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Weekly Summary

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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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104 [The second round of the Geneva talks opened on August 8, with both Greece and Turkey accusing the other of failing to live up to the agreements reached in the first round. Efforts to negotiate a political settlement for Cyprus will be further complicated by political problems in the three capitals—Ankara, Athens, and Nicosia—which will make it difficult for any party to make significant concessions.]

ANKARA'S POSITION

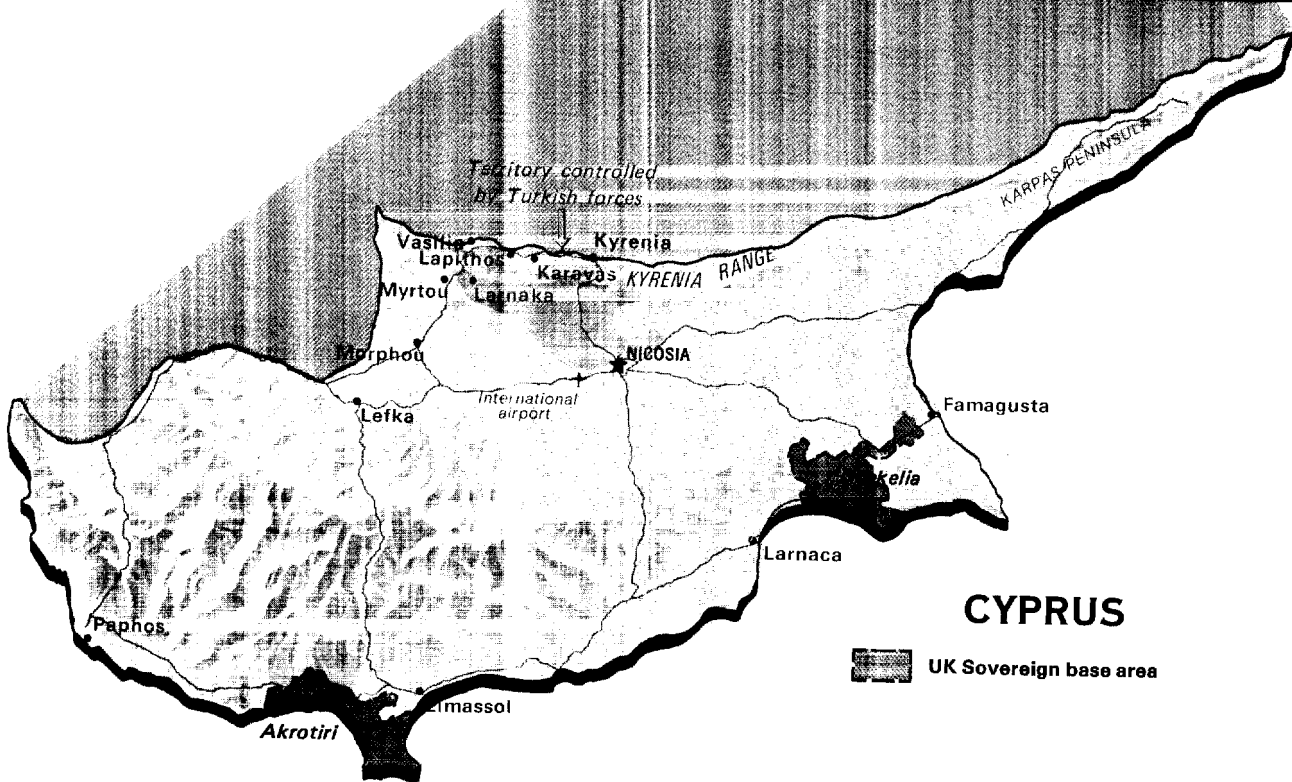
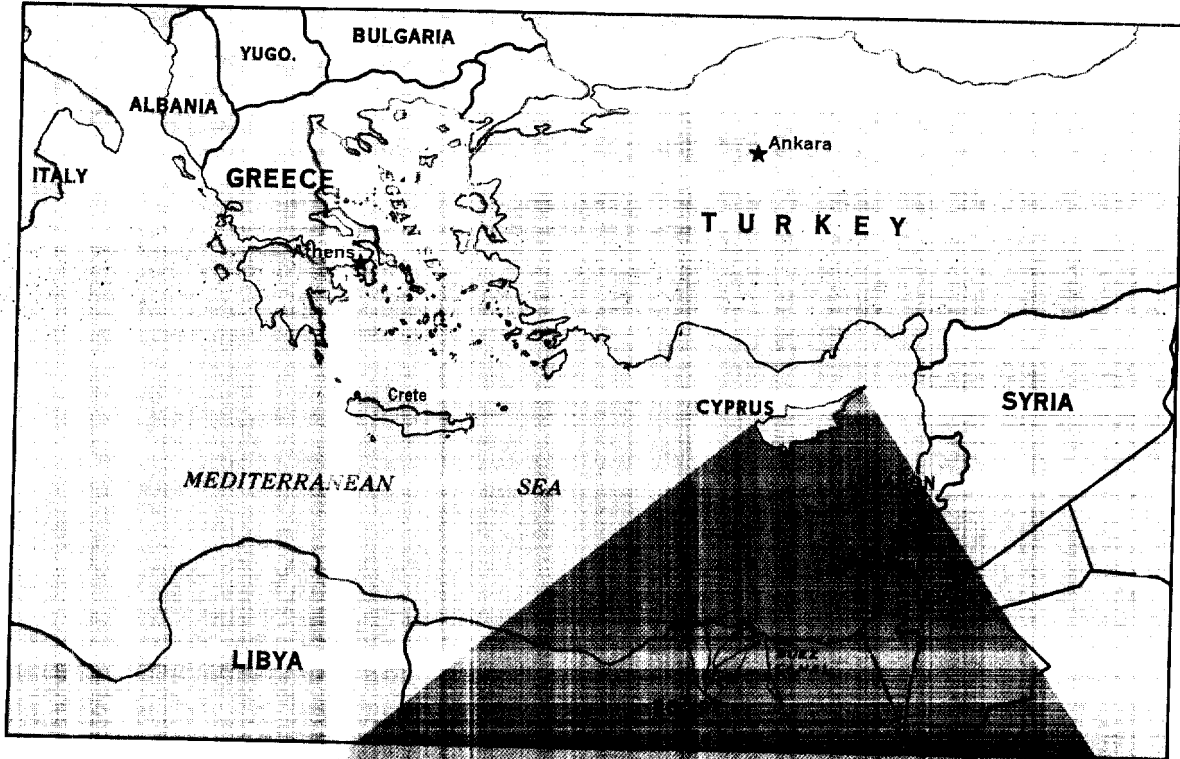
102 [The Turks come to the conference table in the strongest position and have brought a concrete proposal for the establishment of auton-

omous areas for Greek and Turkish Cypriots. The Turks are prepared to use their military position on the island to back their demands for autonomy and security for Turkish Cypriots. As one member of the Turkish delegation put it, "The victor has the greater right to dictate its own terms to the vanquished...and they have no choice but to accept our viewpoint."]

104 [In fact, the Turkish government's decision to push for an autonomous Turkish administration within an independent Cyprus already represents a step away from the hard line advocated by some politicians in Ankara. There were early indications that Deputy Prime Minister Erbakan,

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leader of the minority party in Ecevit's coalition government, disagreed with the federal approach and favored outright partition. Rumors of serious differences between Prime Minister Ecevit and Erbakan were played down by Turkish officials this week, but the coalition remains fragile.]

1 +4 [Ankara's facade of unity—established at the time of the Turkish decision to intervene in Cyprus—showed further evidence of cracks as former prime minister Demirel weighed in with some critical statements. Demirel, leader of the second largest party in parliament, claimed that "federation is unworkable." Later on, as the Geneva talks were resumed, he charged that the government should not be discussing the future security of Turkish Cypriots when it could not guarantee their present security.]

1 | This latest statement by Demirel was apparently motivated by the recent barrage of press statements by Turkish and Turkish Cypriot leaders charging the Greeks with atrocities and with preventing relief shipments from reaching Turkish Cypriot civilians. These charges appear to be part of an attempt to head off what the Turks see as a Greek strategy of placing the onus for the Cyprus situation on Turkey.)

3 | Before leaving for Geneva, in fact, Turkish Foreign Minister Gunes charged that the Greeks were conducting a press campaign to focus world attention on Turkish cease-fire violations. Turkish spokesmen have begun pointing out that the Geneva declaration called not only for a cease-fire, but for the Greeks to withdraw from Turkish enclaves, which as yet they have made no move to do.)

ATHENS' POSITION

8 | Greek Foreign Minister Mavros, under fire at home for having conceded too much at the first round of talks, has hardened his public position and is now demanding the immediate withdrawal of all troops from the island. Mavros has shown

THE MILITARY SITUATION

(UN SOURCE)
The military situation, which had been relatively quiet since the cease-fire agreement, became more tense this week when Turkish Cypriot forces in the southeastern city of Famagusta moved into new positions on August 5. Heavy fighting broke out between the Turks and the Greek Cypriot National Guard. By Tuesday, UN troops had moved between the forces, but the situation remains tense in the city, with Greek forces taking up new defensive positions. Famagusta is important to the Turks because it would give them a deep water port for the unloading of equipment and troops.

Turkish forces also pushed hard this week to capture the entire western part of the Kyrenian mountain range. On August 6, they began moving tanks and artillery into Lapithos and Karavas. By Wednesday, the Turks had reached the resort town of Vasilia, reportedly forcing a hasty retreat by the defending units of the Greek Cypriot National Guard.

By consolidating their positions on the northern mountain range, the Turks have gained control of an important area of high ground overlooking the Kyrenia coast, where many Turkish forces and supplies are located. Ankara may also expect the Turkish holdings to be a key factor in determining where a cease-fire line could be established.

In an apparent reaction to the continuing tension, Athens moved 24 fighter aircraft to Crete early in the week. Since the fighting on Cyprus began, Athens has sent a number of fighters to Crete. The Greeks apparently have not increased the overall readiness of the forces there, however.

The Turks, on the other hand, have maintained their gendarmerie on alert and have aircraft on strip alert in southern Turkey. A number of aircraft recently were observed loaded with bombs, rockets, and napalm. These preparations may signal a Turkish intention to resume air strikes on Cyprus. It also could be a show of force to underscore Turkey's announced intention to assert its control of the airspace over the eastern Aegean.

