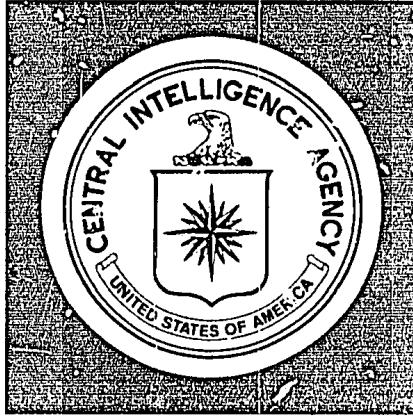

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Weekly Review

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.



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After The Summit

WESTERN EUROPE REASSURED

The West European allies seem satisfied with the results of the Nixon-Brezhnev summit and are delighted with the detailed briefings they received both before and after it. The summit was regarded as a test of the greater consultation pledged in the recently signed Atlantic Declaration.

Press commentary in Western Europe welcomed the agreements limiting underground nuclear testing and deployment of ABMs. While there was some regret about the limited nature of the curbs on strategic arms, there was general agreement that detente had reached the point where dramatic developments could not be expected. Much of the commentary, in fact, expressed relief that the results were relatively meager in some areas. Before the summit, the fear had been widely voiced that the US might make deals with the Soviets—especially on the European security conference and the force reduction talks—without taking European interests into account.

Only the passage on the European security conference in the summit communique threatened to dampen the satisfaction of the Europeans. They felt that this leaned too far in the direction of Soviet interests by seeming to endorse the progress of the conference and by coming close to agreeing that the conference's final stage could be held at the summit level.

At the NATO ministerial in Ottawa last June, the US and the West Europeans had agreed to a far less forthcoming description of the conference's status and prospects. Moreover, the EC foreign ministers recently deplored the lack of progress at the conference and concluded that no decision could be made about the level of the final stage until the results of the present stage are known. The West Europeans believe that the best way to break the deadlock at the conference is to stand fast until Soviet concessions are made, especially in the area of the freer movement of people and ideas.

Some dissatisfaction with the summit communique was also expressed by Western delegations at the security conference itself. They were particularly sensitive to the fact that the communique used traditional Soviet language in referring to a summit-level conclusion of the conference. Their resentment deepened as Eastern delegates began using the communique to argue against a summer recess so that the conference could conclude speedily at the summit.

In Brussels, Secretary Kissinger was able to persuade most of the allies that the US had not given in to the Soviets on security conference issues. His explanation, according to one report, prevented some of the West Europeans from delivering critical statements in the North Atlantic Council. In Bonn, Kissinger's conversations may have helped put the West Germans—the most intransigent of the allies at the conference—in a mood to make compromises. The secretary and Chancellor Schmidt reportedly agreed that the security conference's problems could be solved, and that the final stage could be held—possibly at the summit level—by the end of the year.

The allies found little to object to in the summit communique's expression of support for the Vienna force reduction negotiations. They are not at all distressed that force reductions were apparently not discussed in detail at the summit because they think NATO should hold fast to its proposal for the time being and offer the Warsaw Pact only limited hints of flexibility.

West German Foreign Minister Genscher summed up the European view of the consultations surrounding the summit when he said that they were "in accordance with the letter and spirit of the Atlantic Declaration" and had been "fully satisfactory and proof of the revival of the Atlantic alliance." The allies realize, however, that these consultations are only a step toward more regular and detailed consultations between the US and Western Europe. Until that elusive goal is reached, the West Europeans will continue to be uneasy—as they were during this

summit—about the possibility of bilateral US-Soviet agreements.

MOSCOW EMPHASIZES ACHIEVEMENTS

The Soviets are saying that the recently concluded Moscow summit was "a major new contribution" to improving US-Soviet relations, despite the absence of "sensational developments." The Soviets have also suggested, however, that more might have been accomplished, particularly in the arms control area, had it not been for the constraints on the President resulting from Watergate and the continued truculence of the Pentagon.

At the US Independence Day reception in Moscow, several Soviet guests professed to believe that more might have been achieved in the arms control area had not domestic difficulties limited the President's freedom to negotiate such sensitive national security problems. With the

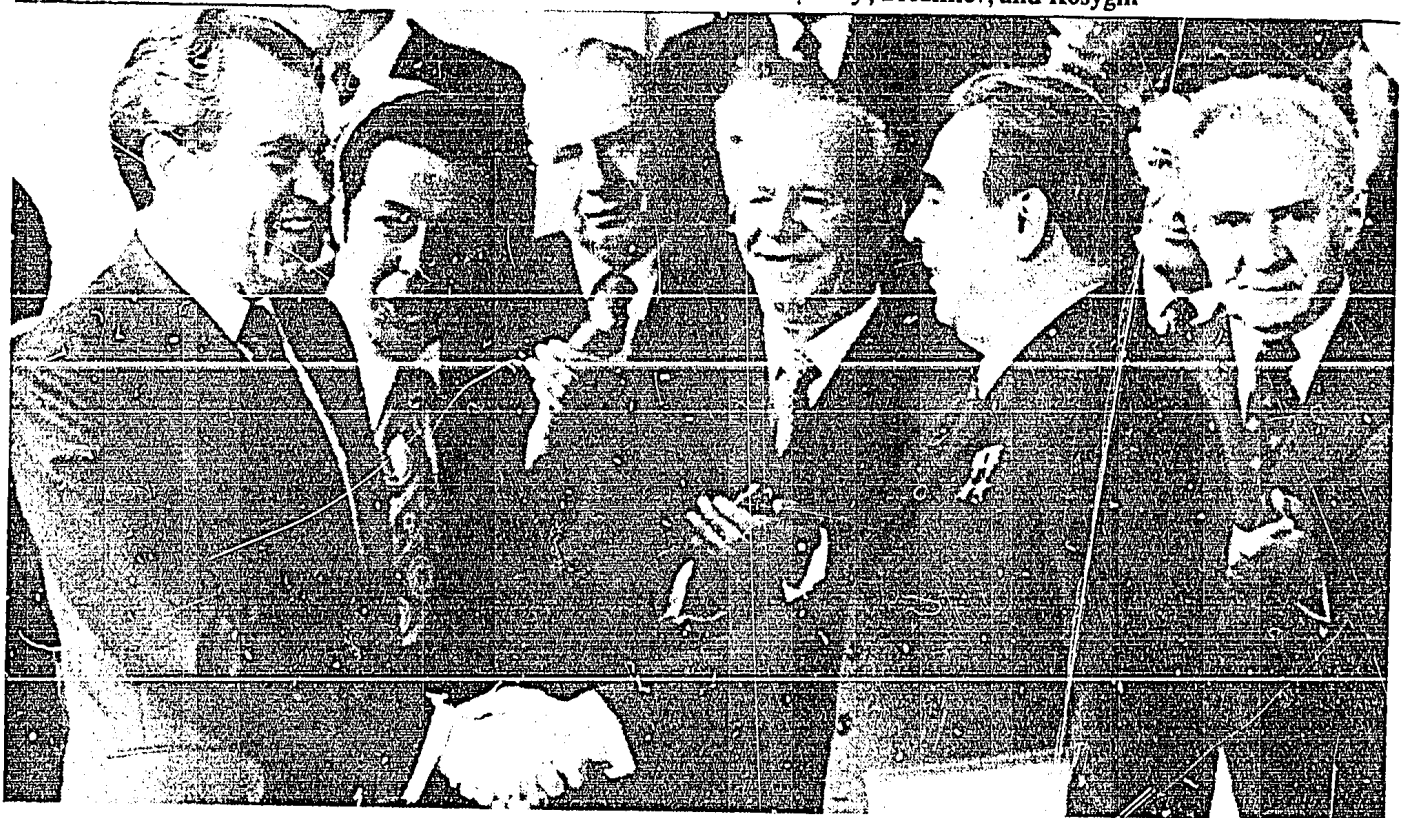
exception of an insinuation along these lines by Brezhnev during the course of the summit, however, the Soviets have studiously avoided such linkage in public.

Over the past week, the Soviets continued to give heavy news coverage to the results of the summit, playing up the salutary effect of regular exchanges between the leaders and emphasizing the breadth of support for detente in the US. *Pravda* called the summit a "milestone" in the history of US-Soviet relations. Other news commentaries, drawing on Brezhnev's statement to the press on June 28, characterized President Nixon's visit as a further demonstration of the resolve of both sides to maintain the course laid out in various documents and decisions over the past few years. Soviet propagandists have taken the line that the importance of the Moscow meeting stemmed not from the number of agreements signed, but from the evident intention of both sides to maintain the momentum of improving relations.

