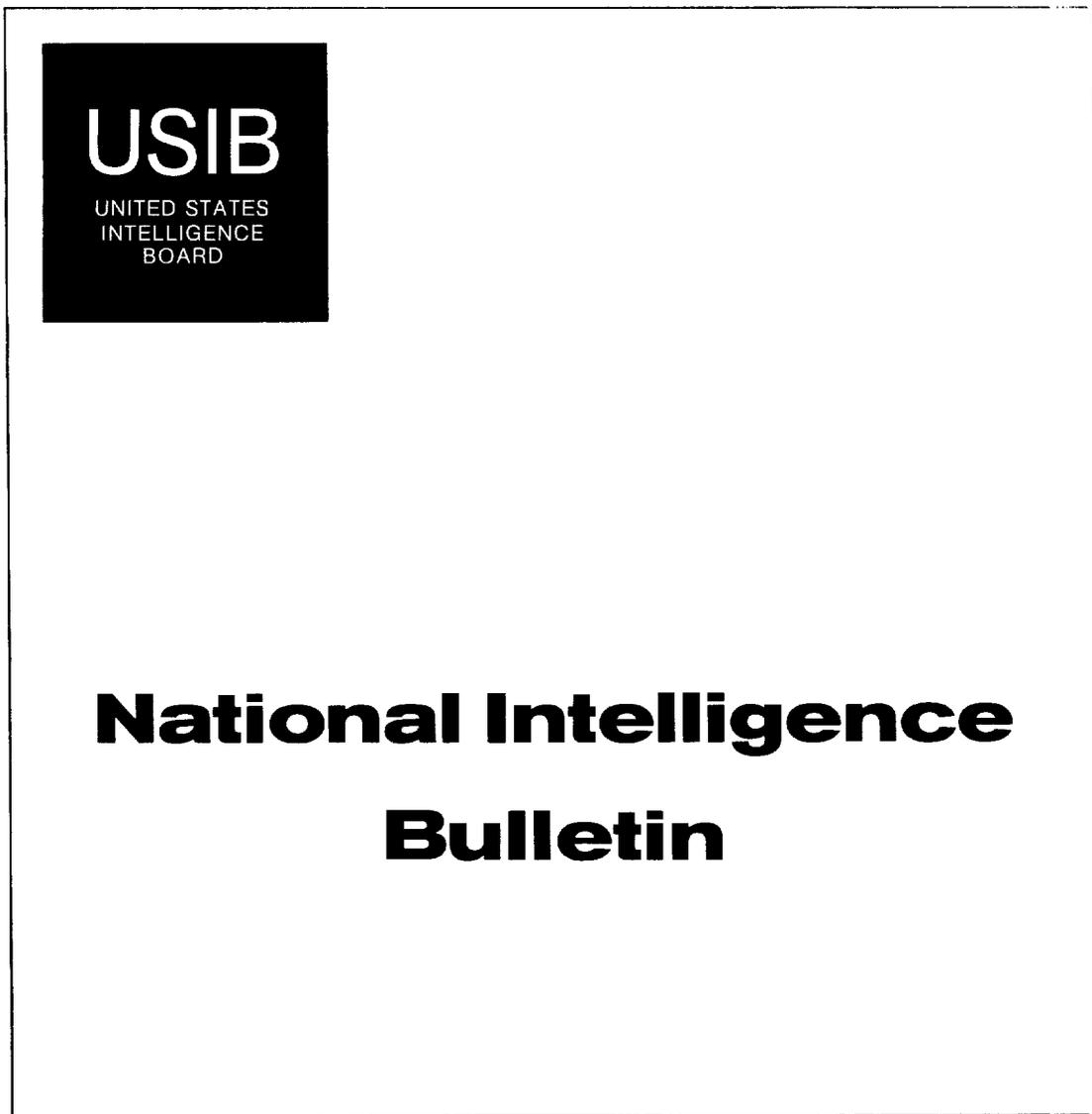


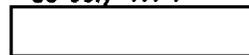
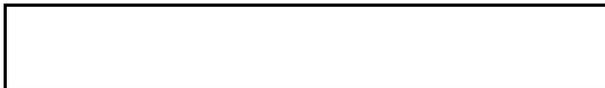
