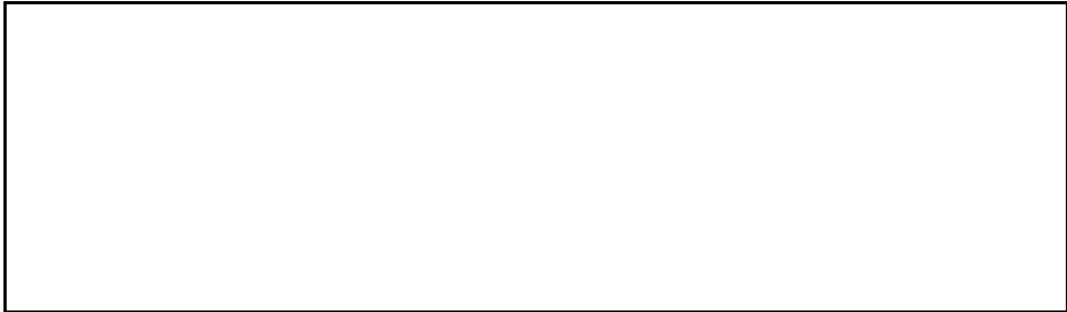


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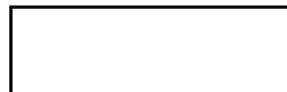
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Portuguese Moderates Dealt Setback

Moderates in the Armed Forces Movement have suffered a setback with the forced resignation yesterday of General Mendes Dias, the air force chief of staff and member of the Revolutionary Council.

Mendes Dias' resignation comes as no surprise since his moderate views made him suspect, especially after the abortive March 11 coup. Moderate officers in the Movement had hoped that the popular strength demonstrated by the Socialists and the Popular Democrats in the constituent assembly election would give them increased leverage in the Council. So far, however, they have had little success in making their influence felt.

In a communique released by the Revolutionary Council, Mendes Dias was criticized for "deficiencies" in command during the coup attempt, but he was not accused of complicity in the plot. The Council stated that his loyalty to the Movement is not in question.

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Press reports speculate that the Council's rebuke was intentionally mild to avoid antagonizing the air force, which is inclined to support the moderates.

The Portuguese media indicate that the commander of the Lisbon air region, General

