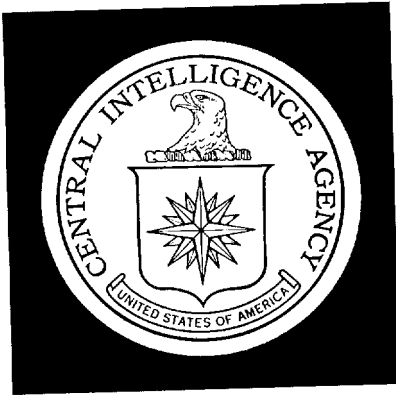


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DOJ Review
Completed.

State Dept. review
completed

ARMY review(s)
completed.

DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Secret

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(Information as of 1200 EDT, 5 August 1971)

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Indochina

North Vietnam: Disquiet in Hanoi

Although the Chinese are making special efforts to mollify Hanoi in the wake of the announcement about President Nixon's proposed visit to Peking, the treatment has not taken. Neither the special VIP attention given to Le Duc Tho on his way home from Paris nor the *People's Daily* article disclaiming any Chinese interest in a new Geneva conference appears to have allayed fears in Hanoi that North Vietnamese interests would be endangered by a Sino-US detente. Shrill propaganda lecturing continues in the North Vietnamese press and the same points are being made, albeit in lower key, in statements by high officials. Le Duc Tho took note of the "unchanging nature of US imperialism" in a joint communiqué with the Soviets as he passed through Moscow, and Defense Minister Giap took some deliberate swipes at the Chinese in his remarks at a reception in Hanoi celebrating Chinese Army day and in his official letter of congratulations to Lin Piao.

Hanoi's highly unusual resort to polemics in a disagreement with a Communist ally reflects extreme concern. Although the memory of the 1954 Geneva conference is always with them, the Vietnamese know that much has changed since then and that the Sino-Soviet split gives them much more freedom of maneuver than they had in the 1950s. Hanoi is well aware that China and the Soviet Union are unlikely to act in concert and that a reduction in support from one will probably result in an increase in support by the other. Nevertheless, fear of pressure from Peking seems to be at the heart of Hanoi's distress. The North Vietnamese probably have already sought to hedge their bets with Moscow, or will soon do so.

In addition to North Vietnam's general suspicion of a sellout by China and very real concern

that the larger issue of US-China relations has upstaged Hanoi's own seven points, there may be more specific differences between Peking and Hanoi over the terms for settling the war. China's newly found enthusiasm for Hanoi's negotiating posture, in addition to being belated, is ambiguous. Even Peking's insistence on 3 August that it does not favor a new Geneva conference is hedged by qualifications—such a conference is not appropriate "today," say the Chinese. In almost all of its commentary endorsing the seven points, Peking has managed to leave the impression that troop withdrawal is by far the most important Communist demand—indeed, almost the only demand. Hanoi, however, gives equal weight to its demand that the US must also make changes in the Saigon government. In their own discussions of the seven points, the North Vietnamese have acknowledged that it is possible for the US to concern itself with withdrawal only and leave the Vietnamese to work out a political solution, but the whole thrust of Communist negotiating strategy is to force the US to make concessions on continued support for the Thieu government.

By emphasizing only US withdrawal, Peking may be reinforcing skepticism in Hanoi that all the Chinese really want is to force the US out of Indochina, and that in a bilateral deal with Washington, Peking would undercut Hanoi's other demands for political concessions. By itself, this is not the kind of sellout that the Vietnamese experienced at Geneva, but it may be one of the factors triggering the outbursts from Hanoi these past two weeks.

New Mobilization

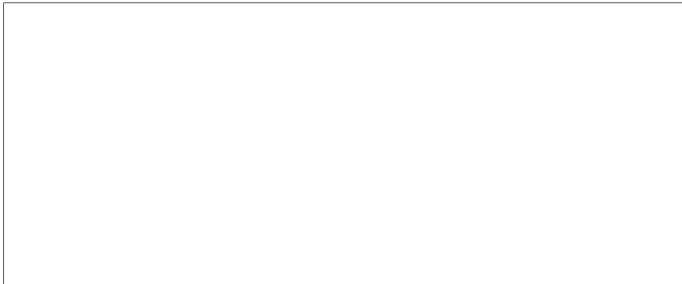
A new call for stepped-up mobilization was issued in North Vietnam on 29 July. The premier's office put all civilian agencies on notice to upgrade their military reserve units and significantly increase both the theoretical and practical aspects of military training. The publicity and

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authority of the notice suggested that the leadership was making an effort to keep popular energies focused on the war effort and related domestic issues. An accompanying editorial was fairly honest in acknowledging that improvements in military training were needed to meet "front-line" requirements—a euphemism for the battlefields in Laos, Cambodia, and South Vietnam.



South Vietnam: Ky Out, Minh Still In

Viet Cong Comeback

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Vice President Ky's failure to qualify for the presidential race by the filing deadline on 4 August, came as no surprise to his own campaign staff.

Security in the three southern provinces of Military Region (MR) 1—Quang Nam, Quang Tin and Quang Ngai—continues to deteriorate.

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Most government officials in these three heavily populated provinces are no longer willing to stay the night in their hamlets and villages, and each day they return to the more secure district and province capitals.

Ky's appeal to the Supreme Court may spark additional adverse publicity for President Thieu, especially overseas, but it seems unlikely to get him on the ballot with Thieu and Big Minh on 3 October.

Many irregular military units charged with protecting rural areas reportedly refuse to patrol them at night, and lately have not even patrolled during daylight hours. Some security troops have been selling their weapons and other equipment to help pay for their transportation each day to and from more secure areas. Some of this gear probably has fallen into enemy hands. Discipline among the security troops is poor and morale is low, and many recruits join local units in name only, statistically inflating the size of these units but producing no corresponding increase in security.

Ky is bitter at Thieu

Being frustrated by Thieu's maneuvers to freeze him out of the action is not a new experience for Ky, and in the past he has often responded with a spurt of activity followed by a longer period of sulking in seclusion. It is possible, therefore, that Ky will not sustain his present rate of invective for the whole campaign.



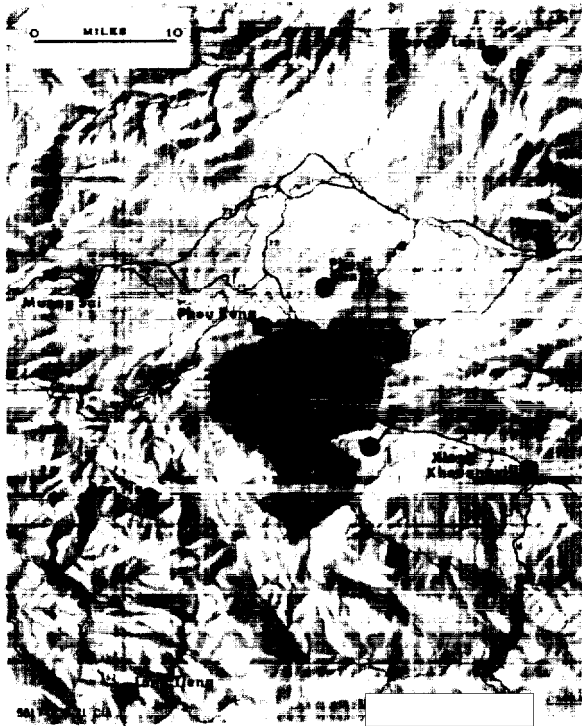
US advisers say that security is worse in these areas than at any time since 1968. Some of this decline can be attributed to US troop withdrawals and to increased enemy activity since the first of the year, but timid performances by many South Vietnamese commanders and troops in this area seem to be the chief causes of poor local security. So far, the government has done little to toughen its demoralized civilian and military

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Laos

- Government-held location
- Communist-held location

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Laos: Slow Going in the South

Government forces attempting to recapture Paksong on the Bolovens Plateau have been engaged in some hard fighting. A task force that had been moving on Paksong from the northwest was forced to halt after two of its three battalions were dispersed by an enemy attack. Other regular units are moving slowly eastward toward the town along Route 23. Their progress has been slowed by enemy troops dug in along the road, but lead elements have moved to about nine miles of Paksong.

