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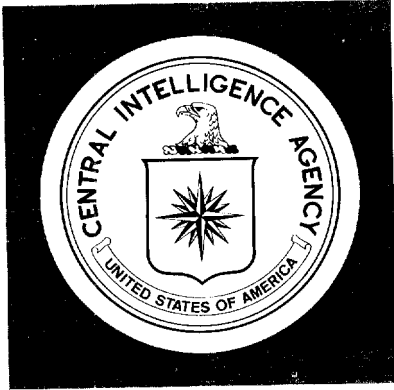


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Weekly Summary

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CI WS 76-052
No. 0052/76
December 23, 1976

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December 23, 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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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly [redacted]

Middle East

Pictorial Parade

ISRAEL 1-2

Prime Minister Rabin's break last weekend with his Labor Party's conservative coalition partner, the National Religious Party, and his subsequent resignation to force an early national election are likely to reverse, at least in the short run, a steady erosion of his strength within his party and among the Israeli electorate. Rabin will stay on as head of a caretaker government pending the election, which may be held in April or May.

Rabin will now try to secure broad Labor Party backing for his continued leadership. Although party conservatives and some moderates had been leaning toward the more hawkish Defense Minister Peres, they are likely now to unite behind Rabin rather than precipitate a bitter leadership struggle.

If Rabin succeeds in rallying the party around him, he will probably seek a moderate plank on Middle East peace negotiations in the party platform. He would apparently like a plank vague enough to mollify party conservatives but moderate enough in tone to satisfy Labor doves and Labor's long-standing left-wing coalition partner, Mapam.

The Israeli leader may also calculate that such a stance could win back support from moderate splinter groups, independents, and disgruntled Labor supporters who are turning increasingly to Yigael Yadin's new Democratic Movement party.

Rabin has put Labor's main opponent, the conservative Likud grouping, on the defensive for the moment but, if his gamble misfires, he risks losing the initiative to Likud. Significant electoral gains by Likud would undermine Labor's position; a tactical alliance between Likud and the National Religious Party even under the present line-up in the Knesset would control 44 of the 120 seats and might attract



Prime Minister Rabin

an additional few seats held by splinter groups.

The political developments in Israel this week are likely to have little impact on the Arabs' overall negotiating strategy. Although the principal Arab states realize that Rabin will have little inclination to resume serious negotiations until the election is behind him, they will continue to press for a resumption of the talks before, or at least immediately after, the contest.

The Arabs will probably take encouragement from the fact that the election has been moved up; they had previously indicated concern that both Israel and the US would try to delay the negotiating effort until after the originally scheduled date for the election, late October. [redacted]

EGYPT-SYRIA 3-4

Egyptian President Sadat and Syrian President Asad—who feuded bitterly during most of the past year—announced on December 21 their intention to establish a “unified political command” as the first step toward an eventual union of their countries. The statement came at the end

of a four-day visit by Asad to Cairo. The plans will probably never come to fruition, but the announcement underscores the desire of the two sides to show—primarily to the US and Israel—that they are determined not to allow themselves to become divided again on tactics for Middle East peace negotiations.

Egypt and Syria probably do not in fact intend to work toward a full merger. Although the political command is to establish committees to discuss integration of policies in various areas ranging from culture to foreign affairs and defense, the committees are not likely to serve as anything more than a framework for coordination on key matters of mutual interest, if that.

Neither Sadat nor Asad has any illusions about the fate of past Arab unity schemes. Both would resist full integration of policies, but both are particularly interested now in coordinating strategies and tactics for forthcoming peace negotiations. Their statements clarifying the unity declaration laid heavy stress on the need for united Arab action as the only effective means of achieving negotiating progress.

The statements were clearly intended to convey to Israel and the US the message that, despite the inter-Arab wrangling of the past year, the Arabs do not basically differ on strategy and will not in the long run fall prey to Israel's openly stated policy of attempting to divide them on tactics.

Asad and Sadat almost certainly still harbor private suspicions about each other, and each no doubt views the unified political command as a useful mechanism for keeping the other in line. This is particularly true of Asad, who undoubtedly fears that Sadat, despite his disclaimers, could again adopt an independent negotiating policy, as he did last year when he concluded the second Sinai agreement. Asad probably looks on the joint command as a device for preventing Sadat from again moving too far ahead of Syria and the other Arabs. [redacted]

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War-torn Beirut prepares for Christmas

AP

LEBANON

5-9

Syrian-Iraqi tensions resurfaced in Lebanon this week. Palestinians supported by the rival Baathist regimes clashed in several refugee camps, prompting intervention in camps near Beirut by troops of the predominantly Syrian Arab peacekeeping force. Syrian troops also closed down newspapers subsidized by Iraq.

Members of the pro-Syrian Saiqa fedayeen group have been returning to Lebanon since Syria's large military presence there was endorsed by most other Arab states at conferences in Riyadh and Cairo last October. They have clashed several times with members of other fedayeen groups, particularly with the "rejectionists" who, unlike Yasir Arafat's more moderate Fatah group, have not come to terms with Syria.

