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Weekly Summary

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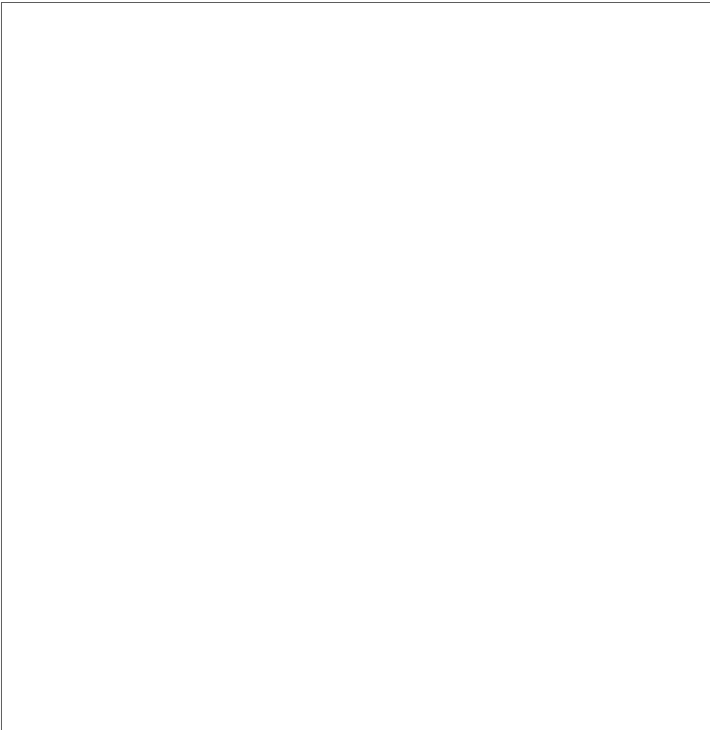
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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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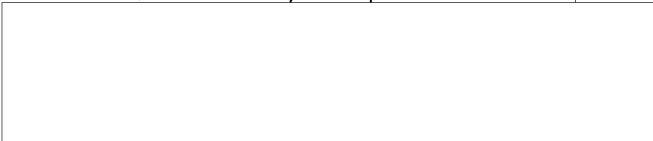
Argentina

AN INTERIM SUCCESSOR

1 [The death of President Juan Peron has left
 the country without an obvious successor. Peron
 himself recently remarked that he had no heir
 apparent, suggesting that he did not expect Mrs.
 Peron to last very long in the top job.]

1 [For the time being at least, it is unlikely that
 there will be any major changes in the administra-
 tion. Shortly after announcing her husband's
 death and asking for public support, President
 Maria Estela de Peron reconfirmed the appoint-
 ments of all cabinet ministers and senior military
 officers.]

1 [Mrs. Peron, however, may last only as long
 as it takes for political and military leaders to
 work out a mutually acceptable solution.]



1 [Military leaders prefer an orderly institu-
 tional succession, as do major political leaders,
 Peronist and non-Peronist alike. With the Peronist
 movement likely to undergo a gradual disintegra-
 tion, the military will play a key role in estab-
 lishing whatever government eventually evolves.]

1 [One of the major problems may be to per-
 suade Mrs. Peron to stay in the job for the interim
 and thus avoid the election that otherwise would
 be necessary. In the past, she has expressed a
 reluctance to assume the presidency. She is not
 popular, and she knows it. She also recognizes her
 lack of experience and her inability to contend
 with the country's grave problems.]

1 [Appeals to patriotism and her husband's
 memory will persuade her to stay on for the
 immediate future. Jose Lopez Rega, Peron's pri-
 vate secretary and confidant, is probably more
 interested than anyone else in keeping her in the
 presidency. He is ambitious, and with Peron gone
 he needs Maria Estela if he is to hold on to a



A reluctant President

position of power. He is almost universally feared
 and detested by political and military leaders,
 who probably are already maneuvering for his
 ouster and exile.]

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[If Mrs. Peron decides to step down, however, under the present arrangement her successor will be Senate President Jose Allende. He must, within 30 days, set a date for elections, according to the constitution.]

act independently now that Peron is dead. This is especially true of the leftist youth leaders, who were all but read out of the movement by Peron himself for their disruptive demonstrations and public attacks on his wage and price stabilization policies.]

[The sudden return of former president Hector Campora to Buenos Aires last week from his post as ambassador to Mexico increases the likelihood of the formation of a new leftist coalition.]

[Terrorist groups will also take advantage of the leadership vacuum that now exists. The People's Revolutionary Army will probably step up acts of violence, and other guerrilla organizations on the fringes of the Peronist movement may expand their operations as confusion grows in the government.]

A leftist coalition with Campora as its titular leader would create turmoil and division, providing the military with another reason to try to postpone an election campaign until a strong candidate can be agreed upon.]

[A general breakdown in order of a magnitude that would force military intervention, however, does not appear likely at this time. The extremists, although well financed, lack numerical strength. They also have shown some sensitivity to public opinion and probably will not overplay their hand in the immediate future.]

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[Even though all political leaders officially pledged to support Mrs. Peron when she was installed as temporary chief of state on June 29, the various Peronist factions can be expected to

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Latin America: The New Dialogue

[Latin American governments have been actively testing the new dialogue established with the US during the series of meetings with Secretary Kissinger some months back. The mutual commitment to a fresh start on hemispheric partnership has become the benchmark against which the Latin Americans measure both the state of bilateral affairs and US positions at various international assemblies. While most governments are showing a positive view of US intentions toward them, their basic skepticism is reinforced by any current point of real conflict and by many supposed slights.]

and are for the most part satisfied with the bilateral benefits derived from this association. For most governments, however, traditional ambivalence toward the US has been intensified by the importance of bloc politics in international relations, and by aspirations or fears aroused by the producer-consumer divisions. They are also affected by their uncertain reading of the opportunities and hazards in such international efforts as the Law of the Sea conference, a charter of economic rights and duties, and other proposals to reconstruct the bases for international conduct and alliance. Their view of the US and the outside world as a whole is further distorted by domestic instability (Argentina, Uruguay), by local rivalries (Brazil-Argentina, Peru-Chile), and by touchy bilateral issues (Panama Canal treaty).]