North of the Bolovens, government forces still hold Saravane. The irregulars as yet have found no major enemy supply caches. Several skirmishes have occurred as government patrols have ranged around the town and more serious clashes may soon occur.

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officials and forces there. Unless it does, the Communists seem likely to regain much of their former influence among the people in these three provinces.

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Some Gain On the Plaine

Vang Pao's forces have pushed farther to the southeast of the Plaine des Jarres. Elements of three irregular battalions have taken up positions about six miles from Xieng Khouangville and are now in position to take the town if so ordered. Other irregular units are pushing slowly to the north from Phou San, north of the Plaine. The Communists have continued to shell and probe government positions, but have not gained any new ground.

In another move, the politically ambitious First Deputy Prime Minister In Tam was given authority over the military police, apparently in an effort to keep him in the cabinet. Tam has been insisting that he needed a paramilitary force to implement his pacification program and had threatened to resign unless he was provided with such personnel, a tactic he has employed successfully in the past.

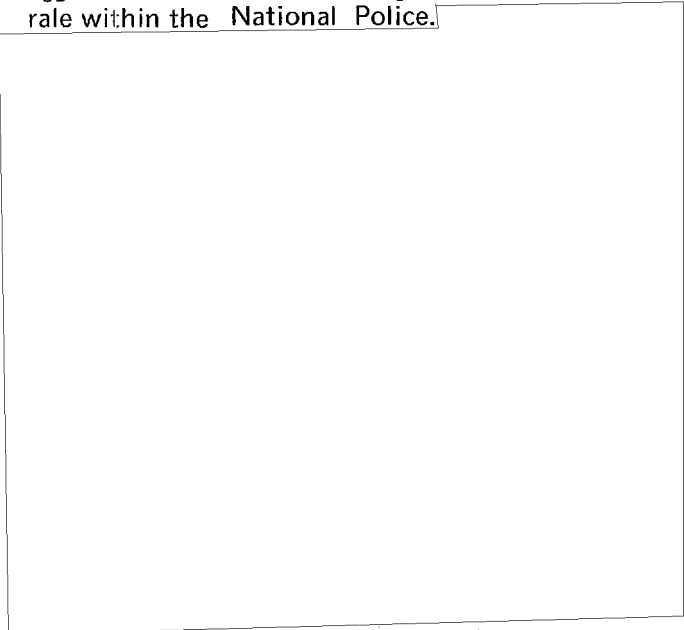
Police Unhappy

Discontent over corruption and leadership aggrandizement has had a negative effect on morale within the National Police.

Cambodia: The Political Pot Boils

As Sirik Matak makes preparations for a trip to the United States and a meeting with President Nixon, the political waters in Phnom Penh have once again become turbulent. The cause lies not in any one single precipitating factor, but in the accumulated weight of the seemingly chronic problems—the deteriorating economy, corruption in high and low places, rowdyism in the army, absence of dramatic or convincing military victories, and the growing perception that no early end to the war is in prospect. The natural inclination to blame the men in power for these assorted woes is aggravated because of the evident divisions and lack of powerful leadership at the top. Who is running Cambodia, Sirik Matak or Lon Nol? It is a question that is increasingly being asked in politically aware circles in Phnom Penh.

The government has moved quickly to ease the agitated political scene. Thanh was appointed head of a new government committee charged with combating inflation and recommending economic policy guidelines. Prime Minister Lon Nol apparently hopes to trade on Thanh's reputation for incorruptibility and his high standing with much of the National Assembly, the source of considerable antigovernment carping recently. At the same time, he has saddled a potential rival with one of the country's thorniest problems, although an improvement in the economic picture could rebound to Thanh's advantage.



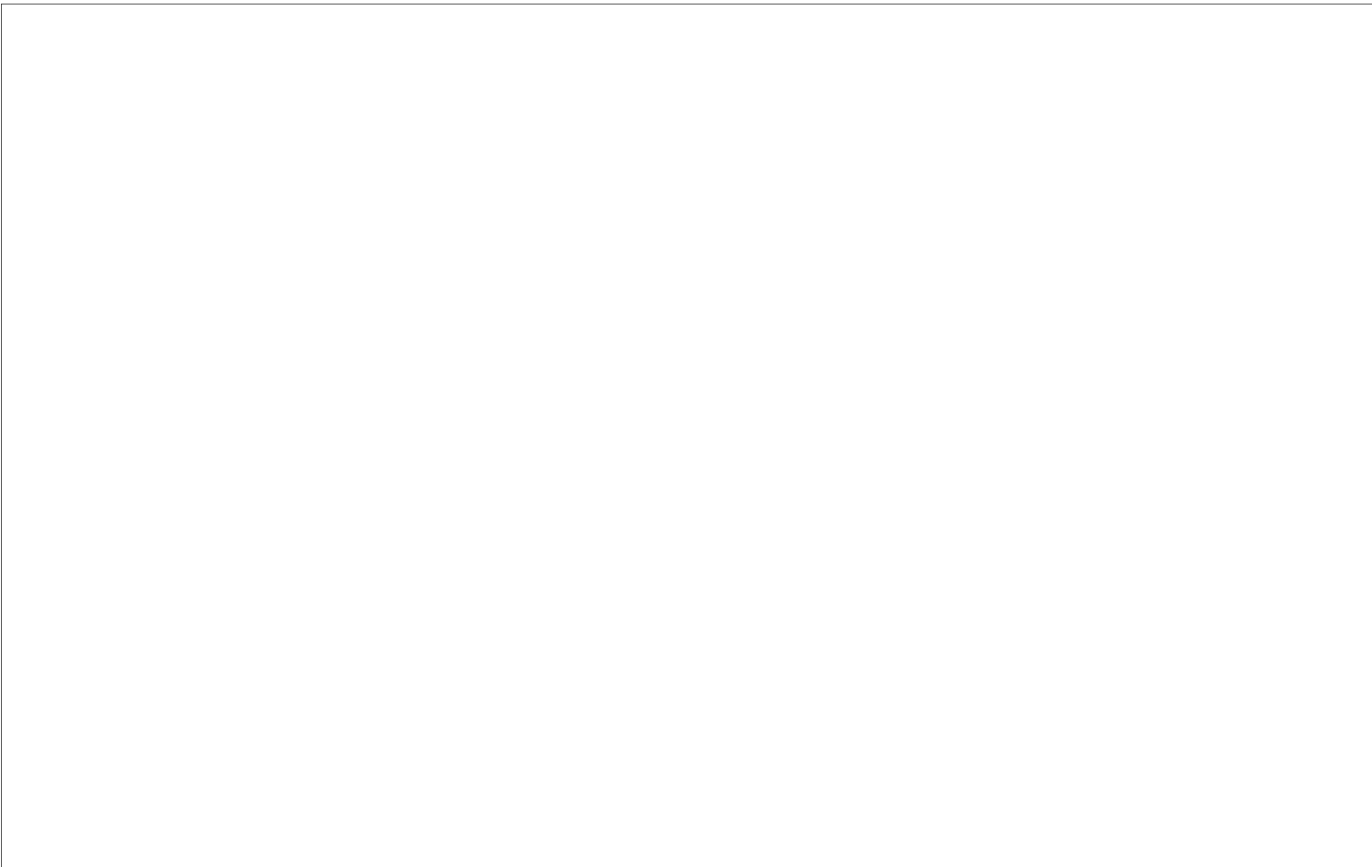
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The dissatisfaction of these officials may also reflect their awareness that the National Police have been the stepchild in the Cambodian security structure. In many cases National Police responsibilities have been either restricted or assumed by the military police, and they have been relegated to a low priority in the allocation of money and materiel.

