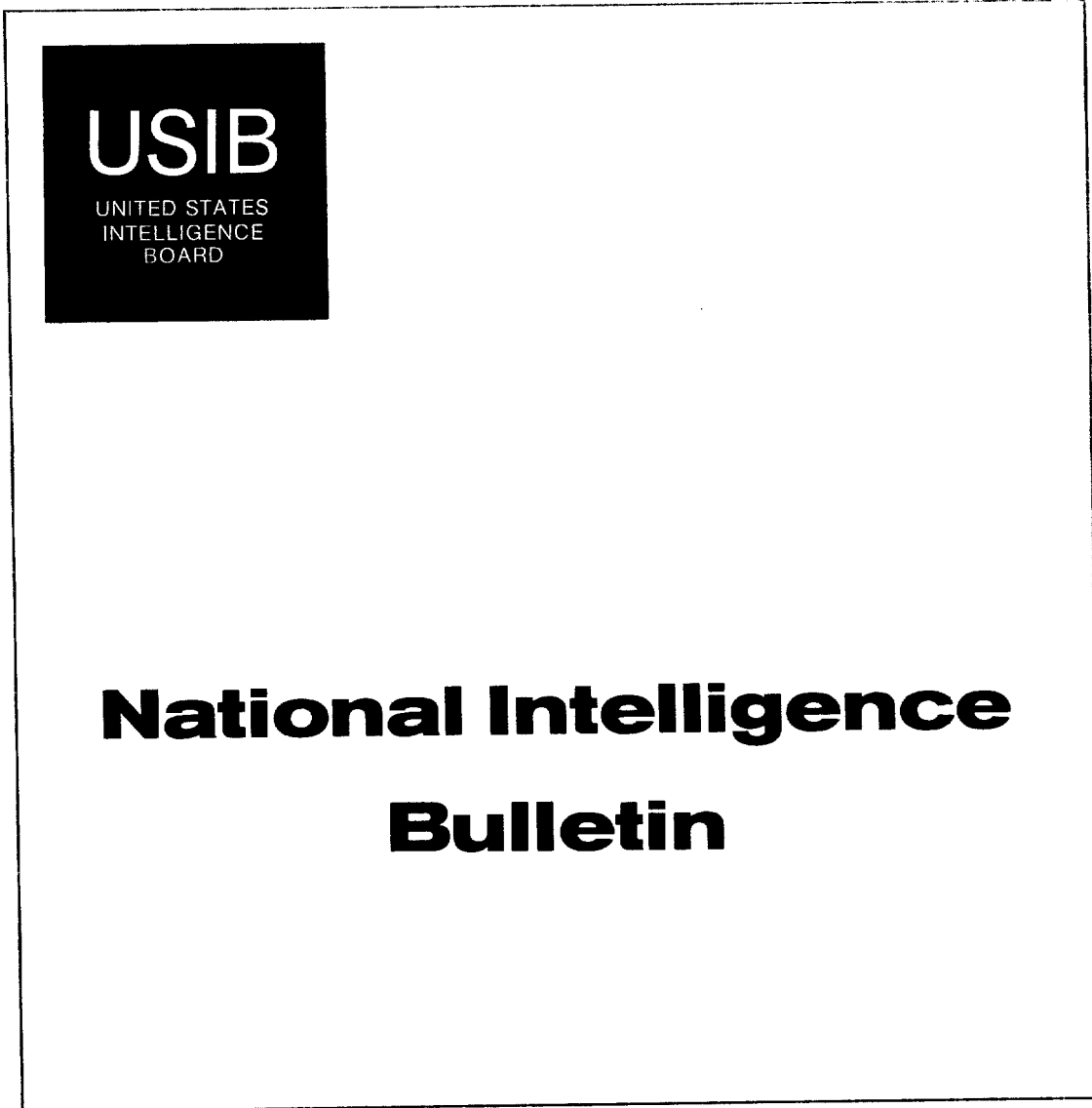


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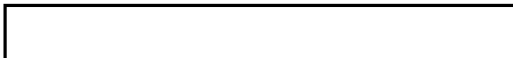
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CYPRUS

The political center of the crisis shifted to London yesterday as Turkish Prime Minister Ecevit--accompanied by his defense minister--and ousted president Makarios held separate talks with British leaders. The discussions may continue today.

