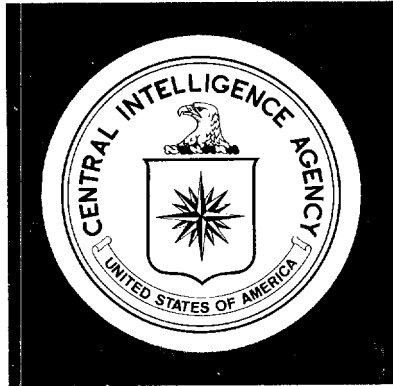




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Weekly Summary

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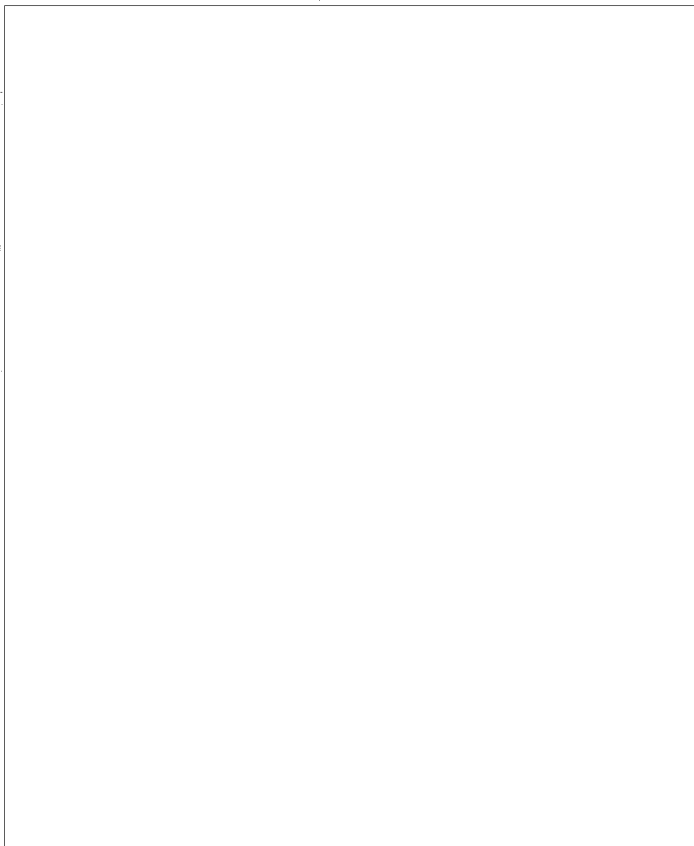
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January 28, 1977

The *WEEKLY WINDMILL*, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It particularly 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,

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Demonstrators in Madrid last week demand total amnesty for political prisoners

Europe

SPAIN

1-7

Serious new political violence this week by extremists of both the right and the left will complicate Prime Minister Suarez' efforts to lead Spain to democracy. He will probably move ahead, however, with his reform program designed to bring a broad range of political tendencies into the new system.

Seven persons were killed in Madrid in a two-day period early in the week. The victims included four Communist labor lawyers who were gunned down on January 24; responsibility for the murders was claimed by a right-wing group that calls itself the Apostolic Anti-Communist Alliance. Left-wing extremists, for their part, kidnaped a general who heads Spain's highest military court. The same

extremists have been holding a high civilian official whom they kidnaped six weeks ago.

The terrorist acts, especially the killing of the lawyers, fueled student demonstrations in the capital and two days of protest strikes by thousands of workers in Madrid, Bilbao, and Barcelona. Communist and most other leftist labor leaders who called the workers out insisted, however, that their protest actions be confined to work sites so that their presence in the streets would not provide a pretext for further attacks by rightists. Opposition political leaders lent their direct support to the government's pacification effort.

Suarez demonstrated his resolve to clamp a tight lid on the violence by reinforcing police in the capital with reserves from outlying areas and giving them wider search and arrest authority by invoking part of the 1975 antiterrorist law. He also canceled a planned trip to the Middle East. By midweek, the government's effort coupled with the restraint shown by the major leftist

groups resulted in restoration of a measure of calm in Madrid.

Both the government and the leftist leaders remain concerned, however, about possible new terrorist acts by the radical right. Their fears were heightened by a threat issued by the Anti-Communist Alliance on January 26 to wreak indiscriminate vengeance on the Spanish left if the two hostages being held by the left extremists are harmed.

The opposition's campaign for amnesty for the approximately 200 political prisoners has added to the strains imposed on the government by the terrorist acts and the protest demonstrations. The government apparently is not averse to releasing most of the prisoners, but does not want to appear to be giving in to the demands of either kidnapers or protesters.

Suarez is continuing to maintain close communication with the opposition leaders. He met with six of them on January 24 to discuss the proposed law under which a legislative election is to be held this spring.

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FRANCE

9-12

French Gaullist leader Jacques Chirac's announcement last week that he will be a candidate for the municipal council of Paris has caused a deep split within the government coalition and again brought to the surface the rivalry that exists between President Giscard and his former prime minister.

Prime Minister Barre, a technocrat who normally has Gaullist sympathies, immediately attacked Chirac's move as divisive and beneficial to the opposition, as did non-Gaullist members of the government. Giscard broke his silence on January 26 in a publicized speech to his cabinet in which he harshly criticized Chirac and implicitly ruled out Chirac as a coalition candidate. Chirac subsequently issued a statement stating he would not step down.

Minister of Industry and Research D'Ornano, Giscard's personal choice to lead the council campaign and later to be elected by council members as mayor, had already announced that he would stay in the race, thus putting himself on a colli-

sion course with Chirac. D'Ornano's strategy is reportedly being dictated by Giscard and the minister of interior; he faces an uphill task.

If Chirac sticks to his intention to run, he is likely to get a seat on the municipal council, but he is not assured of gaining the politically and economically powerful post of mayor. The non-Gaullists on the council could get together and block his election, although this is unlikely.

If Chirac gains the Paris post, it would give him the continued national prominence necessary for a possible later try for the French presidency. In addition, his chances to dispense patronage would be vastly increased and the Gaullist party would get a boost. The Gaullists have generally welcomed Chirac's move.

Chirac's claim that he is entering the race to prevent a leftist takeover of the French capital is exaggerated. The leftists are expected to make only moderate gains.

