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# Weekly Review

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6 September 1974

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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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# CYPRUS

The talks between Greek Cypriot leader Clerides and Turkish Cypriot leader Denktash received a setback this week following the discovery of a mass grave of Turkish Cypriot villagers. The apparent massacre could revive pressures on Turkish leaders to "liberate" those Turkish Cypriots still in the Greek Cypriot - controlled sector of the island. The prospects for a negotiated settlement could also be complicated by disunity in the Greek Cypriot community as well as in Athens and Ankara.

The second in a planned series of discussions between Clerides and Denktash scheduled for September 2 was postponed at Denktash's insistence because of the discovery of the mass grave near Famagusta. Turkish Cypriots also claim that another such grave exists in a Greek-controlled area near Limassol.

Speaking at a press conference on September 3, Turkish Prime Minister Ecevit warned that Turkey "will be forced to take effective measures" if massacres or threats of massacres of Turkish Cypriots in Greek-controlled areas continue, or if Turkish Cypriots living in those areas are forced to live as prisoners.

The publicity given to the massacres came at a time when Greek and Greek Cypriot leaders appeared to show some flexibility in their requirements for the reopening of negotiations. Greek Prime Minister Karamanlis seems to have dropped his demand that Turkish troops on Cyprus withdraw to positions held on August 9 prior to the second round of fighting. Karamanlis and Clerides also seem prepared to accept a federation of the two Cypriot communities. They now seem to be concentrating on the return of Greek Cypriot refugees to their homes, especially in Famagusta,

and would probably settle for a less substantial or even token pullback of Turkish forces.

Thus far, the Turks appear unwilling to make any concessions in order to get negotiations under way. They appear instead, to see the question of refugees and military withdrawal as chips to be played once talks resume. They are unlikely, however, to make any major concessions. A Turkish Cypriot leader told the US ambassador in Nicosia this week that plans were under way to declare an "autonomous Turkish wing of a federative Cypriot state" within the "next few days or weeks." He said Turkish Cypriots would settle for 33 percent of the island.

On the Greek Cypriot side of the island, the attempted assassination on August 30 of a leftist maverick and Makarios confidant, Vassos Lyssaridis, and the killing of his party's youth group leader by suspected EOKA-B gunmen will further complicate Clerides' efforts to build a political base that could enable him to consent to a political settlement. While Lyssaridis implored his followers not to take reprisals, the attempt on his life and the murder of the popular youth group leader could spark further violence among extremist groups within the Greek Cypriot community.

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## Developments in Greece

In Greece, Prime Minister Karamanlis' political honeymoon appears to have ended earlier this week with the formation by Andreas Papandreou of a new leftist party alternately referred to as the Panhellenic Socialist Movement and the Progressive Democratic Front. Papandreou is expected to be the principal challenger to Karamanlis' position. The leftist leader criticized the Karamanlis government for moving too slowly against the country's former military rulers and for failing to purge their supporters from the government. He said the principal aims of his party are the creation of a state free from foreign intervention and control as well as the socialist transformation of the country. He also called for Greece's complete

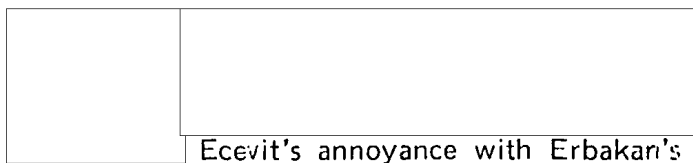
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break from NATO in favor of an "active, independent" foreign policy.

Earlier, Prime Minister Karamanlis, in a wide-ranging speech before a huge welcoming crowd in Thessaloniki, reaffirmed his decision to withdraw militarily from NATO, but added that Greece would not break its "political and spiritual ties to Europe." He also questioned the US role in the events surrounding the Turkish invasion of Cyprus, but placed primary responsibility on the junta that preceded him. The prime minister defended himself against "go slow" charges, saying it was impossible "to undo within a month what has been done within seven years of military rule." Karamanlis called on the nation, especially the press, to exhibit political maturity in this time of national crisis. Karamanlis said he would be able to announce a date for national elections in a time "much shorter than expected."

#### Frictions in Ankara

In Ankara, there were signs of growing friction within the coalition government of Prime Minister Ecevit. Ecevit held a press conference on September 3 during which he seemed to concede some difficulties with his right-wing minority partner, but insisted that there was a unity of views regarding Cyprus. Two days later, however, deputy Minister Erbakan, who heads Ecevit's junior coalition partner, accused Ecevit of making statements that harmed Turkey at a time when the Cyprus crisis made unity essential.



Ecevit's annoyance with Erbakan's National Salvation Party apparently stems from what he regards as political maneuvering by the minority party rather than any significant dispute on Cyprus policy.

No decision was reached on further relations with Erbakan's party, but Ecevit reportedly said he is considering the resignation of the coalition and an early election next spring. Ecevit apparently believes that his popularity has increased



UN officer checking lines

sufficiently as a result of his handling of the Cyprus issue to ensure an election victory.

#### Military Developments

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The military situation on Cyprus remains tense. Over the past week, Turkish forces continued to move slowly forward beyond the cease-fire lines. Regular Turkish troops inched south of the "green line" in Nicosia and near the British base at Dhekelia on the southeast coast. In addition, regular army forces and Turkish Cypriots consolidated their position on the northwest coast. By mid-week these forces were reported to have moved as far as Limnitis, and UN observers believed that the Turks may be planning to take Kokkina as well.



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## NATO: The Link With Athens

Largely in reaction to the letter Greek Prime Minister Karamanlis sent to allied leaders last week, NATO has begun to assess the consequences of Greece's withdrawal from the alliance's integrated military structure. While hope is fading that Greece will soon return to full participation, the other NATO members are being careful to do nothing to encourage the Greeks to implement their military withdrawal.

Karamanlis' letter expanded upon the brief announcement of withdrawal made by Greece on August 14. While leaving little doubt that the decision to remove Greek forces from the NATO command is final, the letter offered no details of the pattern of future Greek participation in NATO or of the fate of NATO and US facilities on Greek soil. Indeed, Karamanlis said that Greece was ready to explore with its allies "practical measures" resulting from the withdrawal. The letter declared that Greece had recovered "full exercise of sovereignty" over its territory. Greece's sovereignty, Karamanlis wrote, had previously been limited because of participation in NATO, the regular use of Greek airspace and territorial waters by foreign craft, and "the permanent presence on Greek soil of foreign military installations and facilities."

Earlier in the week, the political director of the Greek Foreign Ministry had said that the US military mission in Greece would not be disturbed, although he predicted that home-porting arrangements for units of the US Sixth Fleet in Greece would have to end. The NATO missile-training facility on Crete would not be affected, according to the political director. He added the thought that Greece would definitely have to strengthen bilateral military relations with its allies.

Karamanlis' letter, however, has now heightened allied concerns about the future of:

- US forces and facilities in Greece, and the NATO facility on Crete;

- Greece's participation in NATO's early-warning air-defense network;
- NATO's basic communications system, which passes through Greek territory.

The Greeks have given few clues to the precise relationship they envisage with NATO. In fact, the Karamanlis government is probably still balancing the costs of the military withdrawal against the benefits already derived from the domestic popularity of the step. If Greece does persist in its withdrawal, cooperative arrangements with NATO itself or bilateral agreements with NATO members will be necessary. Athens no doubt had Paris' 1966 move in mind when it pulled out of the military side of NATO, but Greece cannot, in the long run, afford the independence of France in the defense area.

NATO members feel that it is much too early even to mention the possibility of bilateral relationships. They have been especially uneasy about press reports that France is speeding up military shipments to Greece and might be preparing to offer other aid. When the West German representative in Brussels said last week that he hoped no ally would "reward" Athens bilaterally for its military withdrawal from NATO, his French colleague reacted defensively. The French profess to be uneasy about the questions being put to them by the Greeks about how to get out of NATO, and they have said that they do not wish to become a "technical counselor" to Athens on this matter. French diplomats have repeatedly maintained that Paris will take no steps to encourage the Greek withdrawal.

The uneasiness about rumored French activities reflects the prudence with which the alliance is now approaching the Greek withdrawal. Hand-wringing about "NATO's most serious crisis" and "a gaping hole in the southern flank" has all but disappeared. Instead, the members are following a policy of "organized inertia," which means that meetings of military committees and

subcommittees are being postponed so as not to force the Greeks into a decision on participation, but the press of NATO business will soon bring such a policy to an end. While Karamanlis' letter has prompted the allies to begin preliminary studies of Greece's withdrawal, they are proceeding deliberately. The UK representative, for example, said that the letter deserved a "long, cool, unhurried look."

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## *USSR-US: General Satisfaction*

Moscow has expressed general satisfaction with Washington's renewed commitment to detente, but Soviet leaders are anxious to establish a personal relationship with the new President and to explore his specific intentions on relations between the two countries.

In a wide-ranging discussion on August 30, Foreign Minister Gromyko told Ambassador Stoessel that the Soviet government has concluded that President Ford has fully endorsed his predecessor's policies regarding the USSR. Gromyko added that the Soviets wish not only to maintain good relations, but to improve them politically as well as economically.

The importance of a direct personal relationship between President Ford and General Secretary Brezhnev was stressed by Leningrad party chief Romanov last week in a conversation with the departing US consul general. Romanov, a candidate Politburo member with good political ties to Brezhnev, seemed to be making a pitch for an early meeting between the two leaders. He suggested that progress on SALT, particularly, depended on such personal contacts.

The future of the strategic arms talks was also raised by Gromyko. He repeatedly characterized arms control as one of the most acute problems facing both countries—a theme the Soviets have

been sounding frequently since the summit last June. The foreign minister stated that the Soviet delegation would be ready for work when the next session opens on September 17, but he seemed skeptical that the US side would be ready. Noting that many of the knotty problems of SALT revolved around quantification, he asked rhetorically if some factors—he cited the problem of differing geographic situations—could ever be reduced to numbers; we may in the end, he said, have to rely simply on "natural reason." Gromyko offered no hints of movement on the substantive issues separating the sides.

Gromyko singled out the proliferation of nuclear weapons as a problem of particular urgency, commenting that as the number of countries acquiring these arms increases, the difficulty of controlling them expands geometrically. He urged that the US and USSR make systematic efforts to encourage ratification of the Non-Proliferation Treaty.

