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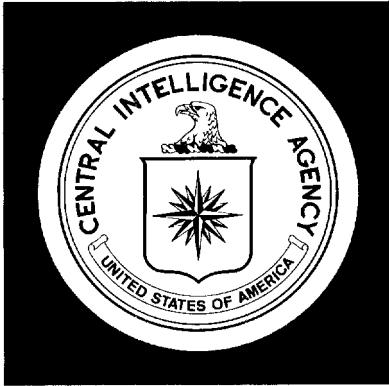
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Weekly Summary

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CI WS 76-006

No. 0006/76

February 6, 1976

Copy No 1408

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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, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology.

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MOROCCO-ALGERIA**Still at Loggerheads**

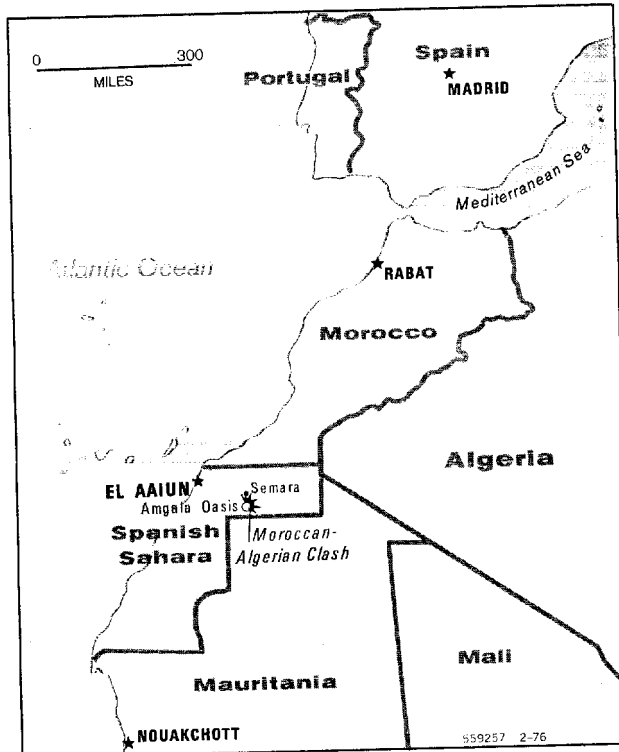
Rabat and Algiers are exploring their diplomatic options in the wake of clashes that occurred last week in Spanish Sahara between Moroccan forces and Polisario Front guerrillas backed by Algerian military personnel. Arab mediation efforts are continuing and UN Secretary General Waldheim, pressed by Algiers, has sent a personal envoy to the area. For the present, however, neither country seems disposed to make concessions in their dispute over the territory.

On January 29, Moroccan forces occupied the Amgala oasis south of the Saharan town of Semara, where clashes occurred on the two preceding days. Rabat claimed some 100 Algerian soldiers and dozens of Polisario guerrillas were captured, along with artillery and a large number of ground-to-air missiles. Algiers admitted only that its supply column had withdrawn after confronting a much larger Moroccan force using aircraft and heavy weapons.

Neither side seems willing to bend. The Moroccans are insisting on recognition of their sovereignty over the territory and withdrawal of "Algerian forces"—probably meant to include the Polisario guerrillas—from the Sahara and northern Mauritania before allowing anyone to mediate. Algeria, which rejected the agreement last November transferring administrative authority from Madrid to Rabat and Nouakchott, maintains that Morocco's presence in the Sahara is illegitimate. Algiers might eventually agree to

pull back its own forces, but is not likely to effect a Polisario withdrawal.

Seven Arab states, including Egypt, Syria, and Iraq, have sent high-level envoys to try to resolve the dispute. The most serious effort has been that of Egyptian Vice President Mubarak, who spent much of the week shuttling between Algiers and



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Rabat. Press reports from Cairo indicate Egypt is urging the two sides to agree to stop military operations, to an early meeting of their foreign ministers with Egypt's in Cairo, and to talks among King Hassan and presidents Boumediene and Sadat.

The Moroccans, while determined to stay in the Sahara, have encouraged the Arab diplomatic effort. The Algerians, who sought the Arab role, are clearly no longer enthusiastic. The differing attitudes stem from the fact that only two Arab states—Libya and South Yemen—publicly back Algiers. The others have either come out in support of Rabat or remained uncommitted.

Algeria, for its part, is trying to foster as much UN involvement as possible because of earlier UN resolutions calling for the application of the principle of self-determination through a referendum. Algiers quickly welcomed Waldheim's announcement that he was sending a representative. The envoy—Sweden's ambassador to the UN—left for Madrid on February 4 and is to visit the Saharan territory later this week. He is expected to limit his role to a fact-finding mission.

The Algerians will try to exploit the visit to promote their case for a referendum. Last week they called in representatives of the permanent members of the UN Security Council in an apparent attempt to lay the groundwork for a possible appeal to the council.

Soviets Tilt Toward Algeria

The Soviets are publicly tilting toward the Algerian side in the dispute over Spanish Sahara, but they have refrained from directly endorsing the Algerian-backed Polisario Front in order to avoid an open break with Morocco.

Soviet media comments on last week's fighting between Algerian and Moroccan forces have been slanted somewhat toward the Algerian version. Moscow reiterated its support for self-determination of the western Sahara and, for the first time, took note of the Polisario guerrilla movement.

The Soviets have nevertheless failed to bless the Polisario as a "genuine" national liberation movement, and they have not come out four-square behind the Algerian position. Late last year, the head of the Soviets' Afro-Asian Solidarity Committee—the group that fronts for Moscow's relations with insurgent groups—visited Algeria, but he limited his public comments to support for the "people" of the western Sahara.

Soviet officials probably think they can profit from the increased tension between Rabat and Algiers. Before the dispute, Soviet relations with Algeria had been cool. The two were at odds over Algeria's independent third-world policies, and economic and military ties had become loosened.

The Soviets, however, quickly responded to Algerian security concerns last fall by entering into a major new arms agreement, by sending some arms.

Angola may have affected the Soviet decision to assist Algeria. Moscow has used Algiers as a major transit point for its airlift to Angola and may have seen the military aid agreement as a quid pro quo for the use of Algerian airfields.

In an effort to prevent a further deterioration of relations with Morocco, Soviet diplomats in Rabat have been stressing Moscow's neutrality in the Sahara conflict. They have even said that Morocco's take-over of Spanish Sahara is a fait accompli that Algeria will have to accept.