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7 some flexibility, however. Although he has publicly said that his government opposed a federal solution, he added that the future status of Cyprus should be decided by the Cypriot people themselves. 7

7 Relations between the two countries have been further soured by Ankara's demand this week that all aircraft entering the eastern Aegean make their presence known to Turkish air traffic control centers. Ever since oil was discovered in the Aegean early this year, Ankara has been trying to assert its sovereignty in the area. Minister of Defense Averoff told a US official that the implication of the demand was that Ankara would attempt to enforce its unilateral assertion of the right to control air traffic in an area where Greece had long done so. The Greek Foreign Ministry has rejected the demand. 7

CLERIDES AND DENKTASH

7 Greek Cypriot leader Glafkos Clerides went to Athens and Turkish Cypriot leader Rauf Denktash to Ankara last weekend to coordinate positions for the Geneva talks. In Ankara, Denktash said that a permanent Turkish military presence on Cyprus is necessary and that an autonomous Turkish Cypriot area must include 30 percent of the island. Turkish Cypriots make up about 20 percent of the population. 7

9 Clerides described his consultations in Athens as "constructive," but he did not elaborate. While in Athens, he approved the appointment of a new Greek commander for the Greek Cypriot National Guard. In an interview early in the week, Clerides rejected Denktash's proposal for a geographic federation as not only unworkable but undesirable for both Greek and Turkish Cypriots. He proposed, instead, a plan for a cantonal-type arrangement providing for extensive Turkish Cypriot autonomy. 7

11 Upon his return to Cyprus, Clerides continued efforts to consolidate his position prior to

his departure for Geneva later this week. He did so amid recriminations between left and right that led him to threaten to resign. On August 5, the House of Deputies elected Tassos Papadopoulos to fill Clerides' former position as president of the house. Papadopoulos—who, along with Clerides, is co-leader of the Unified Party—will reportedly accompany Clerides to Geneva. 7

9 Clerides also named a new eight-man cabinet of nonpolitical moderates on August 8. Clerides shuffled the cabinet to make it more representative and to ensure its support for any positions he might take in Geneva. The extreme rightist ministers he inherited from the short-lived Sampson regime apparently balked initially at handing in their resignations. The cabinet was reported to have resigned on August 6, but this was never confirmed officially. The government did announce, however, that preparatory work for the reorganization of the administration had started and "will be completed this week." The cabinet change—along with the reported departure of Nicos Sampson from the island and the start of the rotation of the leading National Guard officers who took part in the anti-Makarios coup—will further diminish the power of the extreme right within the Greek Cypriot community and strengthen Clerides' hand. 7

SOVIETS SEEK ROLE IN A SETTLEMENT

10 7 The Soviets continue to cast about for ways of influencing the settlement of the Cyprus crisis. Their primary concern is that Greece and Turkey will end up with stronger positions on the island and that, as a result, Cyprus' nonaligned status will be threatened. 7

11 Late last week, General Secretary Brezhnev reportedly sent messages to the leaders of several nonaligned nations urging their support for a special session of the UN General Assembly. Although the Soviets seem to have had little success thus far in stimulating any real interest in the

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12 idea, a group of nonaligned representatives reportedly met on August 6 to consider a proposal forbidding foreign military or political intervention in Cyprus and affirming Makarios as the legitimate leader of the island.7

13 Taking another approach, acting Soviet Foreign Minister Kuznetsov told US Ambassador Stoessel early this week that the US and USSR should join efforts to end the conflict. Before the Cyprus coup, Moscow had held out the possibility of joint action, and it may once again be seeking

17 US recognition of a formal Soviet role in the settlement of the problem.7

16 The Soviets have sharply attacked the tripartite peace conference in Geneva. On August 4, *Pravda* said the Geneva cease-fire declaration was meant to delay a political settlement and to prolong the occupation of Cyprus. Soviet Ambassador Minin, who was sent to Geneva as an observer, told US diplomats he was disturbed that the Geneva accord failed to include any guarantees for the future sovereignty of Cyprus.7

17 Moscow fears that the longer Turkish and Greek troops remain on Cyprus, the greater will be the influence of these NATO members and the more likely will be a de facto partition. Ambassador Minin has protested that the Geneva accord speaks only of a reduction of foreign troops "within the shortest possible time," while the UN Security Council resolution calls for the "immediate" withdrawal of all foreign troops. Despite these complaints, the Soviets probably are reconciled to some form of federation of the communities as long as it is within the context of an independent Cyprus.7

17 With the increase in Turkish forces on the island and a new civilian government in Athens, Moscow has cooled on its pro-Ankara policy of the immediate post-coup period. The Soviet ambassador in Athens has been in official contact with the new government, and *Pravda* has commended Athens for its positive attitude toward a Cyprus settlement. The newspaper has even taken a generally sympathetic view of Greek domestic developments, although it did warn that a threat from the right still exists.

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SPAIN FACES THE INTER-REGNUM

18 [The fragile state of Franco's health continues to trouble the Spanish political establishment. Both liberals and conservatives are unhappy about the uncertainty of Prince Juan Carlos' role as interim chief of state. Franco's condition is also stimulating a flurry of activity among opposition groups that are using the present time of political uncertainty to launch new organizations calculated to offer an alternative to the continuation of Franco's system.]

19 [The announcement that Juan Carlos would preside over his first cabinet meeting on August 9 suggests that government leaders believe that even though Franco is out of the hospital, his recovery will be slow. In a conversation with US embassy officials in Lisbon this week, Don Juan—the Prince's father and pretender to the Spanish throne—cited reports he has received which indicate that Franco is not expected to live beyond Christmas at the latest.]

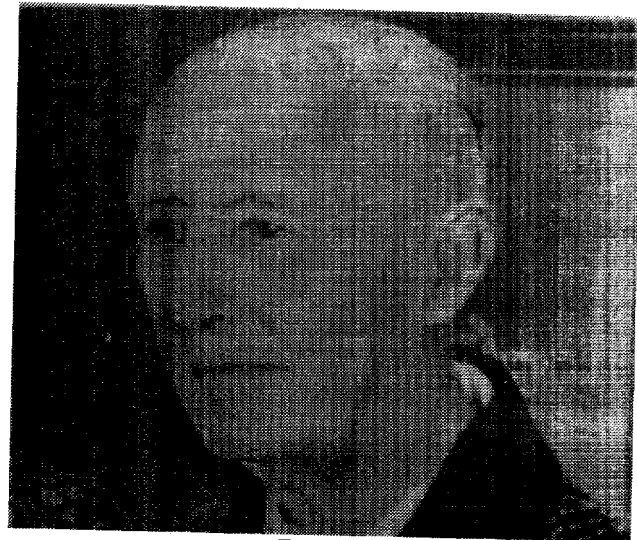
22 [There is no evidence that the Prince is exercising any real power as acting head of state. The local press has emphasized the number of new laws promulgated in Juan Carlos' name, but all of these had been decided prior to Franco's hospitalization.]

20 [Liberals and conservatives in the Spanish leadership are concerned over the present interim position of the Prince. Those who favor liberalization are troubled that Juan Carlos might be discredited by events beyond his control, and conservatives want all powers restored to Franco immediately. Don Juan, who is living in exile in Portugal, has indicated that his continued support of Juan Carlos' succession as chief of state is contingent on Spain becoming a genuine democracy in the post-Franco period.]

31 [Meanwhile, various political groups opposed to the Franco regime are attempting to form coalitions in anticipation of the political oppor-

tunities that are expected to arise in the post-Franco period. Spanish Communist Party chief Santiago Carrillo and democratic oppositionist Rafael Calvo Serer, who has been in exile since his newspaper *Madrid* was closed by the government three years ago, jointly announced in Paris on July 29 the formation of a "Democratic Junta." It reportedly includes a variety of figures from throughout the political spectrum—including Communists—but it has all the appearances of a Communist-directed popular front. The two leaders appealed for support from alleged "recently formed" Spanish military juntas, although there is no evidence that such juntas have been created. By suggesting that such groups do exist, Carrillo and Serer probably hope to attract support from Spaniards sympathetic with recent events in Portugal.]

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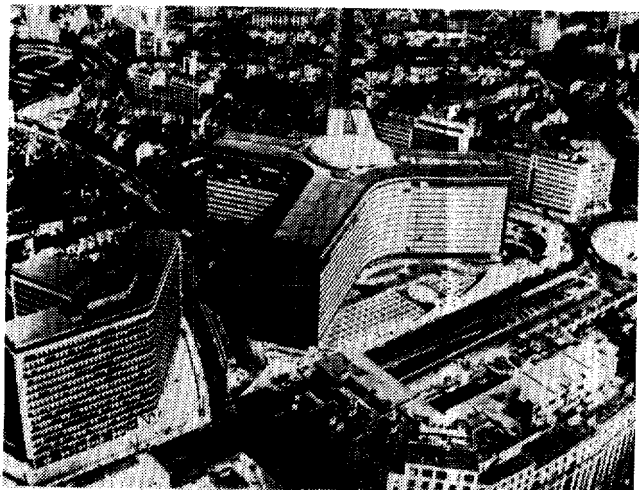
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EC: TIES TO THE DEVELOPING STATES

(2/29)
Last week in Jamaica, the EC and 44 African, Caribbean, and Pacific developing states—mostly former French colonies and British Commonwealth partners—took an important step toward establishing a world-spanning trade association. The meeting put wind back in the sails of the year-old negotiations to replace EC agreements with 17 African states and Madagascar, which expire next January. A number of problems remain, and details must be worked out by experts who will meet this fall in Brussels and at another ministerial meeting in November. The final agreement is expected to be signed in Lome, Togo, early next year. Meanwhile, the ministers set guidelines for further negotiations in three areas:

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EC headquarters in Brussels

Export Earnings for the 44. The EC agreed to consider, among other criteria, the deteriorating terms of trade experienced by the developing states when setting the prices for EC imports of certain products such as coffee, cacao, peanuts, bananas, raw cotton, and palm oil. The community agreed also to reconsider prices whenever earnings from one of these commodities drop below a given threshold. Nevertheless, the commodity agreement falls short of the developing countries' demands for revenue guarantees on all exports. Because the agreement is the first to recognize the developing countries' demand for protection of their purchasing power, it establishes a precedent for future commodity arrangements between developed and developing states.

Trade Cooperation. The EC will offer free access to the community market for all products from the 44 except agricultural products covered by the common agricultural policy. The developing states will not be required, as they had been under the old agreement, to provide the EC with free access to their own markets in return.

Industrial Cooperation. The conference set guidelines for a program that would encourage European sponsorship of new industry in the developing countries. Details will be worked out during the fall.

The biggest problem will be the amount of aid the EC will give the 44 developing states. EC officials believe that the developing states' request for \$8 billion over five years is largely intended to prod the EC into raising its present offer of \$3 billion to \$3.5 or \$4 billion.

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HARASSMENT OF BERLIN TRAFFIC ENDS

The East Germans have apparently ended their harassment of overland travel by employees of the newly established Federal Environmental Office in West Berlin. Bonn remains bitter, however, noting that Pankow has demonstrated its willingness to restrict transit traffic, even if only temporarily.