Turning to the Middle East, Gromyko again stressed the importance of the US and the USSR working together. He said that consultations were not enough and that the two nations should take "concerted action" toward solution of the area's problems.

To buttress his case for a more prominent role, Gromyko raised the specter of unilateral Soviet intervention in the area, saying that it would not be "difficult to cause trouble if they (the Soviets) were so inclined." He immediately disclaimed any Soviet intention to do so, but the Soviets and Gromyko personally have been irked and frustrated by their exclusion from diplomatic activity in the Middle East.

Gromyko also took issue with the US role in the Cyprus situation, accusing Washington of having foreknowledge of the coup and failing to prevent it. He questioned the depth of US interest in a settlement and argued, but without great vehemence, in behalf of the Soviet proposal for an enlarged Cyprus peace conference.

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## South Vietnam: WORRIES ABOUT THE WAR

President Thieu's decision to send a high-level representative to the US to lobby for additional aid reflects Saigon's growing concern over its ability to continue to contain increased Communist attacks. While some South Vietnamese commanders remain satisfied they can handle the present step-up in fighting, they are less sure about the longer term, especially if the Communists launch an offensive sometime next year.

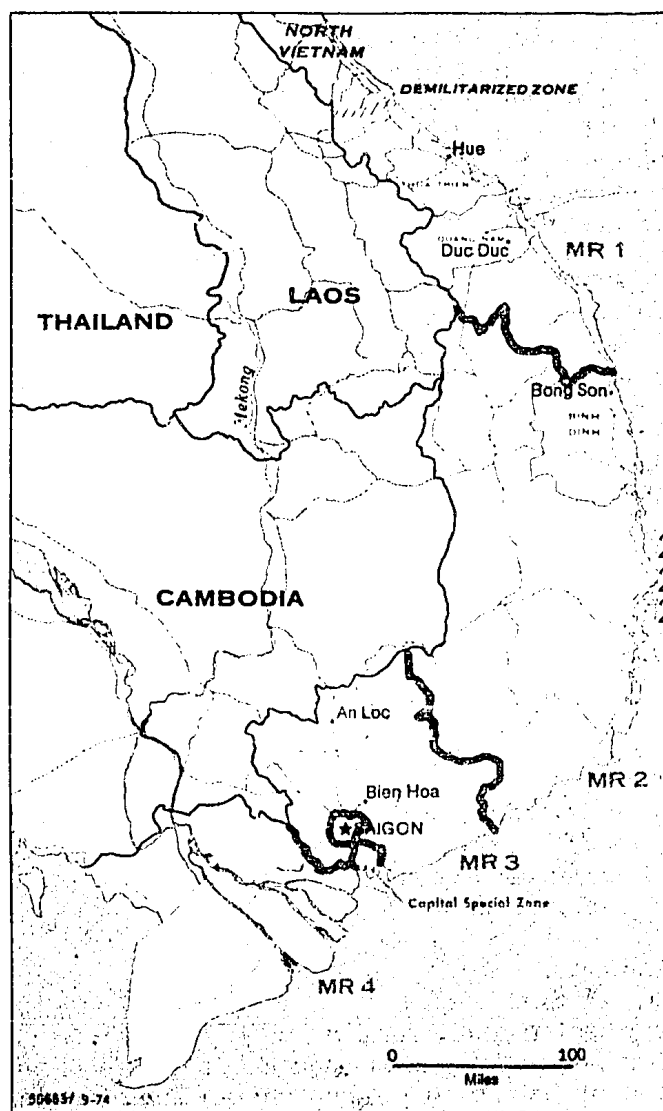
Fairly serious reductions already have been ordered in aircraft and ammunition usage. Combat sorties and reconnaissance missions have been cut by approximately 50 percent, and more reductions are planned. This has led several commanders to request approval to evacuate outposts and forward positions that can only be supplied by helicopter or air drop. The commander of the region surrounding Saigon wants to take his troops out of several such locations, including the provincial capital of An Loc, which served as the bulwark of government defense efforts during the 1972 offensive.

While some field and regional commanders single out the reductions as the main reason for government problems on the battlefield, Saigon's Joint General Staff believes that the cutbacks can be handled without seriously jeopardizing the country's defenses. The General Staff appears to have President Thieu's support.

they must continue to economize on ammunition, and that there are sufficient stocks for any reasonable contingency. The commanders are also being told that additional ammunition and air support can be made available in the event that serious fighting develops.

Thieu is aware that his chances for getting the \$1 billion aid he wants from the US are slim, although he apparently still holds out hope that some of Congress' \$300-million cutback can be restored. By continuing to press for more restraint from his commanders, he is hoping to force them to become accustomed to fighting with only limited support from the US while at the same time creating a favorable image in the US by demonstrating he is making maximum use of the aid being given him.

Thieu cannot be getting much satisfaction from field reports on the recent fighting. The Communists have pushed government units back in the northern provinces and near Saigon. Moreover, the Communists have demonstrated that they have ample military supplies to bring intense pressure on specific targets, and there are no signs they plan to reduce the current combat level anytime soon.



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### The Fighting Goes On

Although the fighting decreased slightly in some sectors of the country this week, it is still heavy in the northern provinces. In Thua Thien Province, North Vietnamese troops attacked government positions west and south of Hue. A Communist artillery unit recently moved into this sector and is using 122-mm. guns to bombard government positions. In Quang Nam, the Communists are keeping the pressure on government forces with frequent shellings.

[Redacted]

In Military Region 2, government commanders expect the Communists to resume the fighting in Binh Dinh Province. Several enemy units have shifted toward the coast near Bong Son, and aerial observers have spotted Communist artillery positions nearby. Saigon's forces have been realigned to meet the threat in this area.

Elsewhere in the country, combat has been relatively light. In Military Region 3, government troops are trying to push Communist units back in order to stave off shelling attacks on the large air base at Bien Hoa. The field commander, however, is not optimistic about his chances of retaking any territory.

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### CAMBODIA

#### One Eye on the UN

For the past few weeks, Cambodian government officials and military leaders alike have been focusing on the coming battle at the UN General Assembly this fall. On the diplomatic circuit, Prime Minister Long Boret at midweek engineered a breakthrough in his efforts to win Arab support by announcing the establishment of full diplomatic relations with Jordan. In deference to Amman's sensitivities over Phnom Penh's ties with Israel, Boret agreed to transfer the Cambodian representative in Jerusalem to Tel Aviv. The Saudi Arabians, whose recognition Boret has also been seeking, have been pushing Phnom Penh to sever

relations with Israel, but may drop this demand following Jordan's action.

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Sihanouk's representatives abroad have been concentrating on lobbying among African nations, but they can be expected to shift their attention to the Middle East soon, especially if Boret gains Saudi recognition.

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#### The Military Scene

Cambodian army commanders have also been trying to put their best foot forward on the eve of the UN opening. In the Phnom Penh region, elements of three army divisions have launched a major operation into Communist-controlled territory between the Mekong and Bassac rivers southeast of the capital. Seasonal flooding is hampering the operation but the push has disrupted insurgent rocket-firing into Phnom Penh. In the countryside, government forces have launched successful forays near the provincial capitals of Pursat, Siem Reap, and Kampot.

The insurgents are concentrating on widespread attacks in rice-rich Battambang Province and on increasing pressure against government units along Route 4 in the southwest.

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## LAOS: IN THE COMMUNIST OUTBACK

Life in the "liberated zone" of Laos—the Communist-held Sam Neua area in the remote northeastern part of the country—is highly organized, tightly regimented, and dominated by a pervasive party organization patterned after the North Vietnamese model.

So says Canberra's Ambassador Borthwick, who spent nearly a week earlier this summer touring Sam Neua and the new Lao Communist headquarters site at nearby Vieng Say. Although his visit was tightly controlled, the ambassador observed feverish reconstruction and road-building activity throughout both areas and was told that reconstruction is the most urgent problem in the "liberated zone." The Laotians claim to be doing as much as possible by themselves, but acknowledge that their manpower is limited and that Hanoi has been asked to send some North Vietnamese laborers to help out.

Borthwick's observations suggest a relaxation of the rigid war-time footing noted by the British, French, and Soviet ambassadors during their visits to the Sam Neua area early this year. Indeed, Borthwick's Central Committee host indicated that the party was encouraging the population to come out of the caves and rebuild the country.

Like his diplomatic predecessors, Borthwick found life in the Sam Neua area bleak and austere by Vientiane standards. In spite of their Spartan life, the people appeared adequately fed, clothed, and housed, and there are no signs of resistance to party direction.

No one has much money, but prices are controlled by the party and are stable. Although land is still privately held, there is only one outlet for surplus production—the party—and it is unclear whether the party buys or requisitions. The "liberated zone" earns little in exports, yet some people were sporting imported watches and transistor radios.

The ambassador's impressions of the primitiveness of the economy were corroborated by the coalition government's Pathet Lao deputy finance minister during a recent conversation with



Come out of the caves

the USAID director in Vientiane. The Communist minister indicated that the great differences in business administration and taxation between the Pathet Lao and the non-Communist zones precluded a combined national budget and an overall economic plan for the whole of Laos for some time.

The only form of taxation in the Pathet Lao zone, according to the minister, is a rice tax imposed as a percentage of the farmers' harvest. Civil servants, who receive compensation in the form of wages, rice, and other commodities, are not taxed. Although there are no private industries or significant commercial establishments, the minister acknowledged that there was some private enterprise in the liberated zone. Such entrepreneurs were "encouraged" by the party to market their goods at prices "more or less" comparable to those charged in Pathet Lao cooperative stores.

Ambassador Borthwick was struck by the apparent indifference to religion during his tour of the liberated zone. On joining the coalition government, the Pathet Lao had endorsed the importance of religion in national life and a Communist heads the coalition's Ministry of

Religion. But in their own home territory, there are no active temples or monks, and no serious attempt is being made to restore damaged places of worship.

Wherever the ambassador went, the cult of Souphanouvong was present. His portrait was prominently displayed in all official reception areas, either by itself or in concert with other legendary Communist heroes like Ho Chi Minh and Lenin.

Neither of the two important Pathet Lao leaders who remain in Sam Neua—Central Committee chairman Kaysone Phomvihane or his deputy, Nouhak Phoumasavan—deigned to meet with Ambassador Borthwick. He did confer at length, however, with several lesser lights including General Phoune Sipraseuth. Although the conversations reflected the Central Committee's satisfaction with the new coalition arrangement, they also revealed the deep-seated distrust and suspicion that senior Pathet Lao officials continue to harbor toward the non-Communist side, the Thai, and the US.