Such comments, along with Moscow's restrained reaction to Morocco's detention last month of a Soviet fishing trawler suspected of carrying arms to the Polisario, indicate that Moscow wants to balance its relations with Rabat and Algeria. The Soviets have apparently taken to heart King Hassan's warnings of retaliation should they directly support Algeria. Moscow has significant commercial interests in Morocco and still hopes to participate in the development of the phosphate industry there.

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LEBANON: MARKING TIME

Persistent differences among Lebanese Christian leaders prevented any significant progress in negotiations toward a political settlement this week, but continued heavy patrolling by Syrian-backed Palestinian forces prevented a recurrence of serious armed clashes. The independent fedayeen groups, conservative Muslims, and Lebanese Christians are all showing signs of apprehension at Syria's close control of events in Lebanon, but Damascus does not appear ready to loosen its grip. The Israelis are watching the Syrians carefully, but are still inclined publicly to minimize the potential threat to Israel's security.

The Lebanese Christians are divided on how best to ensure Syrian and Palestinian respect for the Christian prerogatives that will remain after a political settlement is reached. Leaders of the various factions have been holding a series of meetings over the past week in an attempt to settle their differences before President Franjijah goes to Damascus to negotiate a final accord with Syrian President Assad, but they have made little progress. They have tried to paper over their differences by forming an umbrella right-wing political group called the "Front for Freedom and Man," but this group is not likely to assume any political importance and probably will collapse quickly.

Lebanese Muslim leaders, meanwhile, are arguing among themselves about how to divide the political spoils they expect to wrest soon from the Christians. The Muslims' immediate problem is how to apportion the handful of parliamentary seats they will gain when a system of Christian and Muslim equality in parliament replaces the existing six-to-five ratio favoring the Christians. The Muslim contingent in parliament is made up of several loosely organized blocs that are competing for additional representation, and politically powerful Sunni Muslim leaders are reluctant to allow equal representation to the disadvantaged Shia Muslims.

Israeli officials are concerned about the expanded Syrian role in Lebanon and about the possibility that the current uneasy truce could

break down, but they continue to exercise restraint in their public comments. Defense Minister Peres noted in an interview this week that the outcome of Syria's effort to persuade the warring parties to accept its proposed political settlement is still in doubt. Peres observed that all sides to the dispute continue to train and build their weapons stockpiles in preparation for another possible round of fighting.

The Israeli press is reflecting widespread popular concern that the PLA will move into southern Lebanon and stimulate, or at least permit, an increase in the number of fedayeen raids into Israel. Government officials publicly have sought to allay such fears by stressing that there is no evidence of PLA troop movements into southern Lebanon. These officials have also pointed out that some Lebanese troops—who in the past have helped limit fedayeen cross-border operations—are returning to their positions in southern Lebanon.

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Israeli Defense Minister Peres *OCI*

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ANGOLA: ONLY A MATTER OF TIME

Popular Movement troops, reinforced by the thousands of Cuban soldiers now in Angola, retained the military initiative in the civil war during the past week, although they scored no major new gains. Their southward advance into the tribal territory of the National Union, apparently slowed by blown bridges and supply problems, seemed likely to pick up again soon. In any event, National Union leaders are clearly apprehensive about what the future holds. The governments of Zaire, Zambia, and South Africa, all of which have given strong backing to the Popular Movement's adversaries, are also showing concern over repercussions—actual or anticipated—in their countries of the Movement's growing success.

Military Situation

At a press conference in Kinshasa on February 3, National Union President Jonas Savimbi acknowledged that the Popular Movement was exerting "tremendous pressure toward Huambo," the capital of his group's nominal joint government with the northern-based National Front. He emphasized the Movement's advantage in weapons and the important role of the Cuban "expeditionary force." Of his own men defending Huambo, he said only that they were "holding on fairly well."

The National Union's foreign minister, in a conversation last weekend with a US embassy officer in London, conceded that his group's military situation had become precarious. Although he claimed that Union troops were still holding firm in most places and that their morale was high, he said they could not continue conventional warfare against the Cubans indefinitely. Echoing earlier public statements by Savimbi, the minister insisted that his group would not give up, but would take to the bush and carry on a guerrilla struggle.

In northern Angola, the battered National

Front continued to hold its remaining major strong points at Santo Antonio do Zaire, Sao Salvador, and Tomboco. The Popular Movement did not launch any significant attacks in the area during the week, but may soon.

Regional Fallout

With developments in Angola running strongly in favor of the Popular Movement, Zairian President Mobutu, the African leader most deeply involved in the struggle, is reacting to what he sees as a growing threat to his position at home. His concern began to rise sharply early last month when Popular Movement - Cuban forces based at Teixeira de Sousa in eastern Angola clashed briefly with Zairian elements at Dilolo on Zaire's side of the border. The Movement's subsequent drive toward Angola's northern border with Zaire heightened Mobutu's anxiety as defeated Zairian and Front troops crossing back into Zaire had an immediate disturbing effect on public order in the area. Late last month the Belgian consul general at Matadi reported serious disturbances in that city, with both Front and Zairian troops involved in looting.

Mobutu surely also believes—and may have evidence—that the developments in Angola are encouraging exiled Zairian dissidents who wish to overthrow him, and he probably fears that these dissidents will be supported by Agostinho Neto's Popular Movement. The Zairian leader's concern is focused particularly on the approximately 4,000 secessionist troops from his country's former Katanga Province—now Shaba region—who fled into Angola when Moise Tshombe's separatist regime collapsed in 1963. The Katangan soldiers have been fighting for the Popular Movement in recent months in the belief, perhaps fostered by Neto, that the Movement will support an effort to gain their region's independence. Last month there were reports that the Katangans' leaders had been contacted by Antoine Gizenga, a long-

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time leftist rival of Mobutu who has been living in Europe.

In an effort to protect his domestic position, Mobutu has launched a major propaganda campaign with the avowed purpose of "sensitizing" his countrymen about the Angolan problem and explaining Zaire's interest in reaching "an urgent and peaceful" solution. A basic theme of the campaign is an appeal for "solidarity" and vigilance with many references to a danger of subversion by "Russo-Cuban forces" across the border. At the same time, Mobutu is emphasizing that he does not oppose any of the three Angolan nationalist groups, suggesting he may be preparing his people for a possible accommodation with Neto. His announcement on February 3 that mercenaries engaged to fight for the Movement's adversaries would be barred from transiting Zaire points in the same direction. Mobutu may not intend to enforce the ban.

In Zambia, too, the Angolan situation is adding to uneasiness in official circles. President Kaunda is also under pressure because of serious economic difficulties and the increasing likelihood that his effort to promote a peaceful settlement of the Rhodesian problem will end in failure.

