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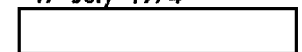
State Dept. review completed

DIA review(s) completed.

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17 July 1974



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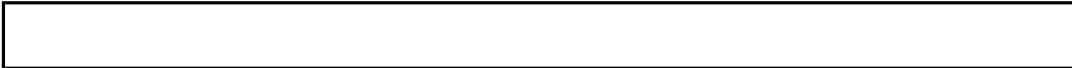
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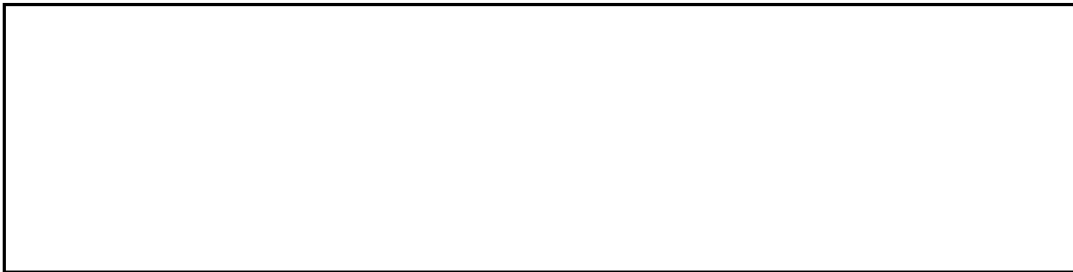