In a move to silence some of their more vocal critics among Lebanon's

traditionally free-wheeling newspapers, Syrian troops on December 14 occupied the offices of three Iraqi-influenced papers. Four more papers—two of them widely respected independents—were closed in the next few days, possibly in reaction to their editorial condemnation of the initial Syrian move.

The Syrians may have acted with a view to forcing the Lebanese government to inaugurate press censorship, something President Sarkis has been considering. He has recently taken steps to bring the government-owned radio and television under the control of the Information Ministry and had been pressuring the press to come up with a system of self-censorship.

Little progress has been made on the major problem bedeviling the cease-fire—the collection of heavy weapons from the various Lebanese and Palestinian militias involved in the civil war. The quadripartite committee charged with

overseeing the truce—representatives of Syria, Egypt, Saudi Arabia, and Kuwait—has so far failed to agree on a course of action. All the parties have been caching their weapons since the cease-fire, and it is unlikely that any will voluntarily hand over substantial quantities.

The Syrians have made no effort to send elements of the peacekeeping force—either their own troops or some of the limited number from other Arab countries—to south Lebanon, where the Palestinians retain considerable freedom of activity. The Syrians are well aware, of course, of the Israelis' continuing sensitivity to the presence near their border of Syrian troops in any capacity.

The border area has been generally quiet in recent days, although some shelling activity has taken place. On December 20, Israeli gunboats chasing a ship that was trying to deliver supplies to the leftist-held port of Tyre was fired on from leftist positions near the coast.

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EGYPT-UK

11-14

The Egyptians reportedly are making substantial progress in negotiations they have been conducting with various British firms for weapons spare parts and maintenance support. If significant British assistance is obtained, Egypt may soon be able to maintain large numbers of its Soviet-designed medium tanks and MIG-21 fighter aircraft despite Moscow's cut-off of military aid. President Sadat would then be under less pressure to make political concessions to the USSR.

Since early this year, the Egyptians have been negotiating with several British firms for parts and electronic equipment for tanks.

Negotiations apparently are continuing with British—and also Italian—companies to replace the main gun of the Egyptian T-54, T-55, and T-62 tanks with a 105-mm. gun that will fire standard NATO ammunition. Such a modification would enable Egypt to obtain ammunition and spare parts from Western sources.

The US defense attache in Cairo reports that the Egyptians are making considerable progress toward being able to handle by themselves the overhaul of MIG-21 engines, including the more advanced R-13 that powers most of Egypt's MIG-21s. The Egyptian air force, along with advisers from Rolls Royce, reportedly will overhaul 25 R-13 engines this year.



AP

Hawk, training and ground-attack aircraft

Egypt is still considering negotiating for rights to produce, under license, the British-built Hawk jet trainer and light-attack plane, but must coordinate first with the other three members of the Arab Organization for Industrialization—Saudi Arabia, the United Arab Emirates, and Qatar. Representatives of the four countries reportedly met in Cairo last week to discuss feasibility studies for Arab production of a fighter aircraft and tactical missiles. The four countries are also considering the French Mirage F-1.

Successful conclusion of Egypt's negotiations with British and other potential West European suppliers might enable the Egyptians to extend the lifespan of some key hardware and perhaps lay the groundwork for a

domestic arms industry capable of producing some sophisticated weapons. At best, however, these measures can do no more than help Egypt slow the erosion of its military capabilities.

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International

OPEC

17

The oil ministers of the 13 countries comprising the Organization of Petroleum Exporting Countries were unable to agree, at their meeting last week in Doha, Qatar, to a single percentage on which to base a price hike effective January 1. Saudi Arabia and the United Arab Emirates will confine the price rise on their crude to 5 percent. The other 11 OPEC members plan to raise prices by 10 percent on the first of the year and to consider another 5-percent increase in mid-1977.

The arrangement—an interim one to prevent the oil cartel from breaking apart—evidently was adopted as a last resort once it became apparent that Saudi Arabia and the UAE were not prepared to agree to more than the nominal hike.

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15-16

Israel-UK: Submarine Delivery

Israel recently took delivery of the first of three 500-ton attack submarines purchased from the UK. The submarine reportedly sailed for Israel in late November.

The other two submarines apparently are scheduled for delivery in 1977. Israel is considering purchasing more, after evaluating the performance of the first three.

The Israelis have had only one sub-

marine—a British-built boat of World War II vintage. It has been used primarily for training and will probably be phased out of service by 1980. The new submarines probably will be based at Haifa and used in the Mediterranean for coastal defense and operations against Arab navies and shipping in any future war. Missile patrol boats will continue to be the backbone of the Israeli navy for the foreseeable future.

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18-29

WHEAT PRICES

The divergence on pricing probably amounts to a test of wills that can be decided only by the market. The Saudis hold a strong hand. They can bring on stream more than 2 million barrels per day in underutilized productive capacity; this would tend to depress the market and make it difficult for some of the other producers to maintain a 10-percent increase.

In any case, demand will probably weaken substantially in early 1977 as the oil companies draw down excess stocks built up in recent months in anticipation of a price increase. This could reinforce the Saudi position. The next few weeks will likely be a period of moderate instability for the cartel. Companies with access to Saudi and UAE oil could gain windfall profits.

