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**Top Secret**



# Weekly Review



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February 28, 1975

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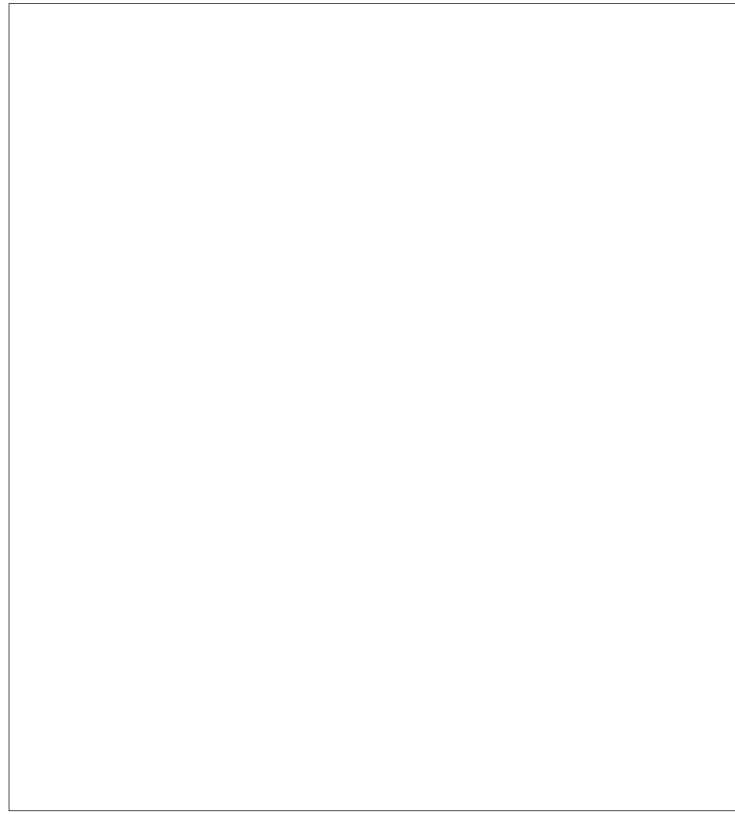
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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of 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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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Review.

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Devastation in Phnom Penh

## *Cambodia: No Relief in Sight*

The Khmer Communists have been on the attack for two months now, and there is still no relief in sight for the government. Combat action around Phnom Penh increased significantly this week as insurgent units mounted a push against the city's southwestern defenses, posing an increased threat to the Cambodian army's main ammunition dump and to Pochentong airport.

Other insurgent forces are keeping steady pressure on government units northwest of the city, while Communist gunners are continuing their daily rocket attacks against downtown Phnom Penh and the airport. Although a cargo plane belonging to a domestic airline was destroyed early in the week, airlift operations have

not been interrupted. At week's end, US contract airlines made their first deliveries of rice and fuel to Pochentong; earlier shipments had consisted entirely of military equipment.

In the Mekong River corridor southeast of Phnom Penh, the Communists are closing in on the government navy base at Neak Luong. The base has been the target of heavy shellings, and casualties have mounted among the 30,000 civilian refugees there. Insurgent ground attacks have also isolated several outposts on the base's perimeter. Farther south along the river, Communist resistance has stymied government operations near a vital narrows; at midweek, one of two government beachheads in the area was overrun.

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In the countryside, government units early in the week pulled out of the town of Oudong on Route 5 following several weeks of sporadic fighting. Oudong had been reduced to rubble during heavy fighting last spring and summer, and had no sizable civilian population. Its loss followed that of the district town of Muong Russei, farther north on Route 5.

**Tensions Rise in Phnom Penh**

As the military situation has deteriorated in the past two months, there has been a corresponding rise in pessimism and recrimination among senior government officials and increasing uneasiness among the general population. During previous crises, the steady influence of the US mission has been enough to ensure a basic political stability, and American support for the current leadership will continue to discourage any unilateral action against the government by disgruntled political and military elements. But as pressures build in Phnom Penh, the chances increase for the eruption of essentially unpredictable and uncontrollable political turmoil that



On the banks of the Mekong

would make it difficult, if not impossible, for the government to continue the war.

The anti-Chinese demonstrations that began in the northwestern provincial capital of Battambang last week, and spread to Phnom Penh this week, provide hints of how such a situation could develop. Cambodian resentment of Chinese and Vietnamese control over commerce has been a traditional source of friction, but the tightened supply situation and corresponding rises in the prices of some basic commodities have aggravated the racial tensions. Although local authorities have been able to handle the situation so far, student agitators are reportedly planning further demonstrations. With many police units moved out of Phnom Penh to meet the Communist military threat, renewed street demonstrations could easily get out of hand.



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## ***Palestinians in Disarray***

Leaders of the relatively moderate fedayeen groups that control the Palestine Liberation Organization—Fatah, Saiqa, and the Popular Democratic Front for the Liberation of Palestine—are increasingly apprehensive that Palestinian interests are being ignored in the current round of peace negotiations. As a result, they are again quarreling among themselves and with their major Arab supporters.

For several months, PLO chairman and Fatah leader Yasir Arafat has placed his trust in Egyptian President Sadat's ability and willingness to bring the Palestinians into negotiations. On February 20, however, he denounced Secretary Kissinger's latest efforts to find a Middle East settlement, and, by implication, Egypt's involvement in those efforts. Arafat charged that the US aim is to elicit token territorial concessions from Israel in Sinai and on the West Bank that would placate Egypt and Jordan and divide them from Syria and the Palestinians, who would receive nothing. Arafat's criticism is intended to ensure that Egypt and the US do not ignore Palestinian interests indefinitely. At the same time, he hopes to deprive his Palestinian opponents of an opportunity to charge that his cooperation with Sadat is leading the Palestinians nowhere.

Despite this effort by Arafat, important figures in Saiqa, the Popular Democratic Front, the Palestine Liberation Army, and in Fatah remain critical of Arafat and of Egypt. They have recently been protesting Arafat's policies, both for their own purposes and at the instigation of Syrian leaders. Damascus is trying in a variety of ways to stimulate Arab pressures on Cairo so that some kind of assurances for Syria and the Palestinians will be written into any new Egyptian-Israeli agreement.

In an obvious attempt to assuage Palestinian sensibilities and bolster Arafat's position, Egypt last weekend called on the US and the USSR to invite the PLO to attend the Geneva talks. This move by Cairo, which previously had held that the question of Palestinian attendance should be settled after the Geneva talks resume, will relieve

some of the pressure on Arafat, but it will not satisfy even his moderate Palestinian challengers.

To keep the heat on Egypt, Syria and the Palestinians have called for a summit meeting of Egyptian, Syrian, Jordanian, and Palestinian leaders prior to Secretary Kissinger's next trip to the Middle East. The Syrians and Palestinians consider that they could use such a meeting to force their demands on Cairo before Egypt concludes a new agreement with Israel. Aware of this, the Egyptians would prefer to delay the quadripartite meeting even further; originally, it was to have been held in February at the foreign ministers level.

In an additional move to call attention to the Palestinian problem, fedayeen from the Popular Democratic Front attempted last weekend to cross from Lebanon into Israel. As the first such attempt in several weeks, the incident did not draw an Israeli reprisal, and it seems unlikely to upset what has now become a de facto truce among the Lebanese, Israelis, and fedayeen.