A transit commission consisting of both East and West German representatives met at Bonn's request on August 6, but made no progress. This setback was not entirely unexpected, and the West Germans will probably make another demarche to the East German Foreign Ministry. Although recognizing that the East Germans are not likely to be impressed by this diplomatic activity, Bonn prefers to keep the affair in bilateral channels in view of the reluctance of the Western allies to consider recourse to four-power consultations. Bonn also believes that such consultations would be an acknowledgement of Pankow's claim that the environmental office is a violation of the Quadripartite Agreement.

Bonn, in any case, may not be able or willing to push the issue much further. There have been no traffic delays or incidents directly related to the environmental office since July 31, making it difficult for Bonn to dramatize the transit problem.

The Soviets and East Germans, for the present at least, appear willing to let the issue fade, but they remain in a position to impose selective controls on transit traffic whenever they wish to press the charge that the West has violated the Quadripartite Agreement.

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FRANCE: GISCARD AND THE GAULLISTS

32 | During his eleven weeks in the presidency, Independent Republican Party leader Valery Giscard d'Estaing has had considerable success in consolidating his control over the Gaullist deputies who dominate parliament. Giscard has been ably assisted by Prime Minister Chirac, a maverick Gaullist. Chirac has successfully solicited support for Giscard's current programs, but there are also indications that he is building his own power base among the remnants of Gaullism and that this ultimately could lead to a confrontation with Giscard.

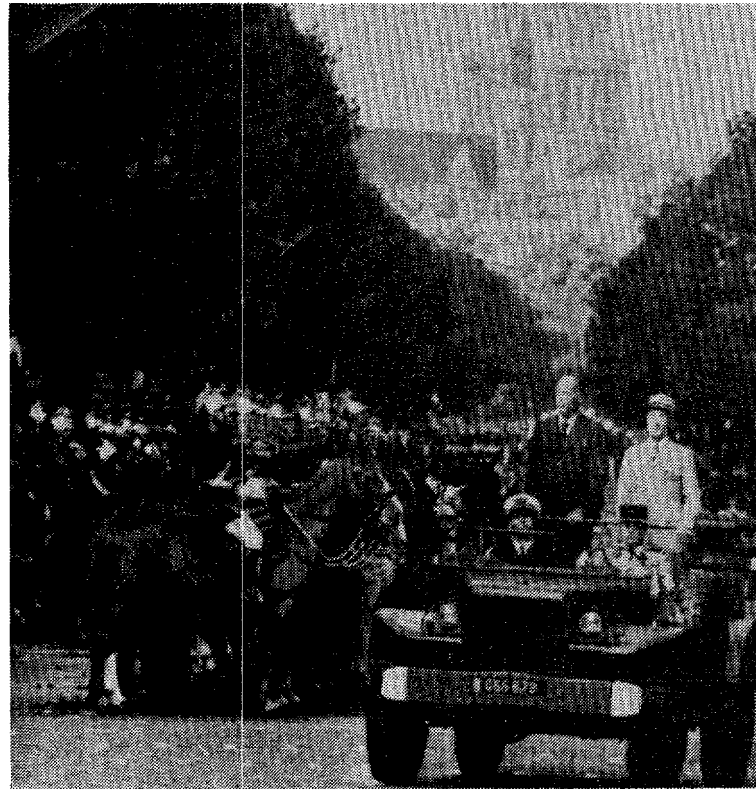
34 | Giscard and Chirac have been firm with the Gaullists, but they have avoided unnecessarily provoking them. The Prime Minister's major policy speech to the Assembly on June 5 directly met Gaullist concerns and contained virtually nothing to which they could object. So far, there have been no parliamentary defections and Giscard can count on a solid majority—all except 20-25 ultra-Gaullists—for his programs. 25X1

32 | The docility of the Gaullists is in large part due to a recognition that their popular appeal has shrunk and to their loss of leadership. Partial legislative elections scheduled for late September could result in further losses. The Gaullists are so disorganized that they made no official comment after Giscard's first press conference—a move without precedent. Their newspaper, *La Nation*, ceased publication on July 12, the same day that Gaullist Secretary General Sanguinetti publicly pledged his allegiance to Chirac. Meanwhile, Chirac has succeeded in postponing the Gaullists' national congress, originally set for November, until next year—by which time he expects to have tightened his control.

34 | Despite 16 years in power, the Gaullists lack both a tight structure and a formal method of choosing a new leader. Secretary General Sanguinetti, a technician, was never intended to be Pompidou's heir. The Gaullists' cohesion—on which their political future depends—is strongly challenged not only by Giscard's determination to form a new centrist majority but also by the rivalries and alienation of well-known Gaullists. 32 | None of the "barons" has a following large

enough to serve easily as a new focus for the Gaullists, and only Olivier Guichard has any chance of serving in the cabinet during Giscard's seven-year term. Chaban-Delmas plans to try to form his own center-left party, while Michel Jobert hopes to rally the small but influential segment of the population who sympathize with Gaullist nationalism and anti-Americanism. Many Gaullists still seem partially stunned by their loss of power.

34 | Sanguinetti is still trying to pull the Gaullists together, but his efforts have an air of unreality. His proposals include an official name change—from "Union of Democrats for the Republic" to "Popular Democratic Assembly"—and increased attention to youth, a belated recognition of the steady leftward drift of Gaullist youth that may well be too little and too late. 25X1



Giscard reviewing Bastille Day parade

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SECRET**LAOS: "A COMMUNIST CARETAKER"**

37 Prime Minister Souvanna Phouma has designated Lao Communist Deputy Prime Minister Phoumi Vongvichit to head the coalition government during his convalescence abroad. Phoumi, who also serves as foreign minister, expects to take over before Souvanna's departure for France, now anticipated for sometime around August 20. Phoumi's selection as temporary "acting prime minister" marks another success for the Lao Communists in their effort to gain the upper hand in the four-month-old coalition.

25X1 [redacted] a majority of non-Communist coalition cabinet ministers reluctantly agreed to Phoumi's selection at a special meeting convened earlier this week by their own deputy prime minister, Leuam In-siengmay. The non-Communists insisted, however, that Phoumi's duties be limited to the "regulation of government business" and that both sides share equally in making decisions. Phoumi apparently agreed to this formulation.

44 Defense Minister Sisouk na Champassak, who represents the interests of southern rightists and the non-Communist military establishment in the cabinet, did not attend the August 5 meeting. He has since voiced strong opposition to Phoumi's temporary succession.

11 The sudden about-face by the non-Communists—who had previously maintained that



Phoumi Vongvichit

Leuam and Phoumi should jointly head up the government—resulted from Phoumi's revelation of a secret written agreement between Souvanna and the Communist negotiators. Just before the signing of the peace protocol last September, Souvanna promised that, in the event of his absence from the country, the senior or eldest minister from the Communist side would serve as his temporary replacement.

40 Phoumi had, in fact, already begun to assert himself as acting prime minister. He had taken the initiative for the cabinet meetings held since Souvanna's heart attack. Although he shared the chair with the lackluster Leuam, Phoumi clearly dominated the sessions.

37 There is growing apprehension among the non-Communists that Souvanna may never be able to resume his official duties. For the first time since the Prime Minister was stricken, the non-Communists on August 5 seriously considered the problem of selecting a permanent successor.

40 They generally agreed that their first choice should be a political nobody from outside the coalition structure, and decided on Prince Khammao, the president of the King's Council. The second choice was Interior Minister Pheng Phongsavan, a strong candidate for the prime ministership because of his neutralist credentials.

44 As a possible third choice for the prime ministership, the non-Communists surprisingly agreed that they could accept nominal Pathet Lao leader Prince Souphanouvong—provided he would place nationalism above Communist objectives and would be acceptable to the US and other Western powers.

41 Souphanouvong is already campaigning for the job. He has held a series of informal meetings with leading military and political power-brokers on the Lao right, the ostensible purpose of which was to keep tensions low during Souvanna's incapacitation. The conservatives are convinced that the Prince's "opening to the right" is intended to improve his acceptability as Souvanna's successor.

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CHINA: THE GANG'S ALL HERE

45 [Last year, Army Day (August 1st), the fourth of China's five major holidays, was a tepid affair with several top leaders, including Chou En-lai and Madame Mao, skipping the customary reception given by the Ministry of National Defense, and China's three major newspapers omitting the usual joint editorial. There was no editorial again this year, but the leadership turnout was much more impressive. In a move almost certainly calculated to demonstrate the unity of the national leadership despite the divisiveness of the anti-Confucius campaign, all but one of the active Peking-based Politburo members attended this year's gathering]

45 [Heading the turnout in every sense was Chou En-lai, making his first appearance since his hospitalization last month. As if to underline his leading role, the Premier
 47 [redacted] entered the hall—to lengthy applause—several paces in advance of the other top leaders. Politburo member Yeh Chien-ying, in his capacity as de facto defense minister, acted as host and delivered the traditional toasts. As usual, Mao did not attend.]

45 [The reception was highlighted by the return of a number of senior military officers purged during the Cultural Revolution. Among them was a former chief of staff whose reputed opposition to Madame Mao contributed to his disgrace. Also present were several prominent rehabilitated civilians, who had surfaced at the Tenth Party Congress last August. Both groups were listed among the "also present," suggesting that they have not been given official posts.]

45 [Celebrations in the provinces seemed decidedly low-keyed. Many provinces failed to publish a list of those attending local gatherings--an indication of the unsettled leadership situation in many areas. Military men who hold government and party posts in the provinces have been heavily criticized during the anti-Confucius campaign.]

ARMY DAY LEADERSHIP TURNOUT	
"In Attendance"	
Chou En-lai	Premier and leader of the moderate faction on the Politburo.
Wang Hung-wen	Young vice chairman of the party who rose to prominence at the Tenth Party Congress last year.
Yeh Chien-ying	De facto defense minister and an ally of Chou En-lai.
Chu Te	Retired army marshal and honorary elder.
Chang Chun-chiao	Generally believed to be one of the more powerful members of the Politburo and may be the secretary general of the party.
Chiang Ching	Wife of Mao and leader of the radical faction on the Politburo.
Yao Wen-yuan	Ally of Chiang Ching.
Li Hsien-nien	Finance minister and long time associate of Chou.
Teng Hsiao-ping	Second highest figure purged during the cultural revolution; now one of the more active Chinese leaders.
Chen Hsi-lien	Commander of Peking Military Region.
Chi Teng-kuei	Former provincial figure who may now be responsible for the trade unions.
Hua Kuo-feng	Originally from Hunan Province where he has been criticized in wall posters.
Wu Te	Boss of Peking and head of the Cultural Group; indirectly criticized earlier this year by the radical faction.

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47) The reduced status of the military since the Cultural Revolution was reflected in a number of small ways during the holiday. The toasts and attention accorded the People's Liberation Army on their day were fewer and less effusive than in past years, although they were in keeping with the limp affair last year. Moreover, the day passed without a clue to any break in the long-standing impasse over the selection of a new defense minister or chief of staff; both posts have been vacant since the Lin Piao crisis almost three years ago.