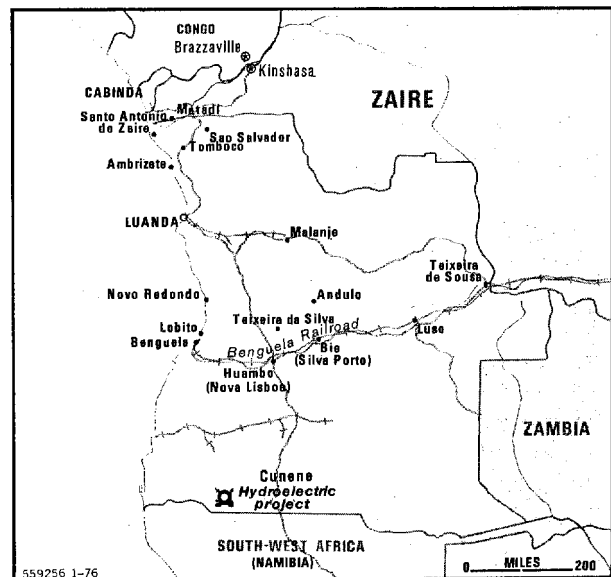
Late last month, Kaunda declared a full state of emergency and suspended constitutional guarantees. He cited deteriorating security on Zambia's borders and alleged, with the Soviets particularly in mind, that there was foreign interference in his country's affairs. Kaunda was reacting in part to recent incursions into western Zambia by marauding elements involved in the fighting in Angola.

The anti-communist South African government sees the Angolan events as fresh evidence that Moscow is bent on—and making progress

toward—a goal of world domination. Pretoria has basically justified its own involvement on that ground and also as necessary to protect the important Cunene hydroelectric project in southern Angola, which had been developed in collaboration with Portugal. More immediately, the South Africans are concerned about the recent arrival on their doorstep of large numbers of new refugees from the fighting in Angola, bringing an increasing threat to security in Namibia.

Although Prime Minister Vorster's government has withdrawn South African troops from the fighting in Angola, it has openly proclaimed its intention to keep several thousand in the Angolan-Namibian border area. In a statement to newsmen on February 4, Defense Minister Botha confirmed that South African troops remained in southern Angola, some of them at points up to 30 miles beyond the border. He said the troops would be kept in the area until Pretoria receives assurances that "terrorists" would not be allowed to establish bases there from which to launch strikes into Namibia.

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ANGOLA-USSR: BREZHNEV ENDORSEMENT

This week, for the first time, General Secretary Brezhnev explicitly associated his name with Soviet support for the Neto regime as the legitimate government of Angola. In a message—published by *Pravda* and *Tass*—to an Afro-Asian conference on Angola that convened in Luanda on February 2, Brezhnev expressed firm solidarity with the Popular Movement. He said that Moscow's position conforms to "numerous" UN and OAU decisions on decolonization and the abolition of racism and apartheid.

In his message, Brezhnev referred to the



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rallying of all "patriotic forces" in Angola, a formulation that also appeared in an authoritative "Observer" article in *Izvestia* on January 29 and in several subsequent *Pravda* commentaries. The *Izvestia* article, which seemed designed to persuade uncommitted African states to throw their support behind the Popular Movement, claimed that the Soviet Union "stands for peace" and has never and does not now oppose the "quest for a political settlement." The USSR welcomed the original coalition agreement, "Observer" continued, and the responsibility for its collapse rests completely with the National Front and National Union "splitters"—who have committed an act of "national treachery." "Observer" concluded that Moscow now welcomes efforts that would promote the consolidation of all "patriotic forces" in Angola, a course of action it claims the Popular Movement also favors.

What Moscow seems to be saying is that both Neto and the USSR recognize the Popular Movement will have difficulty extending its control over all of Angola and may be willing to work with those "patriotic forces" within the opposition groups that accept the MPLA's authority. The language is so vague that the possibility of a coalition government is not excluded.

It seems unlikely, however, that the Soviets would in fact agree to a coalition government since both Brezhnev and "Observer" made a point of emphasizing that the "People's Republic of Angola" is the legitimate government. In a hard-hitting editorial two days before the "Observer" article appeared, *Izvestia* said the idea of a coalition government is a ploy by the defeated forces to achieve power "through the back door." The leader of the Soviet delegation to this week's solidarity conference in Luanda, while dismissing the coalition formula out of hand, indicated his belief that the rank and file of the National Front and the National Union would soon "join" the MPLA.

Meanwhile, the Soviet press is continuing to launch strong attacks against US policy toward

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Angola. *Izvestia's* "Observer" accused Washington of attempting to impose an economic blockade against the Luanda regime and rehashed familiar charges of US "arm-twisting" at the recent OAU summit in Addis Ababa. *Pravda*—in several articles earlier this week—took the unusual step of directly criticizing President Ford and Secretary Kissinger for allegedly "distorting" the Soviet and Cuban roles in Angola. *Pravda* was careful, however, to separate these barbs from its positive comments on the accomplishments of detente, clearly implying to the Soviet reader that despite Western assertions, detente and Angola have no connection.

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sents were jailed. The failure to cooperate more fully reflected in part the long-held, deep resentment of the state's Tamil-speaking majority toward the northern Hindi-speaking Indians who dominate the central government of New Delhi. The further concentration of power in Gandhi's hands has most likely reinforced separatist sentiments in the south born of ethnic, cultural, and linguistic differences.

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INDIA: ANOTHER STEP

On January 31, Prime Minister Indira Gandhi further tightened her authoritarian rule by dismissing the opposition-controlled state government of Tamil Nadu in south India and imposing president's rule—direct control from New Delhi—for an indefinite period. Gujarat State in the north is now the only one of India's 22 states not governed by Gandhi's Congress Party or an allied party, and the opposition coalition there will probably not last much longer.



The discharged leaders have advised the public against violent reactions to the central take-over, and no significant opposition has been reported. New Delhi took the precaution of sending additional security forces to Tamil Nadu this week.

The central government has charged the ousted state regime in Tamil Nadu with maladministration, corruption, and disregard of instructions pertaining to the national state of emergency Gandhi proclaimed last June. Several thousand members of the state's ruling party, the Dravidian Progressive Federation, have been arrested, although not the ex - chief minister and other top-level party leaders. Demonstrations and political meetings have been banned for two weeks.

In Gujarat, the government may soon fall as a result of serious disagreements within the fragile opposition coalition that was formed last June after a state election in which the Congress Party lost control. Recent local elections have revealed considerable public disenchantment with the coalition in rural areas, although opposition to the Congress Party continues in some of the larger cities.

