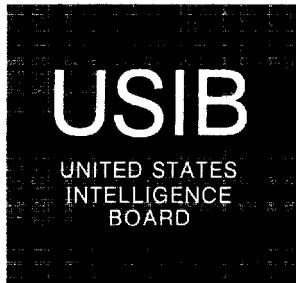


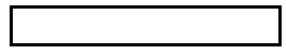
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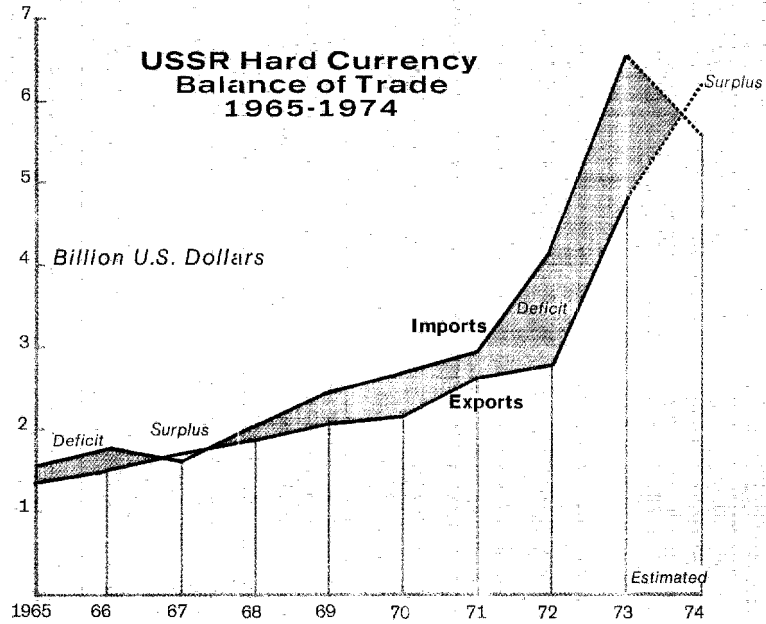
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USSR

Unprecedented hard-currency surpluses in prospect for this year and next will greatly strengthen the Soviet bargaining position in economic negotiations with the Western countries and in economic dealings with Western firms. Barring major shifts in trade policy or bad harvests, the USSR probably will earn annual surpluses of at least one billion dollars in its hard-currency balance of payments in 1974-75, following more than a decade of deficits. Rising prices for Soviet exports of oil, minerals, and other raw materials, combined with a sharp fall in grain purchases after last fall's record harvest, account for the turnaround.

Using its monopoly control of trade, Moscow might try to accelerate imports from the West as a result of its improved cash position. But in the next year or two, a large upsurge of plant and equipment imports in excess of planned levels is unlikely because of the difficulties in adjusting plans and because of the long lead times involved in carrying out large investment projects. More immediate ways to take advantage of the position are available; the USSR:

- will not have to accept unsubsidized loans at high interest and will bargain hard on non-credit terms,
- will pay cash for more of its current purchases,
- may postpone exports of some commodities--diamonds, for example--for which demand is growing steadily,
- will have the option of reducing or even halting gold sales.

Even with any plausible combination of measures to increase imports and limit exports, Soviet authorities almost certainly would still have to deal with a surplus in the hard-currency balance of payments in 1974, and probably in 1975 as well. Historically, they have not held large hard-currency reserves, fearing devaluations.

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Rapid inflation in the West probably has increased this reluctance. Nonetheless, the only reasonable option available to the Soviet foreign trade managers is to place these surpluses in their own banks in the West or in other Western banks. More important, the new-found liquidity should encourage Soviet planners to count more heavily on Western machinery in framing the capital construction programs in the 1976-80 Plan.

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LAOS

The Lao Communists are still well out in front politically in the ten-week-old coalition government, but the non-Communist side is finally beginning to show some signs of life.

Aided by Prime Minister Souvanna's parliamentary maneuvering, non-Communist ministers in the coalition cabinet have succeeded in at least temporarily deferring cabinet action on two important proposals. Both were recently pushed through the Joint National Political Council by Lao Communist leader Souphanouvong, who chairs the Council.

One proposal, a comprehensive 18-point national political program, sets forth Communist domestic and foreign policy priorities for the new coalition. The other, an equally comprehensive proposal spelling out "regulations" on democratic freedoms, lays the groundwork for a system of press censorship. Both have been sent to cabinet committees for further study.