According to press reports, Prime Minister Wilson and Foreign Secretary Callaghan agreed to Makarios' request that London refuse recognition of the Sampson regime and support him in the UN Security Council. Details of Ecevit's three-hour discussion are not known yet. A British announcement said only that the two countries had expressed their concern about Makarios' overthrow and "fully discussed the position arising" from the 1960 treaty, under which Britain and Turkey--along with Greece--are guarantors of the independence of Cyprus.

The Turks seem anxious at the moment to act within the framework of their alliances and international commitments to resolve the Cyprus problem. Ankara is calm, and there has been no attempt to arouse popular sentiment over the issue. The press and all the political parties, however, support a firm Turkish reaction.

The Turkish chargé in Nicosia told the US embassy yesterday that members of the Turkish Cypriot community, whom he thought had shown great restraint so far, were extremely uneasy about the naming of Nicos Sampson as President. He said that Ankara, which views Sampson as a puppet of Athens and a determined foe of the Turkish community, found the new government completely unacceptable and would have to act unilaterally unless outside intervention restored a situation compatible with the constitution, which is guaranteed by the London-Zurich accords. He said he was afraid the UK was inclined to accept the situation as it was evolving.

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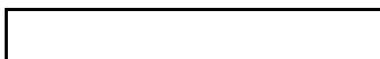


In Athens, two high-level Greek officials have assured the US embassy that Greece will not increase the size of its contingent of forces on the island. Ankara fears that the Greeks plan to do just that tomorrow during the semiannual rotation of half their 950-man force.

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Meanwhile, former prime minister Karamanlis, in a rare public statement from his exile in Paris, called on the Greek armed forces to restore Archbishop Makarios to power in Cyprus. He also urged a return to democracy and offered to lead a return to democracy in Greece.



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* * * *

Makarios is expected to arrive in New York today and to request a meeting of the UN Security Council either this afternoon or tomorrow. He will press for a Security Council resolution that would declare him to be the legitimate head of the Cyprus government, call on Greece to withdraw its officers from the Cypriot National Guard, and ask Greece to withhold recognition of Sampson and his regime.

Five Security Council members have drafted a resolution that would call for withdrawal of the Greek officers but would not recognize Makarios as the legitimate chief of state. The US mission to the UN reports a growing uneasiness among Security Council members about the implications of explicitly recognizing Makarios as Cyprus' legitimate president.

The members of NATO, increasingly sensitive to hints from the East that the Alliance was somehow involved in the overthrow of Makarios, took new steps yesterday designed to put pressure on Greece. Most of the members endorsed the suggestion of the UK government that Athens should replace the Greek officers in the Cypriot National Guard. They also called on Greece to follow the recently signed Atlantic Declaration by consulting fully both in the NATO context and in the context of the 1960 treaty guaranteeing an independent Cyprus. In addition, they asked for assurances that Athens would fulfill its international obligations under the 1960 treaty. Secretary General Luns said he thought prompt response from Athens was imperative.

The European Community, which earlier had presented a joint expression of concern in the UN Security Council, took further action yesterday by authorizing France, the current president of the EC Council, to deliver demarches in Athens and Ankara. In Athens, the EC spokesman will point out that Greece has a "special responsibility" for the stability and independence of Cyprus, and that the Nine are opposed to all threats to the sovereignty of Cyprus as well as any interference in Cyprus' internal affairs. In Ankara, the spokesman will express the hope that Turkey will continue to show restraint.

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USSR-CYPRUS

Moscow last night issued an official government statement on Cyprus that is notably moderate in tone, avoiding threats or any assertions that the USSR sees its security affected by developments on the island.

The statement--Moscow's most authoritative pronouncement on the coup--reiterates Soviet support for the island's independence, calls for international support of the "legitimate" government of President Makarios, and condemns Greek interference. It demands the immediate removal of all Greek military personnel from the island, but does not threaten Athens with any consequences if that course is not followed.

The Soviet pronouncement calls for the UN Security Council to take action to resolve the situation. It indirectly expresses displeasure with US policy, saying that "some" in the West are accepting the Greek contention that the situation is an internal Cypriot matter.

The Soviets do not commit themselves to assisting actively any Cypriot movement to return Makarios to power. Moscow's initial statement on the coup--issued late Monday--suggested that the USSR was holding such a course open.

