

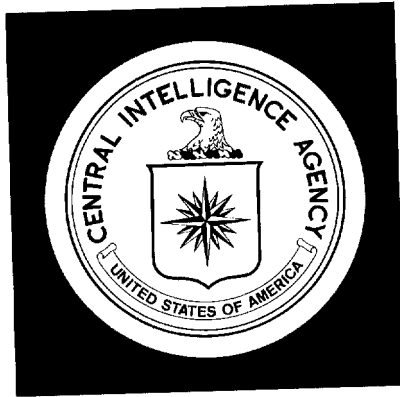
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Weekly Summary

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

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary, [Redacted]

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EGYPT-USSR: ON THE ROCKS

President Sadat's abrogation this week of the 1971 Egyptian-Soviet friendship treaty indicates that he has virtually written off hope of putting his relations with Moscow on an even keel. There are also indications that he will soon terminate Soviet access to naval repair facilities at Alexandria. The Egyptian leader's advisers are publicly maintaining, however, that there is still room for continued cooperation between the two countries.

Sadat announced his desire to cancel the treaty during a speech on March 14, and the People's Assembly ratified the abrogation by an overwhelming 307-2 vote the following day. Sadat cited Soviet failure to supply Egypt with arms and spare parts as the prime reason for his move. He has been particularly angered by Moscow's recent refusal to continue overhauling MIG-21 engines and its refusal to permit India either to overhaul the engines or to provide Egypt with spare parts for the aircraft. He is also convinced—although he did not mention this in the

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President Sadat acknowledges applause of assembly delegates following treaty abrogation announcement

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speech—that the Soviets are attempting to foment unrest in Egypt in an effort to overturn his government.

Until now, Sadat had refrained from tampering with either the friendship treaty or the agreement that gives the Soviets access to naval facilities at Alexandria, probably in the belief that they gave him some leverage to press for a resumption of Soviet arms shipments. Sadat seems now to have given up any hope that more arms will ever be forthcoming. In recent months, he tried to make a tentative peace with the Soviets, even to the point of publicly affirming that he had stopped the propaganda war with them and of openly acknowledging the existence of some points of similarity in Soviet and Egyptian policy. Moscow's answer was to increase the pressure on the Egyptians by further restricting its arms flow.

Sadat has long had a personal obsession about the Soviets, and he probably concluded that he had little to lose by abrogating the treaty. Any economic retaliation taken by Moscow would cause some disruption, but would do minimal real damage.

At present, Egypt needs Soviet technicians to run the Hulwan steel mill, the Naj Hammadi aluminum plant, and the Alexandria shipyard, but this assistance could easily be replaced from the West. Egypt's principal trade with Moscow is in items that are difficult to market in the West; part of its export earnings from the USSR are used for debt repayment, but less than \$150 million of the exports is bartered directly for Soviet goods. Financing for the purchase of substitute items from the West would have to be secured.

Sadat will, of course, have to be alert to possible unrest among the Egyptian military as a result of his virtual foreclosure of any hope for further Soviet arms. Some Arab commentators have taken a cynical attitude toward the treaty abrogation, viewing it as a move undertaken at US behest for little return, and there is some danger that Egypt's military establishment will take a similar view if further Western arms deals are not concluded. Sadat will be in considerable trouble if his military

leaders come to the view expressed by one Jordanian newspaper that has blamed the Soviet-Egyptian impasse over arms solely on Sadat and accused him of trading "thousands of tanks, planes, and rockets" for six US C-130 aircraft.

The US embassy in Cairo has reported that large numbers of Egyptians are applauding Sadat's move as "long overdue." Foreign Minister Fahmi put the full weight of his support behind the treaty abrogation in a speech to the People's Assembly the day after Sadat's announcement. He cataloged a long list of grievances against Moscow as just grounds for the move and emphasized in particular the Soviets' constant carping at Egypt's alleged deviation from the "socialist path" and from the tenets of Nasir's "revolution."

Fahmi emphasized, however, that continued cooperation is still possible and indicated that the Egyptians may now seek to avoid further damage to the relationship with Moscow. People's Assembly speaker Sayyid Mari, a close confidant of Sadat's, also stressed that the abrogation should not impede the growth of friendly relations. Both expressed the hope that trade relations will continue, pointedly noting that it is through the Egyptian trade surplus that Cairo is currently paying off its debt to the Soviets.

Reaction in Israel

Israeli leaders have not commented on the Egyptian action, but Israeli press commentary has been extensive. An editorial in a daily with close ties to the ruling Labor Alignment mirrored the ambivalence that most Israelis probably share concerning the possible impact of Sadat's action on their country. On the one hand, the article welcomed Sadat's action as strengthening the US position in the Middle East at Soviet expense. On the other, it expressed concern that improved US-Egyptian relations might result in renewed US pressure on Israel for further territorial and political concessions to the Arabs in peace negotiations, as well as greater support by Americans for US arms sales to Egypt.

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MOSCOW'S REACTION

Moscow's initial press reaction to Sadat's abrogation was confined to a short and straight-forward Tass statement issued on March 15; the statement appeared to be no more than a holding action until the Kremlin had determined how to respond.

Tass put the blame on Sadat for the downturn in Soviet-Egyptian relations. It described the abrogation as a new manifestation of the "unfriendly" policy toward the USSR that Sadat had been pursuing for a long time.

The Tass statement contained no threats, and included the platitude that Moscow will continue to work for friendly relations with Cairo and the Egyptian people.

Subsequent Soviet press treatment of the abrogation has concentrated on replaying Arab criticism and Western satisfaction over Sadat's



Foreign Minister Fahmi

Camera Press London

move as another blow by the Egyptian leader to Arab unity.

Sadat's abrogation of the treaty will nevertheless have important symbolic, and perhaps practical, consequences for Moscow. The Soviets place more stock in such treaties than their substance warrants; they regard a friendship pact as a tangible expression of the desire for, if not necessarily the fact of, a close and congenial relationship. Egypt's action will be interpreted not only as a declaration of current antipathy, but also as a bad omen for future bilateral relations. The Soviets will also be discomfited by the fact that it was Sadat, not they, who took the initiative, and the abrogation will revive memories of the ignominious expulsion of Soviet advisers from Egypt in 1972.

The Soviets may be withholding comprehensive comment until they see how far Sadat is going to push the deterioration in relations. If the Soviets are of a mind to avoid doing anything, at least publicly, to worsen the situation, they may have drawn some comfort from Foreign Minister Fahmi's mildly conciliatory remarks on future relations with the USSR when he was before the People's Assembly. Moreover, the Soviets evidently have not yet been told to end their naval repair activity in Alexandria.