Tamil Nadu's leaders had openly criticized the emergency and made little effort to enforce the repressive measures that followed. Press censorship was light, and only a small number of dis-

If the coalition does fall, the state governor may ask the local Congress Party to try to form a government with the help of independents and opposition defectors. Alternatively, Gandhi may impose president's rule, giving her party time to rebuild its forces.

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EGYPT-USSR: MIG-21 PROBLEMS

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[redacted] the Egyptians recently received a terse note from Moscow indicating the Soviets would no longer overhaul Egypt's MIG-21 engines. Moscow's decision will not ground Egypt's 14 MIG-21 squadrons immediately, but will probably seriously erode the combat capability of the air force within a matter of months.

The decision will spur Cairo to seek other sources of spare parts and maintenance and to try to speed up its conversion from Soviet to Western arms.

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[redacted] Egypt had accumulated a number of spare MIG-21 engines,

but not enough to meet its requirements. Cairo has plans to replace its MIG-21s with French Mirage fighters, probably the F1. This aircraft, which is to be produced locally under license, will probably not be available to Egypt until about 1980 at the earliest.

Egypt has embarked on a program to become more self-sufficient in aircraft maintenance.

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[redacted] the Egyptians have developed a limited capability to manufacture some MIG-21 jet engine parts at Helwan and do minor overhauls. Complete engine overhauls and other complicated maintenance tasks, however, are probably beyond their immediate capabilities.

As part of this program, the Egyptians have expressed an interest in obtaining the British Spey engine for their MIG-21s. This is the same engine that powers the UK's F-4 interceptors, and design and feasibility studies are said to be already under way at Rolls-Royce. If the Spey can be successfully integrated with the MIG-21, it could give the MIG improved performance and range, better fuel consumption, and simpler maintenance than it now has with Soviet-built engines.

Moscow's decision to quit overhauling the MIG engines is part of a campaign of Soviet harassment that has been under way for almost two years. The Soviets have refused to replace Egyptian losses in the October war and have cut back the supply of spare parts for Soviet equipment in the Egyptian inventory. The reduction in the flow of spare parts has already impacted heavily on Egypt's forces.

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ITALY: STOPGAP IN SIGHT

Prime Minister - designate Aldo Moro continued negotiations this week aimed at forming a stopgap government composed entirely of Christian Democrats—the only remaining possibility after his failure over the last month to secure agreement on any coalition formula. He cleared a major hurdle yesterday when the Socialists, who hold a pivotal position among the center-left parties, agreed to abstain in parliament on Moro's proposed program of emergency economic measures. The Social Democratic Party agreed earlier this week to vote in favor of Moro's program. Their support, coupled with Socialist abstention, would permit the Christian Democrats to muster a narrow parliamentary majority.

The austerity-minded Republican Party—whose dispute with the Socialists over economic policy contributed to the latter's decision to topple the previous government a month ago—has also agreed to abstain on Moro's program. The votes of the Republicans are not necessary for a majority. Nevertheless, their views are important politically because they correspond to the economic philosophy held by many Christian Democratic centrists and conservatives. A decision by the Republicans to oppose Moro's program would have led many Christian Democrats to balk at the idea of forming a cabinet.

Moro will now report to his Christian Democrats on the results of the negotiations. The odds favor a decision by the Christian Democrats to follow through on their offer to form a cabinet. Some Christian Democrats, however, may have second thoughts. When the Christian Democrats proposed such a solution two weeks ago, they did so on the condition that the other three parties agree to vote in favor of an emergency economic package. The decision by the Socialists and Republicans merely to abstain falls short of what the Christian Democrats wanted, and they will now have to weigh the risks of forming a government that would hang by such a thin thread. An administration dependent on Socialist abstention

would have a narrower parliamentary base than any government formed in the last four years.

Meanwhile, Christian Democratic and Socialist spokesmen are pointing to the need for agreement in advance between their parties on how to handle the explosive issue of legalized abortion—one of the first tests a new government will face in parliament. Differences on the issue contributed to the fall of the previous government, and a new administration could find itself in trouble quickly if the dispute is not settled now.

The Socialists favor giving women freedom of choice in the matter, but the Christian Democrats, with discreet Communist support, have written a bill that offers only limited liberalization of the



Aldo Moro

L'Espresso

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anti-abortion statute. If the existing law is not changed by parliament in a matter of weeks, the country will face a nationwide referendum this spring on whether to legalize abortion—a divisive battle most parties hope to avoid.

Even if Moro unravels all of these problems, his government will probably last only a few months. A new government might facilitate Italy's search for credits to support the weakened lira, but the main purpose of such an administration would be to permit the Christian Democrats and Socialists to go ahead with scheduled party congresses next month and to debate in a calmer atmosphere the pros and cons of early parliamentary elections. Early elections would probably be the result of failure—after the congresses—to put together a coalition based on Christian Democratic - Socialist collaboration.

The Communists are hoping that Moro succeeds because their overriding objective has been to avoid early elections. Formation of a Christian Democratic caretaker government would give the Communists more time to exploit the local level electoral gains they scored last summer. It would also enhance the Communists' ability to work behind the scenes in parliament for an eventual rapprochement with the Christian Democrats. [redacted]

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ICELAND-UK: MORE TALKS

The Icelandic cabinet on February 3 rejected proposals to end the cod war that prime ministers Hallgrimsson and Wilson worked out last week in London, but offered instead to discuss a three-month agreement. Britain has agreed to the new talks.

Iceland has shown little negotiating flexibility since the fishing agreement with the UK expired last November. The previous agreement gave British trawlers the right to take 130,000 tons of fish annually from within Iceland's unilaterally declared 50-mile limit. When Reykjavik extended its fishing zone to 200 miles, Britain wanted the

old arrangement renewed for 10 years, although they were prepared to reduce their annual catch to 110,000 tons. During talks last week in London, Wilson reportedly agreed to reduce the figure further to 85,000 tons.

Reykjavik may be hoping that the UN Law of the Sea Conference, which will conclude its next session in early May, will approve a 200-mile economic zone, in which coastal states would have the right to regulate fishing. Broad international support for these concepts already exists, but the British contend that Iceland's unilateral extensions are illegal because they have not been recognized by treaty.

