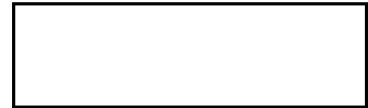
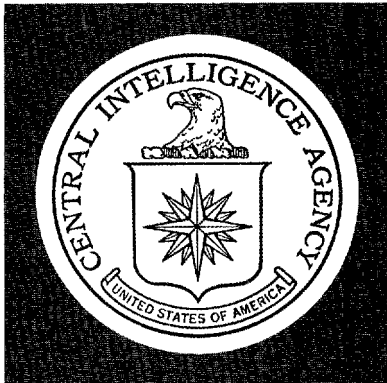


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State Department review completed

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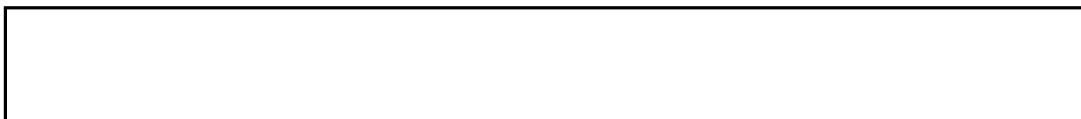
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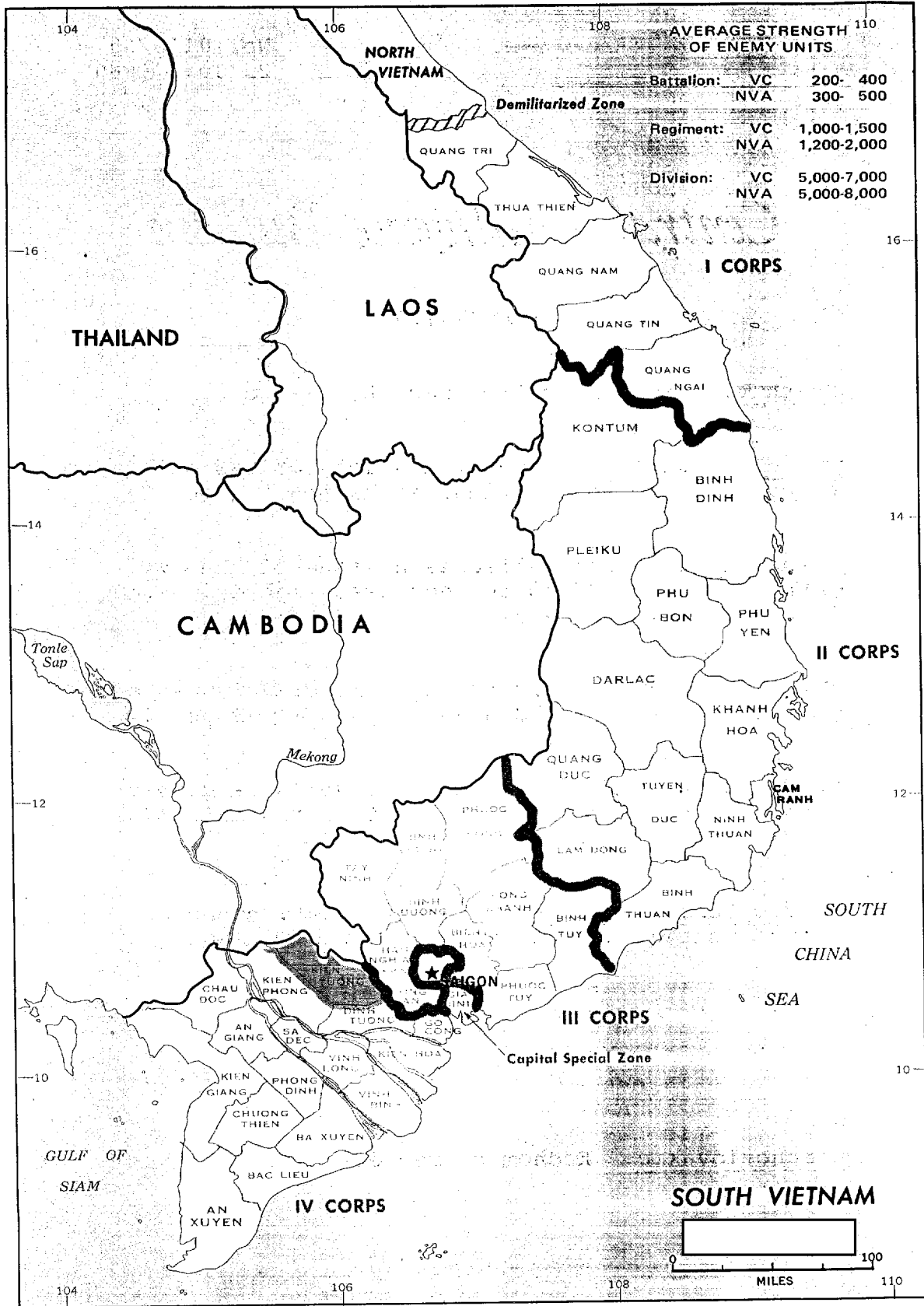
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South Vietnam: Ground fighting was limited to small-scale clashes between allied and Communist forces in widespread sectors of the country on 21-22 July.