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Communist China: *Purge Confirmed*

25X1 The purge of ultraleftist politburo member
Chen Po-ta [redacted]
[redacted] West-
25X1 ern press reports of Chen's rumored purge were
correct [redacted] Mao Tse-tung had been
alluding to Chen's failings in his interview with
American journalist Edgar Snow last December
when Mao condemned "hypocrites" who lied dur-
ing the Cultural Revolution.

Although Chinese media have yet to de-
nounce Chen officially, there have been ample
indications in recent months that Peking is seek-
ing to persuade both domestic and foreign

audiences that the influence of the leftist forces
represented by Chen is on the wane. These signs
include the increasing publicity accorded the
year-old campaign against reputed followers of
the extremist "May 16 Corps"—which Chen al-
legedly organized—and repeated apologies to
Western diplomats in Peking for excesses per-
petrated against foreign missions in the summer
of 1967, the period when the May 16 group was
riding high.

It is still uncertain whether Peking intends to
make Chen a public scapegoat for the May 16
group's extremism. Because other ultraleftist
politburo members, including Madame Mao and

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Kang Sheng, also were involved with the group, Peking may be reluctant to risk exposure of the full extent of leadership disunity through an open pillorying of Chen. The case against Chen Po-ta and the May 16 Corps appears to have been accompanied by a corresponding strengthening of Chou En-lai's personal position, and the political demise of Chen apparently symbolizes Peking's

repudiation of extremist policies in foreign as well as domestic affairs. Nevertheless, the ranking of Madame Mao just behind Chou and ahead of Chief of Staff Huang Yung-sheng at the Army Day celebrations last weekend suggests that the jockeying between leftist and moderate elements within the regime has not ceased.

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A Japanese Paradox: *Rapid Wage Hikes With Improved Competitiveness Abroad*

Japanese trade unions have been able to obtain significant increases in wages during the past two years, largely because of the country's highly favorable economic situation. The raises averaged 14 percent in 1969 and 18 percent in 1970. This year Japanese trade unions during the "spring wage offensive" hoped for increases of more than 20 percent, but the workers received only 16 percent as a result of the current economic slowdown plaguing Japan. Furthermore, increases in total income in 1971 are likely to be even less than the wage increase suggests. Japanese workers receive bonuses that account for roughly one third of their cash income. In the last two years bonuses increased at about the same rate as wages, but this year they are unlikely to rise at all with the result that the wage gain will raise annual income by only 11 to 13 percent. On an hourly rate basis this annual income would amount to an average of \$1.15 compared with \$3.60 in the US and \$2.05 in West Germany.

Japan has done better than its major international competitors, the US and West Germany, in maintaining the relationship between wage rates and increases in productivity. Between 1963 and 1970 prices on Japanese exports rose ten percent compared with 21 percent for the US. Japan also has a small edge over Western European countries. West Germany is the only other major country that did as well as Japan in avoiding sharp increases in wages relative to productivity. The German revaluation in 1969 and the subsequent floating of the mark since May 1971, however, raised Germany's export prices substan-

tially. These factors accentuate Japan's trading advantage over the major industrial countries although Japan is losing its competitive edge on some labor-intensive products such as textiles to the low-wage, less developed countries.

The ability of Japanese trade unions to obtain wage increases in excess of productivity gains during the last three years has aggravated the problem of domestic inflation. Tokyo, however, is now more worried about resuming its rapid economic growth of recent years than in fighting inflation. Once the economy is booming the government will probably place greater stress on combating inflation and may promote a policy that limits pay increases to productivity gains. The unions, however, would oppose any such plan, whether inspired by government or management. Similarity of statements released by the unions on this point indicates a coordinated approach to the problem. The unions' long-range wage policy is aimed at boosting Japanese wages to "high" Western European levels by 1975.

Although Japan may catch up to European workers' wages by the mid-1970s it is highly doubtful Japanese wages will match those of the US. In fact, the absolute difference between US and Japanese wages will likely remain the same. Japan's competitive edge over Europe will depend on its more efficient plants and equipment and the excellent marketing organizations that have been developed.

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AUSTRALIA: The cabinet reshuffle of 1 August should strengthen Prime Minister McMahon's Liberal-Country coalition government. The major change was the appointment of Nigel Bowen as foreign minister to replace Leslie Bury who has shown little flair or forcefulness. Changes in four other portfolios, while partly necessary to accommodate Bury's departure, seem to have been made with next year's parliamentary elections in mind. These would appear to be particularly true of the ministries of education and health, whose policies inevitably become political issues during an election year.

Bury may have been made a scapegoat for the government's discomfiture over China policy. The government, which had been proceeding cau-

tiously toward establishing diplomatic relations with China, was put on the defensive when opposition Labor Party leader Gough Whitlam led a delegation to Peking in early July. In addition, Bury made undiplomatic and defensive remarks on President Nixon's intended trip to China which further embarrassed the government.

Nigel Bowen, the new foreign minister and former attorney general, is close to Prime Minister McMahon—as his predecessor was not—and has a reputation as an able and energetic minister. McMahon himself is being given credit by the domestic press for taking firm action, which should strengthen his position as government and party leader.

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BURMA - COMMUNIST CHINA: General Ne Win is going to Peking this week in another step toward restoration of closer Chinese-Burmese relations. Ambassadorial ties were resumed last spring after a suspension of almost four years caused by the anti-Chinese riots in Rangoon in 1967.

Ne Win may use the occasion to seek a resumption of Chinese aid, cut off after the riots, or a market for Burmese rice. Considering the still somewhat delicate state of relations, he may be circumspect in dealing with the question of Chi-

nese support for Communist insurgents in north-east Burma. The Chinese may be prepared to give Ne Win some assurances on this score, although there are no signs that they will abruptly or completely end assistance to the insurgents in the near future.

Peking is billing the trip as "friendly and informal" rather than a state visit. This will eliminate the necessity for a final communiqué and enable both sides to avoid public mention of their continuing problems.

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COMMUNIST CHINA - UN: Peking's flat rejection of the US proposal for dual Chinese representation in the UN reiterates its long-standing opposition to any formula that smacks of "two Chinas." The New China News Agency article of 4 August labeled Secretary Rogers—acting on behalf of "US imperialism"—as the instigator of the

new move, but was careful to play down the role of the President. Peking has maintained a rigid posture in support of the traditional Albanian resolution calling for Taipei's expulsion, and there is no sign the Communists would enter the world body if the Nationalists remain.

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EUROPE

Soviet Economy Maintains Momentum

Moscow's midyear report on the economy indicates that the momentum generated in completing the eighth five-year plan in 1970 has carried over into the first half of 1971. Calculations based on the report show an increase of about seven percent in civilian industrial output over the comparable period of 1970. Although the rise is below the 7.5 percent posted during the first half of 1970, last year's rate contains a large element of rebound from the poor performance of 1969. Although the midyear growth is in line with planned goals for 1971, in three of the past four years growth in the second half was significantly below that recorded in the first half.

Growth of civilian machinery production is calculated to have declined by about one percent from the comparable period last year. In contrast, Moscow reported no change in the output of total machinery, suggesting that production of military-space hardware increased at a somewhat accelerated pace over 1970. Moreover, in the civilian machinery sector, output of most consumer durables continued to stagnate. For the fourth consecutive quarter, production of TV sets fell below the corresponding period of a year earlier. A notable exception was passenger cars, whose production increased by 44 percent as the long-awaited Fiat-Zhiguli started rolling off the assembly line.