Non-Communist cabinet ministers have also been able to parry Communist efforts to secure the new coalition's recognition of the Viet Cong's Provisional Revolutionary Government (PRG). The recognition question, which was due to be discussed at last week's cabinet meeting, was sidetracked, at least for the time being, by non-Communist delaying tactics.

Aside from their efforts in the cabinet, the non-Communists are trying to organize a new, broadly based political party--"The National Union of Peace and Reconciliation." [redacted] the proposed party has the backing of senior conservative political and military leaders. [redacted]

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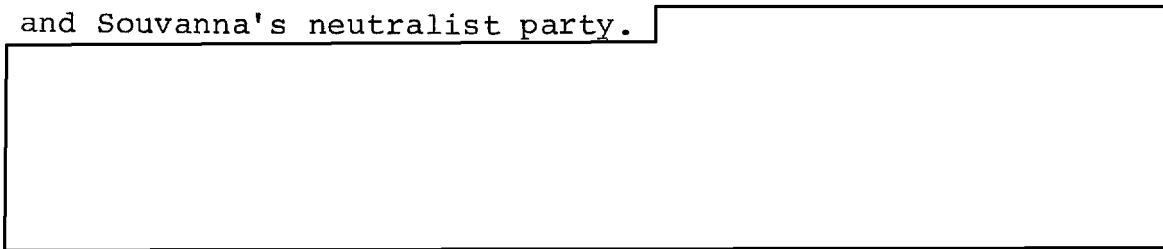
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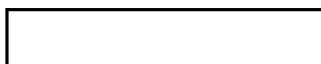
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and Souvanna's neutralist party.



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URUGUAY

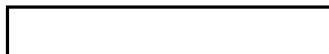
A new military decision-making committee, the "Junta of Generals," has been formed as part of an accord with President Bordaberry for greater military participation in policy decisions.

In the wake of last month's internal army turmoil, the military has persuaded the President to allow it a more active role. The new system will depend on a consensus among the senior officers comprising the "Junta of Generals" in making decisions that will be transmitted to the executive through the three service commanders. It will be their responsibility to present a collective military view and obtain presidential acquiescence. Bordaberry apparently agreed to this arrangement in order to retain his position.

Consensus among some 20 general-rank officers, especially on sensitive and important decisions, will not be easily achieved.



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JAPAN

The recent nuclear tests by India, France, and China may have eliminated any chance of early Japanese ratification of the Nuclear Non-Proliferation Treaty.

Japanese leaders believe the Indian test, with its implications for further proliferation of nuclear weapons among "less responsible" countries, was a severe setback to the trend toward nuclear disarmament. The subsequent French and Chinese tests have accelerated Japanese thinking about the problem, as have the recent US commitments to provide Egypt and Israel with nuclear reactors.

The Japanese are also disturbed over what they feel is an overly restrained US response to India's action. They question the US commitment to the non-proliferation of nuclear arms. President Bhutto's statement citing the need for Pakistani nuclear development underscores to many Japanese the danger that nuclear disarmament efforts will be undermined in the absence of preventive action by the big powers.

Two basic schools of thought on the NPT appear to be emerging in Japan. One holds that Japan must ratify the NPT or appear hypocritical for criticizing the spread of nuclear weapons--particularly in view of Prime Minister Tanaka's "pledge" earlier this year to secure ratification. A more influential, though necessarily less vocal, group contends that Japan cannot afford to foreclose its nuclear options, at least until there is some new momentum toward nuclear disarmament. Some members of this group believe that Japan should never ratify the treaty.

There is no doubt that the Japanese feel less secure as a result of recent nuclear events. This sense of insecurity, however, has been nurtured by other developments of the past few years, including growing doubt about the reliability of the US nuclear umbrella in defense of Japan, and an appreciation of the weakness of Japan's diplomacy, which was brought home by the Arabs' use of the oil weapon.

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A Japanese decision to opt for nuclear weapons certainly is not imminent. It seems clear, however, that recent developments may contribute to subtle changes in Japan's attitudes toward security matters. Recent Japanese polls have already revealed a trend toward wider acceptance of at least the possibility that Japan might eventually acquire nuclear weapons. This does not mean that a high proportion of Japanese actually favor acquisition of nuclear weapons, but it seems to indicate that many are becoming more passive in their opposition, perhaps in the belief that such a development may be inevitable.

Some Japanese officials have suggested that if Science and Technology Agency Minister Moriyama--a major opponent of the NPT--is removed from office, the treaty can be ratified in short order. The opposition of one man, however, probably is not as crucial as these officials suggest. Japan's reservations on the NPT are broadly based, and recent developments have only reinforced them. Thus, Tokyo seems likely to continue to drag its feet on NPT ratification, citing various obstacles, bureaucratic and procedural, but rarely, if ever, mentioning the root problems: doubt about the wisdom of foreclosing Japan's nuclear option, and doubt about the international commitment to nuclear disarmament.

