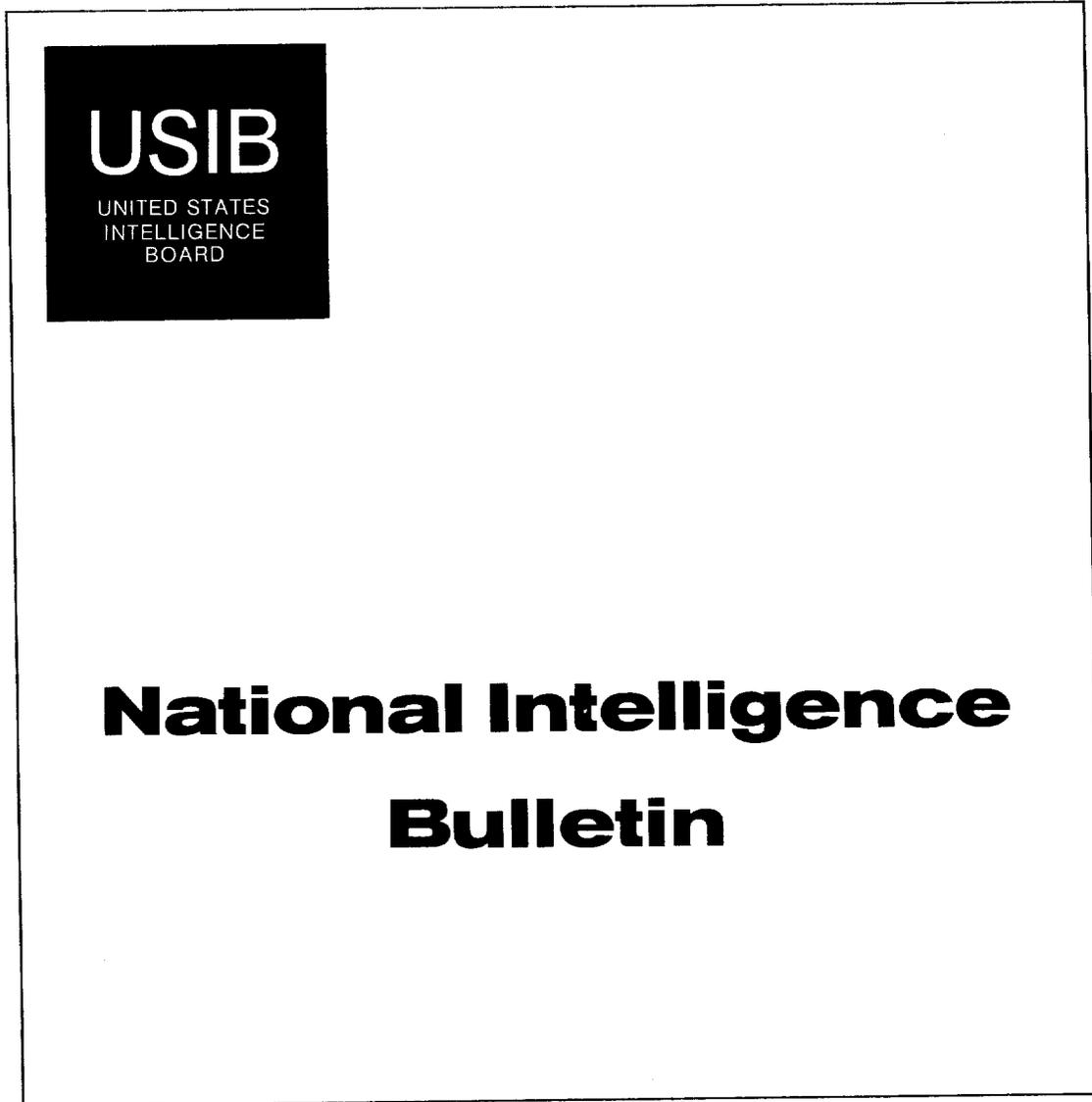


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PORTUGAL

Proposals announced yesterday by the Armed Forces General Assembly called for the creation of "popular councils," and are drawing a sharp reaction from moderate political leaders who see a threat to their parties' continued existence.