The Egyptian action will reinforce the view in Moscow that good Soviet-Egyptian relations are impossible as long as Sadat remains in power. The logical deduction would seem to be that the Soviets will do everything in their power to bring Sadat down. This could cause Moscow to attack him openly and frontally, perhaps by ending economic relations and withdrawing its people from Egypt. But the Soviets may want to make a fresh and redoubled effort to work covertly against Sadat, which might necessitate keeping as many personnel as possible in the country. It may be that, in the end, the Soviets will try to hang on in Egypt, retain such influence over the situation there as they can, and hope that sooner, rather than later, the many problems of Egypt will prove fatal to Sadat.

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LEBANON: SYRIA STEPS IN AGAIN

The Syrians took steps this week to wrest the initiative back from forces that supported the limited coup on March 11 by Brigadier Ahdab, the Muslim garrison commander in Beirut. Ahdab, proclaiming himself a "temporary military governor" threatened to oust Christian President Franjyah by force if he did not resign. After forceful new action by Damascus, however, Ahdab on March 17 publicly withdrew his threat and promised to await the outcome of Syrian-sponsored negotiations.

About a thousand Syrian regulars, disguised as Palestinian units, were sent into Lebanon last weekend to reinforce the Syrian-controlled Saiqa and PLA forces already there. These combined units moved quickly on March 15 to block an attempt by pro-coup forces, including elements of Lieutenant Khatib's renegade Muslim army, to storm the presidential palace at Babda. Franjyah has holed up there, defying Ahdab's demand.

Damascus was initially inclined to support Ahdab's power play because Franjyah has been obstructing Syrian efforts to halt the disintegration of the Lebanese army and to organize a broad-based cabinet to implement the Lebanese political accord Damascus arranged last month. The Syrians later concluded, however, that the forces backing the relatively obscure Ahdab—leftist leader Kamal Jumblatt and Palestine Liberation Organization chairman Yasir Arafat—were working to reduce Syrian influence rather than support mediation efforts.

Damascus remains primarily interested in restoring order and political stability in Lebanon and ensuring the support of the main Muslim and Christian groups for Syrian mediation. The Syrians also want to move the Lebanese politicians toward rapid implementation of the reform package they agreed to in mid-February.

By midweek the focus of attention had shifted abruptly to Damascus where consultations were going on to devise a way for Franjyah to step down gracefully and a successor to be

selected. Various Lebanese and Palestinian leaders—including Arafat, a Phalangist delegation, and Khatib—had responded to calls from Damascus to meet with President Asad. Only Jumblatt refused.

One solution being given serious consideration by the Syrians would have Franjyah name a prominent Maronite Christian to head a caretaker government, thus paving the way for his resignation and the election of a new president. This formula was used in 1952 to resolve a similar constitutional crisis.

Ilyas Sarkis, the governor of the central bank, is apparently the front runner to replace Franjyah. He reportedly has the support of Damascus, the Christian Phalanges Party and the Lebanese army high command. His candidacy, however, is likely to be strongly opposed by Jumblatt and some other Muslim and leftist leaders who supported Ahdab's move. More Syrian arm-twisting is likely to be necessary to bring Jumblatt and his followers around.

The Israelis reacted cautiously to reports of Syrian regulars intervening in Lebanon. Israeli military spokesmen maintained that they could neither confirm nor deny the presence of Syrian regulars, but professed to believe that these reports refer to Syrian-controlled Palestinian forces.

Unless Damascus injects substantially more Syrian regular forces into Lebanon—which seems unlikely—the Israelis probably will remain content to issue warnings against outside intervention, while tacitly accepting the fact that some regulars are already there.

The Israelis appear to recognize that additional Syrian pressure was necessary to stabilize the situation. Their primary concern remains the security situation in southern Lebanon. Defense Minister Peres warned last week that although Israel will remain a "passive observer" of

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developments in Lebanon, any changes affecting the security of Israel's border or the safety of Israeli settlements would require "countermeasures." [redacted]

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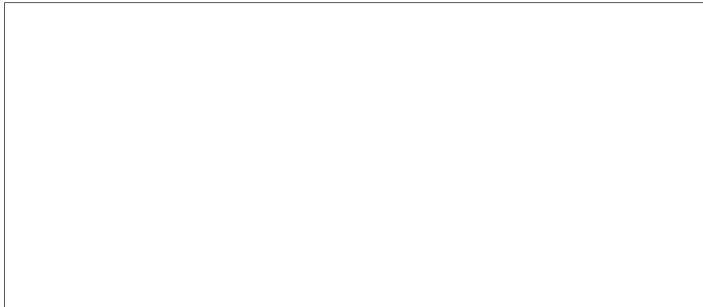
SAUDI ARABIA - SOUTH YEMEN

Normalizing Relations

Saudi Arabia and South Yemen announced last week their intention to normalize relations. The move was the result of more than 18 months of negotiations in which the Egyptians acted as go-between. The two countries have been at odds since South Yemen became independent in 1967 under the leftist National Front.

The Saudis, for their part, are apparently prepared to begin fairly soon to extend large-scale financial assistance to Aden. Riyadh evidently hopes that it can create a relationship of financial dependency; this would then be used as a lever to gain political concessions—the Saudis' main aim being the reduction of the Soviet role in South Yemen.

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Hard-line Marxists, however, are in important positions throughout the party, government, and military apparatus in South Yemen. The willingness of the National Front to negotiate the agreement was probably due largely to economic considerations. The National Front may have reasoned that it had little to lose and money to gain by making the deal.

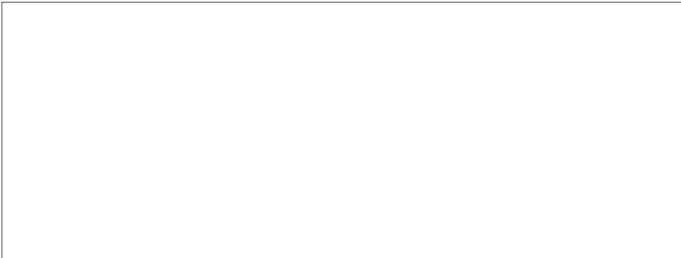
The View from Oman and North Yemen

The governments of Oman and North Yemen, like some Saudi leaders, are skeptical about Riyadh's chances of bringing about any significant modification of South Yemeni policies, but they have publicly welcomed the reconciliation. Sultan Qabus of Oman has responded by also announcing a 60-day amnesty during which Dhofari rebels in South Yemen may return without penalty to Oman.

Aden, eager to find other sources of aid, will probably move in the near term to establish diplomatic relations with the small Arab states of the lower Persian Gulf. Until now, Bahrain, Qatar, and the United Arab Emirates have been slow to respond to overtures from South Yemen, arguing that they did not want to anger Riyadh by getting out in front on the issue of diplomatic relations.

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In a communique issued on March 10, the two countries renounced interference in each other's internal affairs and held out the promise of cooperation in cultural and economic matters. The communique also called for an end to "foreign interference" on the Arabian Peninsula—a reference broad enough to encompass the Saudis' objection to the extensive Soviet presence in South Yemen and Aden's opposition to Iran's military role in Oman. Normalization apparently will occur in stages and take three months to complete—if everything goes well.

