

Sanitized Copy Approved for Release 2011/06/21 :  
CIA-RDP85T00875R001000070

SECRET

Sanitized Copy Approved for Release 2011/06/21 :  
CIA-RDP85T00875R001000070

~~Top Secret~~



# Weekly Review

~~Top Secret~~



27 September 1974

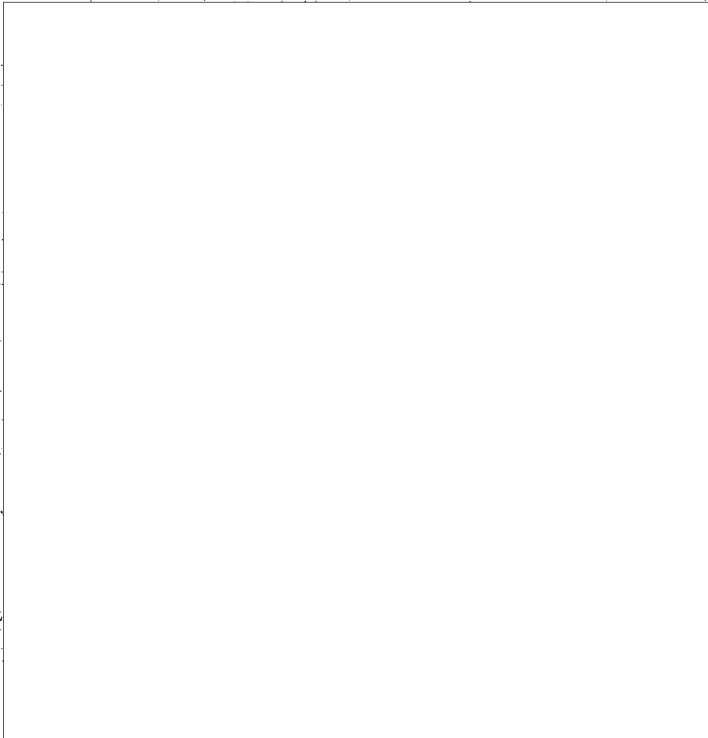
25X1  
25X1

Copy No 643



**CONTENTS** (September 27, 1974)

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.



	1 The Middle East	
	3 USSR-UN: Gromyko's Survey	
	3 Cyprus	
<b>MIDDLE EAST AFRICA</b>		
	6 Egypt: Looking Ahead	
	8 Ethiopia: Settling In	
	9 Lebanon: Government Resigns	
	10 Iraq-Iran: Troops Pull Back	
<b>EUROPE</b>		<b>25X1</b>
	11 Iceland: Base Settlement	
	12 Denmark: Government Survives	
	12 UK: Midway in the Campaign	
	14 Yugoslavia: Troubled Ties	
	15 USSR: NATO; Mine-clearing; <input type="text"/>	
	16 MBFR: Negotiations Resume	
<b>EAST ASIA PACIFIC</b>		<b>25X1</b>
	17 South Korea: The Opposition; <input type="text"/>	
	18 South Vietnam: Military; Political Strains	
	19 Cambodia: Tensions in Phnom Penh	
<b>WESTERN HEMISPHERE</b>		<b>25X1</b>
	20 Argentina: The Vendetta Syndrome	
	21 Brazil: Middle East Policy	
	22 OAS: The Cuba Sanctions	
	23 Colombia: Economic Reform	
<b>INTERNATIONAL</b>		
	24 Bankers Seek Stability	
	24 Atomic Energy: Concerned Conference	
	25 OECD: Economic Prospects	

25X1



PLO Representative Khaddoumi (l), Syrian Foreign Minister Khaddam (c) and Egyptian Foreign Minister Fahmi



## THE MIDDLE EAST

### Cairo Shifts on PLO

Egypt's President Sadat took a new approach last weekend to the problem of bringing both the Jordanians and the Palestinians into a coordinated Arab strategy for peace negotiations. A tripartite meeting in Cairo among Egypt, Syria, and the Palestine Liberation Organization ended with the Egyptians acceding to PLO demands for recognition as the "only legitimate representatives of the Palestinian people." At the same time, however, Sadat is apparently continuing to support Jordan's claim to be the negotiator for the Palestinian-inhabited West Bank.

Egypt's agreement to the language of the tripartite communique represents a reversal of Sadat's acknowledgement, given to King Husayn last July and strongly opposed by the fedayeen, that Jordan speaks for Palestinians resident in Jordan. The concession to the PLO appears, however, to extend only to the form, not the substance, of the dispute that has prevented Arab agreement on who will negotiate for the return of the Israeli-occupied West Bank. The communique did not accord that role to the PLO, suggesting that the Egyptians did not concede the key point: that Jordan should take the lead in those negotiations.

Sadat apparently came to believe that the embarrassment he risked by backtracking on the issue of who is called the representative of the Palestinians would be tolerable if he could achieve his ends by conceding the designation to the PLO without denying Jordan the key role. At this time, the success of the Egyptian leader's latest tack is far from assured.

### Jordanians Angered

Amman responded to the tripartite communique by announcing it was "freezing" its participation in inter-Arab negotiations, including preparations for Geneva peace talks with Israel, until the Arab summit now scheduled for late next month. The Jordanians turned down an invitation to meet with representatives of Egypt, Syria, and the PLO, which was extended by Syrian Foreign Minister Khaddam during a stop in Amman on his return from Cairo.

Nevertheless, more recent public statements from Amman suggest that the Jordanians may understand Sadat's maneuver. An Amman radio commentary early in the week rejected as "sterile" the argument over who represents whom, noting that the problem centers not on who represents the Palestinian people but on who

25X1

can realistically expect to sit opposite Israel at the negotiating table and recover Arab land. What Jordan fears, according to the commentary, is that the Arabs will ignore the heart of the issue in their concentration on applying labels.

Despite Jordan's apprehension, its failure to reject the tripartite communique categorically and its apparent dismissal of the representation issue as of minimal importance suggest that the Jordanians might be brought to tolerate the PLO nominally as the "only legitimate" representative, so long as Amman retains the right to negotiate.

#### Fedayeen Interpretation

PLO spokesmen, for their part, are interpreting the Cairo communique as a rejection of any Jordanian role in negotiations on the future of the occupied territories. They contend that the designation of the PLO as the only representative of the Palestinian people denies Jordan the right to represent any Palestinians and therefore to negotiate with Israel for a withdrawal from the West Bank.

Moderate leaders of the PLO are promoting this version of the communique primarily to convince the Arab states and the major powers that the PLO must be included in future sessions of the peace talks. They are also trying to counter the arguments and appeal of fedayeen radicals, who have been criticizing PLO Chairman Arafat and his supporters for their conciliatory policies. PLO leaders have been meeting in Damascus this week to assess their position in the wake of the Cairo meeting and to debate future policy.

Although PLO leaders have so far declined to have formal contacts with Jordanian officials, they may now conclude—in view of Amman's summary rejection of Khaddam's invitation to four-party talks—that a private expression of willingness to consult with Jordan as part of a general Arab coordinating effort would demonstrate Palestinian responsibility and further isolate King Husayn. Should the moderates take this step, it would increase the likelihood that the radical fedayeen groups would withdraw from the PLO.

#### The Israeli Reaction

Israel joined Jordan this week in denouncing the status accorded the PLO in the Cairo communique. Israeli Foreign Minister Allon saw the move as a step toward a UN General Assembly resolution granting observer status to the PLO—an act that Allon said would be tantamount to legitimizing terrorist activities. At the same time, Allon urged Jordan not to boycott the Geneva peace talks, saying that the Palestinian problem can only be solved by a peace treaty with Jordan.

Meanwhile, Prime Minister Rabin has been continuing his effort to prepare Israeli public opinion for the next step in the Middle East peace negotiations and, in particular, for what Rabin expects will be additional US pressures on Israel in the tough negotiations ahead with the Arabs. In a recent press interview, Rabin cautioned that, although US support for Israel continues, it would be wrong to disregard the importance Washington attaches to consolidating its position with the Arabs. Rabin assessed US concern over Arab use of the oil weapon as only one factor in Washington's policy, but noted that it is nevertheless an element that does not work in Israel's favor.

In a television interview on September 20, the Prime Minister said that he would be prepared to make concessions in order to achieve real peace. While reiterating the government's standard position that Israel would not return to the pre-1967 lines, Rabin did say that he would favor a territorial compromise, and perhaps even a far-reaching one, if there were a real prospect of obtaining true peace with one or more Arab states.

On September 25, Rabin stated publicly that he had a "clear and detailed Israeli peace map," but that he would disclose it only to Arab negotiators in actual peace talks. In the past, Israeli leaders have said that no maps would be prepared until the time came to discuss with the Arabs the details of possible Israeli withdrawals to agreed peace borders.