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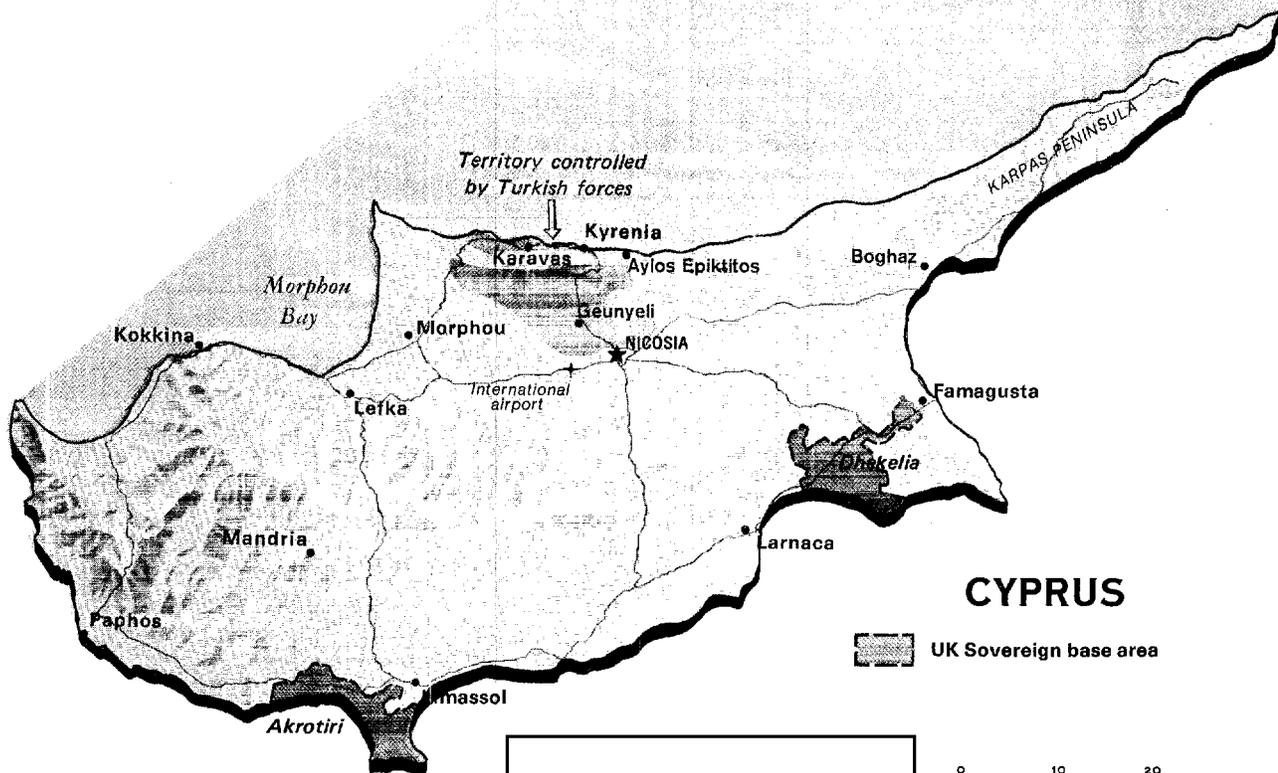
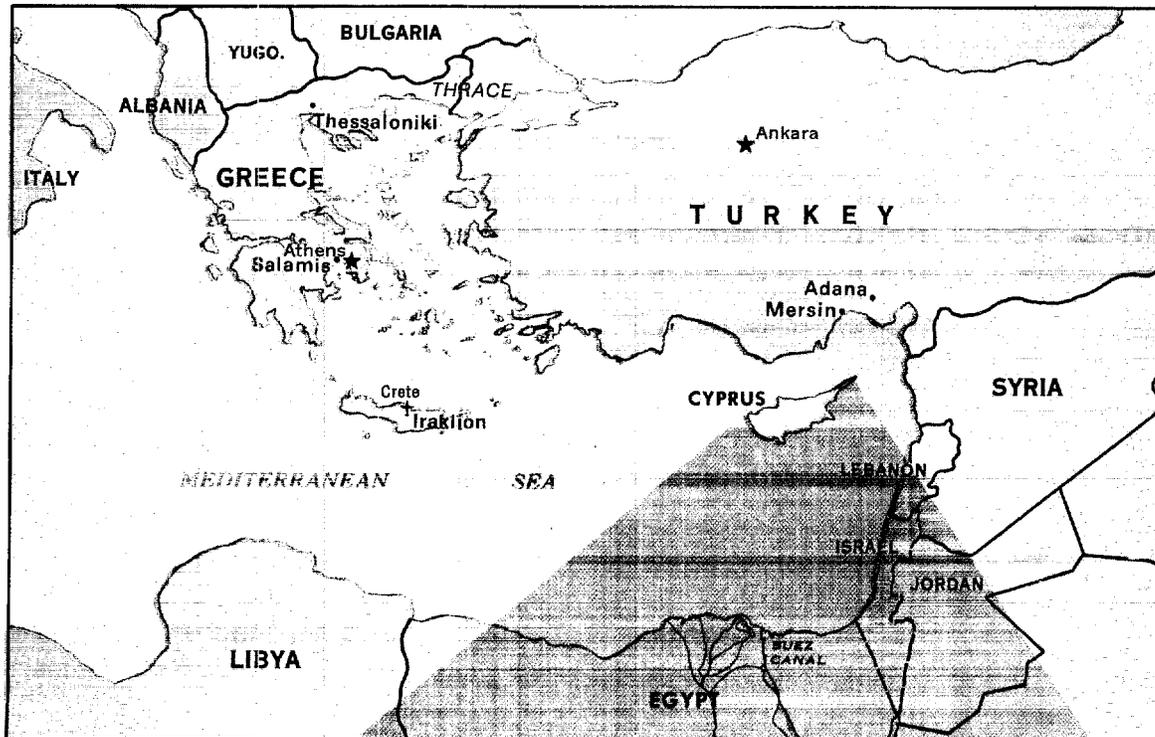