Chirac's candidacy has come at a time when Giscard and his followers were breathing a little easier. Prime Minister Barre's anti-inflation plan was beginning

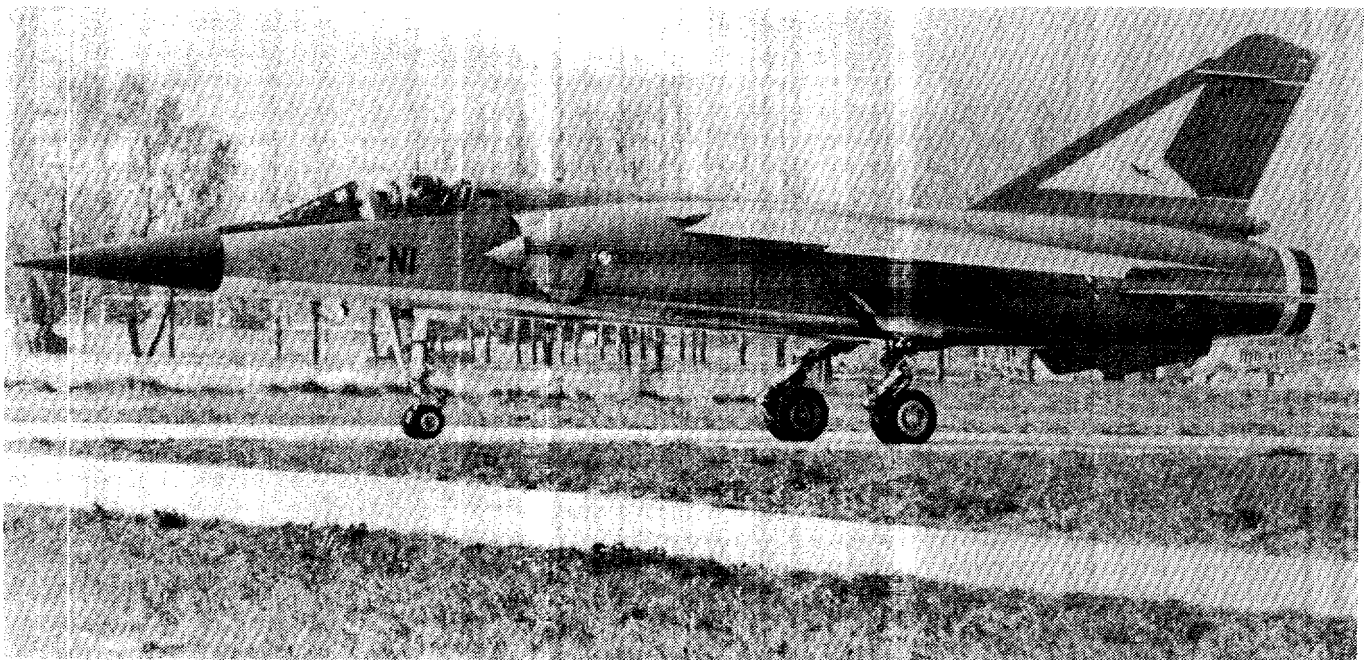
to show some results and he was up 10 percentage points in the polls. Giscard's rating had inched up 2 points to 41 percent.

Mirage Deal with Egypt

13-14

France and Egypt are still negotiating a new fighter deal, and recent French press reports indicate that the two countries are now discussing a direct French sale of 52 Mirages to the Egyptian air force. The deal would be independent of negotiations that are going on between France and the Arab Organization for Industrialization—an arms production consortium—for establishing a Mirage assembly plant in Egypt.

Paris has been negotiating since late 1975 with Egypt and the other members of the consortium—Saudi Arabia, Qatar, and the United Arab Emirates—for a large number of fighters. The negotiations have dragged on largely because the Arabs have not been able to decide whether to buy fighters outright or to try to assemble the majority of them in Egypt under license. Earlier this month, French Defense Minister Bourges visited Egypt reportedly to work out details on a



The Mirage F-1 fighter

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Mirage F-1 assembly plant near Cairo that would operate under French direction.

Both the French and the Egyptian governments are eager to conclude a fighter agreement soon. The Egyptians would like an agreement that calls for the rapid delivery of some completed Mirages directly from France to replenish Egypt's dwindling fighter inventory but allows for the majority of the fighters contracted for to be assembled in Egypt over a period of several years.

France's Dassault aircraft-design firm

would prefer to sell fighter planes outright rather than become involved in long-term manufacturing programs in an unstable region. Dassault and other French firms connected with the program have agreed nevertheless to give the Arab consortium assembly rights for a French fighter provided the French government guarantees their investments. Paris thus far has balked at such an arrangement.

The success of an assembly or manufacturing project ultimately depends on the conservative oil states' willingness to finance Egypt's aircraft industry. The

Arab Organization for Industrialization was formed to reduce Arab dependence on foreign arms suppliers, and member states must accept certain penalties in order to secure production rights and the accompanying technology transfers.

The cost of building fighter aircraft in Egypt would be higher, and the planes would be assembled at significantly slower rates than if they were purchased outright from Europe. Moreover, the Arabs would continue to be dependent on Western Europe for high-technology components

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15-18

Coping with Dissidents in Eastern Europe

The dissident problem is continuing to occupy the attention of Soviet authorities, who last week relaxed pressure on some prominent dissidents a bit, but threatened sterner steps against others. Soviet propaganda on the human rights issue continues to reject alleged Western interference in Soviet internal affairs while claiming compliance with the provisions of the 1975 Helsinki accords.

Early last week, the KGB reportedly lifted its tight surveillance of Yury Orlov, who last May founded an unofficial group that monitors Soviet compliance with the accords. Neither Orlov nor two other leaders of the group have been questioned since just after their apartments were searched on January 4.

The KGB is said to have confiscated much incriminating material, some of it planted, during the apartment raids. Orlov and his colleagues intend to lay low for a time, but reportedly are determined to continue their efforts.

Moscow dissidents were concerned that Orlov's group might be blamed for the bomb explosion on January 8 in the Moscow subway. Although the Soviets have privately played down the incident, Soviet media have taken no public line on the bombing and thus have not foreclosed any future course of action.

The dissidents' concern was probably

intensified by the reported questioning on January 19 of Vladimir Albrecht, acting secretary of the illegal Moscow branch of Amnesty International; Albrecht was told he was a suspect in the bombing. Albrecht was not held, but the interrogation was probably intended as a warning to his group, which only the day before had issued a public appeal calling for the freeing of Czechoslovak and Polish dissidents.

The Husak regime is increasing pressure on Czechoslovak dissidents who drew up and signed a human rights manifesto called Charter 77, which was published in Western Europe early this month. The action of the dissidents is the most direct challenge raised by advocates of a more relaxed system since the trials of some 50 known opponents of the regime in 1971 and 1972.