[How the *latinos* weigh the evidence and formulate attitudes about the new dialogue is affected by shifting and sometimes conflicting considerations. A few of the smallest countries—Paraguay, the Dominican Republic, Haiti, and Central America, for example—hold to an uncomplicated pro-US line in most multilateral affairs

[The Latin Americans remain encouraged by the frank tone and cordial atmosphere in various negotiating forums with the US, yet they feel that

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the new dialogue so far has produced little of substance. Their frustration is deep in two broad areas. One is their suspicion that the US is unwilling to sacrifice traditional interests to help the poorer countries catch up with the modern world. The other relates to their feeling that Latin America remains peripheral in the US scope of international interests

1 Even the most advanced of the Latin American nations are nagged by a sense of "victimization," and their search for some hidden signal of exploitation has been evident at the numerous recent sessions of inter-American working groups. The *latinos* have revealed particular sensitivity to US actions or proposals on trade problems, the conduct of transnational corporations, and the transfer of technology. They claim to detect a protectionist bias toward US industry, and see no real commitment by the US to correct the imbalance between the have and have-not nations. Brazil has been particularly vocal in expressing Latin American frustrations over terms and conditions of US proposals, especially the high cost of technology that drains resources needed for economic and social projects. Brazil emphasizes that the profit motive can no longer rule, and that the US must display the political will to aid less fortunate neighbors. The Latins' anger has been sharpest toward US import restrictions, which they claim contradict the policy agreed to between them and the US at the meetings with Secretary Kissinger

5 The Latins have further expressed resentment at continued US attention to the Middle East, Europe, and the USSR. Even some of the governments most receptive to Washington have complained that US inattention to friends, along with a lack of flexibility in dealing with the small countries, is costing the US influence in the UN and other assemblies

6 Although the Latin Americans continue to criticize US positions, their complaints are more often expressed in joint, semi-private sessions than in the past. The stridency and attack mentality of recent years have given way to a spirit of frank exchange. Moreover, the *latinos* have approached problems in an increasingly constructive

manner, by working together more successfully in forging considered positions and proposals of their own

7 Coming months will see a large number of international assemblies and inter-American working groups at which the Latin Americans will continue to measure and study the US. They will be concerned about US domestic affairs that impinge on them, particularly such matters as congressional action on trade bills. The next inter-American foreign ministers meeting is now set for March 1975.

[Redacted]

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PANAMA: CANAL TREATY TALKS

(9 + 10)

The Torrijos government has taken a moderate position in the first stage of the negotiations toward a new canal treaty. In the talks last week in Panama, Foreign Minister Tack accepted a proposal that would give his country a measure of participation in the management of the canal, although the US would retain effective control for the duration of the treaty. The Panamanians' willingness to compromise on this issue derived from their assumption that control of the canal was a provision the US would require in any new treaty. Their basic goal was to gain a share in management that would prepare them eventually to run the canal.

They are likely to take a similarly reasonable stance toward the defense of the canal. They assume the US must have ultimate responsibility for its protection, but claim they should have a role in its defense. Panama's bargaining posture is likely to harden when sensitive issues come up, such as the jurisdiction over the canal and the duration of the treaty.

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China: A Monkey On Its Back

Whatever the political effects of the Peking wall posters, they have created a new celebrity: a Peking factory worker who signs his posters the "Golden Monkey." In classical Chinese literature, the golden monkey used his club to clear the universe of dust; in a political context, the monkey symbol was used by leftists in the Cultural Revolution to describe the purge of their opponents, and the present monkey also may be a leftist. In any case, he has taken aim at the party's top leadership. In an entertaining series of posters, he has accused Peking city officials of attempting to suppress the campaign to criticize Lin and Confucius, and he has charged that unnamed figures in the party's "upper ranks" are "traitors" in the Lin Piao/Liu Shao-chi mold. The monkey's antics have evidently irked local authorities: his June 30th poster predicts his own arrest.



contending factions, but others are highly personal complaints of maltreatment by the system or by the local authorities who run it. The posters are touching raw nerves among the authorities: several have been torn down, especially those that name names, and some authors have been arrested and detained. In one instance, Peking police and firemen turned fire hoses on would-be poster writers.

The present level of activity is nowhere near the violence of the 1966-69 period and, unlike the Cultural Revolution, today's posters are aimed at toppling specific individuals, not the entire party structure.

Peking has tried to put the best face on the current political situation; one national figure cited the posters as an example of democracy, and another assured a foreign visitor that "we know what we are doing." But fear of a continuing erosion of authority can be seen in party propaganda, and a determination to keep the anti-Lin/anti-Confucius campaign under control has characterized the party line from the beginning. Significantly, the July 1st editorial concludes by once again admonishing everyone to "obey orders in all our actions and march in step to win victory."

A *People's Daily* editorial on July 1, the first in three years to commemorate the anniversary of the founding of the party, may have been prompted by the increasing number of posters—some of which attack party officials by name. While admitting that "mistaken ideas" do exist in the party—a condition the editorial terms "normal"—and that criticism from the masses must be "welcomed," it clearly states that the "wrong ideas" expressed in some criticisms must be corrected by the party. But *People's Daily* also warns that criticism must not be used to weaken the party's leadership. In all, the July 1st editorial seems to be in line with the efforts of political moderates to allow intraparty debate while trying to provide direction and to maintain control over the campaign.

Factional divisions within the party have prevented the central leadership from clearly identifying which ideas are wrong, and a flurry of contradictory posters and violence has resulted in most provinces. Some criticisms are the work of

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Canada: Minority or Coalition

15 [After eight weeks of hard-hitting campaign-
ing for the national election on July 8, neither the
Liberals nor the Tories have been able to gain a
18 decisive lead. As a result, Ottawa is likely to have
a minority or coalition government after the elec-
tion.] Inflation has emerged as the main campaign
17 issue. The cost of living rose 9.1 percent in 1973,
and the latest figures show it running at an annual
18 rate of 13 percent for this year.]

17 [Progressive Conservative leader Robert Stan-
field has proposed an income and price freeze to
be followed by a more permanent program to
18 combat inflation. Stanfield's proposals, vigorously
attacked by the other parties, have not caught on
with the public. Prime Minister Trudeau has
stressed measures to increase corporate taxes and
protect hard-pressed consumers from the worst
effects of inflation. The New Democrats, the de
facto junior partner in the last government, have
pushed variations of Trudeau's promises and have
added a proposal to establish a two-price system—
domestic and international—for basic commod-
ities produced in Canada.]

15 [Recent nationwide opinion polls show
+ Trudeau's Liberals edging ahead, but the polls are
misleading because they incorporate the very
17 heavy majority that Liberals always receive in
Quebec. The electoral overkill in Quebec, there-
fore, is not as important as winning individual
18 parliamentary contests, which are expected to be
close in many areas of the country.]

17 [There are no available polls, for example, to
show the trend in the key province of Ontario.
+ The Liberals, Tories, and New Democrats each
18 claim that their private polling shows them doing
well in that province. About one third of On-
tario's 88 parliamentary seats were won by less
than 2,000 votes in 1972, and there will be many
close three-way battles this year. Party leaders
spent much of this week in Ontario in hopes of
18 tipping the balance in these races.]

18 [The nationalist-minded New Democrats have
a good chance of again winning the balance of
power in parliament. In the last parliament, they



Lewis

kept the minority Trudeau administration afloat
by informally participating in the government—an
arrangement that freed them from the principle
of collective responsibility, which inhibits public
criticism of government policies by government
members. Recently, however, party leader David
Lewis stated that he did not expect elections
again for several years no matter what party
headed a minority government. He may be hint-
ing that the New Democrats would be prepared to
join a formal coalition if the right kind of deal
can be made.]

16 [Canadian-US relations surfaced on the mar-
gins of the campaign recently when the US threat-
ened to take retaliatory action against Canadian
farm exports to the US unless Ottawa allowed
resumption of US beef exports. This issue has
been receiving heavy—and sometimes emotional—
media coverage. Trudeau and Agriculture Minister
Whelan have reacted sharply in an obvious at-
tempt to head off potential opposition charges of
knuckling under to the US.]

