries will not be significantly changed. French claims to exclusive fishing rights in waters off the French islands near Newfoundland, however, could cause some problems among the Nine.

Negotiations with Iceland and Norway will be more difficult. Both the Commission and the UK are anxious to begin formal talks with **Iceland** as soon as possible because the bilateral fishing agreement between the UK and Iceland, which brought a temporary halt to the “cod war,” expires on November 30. The Commission has made very little progress in exploratory talks on an EC pact that would replace the temporary accord and is hoping, perhaps too optimistically, that Iceland will agree to renew the six-month pact.

The Commission proposes to compensate Britain for its fishing losses off the Icelandic coast by offering additional quotas within EC waters—an offer that may not sit well with some EC members. Iceland is afraid the Nine may threaten to drop the tariff concessions it now receives in order to encourage a more conciliatory stance in the talks. The Icelandic government, however, has already warned that it considers the tariff concessions irrevocable.

The EC hopes to conclude a reciprocal fishing agreement with **Norway**—which catches 14 percent of its fish in EC waters—before it declares a 200-mile zone. Norway's desire to protect its

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waters from West European fishermen was a major reason for deciding not to join the Community in 1973. German and French fishing in Norwegian waters has recently risen to UK levels, and Oslo will be seeking some reduction in the EC's total catch.

Denmark, responding to mounting political pressure from the Faeroe Islanders, plans to declare a 200-mile zone around the islands on January 1. Current fishing agreements with EC members, Norway, Poland, Iceland, and Canada will be terminated in six months and the Faeroese—who are not EC members—will have to negotiate new agreements separately.

Greenland, which is bound to the EC through Denmark, will probably declare a

200-mile zone in concert with the Nine, although the growing debate over home rule could complicate such plans. Once a 200-mile zone is established, however, Greenland will move to exclude most third-country fishermen in order to protect its shrimp and codfish stocks, which are being rapidly depleted.

The USSR has become increasingly dependent on fish as an alternative source of protein; the current five-year plan calls for an even higher fish catch. About 19 percent of the total Soviet catch comes from EC waters—more than ten times the EC catch in Soviet waters. The Commission is willing to discuss a reciprocal deal, but the USSR has customarily refused formally to recognize the authority of the EC to negotiate for the Nine.

The Commission, however, is in the position where it can wait for the Soviets and the East Europeans to make the first approach. The EC may be able to use its relatively strong bargaining position on this question to secure better terms in future negotiations on an EC-CEMA agreement.

The Commission has proposed that those states in whose waters EC fishermen have little interest—Spain, Sweden, Finland, and the East European countries—should be gradually excluded from the EC's 200-mile zone. The Danes are interested in fishing the Baltic Sea, however, and they may argue for granting the Swedes, Poles, and East Germans some North Sea fishing rights in return.

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A 15-percent rise in oil prices would hit the major developed countries with varying severity, but economic growth rates would decline and inflation would rise in all of them. Economic recovery would probably not be threatened in Japan and West Germany, but France and—especially—Italy would face tough sledding.

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International Impact of Oil Price Rise

25X1 [redacted] A 15-percent increase in oil prices—likely to be announced at the Organization of Petroleum Exporting Countries ministerial meeting in December—would probably reduce the real gross national product in the seven major industrialized countries—the US, the UK, France, West Germany, Italy, Canada, and Japan—approximately \$32 billion below what it would otherwise have been in 1977. Oil-related income losses would reduce the real GNP growth next year to 4.5 percent compared with an almost 5.4 percent projected rise without

higher oil prices.

This calculation assumes that governments take no fiscal policy moves reinforcing the contractionary impact on demand, as they did following the 1973 price hikes, and that monetary policies are adjusted to take account of the oil-related rise in inflation rates and reduced rates of real growth.

The impact could be worse if households increase savings in response to the higher inflation and any oil-related job losses. The 0.8-percent loss in GNP does take account of offsetting gains from their increased exports to OPEC countries due

to the additional revenues higher oil prices bring the OPEC group.

Italy would be hardest hit with a GNP loss of 1.4 percent followed by Japan (1.2) and France (1.0). The seriousness of the impact reflects the fact that the rise in oil prices since 1973 has roughly tripled the importance of oil in each of the major economies.

Although difficult to quantify, these GNP losses could add as much as 0.5 percent to unemployment in Western Europe. France, Italy, and the UK are in the poorest position to absorb the job impact; unemployment in 1977 in those

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countries would be at politically sensitive levels even without the oil-related losses.