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### **ASAD SPEAKS**

Syrian President Asad, in a rare interview, told *Newsweek* editor Arnaud de Borchgrave recently that he and other Baath Party leaders are ready to sign a long-term peace treaty with Israel. Asad attached the standard conditions: Israel must withdraw to its pre-June 1967 borders, and it must accept a Palestinian state on the West Bank of the Jordan River and in the Gaza Strip. President Sadat has repeatedly said that Egypt is ready to accept the right of Israel to exist and that Cairo will sign a peace treaty when the time comes, but this is the first time, at least publicly, that Asad has been willing to be that explicit. For the Syrians, this is both a significant and uncharacteristic concession.

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## SOUTH ASIA: NEW IRRITANTS

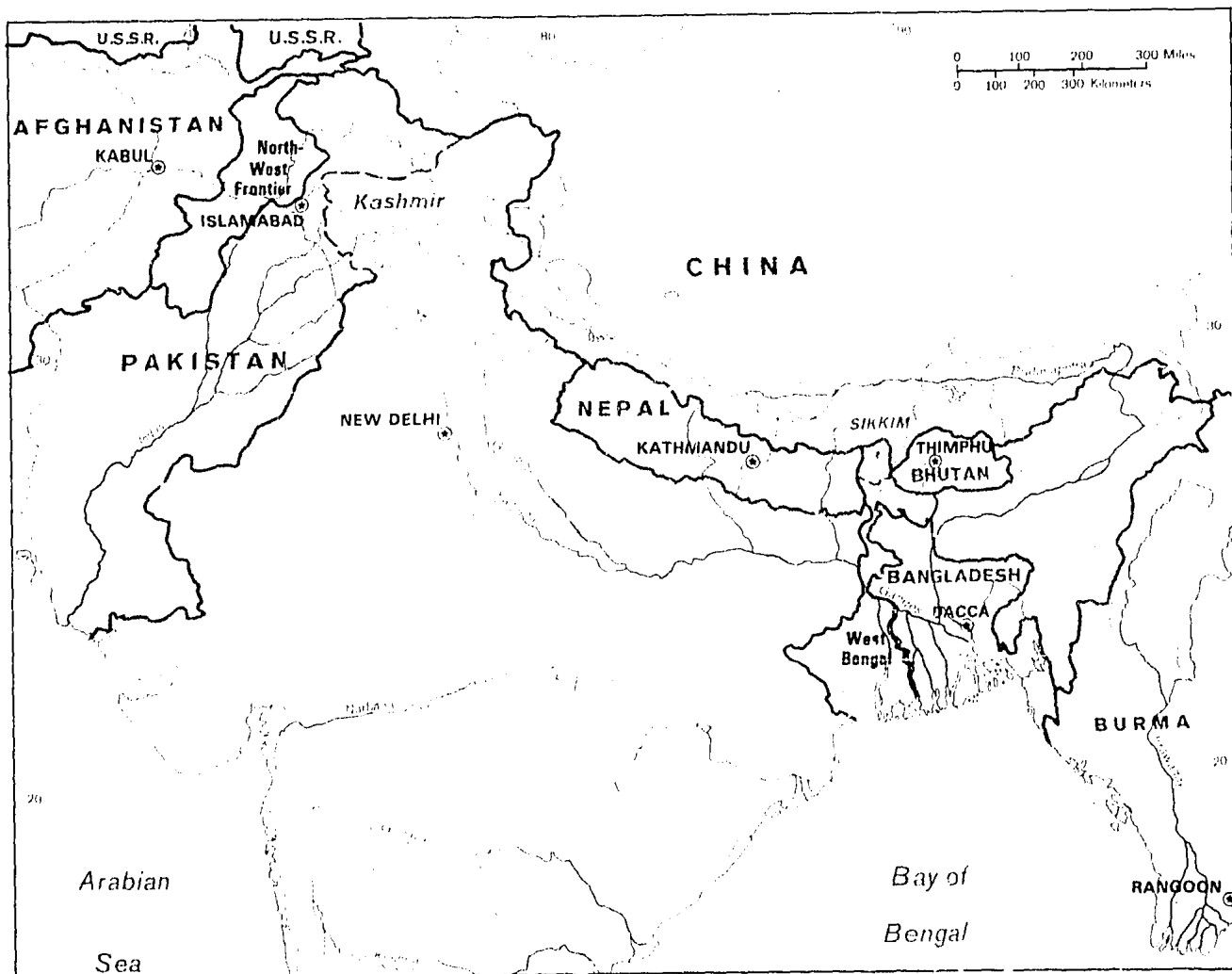
Relations between India and Pakistan, which have been generally improving over the last few years, hit another rough spot this week with New Delhi's announcement of new governing arrangements in the Indian-controlled portion of disputed Kashmir. Indian unhappiness over the change in US policy that will permit a resumption of arms sales to Pakistan may also pose a temporary obstacle to Indo-Pakistani reconciliation. Pakistan's already poor relations with another neighbor, Afghanistan, have grown worse as a result of Islamabad's accusations against Kabul following the recent murder in Pakistan of an important political figure. New irritants are also plaguing the heretofore good relations between India and Bangladesh.

### India-Pakistan

On February 24, Prime Minister Gandhi announced an agreement restoring Kashmiri nationalist leader Sheikh Abdullah as head of

government in Indian Kashmir. In return, Abdullah for the first time formally endorsed Indian sovereignty in the state. Pakistan, which has long advocated self-determination for the predominantly Muslim state, has criticized the agreement and has called on Pakistanis throughout the world to engage in a one-day protest strike on February 28. The strike, however, seems intended to be no more than a sop to anti-Indian sentiment in Pakistan because Islamabad does not want movement toward Indo-Pakistani reconciliation halted more than temporarily.

Mrs. Gandhi, for her part, may decide that the resumption of US arms sales to Pakistan makes early restoration of Indo-Pakistani diplomatic relations—broken during the 1971 war—politically inadvisable for her government. Other than Kashmir, the restoration of relations is the main issue still awaiting resolution under the Simla agreement of 1972, in which the two sides agreed to settle their problems through



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negotiation. India has generally been more reluctant than Pakistan to resume diplomatic ties.

Mrs. Gandhi and other Indian officials have criticized the US for lifting the embargo, but most of their statements so far have been relatively restrained. Much of their criticism has been directed at Pakistan for seeking US arms. The Indians say they do not agree with US and Pakistani arguments that a resumption of US arms sales need not lead to a South Asian arms race or damage prospects for Indo-Pakistani reconciliation. The embargo, first imposed in 1965, applied to both countries, but was much more damaging to Pakistan. India continued to acquire large quantities of weapons from its own arms factories and from the Soviet Union.

The lifting of the US embargo coincided with a visit to New Delhi by Soviet Defense Minister Grechko for talks about new military aid to India. Grechko probably renewed Moscow's long-standing request for use of Indian port facilities and airfields by Soviet warships and aircraft. The Soviets may believe the Indians will be more receptive than before because of the lifting of the US arms embargo. New Delhi, however, probably remains reluctant to accede to the Soviet request. The Indians continue to view their own interests as best served by maintaining some degree of balance in their relations with both super powers and by keeping the Indian Ocean free of foreign bases.

#### Pakistan-Afghanistan

Islamabad has been claiming that Afghanistan—a good friend of both India and the Soviet Union—was responsible, together with the Afghan-supported National Awami Party in Pakistan, for the bomb explosion on February 8 that killed Prime Minister Bhutto's chief political lieutenant in the North-West Frontier Province, which borders on Afghanistan. The Afghans and the National Awami Party have angrily denied the charges, but Islamabad has nevertheless outlawed the party and arrested hundreds of its members.