The President with Soviet leaders Podgorny, Brezhnev, and Kosygin

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Canada: A Comfortable Majority

The victory of Prime Minister Trudeau's Liberals in the July 8 elections gives the party an unexpected majority in the 264-member House of Commons.

The strong Liberal showing contrasted with polls that indicated throughout the campaign that the electorate would not return a majority administration. The Liberals gained chiefly in the swing province of Ontario, where they picked up 19 seats. They also gained several seats in the Atlantic provinces, Quebec, and British Columbia.

The win is a personal victory for Trudeau, whose perfunctory 1972 campaign contributed greatly to the Liberal setback that year. This time, the Prime Minister adopted an aggressive, highly visible style that was more convincing to the voters. Mrs. Trudeau, who previously guarded her private life and shunned political activity, campaigned actively and no doubt helped her husband regain some of his popularity.

Canada's 30th Parliament is expected to begin its term in early September. Some ministerial portfolios may change hands, but the new cabinet should closely resemble the old one.

The first order of business for the new Parliament will be to pass the Liberals' budget, which was the issue that brought about Trudeau's defeat when introduced in early May. The budget package includes proposals for higher corporate taxes on resource industries and various measures designed to shield hard-hit consumers from the worst effects of inflation. The voters will also expect Trudeau to move quickly to carry out some of his campaign promises, such as special government assistance for first-time home buyers, public takeover of passenger trains, and new federal programs to aid farmers. The Prime Minister will probably leave other programs to the

ELECTION RETURNS

	October 1972	July 1974
Liberals	109	141
Progressive Conservatives	107	95
New Democrats	31	16
Social Credit	15	11
Independents	2	1

future, however, because their high cost would threaten any efforts to counter inflation.

A majority Liberal government without pressure from the nationalist-minded New Democrats, who held the balance of power in the last Parliament, might be less influenced by the "Canada first" approach that frequently surfaced during the term of the minority Trudeau government. The current policy of trying to lessen Canada's dependence on the US, however, will still have strong bipartisan support.

Inflation was the dominant campaign issue, and the voters clearly rejected Tory leader Robert Stanfield's proposal for a wage and price freeze. This was Stanfield's third—and probably best—chance to lead his party to victory. The loss is likely to cause his resignation or ouster.

New Democratic leader David Lewis was upset by a Liberal challenger in the Toronto district he had held since 1965. Lewis' loss should not present any severe leadership problems for the New Democrats as he had been expected to retire soon. Although the party lost half of its parliamentary seats, the New Democrats will continue to appeal to their hard core farm and labor supporters. In addition, the party controls the governments in three western provinces.

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Cuba: Castro Ready To Talk

Fidel Castro's recently professed willingness to talk with Secretary Kissinger if the so-called blockade is lifted is the most specific indication to date that he wishes to break the present impasse in relations between Havana and Washington. His offer, however, is merely a reiteration of the general line Havana first made public in December 1972, shortly after the presidential elections in the US. Prior to that time, the Castro regime had virtually eliminated any possibility of bilateral talks while President Nixon remained in office.

According to the official Cuban press agency, Castro met with newsmen in Havana on July 2 and said he would have no objection to meeting with the secretary. The press agency quoted Castro as saying, "I believe that Kissinger is not a negative figure in US policy. He is a realistic man. But since the blockade is not negotiable, we will not agree to talk with anyone until this measure is unconditionally lifted." In an apparent attempt to demonstrate his good faith, Castro added that he would receive the staff chief of the US Senate Foreign Relations Committee, who was then on a ten-day tour of Cuba.

Castro's shift in attitude on the Cuba-US stalemate stems from several sources. One key factor is the significant progress made in the past year by the US toward solving long-standing bilateral problems with Mexico, Peru, and Panama. The Cubans have apparently been convinced that the US is willing to make concessions to smooth its relations with Latin America, and they want to take advantage of the cooperative mood before it changes. Moreover, the Cubans—who made it clear beforehand that they would be paying close attention to the secretary's remarks at the conference of Tlatelolco in Mexico last February—were probably encouraged by his pledge there that the US would not intervene in the internal affairs of other countries. This may have struck Havana as a response to oft-stated Cuban demands that the US cease its alleged role of gendarme in Latin America.

Soviet pressure is also partly responsible for Castro's more receptive attitude. During Leonid Brezhnev's trip to Cuba this past winter, Castro finally relaxed somewhat his rigid negative position on detente, paid it modest lip service, and praised Brezhnev's personal efforts toward that goal. Also, the Soviet press played up the theme of Brezhnev as an international mediator and replayed US press speculation that a major purpose of the visit was to improve US-Cuban relations. In addition to the detente issue, Moscow probably equates improved US-Cuban ties with a reduction in the enormous economic burden that Cuba represents for the USSR.

Furthermore, the steadily increasing influence of the USSR in Cuban internal affairs may have finally reached the point where Castro believes it is in his best interest to develop an alternative to Soviet support. He is certainly aware, for example, that the Soviet-sponsored institutionalization process, which has been under way in Cuba since 1970, is designed to place limits on his heretofore unchecked authority. He therefore may be hopeful of achieving a relationship with the US that will counter Soviet political and economic leverage, and will permit him to retain his domestic supremacy. Mindful of the Cuban Communist Party congress scheduled for next year and the potential it has for placing formal institutional restraints on him and his Sierra Maestra guerrilla elite, Castro may want to reach some accommodation with the US so that he can enter the congress with a stronger hand.

His basic hostility toward the US, however, has shown no signs of waning. He would enter into negotiations only as the lesser of evils. Although he would probably not make such deliberately unreasonable demands as to torpedo the talks at the very outset—a tactic he has used in the past—his position would be tough. He would expect discussions to cover such topics as Guantanamo, US overflight of Cuban territory, reparations for alleged damages to the Cuban economy caused by the US economic denial campaign, and hostile activities of exiles in the US.

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China: Governing From The Clinic

The first generation of Chinese revolutionaries is a remarkably hardy group, having endured the grueling Long March of the 1930s. Many of these people, now in their 70s or 80s, still occupy the top ranks in the political hierarchy. As a group, in fact, they seem hardier than their younger colleagues. Since the election almost a year ago of a new party Central Committee, a surprising number of Central Committee members in their 50s and 60s have died. The latest casualty was a 54-year-old provincial official.

Despite the longevity of the old leadership, however, age is beginning to take its toll. While many people in China and abroad have long been concerned about the survival of 80-year-old party Chairman Mao, it has almost been taken for granted that his younger colleague, 76-year-old Premier Chou En-lai, would outlive him. That prospect has been thrown open to question with the revelation on July 5 that the Premier was in the hospital. This spring, Chou revealed that he had been forced to trim further his exhausting activities on orders from his doctors.

The official news agency made the unusual admission of the Premier's illness through an



Chou En-lai

announcement that Chou had met Senator Henry Jackson in the hospital. Only the day before, Chinese spokesmen had denied foreign press reports that the Premier was critically ill and dying. On July 6, *People's Daily* front-paged a picture of Chou, flanked by the Senator and his wife, showing the Premier standing, fully dressed, and looking reasonably fit.

Chou had not appeared in public for more than a month, touching off speculation about his political, as well as his physical, health. Media coverage of his hospitalization and his meeting with Jackson seemed designed to squelch persistent rumors that he was in political trouble and to reassure the Chinese people—and foreign observers—that the Premier was still carrying on with his job.

Senator Jackson found Chou mentally alert and well briefed on the Senator's earlier discussions with Chinese officials. Nevertheless, Chou admitted that he had been very sick last month. Indeed, his doctors' earlier efforts to get him to slow down had only limited success—the Premier cut back on some of his protocol duties but ignored the one hour limit that the doctors had placed on his meetings with foreign dignitaries.

The current episode of his illness, obviously severe enough to require hospital care but not otherwise spelled out by the Chinese, may have convinced him he will have to cut back further. Chou's meeting with Senator Jackson lasted only a half hour. Chou will almost certainly remain a major political force until his death. Mao himself has remained at the center of Chinese politics despite years of relatively poor health. But Chou's forte has been the day-to-day management of state and party affairs. He had already begun to delegate the more time-consuming and less important aspects of these duties to others—particularly vice-premiers Teng Hsiao-ping and Li Hsien-nien—before his hospitalization, and he may never again be as active as he once was.

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JAPAN: THE UPPER HOUSE ELECTION

The unexpected Upper House losses by Prime Minister Tanaka's ruling Liberal Democrats in the July 7 elections will not have any serious immediate impact on the functioning of the Japanese Government. The results, however, do reflect adversely on Tanaka's leadership and will lead to more intense maneuvering by his party rivals to unseat him at next summer's convention.

