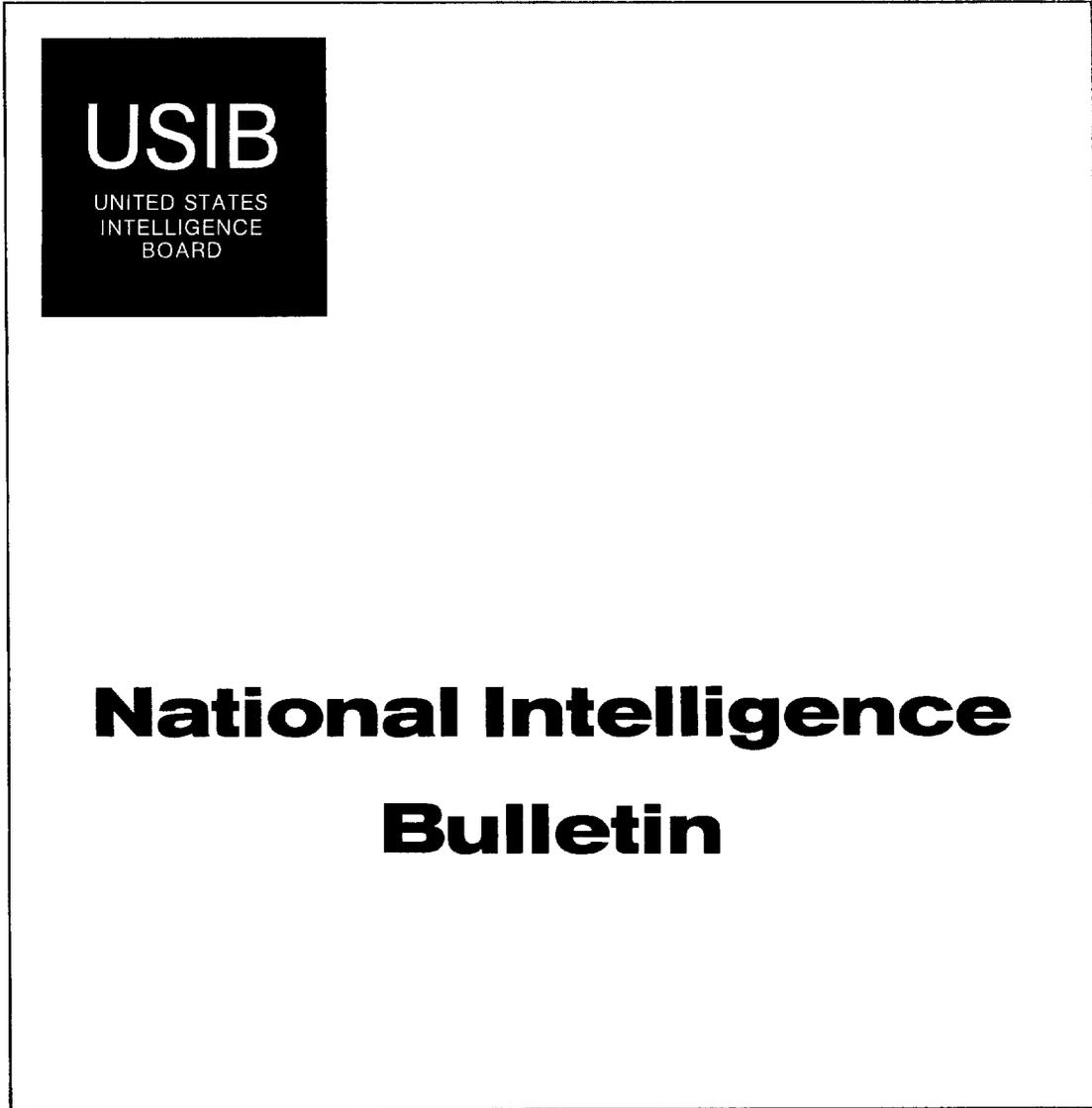


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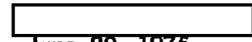


State Dept. review completed

DIA review(s) completed.



