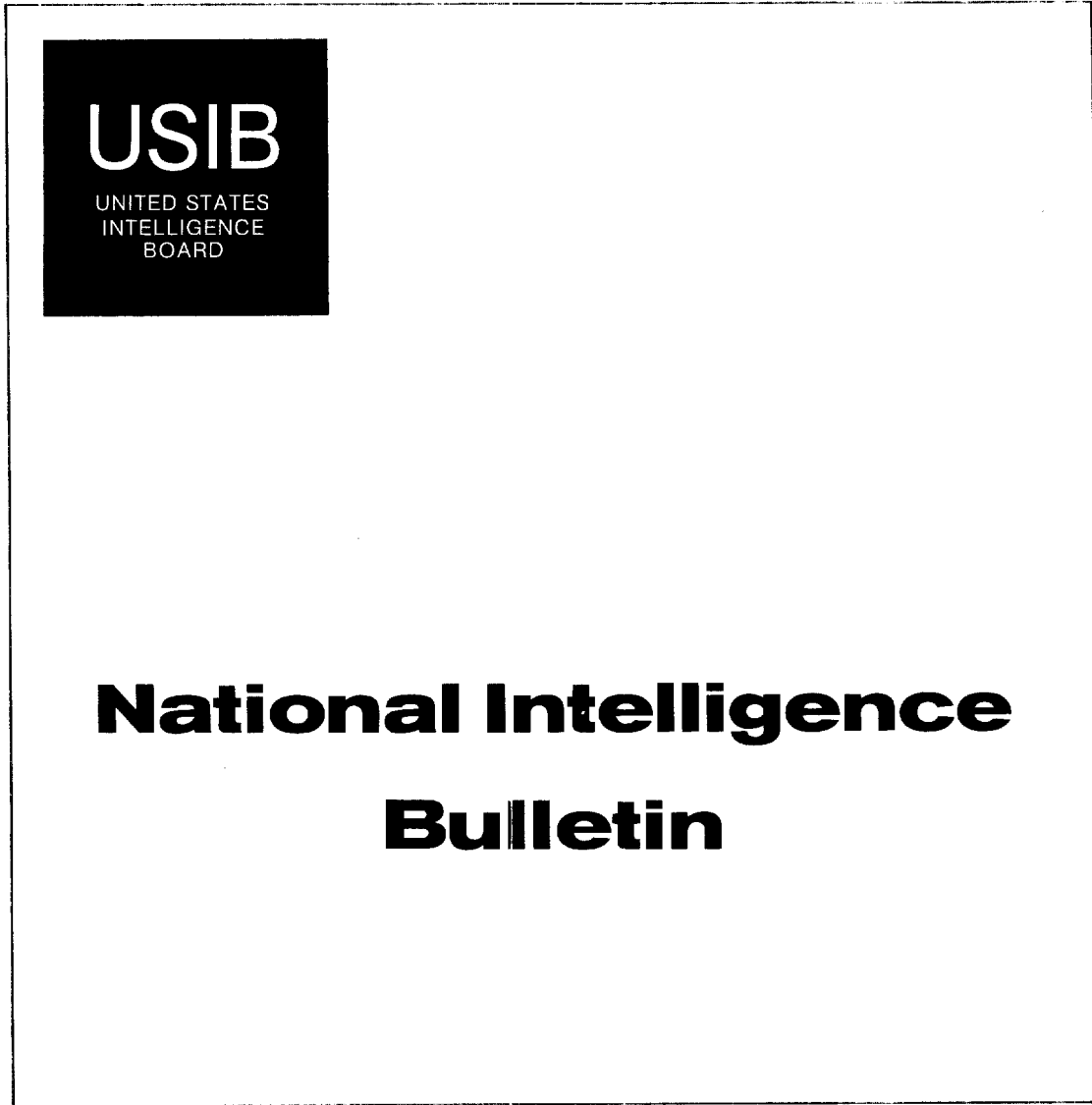


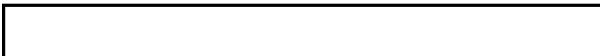
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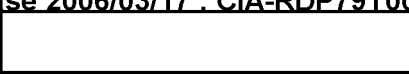
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PORTUGAL

West Europeans are planning to provide Portugal with additional financial and economic aid to show support for the Azevedo government.

The West Germans are negotiating a loan which may total \$250 million. Such a loan would help ease Lisbon's balance-of-payments difficulties and enable the Azevedo government to avoid, or at least postpone, some of the unpopular austerity measures that would only benefit the left in the elections in April.

West European bilateral assistance to Portugal last year totaled more than \$40 million. West Germany and the Netherlands were the principal contributors, with Denmark, Norway, and Sweden also providing aid. This year, in addition to the large loan, the West Germans are negotiating a bilateral agreement to guarantee private German investment in Portugal.