The Liberal Democrats will have only a bare majority—some 129 seats—in the 252-member Upper House of the Japanese Diet, even with the expected addition of three "independent" conservative candidates to the total. The ruling party's share of the popular vote, moreover, continued the slow but steady decline of the past decade.

The Socialists, the largest opposition party, put on an unexpectedly good performance, coming on strong in the final weeks of the campaign, and picking up a few seats where earlier predictions had them losing. The Communists did very well, almost doubling their previous strength, while the Buddhist-based Komeito increased its delegation by only one seat, contributing to a growing belief that the party has reached a political plateau. The Democratic Socialists lost only one seat, despite predictions of heavier losses and the possible breakup of the party.

The Upper House will remain under Liberal Democratic control, although opposition members may have opportunities for committee chairmanships. The net result is likely to be no worse



Tanaka

JAPAN: UPPER HOUSE ELECTION RESULTS July 7, 1974				
Party	Upper House Seats		Percent of Popular Vote	
	Current	Pre-election	1974	1971
Liberal Democratic	126	134	44.3	44.5
Japan Socialist	62	59	15.2	21.3
Komeito	24	23	12.1	14.1
Japan Communist	20	11	9.4	8.1
Democratic Socialist	10	11	6.0	6.1
Minor	1	0	0.1	0.1
Independent	9*	6	13.0	5.9
Vacancies	-	8	-	-
	252	252	100.0**	100.0**

*3 Independents are likely to join the LDP; one will join the JSP.
** Due to rounding.

than a greater degree of sluggishness in the conduct of Diet business. The Diet's Upper House is less important than the Lower House, where Liberal Democratic dominance is clearcut.

The election returns are probably more significant as an adverse public judgment on the stewardship of Prime Minister Tanaka. He has been somewhat weakened in his bid for reelection as party president—and hence, continuing as prime minister—at the party convention next summer. Anti-Tanaka forces in the Liberal Democratic Party, particularly Finance Minister Fukuda and Deputy Prime Minister Miki, will now find greater interest among their colleagues for intrigues designed to unseat Tanaka as party leader. In charging the Prime Minister with mismanaging the campaign, these rivals will hit hard on Tanaka's excesses in raising corporate campaign funds for candidates from his own party faction. They will be content, however, to let the leftist opposition carry the ball in bringing this issue to the public.

If press reports are accurate, Tanaka himself believes that his heavy campaign outlays have actually paid off. His faction, and that of his closest ally, Foreign Minister Ohira, apparently increased their Upper House strength, despite the overall party setback. Fukuda's faction, on the other hand, reportedly lost a number of seats. In sum, Tanaka has emerged from the election with some loss of personal prestige, but with no serious impairment of his ability to compete for another term as party leader.

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LAOS

THE DEMISE OF THE ASSEMBLY

Non-Communist members in the coalition cabinet, who have recently sidetracked several major policy proposals by Lao Communist ministers, suffered a serious political setback this week when Prime Minister Souvanna ruled that the present National Assembly must be dissolved soon. The assembly, which was not reconvened on schedule last May because of Communist opposition, consists entirely of rightist deputies.

Several of these deputies contributed heavily to Souvanna's determination to scuttle the assembly when they organized a rally in front of the legislature on July 9 protesting the continued presence of North Vietnamese troops in Laos. The following day an embarrassed and angry Souvanna told the cabinet that the incident con-

vinced him that the assembly must be dissolved in order to preserve national concord.

Lao Communist ministers were quick to back Souvanna. The non-Communists tried unsuccessfully to argue that they should decide the matter since it was their political interests that were being threatened. They also failed to postpone a decision on the issue or to persuade Souvanna and the Communists that the assembly could not be dissolved until agreement had been reached on what would replace it.

Souvanna finally cut short the spirited debate by decreeing that the assembly would be dissolved. He said he would discuss the procedures for dissolution with the King, who, according to Souvanna, was already in favor of such a move.

GETTING ORGANIZED

The non-Communists' ability to continue to stand up to the Pathet Lao in future confrontations will depend heavily on their effectiveness in establishing a broad political front. They took a major step in that direction last week when they surfaced an organization called the "Vientiane-side Government Front," reportedly led by ten non-Communist cabinet ministers and nine Lao army generals. For the time being, Deputy Premier Leuam Insisiengmay is unofficially heading the front.

To flourish, however, the front has to attract the younger non-Communist officials in Vientiane, and some have already expressed misgivings. They evidently believe that the move is an ill-timed power play by members of the influential Sananikone clan—a rightist group whose political interests are blatantly self-serving. The willingness of the younger officials to align themselves with the front will be heavily influenced by the reactions of Souvanna and Interior Minister Pheng Phongsavan.



Insisiengmay

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CAMBODIA: AN OLIVE BRANCH

Phnom Penh seized the political initiative this week by issuing a new bid to open peace negotiations. The formal declaration presented by the Lon Nol government on July 9 invited the Khmer Communists to start talks immediately at a mutually agreeable time and place. The new declaration differed significantly from the government's six-point peace proposal of July 1973 in that it did not demand either the withdrawal of foreign troops or a cease-fire as pre-conditions for talks. Government leaders probably hope that, at a minimum, this new display of flexibility on negotiations will gain some international sympathy and support.

The initial reaction from the other side was predictably negative. The insurgents' nominal chief, Prince Sihanouk, publicly rejected the offer the same day, saying:

- He and the Communists will never negotiate or be reconciled with the Lon Nol group.
- The war will continue as long as the US is involved in Cambodia.
- His side will never accept a settlement that results in the division of Cambodia.

Sihanouk did not insist, as he has in the past, that any peaceful solution to the Cambodian conflict will have to be reached in direct talks with Washington—after the US has withdrawn support for Lon Nol. The demand for the cessation of all US support to Phnom Penh has long been a feature of the Khmer Communists' position on ending the fighting, but there are still no signs that the insurgents' in-country leadership shares Sihanouk's interest in negotiating directly with the US.

Military Progress

Meanwhile, Cambodian army units northwest of Phnom Penh have been reinforcing the argument the government has made in its declaration—that a military victory is not possible for the Communists. After three weeks of heavy fighting



Watch on the Mekong

along Route 5, government advance units entered Oudong at mid-week without opposition. Once the shattered town is fully secured, the army will have regained most of its earlier holdings in this area.

Oudong is a former royal capital with historical and religious significance. The Communists overran the town in mid-March, repulsed a government counterattack several weeks later, and touted the victories as a high point in their dry season campaign.

The insurgents made a major effort to stem government advances on the northwestern front. Steady casualties as well as supply shortages have compounded long-standing command problems, however, and Communist units around Oudong now appear to be in disarray. Communist commanders ordered insurgent units closer to Phnom Penh to go on the attack to divert government attention from the northwest, but the army has pre-empted these attacks with operations of its own.

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THAILAND: A FORCEFUL APPROACH

A by-product of the Thai effort to develop a more responsive government has been the appearance of considerable tension among elements of a population stifled by more than a decade of military rule. As a result, Bangkok is acquiring a reputation as the most politically volatile capital in Southeast Asia today. The Sanya Thammasak government had barely recovered from a week of intensive labor negotiations that threatened the stability of the new regime when angry rioters attempted to burn down a police station in the city's Chinatown district. By the time the dust had settled last weekend, 24 had been killed and over 100 wounded, the bloodiest street fighting since student-instigated riots toppled the Thanom regime last October.

Unlike the disturbances of the past several months, the Chinatown riots were not the product of political pressure groups. They were the culmination of a long-standing hostility between a corrupt and inefficient police force and local



Curbing demonstrators

residents. They may, however, have a lasting impact on the Thai political situation.

Prime Minister Sanya's willingness to get tough with the rioters, rather than negotiate with them, significantly strengthened his government's image. In uncharacteristically decisive fashion, Sanya:

- Declared a state of emergency;
- Announced that he was prepared to use whatever force was necessary to restore order;
- Ordered the army to be prepared to move in if the situation grew beyond police capabilities

Prior to the riots, there had been a growing sense of frustration and concern within the Thai military that Sanya's reluctance to stand up to the students and other pressure groups was contributing to a more general breakdown in order. Sanya's forcefulness last week should reassure his critics and may buttress the government's hand in dealing with future unrest, particularly within the labor movement.