The Socialist Party reportedly convened an emergency meeting of its national executive council. A spokesman for the center-right Social Democratic Center Party expressed "consternation, concern, and regret." He said the parties should have been consulted before such far-reaching proposals were announced. The Assembly's proposals call for the development of popular councils, first at the local level, leading to district and regional assemblies, and eventually to a national assembly. The military proposes to play an active role in each of these bodies.

The aims of these popular councils, as set out by the Assembly, would be:

- to foster mass participation in the revolution;
- to protect the revolution through self-defense organizations;
- to enlist the workers' assistance in increasing production.

The councils would gradually take over local administration, along with the job of political indoctrination of the people and control of the means of production. The Assembly noted that the formation of these popular bodies would not preclude cooperation by those political parties favoring socialism, but did not say what form this cooperation might take. It implied there would be no significant role for the parties once the popular councils are functioning.

The councils represent a compromise between the committee structure favored by the Communists and that supported by the even more extreme left. The Communists, however, were quick to announce their support for the Assembly's action. They also said they would carry out an intensive organizing effort at the local level. The new councils are attractive to the military because they would allow the Movement to control the form of the "direct links" it wants between itself and the people and to by-pass the parties if it chooses to do so. The formation of a national assembly is some time off, but the promise of one to come could be used by the Movement to sidestep its earlier commitment to the election of a legislative assembly.

The Assembly also promised further nationalization measures, progressive land reform, and a revamping of the civil service, including further purges of officials. On

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foreign affairs, the Assembly had only this to say: "Any type of ideological, political, or economic hegemony" over the Portuguese revolution will be avoided. The statement is an effort to answer the critics on the right who are wary of Communist domination and critics on the left who fear the Armed Forces Movement will sell out for financial assistance from Western Europe.

There have been no reports of a power play from either the left or the right at the Assembly, and a Movement spokesman has described such rumors as "completely unfounded." Rumored attempts to unseat Prime Minister Goncalves failed to materialize.

Meanwhile, the Communists have scheduled a mass demonstration in Lisbon tonight to show support for the Prime Minister and the military government. The Socialists have countered with plans for their own rally.

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TURKEY

The Turks are continuing to weigh various options for action against US bases and possible policy reassessments in the event the US arms embargo is maintained beyond the July 17 deadline set by Prime Minister Demirel.

So far, there has been no official Turkish reaction to the possibility of a compromise arrangement by which the ban on arms sales to Turkey would be lifted while the halt in grant aid would remain in effect. Demirel indicated to US embassy officials on July 2, however, that the ban on delivery of armaments already purchased and the cutoff in the flow of spare parts were by far the most serious aspects of the embargo.

Demirel and the Turkish general staff have been casting about for an appropriate response to make on July 17, however, and may see such a compromise as a way out of the dilemma they created for themselves with the establishment of the deadline. Faced with hard realities, the Turks now see clearly that there is no other viable source of armaments and are searching for an approach that will satisfy the political necessity for a tough response, but will not preclude reinstatement of US military assistance at some future date.

