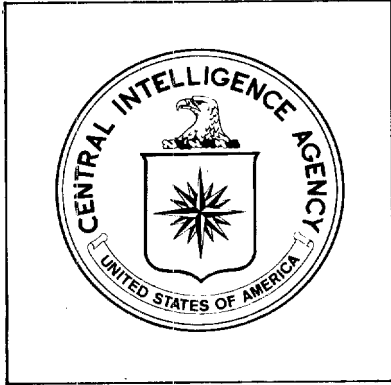


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WESTERN EUROPE – CANADA – INTERNATIONAL ORGANIZATIONS

This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Belgians Wrestle With F-104 Issue

The Belgian government, under strong pressure from the French, is agonizing over a final decision on the choice of an aircraft to replace its F-104 fighters. While none of the other three consortium members--Denmark, the Netherlands, and Norway--has announced its choice, Oslo and Copenhagen are leaning heavily toward the American-made F-16 and The Hague reportedly may also favor the US plane.

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The main problem for the Belgians is how best to coat the bitter pill Paris must swallow if all or nearly all the consortium members choose the F-16. The Belgian Foreign Ministry is sending a team of experts to Bonn this week to try to get the Germans to agree to a commitment, along with the Belgians and others, to guarantee the survival of the European aircraft industry if the F-16 is chosen. If Brussels is successful, Paris' main argument in favor of the French Mirage would be neutralized.

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Another source of concern to Brussels if it chooses the American plane, is the possibility of an adverse effect on the Belgian economy if the US inflationary spiral continues. Although US officials have tried to assure the Belgians that the cost of the F-16 allows for an inflation rate nearly twice as high as the historical average, Brussels still appears wary.

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The French appear to have exhausted arguments and counter-offers and one report claims Paris now is resorting to outright threats. The Belgians reportedly have been told that if they choose the F-16 they risk losing several major French industrial contracts

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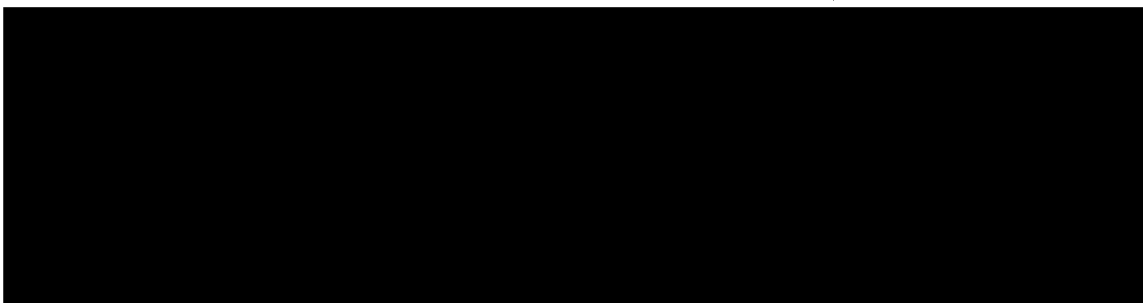
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totaling some \$600 million. Such a ploy would have a considerable impact on the Belgian economy, and could have an adverse effect on Franco-Belgian relations.

The Belgian cabinet will meet on the issue again this week, but the US embassy does not expect a decision soon. The meeting of the defense ministers of the four consortium members is still slated for April 3, but no consensus is expected then either. Although the two Scandinavian members might announce their decision this week, US officials in Brussels do not believe the Belgians will be able to make a choice before mid-April at the earliest. (Secret No Foreign Dissem)

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Dispute Between Turkish and Greek Cypriots
Threatens to Isolate Cyprus

The Greek Cypriot government has attempted to place further restrictions on air access to the island by outlawing use of the Turkish Cypriot-controlled airport of Ercan, formerly known as Tymbou, as a port of entry. A Turkish Cypriot riposte declaring the new Greek Cypriot airport at Larnaca to be an illegal port is likely to be announced soon.