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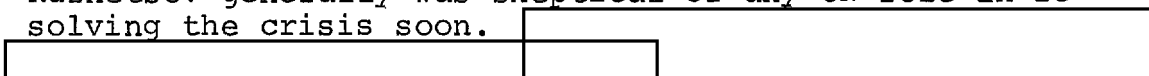
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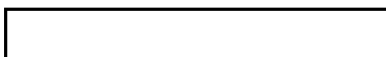
Meanwhile Soviet Deputy Foreign Minister Kuznetsov brought up the Cyprus situation in talks with Ambassador Stoessel yesterday. Kuznetsov claimed that Moscow's communications with its embassy in Nicosia have been cut, and asserted that the lives of Soviet personnel may be in danger.

While this statement may have been intended to intimate the possibility of unilateral Soviet action, Kuznetsov otherwise provided no indication that the USSR has been considering that possibility. He told the ambassador their dialogue was merely "free conversation." Kuznetsov generally was skeptical of any UN role in resolving the crisis soon.

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PORTUGAL

The most striking feature of Prime Minister Vasco Goncalves' cabinet, announced last night, is the increased prominence of the organizers of the April coup. Although clearly in control since then, they have preferred to avoid the limelight. The political coloration of several members of the cabinet is not yet known, but some shift to the left may have occurred.

Although the new cabinet contains a majority of civilians drawn from the parties represented in its predecessor, the military make up the largest single unified group. The seven officers in the cabinet, including the Prime Minister, are drawn largely from the Armed Forces Movement, which engineered the coup. In addition to getting two ministers without portfolio, the military took over the key ministries of interior, information, and labor. They retained the Defense Ministry, which will continue to be occupied by Mario Miguel, who was President Spinola's original choice for prime minister.

The Communists do not appear to have been especially favored in the cabinet reshuffle. They did not retain the Labor Ministry, nor did they gain the interior and information ministries, as they would have liked. Their leader, Alvaro Cunhal, did retain his slot as minister without portfolio. The Communists may have also picked up some of the five ministries filled by new appointees, whose political orientation is not yet known.

The Socialists have the greatest number of hold-overs. Mario Soares, the Socialist Party chairman, stayed on as foreign minister, and the party retained the portfolios of justice and interterritorial relations. The centrist have only one carry-over, Joaquin Magalhaes, who moved from interior to minister without portfolio.

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Now that members of the Armed Forces Movement are stepping forward into the government, their political orientation will become more obvious. From their beginning as the "captains movement" several years ago, there have been reports of the leftist leanings of some of these officers, generally said to be in the minority. The main orientation of the movement, however, is considered to have been reformist and nationalist, and these principles likely still predominate, although it is possible that leftists may be making some inroads.

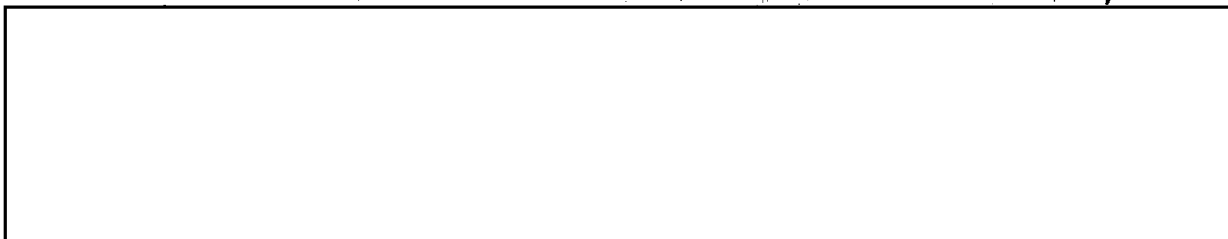
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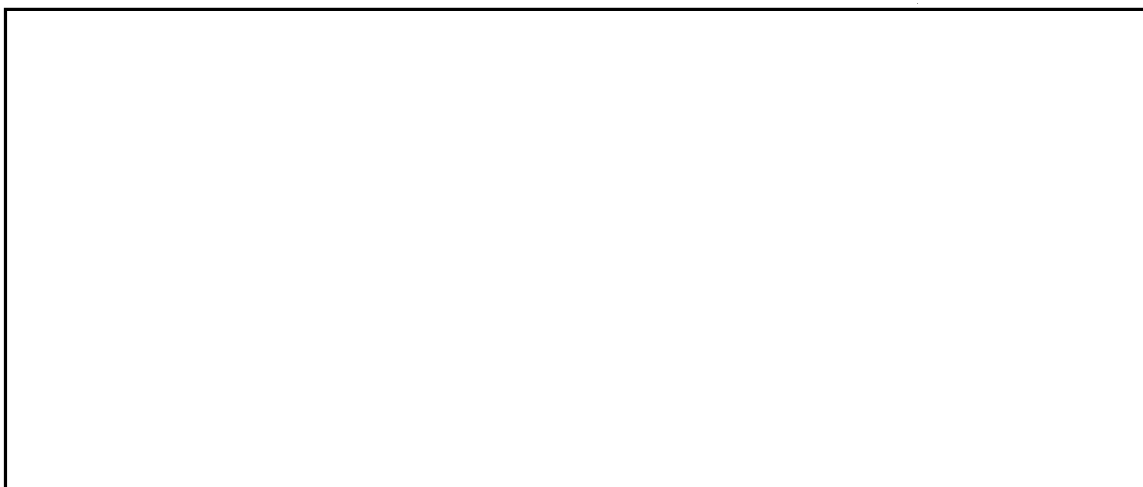
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LAOS