The fragile relationship between Iceland's governing Independence and Progressive parties is being strained by disagreement over how to handle the fishing dispute. Hallgrimsson, who is inclined to compromise with the British, is in political trouble within his own Independence Party over his handling of the cod war. Olafur Johannesson, the current justice minister and leader of the Progressive Party, has led the hard liners who oppose concessions to the British. Johannesson has already hinted that any further concessions to the British might lead to the collapse of the coalition.

Reykjavik has not said whether it intends to continue harassing British trawlers during the renewed talks, but the odds are in favor of it. During the last round of negotiations, Iceland continued to enforce its fishing ban, and British fishermen hauled in their nets rather than risk incidents with Icelandic patrol boats.

British Foreign Minister Callaghan has said that he expects British trawlers, which returned to the fishing grounds on February 4, to be able to fish unmolested. British trawlers will exercise voluntary restraint, but Callaghan warned that any further harassment by Icelandic patrol boats would trigger the "automatic return" of British frigates to the fishing grounds. The return of the frigates would scuttle any chances for a fishing agreement and perhaps bring about the fall of the Icelandic government. [redacted]

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EC-GREECE: A QUALIFIED "YES"

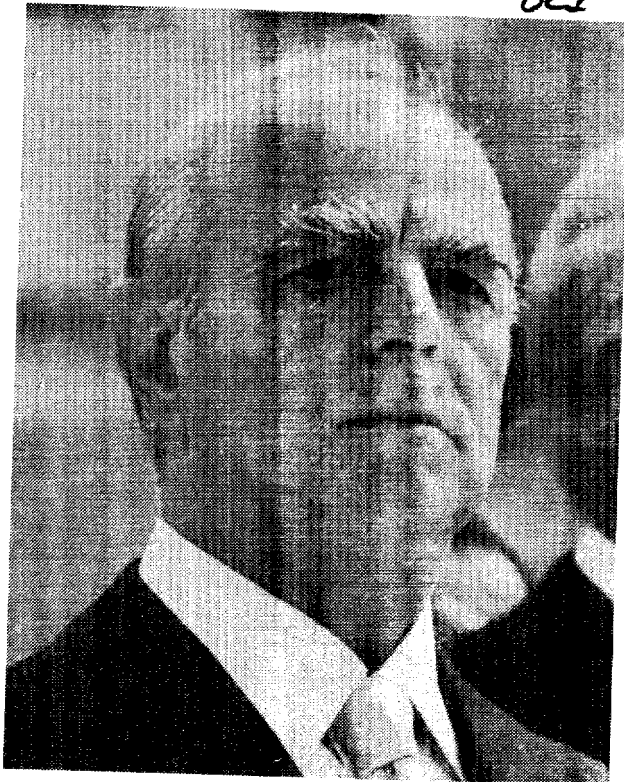
In delivering its opinion to the EC Council on the question of Greek accession, last week, the EC Commission reaffirmed Greece's right to membership, but stressed the problems that this would pose for Greece and, even more, for the EC. The opinion will present the Council, which will discuss Greece on February 9-10, with the difficult task of reconciling the same opposing points of view that led to the Commission's qualified position.

The community's dilemma over admitting Greece goes to the heart of the growing controversy over how further EC enlargement—Spain, Turkey, and Portugal are also potential members—will affect the very nature of the community. A divided Commission ultimately endorsed a "waiting period" for Greece in order to diminish the danger that a very poor Greece within the EC would bolster arguments in favor of a "two-tier" community. The advocates of early full membership, by contrast, believe that the special arrangements proposed for helping Greece during a waiting period would themselves lead to a hard core of stronger members within a more loosely organized community.

The Commission in essence proposed a three-stage accession: a period during which the EC would do everything possible to aid Greece in catching up with the community, a transitional period of membership during which Athens would gradually assume all community obligations, and finally full membership. The

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Caramanlis

Commission wants the Council to determine in advance the length of each preliminary phase, but officials have pointed out that full membership would take four or five years even if negotiations began immediately.

By concentrating on the problems attendant on Greek membership, the Commission has seemed to some observers to slight the political obligation of the Nine to welcome a democratic Greece into "Europe." A public statement this week by the Dutch and German foreign ministers supporting Athens' desire for full membership was an attempt to correct the balance and has set the stage for a Council decision that will, at a minimum, seek to remove the ambiguity of the Commission's opinion. The Council will nevertheless hardly now be able to ignore the economic and institutional difficulties which the Commission tried to lay out.

The Greeks reacted to the Commission's qualified endorsement with shock and dismay. Prime Minister Caramanlis summoned the EC ambassadors to complain that parts of the report were politically and morally unacceptable. He noted, in particular, the recommendation for delay in Greece's accession and the suggestion that progress in settling Greek-Turkish differences would smooth Greece's entry. The latter has been widely, but incorrectly, interpreted in Greece as a form of blackmail designed to force the Greeks to accept the demands of the Turks on the Aegean and Cyprus controversies.

Caramanlis reminded the ambassadors that the EC governments had encouraged the Greek request and expressed confidence that the Commission's "mistake" would be rectified by the Council. In an effort to exert pressure on the latter, he warned that a rebuff would be exploited by the left and might even force his government to re-examine its foreign policy orientation.

"Joining Europe" has been a key feature of Caramanlis' foreign policy since his return to power in 1974, and he has staked much of his political prestige on it. EC membership is seen by Caramanlis as a means of safeguarding Greece's fragile democracy and offsetting, to some extent, the weakening of ties with the US and NATO forced on him by public reaction to the Turkish invasion of Cyprus. He doubtless also believes, as do most Greeks, that EC membership will in the long run help the Greek case in its disputes with Turkey.

Caramanlis could suffer considerable political damage if the Council does not substantially alter the Commission's reservations, since much of his present popularity stems from the view of most Greeks that only he has sufficient international prestige to deal effectively with Greece's foreign policy problems. His most vociferous opponents, such as Andreas Papan-dreou and the Moscow-backed communist party, have already begun to exploit the EC recommendation, charging that it clearly reveals the bankruptcy of Caramanlis' foreign policy.