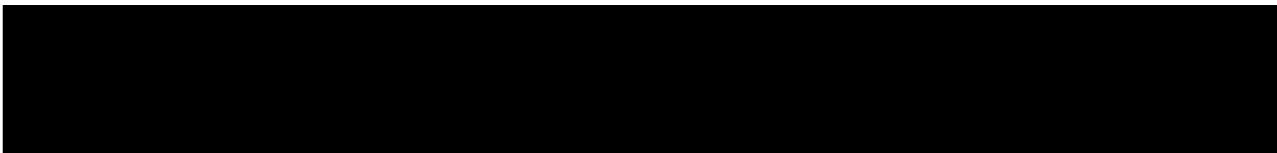
This latest Greek Cypriot move comes in the wake of several decrees issued last October under which use of the Turkish Cypriot seaports of Famagusta, Kyrenia and Karavostasi was forbidden. The Turkish Cypriot administration responded by denying entry to the Turkish sector via the Greek Cypriot ports of Limassol, Larnaca, and Paphos.

These moves, in effect, prevent persons or shipments of goods entering one sector of Cyprus from crossing to the other, thereby further reducing the already minimal flow of people and products. Persons found to be in violation of these laws by either side are subject to arrest and prosecution. Goods are confiscated.

In the absence of even more economic support from the respective mainland governments than has been given so far, both the Greek and Turkish Cypriot communities are likely to suffer protracted stagnation. (Confidential)

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Spanish Police Prevent Basque Rally

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2 | Police action Sunday in enforcing a ban on a Basque nationalist rally in the town of Guernica shows the government's continuing concern over unrest in the Basque area. Tension over the rally was heightened by intensive propaganda of underground Basque oppositionists groups and by the weekend murder of a police inspector of the Basque town of San Sebastian.

2 | A police roadblock outside Guernica turned away thousands of motorists who did not have legitimate business in Guernica. Some 40 persons were arrested when they tried to get the banned rally started. A US journalist was among those arrested, as were two members of the Belgian parliament who were later released at the French border. A massive police presence prevented any major incidents.

3 |
4 | Basque separatist groups had called for a peaceful demonstration in Guernica, spiritual home of Basque nationalism, to mark their national holiday. The demonstration was to support demands for an autonomous Basque state, freedom for political prisoners, and civil rights. The police claimed to have uncovered an arms cache and acted to prevent a demonstration that might have gotten out of hand.

3 | Meanwhile the police are carrying on an intensive search in the Basque region for the killers of a young police inspector who was machine gunned Saturday as he was leaving his home. The Basque terrorist organization Basque Fatherland and Liberty (ETA) has claimed responsibility for the shooting. ETA has also been accused of several bomb blasts in the area during the past week as part of their campaign to use

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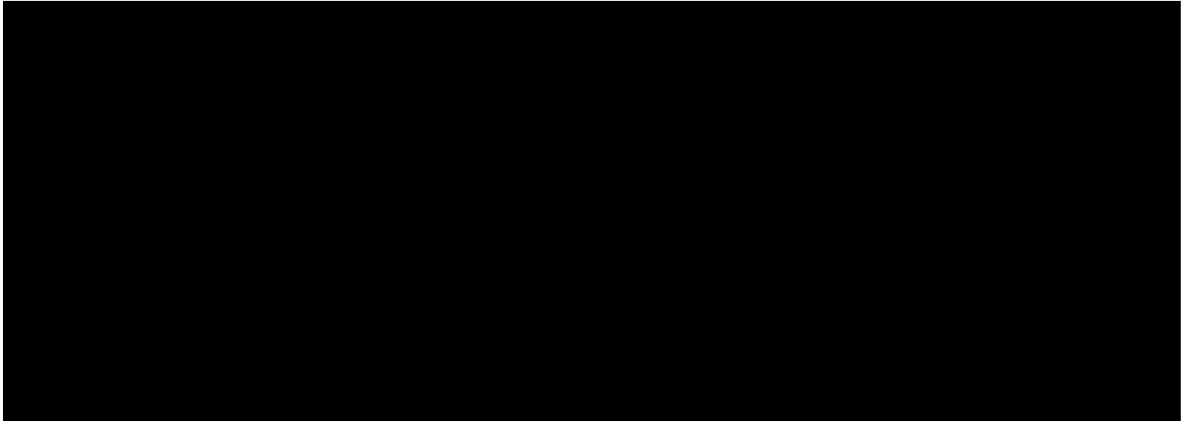
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terrorism to dramatize their demands for a separate Basque state. According to a press report, however, four bomb blasts in Guernica last Thursday were blamed on the Antifascist and Patriotic Revolutionary Front, a dissident Communist extremist group that uses terrorism to support its opposition to the Franco regime but has little support in the Basque area.
(Confidential)