25X1

25X1

## USSR-UN: Gromyko's Survey

For those who find drama in the predictable, Foreign Minister Gromyko's speech at the UN this week must have sounded like vintage Shakespeare. For everybody else, it was clear from Gromyko's remarks that the Soviets are approaching the new UN session as an unavoidable chore that should not be allowed to complicate more serious work elsewhere.

Using generally moderate formulations and stressing that international relations are dominated by a desire for detente, the Soviet foreign minister ticked off five urgent tasks facing the world community:

- Opening of negotiations on Cyprus under the auspices of a "representative", UN-sponsored international conference, with the aim of guaranteeing that country's sovereignty, independence, and territorial integrity.
- Resumption of the Geneva peace conference on the Middle East.
- Completion of the European security conference at an early date and at the highest level.
- Pursuit of definite results in SALT, the European force reduction talks, and the UN disarmament committee.
- Support for UN decisions strengthening the economic independence of the developing states.

In detailed discussion of the Middle East, Gromyko broke no new ground and seemed to equivocate somewhat on the Palestine issue. He affirmed that representatives of the Palestinian Arabs should take an "equal seat" at the peace talks, but failed to specify whether the Palestinians were to be treated as a sovereign nation. At the same time, he hinted that "real" progress toward peace in the area could open the way for a resumption of relations with Israel, inasmuch as

the Soviet Union backed Israel's existence and its development as an independent, sovereign state.

On arms control and disarmament issues, Gromyko reiterated the long-held Soviet position that the Vienna force reduction talks should not diminish the security of either side. Perhaps with India in mind, he announced the Soviet intention to make the nuclear weapon test ban "general and all-embracing." As for this year's Soviet "showcase" disarmament proposal, Gromyko said little more than that the Soviets favored banning military uses of the environment. In the same breath, he repeated earlier showcase proposals for a world disarmament conference and for a worldwide 10-percent reduction in military budgets. He noted that these proposals did not seem to be making any headway.

Gromyko's hour-long address seemed to confirm that except in such areas as Cyprus and the Middle East, where the UN is viewed as a useful tool to promote Soviet influence, Moscow will limit its UN efforts to blocking attempts to reduce the role of the great powers and to increase the organization's budget. [REDACTED]

25X1

25X1

## CYPRUS

Greek and Turkish Cypriot leaders agreed this week to begin releasing all prisoners, but the exchange was halted after a few days because the Turkish Cypriots objected to the repatriation of Greek Cypriot prisoners to the Turkish-controlled north. The talks between leaders of the two communities made little progress otherwise, and were overshadowed by the current session of the UN General Assembly, where high-level Greek and Turkish officials have been lobbying for diplomatic support of their positions on the Cyprus question.

The talks have been further complicated by the activities of Archbishop Makarios, who is in

25X1



New York this week preparing to address the UN as president of Cyprus. Makarios has been giving typically mixed signals regarding his future role on the island. The Archbishop has not given up on returning to the island, nor has he tipped his hand as to the capacity in which he might return. He said this week that he might return to the island within two or three weeks; Acting Cypriot President Clerides has told the press that he expects the Archbishop back after the present session of the UN ends.

Clerides' remark may be designed to put pressure on the Turks to be more conciliatory. The prospect of an early return of the Archbishop would be deeply troubling to nearly all parties in the dispute and might make them more amenable to compromise. The Turks, who hold the Archbishop responsible for a decade of ill-treatment of the Turkish Cypriots, much prefer to deal with Clerides and can be expected to stiffen their negotiating positions or even break off the talks if Makarios returns. The Greek position toward Makarios has been ambiguous—probably reflecting Prime Minister Karamanlis' mistrust of the Archbishop and Foreign Minister Mavros' support of him. Athens, however, would be certain to oppose any development that threatened to lead to further instability on the island.

25X1 25X1

The Greek Cypriots' ability to negotiate authoritatively has already been damaged by Makarios' public posturings and Athens' failure to give Clerides strong public backing.

Although Clerides does not want Makarios back, he does not want him to resign either. The Archbishop's resignation would require a new election, and Clerides would like to sidestep this requirement.

### DEVELOPMENTS IN ATHENS AND ANKARA

In both Athens and Ankara, political leaders are anxious to hold new elections. Greek Prime Minister Karamanlis wants to complete Athens' full return to a democratic system as rapidly as possible; Turkish Prime Minister Ecevit wants to cash in on his current popularity to improve the standing of his party in parliament.

The Greek cabinet last week approved a new election law providing for a single legislature of 300 members elected through a system of "reinforced proportional representation." The date for a new election has not been announced, but it is likely to be in November. Political parties—including the Greek Communist Party, banned since 1936—are now free to function. The Greek left, which received 11 percent of the vote in the last election in 1964, is badly divided. The Moscow-backed Communist Party shows no inclination to form an alliance with its dissident faction or with other leftist forces, and this should hurt the left's showing at the polls.

The other parties are still sorting themselves out. Foreign Minister Mavros has been unanimously elected president of the Center Union; Prime Minister Karamanlis is reportedly making final preparations for launching his "new democratic" front, which he hopes will be broadly based.

In Ankara, Prime Minister Ecevit's attempts to form a new government and to hold early elections received a serious setback when the right-of-center Democratic Party refused to join in a coalition designed to expedite the holding of early elections. The Democrats may still join in a coalition, but only if Ecevit drops the idea of early elections. Extensive political maneuvering can now be expected. None of the possible alternatives—a minority government, a right-wing coalition, or an "above parties" government—offers a durable or stable alternative. Putting together a government may be a painful and long-drawn-out matter for Turkey, and this will tend to make it less flexible in dealing with the Cyprus problem.

25X1

Denktash (l) and Clerides meet to announce second prisoner exchange



25X1





### EGYPT: LOOKING AHEAD

President Sadat has recently initiated a long-range strategy to increase Egyptian influence in the Arabian Peninsula - Persian Gulf area. Over the near term, his aim is to limit radical Arab opposition to his efforts to achieve a peace settlement with Israel. For the longer term, he is taking out insurance against the possibility that Arab cohesion and Egyptian political strength might be dissipated once a settlement is achieved.

Sadat's plan, undertaken in coordination with Saudi Arabia, calls for:

- Improved relations with Iraq, a leading radical Arab state, on the understanding that

continued political differences need not inhibit cooperation in other matters, particularly economic.

- Establishment of an inter-Arab military force to supplant, or at least augment, Iranian forces engaged in Oman's guerrilla war. Sadat hopes to accomplish this without sacrificing Egypt's good relations with Tehran.

- Improved relations with South Yemen with a view to persuading that regime to cease its support for the Omani insurgents. A parallel aim is to diminish Soviet influence in Aden and to establish an Egyptian military and economic presence there.

Sadat has some reason to fear that peace with Israel might result in a shift in the Arab center of gravity from Egypt to the oil states of the Arabian Peninsula. A peace settlement would remove the main force that brings the Arabs together, that gives Egypt political dominance in the Arab world, and that assures Cairo of substantial financial aid from its neighbors. Sadat's strategy is thus an attempt to guarantee that Egypt will share a post-settlement position of political pre-eminence with the Arab financial giants.

Sadat is also attempting to reinforce political moderation in the peninsula-gulf area by undertaking moves to contain the Soviet-backed radicalism that threatens stability in the conservative oil states with which he is cooperating. He is aiming for the political neutralization of Iraq and South Yemen, both exporters of subversion in the gulf, through a program of economic and technical cooperation. In addition, the inter-Arab military force he is proposing for Oman is intended as a signal to Baghdad and Aden, as well as to their Soviet patrons, that Egypt means to back its interest in a moderate southern Arabia with military force.

Cairo's reported desire to introduce an Egyptian military contingent on South Yemen's Perim Island is yet another reflection of its new policy

initiative. More immediately, such an arrangement would improve Egypt's control over the approaches to the Suez Canal.

Sadat is not unaware of the difficulties he will encounter in pursuit of this strategy, and he may have to make some adjustments in his original goals. Arab leaders are not accustomed to looking so far beyond the immediate horizon. Moreover, Iranian and Omani acquiescence in Sadat's plans for Oman will be essential. In the long run, he may decide that his strategy requires not a displacement of the Iranians but only an augmentation by an Arab force that would impose limits on further Iranian ambitions. This would accomplish Sadat's chief aim, which is merely to guarantee that a continued Iranian presence does not itself spark further subversive efforts by radical Arabs.

