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Weekly Review

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December 12, 1975

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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, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology.

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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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ISRAEL: POLICY QUESTIONED

The reaction in Israel to the recent gains at the UN by the Palestine Liberation Organization and to the steps taken in response by Prime Minister Rabin's government has set the stage for a major domestic debate on the Palestinian problem. This week, divisions within the cabinet over how to approach that dilemma sharpened perceptibly, and the government came under the severest press criticism it has yet experienced. A comprehensive debate in the Knesset is likely to ensue, perhaps this month.

The criticism began to build soon after the Israeli air force carried out bombing attacks against Palestinian camps deep inside Lebanon on December 2. Coming just two days after the UN Security Council decided to take up the Middle East issue next month with PLO representatives participating, the raids were seen by many as an injudicious reaction to that diplomatic setback. Subsequently, the government has been attacked for its decision to boycott the Security Council debate, for yielding to internal pressures for new Jewish settlements in the occupied territories, and for its continued rigid position against negotiating with the Palestinians.

Rabin's government appears united in its belief that the UN decision was the product of a concerted Syrian, Soviet, and Palestinian effort to increase international pressure on Israel. There is apparently sharp contention within the cabinet, however, on how best to meet the challenge, and Rabin is now coming under fire from several of his colleagues, notably Foreign Minister Allon. At the cabinet meeting on December 7, Allon and other so-called "dovish" ministers reportedly urged that Israel participate in the coming Securi-



Prime Minister Rabin

ty Council debate but leave when the PLO representative speaks. Rabin won the support of a majority of the ministers for his boycott position, but afterwards Allon stated publicly that the government would have to reconsider the matter at a time closer to the Security Council meeting.

The government's decision last week to establish four new settlements on the Golan Heights—taken partly to demonstrate Tel Aviv's ability to resist outside pressure to show more negotiating flexibility—has been criticized in the press for risking fresh international censure and increased Israeli isolation. This week, a compromise reached with conservative religious elements attempting to settle in the West Bank near Nablus was attacked by Allon and others as an unnecessary deviation from the long-observed policy barring settlements in areas that Israel might be willing to return to Arab control in a future peace agreement. The government allowed some of the unauthorized settlers to stay on at an army camp in the area and promised to re-examine within the next three months its basic policy on new Jewish settlements.

Allon, whose differences with the Prime Minister may be partly tactical, is also taking the lead in challenging Rabin's hard line on the core issue of negotiations with the Palestinians. According to press accounts, the foreign minister plans to outline next month a new proposal that will offer three alternative approaches to a solution of the Palestine problem. Two of the alternatives include some form of confederation between Israel and a Jordanian Palestinian entity, and the third reportedly provides for a separate Palestinian state to be linked with Israel and Jordan.

Official government spokesmen have denied that any change in policy is in the offing. At minimum, Rabin is certain to reject any plan that would provide for a separate Palestinian state on the West Bank.

Nevertheless, the Prime Minister may eventually have to modify his tough line to some extent if he continues to come under fire in important political quarters and the press. In addition to the dovish elements in his dominant Labor Party,

the leadership of Mapam, the leftist party aligned with Labor, is said to oppose Rabin's inflexibility on negotiations with the PLO and to believe that Israel should attend the Security Council meeting.

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LEBANON: SINKING DEEPER

Heavy fighting resumed in all areas of Beirut last weekend. It continued through the week as the main combatants—the right-wing Phalanges Party militia and radical leftists led by Ibrahim Qulaylat—ignored Prime Minister Karami's call on December 10 for still another cease-fire. Despite efforts by the army to separate warring groups, the leftists by the end of the week had made limited gains and remained in control of some previously contested territory in the hotel district. The Phalangists retained a tenuous hold on a corridor extending from the hotel area to a large Phalangist stronghold south of Beirut port.

The latest cease-fire was called by Karami's extra-governmental "security committee." The committee contains representatives of Lebanon's principal Muslim and Christian political factions, including the Phalangists, but no radical leftists. Speaking for the leftists, Qulaylat denounced the cease-fire; he privately acknowledges that the radicals' goal is to eliminate the religious basis of Lebanon's governing system and to take the place of the traditional and relatively conservative Muslim leadership.

Karami came under great pressure to negotiate a new cease-fire when socialist leader Kamal Jumblatt joined Qulaylat and other radical leftists in charging that the intervention of army units in the hotel district beginning on December 8 was aimed at rescuing Phalangists under pressure there. The army had in fact prevented either side from making significant new gains, but had failed to reduce the level of fighting. According to press reports, as many as 850 army commandos and other troops have taken up positions in Beirut's commercial center. This represents the most extensive army involvement in internal

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[redacted]

security functions since the state of emergency in May 1973

If the fighting should continue at a high level or become still worse, the army might not be able to provide much additional help. The 18,000-man force includes only about 3,600 infantry troops that could be used for security duties. Over the past several weeks an estimated 2,000 of these have been seconded to the government's exhausted 6,000-man internal security force. They have been guarding government buildings in Beirut, patrolling the periphery of the city, securing the road to the airport, and manning buffer zones between opposing factions in the Tripoli-Zagharta and Zāhlah areas.

The army's effectiveness in wider hostilities would be limited by an increased tendency for its units to divide along religious lines. Because the force so far has been used primarily for patrol duties and has seen little sustained combat, this has not yet become a significant problem.

Karami's willingness to have the army stay in place to help enforce the new cease-fire despite leftist criticism is a result of the generally constructive attitudes taken by the Syrian government and leaders of the Palestine Liberation Organization. The Lebanese branch of the Syrian Baath Party reaffirmed its support for Karami this week. Palestinian leaders have helped by avoiding criticism of the army, by endorsing the latest cease-fire, and by privately ordering their forces to stop backing the increasingly powerful Qulaylat. However, both Yasir Arafat and Zuhayr Muhsin appear to be having great difficulty disciplining their organizations, and fedayeen from both Fatah and Saiqa are probably fighting with and supplying arms to the radical left.

The Prime Minister is attempting to minimize the damage to his political position by claiming that the army was ordered in by Interior Minister Shamun, a Christian, and that army forces remain under the command of the internal security forces. Karami has also pointed out that the government has not declared a state of emergency, which theoretically is required for army intervention.

Lebanon's political leaders so far have come up with no strategy for ending the renewed fighting. The best hope is that the leftists—who are claiming victory—will convince themselves that their limited military gains constitute sufficient revenge for the murder of numerous Muslims by Phalangists last weekend. The Id al-Adha Muslim holiday that starts December 12 could provide an excuse for both sides to reduce the fighting. [redacted]

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ANGOLA

THE MILITARY SITUATION

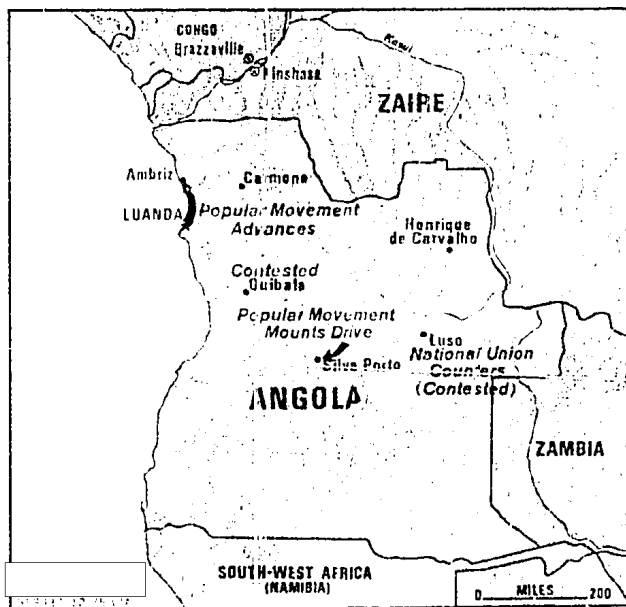
The Zairian-supported National Front for the Liberation of Angola has suffered serious reverses at the hands of the Soviet- and Cuban-backed Popular Movement for the Liberation of Angola in recent fighting in northern Angola. In the central and eastern sectors, the opposing forces in the civil war waged new battles, but so far these have not resulted in significant gains for either side.

Popular Movement troops, aided by barrages from Cuban-manned 122-mm. rockets, apparently advanced last week almost to the Front's headquarters and major operational base at Ambriz. The morale of Front troops in northern Angola is low after retreating from a position that had placed them within ten miles of Luanda. If Ambriz falls, the National Front presumably will regroup at Carmona.

In the east, forces of the National Union for the Total Independence of Angola, supplemented by mercenaries and probably South Africans, is attempting to retake Luso, which was captured by the Popular Movement early this month. As of midweek, the Popular Movement remains in control of the city. A Popular Movement drive on Silva Porto, the National Union's main base in central Angola, was blunted earlier in the week by a National Union force backed with armor.