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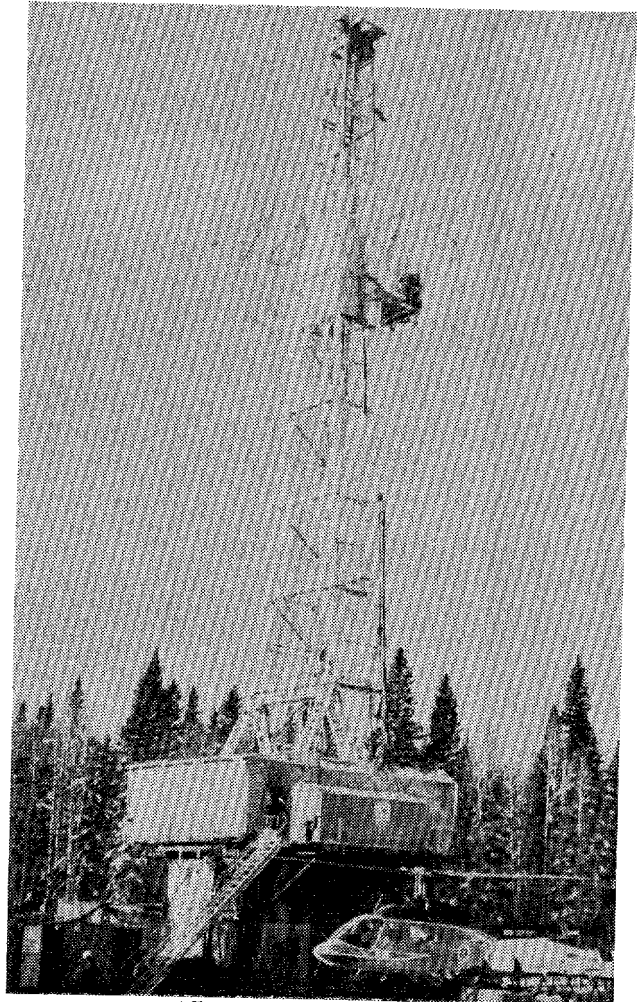
CANADA: ENERGY CONTROVERSY

The two-year-old dispute between Ottawa and the provinces over control of energy resources is continuing. The producing provinces resent tough federal government tax measures and seek a freer hand in setting domestic and export prices. The consuming provinces resent Ottawa's recent decision to permit a gradual rise in domestic energy prices.

Some compromise has been reached between Ottawa and the producing provinces on domestic oil and gas prices. Under arrangements concluded in mid-1975, the domestic price of crude was raised by \$1.50 a barrel to \$8.00, and another increase to perhaps \$9.00 is likely this year. Natural gas prices were raised to 72 cents per thousand cubic feet, roughly double the 1974 average. The increases still leave domestic oil and gas prices well below the export price. Ottawa claims it will gradually raise domestic oil prices to international levels.

These price hikes came as a result of heavy pressure from Alberta and British Columbia, the major producers of oil and gas. Last summer Alberta won a court case that in effect forced Ottawa to accept higher domestic gas prices. Pressures for another price hike are likely to mount in the spring, when federal and provincial energy ministers have their annual meeting. The producing provinces will insist on still higher domestic prices for oil as their price for going along with Ottawa's phasing out of oil exports. The question of gas supplies and cutbacks in gas exports will probably also be discussed at the meeting.

Ottawa is holding firm on the matter of federal taxing power over the oil industry. The Trudeau government, supported by the populous energy-consuming provinces in eastern Canada, argues that revenues from higher oil and gas prices should be shared nationally. The western provinces want to use the tax revenues to help diversify their economies. Alberta wants to establish an industrial base with an eye toward becoming a financial and economic counterweight to eastern Canada. Although Ot-



Alberta drilling operation

OIL WEEK

tawa has made some small tax concessions, it has kept the key federal tax change introduced in 1974—elimination of provincial royalties as a federal income tax deduction.

Ottawa's tough stand has forced the provinces to make some adjustment in their tax policies. To avoid crippling the oil industry altogether, Alberta has slightly reduced the oil royalty rate and British Columbia followed suit. Price and tax adjustments made so far have given

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some impetus to exploration activity in western Canada.

The eastern provinces, whose prime concern is that higher domestic energy prices will erode their international competitive position by compounding an already serious inflation rate, have strongly criticized the decision to increase domestic energy prices. Several provinces have been able to undercut Ottawa's authority by freezing refined product prices within their boundaries for a three- to four-month period.

Ontario, the largest consuming province, has emerged as spokesman for the eastern consumers. It has already put Ottawa on notice that it will oppose any further rise in energy prices, but the Trudeau government will be reluctant to renege on commitments made to the producing provinces. Moreover, Ottawa is eager to reduce the high cost of the oil import subsidy used to keep down domestic prices. Ottawa is currently being forced to dip into general revenues to finance the subsidy.

Another move calculated to create a favorable image of the regime was the recent naming of a civilian as governor of Guayas Province—economically the most important in the country. The governorship of this province is traditionally regarded as a powerful position, although the new governor, the first civilian so appointed since the government took power four years ago, will not enjoy the same powers as did his military predecessor. According to a government spokesman, military governors will gradually be replaced by civilians. The government also stated that it will call for municipal elections in the not too distant future.

Other important events include the announcement in late January by the economics minister that he would begin a dialogue with the business community to keep a closer watch on urgent problems. Economic pressure brought on by bad petroleum management probably was the most important single factor that undermined the Rodriguez Lara government. The regime's current efforts to do better with the business community could help improve the present poor climate in this sector.

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155-67
ECUADOR: TRYING TO LIBERALIZE

The new supreme council of government is trying to soften its tough military image and show progress in its plans to return the country to democratic rule. In doing so, however, it has opened the way to a number of potential problems that do not augur well for its longevity, at least as it is presently constituted.

In one of its initial moves, the government decreed amnesty for civilian politicians and military officers who have, at one time or another, been accused of plotting against the regime. Among the civilian beneficiaries are former president Carlos Julio Arosemena and Conservative Party leader Julio Cesar Trujillo. The military officers included in the decree are the leaders of the coup attempt last September.

The return of exiled politicians, normally a unifying factor, will probably lead to increasing criticism for the regime. As it becomes evident that the government has no magic formula for rapidly improving the economy and overcoming some of the other problems that plagued Rodriguez Lara, another cycle of rising popular discontent and pressure to counteract it are likely to ensue.

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CUBA LEVELS BROADSIDE AT CHINA

A series of anti-Chinese editorials in *Granma*, the Cuban party daily, indicate that Havana is determined to play a more aggressive role, parallel with Moscow, in trying to undermine Chinese influence in Communist countries and the Third World.

On January 27, the Castro government said that "the Angolan trenches define the real ideological and political positions" of nations and denounced China for allying with the "US imperialists and the South African racists." Chinese policies elsewhere, particularly with respect to Chile, also were attacked. *Granma* followed up with fierce anti-Chinese diatribes on January 30 and February 3.