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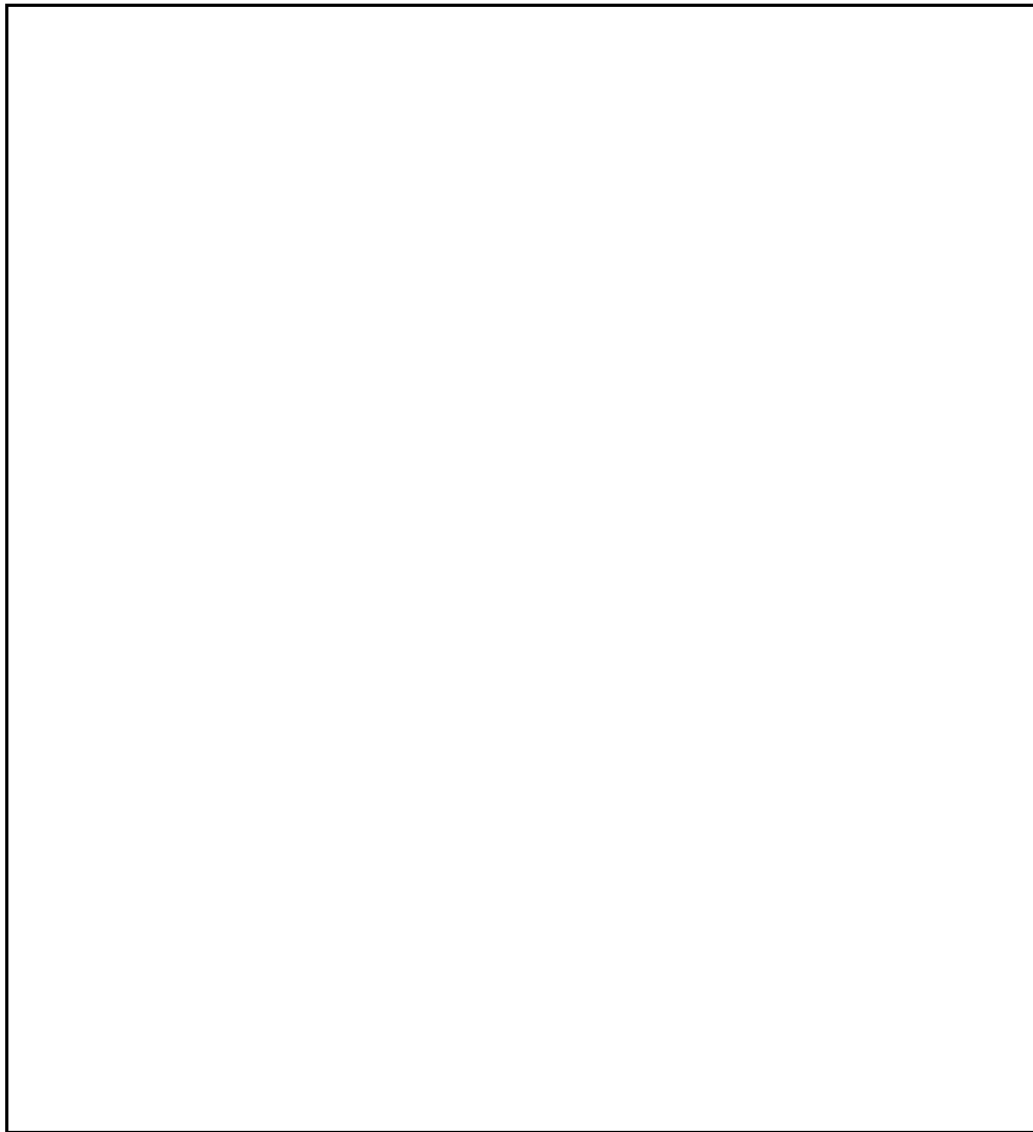
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Pinho Freire, also submitted his resignation out of loyalty, but the Council's decision on this matter has not been announced.

The new chief of staff is Colonel Morais da Silva, until recently a major who assumed command of an air base in the aftermath of the abortive coup. As chief of staff, he is promoted to the rank of general.



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West Berlin Morale Shaken

Decisions announced this week by two large US firms to cut their operations in West Berlin have caused concern there that US commercial interests may be losing faith in the future of West Berlin.

The basis for the current concern were reports appearing in West Berlin newspapers on May 13 and May 15 that National Cash Register (NCR) and Pitney Bowes--both hard hit by the recent business downturn--planned to cut Berlin operations in favor of centralized operations from their plants in West Germany. The moves will idle nearly 1,000 workers in West Berlin.

Officials of both firms have denied that political factors motivated their decisions, but early reactions in West Berlin indicate that neither political nor trade union leaders are convinced. While West Berlin political leaders have taken a public position that the decisions reflect a decline of the US commitment to Berlin, some have told US Mission officials privately that they doubt the decisions were based wholly on economic grounds. Trade union leaders have been even more outspoken. A spokesman for the large Metal Workers' Union (IG Metall) claimed earlier this week that the real reason for the NCR move to its Augsburg, West Germany, plant was the firm's lack of faith in the US commitment to Berlin based on recent US performance in SE Asia.

Although fears of diminishing US involvement abroad may not gain general acceptance, the close timing of the two announcements has encouraged a political interpretation in West Berlin, where

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basic insecurity is always a major factor. The US Mission will urge US businessmen in West Berlin to coordinate their plans closely with Berlin authorities to help forestall misinterpretations of this kind in the future. Some 100 other US firms are still operating in West Berlin, though few are as important in terms of employment as NCR and Pitney Bowes.

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Soviets Weigh In on Finnish Political Situation

Finnish President Kekkonen will announce next Monday his plans for resolving the current domestic political impasse. In a statement on May 15, he assured foreign governments that domestic political uncertainties would not impede Finland's hosting the third stage of the Conference on European Security.