Czechoslovakia

The regime has brought formal charges against four well-known dissidents for having maintained contacts with "enemy forces and emigre centers abroad." In addition, a nationwide media campaign is now in progress against the signers of the charter. It includes attacks in the party daily and in provincial newspapers protesting the existence of the group and its manifesto. Local television is interviewing feature writers, intellectuals, and workers who oppose the charter.

Prague has not mentioned Charter 77 in connection with accusations against the four men who have been charged. In fact, the authorities reportedly have told some of the involved dissidents that signature of the manifesto was not grounds for legal prosecution. The filing of formal charges against the four probably will be read in intellectual circles as a firm warning to other individuals in the Charter 77 group that they also can be indicted.

Both the regime and the dissidents have very much in mind the conference to be held in June in Belgrade to review implementation of the Helsinki accords. The dissidents see the period before the conference as their best opportunity to dramatize the case for greater liberalization in all fields. They hope the increased attention to human rights issues during this period will make it difficult for the regime to deal with them severely.

The authorities, for their part, probably do not want to embark now on any systematic witch hunt. Any such effort would undermine the regime's contention that it is complying with the accords.

The regime may nevertheless believe it has no choice but to quiet the most outspoken dissidents—through intimidation and harassment if possible, but through trial and imprisonment if necessary.

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19-21

YUGOSLAVIA

Political infighting and presuccession maneuvering in Yugoslavia probably have contributed to the delay in naming a replacement for Premier Bijedic, who died in an airplane crash on January 18. President Tito's decision to cut short his Middle East tour and return to Belgrade on January 20 in part reflects the importance he attaches to filling the vacancy.

Bijedic was the highest ranking cabinet representative of the influential Muslim minority. As head of government, he played an important economic role, particularly in selling the regime's cautious fiscal policies to republic leaders who want a more expansionary program.

Bijedic was not a major political figure, however, and in fact was slated to be replaced sometime this year. Tito reportedly has been considering putting Foreign Minister Milos Minic, a trusted personal friend, in the job. Selection of Minic, a Serb, would lead to pressure to find another top post for a Muslim.

Minic's elevation also would affect the political fortunes of Stane Dolanc, the ambitious number-two man in the party and a putative rival to Minic. Dolanc might have mixed feelings about Minic in the premiership, but would be powerless to oppose Tito's will.

Dolanc, however, would try to influence the selection of a new foreign minister because he has a vital stake in establishing his authority in foreign policy. He reportedly has been working hard toward this end since last summer.

In addition to some shifting in the civilian leadership, there are prospects for changes in the Yugoslav military hierarchy.

The US military attache in Belgrade reports that generals Djoko Jovanic and Franjo Herljevic, who have filled key national security jobs since 1974, are to retire sometime this year. Their departure could spark a shakeup in the high command and lessen the military's overt role in internal security affairs.

Herljevic will probably retain his post as interior minister. With his status

reduced, however, he will have difficulty ignoring complaints about his repressive tactics as he has been accustomed to doing.

Middle East

EGYPT 22-23

The government's quick reversal of austerity measures and employment of army troops to quell demonstrations triggered by the measures brought a surface quiet to Egypt after two days of serious rioting last week. The riots have called into question not only President Sadat's understanding of the depth of the political problems facing him but even his ability to survive in office.

One benefit Sadat's regime apparently gained from the disturbances is a softening of the conditions required by the

International Monetary Fund for a \$140-million standby loan for Egypt which has been under negotiation. Fund representatives reportedly are now willing to accept the almost \$400-million increase in the Egyptian budget deficit that results from the government's reinstatement of price subsidies to end the rioting. The Fund had previously pressed hard for the elimination of the subsidies.

Sadat is nevertheless likely, at a minimum, to have considerably less room for maneuver in domestic policy making. At worst, it is possible that some military officers, already discontented over military and economic problems and further encouraged by last week's chaos, are planning a move against the President in the belief that he can no longer govern effectively. Army troops loyally supported the government during the riots, but it is by no means certain they would stand with it a second time.

Sadat's apparent lack of understanding of or control over developments last week raises the question of whether he realizes the depth of popular discontent over



President Sadat (right) at special cabinet meeting following price riots

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economic problems or would recognize serious military dissatisfaction with his rule. He clearly did not anticipate the intensity of the demonstrations, indicating that he either had not been told of, or simply did not heed, gathering evidence of popular unhappiness.

Government authorities and media are putting out the line that the demonstrations were organized by Marxist and communist agitators, apparently to avoid acknowledging that they in fact began spontaneously, and to make excuses for the security services' initial inability to control them. Officials beneath Sadat may have been able to persuade him that such agitators are the sole source of trouble.

On January 23, the regime's leading newspaper also charged the Soviets with helping fuel the trouble by refusing to reschedule Egypt's debt to the USSR. The accusation followed recent Soviet commentary linking the cause of the riots to Egypt's open-door policy toward Western investors.

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ARAB STATES - PALESTINIANS 29-26

Jordan and the Palestine Liberation Organization have agreed under pressure from Syria and Egypt to seek an end to their bitter feud dating from King Husayn's expulsion of most of the Palestinians from Jordan in 1970 and 1971, and to begin talks on a common strategy for Arab peace negotiations with Israel. Preparatory discussions took place on January 19 between Husayn and two PLO representatives.

[Redacted] the talks will be confined to political coordination and relations between Jordan and a possible future Palestinian state. For their part, PLO leaders describe the talks as an effort to "freeze" differences with Jordan and to emphasize that the initiative has been taken on the basis of the 1974 Arab summit meeting in Rabat, which affirmed

the PLO as the sole legitimate representative of the Palestinians.

If the talks continue, they are likely to focus on the role of the PLO at a reconvened Geneva peace conference. Egyptian President Sadat and Syrian President Asad have been searching for a formula that would permit Palestinian representation and get around Israel's refusal to negotiate directly with the PLO. The two Arab leaders have been considering the possibility of including the Palestinians as part of the Jordanian or a joint Arab delegation.

Asad, meanwhile, has continued to pressure the PLO to be more flexible and to agree to a unified negotiating position. In an interview in *Time* magazine last week, Asad said that refusal by the PLO to attend the conference would not "cause paralysis" among the other concerned Arabs—a marked departure from his position of last year when he demanded that any Arab-Israeli territorial negotiations must involve the PLO.