At first glance the consumer nondurable sector recorded a moderately disappointing performance as rates of growth of soft goods and industrially processed foods were below those of a year ago. Production levels for some items have satisfied current consumer demand, causing, in part, lower growth rates. The results for items still in short supply were mixed. Sewn goods production grew seven percent compared with 11 per-

cent for the same period last year, but industrially processed meat increased by 16 percent, twice the rate achieved during the first six months of 1970.

Gross fixed capital investments by the state rose eight percent over the first half of 1970, or above the 1971 plan projection of 6.5 percent. A ten-percent growth in construction work was primarily responsible for boosting the average over-all investment growth rate, so investment in equipment (about one third of the total) probably grew by considerably less than eight percent.

Agricultural prospects at midyear appear to match last year's record results. Spring sowing plans were overfulfilled, and harvesting of winter crops is progressing satisfactorily. Cattle, hog, and poultry numbers reached record totals on state and collective farms. The recent policy of encouraging private agriculture also appears to be having some positive effect. The number of pigs was up by ten percent and private holdings of cattle, sheep, and goats remained at the level of a year ago, arresting the decline of recent years.

Consumer welfare scored a modest gain during the first half of 1971 to continue the long-run pattern of gradual improvement. The volume of retail sales was up by seven percent, approximately the same as for the comparable period in 1970. The Soviets reported a twofold growth in automobile sales to the public, although the totals are still minuscule by US standards. Further brightening the consumer picture, housing construction—a chronic problem area—registered a record amount of new comple-

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Crimea Meeting: *Where Was Ceausescu?*

Romania's absence from a conclave of top Soviet, East European, and Mongolian leaders in the Crimea on 2 August has further underscored its isolation within the Soviet bloc. Apparently the meeting with Brezhnev, Podgorny, and Shelest was called quite abruptly; several of the non-Soviet leaders seem to have arrived on short notice. Two days later the participants, minus Kadar, who had returned home, visited the Soviet Black Sea fleet. The Soviet announcement of the excursion pointedly noted the fleet's responsibility to safeguard the "countries of the socialist community" as well as the USSR.

The communiqué issued after the meeting mentions that a variety of topics were discussed—European security proposals, Vietnam, the Middle East, the Sudan and CEMA. In its treatment of these problems the communiqué uses the most routine formulations, suggesting that a major purpose of the conference was to flaunt its "complete unanimity," a phrase employed several times. It lends a formal character to the allegedly informal vacation meeting and underscores Romania's deviant status.

Although China and Romania are not mentioned by name in the communiqué and no threats are directed at either, both are implicitly criticized and probably received the closest attention. By stressing their "deep satisfaction" that the recently concluded 25th CEMA session agreed on closer economic integration, the participants focused critical attention on Romania's obstruction of this goal. Similarly, by reiterating their approval of the conclusions of the anti-Peking 1969 World Communist Conference, the participants pointed an accusing finger at China and, indirectly, at Romania.

The two troublesome countries are by now closely associated in Soviet minds. The in-

creasingly close cooperation between China and Romania serves important interests of each. Romania gains support for its independent policies, while the Chinese, by gaining a foothold in the Balkans, hope to relieve Soviet pressure on themselves. Ceausescu's long process of cultivating the Chinese was climaxed during his recent Asian trip when he signed a joint communiqué in Peking whose anti-Soviet overtones particularly irked Moscow. The announcement of the presidential trip to China has undoubtedly deepened Moscow's irritation, since the Soviets suspect that Romania has facilitated the contacts between Peking and Washington.

The Crimea meeting thus seems intended as a warning to Romania to refrain from further ostentatious displays of independence, although Moscow apparently has not embarked on an open campaign to bring Bucharest into line. If the Soviets intend to step up the pressure, the Warsaw Pact exercise reportedly scheduled to be held in Bulgaria later this month offers an opportunity. In the past the Romanians have refused both to participate in such exercises and to allow Soviet troops to transit their country.

Meanwhile, the Romanians appear to have anticipated increased friction with Moscow. They launched a campaign for ideological purity in early July that was probably designed both to forestall Soviet criticism of their domestic policy and to prepare the Romanian party and people for the likelihood of increased pressure. Since the Crimea meeting, an article in the Romanian party daily on 4 August has reaffirmed the independent attitude Ceausescu took in a blunt speech on the eve of the CEMA meeting.

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France: *Words and Action on International Narcotics*

Reacting to pressure from US diplomats and to a round of recent biting press criticism demanding more action, French officials are now taking the problem of drug abuse more seriously than at any time in the past.

Late last month in radio and TV appearances Interior Minister Raymond Marcellin announced rewards for information on suspected drug pushers reported through special new telephone numbers in Paris and Marseilles. Citing statistics on increased arrests and convictions for drug traffickers since 1 January, Marcellin took the extremely hard line that the death penalty might have to be applied if present penalties do not discourage pushers.

Although applauding the government's publicly expressed concern over drug abuse, which was seen as responsive to earlier press demands for action, most papers nonetheless felt that Marcellin took too harsh a stand. The unusually wide press coverage—reflecting a new public awareness of the drug question—was for the most part opposed to the means propounded by Marcellin for solving the problem. *Le Figaro* called the phone system "an invitation to denunciation [with] a danger of error and [of creating] an atmosphere of suspicion." *Le Monde* and several other papers doubted both the wisdom and effectiveness of instituting the death penalty.

Probably more important than Marcellin's strong words are recent less publicized actions. In an effort to improve over-all narcotics enforcement in France and to strike more effectively at clandestine heroin laboratories in the Marseilles area, Marcellin has appointed a number of dynamic police officers to the Central Narcotics Office, one of whom will go to the Marseilles station of the service. The attention paid to Marseilles is especially important because most of the heroin seized by US officials is apparently processed in Marseilles laboratories after being

imported in raw form from Turkey. US officials estimate that the Marseilles component processes 80 percent of the heroin bound for the US although the French deny that the figure is this high.



Marcellin

. Strong words on drugs

US efforts to convince France to take the drug problem seriously began in mid-1969. Since that time the French have gradually increased the number of officers assigned to narcotics enforcement, and have signed an agreement—negotiated between Attorney General Mitchell and Marcellin—permitting more US narcotics personnel to operate in France.

Much of France's resistance to pressure from the US has been a result of the fact that the French do not perceive their drug problem as being as serious as that in the US. Although the use of cannabis has increased sharply since 1965, it is still not nearly as widespread as in the United States. Though the number is probably very low, the French estimate that they have less than 1,000 hard drug addicts, most of whom are over 35, while US officials put known American addicts at over 300,000.

France's stepped-up attention to the problem has been paralleled to some extent elsewhere in Western Europe. In Spain, the government has increased fines for possession of drugs. In Italy, a major crackdown on the Mafia is under way [redacted] In West Germany, a drug abuse program has been in effect for about a year. [redacted]

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Superpower Problems at UN Maritime Meeting

Midway through the present meeting of the UN General Assembly's seabeds committee at Geneva, the United States and the USSR are facing serious opposition in their chief area of concern, the right of passage through international straits. Both Moscow and Washington have made proposals designed to win them greater support, but the current of opposition on this and some other subjects runs strong.

Earlier this week the US formally presented to the 86-member committee three draft articles intended to resolve at the 1973 Law of the Sea conference the present disagreement over the weak and ambiguous international maritime laws. The first would set a 12-mile limit to territorial waters but guarantee a right of free passage through the approximately 100 straits that are less than 24 miles wide. The second would attempt to balance the interests of advanced states that fish in distant seas with those of developing countries that rely on the marine resources off their coasts. The third would set the limit of national jurisdiction over the ocean floor at a water depth of 200 meters and provide international machinery to govern exploitation of potential mineral wealth on and below the deeper seabeds. On only the last proposal has the US fared particularly well to date.