Portugal is negotiating another loan from the Bank of International Settlements. This, added to the West German loan, should provide Portugal with sufficient liquidity to finance its balance-of-payments deficit at least through June.

The UK is interested in providing Lisbon with some aid, but London will be severely limited by its own financial problems. The most the British can afford will be a capital loan of \$20 million and token grants.

Norway, Luxembourg, and the Netherlands are considering how they can help. The Belgians were considering a \$100-million package, but the proposal was shelved; Brussels is now exploring other means of securing bilateral funds for Portugal.

France and Italy have not made significant bilateral commitments. French aid has been limited almost entirely to dependencies and former colonies of France. French and Italian leaders are presumably sensitive about supporting a Portuguese government in which the Communists participate.

French policy on aid to Portugal may change, especially with the political situation in Lisbon apparently stabilized. Paris may offer loan guarantees for industrial projects, a program to encourage private investment in Portugal, and possibly credits for food.

The EC, which last year committed about \$175 million to finance specific projects in Portugal, has agreed in principle to renegotiate the 1973 EC-Portugal agreement, which authorized Portugal to borrow \$59 million from the European Investment Bank. Some of this money may be in Portuguese hands by March.

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The updated trade agreement will also provide social security benefits for migrant workers, as well as tariff reductions and some concessions on textiles. Largely because of French and Italian objections, the EC is unlikely to reduce tariffs on Portuguese wine and certain agricultural products.

Progress has been made in the EC toward offering help in power, transport, and other industries, as well as in agriculture, tourism, and domestic marketing. The EC may also draw from existing stockpiles of powdered skim milk, beef, and butter to provide additional food aid.

The seven members of the European Free Trade Association are planning a \$100-million industrial development fund for Portugal. The seven have agreed in principle to ease import regulations on some Portuguese agricultural goods and not to oppose higher Portuguese tariffs on certain industrial exports from the free trade countries.

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WEST GERMANY

The legislature is expected to approve production of the controversial multirole combat aircraft (MRCA).

The German decision on the British - Italian - West German MRCA is expected in May. There will no doubt continue to be opposition to the project owing to its cost, but the recent favorable vote by the Social Democratic Party parliamentary caucus almost assures approval. This vote, added to reports from London that the British interceptor version of the aircraft will not be scrapped in the current round of budget cutting, considerably brightens prospects for the program.

Although the plane has been plagued by developmental problems—primarily with the Rolls Royce engine—the flight of the fifth prototype in Italy on December 5 means that all three consortium members are now flight-testing the aircraft. Some West German air force officials last year approached US representatives and expressed interest in the General Electric engine to be used in the US navy's F-18. The use of another engine, however, would reportedly require structural airframe changes, driving costs even higher.

The Social Democrats' decision was probably driven by a desire to support the West German aerospace industry and avoid placing the Social Democratic - Free Democratic coalition in the position of having to desert its partners on this biggest of all European joint military hardware development projects.

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ITALY

Italy suspended foreign exchange intervention and official quotations on the lira yesterday in the face of heavy selling pressure precipitated in part by the recent government crisis.

[redacted]
[redacted] The lira fell about 3 percent in London yesterday, closing at roughly 710 to the dollar. During the day, in markets typified by extremely light volumes, it was traded as low as 815 in Zurich and 810 in Milan.

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Rome took the action in an effort to cool off the situation and to buy time for arranging financing to support further intervention. [redacted]

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[redacted]
[redacted] Washington is being asked to make available some funds under existing \$3-billion central bank credit lines.

Italian officials have not decided when they will resume making official quotations on the lira; they will probably wait until they are certain of substantial additional financing. In the interim, exchange transactions in the lira will continue to take place without government support in Italy and on currency exchanges in other European countries.

Rome has publicly promised its EC partners that it will not resort to new exchange controls or import restrictions to alleviate the situation.

The closure of the exchange markets could give the Christian Democrats added leverage in their efforts to get the Socialists to agree on a new government. The Socialists were widely criticized for causing the government to fall two weeks ago and thereby interrupting the government's efforts to deal with the country's worst postwar recession.

The Socialists, who want the next government to give more weight to their economic views and establish an open consultative relationship with the Communist opposition, met with Prime Minister - designate Moro on Tuesday. Yesterday Socialist leader De Martino met with Communist chief Berlinguer while Prime Minister - designate Moro held talks with the smaller center-left parties—the Social Democrats and Republicans. Moro is scheduled to respond to the Socialists' demands tomorrow.

[redacted]

[redacted]

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SOUTH KOREA

The leader of South Korea's main opposition party, Kim Yong-sam, was indicted yesterday for violating a government emergency measure banning virtually all public criticism of the regime.

