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DIRECTORATE OF
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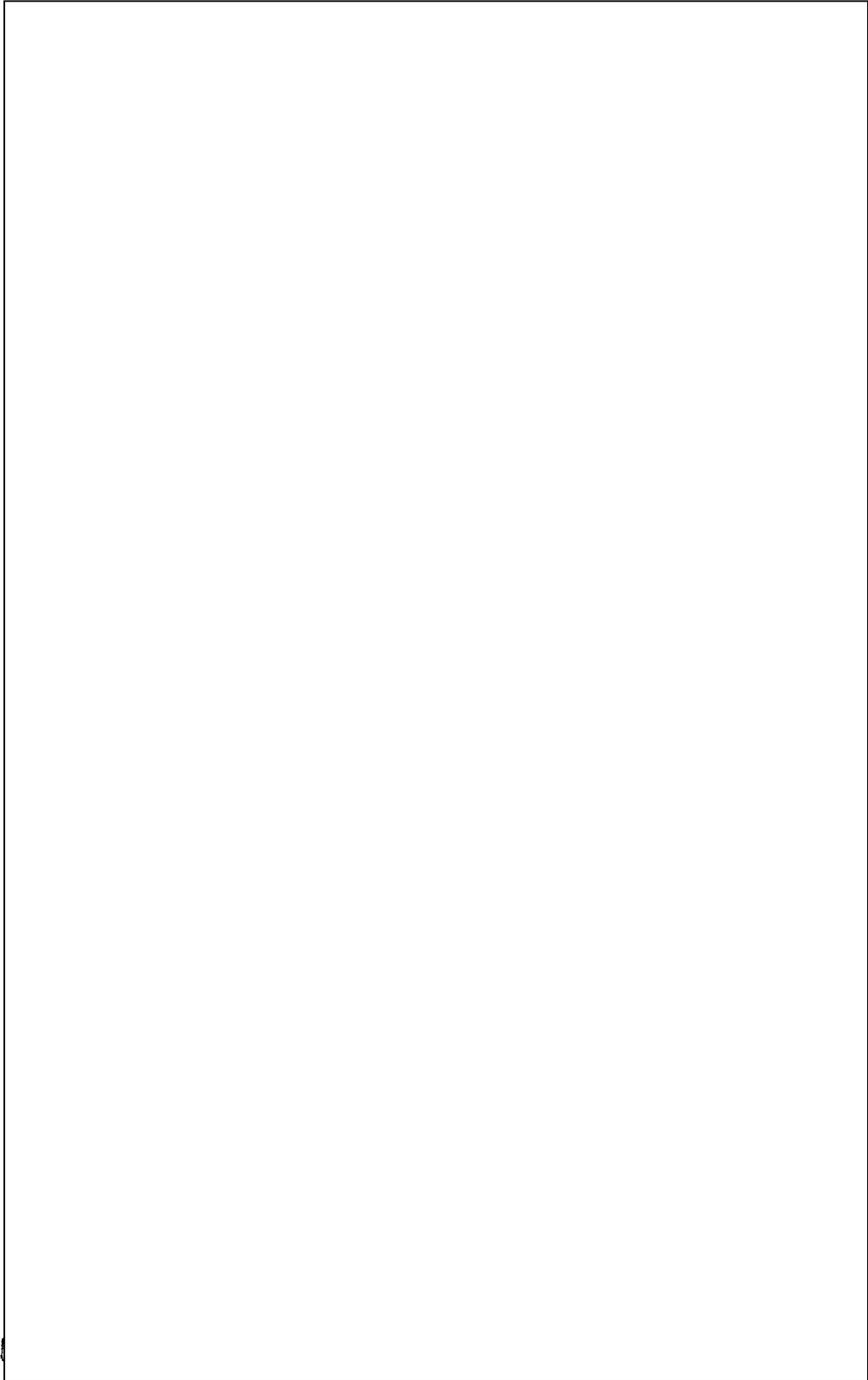
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