[redacted]

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partisan support for one or the other of the contending nationalist groups. 25X1 25X1

[Redacted]

Somalia's proposal for an emergency summit meeting has now received official endorsement by the required two thirds of OAU members. The official expects a preliminary foreign ministers' meeting to open in Addis Ababa on December 19 to set the date and agenda for the heads of state session. The summit itself will probably not be held until after the first of the year. The Popular Movement's African supporters, who have pressed hardest for the emergency session, can be expected to try to focus any OAU meetings on the issue of South African involvement in Angola in behalf of the National Front and National Union. 25X1 25X1

In the central sector, the main National Front-National Union - mercenary spearhead that made major gains along the coast last month reportedly has been engaged by a strong Popular Movement - Cuban force near Quibala. The outcome is not yet known.

POLITICAL DEVELOPMENTS

Last weekend, Tanzania became the 29th state—the 13th in Africa—to recognize the Popular Movement's Luanda-based regime. Twelve Communist countries, three Arab states, and Brazil have also extended recognition. No state has formally accepted the joint government proclaimed by the National Union and the National Front.

Zaire plans to launch a diplomatic counteroffensive aimed at stemming further recognitions of the Luanda regime. The joint government has a number of sympathizers besides Zaire, notably Senegal, Gabon, Ivory Coast, the Central African Republic, and Tunisia. These countries are hesitant to extend official recognition, however, on the grounds that a government of national unity for Angola cannot be achieved if African countries are divided in

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BANGLADESH-INDIA: TENSIONS EASE

Meetings between Bengalee and Indian officials during the past week appear to have helped lower tensions between the two countries, at least temporarily. India remains concerned, however, about the security of the Hindu minority in Bangladesh and is keeping a close watch on the internal situation there.

The dialogue began last week with talks in Calcutta between border security officials from the two countries. The Indians reportedly parried Bengalee charges that New Delhi has increased the number of troops on the border, that some of these troops have clashed with Bangladesh forces, and that India is aiding Bengalee dissidents. In the final communique both sides emphasized their efforts to clear away misgivings and misunderstanding.

The generally favorable outcome of these talks may have influenced Dacca's decision to send a high-level delegation to New Delhi late last week for political discussions. The martial law administration announced such a mission earlier, but had held up its departure apparently because some elements in the regime thought it would be regarded by India as a sign of weakness.

During the delegation's visit, both sides aired again their grievances, but the talks sustained the generally positive atmosphere evident at the Calcutta discussions. Although no definite plans for further meetings have been announced, the two countries reportedly agreed to continue the dialogue.

According to a Bengalee diplomat in New Delhi, the Indians disclaimed any intention of intervening in Bangladesh and insisted they were not aiding Bengalee dissidents. The delegation also received assurances, albeit rather weak, that unfriendly treatment of the Dacca regime in the Indian media would decrease. The head of the delegation gave Prime Minister Gandhi a letter from Bangladesh President Sayem that apparently contained reassurances of Dacca's desire for good relations.

Gandhi did reiterate her concern over Bangladesh's Hindus. India has repeatedly warn-

ed that a mass exodus of the Hindus into India would lead to Indian intervention. So far, there is no sign of a large-scale flight, although India has charged that more than the usual number have recently been seeking visas to migrate to India.

Meanwhile, the Bangladesh government is giving close attention to internal security, in part because of its desire to forestall additional incidents that would exacerbate relations with New Delhi. Security units have recently conducted several raids and also set up roadblocks in the Dacca area. The regime may be reacting to persistent rumors that dissidents, including the group that wounded the Indian high commissioner two weeks ago, are planning further incidents this month.

The security measures are also aimed at keeping communal tensions under control and easing the concerns of the Hindus. A rally last Sunday, heralded by anti-Indian and pro-Muslim leaflets, turned out to be generally quiet and poorly attended. The leader of the rally, probably yielding to government pressure to avoid provocations, did not mention India and instead emphasized communal harmony and national unity.

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USSR-BANGLADESH: CHINESE SPECTER

For the Soviets the overthrow of Mujib Rahman last August was both a shock and a cause for concern. Moscow felt that Mujib offered the best prospect for ensuring a stable government in Bangladesh and one that was friendly to both India and the USSR. With Mujib out of the way, however, a Pandora's box was opened and Moscow feared that the resulting political instability might give Peking opportunities to enhance its influence.

Moscow was even more alarmed when General Zia assumed power on November 7 and released some political prisoners. Moscow believed to be pro-Peking. There is no hard evidence that they, in fact, had any links with Peking, but

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commentary in the Soviet press was harshly critical of the anti-Indian and anti-Soviet sentiment in Bangladesh allegedly exploited by these groups. The Soviet press openly expressed concern that the Zia government was in danger of losing control over obstreperous elements in Bangladesh.



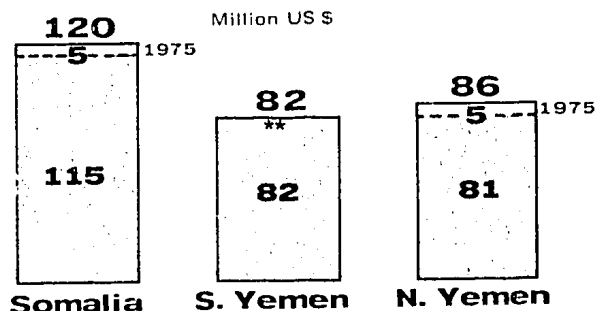
Over the past two weeks, as the situation in Dacca eased, the Soviets have toned down their alarmist press coverage. For the time being, Moscow is probably telling the Bengalees to be mindful of India's interests and, by extension, those of the USSR. The hard-pressed Dacca government does not need much persuasion in this regard and has already gone out of its way to reassure both Moscow and New Delhi.



Yemeni airspace. Delivery probably began during a November airlift. Soviet military personnel in South Yemen will increase from the 215 present earlier this year in order to support the new equipment deliveries.

Somalia's strategic location and political orientation have made it a continuing Soviet target. The recent addition of a drydock to Soviet facilities in Berbera underscores Moscow's growing involvement in the country. The Soviets already have a naval missile handling and storage facility, a large communications station, a housing area, and a barracks and repair ship in Berbera. The drydock probably will be used by the Soviet navy to perform major repairs on the ships and submarines of the Indian Ocean squadron. 25X1

Soviet Military Aid Extensions to Somalia, South Yemen and North Yemen 1955-1975*



**1975 Component cannot be estimated presently

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SOVIET RED SEA AID

Moscow is attempting to strengthen its presence in the southern gateway to the Red Sea by stepping up support for the regimes in South Yemen, Somalia, and North Yemen.

The USSR has provided 85 percent of Aden's total arms imports since 1968. In October, Moscow responded to Aden's requests for military support with an agreement to deliver additional MIG-21s, SAMs, and possibly long-range artillery. The SAMs will reportedly be installed along the South Yemen - Oman border to allay Aden's concern over Omani incursions into

Soviet Personnel in Somalia, South Yemen and North Yemen December 1975*

	<u>Military</u>	<u>Economic</u>
Somalia	1,000	1,000
S. Yemen	250-300	160
N. Yemen	119	150

*Data for 1975 are preliminary.



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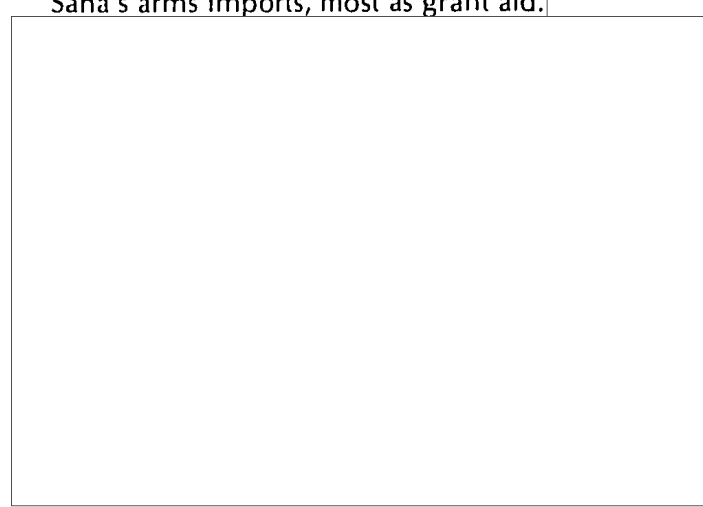
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The expansion of facilities again will mean an increase in the Soviet presence beyond the estimated 2,000 technicians now stationed in Somalia. The latter estimate is almost triple the number present in 1973.

The USSR's first foray into the Red Sea - Indian Ocean nexus was in North Yemen. During the 1960s Moscow provided almost 70 percent of Sana's arms imports, most as grant aid.