On the basis of these talks, and as the result of personal observations, Borthwick concluded that there will be no free movement between the two zones of Laos, much less any formal integration, for some time. In the ambassador's view, the administrative apparatus of the Lao Communists is still too fragile to be exposed to the worldly temptations of the "yet-to-be-liberated" zone.

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### NEW ZEALAND: SEARCH FOR A LEADER

Prime Minister Kirk's sudden death last weekend leaves a large gap in the leadership of the Labor government. Pre-eminent in the Labor Party for ten years, the popular and dynamic prime minister had never felt the need to groom a successor. There is no possible replacement who even comes close to Kirk's prestige and esteem.

The party caucus will meet on September 6 to select a new leader. Acting Prime Minister Watt, deputy under Kirk, and Finance Minister

Rowling are the leading contenders. A desire for continuity and Watt's reputation as a party workhorse strengthen his position, even though he has not distinguished himself in his several cabinet positions and has not been generally considered prime minister material. Rowling, an able and shrewd politician with lines to every Labor member of Parliament, appears to have as good a chance as Watt. Should he be edged out by Watt, he would almost certainly become deputy prime minister.

Two others in the running are Justice Minister Finlay and Defense Minister Faulkner. Finlay, a leftist, is hard working but may be too much of an intellectual for his Labor colleagues' liking. The talented Faulkner has not had the wide-ranging cabinet responsibilities that would make him a natural contender. Even before Kirk's death, however, he was mooted as a replacement for Watt as deputy prime minister and remains a dark horse in the race for prime minister.

Trade and Industry Minister Freer, earlier considered a possibility, has announced that he is not a candidate. Although number-three man in the Kirk cabinet, Freer suffers from a history of radical leftist associations, even though he appears to have mellowed considerably with time.

Whatever the outcome, the leadership change will have little effect on Wellington's traditionally cordial relations with the US. Ties with the New Zealand Labor government have been marked by none of the irritants that have cropped up in US dealings with the Labor administration in Australia. Although some strains would arise in the unlikely event that a leftist won, even he would be preoccupied largely with consolidating his party position and attempting to cope with New Zealand's domestic problems of inflation and the excessive wage demands of labor unions.

Although the Labor Party may be in some disarray for several months, the opposition National Party is in no position to take advantage of it. Labor's strong parliamentary majority and tight party discipline make it unlikely that elections could be forced before the scheduled date of November 1975.

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### JAPAN - SOUTH KOREA: TOWARD A BREAK?

Charging that pro - North Korean factions in Japan were involved in the attempted assassination of President Pak last month, Seoul is demanding that Tokyo fully investigate the Japanese aspects of the assassination case and abolish—or at least severely restrict—the activities of pro-Pyongyang organizations in Japan. Failing this, Seoul has strongly implied that a diplomatic break is likely. Late last week, in an unusual move, President Pak conveyed the demands personally to the Japanese ambassador, and an aide memoire followed on September 2.

Tokyo may attempt to reduce the heat by issuing a conciliatory statement, but no early resolution is in sight. The Japanese are willing to investigate but, because of legal and political constraints, will probably not be able to confirm all the South Korean allegations of North Korean involvement, let alone satisfy other demands.

Seoul will probably refuse to accept mere gestures. President Pak's personal involvement and

the intensity of the anti-Japanese campaign virtually require some tangible action by Tokyo against North Korean sympathizers in Japan. Talk of Pak's "grim determination" suggests that he is not averse to a confrontation. Indeed, Pak may realize that Japan is unlikely to give satisfaction, and he may have initiated his campaign in part to divert public attention from domestic political and economic problems by stirring up old anti-Japanese fires.

A formal diplomatic break seems unlikely at this point, although it could occur if Tokyo proves completely unresponsive to Pak's demands. A recall of the Korean ambassador in Tokyo or some other action short of a formal break is a stronger possibility. More importantly, continuation of the present ill feelings will increase the chances for additional untoward incidents and, over time, lead the Japanese to think more and more of dissolving their long-standing special relationship with Seoul in favor of a more neutral position between the two Koreas.



President Pak

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### SOUTH KOREA: ADVANCED WEAPONS 25X1

Despite Pak's apparent strong personal commitment and South Korea's current nuclear research program, Seoul is not likely to be able to develop a nuclear device before 1980 at the earliest. The country's two research reactors—which are not capable of producing enough plutonium for a significant weapons development program—are under international safeguards, as are

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two enriched-uranium power reactors now under construction. South Korea is also entirely dependent on foreign sources for reactor fuel and has neither uranium processing nor chemical separation facilities. Seoul is seeking technology in Europe and Japan, however, with an eye toward constructing a chemical separation plant, and it is also negotiating with Canada to purchase two natural uranium reactors better suited for plutonium production.

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tic policies have come under considerable criticism in the US Congress and press.

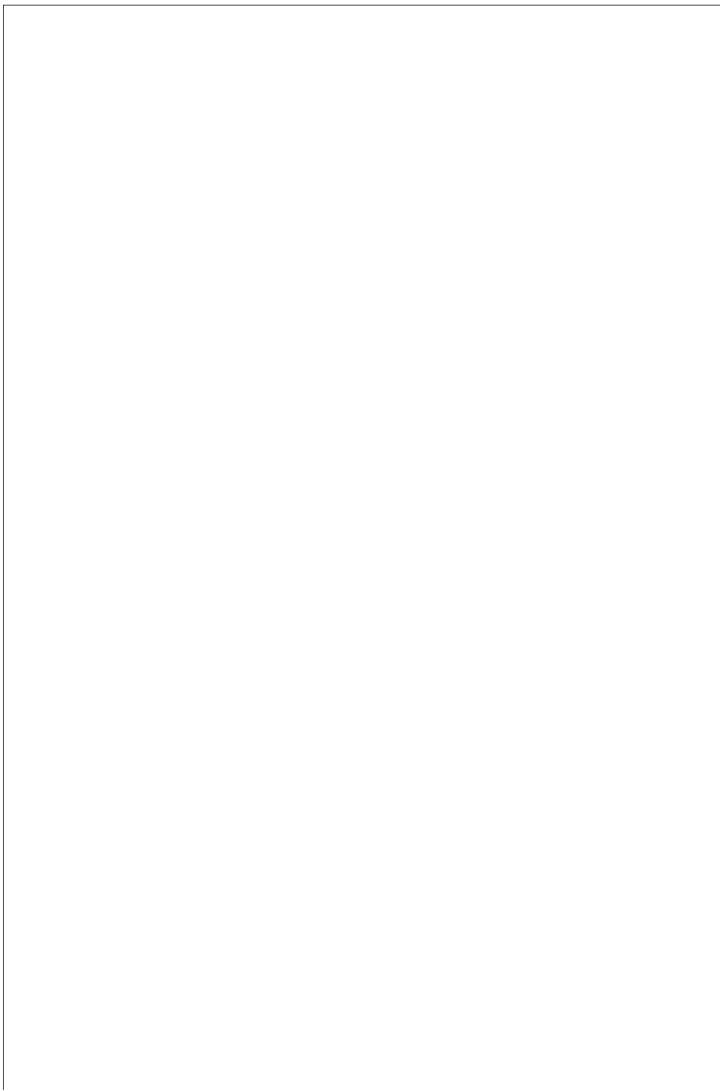
South Korea has previously evidenced its desire to establish a credible independent military stance, and it appears highly unlikely that Seoul will soon ratify the Non-Proliferation Treaty. A recent editorial in a newspaper

stressed that Seoul could no longer accept the view that humanitarian and sentimental concerns preclude the spread of nuclear weapons.

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Pak's desire for advanced weapons appears to be part of an overall effort to develop military strength in the event US forces leave Korea. He is signaling—and may have intended his remarks to reach US officials—an ability and desire to assert Korea's military independence from the US and implying that Seoul will be able to stand alone against the North in the foreseeable future.

Pak's statements could also be intended to spur the US into providing additional conventional weapons in return for Seoul's promise not to develop nuclear weapons. Pak might also hope that such an agreement would have the additional benefit of extracting a restatement of US guarantees to defend Korea at a time when Pak's domes-

## ETHIOPIA: FADING DYNASTY

The Armed Forces Coordinating Committee continued this week to denigrate both Emperor Haile Selassie and the monarchy as an institution. Intensified public attacks on the Emperor in recent days, which were probably approved by the committee, suggest that the forces within the committee advocating the Emperor's removal and abolition of the monarchy—heretofore a radical minority—are gaining strength.

The beleaguered, 82-year-old Emperor probably has no delusions about his chances of regaining his shattered authority or prestige, and he apparently has done nothing to defend himself against the wide-ranging charges being leveled against him. Faced with mounting censure, he could choose to abdicate. The US embassy in London has been informed by a British official that one of the Emperor's grandsons made an approach this week through the British embassy in Addis Ababa to sound out the possibility of political asylum for Haile Selassie in the UK, where he found refuge during the Italian occupation of Ethiopia.

Last weekend, a well-organized group of students and unemployed youths demonstrated in front of the palace and elsewhere in the capital, demanding that the Emperor step down. Pamphlets and posters depicting him as indifferent to suffering drought victims also appeared in Addis Ababa, and he was reportedly spat on and cursed on his way to Sunday church services. The Ethiopian radio and press have begun to accuse him of salting away large sums of money in foreign banks.

Following last weekend's trouble, the committee issued a statement forbidding such demonstrations without its consent and ordered out armed police and military patrols. The committee probably fears that further demonstrations could quickly get out of hand or spark other incidents, particularly in rural areas where the committee suspects Haile Selassie may retain some support despite the recent denigration campaign.

The committee also announced that college and high school students should hold themselves ready for development and drought-relief



The Emperor

projects. The committee is probably concerned that the scheduled reopening of schools later this month could provide the volatile students with a greater opportunity to stir up trouble.

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Although there is still some sentiment in the committee and elsewhere in the military for retaining the monarchy under a new emperor, the advocates of this course appear to be losing ground.

[redacted] to establish a republic this month, with General Aman—who serves as defense minister and armed forces chief of staff—as president. Aman is popular with the military and gets along well with the committee. He would be a likely choice to head at least an interim regime if those who want to scrap the monarchy get their way.