Sadat will also need a degree of forbearance from the Soviets, who will see his efforts to achieve rapprochements with Iraq and South Yemen as designed primarily to undermine Moscow's influence. Although Sadat's present aim is in fact to wean these countries away from overriding Soviet influence, he may in the end come to consider that the essentials of his strategy can be achieved without a significant diminution in Moscow's presence.

President Sadat (r), Deputy Premier Hijazi (c), and Interior Minister Salim



## ETHIOPIA: SETTLING IN

The military rulers appear to be settling in for an indefinite period of authoritarian rule. Thus far they have managed to fend off, without any real trouble, civilian demands for a share of power. The military may yet, however, have more serious problems with its erstwhile student and labor allies.

The military acknowledged publicly last week that supreme authority rests in the Armed Forces Coordinating Committee that is based in Addis Ababa and made up of some 120 members ranging from private to major, elected by the military services and the police. The military committee in the capital appears to be linked with similar committees at major military commands, and an interchange of ideas or policy matters



General Aman

appears to take place between the Addis Ababa committee and the others.

Thus far, the military rulers have been successful in keeping their operations and key figures from public view. There are reports suggesting that a small inner military group, possibly including persons who are not formally members of the committee, may be pulling the strings. A number of committee members serve as designated links with civilian officials.

Whatever the precise size and composition of the military ruling group, it unquestionably is split along ethnic and regional lines. It also appears to be divided on larger political questions, such as the future of Haile Selassie and the monarchical institution, whether and when power should be returned to civilians, and Ethiopia's future ties with the US. A faction of the committee is reported to be pushing for the continuation of military rule for at least another two years.

Last week, spokesmen for the military government described the role of Lieutenant General Aman as titular head of the government and head of the cabinet, but not the head of the ruling military committee. General Aman's actual power relationship vis-a-vis the committee is still unclear; he seems to be engaged in a contest for power with the military committee. At present, Aman appears to be a significant political force as a result of his popularity among military personnel and among the public as a whole. During his press conference last weekend he appeared confident and decisive.

As it did prior to the emperor's overthrow, the military committee is working through a cabinet made up predominantly of civilians. As a sop to civilians demanding an immediate share of power, the military this week announced the appointment of a 50-man civilian advisory board, but this is unlikely to quiet opposition.

Up to now, the military has been able to turn back civilian demands to share power

without having to resort to violence. It must soon decide whether to reopen the university. Student demonstrations which began on September 16 were easily contained, but the military has threatened to use force to quell future demonstrations.

The students are poorly organized, and the military's crackdown on the Confederation of Ethiopian Trade Unions this week deprives the students of allies. Labor leaders, like the students, condemned the military committee as unrepresentative of the Ethiopian people and demanded a governing role for civilians. The military responded by arresting three labor leaders and launching a propaganda campaign accusing them of corruption and being holdovers from the old regime. Largely because the military was able to separate the leaders from the rank-and-file workers, the confederation's general strike—called for September 25—fizzled. Military threats to dismiss strikers apparently also dissuaded large numbers of workers. Although the military has won the first round, the civilians can be expected to continue agitating for the military's early return to the barracks.

## LEBANON: GOVERNMENT RESIGNS

Lebanon's government may be in caretakers' hands for some time following Prime Minister Sulh's submission of his resignation to President Franjiyah this week. After 14 months in office, Sulh stepped down when faced with the threatened withdrawal of several cabinet ministers critical of the government's inability to deal effectively with the country's persistent internal security and economic problems.

Franjiyah could ask Sulh to add some new faces and simply reorganize his cabinet, but the President appears more likely to designate

another political leader to assemble a new group. Because Lebanon has serious problems, Franjiyah is under pressure to make a choice quickly. It could take several weeks, however, to come up with a slate acceptable to the several powerful religious and political blocs represented in parliament. Franjiyah, a Christian, will follow the Lebanese convention of appointing a Sunni Muslim as prime minister.

Any candidate acceptable to Franjiyah would hold to the same basically moderate policies espoused by Sulh. The President may conclude, however, that Lebanon's problems demand that he now appoint a more assertive and capable leader than the lackluster Sulh. A group of powerful members of parliament met on September 24 and agreed on a program calling for the appointment of a "strong" prime minister capable of instituting widespread political, economic, social, and administrative changes including a clear-cut defense policy.

25X1 25X1

Kamal Jumblatt, leader of Lebanon's Druze community and head of the Progressive Socialist Party, led the attack on Sulh's government. An armed clash between his followers and those of the Christian Phalanges Party on September 22 highlighted the government's inability to control the security situation and contributed to its downfall, but religious strife was not the primary cause of Sulh's resignation. Leaders of the predominantly Christian and Muslim parties, like Jumblatt, had threatened to withdraw their representatives from the cabinet. No influential political figures came to Sulh's defense.

Palestinian leaders have played no direct role in the fall of the government. Regular violations of security restrictions by fedayeen forces, however, have led to periodic Israeli violations of Lebanese territory, demonstrated Beirut's inability to protect residents of southern Lebanon from either the fedayeen or the Israelis, and stimulated criticism of the central government by residents of the south.

25X1

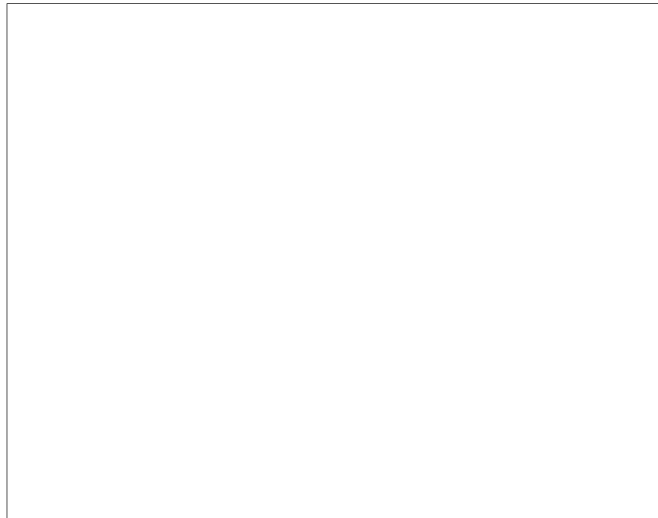
25X1

### IRAN-IRAQ. TROOPS PULL BACK

Following recent Kurdish military successes in the Rawanduz area, the Shah ordered some Iranian units to withdraw from the Iraqi border. The pullback apparently reflects an assessment by Tehran that the Kurdish performance has lessened the likelihood that Iraqi troops would defeat the Kurds before the onset of winter and, in the process, violate Iranian territory. Political factors may also have been a consideration.

arently hope to finish off the Kurds before the onset of bad weather next month, when fighting is expected to taper off, but prospects for achieving that goal do not appear good. Should important Kurdish positions fall, however, the Shah will probably again reinforce his border posts and consider additional support for the Kurds.

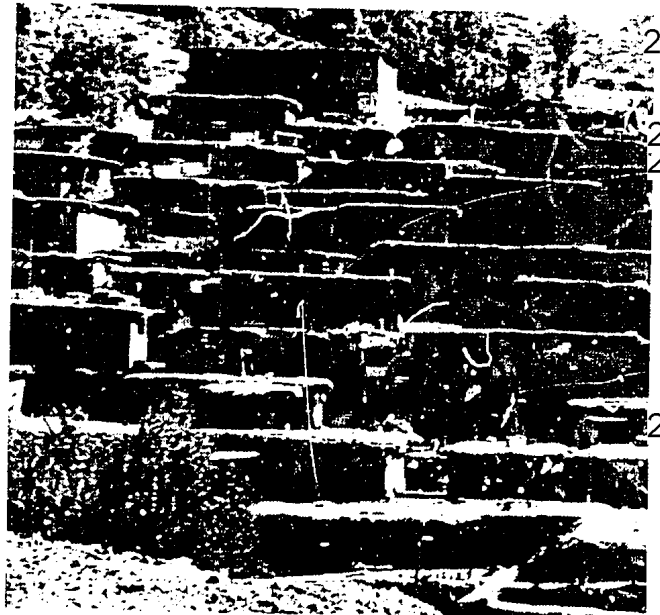
It is increasingly likely that the foreign ministers of Iraq and Iran will hold talks during their attendance at the current UN General Assembly session.



