



The President's Daily Brief

February 26, 1975

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FOR THE PRESIDENT ONLY

February 26, 1975

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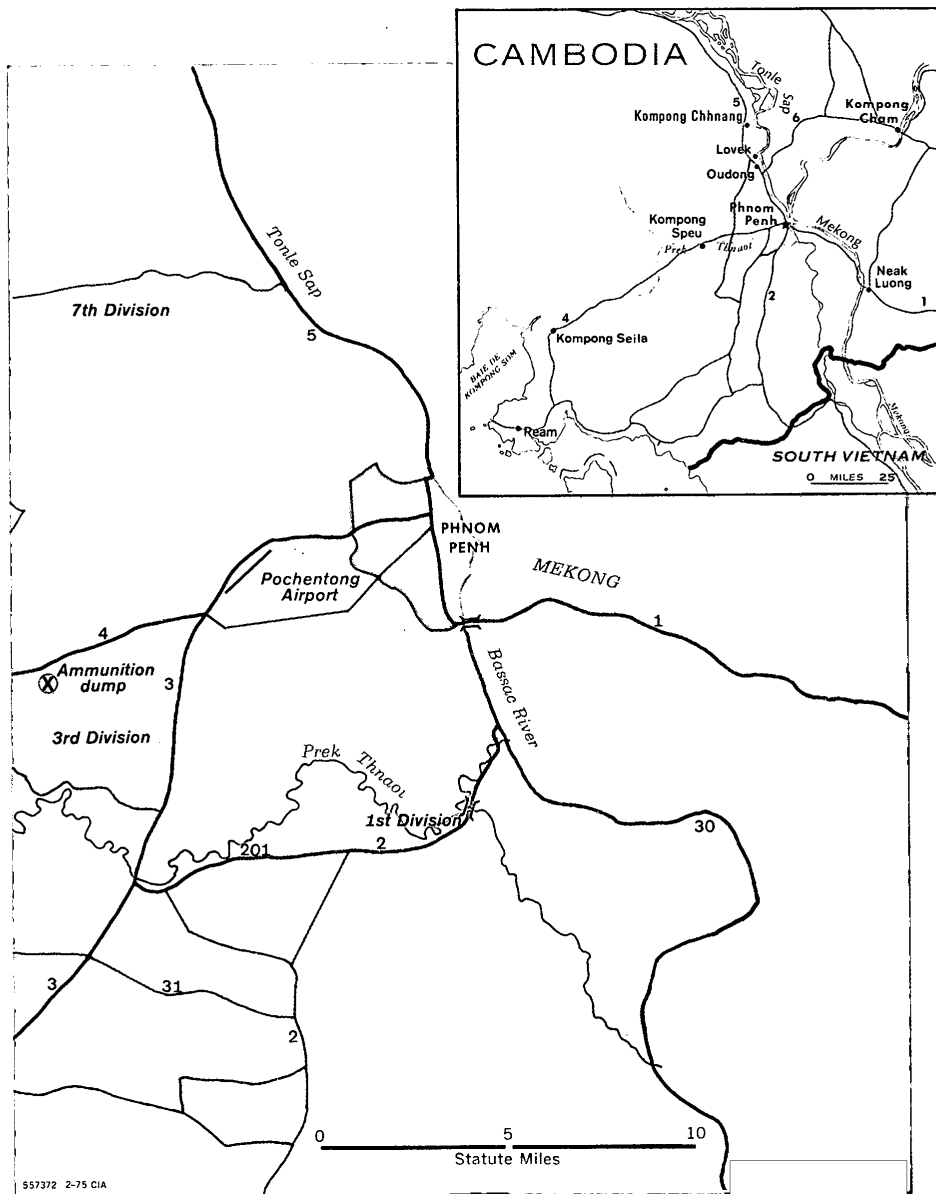
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CAMBODIA

The fighting around Phnom Penh is spreading and the situation in the capital could soon become critical. The Khmer communists have increased their attacks against Phnom Penh's southwestern defenses and pose a serious threat to the army's main ammunition dump and to Pochentong airport.