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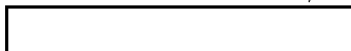
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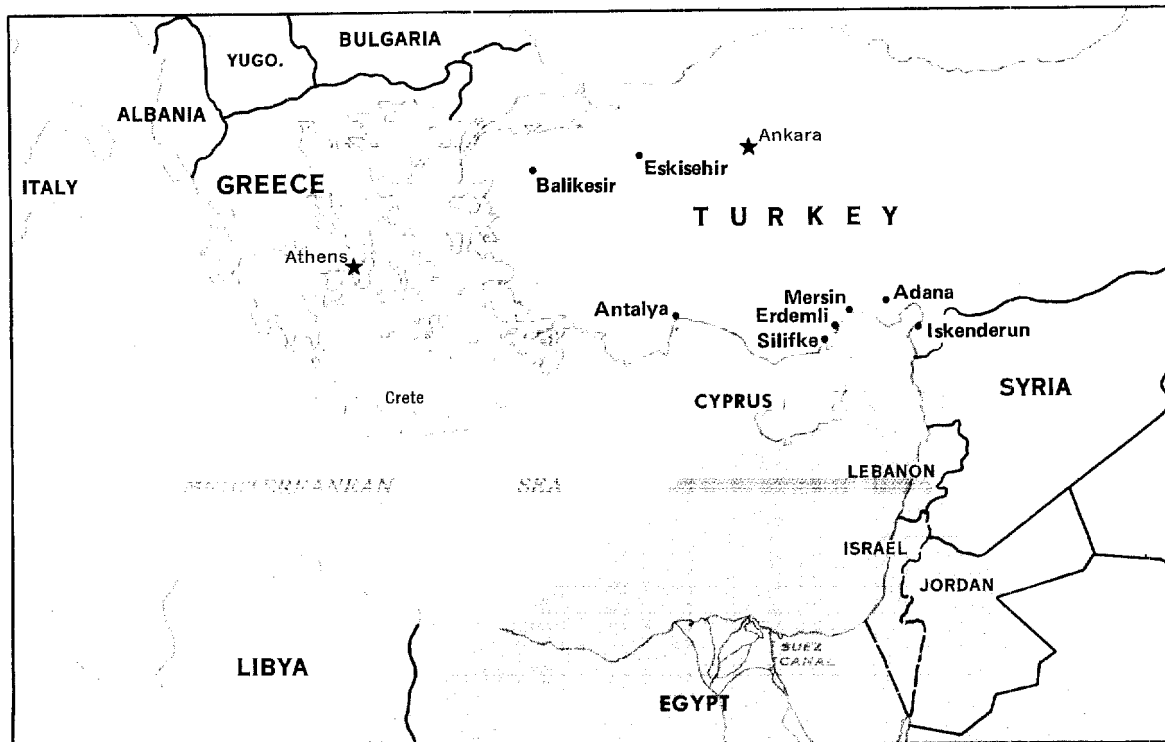
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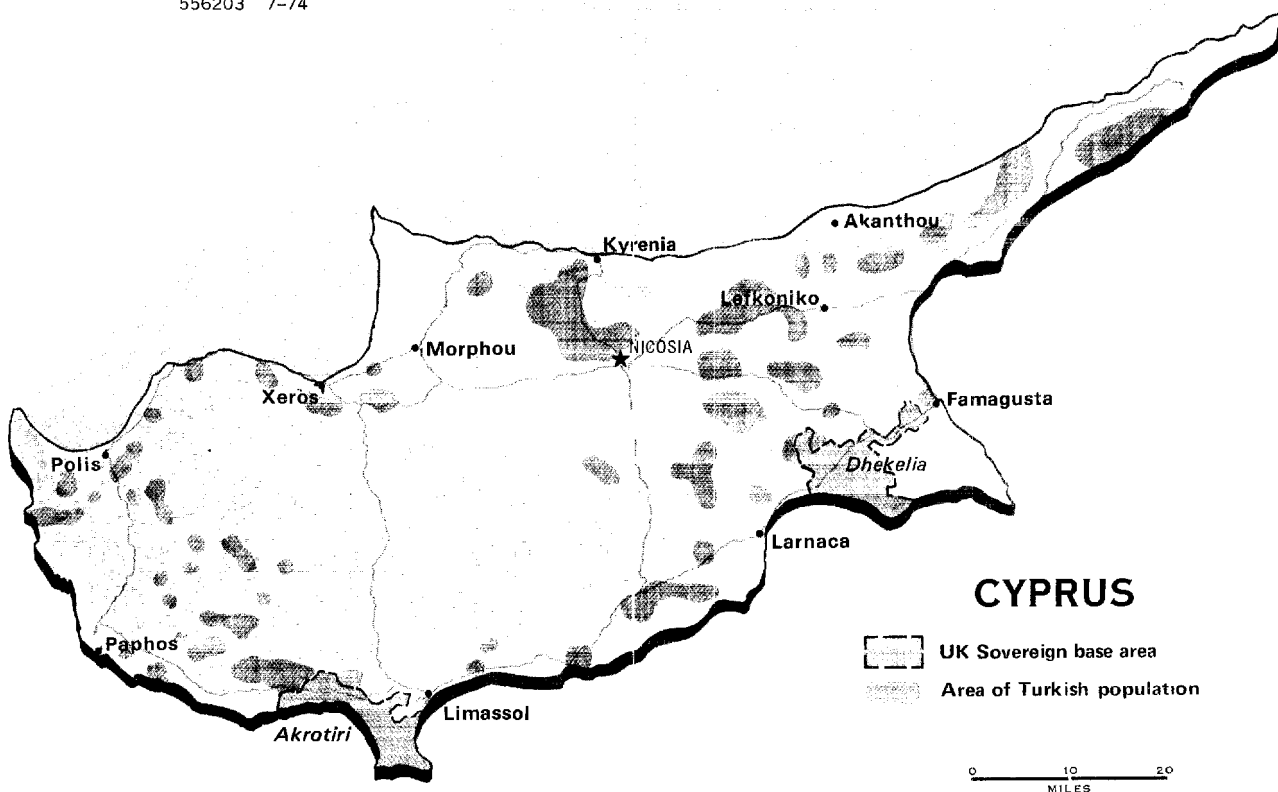
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CYPRUS

Ousted president Makarios arrived in Malta yesterday and plans to fly on to London this morning, apparently en route to the UN. He left Cyprus from the British base area near Limassol.

The failure to kill Makarios clearly complicates the task of consolidating the new Cypriot government and may ultimately undermine Ioannidis' position at home if the new government is not successful in gaining international and domestic acceptance.



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Nicosia had earlier announced that National Guard troops had entered Paphos, the last major stronghold of Makarios forces. Those forces appeared to include elements of the police and those members of the Tactical Reserve Units who had not surrendered.

The UK has agreed to Turkey's request for talks aimed at reaching agreement on joint action regarding Cyprus. The Ecevit government has called for parliament to meet in extraordinary session tomorrow, apparently to secure a blanket authorization to act as the situation requires.

The Turks have said they are not prepared to accept Nicos Sampson or his government as legitimate. They believe Athens engineered the coup to bring about enosis.