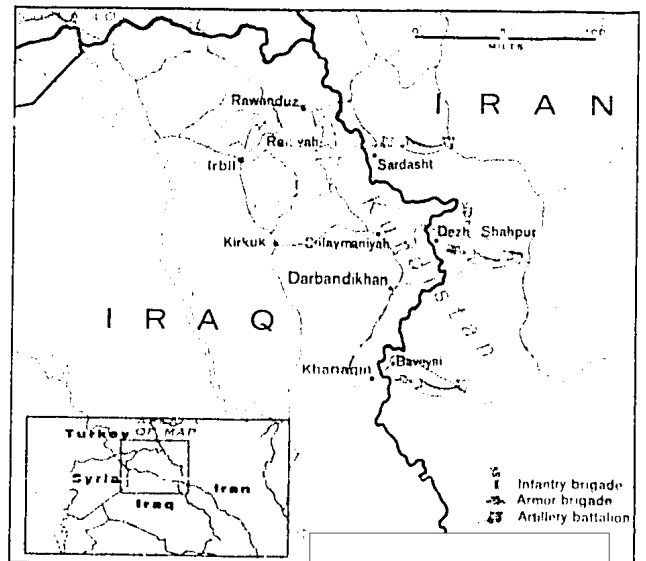
Although the Kurdish success has temporarily halted the Iraqi drive, Baghdad's forces have demonstrated a willingness to continue fighting after absorbing large losses. Troops are continuing their advance on Kurdish positions east of Rawanduz from two directions and the Kurds expect an offensive in that area soon.



The Iraqis ap-



Kurdish Village



Infantry brigade  
Armor brigade  
Artillery battalion



## ICELAND: BASE SETTLEMENT

Icelandic Foreign Minister Agustsson visited Washington on September 26 and initialed a memorandum of understanding that provides for the retention of US forces at the Keflavik NATO base. Although the accord will result in about a 12-percent decrease in US personnel at Keflavik, as well as other "adjustments," normal operation of the base will not be impaired. The termination clause remains in the bilateral treaty, however, and subsequent Icelandic governments could reopen the issue.

The threat to the base that emerged more than three years ago when the left-center government came to power seems to have passed. The new conservative Prime Minister, Geir Halgrimsson, reversed the official attitude toward the US presence as soon as he assumed office last month. Instead of questioning why the troops were necessary, as his predecessor had done, Halgrimsson seemed more concerned that Iceland's security might be jeopardized if the proposed reductions were implemented. Some of the modifications to the base demanded by Iceland will be expensive, however, and the Prime Minister's attitude may be intended to encourage US generosity.

In the memorandum of understanding, the US agrees to:

- replace gradually 420 military personnel with properly trained Icelandic civilians;
- construct sufficient on-base housing within three years to accommodate all US military personnel and dependents;
- separate the civilian and military airport complex by building a new access road and other civilian terminal facilities;
- seek funds to upgrade the airport over the next ten years to meet higher Federal Aviation Administration standards;
- examine the possibility of purchasing geothermal heat from the government to replace the present oil heat system.

In addition to these changes, which may cost more than \$40 million, the US is committed to develop close cooperation between NATO's Icelandic Defense Force and Iceland's coast guard.

In return, Iceland has agreed to allow the US to change the size and composition of the Icelandic Defense Force, including the Icelanders employed at the base, as the situation warrants. The US would also have the right to temporarily augment the defense force during periods of peak surveillance or during some NATO exercises. For their part, the Icelanders will relax curfew and uniform restrictions on US servicemen during off-base liberty. These Icelandic "concessions" will cost Reykjavik nothing, but they do provide the sort of flexibility necessary to maintain the functional efficiency of the base.

Although opposition to the base is still alive—centered largely around the Communists and the left wings of some of the democratic parties—the new coalition has the support of a broad spectrum of the electorate on the base issue.

Actually, the new government's stability is more threatened by grave domestic economic problems, and it also appears headed for further trouble in foreign affairs over the extension of its fishing limits. The inability of the previous government to stem the rampant inflation—currently more than 40 percent annually—eventually caused its collapse. Halgrimsson will be challenged by the Communists and other leftists to "do something about the economy."

In addition, Reykjavik is almost certain to run into difficulty because of its determination to extend Iceland's fishing limits to 200 miles next year. During the most recent "cod war," the UK and West Germany challenged Iceland's right to extend the limits to 50 miles. A 200-mile limit probably will draw fire from other NATO fishing nations. If this happens, Icelandic leftists could revive the base issue and renew the campaign to pull out of NATO.

25X1

25X1

25X1

**DENMARK: GOVERNMENT SURVIVES**

The Danish government managed to get through another major test last week when a controversial tax-reform package passed by a vote of 88 to 40.

The final balloting came after a week of hard bargaining and political maneuvering. Prime Minister Hartling's Moderate Liberals, who control only 22 out of 179 seats in parliament, tried in vain to compromise with the opposition Social Democrats. The Social Democrats opposed the \$1.2-billion tax reduction on grounds that the loss of government revenue would require cuts in social and educational programs. Hartling also tried to strike a compromise with Mogens Glistrup's anti-tax Progressive Party, but failed because Glistrup insisted on a larger tax cut.

Because Hartling could count on only 84 votes, the Social Democrats and Progressives were in a pivotal position. Hartling had announced earlier that if the bill were defeated, he would call elections. In the end, the Social Democrats abstained and the Progressives split, providing Hartling with the necessary margin.

The tax-reform package is the third and final stage of an economic program Hartling has designed to boost the sagging Danish economy. Denmark is currently suffering from an enormous balance-of-payments deficit and an inflation rate expected to reach 15 percent this year. Getting earlier phases of the plan through parliament nearly toppled the government twice this year.

It has become clear since the vote on the tax package that Hartling has forged an unofficial alliance with the six non-socialist parties that supported him on September 20. Hartling got another boost when three of the four members of the Progressive Party who broke ranks to vote for the tax package decided to resign from their party. They are expected to remain in parliament either as independents or as members of one of the non-socialist parties, and presumably they will support the government. With the non-socialist support, Hartling can count on a one-vote majority in parliament and will not have to court the socialist parties. The Prime Minister has survived

nine stormy months in the face of impossible odds and he may be in for brighter days.

25X1

**UK: MIDWAY IN THE CAMPAIGN**

With elections two weeks away, the Labor and Conservative parties continue to focus their attacks on the weak points in one another's election platforms. At the same time, the third parties are demonstrating their determination to hold the balance of power in Parliament after the general election on October 10. Recent public opinion polls give Labor a clear lead.

The campaign has so far avoided the emotionalism of the election last February. The only sour note has been Prime Minister Wilson's complaint that the press is anti-Labor and that he is the victim of a Tory smear campaign promoted by several large newspapers. Labor continues to cast doubt on the Conservatives' ability to gain the cooperation of the trade unions. Government spokesmen charge that the Tory economic program prescribes increased unemployment as an antidote to inflation.

The Conservatives are busy leveling charges of their own. Raising the specter of unemployment resulting from probable cuts in the defense budget, they continue to hammer at the government's motives for postponing defense review decisions. The Tories also question the viability of Labor's "social contract" concept of voluntary restraint in wages and prices as well as the government's ability to control workers' demands as demonstrated by the current Ford Motor strike.

The resignation of Lord Chalfont, a former minister in Wilson's cabinet, on September 22 typifies the alienation of some moderate and right-wing Laborites from policies dictated by the trade unions and the party's left wing. Although politically embarrassing for Wilson, the resignation will probably have little impact on the election outcome.

Similarly, Chalfont's probable move to the Liberal Party is not expected to have a marked

25X1



Opposition leader Heath campaigning

effect on the Liberals' political fortunes, but it might strengthen their claim that they provide an alternative to Labor and the Tories. The party hopes to increase its parliamentary representation by concentrating its funds and efforts in areas where a small shift in voter preference would give the Liberals the edge. Party leader Jeremy Thorpe, who has pledged to break the two-party system, is stressing the positive aspects of a minority government. In most polls, the Liberals continue to have the support of about 20 percent of the respondents, although two recent polls suggest they may be making slight gains.

The Scottish Nationalist Party, like the Liberals, is also undermining the chances of either

Labor or the Tories winning a parliamentary majority. The Nationalists' election manifesto, published earlier this week, advocates—predictably—complete independence for Scotland. It calls for the removal of all nuclear weapons from Scotland and maps out a fairly liberal social program intended to broaden the party's appeal and cut into Labor's traditional strength in Scotland. The Nationalists may also gain votes from Scottish conservatives unhappy with the Tories' weak commitment to greater Scottish self-government. Many political observers predict that the Nationalists will double their parliamentary representation—now 7 seats—at the expense of Labor and the Tories.

25X1

25X1

25X1



## YUGOSLAVIA-USSR: TROUBLED TIES

Belgrade is steadily leaking details aimed at showing that the pro-Soviet "cominformists" recently arrested in Yugoslavia had support from Moscow. Among the recent allegations are that:

- The chargé of the Soviet embassy was directly involved and was recalled before the Yugoslavs declared him persona non grata.
- The head of the illegal Cominformist Party, formed at an underground congress last spring, is Mileta Perovic, a Yugoslav emigre resident in Kiev.
- Propaganda materials seized by Yugoslav authorities came from Czechoslovakia, Hungary, and the USSR.