INR finds insufficient evidence to support the assessment that the recent spate of nuclear activity will significantly weaken Tokyo's determination to ratify the NPT, although the recent nuclear testing, especially the Indian test, has created some consternation in Japan. Japanese officials have informed the US that, while the change in the international nuclear atmosphere might enable Liberal Democratic Party opponents of the NPT to delay its submission for a few months, the Tanaka government shows no sign of wavering in its basic intent to ratify prior to the NPT review conference in May 1975. With the LDP leadership committed to ratification and the non-Communist opposition and the media both supporting Tanaka on the issue, odds are very good that the bill will be passed by that time.

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CHILE-PERU

A planned visit to Peru by Chilean air force chief and junta member General Gustavo Leigh may lessen chances of an early confrontation between the two nations, but probably will have little impact on the underlying sources of friction.

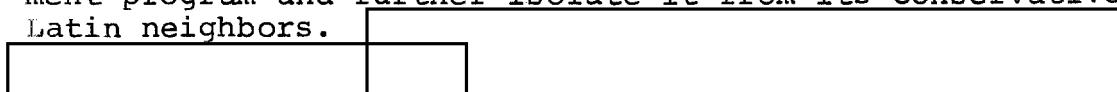


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Both military regimes impute aggressive designs to the other and tend to magnify perceived security threats. Recent Peruvian arms purchases and the ideological gulf between the military governments have recently combined with historic Peruvian revanchism and the approaching centenary of the war in which Peru lost territory to Chile to create apprehension and spur contingency planning on both sides.

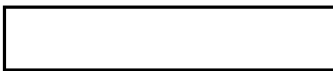
Each side, however, has reasons for seeking a show of amity. Chile is vulnerable to current Peruvian armor and air superiority and needs time to modernize and expand its forces. Peru probably fears that recent expressions of concern in the US and Latin America over a potential conflict could jeopardize Lima's arms procurement program and further isolate it from its conservative Latin neighbors.



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FRANCE

President Giscard yesterday announced new social benefits for the old and the poor in a program designed to soften the impact of inflation on the least well off. The measures follow his announcement last week of an anti-inflation austerity program which placed the brunt of sacrifice on corporate incomes, capital gains on real estate, and higher personal-income brackets. Whereas Giscard's austerity program had the bite of commitment to it, his social measures, seen against a backdrop of an 18-percent rate of inflation, amount almost to an exploitation of the inevitable.

Appearing again on television to present his program, Giscard bestowed his first benefits on the elderly--a staunchly Gaullist sector of the population. Old-age pensions were raised by as much as 20 percent, effective July 1. Although only half as much as his campaign speeches promised for his first year in office, it is the biggest increase in the minimum old-age pension ever made and represents a significant step toward realizing his pledge.

Addressing himself next to a measure with strong appeal for the left, Giscard announced a minimum wage increase of 7.5 percent for the lowest paid workers. This will raise the minimum wage 23 percent, compared with July 1, 1973. The rate of increase is higher than that of both prices and average earnings in France and will bring the minimum wage earners closer to the average income level. Although this wage increase will be a crowd-pleaser, it will not help in the fight against unemployment.

These immediate measures were grouped by Giscard under the rallying title of "change." Longer range measures were labeled "justice" and aimed, in Giscard's words, "at transforming the structure of our society." Trade unions and employer organizations were invited to complete negotiations pertaining to working conditions, labor organization in factories, and collective redundancy guarantees for workers. Research into setting up a national employment fund devoted to guaranteed incomes for the unemployed was also promised.

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Labor and management will be given a deadline, as yet unspecified, to achieve concrete results. Failing such results, the government will step in to take "such measures as would seem necessary." In an attempt to head off labor unrest, Giscard has given government blessing to tough labor negotiations which would, in any case, have taken place. At the same time, he has set up the government as final arbiter in a game that will almost certainly require arbitration.

Labor can be expected to protest that the social program does not go nearly far enough toward easing the belt-tightening they face as a result of the economic program. Radical unions, although they can be expected to encourage individual action to secure wage increases, do not expect to be able to mobilize forces before the fall. By fall, Giscard's policies may be bearing fruit.