The break up of the present coalition, deeply divided over a host of issues, has appeared imminent in recent weeks. During his visit to the USSR last week, however, Foreign Minister Karjalainen was warned by President Podgorny that Finnish political instability could give opponents of European security an excuse to postpone the third conference stage planned for this summer.

Prior to the Soviet warning, Finnish leaders assumed that once the coalition resigned an interim non-political government would preside until elections in late summer or early fall. Now, however, some Finns are talking of retaining the coalition on a caretaker basis and putting off an election until next spring.



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Spain Acts To Ease Labor Unrest

The Spanish government has made two moves to ease labor tension, but its actions may be a case of too little too late.

The labor minister announced last week that the cabinet had approved a long-awaited decree that makes strikes legal for the first time under the Franco regime. The new law provides for legal strikes only as a last resort after various prescribed mediation and conciliation steps have been taken. A strike will be considered legal if it deals with a dispute not covered in government-approved labor management contracts and follows a secret ballot in which a minimum of 60 percent of the workers affected have voted to strike. Written advance notice of five working days following a favorable vote must be given to the government. During that time, the government will try to settle the dispute.

The following strikes would not be permitted: all politically motivated strikes, all solidarity strikes by workers or others not involved in the specific labor disputes, all strikes involving worker sit-ins, strikes at any public services or installations related to national defense, and any wildcat strikes not following prescribed procedures.

Given these restrictions, there may be few legal strikes in Spain. The new law is thus only a small victory for those wanting to liberalize the government-controlled labor system. Although it was a concession for the government even to use the word strike in the decree--a word Franco has not previously permitted--the new decree is unlikely to satisfy critics of the Spanish system at home or abroad.

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In an additional effort to ease tensions, the government-controlled Syndical Organization finally announced that elections for shop stewards will be held in June. Most clandestine labor organizations, from the Communist-dominated Workers' Commissions to the moderate Catholic-oriented Spanish Workers Union--but not the Socialist General Workers Union which refuses to participate--plan to run candidates in a move to penetrate the official labor organization at the plant level. This activity may substantially diminish the recent strike activity as workers concentrate their attention on the elections.

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"Leap Forward" for EC Commercial Policy?

Immediately upon his return to Brussels after a one week trip to Peking and Tehran, Sir Christopher Soames, EC Commissioner for foreign relations, announced his intention to seek "economic cooperation agreements" with China, Iran, and, eventually, with the Eastern European states.

The economic cooperation agreement the EC is now negotiating with Canada would serve as a model for these agreements. The non-preferential agreement will include provisions for cooperation in the industrial and environmental areas and set up formal consultation procedures. The EC views the Canadian agreement primarily as a means of guaranteeing European access to raw materials in exchange for EC technology.

Soames hopes that once the Canadian arrangement is concluded, the competency of the commission to negotiate such broad agreements will be established. The commission will then seek authority to negotiate similar arrangements between the EC and state-trading countries. How much success Soames will have is uncertain. The EC members have up till now refused to enlarge the jurisdiction of the community's common commercial policy to include cooperation agreements.

During his stopover in Tehran, Soames pressed the Iranians to accept a non-preferential cooperation agreement similar to that being negotiated with the Canadians. Tehran, however, prefers special trade preferences

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along the lines of the EC-Mediterranean accords. Agreement was, nevertheless, reached to begin exploratory talks in June on a new agreement which will include provisions for oil and refined products.

At a Brussels news conference, Soames expressed the hope that his China visit would not retard progress toward improved relations with the Council for Economic Mutual Assistance and individual Eastern European countries. The Commission surely figures, in fact, that the talks with China will spur Eastern European interest in their own arrangements with the EC.

The initial Romanian reaction appears to be favorable. Romanian officials want to establish closer ties with the community, but do not want to risk being the first communist country (except for Yugoslavia) to enter into a trade agreement with the EC or accord it full political recognition. The Chinese decision to blaze the trail may increase the possibility that Romania may follow suit. Bucharest, however, would not want to follow Peking's lead too closely because of Moscow's negative reaction.