Despite the implications of these allegations, the Yugoslavs have sought to keep state-to-state relations on a relatively even keel. Two high-level delegations from the USSR, headed by Deputy Premier Novikov and General Staff chief Kulikov, met with their Yugoslav counterparts. They spent little time in the capital, however, and neither was received by Tito.

Belgrade also delayed announcement of the sentences given to 27 cominformists—ranging from one to fourteen years "strict imprisonment"—until the Soviet officials had gone home. Tito, however, is on record with a promise to publicize fully the results of this and other trials. This grand expose is presumably being held in reserve for the opening round of full-blown polemics, should it come to that.

The Yugoslavs may next take their case onto the international Communist circuit. Last week, Yugoslav party sources told Western newsmen that Belgrade might raise its grievances against the Soviet party at a preparatory session for an all-European Communist conference planned for this fall in Warsaw. Already a Yugoslav party delegation has been sent to Paris to discuss

international topics with specialists on inter-party relations of the French Communist Party.

Stefan Andrei, the Romanian party's top expert on international relations, arrived in Belgrade this week. He talked with Tito and delivered a personal letter from Ceausescu.

Whether by coincidence or not, the Yugoslavs on September 20 also dispatched a parliamentary delegation to China—the first in 17 years. Chinese officials, in an effort to increase Moscow's problems with Belgrade, responded warmly to the Yugoslav delegation even though there are no party ties between Peking and Belgrade. In a toast at a banquet, a vice chairman of the Chinese parliament went out of his way to laud Yugoslavia's opposition to foreign interference, subversion, and threats.

---

*DESPITE THE TENSION, THE YUGOSLAVS HAVE SOUGHT TO KEEP STATE-TO-STATE RELATIONS ON A RELATIVELY EVEN KEEL.*

---

There are good reasons for Tito to rethink his relationship with the Soviets. The first is the nature of the renewed cominformist activity on Yugoslav soil and the mounting evidence of Soviet collusion. Aside from the normal sensitivity to such activity, Tito must view as a deception all of Brezhnev's assurances of the past three years that Moscow has no ulterior motives toward his country. Tito invested his personal prestige heavily in efforts to convince Yugoslavs of an essential change in Soviet goals. Now, on the eve of the succession, he must tacitly admit he was deceived and must warn his successors—and the population—against dropping their guard against subversion from the East.

25X1

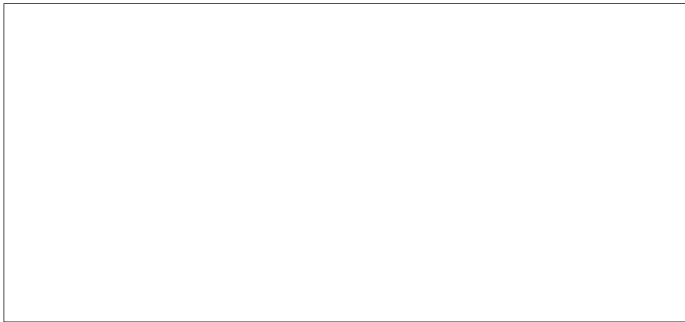
25X1

**USSR**

**NATO EXERCISE MONITORED**

Northern Merger, the NATO exercise that ended on September 27, was closely monitored by Soviet naval forces. The exercise, which began on September 16, took place in the Norwegian and North seas, and included ships from Belgium, Canada, Denmark, France, Germany, the Netherlands, Norway, the UK, and the US. The Soviets traditionally monitor NATO exercises held in these areas.

The Soviets' surveillance, which followed past patterns, was conducted by submarines, surface warships, and intelligence collectors as well as by naval aircraft that reconnoitered the exercise area almost daily. Even before the exercise got under way, the Soviets began moving ships near anticipated routes to the exercise area. Particular attention was paid to aircraft carriers. The Soviets undertook trailing operations against the USS America immediately after it left the US east coast and against the UK carriers Hermes and Ark Royal as soon as they left port.



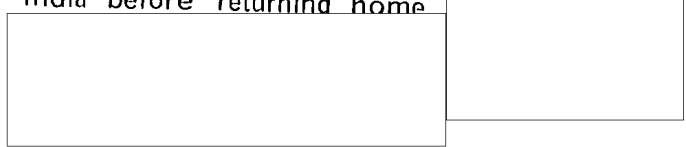
**THE LENINGRAD HEADS HOME**

The helicopter ship Leningrad and a guided-missile destroyer that were associated with mine-clearing operations in the Strait of Gubal left on September 22; they were sighted refueling near Aden on September 25.

During the Leningrad's participation in the operations, its helicopters were used primarily as spotters—flying in pairs in front of the mine-sweeping ships—and to transport personnel and

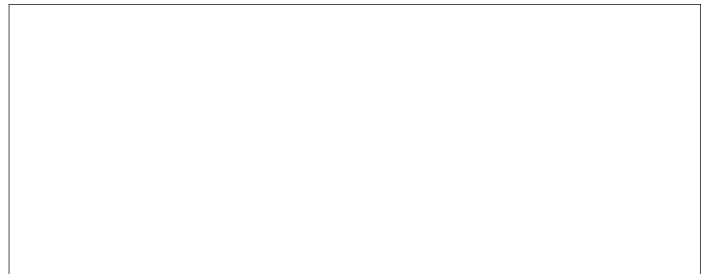
supplies. On two occasions, however, the helicopters apparently participated directly in mine-sweeping activity. For example, around the end of July one of the helicopters reportedly operated a remotely controlled mine-clearing device, although at other times this device was controlled by the minesweepers. On another occasion, one of the two cargo-transport helicopters assigned to the Leningrad during the mine-clearing was observed towing an array of floats through a mined area. Bad weather during much of the period, as well as poorly developed techniques, probably accounts for the helicopters' limited participation in the actual clearing work.

The Leningrad may go directly to its home port in the Black Sea, which would take about one month. By that time, the Leningrad will have completed its longest voyage—both in time and in distance. There is some possibility that the Leningrad will visit Africa, Mauritius, or even



25X1  
25X1  
25X1

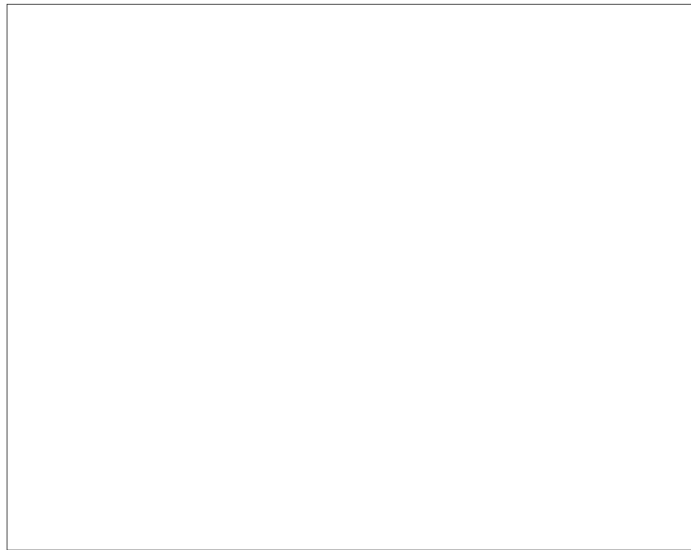
The Soviets announced in early September that a channel 20 nautical miles long and three nautical miles wide had been cleared in the Strait of Gubal. Although cargo ships are now able to transit the strait, some mine-clearing activity is continuing. On September 24 the Soviet chargé in Cairo stated that an additional two months would be needed to complete the work. During their mine-clearing operation in Bangladesh, the Soviets conducted check sweeps in Chittagong harbor for as long as six months, and the entire clearing and salvage operation took over two years.



25X1



25X1



this proposal somewhat, but the Western delegations have continued to reject it because it calls for equal reductions by both sides and requires Western states other than the US to participate in the reduction process from the outset. The West has argued that only US and Soviet ground forces should be reduced in a first phase of reductions.

25X1

Most of the other Western negotiators share the West German view that the Soviets will show little flexibility. The West Europeans apparently believe that the Soviets wish to continue to stall in Vienna until a firm date is agreed for the concluding phase of the European security conference. Moscow wants to conclude that conference with a summit meeting, and the course of the negotiations in Vienna and Geneva has shown that Moscow is reluctant to move in the MBFR talks until the West agrees to the summit meeting for CSCE.