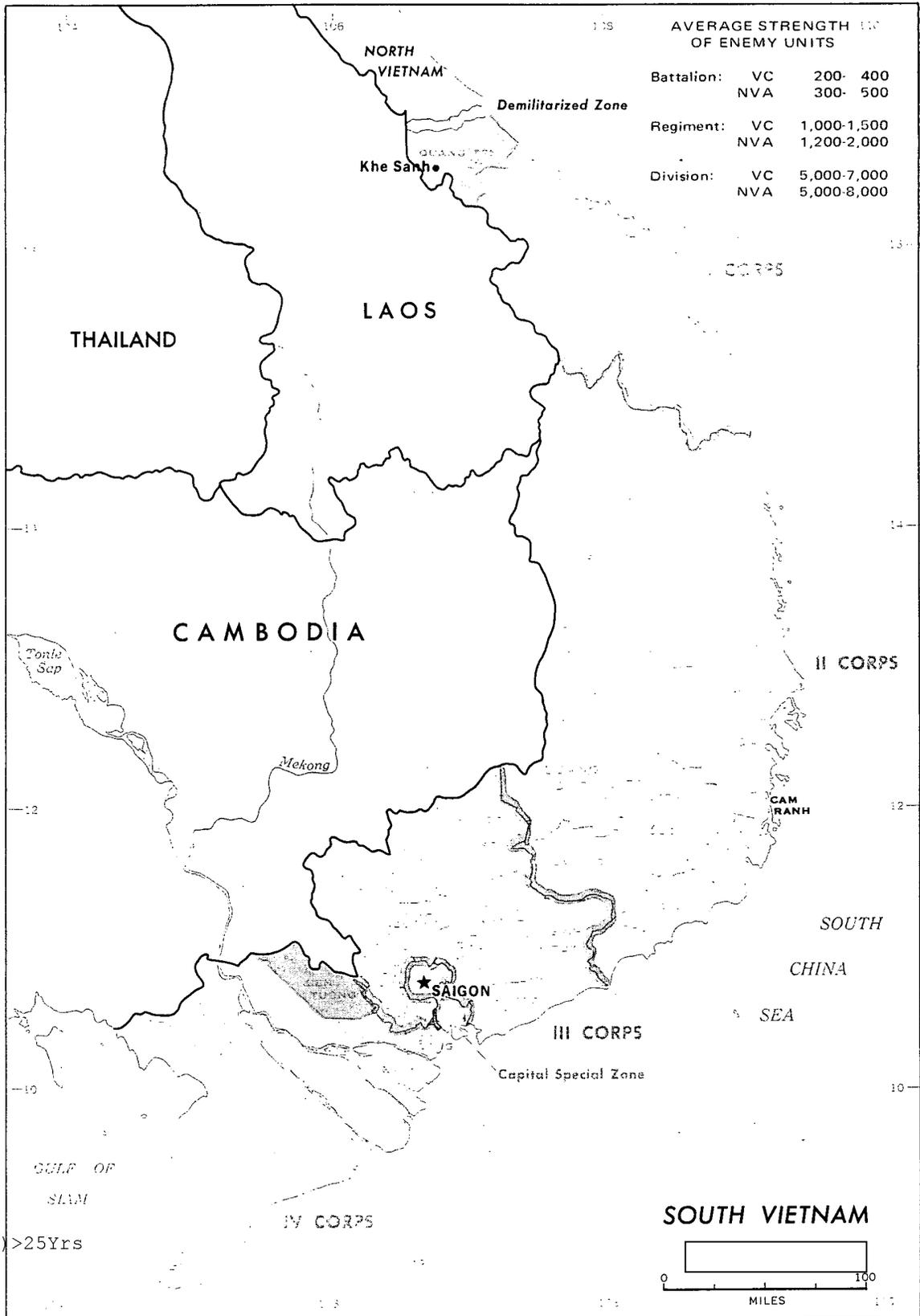
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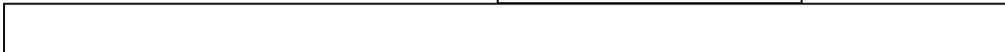
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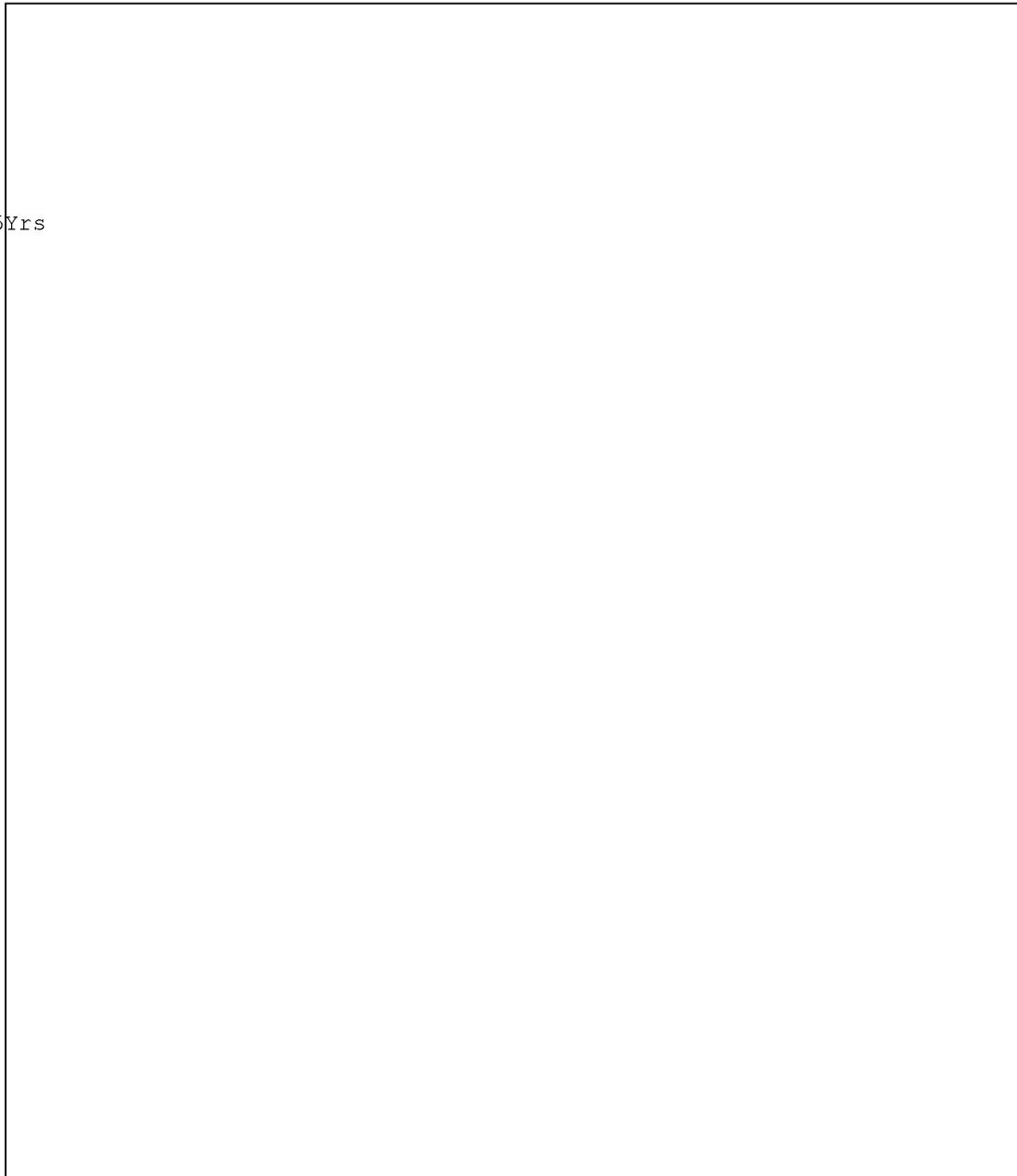
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[South Vietnam: Ground fighting was limited to small-scale clashes between allied and Communist forces in widespread sectors of the country on 21-22 July.