Despite the resurgence of hostile rhetoric, both Pakistan and Afghanistan will try to keep

their relations from deteriorating to the point of war. Afghan President Daoud knows Pakistan's army is much stronger than his own, and he presumably realizes he could not count on the Soviets or Indians to intervene militarily in Afghanistan's behalf. He also well remembers that friction with Pakistan helped bring about his fall from power in 1963 and his subsequent ten-year political eclipse. Bhutto, for his part, knows that hostilities with Afghanistan would be expensive and could interrupt the steady progress he has been making in consolidating his power at home. Pakistani-Afghan fighting also could seriously disrupt the process of reconciliation with India that Bhutto continues to espouse.

#### India-Bangladesh

Bickering between India and Bangladesh is threatening to sour relations between those two countries. The most sensitive problem is establishment of a maritime boundary in the Bay of Bengal, which is believed to contain sizable oil reserves. Talks held almost monthly since November have failed to bring progress toward an agreement. Both sides are increasingly annoyed and seem unwilling to back down. Both have already granted exploration concessions to US companies.

An older dispute involves the sharing of water from the Ganges River. India has built a dam complex to reduce silting and improve irrigation in its West Bengal State. Dacca fears the dam will reduce the water supply to agricultural areas in Bangladesh.

Beyond these immediate problems, there are other seeds of potential discord. India is largely Hindu, Bangladesh largely Muslim. The economies of the two countries are essentially competitive, with both counting heavily on jute exports. Dacca, moreover, has been unable to stem the growth of its trade deficit with India. Although the two governments continue to view each other as allies, anti-Indian sentiment has increased substantially among the people of Bangladesh since they achieved independence with India's help in 1971.



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## ETHIOPIA: FIGHTING CONTINUES

Sporadic clashes between Eritrean insurgents and government forces continued during the past week. On two separate days, government forces attacked rebels in an area about three miles north-west of Asmara, the capital of Eritrea Province. Heavy fighting also reportedly occurred in the vicinity of the Red Sea port of Massawa. On February 26 the rebels attacked Asmara airport. Heavy firing occurred near the US Kagnev communications facilities during a two-hour skirmish, but there were no US casualties.

In Addis Ababa, meanwhile, the ruling military council has been considering ways of improving the effectiveness of the provisional government. In an attempt to streamline its operations, the council voted in mid-February to eliminate its subcommittees in the provinces. The decision reflects the strong position of Major Mengistu Hailemariam, the council's first vice chairman, who won out over opposition from other influential members. The council reportedly is now discussing the possibility of reducing its

membership, which now exceeds 100, to a much smaller number—clearly a touchier matter.

A major cabinet reorganization aimed at breathing new life into the nearly paralyzed bureaucracy may also be imminent. According to the US embassy, the change may include the appointment of a civilian chairman; this post has been vacant since the killing of General Aman last November. General Teferi Benti will apparently remain as chairman of the military council and nominal head of state.

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Demonstration in Addis Ababa supporting the council



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## RHODESIA: SMITH DIGS IN

Rhodesian Prime Minister Ian Smith is putting up new resistance to South African Prime Minister Vorster's efforts to move him toward a settlement with Rhodesia's black nationalists. Smith's intransigence could jeopardize the fragile truce in Rhodesia as well as Vorster's major foreign policy goal of improving relations between Pretoria and black Africa.

Smith has never displayed any enthusiasm for the joint effort that Vorster and four southern African leaders have been making since last fall to promote a compromise solution of the Rhodesian problem. Smith's acceptance of the cease-fire agreement announced last December was clearly the result of South African pressure, and the Rhodesian leader seized on an early opportunity to suspend the release of black political prisoners that was called for in the agreement. The African leaders with whom Vorster has been collaborating—Kaunda of Zambia, Nyerere of Tanzania, Khama of Botswana, and Samora Machel of the Mozambique Liberation Front—believe Vorster can make Smith honor the agreement and come to the conference table.

At a meeting early this month in Lusaka, Zambia, Rhodesian officials reportedly announced that Smith would not curb anti-guerrilla operations by Rhodesian security forces. Last month, Vorster had promised Kaunda to obtain Salisbury's acceptance of such a curb in return for greater efforts on the Africans' side to make the truce more effective. Both Vorster and Kaunda apparently thought Smith had agreed to this.



Smith

Vorster is presumably now considering ways of increasing pressure on Smith. Even before their meeting, Vorster reportedly had ordered the approximately 1,100 South African police still in Rhodesia confined to their barracks. Smith was told last month that the police would be gradually withdrawn, and the process may now be accelerated even though Vorster is probably concerned about possible domestic pressures in South Africa should the Rhodesian insurgency flare up. Vorster reportedly is seeking an early meeting with the four southern African leaders to consider the situation.

Meanwhile, Smith has met twice in Salisbury this month with black Rhodesian nationalist leaders. These preliminary talks have bogged down, however, on the modalities for convening a constitutional conference. Continued lack of progress in the talks will strengthen the hand of hard-line nationalists, who have been unhappy with the cease-fire and wish to resume fighting.

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**LAOS: SOUVANNA RETURNS**

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After spending much of the past eight months convalescing abroad and in the royal Lao capital of Luang Prabang, Prime Minister Souvanna Phouma finally returned to Vientiane early this week. Although his recovery appears to be proceeding satisfactorily, Souvanna still tires easily, and it remains to be seen just how active a political role he will be able to play.

Souvanna's return comes as a mixed blessing for the non-Communists. On the positive side, they are doubtless relieved that he is no longer exposed to the constant influence of his Communist half-brother Souphanouvong who, as chairman of the coalition's Joint National Political Council, maintains permanent residence in Luang Prabang. They also can look forward to the prospect of easier and more frequent access to the Prime Minister now that he is back in Vientiane.

The non-Communists, however, cannot expect to rely upon Souvanna for the strong political leadership they so desperately need in order to compete effectively with the disciplined, more aggressive, and better organized Communists. Indeed, according to a reliable source, the Prime Minister recently turned down just such a request on the grounds that he had led the non-Communist side for more than a generation prior to the present coalition's formation and that it was time for younger men to take over.

Souvanna also is [redacted] flatly opposed to the efforts of some rightists to promote Interior Minister Pheng Phongsavan for the post of non-Communist deputy prime minister in place of the lackluster and inept Leuam Insiengmay. The Prime Minister may fear that such a move would damage Pheng's strong neutralist credentials by identifying him too closely with the right. In this regard, Souvanna may have other plans in mind for Pheng. He recently gave his approval and encouragement to a proposal calling for the reorganization and revitalization of the moribund Lao Neutralist Party, a political entity he personally founded in 1961 during the country's last coalition experiment. While Souvanna undoubtedly recognizes the difficulty of such a task—internal control and discipline in the party are practically nonexistent—he may view it

as the best vehicle for promoting Pheng's candidacy for the prime ministership when succession time rolls around. [redacted]

**VIETNAM: WAITING FOR THE OTHER SHOE**

The first phase of the Communists' 1974-75 dry-season campaign ended following the capture of Phuoc Long Province early this month. At that time, a number of signs suggested that another round of heavy action would open as early as the Tet holiday period in mid-February, and government commanders prepared for the anticipated new fighting.