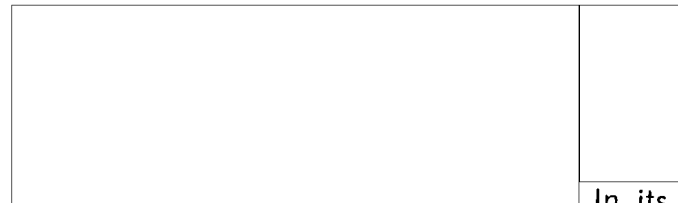
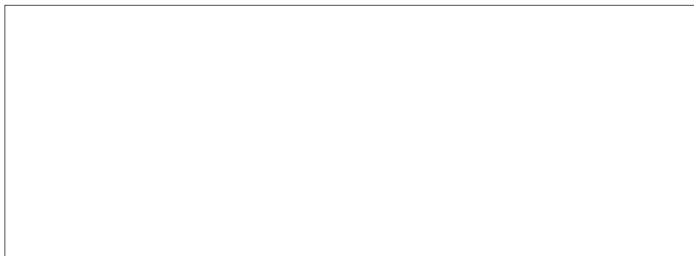
25X1

### MBFR NEGOTIATIONS RESUME

The fourth round of force reduction negotiations opened on September 24 in Vienna. Although, Soviet Foreign Minister Gromyko has suggested that Moscow will make new proposals, most West European participants believe that there will be little progress during this round. The Europeans advocate that the West not offer any further concessions to the Soviets.

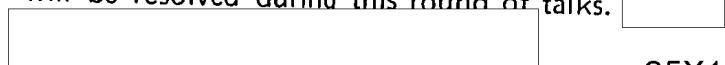
With the exception of the Netherlands' representative, most West European negotiators in Vienna agree that the West should avoid making any substantive concessions during this round. The Hague, under domestic pressure to reduce Dutch forces, has stated that it will do so only in the context of a multilateral force-reduction agreement, and hopes such an agreement can be reached soon. The Dutch, therefore, would like the Allies to hint to the Soviets by the end of the year that the West would be willing to reduce the number of nuclear warheads and delivery systems in return for the Soviets' acceptance of the Western proposal that they withdraw 68,000 men and 1,700 tanks.

25X1 25X1



The British representative also advocates giving such a signal at the end of this round. The issue of introducing nuclear elements into the talks is a potentially divisive one for the Western Allies, however, and obtaining agreement for such a move may prove difficult. Given the evident desire of most West Europeans to go slow and the lack of any firm indications that the East will offer any substantial concessions, it is unlikely that the many issues that divide East and West will be resolved during this round of talks.

In its draft treaty presented in November 1973, the USSR proposed that East and West each make a symbolic reduction of 20,000 men in 1975. Earlier this year, the Soviet delegates modified



25X1

25X1

25X1



**SOUTH KOREA: OPPOSITION STIRRING**

25X1

Opponents of President Pak Chong-hui's government are stirring once again in the aftermath of the Seoul-Tokyo diplomatic dispute. President Pak has already taken a number of steps aimed at heading off domestic criticism. Nevertheless, there are likely to be confrontations with the government, perhaps including action in the streets, before President Ford visits Seoul in late November.

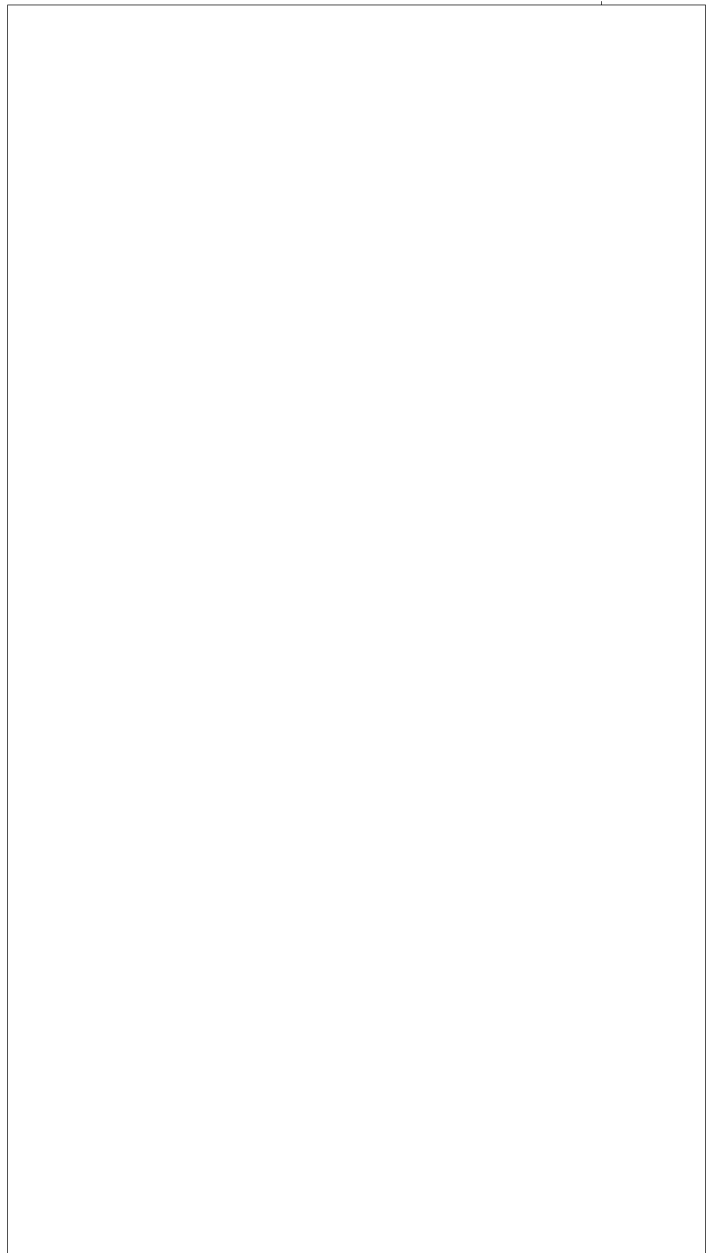
[redacted] additional measures to placate the opposition are being considered. Top government leaders, however, are apprehensive. They are particularly concerned that the new opposition party leader will spark some stormy sessions in the National Assembly early next month, and that both student and Christian dissidents will join in a general opposition offensive.

25X1

During the past few days, student and Christian groups have resumed signature campaigns and protest prayer meetings aimed at obtaining the release of comrades imprisoned during the spring and summer under the government's emergency decrees. Government security forces have moved quickly to pick up the leaders of these activities for questioning. In the National Assembly, the major opposition party has joined the call for pardons for political dissenters. The newly elected leader of the opposition, Kim Yong-sam, is planning a vigorous attack on government policies, which reportedly will include demands that the emergency decrees remaining in effect be rescinded, that the constitution and criminal code be revised to restore individual liberties, and that the role of the Korean CIA be sharply curtailed.

The government's position is complicated by economic problems. Last week, the largest and most violent strike since 1972 took place at a major industrial center near Pusan and officials fear that a predicted 30-percent decline in the harvest this year could cause food shortages.

President Pak, in moves aimed in part at satisfying opposition claims, last month lifted two of the four emergency decrees imposed earlier this year, and last week he carried out a cabinet shuffle. The cabinet changes did not presage any significant policy shifts, but they did bring in a number of new faces, pre-empt a planned opposition attack on government corruption, and remove education and information ministers who were unpopular with students and the press. Additionally, in recent days a number of students convicted under the decrees have had their sentences reduced. A desire to deflect popular resentment was one factor behind Seoul's harsh anti-Japanese campaign of recent weeks.



25X1

## SOUTH VIETNAM

### Communist Incidents Up

Except in the delta, Communist-initiated military activity increased throughout South Vietnam during the week. The weekly total of incidents in the northern provinces was the highest of the year, but most of the action consisted of shellings and low-level harassing attacks. Communist sappers this week blew up two bridges near important cities—one just outside of Saigon, and another near Hue, which effectively cut off the city for several days. The Communists also overran a government outpost in the mountains of Quang Ngai Province, giving them almost complete control of Route 5 from the highland provinces to the coastal lowlands.

There is tenuous evidence that the North Vietnamese have introduced their SA-2 surface-to-air missile system into the highlands. If confirmed, the South Vietnamese will be denied airspace over much of the highlands, as they are now over western Quang Tri Province.

### Political Strains

The issue of government censorship stirred up the political situation in South Vietnam

briefly this past week. The publishers of one of Saigon's dailies began a public burning of their Friday edition when the government threatened to confiscate the entire publication. Police reportedly treated the demonstrators leniently, continuing the government's recent light-handed approach in dealing with political dissent, but the government did confiscate several other newspaper editions last week.