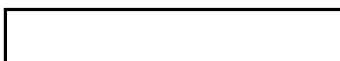
Prime Minister Souvanna's condition has stabilized,



The immediate problem is still to find an interim replacement whose decisions would be accepted by Communists and non-Communists alike. The Lao Protocol of September 1973 does not rank non-Communist Deputy Prime Minister Leuam Insiengmay and Pathet Lao Deputy Prime Minister Phoumi Vongvichit, nor does it provide any means by which Souvanna's half brother, Pathet Lao Prince Souphanouvong, could be moved from the chairmanship of the advisory political council to take over temporarily as prime minister. Similarly, the Lao constitution does not address temporary substitution whenever the prime minister is incapacitated.



Although the political atmosphere in Vientiane could become tense as the search for a satisfactory compromise proceeds, both sides seem anxious to preserve the coalition and to avoid jeopardizing the limited progress made so far toward reconciliation.



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EGYPT-FEDAYEEN

25X1 . Egypt--for the moment, at least--is remaining steadfast in its refusal to release to the Palestine Liberation Organization the fedayeen terrorists who murdered one Belgian and two US diplomats in Khartoum last year. [REDACTED]

The terrorists were released by Sudan in late June, ostensibly to serve out their sentences under the control of the PLO. The group, however, is being held by Egyptian authorities, and PLO officials are pressing for their release. If turned over to the Palestinian organization, the terrorists almost certainly would be taken either to Lebanon or Syria, and probably be given complete freedom.

Egypt's determination to hold on to the group for the present reflects in large part President Sadat's reluctance to take any action that would jeopardize Egypt's relations with the US. For the same reason, Cairo has so far refused to release a different group of commandos who last December carried out an attack on a US airliner and hijacked a second aircraft at Rome airport. That group, originally apprehended by the Kuwaitis, was also released "to PLO officials in Cairo."

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CANADA

Prime Minister Trudeau has begun to formulate legislative strategy and to plan some cabinet changes following his decisive election victory in early July.

Trudeau announced this week that he intends to re-introduce the budget proposals that caused the defeat of his minority administration in May. There have been hints that he will modify some provisions to reduce federal-provincial tensions over taxation of Canada's petroleum and mining industries. Trudeau said he will bring back legislation left pending from the last parliament, including controversial measures dealing with energy policy.

In what should prove to be a popular move, Trudeau announced he was taking executive action to rescind immediately the 12-percent federal sales tax on shoes and clothing. He said parliament would pass the necessary legislation retroactively after it convenes on September 26.

Trudeau's remarks followed the first cabinet meeting since the election. The ministers may have discussed the shape of the new cabinet, which is likely to require some shifts in top ministerial portfolios.

There have been indications that Finance Minister John Turner wants a new post after two and one-half years in the most demanding slot in the cabinet. Marc Lalonde, the current minister of health and welfare and a Trudeau confidant, has been mentioned as a possible successor. The new cabinet is likely to be announced in early August before the Prime Minister goes on vacation.