The Soviets have long been troubled by the seabeds regime concept—they traditionally oppose limitations by international organizations

over national sovereignty. Last week, however, they appeared to have been won over in part to the US view that a more forthcoming superpower position on ocean floor exploitation would enhance prospects for agreement on the straits issue. The USSR offered a draft treaty setting up an authority for the seabeds, but did not propose that the international community be a beneficiary of seabed mineral wealth, a proposition the US favors.

Spain has launched a frontal attack on the superpowers' interest in free passage through straits. Madrid seeks to retain the "innocent passage" reference in present international law and to designate nuclear vessels as noninnocent and therefore subject to regulation by the coastal state. Three NATO allies—Italy, Denmark, and Greece—are also most unhappy with the US straits proposal. Rome is concerned lest international rights through Messina loosen mainland ties with Sicily; Athens and Copenhagen oppose any agreement that could permit increased Soviet naval activity in their territorial waters.

The Latin American states that claim a 200-mile limit for their territorial waters have so far not been especially vehement in debate at the committee meeting. Some of the 200-milers may be willing to accept a 12-mile limit if a more extensive coastal state "economic zone" to protect fishing areas can be obtained.

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ICELAND: Icelandic officials seem somewhat chastened by the foreign reaction to their new government's policy proposal for an evacuation of the US/NATO base at Keflavik. The Norwegians in particular, who as fellow Nordics carry special weight, have stressed the importance of the base in view of the increasing capabilities of the Soviet Northern Fleet.

The prime minister has now revived old suggestions that the base might be manned by Icelanders. In addition, leaders of two of the three coalition parties have indicated that no action can be taken with respect to the base until the more urgent question of Icelandic fishing limits is settled; this issue, however, will lead to sharp differences with Britain and West Germany.

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Yugoslavia: *New Government and New Reforms*

Tito's governmental reform came one step closer to realization last week with the staffing of offices in the new federal structure. The new government, with a few prominent exceptions, should be ready to begin daily operations soon. At the same time, preparations have begun on further constitutional changes and a reorganization of the party, two moves which are central to Tito's plans for orderly development of a decentralized but cohesive federation.

On 30 July, the Yugoslav National Assembly



Krste Crvenkovski
Vice President of the Collective Presidency and Number Two Man in the Government

gave final approval to the new government. Formal appointments within the collective presidency, the supreme policy-making authority, and the federal executive council (FEC), charged with policy implementation, were also announced at that time. Tito was of course re-elected president of the republic but surprised the National Assembly by refusing re-election "for life." He noted that the constitution did not mention life tenure and he said that he only wants to help get the new system on its feet and may serve just "a few years more."

The only other major business relating to the collective presidency, was the appointment of a vice president who would, in case of Tito's death

or incapacitation, become president until the end of his one-year term. The nod went to a Macedonian, Krste Crvenkovski, who is a faithful lieutenant with an impressive record in the federal government. By selecting a member of one of the smaller minorities, Tito side-stepped potential wrangling between Serbs and Croats over this political plum and improved the prospects of other small minorities which have been cut out of the more prestigious federal posts. In this connection, several of the FEC portfolios were handed to representatives of smaller regional groups with cogent special interest. For instance, the national

FEDERAL EXECUTIVE COUNCIL (FEC)

President – Dzemal Bijedic (Bosnia-Herzegovina)
Vice President – Dr. Jakov Sirotkovic (Croatia)

Federal Secretaries

Foreign Affairs – Mirko Tepavac (Vojvodina)
National Defense – Nikola Ljubicic (Serbia)
Foreign Trade – Muhamed Hadzic (Bosnia-Herzegovina)
National Economy – Bosko Dimitrijevic (Kosovo)
Finance – Janko Smole (Slovenia)
Labor and Social Policy – Vuko Dragasevic (Montenegro)
Internal Affairs – to be filled
Justice – to be filled
Agriculture – still to be organized
Transport and Communication – still to be organized

Other Members (Without Portfolio)

Bosnia-Herzegovina	Ivo Jerkic
Croatia	Mirjana Krstinic Dr. Emil Ludviger
Kosovo	Imer Pulja
Macedonia	Stejan Andev Trpe Jakovlevski Blagoe Popov
Montenegro	Mencilo Cemovic Marco Orlandic
Serbia	Dr. Borislav Jovic Dusan Gligorjevic
Slovenia	Boris Snuderl Dr. Anton Vratusa
Vojvodina	Geza Tikvicki

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economy portfolio went to a member from the economically backward Kosovo.

As a corollary to the installation of the new state system, the National Assembly announced the creation of a new commission whose task will be the preparation of proposals for yet another constitutional reform. Headed by Yugoslavia's leading ideologue, Edvard Kardelj, the commission's primary role will be to ensure that the "second round" of the reforms is better organized

and less chaotic than the first. No timetable was announced.

All the action last week was not confined to the government scene. A session of the party presidium kicked off a reform drive on 28 July by scheduling discussions for a party conference in November. Unabashed by the weighty task of remolding the party into a more influential force, Tito also directed that the nation's unhealthy economic situation be added to the agenda of the conference. [REDACTED]

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EASTERN EUROPE: Budapest has concluded its first agreement to grant equity to a foreign company in a cooperative venture located in Hungary. This may presage similar arrangements by other East European countries. Romania also passed legislation last year to permit foreign ownership up to 49 percent and is negotiating joint ventures with a number of US companies.

essing center. CDC has already applied for a US export license for the 3500 computer that it is to provide for the data center. The center will solicit Hungarian customers for data processing and engineering services.

The authority to permit foreign ownership in Hungary derives from a decree promulgated in August 1970, but investment is allowed in practice only where Hungary stands to acquire new technology. The agreement between the Hungarian Infolar Systems Engineering Institute and the US firm, Control Data Corporation (CDC), grants CDC a 49-percent interest in a data proc-

Although no joint ventures have yet been concluded under the new Romanian investment law passed in March 1971, a number of US companies have expressed interest. US Steel Corporation reportedly is working on a proposal to build a cold rolling mill and sell some of the output in other countries. Ford Motor Company has discussed the installation of a truck plant and has indicated its willingness to take some of the output of the proposed steel mill for use elsewhere. [REDACTED]

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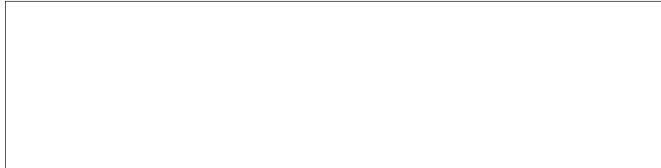
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MIDDLE EAST - AFRICA

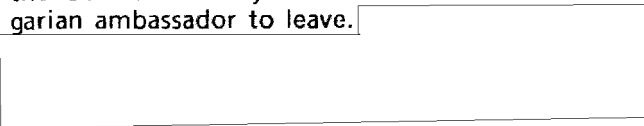
Sudan: *New Directions in Foreign Policy*

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Sudan's relations with the USSR and Eastern Europe, already under a severe strain since the Numayri countercoup, deteriorated sharply during the last week. The Sudanese have recalled their ambassador in Moscow, who was also accredited to Sofia, and have asked the counselor in the Soviet Embassy in Khartoum and the Bulgarian ambassador to leave.