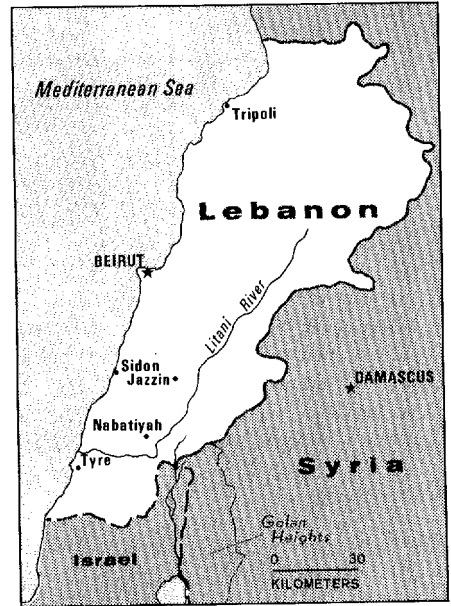
[Redacted]

Egyptian President Sadat still publicly insists that the PLO must participate in the Geneva conference as an equal party, but his real position on the Palestinian issue is probably more flexible. He probably would favor PLO participation as part of a Jordanian delegation and might agree to a compromise that would exclude the PLO from initial meetings, but allow it to participate later.

[Redacted]

LEBANON 29-28; 31-32

Syrian troops from the Arab peacekeeping force moved into southern Lebanon for the first time early this week, presumably to begin collecting weapons from Palestinians in the area. The Syrians will probably move cautiously in order to avoid arousing Israeli fears of a massive



advance; they thus far remain north of the Litani River.

[Redacted] the Syrian contingent consists of one battalion. Israeli military officials showed some uncertainty but no deep concern about the Syrian advances during a discussion early in the week with the US defense attache in Tel Aviv. Public Israeli pronouncements have been guarded.

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The Israelis emphasize that they will not tolerate Syrian forces near their border, but the press has been careful to note that the troops are still north of the Litani.

The Syrians have probably been planning for some time to go after Palestinian weapons caches in the south. They are likely, however, to move as they did elsewhere in Lebanon last year—in slow, careful steps, measuring Israeli reaction as they proceed and hoping for tacit acquiescence as it becomes clear that the collection of weapons is the sole objective.

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Probably in a further effort to get this across, the Syrians' move south coincided with efforts by them in other areas of Lebanon to search out weapons cached despite Lebanese President Sarkis' order to all combatants on January 12 to turn in arms.

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TURKEY 33-34

Disputes among the four parties in Turkey's "nationalist front" coalition government are intensifying in anticipation of the parliamentary election scheduled for October. The government will probably survive until then, although there is a chance it may fall after the budget bill is passed in March.

The sharpest and most serious friction is between the two principal leaders of the coalition, Prime Minister Demirel, head of the Justice Party, and Deputy Prime Minister Erbakan, free-wheeling leader of the traditionalist Muslim National Salvation Party. Specific bones of contention have included:

- Collaboration by the Salvationists with the opposition Republican People's Party to secure a higher salary increase for civil servants than Demirel favored and to force through, over Demirel's objection, a postponement of municipal elections from June to September.

- Erbakan's award of New Year's bonuses only to white collar employees in the state economic enterprises his party controls. Demirel criticized the action.

- Lobbying by the Salvationists for the resignation of the head of Turkey's radio and television facilities because of his allegedly partisan performance. Demirel continues to support him.

Now foreign trade policy, which in the past has been routinely approved by the cabinet, has become a matter of contention between Demirel and Erbakan. The Prime Minister wants to continue a policy of gradually lifting trade restrictions, particularly with respect to the EC. Erbakan objects, claiming that Turkish industrial development suffers from the government's willingness to adopt a progressively more liberal trade policy without demanding that the EC fully reciprocate.

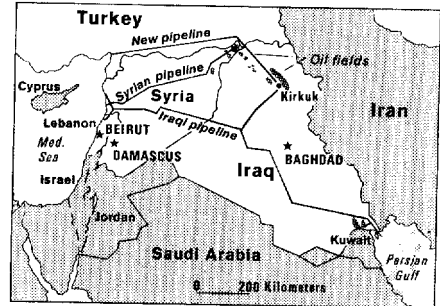
Erbakan's concern over trade policy has also been motivated by the belief that the importation of capital goods necessary for the development of his pet industrial projects could be disrupted by domestic political pressures unless specific reference to these items is made in the statement on trade policy for this year that is now before the government. Erbakan is well aware that Demirel is loath to support his projects, many of which fall outside the government's overall development plan and are designed primarily to win Erbakan political support.

Demirel has tried to play down this disagreement with Erbakan, and the two leaders apparently reached some compromise at a cabinet meeting earlier this week. The details of the compromise have not yet been announced, but Demirel presumably was sensitive to past criticism from members of his own party who have said he has been too conciliatory toward Erbakan.

IRAQ 35-36

A new oil pipeline from Iraq through Turkey to the Mediterranean was opened this month. The Iraqis will be able to export more than half the production from their large northern fields via this route.

The new, 1,000-kilometer pipeline has a capacity of 700,000 barrels per day. This is about 500,000 barrels less than the line through Syria that carried all production



from Iraq's northern fields until last April when it was closed because of a dispute between Iraq and Syria over prices and transit fees. The subsequent opening of a pipeline linking Kirkuk with the Persian Gulf enabled the Iraqis to resume exports from the northern fields at a reduced level.

The pipeline through Turkey will give Iraq greater flexibility in choosing export markets and methods of delivery. It will also increase Iraq's export capability, since the line to the Persian Gulf cannot handle all the production from the northern fields.

Iraq undoubtedly will use the new export outlet to make up part of the losses it is taking because of its current reluctance to openly compete with the lower priced Saudi crude in the Persian Gulf area. Since no previous prices have been set for crude shipped through Turkish ports, Iraq will have an opportunity to lower prices without openly breaching its support of the recent 10-percent OPEC price hike. Some lowering of prices will almost certainly be necessary to utilize the new pipeline at full capacity.



Prime Minister Demirel

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Asia

INDIA 37-40

Indian Prime Minister Gandhi's decision to hold a parliamentary election in mid-March, announced last week, was made in the hope of taking advantage of her present strengths and the disarray of her opposition. At present, the country's economy is relatively buoyant, and there appears to be little opposition to the 19-month-old state of emergency.

The four largest non-communist opposition parties are attempting to create a united front, but conflicting ideologies and personalities will limit their chances of forming an effective counter to Gandhi's ruling Congress Party. Selection of candidates to oppose Congress Party nominees will be a real test of opposition unity. Moreover, the opposition parties lack the financial support the Congress Party is able to extract from the business community.

The pro-Soviet Communist Party of India, an ally of Gandhi's party in several states in the last national election in 1971, is in an awkward position. The Communists' recent criticism of Gandhi's son Sanjay for his generally pragmatic and often conservative economic and social proposals has angered the Prime Minister. Without elective arrangements with the Congress Party, the Communists stand to win considerably fewer seats in a new parliament than the 24 that they held in the last one.