Ankara will be watching closely the semiannual rotation of the 950-man contingent of regular Greek forces on the island, scheduled to take place today. Any effort by Athens to increase the size of the force or its equipment would be viewed by the Turks as highly provocative and would increase the likelihood of Turkish intervention.

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In fact, the chances of Turkey's military intervention on Cyprus are growing. The Turks are making all the political and military preparations that would be necessary if they decided to move.

Ankara is determined not to permit fundamental changes in the status of Cyprus. The Ecevit government would feel compelled to mount military action against Greece if the new regime were to announce enosis. The aim of the Turks in this event would be to establish an independent Turkish Cypriot republic on part of the island--in effect partitioning Cyprus.

If there is not an outright declaration of enosis, Turkey will not likely intervene before determining how the internal situation on Cyprus is developing. Particularly, Ankara will want to gauge the effect Makarios' escape from the island has had.

As long as there are no direct attacks against the Turkish community on the island, Ecevit will probably try to resist urgings to embark on a military course of action. He heads a delicately balanced coalition which is beset with serious domestic and foreign problems, however, and he is obliged to be responsive both to the national mood and to the military establishment, which in the past has shown itself to be hawkish.



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[redacted] a unit of division size was heading through Adana toward Erdemli-Silifke for reported staging for Cyprus last night. Movement of military forces through Adana has been confirmed [redacted] but there was no deployment of troops to Cyprus during the night.

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DIA

Press sources yesterday reported that Turkish troops in full battle dress and with ammunition were moving in truck convoys through Adana. The troops may have been either army or paramilitary forces.

The US defense attaché in Ankara states that Turkish air force units at two airfields west of Ankara--Eskisehir and Balikesir--and at an airfield near Adana now have aircraft armed with air-to-air and air-to-ground weapons.

The Greeks continue to claim that the situation on Cyprus is an internal affair and that the Greek government will maintain its principle of "nonintervention in the affairs of other countries."

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Cypriot President Nicos Sampson has announced a cabinet that is made up of people who are not well known and has a marked rightist, pro-enosis character. Several of the new ministers have been open supporters of EOKA, the pro-enosis terrorist organization, and have strong ties to the Greek mainland.

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Nicosia was largely quiet last night, with only a minimum of scattered firing heard. This morning, the situation has returned to normal. Motor traffic was heavy as people were returning to work.

* * * *

NATO members in Brussels seem to realize that the personal role Secretary General Luns can play in the Cyprus situation is limited at this point, and that the best way to keep Athens and Ankara in line is to put pressure on them in the NATO Council. At an extraordinary session last night, most members felt the burden was on Athens to prove its claims that Greek policy toward Cyprus had not changed and that the problem was largely an internal Cypriot one. Specifically, the council urged the Greek representative to relay to Athens the hope that the rotation of the Greek contingent on Cyprus today would take place normally and the view that the Greek National Guard officers should be replaced.

Earlier in the day, NATO members had formally expressed their concern about the Cyprus situation and their hope that the parties involved would exercise restraint so that conflict between two members of the alliance would not result. The members also expressed support for the oral and written demarches that Secretary General Luns had made with the Greeks and the Turks.

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PORTUGAL

Prime Minister Vasco Goncalves' delay in announcing his new cabinet apparently stems from his difficulty in selecting and getting acceptances from persons satisfactory to all sides. Goncalves, appointed last Saturday to replace Palma Carlos, said last night that his cabinet choices would be announced today.

The chosen candidate of the Armed Forces Movement and more liberal than his predecessor, Goncalves had been expected to encounter few problems in forming a government. He planned to draw from the same elements--Socialists, Communists, centrists, and technocrats--that made up the outgoing cabinet, but with a greater military representation. The last cabinet had only one military man, the minister of defense. Goncalves may be having trouble both making room for additional military appointees and satisfying the demands of the leftists for certain posts.

Outgoing Socialist foreign minister Mario Soares, who is expected to be reappointed, told the US ambassador in Lisbon that the current crisis was artificially and wrongly brought on by Palma Carlos. Soares claimed that no really serious issues divided the government or impaired its ability to govern.

There is widespread suspicion that the crisis was an abortive attempt by "reactionary forces" to reinstall an authoritarian regime. Some observers view Palma Carlos, with his proposals for an early presidential election and delayed legislative elections, as a stalking horse for Spínola, who would have easily won the presidential election and thereby established his supremacy over the Armed Forces Movement.