Sanya's aggressive handling of the riots is the latest sign of a more activist style in his leadership. Since forming a new government last May, Sanya has significantly reduced military influence over cabinet decisions—much to the dismay of army chief Krit Siwara—and has invoked extraordinary legal powers, left over from the days of military rule, to solve land-tenancy disputes. Behind the scene, Sanya is working hard to push through a revolutionary land-reform program that will have a long-term impact on Thai society. It is possible that a continued strong performance in the months ahead could create a public groundswell for Sanya to run in the general elections expected to take place later this year. Sanya has stressed his desire to return to private life, but he is beginning to act like a man who likes his job.

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NORTH KOREA: ON LAND AND SEA

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Building Ships...

North Korea's naval shipbuilding program continues apace. [redacted]

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One new class is a patrol escort about 190 feet long; two units are now under construction. The other is smaller in size and apparently combines features of two boats already being produced to support amphibious operations. It will evidently be armed with a 76-mm. gun and either rocket launchers or a guided missile. Four of these ships are under construction.

The new surface ships appear well suited to Pyongyang's needs. The patrol escort will enhance the navy's coastal defense capabilities; the other ship will add to its amphibious punch. North Korea has already produced two destroyer escorts as well as numerous gunboats, torpedo boats, and amphibious craft. The North is also producing a Komar-class guided-missile boat.

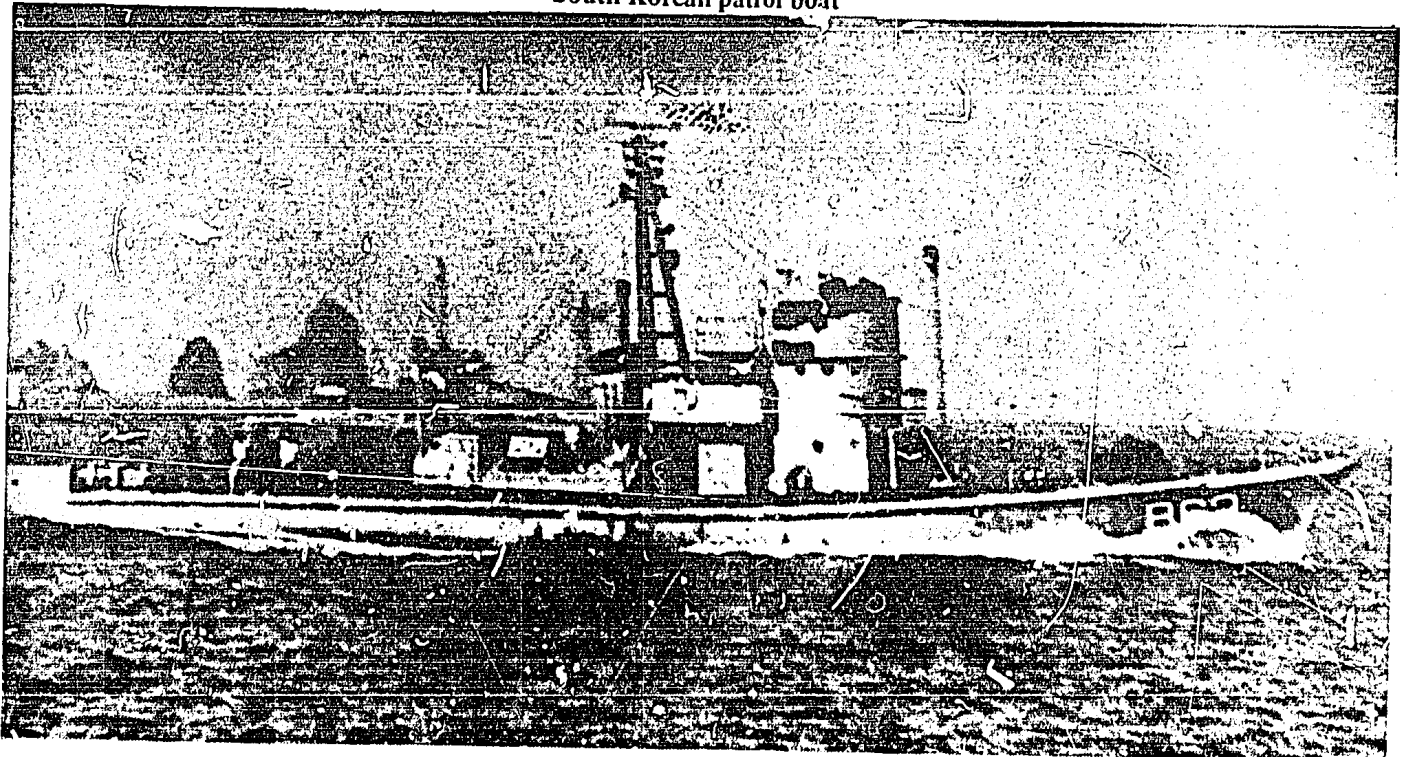
[redacted]

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[redacted] These submarines are located on the east coast and could be used to supplement Northern infiltration efforts against the South.

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South Korean patrol boat



WESTERN EUROPE: PLANE SHOPPING

There is still no agreement on a replacement for the aging US-built F-104 tactical fighters in Belgium, the Netherlands, Norway, and Denmark. The choice has been narrowed to three contenders—France's Mirage Super F1 and two US aircraft, Northrop's P-530 Cobra and General Dynamics' 402.

The Europeans face a dilemma because their decision involves more than merely choosing the technically superior aircraft, which would probably give the edge to either US candidate. The choice, in fact, is between buying a French aircraft—and possibly laying the groundwork for a truly European aircraft industry—and buying an American one to assure continued access to advanced American technology. The Belgians, who produced Mirage 5 fighters under a previous agreement with France, favor the Mirage, while the other three nations have shown some preference for an American aircraft with accompanying US air force logistic support.

Both France and the US are offering sales inducements that include joint production licensing agreements in which a large number of the aircraft will be assembled in the purchasing country to offset costs. The French offer is also said to include attractive financing arrangements and a guaranteed price. Paris reportedly has offered to absorb 100 percent of the nonrecurring costs of the engine, and more than 50 percent of the airframe research and development costs. As an added inducement to sell the Mirage to Belgium, the "key country" in Paris' eyes, the Belgians would be allowed to produce the aircraft engine. The US offer does not include a guaranteed price, but, as an added inducement, US companies are said to be willing to permit about 75 percent of the aircraft to be constructed in Europe.

The Europeans want to purchase an aircraft that will be part of the operational inventory of the producing nation, but none of the three planes is yet in this status. Prototypes of the two US aircraft are flying, but the US air force will not make a decision on which aircraft it will purchase until January 1975.

France's Super F1, which will have a better engine than the current version, is expected to make its initial flight in November or December of this year. Series production of the aircraft is not likely before 1976 or 1977. Contrary to earlier indications, the French air force evidently now does plan to purchase the Super F1, although the number of aircraft involved is unknown. If the French air force does go ahead, it would enable manufacturer Marcel Dassault to keep the cost of the aircraft down and ensure the availability of spare parts to foreign buyers.

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FRANCE: NUCLEAR TESTING

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The French conducted the second nuclear test of their 1974 series on July 7. The device, suspended from a balloon, produced a yield of about 170 kilotons. This test was the first full-scale thermonuclear explosion in what appears to be a new program to develop additional warheads in the several hundred kiloton range.

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Both the Australian and New Zealand governments registered mild protests over the latest French nuclear explosion. At a news conference in Wellington, Prime Minister Kirk claimed there was some evidence that the first nuclear detonation in June had caused slight amounts of radioactive fallout over New Zealand territory. The July 7 blast came only three days after Australia reopened the case against French nuclear tests before the World Court at The Hague.

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UNITED KINGDOM

THE CASE FOR RENEGOTIATION

Britain has softened its earlier demands on renegotiating its EC membership terms, but it remains adamant on reducing its future share in EC budget support. Foreign Secretary Callaghan has left open the means of achieving this reduction, noting that either a cut in Britain's gross contributions or an increase in its receipts would be satisfactory.

London is on reasonably firm economic ground in requesting a cut in its scheduled budget contributions. Because these contributions increasingly will be based on the amount of duties each member collects on imports from outside the EC, Britain will be called on to provide financing that is inordinately large. Its share in budget support is scheduled to rise from 9 percent last year to an estimated 27 percent in 1980. By that time, its share in the community's economic activity would have declined from 17 to 14 percent if recent growth trends continue.

On a net basis—gross contributions less receipts from EC coffers—Britain will be a heavy contributor to the budget even though its per capita gross national product will remain considerably below the average for the EC as a whole. By contrast, France will be a net recipient despite above-average gross national product on a per capita basis.