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In the event the committee decides to abolish the throne, it may first try to counter remaining pro-monarchist sentiment with an intensive media campaign depicting the military as saviors of the country. Laudatory treatment of the committee in the media has accelerated considerably in recent days.

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**USSR-ISRAEL: MINESWEEPING AGREEMENT**

Israel reportedly has given permission for Soviet minesweepers to operate in the Israeli-controlled portion of the Strait of Gubal. The Egyptians presented the specifics of the proposed operations—including a mid-September completion date—to the Israelis through UN channels.

A two-mile-wide channel through the strait was opened to shipping on August 15, the date the Soviets originally projected for completion of the operation. Subsequent Soviet attempts to clear the eastern Israeli-held portion of the main channel met with repeated rebuffs from Israeli patrol boats.

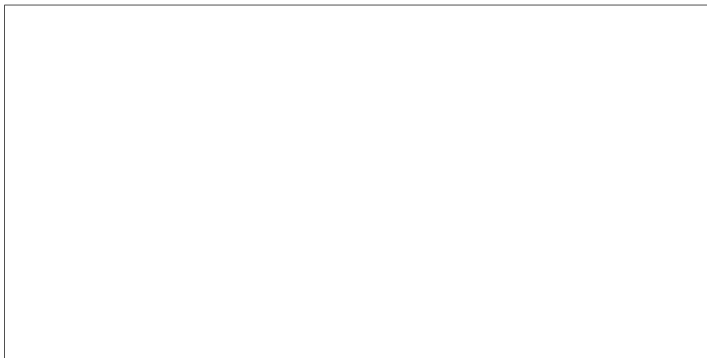
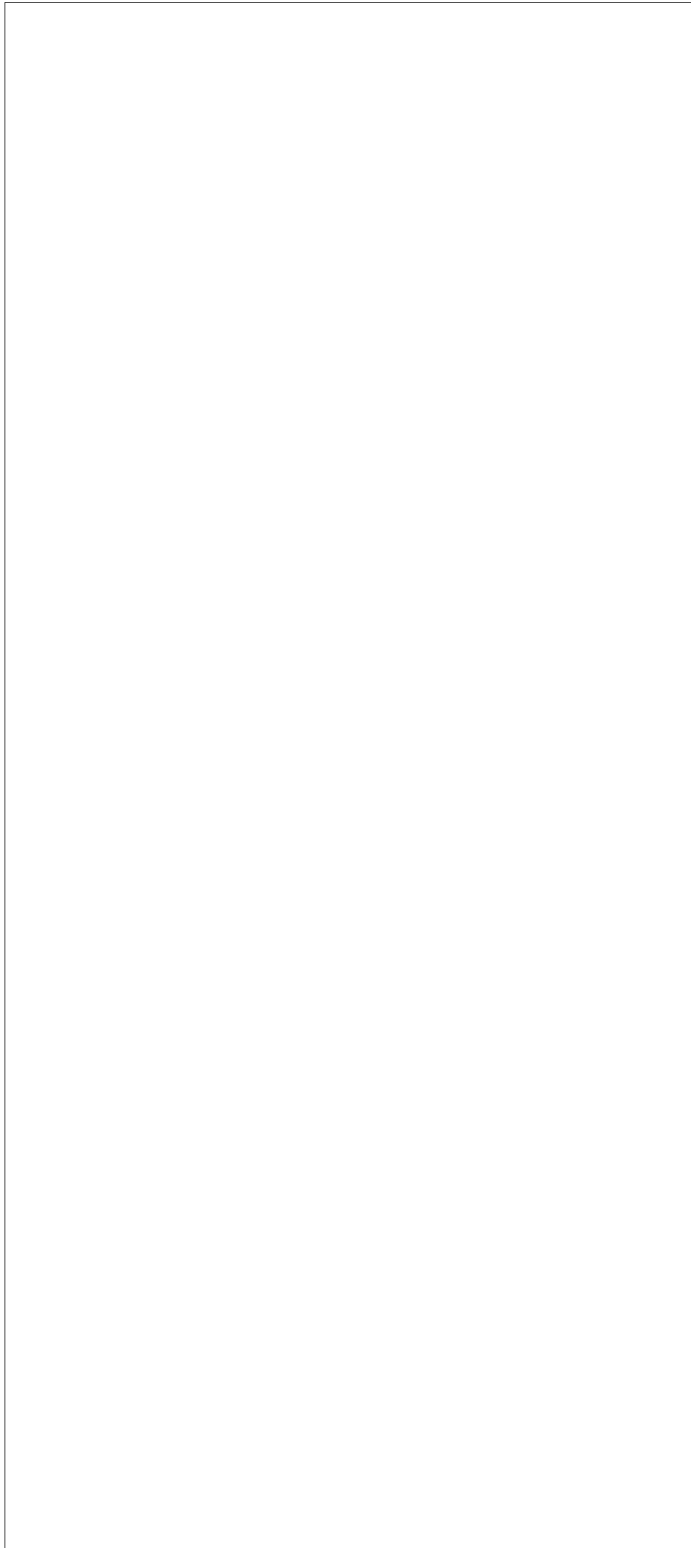
Finally, on August 26 Israel notified the UN of Soviet violations. For the remainder of the week, minesweeping continued without further confrontations, and the agreement to clear the mines in this contested area reportedly was made on August 30.

Israel's agreement probably reflects its desire to facilitate its own shipping from the Sinai oil fields. Tel Aviv presumably derives additional satisfaction from the Egyptian request, which implicitly acknowledges Israeli control of the eastern portion of the strait.

Bad weather has kept the Soviet minesweepers idle this week, and may again delay completion. Operations were delayed because of weather conditions for about ten days during July and August.

[Redacted]

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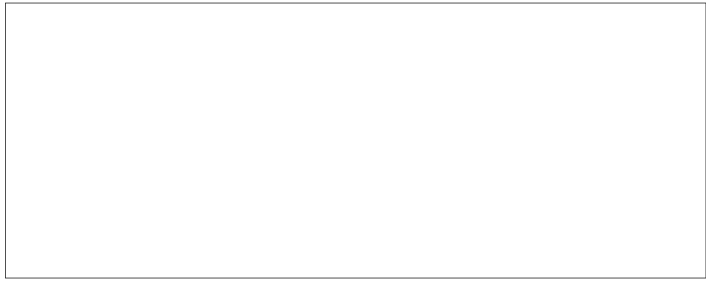
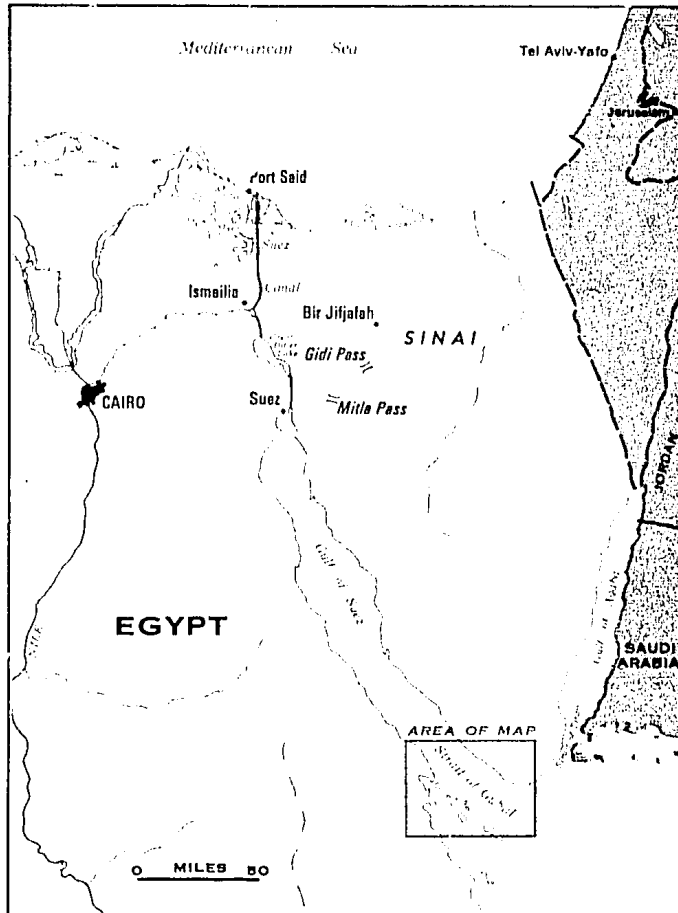
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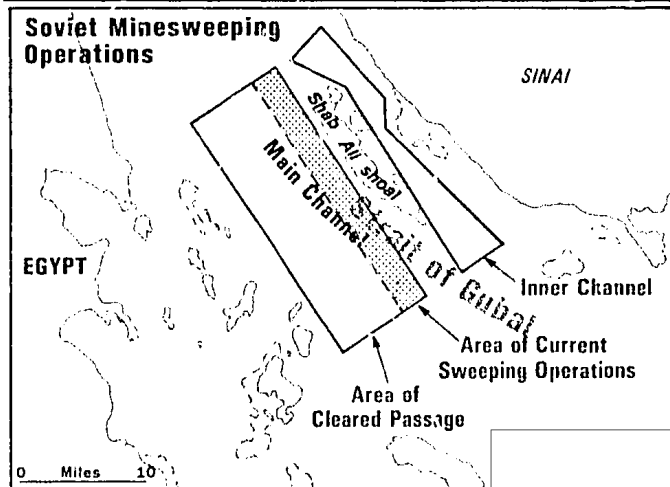
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**USSR-EGYPT: A POSITIVE TURN**

The Soviets have moved to put relations with Cairo on a better footing by resuming some shipments of military equipment and by inviting Foreign Minister Fahmi to make the visit to Moscow that they had abruptly postponed last July. The actions do not mean that Moscow is now satisfied with Sadat's policies or will not continue trying to use its arms supplies to obtain leverage in Cairo.

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It is not clear why Moscow chose to resume the deliveries at this time. The cutoff last April came at a time when Sadat was being publicly hypercritical of the Soviets. He soon softened his rhetoric somewhat, but Moscow continued its embargo. There has been little evidence of any important change in Sadat's position over the past few weeks that could be interpreted as a quid pro quo for the fresh supplies. It may be that Moscow, recognizing that Sadat is under some pressure from Egyptian military and civilian leaders to ameliorate relations with the USSR, wanted to give tangible evidence that it is willing to move toward a reconciliation.

