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AZORES-PORTUGAL

Azorean separatists may seek to capitalize on a demonstration planned for this afternoon in Ponta Delgada to protest Portuguese agricultural policy in the Azores. The demonstration will coincide with the visit of five NATO ships—including the USS McDonell.

Most local civilian and military authorities plan to be absent from Ponta Delgada during the demonstration, which is planned for mid-afternoon. The district civil governor, who is appointed by Lisbon, is the immediate target of the demonstration. No violence is expected, but local merchants are expected to close their shops in solidarity with the demonstrators.

Farmers are angry because price ceilings on their products set by Lisbon average 20 percent below those in Portugal, but their costs are continuing to increase. Seventy percent of the Azorean population derives some income from cattle raising and dairying.

The farmers' protest is a further demonstration of Azorean irritation over Lisbon's economic policies. Azoreans believe the islands' underdevelopment and economic imbalance are a result of Lisbon's exploitation and discriminatory policies. This resentment, coupled with great concern over Portugal's drift to the left, has given the separatist cause a boost. The Azorean Liberation Front believes these developments will be translated into popular support for a coup to separate the Azores from the Portuguese mainland.

There have been rumors that leftists will demonstrate at the same time to protest the visit of the NATO ships, but local authorities discount the possibility of any significant leftist activity. The farmers' demonstration is not expected to be directed at either NATO or the US, but inadequate control of large numbers of demonstrators could lead to an incident.

There is no reporting to suggest that the separatists intend to take advantage of the demonstration and the absence of high government officials to attempt a coup. The Liberation Front might, however, see the fortuitous set of circumstances as too good an opportunity to pass up.

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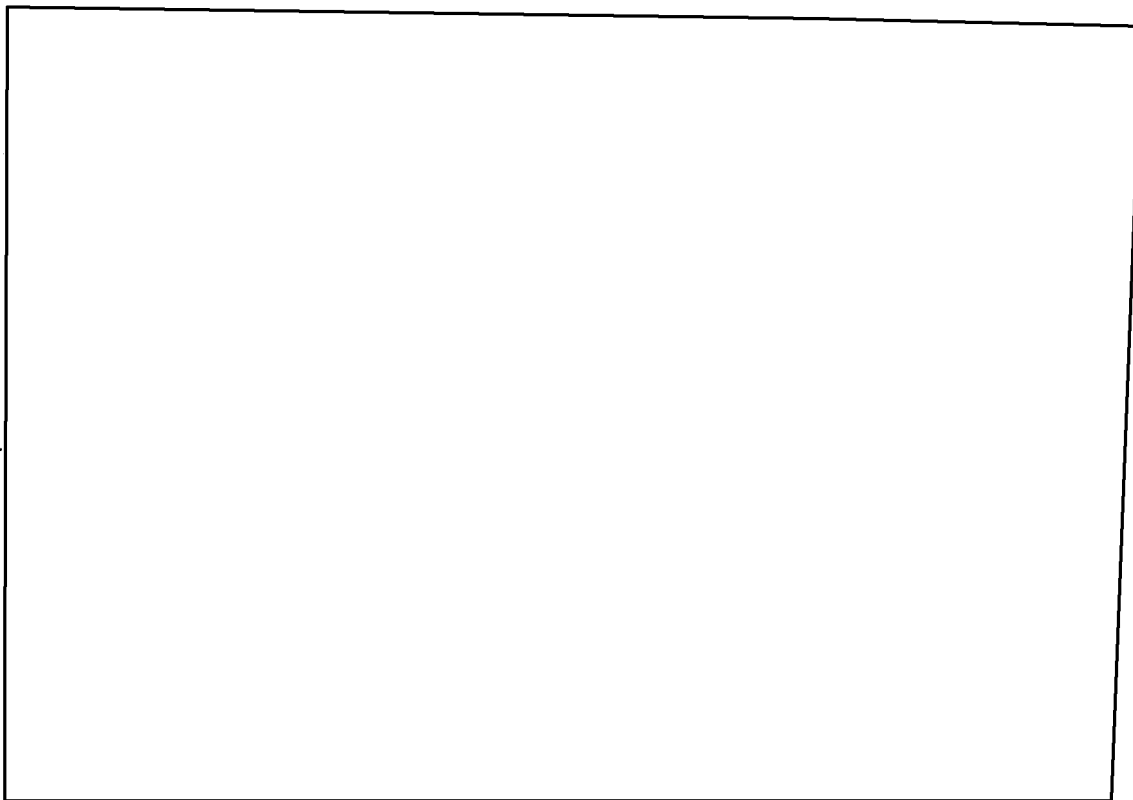
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LAOS

The communists are following up their recent ouster of all important rightists from the Laotian cabinet by moving quickly to consolidate total control over that body. The Pathet Lao still pay lip service to the coalition concept, but it is clear the coalition is now nothing more than a convenient facade for a complete communist take-over of all of Laos.