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SECRET**ICELAND: A SWING TO THE RIGHT**

The national elections on June 30 revealed a marked shift to the right that enabled the strongly pro-Western Independence Party to strengthen significantly its position in parliament. Although still lacking a majority, the Independence Party is virtually certain to be the dominant force in the new government. The party traditionally has been a strong supporter of Iceland's membership in NATO, and prospects are therefore bright for retaining the US-manned base at Keflavik in the forthcoming negotiations between the two countries.

The Independence Party increased its representation from 22 to 25 seats in the 60-seat Althing. It, along with the Social Democrats, had been in the opposition in the preceding parliament. The Social Democrats, who lost ground in municipal and local elections in May, continued to do poorly in the national contest. The tiny Liberal Left Organization appealed to non-Communists opposed to the base during the campaign and lost support in the election. The Progressive Party, which headed the outgoing coalition, retained the same number of seats it held previously. The Communists, who have been the most vocal opponents of the Keflavik base, picked up one seat.



Hallgrimsson

20 [Negotiations for the formation of a new government will probably take several weeks. Independence Party Chairman Hallgrimsson, as leader of the party that won the largest number of seats, will be called on first by the President to form the next government. Since the Independence Party failed to gain a majority in the election, it will have to enter into a coalition with at least one of the other parties. The largely isolationist and rural-oriented Progressive Party is the only non-Communist political faction that commands enough seats to assure an Independence-led government a majority in parliament.]

19 [Cooperation between the Independence and Progressive parties would be inhibited by several long-standing problems, including personal antagonism between the two party chairmen and the traditional conflict between private industry, which supports the Independence Party, and rural-cooperative interests, which are the mainstay of the Progressives. The Progressive Party was out of the government for 12 years prior to its membership in the outgoing center-left coalition, however, and it is anxious to be included in the new government. During the campaign, the Progressives tried to dissociate themselves from the strong anti-base position of the Communists, one of their coalition partners, and struggled to project a more moderate image. Despite past opposition, the Progressive Party will probably not find it difficult to support the Independence Party on the Keflavik base.]

21 [A combination of the Independence Party, the Social Democrats, and the Progressives, although less likely, remains a possibility. The Social Democrats' labor support would be an advantage. A sizable number of Social Democrats, however, are opposed to association with the conservative Independence Party and may prefer to stay out of the government.]

22 [The most urgent problem facing the new government is Iceland's growing economic problems. The annual inflation rate of 45 percent, the losses in Iceland's vital fishing industry, the sizable rise in the cost of imports, and continuing pressures for large wage increases will require emergency measures by the new government.]

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USSR-CHINA: BACK TO PEKING

Moscow's pique over the helicopter incident apparently did not prevent the USSR from making what has become its standard conciliatory gesture toward the Chinese on the eve of a Soviet-US summit. Three days after making its fourth protest to the Chinese over the helicopter incident, the USSR sent its chief negotiator at the Sino-Soviet border talks, Deputy Foreign Minister Ilichev, and his deputy back to Peking. Ilichev had been in Moscow since last July, the deputy since November.

Moscow's negotiators probably carried with them new proposals ostensibly aimed at getting the border talks off dead center. Past Soviet offers have included detailed suggestions for a new border agreement, a nuclear non-aggression pact, a mutual non-use of force agreement, and a summit-level meeting. The Chinese accepted some of these proposals in principle, but then insisted on preconditions that the Soviets found unacceptable. This is probably what will happen again.

With Ilichev's return in mind, the Soviets placed a long article in the leading Polish daily setting forth Moscow's position on the border question. The article betrays Moscow's sensitivity to Peking's charge that China is threatened by the USSR. It also sheds more light on the positions taken by both sides at various times during the course of the talks. According to the article, for example, China had proposed an interim agreement confirming the status quo along the borders. Moscow had agreed until China insisted on a troop withdrawal before the agreement was signed. Moscow, for its part, reportedly offered to accept the main navigation channel as the boundary along the riverine frontier. The offer probably was conditional on Moscow's maintaining control of the strategic island opposite Khabarovsk, and was therefore unacceptable to the Chinese.

The main point of the article is to demonstrate that it is Peking—not Moscow—that is responsible for the impasse in the border talks.

The use of the Polish stand-in was presumably intended to make the article less offensive to the Chinese, but its appearance on the eve of Ilichev's departure for Peking is contrary to the normal Soviet practice. It may have been intended to placate those in the leadership who objected to any conciliatory gesture in light of Peking's recent actions against the USSR, or, alternatively, it may have been designed to set the record straight as Moscow seeks to develop support for another world Communist gathering.

The day after Ilichev returned to Peking, Moscow's frequent unofficial spokesman, Victor Louis, published an article in a French newspaper expressing concern about the alleged increase in Sino-Soviet border tensions and the fate of the detained helicopter crew. The article was vaguely threatening in that it alluded to those killed in the border clashes of 1969 and to Moscow's ability to match China's output of hostile propaganda. The oblique message seemed to be that China had better begin serious negotiations or the situation might get out of hand.

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There is no reason to believe that Moscow will find Peking forthcoming on either the border talks or the helicopter crew.

[Redacted]

[Redacted]

More basic, Peking apparently views the border dispute as a political rather than a territorial issue, and as one that China can still effectively exploit. Peking's willingness to receive Ilichev for what may turn out to be another fruitless round of talks clearly indicates, however, that the Chinese will avoid being maneuvered into appearing to be the intransigent, nay-saying party, particularly with a world Communist conference in prospect. With regard to the helicopter crew, a wide range of pressures have availed Moscow nothing so far, perhaps due to Chinese uncertainty as to how to proceed.

[Redacted]

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controlled, and ideologically conscious organization within the next 18 months. His plans are partly a response to Soviet demands for tightened discipline throughout Eastern Europe, but they also reflect Gierek's desire to reinvigorate his party and to increase its ability to handle economic problems.

In preparation for the next party congress—scheduled for December 1975—the entire party membership will be closely scrutinized. Party secretary Edward Babiuch told the plenum that part of the process will involve an exchange of party cards. Babiuch stated that the first stage of the card exchange—which was unexpectedly announced last October—has now been completed and that interviews with party members will begin this fall. Although Babiuch was careful not to mention the possibility of large-scale removals, his emphasis on the need to stabilize party membership at its current level and on bringing in more workers leaves little doubt that undesirables will be weeded out. The party's more nationalistic and pro-Western intellectuals—already wary of moves to tighten up—may regard themselves as prime targets.

The plenum also formalized the downfall of Franciszek Szlachcic, until recently Gierek's number two man in the party, by removing him from the secretariat. Szlachcic had been unceremoniously demoted to vice premier and dropped from the State Council on May 29. He evidently fell before the combined pressure of Soviet displeasure with his nationalistic approach to policy making and the dissatisfaction of his Politburo comrades, who may have felt he was gaining too much power and attention. The number-two slot now appears to belong to Jan Szydlak, the party's ideological watchdog and an economic specialist who represents the interests of the seasoned party bureaucracy.