The recent spate of protests, however, appears to be heightening personal rivalries in President Thieu's entourage. Information chief Hoang Duc Nha, who has been trying to negotiate an agreement with the publishers to be more restrained in publicizing charges of corruption against the government in exchange for some relaxation of press censorship, is under pressure from Thieu's military advisers to take a tough line. The decision last week to confiscate the newspapers was probably in response to this pressure.

South Vietnam's internal political difficulties are still minor, however, and are having relatively little effect on the bulk of the population. Current Catholic protest demonstrations did not spark significant popular response, and a

Main bridge on Highway 1 near Saigon



recent government survey indicates that except for some of the more educated people in the cities, most people are unaware of the protests and do not understand the issues under dispute. Opposition groups appear determined, however, to exploit or spark public frustration over inflation, government corruption, and the recent upsurge in fighting, so that demonstrations of one kind or another will continue. Communist exploitation of any future protests will be a major factor conditioning the government's response, but it seems unlikely that the Viet Cong can do much, given their own political weaknesses.

The return to Phnom Penh last week of Brigadier General Lon Non, President Lon Nol's controversial younger brother, may inflame the situation. Not only is Lon Non anathema to leading politicians, he is also thoroughly disliked and distrusted by the students and teachers, who hold him personally responsible for the killing or wounding of several demonstrators in March 1973. Lon Non reportedly was involved in the decision to close the teachers' headquarters. Although Lon Non has told some journalists and friends that his visit will only be a brief "vacation," US officials believe that he will try to stay.

25X1  
25X1

### CAMBODIA: TENSIONS IN PHNOM PENH

Public discontent, sparked early this month by the government's dispute with South Vietnam over offshore oil exploration, has now been increased by a number of unpopular economic reform measures. Although the reforms included substantial salary increases for government employees and military personnel, these raises were outstripped by a major devaluation of the riel and at least threefold increases in the prices of basic commodities such as rice and petroleum products. Disgruntlement led to minor looting incidents in Phnom Penh and the provinces during the week.

The always troublesome leftist teacher and student agitators plan to exploit the situation. Beginning this week, some student leaders—including at least one member of the Khmer Communist Party—plan to distribute tracts and to display posters and banners protesting both the economic reforms and the government's alleged mishandling of the oil dispute. The activists also hope to foment strikes and work slowdowns in the capital. The anti-government campaign is planned to culminate in street demonstrations timed to coincide with Prime Minister Long Boret's address to the UN General Assembly around October 9. The government's closing of the teachers' association headquarters on September 24 may prompt the activists to take to the streets sooner.

### The Situation at the UN

The moment of truth for Cambodia in the UN General Assembly is nearing. The UN steering committee voted on September 19 to recommend the pro-Sihanouk resolution that was deferred last year for inscription on the General Assembly agenda this year. In the assembly, Sihanouk's backers appear to have marshaled about a five-vote margin in favor of their resolution. They are pushing for an early decision, and a vote could be called for soon after the plenary session begins on October 14.

Phnom Penh's backers have decided not to try to defer debate by amending the pro-Sihanouk amendment. Instead the Asian Working Group—the informal body that was instrumental in saving Phnom Penh's seat last year—has thrown its weight behind the concept of a counter-resolution. One under consideration would call for a UN fact-finding team to investigate the situation on the ground in Cambodia and would request that no further action be taken on the representation issue until the team submits a report to the 1975 General Assembly. Another would simply call for negotiations between the two Khmer parties and would ask the UN not to prejudice the prospects for a settlement by voting on the issue. If a counter-resolution can reach the floor—which is by no means certain—the vote should be extremely close.

25X1  
25X1



Police move in to break up flaming barricade

### ARGENTINA: THE VENDETTA SYNDROME

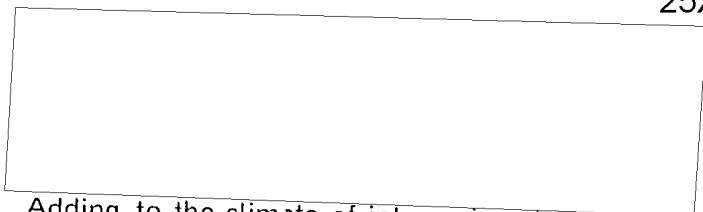
President Peron's call for an end to violence has fallen on deaf ears. There has been no let-up in the frenzied pace of political murders and bombings by extremists of both the left and right, and the cycle of attack and retaliation will cause further difficulties for the government.

Against the backdrop of stepped-up urban terrorism, Peronist labor organized a mass rally to trot out worker support for President Peron and make a show of Peronist unity—something more ephemeral than real these days. Although Maria Estela Peron gave every appearance of being determined to demonstrate her leadership and bolster the sagging image of her government, she offered little hope that solutions would be found to the problems that plague the country.

Meanwhile, right-wing terrorists—intent on matching the performance of the leftist subversive

organizations—have embarked on a campaign of vengeance with equally chilling effect. A right-wing murder squad billing itself as the Argentine Anti-communist Alliance distributed a communique taking credit for some of the gangland-style killings of recent weeks, including the particularly brutal murders of a prominent congressman, a former vice governor of Cordoba Province, and a former high police official. The group also vowed to slay a score of other leftist figures, including former president Hector Campora.

25X1



Adding to the climate of internecine struggle are indications that labor groups identified with

25X1

orthodox Peronists are fielding their own death squads targeted against the left.

As both sides added new victims to their tally this week, the Montonero guerrillas pulled off a spectacular kidnaping in Buenos Aires, seizing two of the country's most prominent—and best-guarded—business executives, Juan and Jorge Born. The two brothers head the third-largest grain exporting corporation in the world. Although no ransom demands have been publicized, [redacted] an astronomical amount is being asked, possibly more than \$30 million.

The Montoneros probably need additional funds to sustain their terrorist activity, and they may hope to emulate the success of the People's Revolutionary Army, which has accumulated vast sums of money from kidnapings.

So far, there are no indications that the public sympathizes with either side in the conflict. People in major urban areas are becoming terrorized, however, and it may be only a matter of time before Argentines—seemingly inured after years of violence—begin to demand greater efforts by the government to control it [redacted]

25X1

25X1

**BRAZIL: MIDDLE EAST POLICY**

25X1



Silveira

Foreign Minister Silveira, in his remarks to the UN General Assembly, called again for Israeli withdrawal from occupied territories and for a settlement "attending to the rights" of the Palestinian people. His statement was more bland than some observers had expected, but served nevertheless to underscore Brasilia's continuing determination to strengthen ties with Arab oil suppliers.

Until recently, Brazil had remained noncommittal on the withdrawal issue. Concern over access to crucial petroleum supplies and a desire to attract Arab capital, however, led it to adopt an openly pro-Arab line. Earlier this month, Silveira, playing host to his Saudi Arabian counterpart, issued his country's first clear call for an Israeli pullback, breaking with Brazil's formerly "equidistant" policy.

Silveira's overtures toward the Arabs probably did not meet with universal approval among high government and military officials. Some may well feel that Silveira's treatment of the visiting Saudi was overly solicitous and that his statements were too dramatic. Indeed, this factor may have contributed to Silveira's moderate tone at the UN. Nonetheless, he has publicly committed Brazil to a position favoring the Arabs and has not been openly contradicted by other members of the administration. [redacted]

25X1

25X1



## OAS: THE CUBA SANCTIONS

Sharp Latin American reaction to publicity concerning US involvement in Chile further strengthens the prospects that OAS sanctions against Cuba will be lifted when the foreign ministers meet on November 8. OAS members voted unanimously last week to reconsider the 1964 resolutions against the Castro regime, and their eagerness to get this issue behind them can now probably be jeopardized only by the Cubans themselves.

Despite the fact that a clear majority in the OAS has wanted to remove the sanctions so that members would be free to choose independently concerning relations with Cuba, the strongly anti-communist governments nevertheless harbored some small hope of eking out the eight nays required to prevent a policy change. The tide of public protest over the Chile affair, however, has now raised suggestions in Latin American media that the US, like Cuba, should be held to OAS judgment for subversion. None of the countries inclined to vote against Cuba will want the foreign ministers meeting to degenerate into another political controversy, this time over the US role in the hemisphere. Therefore, the desire to debate the Cuban issue in full is likely to wane substantially.



Dorticos

The public furor in Latin America stems not so much from stories of CIA activity per se. The belief that CIA "meddles" around the globe is widespread in Latin America, and the earlier news stories fit the Latin preconception of a US intelligence corps outside official control. The later linkage of respected US leaders with the Chile affair, however, has been received with rising concern.