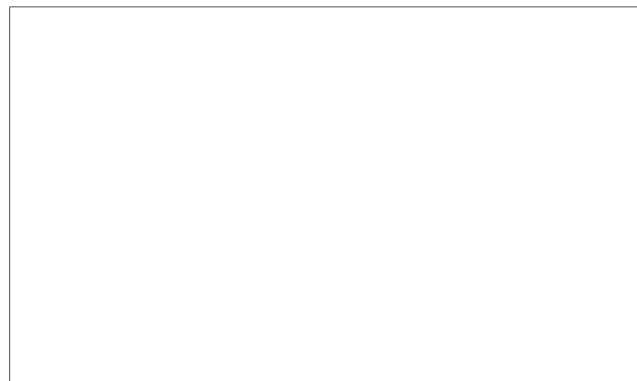


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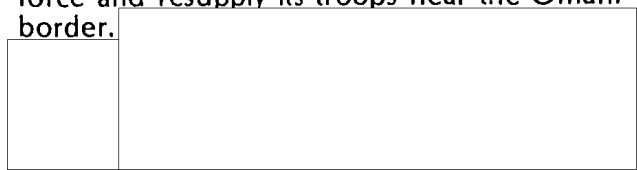
Soviet interest in Somalia dates back to 1961 when Moscow provided credits for building the port at Berbera, among other projects, under an economic assistance agreement. This was followed in 1963 with the inauguration of military aid, which now totals about \$145 million. Moscow has delivered at least 33 MIG-21 fighters, 4 IL-28 light bombers, 129 armored personnel carriers, 40 medium tanks, 2 MI-8 helicopters, and 1 Osa-class patrol boat since 1971. The first SA-2s in Sub-Saharan Africa were delivered to Somalia last year.

OMANI CEASE-FIRE

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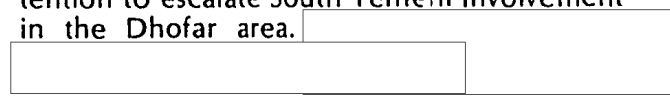
South Yemeni shelling did slacken for a few days, but resumed its previous level this past weekend. Oman apparently has responded with air and artillery strikes against the Yemeni positions. South Yemen also continues to reinforce and resupply its troops near the Omani border.



The purpose of the cease-fire, which is to last three months, is to give Aden enough time to consider ending its support to the rebels. Muscat hopes that the moves will encourage Aden to halt the shelling of Omani positions. During the lull, Omani forces will move to secure the border against infiltration and will initiate civic action programs in western Dhofar. Iranian troops will be removed from those forward positions they now occupy.

The Sultan has informed Aden through diplomatic channels that he would consider any buildup of forces in South Yemen's border area as cause for an attack by his forces. He is particularly concerned about reports that increased Soviet and Libyan assistance to South Yemen may be intended for use in Dhofar. His willingness to declare a cease-fire, however, suggests that he will view moderate increases along the border as defensive and not as an intention to escalate South Yemeni involvement in the Dhofar area.

Aden did not react to Oman's gestures.



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PORTUGAL: POPULAR DEMOCRATS SPLIT

Portugal's Popular Democratic Party has backed off from its outright opposition to Communist participation in the cabinet, a move which will probably permit the Azevedo government to continue in power without a major overhaul. Despite this concession, several left-wing leaders of the party have walked out, leaving party secretary general Francisco Sa Carneiro in firm control.

The party, which convened its national congress in Aveiro on December 6, passed a resolution enabling both the Popular Democrats and the Communists to remain in the Azevedo government. The resolution appears to have been a compromise between the party's left wing—which wanted to see the Communists remain for tactical reasons—and the conservative group led by Sa Carneiro, who had been loudly demanding that the Communists resign.

The unity achieved over this resolution failed to carry over in the discussion of factional differences, however. When Sa Carneiro installed his own hand-picked secretariat, left-wing leaders stormed out of the congress.

Among the disaffected were some of the party's ablest leaders, including Emidio Guerreiro, who during Sa Carneiro's illness led the party to a second-place finish in the constituent assembly elections. Also included are a cabinet minister, two secretaries of state, and 17 members of the constituent assembly. Additional defections among assembly delegates are considered likely.

In a press conference this week, Sa Carneiro scorned the left-wing leaders, alleging that they were more in sympathy with Marxism-Leninism than with the aims of their own party. He also said Prime Minister Azevedo had assured him that party dissidents could be replaced in the government without upsetting its present balance.

The status of disaffected Popular Democrats in the constituent assembly, however, has not been resolved. Sa Carneiro insists that the deputies should not remain in the assembly as independents after being elected as party members,



Francisco Sa Carneiro

but he admits that the assembly can probably vote to retain them if it wishes. The present delegates are more likely to vote with the Socialist majority on proposed articles for the new constitution than replacements chosen by the present party leadership.

As a result of the party split, Sa Carneiro now presides over a more homogeneous party and one which is more firmly under his control, but the price for such control is likely to be a narrowing of the Popular Democrats' political base to the right.

FRANCE: ARMY UNREST

Paris has acted swiftly against radicals trying to organize unions in French military units stationed in France and West Germany. The government has arrested about 25 recruits and civilians on charges of "actions detrimental to the national defense." If convicted, they could be sentenced to five to ten years in jail. They allegedly were involved with Portuguese and West German extremists and French far-left splinter parties and union members in efforts to undermine military discipline.

[redacted] leftist draftees, aided by leftist union members, had encouraged unionization of military units that were equipped with "very sophisticated equipment." [redacted] government believes the activity was designed to disrupt discipline and to establish an espionage and sabotage network. [redacted] in this context a presumed Soviet network uncovered in France last spring and the appearance in France last month of leftist Portuguese military men.

[redacted]

[redacted]

Giscard's attempt to exploit the issue is unlikely to be very effective. The Socialists, who strongly oppose extremist activity in the military and unionization in particular, reiterated their support of military discipline. The French Communists also expressed opposition to military unions. The left scored some points by continuing to insist on improvements in military life that would meet the recruits' efforts to obtain greater freedom of expression and association and the kinds of grievance procedures already available in the armed forces of other West European nations.

The government's spokesmen—Prime Minister Chirac and Interior Minister Poniowski—may lose the most in the affair. Chirac's attacks on the Socialists were heavy-handed, but Poniowski went further and accused the Communists of inciting French draftees to learn to shoot so they could attack their commanders. Poniowski always relishes a chance to go after the Communists, and Chirac, for his part, sees the Socialists as a major threat to his Gaullist party. Chirac's words may have been sharpened by concern over the Socialists' increasing popularity among recruits—a reflection of a general trend in French society.

Sheltered from social changes since 1968, the French military establishment has resisted modernization. The problem is partly because of budgetary constraints, but French soldiers are aware that it is not greater financial resources that enables many West European armies to grant more personal and political freedoms than are available in France.

Attempts have been made over the past year to respond to military discontent, and the government's response to the current unrest reaffirms the thinking of the military leadership that, while only a small minority of its personnel is directly involved, such activities cannot be ignored. The government will have to undertake additional efforts to create a more flexible military structure attuned to the needs and grievances of the recruits, if unrest is to be dealt with effectively.

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UK: IMPORT CONTROLS

The British government will apparently go ahead with plans for selective import controls. The final decision on the extent of the controls may have been held up, however, because of negative international reactions.

Michael Foot, secretary of state for employment, told Western diplomats recently that he supports the import controls and that the government will probably announce them before the end of the month.

Foot indicated that selective controls would be part of a "Christmas package" of measures intended to increase employment. The package will probably include retraining schemes and subsidies designed to create new jobs for young workers.

Although unemployment is not expected to peak until next year, the government may believe that the package would in part offset the termination of Chrysler's operations in the UK. Foot declined to comment on the status of negotiations with Chrysler, but did say that a complete shutdown would affect the jobs, directly or indirectly, of 50,000 workers.

Foot's deputy indicated that the primary target of the import controls would be textiles from Hong Kong and Taiwan and clothing from Eastern Europe. Second and third priority targets would be television tubes and automobiles from Japan. Such priorities suggest that the British government wishes to avoid quarrels with its Common Market partners or the US.

Foot said that the government had warned the West Europeans of the possibility of controls and expected no hostile reaction from that quarter. Several Common Market countries—West Germany, most recently—have, however, told the British that they oppose selective controls. The subject was not on the agenda of the EC summit meeting in Rome, but it may have been discussed informally.

Foot justifies his support of import controls on the grounds that they are necessary to save jobs and retain vital trade union support for the Wilson government. He believes that the most difficult periods for the government will be this winter, when unemployment peaks, and during next summer, when the unions decide how to react to the second phase of Wilson's anti-inflation program.