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NATO Committee Discusses the Impact of
Economics on Defense

1 + 2 | A study undertaken by the NATO members concludes that economic pressures are far more likely to weaken the security of the Alliance than of the Warsaw Pact. The study, based on a US draft, will no doubt be modified slightly before it is put in final form, but the conclusions will probably not be much changed.

1 | According to the report, NATO countries are facing four types of economic pressure:

- economic stagnation, including high unemployment and low growth rates;
- high inflation;
- balance of payments problems;
- dependence on outside suppliers for oil and, in Europe, other strategic materials.

1 | The Alliance is thus under strain and in some danger, but the economic pressures will not erode Alliance security as long as NATO's political solidarity is maintained. The primary danger lies in the possibility that individual NATO members might adopt short-sighted policies, such as reducing the level of defense spending. Such reductions could imply a lack of political will on the part of Alliance members, hamper NATO force improvement programs, and strain the ability of the West to maintain a unified position in the force reductions negotiations and the European security conference.

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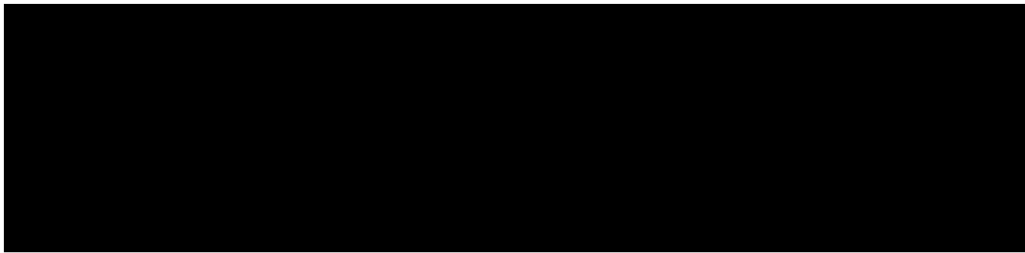
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The report goes on to note certain economic advantages enjoyed by Warsaw Pact countries, including favorable growth prospects and the fact that they are shielded to some extent from outside economic events. But the report points out that the Eastern economies do suffer from fluctuations and setbacks, as well as structural weaknesses deriving largely from their systems of central planning. In addition, the report notes that their economic growth starts from a much lower base.

The NATO report, at its present stage, is short on practical suggestions, but it recommends that NATO countries keep in mind the political and security interests of the Alliance when adopting positions in international economic forums. The report also concludes that the present economic difficulties point to the urgent need for more efficiency in Alliance programs and greater standardization of NATO weapons. NATO has been studying such ideas for some time, with few practical results.

After the paper leaves the economic committee, it will be discussed in the NATO political committee and the North Atlantic Council before being taken up, finally, at the NATO ministerial meetings scheduled for late May. (Confidential No Foreign Dissem)



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Declining Turkish Cotton Exports Worsen Trade Deficit

2 | Turkey will end this crop year with a record cotton harvest and at the same time will be faced with its lowest exports and largest inventory in over 10 years. Compared with a year earlier, 1974-1975 production rose by 17 percent but exports will drop a steep 31 percent, leaving a projected stock by the end of year of a staggering 315,000 tons. Unless government efforts to reverse the situation are effective, Turkey could meet all of next year's domestic and export requirements without raising any cotton at all.

5 | High government support prices and the failure of export promotion programs have pushed the price of Turkish cotton above world market prices. As a result, export contracts amounting to only 70,000 tons had been logged by the end of February compared with 227,000 tons a year ago. Raging inflation--now running at an annual rate of 30 percent--left Turks with little purchasing power to offset decreased foreign demand. Turkish textile mills are now operating at one-third their normal level.