POLISH PLENUM CHARTS COURSE

The Central Committee plenum last week heard party leader Gierek's program for changing the Polish party into a more efficient, centrally

Economic considerations are increasingly important in Gierek's planning. While many of the indicators are favorable, the Polish economy faces some potentially serious problems, including

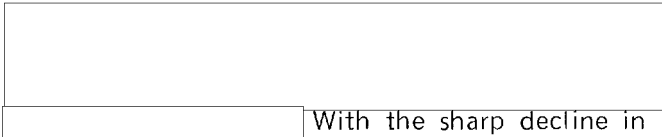
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shortages of certain products in high demand—particularly meat—and a growing imbalance in trade with the West. In recent months, Gierek has brought key economic sectors under closer party supervision. In contrast to many economic assessments over the last two years, Prime Minister Jaroszewicz's analysis of economic developments at the plenum admitted fewer deficiencies and was less apologetic about them. He may have been reflecting a decision to take a somewhat harder line in the face of growing dissatisfaction among the people.

in the Mideast for retaining diplomatic and economic ties with Israel. Sadat's willingness to recognize the existence of Israel and to settle the Middle East problem through negotiations meshes with Ceausescu's own even-handed policy in the area. 25X1

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With the sharp decline in Soviet military deliveries, the shortage of spare parts has been causing Cairo problems. Bucharest could also help by supplying technological aid for Egypt's fledgling small-arms industry, although it could not contribute much in the way of sophisticated weaponry—Cairo's area of greatest need. The Egyptian minister of war production was a member of Sadat's entourage, adding to speculation that military-related matters were discussed.

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EASTERN EUROPE: VISIT FROM SADAT

Egyptian President Sadat's visit to Romania and Bulgaria from June 27 to July 2 focused on the recent disengagement in the Middle East, the Palestinian problem, and bilateral relations. This is the first trip Sadat has made to any of Moscow's Warsaw Pact allies.

Sadat's three days in Romania took place against a backdrop of improving bilateral relations. In addition to a communique expressing mutual satisfaction with the visit, presidents Ceausescu and Sadat signed a "solemn declaration" to the effect that all states are equal in international relations, and another declaration establishing a joint committee for future cooperation.

Bucharest granted Egypt a \$100-million loan for use in industrial and agricultural projects related to Egypt's reconstruction program. The two sides also agreed to establish a joint committee for cooperation, to be headed by their respective foreign ministers.

Lest the cordiality of his stay in maverick Romania be misread by the Kremlin, Sadat concluded his Balkan sojourn by meeting with Moscow's most loyal ally, Bulgarian party boss Todor Zhivkov. Sofia agreed to extend long-term credits to Egypt, and Sadat joined his Bulgarian host in pledging to work toward doubling bilateral trade over the next two years as part of a broad effort to intensify economic cooperation.

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Ceausescu was particularly pleased to receive Sadat. He saw the visit as an opportunity to undo some of the bad publicity Romania has received

Sadat and Ceausescu



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OECD ECONOMIC FORECASTS

(46+47)
Inflation is the greatest problem facing the major industrialized countries. [redacted]

[redacted] Price increases probably will exceed 10 percent—at annual rates—in Western Europe and Japan and 8 percent in Canada in the second half of this year. In an effort to ease inflationary pressures, all of the major developed countries have been pursuing restrictive monetary and fiscal policies, which are already facing mounting criticism.

Member countries have indicated that they are prepared to accept lower growth rates as they attempt to control inflation. The forecast for the major industrial countries as a whole is for a 0.5-percent growth rate this year, compared with 6.5 percent in 1973. As long as these countries continue to pursue restrictive policies, the forecast of a mild economic recovery during the second half of this year and acceleration in the first half of next year appears overly optimistic.

Despite the economic slowdown that is occurring in all major developed countries, unemployment has increased sharply only in West Germany. Unemployment rates in Britain, Canada, and Italy have actually declined.

Because unemployment has been mild, governments have been able to continue tighter monetary and fiscal policies to deal with inflation and rising current account deficits. As a result, workers' real income this year has declined almost 9 percent in Japan and 6 percent in the UK and has increased by less than 2 percent in France and West Germany.

These restrictive policies, however, are already facing mounting criticism because of a fear that a simultaneous slowdown in developed countries could lead to a worldwide recession. The UK, for example, feels that higher oil prices have already sharply reduced overall demand and that continuing restrictive programs on the part of countries with strong balance-of-payments

positions will only increase unemployment and encourage protectionist trade policies.

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Unemployment will almost certainly rise in coming months because, as the slowdown continues, firms will be reluctant to retain excess workers. Although some governments hope to offset declining consumer expenditures by boosting exports and maintaining a high level of domestic investment, this seems overly optimistic. The slowdown in world economic growth will dampen exports, while restrictive domestic policies should depress investment spending. [redacted]

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EC: DIALOGUE WITH THE ARABS

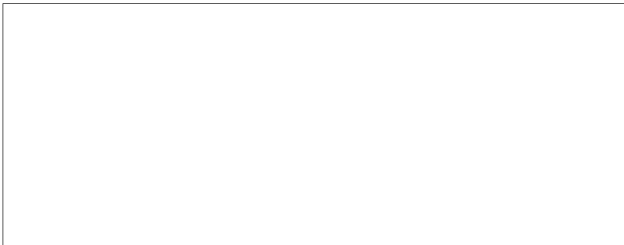
The EC Nine are moving ahead with plans for wide-ranging cooperation with the Arab states. The French, who took over the EC presidency from the West Germans on July 1, will be taking the lead, spurred by optimistic assessments of Arab interest.

The Nine formally approved the demarche last month after debate in a number of meetings over the extent to which Washington should be consulted and kept informed. A three-man delegation visited Cairo on June 18 to present the Nine's views on the proposed dialogue with the Arab states.

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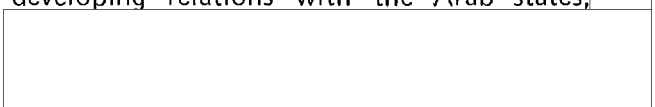
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After a recent meeting with the French foreign minister, for example, Tunisian Foreign Minister Chatti told the press that "it is not a question for us of a simple dialogue between petroleum suppliers and factory sellers." The Arabs, he said, will want Europe to speak clearly on questions that affect the peace of the world.]

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47 [The French expect the Arab states to send a delegation of foreign ministers to Paris to initiate the dialogue with the EC presidency. The Paris meeting could take place in late July.]

48 [The Europeans, in contrast, have been publicly playing down the political aspects of their developing relations with the Arab states,]



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45 [Even the most optimistic observers doubt that the joint study commissions of the experts could begin serious work before the end of Ramadan in late October. In any case, the Nine have agreed that the Arab embargo against the Netherlands should be lifted first. The suggested full-scale meeting of the nine EC foreign ministers and twenty Arab foreign ministers is unlikely to take place before 1975.]