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44) Chou's theatrical entrance and his seemingly deliberate performance as he moved from table to table exchanging toasts should help to reassure his followers that the Premier's recent illness is neither political nor so incapacitating that he is unable to participate in the affairs of state. The attempt at a show of unity is likely to be less convincing for most Chinese. The twists and turns in the anti-Confucius campaign over the past year have made clear that the top leadership remains divided.

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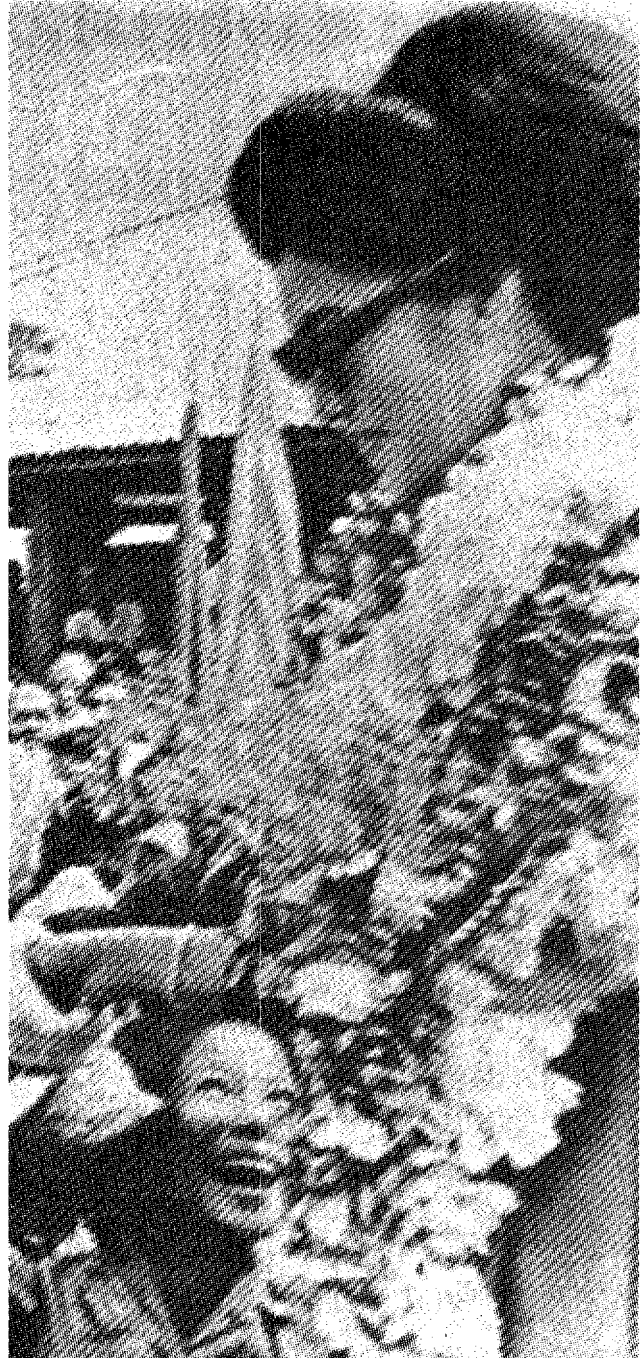
PHILIPPINES: DISTAFF DIPLOMACY

52/ Philippine first lady Imelda Marcos will make a "cultural" visit to China in mid-August. Mrs. Marcos, who considers herself the country's premier diplomat, has long wanted to be the first important Philippine visitor to Peking, and stories of an impending trip have appeared in the Manila press frequently during the past two years. Although the visit will be largely ceremonial, it is in line with Manila's efforts to improve relations with Peking.7

55/ For two years now, President Marcos has given great publicity to his desire to redress the balance in Philippine foreign relations by opening ties to Peking and Moscow. Although Manila has had a great deal of contact with Moscow, there has until recently been little substance to the rhetoric about Peking. Marcos is now showing serious interest in improving state-to-state relations with China. He believes that Peking is potentially an important trading partner for the Philippines, particularly as a supplier of rice and oil.7

55/ Marcos wants to expand relations with Peking without disrupting Manila's important commercial ties with Taipei. He is undoubtedly trying to prepare Taipei for the considerable publicity that will surround Mrs. Marcos' trip and to convince the Nationalists that he has not abandoned his cautious policy toward Peking.7

52/ According to Foreign Secretary Romulo, Mrs. Marcos' trip is tentatively scheduled for August 17. The composition of her party has not yet been decided, but Romulo said that no senior foreign affairs officials will accompany her. To help boost Mrs. Marcos' image as an important figure in Philippine foreign relations, however, her trip may result in the public announcement of some new agreement, probably the recently concluded contract for oil imports. [redacted]



Mrs. Marcos

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Law of Sea Conference in Caracas

LAW OF THE SEA: TROUBLED WATERS

(90+91)

The current session of the Law of the Sea Conference in Caracas has reached mid-point, with the basic issues still unresolved and little prospect of reaching agreement during this summer's session. There is a growing belief among the participants at the conference that two more sessions may be needed to draw up a new treaty governing the navigation, use, and exploitation of the oceans. Progress has nevertheless been made in Caracas, and many countries, now familiar with the complexities of the issues involved, have abandoned positions based on regional or ideological loyalties for more flexible approaches.

The land-locked group remains a major exception. There has been no lessening of their demands that they be given extensive rights in the waters of the coastal states and that they benefit from exploitation of the seabed and its resources.

The business of the session has been transacted in the conference's three committees:

- Committee I—the deep seabed and the rules and machinery for its exploitation.
- Committee II—the territorial sea and economic zone (including straits).

- Committee III—marine pollution, scientific research, and transfer of technology.

As expected, the question of the extent of control by a seabed authority over the commercial development of the resources of the international seabed area has been a difficult one. Moreover, a deadlock over the insistence by the coastal states that resolution of their rights in the economic zone not be divorced from the discussion of marine scientific research and pollution questions threatens to stall completely the deliberations of the second and third committees.

In an effort to break this deadlock, a compromise proposal was submitted to the conference last week by Canada on behalf of nine sponsors. Concerned almost exclusively with coastal states' rights, it proposes to extend the sovereignty of coastal states to include resources, pollution control, and freedom of navigation and overflight within the economic zone. The proposal was tabled over the heavy objections of the land-locked states, and both the major developed and the land-locked countries have rejected it as a basis for further negotiation. Most countries at the Caracas session, however, are continuing to negotiate seriously and still hope to produce at least a draft of treaty articles before the session concludes on August 29.

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INCREASED SUPPORT FOR ARAFAT

60] Moscow increased its public support of the Palestine Liberation Organization last week. It nevertheless stopped short of officially endorsing the organization as the only representative of the Palestinians, apparently in order to retain its flexibility on the Palestinian issue at the Geneva conference and to avoid cutting its ties with other fedayeen groups.]

7] The communique of August 3 skirted the issue of whether Yasir Arafat's visit to Moscow was official and failed to say under whose auspices he was received. It referred only to Arafat's meetings with Soviet party secretary Ponomarev and First Deputy Foreign Minister Kuznetsov. 58] Kuznetsov subsequently told US officials that Moscow had not explicitly recognized the PLO—as was evident from the communique—but added that the recent conference of the Palestinians had made it “more or less clear” that the PLO is the only organization that can speak on their behalf. 7]

59] [The Soviets called for Palestinian participation at the Geneva Peace conference, saying that the PLO should attend “with rights equal to those of other participants.” Kuznetsov subsequently qualified this support by saying the Palestine issue should not be allowed to delay the reopening of the conference, which he emphasized was an urgent matter. He said the details of Palestinian participation could be worked out later.]

7] The Russians also consented to the opening of a PLO office in Moscow, but the communique contained no details. The Egyptian ambassador to the USSR believes the PLO office will be accredited to the Afro-Asian Solidarity Committee and will have no diplomatic status. The Egyptian added that rumors that Moscow planned to supply arms to the Palestinians were probably untrue since the PLO can get weapons from several Arab states, including Egypt. 7]

Palestinians Differ Over Negotiations

60] The Soviet reaffirmation of support for a peaceful settlement of the Middle East problem

and the call for PLO participation may have widened the split between pro- and anti-negotiation elements within the fedayeen movement. Moderates like Arafat favor PLO participation in peace efforts, but “diehards” like George Habbash of the Popular Front for the Liberation of Palestine oppose a negotiated settlement and believe that the current efforts toward such a solution will fail.]

59] Prior to Arafat's visit, Habbash openly criticized Moscow for assuming that a satisfactory political settlement of the Palestinian question could be found. Habbash and other opponents of negotiations may call a special meeting of the Palestine National Council to discuss what they brand as a “violation” of the PLO program adopted on June 9. At the June meeting, it was agreed to delay a decision on the attendance of the PLO until the organization was formally invited. [redacted]

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Ethiopian military searching for officials this spring

Until this past weekend, it appeared that the committee was willing to share de facto authority with a cabinet of civilians whose political and social outlook tended to parallel their own. A bitter quarrel between Prime Minister Mikael and the military committee over the composition of his cabinet threatens to upset this arrangement, however. Mikael, while accepting the committee's choices for the defense and interior ministries, disregarded its suggestions on four other ministries.

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ETHIOPIA: MILITARY STILL DOMINANT

The appointment last month of a new civilian prime minister—Mikael Imru—has done nothing to ease Ethiopia's painful transition to a new political era. Friction between civilians and the military—and within the armed forces themselves—continues to inhibit efforts to get government machinery moving again.

Military moderates, ranging from majors down to sergeants, are the dominant political element. They are loosely organized under the Armed Forces Coordinating Committee in Addis Ababa—the core group of a network of committees beset with junior-senior, ideological, and regional rivalries. The committee is a controlling force in the ad hoc structure of government—ostensibly presided over by a civilian cabinet—that is trying to hold the country together in anticipation of the issuance of a new constitution sometime later this year. Some senior officers opposed to the old aristocratic system may exert influence behind the scenes.

The government structure, already disrupted during the last six months as a result of political turmoil and the arrests of over 100 former officials, is likely to become even less effective. A military cabinet would lack the talents needed to run the government, while the only alternative—a capitulation by Mikael—would further sap the cabinet's confidence and damage the morale of civil servants.

Ranking officials in the ministries already are avoiding decisive action for fear of being denounced. Moreover, the additional persons arrested last week by the military for trial on charges of corruption and abuse of authority for the first time included medium- and lower-echelon employees. As the dragnet broadens, civil servants will inevitably be primarily concerned with their own security. Meanwhile, inadequate drought relief and all the other serious social and economic problems that precipitated the February uprising continue to fester.