3 | The cotton crop generally accounts for about 20 percent of Turkey's export earnings. The steep decline in orders for the fiber will worsen Ankara's severe trade problems. In the January-February period, the trade deficit rose to over \$477 million, as exports dropped 20 percent and imports shot up 60 percent. As a result of the deficit, Turkey's foreign exchange reserves have fallen to \$1.1 billion from over \$2 billion a year ago. Ankara is viewing the situation with alarm and has applied to the International Monetary Fund for special drawing rights equivalent to \$45.7 million to bolster its reserve position.

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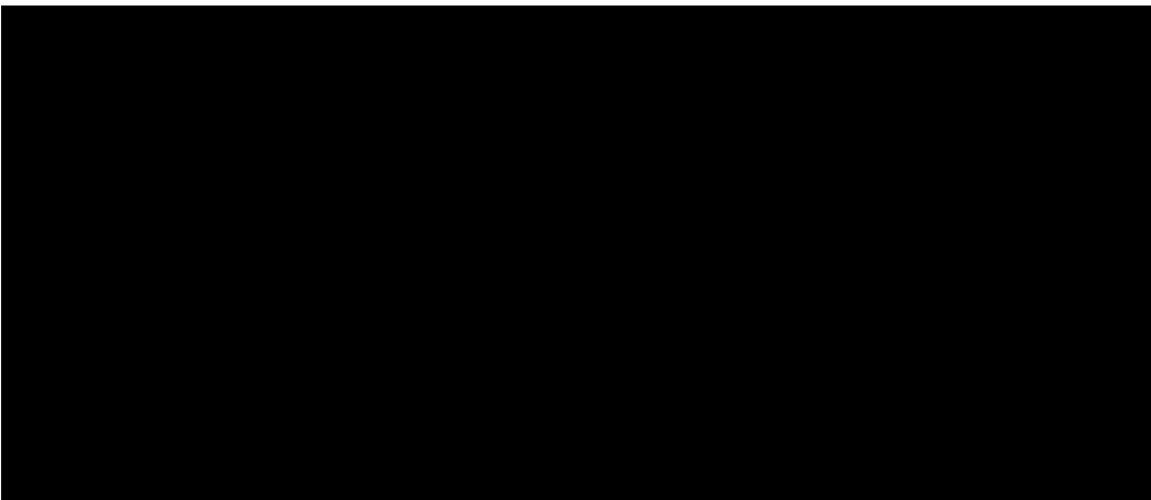
Meanwhile, to promote sales, exporters are insisting that the government release cotton from price controls. Several concerned ministries are considering making cotton available to exporters at minimum prices if exporters have evidence of firm orders from abroad. The government would assume the entire loss for these transactions, which have been predicted would lead to exports of 150,000 tons.

2

Further help may come from a government plan to subsidize yarn exports. The export premium for yarn was recently pushed from 10 percent to 25 percent of the value of the yarn. Even so, restrictions by importing countries could limit the effectiveness of Ankara's efforts. The UK among others has limited imports of Turkish yarn. (Confidential No Foreign Dissem)

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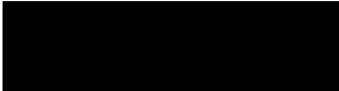


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US Isolated at UNIDO Conference

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The second conference of the United Nations Industrial Development Organization ended in Lima, Peru last week with a final declaration favoring the developing countries on such issues as establishing a link between the prices of finished products and raw materials, sovereignty over natural resources and advocacy of producer cartels. The vote on the final declaration found the US isolated by a vote of 82 to 1, with a number of EC states and Japan abstaining.

4

The US vote will heighten concern among the industrialized states, and particularly the EC, that the US has done little to settle its differences with developing states. Moderate developing states will also worry that the US vote will strengthen the hand of radical developing states who argue that the US is unwilling to compromise and that the developing states should exploit their overwhelming numerical majorities in the UN.