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SPAIN: ARIAS PLANS NEW CABINET

Spanish Prime Minister Arias, acting in close concert with King Juan Carlos, is reportedly preparing an extensive cabinet shuffle that is intended to demonstrate the government's commitment to moving Spain toward a more democratic political system. The new government may retain only three members of the present cabinet,

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The King specifically requested that portfolios be given to Areilza, former ambassador to London Manuel Fraga Iribarne, and Christian Democrat Federico Silva Munoz. Areilza would be given the Foreign Ministry, Fraga would become minister of the interior, and Silva Munoz would be offered the ministry of justice or information. There are indications, however, that Silva Munoz will not accept either post.

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All three politicians will be wary of identifying themselves with a government that may prove not very different from its predecessors. Areilza voiced this concern to the Prime Minister and was assured that the intention was to move Spain down the road toward becoming a Western-style democracy.

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The three men named by Juan Carlos all favor gradual liberalization of the regime and all are in contact with the democratic opposition.

- Fraga, probably the best known Spanish politician outside the present government, is basically a centrist who advocates change with order.
- Areilza, a former ambassador to Washington and Paris, is a liberalizer with one foot in the camp of the temperate opposition and the other in the establishment.
- Silva Munoz, though inherently conservative, apparently favors gradual change under strict controls and, as leader of the conservative branch of the Christian Democrats, is in touch with Christian Democratic factions in the opposition.

[redacted] Arias may also appoint General Manuel Gutierrez Mellado deputy prime minister in charge of coordinating the three military ministries—perhaps foreshadowing the formation of a defense ministry in the near future. Gutierrez Mellado, who is the chief military spokesman in the base negotiations between Spain and the US, is generally considered one of the most intelligent generals in the Spanish armed forces. He favors gradual liberalization of the regime and is liked by most of the democratic opposition, including the Socialists.

[redacted] the three ministers who will remain in the government are Minister of Labor Fernando Suarez Gonzalez, one of the most liberal members in the outgoing cabinet, Minister of the National Movement Jose Solis Ruiz, a cautious liberalizer who is acceptable to both liberals and conservatives, and the conservative Minister of the Navy Admiral Gabriel Pita da Veiga. Political infighting over the past week may result in a few more conservatives being retained, but the bulk of the 19-man cabinet is likely to be made up of technicians who would work to bring Spain closer to Western Europe and to membership in the Common Market and NATO.

If Arias can get his nominations past the expected rightist opposition, the new government will have its work cut out. The localized strikes that are taking place this week are still likely to be the forerunners of substantial labor unrest this winter. A number of important collective bargaining contracts are due to expire on December 31 and last month the government extended the wage freeze—introduced last summer—for one year. The extension has angered the workers and will make the labor movement more receptive to Communist attempts to politicize the country's economic difficulties and organize a paralyzing general strike early next year.

The government will also have to cope with an increasing number of potentially violent demonstrations as the opposition steps up demands for complete amnesty for political prisoners, legalization of political parties including the Communists, and an opening up of the government labor union. [redacted]



Prime Minister Arias chats with King Juan Carlos

USSR: GRAIN HARVEST

This year's grain harvest was the lowest since the mid-1960s, according to figures provided recently by Soviet officials.

A published statement by a middle-level Soviet official indicates that the harvest may have been about 137 million tons. Soviet Agriculture Minister Polyansky gave the British ambassador some figures that point to a crop of between 142 and 152 million tons. This could mean the worst harvest since 1965.

The severe drought in the USSR lends credibility to the new figures. One Soviet official told the British ambassador that the weather this year was the worst in a hundred years.

A harvest of 137 million tons would leave the USSR short at least 40 million tons of grain even if it imports all it can. The Soviets have bought 26.7 million tons so far this year, and they can buy only another 4.3 million tons from the US. Because only minimal amounts are available from other suppliers, we estimate that total imports will be about 32 million tons. The Soviets thus would have to curtail domestic consumption sharply.

The 137-million-ton figure is derived from remarks made at Wednesday's session of the USSR Supreme Soviet by Grigory Vashchenko, chairman of the budget and planning commission of one of the Supreme Soviet's two chambers. Vashchenko, who is also a member of the Central Committee, stated that average annual production of grain during the past five years was 8 percent higher than the average for the preceding five years.

Polyansky gave the British ambassador a range of average annual production for 1971 through 1975. Since official data for past years are known, output for 1975 can be calculated from these averages.

Our latest estimate of the Soviet grain crop is 150 to 155 million tons; earlier, unofficial es-

timates given by Soviet officials had been in the range of 160 to 170 million tons.

So far, the Soviet leadership has not employed all-out tactics for curtailing consumption such as limiting the sale or drastically reducing the quality of bread, or delivering public harangues against waste. We have, however, good evidence of distress slaughtering of livestock, reductions in feed rations, and increases in the prices of farm products in the collective farm market.

Soviet leaders, defensive about the harvest disaster, are treating economic subjects gingerly, hoping to avoid recriminations and policy disputes. By stressing that weather was the cause of the poor harvest, the leaders are trying to block attempts to blame individuals or policies.

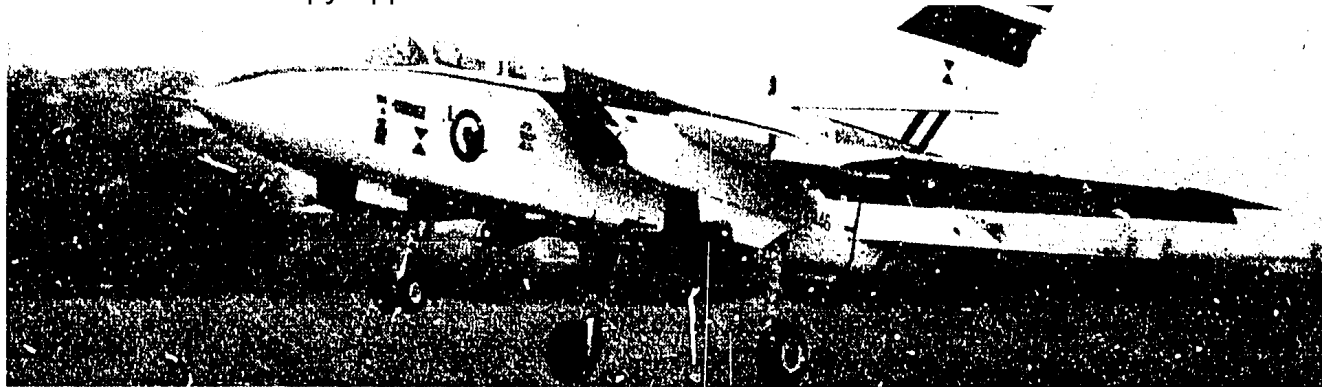
Ukrainian party boss Shcherbitsky, a Politburo member and protege of General Secretary Brezhnev, warned this fall that a "correct approach" must be taken in appraising the harvest and that the work of the party in agriculture "must not be belittled." The economic slowdown resulting from the poor harvest, however, will seriously undermine the leadership's prestige.

For the moment, the leaders seem to be sticking with past policies, including Brezhnev's program of heavy investment in agriculture. Published references to Brezhnev's speech before the Central Committee on December 1 suggest that he offered only hackneyed prescriptions such as "socialist competition" for treating the economic ills resulting from the harvest.

The economy's poor performance will require that the preliminary goals set for the next five-year plan be revised downward. Advocates of limited reform measures and schemes to reorganize agricultural and industrial management could find their cause strengthened. In the end, Soviet leaders may find it impossible to avoid recriminations and may have to offer up a scapegoat or two.

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WESTERN EUROPE: MRCA PROBLEMS

The West European Multirole Combat Aircraft project remains barely off the ground some 16 months after the initial flight of a prototype aircraft. Design difficulties still plague the plane's highly advanced RB-199 engine. For example, the engine oil overheats because of poor circulation, and inadequate cooling of the turbine blades is causing them to fracture. British officials connected with the program insist the problems are no worse than those encountered with some other military engines under development, but the West Germans remain skeptical.

Earlier this year, the West Germans expressed an interest in the General Electric F404-400 engine as an alternate power source. However, an engine change at this stage of the development program is unlikely because of the major redesign work this would entail on the airframe. To refit the plane would not only push the program back another 15 to 18 months, but would confront the co-developers—the UK, Italy, and West Germany—with staggering financial losses.

The engine problems are especially bedeviling because no other serious problems have cropped up during the test program. The plane's airframe and other systems are functioning smoothly, and the general flying characteristics are said to be better than anticipated. Full technical and performance ratings are scheduled to be presented to the NATO MRCA Management Agency by next February, but in view of the continued problems with the engine, they probably will not be. The three countries are scheduled to meet next spring to decide whether to put the aircraft into series production.

The prognosis for the program remains guarded. Questions about the plane's long-term

cost may be even more worrisome than the plane's engine problems. The West German Bundestag has indicated it will continue to support the project—but only if the plane will not cost more than \$9 million each. Most estimates indicate this ceiling will be exceeded. British Aircraft Corporation officials reportedly have projected the production cost at about \$13 million per plane, assuming that all three countries buy the full order of 807 planes.