The Castro regime may yet tilt the foreign ministers meeting in another direction. Cuban President Dorticos' speech a week ago, during honors for visiting Tanzanian President Nyerere, seemed a deliberate attempt to make it more difficult for the OAS to agree on lifting the sanctions, originally applied because of Cuban support for subversion. Dorticos made a point of lauding a Cuban army officer who had served with anti-Lisbon guerrillas in then-Portuguese Guinea and promised that liberation movements would triumph in Latin America despite "temporary setbacks such as Chile." He further had warm praise for Venezuelan President Carlos Andres Perez' public reply to President Ford's UN address, which he characterized as a threat against Venezuela. He pledged Cuba's solidarity and moral support against alleged US blackmail and for the cause of liberation. Some foreign ministers may interpret these remarks as evidence that Cuba is still committed to the exporting of revolution.

The Castro regime prefers a sharp split in the OAS on the sanctions question in the hope of damaging the organization itself. Dorticos' kind words for Venezuela were meant to tempt the Perez administration to forgo joint action through the OAS and instead to restore ties with Cuba unilaterally—a move likely to compromise OAS unity. Havana is confident that the sanctions, if not lifted, will eventually be bypassed by most OAS members, and it recognizes that a formal agreement to lift them is aimed more at preserving the OAS than at satisfying Cuba. A clearer indication of how provocative the Cubans intend to be is likely to come on September 28, when Fidel Castro is scheduled to deliver a major address.

25X1  
25X1

25X1

## COLOMBIA: ECONOMIC REFORM

President Alfonso Lopez Michelsen's clear-cut election victory last April was based largely on promises of aggressive measures to control the economy. Last week, after a month and a half in office, Lopez declared a 45-day state of economic emergency. As justification, Lopez pointed to:

- The cost of living, which is rising at an annual rate of 24 percent, twice the rate of recent years.
- An anticipated budget deficit of \$137 million, about twice as high as Bogota has recently experienced.
- The recurrent need to postpone payment of salaries of government employees; public employees' wages amount to 50 percent of the operating budget.
- The need to restrain illegal exports of staple commodities to neighboring countries; since late 1973, the export of most agricultural commodities has been banned, but smuggling has occurred because of higher prices paid over the border.
- A sharp drop in foreign-exchange earnings, largely because world coffee prices have fallen about 30 percent since February.
- Landslides late last June, which isolated the agricultural eastern plains, a major source of food supplies for Bogota and central Colombia.

Under the state of emergency, Lopez has the power to issue economic decrees without congressional approval. One of his first moves was to subject state-owned companies—except for electric, sewage, telecommunications, and public health services—to all normal tax requirements. This is not likely to have much impact, however, since many of these companies show operating losses, and the major hope of raising more tax money lies in increased customs duties. He has

also raised sales taxes on many products, with the tax on luxury items set at 35 percent. The cabinet is considering major income-tax reform legislation.

In addition, Lopez has restricted expenditures by decentralized government agencies to reduce the budget deficit, and has changed the legal structures for natural gas development to facilitate development of new energy supplies.

Lopez has taken additional measures not based on his emergency powers. Prices for drugs, tuition, and books have been frozen, for example, while the wheat subsidy, which had been a heavy drain on government funds, has been eliminated. Lopez has also substantially increased the government's control over the expansion of money supply.

The political impact of Lopez' economic decrees has been strongly negative, particularly in view of his almost two-to-one election victory. His declaration of the economic emergency itself antagonized the congress, whose pro-Lopez majority would probably have approved the new measures if they had been submitted as bills. In addition, spokesmen for business deplore Lopez' assault on profits by increasing taxes. Spokesmen for labor, on the other hand, are protesting the rise in prices that is expected to follow the elimination of the wheat import subsidy. Even former president Carlos Lleras Restrepo, an elder statesman of Lopez' party, has spoken out against the measures, possibly accelerating the party's breakdown into its pre-election factions.

Although Lopez' actions are likely to prove beneficial to the economy, in part they appear to contradict his campaign pledge to protect his middle- and low-income supporters from further inflationary burdens. His large financial backers, many of them political powers in their own right, may also feel betrayed. It is clear that, after just six weeks in office, Lopez' honeymoon is over.

25X1

25X1

**BANKERS SEEK STABILITY**

Concern over the instability of the European banking structure dominated discussions at the meeting of central bankers in Basel this month. The UK and West Germany are moving unilaterally to assure that the system will not crumble, but the responsibility for monitoring foreign-owned banking operations has not been fully resolved.

West German representatives stated that the Bundesbank is prepared to prevent more bank failures by arranging mergers or providing funds. Grossly mismanaged operations would be saved only if mergers could be arranged. Bonn already has set limits on foreign exchange operations and has formed a consortium to aid small banks facing acute liquidity shortages. Until now the attitude toward bank failures has been much more casual in West Germany than in the UK and the US.

The British representatives brought up the difficult question of who is responsible for foreign subsidiaries and foreign bank consortia doing business in London. There is no clear responsibility for these operations, in contrast to branch offices of foreign banks, which are backed by the home country of the main office. Unable to get a commitment from other governments, the British indicated that they would ask the banks in question whether their parent firm would bail them out if problems developed. This approach worried the other central bankers, who felt that raising such questions would feed rumors of new failures and disturb an already delicate situation.

[Redacted]

25X1

**ATOMIC ENERGY: CONCERNED CONFERENCE**

Presentations at the recently concluded annual conference of the International Atomic Energy Agency in Vienna showed a growing awareness of the possibilities as well as the dangers of increased use of nuclear energy. The

proliferation of nuclear weapons remains a constant concern in discussions of nuclear development, but attention now has begun to focus on the need for the agency, as the major international organization with broad atomic energy responsibilities, to ensure that nuclear development proceeds in a manner that is safe, equitable, and beneficial to all nations.

The energy crisis last winter and the sharp rise in the price of oil provided the primary impetus for this regard for the non-weapons aspects of nuclear power. The developing countries, in particular, stress that nuclear power provides the only alternative available to them if they are to prevent future economic and technological dislocations. These spokesmen feel that the agency should not only increase financial and technical assistance, but should also improve its procedures for transferring nuclear technology and for training local technicians. The Iranians have even suggested that the agency should assume a major role in regularizing the fuel supply situation.

25X1 25X1

This agitation by the developing countries for expanded attention by the atomic energy agency to their specific nuclear needs has not overshadowed other important agency responsibilities. The growing awareness of the dangers of unchecked proliferation has led to calls for stricter application of safeguards and for improvements in the processing of safeguards information, possibly by greater reliance on advanced computer technology. At the same time, the potential for theft or other diversion of nuclear material has prompted a number of countries, led by the US, to call for an active role for the agency in drawing up guidelines for the physical protection of nuclear materials. These guidelines would not only establish security standards but would also specify where facilities should be situated to minimize the risk of theft or sabotage.

[Redacted]

25X1 25X1

[Redacted]

25X1

**OECD: SHORT-TERM ECONOMIC PROSPECTS**

Economic prospects for the member countries of the Organization for Economic Cooperation and Development are highly uncertain, and growth will be slow, at best, through mid-1975. Economic projections for the major foreign members including Canada, France, Italy, Japan, the UK, and West Germany indicate near stagnation for the rest of this year and growth at about a 3-percent annual rate in the first half next year. Inflation in all of the OECD countries is likely to moderate, but will continue at unacceptable levels. The aggregate trade deficit for the group will improve little, if at all.

Consumer price increases in the OECD countries should average 15 percent from mid-1974 to mid-1975, compared with an annual rate of 18 percent in the first half of this year. Price increases will be due, in part, to tight supplies of foodstuffs and rising oil costs. More important is the momentum of large wage increases, which will push labor costs and prices up, despite restrictive government policies.

The overall trade balance for the OECD countries probably will improve slightly in the first half of 1975, if there are no price increases beyond the 5-percent hike effective next week. The trade deficit is projected to decline from \$14.6 billion in the second half of this year to \$13.3 billion in the first half of 1975. A further increase of 2 percent in the price of oil, however, would eliminate this anticipated improvement.

There is nothing on the horizon that is likely to stimulate growth, and recent events have occurred that threaten to hold growth below our forecasts for the first half of 1975. Besides raising prices for the last quarter of 1974, the oil producers recently declared their intention to link their prices to prices in the industrialized countries, beginning next January. Inflationary psychology that has buoyed consumer spending may increasingly give way to concern over the future, depressing consumer spending. Furthermore, because of the inability of some countries to finance payments deficits, some countries may further restrict growth or imports.

25X1

25X1