The Communists are apparently beefing up their forces in southern South Vietnam by shuttling North Vietnamese infiltrators directly to the delta provinces of IV Corps. Preliminary interrogation of two prisoners captured earlier this month near the Cambodian border in Kien Tuong Province reveals that both were members of the same infiltration group which was apparently sent intact to the delta from North Vietnam.

There have been numerous reports of difficulties encountered by the Viet Cong main force units in the delta provinces in securing sufficient replacements for losses sustained in battle. Small numbers of North Vietnamese fillers, consisting largely of experienced cadre, have previously been sent to IV Corps, but this is the first known instance of the introduction of large numbers of North Vietnamese personnel sent directly from North Vietnam as replacements. It is possible that additional North Vietnamese forces may be identified in IV Corps; recent reports have alluded to an increased enemy capability in the delta provinces of South Vietnam.



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Spain: General Franco's naming yesterday of Prince Juan Carlos as king-designate has ended the long guessing game over who will succeed Franco, but the basic political situation remains unchanged.

Under the constitution, Franco may continue as chief of state and chief of government for life. Except in the unlikely event of Franco's suddenly stepping down, Prince Juan Carlos will not become king until the general's death or incapacitation. Because Franco also has the power to revoke the designation, he can keep the 31-year-old prince under control. In addition, the prince will have to take an oath to uphold Franco's twelve Principles of the National Movement and the six fundamental laws which institutionalize the present system of government.

In choosing Prince Juan Carlos, Franco passed over the chief pretender Don Juan, father of the prince and son of the last king, Alfonso XIII. Don Juan apparently is not going to contest the decision at this time. He reportedly is angry, however, and his chief adviser has indicated deep disappointment at the "installation" as opposed to the "restoration" of the monarchy. Most monarchists are resigned to the decision and somewhat assuaged by the government's commitment to the monarchical form.

Franco also has the power to name his replacement as chief of government--technically from three nominations made by the Council of the Realm, but most informed observers do not expect him to do so now.

Initial reactions of the power groups supporting the government and of the general public have been positive. They see the choice as providing for continuity with careful control on political evolution and as precluding a fight at the time of Franco's death.

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Israel-Egypt: The increasingly bellicose actions of both Israel and Egypt have led to the heaviest fighting since the end of the 1967 war.

Israel's attack on an island at the southern end of the Suez Canal on 20 July is its largest commando action to date, and the recent attacks on Egyptian artillery positions and SAM sites mark the first time the Israelis have bombed Egyptian territory since 1967. In the face of increasing Egyptian provocations, the Israelis have stated that they intend to "use whatever means are appropriate" in an effort to convince the Egyptians of Israel's military superiority.

The rising pace of action is reflected in aircraft losses. [redacted]

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Egyptian aggressiveness can be traced in part to the substantial resupply, retraining, and reorganization of the Egyptian armed forces and to the improvement in morale resulting from the series of successful commando raids and artillery strikes initiated by Egypt. The losses suffered by Egypt, however, could result in at least a temporary curtailment of Egyptian commando raids across the Suez Canal.