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The Soviets may also be concerned that Cairo's efforts to find alternative sources of arms were bearing some fruit. The Soviets know that Egypt must remain dependent on Russian arms and replacement parts for at least several years, but they may want to offset the impact of the British and French announcement of willingness to provide military assistance to Cairo. Because the arms flow is the Soviets' main source of pressure on Sadat, they probably will continue to manipulate it. The Soviets have withheld all significant weapons from Cairo since late last year, and the apparent absence of major equipment in the recent deliveries suggests Moscow will stick to this course.

Fahmi's discussions in Moscow in October are likely to focus on the arms supply question as well as on other contentious issues in the relationship. [redacted] Chief of Staff Gamasy will probably accompany Fahmi, suggesting that Cairo will seek to ensure a steady flow of spare parts and may make another effort to obtain major items of equipment. Sadat's public remarks on August 28 indicate that he is still upset over the Soviets' failure to meet Egyptian arms needs fully. [redacted]

[redacted] 25X1  
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### ISRAEL: RABIN TO VISIT US

Next week, Prime Minister Rabin will visit the US for the first time since he assumed office just over three months ago. With many Israelis concerned that Washington is moving toward greater support of the Arabs at Israel's expense, the trip shapes up as a major test for Rabin and will be widely regarded in Israel as a benchmark for the future of US-Israeli relations. Rabin's supporters and opponents alike will closely scrutinize the results for indications of the state of bilateral ties and prospects for further negotiations with the Arabs.

Rabin's journey is viewed with mixed emotions by many Israelis. On the one hand, they see it as an opportunity for their new leader to establish a good personal relationship with President

Ford and to present Israel's case. On the other, they are apprehensive that Rabin will be pressed to be more flexible in the peace negotiations than they believe is prudent.

Important conservatives within the cabinet are particularly apprehensive. Defense Minister Peres, for example, told Ambassador Keating last week that he opposed an early visit by the Prime Minister to Washington. Peres apparently fears that the US might use its leverage as Israel's military supplier to force Rabin into agreeing to negotiating positions that would otherwise be unacceptable to Israel. Showing a deep distrust of US intentions in this respect, Peres said that Israel's concern was for its survival and it would not allow any Great Power, including the USSR or the US, to determine its policy in this critical area. Reflecting some of this concern, the Israeli press over the past few weeks has frequently expressed suspicion that the US is forcing the pace of the negotiations at Israel's expense.

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A more moderate view was expressed by Minister of Justice Zadok, who told the ambassador that he believed the cabinet would not attempt to limit Rabin's options regarding what the next step should be in the peace negotiations. Zadok pointed out, however, that Rabin clearly prefers to talk next with Egypt, a position Peres supports.

Nevertheless, Rabin has stated on several occasions during the past months that Israel has little choice but to continue on the negotiation path if it wishes to avoid a new war. He may thus be amenable to beginning talks with Jordan during the next stage, as the Arabs demand.

Rabin firmly believes, however, that only a militarily strong Israel can afford to be flexible in the negotiations. He can be expected to argue forcefully for a large, long-term US commitment to provide Israel with the necessary military and economic aid, setting this as Tel Aviv's price for further negotiations with the Arabs involving additional Israeli territorial concessions. [redacted]

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**FEDAYEEN: LOOKING TO THE UN**

The Palestine Liberation Organization has apparently decided to try to raise the Palestinian issue at the UN General Assembly session that begins later this month. At the same time, the fedayeen grouping is opposing Egyptian calls for a compromise of the Jordan-PLO dispute in order to achieve a common Arab policy on the Middle East peace negotiations.

Early this week, the Arab League's foreign ministers' council approved a request by PLO chairman Yasir Arafat to place the Palestinian question on the agenda of the General Assembly. According to the US embassy in Beirut, the PLO has apparently set its sights on gaining full observer status at the UN. It may also seek General Assembly support for a resolution that would recognize the PLO as the "sole" representative of all Palestinians, although this controversial issue was apparently not raised at the Arab League meeting. The Palestinians are referred to only as refugees in Security Council Resolution 242 of 1967.

During his visit to Moscow last month, Arafat may have been encouraged to press the Palestinian case at the UN. The Soviets reportedly indicated that they would be disposed to support such a move. In any case, Arafat's initiative is in line with his wide-ranging efforts to seek maximum international support for the Palestinian cause in order to buttress the PLO's claim to a seat at the Geneva peace conference. Official recognition of the PLO within the UN would also help Arafat resist pressure from fedayeen radicals who oppose Palestinian participation in the peace negotiations.

Although the other Arabs are supporting the move to give the PLO observer status at the UN, any move by the PLO to press for international recognition as the Palestinians' "sole" representative could force the Jordanians out of the Geneva peace talks. That would undermine Egypt's

efforts to achieve a compromise allowing both the Jordanians and the Palestinians to negotiate there.

Last week, the PLO executive committee reportedly voted to reject, at least for the time being, an Egyptian invitation to attend a tripartite Egyptian-Syrian-Palestinian conference that was to focus on reconciling PLO and Jordanian positions prior to the next phase of the peace talks. PLO representatives reportedly told the Egyptians that their decision was final unless President Sadat retracted his support of King Husayn's right to speak for the Palestinians living in Jordan and promised full support for the inscription of the Palestinian issue on the General Assembly agenda.

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***THE PLO OPPOSES COMPROMISE WITH JORDAN AND SEEKS UN RECOGNITION AS SOLE SPOKESMAN OF PALESTINIANS.***

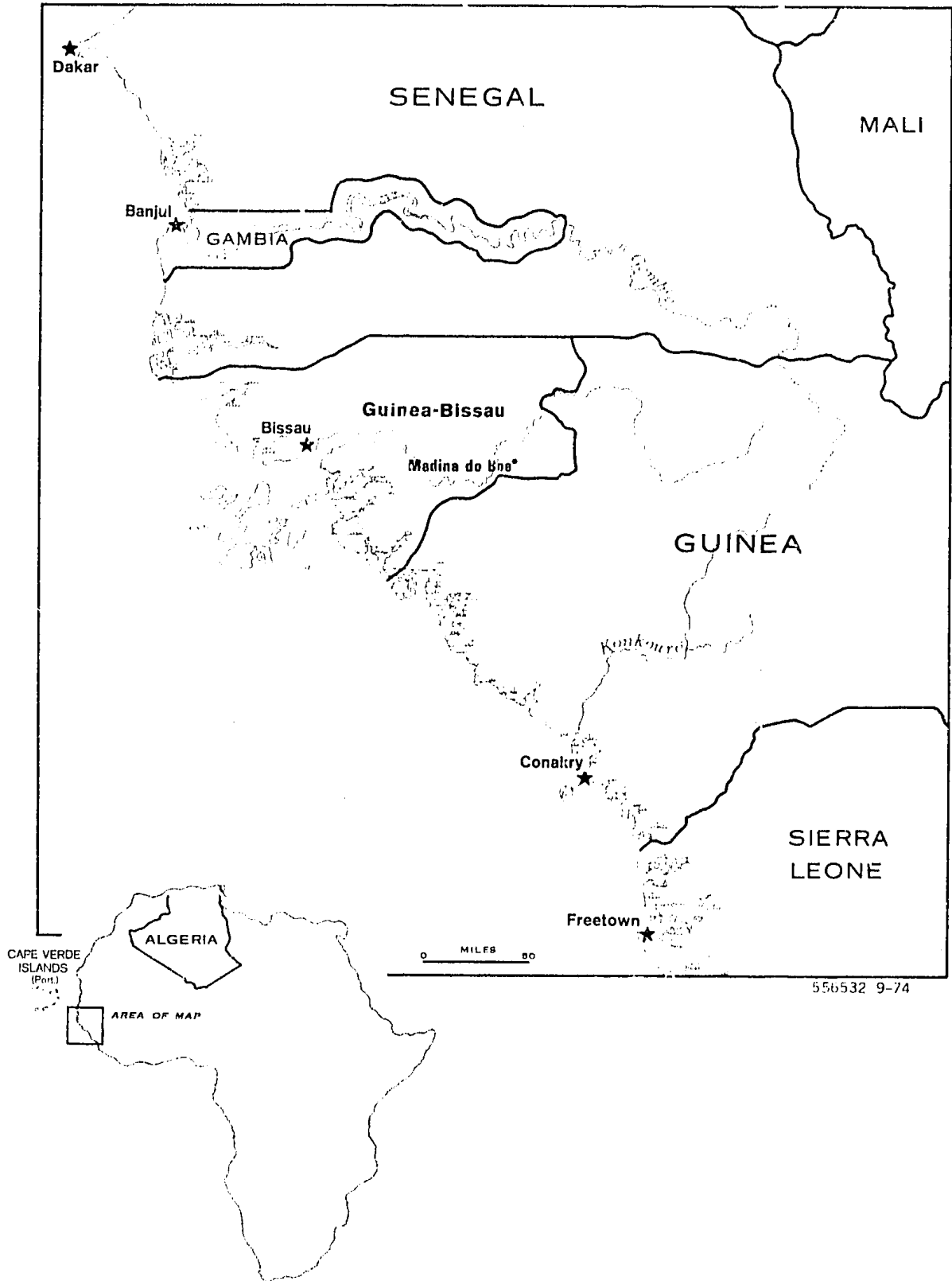
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The PLO's move may be an attempt to force Sadat to restore complete support for the organization, a ploy that seems unlikely to succeed. Although Sadat has agreed to back the Palestinians' case at the UN, he has also reiterated his view that the PLO is not the sole representative of the Palestinians. Indeed, the Egyptian President appears to be on the verge of telling the PLO, on a take it or leave it basis, that the organization must allow Jordan to take the lead in negotiating the return of the West Bank.

If Sadat does not waver, the PLO might reverse its position. Early this week, Foreign Minister Fahmi remained optimistic that the tripartite meeting would take place, although he acknowledged that the PLO was still being difficult. If the PLO remains firm, Sadat's next move might be to try to convene a conference of Egypt, Syria, and Jordan aimed at working out a negotiating position that could then be presented to the PLO. Syria, however, would find it difficult to go along if the Palestinians remain adamant.

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**GUINEA-BISSAU: FORMAL DEBUT**

Portuguese Guinea, the oldest and poorest of Portugal's African territories, will gain Lisbon's official recognition as the independent Republic of Guinea-Bissau on September 10. The formal transfer of authority will end over 500 years of Portuguese rule and more than a decade of armed insurgency. The independent government will face a formidable array of problems. Even with massive assistance from Lisbon and other foreign supporters, it faces an unsteady future.