The UK, however, is under pressure to cut back further on its defense spending, and is reportedly again considering dropping the interceptor version of the MRCA. If the UK decides to drop its order for 165 interceptors, the cost of the remaining aircraft may well be forced to an unacceptable level—especially for the West Germans and Italians, who are already wavering in their commitment. Little help can be expected from the export market, where the prospects for additional sales are not good.

The Multirole Combat Aircraft is probably Europe's most ambitious multinational weapons development program, and its failure could have an especially heavy impact on the European NATO countries, which have just begun a concerted effort to seek new ways to achieve greater standardization of weapons. The Multirole Combat Aircraft is slated to replace large numbers of Phantom interceptors, Buccaneer fighter-bombers, and Vulcan and Canberra bombers in the British Royal Air Force. Plans also call for replacing many F-104 fighters in the West German air force and navy, as well as in the Italian air force with the MRCA.

The program's failure not only would mean that the Europeans had lost a chance to standardize on one aircraft, but could raise serious



doubts in many European capitals about their ability to combine their resources and compete with the US aerospace industry in high-technology military aircraft programs. Given Europe's desire to build a defense industry that can compete with the US in arms development and production, the Europeans are likely to be torn between proponents of new efforts to rationalize the air industry and those forces who want to increase their ties with the US aerospace industry in order to stay abreast of its rapidly advancing technology.

ICELAND: ANGLING FOR SUPPORT

Iceland, determined to seek international support in its fishing dispute with the UK, raised the issue at the meeting of NATO foreign ministers in Brussels on December 11-12. Prime Minister Hallgrimsson diverted pressures to boycott the meeting as a sign of protest by convincing the cabinet last week that the conference would give the Icelanders a golden opportunity to air their grievances. An earlier decision to seek a condemnation of UK "aggression" by the UN General Assembly has been postponed until after the talks in Brussels, but a message to the Security Council is still under consideration.

Hallgrimsson has intimated that he would be satisfied with expressions of concern by the other NATO foreign ministers and an offer by Secretary General Luns to mediate. Luns has already issued a statement urging moderation in the dispute and has offered his services to the Icelandic and British representatives. According to an aide, Luns hopes that a private meeting between Icelandic Foreign Minister Agustsson and British Foreign Minister Callaghan can be arranged during the NATO session.

A British official said last week that he hoped the foundation for a resumption of negotiations could be laid in Brussels. London is willing to begin talks and remove its frigates from Icelandic waters if Reykjavik agrees to stop harassing British trawlers during the negotiations. Iceland has rejected this proposal from the start.

Iceland began talks with the British last September by insisting that London reduce its catch to 50,000 tons from the 130,000 tons allowed under the two-year agreement that expired on November 13. Iceland later offered to raise the figure to 65,000 tons and the UK agreed to reduce its catch to 110,000 tons. The talks broke down last month when both sides balked at further concessions.

In the meantime, Reykjavik has concluded an agreement with Bonn limiting the West German catch to 60,000 tons. The pact with West Germany has probably encouraged the Icelanders to clamp down on the British. In addition, Reykjavik is touting a recently concluded government study reporting that cod, the main item in the British catch, have been overfished and are in danger of extinction unless limits are imposed. The agreement with Bonn reduced the West German cod catch by 75 percent. Fish, especially cod, are a matter of survival for the Icelanders, accounting for nearly 80 percent of the country's exports. Reykjavik wants to maintain its current yearly catch of about 230,000 tons and reduce the British share—a move London is resisting.

The prolonged deadlock at the negotiating table has led to sporadic incidents at sea between British trawlers and Icelandic patrol vessels, which are using hide-and-seek tactics to cut the costly nets of British trawlers. Three Icelandic patrol boats simultaneously harassed British fishing vessels on December 9, causing all of the trawlers to give up and haul in their nets. In a separate incident, a British tugboat rammed an Icelandic Coast Guard vessel on December 6, the first such incident in the current dispute. For the first time, both sides reportedly threatened to exchange fire.

A serious incident at sea—particularly if there are casualties—could lead to a rapid escalation of the cod war. Emotions are already running high in Iceland, and such an incident would only add fuel to the fire, endangering the future of the US-manned base at Keflavik and Iceland's membership in NATO. The Icelandic government is aware of the danger and recently ordered the Coast Guard to curtail harassments of trawlers, but this may be difficult to enforce.

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FINLAND: OIL IMPORTS

High petroleum prices have set Finnish industry hard at work producing goods needed to exchange for Soviet crude. Under barter agreement, the Soviets provide about 70 percent of Finland's crude oil supplies, or about 40 percent of total energy supplies. When the USSR followed the lead of the Arabs in quadrupling oil prices early last year, the Finnish trade balance with the Soviet Union got badly out of whack. The value of Finnish oil purchases from the USSR shot up from \$160 million in the first eight months of 1973 to \$500 million in the same period of 1975.

Helsinki was able to cut its deficit with the USSR by 75 percent—to \$97 million—in January-August 1975 only by stepping up shipments to the USSR at the expense of hard-currency sales to the rest of the world. The process involved a massive redirection of trade. In the first eight months of 1974, only 12 percent of Finnish exports went to the USSR, compared with 20 percent to Britain and 17 percent to Sweden. In the same period this year, the USSR and the UK reversed their relative positions. The non-Soviet trade deficit totaled \$1.5 billion in January-August 1975, more than triple the deficit in the same period last year.

Present export plans call for an approximate balance in trade with the USSR in 1976. Finland has been given a guaranteed market for its exports to the USSR by fitting its industrial goods closely to Soviet specifications. Ships, pulp and paper products, and heavy machinery are all to be delivered in return for the required oil. The volume of oil imports from the USSR is scheduled to rise to 130,000 barrels per day next year, about 10,000 barrels per day more than this year. Helsinki wanted to buy even more, but the Soviets held the figure down.

High world prices have reinforced Finland's historic dependence on Soviet oil. Because Finnish-Soviet trade is strictly on a barter basis, no hard currency is needed to pay for oil imported from the Soviet Union. Moreover, crude supplies from the Persian Gulf probably would be somewhat more expensive because of higher transportation costs.

The harshness of the Finnish climate and high

fuel requirements in the forestry industry frustrate attempts at energy conservation. Finland has few domestic fuel sources. Water power has already been exploited to the limit, and the use of wood for heat is declining. Three nuclear plants are under construction, but will not alleviate the oil payments problem before the 1980s.

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GREECE: NEW ARMY COMMAND

Athens is forming a fourth army corps in Thrace near the Turkish border. The army is also working on plans to separate the command of the eastern Aegean islands from that of the mainland. These changes are scheduled for completion by March 1976.

The formation of a corps command in the border area will better prepare the army for possible conflict with Turkey. Forces equivalent to two and a half combat divisions—heavy in both armor and artillery—already are based in the area. The new corps will probably receive additional artillery, reconnaissance, and engineering units from the other three corps to fill out its headquarters component. Few additional forces would have to be moved to achieve the same readiness posture assumed at the height of last year's mobilization.

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The command responsible for defending the Aegean islands traditionally has been the headquarters for the entire Greek army's logistic support, with the secondary mission of controlling the forces on the Aegean islands.

Tension between Greece and Turkey since the Cyprus invasion last year has prompted both nations to reorganize their army command structures. The Turks created a new Aegean command last summer.

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CHINA-VIETNAM: GROWING RIVALRY

Sparring Over the Spratlys

Peking's growing impatience with Hanoi bubbled to the surface late last month when the Chinese forcefully reasserted their claim to the Spratly and Paracel islands in the South China Sea.

The question of sovereignty over the islands has been a major annoyance in Sino-Vietnamese relations since the Chinese took the Paracels from the former Saigon government in January 1974, but neither side had openly pushed the issue for several months. The broadside in a *People's Daily* article was by far the toughest Chinese statement on the dispute since early 1974 and amounted to the first direct challenge of Hanoi's claim to the islands.

The article called for the return of all disputed islands to Chinese control and linked this demand with China's long-held pledge to "liberate" Taiwan. This linkage indicates the importance the Chinese attach to their claims but suggests that Peking may be prepared to wait some time—as it has with Taiwan.