Under the EC's common commercial policy, state-trading countries must recognize the Commission's authority to negotiate trade agreements. Romanian economic officials may hope that by recognizing the EC they will gain, among other things, more favorable treatment in negotiations on an EC-Romanian textile agreement and greater access to EC markets for Romanian cotton goods. [REDACTED]

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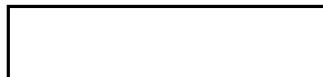
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Turkish Coalition Government Off to  
Good Start

After a little more than a month in office, the nationalist coalition government of Suleyman Demirel has made a good start toward achieving the major elements of its domestic program.

The principal beneficiaries of the government's measures are those groups that have traditionally supported Demirel's Justice Party such as farmers, labor and women. The main opposition--former prime minister Ecevit's Republican People's Party--made major gains among these groups in the 1973 general election. The government's measures will also probably win support from government employees who have generally favored the Republican People's Party.

So far, the governing coalition has exhibited internal unity with Demirel in firm control, although the leader of the National Salvation Party, Necmettin Erbakan, has irritated Demirel's party on occasion. Demirel has maintained his close contacts with the crucial independent bloc of mostly former Democratic Party deputies that gave him the necessary support to win the vote of confidence on April 12.

For the time being, at least, Demirel has little to fear from his opposition which has been further weakened since the confidence vote. The Democratic Party, in particular, has been hit hard by resignations and the party now has only 27 deputies compared to the 45 elected on its ticket in 1973. Ecevit would need to pick up 11 votes, while holding the current opposition forces in line in order to bring down the government--an unlikely prospect at present.

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Jockeying for Position Over the Spanish Sahara

The arrival in Spanish Sahara this week of an investigating team of the UN Committee on Decolonization has stirred action among the parties contesting the disposition of the territory. The team has already visited Madrid and will go on to Morocco, Algeria, and Mauritania.

Recent allegations in the Spanish press about secret conversations between Spain, Morocco, and Mauritania for settlement of the Sahara problem led Foreign Minister Cortina to announce that Spain continues to support a self-determination referendum under UN auspices. A Spanish Foreign Ministry official told the US embassy that the press stories came from certain Spanish officials who favor a negotiated settlement that would take into account Moroccan King Hassan's determination to annex the Sahara.

The arguments of these officials have been weakened by Hassan's renewed claim to the Spanish enclaves of Ceuta and Melilla in northern Morocco--territories that Madrid says it has no intention of relinquishing.

Cortina's formula reportedly has the full backing of Franco. Madrid appears to believe that a referendum would result in a vote in favor of an independent state, which the Spaniards could hope to control.

The Spaniards postponed their plans to hold a referendum during the first half of this year as a result of the adoption by the UN General Assembly

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last fall of a Moroccan-initiated resolution that sent the dispute to the International Court of Justice for an advisory opinion. The Court will decide whether the Sahara was administered by any government prior to Spanish occupation and, if so, what legal ties existed then between the territory and Morocco and Mauritania.

Spain, Morocco, and Mauritania have submitted written briefs to the Court, which began hearing the case on May 12. Algeria has notified the Court it wishes to present its views as an interested party.

A court opinion is expected next September in time for the UN General Assembly session. Faced with competing claims to the area, the Court may rule that Spanish Sahara was an unadministered territory. That would return the problem to the General Assembly, which would probably recommend implementation of existing resolutions that call for a UN-supervised referendum.