The exact form the new government will take is not yet clear. The structure established by the rebels a year ago when they unilaterally proclaimed the territory's independence consists of: a 120-member National Popular Assembly, which functions as a policy-making body; a 15-member Council of State; and a cabinet of seven commissars and their deputies. The rebels' African Party for the Independence of Portuguese Guinea and Cape Verde is the only political organization and is expected to dominate the government; party secretary general Aristides Pereira will thus be the country's top leader.

[redacted] the republic's official capital will be located at Madina do Boe, the small southeastern town where the rebels proclaimed their government. Such a designation would presumably be for symbolic reasons only, however, because Madina is too isolated. Bissau is likely to continue as the administrative and economic center.

On its admission to the UN, expected soon after the General Assembly convenes on September 17, Guinea-Bissau will rank among the world organization's poorest and least developed members. Portugal expects to contribute heavily to the country's development and probably will leave behind large numbers of technicians, educators, and medical personnel. In fact, the republic's economy is likely to remain basically tied

to Lisbon for some time to come, although the nationalist leadership will want to modify the near monopoly long enjoyed by the Portuguese.

The leaders of the new state could also be in for some stormy political weather. The bulk of the government's leadership is made up of mulattoes from the Cape Verde Islands, although the vast majority in the fighting ranks of the victorious rebel movement are blacks from Guinea-Bissau. In the past, this distinction has caused friction between the political and military wings of the party, but the leaders so far have been able to smooth this over. With independence, however, black resentment of Cape Verdeans in positions of leadership could become a major issue. Even among non-insurgents, there is resentment against Cape Verdeans, stemming from Portugal's reliance on the islanders to help colonize and administer Portuguese Guinea

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*INDEPENDENCE ENDS 500 YEARS OF PORTUGUESE RULE AND MORE THAN A DECADE OF ARMED INSURGENCY.*

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Officials of the new government have publicly affirmed a nonaligned foreign policy. Guinea-Bissau is likely to have close relations with Senegal and Algeria, two countries that served as intermediaries during negotiations with Lisbon. The course of relations with neighboring Guinea, which was the rebel movement's staunchest African backer over the years, is less predictable. Relations have been somewhat strained in recent months, largely because Guinean President Sekou Toure did not approve the rebels' decision to negotiate with Lisbon after the April coup. The USSR and Cuba will enjoy some degree of special favor because of their extensive military assistance, but rebel leaders have insisted that they intend to remain free of Communist influence.

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## INDIA-SIKKIM: TOWARD MERGER

India amended its constitution this week to give its strategically located protectorate of Sikkim representation in parliament as an associate state of the Indian Union. New Delhi's action was the latest in a series of steps it has taken to tighten control over Sikkim after political unrest erupted there last year. The end result seems likely to be the complete absorption of the protectorate.

India fears that prolonged instability in any of the three Himalayan buffer states (Sikkim, Nepal, Bhutan) would create a vulnerability that China might exploit. Such a situation seemed to be shaping up in Sikkim last year when leaders of the ethnic Nepalese majority of the population sought to eliminate economic and political practices that favored the ethnic minority, represented by the hereditary ruler, the Chogyal, and to strengthen ties with India. The Chogyal reluctantly agreed to accept a political compromise arranged by New Delhi after he had to ask for Indian troops to bring anti-royalist demonstrations under control.

A new constitution, drafted by India, went into effect in Sikkim last July. It reduces the Chogyal to a figurehead, provides for a legislative body elected on a one-man, one-vote basis, and establishes India's direct control over internal matters. New Delhi has also agreed to strengthen economic ties and to provide Sikkimese with educational and employment opportunities in



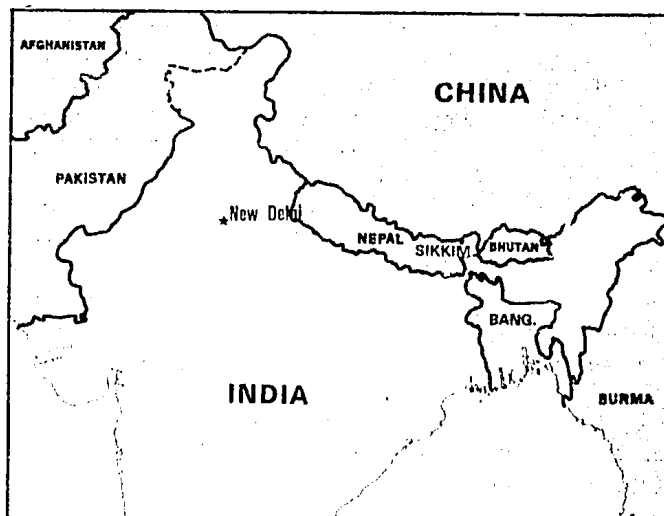
The Chogyal

India. New Delhi retains exclusive responsibility for Sikkim's defense, communications, and foreign affairs, which was established under the 1950 Indo-Sikkim treaty.

India's latest move has been denounced by the 51-year-old Chogyal in a desperate bid for international support. In the past, he has threatened to abdicate in the face of Indian pressure but New Delhi probably will continue to encourage him to remain as titular head in hopes of muting foreign criticism of its "take-over."

Although New Delhi probably anticipated some Chinese criticism of its action, the comment in *People's Daily* this week was Peking's strongest attack on India in some time. The commentary not only includes a direct attack on Prime Minister Gandhi, but it makes clear that Peking does not plan an early rapprochement with India.

Officials in Nepal, who are customarily reluctant to comment on Indian moves in Sikkim, were also sharply critical of New Delhi this week. Anti-India student demonstrations in Kathmandu appeared to have government approval, suggesting that the "rape of Sikkim" may become a contentious issue between India and Nepal.



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### USSR-US: TRADE DEFICIT REDUCED

US statistics for the first half of this year indicate that Moscow's trade deficit with the US in 1974 will be less than half of the record \$1 billion set last year. Soviet imports from the US in the first six months totaled \$316 million, down by 55 percent compared with the same period in 1973. Exports to the US climbed to \$188 million, more than double the amount last year.

A \$400-million decline in purchases of US agricultural products was responsible for the fall in imports; purchases of machinery and equipment showed no change from the 1973 rate. The increase in sales to the US, compared with the first half of 1973, was led by oil and oil products and platinum group metals. The greater value of petroleum sales was largely a result of higher prices.

The data for the first six months suggest that imports from the US for the year will fall short of the billion dollar mark, perhaps totaling \$800 million. With less than \$100 million in grain to be imported in the last half of 1974, Moscow's total

imports of agricultural products from the US probably will fall short of \$300 million. Imports of machinery and equipment are likely to be substantially higher in the second half of 1974 and may reach \$300-\$400 million for the year.

Sales to the US for the whole of 1974 will depend heavily on the volume and price of imports of oil and platinum group metals. A doubling of total exports to the US over the 1973 level seems likely—to roughly \$400 million.

[Redacted]

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### WEST GERMANY: ACTIVE FOREIGN POLICY

The tempo of Bonn's foreign relations accelerated last week as Chancellor Schmidt consulted with Italian and French leaders on economic problems and made preparations for his visit to Moscow later this year. He has also authorized officials to "sound out" the East Germans on the question of economic cooperation.

The most dramatic development of the week was Schmidt's two-day meeting with Italian Premier Rumor and the subsequent announcement that Bonn had agreed to loan \$2 billion to help Italy cope with its trade and payments deficit. Throughout the summer, Bonn officials had publicized the Chancellor's view that the EC countries had to show progress in stabilizing their economies by adopting austerity programs before West Germany would consider offering financial assistance. They had also strongly implied that aid would only be given through a multilateral organization such as the EC.

Bonn's decision to grant a sizable credit to Italy suggests that the Germans were skeptical that the community was capable of acting quickly to assist the Rumor government. West German officials are aware of the interdependence of the two national economies and probably felt justified in their decision, particularly since the Italian

SOVIET-US TRADE<sup>a/</sup>  
(Million US \$)

	Year 1973	First Half 1973	First Half 1974
<b>USSR Imports</b>	<b>1,187</b>	<b>694</b>	<b>316</b>
Grain	837	511	168
Soybeans	67	67	..
Machinery and equipment	204	74	102
Chemicals	17	9	11
Iron and Steel	14	5	6
Other	48	28	29
<b>USSR Exports</b>	<b>214</b>	<b>87</b>	<b>188</b>
Oil and Oil products	76	18	67
Platinum and platinum group metals	75	43	83
Diamonds and other precious stones	17	7	6
Chrome ore	6	2	3
Nonferrous base metals	18	6	12
Other	22	11	17

<sup>a/</sup> US trade statistics.

[Redacted]

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parliament approved an austerity program three weeks ago. Bonn probably hopes the loan will reduce chances that Rome will impose additional direct controls on imports to rectify its balance-of-payments deficit as it did last spring.

Schmidt's sudden visit to Paris on September 2 for talks with President Giscard may have been prompted, in part, by a desire to provide details on the Italian loan and to explain Bonn's future policy on financial aid. The Chancellor probably also explored ways in which a loan guaranteed by the EC as a whole—perhaps as much as \$5 billion—might be raised to assist member states meet the rising cost of raw materials and petroleum.

The visit to Paris also provided an opportunity to discuss Giscard's plans to get the community moving once again toward its goal of economic and monetary union. Schmidt and his advisers are pleased with the spirit of cooperation that Giscard has shown so far, but their optimism is tempered by the realization that France has not yet moved to rejoin the joint European currency float which it abandoned last January and, in fact, has made few positive contributions to the formulation of new community policies.

Ostpolitik was not in the spotlight, but the atmosphere has improved with the fading of the dispute with the Soviets and East Germans over the Federal Environmental Office in Berlin and the end of harassment of traffic on the autobahn by the East Germans. Soviet Foreign Minister Gromyko will visit Bonn on September 15-16 to lay the groundwork for Schmidt's meeting with Brezhnev sometime this fall.

The Chancellor last week met with leading representatives of the financial and business community to discuss Soviet requests for credits. Nevertheless, Schmidt is still sticking to his position that the need to control inflation rules out large financial commitments to the East at this time. Some advisers maintain, however, that West Germany must invest in joint industrial projects in order to secure deliveries of raw materials and fuels. Others point to the declining trade surplus



Schmidt and Rumor

as another possible reason for granting assistance to German firms exporting to the Soviet Union.