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SOUTH KOREA

With the conviction and sentencing of 55 smaller political fry out of the way, President Pak's campaign to stamp out domestic dissent has come to focus on a number of nationally known figures, most prominently former South Korean president Yun Po-sun.

The 76-year-old Yun went on trial yesterday in Seoul on charges of providing financial support earlier this year to student activists allegedly plotting the overthrow of the Pak government. Leaders of the student group are among 14 South Koreans already sentenced to death. Yun's co-defendants include a prominent university professor, the dean of a prestigious theological seminary, and a well-known Presbyterian minister.

The authorities are also expected to try Bishop Chi Hak-sun, a leader of Catholic social action groups, on similar charges at an early date. The bishop is under house arrest following high-level church intervention that secured his release from prison. Finally, the trial of former opposition party leader and presidential candidate Kim Tae-chung seems likely to resume following rejection of his recent motion to deny jurisdiction of the judges assigned in his case.

The new round of trials seems likely to contribute to a growing atmosphere of unrest in Seoul and elsewhere in South Korea over the nation's ultimate direction. While the government has been able to link several of the 55 convicted conspirators to Communist- and other leftist-oriented organizations, it has been equally apparent that many, particularly in student and church-affiliated groups, had no coherent action program beyond mass demonstrations in support of Pak's ouster--on the 1960 anti-Rhee pattern.

The new trials, particularly those of such established anti-Communist figures as Yun and Bishop Chi--both likely to be vigorous in their own defense--may become counterproductive from the government's viewpoint. The trials could easily provide a focus for all shades of dissent in South Korea, from covert elements on the

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left to moderates who normally eschew political action. The authorities, of course, hope the new trials, and likely convictions, will nail down the point that opposition to Pak is a hopeless cause.

The domestic situation also has adverse implications for Seoul's relations with major foreign supporters. Tokyo is concerned because two Japanese have been caught up in Pak's dragnet and given 20-year sentences. There is also uneasiness in Japan about the fate of Kim Tae-chung

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Until these two problems are resolved with Seoul, the Japanese government--under intense media pressure at home--may feel compelled to cut back on some aspects of its close bilateral relationship with the South.

Contention in South Korea may also affect US Congressional deliberations on assistance to South Korea. Anti-Pak church and intellectual groups in the US, American as well as South Korean, have already begun to lobby against such aid.

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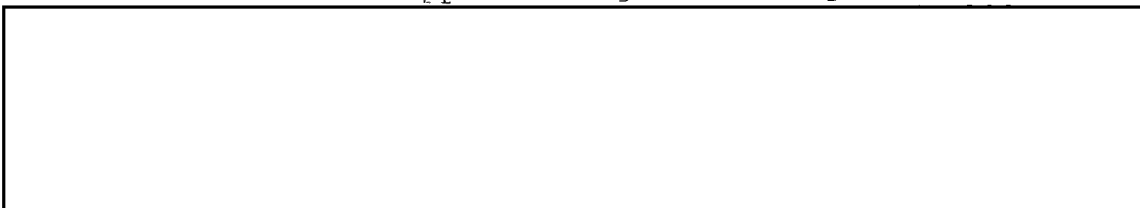
NORTH VIETNAM

Prospects for improvement in the agricultural situation this year are poor. Output from the spring and autumn crops will probably fall below last year, when North Vietnam produced only about three fourths of its requirements.

Harvesting of the spring rice crop is about a month behind the normal May-June schedule because poor weather earlier in the growing season slowed development of rice seedlings and delayed transplanting. The delay will probably reduce the crop some 10 to 20 percent below last year's moderately successful harvest of an estimated 1.2 million tons of rice.

Hanoi has been encouraging rapid harvesting of the spring rice crop and completion of preparations for the larger autumn crop. The regime has assigned high priority to improving food distribution and to rebuilding rice stocks that were drawn down further this spring when serious rice shortages were reported in parts of the country. Shortages frequently occur in the months prior to the spring harvest, but this year's problems were more severe than usual because the disappointing harvest last autumn did not permit sufficient stock-building.