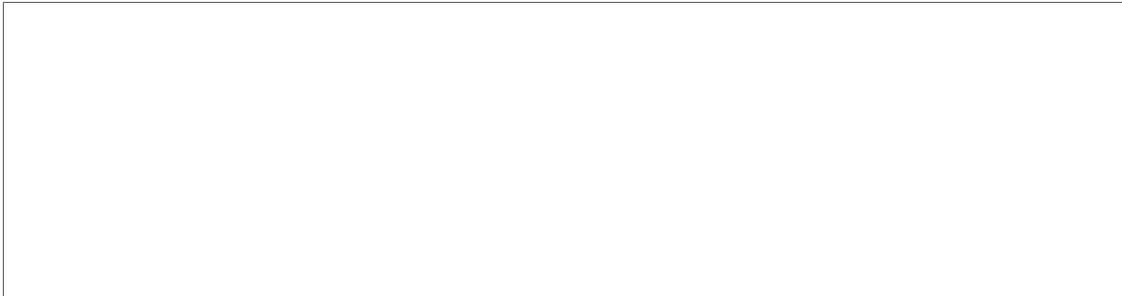
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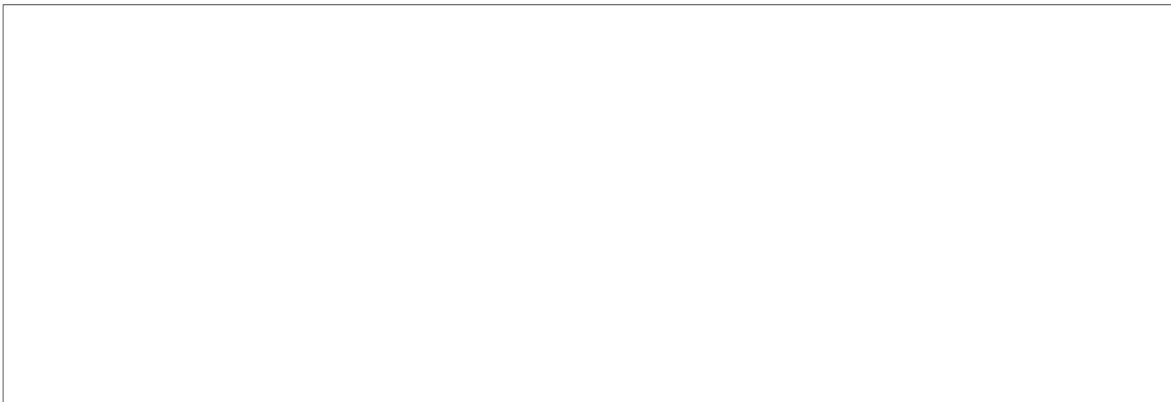
ITALY

Prime Minister Moro may soon withdraw his support from Christian Democratic leader Fanfani, strengthening the possibility that the party's national council will decide on a leadership change when it meets next week.



If Fanfani loses the support of the Moro faction, it will mean that roughly 80 percent of the party hierarchy has broken with the Christian Democratic leader. At the party directorate meeting last week, center and left factions—about 70 percent of the party—joined in opposing Fanfani's proposal to delay debate on Christian Democratic leadership and policies until a party congress in the fall. The directorate voted instead to begin such a debate on July 19 at a meeting of the Christian Democratic national council—the party's principal deliberative body.

It is probably only a matter of time before Fanfani resigns or is eased out of the top party post in any event, but a nod from Moro would ensure his departure. Moro's support for his longtime rival was one of the key factors in Fanfani's return to the party leadership two years ago. Moro is the party's most prestigious left-of-center leader, and his alliance with Fanfani helped insulate the latter from the growing attacks by left-wing Christian Democrats as the party suffered successive defeats in the last two years.



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UK

The 19 to 13 decision yesterday by the general council of the Trades Union Congress to hold weekly wage increases to \$13 during the next year should allow Prime Minister Wilson to avoid imposing statutory wage controls, at least for the present. Wilson still may ask for standby authority to impose controls if the individual unions do not stick to the agreement when he announces his anti-inflation package later this week.

In return for their agreement, the union leaders have asked the government to deny pay raises to persons earning over roughly \$15,000 and to work diligently to reduce unemployment. They have also demanded a six-month freeze on prices.

The general council's decision follows a harsh speech by Chancellor of the Exchequer Healey to the Labor members of Parliament, many of whom are opposed to statutory controls. Healey warned that failure to support a voluntary 10-percent limit on wage increases would mean a drastic cut in the country's standard of living and force Britain "to crawl to the International Monetary Fund and accept the terms they impose on us."

The cabinet this morning will discuss the anti-inflation proposals submitted by the Congress and the Confederation of British Industry and will try to iron out any remaining differences over the government's anti-inflation package. Healey claimed several weeks ago that he had complete cabinet backing for his voluntary plan, but some cabinet members may balk over asking for standby authority to impose statutory controls.

The government was heartened earlier this week when the miners opted to "seek" rather than "demand" a weekly pay increase of more than 60 percent. The miners' move, plus the decision yesterday by the British seamen to settle for a wage increase of 37 percent, suggests that for now even individual unions may cooperate with the government. The miners' unanimous vote that their leaders begin immediate negotiations for a four-day week suggests that their cooperation may be short-lived.



