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ISRAEL

Prime Minister Rabin said yesterday that Israel completely rejects the conclusions of the Arab summit meeting in Rabat and rules out any negotiations with the Palestine Liberation Organization about the West Bank. Last night, the Knesset voted to back Rabin's decision.

Repeating a theme heard more often in Israel since the summit, Rabin said his government would not be intimidated into negotiating by Arab military pressure. He warned Arab leaders not to think that the threat or use of force could lead to a political solution.

Rabin did stress that his government remains prepared to conduct talks with Egypt, Jordan, and Syria, and "to take risks"--presumably make territorial concessions--in the search for a peaceful solution. He repeated the standard Israeli position that the Palestinian issue can be worked out only in negotiations with Jordan.

The Israelis apparently are still uncertain about the details of the Arab position on negotiations after the summit and thus are not prepared to make new proposals. Rabin doubtless wishes to await his talks tomorrow with Secretary Kissinger before drawing conclusions about the summit that might force Israel to rethink some of its negotiating positions.

At the moment, Rabin is not optimistic. He has said that, in light of the decisions taken at the conference, he doubts Jordan would be willing to negotiate a quick West Bank agreement without PLO participation. The Prime Minister believes that talks with Egypt hold the greatest promise of success, but after Rabat he is no longer sure President Sadat is prepared to pursue separate negotiations. Rabin also said he sees little room for an interim arrangement with Syria.

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PORTUGAL

The sacking of the Lisbon headquarters of the moderately conservative Social Democratic Center party (CDS) on Monday evening casts new doubts on the prospects for holding free elections in Portugal.

Some 500 leftist militants associated with the Movement for the Reorganization of the Party of the Proletariat (MRPP) stormed the CDS headquarters after metropolitan police had frustrated their attempt to disrupt a CDS youth group rally. Repeated calls by the CDS to the Armed Forces Movement's Operational Control and Command Center for protection earlier in the day went largely unanswered. The handful of police that were on the scene fled when the crowd arrived.

Command Center forces appeared 30 minutes after the pillage began and were observed loading office equipment into army vehicles. It is possible they were placing these items in "protective custody." It will be much more difficult to explain, however, why Command Center forces did not respond to earlier appeals for increased security protection, in view of the fact that MRPP pamphlets distributed throughout the city on Monday clearly signaled the MRPP's intention to clash with the CDS.

CDS leaders were scheduled to discuss the incident yesterday with Prime Minister Goncalves. They want the government to pay for the damages, issue a condemnatory statement, and allow the CDS five minutes of prime television time to explain its view of the incident. The CDS leaders also want the government to ban the MRPP, in accordance with the new legislation that outlaws political parties and other groups that advocate violence.

The government's response to these demands will provide an insight into how sincere Lisbon is about fostering an atmosphere in which all parties will be free to contest for votes prior to the elections next March. Two parties to the right of the CDS were suppressed after President Spinola's ouster in September. Since then, the Portuguese Communist Party and the Popular Democratic Party, which the Communists are trying to lure into a front, have held large political rallies without incident.

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UK-MBFR

The British are trying to persuade the other allies not to criticize the new Soviet troop reduction proposal at the plenary session on Thursday. London probably wants to keep its options open, pending governmental decisions on the connection between MBFR and the current UK defense review.

The Soviets presented the proposal informally on October 15. Basically, it is an expansion of the symbolic reductions proposed by Moscow at the start of the talks. The proposal now calls for the reduction in 1975 of 20,000 men on each side, along with their arms and combat equipment. US and Soviet forces would be reduced by 10,000 men each. West Germany and Poland could each reduce their forces by 5,000 men, and the remaining reductions on each side would be absorbed by the other direct participants.

US and Soviet reductions would be taken in the first half of 1975, while reductions by the other direct participants would come in the second half of the year.

The British agree with the criticisms of the proposal that the allies have made informally. The allies have said that the proposal does not recognize the superior numbers of Warsaw Pact ground forces and tanks in Central Europe and does not take sufficiently into account the fundamental differences between the US and the USSR on the one hand and the remaining direct participants on the other.

Now that the Soviets have presented their proposal formally in a plenary session, however, the British are arguing that it should not be dismissed out of hand because it is the first formal proposal the Soviets have made since their basic proposal of November 1973. The British are probably reluctant to shut the door on it completely, since it could allow substantial UK reductions to be made rapidly.

Many observers think that the British government's defense review, due to be completed by the end of the year, will call for reductions in the forces the UK has committed to NATO. Since the government would probably prefer to make these cuts in the context of MBFR, Foreign Office officials have been pondering ways in which the Western negotiating position in Vienna might be modified to allow British reductions to take place soon. On several occasions, these officials have talked of merging the two reduction phases presently proposed by the allies so as to permit reductions in UK troops from the outset.

The British may well decide to go along with the rest of the allies on this occasion and thus avoid the first serious break in allied unity since the negotiations began. If the defense review turns out as expected, however, London--previously one of the most cautious Western participants in the negotiations--will have an urgent interest in moving the talks toward a conclusion that will permit timely UK reductions. 25X1

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USSR-CEMA

The USSR is close to setting its pricing policy for crude oil exports to the East European CEMA members for the period 1976-80. A senior Soviet economist has stated that the price will be based on the average of world market prices over a three-year period, either 1971-73 or 1972-74.