Almost all government units in the southwestern sector have been engaged in heavy combat for the past two days and a number of positions have been lost. The Cambodian army high command has committed some reinforcements to the front, but relief operations are being stymied by stiff insurgent resistance--including some howitzer fire. With the communists continuing to press the capital's northwestern defenses and with renewed fighting occurring along the Mekong northeast of Phnom Penh, the situation in the capital area could become critical soon.

In the north, government troops yesterday pulled out of the town of Oudong on Route 5, some 20 miles northwest of Phnom Penh. Oudong was reduced to ruins during heavy fighting last spring and summer and has been only lightly defended since mid-January. Most of Oudong's defenders apparently withdrew to the nearby base at Lovek, taking four 105-mm. howitzers with them. Lovek is now the only major government position near the Tonle Sap River between Phnom Penh and the provincial capital of Kompong Chhnang.

Elsewhere, the Khmer communists are continuing to shell the navy base at Neak Luong in the Mekong River corridor, and civilian casualties there are beginning to mount. Communist gunners south of Neak Luong yesterday destroyed two navy craft trying to resupply a beachhead which later fell. The navy has been able to get supplies to a larger beachhead nearby, however, and convoys continue to reach Neak Luong from Phnom Penh.

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ISRAEL-EGYPT

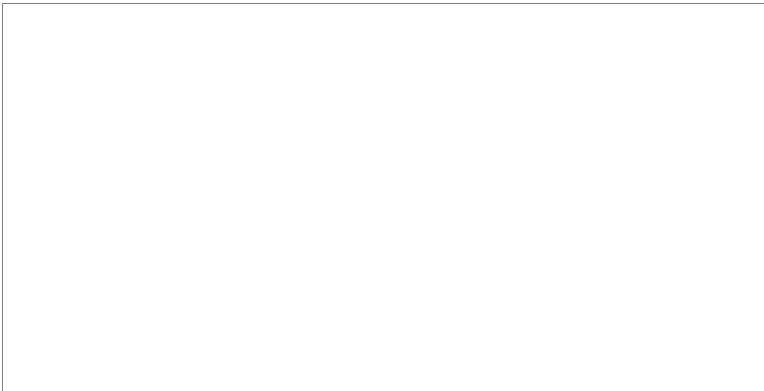


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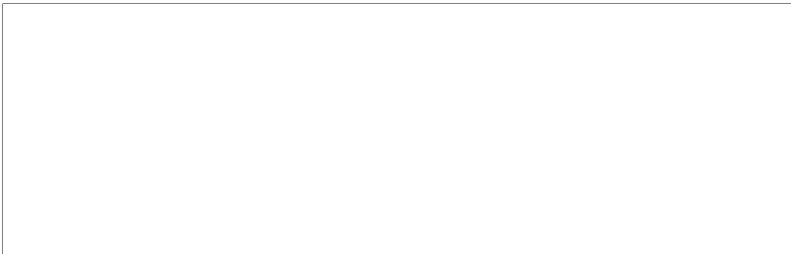
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The continuing construction of permanent SA-6 sites is such a blatant violation of the disengagement agreement that it probably was undertaken with political as well as military motives in mind. It is doubtful that such an action would be the result of an unauthorized initiative by the local commander.

President Sadat, who presumably authorized the construction, may have done so as an indirect signal to Israel and the US that his patience with the slow pace of step-by-step negotiations is not unlimited. He may also have taken this action to reassure Egyptian military commanders who are worried lest a breakdown in the negotiations leaves them vulnerable to an Israeli attack. But there is really no satisfactory explanation for a step that will inevitably raise Israeli concern about Egyptian intentions and strengthen the arguments of those who oppose further Israeli withdrawals.