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At the UN General Assembly in December the US was joined by five EC states in voting against a similar document, the Charter of Economic Rights and Duties of States. Support for the US from the industrial states eroded because they felt the developing states had softened their stand since December. EC policy at the Lima meeting reflects the effort the EC has made to compromise with the developing states whenever possible. In the last hours of the conference, the EC pushed hard to convince the US not to demand a vote on the final document or its individual paragraphs. The EC states believed that if a vote were demanded they would find it necessary to vote against the developing states on some sections, a move they were loathe

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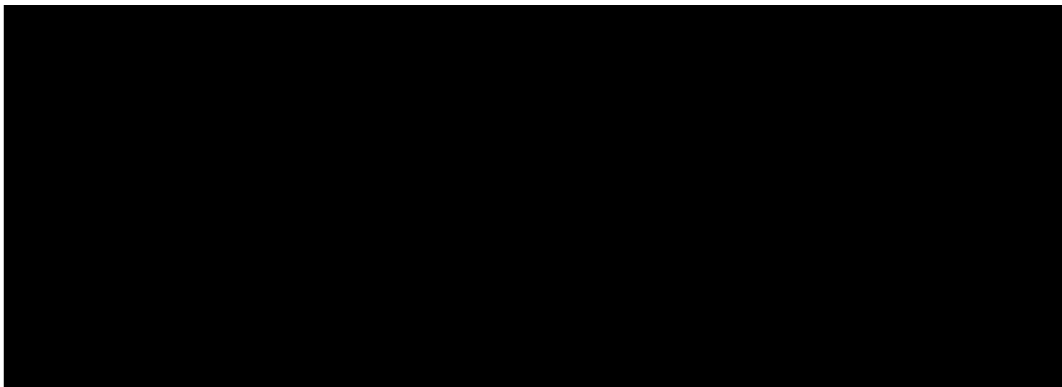
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to make in the face of apparent concessions. Ultimately, however, even the Netherlands and France, the developing states' staunchest defenders in the EC, voted against one part of the document.

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The concern of moderate developing states over the US vote was expressed to Ambassador Scali by the Pakistani ambassador to the UN, who will be the next president of the UN Economic and Social Council. The Pakistani said the outcome of the Lima conference made him fearful that this fall's special session of the General Assembly on economic issues would degenerate into a fight between developed and developing states. He asked that the US take the lead and offer concrete alternatives to the demands of radical developing states. Otherwise, moderate developing states, including Pakistan, would have little choice but to join in full support of these extreme positions. (Confidential No Foreign Dissem)

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President Approves New Turkish Cabinet List

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President Korumurk has approved the cabinet list submitted to him by Justice Party leader Suleyman Demirel. The new center-right National Front coalition will now take over from the caretaker regime of Prime Minister Irmak and begin work on a government program which it must submit to parliament within a week for a confidence vote. With the support of nine dissident members of the Democratic Party, as was announced over the weekend, Demirel's four-party coalition has a slim three vote majority in the National Assembly. Even should he lose the confidence vote, however, Demirel's government would remain on in a caretaker capacity until another government was formed.

Demirel's cabinet includes the leaders of the other three coalition members, all in the position of Deputy Prime Minister. Thus included is National Salvation Party leader Erbakan, whose antics and obstructionist behavior finally brought down the Ecevit coalition government last September. National Action Party leader Turkes is also named Deputy Prime Minister. Turkes' party controls only three votes in parliament, but they are crucial to Demirel. Turkes is alleged to have ties to extreme right wing groups that have used violent tactics from time to time.

Demirel's center-right Justice Party controls most of the crucial portfolios, including the ministry of foreign affairs. The Defense ministry went to Ferit Melen of the Republican Reliance Party; Melen apparently is satisfactory to the armed forces, having served temporarily as Prime Minister in 1972 after the military had removed Demirel in 1971.

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Demirel is not expected to press for early elections, although his coalition is fragile and if he runs into trouble elections will be seen as the only way out. His relations with the military will be touch and go, particularly with Erbakan and Turkes--both of whom the military strongly dislikes--in the government. (Confidential)

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