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NIGERIA: SETTLING ACCOUNTS

Nigeria's military rulers no doubt hope the execution last week of 31 military officers and non-commissioned officers for their alleged roles in the recent abortive coup will wrap up the affair and allow the regime to ease its preoccupation with security. The events of the past month, however, have surfaced problems that are unlikely to dissipate quickly.

The special military panel that investigated the abortive coup has asserted it grew out of plotting by two separate groups that were put in touch with each other by former chief of state Gowon, who has been in the UK since his ouster last July. Speaking for the ruling Supreme Military Council, Brigadier Shehu Yar Adua, now the number two man in the regime, announced that the plotters were angered by the recent promotions of top officers and entertained wild notions that Nigeria was "going communist." He said they wanted to restore Gowon to power and rehabilitate a number of discredited former state governors, and hoped to thwart any demobilization of Nigeria's 250,000-man army. Yar Adua went to great lengths to dispel fears of any rapid or indiscriminate demobilization, indicating that the council views this as a particularly explosive issue.

The public executions were clearly designed to warn other plotters, but also seem aimed at placating the Muslim Hausa peoples of the north who had seen another of their prominent sons—the late chief of state Murtala Muhammed—killed by officers from other ethnic groups. The bloody riots in northern Nigeria that followed the killing of Hausa leaders by southern Christian Ibos in 1966 doubtless are still fresh in the minds of those who now run the country.

Despite the surface appearance of decisive action by a unified leadership, the secrecy of the investigations and trials and the hasty executions suggest a degree of insecurity. The impression is reinforced by the council's near frantic effort immediately following the coup attempt to squelch any mention of ethnic or religious fears, and by its willingness to allow the press and students to raise the foreign scapegoat with allegations of UK and US involvement in the plot.

The ethnic factor may well be the main concern in Lagos. The alleged coup leaders were all officers from the small Christian and pagan tribes of central Nigeria that provide about a third of the army's personnel. Dissatisfaction among these officers apparently had been building in the weeks prior to the coup. Some of them had come to believe that Muhammed was deliberately weakening the position of political pre-eminence these tribes had enjoyed during the nine years General Gowon was the country's leader. One prominent minority officer, Major General Bisalla—who was executed as one of the ringleaders of last month's coup plot—had complained bitterly about being cut off from deliberations of the Supreme Military Council.

Mutual suspicions among Nigerian military officers undoubtedly have grown as a result of the coup and executions. The brigade of guards, the primary military security force in Lagos, which is composed mainly of soldiers from minority tribes, has been sent out of Lagos on maneuvers; many of its personnel reportedly will be reassigned to other units. The brigade's security duties in the capital reportedly have been assigned to army units from other parts of Nigeria, including two from the north that are predominantly Hausa.

Within the military council, officers from the small tribes are said to be lying low until the feeling against them dies down. Hausa members of the council, on the other hand, reportedly are asserting themselves, especially Brigadier Yar Adua. Lieutenant General Obasanjo, who accepted the top job reluctantly, has maintained a relatively low profile since he took over. Obasanjo, a Christian Yoruba from western Nigeria, is regarded by some officers from central Nigeria as easily manipulated by the Hausas.

Meanwhile, the Nigerian press has eased up somewhat on its anti-Western rhetoric, although this may change if the government pushes for the extradition of Gowon from the UK. Nigerian spokesmen say they are seeking Gowon's return, but Lagos has not filed a formal request with London. The British seem certain to reject any such request.

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FRENCH TERRITORY OF AFARS AND ISSAS**Independence Timetable**

French President Giscard appears to have decided to speed up the timetable for granting independence to the French Territory of the Afars and Issas. He also seems prepared to relinquish French base rights there rather than become involved in a potential military conflict.

The French gave no timetable last December when they announced their decision to grant independence to the territory, but French officials then implied that the process could take up to two years.

According to several French diplomats stationed in east Africa, Paris now plans:

- To make clear to local leaders that permission for French forces and facilities to remain is not a precondition for independence.
- To call a meeting of the two local political parties and rival liberation movements, one backed by Ethiopia and the other by Somalia, to plan for independence.
- To hold a referendum, possibly supervised by observers from the UN, the Organization of African Unity and the Arab League, as soon as this June to elect a new government.

A personal representative of Giscard will visit Somalia, Ethiopia and, apparently, some Arab capitals in the next few weeks to discuss the composition of a local government and problems relating to the territory's security after independence.

Paris' policy shift began taking shape several weeks ago. France had hoped to transfer power to a government led by Ali Aref Bourhan, the pro-French leader of the territorial council. As Aref's political weakness became increasingly evident, however, France strengthened its contacts with the only legal opposition group in Djibouti—the African People's Independence League—and began pressing Aref to reach an accommodation with it.

France has apparently drawn further away from Aref by suggesting a willingness to withdraw all troops after independence. Aref is still calling for a French military presence, which he believes is essential if the territory is to maintain its independence.

Somali and Ethiopian Positions

Neighboring Somalia is determined to pursue its long-standing aim of annexing the territory. Ethiopia is equally determined to prevent the Somalis from dominating the territory and its port of Djibouti, the terminus of Ethiopia's only important rail link to the sea.

Paris obviously hopes that talks among the four local political groups will produce an agreement that will last at least long enough to allow a peaceful transition to independence.

President Siad of Somalia has reacted favorably to the French initiative because he believes the withdrawal of French troops would enhance Somalia's ability to gain control of the territory.

Ethiopia, on the other hand, will consider the French plans as favorable to Somalia, and will almost certainly begin giving serious considerations to means of forestalling a Somali take-over in Djibouti.

Djibouti is France's only major naval base remaining in the Indian Ocean. Its strategic location near the entrance to the Red Sea enables the French to protect key oil supply routes to the West and monitor Soviet naval activity in the Gulf of Aden. Operating out of Djibouti, the French Indian Ocean flotilla is the largest Western naval force in the ocean and is nearly the same size as the Soviet contingent.

If the French are forced to relinquish the base, they almost certainly will have to increase the number of supply and support craft assigned to the area—at least for the near term. They also will be forced to rely more heavily on their limited support facilities at La Reunion, an island east of Madagascar.

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LIBYA-EGYPT: AT IT AGAIN

The feud between the Sadat and Qadhafi regimes, relatively quiet in recent months, has flared again, bringing this time a threat to the many Egyptian workers in Libya. Cairo's concern for the safety of its citizens may provide it with new incentive to try to overthrow the troublesome Libyan government.