The two-tiered price structure cannot continue indefinitely. Competition to avoid export declines will lead to price shaving. Even a recovery of demand after excess stocks are worked off would leave the export earnings of some OPEC countries well below earlier levels.

Record wheat harvests and overall sluggish demand for wheat have increased competition among exporters in the international market and lowered world-wide prices.

The International Wheat Council is estimating world production at 410 million tons for the 1976-1977 marketing year, a 16-percent increase over the previous year. The council estimates that import demand for wheat will fall to 60 million tons this year from the 1975-1976 level of 67 million tons.

The most aggressive exporter now is Argentina. Its record 12-million-ton harvest has resulted in an exportable surplus of 7 to 8 million tons. Unless exports increase prior to its spring grain harvest, Argentina will be faced with severe storage problems.

Argentina has recently dominated Brazilian import tenders and sold 500,000 tons to Chile and 200,000 tons to China. There is market speculation that the Soviets may substitute Argentine wheat for as much as 500,000 tons of US corn.

Additional US sales to Eastern Europe may be similarly affected.

Canada, a very aggressive seller during its summer and fall harvest seasons, has since backed off somewhat. Canadian exports will probably total 12.5 million tons—a large share of which has already been sold—from a bumper harvest of 23.5 million tons.

Late-season improvements in weather conditions have raised estimates of Australia's wheat harvest to about 10 million tons. With an exportable surplus of 8 million tons, the Australians are likely to become more aggressive in the international market. Australia recently completed sales of 500,000 tons to China under an old agreement and has been negotiating with the Chinese for a new wheat purchase agreement.

In an effort to combat falling world prices and protect traditional markets, the EC recently increased export subsidies on soft wheat and wheat flour. EC officials are now forecasting 1976-1977 wheat exports at 5.6 million tons, up from earlier forecasts of less than 5 million tons.

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Oil ministers Yamani of Saudi Arabia (left) and Amouzegar of Iran flank Emir of Qatar at OPEC conference

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Africa

ZAIRE-ZAMBIA 27-30

Zairian President Mobutu and Zambian President Kaunda—black southern Africa's major moderate leaders—met in Kinshasa last week. Mutual problems involving their relations with the radical Angolan regime and transportation facilities for moving their countries' vital exports probably dominated their discussions.

Mobutu's open opposition during the Angolan civil war to Agostinho Neto's Soviet- and Cuban-backed Popular Movement has left the Zairian leader concerned about the future of his own regime and with little ability to influence events in southern Africa. He is eager to break out of his semi-isolation and is thus bent on mending fences with the victorious Angolan faction.

He particularly wants to regain use of the Benguela railroad whenever it is reopened to international traffic. Through service was halted last year by the war, and the threat posed by guerrilla forces of Jonas Savimbi's National Union since the end of the conventional fighting continues to prevent use of a segment of the route in eastern Angola. Loss of access to the line has forced Zaire to divert a large share of its traffic to South African ports via rail routes through Zambia and Rhodesia.

Mobutu also wants to discourage Angolan or communist support for Zairian dissidents, many of whom are in exile in Angola.

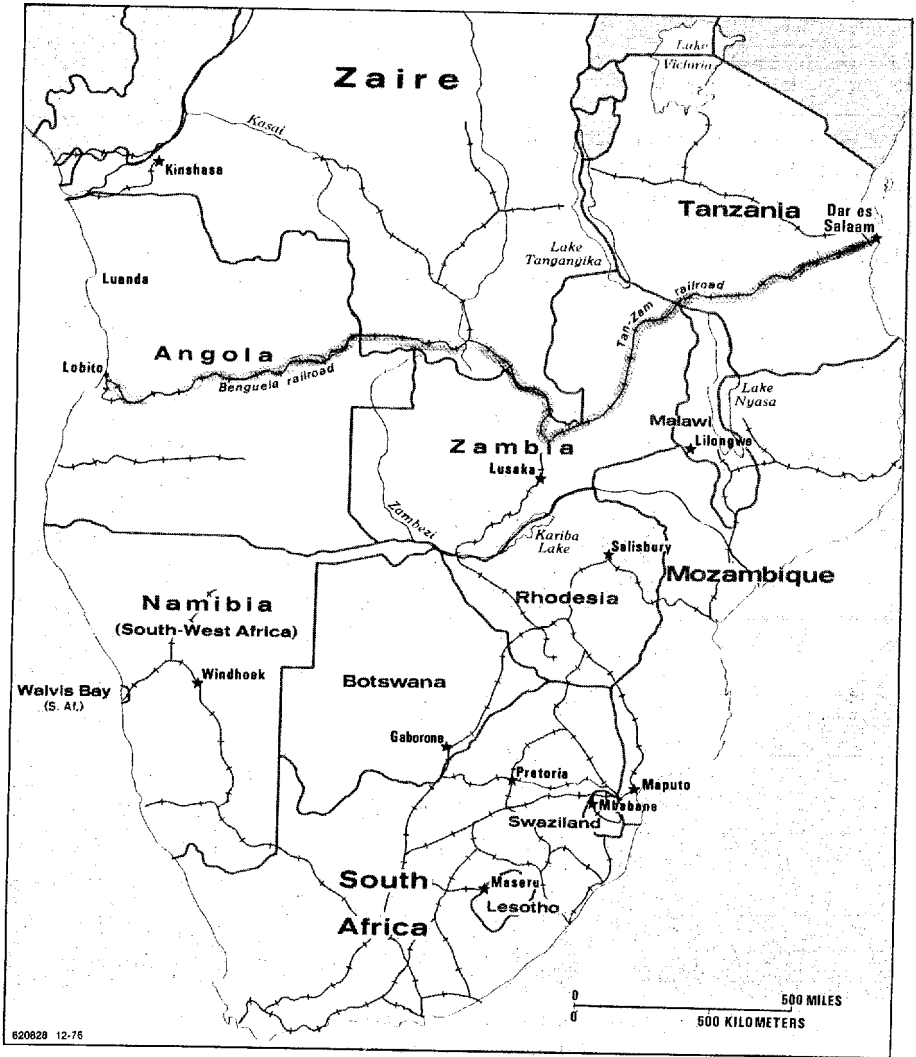
The Zairian leader recently sent assurances to Neto that he is not supporting the guerrilla operations being carried out in northern Angola by remnants of Holden Roberto's National Front, which has been based in Zaire for more than a decade. Mobutu apparently now wants to wash his hands of the Front and give substance to his assurances by getting all Front guerrillas to return to Angola.