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CSCE

Soviet party leader Brezhnev has sent letters to the heads of major Western countries proposing that a summit meeting begin on July 22 in Helsinki to cap the European security conference. The EC foreign ministers will meet in Luxembourg on June 24, at which time they will probably suggest July 28 as a more suitable date for the summit conference if agreement can be reached on the remaining issues.

In proposing a specific date, the Soviets want to put pressure on the West to conclude the conference before the August vacation period. The Finns have let it be known that they will require four weeks' advance notice to complete preparations for the Helsinki summit.

Moscow would like to avoid spinning out the conference into October or November, which would be likely if it is not concluded in July. A postponement would complicate Brezhnev's calendar, particularly his projected visit to the US. The longer the conference drags on, the greater the chances that developments elsewhere, in Portugal, for example, could imperil a successful conclusion.

In recent weeks, Soviet concessions have facilitated agreement on many substantive problems at the working level, particularly on the thorny issues of increased East-West contacts and exchanges of information. There is now a consensus that the present phase of the conference could be completed in time to permit a finale next month if agreement can be reached on such remaining issues as military-related confidence-building measures, follow-on meetings, quadripartite rights in Berlin and Germany, and Cypriot representation at the summit.

Last week, the French, who have opposed any follow-on session before 1978, agreed to a revised Danish proposal calling for senior officials to meet in the second half of 1977. A preparatory meeting at the technical level could be held no more than two months earlier. In addition to approving this compromise, the Nine agreed to allow any state to convene an ad hoc experts meeting, but only on a basis of consensus.

Today, the caucus of neutral states will introduce a long-awaited compromise on confidence-building measures dealing with advance notification of military maneuvers. Western delegates could accept the neutrals' proposals on how much advance notice must be provided and on the size and location of maneuvers, but a serious question remains about whether the Soviets would be prepared to go that far. It is unlikely that the conference will flounder on this issue. The West is expected to resist successfully additional neutralist proposals for separate, lower thresholds for amphibious maneuvers.

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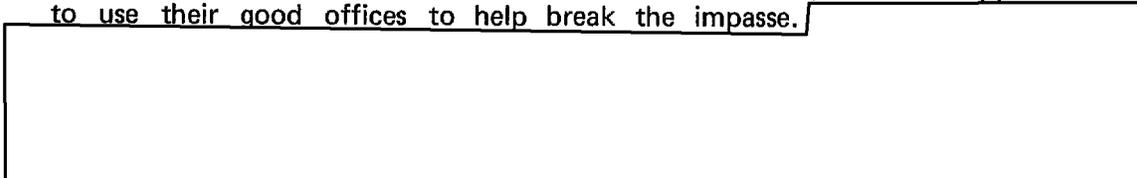
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NATO member states will insist that agreement must be reached on confidence-building measures, as well as on the clause protecting Allied rights in Germany and Berlin, before a date can be set for the Helsinki summit. An additional issue that will have to be resolved to open the way to a July summit is Maltese Prime Minister Mintoff's demand for inclusion of his proposal that the US and the Soviets withdraw their fleets from the Mediterranean.

Turkish demands that the Turkish Cypriot community be represented in the Cypriot delegation and objections to the presence of President Makarios at Helsinki still pose a major stumbling block to a July summit. A Turkish delegate to the talks has informally suggested four possible solutions:

- Cyprus would not be represented at the Helsinki summit, but would sign the documents after a legitimate government has been formed.
- Greek and Turkish Cypriot leaders would jointly select a third person to represent Cyprus.
- The two leaders of the Greek and Turkish Cypriot communities would attend "on an equal footing."
- If the Denktash proposal for an interim government were accepted, a delegation could then be designated by the interim government.

Western delegates seriously doubt that Makarios can be persuaded to absent himself from the summit and are hoping that the parties concerned can work out a solution by themselves. Yugoslavia and Finland, meanwhile, have been approached to use their good offices to help break the impasse.



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PORTUGAL

The deliberations of the ruling Revolutionary Council over Portugal's future enter their seventh day amid growing signs of disunity within the Armed Forces Movement.