Other EC members have not rejected London's request out of hand even though they are opposed to the basic concept of renegotiation of entry terms. The council, under German Chancellor Schmidt's leadership, recently decided to refer the budget-share question to the commission for study.

The fundamental issue of whether other EC members should pay more so that the UK can pay less will hinder negotiations regardless of the means of altering budget shares. Any improvements that London obtains will come only after long, hard bargaining that probably will further strain EC cohesiveness.

BRITAIN'S PROPOSALS

A larger part of proposed regional fund disbursements could be allocated to Britain; France is opposed to such use of the fund, and Germany wants to limit the size of the fund itself.

The formula by which EC revenues are to be generated could be changed in Britain's favor; several EC members object to this approach on the grounds that it alters basic community structures to benefit one member.

A lump-sum rebate could be made to Britain and other "overpaying" countries to bring their contributions more in line with their national incomes; such an approach has the advantage of not tampering with community institutions but would be costly to France and some other members.

MINERS TAKE MODERATE LINE

The decision last week by the usually militant National Union of Mineworkers to restrain their wage demands suggests that organized labor may cooperate with the Labor government at least until after the general election expected this fall. The miners' opposition to an incomes policy and to EC membership, however, could be a harbinger of the difficulties the Labor government is likely to face—particularly if it wins the next election with a majority—as it tries to control inflation and renegotiate EC membership terms.

At their recent annual conference, the miners—whose strike had brought down the Heath government—turned down a proposal by militants calling for a weekly pay hike of approximately 40 percent. The miners also passed a "no target" wage resolution compatible with the "social contract"—an informal pact calling for

restraint in wage demands in return for social legislation. This is the first time since 1970 that the miners have refrained from demanding a specific figure. The miners, moreover, will not insist as they had earlier that the date for their contract negotiations with the Coal Board be advanced from March 1975 to November of this year.

Although cooperating with the government on the important "social contract" issue, the miners' convention caused some headaches for the Labor government by rejecting an incomes policy in any form and calling on union leaders to have nothing further to do with the EC.

The important question now is the direction the miners and other militant unions will take at the Trades Union Congress conference this September. Both the "social contract" and the EC will be key issues. The powerful leader of the Trades Union Congress, Jack Jones, reportedly is confident the "social contract" will be strongly supported. He believes that the overwhelming majority of the unions will go to great lengths to spare the Labor government embarrassment before the anticipated election.

Jones acknowledges that the Trades Union Congress conference will provide the election platform for the Labor Party. Officials of the organization seem confident, however, that the conference will not straitjacket the Labor Party on the EC issue. Jones says he prefers a referendum on the EC after the election rather than immediate moves for outright withdrawal.

PORTUGAL: CABINET SHAKE-UP

The resignation of Prime Minister Palma Carlos and four other centrist ministers on July 9 indicates that the Portuguese leaders are far from agreeing on who should wield political power. As Spinola has not yet officially accepted the resignations, a compromise solution may be in the works to retain centrist representation in the cabinet.

The immediate cause of the resignations appears to be the failure of the major administrative

body, the Council of State, to grant Palma Carlos more authority over cabinet decisions. Palma Carlos also disagreed with the Council's refusal to allow an immediate presidential election to legitimize the provisional government. He has been further frustrated by the actions of the Socialist members, who have been blocking implementation of economic and labor measures that the Prime Minister strongly favored. Spinola reportedly gave Palma Carlos a vote of confidence and said that he planned to remove the controversial ministers. The subsequent resignation of Palma Carlos and the centrist ministers, therefore, implies a setback for Spinola.

Initially, there were plans for all or most of the vacant cabinet positions to be filled by military officers, but these plans appear to have been suspended, possibly because of leftist refusal to serve in a cabinet largely controlled by the military.

Military representatives will be appointed to these posts if civilian leaders with centrist views cannot be persuaded to accept positions in the cabinet.

Spinola may also have to refrain from taking actions to strengthen his own authority, at least for the present. The conflict between Spinola and left-wing elements of the Armed Forces Movement centers on the dispute over control of the government. If Spinola moves too suddenly against the left, the coalition of political forces that he has been trying to maintain could disintegrate.

A new commando regiment was stationed outside Lisbon last weekend and other military forces were placed on alert as a precautionary measure against possible civil disturbances. The alert was rescinded a few days later, but marines and paratroopers were on hand to control a demonstration held on July 9 by extreme left-wing organizations protesting the arrest of officers who had refused to obey orders to quell the recent postal strike.

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ITALY: AUSTERITY BEGINS

Prime Minister Rumor's government approved a package of austerity measures last week, but the coalition will have to clear some major hurdles if the program is to deal effectively with Italy's mounting economic problems.

The austerity program provides for an increase in corporate taxes from 25 to 30 percent and an increase in some categories of personal income tax along with measures to improve the tax collection apparatus. The value-added tax on some basic consumer items and on luxury goods will be raised substantially. Gasoline taxes will increase by 25 cents per gallon bringing the cost of premium to about \$1.80 per gallon, and employer and employee contributions for health services will go up.

These increases are designed to raise government revenues by \$4.7 billion. Most of the funds will be used to lower the large budget deficit.

The program is a first step toward the goal of improving Italy's international credit standing. The new tax measures will dampen domestic

demand and, if government estimates are accurate, will hold growth of the gross national product to between 3 and 4 percent per year and reduce imports somewhat over the next 12 months.

Whether the program actually meets these objectives, however, will depend largely on the degree of cooperation from organized labor and the public generally, as well as on the government's ability to administer the intricate program effectively. The three labor confederations are united in their dislike of the program, which they fear will result in increased unemployment and more inflation. They are divided, however, over how far labor should go in trying to bring about changes. Some labor factions are prepared to call a general strike while others are counseling moderation. The three confederations will meet this weekend to formulate an official response to the government's proposals.

Even if labor goes along, the government will face the formidable task of implementing the austerity measures. The Italians are notoriously adept at circumventing taxes; most are probably unwilling to accept a decline in their present level of consumption for the sake of the abstract concept of national welfare. This factor, combined with the cumbersome nature of the Italian bureaucracy, could hinder the government's efforts to produce results rapidly. The support that does exist for the program could evaporate quickly in the face of rising prices and diminishing disposable income.

Although the coalition parties are publicly committed to support the program, the political scene remains tense. The Socialists have made their support contingent upon acceptance of this program by organized labor. The dominant Christian Democrats, meanwhile, are preoccupied by a serious internal quarrel. Party leaders are sharply divided over the implications of Christian Democratic defeats in the divorce referendum and the Sardinian regional election. The left-wing—about 30 percent of the party—is in open revolt against the leadership of Amintore Fanfani. These issues will be hotly debated by the National Council—the party's highest executive body—when it meets on July 18.



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LEBANON: SEEKING SECURITY

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Lebanese Defense Minister Maluf announced this week that he would visit Syria and Kuwait to ask for military and economic aid. Lebanon is attempting in this way to prompt the Arab states to make good on the promises of assistance made at the meeting last week of the Arab League Defense Council.

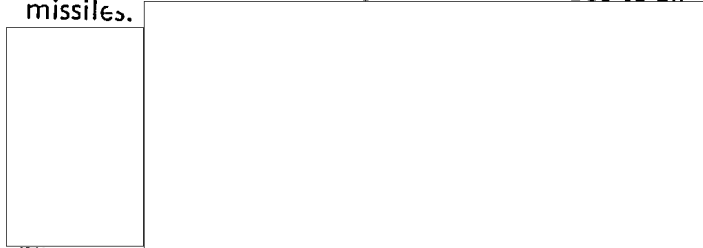
In Damascus and Kuwait, Maluf planned to seek the support Lebanon needs to implement its long-range defense plan, which is based primarily on the acquisition of additional Western equipment. In Cairo last week, Lebanese Prime Minister Sulh stated publicly that Beirut did not now consider it necessary to accept offers of personnel and aircraft. Maluf almost certainly intended to hold to this line in his talks with the Syrians and Kuwaitis.

Maluf's travel plans probably are not specifically related to Israel's attack on July 8 against several Lebanese ports. That incident, however, increased Lebanon's hope that the meetings with Syria and Kuwait, as well as those to be scheduled with other Arab countries, would yield concrete results.

The Lebanese are generally satisfied with the results of the Defense Council meeting. The session cast Lebanon in the flattering but unaccustomed role of an Arab stalwart, yet did not force it to accept unwanted military aid that might provoke wider hostilities with Israel.