Schmidt has shown interest in recent weeks in exploring the possibilities of economic cooperation with East Germany, partly with the idea in mind of improving West Berlin's status. At the annual Leipzig trade fair this week, Guenther Gaus, Bonn's representative in East Berlin, met with Communist Party boss Erich Honecker, who stated publicly that Pankow intended to pursue bilateral talks in a number of areas this fall and hoped that trade could be expanded on a long-term basis. East Germany's interest in extending the swing-credit arrangement that helps finance a portion of its imports from the Federal Republic may give Schmidt additional leverage in gaining East Germany's cooperation in constructing a transmission line to deliver electricity from the Soviet Union to the Federal Republic, via West Berlin. The Chancellor is also interested in securing firmer commitments for unimpeded access to West Berlin.

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**DENMARK: GOVERNMENT TROUBLES**

Denmark's minority government narrowly averted collapse last week for the third time this year. At issue was the crucial third and final stage of Prime Minister Hartling's proposed economic reform program designed to deal with Denmark's persistent problems of inflation, budgetary deficits, and balance of payments problems. Hartling can rely on the support of only his Moderate Liberal Party, which controls 22 of parliament's 179 seats. The new legislation is due in parliament on September 12.

Hartling consulted leaders of all parties last weekend after his talks with the key opposition group, the powerful Social Democrats, broke down. The Social Democrats apparently balked at Hartling's intention to pare government spending by about \$800 million, mostly in social and educational areas.

The Social Democrats regard cuts of this magnitude as unwise, especially during the current economic slowdown, and they want to reduce the cuts by half. The Social Democrats also favor cuts in government spending on defense and agriculture, but Hartling is reluctant to take this step. The Prime Minister rebuffed a Social Democratic proposal last week to cut defense spending by about five percent. The proposed reduction would have affected Denmark's NATO commitments, in addition to breaching a four-party agreement reached in 1973 to maintain defense spending at current levels through 1977.

In his war of nerves with the opposition, Hartling has not hesitated to use the threat of resignation to exploit the general reluctance of all leaders to hold early elections. At the same time, he has indicated that he does not relish the prospect of calling new elections and is prepared to compromise with the non-socialist opposition. This would entail giving up a key tax reform, however, and risking a tough round of wage negotiations with labor this fall. Another option would be to bring the Social Democrats into a center-left coalition, but this would diminish the Moderate Liberal role and shift the direction of reform.

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**MEXICO: THE ZUNO KIDNAPING**

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The kidnaping of Jose Guadalupe Zuno, President Echeverria's father-in-law, clearly shows that terrorist groups remain capable of carrying out sensational acts of political violence despite stepped-up security measures.

Security officials believe that the Revolutionary Armed Forces of the People, the group that claimed it kidnaped former US consul general Leonhardy a year ago last May, is responsible for the abduction. Three of its members have been arrested. Little is known of this group; its members may be associated with the 23rd of September Communist League and with a radical student organization based in Guadalajara. The 23rd of September group, which—unlike most others—operates in many parts of the country, kidnaped a wealthy industrialist and an honorary British consul in Guadalajara last October and in January attempted to spark an armed uprising of peasants and students in Sinaloa State.

At midweek authorities believed that Zuno was still alive and that he and his kidnapers were



Echeverria informed of kidnaping

still in Guadalajara. [REDACTED]

The kidnapers have also called for the release of ten imprisoned guerrillas and a plane to fly them to a place of their choice. Government officials say they will not accede to this demand.

The available facts point to a terrorist act intended to demonstrate that the government is unable to protect even persons closest to the President, but Zuno's background raises another possibility—that the kidnapers are political rivals of the Zuno family. In any case, the choice of the victim is a strange one. The Zuno clan has a history of extreme leftist political thinking, even to the extent of allegedly having extensive connections with leftist terrorist violence in the Guadalajara area. Zuno's sons have blamed "US imperialism" for their father's abduction. The government has issued a statement dissociating itself from this opinion.

The government denies that the guerrillas can have any "revolutionary" motive, contending that it—and it alone—is the revolutionary force in the country. Any threat, it is argued, must therefore come from regressive or rightist forces. Echeverria put it this way in his annual state of the union speech on September 1: "The violence is sponsored by counterrevolutionary forces, by those who feel threatened by a progressive regime. The sources of terrorist activity may be obscure, but the terrorists' intention is clear: to stimulate repression and dissension."

At present, the guerrilla groups are not waging a sustained, well-organized conflict with the government and are no threat to political stability. But the outlook is for continued sporadic violence inasmuch as the government's responses to the problem—increased security efforts, public spending to upgrade social and economic conditions, and rhetoric—have to date been largely ineffective. [REDACTED]

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## OAS: FACING THE CUBA QUESTION

Removal of the OAS sanctions against Cuba within the next month or two is accepted as a foregone conclusion by Latin American governments on both sides of the issue. Only the precise timing and manner remain in doubt. This week or next, Costa Rica, Venezuela, and Colombia will submit a proposal to the OAS on how to proceed. Most likely, an OAS forum will first take formal cognizance of a "changed situation" with respect to Cuba and then set a date for the OAS foreign ministers, in their capacity as the executive body of the Rio Treaty, to vote on terminating the ten-year-old sanctions.

Panama's recent defection from the ranks of members still observing the sanctions has increased the sense of urgency to restore the integrity of the Rio Treaty and the OAS. Seven of the 23 members now have diplomatic links with Cuba, and a strong majority clearly wants to establish them. Given these political realities, even the members still hostile to the Castro regime see little value in holding to the crumbled sanctions policy. Governmental changes in Washington, moreover, have heightened concern that the US will alter its Cuban policy and leave the few dedicated anti-Castro governments diplomatically isolated.

As for Cuba, Havana has a legalistic perception of the current sanctions dilemma and would view a termination of the sanctions as an unjustifiable confirmation of their original legality. For this reason, some OAS members—possibly at Cuba's urging—have cautioned against the creation of a committee to determine whether Havana is continuing to "export revolution"; these countries would prefer to avoid holding Cuba up to judgment and would rather base the elimination of the sanctions on changed world conditions. For their part, the Cubans, despite Fidel Castro's stated interest in a reconciliation with the US, want no part of the OAS. They reject it as a tool of the US for suppressing Latin America, and they will continue to work toward its destruction.

How the resolution of the Cuba question plays itself out will have varying effects on the new dialogue between the US and the Latin Americans—an exchange very much in the testing stage. Those governments advocating a new attitude toward Cuba would be gratified to see the US bend to their pressure; if the US maintains unyielding support of the sanctions, they would gravely doubt its flexibility on other issues. The countries that have supported the sanctions along with the US, on the other hand, are more anxious to test US willingness to consult and would be slow to forgive a surprise US change of heart.

Nevertheless, all the governments would be pleased to have the OAS rid of the contentious sanctions problem so that other pending questions could be grappled with. Many practical matters of common concern, most of them broad economic issues, are under study by inter-American committees. A number of large political questions also remain unanswered: Is the OAS—particularly an OAS without Cuba—a useful instrument for inter-American cooperation? Is the informal device of meetings of foreign ministers a more serviceable vehicle for the dialogue? Do the Latin Americans need or want a separate council excluding the US?

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### *REMOVAL OF THE SANCTIONS IS NOW A MATTER OF TIMING AND METHOD.*

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All these and other questions are in debate and under examination, with at least some chance that movement toward solving them will occur next year. Various reports and recommendations are scheduled for the ministers' meeting now set for March 1975, to be followed by the OAS General Assembly. Next spring, too, a new secretary general of the OAS must be elected, a task that will help to define what kind of future the Latin Americans see for the inter-American system.

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## CHILE: ANNIVERSARY APPROACHES

Concern that leftists may try to use violence to mark the first anniversary of President Allende's overthrow on September 11 has caused the government to tighten security.

Security forces are especially concerned about the safety of government leaders during the anniversary and the subsequent national holiday on September 18-19. Several sniper rifles reportedly were seized recently when authorities arrested a group of leftists who allegedly were plotting to assassinate junta President Pinochet.

Mass arrests of "criminal elements"—undoubtedly aimed in part at ferreting out leftists—began in mid-July and appear to be intensifying as the anniversary approaches. Moreover, there apparently have been some recent incidents of local violations of the government's official policy against summary executions of prisoners.

There has been considerable speculation about government plans to use the occasion to

announce modification of the year-old states of war and siege, as well as to make a major gesture in the area of human rights. Pinochet announced no specific initiatives during a two-hour press conference this week, although he did note that the government was on the verge of deciding what to do with the Allende cabinet officers and leftist party leaders it has held since the coup.

In previous statements, Pinochet has ruled out any general amnesty but has disclosed that the government is studying the "commutation or reduction of sentences" of persons already tried and convicted of "lesser crimes." His conciliatory reply to a recent human rights appeal from religious leaders is another indication that some government move is in the works. The announcement might be included in Pinochet's speech on September 11, but it could be delayed until the national holiday observances the following week.

Troops stand guard over suspects



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## INTERNATIONAL

### PAYING THE OIL BILLS

Japan, the UK, and Italy have been struggling to meet oil import bills that will total nearly \$35 billion this year. The UK and Italy have arranged adequate financing for 1974, but will face increasing difficulties next year. Japan is reducing its current account deficit and should have little difficulty financing the remainder.

Japan so far has coped with the \$14-billion increase in its annual oil costs without massive public borrowing abroad. In response to the problem, Tokyo has:

- tightened the monetary and fiscal policy another notch to hold down import demand and free more goods for export;
- put direct limits on business investment;
- restricted energy consumption in industry;
- discouraged investment abroad except in projects needed to assure supplies of raw materials, particularly fuel.

As a result of these measures and the impact of the higher oil bill itself, gross national product and the volume of imports have fallen while exports have continued to increase sharply. Japan's surplus in non-oil trade soared to \$6.3 billion in the first six months of 1974, holding the current account deficit to \$5.7 billion. Long-term capital movements abroad were reduced to \$2.6 billion from \$5.5 billion in the last half of 1973. Short-term commercial bank borrowing not only financed the resulting \$8.3 billion deficit in the overall balance but also brought a \$1.2 billion increase in Japan's official reserves.