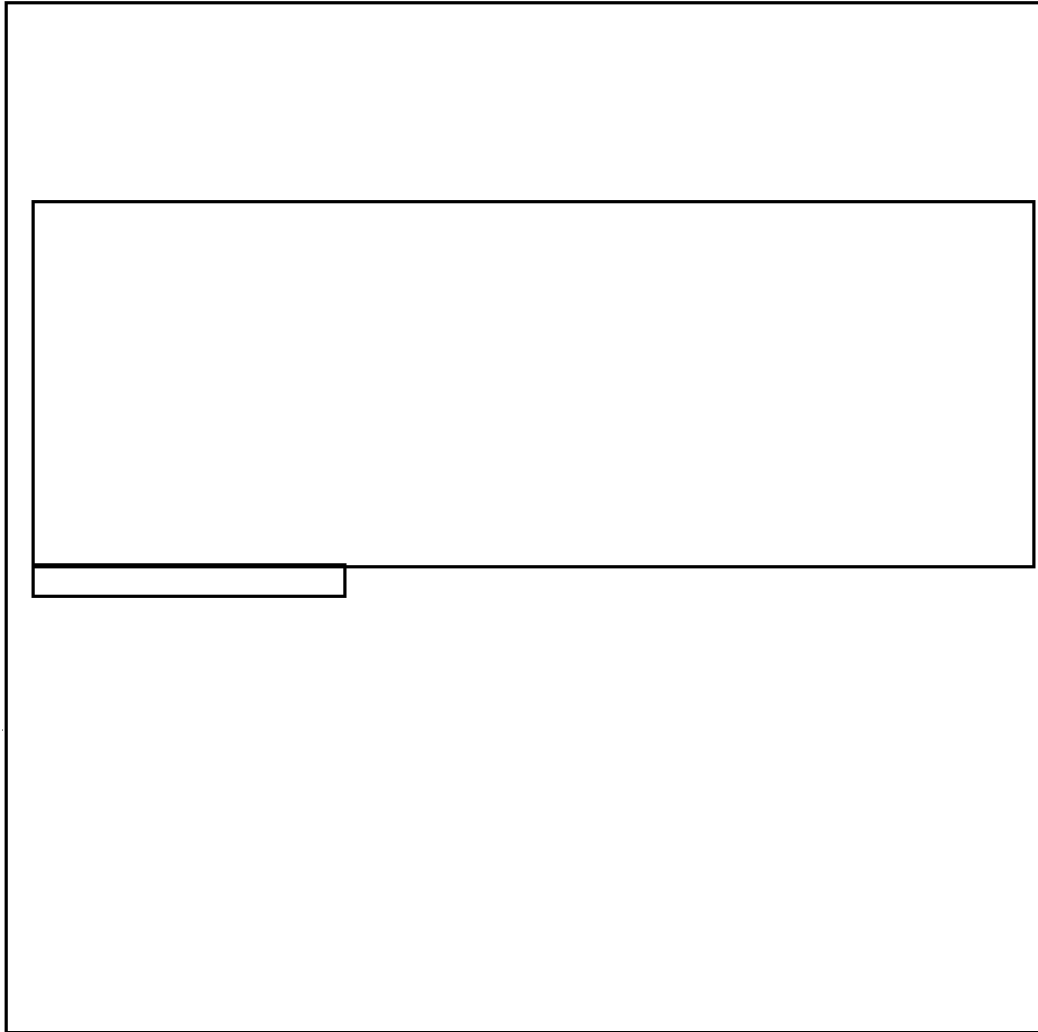
Relations between Morocco and Algeria have recently become strained again over the Sahara issue. Algiers, which is determined to block Moroccan annexation of the territory, supports the proposed referendum, on the assumption that it would result in independence for the area. Such a solution would at once deny Morocco any form of control and open the territory to Algerian influence.

The two countries clashed over self-determination for the Sahara at the Arab League foreign ministers meeting in Cairo last month. The day after the meeting ended, Hassan warned that Morocco would use force, if necessary, to prevent "self-determination in the Sahara." Hassan, however, still prefers a settlement through bilateral negotiations.

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Mauritania, for its part, is continuing its juggling act in the Sahara dispute. It does not want to share a common border with Morocco and fears Rabat might not be satisfied with the acquisition of Spanish Sahara. In the past it has relied on Algiers to defend its interests.

More recently Nouakchott has accepted a \$15 million development loan offered by Rabat in an obvious effort to buy Mauritanian support on the

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Sahara. The Mauritians will remain suspicious of Moroccan intentions, however, and are unlikely to risk offending Algeria by cultivating too close ties with Rabat.

Ultimately, the dispute will probably be settled through private negotiations among the four interested parties. A compromise solution based on partitioning Spanish Sahara between Morocco and Mauritania may emerge. Spain and Algeria would find it easier to agree if that alternative can be worked into an option in the referendum.

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