The Communists have refrained from launching any significant attacks during the past three weeks, however, and the South Vietnamese are still waiting for the other shoe to drop. This lack of activity does not necessarily mean that the Communist timetable has been significantly revamped, and a number of factors could be contributing to the present battlefield lull.

The North Vietnamese may simply be delaying further action until they get a clearer picture of the likely congressional decision on further aid to South Vietnam, reasoning that a new round of attacks could strengthen the administration's request. On the other hand, the absence of further sizable offensive actions may reflect a North Vietnamese reassessment of their short-term position in South Vietnam.

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Hanoi, for example, may now feel less confident of its ability to achieve significant military gains. Elements of two main-force divisions were required to capture poorly defended Phuoc Long Province, and the Communists paid a heavy price for their gains there and in the delta. The recent withdrawal of several key Communist units from front line positions reinforces earlier reports of heavy enemy casualties and equipment losses.

Another factor, although difficult to measure precisely, are spoiling operations by Saigon's forces. Those in the northern delta and the northern coastal provinces, particularly, have caused problems for the Communists. In addition, during

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Awaiting word

the next round of fighting, the North Vietnamese may intend to focus their military effort farther to the north and may be waiting for better weather conditions there, which begin next month.

In any case, preparations for combat are continuing, and another phase of the Communist winter campaign could begin at any time. Troop infiltration to central and southern South Vietnam has been moderately heavy this winter and additional manpower is moving south from North Vietnam. Extensive repositioning, resupply of units, reconnaissance, and other battlefield-related activities have been noted in the past several weeks.

[redacted] Hanoi is moving one of its seven reserve divisions—the 341st—to northern South Vietnam. If the 341st does indeed make this move, it would confirm earlier indications that the northern lowlands will be the scene of heavy fighting when the rains diminish. Here, the Communists are probably planning to resume their 1974 dry-season efforts to expand their control into the populated coastal areas of the northern provinces. Nevertheless, major Communist pushes farther south in the highlands and near Tay Ninh still remain strong possibilities in the coming weeks. [redacted]

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## PHILIPPINES: GETTING OUT THE VOTE

President Marcos held another referendum on martial law on February 27, the third since he assumed emergency powers in September 1972. Although the government has said final results will not be known for two to three weeks, voters are expected to reaffirm approval of martial law and agree to a palace proposal giving the President discretionary power to reorganize local government. Marcos announced on the eve of the balloting that he did not intend to lift martial law anytime soon.

The President campaigned for such a mandate as if it were an old-time presidential election, although the results were never seriously in doubt. The referendum was carefully orchestrated by the government from beginning to end to ensure that an overwhelming majority voted yes. Most Filipinos would probably have approved the proposals anyway—either because they agree that martial law is an improvement over the old system or because they see no viable alternative.

Outspoken critics of Marcos under his pre-martial law regime have had little success in mobilizing opposition to his government. The only important exception is the Catholic Church, which has gradually emerged as the focus of dissent. Church liberals publicly attacked the referendum as a "mockery of democracy," and held a well-attended penitential service in Manila on February 21 as a protest. The majority of church leaders oppose such overt political action and want to avoid direct confrontation with the government. During the past year, however, moderate (and on occasion even conservative) bishops have joined the liberals on specific issues such as the treatment of political prisoners and have successfully pressed Marcos to adjust his policies. Marcos has a healthy respect for the church's potential to arouse widespread public opposition to him, and when possible he tries to exploit ideological divisions within the council of bishops.

The periodic referenda serve several purposes for Marcos. They enhance the village-level citizens' assemblies created under martial law and give Filipinos a sense of participation in gover-



Marcos

ment. Marcos cites such referenda as evidence that his rule is based on direct consultation with the people, bypassing former—and often corrupt—intermediaries such as governors and congressmen. The village assembly meetings also give Marcos a carefully controlled forum for identifying potential sources of popular discontent.

In his "campaign" speeches prior to the voting, Marcos stressed the need for a popular mandate that would allow him to make important decisions in the future. He specifically cited problems arising from the Muslim rebellion in the southern Philippines, but he may also be referring to other issues—such as political trials for regime opponents and negotiations with China to establish diplomatic relations.

President Marcos does not really need any sort of "mandate" in order to take action on these or other issues, for he has virtually unchallenged authority. But he doubtless believes that an overwhelming vote of confidence is a useful trump card that he can play if he should encounter domestic or foreign criticism for some future decision.

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### USSR-JAPAN: PEACE TREATY DIFFERENCES

Since mid-January, Soviet officials have been making clear to Tokyo their opposition to the conclusion of a Sino-Japanese peace-and-friendship treaty. They have urged the Japanese at least to balance it by signing a friendship treaty with the USSR. The Japanese have resisted these efforts and are determined to go ahead with the China pact. Tokyo calculates that a Sino-Japanese treaty will not damage relations with the Soviet Union in any substantial way.

During the visit of Japanese Foreign Minister Miyazawa to Moscow in mid-January, Soviet Foreign Minister Gromyko suggested that while the two countries continue to work on a formal peace treaty, they conclude a friendship treaty that would skirt the issue of Tokyo's claim to islands seized by the Soviets at the end of World War II. Although the Japanese rejected this proposal, Ambassador Troyanovsky raised it again in early February in conversations with members of the ruling Liberal Democratic party, and on February 13, Troyanovsky presented Prime Minister Miki with a letter from Brezhnev renewing the Soviet offer.

In turning down the Soviet proposals, the Japanese argue that the Chinese and Soviet situations are not identical. They say Tokyo will refuse to sign a friendship treaty until the Soviets agree to a peace treaty that returns the northern territories to Japan—which the Soviets are not willing to do.

At the same time that Moscow has been pushing for its own friendship treaty, it has been busy in Tokyo trying to rally latent Japanese opposition to the treaty with China. The Soviet actions, however, have weakened rather than strengthened the resolve of anti-Peking elements in Japan, and the right wingers are concerned that they will appear as tools of Moscow if they continue their opposition to the China treaty.

Moscow almost certainly recognized from the outset that the Japanese would not agree to a bilateral friendship treaty and that it would not be able to impede a Sino-Japanese treaty. The Soviets may have had some hope that they could get the Japanese to delete from the treaty the anti-Soviet wording that was in the Chou-Tanaka communique of 1972. Although they have succeeded in making this a public issue in Tokyo, the Soviets are not likely to achieve their purpose. The Japanese will fight the good fight with Peking, but in the final analysis they are likely to give way.

The larger Soviet purpose is to put the Japanese on the defensive. When a Sino-Japanese treaty is concluded, Moscow will contend that the Japanese should be more "flexible" regarding the northern territories and the whole question of a Soviet-Japanese peace treaty in the interest of restoring the balance in its relations with China and the USSR. In the meantime, commercial and economic relations of the two countries are not likely to be seriously affected by their political differences.

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Miyazawa with Gromyko and Podgorny



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### GREECE: GOVERNMENT FOILS PLOT

The Karamanlis government this week dealt decisively with a military conspiracy aimed at its overthrow. The Greek armed forces and gendarmerie were placed on alert on February 24 because of what the government termed conspiratorial activity by officers linked to the former junta. At least 37 officers were arrested, and more are likely to be detained as the investigation proceeds. Karamanlis hinted that the conspirators' awareness of his intent to move against additional junta supporters spurred the plotters to consider action at this time. Karamanlis pledged to continue the shake-up of the military to rid it of those closely associated with the junta, but the government also sought to emphasize the limited nature of the conspiracy, suggesting the purge may not be extensive.