Gandhi probably sees the election in part as a chance to stifle international criticism of her original decision to impose the state of emergency and jail her opponents. The state of emergency has not been rescinded for the election, although some emergency regulations—such as press censorship and restrictions on political activity—have been relaxed.

The government retains the option of



Sanjay Gandhi

tightening restrictions at any time before or after the balloting. Gandhi said as much when she announced the election. She asserted that the country had been brought back to health, but she warned her opponents that the government could tolerate no relapse

CHINA-JAPAN 41-44

The new leaders in Peking and Tokyo have apparently ruled out early progress on the proposed peace and friendship treaty between China and Japan. Both sides have reiterated their long-standing uncompromising positions on the treaty.

Talks on the pact, which would formally end the state of war that has technically existed between the two countries since 1937, snagged nearly two years ago on Chinese insistence that a treaty include an implicitly anti-Soviet statement opposing "hegemonism." The Japanese agreed to such a clause in a 1972 communique that announced the resumption of Chinese-Japanese diplomatic relations, but have been reluctant to include it in the proposed treaty. There are differences within the ruling party in Japan over the hegemony question, as well as pressures

from Moscow.

The firmness of these Chinese views on the hegemony issue is probably designed to demonstrate the continuity of China's major foreign policy objectives, especially regarding opposition to what China sees as Soviet expansionism. The new Chinese leaders almost certainly recognize that any modification of the demand for an anti-hegemony clause might be interpreted as a softening of Peking's stand against the USSR, an impression the Chinese are plainly anxious to avoid.

On the Japanese side, Fukuda, while repeating both publicly and privately his desire for early agreement on the treaty, has shown no sign of conciliation on the hegemony issue. A Japanese Foreign Ministry official last week said that Tokyo saw no need now to modify the previous administration's stand on the matter. Former foreign minister Miyazawa advocated a four-point statement that would enable the Japanese to water down the anti-Soviet nature of the clause.

The Foreign Ministry official suggested, however, that Tokyo might be prepared to compromise once serious negotiations resume, but he provided no hint as to when he thought that might be. He said the Japanese did not expect any movement from the Chinese side because of Peking's preoccupation with internal matters.

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KOREA

50-51

North Korea renewed on January 25 its long-standing proposals for arms reductions by the Koreans, as well as for political talks. South Korea's ruling party immediately rejected Pyongyang's overture.

In a letter addressed to various political groups in the South, the North Koreans said they were prepared to cut force levels drastically and meet with Southern representatives at an early date at Panmunjom or any other agreed site for consultations aimed at reducing tensions and producing eventual reunification.

At the same time, the North Koreans sharply attacked the authorities in the South and demanded that President Pak's government, in effect, renounce its basic foreign and domestic policies and accept the North's approach to reunification.

The North Koreans apparently hope to regain at least a measure of the initiative in the diplomatic sparring between the Koreans. They probably consider their proposals an indirect rejection of Pak's recent call for a North-South nonaggression pact.

Kim Il-song's regime probably also wants to demonstrate some flexibility and moderation with an eye to securing additional international support. Several high-level North Korean officials have been traveling abroad in recent weeks, apparently trying to gain backing for North Korea in the annual competition with South Korea in various international forums.

In recent years, North Korea's handling of the key issue of North-South political discussions has appeared inconsistent. At times, high officials have denounced Pak by name and virtually ruled out talks with his government; on other occasions—the letter this week is a case in point—North Korea has taken pains to avoid ruling out talks, provided its conditions are met. This inconsistency reflects the North's desire to appear reasonable while pressing political and diplomatic arguments against the South.

UNCODED



British envoy Ivor Richard (left) with Bishop Abel Muzorewa

Africa

RHODESIA

N.S.

Rhodesian Prime Minister Smith's rejection this week of Britain's latest proposals for a settlement of the Rhodesian dispute will cause all the parties in the dispute to put greater emphasis on the military struggle.

In a speech on January 24, Smith said that implementation of the proposals recently conveyed by British envoy Ivor Richard would lead to immediate control of the country by a "Marxist-indoctrinated minority." He said he remains committed to the settlement terms he announced last September.

Smith's action makes it unlikely that the Geneva conference on a Rhodesian settlement, which recessed in December, will start up again any time soon. Richard, the conference chairman, told the press he sees no purpose in reconven-

ing the talks unless Smith changes his position.

Smith also indicated in his speech that he would seek a separate settlement with blacks he regards as moderates. He may intend to deal with a new black political party that has apparently been sponsored by the government and perhaps with the nationalist faction headed by Bishop Abel Muzorewa. Muzorewa's group was angered by the recent endorsement of a rival nationalist organization by the five African states that are directly involved in the Rhodesian problem. It is doubtful, however, that Muzorewa is ready to negotiate openly with Smith.

The five front-line presidents, for their part, realize that the nationalist guerrillas lack the capability to defeat the Rhodesian security forces in the near future and will be seeking new assistance for the Rhodesian nationalists, especially from other African states. The defense committee of the Organization of African Unity is to meet soon to consider measures to assist the front-line states and the nationalists.

Most OAU members do not have the

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resources to provide troops or other substantial assistance. A significant number of African countries are nevertheless likely to make at least limited commitments of financial aid or military supplies. Some of the front-line presidents may also consider accepting more aid from the USSR and Cuba.

The Rhodesian government appears certain to continue its cross-border raids on the guerrilla camps in Mozambique. The raids have disrupted plans the guerrillas had last fall to increase their activities inside Rhodesia. [redacted]

International

EC *N.S.*

EC foreign ministers agreed last week to exclude after January 31 Soviet, East German, and Polish trawlers from the EC's fishing zone in the North Atlantic and North Sea if those countries refuse to enter into negotiations with the Community on long-term fishing agreements. The nine-member Community established an exclusive 200-nautical-mile fishing zone on January 1.

Individual EC members will be responsible for enforcing the decision on behalf of the Community. It is doubtful, however, that the Nine can patrol the entire zone effectively.

According to EC officials, the Soviets and the East Europeans not only have ignored temporary three-month quotas on their catches, imposed by the EC on January 1 pending the negotiation of the long-term agreements, but have even increased fishing operations in EC waters. The Communist countries have already taken about the total tonnage they were allotted for the three-month period.