The latest contretemps began two weeks ago over unsuccessful attempts by some of Qadhafi's agents against two Libyan Revolutionary Command Council members who have been living in exile in Cairo. On March 6, three Libyan agents boarded a plane in Cairo that they believed was carrying one of the council members, Abd al-Munim al-Huni, to Rome, intending to hijack it to Libya and kidnap al-Huni. Al-Huni, who has been living in Egypt since August, had switched planes, however, after being advised to do so by Egyptian authorities as a precautionary measure. When the three Libyans arrived in Rome they were arrested for carrying arms and grenades.

Almost simultaneously, the Egyptians arrested seven Libyan commandos allegedly sent to Cairo to assassinate Umar Muhayshi, another exiled command council member. Muhayshi fled Libya in August after failing in an attempt to overthrow Qadhafi. Twenty more Libyans, all allegedly involved in the effort to assassinate Muhayshi, were rounded up during the following week.

The defection of the two members of his ruling clique is a continuing embarrassment for Qadhafi, and he was apparently ready to go to great lengths to silence Muhayshi and force al-Huni to return. The move against Muhayshi was probably prompted by Cairo's threat several weeks ago to publish what were billed as lurid "memoirs" of Muhayshi's experiences under Qadhafi. Al-Huni is not so anathema to Qadhafi—in fact, he is still officially Libya's foreign minister—and Qadhafi evidently wanted only to get him to return to the fold, even if under duress. Efforts to cajole him into returning in January had been to no avail.



Qadhafi CRS

Although the issue is essentially an internal Libyan one, the Libyans have infringed on Egyptian sovereignty in pursuing errant members of their flock, and the Egyptians have used this, with no small measure of glee, as an excuse to pull out all stops in a new anti-Qadhafi propaganda barrage. Among other commentary in the press, Cairo began a week ago publishing the Muhayshi "memoirs." Although they hardly constitute the lurid fare that had been promised, they provide an interesting and somewhat embarrassing account of Qadhafi's idiosyncracies.

Libya has retaliated by expelling over 12,000 Egyptian workers who the Libyans claim, probably with some justification, include illegal residents and some "spies." Were it not for the fact that some of those expelled have apparently been mistreated in the process and that the welfare of the almost 200,000 Egyptians remaining in Libya is threatened, Cairo might be willing to let the feud subside again. The danger to the remaining Egyptians, however, will cause Cairo considerable concern. Qadhafi can hold them hostage to Egypt's good behavior, but the threat to their safety could increase Sadat's inclination to find a way to get rid of Qadhafi.

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USSR: READING THE RETURNS

Moscow is rapidly moving away from its cautious, low-key coverage of the US presidential election campaign to relatively extensive, partisan commentary. The Soviets, who continued to pull their punches until emboldened by the results of the early primaries, were evidently prompted to join the fray by the growing debate in the US over relations with the USSR.

The Soviet media assure their audience that the policy of "detente" enjoys the overwhelming support of the US public. At the same time, however, Moscow warns of intensified attacks on that policy. In the Soviet view, popular will in the US runs a constant risk of being submerged by those "certain circles" (e.g., military industrialists, Zionists, monopolists) whose interests are served by anti-Soviet policies.

In the aftermath of the Florida vote, Moscow began to inform the Soviet people in some detail of the course of the US campaign. In particular, Moscow reported the consensus of "US observers" that after Florida President Ford was almost certain to win the Republican nomination. Governor Reagan's defeats were attributed in large measure to his opposition to the administration's policy toward the USSR.

Moscow found the Florida Democratic primary equally heartening. The media have pointed out that in that state, a "bulwark of conservatism," no candidate holding "extreme right" views won. In contrast to their total silence on Senator Jackson's first-place finish in Massachusetts, the Soviets noted his and Governor Wallace's "defeat" in Florida.

Senator Jackson, nevertheless, remains a serious concern to Moscow. On March 11, the military organ *Red Star* published a long and unusually vituperative attack on him. Governor Carter has also begun to draw criticism from Moscow, although not of the same order as that directed at Jackson, Reagan, and Wallace. Little has been said of the other Democratic candidates.

Moscow has in the past normally preferred continuity in Western capitals to the uncertainties associated with a change of leadership. For this

reason, it probably prefers to see President Ford returned to office.

The Ford administration has nevertheless been subject to considerable criticism; much of it sharp and explicit. Secretary Rumsfeld, for example, has been taken to task recently for his "cold war views." The Soviets are also suspicious of the implications of the administration's dropping of the term "detente," although publicly they profess indifference. In a *Pravda* commentary this week Moscow observed that the strengthening of peace is too serious a matter to be subordinated to "any tactical considerations in the sphere of domestic activity." [REDACTED]

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PORTUGAL: ELECTIONEERING UNDER WAY

The campaign for legislative elections is swinging into full gear with election day still five weeks away. Fourteen parties have entered candidates in the race on April 25, but the bulk of the vote will go to just four parties—the Socialists, the centrist Popular Democrats, the conservative Social Democratic Center, and the Communists.

The shift to the right since last November is expected to work to the advantage of the Popular Democrats and the Social Democratic Center, which polled 26 and 8 percent respectively in last year's constituent assembly election. The Socialists, who last April won with 38 percent of the vote, are expected to lose some of their support to the more conservative parties since they are no longer viewed as the only effective safeguard against a Communist take-over.

The biggest battle of the campaign appears to be shaping up between the Socialists and the Popular Democrats for first place and the possible selection of the winning party leader as the next prime minister. Socialist leaders are discounting the possibility of post-election cooperation with the Popular Democrats—or with any other party—in an effort to establish themselves as the

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alternative to a coalition of the two leading conservative parties. The Socialists also want to dispel any fears that they would invite the Communists to participate in the government.

The Popular Democrats, who expect to widen their margin of support with ex-Socialist supporters on the left and conservative Angolan refugees and northern farmers on the right, have left open the coalition question until after the elections. They believe the Socialist pledge to "govern alone or not at all" is probably no more than campaign rhetoric and realize that Socialist participation may be necessary for an effective government. A coalition of conservative parties only would have no effective line of communication to labor, thus opening it to an early challenge from that sector.

The growing rivalry between the two parties, however, promises to make future cooperation more difficult. The Socialists were first off the mark when party leader Soares hosted a star-studded meeting of West European socialist and social democratic leaders last weekend in the northern town of Porto. The participants—including Brandt from West Germany, Mitterrand from France, Kreisky from Austria, Palme from Sweden, and party leaders from five other countries—promised to work for more economic aid from the EC and the European Free Trade Association, as well as increased bilateral government and party assistance.

The show of West European support gave the Socialist campaign a boost in the north, but infuriated the Popular Democrats. Popular Democratic leader Sa Carneiro, who has failed to attract support from abroad for his party, tried to diminish the impact of the conference by charging foreign interference in a domestic political campaign and by holding a rally to coincide with the first day of the Socialist meeting. Popular Democratic pressure succeeded in convincing Prime Minister Azevedo to cancel plans to attend the Socialist gathering, but Sa Carneiro's obstructionist tactics may have tarnished his image with undecided voters.