The spring harvest will help ease the food situation, but Hanoi remains dependent on imports not only to meet emergencies but also to satisfy normal demand. Food imports have reached record levels in the first half of this year and are likely to remain high. Seaborne imports of 480,000 tons from January to June were nearly double the amount shipped during the same period in 1973.



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[REDACTED]

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Some reduction in output of the autumn crop is almost certain because of the delay in the spring harvest. [REDACTED]

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[REDACTED]

This further increases the possibility that the autumn crop will be damaged by adverse weather. At the least, yields are likely to be reduced because growing conditions will not be optimum.

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[REDACTED]

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WEST GERMANY - USSR

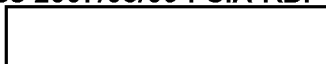
The announcement late last week of Chancellor Schmidt's plans to visit Moscow in October or early November suggests that Bonn is trying to restore some momentum to its Eastern policy. Schmidt's surprise appointment of Ostpolitik expert Egon Bahr as minister of economic cooperation earlier this month, along with the announcement of the Chancellor's visit, should help further dispel speculation that Schmidt intends to downgrade relations with the East.

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Schmidt's visit to the Soviet Union has been under discussion since he took office in May, but no date for the visit had been set. A West German government spokesman announced on July 12 that Schmidt would visit Moscow this fall to "reaffirm his commitment to the Eastern policy of his predecessor, Willy Brandt."

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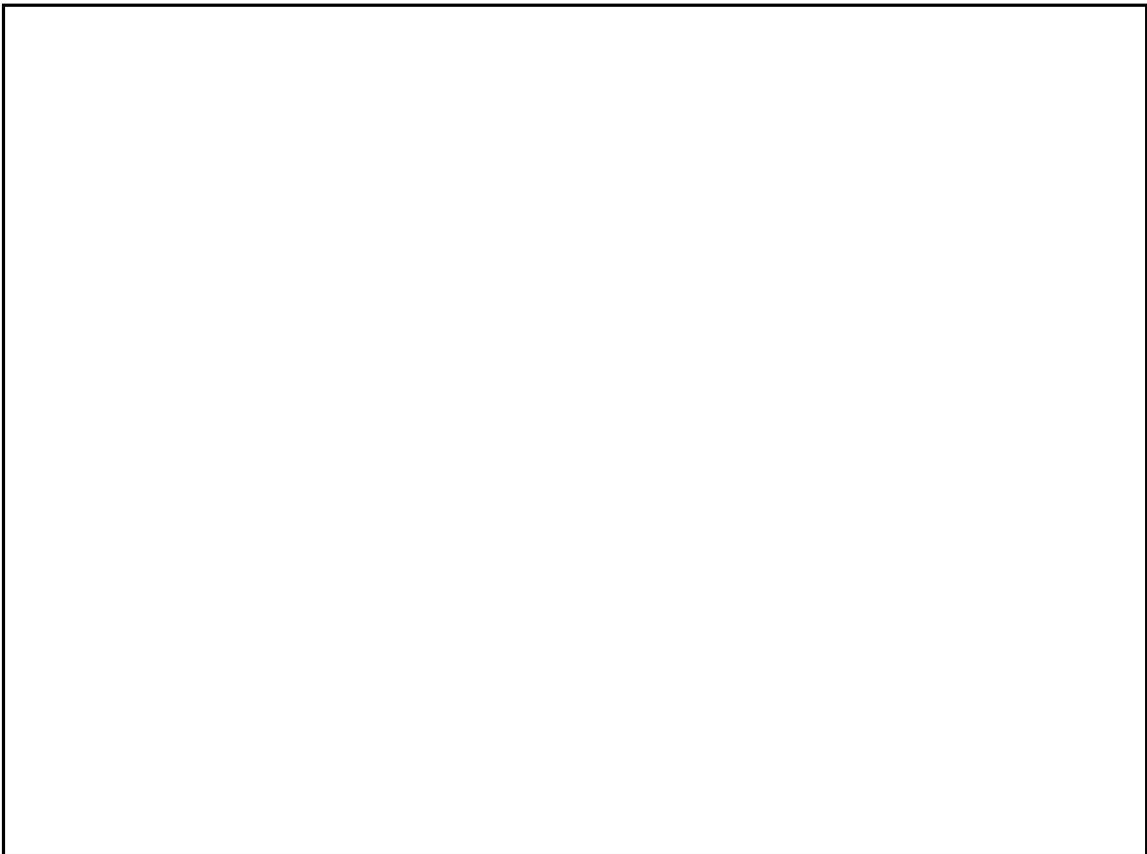


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German Foreign Office officials believe that the Soviets remain interested in a governmental level agreement covering scientific and technical cooperation, despite several recent agreements with individual large West German industrial firms. Bonn will not accept an agreement, however, that is open to interpretations that could be harmful to West Berlin's interests.