The action is but the latest evidence of President Pak Chong-hui's determination to silence his political opponents. Pak issued the emergency decree last spring following the communist victories in Indochina, citing the need for strong discipline because of the threat from North Korea.

Kim Yong-sam's alleged offense actually took place last August, but for most of last year he refused to respond to a government summons to answer for his critical remarks. It appeared to many observers that the government would not press charges, but Kim spoke out strongly against the government again last week, and this seems to have prompted the indictment.

It is still not clear that the government will move quickly to prosecute Kim. In the past, the regime has occasionally held court action against opposition figures in abeyance as a means of curtailing their activities.

In recent weeks the government has prosecuted a number of its student and Christian critics. Pak also reshuffled his cabinet, putting the one official with any political standing on his own, Kim Chong-pil, on the sidelines, at least temporarily.

Kim Yong-sam and other opposition forces are probably not in a position to organize an effective protest over the government action. Put off balance by the war scare in Seoul last spring and by the government's subsequent crackdown, the opposition has remained generally in disarray. In fact, Kim himself has been criticized by members of his own party for failing to provide effective leadership.



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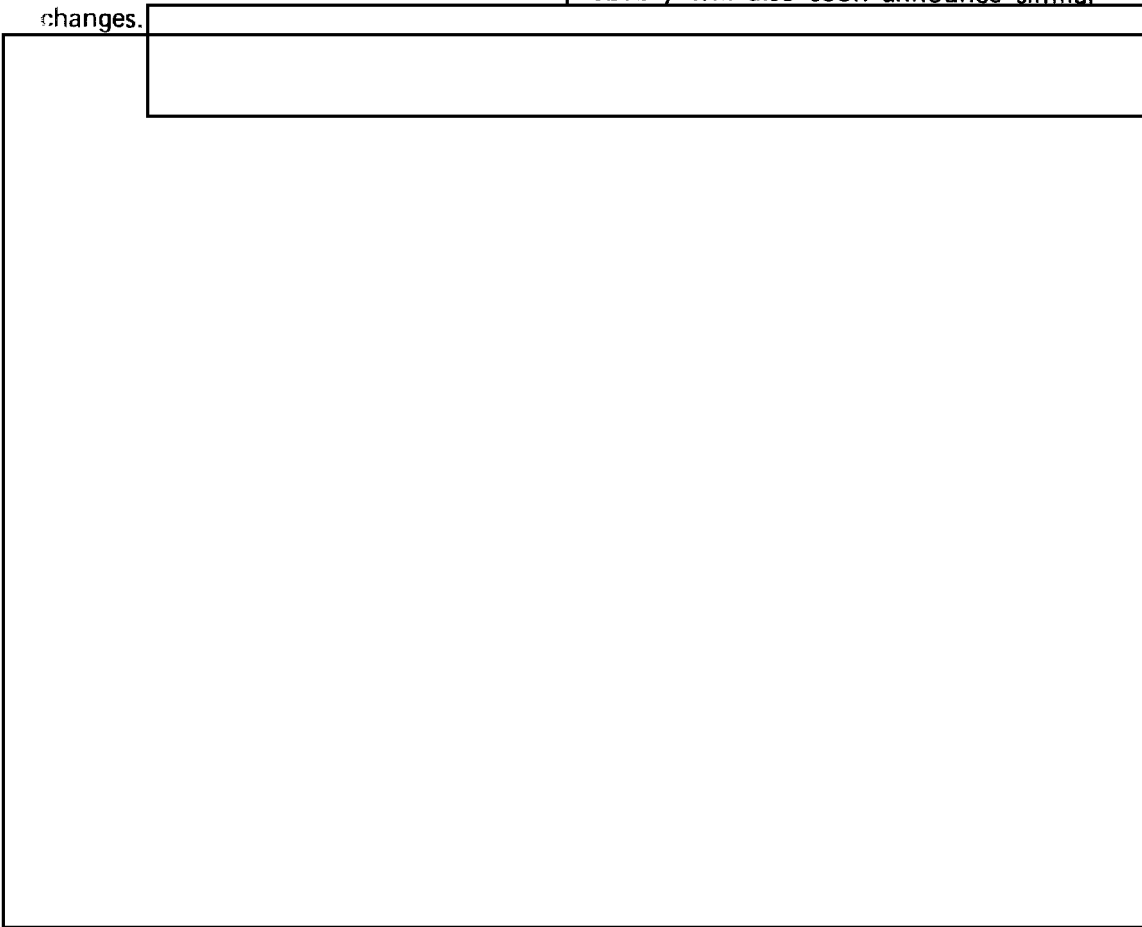
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FOR THE RECORD

VIETNAM: The Vietnamese communists took another step yesterday toward formal reunification later this year by replacing Saigon's Military Management Committee with a civilian administration. Saigon, and many of the country's other large urban areas, had been governed by military committees since the communist victory last April. The announcement is probably intended to show that civilian government will be restored in an orderly fashion to the country prior to reunification. Other cities in the South probably will also soon announce similar changes.