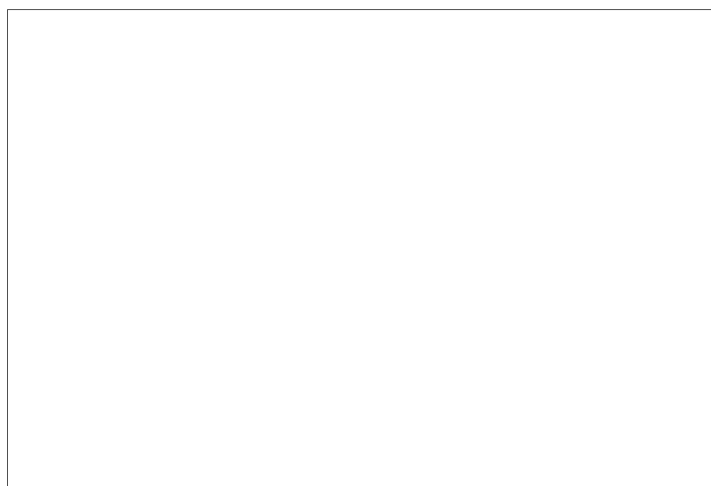
Lebanon predictably failed to win any effective Arab assistance in dealing with the persistent problem of fedayeen activities in Lebanon. If the military assistance promised by the other Arabs is realized, however, it will better equip the Lebanese army to control the fedayeen. Lebanon's efforts to forestall increased Arab assistance directly to the fedayeen irritated fedayeen leaders, who met in Damascus this week to consider the results of the Cairo meeting.

Perennial Lebanese concern about controlling the fedayeen was heightened by the Palestinians' acquisition shortly before the Defense Council meeting of a quantity of SA-7 surface-to-air missiles.



The shoulder-fired missile has only a marginal capability against high-performance aircraft and will not deter Israeli air attacks.

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MOROCCANS WITHDRAW

Morocco has withdrawn its expeditionary force from Syria. The first two contingents arrived in Tangier on July 4, followed by the third the next day. The Moroccan force was sent to Syria over a year ago and originally consisted of over 2,000 men and about 60 tanks. It was involved in heavy fighting around Mount Hermon during the October war. The force apparently left behind such tanks as survived the war.

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JORDAN-FEDAYEEN: GETTING TOGETHER

Egypt and Syria have begun to focus on the problem created by the competing interests of Jordan and the Palestine Liberation Organization, which they hope to reconcile before the Geneva peace conference reconvenes.

For some time, President Sadat has been privately urging the two to work together. Last month, he publicly proposed a meeting of Egypt, Syria, Jordan, and the PLO to work out a coordinated strategy for the next phase of the peace talks. Last week, Syrian Foreign Minister Khaddam visited Amman in part to offer to mediate between King Husayn and PLO chief Yasir Arafat. Morocco's King Hassan, the host for the Arab summit meeting to be held in September, has also offered his good offices.

Both Sadat and Asad have encouraged Husayn to believe that they are sympathetic to Jordan's interests. Jordanian Prime Minister Rifai recently told the US ambassador in Amman that Khaddam agreed with Jordan's refusal to attend the Geneva peace talks unless a Jordan-Israeli disengagement accord is reached first. The Jordanians also believe that Sadat does not want to risk becoming isolated by moving ahead in negotiations with Israel without both Syria and Jordan at his side.

Husayn wants to hold a series of meetings with the Syrians and Egyptians before the Arab summit to try to hash out a position paper giving priority to disengagement talks between Jordan and Israel. The Jordanians are far less certain how to deal with the PLO. Prime Minister Rifai seems inclined to talk with Arafat, but doubts that anything can be worked out. Husayn is distrustful of the Syrian and Egyptian expressions of support. He is also concerned about the reaction of the army if he agrees to a rapprochement with the fedayeen or even to meet publicly with Arafat.

Accordingly, Husayn has reportedly laid down two conditions for a formal meeting: prior

assurances that any meeting with PLO leaders will produce positive results; PLO acceptance of Jordan's right to negotiate the return of the West Bank at Geneva, leaving the still vaguely defined question of "Palestinian rights" for the PLO to handle at some "later stage" of the talks.

PLO leaders are most unlikely to provide the advance assurances that Husayn desires. In particular, they will refuse to acknowledge that he should be the sole negotiator for an Israeli withdrawal from the West Bank. Because the area would form the heart of any future Palestinian state, even moderate Palestinians insist that they be allowed a say in negotiating its return to Arab control.

The fedayeen's public position toward Jordan remains hard. At its meeting in early June, the Palestine National Council adopted a ten-point program that called, in effect, for the overthrow of Husayn. Behind this tough public stand, however, the PLO leaders are deeply divided about whether to seek a reconciliation with Husayn. A number of relative moderates are believed to be pursuing, however indirectly, some accommodation with the King; Arafat himself is reported to have sought Syrian mediation.

According to pro-fedayeen newspapers in Beirut, the PLO Executive Committee met in Damascus early this week to debate PLO policy toward Jordan "in light of the mediation that Egypt, Syria, and Morocco have carried out." Arafat, despite the recent expansion of this committee to include more of his supporters, will have great difficulty convincing the group of the desirability of a rapprochement with Jordan. The most he can realistically hope for is a committee decision to talk to the Jordanians without any preconditions. This, apparently, is what the Syrians have proposed to Husayn, almost certainly with Arafat's approval or urging.

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IRAQ: PROCURING ARMS

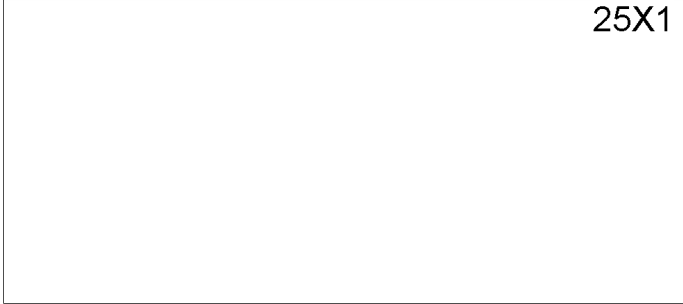
Over the last three months, Iraq has spent some \$160 million on arms purchases from non-Soviet suppliers. This flurry of orders mirrors the need to rebuild inventories depleted during recent fighting with the Kurds.

Except for a large contract with Yugoslavia (Iraq's first with that country), the purchases are from traditional suppliers of small arms, ammunition, and military support equipment. The \$82 million agreement with Yugoslavia, the largest non-Soviet arms accord ever concluded by Baghdad, underscores Iraq's determination to diversify its major sources of conventional armaments while still acquiring weapons compatible with existing Soviet-supplied inventories.

The agreement with Yugoslavia, concluded after three months of negotiation, will include mortars, small arms, ammunition, gas masks, and other support equipment. The first shipment of mortars was to be airlifted to Baghdad in early July; the rest is scheduled for delivery over the next 30 months.

Baghdad has also purchased some \$70 million in military equipment from other East European sources so far this year. Bulgaria and Hungary will provide the bulk of the equipment, although several small accords were also signed with Czechoslovakia, East Germany, and Romania. Vehicles, support equipment, ammunition, and spare parts comparable to those previously purchased from the East Europeans and Soviets dominate these purchases.

Arms purchases from Western Europe have been relatively insignificant so far this year. Iraq placed orders for small arms, ammunition, and spare parts with Belgium and France this spring. Negotiations are under way with Spain for 106-mm. recoilless rifles and with Sweden for aircraft refueling trailers. West Germany also has been approached regarding the possible sale of Leopard tanks and the Milan anti-tank missile system. Baghdad has been unsuccessful thus far in attempting to purchase military hardware from Bonn.