The arrests have seriously weakened the junta's power base in the army, but they have probably not destroyed it. The government faces the dilemma of how to remove remaining disloyal officers from the army without further damaging morale and efficiency or stimulating more conspiratorial activity. This will prove difficult because only officers loyal to the junta were chosen for advancement in the seven years of its rule.

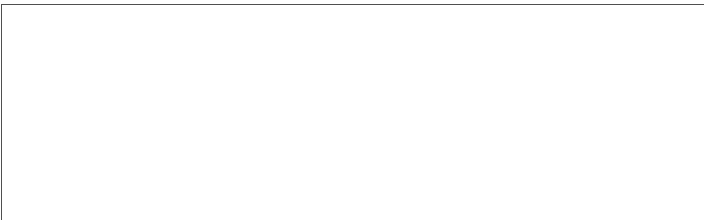
Defense Minister Averoff told the US embassy that he was pleased by the failure of the malcontents to rally support among the rest of the military, and that he was determined to resist the opposition's efforts to force the government to conduct a general purge. The opposition, however, is already calling for a more thorough purge of the armed forces. On February 25, some 5,000 leftist demonstrators in Thessaloniki demanded a complete overhaul of the army and the dismissal of the defense minister.

#### The Problem of Cyprus

The government is also concerned about the domestic political consequences of the Cyprus issue, which was discussed by the UN Security Council this week following the declaration of a separate Turkish Cypriot state. [redacted]



Demanding punishment of coup plotters 25X1



The Greeks, as well as the Greek Cypriots, may receive some moral encouragement from the Security Council debate in which the Turkish Cypriot declaration was widely criticized. The council may also give the Greek side a face-saving way to resume negotiations with the Turks. The council's deliberations, and private discussions among its members, suggest that agreement may be reached on a change of venue for the intercommunal talks. They could also be expanded to include Greek and Turkish representatives, and possibly other participants. A more direct role for the Secretary General in the talks is another possibility. [redacted]

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## WESTERN EUROPE: AID TO GREECE-TURKEY

The European NATO countries are watching Cyprus developments with growing concern about the implications for their own security, but neither Greece nor Turkey appears prepared to accept a role for their allies in moderating the dispute. The West Europeans, recognizing that they have little ability to effect a settlement, are being cautious about aggravating the problem by seeming to take sides or by further damaging the US' leverage. At the same time, they are not averse—for commercial as well as security reasons—to becoming at least a supplementary source of military aid to Athens and Ankara.

The visit of French Foreign Minister Sauvagnargues to Athens on February 24-25 is the latest step in France's efforts to consolidate its relationship with the new Greek government. Three days before the visit, a French economic aid team signed a protocol providing \$30 million credit for Greece. Earlier, the French had agreed to sell military equipment to the Greeks and to argue Athens' brief for association with the EC. In an interview just before his visit, however, Sauvagnargues reiterated that France and its EC partners are prepared to assist Greece, Turkey, and Cyprus to reach a settlement in line with previous UN resolutions.

Other NATO members have taken an even more cautious approach, reflecting their sensitivity to the problems the alliance faces because of the dispute and the cut-off of US military aid to Turkey. The NATO allies realize that providing military aid to either Greece or Turkey risks damaging ties with the other. At the same time, to the extent that they do not provide such aid, Greek and Turkish defenses against the USSR will be weakened, and Athens and Ankara will be forced to look elsewhere for military hardware.

There has been little discussion in NATO forums of military aid to Greece and Turkey. The members are mindful that if the two countries are forced to look outside NATO for aid, Greece's military withdrawal from the alliance could be sealed and Turkey could be pushed in a similar direction. Some members are no doubt worried, however, that any equipment sent to the two countries could be employed in a Greek-Turkish clash.

In the case of Greece, the attitude of the allies toward military aid is governed by the desire to do nothing that might jeopardize Athens' future relationship with NATO. The basic hope is that if Athens is not pressed, it might reconsider its decision to withdraw from NATO's integrated military command. So far, Greece's announced withdrawal has gone largely unimplemented.

NATO's Defense Planning Committee has met only once to discuss the cut-off of US military aid to Turkey. At that meeting, some representatives expressed the hope that US aid would eventually be reinstated. NATO Secretary General Luns said recently that if this does not happen, NATO may try to find ways to assist Turkey.

The West Germans—who, except for the US, have been Turkey's major arms supplier—are in the best position to meet some of Ankara's needs. Late last year, Bonn lifted its restrictions on the commercial sale of military equipment to Greece and Turkey. Chancellor Schmidt and the Federal Security Council have also agreed in principle to lift the embargo on government sales of arms when official cabinet approval is given. Bonn may, however, want to make the resumption of such aid dependent on the preservation of the central government of Cyprus. West German officials have emphasized that under no circumstances will the Germans provide aid to Ankara sufficient to compensate for the cut-off of US aid, and they claim that Bonn will try to maintain a balance in its aid commitments to the two nations.

Italy is anxious to avoid any developments that could encourage Ankara to loosen its ties with NATO. The Greek withdrawal triggered a divisive debate in Rome over whether Italy should accept any more NATO bases if asked to take up the slack in the alliance. Concern that Ankara might follow in Athens' path may have been a factor—along with the profit motive—in the recent Italian decision to sell to Turkey 18 F-104S aircraft, manufactured in Italy under US licenses.

There is no evidence that the UK has taken any bilateral initiatives with either Greece or Turkey to provide economic or military aid since it failed to gain a mediating position in the

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Cyprus dispute. The Turkish defense minister has publicly claimed, however, that Anakra has received arms sale offers from the UK as well as West Germany and France.

discussions with Finnish unionists, for example, Aleksandr Shelepin, the head of the Soviet labor organization, emphasized that Moscow wants increased contacts between the trade unions of East and West in order to develop a "continuous cooperation and exchange" that could ameliorate current international economic problems.

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### EAST-WEST LABOR MEETING

Labor federations from both Western Europe and the Communist states will be represented at the second East-West Trade Union Conference that convenes in Geneva from February 28 to March 1. The conference, considered a "private" meeting, is being held under the auspices of the four European worker representatives on the governing board of the International Labor Organization. The sessions will be closed to the press and public, as was the case during the first Geneva conference a year ago.

Another high-ranking Soviet labor functionary told Italian labor leaders last month that the worsening economic situation in the West makes it more important than ever for Eastern labor organizations to establish a dialogue with Western trade union federations on matters of mutual concern. As a result, he anticipates more frequent East-West labor meetings at various levels.

During numerous bilateral discussions with European labor leaders in recent months, the Soviets have made a determined effort to broaden the agenda to include political subjects. British and West German trade unionists, among others, have assured US officials that they are adamantly opposed to allowing the meeting to be transformed into a platform for Soviet political purposes. Accordingly, the agenda is reportedly limited to technical labor matters, such as the "humanization" of the working environment and the protection of workers from the effects of toxic substances.

The Soviets have also been pressing for an agreement to establish a permanent organizational framework to accommodate further labor contacts, preferably outside of the International Labor Organization. The prospects for reaching an accord on this matter at Geneva are uncertain, however, and the European members of the International Confederation of Free Trade Unions and the World Confederation of Labor were to meet yesterday to try to coordinate a position. German and Norwegian union leaders have told US embassy officials that they are strongly opposed to such a course. Moreover, at an executive committee meeting of the European Trade Union Confederation early this month, not a single member expressed support for the proposal.