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Ian Smith

RHODESIA: AFTER THE ELECTION

67 The parliamentary election last week confirmed Prime Minister Smith's leadership of Rhodesia's beleaguered white settlers. His victory occurred in the face of a second year of active insurgency and the prospect that events in neighboring Mozambique will benefit the Rhodesian insurgents. It is doubtful, however, that Smith's victory will help him achieve his goals of securing a constitutional agreement with leaders of the country's black majority, British recognition of his breakaway government, or an end to international economic sanctions.

68 Smith dissolved parliament in June when leaders of the African National Council, the largest black political organization in Rhodesia, rejected his latest constitutional recommendations. Under Smith's proposal, Rhodesian blacks, who outnumber whites 20 to 1, would be prevented from securing a majority in parliament for at least 40 years. During the campaign, Smith claimed that the opposition white Rhodesia Party had encouraged the African National Council to reject his proposal. He denied that the council's stand was truly representative of black opinion.

67 In the election, Smith's Rhodesian Front Party won all 50 of the seats allocated to whites in the assembly. Candidates who supported the council's stand won seven of the eight seats that

represent the 7,000 blacks who are allowed to vote. Other members of the assembly are indirectly elected from tribal groupings.

71 Shortly after the election, Smith said he was inviting a representative group of black leaders to a conference to attempt to resolve the constitutional impasse. Bishop Muzorewa, president of the African National Council, has already said that his group will boycott the conference unless Smith releases other council leaders who are under detention. Smith might be willing to make concessions to get council leaders to attend the conference, but they would probably be outnumbered by compliant blacks such as traditional tribal chiefs. The UK is unlikely to agree to any settlement that is not acceptable to the council.

68 Smith presumably hopes that at the conference he can drive a wedge between Muzorewa and more militant council leaders. The militants, according to Smith, are collaborating with guerrilla leaders opposed to any negotiations with the government. It appears, however, that recent events may be pushing Muzorewa closer to the militants.

68 Smith's campaign rhetoric gave such heavy emphasis to his determination to maintain white supremacy that Muzorewa and other black

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Rhodesians may well feel that there is nothing to be gained from dealing with him. The council's rejection of Smith's terms last June seems to have been vindicated by the election victories of the black candidates approving this stand.

9 Muzorewa no doubt expects that a black government will soon emerge in Mozambique, and that such a government will support the black Rhodesian nationalist organizations that are waging the insurgency against the Smith regime. Thus, Muzorewa—who has always opposed the use of force—is under some pressure to reach an accommodation with the leaders, or to outbid them for international support. Smith has apparently ruled out any dealings with leaders of guerrilla organizations in Rhodesia.

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INDIA MOVES TO CURB INFLATION

14 The anti-inflation measures announced last month underscore Mrs. Gandhi's deep concern but fail to reach the heart of the problem—the government's unchecked deficit spending and severe shortages of industrial and agricultural goods. The new program reflects her effort to stem rising wholesale prices, which in recent weeks have climbed at an annual rate of more than 40 percent, following a record 28-percent for the year ending June 30, 1974. The new legislation will impound salary and wage increases, limit dividend payments to not more than one third of after-tax profits, require income taxpayers to bank 4 to 8 percent—depending on income—of gross salaries over \$1,900, and sharply curtail commercial credit.

18 New Delhi has also imposed some minor new taxes on unfinished products, which will boost revenue by about \$300 million. Government expenditures, however, will probably exceed the current budget by \$750 million. Although New Delhi's supplementary budget is an attempt to

raise additional revenue, there is little chance that the government can hold deficit financing to \$156 million as planned.

16 Mrs. Gandhi has asserted her intention to bring inflation under control even at the expense of her popularity, but in her efforts to raise revenue and regulate incomes she has steered pretty well clear of agriculture, India's predominant economic activity and the principal potential source of revenue. The Indian constitution reserves to the state governments the right to tax farm income, but state governments are heavily dependent on large-scale farmers for political support and have not taxed farm incomes, which have increased sharply since 1966. New Delhi recently urged the states to increase agricultural taxes and to stop subsidizing water and power used for irrigation. Should the disappointing monsoon season continue, the consequent price rises for basic commodities will put additional pressure on New Delhi to take more strenuous action.

21 Anti-inflation measures also leave virtually untouched "black" money—currency that has evaded being taxed—which amounts to an estimated \$625 million, or about 5 percent of the money supply. Rumors persist, despite denials from New Delhi, that the government is considering demonetization measures—reduction of the face value of high-denomination currency notes and bank accounts—that would surface substantial amounts of this "black" money. Government officials maintain, however, that such measures are not in the offing.

22 While the current measures are designed to reassure the people that the government is taking action, New Delhi finds it increasingly difficult to retain popular support when its efforts fail to halt the inflationary spiral. High prices, combined with shortages and alleged corruption in government, could stimulate another round of urban unrest similar to that of last winter.

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Velasco

PERU: DEMONSTRATIONS FIZZLE

17 The anti-government protests that erupted in Lima last week following nationalization of the city's major newspapers petered out by the weekend after the Interior Ministry issued a toughly worded ban on further demonstrations and warned that police would open fire if there were more disturbances.

29 The government also announced that at least some of the 400 people arrested during the protests would be tried and that 100 vehicles impounded by police would be sold to pay for damages. The demonstrations were centered in a middle-class residential district and appear to have been led by young supporters of Fernando Belaunde Terry, the exiled former president who was overthrown by the armed forces in 1968.

11 The protests peaked on July 29, when an unruly crowd disrupted a party hosted by Prime Minister Mercado at Lima's main army officers' club. The guests, including Cuban First Vice Prime Minister Raul Castro, were forced to retreat indoors from a show on the patio when tear gas permeated the area. Two evenings later, a caravan of cars—license plates covered—stopped in front of the Soviet embassy. The occupants peppered the building with rocks, broke some windows, and sped away.

13 Although the protests were more of an embarrassment than a danger to the military government, they do show that the Peruvian middle class has not been totally cowed. Official spokesmen played down the incidents and emphasized that the disturbances were staged by "those who have lost their privileges forever."

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82 Unlike many of the military government's earlier revolutionary moves, the press take-over hits middle-class Peruvians close to home. It may have jolted many into heightened concern over the possible consequences if President Velasco's plans for further changes in Peruvian society are implemented, and there may be more manifestations of middle-class apprehension in the months ahead.

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CHILE: CRIME AND PUNISHMENT

84 Verdicts and sentences in the major public trial held by the air force between April and June finally were issued last week.

85 The four death sentences handed down were commuted to 30 years imprisonment on August 5. The relatively quick commutation indicates that the military government has grown increasingly aware of the damage that the executions last year have done to Chile's international image. The rest of the sentences are under review, and at least some of the prison terms probably will be substantially reduced. About 1,800 of the officially admitted 6,000 leftist prisoners have yet to be formally charged, however, including high-ranking officials of the Allende regime and leftist party leaders.

87 Most of the 60-odd defendants were military men, but civilian Carlos Lazo, a former vice president of the state bank, was one of those

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condemned to death. Former Socialist senator Erich Schnake got 20 years. The most serious charges involved leftist attempts to promote insubordination in the air force and the passage of military secrets to the "enemy."

Defense lawyers had argued that since the offenses allegedly were committed before the coup that overthrew the Allende regime, the trials should have been held before a peacetime military tribunal rather than a wartime court-martial. Prosecuting attorneys countered with the proposition that the state of war predated the coup. The issue is crucial, since some minor peacetime infractions of the military justice code are major violations in time of war.

In a 234-page opinion, the air force court ruled that an undeclared state of war came into being years before the coup, i.e., with the organization of leftist paramilitary forces—the "enemy"—and the "mobilization" of the armed forces to combat political violence. Having declared that a state of war did exist when the offenses were committed, the court went on to cite precedents such as the Dreyfus case and the Stalin purge trials to demonstrate that an "enemy" can exist even in peacetime. The opinion ignored defense charges that torture was used to obtain confessions.

Good legal arguments can be made on both sides of the question of when the state of war began, but on the whole the air force court's opinion is more a political tract than a legal analysis. The reviewing officer based his decision to commute the death sentences on the previous good records of the defendants.

Some military men feel there should be no more spectacular public trials, and the government seems unsure how to proceed against its most prominent prisoners. Whatever the decision, however, it is likely to reflect the military's determination to continue to do things its own way despite heavy criticism from abroad.

COLOMBIA: A NEW GOVERNMENT

Alfonso Lopez Michelsen was inaugurated President on August 7, ushering in a new political era for Colombia. His administration is the first to succeed the National Front coalition in which the dominant Liberal and Conservative parties had been allied since 1958. Lopez, a Liberal, defeated the Conservative candidate in the election last April by almost a two-to-one margin, and the Liberal Party gained control of both houses of congress.

In his inaugural address, Lopez indicated that he would follow through on the largely economic thrust of his campaign. Colombia's most significant domestic problem is inflation, which reached 24 percent in 1973 and is likely to be even higher this year. Lopez has called for voluntary wage and income controls, but he has promised to impose controls if necessary. He is also likely to implement tax reforms and to decrease foreign borrowing.

Prior to the inauguration ceremony, Lopez announced his 13-member cabinet. Like the four cabinets of the National Front presidents, the new one is divided equally between Liberals and Conservatives—six portfolios to each party and the 13th, defense, to an army general. Although the Front has technically ended, this first post-coalition administration is required to maintain political parity in appointive positions.

President Lopez, who served as foreign minister from 1968 to 1970, is an aggressive supporter of independence and pluralism in Colombian foreign relations. He is expected to strengthen trade ties with Communist countries, encourage the end of sanctions against Cuba, and take a protectionist stand on natural resources. Although critical of some aspects of US policy toward Latin America, President Lopez is expected to do nothing to threaten Colombia's traditionally warm relations with the US.

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Weekly Summary

Special Report

Ostpolitik from Brandt to Schmidt

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OSTPOLITIK
FROM BRANDT TO SCHMIDT

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Summary

The Guillaume espionage case and Chancellor Brandt's subsequent resignation occurred at a time when Bonn's Ostpolitik was showing some signs of rejuvenation. Despite this setback, neither Bonn nor Pankow wished to reverse what had been accomplished under Brandt; they proceeded to establish diplomatic relations shortly thereafter.

Chancellor Schmidt, a major figure in Brandt's government, wants to maintain continuity in relations with all the Eastern countries, but he plans to pursue a more cautious policy in line with his more modest expectations of what can be accomplished.

The difference between Brandt's and Schmidt's policies will be most evident in their differing views on economic cooperation with the East. Brandt and his chief foreign policy adviser, Egon Bahr, wanted to move in this direction, hoping to get the government more actively involved in promoting trade and financing industrial projects. They regarded Ostpolitik as a long-term process, designed to preserve the possibility of German reunification by slowly overcoming the division of Europe.