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GREECE-TURKEY-CYPRUS

The Cyprus talks in Geneva recessed last night without reaching agreement on the language to be used in describing the Turkish troop withdrawal. Foreign Secretary Callaghan has predicted that a final decision will be made early today.

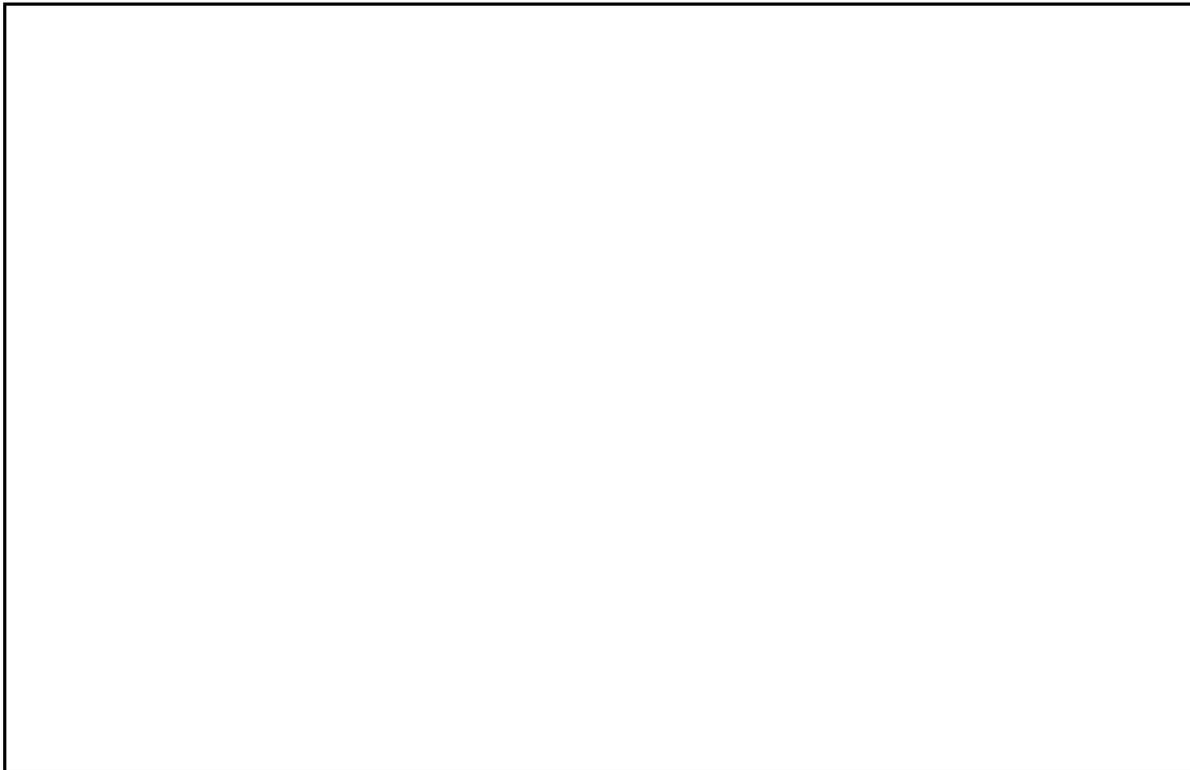
Turkish Prime Minister Ecevit told the press yesterday that his government might sign the tripartite resolution if it included a formula providing for the gradual evacuation of Turkish troops from Cyprus at a time deemed appropriate. The talks presumably are deadlocked over the timing of such an evacuation. Athens wants it to begin as soon as possible, but the Turks will not reduce the number of their troops on Cyprus until a final solution is negotiated that will ensure the security of Turkish Cypriots on the island.

