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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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[redacted] 25X1A

Dutch-German Defense Talks

The US defense attache in Bonn reports that the most recent Dutch proposal for a force specialization trade with West Germany is dead. The trade, informally proposed earlier this month by Dutch Defense Minister Vredeling, called for the Netherlands to take over West Germany's naval tasks in the North Sea in return for Bonn's assuming some of the Dutch ground forces role in Germany. As part of the swap, the Dutch volunteered to take delivery of six frigates currently on order for the West German navy.

Officials from two countries met on November 18, but were unable to reach an agreement. According to the defense attache, West German Chancellor Schmidt objected to any proposal that would remove the Netherlands' army brigade from its forward position in Germany.

The West German navy also argued that in view of recent Dutch defense economy measures there is no assurance that the Netherlands would carry through with the purchase, or would not decommission the frigates after delivery. The West Germans also suspect that the Dutch would want to build the six frigates in their own yards, a situation that could cause trouble at home in view of West Germany's own unemployment, especially among shipyard workers.

The Dutch tried the same pitch in 1973 when they did not want to buy the nuclear-capable Lance tactical missile system for their ground forces. A NATO special study group concluded that the Netherlands should either buy the Lance or find another NATO member to obtain and operate the system for them. The Hague turned to Bonn as the best candidate for a bilateral trade, but the Germans--who felt strongly that the Dutch should maintain some nuclear responsibility--apparently made a counter offer that was not acceptable to the Dutch.

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Dutch advocacy of such trade-offs in defense responsibilities has been aimed at reducing military expenditures. Possibly in an effort to keep the concept alive, both sides reportedly agreed in Bonn last week to establish a mixed committee to continue discussions of the general topic of specialization of defense tasks. (CONFIDENTIAL NOFORN)

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Progress Made on Sugar Pact

Sugar exporters and importers appear to be making progress toward a new International Sugar Agreement to stabilize world supplies and prices. The previous agreement expired in 1973.

At the recent International Sugar Organization meeting in London, working groups of major importing and exporting countries reached a preliminary consensus to further explore the possibility of managing world sugar supplies and prices. Details have yet to be worked out, but the basis for any new agreement will probably rest primarily on the management of supplies and prices through basic export quotas and some type of buffer-stock arrangement. While the mood of the discussions is much more serious than last spring, participation by the EC and major countries is not yet assured. Actual negotiations are not scheduled to begin until September 1976.

Both exporters and importers may now believe that a new agreement is in their long-term interest. Exporting countries are especially concerned with the recent drop in world sugar prices from a 30 cent per pound average in 1974 to a current level of 13 cents and by the recent unsuccessful effort by Latin American and Philippine producers to bolster sagging world prices. At the same time, they also fear that another round of spiraling sugar prices will lead to further cutbacks in consumption and accelerate the shift to sucrose substitutes. From the importers' side, their increased interest in greater market stability is evidenced by recent efforts of several countries to enter into long-term bilateral contracts with exporters to assure guaranteed supplies.

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The industrialized and developing countries will be watching the sugar proceedings for signs of how the relationship between the rich and poor is developing. Last September's special session of the UN apparently reversed the trend of increasing confrontation between these groups by reaching agreement on the outline of a plan to reconcile their interests. The poor developing states will seek proof of the expressed willingness on the part of the rich states to cooperate with development aspirations of the Third World. The rich wish to see if the developing states will curb their more radical--and expensive--demands to gain agreement on economically and politically realistic programs. (LIMITED OFFICIAL USE)

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Spanish Economic Reform Likely to Prove Unpopular

Madrid gave final approval to a potentially unpopular program of new investments and continued wage and price controls designed to prevent further weakening of the Spanish economy at a November 14 meeting of the Cabinet chaired by Juan Carlos.

The program will boost prices of petroleum products and hold down wages. Many labor contracts are due to be negotiated within the next six months. The measures just adopted will extend by one year present controls that limit pay and price boosts to increases in the cost of living plus an additional 1 to 3 percent in wages for some workers. In the past year, consumer prices climbed at a 17.5 percent annual rate; industrial wages jumped 25 percent.

The huge increases in prices of petroleum products will add to inflation but may ease Spain's trade deficit. The price of industrial fuel oil may jump 25 percent, cooking gas 10 to 30 percent, diesel fuel 4 to 12 percent and gasoline 9 to 24 percent to a high of $1.69 per gallon, depending on octane. Electricity prices will jump 8 to 20 percent.

Despite a rise of only 3 percent in oil import volume, the value of oil imports was 22 percent higher in the first six months of this year compared with the same 1974 period. Spain's oil import bill this year will run about $3.5 billion, pushing the 1975 trade deficit to over $9 billion.

Madrid also is scheduling $1.7 billion in housing investments spread over the next three years in an attempt to cut unemployment in the construction industry

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now running at over 10 percent, compared with under 5 percent for the economy as a whole. Tax incentives will be granted for other types of investment spending.

The program seems less anti-inflationary and more stimulative than past measures taken by Madrid. It is doubtful though that much will come of the new moves. Wage controls pegged to the rapidly rising cost of living index have done little to halt inflation, and a spending program spread over 3 years will have little immediate effect. The steep hikes in petroleum product prices will likely trim the 1976 oil bill but will have no effect this year.

The program, particularly the wage controls and gasoline price raises, will not be popular in Spain. Adoption at this time does not seem essential and the timing of such harsh measures seems doubly strange in view of Juan Carlos' need to build support during the early days of his reign. (CONFIDENTIAL)

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