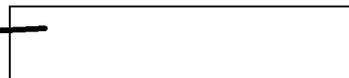


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[REDACTED]

Spain: General Franco's naming yesterday of Prince Juan Carlos as king-designate has ended the long guessing game over who will succeed Franco, but the basic political situation remains unchanged.

Under the constitution, Franco may continue as chief of state and chief of government for life. Except in the unlikely event of Franco's suddenly stepping down, Prince Juan Carlos will not become king until the general's death or incapacitation. Because Franco also has the power to revoke the designation, he can keep the 31-year-old prince under control. In addition, the prince will have to take an oath to uphold Franco's twelve Principles of the National Movement and the six fundamental laws which institutionalize the present system of government.

In choosing Prince Juan Carlos, Franco passed over the chief pretender Don Juan, father of the prince and son of the last king, Alfonso XIII. Don Juan apparently is not going to contest the decision at this time. He reportedly is angry, however, and his chief adviser has indicated deep disappointment at the "installation" as opposed to the "restoration" of the monarchy. Most monarchists are resigned to the decision and somewhat assuaged by the government's commitment to the monarchical form.

Franco also has the power to name his replacement as chief of government--technically from three nominations made by the Council of the Realm, but most informed observers do not expect him to do so now.

Initial reactions of the power groups supporting the government and of the general public have been positive. They see the choice as providing for continuity with careful control on political evolution and as precluding a fight at the time of Franco's death. [REDACTED]

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[redacted]

Israel-Egypt: The increasingly bellicose actions of both Israel and Egypt have led to the heaviest fighting since the end of the 1967 war.

Israel's attack on an island at the southern end of the Suez Canal on 20 July is its largest commando action to date, and the recent attacks on Egyptian artillery positions and SAM sites mark the first time the Israelis have bombed Egyptian territory since 1967. In the face of increasing Egyptian provocations, the Israelis have stated that they intend to "use whatever means are appropriate" in an effort to convince the Egyptians of Israel's military superiority.

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The rising pace of action is reflected in aircraft losses. [redacted] Egypt has lost 11 jet fighters against Israeli losses of only two since 1 July.

Egyptian aggressiveness can be traced in part to the substantial resupply, retraining, and reorganization of the Egyptian armed forces and to the improvement in morale resulting from the series of successful commando raids and artillery strikes initiated by Egypt. The losses suffered by Egypt, however, could result in at least a temporary curtailment of Egyptian commando raids across the Suez Canal.

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The Cairo press meanwhile has been playing up the recent clashes as a victory for Egypt, and Nasir can be expected to highlight the victory theme in his speech today marking the anniversary of the revolution which brought him to power in 1952. Israel's tactics do not appear to have had any appreciable psychological effect on the Egyptian masses. They know enough to discount their own government's claims of losses inflicted on the Israelis but can be expected to gain some satisfaction from the Israeli admissions of casualties and lost aircraft. [redacted]

[redacted]

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[El Salvador - Honduras: El Salvador's failure to withdraw its troops by midnight yesterday in compliance with the OAS deadline could lead to a resumption of hostilities.

OAS members view Salvadoran defiance with serious concern and seem prepared to seek stronger measures to effect the withdrawal. The OAS Council, which went into formal session at midnight, is expected to convoke a meeting of foreign ministers on 27 July to consult on the options available under the terms of the Rio Treaty.

Despite claims by both sides that they will abide by the cease-fire, there are increasing signs that preparations for renewed fighting are being pressed. Honduran planes have been readied for combat operations [REDACTED]

[REDACTED] There are a number of reports that El Salvador is acquiring aircraft from various private foreign sources, including some in the US. If this is true, El Salvador may well bolster its already strong military position vis-a-vis Honduras.

[REDACTED] information that Nicaraguan troops have crossed into Honduras, and that two planeloads of arms and ammunition also have been supplied from Nicaragua. Earlier reports had stated that President Somoza was leaning toward military support for Honduras. In a meeting yesterday, Somoza and the Guatemalan foreign minister said their governments have a shared concern in the dispute of their neighbors and believe that El Salvador should be prevented from consolidating territory taken by force from Honduras.

Meanwhile, [REDACTED] that the Honduran Government may be hard pressed to restrain its people from taking retaliatory actions against Salvadoran citizens, including those interned during the early stage of the conflict. This danger would increase if fighting resumes. The Hondurans, at this point, believe that they have done all that is possible to conform to OAS resolutions, with no reciprocity on the part of El Salvador. [REDACTED]

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