The Progressive Conservatives and the New Democrats have begun to focus on leadership questions in the wake of their election losses. Tory members of parliament will caucus in Ottawa on August 14 to evaluate the election and discuss strategy for the new parliament. Although a spokesman for Tory leader Robert Stanfield

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said he doubts that party leadership problems will be discussed at this meeting, it appears only a matter of when, and not if, Stanfield relinquishes his post.

New Democratic leader David Lewis, defeated in his Toronto district, has already indicated that he will step aside. The party's parliamentary delegation is expected to elect a new parliamentary leader soon. In the meantime, Lewis will probably continue as party chairman until a convention is held later this year.

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ITALY

The Italian Communist Party's attempt to amend the government's austerity program in parliament has set the stage for a legislative test that could strain the center-left coalition. The Communist move comes at a time when the dominant Christian Democrats are caught up in an internal feud and their Socialist coalition partners are torn between responding to labor's unhappiness with some features of the austerity program and keeping the coalition intact.

The Communist amendments would soften the impact of the austerity measures on labor and require increased sacrifices from upper income groups. The proposals are certain to appeal to organized labor and tempt the Socialists and the Christian Democratic left to support them.

The Communist decision to force the issue at this time suggests that the party leadership has finally reached a decision on how best to exercise Communist leverage in the current situation. Some Communist leaders have been concerned that, by sticking to their "soft" opposition policy of the last year, the party might lose its influence with organized labor; Communist labor leaders have been heckled at labor rallies for not pressing the government harder.



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The disarray within the Christian Democratic Party will complicate the government's efforts to meet the Communist challenge. The Christian Democrats' key deliberative body--the National Council--opens its meeting today,



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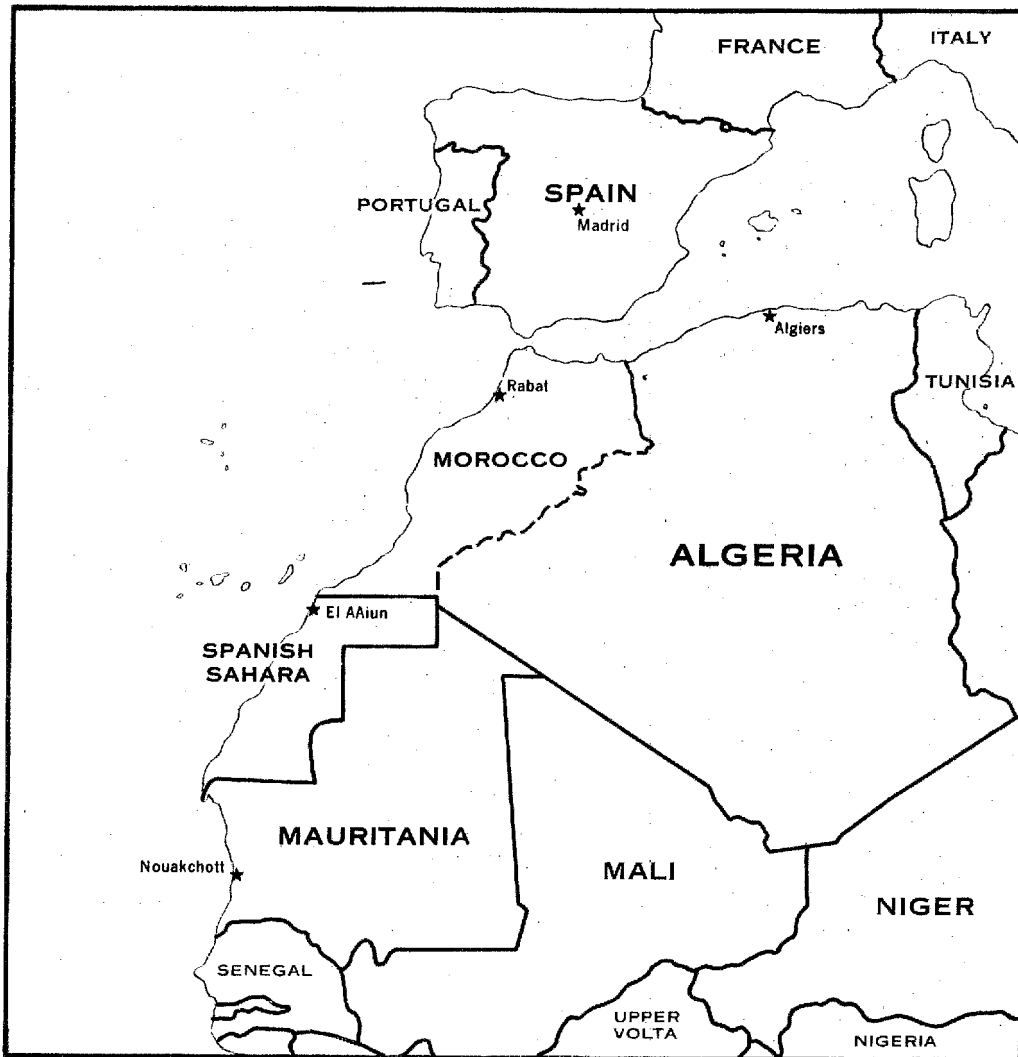
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with some left-wing elements and younger parliamentarians in revolt against the party leadership.