Japanese banks are finding it increasingly difficult to borrow short-term funds to cover longer term financing needs. Tokyo accordingly is now seeking medium-term loans in international

capital markets and from OPEC countries. Japan has recently arranged a \$1 billion, four-year loan from Saudi Arabia. Tokyo will probably seek further medium-term aid this year to avoid any substantial use of its reserves or an increase in its short-term debt.

The UK, unlike Japan, had a deficit in non-oil trade of \$2.4 billion in the first half of 1974, in addition to its oil bill of nearly \$4 billion. Britain's traditional surplus in service transactions limited the current account deficit to \$4.8 billion—\$1 billion less than Japan's.

To meet the deficit expected for 1974, public authorities and private firms arranged about \$4.7 billion in Eurodollar credits. Only \$1.7 billion had to be used in the first half. The remainder of the deficit was financed through other capital transfers from abroad, including sterling deposits by some oil producers and increases in sterling working balances of international oil companies.

Capital transfers from abroad, including those from loans already arranged, will provide Britain with ample financing for the rest of 1974. The UK, however, appears to be receiving a smaller share of oil-related capital flows now than earlier this year. If this situation continues, London will have to find alternative sources of funds, which could be difficult.

Italy has the most formidable payments problem of any major country. Its \$3.5 billion cost of oil in the first half of 1974 came on top of a deficit for non-oil trade and a substantial outflow of long-term capital, raising financing needs to \$6.3 billion.

To make the necessary payments in the first half, Italy borrowed about \$2.3 billion in the Eurodollar market, obtained \$1.9 billion in

short-term credits from its EC partners, and drew down official reserves by \$1.1 billion. By the end of June, foreign exchange reserves had dwindled to just over \$1 billion.

Rome's medium-term credit arrangements will carry it through the rest of the year if the EC, as expected, grants a three-month extension on the \$1.9 billion short-term credit. A \$2 billion loan from West Germany, arranged last week, and Italy's credit position in the International Monetary Fund give Rome about \$3.5 billion in medium-term resources.

Italy must now look for funds to meet the expected needs of next year. Rome is nearing its limit for private credit. The use of gold as collateral in the West German loan has further prejudiced Italy's private credit position, since lenders would probably want a similar provision in any new private loan. The most likely source of new medium-term credit is through an EC-backed arrangement which Bonn will probably support. Now that West Germany has given direct help to Italy, Bonn is in a strong position to push for community acceptance of EC-wide action.

#### PROBLEMS AHEAD FOR LARGE TANKERS

The most striking development in maritime petroleum transportation over the past five years has been the tremendous growth in the construction of very large crude carriers—tankers of 175,000 deadweight tons and up. First introduced in the latter half of the 1960s, these tankers now account for almost half of the world's total tanker tonnage, and will probably form about two thirds of the fleet by the late 1970s.

Tremendous economies are realizable in the construction of very large crude carriers, and a number of countries are preparing to build even larger tankers than the existing 500,000-ton ships. French yards are already building tankers in

excess of 500,000 tons; tankers up to 700,000 tons are on order. Spain is investing \$310 million in a new drydock at Cadiz capable of building 1-million-ton tankers. Japan has set up a joint government-business committee to study the construction, financial, and operational problems connected with these ships.

The explosive growth of very large crude carriers was encouraged by the closing of the Suez Canal in 1967 as well as the booming demand for Persian Gulf oil. The cost advantages of using larger ships have long been recognized. For example, as the size of a tanker increases from 50,000 tons to 250,000 tons, the cost of hauling a barrel of oil around Africa from the Persian Gulf to the US east coast falls by more than 50 percent.

Despite the large tankers' growing popularity, several trends are developing that cloud future prospects. The worldwide economic slowdown and high oil prices have slowed the growth of oil consumption at a time when new tanker capacity is entering service in record amounts. As a result, spot tanker rates have dropped to a fourth of their level just before the Arab-Israeli war in October 1973.

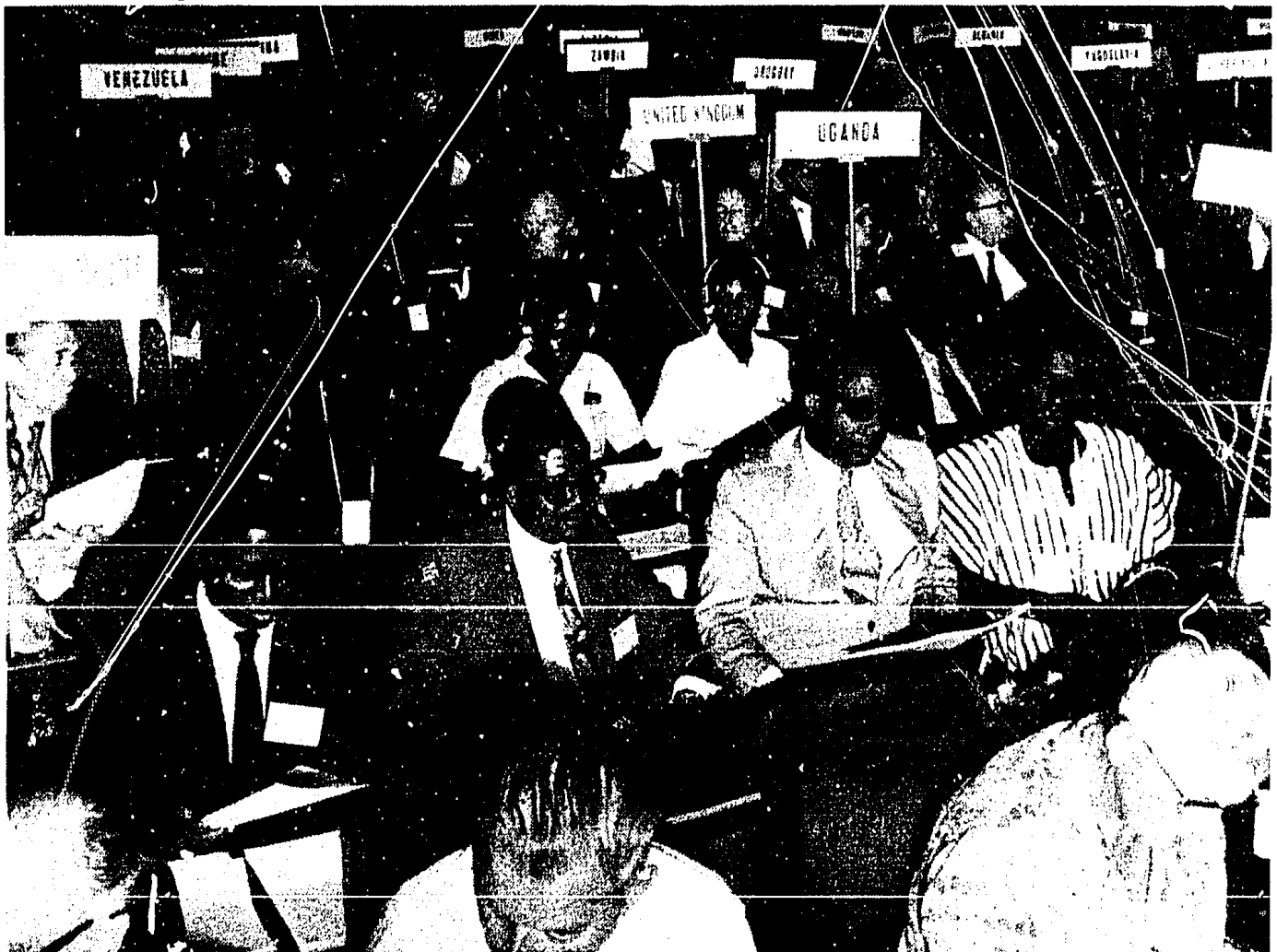
Some industry estimates indicate that there may be as much as 100 million tons of excess capacity by the late 1970s, putting added downward pressure both on rates and on new orders for large tankers. The oversupply problem will be aggravated by the reopening of the Suez Canal—expected in about a year—which could reduce tanker demand by about 10 percent. Arab production cutbacks will result in additional excess tanker capacity.

Other operational problems are inhibiting the growth of tanker size. Tankers of almost 500,000 tons, chartered out to haul Persian Gulf oil to Japan, cannot pass through the Strait of Malacca when fully loaded, and must detour

1,200 miles via the Lombok Strait. Port limitations also are a problem. Harbors in the US can only handle tankers of about 100,000 tons; Western Europe's are limited to about 250,000 tons. Only Japan is able to handle the real behemoths. In addition, fear of oil pollution or other catastrophies has encouraged opposition to port expansion and passage rights by some countries.

The planned build-up of refining capacity in the Middle East in the next ten years will also affect tanker demand. Smaller specialized vessels,

#### Conference delegates



rather than very large crude carriers, will be required to haul products to the consuming nations. Uncertainty in the world petroleum market and forecasts of huge tanker surpluses through the end of the 1970s are likely to cause a substantial shift toward smaller, more versatile tankers.

#### WORLD POPULATION CONFERENCE

The UN-sponsored World Population Conference in Bucharest wound up its work last week by adopting a plan of action that calls for:

- Reduction of birth rates in developing countries by 1985.

- Greater dissemination of family planning advice and services.
- More assistance from developed to the less-developed nations.
- Improvement in the status of women.

Family planning and improved status of women were the two dominant themes of the conference. The US delegation succeeded in introducing into the plan strong references to women's rights to equal participation in educational, social, economic, cultural, and political life. Delegations from the Third World—particularly Latin America and Africa—came close to sidetracking the conference in its opening days, arguing that it is futile to reduce population growth until there is a fundamental restructuring of society.

The conference was punctuated by sharp exchanges on some political issues. The Chinese attacked both the US and the USSR, but they made special mention of "social imperialism" and "that super power which labels itself socialist."

The Romanians won adoption of a sweeping resolution entitled "For a More Just World" that in effect expands on their pet ideas for the conduct of interstate relations.

Bucharest was instrumental in avoiding a floor fight over the potentially disruptive issue of seating representatives of the South Vietnamese Provisional Revolutionary Government. The Romanians had worked diligently before the conference to have the South Vietnamese Communists seated. Once their efforts failed, Bucharest apparently lobbied hard in support of the US position that the South Vietnamese Communists should not be present.

Although the Romanians proved to be good hosts, they could not avoid the temptation to needle the Soviets. They distributed brochures to the conference participants that contained uncomplimentary references to the transfer of Bessarabia and Northern Bukovina to the USSR in 1940, and further rankled their Soviet comrades by charging them full hotel prices instead of cut-rate "fraternal prices."

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