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INDIA

Both houses of parliament have been convoked for July 21 to endorse the recent proclamation of a state of emergency. Approval of the proclamation by parliament is constitutionally required within 60 days.

The Ruling Congress Party's parliamentary majority ensures easy approval. Government officials claim the proceedings will be valid, despite the fact that many opposition members of parliament are in jail. They warn, however, that attempts to disrupt parliament by opposition members not yet incarcerated will not be tolerated.

The decision to summon parliament now, rather than next month as had been generally expected, reflects Prime Minister Gandhi's apparent determination to proceed quickly to legitimize the continuation of her authoritarian control over the country. She probably believes parliament's rubber stamp will also put her in a strong political position should she need eventually to employ other controversial means to overcome a possible negative Supreme Court decision on her appeal against her conviction last month for illegal campaign practices in 1971.

The court will take up her case on July 14. Although a full written decision is unlikely before late summer, in view of the importance of the case an oral judgment may be issued much sooner.

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PANAMA

Panamanian leader General Torrijos is laying the groundwork for a campaign to demonstrate his frustration about the delay in negotiations on a new canal treaty.

He released for publication in a Panamanian newspaper this morning a statement on a meeting he held yesterday with Panamanian student leaders. The statement makes clear his strong irritation at the US, but does not break his commitment to keep the details of the negotiations confidential. The statement does, however, complain about what Torrijos considers the US failure to keep its part of the bargain.

Although Torrijos, his chief treaty negotiator Juan Tack, and other administration members have generally used restraint in their public statements about the negotiations, at the same time notes of concern and impatience are becoming increasingly apparent. In talking with reporters last week, Torrijos indicated Panama's mounting impatience and maintained that "when all peaceful solutions are closed to a country then it must resort to solutions that are not peaceful."

Torrijos is discouraged about the prospects of a treaty because of setbacks such as the US House of Representatives' approval of an amendment to cut off funding of the negotiations and the publication of pessimistic articles in the US press about the future of the negotiations. He is also facing increasing criticism about his handling of the negotiations at home. To a considerable degree, Torrijos himself is responsible for the domestic pressures, because he had raised expectations that an advantageous treaty could be concluded within a fairly short time. He feels compelled to produce concrete results, and fears that a prolonged delay will provide ammunition to critics and weaken popular support for his regime.

In these circumstances, Torrijos may now feel a strong need to show that his negotiating stance does have broad popular backing and to give Washington a suggestion of the problems it could face if a new treaty is not attained. Torrijos could very well opt to use carefully controlled student demonstrations, perhaps involving minor harassment of US citizens, to manifest his unhappiness with the present situation.

At least initially, Torrijos would consider such actions a necessary tactical move, and they probably would not mean a reversal of his view that negotiation is the best way to achieve Panama's canal goals. If these small-scale actions did not produce forward movement in the negotiations, more serious demonstrations could occur.



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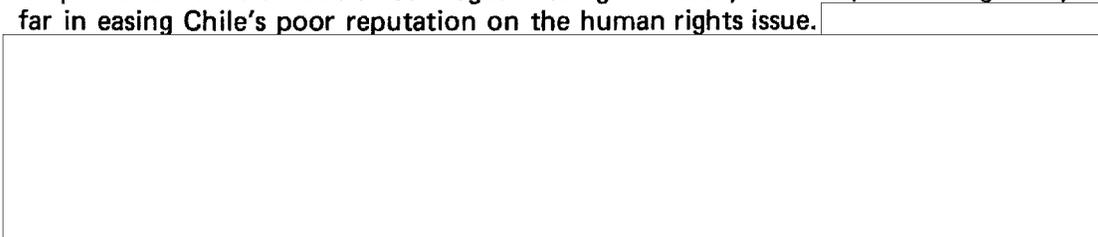
CHILE

President Pinochet's imperious and independent actions, especially his recent failure to consult with the three other junta members on major decisions, are aggravating relationships within the ruling military junta. The most recent instance was Pinochet's unilateral announcement that he had canceled the scheduled visit of a UN human rights fact-finding team. A serious rift does not appear to be in the cards, but the President's handling of the difficult problems facing the government is likely to provoke continuing criticism by his junta partners.