IRAN-FRANCE: ECONOMIC COOPERATION

52 [Last week's Iranian-French economic cooperation agreement marks the high point in the Shah's search for Western help for his ambitious industrialization drive. The pact identifies \$4-5 billion in possible French projects in Iran including nuclear power plants, petrochemical complexes, natural gas facilities, tankers, a steel plant

49 [The Arab League bureaucracy, at least, is showing considerable interest. Arab League Secretary General Riyadh has assembled a knowledgeable staff with broad experience in international organization.]

and a subway. Smaller but similar arrangements were concluded earlier with West Germany and Italy giving the Shah a broad package of projects from which he can choose.]

48 [The Arabs have said they would like to discuss European assistance in establishing an industrial base in the Arab world, a flow of European technology, a "balanced" system of trade exchange, and stability in the value of Arab capital investments to guard against the effects of future monetary shocks.]

54 [France emerged with several pluses. Politically, the deal helps restore relations that cooled when former president Pompidou failed to attend Iran's 2,500th anniversary celebration in October 1971. Paris received some assurance on the supply of oil and will be aided in its balance-of-payments problems by expanded sales to Iran as well as by the \$1 billion that the Shah agreed to supply over three years as advance payment for French projects.]

51 [The EC-Arab dialogue will provide an early test of the US-EC consultation procedures that were worked out this spring. Once specific areas for cooperation are chosen, the EC Commission will be involved in the dialogue, providing an additional channel for keeping the US informed.]

48 [The Arabs are expected to try to take advantage of the Europeans' eagerness for a dialogue to advance the political interests of the Arab states.]

55 [The Shah can easily afford this largesse and probably welcomes the international exposure provided by aiding one of Western Europe's industrial countries. His ambitious goal is to place Iran on an industrial footing with Western Europe by the end of the century.]

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SECRET**PORTUGUESE AFRICA: GROWING UNEASE**

76 [General Spínola's provisional government is encountering increasing difficulty maintaining its authority in the African territories as progress toward agreements with the black insurgent movements remains stalled. Political and military uneasiness is becoming more pronounced, especially in Mozambique and Angola, and Lisbon's problems are becoming more complex as time passes.]

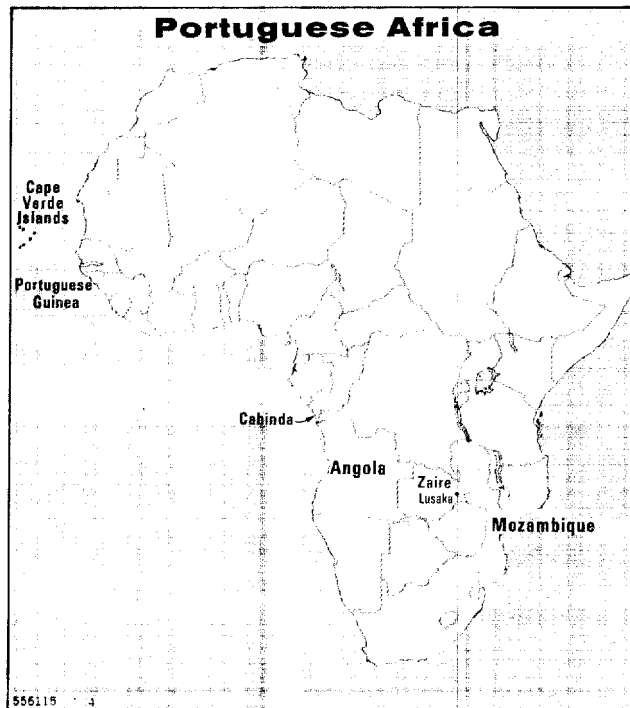
70 [Labor unrest continues to be a major problem, particularly in Mozambique. New governors-general were installed in both of the southern African territories two weeks ago. If they fail to take action that seems to offer promise of reversing the serious economic downturns of recent months, public anxiety—particularly among white settlers—will increase.]

67 [The governors must also deal with the situation—new to both Mozambique and Angola—created by the precipitate growth of political organizations that either favor or oppose the insurgents. In Mozambique, the political scene has been marred recently by occasional violence involving members of competing groups. On June 23, a leading spokesman for the Mozambique Democrats—an organization of prominent liberal white lawyers and journalists who support the rebel Front for the Liberation of Mozambique—narrowly survived an assassination attempt that was probably made by whites hostile to the Front. The Democrats have made clear their support for the Front's opposition to Spínola's referendum policy.]

67 [In Angola, such acts of violence have not yet occurred, although there have been minor clashes between black and white groups. Political organizations have emerged more slowly in Angola than in Mozambique, primarily because the insurgents there are ineffectual and most Angolans do not know whom to support or oppose. One group that has emerged, the "Secret Organization of Angola," is threatening reprisals against whites who attempt to leave the territory.]

70 [In the military sphere, Lisbon's policy switch since the coup has undercut the Portuguese soldier's willingness to continue fighting in any of the territories. Outright fraternization between Portuguese troops and rebels has been taking place in Portuguese Guinea—an outgrowth of an informal cease-fire that has existed since the two sides opened political negotiations in May. Although the talks were suspended last month and no date for their resumption has been announced, it seems unlikely that serious fighting will start up again in the territory.]

70 [The rebels in Mozambique, on the other hand, are behaving quite differently. They have continued to attack transportation routes in the north near the Malawi border and have maintained their southward infiltration into areas with large white settler populations. These infiltrators have avoided military clashes, however, and

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appear intent on establishing themselves in favorable positions should they feel constrained to increase military pressure. Talks between Lisbon and the insurgent Front for the Liberation of Mozambique are scheduled to get under way in earnest on July 15 in Lusaka, Zambia.

70 In Angola, the level of insurgency has been very low for more than two years and is not likely to increase significantly in the near future. One of the three rebel groups operating in the territory has agreed to a cease-fire.

The two remaining groups have not yet decided on future policy.

Makarios is moving at the same time to strengthen his position in other ways.

73 The Cypriot government announced on July 1 a reduction of the term of service for guardsmen from 2 years to 14 months, a change that will, when implemented, cut the 12,000-man force about in half.

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CYPRUS-GREECE: TEST OF WILLS

74 President Makarios is pressing his campaign against the Greek-officered Cypriot National Guard, which provides Athens with an important instrument of influence on the island. Anticipating increasingly tense relations and a possible major confrontation with Greek leader Ioanni



Archbishop Makarios

71 Although Makarios professes to believe that Athens will not try to overthrow him, he is clearly aware that his moves against the Guard are increasing Ioannidis' hostility.

7 This week, in another apparent attempt to strengthen his position, Makarios' government announced the dismissal of a substantial number of school teachers. Although no reason was given except the "public interest," the teachers were apparently considered disloyal to the President.

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TURKEY: POPPY BAN LIFTED

[Prime Minister Ecevit's coalition cabinet voted on July 1 to rescind the ban on cultivation of the opium poppy, which had been imposed by a military-backed government three years ago. Turkey was formerly the main source of illegal heroin for the US market.]