The EC will require the Soviet Union, East Germany, and Poland to designate which ships have been fishing in EC

waters and the catch of each so far this year. If a state agrees before February 1 to negotiate with the Community, a limited number of that state's boats will be allowed to continue fishing in EC waters. Any catches in excess of the temporary quotas would be deducted from annual quotas once they are negotiated with the Community.

The EC is anxious to avoid a crisis with the Soviets over this issue. It apparently felt compelled, however, to take strong action given the exclusion of some EC fishermen from other Western states' 200-nautical-mile zones in the North Atlantic and the North Sea and the urgent need to conserve fish stocks in their own waters.

East Germany and Poland indicated earlier that they would negotiate fishing agreements with individual Community members, but the Nine have insisted that the EC Commission is the only body empowered to conduct such negotiations.

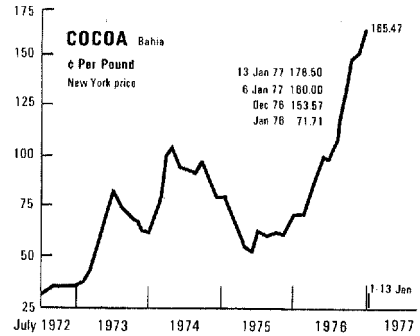
The Soviets added a new dimension to the fisheries issue by adopting last month a 200-nautical-mile fishing zone of their own. The Soviet zone includes both the Baltic and Barents seas—areas not included in the EC zone but nonetheless fished by West Europeans. [redacted]

COCOA *52*

Short supplies, poor crop prospects, and increased consumer demand probably will continue to drive up cocoa prices. Current high prices for coffee are supporting this trend.

New York prices for cocoa, which have averaged \$1.65 a pound so far this year, currently are 54 percent above what they were last August, when the previous record level, set in 1974, was first surpassed.

In December, the US Department of Agriculture predicted that world cocoa bean production for the marketing year ending September 30 would decline for the second year in a row and reach only 1.4 million tons. This would be 7 percent



below last year's production.

Poor weather conditions and other production problems in West Africa, where two thirds of the world crop is grown, may lead to a further reduction in the estimate for this year. Output is also down slightly in Brazil, the only major producing country where production has increased since 1972, the peak year for the world crop.

The decline in African output since 1972 stems largely from low fixed producer prices. In addition, governments have done little to help the many small farmers improve cultivation practices and eradicate disease. Only in Ivory Coast is the government trying to stimulate production.

Brazil's long-run outlook for production is more favorable. Despite disease and weather problems in recent years, cocoa plantings have been expanding. Producers are permitted to sell directly to private exporters and are responding to higher prices as well as government production and marketing programs. Nevertheless, production will expand only gradually because new plantings require about eight years to reach maturity.

By the end of the current marketing year, world cocoa stocks, which have been generally declining since 1964, are likely to fall to a level of 350,000 to 400,000 tons—about three months' supply. The supply situation will remain tight at least through most of 1977, and prices will remain high until stocks can be rebuilt. [redacted]

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The growth rate of Soviet farm production since 1950 has been more than double that of the US, but has come at a much higher cost in money and manpower.

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Soviet Agriculture: A Comparison with the US

The average annual rate of growth of the value of Soviet farm production over the past 25 years has been 3.5 percent, more than double that of the US. As a result, the USSR's farm output has grown from approximately 60 percent of the US level in 1950 to about 85 percent of US output in the mid-1970s.

Soviet growth came at a much higher cost in terms of men and money; US labor

productivity in agriculture remains roughly eight times greater than the Soviet level. Moreover, the two countries pursued different goals: until recently, the US has aimed at limiting production whereas the USSR has tried to maximize output.

Soviet agriculture is characterized by severe environmental limitations. Most of the sown area is climatically comparable with the Northern Great Plains in the US

and Canada. Generally, the USSR's land lacks adequate heat, moisture, and nutrients. More than 30 percent of the land area is too cold for agriculture, and an additional 40 percent is so cold that only hardy, early maturing crops can be grown. A wide range of crops is possible only in the warmer, southern areas.

Collectivization of Soviet agriculture divided farm organizations into a socialized sector and a smaller, private sector. The nearly 48,000 state and collective farms account for about 75 percent of total agricultural production; private garden plots account for the remainder.

Comparative Investment

Since 1950, Soviet investment in the farm sector has grown at an average annual rate of 11 percent. Agriculture's share of total investment rose from 13.5 percent in 1950 to more than 20 percent in 1975; the comparable share in the US was about 5 percent in 1975. In value terms, Soviet investment in 1975 was equivalent to about \$50 billion, compared with roughly \$9 billion in the US. However, most Soviet-produced equipment and materials are less efficient than those produced in the US. The difference in the amount of investment between the two countries reflects in part the enormous gap in relative levels of agricultural stocks and the Soviet attempt to achieve a level of capital intensity similar to that of the US.

In the USSR, the combined productivity of land, labor, capital, and other con-

North American Climatic Analogs for USSR Crop Regions



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ventional agricultural resources has been more than a third greater on the average in the 1970s than in 1950. As a result, agricultural output has grown by 130 percent since 1950, while resources devoted to agriculture increased only 75 percent. Factors explaining the higher productivity include new technology, better management, higher levels of training, and greater material incentives.

Nearly all the gain in productivity occurred before 1970; since then, production increases have been attributable solely to the use of additional resources. The stagnation in the growth of productivity in recent years—highlighted by the poor harvests in 1972 and 1975—is a growing concern for Soviet planners.

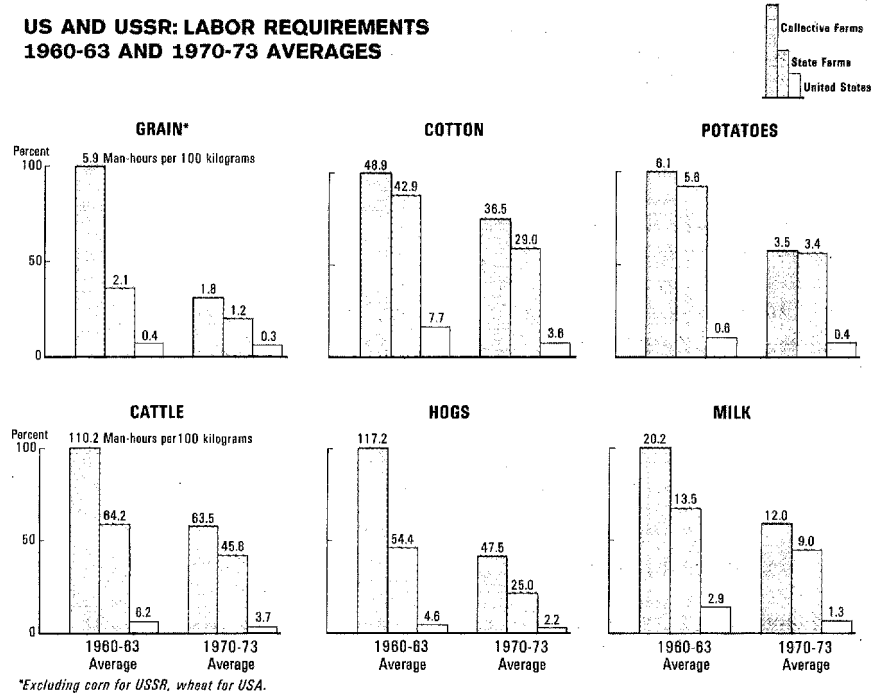
The annual growth in productivity in US agriculture since 1950 has been considerably above the yearly average for that of the USSR—1.5 percent per year for the US compared with 1 percent for the USSR. The level of total resources devoted to US agriculture has remained practically unchanged, and nearly all of the 50 percent growth in US output is attributable to a rise in productivity. By contrast, less than one third of Soviet output growth resulted from improved productivity.