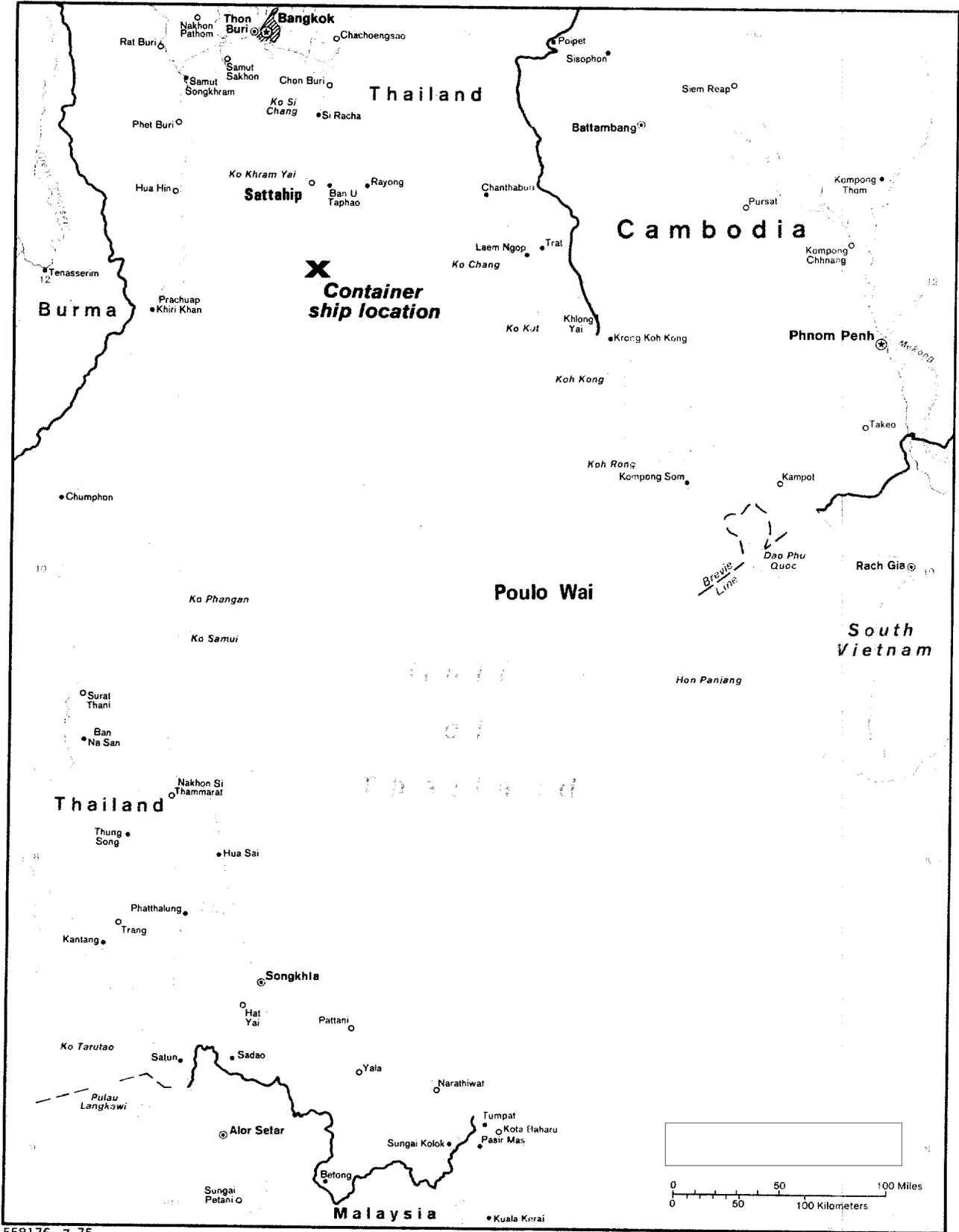


The Chilean leader apparently is aware of some friction and may take steps to reduce it. For the most part, the other service chiefs see eye-to-eye on basic government policies and would not risk a split over individual issues or because of personal rivalry with the President. If Pinochet can improve Chile's economic situation and begin to change its poor international image, he will probably have little trouble keeping the other junta members behind him.