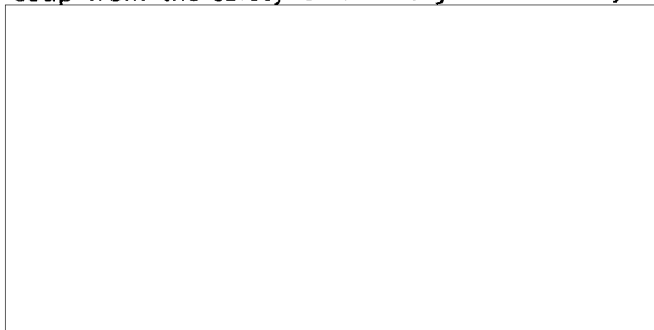


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For its part, Moscow has continued its attacks on Sudan in the same vein as before and has had additional workers' protests delivered to the Sudanese Embassy in the USSR. Nevertheless, the Soviet press has noted neither the withdrawal of the Sudanese ambassador from Moscow nor the expulsion of the Soviet counselor from Khartoum, which suggests that the Soviets are not inclined at this point to throw down the gauntlet to Numayri.

Numayri had at first absolved the Soviets from any role in the coup attempt, but then reacted to Soviet press criticism of his purge of local Communists. The Sudanese leader charged that the only explanation for the harshness of the Soviet press attack was that the Soviet Embassy was an "accomplice of the coup leaders and the Sudanese [Communist] party." The choice of the Bulgarians as a particular target for Sudanese ire may be a delayed reaction to an earlier story in Cairo's *al-Ahram* that charged Sudan Communist Party Secretary General Mahjub with planning the coup from the safety of the Bulgarian Embassy.



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The implications these developments will have on future Sudanese relations with other states are still not totally apparent. After the countercoup, Numayri told the press that relations with the US would not change because they were determined by Washington's support for Israel. Moreover, recent statements by government spokesmen have referred to "imperialist, reactionary complicity" in the coup, apparently to set the stage for future anti-US fabrications. On the other hand, Sudan's relations with Egypt and Libya will almost certainly be closer. It seems likely that Numayri will turn for support to the Libyans, who will be inclined to look with favor upon the new nationalist complexion of the Sudanese regime. It remains to be seen, however, whether the Libyans will be willing to make up for the possible withdrawal of aid by the Soviet Union and its allies.

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Arab States: *What If They Held a Summit and Nobody Came?*

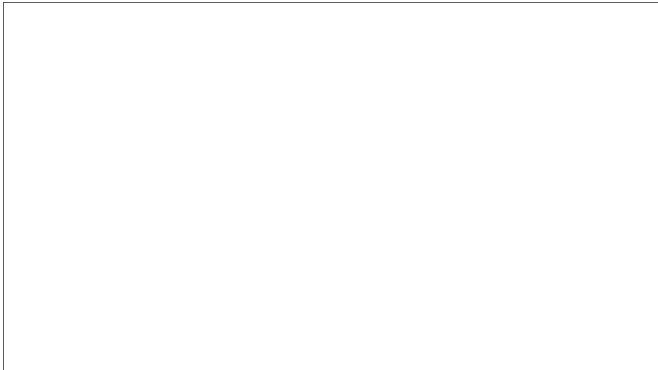
Libyan Prime Minister Qadhafi's much-trumpeted efforts to pillory King Husayn have flopped badly. Only four heads of state showed up in Tripoli for the summit conference Qadhafi called last weekend—Egypt's Sadat, Syria's Asad, and the leaders of the two Yemens. The communiqué published at the conclusion of the conference included a good deal of predictable rhetoric hailing the "steadfastness of the Palestinian people," but called for none of the sanctions against Jordan that Qadhafi had urged. The Arab leaders did endorse the old Cairo and Amman agreements with the fedayeen, and warned that if Jordan flouted them other countries would have to take "appropriate measures."



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Qadhafi has made a heroic effort to convey the impression that the meeting accomplished a good deal. At a press conference on 1 August, he hinted darkly of "secret decisions" to be implemented in due course, depending on developments in Jordan. He also claimed the meeting had given the Palestinians all they wanted, although fedayeen radios were quick to blast the outcome of the conference. The Syrians, too, attempted to mask the hollowness of the communiqué by hailing it as a comprehensive, historic document, fit to stand beside the Cairo and Amman agreements.

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Tunisian Foreign Minister Masmoudi, meanwhile, has come up with a plan to reconcile Amman and the fedayeen. According to press reports, his plan calls for unification of the fedayeen under the leadership of Fatah, a highly unlikely eventuality. The Tunisian initiative would, however, provide the Arabs with a convenient device for seeming to help the fedayeen without actually doing anything.



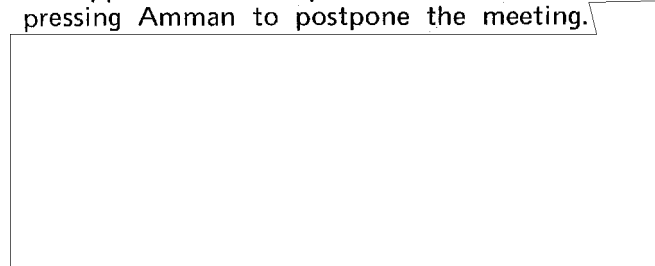
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JORDAN-UN: The Jordanians are apparently having second thoughts about the advisability of calling for a Security Council meeting on Jerusalem, at least for the time being. Jordan has viewed with mounting indignation Israeli efforts to change the character of Jerusalem from a predominantly Arab to a predominantly Jewish city, and has been consulting with the US on a draft resolution for Security Council consideration. Jordan now finds itself unable to count on the support of its fellow Arabs, however, at least until the hubbub generated by Amman's recent opera-

tion against the fedayeen dies down. Even usually sympathetic Arab states are apparently unwilling to support Jordan in public at this time and are pressing Amman to postpone the meeting.

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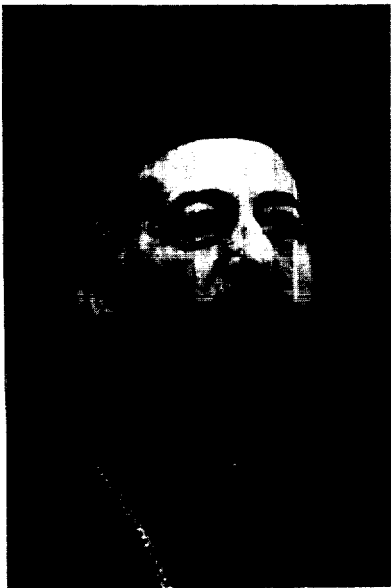


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New Trouble May Lie Ahead for Cyprus

Rising tensions on Cyprus could develop into a new crisis. President Makarios, fearful that a projected meeting between Greece and Turkey will undercut his position, may be trying to provoke an intercommunal clash.

The talks between Greek and Turkish Cypriot elements on the island, which have served as a safety valve over the past four years, have become deadlocked on the question of the degree of local autonomy to be granted the Turkish Cypriot community. In the past few weeks, several shooting incidents have kept the two communities on edge. Makarios remains openly critical of the Turkish Cypriots and has been publicly encouraging Greek Cypriots to protect



President Makarios

their "rights." In these circumstances, even a slight incident could lead to significant fighting, which in turn could spill over to embroil Athens and Ankara directly.

The Turks took a firmer line last March after the Erim government came to power and now insist that if the intercommunal talks do not show progress soon, other alternatives must be sought. The Erim government discussed the deadlocked talks with Athens last June and will do so again in September. The Turkish leaders believe the Greeks should take a more active role in settling the problem, but will probably initiate no military action as long as there is no real danger of enosis—union of Cyprus with Greece—or a major outbreak of violence on the island. Nevertheless, the Turkish military, which put Erim in power and now has an influential voice in the government, does not intend to allow the status quo on the island to remain indefinitely.

For their part, the Greeks are fearful of Makarios' ability to stir up trouble. Athens believes that Turkey does not fully appreciate the limits of Greek influence on Makarios, but it is hoping that the Athens-Ankara talks will prevent any unilateral Turkish military move on Cyprus. Athens' major concern is to avoid a confrontation with Turkey. At the meeting in September, the Greeks probably will seek to convince the Turks that the intercommunal talks offer the best route to a solution.