The Communists also criticized the Socialists for inviting the European leaders as an election ploy, but chose their words carefully to avoid antagonizing the Socialists, whom they still hope to coax into an alliance. The Communists realize they will not do well in the balloting and are trying to preserve a role in Portuguese politics either through association with the Socialists or by maintaining some capacity for creating civil unrest.

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FRANCE: SOCIALISTS GAIN

Sharp gains posted by the Socialists in the two-round French cantonal elections that concluded Sunday have caused both the governing coalition and the Communists of the opposition left alliance to reassess their political strategies.

The left won at least 907 departmental council seats to about 870 for President Giscard's majority coalition, with the Socialist Party collecting 498, more than twice the number of any other party. Although the balloting affected only about half the electorate, the left appears likely to increase the number of departmental advisory councils it controls from 30 to over 40 of the 95 total.

The left appears to have benefited from growing public discontent over France's continuing high rates of inflation and unemployment, from the fact that this was the first election in which 18 year-olds were eligible to vote, and from a record 68-percent voter turnout.

Socialist Party leader Francois Mitterrand, who campaigned hard, hails the election results as a sign of "great progress for the left." Communist Party leader Marchais sees the vote as a "serious warning shot for the government," but is concerned over the continuing reluctance of Socialist voters to back Communist candidates in run-offs against centrist or conservative parties. The party's efforts to develop an image of greater responsibility and cooperation were not successful in increasing the votes it received.

Government leaders, on the other hand, are saying publicly that the results are only a "light warning," as Justice Minister Lecanuet put it, and continue to emphasize the local nature of the contests. They point out that the opposition has traditionally done well in cantonal elections and that these contests have been notoriously poor signs of voter sentiment in legislative elections.

Both observations are true to some extent, but the Giscard government is taking the results more seriously than it is indicating in public. The government admits that its strategy of playing

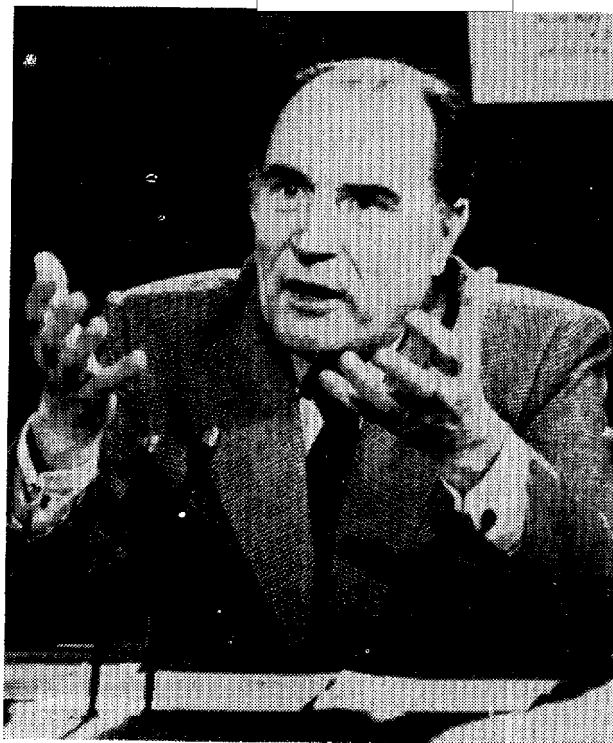
down the significance of the elections and of keeping government leaders out of the campaign was a mistake.

The cantonal results are likely to spark increased debate within the governing coalition. Giscard's Independent Republicans made substantial gains at the expense of the Gaullists, and this is likely to engender increased defensiveness and suspicion of Giscard's political maneuvering among the Gaullists. The government will also be concerned by the clear swing of Gaullist voters to the Socialists in many areas.

Within the victorious left alliance, the Communists have already shown concern over Socialist gains—many of them at the expense of the Communists—and are likely to step up efforts to reassert themselves.

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Francois Mitterrand

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UK: SEARCH FOR A SUCCESSOR

The sudden resignation of Prime Minister Wilson on March 16 triggered intense political maneuvering in the Labor Party over the selection of a successor.

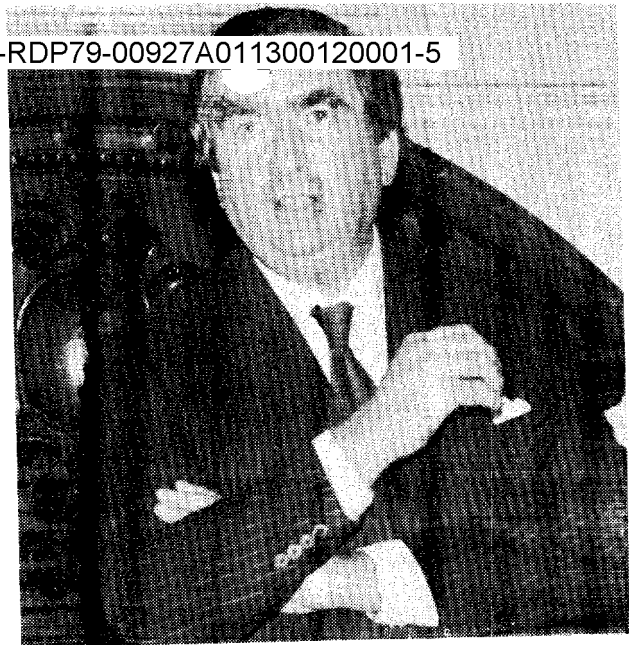
Wilson's resignation came without warning, although he reportedly advised the Queen last December that he intended to step down at this time. Wilson's professed reasons were his long service in Parliament and as prime minister and his desire to give others a chance to seek the Labor leadership. He also cited his belief that his anti-inflation program is off to an impressive start.

There is no evidence that ill-health or other personal problems played a role. Wilson intends to remain in Parliament as an ordinary Labor backbencher.

The opposition Conservatives responded by calling for an immediate election, but Labor is not required to do so as long as it maintains its majority in Commons. The new Labor leader will be tested almost immediately, however, by a parliamentary vote of confidence. Members of the leftist Tribune Group, whose defection last week led to an embarrassing parliamentary defeat for Wilson, have been warned by powerful trade union leaders not to endanger "the gains secured for workers by the present government." The union leaders also called for an end to the divisive personal invective that has characterized recent intra-party debate.

Labor's search for a successor will focus on finding a new leader acceptable to all elements of the party and may require two or three weeks. Nominations are being made this week and results of the first ballot will become available on March 25. Wilson will remain Prime Minister during this process.

The initial favorite is James Callaghan, Secretary of State for Foreign Affairs and long considered to be the number-two man in the party. In his political views, Callaghan is identified with the broad center of the party; he has a strong pro-American outlook. Like Wilson, Callaghan has a talent for forging the political compromises



Denis Healey

that are so necessary to keep the fractious Labor Party united. He also has the backing of several powerful union leaders.

