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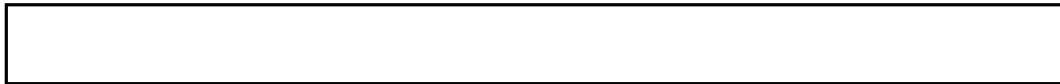
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Popular Democrats Expected to Leave
Portuguese Coalition

The Portuguese Armed Forces General Assembly session scheduled for today has been put off until Friday, possibly because of the likely departure of the center-left Popular Democrats from the coalition government tomorrow.

According to Popular Democratic leader Balsemao, party head Guerreiro was told yesterday by Prime Minister Goncalves that the government will not accept the conditions presented to President Costa Gomes last Friday by the Popular Democrats. The conditions, which Guerreiro said would determine whether or not the Popular Democrats would withdraw from the government, included guarantees for a free press, municipal elections, and Movement support for the moderate-dominated constituent assembly. Balsemao is convinced that Costa Gomes-- after consultation with the Revolutionary Council-- will reject the proposals when party leaders meet with him tomorrow, leaving the Popular Democrats no choice but to pull out of the government.

A withdrawal by the Popular Democrats--less than one week after the Socialists pulled out-- could prompt military leaders to dissolve the remains of the coalition government rather than continue with only Communist support. One left-wing splinter party usually sympathetic to the Communists has called for the formation of a "noncoalition revolutionary government" with nonpartisan civilian participation. This concept might appeal to the Movement as a complementary structure for their planned pyramid of popular assemblies. Another option would be simply to appoint an all-military government.

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The outspoken opposition to these "direct links" with the people through "popular assemblies" appears to be aggravating divisions within the military and has generated efforts to reassure the people that the military does not intend to assume dictatorial powers.

In a televised discussion on Sunday that was characterized as "defensive" by the Communist-dominated press, four Revolutionary Council members said that the plan is not definitive and needs further discussion. They said the plan was designed to increase political participation by the people and would proceed at a pace determined by popular will.

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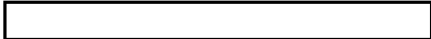


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Austrian Proposes Grand Coalition

Austrian opposition leader Karl Schleinzer, chairman of the Austrian People's Party, surprised parliament during a recent debate by announcing that if his party gets a plurality in the October elections, he would try to form a grand coalition comprising Austria's three major parties. The People's Party is the second largest of the three parties. Presently, Chancellor Kreisky's Socialist Party has an absolute majority, thus excluding the other two parties from government.

Recent polls indicate that the Socialists may not be able to retain their slim lead after October. Kreisky has said that he would not form a coalition with any party, but has shown signs of concern that the Socialists will fail to repeat the clear cut victory they won in 1971. In June, the Chancellor included Friedrich Peter, leader of the small, right-wing, Liberal Party, in the delegation he headed to West Germany. This gesture has given rise to speculation that Kreisky may hope to persuade Peter not to join in a coalition with Schleinzer in the event the Socialists fail to win a majority.



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Group of 77 Prepares for UN Special Session

At the UN Economic and Social Council, now in its summer session in Geneva, the caucus of developing states is putting the finishing touches on a proposed agenda for the fall special session of the UN General Assembly. The document is based on an Indian draft and is intended to take into consideration the criticisms of earlier proposals by moderate developing states and the industrialized world. The text nevertheless includes many of the same objectionable provisions that have been at the root of the confrontation between rich and poor states in the UN for more than a year.

The Group of 77--the UN caucus of more than 100 developing states--will meet on Wednesday to approve the draft agenda and will begin consultations with the major industrialized countries by the end of the week. Given the inability thus far of the developed countries to come up with joint positions to meet the demands of the developing countries, many of the major industrialized countries will feel they have little choice but to negotiate on the basis of the draft presented by the Group of 77. These developed states will be reluctant to reject the draft out of hand, believing that only through negotiations will it be possible to prevent the Special Session from turning into the same brouhaha as previous UN meetings on development.

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The Group of 77 paper seeks:

- to establish regulations to control commodity markets in favor of developing states, through stockpiling, international funding of market-intervention arrangements, and facilities to compensate developing countries for the loss of export earnings;
- to link the prices of raw materials exported by developing countries to those of the manufactured goods they import--i.e., indexation;
- to improve the access of developing countries to markets in the industrialized world through preferential trade arrangements;
- to provide special development assistance to the poorest developing states;
- to implement a system providing for automatic transfer of development resources from rich to poor countries so that by 1980 the industrialized states would, at a minimum, provide the equivalent of one percent of their GNP in development aid;
- to allow debts of developing countries to be extended or forgiven;
- to increase the level of representation of developing states in international economic fora such as the IMF and the World Bank; and
- to improve access by the developing states to advanced technology available in industrialized countries.

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Spanish Communist Party Leader Expounds on
Post-Franco Spain

In a conversation last week with an official of Time magazine, Santiago Carrillo, secretary general of the Spanish Communist Party, endeavored to give a reassuring picture of post-Franco politics and the role his party will play. Carrillo's remarks are in keeping with his efforts to underscore his party's willingness to cooperate with other parties in creating a democratic government. He thus hopes to reassure Spaniards and foreigners alike that they need not fear Communist participation in the post-Franco government and thereby enhance Communist chances of participation.