The meetings have an implicit political significance, however, given the prominence of the participants, who include leading West European trade union figures as well as the boss of the Soviet trade union organization. The European Trade Union Confederation, the World Confederation of Labor, and the International Confederation of Free Trade Unions will send observers. It is likely that the Communist labor international, the World Federation of Trade Unions, will also be represented.

On the other hand, the British Trades Union Congress—probably the strongest Western advocate of the East-West labor dialogue—told US officials that, while not initiating any demand for such machinery, it is "flexible" on the question. In addition, according to the secretary general of the International Confederation of Free Trade Unions, the Norwegians, Finns, and British, in private talks with him and other West European trade union officials, are taking a stand in favor of constituting a permanent standing committee or secretariat.

The Soviets—publicly as well as privately—view the conference as an important step in their continuing effort to establish closer ties with Western labor organizations. During his recent

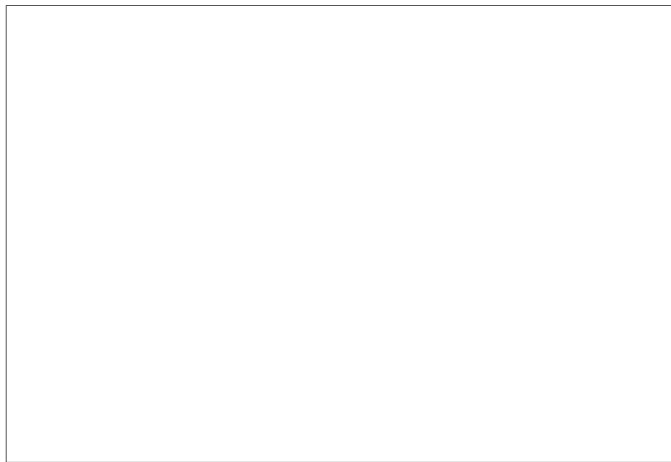
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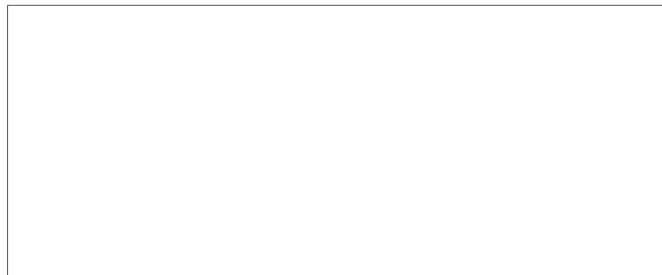
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been delayed until March 20, will not proceed until the political parties accept certain constitutional provisions set forth by the Movement. 25X1

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**PORTUGAL: GREATER ROLE FOR MILITARY**


Portugal's ship of state has listed further in the direction of military dominance. The steps set forth last week outlining the Armed Forces Movement's role in the governmental process, if unsuccessfully challenged by the country's democratic forces, could hamstring any future civilian government and bend its policies to the military's will.

The seven-point program approved by the Movement's 200-member General Assembly proposes a continuing role for the military in guiding Portugal's political process, including prior approval of all presidential candidates and the right to choose both defense and economics ministers. A constitutional guarantee of legislative and veto powers for the 21-member Council of State, which will continue to be dominated by the military, is also proposed.

Under the terms of the program, the recently released economic and social plan, widely viewed as a moderate document, cannot be altered unless the changes are "more progressive." The program further stipulates that the election campaign for the constituent assembly, which has

*THE MOVEMENT'S POLITICAL INVOLVEMENT COULD HAMSTRING FUTURE CIVILIAN GOVERNMENTS.*

It is not known how amenable the Movement will be to changes in its proposals, but it has become accustomed to having its own way in matters of national policy and will not be easily persuaded to make changes. The moderate parties are in danger of having their opposition equated with "reaction," which could lead to their suppression. Another risk inherent in a continued confrontation between the moderate parties and the Movement is that it might delay elections indefinitely.

There are also other signs of difficult times ahead for the moderates: extreme leftists disrupted two rallies of the center-left Popular Democrats and blew up an automobile belonging to one of the party leaders; a Lisbon rally by the recently revitalized Christian Democrats was disrupted on February 25 by rock-throwing leftists. The apparent unwillingness of the government to ensure security at all party gatherings casts additional doubt on statements by Portugal's military rulers that they are well disposed toward the development of a pluralistic democratic society. 

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## SPAIN: TIGHTENING CONTROLS

Continuing political, labor, and student unrest is complicating the Arias government's efforts to liberalize Spanish society. Those who oppose the introduction of new freedoms—however moderate—into Spanish society are using these displays of popular disenchantment as examples of the dangers involved in permitting any change at all in the system.

In response to criticisms from within the establishment, Arias has threatened sterner measures in dealing with public manifestations of unrest. He announced that the government will not yield under the pressure of politically motivated strikes. Arrests of strikers have increased. This week, the police even pronounced a three-month ban on meetings of more than 25 women's groups because of their participation in a food-market boycott during the "day of struggle" sponsored by the clandestine labor unions on February 20.

Following student disturbances at the University of Valladolid, the government closed the campus for the remainder of the school year. This has sparked a nationwide protest and widespread demonstrations, especially on the day of struggle. For the time being at least, the demonstrations have moved the spotlight from labor to the students. Although the Valladolid closure served as a catalyst, there is a fundamental discontent among students and faculty with the government's educational policy—especially the 1974 restrictive admissions law, inadequate student representation in academic bodies, and problems of tenure and authority of professors. The education minister announced the government will not reconsider its decision about closing Valladolid, but it ordered the release of the 90 students arrested on the day of struggle. Renewed protests this week, however, have led to additional arrests.

The key point in Arias' liberalization program—the development of rudimentary political organizations—received a setback earlier this month when Manuel Fraga Iribarne, a prominent moderate reformer, decided not to form a political association under the new law. Fraga's deci-

sion to withdraw after it became apparent that rightists in the regime's National Movement opposed his move—is likely to persuade other moderates that it is futile to try to broaden political participation as Arias has tried to encourage.

Arias, nevertheless, professes commitment to his program. In an interview published last week, he reiterated his intention to carry out long-term political reforms, and he held a press conference this week to defend his program. He also dismissed two rightist critics holding important posts in the National Movement's news media for failure to support his program. The government has also cracked down on critical press reporting of current unrest.

Meanwhile, a dispute over labor policy threatens the stability of the cabinet. The labor minister has submitted his resignation to protest a proposed law that would allow the dismissal of striking workers. The minister had been trying to secure passage of a decree granting a modified right to strike. Should his resignation be accepted, other ministers might also resign in sympathy, as they attempted to do last October when the information minister was dismissed in a dispute over press freedom.

The government is also trying to deal with widespread rumors that some officers are encouraging political discussions in spite of recent warnings from the military ministers to stay out of politics. The rumors stem from the arrest in Barcelona last week of two officers who reportedly tried to organize a protest to the commanding general of the Barcelona military district over the role of the military in maintaining public order. The government claims the two were given only a month's detention for an infraction of military discipline; the foreign press and the Communist clandestine radio allege that a manifesto signed by 25 officers in Barcelona is circulating in the army. If true, this raises the possibility of more political discontent in the army than has heretofore been evident.

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## CZECHOSLOVAKIA: ECONOMIC TROUBLE AHEAD

The Czechoslovak economy seems headed for serious trouble despite a good performance in 1974 and high hopes for 1975. Hard-currency deficits are growing, export volume is stagnating, and inventories of industrial goods are mounting. The same pattern produced the recession of 1961-63 and contributed to the political unrest of the late 1960s.