If the Greek-Turkish meetings in September do not square with Makarios' ideas, however, he remains capable of frustrating Greek-Turkish diplomacy by creating a new crisis on the island.

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Guinea: *The Purge Continues in Conakry*

The latest paroxysm in Guinea's eight-month-old political purge has included major new arrests, a second round of "popular trials," and mounting allegations of US involvement in the regime's current troubles. Domestic tensions were also heightened by renewed charges that cross-border attacks by Portuguese-backed mercenaries were planned for this week.

The cyclical process of arrests and confessions—leading to more arrests—has become increasingly frenzied, suggesting deepening insecurity on the part of Guinea's leaders. The current wave of arrests has so far netted over one fourth of the cabinet, several ranking military officers, and numerous lower level officials. The total number in custody is not known, even by President Toure, but it may exceed the 150 sentenced last January by a "revolutionary" court for their alleged complicity in the Portuguese-led commando raid on Conakry in November 1970. Those arrested span the entire political spectrum, although individuals having foreign educations or close contacts with Westerners are especially vulnerable. Only members of the seven-man Politburo seem relatively safe, although there are unconfirmed rumors that at least two of them have been questioned in connection with the purge.

A second round of "popular trials" began on 29 July with the broadcast over Radio Conakry of numerous "confessions." Party militants [redacted] listen to these statements, weigh the "evidence," and recommend sentences. The emphasis in these latest "trials" has been on alleged "economic" crimes and participation in "foreign spy networks." The population has become increasingly apathetic and skeptical of the

charges, but there is no sign that any group is planning to move against Toure.

There are tentative indications that Toure would like to wind down the purge this month. The process may have acquired a momentum of its own, however, because each new wave of arrests requires further justifications. External factors also may prevent an early end to the current tensions. Portugal, for instance, probably would like to provoke Toure to new domestic excesses, and may deliberately encourage his fears of new cross-border attacks.

To date, Toure has singled out Portugal and West Germany as the main foreign culprits involved with domestic traitors. References in recent confessions to an "American network" may foreshadow further attempts to implicate the US, however.

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[redacted] Toure may be under pressure from party leftists to direct more fire at the US, which so far has only been obliquely accused of plotting against his government.

Meanwhile, the UN Security Council met in "urgent" session on 3 August at Guinea's request to consider charges by Toure that Portuguese-backed mercenaries were poised to attack his country. Toure later claimed that the council's resolution to send a fact-finding mission had "deterred the aggression," and he asked that the mission not be sent. Toure has periodically predicted the imminence of such attacks since the Portuguese-directed raid last November, but there is no independent evidence to support his charges that new attacks were about to take place.

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South Asian Crisis: A Continuing Problem for the UN

Since the onset of the civil war in East Pakistan last March and the subsequent flight of 7.1 million refugees into India the UN has been trying to prevent the regional crisis from increasing its disturbing effect on the international scene. Secretary General Thant has been unusually energetic in dealing with this situation, but various constraints have hindered the international community's efforts to resolve the imbroglio.

The initial impulse, and one which remains very important, was humanitarian in origin and directed toward meeting the immense need for food and health supplies in the refugee areas of both India and East Bengal. The Pakistani officials, at first unwilling to accept relief, soon changed their minds but only recently accepted the UN staffing arrangements made by the secretariat to assist in delivery to refugees. Compounding the problem, the secessionist Bangla Desh radio in Calcutta is broadcasting threats against UN personnel—particularly US nationals—who participate in any relief effort in East Pakistan.

India, though accepting the influx of assistance to the refugees, regards the international community's response as inadequate. Moreover, New Delhi has been troubled by the presence of three Moslems in high-ranking positions in the UN's aid effort. Recently, India strongly rejected Thant's suggestion that UN observers be placed on each side of the Indo-Pakistani frontier and requested that foreign personnel withdraw from refugee camps in West Bengal. Such personnel, they may fear, could inhibit Indian support for East Bengali guerrillas.

In the international political arena, Indian and Pakistani diplomats have filed charges and

countercharges in a number of UN and specialized agency forums, and the end of that activity is not yet in sight. India initially seemed inclined toward a Security Council session on the conflict, which Islamabad maintained was an internal matter and thus not within the UN's purview. As the weeks passed and the major powers generally remained chary of airing in the Council what was surely becoming an international dispute, Thant opted last month to invoke his powers under Article 99 of the UN Charter and sent a secret report to the parties and the Council members conveying his views on the situation in South Asia. His message implied that the Council should be convened.

Council members responded negatively to the idea of a meeting on the crisis, and leaks of the report—apparently by the disputants seeking to present only those elements tending to support their case—forced the secretariat to make the text public this week. The Pakistanis fear Indian military intervention and now take the line that a Council session might be useful.

The Indians now are strongly opposed to a Council session.

Meanwhile, accusations of bad faith and hostile actions continue to be exchanged between Islamabad and New Delhi, and the two nations appear to be drifting somewhat closer to open warfare. The armed forces of both countries reportedly are on alert, and there is considerable high-level pessimism that a major clash can be prevented.

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Cuba: *Isolation Diminishes*

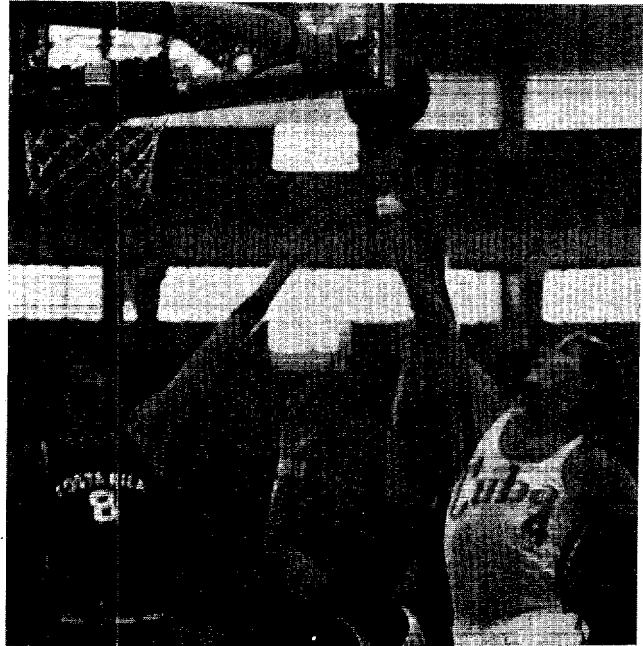
The massive delegation that Havana has sent to Colombia for the Sixth Pan-American Games is one of a series of recent indications of Fidel Castro's intense interest in maximum exploitation of contacts with other countries in Latin America and the Caribbean. This policy, adopted after the failure of Che Guevara's guerrilla expedition in Bolivia in 1967, has met with far more success than has the more aggressive tactic of "exporting the revolution." Although Castro can be expected to continue to supply training, money, and even personnel, where appropriate, to revolutionary groups such as the Rebel Armed Forces in Guatemala, he now seems more willing to accept the thesis that Cuba's foreign policy goals in Latin America can be achieved in many countries through peaceful means. He believes that events in Latin America are developing in his favor, and he has sought to take advantage of the situation through cautious diplomacy and a more pragmatic approach. Castro has had considerable success so far and is likely to continue making inroads on the OAS sanctions, which are considered by many Latin American political leaders as having outlived their usefulness.

Until diplomatic relations were renewed with Chile last November, Cuba had formal ties only with Mexico. Now, the governments of Peru and Bolivia have indicated that they are studying the re-establishment of relations, and Castro has already indicated that Havana would consider such moves favorably. Should relations be renewed with these countries, others in the hemisphere would probably take steps to follow suit, partly because of a genuine desire to restore ties and partly to avoid being the last to climb on the bandwagon.