Wages of Soviet farm workers have grown faster than their productivity, contributing to the high cost of agricultural output in the USSR. Over the last decade, labor productivity on state farms has increased by about 35 percent while average wages have increased by 70 percent. Manhours per unit of output of grain production on state farms average four times the number of those required on US farms. Comparative labor differences are even greater for collective farms and for livestock products.

Disappointing Progress

Soviet agricultural progress has not kept up with the rising consumer demand, stimulated in part by higher per capita income. Despite a rate of growth of farm output since 1950 that has averaged more than two percentage points above the rate of increase in population, food supplies have lagged behind consumer demand, es-

**US AND USSR: LABOR REQUIREMENTS
1960-63 AND 1970-73 AVERAGES**



pecially with regard to meat, butter, fresh fruits, and vegetables. The livestock sector remains the least efficient aspect of Soviet farming.

Since the leadership remains committed to upgrading the quality of the Soviet diet, the USSR has had to turn increasingly to importing foodstuffs and other agricultural commodities. Soviet gross imports of farm products grew from \$2.5 billion in 1970 to \$5.2 billion in 1974 before jumping to \$9 billion in 1975, a consequence of that year's extremely poor grain harvest.

Uneven Output

Given the climate, it is understandable that instability in annual agricultural output has long plagued the USSR. The major differences in average annual deviations between climatically analogous areas of North America and the USSR, however, are surprising. For example, the fluctuations in spring wheat yields in Kazakhstan is 2.5 times that for spring wheat yields in the prairie provinces of Canada. Improved farming practices that

have dampened fluctuations in grain yields in North America have not been widely adopted in the USSR.

The degree of instability in production from year to year may increase as the socialized sector contributes an ever-increasing share of total farm output. The fluctuation in annual yields is less in the private sector because of the intensive use of labor there. High rates of average annual deviations in production, and the official Soviet policy of maintaining fixed retail prices of food will continue to result in "transitory shocks" to world commodity markets.

Prospects

Nothing currently on the horizon will significantly alter recent trends in Soviet agriculture. Moscow's agricultural goals in the tenth five-year plan (1976-80) are generally consistent with long-term trends. Targets for livestock production have been cut back in response to the 1975 harvest disaster, but remain tied to an ambitious herd rebuilding program.

On the other hand, the planned growth

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in the flow of resources to agriculture has been sharply reduced from the last five-year plan, although it is in keeping with the investment program for the rest of the economy. Deliveries of fertilizer

will continue to grow at an average annual rate of roughly 10 percent. Little increase in land improvement investment is planned, however, and deliveries of equipment will grow only slightly. Reach-

ing the agricultural targets probably will depend in part on major increases in productivity and on better-than-average weather conditions. [redacted]

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Argentina's current leaders have made considerable progress in revitalizing the country's economy, which had been reduced to shambles by the Peron administrations. The key factor in further economic progress in 1977 will be labor's willingness to accept continued austerity and suspension of its bargaining rights.

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Argentina: Economic Accomplishments

[redacted]

The junta headed by General Jorge Videla has an impressive record of economic accomplishment for the 10 months since the Argentine military ousted Maria Estela Peron from the presidency. Its achievements have gone far to revive business confidence and restore the country's international credit.

Since assuming power last March, the military government has:

- Arranged for foreign loans of \$1.3 billion to meet debt service payments and rescheduled foreign debts so that future repayment problems can be avoided.
- More than doubled foreign reserves.
- Replaced a \$1-billion trade deficit in 1975 with an \$800-million surplus last year, as increased sales of grains and meat raised exports while imports declined with the drop in domestic economic activity.
- Devalued the peso by almost 50 percent and eliminated the dual-rate system.
- Lowered the annual rate of inflation from nearly 400 percent in the first half of 1976 to a little more than 100 percent in the second.

- Stimulated agricultural producers to increase crop areas, leading to a record wheat harvest that should boost export earnings in 1977.

- Reduced the government budget deficit as a percentage of gross domestic product in 1976 to about one half the level in 1975 by improving tax collections and curtailing spending.

Although real gross domestic product probably declined about 4 percent for 1976 as a whole—following a 1.4-percent drop in 1975—production began to pick up in the last quarter. A bumper wheat crop was harvested, truck and tractor sales increased, and petroleum production rose after several years of steady decline.

A large part of the recent economic readjustment has come at the expense of the working class. Real wages slumped in the second quarter; since then, the government has authorized several wage hikes to hold real wages near the June level. This has enabled many enterprises to retain workers on their rolls despite reduced production and kept unemployment at roughly 5.5 percent.

Plans and Projections

Government economists expect the trade balance to remain strongly positive in 1977 because large supplies of grain are available for sale, prospects for meat

sales to Western Europe are improving, and industrial exports are rising slowly. The export surplus will be slightly larger than in 1976, even though imports will rise as industrial output revives. Inflation is officially projected to continue at about 100 percent; private estimates are slightly

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President Videla

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higher.

The government's economic projections for 1977 call for gross domestic product to grow by 4 percent, led by reviving investment. Some \$260 million in development loans has been obtained from international agencies for government construction projects.

The regime hopes to attract private foreign investment through its recent revisions of restrictive Peronist laws and its settlement of most disputes with foreign enterprises. Industrial output is projected to grow about 5 percent as idle capacity is drawn back into production to meet rising demand. Assuming normal weather, agricultural production is scheduled to grow 5 percent.