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Scattered incidents of fighting were reported on the island again yesterday.



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The US embassy in Nicosia reports seeing major Turkish forces concentrated between Geunyeli and Boghaz preparing defensive positions. Individual soldiers were digging foxholes, and large guns were being entrenched. There were no indications that they were preparing to resume offensive operations in the immediate future.

During a visit to the port of Kyrenia, US officials reported seeing three ships--apparently cargo vessels--outside the port, but there were no signs that they were unloading materiel or men.



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President Clerides phoned the US embassy again yesterday to complain that Greek forces east of Kyrenia were shelled by a Turkish destroyer. Greek Cypriot forces also lodged protests with the UN forces on the island, contending that Turkish forces had captured and then set fire to the village of Ayios Epiktitos on the coast east of Kyrenia. Turkish and Greek Cypriot soldiers reportedly also exchanged small arms fire across the "green line" boundary separating the two communities in Nicosia.

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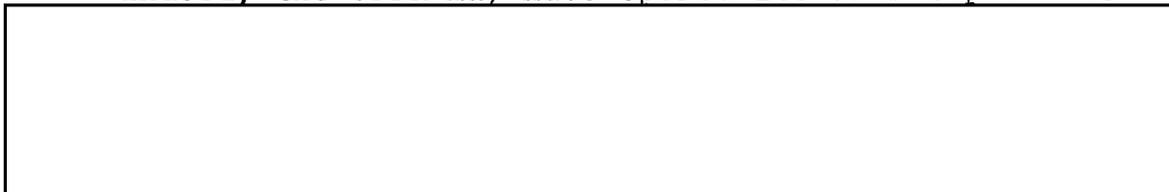
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USSR-EGYPT

Although sometimes harshly critical of President Sadat's policies, Moscow continues to hold out the promise of assistance--particularly military aid--should Egypt adopt a more acceptable line on relations with the USSR.

Indeed, the USSR may have opened its arms tap a bit.



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Last week the Soviets sent Sadat a long and warm greeting on the occasion of the 22nd anniversary of Egypt's revolution. The next day, however, Izvestia published a major article that was highly critical of Sadat's policies.



Moscow at this time sees no alternative to Sadat and wants to avoid pushing him further away. Several East European delegations have visited Egypt within the past few months, and Sadat's recent trip to Bulgaria seems to have been successful.

In remarks to a US diplomat, a Soviet Foreign Ministry official continued to hold out the possibility of an Egyptian-Soviet summit, if Fahmi's visit to the USSR in October is successful. While he seemed to rule out a meeting between Brezhnev and Sadat, the official did suggest that Podgorny or Kosygin might go to Cairo. This would be a retreat from Moscow's stand that Sadat must come to Moscow.



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Moscow apparently views the Egyptian military as the key to continued Soviet influence in Egypt.

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Sadat has appeared increasingly nervous about the impact a complete Soviet military embargo would have on his officers.

[Redacted]

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ICELAND

Icelandic Social Democratic Party leader Gislason told the US ambassador on July 24 that his party intends to demand major concessions from the Progressives and the Communists on the Keflavik base issue as the price for joining a leftist coalition. Gislason said he has already told Progressive Party leader Olafur Johannesson that the Social Democrats will insist on withdrawal of the proposals made by Iceland in April, which called for the departure of all US troops by 1976 and submission of a fresh set of proposals by the new government.

Although the composition of the new cabinet is still undecided, the most likely outcome is a three-party coalition led by the Progressive Party and including the Social Democrats and the Communists. It is clear from the strong stand taken by the Social Democrats on the defense issue that their participation in the government will have a moderating influence on the other two parties regarding the Keflavik base.