Carrillo predicted that the overthrow of the Franco regime will be a relatively peaceful process, but he refused to be specific as to how this would be accomplished. His reticence could stem from not wanting to reveal his strategy, but it could also indicate that he has no specific plan.

According to Carrillo, the Democratic Junta, the popular front that he and ex-monarchist Rafael Calvo Serer formed in Paris last summer, will play a key role in the days following a change in the Spanish regime. In keeping with his moderate image, Carrillo claimed that the Junta's objective is to restore civil liberties and democratic institutions and not to impose socialism. He did add that this will come later.

Carrillo expressed confidence that the junta will eventually become a broad-based left-of-center coalition with the allegiance of all socialist factions. Available evidence, however, does not

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justify his optimism. The two principal socialist groups were among the 16 clandestine political parties and organizations that formally constituted themselves into a Democratic Conference last June as a rival to the Democratic Junta which they refused to join because it is Communist-dominated.

Carrillo stated he is satisfied in his role as secretary general of the party but admitted that if the "comrades" ask him to assume a ministerial portfolio in the post-Franco government he would agree to do so.

Carrillo's most caustic comments were aimed at Prince Juan Carlos, whom Franco has designated as his successor as chief of state. Carrillo stated the prince is totally unacceptable and will have to go. While he did not indicate how this removal would be accomplished, Carrillo maintained that Juan Carlos could not stay on the throne more than "a couple of months."

Perhaps to reassure those who believe that the monarchy is the institution most capable of governing after Franco, Carrillo stated that Don Juan, Juan Carlos' father who was passed over by Franco, is acceptable as king and need not have his rule subjected to a referendum immediately after he take over.

Reflecting his personal disapproval of Portuguese Communist Party leader Alvaro Cunhal and the role he is playing in radicalizing the Portuguese government, Carrillo berated the US for having failed to take steps to prevent the Lisbon regime from going as far as it has gone. He claimed that the US should have found ways while General Spinoza was still president to stop Cunhal from "appropriating the Portuguese revolution." Carrillo is especially concerned that a radical government in Portugal will hurt his own chances of playing a role in post-Franco Spain.

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Finally, when asked about his attitude toward US bases in Spain, Carrillo said "Americans can stay in Spain for as long as the Russians keep troops in Czechoslovakia." Carrillo has long been a prominent critic of the Soviet intervention in Czechoslovakia, but in the past has opposed US bases in Spain. His change of tune may be an effort to soften US reaction should the Communists succeed in becoming part of the post-Franco government.

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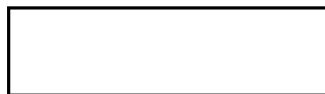
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Leaders of the Nine Meet in Brussels

The continuing economic recession and its impact on Western Europe will dominate the discussions of the nine EC heads of government when they meet in Brussels today for their second so-called European Council. No major new initiatives are in prospect during the two-day meeting.

Given the varying degrees of recession and inflation affecting EC members, uniform remedies are virtually ruled out. The leaders may, however, agree to call on the US to initiate additional measures to stimulate the economy.

President Giscard, having requested that the agenda include international monetary problems, may again warn against the threat of "uncontrolled floating of the dollar" and urge a fixed relationship between the community currencies and the dollar. He will also press for EC acceptance of the French proposal calling for a monetary conference in October that would be attended by the US, West Germany, the UK, France, Japan and a representative of the EC as a whole-- a device to include Italy, now the EC chairman. Rome has previously complained of exclusion from "Big Five" meetings.

With the British referendum on EC membership a success, the nine leaders will begin discussions on the further development of the community. They will hear an interim report from Belgian Prime Minister Tindemans, who is charged with preparing by the end of the year a

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so-called "wiseman's report" on the prospects for European union. Giscard and German Chancellor Schmidt may engage in a candid discussion of this subject when they meet in Bonn late this month.

Prospective community financial aid to Portugal also is on the Brussels agenda. The EC has appeared ready to offer a substantial amount of aid on easy terms--variously reported as between \$500 million and \$1 billion--conditioned upon the development of democratic institutions in Lisbon. Last week's political changes have given rise to second thoughts on the part of some members, notably France and the UK, and the Nine probably will not announce approval of a specific amount. They will probably agree to go ahead with a scheduled meeting on July 22 between the EC Council and Portuguese Foreign Minister Antunes.

The leaders will also try to develop a common position on relations with the less developed countries, particularly with respect to raw materials, in the context of this fall's special session of the UN General Assembly. The EC is aware that its proposals could form the basis for a common policy for the developed nations. The unwillingness of certain EC members to be generous toward the third world becomes evident when efforts are made to frame precise offers. The Nine nevertheless would like to preserve a "European identity" in the matter of policy toward the developing nations, particularly since they have been unable to maintain a united front in international energy matters.

Ongoing trade negotiations with certain Arab states and the EC-Arab dialogue are proceeding on schedule and the European leaders are expected to do no more than briefly review progress. The US request for emergency financial assistance to Egypt will probably also be considered. [redacted] [redacted]

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