Although the attacks are in line with recent Soviet propaganda, they are the most strident anti-Chinese messages to emanate from Havana in a decade. Following Fidel Castro's denunciation of

Peking at the Tri-Continental Conference in January 1966, Cuban-Chinese relations remained cool, although the polemics and overt hostility that have characterized Sino-Soviet relations were largely absent. The intensity and scope of the current Cuban campaign indicate, however, that Castro now intends to play a major and continuing role in support of Soviet efforts against China.

The timing of the Cuban editorials, in fact, strongly suggests that Castro's desire to accommodate the Soviets was a major factor in the switch in Cuba's public position. Castro is expected to attend the Soviet party congress later this month to play a prominent role in endorsing Soviet policies and in denouncing the Chinese. If so, he will, for the first time, place the full weight of his personal prestige on Moscow's side of the Sino-Soviet rivalry.

Havana's attack on China is also intended to gain support for Cuban objectives, especially in the Third World. The recent editorials, devoted in large part to justifying Cuban intervention in Angola, are part of an elaborate media and diplomatic effort to keep Angola from damaging Cuba's relations with Latin American and other governments critical of Cuban adventurism.

Cuba probably can now be expected to compete more openly and actively with Peking for influence with third-world governments and revolutionary groups. It has been pursuing this course—albeit less aggressively—during the last few years with considerable success. We estimate that as many as 2,500 Cuban civilian and military advisers are in a number of countries in the Caribbean, the Middle East, Southeast Asia, and Africa, in addition to the large contingent in Angola. In some of these countries, Cuba—acting in part as Moscow's surrogate—has gained influence at the expense of China.

The Chinese have long regarded the Cubans as Moscow's proxies abroad, and the diatribes from Havana will only strengthen this view. At midweek, in fact, an editorial in the authoritative *People's Daily* claimed that the Soviets had "instigated the Cubans to send over 10,000

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troops" to Angola. This was the first Chinese response to Havana's attack. At the very least, Peking can be expected to continue to include Cuba more directly in its anti-Soviet commentary on Angola. The Chinese have traditionally attempted to prevent their competition with the Soviets from spilling over into other state-to-state relations, but official dealings with Havana will undoubtedly become more tense.

[Redacted]

shake-up, in which four members of the eight-man cabinet were replaced. The appointment of Cafiero last summer had been seen at the time as strengthening the administration. A trained economist who had important labor backing, he was viewed as one of the very few who might be able to administer the economy without alienating organized labor.

In recent months, however, it had become clear that Cafiero could not be tolerated, evidently because he had come to favor the President's departure, either by extended leave or by resignation. He probably was spared in last month's shake-up only because of his importance and because the administration feared the consequences of a wholesale cabinet revamping. Cafiero's recent disagreement over wage policy with one of Peron's closest aides was the last straw.

Peron at least partly offset the effect of Cafiero's departure by replacing him with an accomplished professional, Central Bank chief Emilio Mondelli. Her choice of a Buenos Aires unionist to take the top labor post was less noteworthy.

Mondelli takes over direction of the economy at a time of increasing restiveness on the part of businessmen. Dismayed over the chaotic economic situation, they have formed a new organization designed to press for more orderly policy making. Among the problems worrying the businessmen are:

- Inflation, which last year totalled 335 percent, now at an annual rate of over 300 percent.
- Continuing wage increases, which squeeze profits.
- Sporadic strikes by workers, causing production to dwindle.

A long-established businessmen's group has called on its members to close their shops later this month to protest worsening conditions.

[Redacted]

24-74
ARGENTINA: MORE CABINET CHANGES

President Peron on Tuesday replaced Economy Minister Cafiero—probably the most able and most widely respected man still in the cabinet—and Labor Minister Ruckauf. The departure of both had been rumored since last month's

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Cafiero

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81-82

EAST ASIAN ECONOMIES REBOUND

The economies of Taiwan, Hong Kong, and South Korea have rebounded strongly in recent months and, barring a significant slowdown of recovery in Japan and the US, seem likely to register sizable gains this year.

By sacrificing growth for economic stability, Taiwan and Hong Kong have substantially reduced their trade and payments deficits. Relying mainly on market forces to dampen domestic demand, both governments effectively trimmed imports in the face of sagging demand for their exports. In Taiwan, controls on imports from Japan also played a key role. The value of imports fell in both countries, while brisk year-end sales held exports close to 1974 levels. As a result, Taiwan's current account deficit narrowed from \$1.1 billion in 1974 to only \$400 million last year; Hong Kong's fell by about half to \$200 million.

The two governments also slowed inflation. Consumer prices in Taiwan increased only 5 percent last year, compared to 48 percent in 1974. In Hong Kong, prices rose only 2 percent, down from 14 percent in 1974. The cost of continuing inflation and payments deficits was high. Real gross national product rose less than 3 percent in Taiwan, and Hong Kong registered zero growth. The two had annual real growth rates of about 10 percent and 8 percent respectively during the previous 10 years.

South Korea adopted a different strategy for dealing with the effects of the world recession. Gambling that the slump in exports would be short-lived, Seoul until mid-1975 followed a reflationary course designed to prop up output and employment and keep its ambitious development program on track. With exports dropping sharply and imports climbing to record highs, Seoul was jolted with a first-half current account deficit of \$1.7 billion, nearly double that of the first half of 1974. Urban unemployment remained high, and inflation ran at better than a 30-percent annual rate.

Shifting gears, Seoul tightened up on imports and intensified its drive to increase overseas sales.

Trade turned around in the second half of 1975, and the payments deficit narrowed to only \$300 million. Sales to the US and Japan surged. Tight credit restrictions and tax increases helped slow price increases to a 25-percent annual rate by the end of the year. Aided by a record grain harvest and a construction boom, total real output for the year grew 7.4 percent, down only slightly from 1974.

The three economies appear to have weathered the worst of the recession, although South Korea still faces a large payments gap. Continued momentum this year depends largely on steady economic recovery in Japan and the US, which take the bulk of East Asian exports. In order to avoid rekindling inflation and causing terms of trade to deteriorate, the three governments have said they will be satisfied with slower economic growth than that achieved during the 1960s.

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JAPAN

89

Policy in Southeast Asia

Prime Minister Miki continues to press for a larger Japanese role in Southeast Asia. Long an advocate of a more generous attitude toward regional aid and trade, Miki wants to put his own stamp on Tokyo's Southeast Asian policy. The Prime Minister highlighted his role as "Asia's representative" at the Rambouillet economic summit last fall and hopes to sponsor an Asian economic summit sometime this year.

Miki plans to tour the region sometime in 1976. He is currently angling for an invitation to meet with the leaders of the Association of Southeast Asian Nations following an ASEAN summit meeting in Indonesia later this month, but Malaysia, for one, may oppose an invitation, being reluctant to compromise the association's image as a regional organization not aligned with any outside power.