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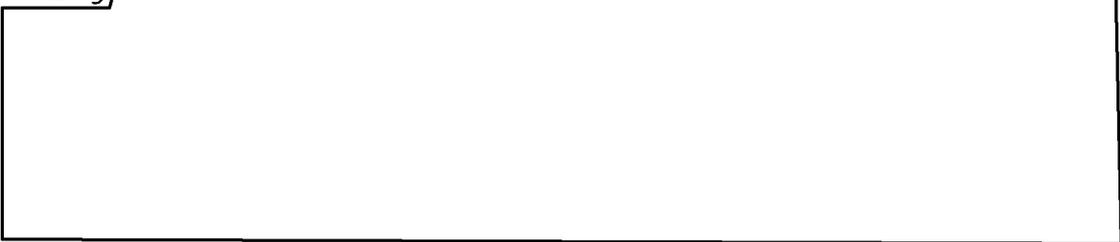
CHINA

The current political campaign in China, now almost a year old, seems to have taken a sharp swing toward moderation. The party leadership has apparently imposed tighter controls over wall poster attacks on specific officials, and has moved forcefully to prevent the political situation from disrupting the economy.



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Peking apparently has not yet taken action against those judged to have been correctly accused of wrongdoing/



At the same time, the poster campaign has begun to subside in some areas. In the capital, the only new poster of note was written by the chastened authors of an earlier poster attacking the city's party leaders. This time, the authors coupled their attacks with assertions of respect for the leadership.

In Kwangtung Province, [redacted] posters are marked with an expiration date, after which they are removed, and that posters reflecting factional disputes have largely been replaced by others calling for unity.



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On the economic front, a recent party directive calling for increased production has been given unusual attention in the propaganda and is itself the subject of several posters. Presumably, Peking does not want the political situation to interfere with summer farm work, and the directive may also be a response to the frequent reports of factory slowdowns caused by the political campaign.

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PORTUGAL

Lisbon intends to propose that further negotiations with the US on the Azores base agreement be held in abeyance until a new, permanent government is formed in Portugal. US base rights, which have remained in force during the negotiating period, would continue.

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The provisional government maintains that the armed forces program, under which it operates, requires that a final decision on the Azores agreement must be reserved for the new government, which cannot be formed until the constituent assembly to be elected next March produces a constitution. The constitution might, in turn, lead to new elections for a national assembly and a president, as a result of which negotiations might be delayed until at least next summer.

It is still too early to predict the outcome of these developments. Given the Communist Party's popular appeal and superior organization, however, the constituent assembly might contain a substantial proportion of members who are hostile to foreign bases. Faced with this prospect, the US embassy observes, it might be preferable to complete negotiations prior to the March elections.

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PORTUGAL

President Spinola's popularity has risen to a new high following his speech on July 27 in which he declared that the process of granting independence to the African colonies should begin immediately.

The major political parties are expressing unqualified approval, with the sole exception of the right-wing Portuguese Federalist Movement. The Communists, Socialists, and the centrist Portuguese Democratic Party organized a massive demonstration in support of Spinola last night.

The Portuguese public is relieved that it will be free of its obligations to the colonies. These obligations have tied down the army and delayed economic development in the metropole.

The popularity of the move obscures the fact that the new policy is a defeat for Spinola. He probably realized that his hopes for a referendum and a federal solution could not be attained because of the situation he faced at home and abroad. Heavy pressure from the Armed Forces Movement and the political parties participating in the provisional government also played an important role in the policy revision. Nevertheless, Spinola has regained the political initiative he lost during the recent cabinet crisis. [REDACTED]

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FOR THE RECORD

Israel: Israel will conduct a large-scale mobilization exercise within the next few weeks, according to a press report from Tel Aviv. Many reservists will be called up to test the mobilization and reserve systems in light of the lessons learned from the war last October. Although Israeli reservists are recalled annually for training, the testing of the mobilization system and its public announcement are unusual. The Israelis are known to have had problems while mobilizing last fall, and they probably want to test new measures taken to correct the deficiencies. [REDACTED]

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Belgium: The Belgian government has adopted a defense plan calling for increased reliance on a professional military force. A new law recently approved by Parliament allows for a gradual reduction to six months in the length of active duty for draftees. The plan is to be implemented over a period of five years, at the end of which all combat units committed to NATO are expected to be manned by volunteers. The new law also provides enlistment incentives and allows for the first time recruitment of women in peacetime. [REDACTED]

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