Zambia's Kaunda, for his part, is also interested in improving relations with the Neto regime, partly for political reasons and partly in the hope of expediting the reopening of the Benguela railroad.

After Zambia adhered in 1973 to the UN sanctions program against Rhodesia, Kaunda shifted his country's trade patterns so that half of Zambia's exports, including most of its refined copper exports, moved over the line to the Angolan port of Lobito. The closure of this route forced Zambia to divert traffic to the Tan-zam railroad and other less satisfactory routes.

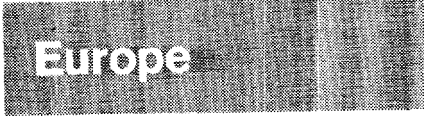
Political relations between the Kaunda and Neto governments have been slow to develop because of Kaunda's long support for the National Union during the Angolan nationalist insurgency against the Portuguese and his partiality toward Savimbi when the three Angolan leaders were battling it out a year ago. Kaunda did finally recognize Neto's regime some months ago, and the two presidents, who meet frequently in the councils of the front-line states that are supporting the Rhodesian nationalists, are reportedly moving to open diplomatic missions soon.

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USSR

31-33

The celebration last weekend of General Secretary Brezhnev's 70th birthday clearly boosted his prestige—if not his authority—as the top Soviet leader as well as the major figure in the international Communist movement. The outpourings of personal praise and honors also called attention to his status as a military commander. Beneath it all, however, there were some signs of concern to keep Brezhnev's burgeoning cult of personality under control.

In addition to the medals bestowed by the East European leaders, Brezhnev received from the Soviet party and the state another Order of Lenin, the title Hero of the Soviet Union for the second time, and a ceremonial sword embossed with the state seal. Tass commented that the sword was presented to "Marshal Brezhnev" in recognition of his "outstand-

ing services" in strengthening the nation's military might; some observers believe this award marks a revival of a distinction that was conferred upon distinguished veteran Bolsheviks during the early days of the Soviet regime.

Brezhnev, perhaps sensing that the adulation could get out of hand, responded by claiming he was not one of those "whose head can reel from praise." He attempted to characterize himself as a common man and accepted the awards in the name of the Soviet party.

Brezhnev seemed, in fact, to be trying to link his name directly with the party as a whole. He made no mention of collective leadership as such and referred to the Politburo and Central Committee only once, when he pledged that their members would continue to work toward Communist goals.

Party secretary Mikhail Suslov, the keynote speaker at the Kremlin reception, sought to introduce a note of collectivity into an otherwise one-man show. He produced the laudatory rhetoric necessary to the occasion, but also clearly underlined Brezhnev's role as servant of the party and its Central Committee. He

pointed out that the party had entrusted Brezhnev with his job and that the Soviet people saw in him the embodiment of the party's collective reason and will. Suslov may have made his most telling point when he praised Brezhnev as a man able to listen to the opinions of his comrades.

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President Podgorny pins award on party chief Brezhnev during birthday celebration

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SPAIN 40-42

Spanish leaders may be preparing a Christmas amnesty for additional political prisoners that could save the life of kidnaped government adviser Antonio Maria de Oriol.

The kidnapers—members of a little-known extreme leftist group—seized Oriol two weeks ago and threatened to kill him by December 17 if the government failed to release 15 leftist terrorists. The kidnapers eventually relented, but maintained that they would not free Oriol unless all remaining political prisoners in Spanish jails are freed.

Around 400 political prisoners were pardoned by royal decree last July. Some 200 others, many of them Basques, failed to qualify because the decree specifically excluded crimes connected with terrorism. Since the kidnaping, the government has insisted repeatedly that it will not submit to blackmail. There have been hints, however, that more prisoners—excluding those accused of murder—might be released on Christmas Eve.