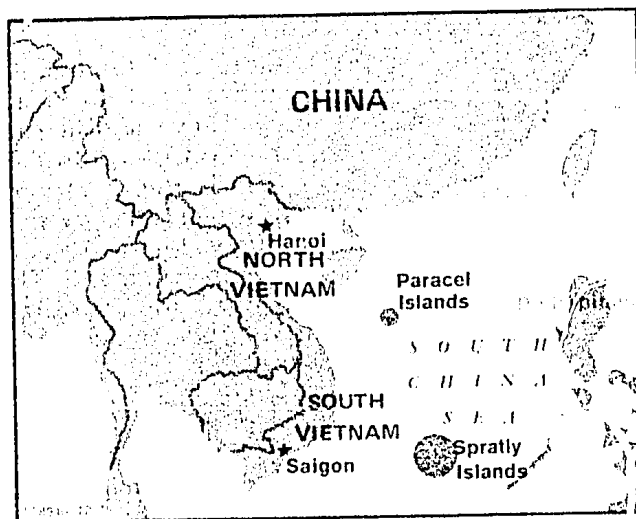
The *People's Daily* attack on Hanoi was implicit, but it left no doubt that North Vietnam was the major target. References to Moscow, on the

other hand, were explicit and vituperative, pointing up Peking's belief that Hanoi is abetting Soviet attempts to expand their influence in the region. Significantly, the article was published only two days after North Vietnamese party chief Le Duan returned from Moscow, where he had seconded the Soviet view of detente. His endorsement put Hanoi squarely in Moscow's camp on an issue of major importance to China and was almost certainly read in Peking as a deliberate provocation.

The Chinese clearly see a correlation between Hanoi's increasing tilt toward Moscow and the long-range possibilities for Soviet "meddling," through Vietnam, in Southeast Asia. The Chinese also seem persuaded that in the shorter run, Hanoi could by itself disrupt their hopes of developing a bloc of friendly countries along their southern border.

The Chinese and Vietnamese share very few common perceptions of Southeast Asia. They are on opposite sides in the current dispute between Thailand and Laos. Hanoi has vigorously defended the Lao and has frequently attacked Thai "aggression," while Peking has remained relatively quiet on the issue. Peking has also been on Cambodia's side in border disputes with Vietnam and apparently encouraged the Cambodians toward diplomatic relations with Thailand.

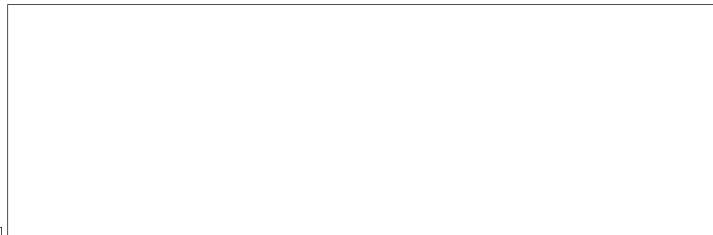
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TIMOR**Indonesia Invades**

On December 7 Indonesia launched a full-scale invasion of Portuguese Timor. Indonesian marines and paratroopers captured the capital at Dili following a naval bombardment. The invasion was generally well executed,



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The World Watches

Indonesia's campaign to convince world opinion that military intervention in Timor was justified is running into difficulty, in part because of the unexpectedly strong reaction from Portugal itself.

Jakarta claims that it had to act to restore an orderly decolonization process because the Portuguese had in effect abdicated responsibility for the colony's future. Lisbon has broken relations with Indonesia, and the Portuguese foreign minister has branded Jakarta's actions as an "unqualified act of armed aggression." Lisbon may be speaking in part for Portuguese domestic consumption, but also because it wishes to remain on good terms with its former African colonies, which are in the forefront of those criticizing Jakarta.

Jakarta probably would like to follow the same procedure in Timor that it used in 1969 with the former Dutch territory of West New Guinea—annexation after an Indonesian-managed plebiscite under UN auspices. Several members of the decolonization committee, pressed by former Portuguese colonies in Africa, will probably try to amend the resolution in order to condemn Indonesian aggression against Timor. Portugal has asked for a Security Council session to consider Indonesian aggression.

Indonesia's Asian friends are working to undercut criticism of Jakarta by other Third World states and to work out a UN resolution on Timor that all sides can accept.

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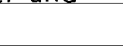
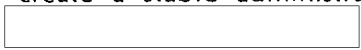


The problem is particularly delicate for the Australian government, which is in the midst of a bitter election campaign. Left-wing trade unionists supporting the Fretilin cause are being joined by usually conservative World War II veterans who served in Timor and feel an emotional tie to its people. Australia has been working for a resolution that avoids any mention of Indonesian action and talks in general terms about respecting the rights of Timorese self-determination. The Australians fear such a limited resolution has little chance of passage.

Even Jakarta's severest critics do not consider Fretilin a viable government worthy of substantial support per se. Both Peking and Hanoi have been outspoken in denouncing Indonesian aggression, but neither has recognized Fretilin's declaration

of independence. As the self-proclaimed leader of the Third World, Peking undoubtedly felt obliged to criticize Jakarta, but the Chinese probably hope that the Timor issue will not become an obstruction to Peking's continuing efforts to improve relations with Jakarta. Hanoi took the opportunity to blame Washington for encouraging the Indonesian attack.

Most members of the international community would probably prefer not to stand up and be counted on the Timor issue. Whether or not Indonesia's opponents will be able to do more than cause Jakarta temporary embarrassment will probably depend on how quickly Indonesian troops can restore law and order and create a stable administration in Timor.



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CHINA: THE TACHAI CAMPAIGN

Agricultural production has enjoyed top priority in China's economic plans since the early 1960s, but Peking is now stepping up its efforts to achieve a breakthrough. A new campaign to mobilize the Chinese peasant—as large as the anti-Confucius campaign in 1974, and perhaps larger than any since the Cultural Revolution—has come to dominate China's domestic propaganda and to shape much of the activity on China's political and economic scene. Vice Premier Hua Kuo-feng has placed it on a par with the land reform and agricultural collectivization movements of the 1950s.

The new campaign, with an old name, is dubbed "Learn from Tachai" and is aimed at expanding the acreage of stable, high-yield farmland. This expansion is a prerequisite for the efficient use of modern agricultural methods, such as the use of the greatly expanded supplies of high-quality chemical fertilizer that will be available by the end of the decade.

Peking's decision to launch the Tachai campaign is clearly related to the start of the Fifth Five Year Plan (1975-80), which accords agriculture first call on China's resources. If the plan is successfully carried out, there could be agricultural surpluses by 1980. Chinese leaders have repeatedly emphasized the importance of agricultural surpluses to China's long-term goal of modernizing its industrial, defense, science, and technology sectors.

The goal is to establish 500 new Tachai counties by 1980; there are already 300. Tachai is the name of a model production brigade that made great strides in increasing production in the mid-1960s without state aid. Previously when Peking has sponsored campaigns to improve yields in a few selected areas, the state has supplied the lion's share of the funds. The new Tachai counties will be subsidized, but the state's share will be smaller. Most of the investment will come from mobilizing rural labor for the construction of water control projects and land terracing and leveling.

To make sure sufficient labor for such projects is available, the state is also pushing a "proletarian dictatorship" campaign designed to crack down on the permissive policies of the early 1970s that relaxed control of private activities in the countryside. The regime now wants to channel these resources back into the socialist economy and is sending experienced management personnel from the cities and the provinces to the countryside to tighten up on corruption and cut down on too much private enterprise.

The Tachai campaign appears to represent a greater effort to galvanize the countryside to produce larger agricultural returns than any since the ill-fated Great Leap Forward campaign of 1958-59. An effort of this magnitude is probably only possible because of the general strengthening of the party apparatus—crippled during the Cultural Revolution—that has been apparent since the beginning of this year. The current emphasis on tightening party discipline and rectifying work style suggests Peking not only expects to capitalize on the recent strengthening of the party apparatus but to further this process during the campaign.

So far the campaign is emphasizing a sober, step-by-step approach to China's perennial agricultural problems and strict accountability of lower levels. But the scope of the campaign, the emotional undertones of the current exhortations, the prohibition on expanded material incentives, and the somewhat grandiose goals that have been set are all vaguely reminiscent of the Great Leap Forward. Thus, at least some possibility exists that this campaign, like the Great Leap, the Cultural Revolution, and the anti-Confucius campaign, could get out of hand and thereby almost certainly ensure an eventual backlash and consequent retrenchment. The leaders in Peking, however, are likely to guard against such a possibility.

We cannot yet determine whether the admittedly ambitious goals for 1980 can be attained. If the Chinese can improve water management

and supply the needed mix of industrially manufactured materials for agriculture, rapid production increases could be achieved by the end of this decade. A breakthrough would require a substantial upgrading of the number and quality of China's corps of agricultural scientists. Peking reportedly has drawn up a new plan for education, but time is far too short to produce anywhere near the number of scientists required by 1980. The plan also ignores the time required for basic research.

The massive redirection of rural labor from private plots and sideline production to collective activities such as agricultural capital construction will be at the expense of the peasants' standard of living. If the campaign is conducted with some degree of restraint, the gains in the productivity of land over the long run will make these short-run costs worthwhile. If the new policies are carried out harshly, peasant morale will be adversely affected, the rural economy dislocated, and agricultural output reduced.