The Council issued a communique yesterday expressing its displeasure with attempts to encourage an "advance toward a dictatorship of the proletariat with the support of armed militias." The statement said this course is incompatible with the "pluralist path already defined for the Portuguese revolution." This language is a direct rebuke of the extreme leftist organizations that have brought Portugal close to anarchy in recent weeks. It may also be a warning to the Portuguese Communist Party, which has become increasingly assertive since its poor showing in the April election.

The unanimity in which the Movement has taken great pride has evaporated. The inability of the Council members to come to a decision in their marathon session points to deep divisions at the highest levels of the Movement.

One member of the Movement told the US defense attache this week that he expects an attempt by pro-Communist officers to oust moderate members of the Revolutionary Council. The radical officers reportedly plan to call a meeting of the Armed Forces General Assembly within the next week to propose changes in the membership of the Revolutionary Council. They will accuse moderates of preventing the Council from taking decisive action. Ousted members would then be replaced by pro-Communists.

The fact that the internal security forces are not always executing the Movement's orders is another problem. This week, for example, security forces openly sided with the Communist printers in the dispute over the Socialist newspaper *Republica*, despite the Revolutionary Council's edict to give equal treatment to each side.



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PORTUGAL-AZORES

General Magalhaes, the Portuguese military governor in the Azores, has again firmly ruled out independence for the Azores and reaffirmed Lisbon's willingness to make administrative and economic concessions in order to satisfy key demands of the disaffected Azoreans.

Speaking at a well-organized anti-independence demonstration in Ponta Delgada on June 16, General Magalhaes denounced Azorean separatists as wealthy landowners seeking to perpetuate their privileged status. He said that those Azoreans who refuse to take part in creating a more just society must be cast aside.

The military governor once again acknowledged that the Azores have serious problems and conceded that administrative autonomy is an urgent requirement, but he ruled out independence for the island territory. He also said that Portugal's Armed Forces Revolutionary Council has already begun work on solving the Azores' economic problems.

Earlier it was thought that General Magalhaes' position might be in danger because of his pro-Azorean sympathies. So far, however, there have been no reports of purges of pro-Azorean military officers, and Magalhaes is reported to have been given a vote of confidence by Lisbon.

The US consulate in the Azores has reported that 9 of the 36 detained separatist leaders were released on June 17. There has been no indication when the others will be freed.

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SPAIN

Spanish opposition sources are claiming a landslide victory for underground leftist labor groups in the nationwide labor elections being held this month.

Early returns from balloting for labor representatives at industrial plants in Madrid and Barcelona indicate that candidates backed by the Communist-dominated Workers' Commissions and other left-wing clandestine organizations have captured more than 50 percent of the contested posts. A government spokesman said claims of a landslide are exaggerated, but admitted substantial gains among non-government candidates.

The clandestine unions' tactics of infiltrating the official system by presenting their own candidates brought worker turnout for the elections to nearly 90 percent, in contrast to the half-hearted participation in previous years. The worker representatives will negotiate with management and elect delegates to various bodies of the Syndical Organization—Spain's only legal labor body. All top officials, however, are still appointed by the government.

The Workers' Commissions have tried the infiltration tactic in several previous elections. Following the 1966 election, the government purged the commission members that had gained representation, but was more tolerant in 1972. The strong showing of non-government candidates this year will undoubtedly cause serious problems for the Arias government, which has been trying to reduce labor strife at home and criticism abroad by making the Syndical more appealing to workers. Now, Arias will come under considerable pressure from conservatives in the government and the Syndical to declare invalid the election of any known Communists, if not of all non-government candidates.

The clandestine labor unions are also moving to promote labor representation in the post-Franco period by joining the clandestine political coalitions now being formed. Some officials of the Workers' Commissions are members as individuals of the Democratic Junta, a coalition of Communists and moderate leftists that was formed in Paris last July in an effort to influence the post-Franco transition by filling the vacuum caused by the lack of strong political parties in Spain.