The government will probably be forced to accept some of the Communist proposals. A government crisis may ensue, however, if the Communists succeed--with the parliamentary support of elements of the majority--in forcing changes that substantially reduce the revenue that the austerity measures are designed to produce.

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SPANISH SAHARA

Madrid's plan to grant increased autonomy to its overseas province of Spanish Sahara has rekindled a controversy over the territory that has embroiled Spain with rival North African claimants since the late 1950s. Morocco, the most active claimant, has reacted sharply to Spain's plan and may be moving toward employing limited force to back up its case.

Spain's new policy provides for the replacement of the present territorial legislature, appointed by Madrid in 1967, with a more powerful assembly. Two thirds of the new body is to be popularly elected. Although the policy eventually envisages a popular referendum on self-determination, Spain undoubtedly wants to retain some ties with its desert province to realize a return on its major investment in developing the phosphate deposits there.

When Morocco's King Hassan learned early this month of Madrid's plans, he immediately sent a letter to Generalissimo Franco warning that such a move would lead to a deterioration in relations. The King followed up with a speech reiterating the history of Morocco's efforts to regain its "seized territory." He asserted that he would not permit the establishment of a puppet state in Spanish Sahara, which Rabat suspects is Madrid's objective, and implied that if dialogue failed, other means would be pursued.

Hassan probably believes new efforts to reclaim Spanish Sahara will help him rally popular support and distract attention from political and economic problems at home.

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The Rabat government believes that the recent developments in Portugal and its overseas possessions will inevitably accelerate the pace of decolonization in Spanish Sahara. The Moroccan government is waging a vigorous campaign to secure external support for its position. Thus far, however, it has elicited only a few qualified statements that avoid explicit support for Morocco's irredentist aspirations.

Meanwhile, Mauritania has called for consultations in Nouakchott on July 20 with the Algerian and Moroccan foreign ministers to discuss the status of Spanish Sahara. Although Mauritania still officially claims the area, Foreign Minister Mouknass recently indicated that his country would support immediate self-determination of Spanish Sahara through a UN-sponsored plebiscite. He added that if the Saharans choose independence, Mauritania will support retention, for several years, of a Spanish military presence--which now amounts to 15,000-20,000 men--to guarantee the territorial integrity of the new state.

Mauritania has always feared a common border with Morocco; Rabat only dropped its claim to Mauritania and recognized the Nouakchott government in 1970, eight years after its independence. The Mauriticians may also fear that the departure of the Spanish could result in another Moroccan-Algerian border war, much like the one in 1963.

Tripartite talks between these countries have been held infrequently since 1970, but conflicting Moroccan and Mauritanian territorial claims and Algeria's insistence on a role as an interested party have prevented any agreement on practical steps to hasten decolonization of Spanish Sahara. Neither Mauritania nor Algeria wishes to see Moroccan sovereignty expanded, and Algeria would oppose any strong unilateral action by Morocco to force the issue.

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JAPAN

During the first half of this year Japan registered a \$2.8-billion trade deficit, primarily the result of higher oil import costs.

Export value grew 48 percent between January and June 1974, compared with the same period in 1973, with growth rates accelerating to 60 percent in recent months. Higher prices accounted for most of the gain, although sales volume increased. In May and June export volume was about 20 percent above the same period in 1973. Most of the increase went to less developed and Communist countries, but exports to the US and Western Europe picked up sharply in the April-June quarter.