LAOS: THE COMMUNISTS MOVE IN

The Lao communist leaders, who spent most of the last 20 years in the caves of northeastern Laos, are moving into the ministerial offices in Vientiane. A few of the non-communists in the former coalition have been included in the national people's congress that will apparently rubber-stamp government actions, but most have been banished to Sam Neua.

Prime Minister Kaysone Phomvihane has issued a lengthy "action program" outlining domestic and foreign policies. His program states that the Pathet Lao intend to impose tight social controls and to root out "decadent imperialist culture." The program also proposes numerous measures designed to reform the primitive sub-

sistence economy and to make Laos self-sufficient in food. The Lao are undoubtedly counting on substantial foreign assistance in pursuing their ambitious economic goals.

Foreign Minister Phoune Sipraseuth has formally notified the US embassy that Laos desires continued relations with the US, and he conveyed the same message to the US charge during an unusually cordial conversation at a communist victory gala. The action program, however, links continuing relations with the demand that the US provide economic assistance "to heal the wounds of war." With Kaysone as prime minister and Phoune, Phoumi Vongvichit, Nouhak Phoumsavan, and Khamtai Siphandon as his deputies, the government is now in the hands of those most closely identified with the North Vietnamese—and Lao-US relations may well be hostage to the state of relations between Hanoi and Washington.

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Lao relations with Thailand remain strained. The Thai have not yet reopened the border, closed following a Lao attack on a Thai Mekong patrol boat last month. Some food items have disappeared from Vientiane markets, and other goods have increased in price dramatically. Gasoline is available only on the black market at exorbitant prices. The Thai obviously hope that the closure will impress on the Lao their dependence on Thailand for supplies and access to the sea and eventually prompt them to take a more accommodating attitude on relations.

Hanoi has begun a small-scale airlift using captured US C-130s to help offset the supply shortages. Unless major deliveries are made by road, the supply effort will not compensate for the border closure. Hanoi probably intends that the shipment of vitally needed supplies will serve as a gesture of support for its Lao allies and strengthen Vientiane's hand in dealing with the Thai on the border issue.

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CUBA: FIRST PARTY CONGRESS LOOMS

Havana is readying itself for the first congress of the Cuban Communist Party, to be held December 17 to 22. It is likely to be as cut and dried as any communist congress, but Fidel Castro may deliver another blast at the US and tell his people of Cuba's military involvement in the Angolan civil war. Moscow will be represented by Politburo member and senior party secretary for ideology Mikhail Suslov, who will arrive on December 14. Party leaders of some other Communist countries will probably also attend.

Rather than debate major policy issues, the congress will do little more than place its formal stamp of approval on decisions made months ago. The new constitution to be presented, for example, has already been given broad public exposure and is likely to undergo only minor revision before being accepted by the delegates. Also expected to receive perfunctory review are several "theses" outlining domestic and foreign policy. In addition, the congress will approve a set of party statutes that have been in force since early this year.

There will probably be some changes in the party structure—the Political Bureau, the Secretariat, and the Central Committee will probably be expanded—but actual power will remain in the same hands as before. Castro and his comrades-in-arms from the early days of the revolution will maintain control, although some veterans of the pre-Castro communist party and a few up-and-coming technical experts will be given positions at upper party levels. In party elections held throughout the country, Fidel and party Second Secretary Raul Castro have been nominated "pre-candidates" by virtually all constituencies, signifying their continuation in their respective positions. The same "honor" has also been awarded all members of the Political Bureau and the Secretariat.

At least one "old" communist, Deputy Prime Minister Carlos Rafael Rodriguez, is likely to join Castro and his guerrilla elite on the Political Bureau, but this concession to the pro-Moscow

members of the leadership may be balanced by the addition of one or more former guerrillas. One of these reportedly is Deputy Prime Minister Belarmino Castilla Mas, who was one of Raul Castro's six guerrilla column chiefs during the revolution in 1958 and has since served in a variety of top military and civilian posts.

There are signs that the Central Committee may be broadened considerably. Party elections at the provincial level have resulted in the nomination of as many as 160 "pre-candidates" for the Central Committee, theoretically the party's supreme decision-making body, aside from the congress itself. The Central Committee presently has 90 members, down from the original 100 of October 1965 as a result of deaths and purges. All but a few will probably keep their seats, and there may be 30 or 40 additions. A significant portion of the new membership is likely to consist of women, correcting to a small degree what Fidel sees as a serious political weakness at the highest policy level.

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VENEZUELA: FORGING ECONOMIC TIES

President Carlos Andres Perez has scored a significant success in expanding Venezuela's political and economic influence in Latin America. This development comes at a time when relations with the US have received a setback.

On November 28, Finance Minister Hector Hurtado signed comprehensive economic and commercial agreements with Argentina, which both nations are hailing as a significant step in the development of close ties between them. Caracas agreed to purchase annually 400,000 metric tons of Argentine grains, with provisions to revise that amount upward. In return, Argentina will buy 100,000 to 150,000 tons of iron ore during 1976 and

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President Perez meets with Argentine Economy Minister Cafiero

increase the amount to 250,000 tons from 1977 to 1980.

Among issues for future consideration were implementation of agreements for the sale of petroleum and liquid gas to Argentina, measures to facilitate the sale of coal to Argentina, and placement of Argentine external bonds on the Venezuelan financial market. According to Argentine officials, Economy Minister Cafiero will visit Caracas in early January to sign an agreement providing for reciprocal technical cooperation.

Most attention has centered on the reasons behind the unusually large quantity of wheat, yellow corn, and sorghum grains purchased from Argentina. In the past, nearly all of Venezuela's needs for imported grains were supplied by the US. [redacted] linked this move to Perez' anger over the implementation of the US Trade Reform Act, which excluded Venezuela and other OPEC members from the Generalized System of Preferences. [redacted]

[redacted]

[redacted] The shift in suppliers is also a conscious effort to lessen Caracas' dependence on the US

for agricultural imports despite lower prices and higher quality in the US.

The agreement to discuss providing Argentina with petroleum does not commit Caracas to more than taking note of Buenos Aires' recent effort to obtain Venezuelan oil. It does, however, make the necessary gesture toward Latin American solidarity while at the same time solidifying Argentina's cooperation on hemispheric issues of interest to Venezuela.

Domestically, Perez' handling of the GSP issue and the agreement with Argentina has won wide support in Venezuela and may speed congressional approval of certain details involved in the nationalization of the foreign oil companies. With less than three weeks to go before the foreign oil concessions expire and the formal transfer of ownership takes place, much remains to be done. The congress has yet to approve the compensation agreements laboriously worked out with the private companies. In addition, the technical service agreements are still being debated and negotiations are just beginning with the companies over oil price and purchase contracts to take effect on January 1, 1976.

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The governing Democratic Action Party has a majority in the congress, but has been reluctant to force congressional action without adequate debate. Nevertheless, its leaders have warned the

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opposition parties that time is running out for congressional review and that the government's carefully arranged step-by-step nationalization process could be adversely affected by prolonged partisan delaying tactics. The legislative session has been extended until December 28. The present expectation is that there will be a photo-finish in resolving the outstanding issues between the concessionaires and the government and in getting congressional action setting up nationalized companies to take over the assets and operations of the present concessionaires.

MEXICO: YAQUI VALLEY UNREST

Rural unrest in northern Mexico has increased significantly during the past two months, particularly in the Yaqui River valley farm belt. Peasants have occupied land they say had been promised them years ago, and landowners have forcibly removed them, often with the help of the police and army. More than two dozen people have been killed.

The most serious incident occurred in the state of Sonora on October 23, when police and army troops ejected squatters from a farm. Ten people were killed, 18 wounded, scores arrested, and the state governor was forced to resign because of the incident. In early November, landowners in the state of Veracruz killed several more peasants who had "expropriated" land. On November 20, while the country commemorated the anniversary of the revolution that began in 1910, hundreds of peasants began an invasion of private farms in southern Sonora. The occupation ended peacefully four days later after federal agrarian reform officials promised, on President Echeverria's instructions, to expedite the peasants' claims.

On December 1, private farmers—owners of large, productive "agro-industrial" farms in the

rich, irrigated Yaqui valley—staged a four-day strike to protest the government's decision to turn over 12,000 acres of their best land to the landless. The landowners charged that the government was following "communist" policies aimed at altering Mexico's course and eliminating private agricultural property and private business as well. The farmers ended the work stoppage only after the government privately agreed to halt the expropriations.

The region produces about a third of Mexico's wheat, and officials were concerned that the walkout would have ruined the harvest. Any further farmer walkouts could greatly worsen the nationwide food problem and deal a hard blow to the area's earnings from exports to the US of winter fruits and vegetables.

The landowners were placated in this instance, but sharp disagreements between them and the campesinos persist. More violence is likely if land invasions continue.