Callaghan's major drawback is his age—he will be 64 next week—but this is not necessarily a fatal flaw. Indeed, Wilson may have been trying to give Callaghan a subtle boost when in the course of his resignation statement, he pointed out some of his most distinguished predecessors as prime minister were over sixty upon coming to office.

Chancellor of the Exchequer Denis Healey will also be a front runner. His post has been a traditional springboard to the top and his economic policies have strong backing from most Labor members of Parliament and the trade union leadership. A significant obstacle to Healey's ambitions, however, is his unpopularity with leftist MPs. This would not be a handicap if Labor had a healthy parliamentary majority, but given the party's present one-vote margin in that body, the objections of left-wing Laborites could ruin Healey's chances.

Whoever succeeds Wilson will probably feel compelled to seek an endorsement of his leadership by calling a national election before the end of the year. It may occur in early fall to precede the usually disruptive annual party conference. Labor's election prospects would appear to be relatively good as the British economy seems to be emerging from its deep recession. Although unemployment will remain at exceptionally high levels, Labor would still benefit from

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the sharp decline in the rate of inflation as well as a public perception that better times are in store. These potential gains, however, could be wiped out by losses to nationalist opponents in Scotland that would prevent a Labor majority at Westminster.

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CANADA: DRILLING ACTIVITY RISES

Petroleum exploration in Canada is showing some signs of recovery following a nearly two-year decline brought on in large measure by adverse federal tax and pricing policies. The revival is based almost entirely on gas drilling in western Canada. Activity on the western Canadian oil front is still under a cloud, and Arctic exploration this year will remain nearly 40 percent below the 1973 level. East coast offshore activity is also languishing, largely because of disappointing results to date.

A more broadly based revival in exploration will depend on policy decisions in the next few months. In the case of western oil, much depends on how domestic pricing and tax policies evolve from federal-provincial meetings currently under way. Activity in the promising Arctic regions will probably remain stagnant, until Ottawa firms up long-delayed land, tax, and royalty regulations. Final decisions on these matters will not be made until well into the year. With the vigor of the exploration movement still to be tested, Ottawa shows no inclination to alter near-term energy export policies.

The nearly two-year decline in Canadian drilling continued throughout most of 1975. Despite an upturn toward the end of the year, the total number of wells drilled was only 15 percent above the previous year and 8 percent below the 1973 level. Total drilling activity is expected to recover to about the 1973 level this year. So far this year, gas well completions are running 50 percent above the same period a year ago, but oil well completions are down, running about 17 percent below a year ago.

About 225 drilling rigs are currently operating in Canada, compared with about 170 a year ago, when exploration activity was at rock bottom. During the 1973 and 1974 winter drilling season about 250 to 260 rigs were in operation. Some two dozen rigs are still inactive; half of this equipment is located in the Arctic where rig utilization is running at only 50 percent of capacity. So far the upturn in drilling has not been strong enough to at-

tract the return of more than a few of the rigs that left Canada in 1974 and 1975.

In western Canada gas wells have accounted for 82 percent of well completions so far this year, compared with the normal 72 percent. Most of the exploration has been in Alberta, where attention is being focused on shallow gas deposits in the eastern part of the province. Most of these deposits were delineated several years ago, but were not profitable to exploit at the time. The only relatively new area being explored is the Rocky Mountain foothills region in western Alberta.

Recent increases in gas prices have made these fields profitable to drill. Wellhead gas prices currently run 72 cents per thousand cubic feet, nearly double the 1973 level. Although tax and royalty payments take a large bite out of producer's revenues, returns have improved enough to spur drilling. Moreover, because activity is concentrated in fairly well-established areas, firms are running relatively few risks of dry holes.

Drilling for oil in western Canada appears less active. Limited data suggest that the net return to oil producers has not improved nearly as much as it has for gas. Oil prices have risen sharply, but the cash flow for an oil producer in Alberta now amounts to \$2.60 a barrel, only a nudge up from the roughly \$2.00 per barrel average return in 1973. Inflation has wiped out most or all of the increase.

Although the Trudeau government announced in 1975 some details of the regulations governing company activity in the Arctic, it has yet to introduce the legislation in parliament. As a result, oil companies are planning to drill only about 50 wells this year, up from 45 last year, but still well below the 82 wells drilled in 1973. Because of inflation, exploration costs could be up 20 to 30 percent.

The only substantial increase in Arctic exploration this year will come from deepwater

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drilling in the Beaufort Sea. The \$120-million Dome Petroleum program centers on drilling two deepwater wells beginning next summer. The Dome program has been in the planning stage since 1973. The major firms operating in the Mackenzie Delta—Imperial Oil (Exxon), Shell Canada, and Gulf Canada—have indicated that they plan to scale down their drilling activity until land regulations are decided on.

Panarctic Oils—the major firm operating in the Arctic Islands region—is cutting back exploration outlays this year to \$35 million compared with \$55 million in 1975. The firm's 1976 drilling program will concentrate on adding to 13 trillion cubic feet of already proven gas reserves and establishing the extent of a recent promising oil strike on Cameron Island.

Industry interest in the offshore east coast area has waned since 1973 because of soaring costs of offshore operations and the lack of major oil and gas finds. A continuing dispute between Ottawa and the Maritime provinces over sharing petroleum revenues has also dampened company interest. The provinces have repeatedly rejected federal offers to split future oil and gas revenues on a 50-50 basis.

Only a handful of wells will be drilled off the Labrador coast this year. Eastcan Exploration plans to deploy two, and perhaps three, drilling vessels in hopes of completing five to seven wells. Activity is limited to the summer months because weather conditions off the Labrador coast deteriorate rapidly by September. Shell Canada, which has accounted for about a third of the 125 wells drilled off the east coast in the past few years, is planning a small effort in 1976.

The increase in gas exploration, if sustained, should improve the supply situation somewhat over the next year or so. This, together with a slowdown in domestic gas consumption, would improve chances that the National Energy Board will back off from its earlier view that supply cut-backs to the US market should begin as soon as 1977. Over the longer term, however, supplies of

Canadian gas to the US market will depend primarily on Arctic production.

The near-term oil supply outlook remains gloomy. Even if the gas exploration revival carries over to oil, a far more vigorous program will be needed to reverse the steady decline in Canada's proven reserves that has occurred since 1969. Without a sharp reversal of its proven reserve situation, there is no chance that Canada will modify its schedule for phasing out oil exports to the US.

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ARGENTINA

Facing the Opposition

The administration mounted another campaign this week to deflect criticism and discredit its opponents by attacking chief Peronist dissident Victorio Calabro, unionist and governor of Buenos Aires Province. Calabro has been accused of seeking to undermine the latest economic stabilization program and of plotting against the government.