The cabinet did not directly discuss Assistant Secretary of State Habib's recent two-day visit to Vientiane. Phoumi, however, did note that no decisions had been reached on the continuation of US aid to Laos under a new bilateral assistance agreement. He added that if Washington cut off all aid, it would be a "childish" action in retaliation for recent anti-American demonstrations. Cessation of US aid was really of little importance in any case, according to Phoumi, since Laos would "merely" have to look elsewhere for assistance.

Despite his reassuring rhetoric, however, Phoumi still appears to attach some value to the continuation of US aid and to the maintenance of relations with Washington. This was the line he took in private discussions with Habib earlier this week.



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VIETNAM

Hanoi is expressing interest in United Nations membership for both North and South Vietnam and is using the USSR to gauge the US reaction to such an application at the General Assembly session next fall.

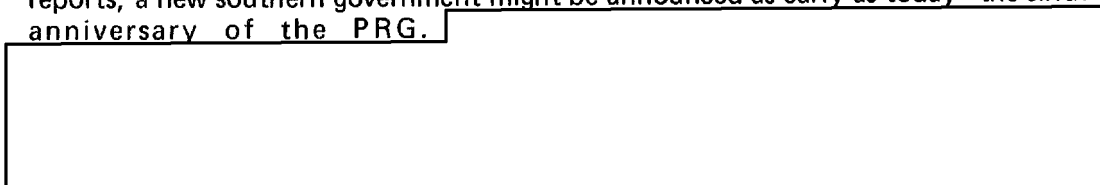
In discussions at the Department of State on June 3, the Soviet charge said both Vietnamese states desired admission to the UN as separate entities and had consulted Moscow on this basis. In response to a suggestion that the admission of both Vietnams might be linked to the granting of UN membership to North and South Korea, the Soviet charge pointed to Pyongyang's strong objections to membership for both Koreas and predictably argued against drawing any linkage between the two questions.



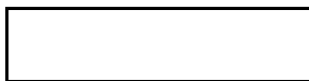
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In the past, North Vietnam's position on UN membership has been that national reunification must be completed prior to entry into the UN. Hanoi's decision to move away from this long-standing policy is the clearest evidence to date that the Vietnamese communist leadership has opted for an ostensibly independent southern regime of indefinite duration.

Foreign journalists in South Vietnam have been reporting the recent presence in Saigon of high-ranking North Vietnamese officials for "discussions" with Provisional Revolutionary Government leaders. According to these unconfirmed reports, a new southern government might be announced as early as today—the sixth anniversary of the PRG.



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AUSTRALIA

The most prominent casualty of the cabinet shuffle announced yesterday by Prime Minister Whitlam is Deputy Prime Minister Cairns. Cairns was removed as federal treasurer and assigned to the considerably less prestigious post of minister of environment. William Hayden, a young comer who until now has been social security minister, will replace Cairns as treasurer.

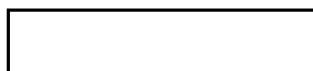
Cairns' transfer, after less than six months as treasurer, reflects adversely on his ability to ease Australia's economic problems. His reputation has also been tainted by his controversial private secretary. Cairns, once Whitlam's heir apparent, is now almost certainly out of the running.

William Morrison, a left-winger and critic of the US, has moved from the Science Ministry to take over the Defense Ministry post vacated by the moderate Lance Barnard, who resigned to take an ambassadorship. With the downgrading of Cairns, Whitlam probably used the appointment of Morrison to maintain the relative strength between leftists and moderates in the cabinet.

Whitlam probably hopes the cabinet changes will give the Labor government an image of vigor that will help to offset its weak position in Parliament. The Liberal-Country opposition no doubt sees Labor's need to reallocate its ministries as a further sign of weakness. It will probably not push for early elections, however, realizing it must first sharpen its own programs before challenging the government at the polls.



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**PERU**

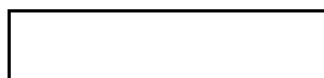
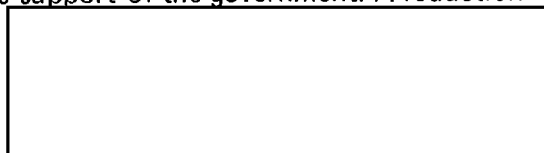
Prime Minister Morales Bermudez has announced plans to reduce or possibly to abandon the present massive government subsidies on essential agricultural and petroleum products that have kept prices artificially low. The action is sure to spark a sharp response from urbanites and unions.

For some time, international lending institutions and technicians in the Finance Ministry and Central Bank had recommended tough measures to combat a growing budgetary deficit and consequent inflation. Direct and indirect subsidies accounted for approximately half of the budget deficit in 1973 and 1974.

Morales Bermudez' announcement is a significant departure from President Velasco's long-held policy of keeping the potentially volatile urban dwellers quiescent through massive subsidies. The action appears to demonstrate the Prime Minister's increasing policy-making role in the government and his growing influence within the military.