Anti-Communist labor groups, such as the Socialist General Workers' Union and the Basque area Workers' Commission, have joined the rival Democratic Conference, which was formally organized in Madrid last week after months of informal meetings. Also included is the Catholic extremist Revolutionary Workers' Organization, the principal Catholic component of the Communist-dominated Workers' Commissions. These labor groups are joined in the Democratic Conference by a wide range of opposition political parties, including four Socialist parties, five Christian Democratic groups, a radical Communist faction, and several regional parties.

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GREECE

Prime Minister Karamanlis' handpicked candidate, Constantine Tsatsos, a New Democracy deputy-at-large, was elected president of Greece yesterday by a parliamentary vote of 210 to 65. Tsatsos, respected as an academician, is not expected to enjoy the prerogatives granted constitutionally to the chief of state; these will be exercised by Karamanlis as prime minister.

Karamanlis had asked his deputies to vote for the 76-year-old Tsatsos. Only four New Democracy deputies flouted party discipline and cast ballots for the candidate put forward by the opposition, former prime minister Panayiotis Kanellopoulos, who is not connected with a political party. Andreas Papandreou's Panhellenic Socialist movement and the two wings of the Communist Party cast blank ballots as a protest against the sweeping powers of the president under the recently adopted constitution.

It is generally believed that Tsatsos will step down in a year or two, when external and internal pressures may be less. Karamanlis would then have himself elected to a full five-year term as president. The opposition objects that this would carry Karamanlis beyond the next parliamentary elections, scheduled for 1978, and permit him to control the government even if his party lost the election or saw its majority seriously eroded.

Tsatsos, who was the principal architect of the new constitution, has been closely linked with Karamanlis during his long political career. He is considered a close associate and is unlikely to challenge Karamanlis' leadership. Tsatsos is particularly indebted to Karamanlis because the Prime Minister brought him back into his cabinet in the early 1960s after a year-long absence from the government caused by Tsatsos' involvement in a scandal over alleged improper awarding of government contracts. Karamanlis also included Tsatsos in the first post-junta government and designated him deputy-at-large last November.

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CANADA-PAKISTAN

Canada's insistence on very strict safeguards for the nuclear technology and equipment desired by Pakistan has led to a deadlock in negotiations for a new accord covering cooperation on nuclear energy. Islamabad has refused to accept Ottawa's tougher conditions, labeling them as "discriminatory." This has prompted Canada to delay shipment of a fuel-rod fabrication facility and to reject Pakistan's request for a supplemental credit of \$2 million.

The Trudeau government is still smarting from the harsh public criticism of its role in providing India with the reactor used to produce plutonium for India's first nuclear device and is determined to prevent a similar situation from developing. In the negotiations with Pakistan, which have been under way since last fall, the Canadians are insisting on stricter safeguards than those imposed on previous sales to India.

Pakistani reluctance to accept Canadian terms and suspicions in Ottawa that Islamabad might attempt unauthorized stockpiling of nuclear materials would seriously inhibit further nuclear cooperation. The Canadians suspect Pakistan of deliberately overestimating the amount of heavy water lost in a recent leak in the Canadian reactor already supplied to Pakistan and are wary of any stockpiling of surplus replacement materials.



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THAILAND

The tempo of insurgency in Thailand has declined sharply over the past six months. The decline is due in part to a reduction in government counterinsurgency operations, to which the insurgents have not reacted. It is also due in part to a wait-and-see attitude by the insurgents toward the new political currents in Bangkok and to their decision to concentrate their efforts on building their political base in the villages.

The Thai army has been showing a marked reluctance to engage insurgents in combat. The generals are reacting to charges that the army was guilty of having committed atrocities against villagers some two years ago. The military may hope the inactivity will force Prime Minister Khukrit to formulate a forceful counterinsurgency policy. They have long contended that the lack of a clear mandate from Bangkok has hobbled efforts to deal effectively with the insurgents.

The insurgents, for their part, are not taking advantage of the army's passivity. Insurgent commanders may reason that to do so now would only strengthen the hand of those in the government who favor a more aggressive counterinsurgency program.