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ANNEX

NEW FOREIGN POLICY DIRECTIONS FOR AUSTRALIA

Since coming to office six weeks ago, the Fraser government has underscored the importance of Australia's ties with traditional allies, correcting what it saw as the tendency of the Labor government to ignore such ties in the pursuit of Australian nationalism.

The Liberal-Country government will not return Australia to the patron-client relationship with the US that was a characteristic of earlier Liberal-Country administrations; the more independent stance adopted by the Whitlam government is popular in Australia, and the Fraser government will retain many aspects of it. The Fraser government has plainly stated, however, that it will give priority to ties with the US, arguing that there is no need to feel defensive about the ANZUS relationship.

Fraser's first initiative to strengthen the US connection was to back the US-UK base project for Diego Garcia Island in the Indian Ocean. The Whitlam government had been strongly opposed to the project and had supported an Indian Ocean "zone of peace," appealing to world navies to stay out of the area. Fraser says this proposal ignores the reality of the Soviet naval buildup there.

Beyond supporting US plans, Canberra will push ahead with the construction of a new naval base on the Indian Ocean coast of western Australia. Fraser's defense minister has announced that Australia's allies will be given access to this facility. On the matter of port calls by US nuclear-powered warships, Canberra is not expected to impose obstacles, once environmental safeguards to such visits become adequate.

The Fraser government is already working on ways to improve Australia's ties in the Far East. It is supporting the members of the Association of Southeast Asian Nations (ASEAN) in their efforts to build up that organization, but it is trying to do so in ways that will not be interpreted as intruding into ASEAN affairs.

The new government endorses Labor's opening of relations with Peking, and Fraser plans to go to Peking and Tokyo this spring before visiting Washington. The government hopes to repair the damage to relations with Japan caused by the restrictive investment and trade policies of the Whitlam government. To this end, Deputy Prime Minister Anthony will visit Japan next month. Although the Japanese may discern a more hospitable investment climate, Canberra is reluctant to relax its protective tariffs, believing that Australian industry still required such protection.

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Maintaining congenial relations with Indonesia is proving to be the Fraser administration's first difficult foreign policy problem. Australian governments consistently place considerable importance on friendly ties with their populous northern neighbor, but Indonesia's military intervention in East Timor has created a major complication. Although both Whitlam and Fraser had clearly signaled their willingness to accept a quick Indonesian take-over, the take-over has not been quick, and both the Labor and the Liberal-Country governments have felt compelled to cater to Australian public sympathy for the leftist Fretilin forces' fight for independence.

The Fraser government is particularly embarrassed by a leak to the press of a confidential recommendation from the Australian ambassador in Jakarta that Canberra accept Timor's integration into Indonesia—a recommendation that has now been publicly rejected by Fraser. Foreign Minister Peacock minimized the problem this week following a brief visit to Jakarta, but popular sympathy in Australia for Fretilin has significantly complicated Canberra's dialogue with Jakarta.

The government is apparently departing from Labor's ambivalent Middle East policy. Whitlam had supported Israel's right to UN membership but met with a PLO representative invited to Australia by Labor leftists, antagonizing both Arabs and Israelis. Fraser publicly promises to support Israel.

On the economic front, the new administration will provide a somewhat more favorable investment climate and greater incentives for development of the country's energy resources. Although the Liberal-Country government's foreign investment objective is the same as Labor's—50-percent Australian equity in new development projects—the new government is likely to be more flexible in applying existing guidelines.

Direct government involvement in the mineral and energy field will be greatly reduced by the Fraser government, a development which will tend to reassure potential foreign investors. Canberra has already announced plans to divest itself of investments acquired by the Whitlam government through the now defunct Petroleum and Minerals Authority, including coal, copper, and natural gas projects.

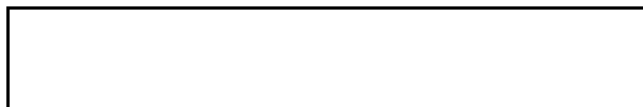
The government will encourage the development of Australia's massive uranium deposits. It has said it will permit exports of uranium oxide, but will watch carefully to ensure that domestic needs are met and that a reasonable return is obtained. The Labor government had banned uranium exports, awaiting higher prices.

Development of Australia's energy resources also should get a boost. The Fraser government has promised incentives for oil exploration and production, including a full write-off of exploration costs against current income and a special investment allowance for development costs. The Whitlam government's energy policies had brought oil exploration to a virtual standstill—only 14 oil wells were drilled during the first nine months of 1975, compared with 135 in 1972.

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