The kidnaping could temporarily set

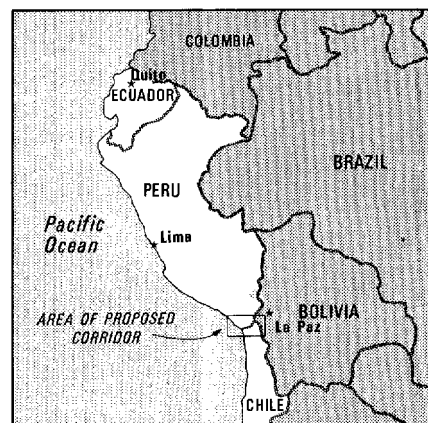
back Spanish progress toward democracy. If Oriol is killed, rightist extremists might well carry out threats they have made to "execute" prominent leftist party leaders in retaliation, leading to a spiral of violence and counter-violence. Even if Oriol is freed, rightist anger and frustration over the incident still seem bound to find expression. On December 20, for example, a crowd of angry rightists set upon Cortes President Torcuato Fernandez-Miranda, accusing him of betraying Francoism. The police were forced to intervene.

The left in general and the Communists in particular may also suffer politically from the affair, damaging their prospects in the legislative election to be held next spring.

The government, buoyed by a smashing victory in the December 15 national referendum, appears to have handled the present crisis with calm assurance. Prime Minister Suarez, in fact, was sufficiently confident of the outcome this week to journey to Barcelona in another effort to improve relations with the fractious Catalans. His promise that the local language would be officially recognized for the first time since the civil war seemed a promising further step in that direction.

to establish a corridor to the sea for Bolivia with a jointly administered coastal enclave, there has been a hardening of positions on both sides.

The foreign ministers of the two countries seem prepared to explore ways to resume talks. Peruvian and Chilean military leaders, on the other hand, may be demanding a tougher stand, although Peru's navy commander probably tried to lower the tension level during a visit to Chile late last week.



Friction between Peru and Ecuador increased last week when the Ecuadoreans abruptly canceled a scheduled stopover by Peruvian President Morales Bermudez while he was en route home from a visit to Colombia and Venezuela. The Peruvians immediately recalled their ambassador. Ecuador, in turn, seized on the recall and rumors of a Peruvian mobilization near the frontier with Ecuador as an excuse to send Ecuadorean troops to the border area.

Efforts are apparently under way, however, to prevent the situation from getting out of hand. Officials of the two countries' foreign ministries are reportedly preparing a joint communique aimed at easing tensions.

The alleged military threat from Peru may have forestalled a move by Ecuadorean military officers against Ecuador's long-shaky Supreme Council of Government. The council's political



Cortes President
Torcuato Fernandez-Miranda

Western Hemisphere

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PERU-CHILE-ECUADOR

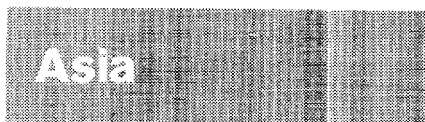
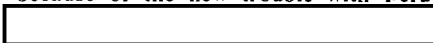
Relations between Peru and Chile and between Peru and Ecuador have been under new strain recently, but some efforts are being made to relieve tensions.

The increased uneasiness between Peru and Chile has been caused by a stalemate in their talks on a proposed outlet to the sea for Bolivia and by Peru's continuing arms buildup. Since Chile, early this month, bluntly rebuffed Peru's proposal

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position has weakened perceptibly in recent weeks. By last week, a majority of the country's senior military officers had reportedly agreed to replace the council with a single military leader, but then reluctantly decided to defer their move because of the new trouble with Peru.



VIETNAM 55-54

The Fourth National Congress of the Vietnamese Communist Party—the first in 16 years—ended on December 20.

Most top party leaders gave long speeches during the week-long meeting; preliminary press reports give no hint of any departures from well-established policy lines. Full texts of the speeches are not yet generally available, however.

Hanoi's continuing problems with its close communist neighbors were underscored by the absence of any representative from Cambodia and by China's perfunctory greeting to the congress. The Soviets and the Laotians, on the other hand, were given special treatment. Party leader Le Duan met with both delegations; other foreign party representatives were received only by lower ranking officials.

Premier Pham Van Dong delivered a long report on the country's second five-year plan. Agriculture will apparently be emphasized, but industry is still to get the largest investment. The Premier is reported to have acknowledged that the plan includes large population relocations—both from urban to rural areas and between the north and the south.

Le Duan is reported as saying there will be some expulsions from the party at the rank-and-file level. The congress changed the name of the party from a workers' party to a communist party, and broadened the Politburo to include veterans from

the military, the economy, and the party in the south.

The leadership at the top is largely unchanged, although military hero Vo Nguyen Giap slipped a notch in the hierarchy. One other Politburo member, Hoang Van Hoan, was dropped from both the hierarchy and the Central Committee, an unusual move for the Vietnamese. Normally those top leaders who fall into disfavor are allowed to keep a place on the committee.

More than a dozen of the old committee members and many of the alternates have been dropped. Although deaths since the last congress in 1960 may account for some of these disappearances, many of those who failed to be reappointed may well have been dismissed.