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UK - NETHERLANDS - WEST GERMANY

Urenco--the British, Dutch, and West German tripartite company for the production of enriched uranium-- apparently has committed its enrichment capacity to domestic users in the three countries through 1980.

The program involves the first commercial use of gas centrifuges to enrich uranium for the supply of nuclear power reactor fuel.

Five utilities in the UK and West Germany have signed letters of intent with Urenco that will absorb about two thirds of its projected 1980 capacity. Urenco is also negotiating with six other utilities in West Germany and the Netherlands for orders that are expected to bring its total orders for delivery in 1980 to 2,000 or more metric tons of separative work units. (A separative work unit is a measure of the effort expended to separate a quantity of uranium into an enriched portion and a depleted portion.)

Urenco plans to have a uranium enrichment capacity by 1980 that will just about meet these orders. Present plans call for Urenco's capacity to be increased to 10,000 metric tons of separative work units per year by 1985. If this is achieved, Urenco will be a major supplier of enriched uranium among non-Communist states. Excluding the US, the estimated annual enrichment needs of non-Communist powers by 1985 are about 34,000 metric tons of separative work.

Urenco is negotiating ten-year supply contracts for enrichment services, even though it is just starting construction of two enrichment plants, one at Capenhurst in the UK and the other in the Netherlands. These plants are scheduled to become operational by 1976 and will be expanded to meet the 1980 target capacity.

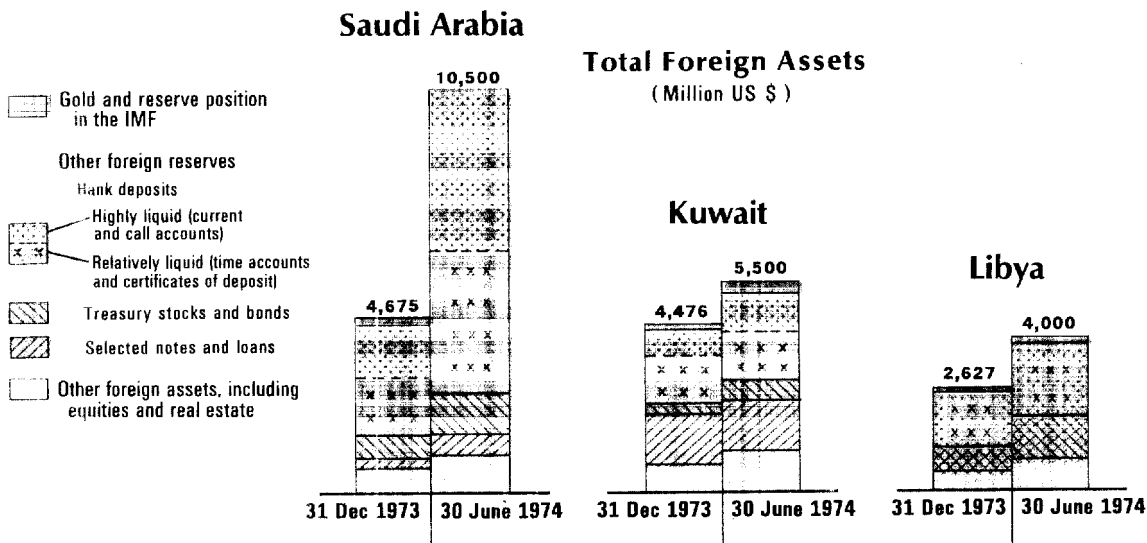
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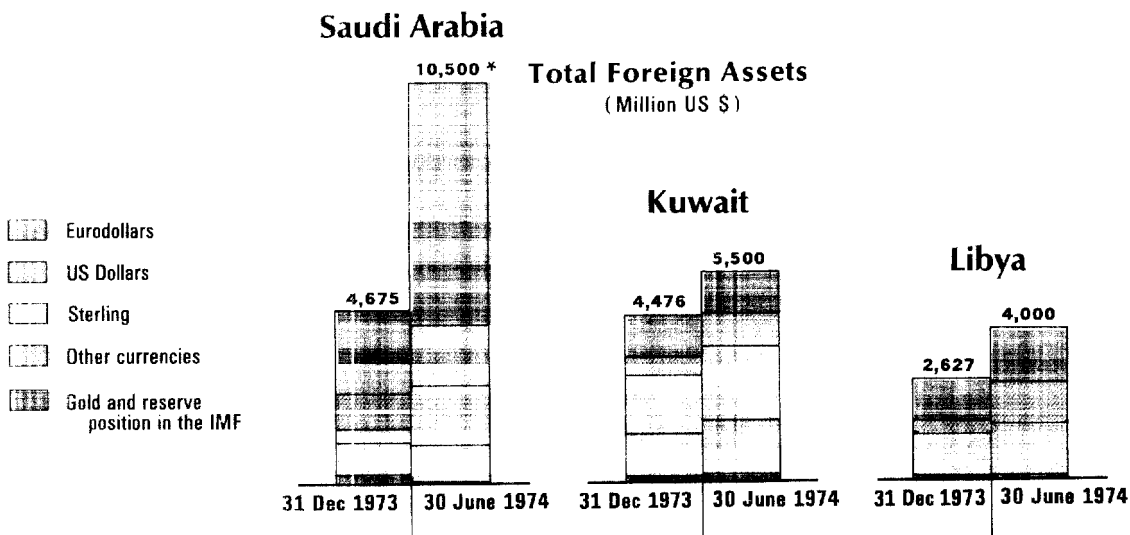
West Europeans have been particularly concerned in recent weeks whether supplies of enriched uranium will be available in sufficient quantity for the increased number of European nuclear power plants under construction. Early this month, the EC Commission expressed concern to the US mission in Brussels over the discrepancy between the services the US Atomic Energy Commission can supply and the contracts requested by EC utility firms. In answer to a question at the European Parliament on July 9, Commissioner Simonet warned that unless sufficient supplies are assured, it would be necessary to seek Soviet supplies and to ask the two European enrichment producers--the French-sponsored Eurodif as well as Urenco--to consider enlarging plant capacities.