[Poppy cultivation will now be permitted again in the six provinces and a portion of a seventh that comprise the principal Turkish poppy growing area. Cultivation licenses will be limited to a maximum of one and a quarter acres. In 1971, the value of opium gum in four of these provinces totaled almost \$4 million, about 70 percent of total production for that year]

[A government spokesman justified the cabinet's decision by citing the economic plight of the former poppy farmers and the needs of the international pharmaceutical industry. He said an effective control system would be imposed to prevent illegal trafficking in opium or the cultivation of opium poppies in areas other than those

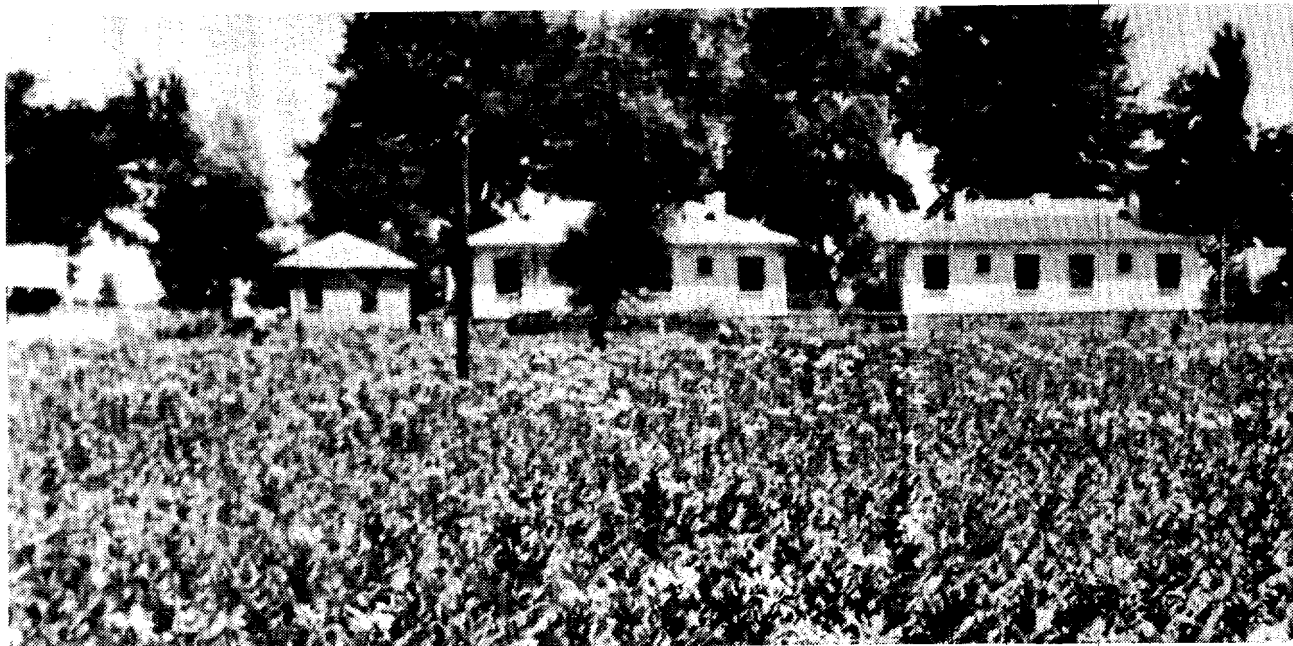
designated. Experts in both the US and Turkey, however, doubt that this can be done because of weaknesses in the Turkish narcotics control system]

[In lifting the ban, Ankara disregarded warnings that the US Congress might cut off aid.

[Prime Minister Ecevit was motivated by domestic pressures in favor of lifting the ban. Both parties that form the governing coalition had promised such action during the election campaign last October, and since then most other major party leaders have also come out against the ban. With new elections a distinct possibility before long, the support of peasants in the poppy-growing areas is important in the delicate balance that presently exists among parties in Turkey.

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Turkish poppy farm

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FEDAYEEN: BORDER RAIDS SUSPENDED

64 [Leaders of the relatively moderate Fatah organization announced on June 30 their decision to freeze all operations from Lebanon and to suspend the infiltration of terrorists into Israel from southern Lebanon. They also promised "closer cooperation" with the Lebanese government. The spokesman for the guerrillas stated, however, that operations within Israel would continue and would even be increased.]

64 [The fedayeen spokesman claimed that the move was made "to deny Israel any pretext for further attacks on Lebanon or occupation of Lebanese territory." Pressure from Syria and perhaps Egypt probably was the major factor in the decision. Beirut very likely appealed to Damascus and possibly to Cairo to urge the fedayeen to halt raids across the Lebanese border. The Lebanese government has received offers of troops and military aid from Arab states to defend against Israel's retaliatory attacks. This has prompted Israel to warn that it would react strongly to the introduction into Lebanon of air defense elements from other Arab states.]

64 [The image of the guerrillas has deteriorated in Lebanon following a bloody clash on June 28 between two opposing factions. This probably also figured in the decision to adopt a more conciliatory position, although the pledge is similar to previous promises the guerrillas have made to the Lebanese government. Because of the lack of discipline in the movement, such promises have had little value and were, in fact, completely ignored by the radical factions of the fedayeen.]

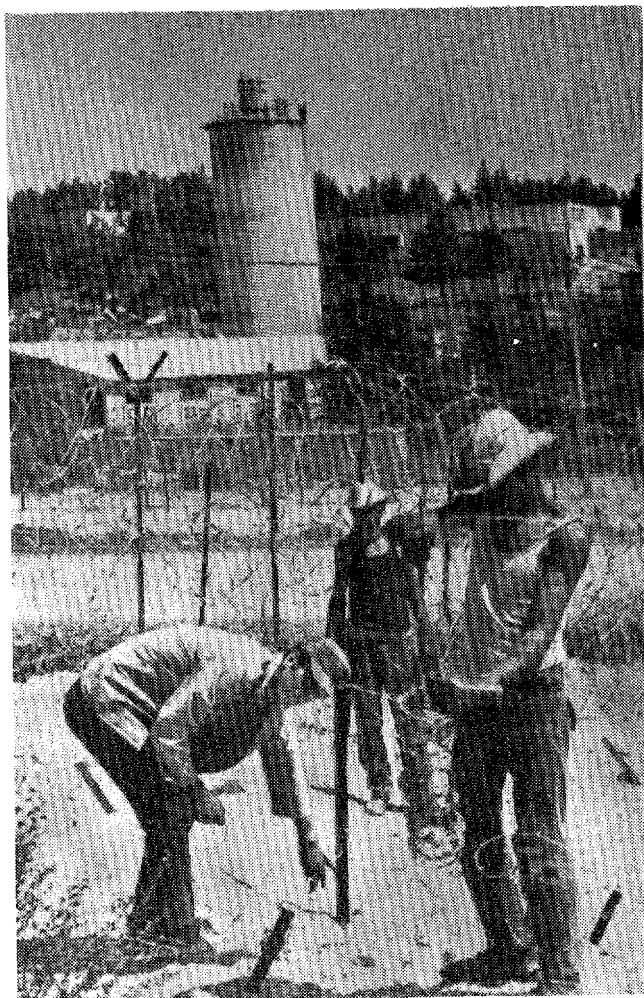
64 [The moderate leadership of the Palestine Liberation Organization does not appear to have any better control over its extremist elements now than in the past.]