The new Central Committee is more than double the size of the old one. Some of the new faces are probably party war horses who worked in the south clandestinely for years. The list of members published in 1960 did not include known members assigned to secret work in the south.



Le Duan (center) joins delegates at recent congress

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Uranium development has become a hot political issue in Australia. If Prime Minister Fraser has his way, the country will soon become a major world supplier.

N.S.

Australia: Uranium Policy

Prime Minister Fraser's year-old government favors early development of Australia's vast uranium resources. The government is moving cautiously in changing the restrictive policies of its Labor predecessor on this highly controversial issue, but has already allowed resumption of some uranium mining.

If existing curbs on exports and on mining in the Northern Territory are lifted, Australia will become a major supplier of uranium within the next decade. Consumer countries are relying on these supplies.

Australia has about one fifth of the known uranium reserves outside communist countries. With no plans for a nuclear power industry within the next 10 years, the Australians could export nearly all their uranium output. If the government allows producers to carry out their present plans, Australia could be exporting several thousand tons of uranium oxide annually by the end of the decade. Uranium then would become Australia's number-one export, bringing in over \$1 billion annually.

The uranium industry founded between 1972 and 1975 under the energy policies of the Labor government. Exports were banned, exploration fell off, and no mining occurred. In late 1974, the government established federal ownership of all deposits in the

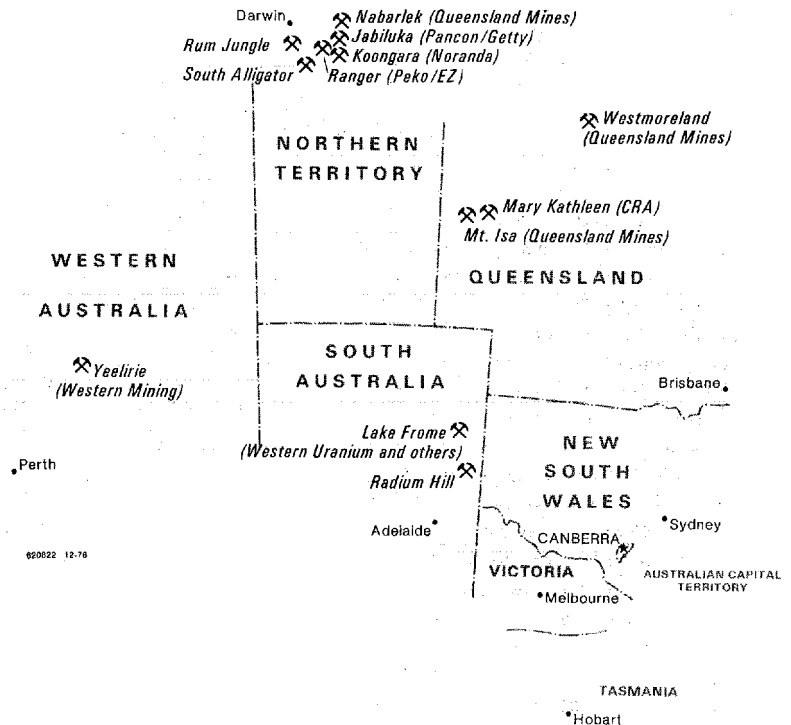
Northern Territory—where 80 percent of the country's reserves are located—and banned additional foreign equity in uranium exploration and development.

Shortly after taking office in

December, 1975, the Liberal-Country government began lifting some of these restrictions. Discarding the Labor government's aim of eventual 100-percent government ownership of the uranium in-

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Australia's Uranium Mine Resources



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dustry, the new government instructed the Australian Atomic Energy Commission to sell the shares in uranium companies it had acquired in 1974.

Last January, the government withdrew from all uranium exploration and turned the job over to private companies. Uranium mining outside the Northern Territory resumed in March, and the ban on foreign investment in new uranium projects was lifted the following month. Foreign ownership still is limited to a maximum of 25 percent. The government also retains strict control over safeguards and marketing regulations.

Uranium development has become one of Australia's hottest public issues. Some public opinion polls indicate that a majority of the population favors uranium development for use in nuclear power; others show that Australians think

nuclear development would have harmful effects on future generations.

Many unions are vehemently opposed to all uranium mining. This past summer, unions prevented the Mary Kathleen Uranium Company from shipping 45.4 tons of uranium oxide that the company was committed to send to the US under a contract signed in 1970. Rather than forcing a showdown with the unions, the government arranged to borrow uranium oxide from a British stockpile to meet the company's commitment.

The government has put off two politically sensitive policy decisions—whether to allow mining in the Northern Territory and whether to permit uranium exports—pending the outcome of a special environmental inquiry by a commission charged with forming guidelines for Australian uranium policy.

The commission recently gave tacit approval for changing export policy and for mining outside the Northern Territory but also recommended stringent safeguards, government controls, and further public debate. A second report, dealing specifically with the Northern Territory, will not be ready until after the first of the year.

The government, meanwhile, will continue removing impediments to uranium development. Since the commission's first report, Canberra has announced that existing export sales commitments will be met, subject to the guidelines of the Nuclear Non-Proliferation Treaty, and that projects outside the Northern Territory may proceed with environmental impact studies, a necessary prelude to mining approval. [redacted]

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The NATO allies and Spanish officials are showing cautious interest in the possibility of bringing Spain into the Alliance. A number of obstacles stand in the way—including the high cost of modernizing the Spanish armed forces to meet NATO standards.