Imports were up 85 percent in the first half of the year, largely reflecting a \$7-billion increase in oil imports over the January-June period last year. Oil imports have probably hit their peak, however, and non-oil imports--up 43 percent in the first half--are slackening in response to the slowdown in the domestic economy. If the trend continues, Japan's already large non-oil trade surplus will increase sharply in the second half of 1974. During the first half of the year, this surplus totaled \$6.5 billion, compared with \$3.9 billion a year earlier.

Japan's overall payments deficit between January and June 1974 totaled \$7.2 billion. In addition to the deficit on the trade account, net service payments increased sharply, averaging \$500 million monthly because of higher shipping costs. Long-term capital movements abroad, although under restraint, still amounted to \$3 billion in the first half of the year.

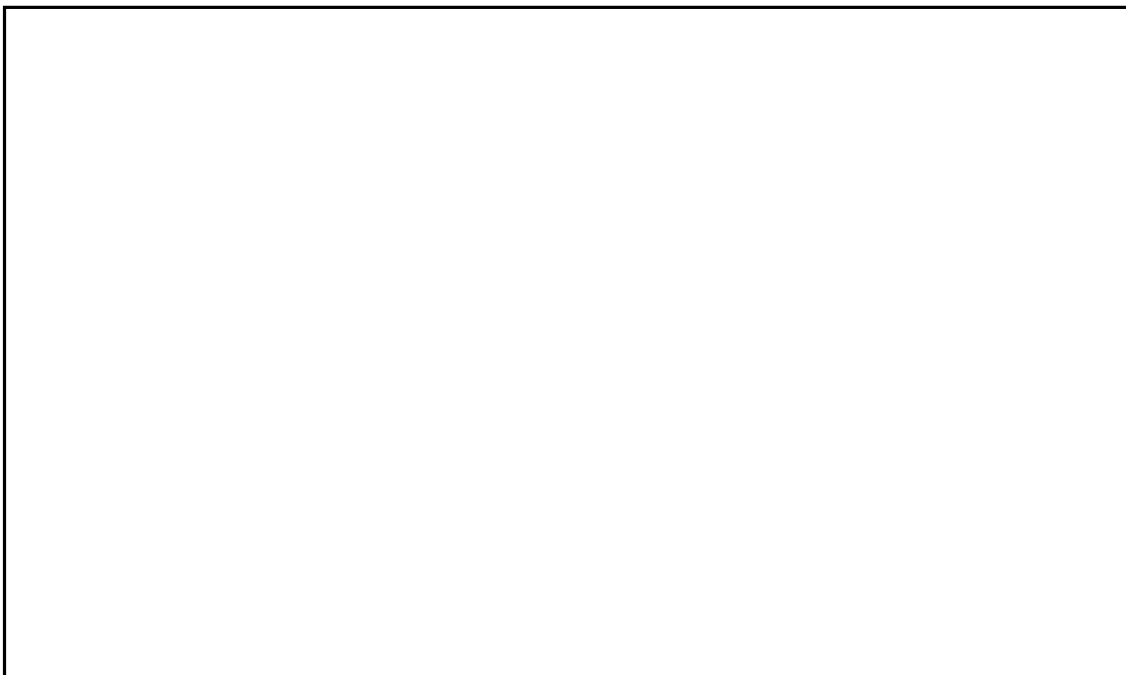
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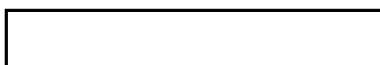
FOR THE RECORD



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North Vietnam: Politburo member Le Thanh Nghi is continuing visits to Communist countries in an attempt to drum up economic aid--an annual effort that he usually heads. After a three-day stay early this month in Peking, Hanoi reported China's continued "support and aid" without details; Chinese reports also did not specify any details of new aid commitments. Nghi then made a brief stop in Moscow on July 8. During his subsequent visit to Bulgaria from July 9 to 12 he signed an agreement on economic cooperation, and then flew to East Germany where he discussed next year's aid to North Vietnam. Nghi is now in Hungary.

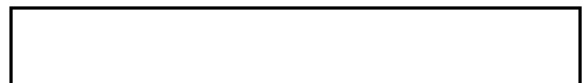
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