The latter period would be more lucrative for the Soviets, and they appear to be leaning toward it as the base. This could result in an approximate doubling of the price East Europeans now pay for Soviet oil.

Although the Soviets are interested in getting a better return from Eastern Europe for their oil, they are aware of the potential economic and political impact of higher prices. The Soviet economist claimed that with a three-year base period, the East Europeans would still pay less than the international market price for crude. He also said Eastern Europe would be guaranteed a fixed quantity for the next five years.

The economist expressed the hope that Soviet oil deliveries to Eastern Europe would be increased by about 30 percent between 1976 and 1980. To fulfill this goal and simultaneously maintain exports to the West, however, the Soviets will have to overcome some of the difficulties they have experienced in increasing oil production.

Despite Soviet moves to mitigate the effects of the price increase, the rise will still cause difficulties in the energy-poor East European countries. As these countries are compelled to export more goods to the USSR in exchange for oil, they will become even more closely tied to the Soviet economy. At the same time, they will still have to purchase some oil on the open market, which will reduce the amount of hard currency they have available to pay for imports from the West.

IRAN

By the end of this year Iran will have some $9 billion in reserves, giving the Shah a comfortable cushion for increased lending and investment.

Massive oil receipts of some $17 billion will more than offset Iran's substantial imports of defense and developmental equipment and other financial outflows. Iran probably will prepay about $1.5 billion of its high-interest debt and disburse an estimated $2 billion in credits, investments, and advance payments for industrial installations.

Unlike Kuwait and some of the other established Middle East lenders and investors, Iran has only just begun to develop the institutions and experience for its new-found role. In August, Iran established a subministry for investment and foreign aid within the Ministry of Economics and Finance. It probably will be little more than an advisory and bookkeeping organization, however--the Shah will continue to determine how and where Iran's money will be spent. 25X1

WESTERN EUROPE

Short-term interest rates for most Eurocurrencies have dropped in recent weeks because of the widespread economic slowdown, the relaxation of US monetary policy, and the continuing influx of oil money. Even though the reduction in Eurocurrency rates is easing the downward pressure on the dollar, its value continues to fall.

The Eurodollar rate has led the decline, slipping from 14 to 10 percent as short-term US rates have moderated. Eurocurrency rates for three-month deposits of sterling, French and Swiss francs, and guilders range from 15 to 9 percent. Growth of bank loans has slowed in most European countries; economic slack has reduced loan demand, and the larger Eurocurrency banks have become more selective in extending credit. The short-term deposits of oil exporters now exceed the demand for short-term loans by customers deemed credit-worthy.

Short-term rates have already dropped in the Netherlands. West German rates may soon fall, since the central bank cut some short-term rates half a percentage point late last month.

Central banks probably are tolerating or even seeking an easing of European short-term interest rates to keep their currencies from becoming overly attractive relative to the dollar. The aim of maintaining competetive trade positions is thus conflicting with anti-inflation goals. Although most European central bankers have indicated they want to continue their tight monetary policies, if dollar rates continue to decline they probably will permit further reductions in other rates to limit the upward pressure on their currencies.

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ANGOLA

The US consul general in Luanda reports that Portuguese army troops garrisoned in Cabinda, supported by insurgents from the Popular Movement for the Liberation of Angola, last weekend occupied key installations in this Angolan exclave and arrested the local governor and his staff. A representative of the military junta that governs Angola is in Cabinda investigating the situation.

The action was taken by junior officers without prior approval from Luanda, apparently in response to minor fighting late last week between a Cabindan separatist organization and the Popular Movement. The officers seemed eager for an excuse to oust the governor, who was a supporter of the separatists. The exclave is presently administered by the commander of the local garrison, who claims he had no role in the take-over.

Cabinda could easily become a hotly contested area. Legally it is a district of Angola, and the Portuguese would like to see it remain that way after Angola becomes independent in hopes that Lisbon will continue to have access to the exclave's rich oil deposits. Angola's three rival insurgent organizations all support Cabinda's legal status.

Separatist sentiment in Cabinda was overshadowed during the decade of Angolan insurgency, but was reasserted after the coup in Portugal last April. At present, the weak Cabindan separatist movement has two rival factions, one based in the Congo and one in Zaire.

The separatists, according to press reports, were supported in last week's fighting by black special forces troops recruited locally by the Portuguese during the Angolan insurgency. These troops are well trained and well armed, and their continued support could give the separatists a much-needed boost.

Junior Portuguese officers in the territories have gone off on their own on numerous occasions since the coup in Lisbon. On this occasion, their action squared with the policies of the governing juntas in Angola and Lisbon. Their penchant for independent action, however, hints at a lack of discipline that could prove disruptive in Angola, especially if political disagreements become more widespread and more people begin choosing sides.

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FOR THE RECORD

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USSR: The Soviet helicopter ship Leningrad and its escorting guided-missile destroyer--en route home from mine-clearing operations in the Red Sea--are making a port call in Equatorial Guinea. Equatorial Guinea is a recipient of Soviet military and economic aid, and Soviet naval ships have called there previously. The Leningrad and the destroyer visited Port Louis, Mauritius, from October 14 to 19. They are also expected to visit at least one other port--Dakar, Senegal--before returning to the Black Sea. The ships made no stops on the way to the Red Sea last summer.

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