Inflationary Impact

Higher oil prices would increase the rate of inflation by nearly one sixth in major countries, adding about 1 percent to consumer prices. The UK and Italy, countries where inflation still is stubbornly high, would experience the largest oil-related price rises..

The US would be more vulnerable to the inflationary impact than in the past, because imports now account for 40 percent of US oil supplies. For Japan and Western Europe, the inflationary effects of a 15-percent oil price increase would be comparable to those of a 30-percent hike three years ago.

The oil price hike would cause an \$11 billion deterioration in the current account balance of the seven major industrial countries. Their net oil import bill would increase by roughly \$15 billion; part of these added costs would be offset by increased sales to OPEC.

OPEC countries probably would increase their purchases from the seven countries by \$3 billion because of additional revenues earned from higher oil prices. Major countries' trade balances with non-OPEC areas would improve by at least \$500 million because the oil-related loss in their import demand would exceed the loss in export sales to non-OPEC areas. Smaller developed countries would experience more than a \$3 billion deterioration in their oil and non-oil trade balance.

For non-OPEC developing countries the chief impact of higher oil prices would be on their foreign economic position. Raising oil prices by 15 percent would add \$1.9 billion to the net oil import bill for the group as a whole, bringing it to \$15 billion in 1977.

Oil-induced price increases in developed economies would add another \$1.3 billion to nonfuel import costs; it is possible that non-OPEC developing country import prices for foodstuffs, intermediate products, and finished goods would increase 1.2 percent on the average. The non-OPEC group would experience

an estimated 2 percent deterioration in terms of trade.

The oil-related loss in developed country real GNP would almost certainly have an adverse impact on non-OPEC developing country export volume by reducing demand for industrial raw materials below what it would have been. The volume losses associated with a 0.8 percentage point reduction in developed countries' GNP could cost non-OPEC developing countries \$500 million.

Some of these countries would more than compensate for volume losses by raising export prices. This offset would accrue primarily to South Korea, Taiwan, Brazil, and Mexico. Raw material exporters may face softer markets because of oil-weakened demand in major countries.

Policy Response

The policy response of major countries will be an important factor determining how seriously higher oil prices affect growth and trade. If governments try to counter the inflationary impact, as they did in 1973 to 1974, the real GNP loss could be considerably larger than the average 0.8 percentage point loss. On the other hand, the stimulative fiscal measures needed to offset the contractionary impact of oil prices would be relatively small.

The fiscal stimulus needed to recoup oil-related income losses would be greater if only one or a few countries were to act. For example, to regain the oil-related reduction in real GNP, Japan would have to increase government spending \$1.4 billion if other major countries took similar action. If Japan acted alone, it would have to increase spending almost twice as much.

In addition to fiscal adjustments, monetary policy would have to take account of higher inflation rates. Otherwise, the slower growth in real money stock would tend to raise interest rates and depress investment further.

The larger industrial countries—the US, Japan, and West Germany—face relatively little risk to their economic recoveries even without stimulative

measures. West German real growth would still average about 4 percent next year. Japanese real growth would average 6 percent or better.

Japan might prefer to shift a sizable portion of its higher oil bill abroad by taking no fiscal measures to offset the oil-related reduction in domestic demand. Given West Germany's concern about inflation, it might also be inclined to avoid offsetting fiscal action.

France and Italy, on the other hand, would face tough sledding if the larger economies, particularly West Germany, stand pat on the fiscal front. With unemployment a major political issue, France would be in a bad position to absorb any oil-related job losses. Acting alone to compensate for these losses, however, would add some half billion dollars to France's already large current account deficit.

Italy would be in an even worse situation. If Rome were to offset the 1.4 percentage point real GNP loss caused by the oil price hike while others took no action, its already large current account deficit would increase an estimated \$500 million. While letting real growth slip to under 2 percent would entail high political risks, the real question is whether Italy will be able to finance the balance-of-payments costs of avoiding a slip in growth.

Other Countries

Non-OPEC developing countries, for their part, would need at least \$3.5 billion in foreign borrowing to maintain imports and not suffer further losses in consumption and growth. We expect that, at most, OPEC countries would increase their aid flows by \$1.0 billion.

Since developing countries would be unable to draw down exchange reserves much, private financial institutions, industrial country aid, and multilateral lenders would have to finance the rest. Given the large developing countries' current account deficit and huge external debt, it remains far from certain that the funds necessary to maintain import volume would be available.

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