Schmidt, a politician more attuned to problems within the Atlantic community, gives highest priority to the threat of economic instability that Western Europe faces as a result of the rising cost of raw materials and energy. He argues that the need to control inflation rules out the granting of large credits or loans to the Eastern capitals. Although interested in industrial projects that promise deliveries of energy from the Soviet Union, he has informed the Soviet leaders that at present Bonn cannot afford to give financial assistance.

Schmidt's parsimonious attitude will displease the Soviets, who will make their impatience evident when the Chancellor visits Moscow this October. Bonn's decision to establish a Federal Environmental Office in West Berlin this fall has also soured bilateral relations. From all present indications, however, neither side wants a confrontation to develop over this issue. Their goal will be to create as much favorable publicity at the summit meeting as possible since no major agreements are likely to be concluded.

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In the long run, we are very keen--if only for the sake of supplying our economy with raw materials and energy--on raising trade with Moscow and the other East European countries even further. From the Soviet Union we want great quantities of raw materials of every description: natural gas, crude oil, possibly electric current.... We must be prepared to grant credits once the situation concerning our export surpluses has become somewhat more favorable again. That will be the case in one or two years. The Soviet leaders know that at present we are close to the edge of our capacity.

Chancellor Schmidt
June 12, 1974

Background

The collapse of the Brandt government following the Guillaume affair came at a time when Bonn was about to conclude its efforts at restoring normal political relations with the USSR and Eastern Europe. Brandt was particularly interested in establishing a new relationship with the "other Germany" based on trust, and he looked forward to the opening of diplomatic relations with East Berlin. Upon leaving office, however, he had only the bitter feeling that he had been victimized by East German machinations.

The revelation of Guillaume's espionage activities in the chancellor's office also came at a time when Brandt's critics were claiming that Ostpolitik had already come to a dead end. Many parliamentary deputies on both sides of the aisle were pointing to the widespread public feeling that Ostpolitik had failed to live up to the expectations raised by the chancellor.

To be sure, the general atmosphere of Bonn's relations with the East had certainly improved, compared with the hostility and recriminations that characterized the first 20 years of the Federal Republic's existence. Ostpolitik had helped free a new generation of West Germans from the burdens of the past and had permitted Bonn to have the same kind of relationship with the East Europeans that the other Western nations enjoy. The Brandt government could also pride itself on contributing to East-West detente, and could claim that the current series of multi-

lateral negotiations would never have been possible without Ostpolitik.

The government could also point to such tangible gains as the improvements in transit and traffic privileges that allowed greater access to East Berlin and East Germany. The Quadripartite Agreement on Berlin, which went into effect after the Bundestag ratified the non-aggression treaties with the Soviet Union and Poland, reaffirmed Western legal rights and access to the divided city. More West Berliners and West Germans have since been able to visit the "other Germany" than at any time since the Berlin Wall was erected. Automobile traffic between West Germany and West Berlin rose by nearly 17 percent in 1973, and travel by West Germans to East Berlin and East Germany jumped by almost 62 percent during the same period.

Nevertheless, by the end of 1973, enough difficulties had emerged to convince many West Germans that Ostpolitik was running out of steam. Although Bonn went on to establish diplomatic relations with the remaining East European countries, these governments refused to give a formal guarantee that West Berliners traveling in their territory would receive legal assistance as part of the usual consular services. They referred West German officials to Moscow to settle the issue.

Most disappointing of all was Pankow's decision in November to double the minimum

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currency exchange requirement for travel to East Germany. This tactic reduced visits by roughly a third from the 1973 level. Officials in Bonn and West Berlin protested strongly but had no means of forcing Pankow to reverse its action.

Before "The Fall"

In response to this situation, Brandt and Bahr wanted to prove that Ostpolitik was not stagnating, hoping at the same time perhaps to distract public attention from other problems that the chancellor was encountering on the domestic scene. During his 11-day visit to Moscow in early March, Bahr discussed Berlin issues with Soviet leaders and made preparations for the chancellor's visit to the Soviet Union later this year. Some progress was made in negotiating a scientific and technological agreement as well as a bilateral legal assistance agreement extending such services to West Berliners. West German and Soviet officials were in fact trying to conclude these negotiations when the Guillaume affair became public.

During Bahr's visit, the Soviets announced that they were prepared to pay cash for nearly \$1 billion worth of equipment to be provided by West German firms during the first phase of the Kursk steel mill project. The Soviet decision removed pressures on Bonn to subsidize the project and, at the same time, underscored Moscow's interest in giving Brandt a badly needed public relations boost after his party's defeat in the Hamburg state elections.

The East Germans, for their part, agreed at about the same time to place diplomatic relations on a firmer basis by exchanging permanent missions with Bonn. A few weeks later, the two Germanies concluded three bilateral accords in the humanitarian field. West Berlin officials, who had often charged that Brandt and Bahr were sacrificing the city's interests for the "broader" goals of Ostpolitik, were gratified that Bonn's permanent mission would be allowed to provide consular services for West Berliners and that the three inter-German accords also applied to West Berlin. Thus, just prior to the Guillaume affair,

Ostpolitik was again showing some signs of progress.

Schmidt at the Helm

Chancellor Schmidt clearly does not have the commitment to Ostpolitik that motivated Brandt and Bahr. Like most residents of Hamburg, where he was born, Schmidt looks westward and is convinced that West Germany's future lies in its relationship with the Atlantic community. Schmidt's principal areas of interest are financial policy, European monetary cooperation, and defense problems pertaining to the Atlantic alliance—a subject on which he acquired considerable expertise as defense minister in the first Brandt government. In his government declaration on May 17, Schmidt stated that he intended to place a high priority on dealing with domestic economic problems—something that many voters felt Brandt had failed to do. The dismissal of Brandt's protege, Egon Bahr, from the cabinet and from the post of federal plenipotentiary for Berlin was another sign to some that the new Chancellor intended to substitute a policy of "benign neglect" for Brandt's active policy toward the East.

Despite these developments, Schmidt has stated publicly that he intends to travel to Moscow to meet with Brezhnev later this year, probably in October. His decision came as a surprise in Bonn where the Guillaume affair still rankles and where many believe that the East should have first demonstrated its good intentions before Schmidt agreed to visit Moscow.

Actually, East Germany soon made a move in that direction. In an apparent effort to make amends for the damage the Guillaume affair had done to bilateral relations, Pankow announced in late May that it would be prepared to hold bilateral talks concerning the currency exchange requirement and economic cooperation, especially industrial projects involving the delivery of energy to West Berlin.

Pankow's forthcoming attitude was probably the result of prodding from Moscow. Both the Soviets and East Germans are aware that Schmidt

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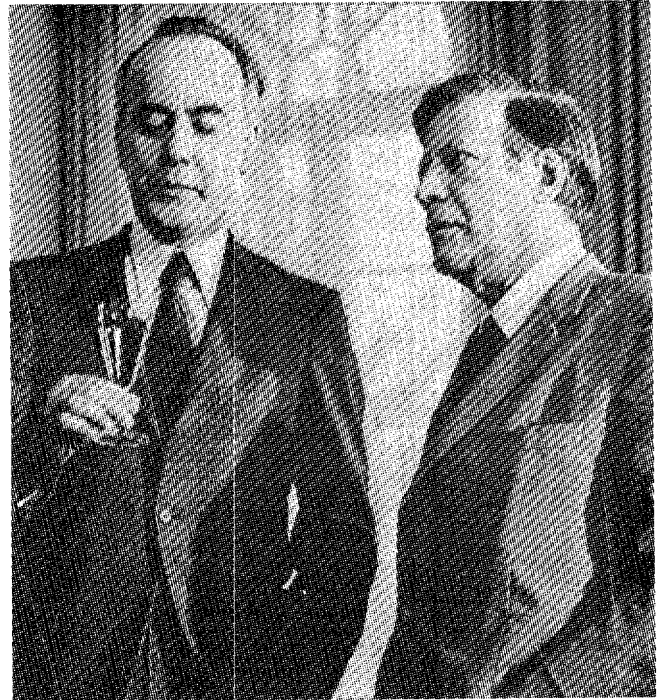
is in a strong position in view of the reluctance of most West Germans to see Ostpolitik moving again if the price is additional political and economic concessions. The bilateral talks so far have not taken place.

Elements of Continuity

Schmidt's decision to go ahead with a summit meeting with Brezhnev this fall reflects the value he places on maintaining continuity in relations with the East. He is aware that since its revival by foreign minister Schroeder in the Erhard government more than a decade ago, Ostpolitik has become a permanent dimension of German foreign policy. A pragmatist, the new Chancellor also realizes that he must keep open his channels to Moscow and is anxious to establish personal contact with the Soviet leaders. Any sign that he was allowing detente to wither would raise serious problems for Schmidt with his colleagues in the Social Democratic Party and would disappoint the East Europeans who had no role in the Guillaume affair. Schmidt indicated that he was aware of these considerations when he praised the previous government's efforts at detente in his maiden speech to the Bundestag.

Moscow likewise has no intention of allowing inter-German problems to undermine its relations with Bonn. As long as Bonn does not adopt an anti-Soviet line, Moscow seems prepared to do its part to keep relations between the two states on a businesslike basis. Brezhnev and Brandt were able over a period of time to develop a relationship that enabled both sides to discuss their problems in a candid fashion. There is no reason to believe that the Soviet leaders will be unable to deal effectively with Schmidt, even though they view him with some caution. The Soviets probably believe he is bound by the agreements they concluded with Brandt and that he will not radically alter bilateral relations. Their demonstrated desire for Western technology and long-term credits is another factor underlying their apparent interest in assuring stable relations.

The East Europeans also have a strong interest in expanding relations with Bonn. Their eagerness for greater trade and economic coop-



Economics Minister Friderichs (I) and Chancellor Schmidt

eration with West Germany will not be affected by their need to support the political interests of their East German ally. In the past, several Eastern regimes have grumbled that the East Germans enjoyed the economic benefits of inter-zonal trade for years while slowing efforts by others to establish diplomatic relations or to expand trade with West Germany. Now that the two Germanies are developing their political relationship within the framework of the Basic Treaty, Pankow has little say over what the other East Europeans choose to do in their relations with Bonn.

Finally, and perhaps most important, there are no major political disputes between Bonn and most of the Eastern capitals. The Eastern regimes, moreover, have had to end their vitriolic attacks against German revanchism to prove their commitment to detente.

Berlin Issues

Despite the extent to which Bonn's relations with the East have been "normalized" and the

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interest of both sides in keeping them that way, sources of past and future friction continue to exist. The complex issue of legal assistance for West Berliners traveling in the East is a good example of this. Most Eastern governments allow West German embassies to provide consular services and, as a matter of practice, legal assistance to West Berliners. They insist, however, that Bonn has no authority in cases involving West Berlin courts. West German and Soviet negotiators have reached agreement on a formula to solve the issue but remain deadlocked on the manner of official Soviet acknowledgement. Schmidt and Brezhnev may discuss this issue when they meet this fall.