Except for modest exchanges with Mexico, trade with Cuba was formerly conducted by a few

Latin American countries only in limited amounts and in clandestine fashion through an expensive and circuitous third-country subterfuge. Now, Chile trades openly with Cuba, and the Peruvian Government has given official approval of the sale to Cuba of more than 100,000 tons of fishmeal to be transported in Cuban ships.

The national airlines in both Cuba and Chile fly regularly scheduled flights between their respective capitals, facilitating considerably the travel of Latin Americans to and from Havana. As a result of papering over its differences with Mexico, Havana also now has expanded an air agreement that will permit each country to



Basketball at Pan-American games:
Scoring points in the hemisphere

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operate up to four flights each week with as many as 250 passengers on each flight. The new agreement, signed on 31 July, will be in effect for three years. There are also persistent rumors that the Netherlands Antilles is interested in re-establishing an air link between Curacao and Cuba, but nothing concrete has developed yet.

Cultural contacts are also expanding, and Cuban film showings and book displays have been held recently in Chile, Peru, and Colombia. During Chilean Foreign Minister Almeyda's visit to Havana for the celebration on 26 July, a five-year cultural, scientific, and technical cooperation agreement was signed between the two governments. Sports delegations from several countries,

including Panama and Colombia, have visited Cuba, and large Cuban delegations take part in such international events as the Central American and Caribbean Games and the Pan-American Games. Considerable effort is currently being expended in Havana to enlarge the local stadium so that Cuba can host a regional baseball competition later this year. The official Cuban press agency, which is an arm of the Cuban intelligence service, has played an important part in expanded contacts. Although its office in Uruguay was recently closed, since 1968 it has opened new offices in Lima, La Paz, Quito, and Caracas to supplement the already-established offices in Mexico City and Santiago.

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Chile: Recent Developments

Political

The Christian Democratic Party (PDC), Chile's largest political group and principal voice of opposition to President Allende's Popular Unity (UP) coalition, underwent a serious division this week. A left-wing group, accusing the party leadership of collaborating with conservative elements, broke away from the main body of the PDC, taking with it at least eight members of the Chamber of Deputies. The PDC's representation in that chamber is now reduced by about 13 percent, but opposition forces still make up the majority in congress. Another PDC deputy has threatened to join the group, which calls itself the Movement of the Christian Left (MIC).

The splinter group's first formal meeting was dominated by the former leadership of the PDC's youth organization. At that meeting it was announced that the MIC would not join the UP coalition but would be in close "fraternal contact" with it. An organizational meeting is scheduled to be held on 15 August, at which time a network of cells to be known as "communities for socialism" will be set up.

The Christian Left grouping within the PDC developed during the PDC-inspired "revolution in liberty" of former President Eduardo Frei's administration. It was a factor in the formation of the Unitary Popular Action Movement (MAPU), which broke away from the PDC two years ago and now is a member of Allende's UP coalition. The MIC and some dissatisfied MAPU founders reportedly will join forces. The formalization of the MIC as an independent organization is, at the least, a propaganda boon for Allende. Although the MIC leadership includes some imaginative and energetic workers, many of its members have long been considered troublemakers and will not be missed by the parent party. The leverage that the group may try to exert in the congressional election of 1973 is likely to be slight as the members of the MIC are generally poor vote-getters.

As Allende moved to capitalize on the PDC's problems, all was not well in his own camp. The Radical Party (PR), the only non-Marxist member of the UP coalition and the self-proclaimed voice of democracy within the government, also underwent a split this week. Following the PR's national convention, during which one of the party's three factions was frozen out of the

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balloting for party president, five senators and seven deputies representing that faction bolted and said they would form the Independent Radical Party (PRI). The leader of the dissidents, long-time PR official and left-wing ideologue Luis Bossay, pointedly distinguished the new group's "proletarian" character from the PR's traditional middle-class orientation. At an organizational meeting, the group created a cellular structure of "committees of radical action," to take full effect in February. The division of Radical strength into two separate groups, although another indication of the decline of the Radical Party, is a significant complication in Allende's effort to build support for a unicameral legislative body.

Economic

The recent partial devaluation of the escudo should help to cut foreign exchange losses and may also increase Allende's control over business. The measure, effective on 27 July, was billed mainly as a move to cut tourist expenditures abroad and follows closely the imposition of several new foreign exchange taxes that in effect had already partially devalued the escudo.

Chile has traditionally maintained two exchange rates: a "bankers rate" for commodity trade and a "brokers rate" for all other transactions. When Allende took office, the rates were 12.2 and 14.3 escudos per US dollar, respectively. Allende has pledged not to raise the cost of imports by devaluing, and all of these moves, plus recent quantity restrictions on tourist expenditures, have concentrated on nontrade transac-

tions. As a result, however, Chile now has a full-fledged multiple exchange rate system.

There are presently three selling rates and two buying rates for foreign exchange. Chileans purchasing foreign exchange from the Central Bank now pay 12.2 escudos per dollar for approved imports, 38 escudos for payments to foreign creditors, and 43 escudos per dollar for funds for foreign travel or payment of royalty or licensing fees. Exporters receive only 12.2 escudos for dollars sold to the Central Bank, and foreign tourists receive 28. None of these rates approaches the current black market rate of about 65 escudos per dollar.

The devaluation will have a severe impact on travelers and private firms committed to foreign payments. The Chilean National Manufacturers' Association (SOFOFA) estimates that private firms owe about \$300 million in short- and medium-term debts abroad—largely to US banks and companies. About \$50-70 million of this total is due this year, as are large royalty and license payments. SOFOFA has warned the administration that the new rates may bankrupt many firms and increase unemployment. Responding to the complaints of businessmen the minister of economy advised them "not to pay and see what happens."

The new rates, combined with complete government control of the banking system, will give President Allende strong leverage over the remaining private firms, as they will be hard-pressed to come up with enough escudos to meet their foreign obligations and will need additional bank loans.

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The Guatemalization of Uruguay

The counterterrorist effort against the Tupamaros intensified last week. As the presidential election campaign unfolds it is increasingly clear that the unchecked urban guerrilla activity and resulting political repercussions are distinct liabilities for the Pacheco administration, the gov-

ernment appears to be looking with increasing favor upon counterviolence as a remedy.

The discovery of a policeman's body in a park in the capital last Friday was balanced off 24 hours later when the corpse of a Tupamaro was

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found. The apparent torture-murder of the Tupamaro is the first known instance of a killing by an Uruguayan counterterrorist organization. Pamphlets near the body identified the group only as the "Tupamaros Hunt Command," but it may be a government-sponsored operation.

The incipient counterterror movement has yet to slow the pace of terrorist activities, however. Last week the Tupamaros embarrassed the government with another spectacular operation when they engineered a mass escape of 37 female terrorists from prison. The escape was carried off despite open speculation about a pending Tupamaro mass jailbreak attempt, as police accidentally discovered a half-completed tunnel to the men's prison in February. To add to the government's chagrin, responsibility for prison administration had been transferred earlier this year from the Ministry of Culture to that of Interior to improve security. The terrorists also recently made public a ransom demand of one hundred million pesos (\$US 400,000) in exchange for a prominent Uruguayan businessman, one of five hostages they presently hold.

Although the latest government gaffe, unlike previous incidents, has produced no immediate resignations, the Congress will probably seek to interpellate one or more of the cabinet ministers. Congressional-executive relations are already badly strained; the senate is still considering an impeachment move against the President for overstepping his constitutional authority in fighting the terrorists. Enthusiasm for the politically inspired move appears on the wane, however. The government has used the mass escape to highlight its contention that the Congress has not delegated sufficient power to allow it to deal effectively with the subversive threat.

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