Pinochet reportedly is considering the release of imprisoned Communist Party leader Luis Corvalan as a means of offsetting the bad press caused by his decision to keep the UN mission out of Santiago. Freeing Corvalan, however, will not go very far in easing Chile's poor reputation on the human rights issue.



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CAMBODIA

Cambodian and Vietnamese communist officials appear to be making progress in resolving their border problem. [REDACTED]

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The Cambodians had announced publicly, and apparently prematurely, on June 27 that they had solved the border problem with South Vietnam, but Vietnamese forces violated Cambodian territory on several occasions [REDACTED]

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[REDACTED] Although the Cambodians appear to feel that agreement is near, isolated clashes may continue for some time, because lingering animosities will probably complicate attempts by local officials to implement the boundary decisions reached at higher levels.

The Cambodian desire to resolve the territorial dispute with South Vietnam appears to be on the agenda of Foreign Minister Sarin Chhak as he continues his trip to Europe, Africa, and the Middle East. [REDACTED]

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AUSTRALIA

Prime Minister Whitlam is making an intense effort to strengthen his position before the Labor Party caucus meets Monday to discuss his firing of Deputy Prime Minister Cairns. The Prime Minister called a special session of Parliament yesterday to explain away any suspicions that he was involved in questionable efforts to get foreign loans. Alleged indiscretions of this nature by Cairns led to his dismissal.

Whitlam may have concluded that bringing matters to a head was preferable to facing a continuing barrage of hostile and sometimes distorted press attacks. He may calculate that a forthright move—and an acceptance of his explanation if not a formal vote of confidence from Parliament—will put him in a good position to get his way when the party caucus debates the Cairns issue.

If the caucus backs Whitlam, it will agree to replace Cairns as deputy party leader. The individual selected will also become deputy prime minister. Most observers in Canberra expect Whitlam to push William Hayden, a promising member of Whitlam's moderate wing of the party, as Cairns' successor. Whitlam named Hayden to replace Cairns as federal treasurer last month.

State parliamentary elections to be held in South Australia on Saturday could provide another measure of the impact of the Cairns scandal on Labor's standing with the public. South Australia is one of only two states with Labor governments, and recent public opinion polls—which have a good record in Australia—show that the state government's local standing has dropped by 12 percent. State Laborites hope this disadvantage will be offset by a split among the Liberals. A by-election in the state of Tasmania two weeks ago cost Labor the loss of a traditional seat in the federal Parliament, and the strength of the anti-Labor trend would be underscored by another unfavorable outcome in South Australia.

Thus far, the opposition Liberal-Country coalition has given no indication that it will take advantage of Labor's difficulties to move for early national elections. The opposition-controlled upper house of Parliament, however, has decided to call public officials to testify next week on the loans controversy. If the opposition decides that the government has been fatally wounded by the Cairns' imbroglio, it could at any time use its control of the upper house to maneuver the government into elections.

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SOUTH KOREA

The "wartime security" bills pushed through the National Assembly by the Pak government yesterday are the latest in a series of measures aimed at strengthening political controls and security preparations. The new laws give the government power to:

- place surveillance, or detain in camps, persons who in the past have been convicted of security related offenses;
- increase defense taxes by some \$400 million, which could raise the defense budget to some \$1 billion;
- organize virtually all males under age 50 into a civil defense corps;
- eliminate tenure for university professors, some of whom have encouraged student demonstrations.

Although the new laws are in keeping with the authoritarian style Pak adopted in late 1972, government spokesmen emphasized the increased threat from the North as a rationale for their enactment. Opposition politicians in the Assembly spoke out against the new controls, but were easily overridden by the government's large majority.



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FOR THE RECORD

INDOCHINA: The US container ship SS Gateway City was reportedly fired upon about 40 miles south of Sattahip, Thailand, Tuesday afternoon (see map facing page 13). The ship's master heard gunfire and sighted two small fishing boats of unknown nationality. Indentations believed caused by small arms fire were observed on the ship's radio shack. No injuries were reported. The vessel continued on to Sattahip without further incident. Owners of the Gateway City have ordered her to remain in port until safe passage can be assured to Singapore, the ship's next port of call.

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