The government plans to permit real wages to rise only slightly in 1977; unemployment is projected at or below the current level. The planners intend to ease the present rigid wage restrictions to permit employers to raise wages as productivity climbs.

Labor so far has accepted the sharp decline in the standard of living and severe restrictions on union activities with only moderate protest. Some demonstrations and work stoppages have occurred, even though major unions have been put under government control and strikes are illegal.

Labor is now growing more restive.

Early this month, leaders of unions not under government control put out a manifesto protesting that labor is bearing more than its share of hardships in the economic recovery period.

Terrorist activities, though reduced, continue to hamper the economy—they particularly tend to discourage foreign investment. Domestic investment funds are limited even though savings have picked up since March and capital that had moved out of the country seems to be starting to return. Foreign involvement in the petroleum industry is needed if the government's goal of energy self-sufficiency is to be reached.

Budget Deficit

The budget deficit will have to be re-growth in the money supply. The 1977 budget calls for raising revenues by further improving tax collection procedures and by basic tax reform.

Expenditures are to be held down by a gradual reduction in government rolls as private employment opportunities improve—a plan that often has proved ineffectual in the past. Projected sharp curtailment in transfers to provincial governments and in subsidies to unprofitable state enterprises also will be difficult to achieve.

Assuming that the current leadership remains in power, economic prospects for

1977 are favorable. Private businessmen foresee a substantial improvement in economic activity. This confidence, however, could be severely undermined by a change in leadership or policy.

Labor's willingness to accept continued austerity and the suspension of its bargaining rights will be the key factor in determining the success of the economic program this year. So far, the government has reacted mildly to isolated infractions of the restrictions imposed on labor. If labor starts to make concerted demands, however, the regime will face a dilemma.

If the government refuses to grant concessions, it risks a confrontation with labor that could wipe out many of the economic gains made so far. If it makes concessions, the workers will almost certainly increase their demands, and the economic balance will be jeopardized. Such a move, moreover, could trigger a government takeover by military hard liners, who favor a shift to stricter policies.

Many in the military fear that the Videla government will permit a revival of labor power such as existed under the Peronist governments. Greater repression, however, could backfire by making labor more susceptible to leftist influence.

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Several governments in Western Europe are committed to expanding labor's participation in the corporate decision-making process, and those plans implemented so far have gone smoothly.

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Western Europe: Labor in the Board Room

[Redacted]

Worker participation in management has opened up new channels of communication between labor and employers

in northern Europe, particularly in West Germany and Sweden. Schemes implemented thus far have been relatively moderate, however, and worker participation has not radically altered the

traditional role of management in any European country.

The controversy now developing in Britain over government plans to introduce worker representation on company

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boards shows the issue remains a lively one. At a time when governments and industry are reluctant to accede to demands for major wage increases, the participation of workers in management takes on added importance. Some argue that this could add to labor-management strife; others believe labor would thereby be induced to take a more realistic attitude toward industry's cost problems.

While worker participation in management at the plant level in some European countries dates back to the 1920s, West Germany was the first country to adopt employee representation at the board of directors level. Continuing an arrangement imposed by British occupation authorities, Bonn legally established parity board room representation for workers in the coal and steel industries in 1951. In early 1976, the government passed a highly controversial law granting workers near parity representation with shareholders on the supervisory boards of firms employing more than 2,000 workers.

Workers are influential in corporate decision-making in Sweden as well. Although Swedish workers have only two representatives on company boards, the unions are legally authorized to use collective bargaining to influence almost any decision a company takes, including those traditionally outside labor's purview such as investment, plant location, and product mix.

Workers in other countries have much less influence. The number of workers on company boards is generally held well below parity.

Management's fears of labor obstructionism, reduced profitability, lowered investment, and loss of company confidentiality because of increased worker participation generally have not been borne out. Parliamentary studies in West Germany, for example, have concluded that the system has functioned without notable clashes. The fear of union officials that worker participation schemes would bypass the unions has been allayed by allowing unions to dominate the process of selecting worker representatives on cor-

porate boards.

A number of reasons account for the smooth operation of worker participation schemes to date:

- The plans have been restricted mainly to countries benefiting from a long tradition of orderly labor-management relations.
- Workers are generally a minority on supervisory boards and thus are prevented from imposing their views.
- The role of the supervisory board is generally confined to developing broad company strategies, leaving day-to-day affairs in the hands of managers.
- During most of the 1960s and early 1970s, rapid economic growth allowed corporate decision-makers to avoid some of the more explosive issues that confront them today, such as job cutbacks in a period of high unemployment.

Profit sharing is another aspect of worker participation that has attracted increasing attention in recent years. Labor reaction to existing schemes, however, has been lukewarm. French unions complain that profit sharing has taken a form of compulsory saving rather than a real transfer of income or control; in France a share of each firm's profit is placed in a special fund, on which the workers cannot draw for five years.

Unions in several countries now are pushing for profit sharing programs that could increase labor's influence on corporate decision-making through gradual accumulation of company stock in union-controlled funds.

Political Signposts

In the UK, the Labor government has promised to draft legislation this year for a participation plan, although it may not be passed until at least 1978. Debate within Britain on a plan published this week by a government-appointed commission is sure to be intense and protracted. The plan calls for representation on the boards of large companies to be split three ways—equal numbers from labor and management plus a third, jointly chosen group. The proposal is strongly

opposed by top business leaders.

In West Germany and Sweden, debate over future directions on worker participation is shifting from formal participation to profit sharing. A Swedish labor proposal for gradually shifting controlling interest in firms to the unions appears to have died with the defeat of the Social Democratic government last September.

Prospects for adoption of profit sharing in Denmark were set back when the minority Social Democratic government agreed last summer to hold off submission of its proposal in exchange for opposition party support on budget and wage policies.

In France, the government is not likely to push for a debate on worker participation this year for fear it could worsen the climate for investment already threatened by the prospect of a leftist victory in the 1978 elections.

In Italy and Spain, worker participation generally takes a back seat to other labor goals. Italian unions will continue to press their demands through local collective bargaining rather than seek national legislation for such participation. In Spain, workers still are trying to win the right to organize their own unions.

Outlook

The prospect of new or existing worker participation programs is obscured by a number of factors. New programs in West Germany and Sweden have encountered minor resistance. If these programs were adopted in countries where the industrial relations climate is more hostile, the result could be more conflict rather than less.

In such countries—the UK is one of them—management is torn between the need to improve relations with labor and the fear that worker participation would simply move confrontations from the plant into the board room. Moreover, the lower long-term growth rates and high unemployment forecast for European economies will dictate difficult choices that could strain even traditionally good labor-management relations.

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