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ETHIOPIA

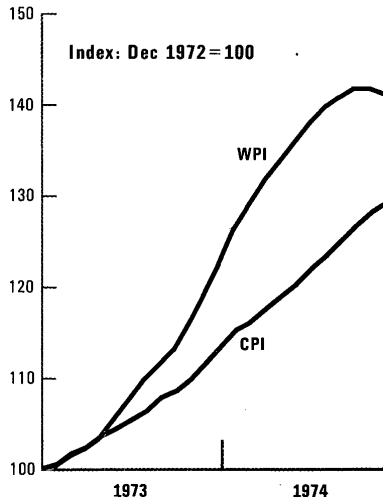
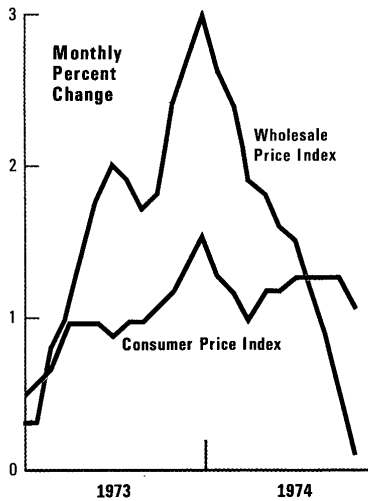
The Eritrean rebels--well aware of the Ethiopian government's request for additional military aid--are likely to attempt to retaliate if the aid is forthcoming.

The US naval communications facility in Asmara is vulnerable to rebel attack. Its fuel supply came under fire earlier this month when the rebels attempted to prevent the fuel from being used for Asmara's electrical generators.

Osman Saleh Sabbe, leader of one of the main factions of the insurgent movement, has repeated an earlier appeal to the US to stop providing Ethiopia with military supplies. Sabbe said yesterday that Syria, the only major Arab country openly supporting the rebel demand for complete independence, is ready to provide military training to the Eritrean insurgents. It has long provided them with arms.

DEVELOPED COUNTRIES: Composite Price Trends (Excluding the United States)

(three month moving averages, seasonally adjusted)

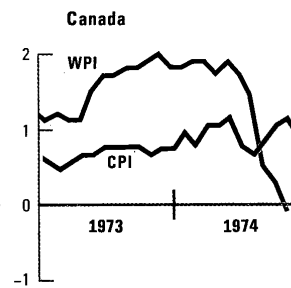
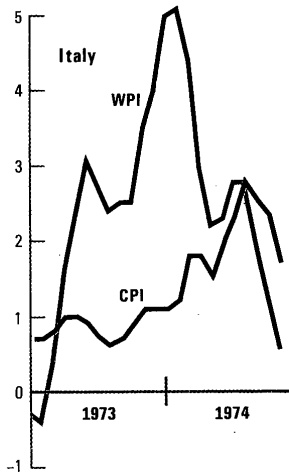
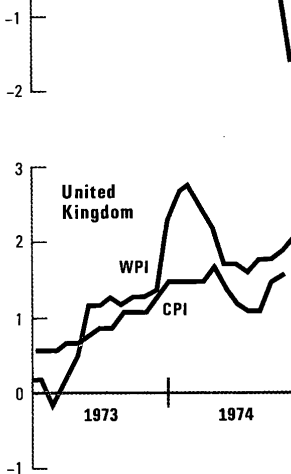
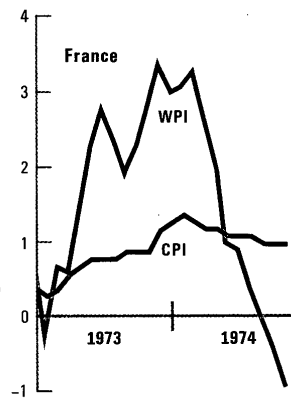
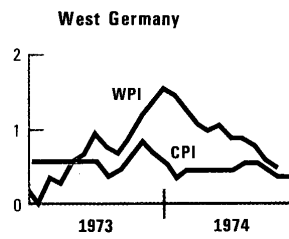
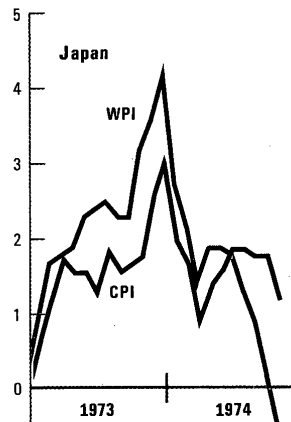
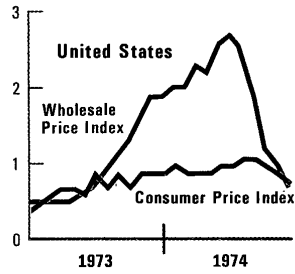