Peronist party Secretary General Rocca made the strongest claims, calling Calabro a plotter who seeks to bring down the government by orchestrating labor opposition to the new economic austerity program. Interior Minister Ares, who only recently sought to arrange a reconciliation with Calabro, told the press he now feels that his efforts to bring the governor back into the Peronist fold have failed. He hinted that a more drastic solution might be needed.

Both Ares and the presidential press secretary have subsequently denied any intention to remove Calabro from office, an action the administration has taken in a number of other provinces. The denials ring hollow, however, in the current situation. The complete eclipse of Calabro is the chief goal of labor confederation head Lorenzo Miguel, who is once again backing President Peron.

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Calabro is clearly working to torpedo the austerity program. He has already denounced it in public, saying it unfairly penalized workers. Calabro undoubtedly sees an opportunity to renew his drive to unseat the current national labor leadership, closely identified with the administration. This has been his goal for some time.

It is questionable whether the government would risk an attempt to remove the powerful Calabro from the governorship; he clearly has significant worker support or at least sympathy and may have some backing among military officers anxious to facilitate the splintering of Peronism. This realization by the administration, as well as the recurrent shifting of political alliances, suggests that yet another effort to make peace with Calabro will be undertaken at some point.

The loyalists' fight with Calabro is the most dramatic of the continuing splits within Peronism that are leading to the disintegration of the movement. President Peron, although easily re-elected as head of the movement at a recent party congress, now leads an organization radically reduced in size. The US embassy estimates that the Peronist movement is about one third the size it was less than two years ago when its founder was still alive.

The prospect of Peronism's disintegration may be an important factor staving off a military coup. Many officers have consistently claimed that they would move only when Peronism had thoroughly discredited itself and been repudiated by the public.

Debt Financing

Argentina may soon be forced to ask for renegotiation of part of its foreign debt payments for 1976. Such a move would further erode its already weak international credit standing. Despite rumors that Buenos Aires will request a moratorium on debt payments, we do not think it will go that far because of the greater harm it would do its standing abroad.

About \$2.5 billion in debt amortization is due this year, and foreign exchange resources are meager in comparison. Foreign reserves stood at only \$620 million on December 31, 1975, almost all of it in gold and bilateral clearings, neither of which is available for general foreign settlements. The current account, swollen by interest payments, is expected to be in deficit by \$400 million.

Nearly four fifths of the debt payments, including private obligations that make up more than half the total, can doubtless be deferred as they were last year.

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Debt service poses an immediate problem because large payments are due in March and April, before the major portion of receipts from grain sales from the 1975-76 harvest comes in. The strict austerity program announced by the government last week was designed in part to reassure foreign lenders and thus facilitate immediate borrowing.

Chances of obtaining the needed funds short of renegotiation are slim, however, because rapidly mounting opposition to the austerity measures makes it unlikely they can be carried out. Labor, which was responsible for destroying last July's program, has been sharply critical of the new measures. New strikes and threats of strikes already have been reported as workers demand wage hikes four times as large as those allowed under the program.

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PHILIPPINES

Looking to Eastern Europe

President Marcos over the past few weeks has been pushing his campaign to develop a more nonaligned image by establishing ties with communist states.

The Philippines signed a trade agreement with Poland on February 12 with considerable fanfare. Trade pacts have also been signed recently with Bulgaria and Romania, and similar agreements will probably soon be concluded with Yugoslavia and Hungary. Marcos pursues these agreements ostensibly to diversify markets, but he is also using them to balance Manila's traditionally close ties with the US.

Marcos says he will travel to Moscow in late May, and we expect that he will announce the establishment of diplomatic relations during this visit. Marcos seemed ready to make this journey last summer, but it was postponed reportedly because Moscow would not guarantee meetings with the three top Soviet leaders.

Since last summer the Soviets have urged that ties be established before the visit but Marcos has refused. Several considerations probably contributed to Manila's deliberate pace. Filipino security officials oppose the opening of several communist embassies at the same time, fearing that this will make it much more difficult to cope with espionage activities, particularly from the Soviet embassy. They prefer that the embassies be opened gradually one after the other.

The two sides have been haggling for several months over a trade pact; Marcos clearly expected an agreement on this before establishing diplomatic relations. The Soviets in early March went a long way toward meeting Manila's needs by agreeing to purchase between 200,000 and 400,000 metric tons of Philippine sugar—a welcome development in view of the Philippines unsold sugar stocks of around one million tons.

Marcos may also have been holding out for assurances from Moscow that he will be given a



President Marcos

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red carpet reception this summer. A highly publicized visit would be far more useful in boosting his nonaligned image than a simple announcement of the establishment of relations. In Marcos' view, the trip to Moscow might also help balance any new agreements on US base rights in the Philippines that are scheduled for renegotiation this spring.

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JAPAN: INDUSTRIAL MERGERS

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Two years of recession has further concentrated economic power in the hands of the larger Japanese companies. The disappearance of smaller firms through merger or business failure has been under way for some time in several major industries. Although prompted by financial problems stemming from depressed sales, this further consolidation of industry will strengthen the market power of Japanese firms abroad and help minimize foreign competition at home. The last major industrial revamping, which occurred

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following the 1965 recession, was specifically aimed at strengthening Japan's international competitive position.

Mergers involving companies that account for at least 5 percent of Japanese industrial output have taken place over the past six months or are actively under discussion. The largest regrouping has occurred in the textile industry, where three of the five largest manufacturers have combined into the world's largest textile exporting company. In 1974, these firms accounted for one sixth of Japanese textile exports.

The three major specialty steel producers also have merged and discussions are reportedly under way among three of the top six auto manufacturers. The proposed auto combine would turn out half as many cars as General Motors. The six largest computer manufacturers are merging into three groups to compete more effectively with US manufacturers.

The spurt in business mergers in large measure is an outgrowth of recession, as firms that have emerged in good financial position see opportunities to expand their market power. Mitsubishi reportedly is taking the lead in talks that could involve the take-over of two auto manufacturers that were hurt by the slump in foreign auto demand last year.

Since late 1973, more than 30,000 firms have gone under, including 15,000 industrial companies. The failure of small-scale textile and electronics producers has helped the top 10 manufacturers substantially increase their market share over the past two years. The giant trading companies, which handle 70 percent of Japan's foreign commerce, are also becoming increasingly dominant. The merger of C. Itoh and Co. and the financially troubled Ataka and Co. will combine the fourth and ninth largest trading firms to make the third largest.

Tokyo so far has taken a positive attitude toward industry consolidation, actively promoting mergers in some instances. The government is

anxious to avoid the failure of larger firms. When necessary, it presses financially stronger firms to bail out weaker rivals through merger. In this approach the government has been helped by the major commercial banks and trading firms, which wield substantial influence within the major Japanese conglomerates.