82-86

Spain-NATO: Changing Relations

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[redacted]
The Spanish government's steps toward creating a democratic political system have made Spain's entry into NATO politically possible for the first time. Bilateral contacts between Spain and NATO members are increasing, and the latter are becoming more comfortable with Spain. A number of obstacles continue to block Spain's early acceptance into the Alliance, however.

Cautious Interest

Many Spaniards probably would value an invitation to join the Alliance as a gesture of acceptance into Western Europe. Reform-minded government and military leaders favor NATO membership on the grounds that in-

creased contact with allied governments and their armed forces will involve Spain deeply in West European security affairs and help to modernize its military equipment, tactical doctrine, and training.

They also hope NATO membership would provide a new mission for the Spanish military, which lost much of its sense of purpose when Spain withdrew last February from Spanish Sahara. The loss of the colonies has left the army with little to do but worry about internal subversion—a situation that could, in time, lead it to get involved in politics.

Only a few top leaders in the government and the armed forces have come down firmly in favor of NATO. The air force and navy are more favorably dis-

posed than the deeply conservative and insular army.

The Spanish government will not be ready for practical consideration of the issue before the country's first democratic election next spring. In the meantime, an effort is under way in the armed forces to fashion an agreed position on NATO membership. A group from the Spanish War College recently visited SHAPE Headquarters in Brussels and US and NATO facilities in Italy and elsewhere to review the potential advantages and disadvantages of membership.

The Costs of Membership

Influential people in Spain—including many military leaders—question the benefits of NATO membership. The most

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important consideration probably is the cost of modernizing the armed forces to meet NATO standards.

Spain's 201,000-man army is primarily equipped with aging or obsolete weapons in insufficient numbers for existing units. The air force and navy are better equipped; the air force has 65 modern all-weather fighters and 35 ground attack planes. Perhaps 40 of the navy's 160 ships have the capability to support NATO missions in the western Mediterranean and the Atlantic approaches to Gibraltar.

Ambitious modernization programs are under way or planned in all three services, financed in part by the \$735 million Spain will receive from the US over the next five years under the 1976 Treaty of Friendship and Cooperation. The army parachute battalion, one naval infantry landing team, and any of the five modern fighter squadrons could make an immediate contribution to NATO missions. Spanish maritime patrol aircraft and naval vessels currently coordinate with US and other NATO forces in patrolling the western Mediterranean.

The army, more than the other services, would require substantial amounts of new equipment, improved training opportunities, structural reorganization, and

some change of mission for integration into NATO defense plans.

Membership in NATO could offer offsetting financial benefits, but Spanish military leaders probably fear that the burden of increased defense expenditures would be too heavy for Spain's ailing economy.

Even if the current level of defense spending—3.5 percent of gross national product—is increased, membership in NATO is likely to bring further demands to devote more resources to meeting Alliance force goals. Spain's leaders wonder, moreover, whether formal integration into NATO would bring any special advantage over the current bilateral relationship with the US in terms of military assistance for equipment and training.

Other Considerations

Spain's lack of a unified military command structure could seriously complicate participation in NATO programs. Deep-seated interservice rivalries have apparently caused strong opposition within the military hierarchy to such unifying mechanisms as a ministry of defense and improved coordination among the services.

Far rightists, who are deeply en-

trenched in the upper ranks of the army, are likely to oppose reorientation of Spanish foreign policy and military effort toward Europe. There would probably be opposition, too, to the use of Spanish troops in missions far from the country's borders; NATO membership would likely involve at least some formal commitment of forces either to small "presence" missions or as a backup reserve.

Many senior Spanish officers are evidently worried about the potential impact of increased contacts with NATO forces on the morale, unity, and discipline of their own services. Most West European armies are better paid than Spain's, and most have also been influenced by leftist political sentiments and agitation for unions to an extent that would not be tolerated in Spain. Conservative Spanish leaders appear concerned that NATO membership could increase pressure from some of the allies to allow the Communist Party into the Spanish political system.

Finally, contention between the British and the Spanish over Gibraltar could prove a serious stumbling block to membership. On the other hand, some resolution of the issue might be reached in connection with Spanish entry into NATO. [redacted]

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Brazil has strengthened its program to combat runaway inflation and other serious economic ills, risking a possible halt in economic growth next year.

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Brazil: Austerity Program Tightened



Brazil is again tightening economic policy in an effort to curb inflation, strengthen its balance of payments, and prevent further erosion of its credit rating abroad. While the economy will achieve a 7-percent increase in real gross national product for 1976, inflation will be at its highest level in 10 years.

Brazil's efforts to cope with serious balance-of-payments problems over the last two years have cut its current-account deficit by only about \$1 billion from the oil-induced peak in 1974 and have contributed heavily to a serious resurgence of inflation. The moderate decline in import volume, prompted by strict import controls, and a rise in export earnings have little more than offset higher interest

payments on foreign debt.