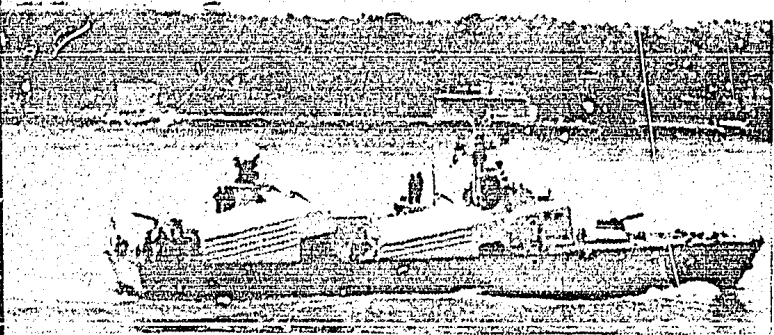


Baghdad still relies on Moscow for sophisticated weapons systems. Deliveries made this year, under 1972 and 1973 contracts exceeding \$40 million, have included FROG tactical surface-to-surface rockets and Osa-II guided-missile patrol boats—the first exported by the USSR. The Soviets are also helping Iraq build an air defense network. They have reintroduced the SA-2 missile system



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OSA class guided missile patrol boat



IRAQ: KURDISH WAR GRINDS ON

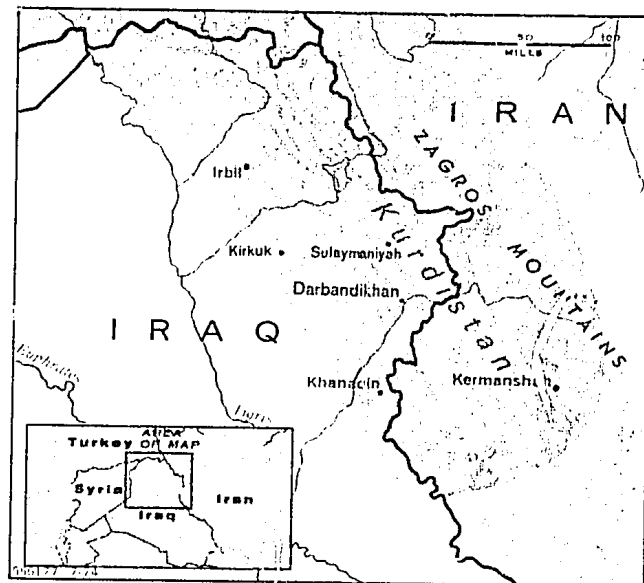
The Kurdish rebellion, now in its fifth month, has spread across northeastern Iraq. It has involved the bulk of the Iraqi army in what has thus far been a fruitless effort to force the Kurdish rebels to accept the government's offer of limited autonomy.

Fighting between army units and the rebels has intensified in recent weeks. Army casualties since the fighting began reportedly have reached more than 3,000 killed. Kurdish casualties are difficult to estimate but probably are much lower than those of the army. The heaviest fighting continues to be concentrated generally in the Sulaymaniyah-Darbandikhan area and north of Irbil.

Although the army has attempted several multibrigade offensives, its long-anticipated general offensive has never materialized and there have been no decisive engagements. Faced by superior numbers and firepower, the Kurds have resorted to guerrilla tactics, including ambushes, night raids, sabotage, and mining operations.

The government forces have tried to counter these hit-and-run attacks by relying heavily on aerial bombardment, armor, and artillery. These attacks have sometimes hit civilian targets, resulting in great loss of life and property damage. The Kurds have publicly warned Baghdad that unless the indiscriminate bombing ceases, they will destroy the Kirkuk oil complex. They have already carried out some attacks on this installation.

The heavy fighting in the north appears to be fueling public hostility to the Baghdad regime. Despite the government's concerted effort to play down the fighting and to conceal the high casualty rate, most Iraqis are now probably aware that Baghdad's campaign has thus far been a failure and that casualties have been heavy. Dissident groups reportedly are becoming more active, and party cadres have been ordered to organize armed patrols in the major cities to quash anti-regime activity. The government is also reportedly taking other unusual precautions, such as stationing a



tank battalion inside the grounds of the presidential palace.

Some ranking officials are said to view the Kurdish situation with deepening pessimism. A senior security official believes the war could last more than a year and increase latent antagonism, especially among the armed forces, toward Baath Party leadership. If the high casualty rate continues, he believes the public outcry could lead to active military opposition to the regime.

There are persistent rumors of stress within the party hierarchy. Some favor a general military offensive to settle the Kurdish problem once and for all, while others believe the problems can only be solved through negotiations. The regime has virtually closed the door to further negotiations, however, by publicly denouncing rebel leader Barzani as a traitor and an agent of Iran, Israel, and the US. The Kurds, for their part, continue to leave the way open for an eventual resumption of negotiations.

Relations between Iraqi President Bakr and Baath Party strong man Saddam Husayn Tikriti reportedly remain strained, but no open break appears likely in the immediate future. They are aware of their mutual dependence: Bakr needs

Tikriti to prevent a rift in the party and to assure the loyalty of the civilian security organizations; Tikriti needs Bakr's support to keep the army loyal to the regime. In terms of absolute power, however, Bakr appears to be the stronger because of his widespread personal support within the army. An open power struggle could develop between them if the army suffers a major defeat or gets bogged down in the north for the winter.

ETHIOPIA: KEEPING THINGS MOVING

Segments of the military that support political and social change pushed Ethiopia's slow-moving revolution a notch forward late last week by securing Emperor Haile Selassie's acceptance of their demands for military supervision of the government and for the acceleration of constitutional revisions that will make the Emperor a figurehead.

The agreement, reached at meetings between the Emperor and military representatives, formalizes the close collaboration that has developed, under army pressure, between the military and Prime Minister Endalkatchew's government. It also commits the Emperor to the speedy introduction of constitutional changes that are now being prepared by a committee appointed last March. Haile Selassie called Parliament into special session to consider the committee's recommendations. The new constitution will make the cabinet responsible to Parliament rather than to the Emperor.

On July 9, the Armed Forces Coordinating Committee that the military reformers established late last month issued its first formal policy statement. It emphasized the military's intention to "present proposals" to the cabinet and to "ensure" their implementation.

The military scored another gain with the recent appointment of General Aman Mikael Andom as the new chief of staff. Aman is widely respected among junior officers and has long

advocated the changes the military has now forced on the Emperor. Aman was transferred to the largely powerless Senate ten years ago for his outspoken criticism of the regime. The military reformers are reported to be discussing with the government cabinet changes that would further increase the military's influence.

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The agreement with the Emperor helped ease tension brought about by the military's arrest, beginning early last week, of leading members of the aristocracy. This week, Addis Ababa returned to normal, and military guards were withdrawn from most key installations. The arrests continued, however. On July 8, the coordinating committee issued a list of 27 wanted officials, including a member of the Crown Council and several senior military and police officers. Seventeen surrendered almost immediately, bringing to about 35 the number known to have been arrested.

The coordinating committee, originally formed by military units in Addis Ababa, now includes representatives from most key commands in the provinces. A statement on July 4 by the air force proclaiming its solidarity with the other services added to the impression of growing unity among the military. About the same time, the army airborne battalion and the air force unit stationed at Debre Zeit airbase settled the bitter dispute that broke out between them last March when the paratroopers took control of the base to prevent an alleged coup attempt by air force radicals. The reconciliation was aided by the cashiering of both units' commanders, who were thought to be prolonging the hostility.

Despite these moves toward unity, the moderates who now dominate the military are not yet a tightly knit group. While they can enforce their views when they intervene in the political process, they probably will not be able to provide firmness and continuity in their attempt to direct the government from behind the scenes.

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ARGENTINA: ONLY OUTWARDLY CALM

Mrs. Peron moved cautiously during her first week as President to sustain the image of an orderly transfer of power and to assure the country that there would be no major shift in policies. To forestall growing labor unrest, she approved an additional half-yearly bonus for workers—a gesture already endorsed by Peron before his death. The measure will be little more than a palliative; serious economic and political problems remain that will test Mrs. Peron's mettle.

The aura of public uncertainty about the future was not dispelled by Mrs. Peron's decision to retain her late husband's close aide, Jose Lopez Rega, as her private secretary. Mrs. Peron has long leaned on Lopez Rega for political guidance, and the two shared responsibility for managing Peron's finances. Lopez Rega, who is also social welfare minister, is generally despised by the military, his rivals in the cabinet, the Peronist left wing, and other political parties. He has almost no political following of his own, but has nevertheless been quite successful in edging supporters into important posts and in cultivating key trade union figures aligned with the orthodox (right-wing) faction of the Peronist movement. Unfettered by Juan Peron, and aware of his importance to the politically inexperienced Mrs. Peron, the ambitious Lopez Rega may indulge his propensity for palace intrigue with increased fervor.

Behind-the-scene maneuvers may already have begun as ambitious members of Peron's inner circle struggle to improve their positions. Lopez Rega's continued prominence in the power structure is certain to set off even sharper infighting among the Peronists, and it could sour the President's relationships with the military and with party leaders. For the time being, Lopez Rega's adversaries in the government may contain their opposition out of deference to Mrs. Peron and a desire to avoid rocking the boat. As time goes on, however, pressures on Mrs. Peron to get rid of him will intensify.

[Redacted]



President Peron
At first cabinet meeting

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[Redacted] the power conflict between Lopez Rega and Minister of Economy Gelbard is becoming more intense as both attempt to purchase support from labor leaders. Gelbard and Lopez Rega have long been enemies, although they have occasionally been partners of convenience when it suited their purposes.