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Southeast Asia's economic problems, however, may well give Miki's efforts a boost; over the past year or so Japanese investment in Southeast Asia has fallen sharply, and Tokyo's regional trading partners—now apparently interested in re-stimulating the financial flow—could presumably see some advantages in encouraging Miki. The foreign ministers of the ASEAN states—at a preparatory meeting on February 11—will discuss the possibility of extending an invitation not only to Miki, but also to Australian Prime Minister Fraser.

Since the fall of Indochina last year, Miki has attempted to fashion an official consensus in favor of raising Japan's political profile in Southeast

Asia. Last fall, before he went to the Rambouillet conference, Miki tried to put together a program for stabilizing Southeast Asian export earnings. He wanted to present this plan as a Japanese regional initiative at the summit, but bureaucratic objections to expanding aid commitments in a recession year combined with the opposition of Miki's Conservative Party rivals sidetracked the initiative.

Japanese finance and foreign ministry officials are especially wary of moves which would identify Tokyo too closely with Southeast Asian regional interests. They argue that Tokyo's financial burden would be increased unnecessarily, and some believe that adopting a regional approach would conflict with Tokyo's policy of supporting global solutions to the North-South problem. Miki's Conservative Party opponents have more personal reasons for their opposition. Last fall, they were interested in limiting the Prime Minister's ability to capitalize on his place in the international limelight at Rambouillet. With national elections due this year, they will continue to try to circumscribe his activities.

Nevertheless, Miki's pressure has helped to stimulate a wide-ranging official review of Tokyo's regional role. The Foreign Ministry and the Ministry of International Trade and Industry jointly sponsored an investment survey mission that recently toured Southeast Asia, and the Finance Ministry has organized a similar mission to review economic and financial cooperation with the region. Still, a government consensus will probably take some time to develop and will certainly not match Miki's expectations. The Prime Minister, meanwhile, will do what he can to convey the impression of movement in Japanese policy.

Energy Projects Overseas

85-86

Since the late 1950s, the Japanese have spent approximately \$4 billion trying to find and develop energy supplies overseas. Most of the funds have gone into oil and natural gas exploration and development, but the Japanese have also invested heavily in a producing oil concession. The search for uranium and steam coal resources



Prime Minister Miki

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has been on a much smaller scale. Latecomers in the competition for energy resources, the Japanese are finding that their investment is yielding only limited results.

While development of energy resources has been carried out by the private sector, Tokyo has lent a coordinating and financial hand. It is most directly involved in oil exploration through the Japan Petroleum Development Corporation, which was organized in 1967 primarily as a lending institution. The corporation offers loans and loan guarantees to oil exploration companies and, in some cases, purchases stock. Since its founding, it has supplied funds totaling nearly \$900 million. Other government agencies are providing loans for uranium prospecting and, in the case of coal, conducting surveys to locate sites for private Japanese investment. Tokyo's role in overseas liquefied natural gas projects has been confined almost entirely to supplying Japanese Export-Import Bank loans.

Tokyo has accepted the fact that Japanese companies cannot replace the major oil companies in supplying the Japanese market and is concentrating on getting the most out of its exploration dollars. It has been pushing for a more centralized, less wasteful approach to overseas energy resource exploration, particularly oil. Just last year, the Petroleum Development Corporation was given authority to participate directly in oil exploration projects. In its first venture, it is heading a Japanese consortium trying to exploit Canadian tar sands. Many officials are advocating that the corporation undertake all future exploration projects and possibly take over existing ones.

Over the past 10 years, nearly 60 Japanese companies have been involved in the search for oil in more than 20 countries, at an estimated cost of \$2 billion. To date, only five firms have found oil deposits of commercial size; in 1974, they shipped 324,000 barrels per day to Japan, or 7 percent of total crude oil imports. A sixth began shipping about 30,000 barrels per day to Japan last December. All the companies are located in OPEC countries—the most successful being the Arabian Oil Company, which was organized in 1958 in the Saudi-Kuwaiti Neutral Zone.

Distribution of Japanese Oil Exploration Expenditures

	Percent
Middle East	74.6
Far East and Oceania	17.1
Africa	5.7
North America	1.6
Central and South America	1.0

A surge in overseas activity occurred in 1973 and 1974, when 19 new oil exploration companies were formed. Because the most promising concessions already had been taken, the Japanese were forced to go far afield to such places as Bangladesh and Honduras, where chances for success are slim and costs are high. In 1975, 11 Japanese firms have given up exploration rights, and more are likely to follow because of a lack of funds and growing nationalism.

Closer to home, the Japanese and Soviets are planning to explore for oil off Sakhalin Island where weather and tidal problems are severe. In order to conclude the deal, the Japanese loaned the USSR \$100 million, which will be repaid only if oil is found.

Japan's largest single outlay for an overseas oil venture went to purchase part of a concession that is already producing. Faced with the meager results from its exploration companies, Japan invested \$780 million in 1973 for a 45-percent share of a British concession in Abu Dhabi. This project now provides about one third of the crude oil produced by Japanese companies abroad.

Efforts to line up imports of liquefied natural gas have been in low gear for the past two years. No new project agreements have been signed since late 1973, and negotiations for Japanese participation in the large Soviet Yakutsk project remain stalled over the issue of US participation. Japan could cover as much as 60 percent of its projected 1985 liquefied natural gas needs from

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five of the six projects already under way or being negotiated. The sixth, the Yakutsk project, which by itself could provide about 20 percent of requirements, is a long shot.

To fuel its nuclear power plants, Japan has thus far relied on overseas purchase contracts for uranium. While existing contracts should satisfy needs through 1985, Tokyo eventually wants to procure one third of its uranium requirements from Japanese-developed sources. Six uranium development companies have been organized, and numerous other companies—primarily trading firms—have banded together to investigate possibilities. The government assists developers by loaning them 50 to 70 percent of

prospecting costs; repayment comes only after successful development of discoveries.

The Japanese are just beginning to seek steam coal resources. Until the 1973 oil embargo rekindled interest in steam coal as a fuel, the Japanese had no reason to seek sources of supply overseas. In fact, imports had been banned for more than a decade to protect the domestic coal industry. With imports expected to leap from the 400,000 tons allowed in 1974 to 15 million tons in 1985, the search for viable steam coal projects has become a major element of the long-term policy for coal. Japanese-developed projects already provide 25 percent of the country's imports of coking coal, used primarily for steelmaking.



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