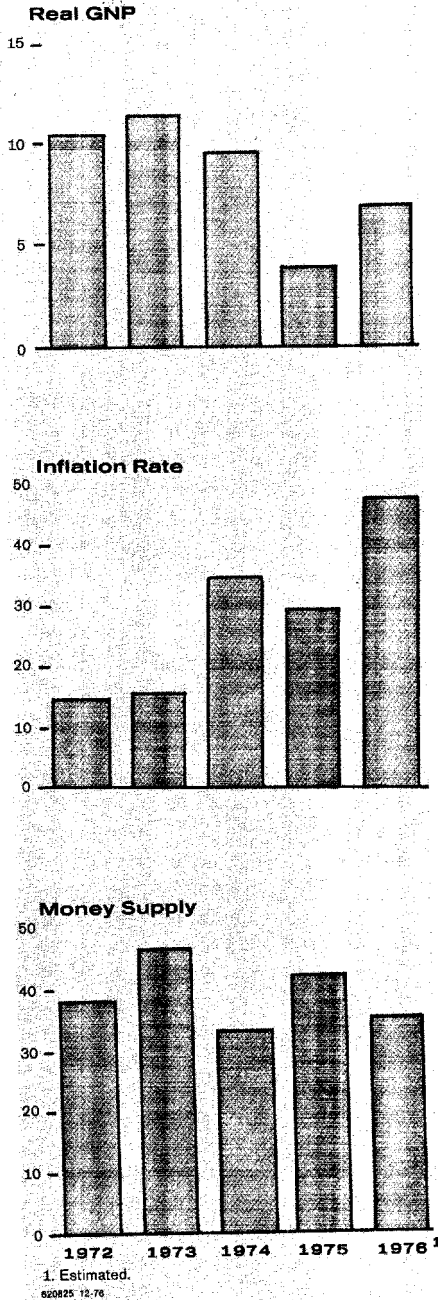
Because of its desire to maintain some economic growth, Brazil has restrained domestic demand only sporadically. This policy was feasible because Brazil had plentiful foreign reserves, a strong borrowing capacity abroad, surplus stocks of imported materials accumulated in 1974, and some import substitution capacity.

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Brazil: Selected Economic Indicators (Percent Change)



In the last two years, however, Brazil has experienced a 60-percent rise in medium- and long-term foreign debt to about \$27 billion and a rise in the inflation rate from 29 percent in 1975 to nearly 50 percent this year. This has led to growing strains on the country's credit standing. Foreign reserves are now barely adequate to cover current levels of imports and short-term indebtedness. Inventories of imported materials have been virtually exhausted; shortages and black market activity have become common in recent months.

Recognizing that restraints on domestic demand had become essential, Brazil began to tighten its monetary policy this year. Although wages increased more than prices early in the year, a tightening of the government's wage policy will probably cut real wages by about 4 percent for the year.

Austerity Program

To strengthen its austerity program, the government plans to supplement current wage and credit restrictions by making major cuts in public sector investment next year. Because of government curbs on credit, private investment is likely to grow more slowly than in recent years, and overall investment probably will remain at about the 1976 level.

The public spending cuts will fall most heavily on development projects in the electric power, transportation, and communications fields. Housing construction will be curtailed, and some agricultural development projects will be slowed. Only government investments in petroleum and iron and steel, two areas vital to Brazil's import-substitution program, have been left untouched.

Despite Brazil's assertion that some economic growth will be achieved next year, the austerity program, if fully carried out, could halt economic growth in 1977. Consumer spending has fallen considerably in recent months, and the new fiscal restraints will further weaken demand. Virtual depletion of large stocks of imported materials will contribute to growing disruptions of industrial production. Although the austerity measures are

likely to curtail economic activity more than intended, Brazil probably will stick to its program.

Impact on Inflation

The government probably will be unable to realize its goal of lowering the inflation rate to about 25 percent next year. Prices are likely to increase by at least 30 percent, largely because Brazil's indexing system—although modified—will tend to sustain inflationary momentum. Rising import prices—particularly for oil—increasing shortages of some imported goods, and higher interest rates also will keep the price level under pressure.

Some success has already been achieved since mid-1976, however. After reaching a seasonally adjusted annual rate of 60 percent last summer, the inflation rate had subsided to less than 40 percent by October.

Import constraints, coupled with a substantial rise in exports, should reduce the current-account deficit by another \$1 billion next year to roughly \$5 billion. Sharply increased payments abroad and moderate rises in other service payments will prevent a greater decline in the trade deficit. The value of imports will remain close to this year's \$12.3 billion because of higher prices, notably for oil.

Exports

Exports next year should approach \$11.5 billion, compared with an expected \$9.8 billion this year. Export growth will be somewhat faster than in 1976 despite slow economic recovery abroad and an overvalued currency. Earnings will be boosted by increased coffee export prices, steadily rising soybean exports, a booming cocoa market, and some recovery in sugar export volume.

Brazil's credit position will remain a problem, primarily because of its rising debt service burden, which has increased from 35 percent of goods and service exports in 1974 to about 44 percent this year. Because of rapidly accumulating foreign debt since 1973 and the shorter term at which Brazil must now borrow, debt service will continue to rise faster than exports, boosting the ratio to 48 percent in 1977.

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