It probably will be some time before the jockeying for power forces a split in the coalition around Mrs. Peron, but the antagonisms within the inner circle are deep and will lead to increasing strains among Mrs. Peron's most influential advisers.

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VENEZUELA: AGAINST THE CRITICS

President Perez is rallying popular support behind his government's efforts to fight inflation, ease temporary food shortages, and rebut the criticism of conservative businessmen that his administration is moving at too fast a pace in restructuring the Venezuelan economy.

Using a variety of carefully staged public appearances during the past several weeks, Perez has warned critics that he intends to fulfill his campaign promises, especially a guarantee that lower income groups will be assured access to the "necessities of life" and that he will not tolerate attempts by a "segment of society" to undermine this effort. The basis of his program is a broad economic plan that includes wage hikes, agricultural and industrial development programs, price controls on basic necessities, consumer protection, and anti-monopoly laws. In defending his total program, Perez claims that it is essential in order to achieve the "authentic liberation of the Venezuelan people."

The traditionally conservative businessmen disagree with the President, contending that by tampering with traditional business practices he could impede increased productivity. They further charge that the uncertainty generated by the great volume of economic decrees issued during the administration's few months in office has kept private investment bottled up. The businessmen attribute the flight of at least \$1 billion in foreign exchange during the past month to fears inspired in small entrepreneurs by the President's economic legislation. More objectionable than Perez' energetic style of governing, however, has been the drafting of new labor legislation that prohibits the "unjustified" firing of workers, in effect securing them in their jobs. Congressional leaders have indicated they will accept some modification to the draft law, but business interests are adamantly opposed to any measure that inhibits their rights to dismiss employees.

Appearing before the annual convention of the Venezuelan Federation of Chambers of Commerce on June 29, Perez vigorously defended his programs. He said that if mistakes were made, he would rectify them, but that he was determined to obtain a more equitable distribution of the country's wealth. Perez warned that if social injustices were not corrected, the country risked political upheaval. At the conclusion of the speech, the delegates gave Perez a standing ovation, signifying perhaps their realization that come what may, their future is linked with him, and there is no acceptable alternative however much they might dislike his populist programs. In a news conference the same day, Perez told his supporters that there would be no turning back from the goals he has set. In another major speech, Perez again assured the commercial sector that his government's policies are not intended to hurt them and promised to review or delay any actions that could be harmful. At the same time, the President invited representatives from labor and peasant organizations to form a joint committee to advise him on the laws that should be adopted to benefit and protect the lower and middle classes.

Public reaction to Perez' speeches has been favorable, and he appears to have defended his government's policies well. His political strength remains strong and he has won general support from politicians and workers for his efforts to pull the reins on inflation. The influential business community, although unhappy with Perez' economic and social objectives, is aware of his sweeping election mandate, and it is not in a position to win a confrontation with him. The businessmen, moreover, are well aware of the President's skill in using the nationalistic fervor of the electorate to his administration's advantage. The post-election honeymoon could end in the coming months, however, unless Perez can fulfill his election promises and at the same time calm the fears of the influential business sector and foreign investors.

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MEXICO: PRESIDENT'S SOUTHERN TRIP

President Echeverria left this week on a South American trip intended to boost his prestige as a leader of the developing nations and to strengthen Mexico's ties with its southern neighbors. After a brief stop in Costa Rica, he will spend the rest of July visiting Venezuela, Peru, Ecuador, Brazil, and Argentina.

Echeverria has told journalists that he intends to discuss several themes with his presidential hosts. Top billing will go to furthering Latin American integration and unity in economic, social, and political areas. His vehicle for accomplishing this goal—and possibly gaining consideration for the Nobel Peace Prize—is his proposal for a "Charter of Economic Rights and Duties," which is being considered by the United Nations Conference on Trade and Development. He will try to elicit commitments to support the measure when it comes before the UN General Assembly in September. In his public statement during the trip, Echeverria will probably aim his critical remarks at the industrial nations as a group, although at times he may single out the US on such subjects as multinational corporations.

The Mexican President has said that at each stop he also will urge the lifting of the OAS embargo against Cuba, in effect since 1964. Mexico is the only Latin American country that defied the OAS position by maintaining diplomatic relations with Havana. Relations with the Castro government have fluctuated, but are currently quite warm. The Cuban education minister was in Mexico during June, and several administration officials and members of the President's family have been to Cuba recently. Echeverria himself has said he will visit Cuba, but has not specified a date.

Echeverria has particular points he wants to discuss with the individual chiefs of state he will meet. In Venezuela, he will almost certainly deal with Mexico's need for oil. He also has indicated that he wants to address the UN Conference on the Law of the Sea, which has been meeting in Caracas. Economic and technical cooperation will be highlighted during his sojourn in Brazil.



Echeverria

Although the two countries are, to a degree, rivals for influence in Latin America, their governments share a pragmatic viewpoint that facilitates cooperation.

One notable—but not surprising—omission on Echeverria's itinerary is Chile. The Pinochet government is becoming increasingly indignant over Mexican foot-dragging on re-establishing full diplomatic and trade relations. Mexican Foreign Minister Rabasa's dramatic visit to Santiago in late May and early June seemed at the time to have settled the outstanding differences between the two countries, but subsequent strong criticism of the move by Mexican leftists has caused the government to stall. Echeverria clearly believes a visit to Santiago at this time would be unwise.

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BOLIVIA: BANZER GIVES IN

After threatening to dismiss his service commanders last week, President Banzer has done an about-face and appointed an all-military cabinet. The abrupt change in plans points up Banzer's complete dependence on the military for his political survival.

Banzer reportedly had been considering removing the three chiefs of the armed forces following public allegations by exiled junior officers that implicated their superiors in plotting activities prior to the abortive coup last month. He has apparently changed his mind, however, because of the political dangers involved in sacking the army commander, General Alcoroza, who has wide support among middle- and junior-grade officers.

Until now, Banzer has avoided any major move that could provoke further dissidence in the armed forces and give impetus to those who still want to remove him. He has restricted his activities to touring military garrisons in order to rebuild support for his administration and to investigate continuing signs of disloyalty.

The new cabinet appears designed to recapture the flagging support of Banzer's fellow of-

ficers and to provide continuity of administration. It includes some former military conspirators as well as several holdovers from the outgoing administration.

In the speech announcing the changes, Banzer also said that he was creating a new council to reform the government, but did not make clear his intentions to hold presidential elections next year, as earlier reports had indicated. Banzer has resorted to similar stratagems before, including the offer of elections, to quiet the restless younger officers who want change.

The coalition of political parties that had previously backed Banzer has fallen into disarray with the resignation or forced exile of all major civilian leaders. The appointment of the new cabinet will further their decline. This is the first time in the three years of Banzer's presidency, however, that he has had to resort to an all-military cabinet. The arrangement will probably shore up his position temporarily, but serious problems will arise when it becomes apparent that he has reneged on yet another promise to reform the government.

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INTERNATIONAL MONEY

The failure last month of the West German Bank, I. D. Herstatt, has caused concern about the safety of international currency dealings and has led to a substantial reduction in spot and forward transactions in some currencies.

Although Herstatt was only a medium-sized private bank, its failure has aroused concern because:

- Herstatt had a disproportionately large share of forward currency obligations for a bank its size.
- The bank was closed down in the middle of a business day before it could deliver on a

substantial quantity of spot currency contracts.

- Other banks may be in similar difficulties that have not yet been exposed.

The midday closing struck at the heart of the international payments system. Firms had already paid for several hundred million dollars worth of currencies—normally considered a risk-free transaction. Even though customers eventually will recoup most of their losses, the fear that other banks will fail to make good on currency transactions has reduced the volume on many European exchanges.

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Herstatt's problems—like those of some other German banks, the Union Bank of Switzerland, and Franklin National in the US—stem in large part from the increased exposure in currency dealing since the advent of floating exchange rates. Under fixed rates, banks were less tempted to speculate and stood to lose substantially less when they did so.

Some European countries are moving to reduce the possibility of similar bank failures. The West German central bank is requiring banks to make more detailed reports about their foreign currency dealings. Bern also is reportedly considering plans for fuller bank disclosure of foreign

currency transactions. Bonn's refusal to paper over Herstatt's difficulties should warn other German banks inclined to similar practices.

Within the next few months, it is likely that there will be more operations to prop up banks, and it is possible there will be other major failures. Many small- and medium-sized European banks are currently experiencing a drain of funds as depositors shift them to larger, more well-known, and presumably safer institutions. Some larger European banks have also undoubtedly lost substantial amounts in overly aggressive currency trading.

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