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DEVELOPED COUNTRIES: Price Trends

Monthly Percent Change

(three month moving averages, seasonally adjusted)



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FOR THE PRESIDENT ONLY**INFLATION**

The price spiral in major foreign developed countries, now almost three years old, shows signs of breaking. Increases in wholesale prices (in terms of seasonally adjusted, three-month moving averages) dropped in the last half of 1974 to nearly zero. Moreover, the rise in consumer prices eased toward the end of the year, although the rate of 12 percent was still uncomfortably high.

Wholesale Prices

Wholesale prices have declined by 5 percent in Japan since October, by 3 percent in France since September, and by 1 percent in Canada since November. In West Germany, Italy, and the US, prices have been rising at a much reduced rate over the past several months. Only in the UK have wholesale price rises recently accelerated--mainly because price controls were relaxed.

The break in wholesale prices stems primarily from a fall in demand rather than a reduction in cost pressures. While wage rates in such countries as Canada, Italy, and Japan are still increasing at a 20-percent annual rate, industrial firms are no longer able to pass on all the added costs.

Consumer Prices

The continued rise in consumer prices reflects mainly growing costs for food and services. Increases in food prices have recently accounted for almost half of the consumer price rise in major foreign economies. Growth in prices for manufactured goods has slowed to a 4-percent annual rate in recent months, down from the 15-percent rate of last fall.

Recent declines in wholesale prices of industrial goods should help slow the pace of consumer price inflation in the near future. The easing of world food prices will not be felt at the retail

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level for several months--and then only if the decline continues. Because stocks of most foodstuffs remain tight, poor harvests would set off another round of price hikes.

Wage Rates

Stiff increases in wage rates--the extreme example being the recent 31-percent hike in the pay of British coal miners--continue in spite of depressed demand and rising unemployment. These increases are attributable to the militancy of various labor organizations, demands (or contract provisions) for "catch-up" gains to match soaring consumer prices, and the weakened resistance of several insecure governments to inflationary wage gains. Recent wage negotiations in Germany, however, resulted in comparatively moderate increases of 7 percent per year.

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IRAN-USSR

Moscow and Tehran broke new ground in yesterday's signing of an economic cooperation agreement--their largest accord to date. The \$3-billion deal was probably agreed to in principle last November during the Shah's visit to Moscow.

The agreement features the first Iranian credit to the USSR, which is for construction of a paper complex in the USSR to be repaid by the Soviets with deliveries of paper products.

Significantly lacking in the announcement was any reference to Soviet credits in connection with Soviet-built projects estimated to cost over \$2 billion. The \$1.8-billion expansion in the Soviet-built Isfahan steel mill called for in the recent agreement presumably will be on a pay-as-you-go basis.

The Isfahan plant, originally built with the aid of Soviet credits, will eventually have a capacity of 8 million tons--over half the steel making capacity currently envisaged by Iranian planners. Other projects include expansion of the Soviet-built machinery plant at Arak, construction of electric power plants, and erection of grain silos.

The announcement also reflected the two sides' hope for a new five-year trade agreement of no less than \$2.5 billion. On an annual basis, this would represent a 35-percent increase in their total trade in 1973. It may involve an increase in the value of Iranian exports of natural gas, and consumer and manufactured goods to the USSR. Expanded Soviet exports will include heavy machinery for projects being built for Iran together with such traditional items as cotton, hides, and clothing.