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Composition of Foreign Assets



Currency Denomination of Foreign Assets



* This is a point of time estimate. Assets had accumulated in London and had not been disbursed in accordance with established patterns. Therefore, assets held in the UK should decline somewhat soon while assets held elsewhere should increase.

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ARAB INVESTMENTS

Foreign assets of the major Arab oil producers have increased sharply since December, but their composition and currency denomination have remained relatively stable. The following investment pattern is emerging:

--Saudi Arabia, unable to keep pace with its foreign asset accumulation, continues to rely heavily on bank deposits, particularly in London.

--Kuwait, the most sophisticated investor of the four, is purchasing large amounts of real estate. When oil payments retroactive to January 1 are received, Kuwait's bank balances will also increase markedly as will its assets that are denominated in sterling.

--Libya is purchasing more US treasury securities and is gradually increasing its dollar holdings.

The Arabs continue to rely on the Eurodollar market because it has satisfied their investment objectives. Up to now, deposits have been relatively free from economic and political risks, and the rate of return has generally been sufficient to maintain the real value of their holdings.

The producers' heavy reliance on the Eurodollar market creates problems that will become more acute over time. The massive flow of Arab funds to these markets increases the potential for market instability and is depressing interest rates on Arab deposits. Growing concern over the Eurodollar market's ability to assimilate producers' revenue is already becoming evident, even though the increased flow of Arab funds began only in April, when the first quarterly oil payments reflecting higher prices were received.

The Arabs will increasingly direct their deposits toward the major national capital markets, particularly the US market. Security-conscious Saudi Arabia apparently

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has decided to shift some of its future investment from London to New York. This will satisfy the Saudi desire for security, retention of control of the funds, and a reasonable, if somewhat lower, rate of return. These markets are, however, no better suited at present to recycling funds to consuming countries than is the Eurodollar market. [REDACTED]

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HONDURAS - EL SALVADOR

Honduran leaders fear that El Salvador may be planning to attack or to provoke an incident that would give it an excuse to resume hostilities.