The insurgents may be using the respite to concentrate on improving their political base at the village level. In northwestern Thailand near the Burmese border, for example, the communists are offering medical aid and farm labor to hill tribesmen in an attempt to persuade them not to move into government-controlled territory. In northern Thailand, the communists' political appeal has long been damaged by the animosity of lowland Thai toward the hill people. The communists are trying to avoid this problem by moving ethnic Thai insurgents into the area and by reducing their dependence on the hill tribesmen.

A continuing stream of defections from the ranks has apparently forced the insurgents to restrict their activity in at least two areas of northeastern Thailand. Similar defections appear to have seriously weakened the insurgent organization in all but one province in the south. According to one defector, the boost in morale following communist victories in Indochina was short-lived.



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JAPAN

Tokyo has announced a third set of measures to deal with the recession in Japan—an 8-point package designed to stimulate demand by some \$6 billion.

The measures are largely credit-oriented and involve only small increases in direct government spending. The program is designed to lead the economy out of the slump without creating a boom. Some government and most industry leaders feel the plan is inadequate.

The package includes:

- a 50-percent increase in low-interest housing loans;
- acceleration of public works spending over the next three months;
- some \$170 million in new loans to firms for anti-pollution equipment, as well as liberalized credits and more government orders for small business;
- lower commercial lending rates and eased credit regulations for both business and consumers; business investment ceilings will also be removed.

The only measure that will have an immediate effect is the increased public works spending. Tokyo increased outlays on public works by 7.9 percent in the first three months of this year. Despite Tokyo's efforts and a 2.3-percent rise in private consumption, gross national product still fell 0.7 percent during the first quarter.

Tokyo is carefully avoiding large spending programs. Reliance on credit measures confirms the government's decision to stimulate the economy gradually and to avoid inflationary problems, because strong stimulative measures could easily worsen Japan's foreign trade balance. The battle against inflation will be further pursued through new efforts to hold down prices.

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SAUDI ARABIA

Saudi Arabia has decided that Tapline, the trans-Arabian pipeline, should be reopened to the Mediterranean. The Saudis are trying to help resolve problems of pricing, past debts, and royalties between Tapline's sister company, Aramco, and Lebanon and Jordan.

Tapline carries oil from Saudi Arabia through Jordan to Sidon on the Mediterranean. Part of the pipeline, from Zarqa in Jordan to Sidon, was shut down in February; the price of Saudi oil at Sidon was higher than the price of oil delivered to eastern Mediterranean terminals because of sharply reduced tanker fees. Use of the pipeline had declined from over 290,000 barrels a day during the first quarter of 1974 to 87,000 barrels a day in the last quarter of the year—only 17 percent of capacity.

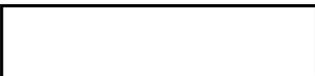


When deliveries to the Mediterranean were discontinued in February, Lebanon met its needs from stocks at Sidon. Deliveries to Jordan continued at around 17,000 barrels a day. There were acrimonious negotiations between Aramco and Amman over pricing and payment for past shipments. Aramco gave in to Saudi pressure in April and agreed to increase shipments to Jordan by some 5,000 barrels a day to provide needed supplies and rebuild declining stocks for the Zarqa refinery.

The Saudis have now set the stage for settlement of the disputes. Saudi Arabia will most likely finance Lebanon's debts to Aramco for past deliveries and apparently will provide a formula for future prices acceptable to Beirut. A similar arrangement is in the works for Jordan. While the final pricing and payments have yet to be worked out, Saudi Arabia will probably assume certain Tapline costs, such as medical care for the local population along Tapline, as well as indirect subsidies of Tapline operations. The Saudis have apparently decided to help out because they want to maintain maximum flexibility by preserving all outlets for Saudi oil production.