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NOTES

Portugal's major non-Communist parties are opposing some parts of the program of the Armed Forces Movement designed to perpetuate its key role in the government's decision-making process.

Continued disagreement could interfere with the elections to the constituent assembly now set for April 12. One of the points in the Movement's program requires all political parties to reach an understanding on certain minimum features of the constitution before they will be allowed to participate in the campaign, which is scheduled to begin on March 3. It is not clear how amenable the Movement will be to changes in its program. In recent months the Movement has allowed considerable debate within its own membership, but once a decision is reached it has grown accustomed to having that decision accepted as final. Moderate parties run the risk of having their opposition equated with "reactionary" activity.

* * *

Jordanian forces and equipment promised by King Husayn to assist the Sultan of Oman are beginning to arrive there.

Initial elements of a special forces battalion arrived on February 23, and the remainder should be there in a few days. Thirty-one Hawker-Hunter fighters are being sent this month and in March. Four Jordanian pilots and a number of technicians will assist the Omanis.

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SOVIET



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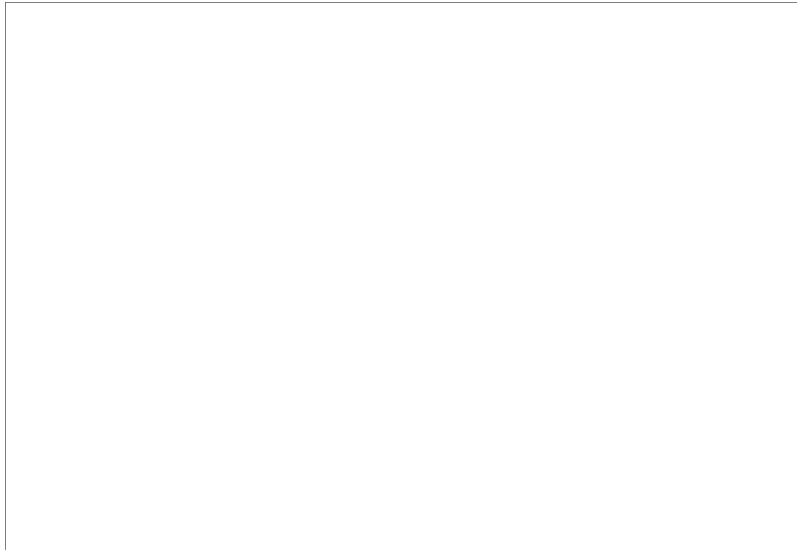
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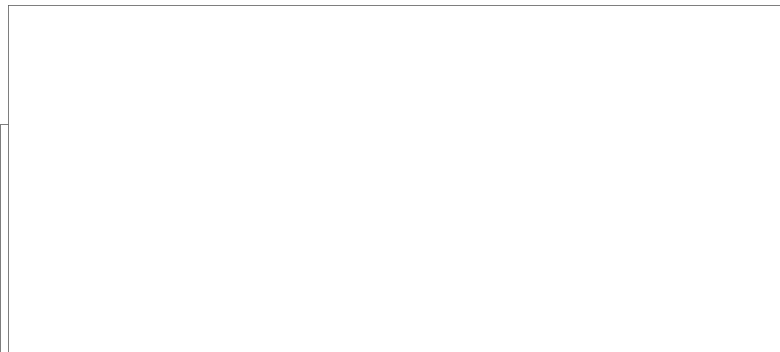
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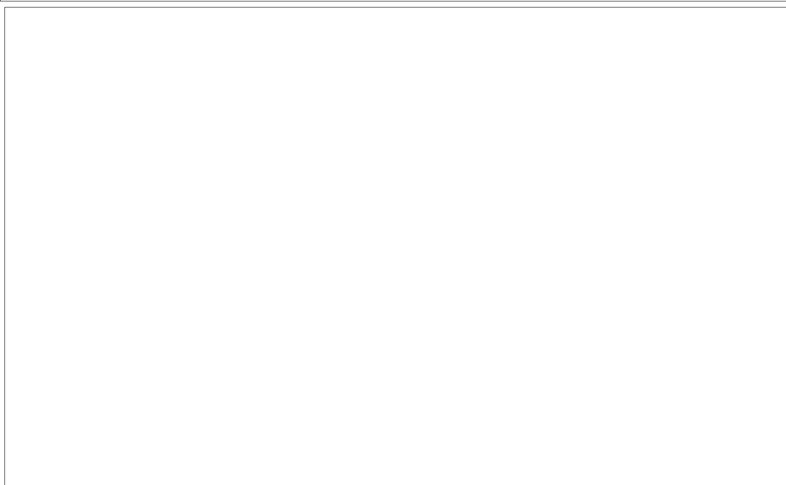