Last year, the overall growth of the economy was about 4.8 percent. Industrial production increased 6.2 percent and agricultural output, highlighted by a record grain harvest, was up 3 percent. Retail trade grew at a rapid pace for the third year in a row, as Prague held the line on prices, but growth in money income and the rate of accumulation of consumer savings slowed.

Prague hopes to conclude its 1971-75 plan with a year of stepped-up growth. The 1975 plan calls for a 5.6-percent increase in national income and a 6.4-percent growth in industrial output. Fulfilling the 1971-75 plan is important to the image of the leadership, especially since Czechoslovakia failed to complete its previous two five-year plans. Czechoslovak officials bluntly concede that cosmetic growth figures will be issued to demonstrate plan fulfillment and to gloss over any major shortfalls.

Prague's most pressing problem is its ballooning hard-currency deficit, which has resulted from stagnating export volume and spiraling import prices. According to a Czechoslovak official, import prices of chemicals and raw materials increased more than 50 percent in the first five months of 1974. Czechoslovakia must import almost all of its raw materials, mostly from the USSR. The recent Soviet move to increase the price of most raw materials in 1975—rather than in 1976 as expected by the East Europeans—will add roughly \$400 million to Prague's import bill for 1975. To pay for the imports, Czechoslovakia will presumably have to divert a large amount of consumer goods from hard-currency markets to the USSR.

Price increases accounted for most of the 20-percent growth in exports last year. The raising of export prices to offset higher import prices cut deeply into Prague's limited Western market for machinery, its major export. Long oriented to Soviet and East European markets, Czechoslovakia industry has lost its prewar reputation for quality and has fallen far behind Western technology. Even within CEMA, Czechoslovak machinery no longer enjoys a pronounced technological advantage. On the domestic side, stocks of industrial products are piling up, notably metal-working machinery and locomotives. Stocks increased more than 6 percent in 1973, and this trend reportedly continued into 1974.

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*THE SAME ECONOMIC PATTERN PRODUCED THE RECESSION OF 1961-1963, AND CONTRIBUTED TO POLITICAL UNREST IN THE LATE 60S.*

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Prague has made some attempts to ease its difficulties. Enterprises that have not taken steps to control import costs are losing their independence in foreign trade matters. In addition, a customs tariff was imposed in January to cut nonessential imports. Neither move, however, will spur exports, soften the impact of higher import prices, or reduce inventory costs. The difficulty facing the leadership is that any economic solution must be palatable to political hard liners.

Czechoslovakia will probably shift its investment policy in favor of export industries in order to come to grips with its trade and inventory problems. It will probably want to import more Western machinery and technology, drawing on its excellent credit rating, and will go even deeper in debt. It will then probably put a tighter rein on wage increases, a moratorium on improvements in living standards, and cutbacks in imports of consumer goods from the West.

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### OPEC: PRODUCTION CAPACITY GROWING

Production capacity of the members of the Organization of Petroleum Exporting Countries is still growing, despite a series of production cuts and a continuing worldwide surplus of crude oil. By late summer, OPEC states will be producing approximately 25 million barrels a day—about 60 percent of developed capacity.

Oil production capacity in these states has now reached a record 38.8 million barrels a day, up from 36.2 million in May—the peak month of production in 1974. Actual production is now only about 27 million barrels a day, leaving nearly 12 million barrels a day in excess capacity.

If the OPEC states—principally Saudi Arabia, Iran, and Iraq—maintain their current schedules, as they seem intent on doing, another 2 million barrels a day will be added to capacity by late summer. World demand will probably decline by an additional 1 to 3 million barrels a day by that time, so that unused capacity will then run between 15 and 17 million barrels a day.

OPEC members generally believe that further production cuts may be required to sustain prices.

Other OPEC states have also made studies that indicate a need to cut production substantially by next summer. At the same time, some Arab producers are already dissatisfied with the large cuts they have had to absorb. Indeed, Abu Dhabi, Libya, Iraq, and Algeria are likely to try to raise output in the next few weeks. With demand on a downward trend, such increases will be possible only if other OPEC members make corresponding cuts.

Thus far, production cuts by the international oil companies and producing governments, acting alone or in concert, have effectively reduced total oil supplies of OPEC members to a level only slightly in excess of demand. In some cases, however, the companies favored or penalized certain countries because of price differentials. The OPEC Commission, recognizing that prices were out of line, recently recommended a new set of price differentials designed to make the cartel's price system more secure.

When declining demand leads to production cuts by the companies, it is in the cartel's interest to spread the reduction among its members, or perhaps to concentrate it on the states that least need the money. If the companies focus production cuts in a single country, that country may overcompensate for its disadvantage by lowering prices. This danger is greatest in countries that need more export earnings to cover import costs.

This ad hoc, largely company-managed method of supporting the cartel price probably will become increasingly difficult to maintain, in view of the desire of several OPEC members to increase production. It thus seems likely that a formal scheme to prorate production will be put on the OPEC agenda in the near future.

### SUMMIT COMING UP

The Organization of Petroleum Exporting Countries is hard at work preparing for its summit conference, scheduled to begin on March 4 in Algiers. A preparatory conference of oil ministers was held this week in Vienna; another meeting—of oil, finance, and foreign ministers—is planned for Algiers just before the heads of state convene. The summit will be the first held by the 13-country organization in the 15 years of its existence.

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The Algerians—who came up with the idea—are trying to muster full attendance. They have sent envoys to several countries to urge the head of state to attend, but as of February 27 it was uncertain how many would participate. The Shah of Iran reportedly plans to come. Libyan President Qadhafi will not attend. King Faysal reportedly intends to send Prince Fahd, the second deputy prime minister.

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The Algiers summit is expected to issue a declaration of principles, presumably a guide to OPEC's stand at a subsequent producer-consumer conference.

the dialogue with consumers could begin in Paris toward the end of March, with a final high-level meeting sometime this summer.

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## LATIN AMERICA: NEW BOOTSTRAP MENTALITY

The Latin Americans seem generally disposed to let the inter-American dialogue languish, believing apparently that any initiative to warm regional relations with the US is up to Washington. Indeed, the series of blows to the concept of a renewed partnership between the US and Latin America has infused new vitality into the Latins' drive for new modes of regional cooperation designed to free the area of dependence on the US.

Intense diplomatic activity among the Latins, often led by Venezuela, has broadened alertness to issues affecting the region. The highly nationalistic governments—especially Venezuela, Peru, and Ecuador, joined regularly by Panama—have become increasingly effective at sweeping up even reluctant countries onto their bandwagon to promote the rights of the undeveloped nations and the obligations of the rich ones. Some governments are privately critical of the stridency and assertiveness of this campaign but are loath to break regional solidarity and hesitant to offend Venezuela, a new source of petroleum and credit for the area.

Anti-US rhetoric on a variety of issues has not diminished since the postponement of the inter-American foreign ministers' meeting. The US Trade Reform Act remains a favorite target throughout the region. Mexico and Peru continue to beat heavily, too, on the theme of US espionage and intervention. Further criticism will inevitably flow from a series of conferences over the next month or so. On March 10, the Inter-American Economic and Social Council convenes; the Andean Pact countries will reconvene on that same date after a three-week delay to devote further study to the trade act; the UN Industrial Development Organization will open in Lima on the 12th; the Executive Board of the nonaligned countries will be in Havana on the 17th. Also, Venezuelan President Perez will carry his third world call for a "new economic order" to the OPEC summit at Algiers in early March and will continue on to Mexico for a five-day visit starting on the 17th. The following week, he will join the

presidents of Colombia and Costa Rica in Panama to consult with General Torrijos. Various other subregional negotiations are also in progress.