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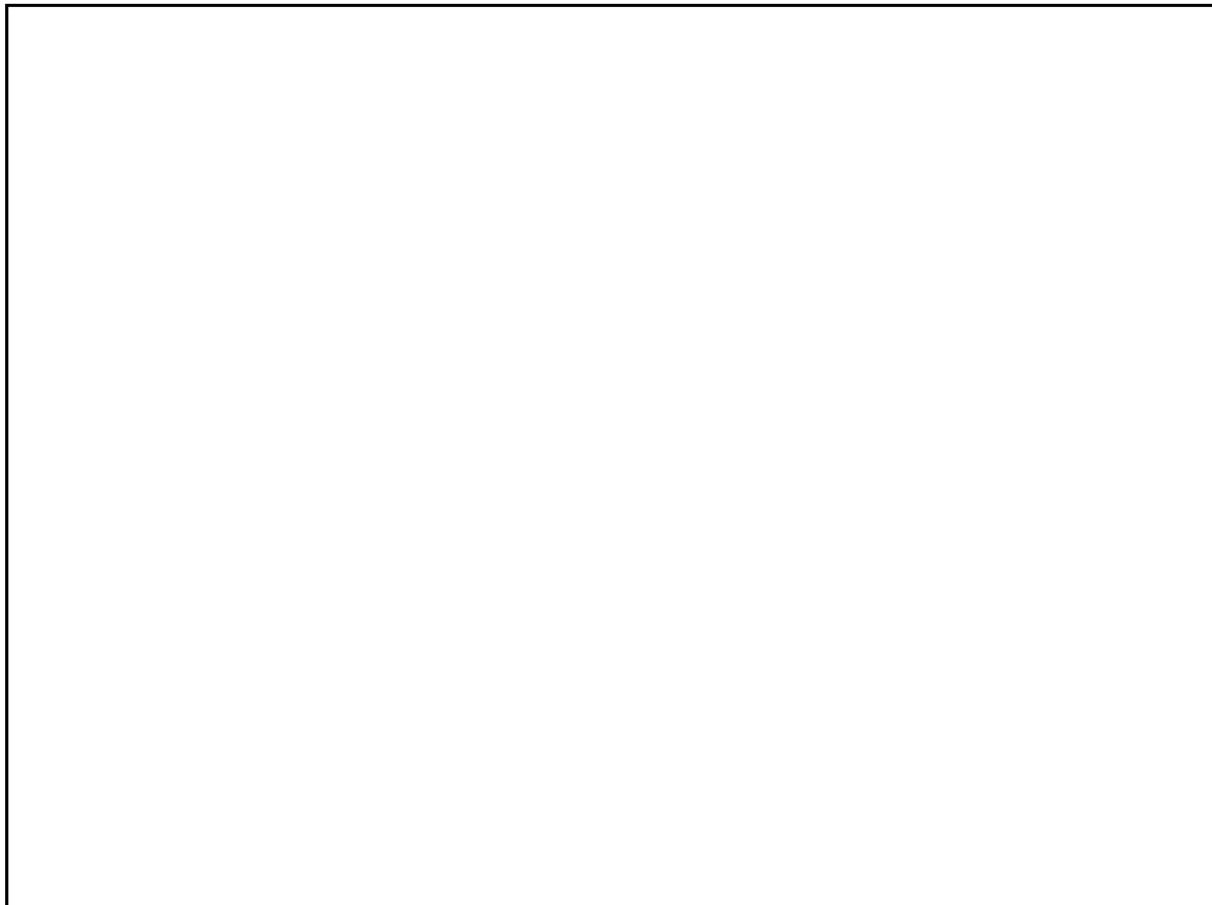


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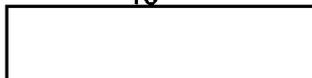


FOR THE RECORD

INDIA: Prime Minister Gandhi's appeal of her recent conviction for campaign violations in 1971 will be submitted to the Indian Supreme Court on Monday. The judge who will receive the appeal is expected to decide at that time whether to extend the lower court's unconditional stay of her removal from office. The judge is reported to be sympathetic to Mrs. Gandhi's Congress Party, and many observers in India have predicted that he will extend the stay. Both Mrs. Gandhi's party and the opposition are planning major rallies in New Delhi this weekend.



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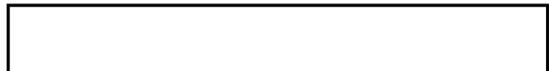
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