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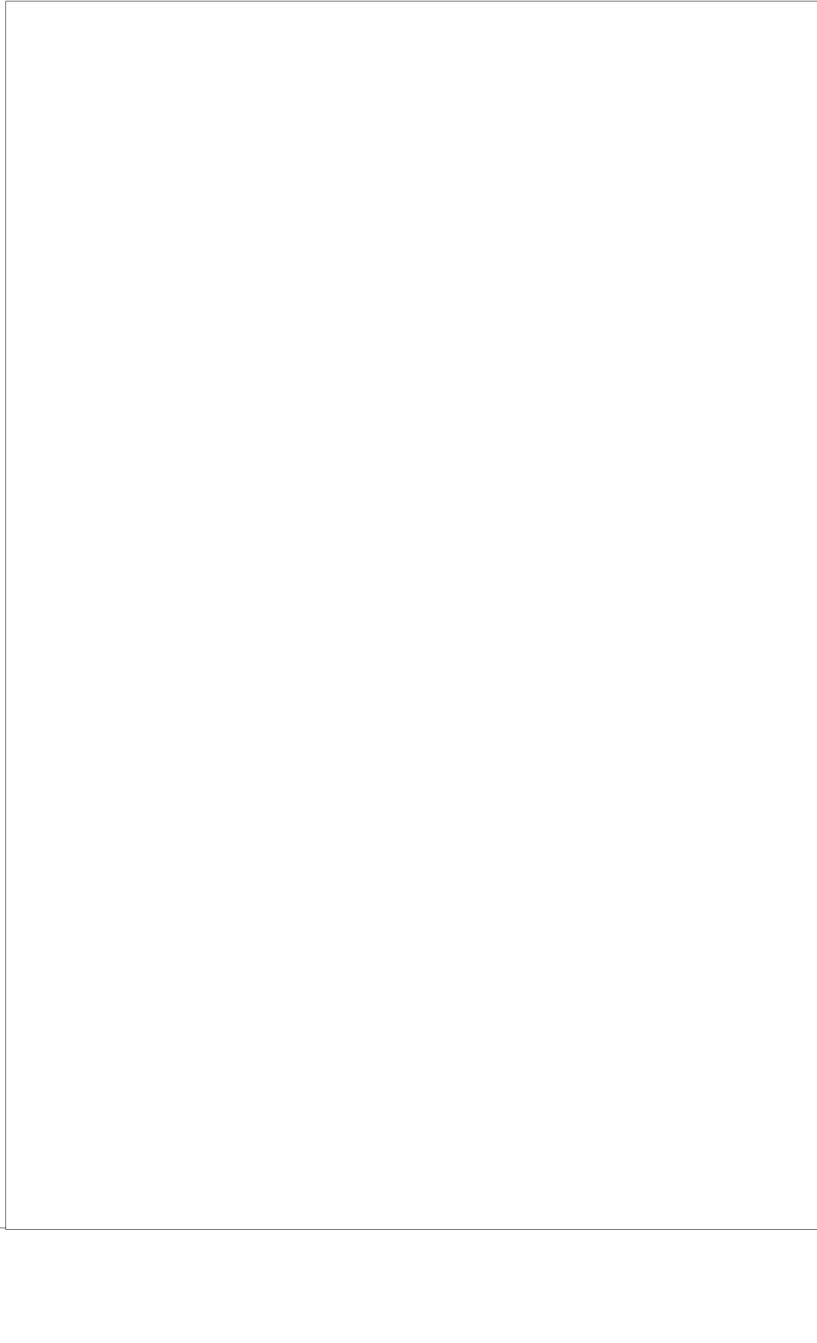
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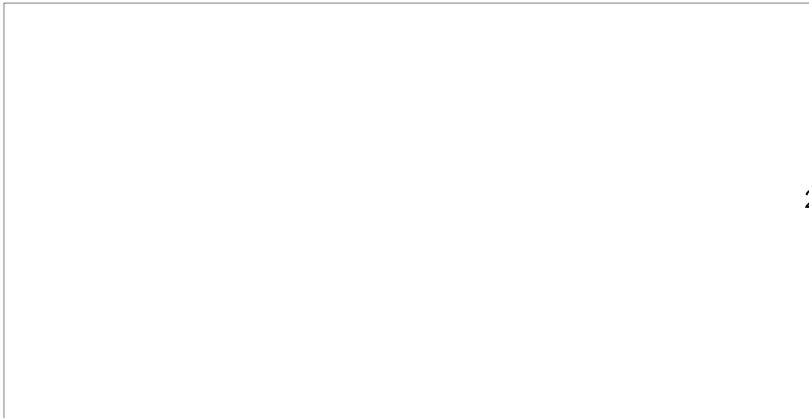