The government is caught up in a situation of its own making. To feed the country's burgeoning population and to earn needed foreign exchange, the government has to keep the large farms intact and operating. This need runs counter to its own laws, which limit each private tract to the equivalent of 100 hectares of irrigated land. For economic reasons, however, it has turned a blind eye to the creation of large estates, sometimes of 10,000 hectares or more.

At the same time, the government must back up its revolutionary land reform slogans (and relieve peasant pressure for land) by periodically carving up large holdings and distributing plots to the landless. The Echeverria administration has attempted to ease the peasants' burdens by pumping large quantities of credit and assistance into the countryside, but conditions have not improved noticeably. Some of the peasants have been waiting as long as 25 years to receive title to land under the land reform laws, and their patience is wearing thin.

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INTERNATIONAL ECONOMIC COOPERATION

The long-delayed Conference on International Economic Cooperation—first proposed two years ago as an “energy conference”—will start in Paris on December 16. Ministers from 27 industrialized and developing countries will ratify an agreement made two months ago establishing four working commissions to examine the broad areas of energy, trade in raw materials, problems of developing countries, and financial issues related to the first three. The commissions, each composed of five industrialized and ten developing states, are expected to begin work early next year. Unless the talks collapse during the next 12 months, the same 27 states will probably meet one year from now to assess what progress, if any, has been made.

In the wake of the 7th Special Session of the UN General Assembly on the problems of the developing countries last September, the Paris conference will provide another forum for discussions of the changing relationship between rich and poor states. The ultimate fortunes of the conference depend as much on the progress of talks in other forums as on the work in the four commissions. At the same time, however, a breakdown or a stalemate in the commissions would tend to destroy the truce which the special session of the UN created in the running feud that has characterized relations between the in-

dustrialized and developing world for the last several years.

In addition to establishing the commissions, the ministers in Paris will have to set guidelines for relations between them. Specific agendas will probably have to be left for later, since both the rich and the poor countries will come to Paris with poorly defined ideas of what each wants and how much each is willing to give up.

The complexity of the issues and the diversity of interests among members on both sides is responsible for the tardiness of coordinated preparation. The developing states have found themselves no more able to go beyond general statements in articulating their demands than the industrialized states have found themselves able to coordinate a response. Among the developing countries, the Group of 77—the caucus of some 105 developing states in the UN—has agreed to such general, and controversial, positions as are expressed in the Declaration for a New International Economic Order and the Charter of Economic Rights and Duties of States. In more narrowly focused negotiations, however, the apparent harmony of the developing states has been disrupted by differences in levels of economic development, political structure, ideological bent, and geographic location.

PARTICIPANTS AT PARIS MEETING

Industrialized Countries

Canada*
Australia
European Community
Japan
Spain
Sweden
Switzerland
United States

Developing Countries

Venezuela* (OPEC) Algeria (OPEC) India
Argentina Cameroon Indonesia (OPEC)
Brazil Egypt Iran OPEC
Jamaica Nigeria (OPEC) Iraq OPEC
Mexico Zaire Pakistan
Peru Zambia Saudi Arabia (OPEC)
Yugoslavia

**Cochairman*

A similar pattern is evident among the industrialized countries. Within the Organization for Economic Cooperation and Development, the 24 members have been working on a common approach to the problems of trade in raw materials and relations of OECD states with the developing world. Notwithstanding these efforts, which have borne some fruit, some members are making sure that work in the OECD does not commit them to programs and plans that they consider overly expensive. Some of these states, especially EC members, may also be concerned that policies arrived at in the OECD might preempt decision-making by the EC on similar issues.

The principal stumbling block at the ministerial meeting will be in discussions about the substance of each commission's work. The underlying issue will be whether each should conduct new and separate negotiations or monitor the work of existing international bodies. Generally, the industrialized countries want to limit substantive talks to the energy commission, but the developing countries will continue to demand that any substantive progress on energy be tied to progress in areas of primary interest to them.

The proposals for subjects to be discussed that were advanced at an earlier preparatory conference by the US and the representatives of the developing states present sharp contrasts.

In the energy commission, the US wants to talk about oil prices, security of supply, and a joint approach to increasing the supply of energy. The developing countries, on the other hand, want to concentrate on a study of development and the demand for energy, oil, and other resources and the protection of purchasing power of energy export earnings.

In the raw materials commission, the US has offered to consider access to supply, the stabilization of export earnings, and methods to help stabilize commodity markets. The developing countries' emphasis is on increasing and protecting the earnings of exporters.

In the development commission, the difference is more one of emphasis than sub-

stance. The US has suggested a study of the problems of planning development programs by states that are suffering large payments deficits. The US proposal also includes the examination of means of accelerating growth, promoting agricultural development, and enhancing trading opportunities. The poor countries want to emphasize the latter, and they attach great importance to industrialization and the transfer of technology.

The purview of the finance commission is restricted to those issues that relate directly to the work of the other commissions. The representatives of the developing world would like to broaden the talks in this area to a discussion of the impact of the international monetary system on development, the protection of real values of their financial assets, and the problems of international financial markets. The US has offered to discuss financial consequences of increased oil prices, financial implications of commodity arrangements, and the financing of investment projects in developing countries.

Another of the issues the ministers may have to cope with is the membership of each of the commissions and, perhaps, of the conference itself. These issues were sharply divisive before the conference and may not be completely settled. The developing states have decided to petition for additional seats—two or three—although there is no indication it is a condition for participation.

The industrialized countries appear to have resolved their wrangle over representation. London and its eight EC partners agreed last week to a compromise on British demands for a seat at the conference apart from the EC. The UK will be part of the Community's delegation; in return, Britain's partners agreed in principle to help safeguard British investments in the North Sea. Although the Nine now will be able to move toward common views on energy policy, tough negotiations remain among them before they will be able to agree on much more than generalities in the dialogue with developing countries and oil producers.

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DEVELOPING COUNTRIES: PRICE SQUEEZE

The terms of trade—the ratio of export prices to import prices—of non-OPEC developing countries fell a whopping 18 percent in 1975. This greatly exceeded the 10-percent drop of 1971, when the world economy was last in a recession. Countries exporting copper and rubber were among the hardest hit; those selling cocoa and sugar fared much better.

The large decline in the developing countries' terms of trade in 1971, as in 1975, reflected the effect of a sagging world economy on commodity prices coupled with a continuing rise in the prices paid for manufactures and other imports. Although economic activity picked up in 1972, export prices for the developing countries rose only slightly more than import prices. Their terms of trade did not recover until the 1973 commodity boom, which boosted export prices 7 percent more than import prices. Export prices of non-OPEC developing countries continued their sharp climb in 1974, but the rise was more than offset by the huge oil price hike and by its inflationary impact on prices paid for manufactured goods; their terms of trade slipped 4 percent.

The sharp 1975 decline in the terms of trade resulted from a 10-percent drop in export prices combined with a 10-percent rise in import prices. The terms of trade of non-OPEC developing countries now stand at 84 percent of the depressed 1971 level. This compares with 265 percent for OPEC and 89 percent for developed countries.

Of the 24 major non-OPEC developing countries examined, the 1975 terms of trade worsened considerably in 18 cases, improved in 1, and changed little in 5. The variations were almost entirely caused by differing export mixes; import price hikes for the countries clustered around 10 percent.

- Zaire, Chile, and Zambia—with declines of 36 to 39 percent—were the most severely hit, primarily because of the drop in copper prices.

- The Philippines, another copper exporter, experienced only a 14-percent decline as rising prices for its sugar softened the blow.

- Thailand and Malaysia, rubber and tin exporters, suffered 16- to 17-percent declines.

- Brazil, Colombia, Ethiopia, Kenya, Costa Rica, and the Ivory Coast, hit by falling coffee prices in the first half of 1975, were 14 to 18 percent worse off than in 1974.

- Egypt's terms of trade declined 21 percent as cotton prices fell.

- Guyana and Tunisia, faced with a general decline in their export prices, dropped 13 to 14 percent from their 1974 levels.

- South Korea and Taiwan encountered declines of 12 percent and 14 percent as they cut prices of light manufactured exports.

- Sri Lanka's position worsened 8 percent as rising prices for tea exports failed to offset falling rubber export prices and higher import prices.

- Argentina, Morocco, Pakistan, Mexico, and India, with greater export diversification, essentially maintained their 1974 positions.

- Ghana—the only one of the 24 to improve its terms of trade—benefited from higher prices for cocoa.

The terms of trade for non-OPEC developing countries will improve little in 1976. Although prices for many commodities have now hit bottom, the sluggish economic recovery of industrial nations and delays in adjusting contracts will restrain export price gains. Increases will at best slightly exceed increases in prices paid for imported manufactures and other goods. The continuing weakness in the terms of trade of the developing countries will further encourage them to press for price support arrangements.

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