The Cairo press meanwhile has been playing up the recent clashes as a victory for Egypt, and Nasir can be expected to highlight the victory theme in his speech today marking the anniversary of the revolution which brought him to power in 1952. Israel's tactics do not appear to have had any appreciable psychological effect on the Egyptian masses. They know enough to discount their own government's claims of losses inflicted on the Israelis but can be expected to gain some satisfaction from the Israeli admissions of casualties and lost aircraft. [redacted]

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El Salvador - Honduras: El Salvador's failure to withdraw its troops by midnight yesterday in compliance with the OAS deadline could lead to a resumption of hostilities.

OAS members view Salvadoran defiance with serious concern, and seem prepared to seek stronger measures to effect the withdrawal. The OAS Council has the option of convoking a meeting of foreign ministers to consult on application of "all other necessary measures to re-establish or maintain inter-American peace and security" as provided by the terms of the Rio Treaty.

Meanwhile, US officials in Tegucigalpa report that the Honduran Government may be hard pressed to restrain its people from taking retaliatory actions against Salvadoran citizens, including those interned during the early stage of the conflict. This danger would increase if the fighting is resumed. The Hondurans, at this point, feel that they have done all that is possible to conform to OAS resolutions, with no reciprocity on the part of El Salvador.

Both of the neighboring governments of Guatemala and Nicaragua have indicated concern that their own vital internal interests are adversely affected by continuation of the dispute, and believe that El Salvador should be prevented from consolidating territory taken by force from Honduras.

There are continuing reports that El Salvador is acquiring aircraft from various private foreign sources, including some in the US. If the reports are true, El Salvador's already strong military position vis-a-vis Honduras will be strengthened.



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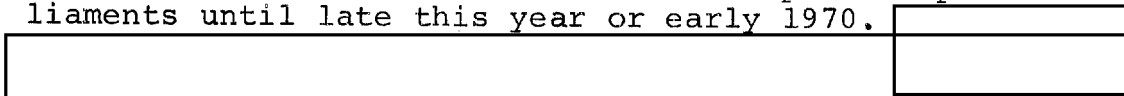
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Nordic Economic Union: A draft treaty embodying the principles for a Nordic Economic Union was presented to the governments of Denmark, Norway, Sweden, and Finland on 17 July.

The committee of experts which submitted the proposal reached agreement on issues affecting economic, commercial, shipping, energy, and labor policies, as well as capital movements. The experts did not, however, go beyond the vague wording of the governments' political guidance, and they left unresolved such key issues as a customs union and agricultural, fisheries, and finance and investment policies. The committee did reach tentative agreement for initial steps in these areas, however, and suggested that negotiations be continued at a later date. The various proposals for resolving these issues are to be appended to the draft for further consideration by the respective governments.

Initial reaction in Scandinavia has been guardedly optimistic, with all parties stressing that this is only a good first step toward further integration. The Danes and Norwegians apparently think that the proposals are sufficiently innocuous not to complicate their approaches to the European Communities but can still satisfy public demand for a Nordic "solution." The Swedes are somewhat disappointed that the committee failed to come up with more comprehensive proposals, but they believe that even a limited binding together of the Nordic countries will be to their mutual advantage when dealing with the Communities.

Further talks on the proposals are not expected before late September, and the governments will probably not present the draft to their respective parliaments until late this year or early 1970.



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NOTE

Czechoslovakia: Prague has openly acknowledged that the supply of foods and consumer goods has deteriorated, but has not outlined its plans to correct the situation. The government recently disclosed the continued shortage of meat and eggs as well as the inability of producers of consumer goods to satisfy increased demand. During the first five months of this year, inventories were reduced inasmuch as retail sales rose 13 percent while supplies to the retail trade network increased by only nine percent. Premier Cernik is reported to be under heavy pressure from other government officials to improve the government's image in the eyes of the disillusioned populace.



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