Morales Bermudez will have his hands full trying to avoid becoming the political victim of the new subsidy policy. Prices are sure to rise, and labor dissatisfaction with the Velasco government, already high, will increase. There are indications that the strong communist trade union confederation is under increasing internal pressure to reduce or withdraw its support of the government. A reduction in subsidies can only add to such pressures.

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ANGOLA

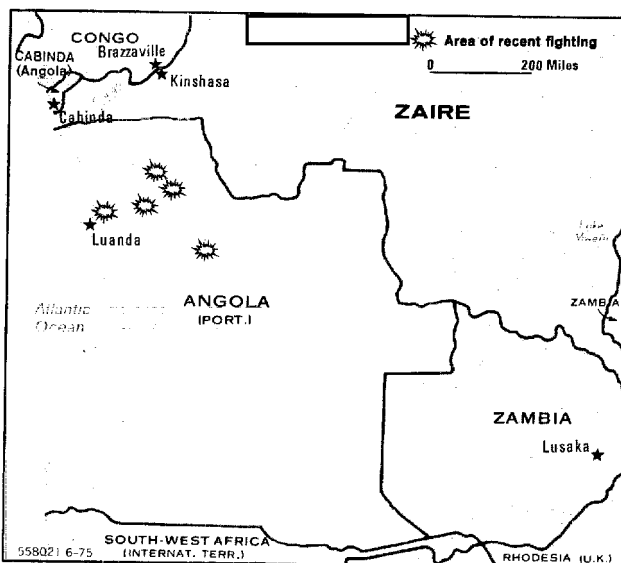
Forces of the Popular Movement for the Liberation of Angola have recently clashed with troops of the National Front for the Liberation of Angola in a wide area north and east of Luanda and in the exclave of Cabinda. It was the third round of major fighting in two months between the two nationalist groups and the first outside Luanda.

The clashes in Angola proper apparently resulted from a coordinated offensive by the Popular Movement aimed at driving the National Front out of areas where the Movement's ethnic support predominates and at disrupting the Front's supply routes from northern Angola into Luanda. The Front is setting up a major base in northwestern Angola in an area where it has strong tribal support. The base is to replace the extensive training and support facilities long maintained by the Front in neighboring Zaire.

The fighting in Cabinda, which is administered as a district of Angola, reportedly was restricted to the capital. The small Cabindan separatist group was not involved. The operations of Gulf Oil, which produced 150,000 barrels a day in Cabinda last year, were apparently not affected. The company has evacuated dependents and support personnel.

The Popular Movement, which a few months ago appeared militarily weaker than the Front, scored significant gains in the latest fighting; it had also come out on top in the clashes that occurred in Luanda in late April. The group is now well supplied with arms from the Soviet Union, its principal foreign patron, and its troops are performing more effectively than those of the National Front. The Front, however, is trying to even the score in areas where it has strong tribal support.

In the political arena, both groups have been courting the National Union for the Total Independence of Angola, the smallest of the three liberation groups in the transitional government. Union president Jonas Savimbi has refused to be drawn into the conflict, seeking instead to convene a meeting of the leaders of all three groups to discuss their political differences. Such a meeting reportedly has been set for mid-June in Kenya.



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Clearly, however, neither Holden Roberto, who heads the National Front, nor Popular Movement leader Agostinho Neto is willing to share political power. Any compromise they might agree to in the near future is likely to be only for the purpose of buying time in preparation for a final showdown. The 24,000 Portuguese troops—most of whom are stationed in and around Luanda—are spread thin in the countryside and may not be able or willing to intervene between the two groups in the event the fighting continues to spread.



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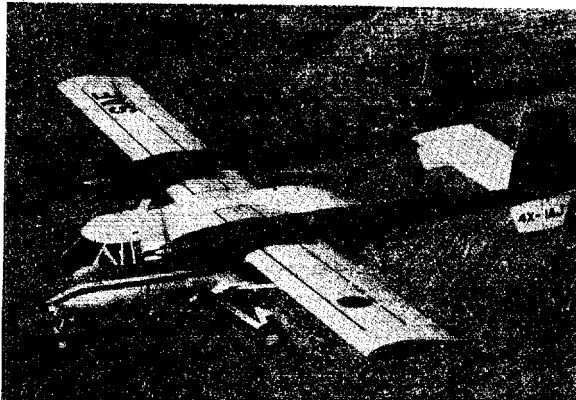
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GUATEMALA-ISRAEL:

Guatemala has become the sixth Latin American nation to purchase the Israeli-produced Arava 201 short takeoff and landing transport aircraft. The ten Aravas purchased will cost \$800,000 each, and \$2 million will be spent on training and spare parts. This represents Guatemala's largest military purchase from a foreign source. The Guatemalan minister of defense has said the air force commander would leave for Israel on Saturday to make the final arrangements; deliveries should be completed by the end of the year. Guatemala reportedly plans to use the aircraft to support petroleum exploration.

Israeli Produced Arava



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