Israelis Show Restraint

62 [The Israelis, too, have moderated their tough anti-terrorist reprisal tactics for the time being and seem to have adopted a wait-and-see attitude. The strident pronouncements by various Israeli officials and press commentators during the week appear to have been primarily for effect, in view

of Prime Minister Rabin's statement to the press on June 28 that the Israelis should prepare for a long-drawn-out war against Arab guerrillas instead of retaliating for each strike. The government did refrain from specific raids against fedayeen camps in Lebanon in reprisal for the guerrilla raid on June 25 on the Israeli coastal resort of Nahariya.]

61 [In London, where he attended an international socialist conference, Rabin told the press



Israelis string barricade

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that Israel would concentrate on three ways of trying to stop the terrorists:

- Sealing off the approximately 60-mile-long border with Lebanon.
- Finding and stopping the guerrillas before they reach Israel.
- Pressing Lebanon to crack down on the fedayeen and prevent them from launching raids.

6-2 Israel clearly intends to retain the option of retaliatory strikes. Last week, Chief of Staff Gur told reporters that Israel has not abandoned plans for crossborder operations against the fedayeen. He warned that Israel has "new" types of operations that will be used as necessary.

5 In the wake of the three days of heavy retaliatory air raids on fedayeen bases in Lebanon a week ago, Tel Aviv also moved to brighten its somewhat tarnished image abroad. Deputy Prime Minister and Foreign Minister Allon recently briefed ambassadors from Latin American and European Common Market countries on Israel's anti-terrorist policy. He explained that the retaliatory raids were only a part of the anti-guerrilla campaign, which also included strengthening the country's passive security measures and seeking a dialogue with moderate Palestinians, albeit within the context of talks with the Jordanian government.

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ETHIOPIA: ARRESTING THE OLD GUARD

81 By arresting some of the highest ranking members of the nobility this week, those elements of the military that advocate political and social change have reasserted their control over events and have ended any immediate threat from their conservative opponents. Those detained include many of Emperor Haile Selassie's closest associates, but the moderates who led the move want Haile Selassie to remain as emperor and are still reluctant to assume the burdens of a military regime.]

81 Military units in Addis Ababa began the arrests on June 29, and by July 3 had taken into custody about 15 of the more prominent members of Ethiopia's once powerful elite. Many lower ranking officials are reported to be under house arrest. Ras Asrate Kassa, perhaps the Emperor's closest political adviser, was one of the first to be detained. His submission without resistance symbolized the apparent realization by most of the noblemen that they had lost the ability to control events.]

82 The arrests, which so far have provoked no strong reaction, have been limited to the capital area. The military apparently has no plans to detain members of the provincial elite, who still have their own power bases.]

85 The younger officers and enlisted men who instigated the military revolt last February have been concerned for some time that the aristocrats, led by Ras Asrate, were attempting to impede or even reverse the changes set in motion by the revolt. They believed that the conservatives were largely responsible for the cabinet's slow progress in investigating corrupt officials and in implementing the promised new policies designed to create a more modern and democratic society. The military was especially concerned over the conservatives' recent success in increasing their influence at the expense of the loosely organized moderate forces.]

81 The military was provoked into action when eight members of parliament attempted on June 26 to bring about the release of 25 former officials arrested by the army in April on corruption charges. This demand was the last straw for the

troops in Addis Ababa, who were already angry over the inactivity of a special inquiry commission set up to deal with corruption. The troops also resented government foot-dragging on demands for back pay by Congo and Korean war veterans.]

81 The army units on June 28 took control of Addis Ababa. A coordinating committee representing all branches of the armed forces and the police was established to direct activities in the capital, and a list of those to be arrested was quickly prepared. The moderates on the committee managed to keep in check the more radical military officers and enlisted men who want to abolish the monarchy and set up a military government.]

84 The military continues to proclaim its support of the present government headed by Prime Minister Endalkatchew. In fact, the coordinating committee announced that it had ordered the detention of the noblemen because they were attempting to obstruct the smooth functioning of the cabinet. The military, however, clearly intends to play a more direct role in speeding the restructuring of Ethiopian institutions. Although critical of the slow pace of change, the military is still trying to work through a government that has been unable to establish its own authority during four months in office, and the resignation or reshuffle of some of the ministers might yet be demanded.]

84 The cabinet has held emergency sessions, but for the most part has been impotent during the present crisis. Endalkatchew has appointed a four-man ministerial committee to establish a more direct line of communication with the troops, and the committee has already met several times with military representatives.]

84 Weaknesses within the military are still apparent. The tenuous unity demonstrated by the security forces in Addis Ababa may dissolve once the wave of arrests is over. The coordinating committee, like similar ad hoc committees formed in the past several months, has had some quick successes, but it has yet to prove it can provide durable, cohesive leadership and long-range planning. 25X1

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CAMBODIA: A GOOD MILITARY SHOWING

75 The Cambodian army continues to fare well in heavy fighting northwest of Phnom Penh. In reopening Route 5 this week between the capital and the recently recaptured town of Kompong Luong, government troops reportedly inflicted heavy losses on several Khmer Communist units. Other government forces at the nearby base at Lovek repulsed renewed insurgent ground attacks]

76 If the government can maintain its positions on this front, it will have taken a major step toward restoring the flow of agricultural goods down the Tonle Sap River to Phnom Penh.

75 Government units have also made some progress on the Route 4 front southwest of Kompong Speu City, where they have relieved a long-isolated garrison and cut an important Communist supply route running across the highway. Farther down the highway, however, insurgent

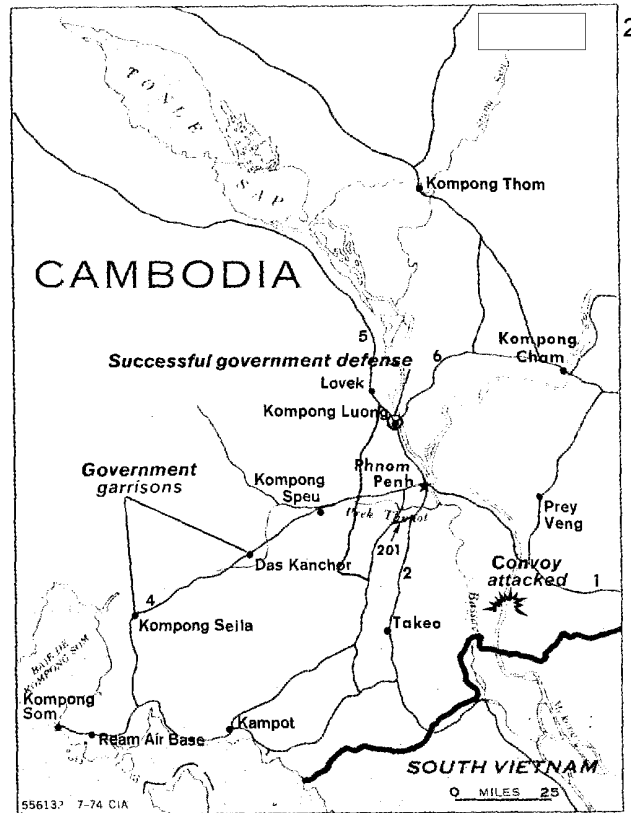
units are keeping steady pressure on another government garrison and at midweek moved within mortar range of the air base at Ream. Subsequent shellings damaged four aircraft, but the airfield remained open]

75 Communist gunners along the Mekong River southeast of Phnom Penh scored their biggest success of the year on June 29 when they sank a freighter from a Mekong River resupply convoy en route to the capital from South Vietnam. The rest of the 19-ship convoy made it safely to Phnom Penh. Although the shelling of river convoys has increased in the past few weeks, seasonal flooding will soon begin forcing the insurgents back from their favorite ambush sites.