 Pressure from some coalition leaders and West Berlin officials, particularly Mayor Klaus Schuetz, forced the government to follow through with the original plan. Federal President Scheel signed the enabling legislation on July 22.

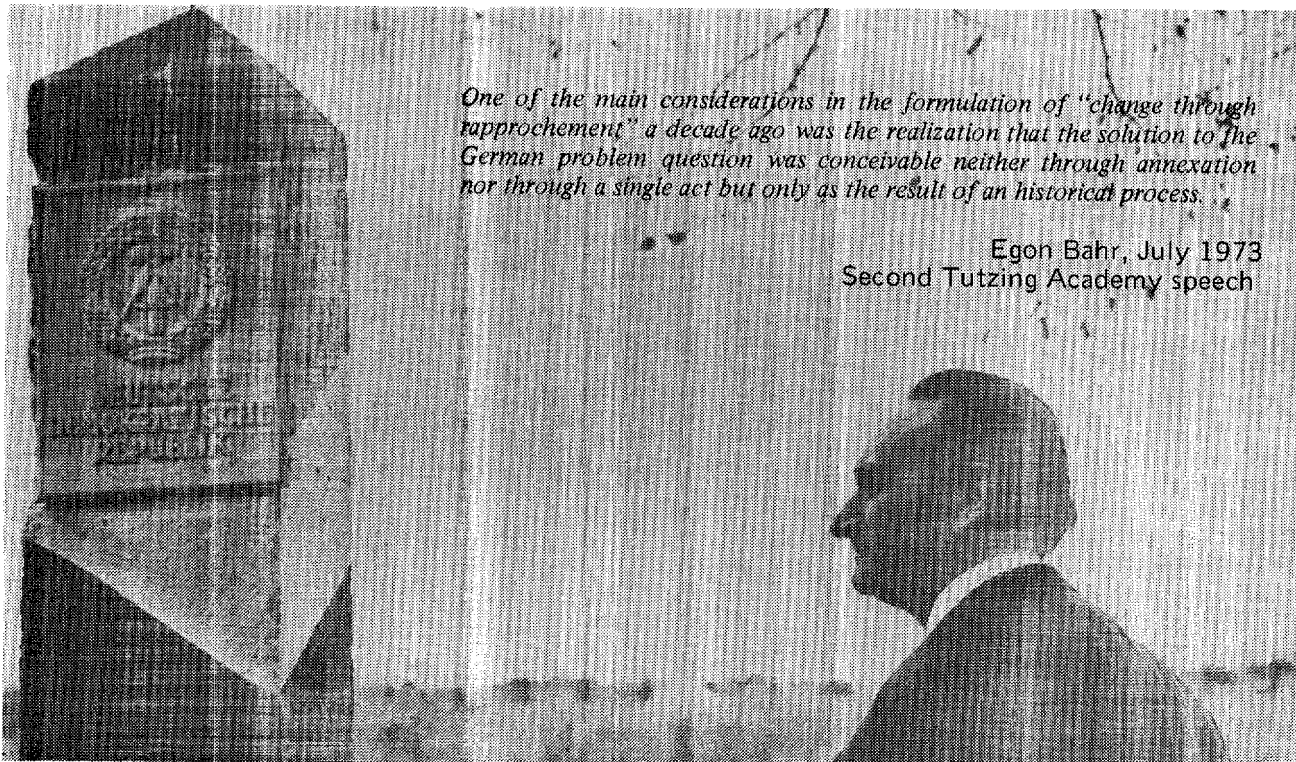
The East Germans have retaliated by undertaking spot checks of travelers on the autobahn. There have been no serious disruptions of traffic, but one employee of the Environmental Office was denied the use of the access route. At Bonn's request, the Transit Commission established to handle such matters met on August 6. Bonn hopes to resolve the issue in the commission and prevent it from causing further trouble.

Bonn's decision to establish a Federal Environmental Office in West Berlin has also been a troublesome issue. The Chancellor wanted to avoid what he regarded as an unnecessary confrontation with the Soviets 

The Soviets, for their part, regard such efforts to strengthen West Berlin's ties to the Federal Republic as violations of the Quadripartite Agreement and have strongly protested Bonn's decision. Although Moscow regards the issue as

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one of prestige, it may not seek an open confrontation because the Western allies have agreed to support Bonn. Soviet diplomats in Bonn have suggested measures that would prevent establishment of the office from undermining their legal position. Specifically, they seek a guarantee from the West that this office will be the last federal institution to be established in West Berlin.

Officials in Bonn will not reverse their plans to have the office fully manned sometime this fall, but they may be willing to go along with a possible decision by the Western allies to give the Soviets some form of assurance. Mayor Schuetz, on the other hand, will most emphatically oppose any agreement, formal or informal, that would curb efforts to strengthen the city's ties to the Federal Republic. The Chancellor will almost certainly discuss Berlin issues with Soviet Foreign Minister Gromyko when he visits Bonn in mid-September.

Whither Ostpolitik?

Beyond keeping such issues as these from becoming too aggravated, the basic problem facing Chancellor Schmidt and his government is how to give continued meaning to Ostpolitik. Actually, there are only two areas that offer opportunities to extend Ostpolitik beyond what the Brandt government achieved.

Cultural exchanges are one such area. West German and Polish historians, for example, are meeting annually to revise school textbook interpretations of World War II. As a result, future generations of West German and Polish youth may have a less acrimonious relationship. Ideological differences, however, still pose limitations. This is particularly true with regard to East Germany, which wants to purge from its citizens' minds any notion of German unity by emphasizing the Marxist foundations of East Germany's political, social, and economic system. Consequently, Bonn is encountering difficulties in negotiating a cultural agreement with Pankow.

Cross-cultural understanding is more likely to be advanced by tourism. Travel to the East is a kind of everyday Ostpolitik—largely outside gov-

ernmental direction—in which first-hand exposure tends to weaken old prejudices, many of which have nothing to do with ideology. The number of West Germans on vacation or business trips to Eastern Europe has grown tenfold in the past decade—and now reaches nearly three million each year. Although the Eastern capitals welcome the tourists for their hard currency, they are still worried that exposure to Western ideas and influences poses a threat to their system of government.

Ostpolitik and Eastern Trade

Despite the attention given to cultural cooperation and tourism, trade and industrial cooperation is of far greater importance to government and business circles in West Germany. Actually, nothing could better illustrate the difference between Brandt and Schmidt on Ostpolitik than the manner in which each has viewed economic cooperation with the East.

Brandt's Approach

Last November, Brandt appointed Bahr as chief government coordinator for all economic cooperation with "state-run economies." In preparation for visits to Washington and Moscow to discuss East-West trade, Bahr formulated new models for economic cooperation with the Soviet Union and Eastern Europe. Emphasizing the bilateral approach, Bahr's plans had two objectives: to boost German imports of raw materials and fuels from the East, and to make West Germany more competitive in financing large-scale industrial projects in these fields. Bahr favored the creation of a financial institution modeled on the US Export/Import Bank that would offer loans and credits to support projects promising to generate imports of raw materials. These ideas were presented during Bahr's visit to Moscow in March. The Soviets were interested and agreed to study the proposals further.

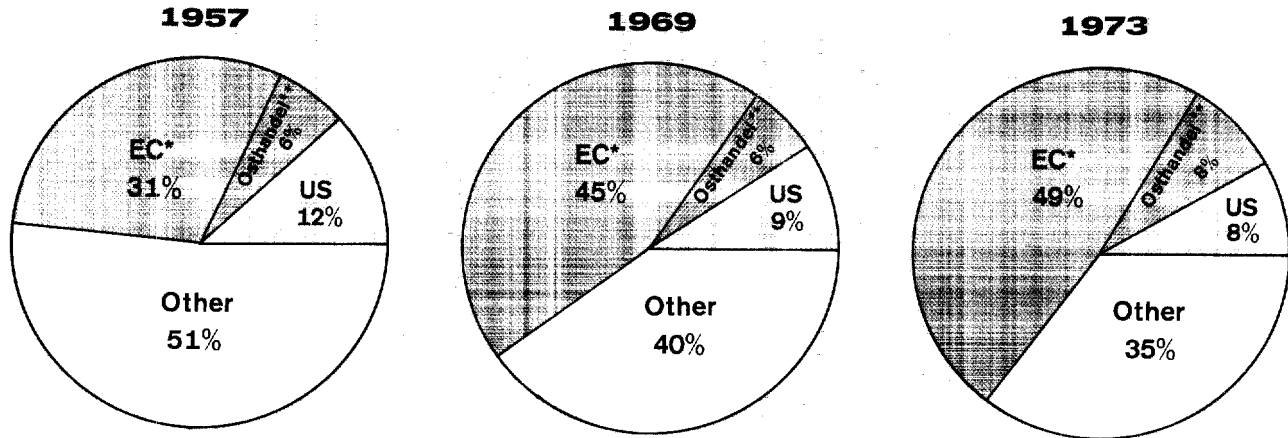
These models, though ostensibly directed toward practical considerations, were more an indication of Brandt's and Bahr's eagerness to shape policy in terms of their own political philosophy. Both men looked upon Ostpolitik as

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The Evolution of West German Trade



*Includes Great Britain, Ireland & Denmark.

** Includes East Germany & Yugoslavia.

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a long-term process, the next phase of which would be economic cooperation. Their overall goal was to set in motion an "historical process" that would ultimately help break down the existing political, military and economic blocs in Europe, a process that would eventually overcome these divisions and make German reunification less remote. Both men shared a Bismarckian perspective that saw Germany as a force in central Europe with valid interests in the East as well as the West.

The four-stage plan for the demilitarization of central Europe that Bahr drafted in 1968 when chief of the Foreign Ministry's policy and planning staff illustrated his line of thought. It envisioned the gradual creation of a demilitarized zone by means of renunciation-of-force agreements and troop reductions. Berlin would then eventually serve as the administrative center for the zone, which would include, at the minimum, the two Germanies, Poland, Czechoslovakia, and the Benelux countries.

[Redacted]

Growing pessimism about the ability to create a new security system for Europe in the foreseeable future prompted Brandt and Bahr to turn their attention to trade and economic cooperation with the East. Both men evidently hoped to further the "historical process" of pan-European cooperation by offering the Eastern capitals more of what they so long desired—Western technology and trade. They justified their views by arguing that the conflict between the two halves of Europe was fading in significance when compared with the growing problems between the industrialized nations of the northern hemisphere and the underdeveloped, though often energy-rich countries of the south.