The Ministry of International Trade and Industry is considering an overall review of how industry might be restructured over the longer term. One key issue concerns the adjustment of the industrial structure to deal with the slower economic growth anticipated for the future. The ministry wants above all to assure a strong international competitive position for major Japanese industries. In this vein, the ministry has been the prime mover behind plans to restructure the computer industry before Tokyo's controls on foreign investment are lifted. The ministry is also the driving force behind plans to reorganize Japanese-owned oil companies to put them on an equal footing with the major international oil companies.

Tokyo seems able to waive antimonopoly laws to smooth the way for mergers or other forms of industry reorganization. In the past, the law has been circumvented to permit the establishment of temporary market-sharing and price-fixing cartels. In the last 18 months, formal cartels have been organized among manufacturers of various textile and steel products with an eye toward avoiding excessive competition during the recession. Although the cartels are being gradually phased out as demand recovers, informal market-sharing is likely to linger.

While the Ministry of International Trade and Industry is largely responsible for overseeing industry reorganization, it faces opposition from the Japanese Fair Trade Commission, which is responsible to the prime minister. In the past three years the commission has been pushing for more vigorous implementation of antimonopoly statutes and has had some support from the Diet. The ministry nonetheless clearly retains the upper hand.

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NORTH KOREA: ANTI-US CAMPAIGN

Pyongyang is attempting to exploit recent US moves in support of Seoul to build a case for its own policies at the nonaligned summit in Colombo this summer and at the UN in the fall.

Pyongyang's new anti-US propaganda campaign has focused on the deployment of F-111 fighter-bombers to South Korea by the US last month. The campaign also features the usual charges that the US has sent additional troops and nuclear weapons into South Korea and hits hard on the theme that military cooperation among the US, South Korea, and Japan has been strengthened. Pyongyang described these developments as having created a "grave situation" in which "war may break out at any time."

The North Koreans have used similar language periodically in the past, but since late February such warnings have been featured almost daily in Pyongyang's propaganda. Moreover, Pyongyang assailed the F-111 deployment in a formal Foreign Ministry statement, the highest level North Korean protest of a US action in South Korea since 1971, and the Supreme People's Assembly in Pyongyang has sent an open letter to sympathetic governments around the world calling for support.

The Third World is an important target for Pyongyang's campaign; there is considerable sympathy there for North Korea's claim that the Korean problem is a colonial issue and that the source of tension on the peninsula is the continuing presence of US forces in the South. Pyongyang has been successful in winning the support of nonaligned militants, but many Third World countries remain reluctant to become involved in the Korean dispute. This search for Third World support strongly suggests that Pyongyang will press for another confrontation at the UN General Assembly this fall.

Both Peking and Moscow have been circumspect in replaying Pyongyang's attacks on the US. The Chinese have given them a bit more coverage than the Soviets, but both have excluded

ed the more inflammatory comment. Peking's counterpart to the North Korean Assembly—the National People's Congress—has responded to Pyongyang's appeal for support, emphasizing Chinese solidarity with Pyongyang but playing down North Korean charges about US actions increasing the level of tension. The Soviet backed World Federation of Trade Unions and the Soviet media have issued brief, low-keyed comments on the North Korean appeal, but so far Moscow has made no official response.

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CHINA: MARKING TIME ON TENG

The new campaign in China has appeared to mark time in the past week. Media attacks on Teng Hsiao-ping remain at a high level but have not gone beyond calls to criticize, rather than overthrow him. The official Chinese news agency hinted on March 15, as the media have done in the past, that Teng can still redeem himself if he repents, but the propaganda as well as statements by Chinese officials indicates that he has thus far refused to do so. The impression that there is something of a stalemate among China's conflicting political forces appears strengthened by this relative inactivity.

Acting Premier Hua Kuo-feng is the only national leader to speak publicly on the campaign. At a dinner for the visiting Laotian premier on March 15, Hua characterized the campaign as a "debate" in the fields of education, science, literature and art. Hua's remarks were similar to those he made at a dinner for former President Nixon in February and were generally milder than some of the more blunt media attacks on Teng. As was the case in February, Hua refrained from making a personal reference to Teng or from using the term "capitalist roader," the media's codeword for Teng.

In the provinces, most provincial leaders seem to be staying in the background. Only one

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province chief has gone on public record with a criticism of Teng. Although the party's left wing undoubtedly would like to broaden the attacks on Teng to include a number of other officials

who may have been associated with him, thus far wall posters in the provinces have attacked only about five provincial leaders by name.

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INTERNATIONAL MONETARY DEVELOPMENTS

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Currency markets remained unsettled this week as speculators attempted to evaluate the impact of the French decision to withdraw the franc from the European joint float.

left will point to the decision to leave the float as a further indication of the government's inability to deal with the country's economic problems.

The French decision came after Paris failed in an attempt to achieve a general realignment of parities at a special meeting of European finance ministers. Paris wanted to couple a franc devaluation with revaluations of some other float currencies, including the Deutsche mark and Dutch guilder. Bonn, reversing an earlier stand, was reportedly willing to go along with a small revaluation, but the Dutch refused.

France's exit from the joint float has again demonstrated the difficulty of proceeding with currency integration in the EC before economic policy is harmonized. Widely varying inflation rates will continue to block a comprehensive currency union, and it remains doubtful that true policy coordination among the nine will be possible for some time. With France out of the float, some voices may be heard to advocate "two-tier" economic planning within the Community, permitting advances by the countries remaining in the float. Never very attractive in political terms, such notions seem likely to garner even less support with France and Germany on opposite sides of the "float line."

The immediate cause of France's decision was the heavy cost of supporting the franc within the float's narrow limits—roughly \$5 billion since the beginning of the year. Speculative pressure on the franc began in January as investors bought traditionally strong European currencies in reaction to problems with the Italian lira and the devaluation of the Spanish peseta. The resurgence of pressure two weeks ago was triggered by a run on the British pound that sent sterling below the \$2.00 level.

Speculative pressure on West European currencies continued this week in the wake of France's decision. The French franc traded as low as 4.78 on Monday and closed at 4.71 on Thursday, down nearly 3.5 percent from the close on Friday, March 12. The lira fell to a record low of 888 to the dollar on Wednesday. According to press reports, the Bank of Italy helped precipitate the decline by selling lira on Monday. The lira sales were apparently designed to preserve the lira's competitiveness with the French franc. The Benelux countries, also under speculative pressure, ended their narrower band within the joint float.

France's failure to bring inflation down to a rate close to those of its major trading partners in the float and prospects for a substantial French current account deficit this year have been the underlying cause of the franc's weakness. French prices are rising at roughly two to three times the West German rate. After achieving balance in its current account last year, France faces a deficit of roughly \$4 billion in 1976.

Speculators continued to put pressure on the joint float, forcing the Danish krone and Belgian franc to the bottom of the band and the Deutsche mark to the top. If the French franc declines further against joint float currencies, as seems likely, pressure will mount for a Belgian franc devaluation.

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