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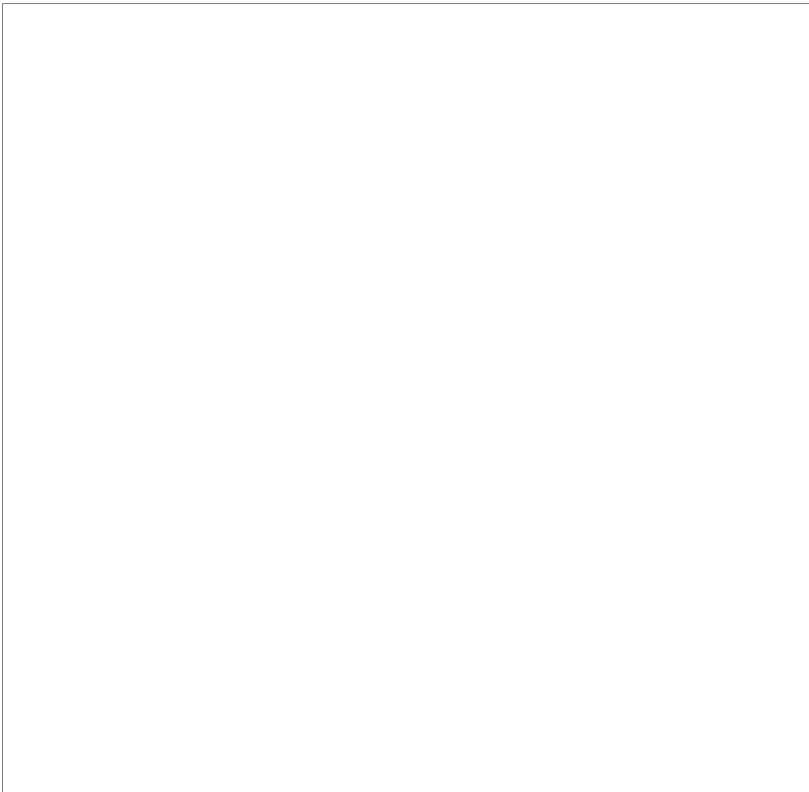
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