Following El Salvador's renunciation of the Bogota Pact, which prescribes steps for peaceful settlement of disputes, and the recent failure to convoke a Central American summit to discuss the border dispute, a number of developments have heightened Honduran concern. El Salvador has bought arms, including jet planes, that have increased its military capability and may make it stronger than Honduras. Recently, there have been several alleged border violations and overflights of Honduran territory by Salvadoran planes. Honduras has charged that in one area two platoon-sized Salvadoran units entered Honduras and some 600 shots were exchanged. El Salvador, moreover, has been conducting maneuvers within 45 miles of the border. The chiefs of the general staffs of the two countries are investigating the latest Honduran claims and will probably resolve this matter amicably.

Honduran uneasiness is not without foundation, however, especially when viewed against the background of long-standing mutual antagonism. If Honduras had military superiority, it might well be doing the saber rattling. Furthermore, El Salvador, with a population density almost ten times that of its neighbor, may hope to occupy and settle areas now in dispute and then defy an OAS resolution calling for withdrawal.

There is no internal pressure on either government to reach a settlement. In fact, nationalist sentiment in both countries tends to reinforce the unyielding positions of both governments. Although there is no firm evidence that El Salvador is preparing to resume fighting, mutual distrust and the danger of miscalculation are greater now than at any time since the brief hostilities of 1969.

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FOR THE RECORD

Peru-Cuba: Raul Castro, Cuba's first vice prime minister and armed forces minister, is scheduled to visit Peru for the Peruvian National Day celebrations on July 28. Peruvian and Cuban officials have exchanged frequent visits since diplomatic relations were re-established two years ago. Raul Castro will be the highest ranking Cuban official to visit Peru since Fidel Castro's airport stopover in Lima in December 1971. Although the visit appears primarily politically oriented, Raul is likely to discuss, among other things, military cooperation between the two countries. For example, he may offer Cuban help to overcome difficulties the Peruvians are experiencing in handling their recently acquired Soviet tanks and other equipment. [redacted]

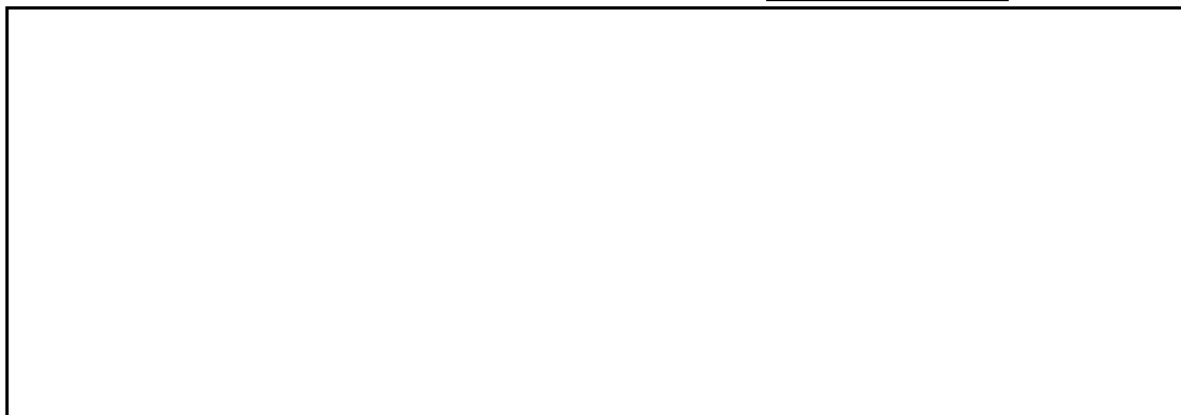
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Haiti: The Duvalier government intends to press for renegotiation of its contract with the Reynolds Metals' Haitian subsidiary before the end of the year. [redacted] [redacted] Port-au-Prince wants substantially greater tax and royalty payments and may also seek a company commitment to expand its Haitian operations. The proposed move is being prompted by the example of Jamaica's recent success in raising bauxite taxes and by Haiti's need for foreign exchange to combat growing balance-of-payments pressures. Reynolds' Haitian operation accounts for 1 percent of US bauxite supplies. [redacted]

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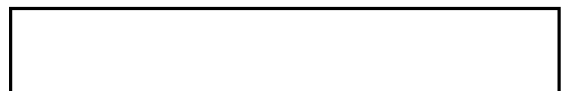
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