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Insurgents within mortar range



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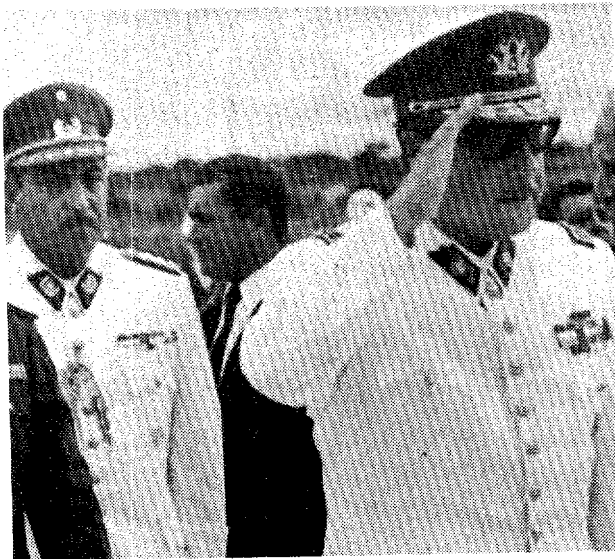
CHILE: JUNTA PRESIDENCY STRENGTHENED

(88, 89, 90)
 [A governmental reorganization decree issued last week stopped short of formally designating junta president Pinochet as president of the republic, but it vested broad executive powers in the junta presidency and named the incumbent "supreme chief of the nation."

Pinochet's elevation appears to have been designed primarily to streamline a cumbersome decision-making system. Issuance of the detailed "statute of the governing junta" not only reflects the determination of the armed forces to retain power until their goals are achieved, but also shows their concern with establishing a moral and legal basis for military rule.

Under the statute, the four junta members, including Pinochet, remain in command of their respective military or police services. The statute sets out elaborate formulas for the temporary and permanent filling of vacancies on the junta and for the assignment of seniority to new members. A key provision stipulates that permanent replacements—who are to be named by the remaining junta members—become last in line of succession to the presidency.

The reorganization formalizes Pinochet's gradual rise to de facto primacy among the junta



Pinochet

members, but does not suddenly bring one-man rule to Chile. The decree carefully hedges Pinochet's new prerogatives. Legislative power, for example, remains the "exclusive domain" of the junta, as does the right to act on the budget, taxes, wages, and other specified matters. The junta president is to exercise various powers with the "cooperation," "accord," or "advice" of the junta, and the junta's decisions must be unanimous.

How much real power eventually will accrue to the junta presidency probably will depend in large part on the personalities of current and future junta members. Pinochet seems to be acutely sensitive to the importance of maintaining armed forces unity, and he will feel out the new levers of power cautiously. Sudden shifts in the military government's policies or style are thus unlikely. 25X1

VENEZUELA: ONE HUNDRED DAYS PLUS

|| [After little more than three months in office, President Carlos Andres Perez is well on the way to becoming his country's strongest and most popular leader since Romulo Betancourt's administration ended more than a decade ago.]

|| [Congress, controlled by the President's Democratic Action Party, has approved a bill granting Perez sweeping emergency powers to carry out the broadly populist and nationalistic economic program that he proposed in an address to the nation in April. In addition to plans to nationalize the US-dominated iron ore industry, of greatest domestic interest was a series of programs aimed at a more equitable distribution of the nation's income through such popular measures as new minimum wage levels, across-the-board wage increases, unemployment insurance, prudent management of windfall revenues from petroleum, remission of farm debts, and revitalization of the depressed agricultural sectors. All of these were major themes in the Democratic Action Party's election campaign.]

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1 A major economic problem facing the new administration is spiraling inflation, which has resulted in recent substantial price increases for food in spite of price controls, and in severe shortages of some substitute commodities. In an effort to control speculators, the administration is continuing its policy of closing down briefly those businesses that are found to be violating price controls. In a press conference on June 27 in which Perez reaffirmed his intention to continue his economic program despite opposition from conservative business leaders, he also promised that his administration would not yield in its efforts to guarantee to the lower income groups assured access to the "necessities of life."

ignored by the general populace. The Marxist Movement Toward Socialism and the leftist Electoral Movement of the People, parties that were considered possible foci of opposition to the new administration, have almost disappeared in areas where, before the election, they seemed strong.



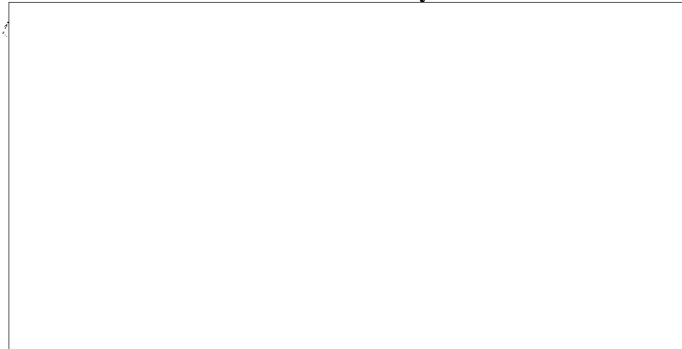
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2 Although the conservative business sector has been critical of Perez' populist economic measures, there is no evidence that they wish a confrontation. Representatives of the business-oriented Federation of Chambers of Commerce are negotiating with government officials to modify some of the proposals that impinge on their business practices. Perez warned them on June 27, however, that they must take a more flexible stand to permit a better distribution of the national wealth or the country could experience a period of leftist or rightist violence.

3 Although preoccupied primarily with economic and social programs, Perez is giving increasing attention to foreign policy initiatives, carrying forward the momentum begun by his predecessor, and developing the country's chosen role as a leader in hemispheric affairs. Perez has formally proposed that a summit meeting of all Latin chiefs of state be held next year to consider matters of common interest including the "complete liberation of the Latin American people." He has already announced plans to put half the country's surplus oil revenues into an external investment fund that will be used to finance projects in other Latin American countries through multilateral organizations.

4 With his bold moves, Perez has solidified his leadership, won wide popular support, and outmaneuvered political opponents who had charged that he was a favorite candidate of business and the foreign oil companies. Stunned and off balance, his opponents have hastened to state publicly that they agree thoroughly with the substance of the President's proposals. Much of the pre-electoral opposition is now backing him; the rest is hopelessly disorganized.

5 Further, Caracas is now playing host to the 150-nation Law of the Sea Conference, and Perez himself is expected to play a major role in winning support for the country's claim to a 200-nautical-mile territorial sea.



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Some Social Christian regional offices in the countryside are reportedly either abandoned or inactive. Others copy the party's central committee line and back some of the Perez measures while condemning his call for special decree powers, but these efforts are dispirited and largely

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