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Schmidt's Views

Schmidt has a somewhat different perspective on economic relations with the East. Unlike Brandt and Bahr, he has formal training as an economist and has a better sense of what is possible. He does not share their belief that the goal of improving relations with the East justifies the expansion of economic ties as a matter of principle. Furthermore, the Chancellor, like most

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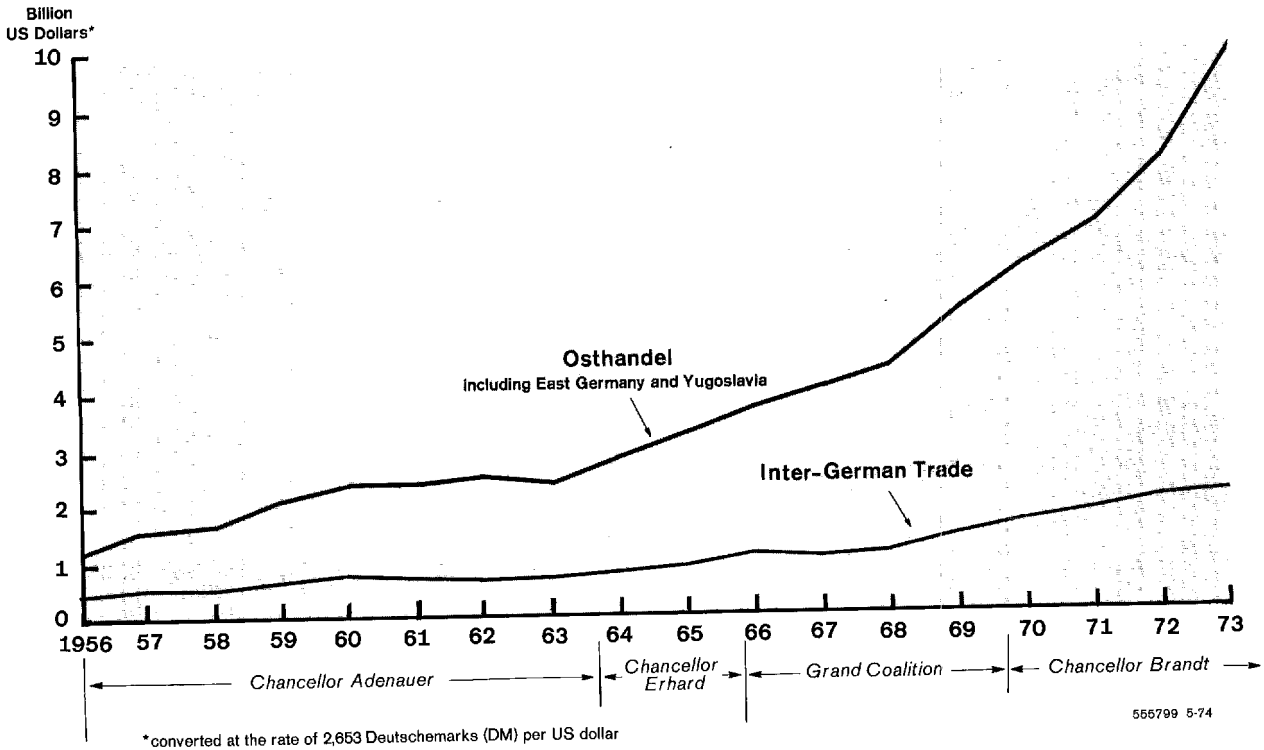
West German politicians, recognizes that the economic relations among members of the European Community are of far greater importance.

In any case, Schmidt is pragmatic in his assessment of West Germany's economic relations with other countries. This applies to the goal of creating an economic and monetary union for Western Europe as well as grandiose visions of trade with the East. Schmidt sees the need to deflate exaggerated expectations in both areas. The consistent theme in the Chancellor's public and private comments is that plans for economic cooperation or assistance must not only be feasible but must also serve West Germany's interests. This "hard-headed" attitude is unavoidable, Schmidt argues, given the economic problems the nation faces as a result of the rising cost of raw materials and fuel.

As finance minister in Brandt's cabinet, for example, he repeatedly argued that budgetary limitations and the need to control inflation rule out government subsidies for export credits to the East, even for large-scale industrial projects. Economics Minister Friderichs and many of his colleagues in the Free Democratic Party support Schmidt on this score. They fear that granting subsidies to bridge the gap between the high interest rates on the German money markets and the credit demands of the Soviets and East Europeans might set an undesirable precedent. They defend this "laissez-faire" policy with the argument that Eastern trade has grown steadily without government intervention.

Indeed, the German business community has been largely self-reliant in its undertakings. German firms operate either independently or with

Osthandel (Eastern Trade)



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[redacted]

the assistance of the *Ostausschuss der Deutschen Wirtschaft*—a semi-official organization whose members are drawn from firms interested in Eastern trade. Since 1956, the *Ostausschuss* has played a prominent role in searching out and promoting commercial opportunities for these firms. Bonn's "laissez-faire" policy toward Eastern trade clearly contrasts with the policies of other Western industrialized nations that are more willing to underwrite trade with the East with direct financial assistance.

Egon Bahr's re-entry into the cabinet on July 10 as minister for economic cooperation does not signal a change in this policy, as this ministry is responsible only for assistance programs to less-developed countries.

[redacted]

The new Chancellor, nevertheless, values Bahr's expertise and is consulting him on matters pertaining to Ostpolitik.

Schmidt's conservative attitude on the question of loans and credits to the East is evident in two particular cases, one involving Poland, the other East Germany. For some time, for example, Warsaw has been angling for some \$1 billion in credits. The Poles recently indicated that they would accept Bonn's offer of \$400 million in long-term, low-interest credits, but they still demanded additional funds as indemnification for war victims. They insist that ethnic Germans living in Poland will not be allowed to emigrate in large numbers until these demands are met. Schmidt has stated that he is not prepared to accommodate Warsaw. At present, ethnic Germans are being repatriated at the rate of about 10,000 a year, far lower than the annual rate of 50,000 that Warsaw promised last December.

In the case of East Germany, Pankow has shown its interest in continuing the swing-credit system that helps finance inter-German trade. Its desire to renew this provision or some modifica-

tion of it beyond 1975 surfaced in recent discussions with West German officials concerning the currency exchange requirement for travel to the East. The East Germans have not yet demanded the continuation of credit at its present level as a quid pro quo for a reduction in the currency exchange requirements, but the idea is on their minds. Schmidt has refused to make concessions to get Pankow to rescind its decision doubling the currency requirement, however, and demands that the East Germans comply with the bilateral transit agreements that pertain to West Berlin. The Chancellor and West Berlin officials have reached a clear understanding on this point in order to present a united front to Pankow.

The Search for Energy

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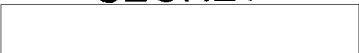
Despite his unwillingness to open Bonn's coffers to buy "human rights" for ethnic Germans or West Berliners, Schmidt is aware of the need to assure adequate energy supplies for the Federal Republic and for West Berlin in the coming decade. The Soviet Union, with its abundant sources of raw materials and fuels, has much to offer in this regard, as Schmidt and German industrialists realize. German firms, with government concurrence, have recently turned to the Soviets for the enrichment of uranium. Moscow presently offers much more favorable terms for such services than does Washington, but present contracts with the Soviets still do not constitute a significant portion of West German requirements. Bonn's overall energy policy aims at avoiding dependence on any one country or group of countries for vital raw materials.

Efforts to diversify the nation's energy sources have focused on major non-Arab producers such as Iran, but the government is also considering projects in the energy field that will involve the Soviets. One such project, being planned by the Joint West German - Soviet Economic Commission, is a trilateral deal involving Iranian natural gas, in which German firms would supply large-diameter pipe for the construction of a pipeline across the Soviet Union from Germany to Iran.

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Bonn is also considering projects that would supply electrical energy to West Berlin. The enclave is the only major urban community in Europe not connected to a power grid, and West Berlin will be hard pressed to meet its energy needs in the coming years without expanding its power plant system at considerable trouble and cost. The Poles have offered to supply West Berlin with electrical energy from a new plant on the Oder, provided Bonn finances the construction of a transmission line to the city. The Soviets are interested in building four nuclear power plants, two of which would supply energy to the Federal Republic in return for construction costs. In both cases, Bonn has demanded that there be a single, continuous transmission line from the East link-

ing West Berlin and the Federal Republic. The Soviets agreed to this demand in June, overriding objections from the East Germans. This sudden breakthrough on the long-standing deadlock has permitted the Soviets and German firms to reach a general agreement on the construction of the first of the power plants, which will be situated in the western part of the Soviet Union.



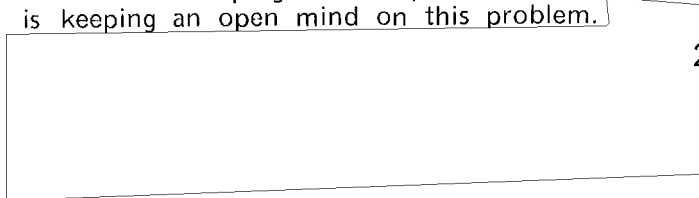
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Marienborn checkpoint
Scene of recent harassment

Several factors will influence his thinking on the question of offering the financial assistance that these projects might require. A decision in the affirmative would contradict his arguments about the need to control inflation and would raise the eyebrows of other EC members who have listened to his admonitions on this score. On the other hand, the Chancellor must reckon that the Soviets might not be able or, for that matter, willing to pay cash for every industrial project as they have in the case of the Kursk plant. The high cost of borrowing funds in the West German and Eurocurrency markets could tempt the Soviets to shop elsewhere for the equipment they need. Thus, the possibility of being cut out of the sizable Soviet investment projects with their pay-off--increased access to Soviet raw materials--may motivate Bonn to subsidize credits in certain cases.

True to his pragmatic temperament, Schmidt is keeping an open mind on this problem.



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The Summit

The meeting with Brezhnev in October will come too soon for Schmidt to offer anything

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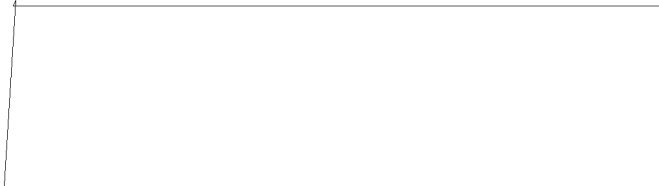
substantial in the field of trade and economic cooperation. The Chancellor seems prepared to risk further Soviet impatience, and probably hopes that the large-scale industrial projects can be handled on strictly a commercial basis.

frontation and appears ready to receive Schmidt despite the bitterness this issue has created.

Officials in Bonn do not expect that any agreement on major issues will be reached at the summit. Schmidt's main objective will be to extract as much favorable publicity from his visit as possible.

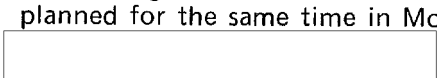
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Mayor Schuetz and the West Berliners have made the environmental office a major political issue and insist that plans for its formal establishment not be postponed for the sake of the summit. Moscow, from all present indications, does not want any last minute con-

The trip will most likely be scheduled for mid-October to coincide with the next meeting of the Joint Economic Commission and a large West German industrial exhibition planned for the same time in Moscow.



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