All this diplomatic contact is not mere commiserating over common grievances. Increasingly, the small countries are becoming sold on the notion that, working together, they can begin to achieve the material gains now enjoyed by the highly industrialized nations. They are talking of setting up regional enterprises that could compete with the privately owned multinational corporations. One idea under active discussion is a Caribbean maritime fleet. Another is to glean more from their traditional resources by emulating OPEC in setting joint prices for their commodities. Schemes that once seemed visionary to these nations are now being viewed as within their grasp.

Few if any of the Latins want to cut off links with the US, but the broad disappointment over US preoccupation with other parts of the world in recent years has left them with the feeling that Washington is not "reliable." Thus, they are increasingly attracted to regional "bootstrap" programs and to alignments with other less-developed countries, which they believe will constitute more realistic answers to their needs. Even Brazil, which is rarely in step with the smaller Spanish American nations and is skeptical of much of what they do, has not tuned out the suggestion of a Latin American economic system excluding the US—a favorite program of Venezuela and Mexico.

The indefiniteness of when Secretary Kissinger will make his proposed trip to South America and of the date for the OAS General Assembly adds to the jaundiced view of the dialogue. Nevertheless, several of the governments have expressed hope that Kissinger's visit will serve to put US - Latin American relations on a more productive and cooperative base.

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### ARGENTINA: MOUNTING PROBLEMS

Galloping inflation, growing fractiousness within Peronist ranks, and recurrent cabinet squabbles are continuing to point up the absence of strong national leadership. Although a surface calm now exists, Mrs. Peron faces a challenge from Peronist labor leaders—her major political supporters—which could force the government to abandon efforts to stabilize the economy.

Since November, the cost of living has increased nearly 40 percent. If the current pace is maintained, inflation in 1975 could easily match the back-breaking rate of 60 percent experienced just before the Peronists returned to power. With previous salary gains eaten away by this inflation, labor has called for a renegotiation of all contracts before wage-and-price controls expire in June. The recent rise of Peronist union chief Casildo Herreras has infused new dynamism into the labor movement. Herrera is attempting to consolidate his position by challenging the government's wage-and-price policies.

Despite official claims that real wages went up 10 percent or more last year, only the lowest paid workers appear to have enjoyed such an improvement. On the other hand, the purchasing power of higher paid, skilled laborers seems to have eroded slightly; inflation more than offset several rounds of wage hikes that added an average 36 percent to the salaries of higher paid workers last year. As a result, labor's complaints that real wages have declined appear justified.

The higher inflation rate is a direct result of Economy Minister Gomez Morales' loosening of price controls last November. The controls were creating serious financial difficulties for large businesses. Freer prices have not only saved many firms from bankruptcy, but have also eased shortages of numerous producer and consumer goods and have led to a sharp drop in black market activity. The resulting hikes in the cost of living, however, have created a serious problem for Mrs. Peron's government in general and for Gomez Morales in particular. If Gomez Morales refuses to yield to demands for accelerated wage boosts, Mrs. Peron will probably be forced to sack him to avoid labor violence.

The increase in frustration is not restricted to the labor movement. The government reportedly has already moved to counter a challenge from leftist Peronist youth by barring the recently organized "Partido Descamisado" from fielding candidates in the provincial election in northeastern Misiones Province next month. The decision to move against the Partido Descamisado, named after Juan Peron's "shirtless ones," was approved by Lopez Rega, who is Mrs. Peron's chief confidant. His ire may have been roused earlier this week when Descamisado leaders denounced as political opportunism an official announcement of major social welfare projects for the province.

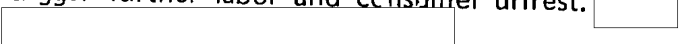
Since Juan Peron's death, Peronist leaders have made no effort to conciliate the left, even refusing to admit publicly that the left has broken away from the Peronist movement. The leaders' plans to exclude other Peronist groups from official participation in the Misiones elections, however, betray a deep-seated concern that the left—if united—could do well in the balloting and be encouraged to contest other provincial races as well as the presidential election in 1977.

The preoccupation with elections and the political future of Peronism is also reflected in a growing rivalry within the cabinet. There is evidence of recurring feuds over policy matters between Lopez Rega and Interior Minister Rocamora.



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This infighting may eventually bring about the demise of Peronism as a major political force. For the present, however, it is less urgent than the problems with labor. The absence of effective political leadership in Argentina will mean that labor demands cannot be resisted for long, with or without the economic minister. When higher wages come, renewed rounds of price rises will trigger further labor and consumer unrest.



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## VENEZUELA: THE FINAL PHASE STARTS

The Perez administration has taken a key step toward nationalizing the petroleum industry, which is largely foreign-operated and the only major extractive industry still in private hands. Petroleum is the major source of the country's foreign exchange and revenue.

Last week, the government began formal negotiations with local representatives of the US companies, which will lead to reversion of their concessions and facilities. Weekly meetings with the major oil firms are expected to continue for the next several months to work out details of the take-over. Perez had promised to nationalize the company holdings in 1975, but the effective transfer of assets will take some time. At least one oil company official has commented that the initial meeting with government negotiators went well and that he was impressed with the business-like attitude of the Venezuelan team. One team member, retired General Rafael Alfonso Ravard,

will head the oil industry following nationalization. US petroleum representatives are relieved that the long-awaited talks have finally begun, but they readily acknowledge that hard bargaining lies ahead.

The talks will focus on the role—if any—that the companies will be permitted to play in the nationalized industry. The companies hope to maintain a marketing role and, in return, to supply technology to the Venezuelans; compensation is not expected to be a major stumbling block in the discussions.

Venezuelan officials are acutely conscious of their need for continued access to petroleum technology, supplies, and equipment, which are in the hands of the industrialized nations and major multinational corporations. Technology and equipment are considered essential for the future recovery of oil from traditional reservoirs in Venezuela as well as for the development of production in new areas such as the Orinoco Tar Belt, and the Gulf of Venezuela and other offshore locations. Little of this equipment is currently available in Venezuela, although the President has launched a crash overseas training program to meet the country's technological needs.

The reversion talks with the oil companies will run concurrently with congressional debate on the government's draft expropriation law, which Perez will send to Congress next week; another presidential decree will create a holding company to replace the present 22 concessionaires. Nationalistic sentiment is running high in the country as well as in Congress, and Perez' current dispute with the US over the Trade Reform Act could complicate negotiations.

Venezuelan officials nevertheless hope that current differences with the US can be settled in an amicable fashion and that future relations will be cordial. Perez is not above orchestrating public opinion to justify his petroleum policy, however, and he appears to relish his assumed role of David



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against the US Goliath. Although the foreign oil firms are hopeful that a new working relationship can be reached with Caracas, the course of the negotiations will be affected by internal political factors in Venezuela as well as by Perez' problems with the US over the Trade Reform Act and Venezuela's petroleum pricing policy as a member of OPEC. There is no indication that he intends to back down in any of these disputes, and there is considerable evidence that he intends to keep up the pressure to get what he wants. If relations with Washington continue to deteriorate, the local oil industry could become directly embroiled in the dispute.

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