[REDACTED]

RHODESIA

Prime Minister Smith announced yesterday that he is dissolving Parliament this week in order to hold an immediate general election. Smith apparently hopes that a fresh mandate from the predominantly white electorate will strengthen his hand for a new attempt to reach a constitutional agreement with the leaders of Rhodesia's black majority--a prerequisite for British recognition of his government and termination of international economic sanctions.

Smith's Rhodesian Front Party now holds 49 of the 50 white seats in the Parliament, and a general election is not legally required until April 1975. Nevertheless, the prospect of early independence for neighboring Mozambique has made Smith more anxious to end the sanctions and Rhodesia's isolation. His latest constitutional proposal, which would defer majority rule for at least 40 years, was rejected by the Rhodesian African National Council, the largest black group in Rhodesia.

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The Third Law of the Sea Conference

The third UN Law of the Sea Conference which opens in Caracas today will try to formulate a new approach to the use and exploitation of the ocean. The degree of success the 150 participating nations have during the ten-week session will depend largely on how they reconcile two opposing concepts--freedom of the high seas and resource control.

For the principal maritime nations--the US, USSR, and Japan--the old concept of freedom of the seas remains central to their commercial and strategic concerns. These nations control large shipping and fishing fleets, as well as submarines and nuclear-powered vessels, and possess the technology and equipment to exploit resources on the seabed.

On the other hand, the developing countries are concerned about protecting what they view as their legitimate share of world resources. They strongly support the new concept of the "common heritage of mankind," which would be applied to what were previously the uncontested "high seas." The translation of this concept into some sort of independent international authority for resource control may be one of the most significant outcomes of the conference. It may also be one of the most difficult to negotiate.

The session is not one that will simply pit the haves against the have-nots. A profusion of other groupings exists with unique geographical, ideological, or commercial interests. There are major areas of disagreement, for example, between members of the so-called Group of Five (the US, Japan, France, UK, and USSR). Fishing is a prime example; it is a problem that divides even the EC Nine. The major archipelago states, meanwhile, cannot agree on a common definition of an archipelago and its territorial sea.

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Demands by the Landlocked

Only the landlocked states present a solid front. They are united in their demands for some sort of access to the resources off their neighbors' coasts, perhaps through new international machinery to secure a fair distribution of seabed resources.

The landlocked group is alone among participants in having nothing to offer, except votes, in the elaborate trade-offs that will be necessary at Caracas. Their votes, when combined with those of other geographically disadvantaged groups, number about 60 and will be sought after. Even so, the landlocked may well find the support of their fellow developing states for the "common heritage" concept evaporating as the latter trade recognition for expanded zones of economic control for guarantees to the major maritime countries of free transit rights.

The Economic Zone Issue

One of the most difficult issues facing the conference concerns the demarcation of the zones subject to the jurisdiction of coastal states. Extension of the territorial sea to 12 miles will probably be accepted. For less developed countries, notably the Latin Americans, who have unilaterally claimed seas of up to 200 miles, acceptance of a 12-mile territorial sea would represent a significant modification. Their delegations at Caracas will not accept a 12-mile figure without assurances that their minimum requirements on other issues will be met.

The Latin Americans and representatives of other countries claiming extensive territorial seas will demand, as the price for their consent to a 12-mile territorial sea, agreement on a more extensive economic zone in which the coastal state would in principle have total control over all the living and nonliving resources. The area would be based either on sea depth or, more likely, distance criteria; the most common figure now being proposed is 200 miles. The major maritime nations will condition their acceptance of an expanded economic zone on assurances concerning movement and access within this zone.

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Pollution Standards Sought

Relatively few countries, however, are entirely occupied with their physical resources offshore. Spain and a number of Caribbean countries, for example, depend heavily on tourism and do not want their beaches polluted. They argue, therefore, for the establishment and enforcement by coastal states of pollution standards within the economic zones, something the maritime powers oppose, fearing an arbitrary exercise of these powers, possibly for political reasons.

The majority of less developed coastal states, moreover, are opposed to marine scientific research within their economic zone without explicit approval. Some coastal states consider that such research would cloak espionage or commercial exploration--a prelude to exploitation of seabed or shelf resources. These reservations have not been assuaged by the promises of maritime powers on full disclosure of data or joint participation by the coastal states.

The technologically developed countries, for their part, appreciate that a 200-mile economic zone would accord them certain advantages, but they are more concerned that the sea lanes remain open and that their shipping and strategic concerns not become dependent on a plethora of conflicting jurisdictional claims and regulations of coastal states. The USSR and Japan, in particular, are deeply worried that wide economic zones will cut into their usual fishing areas and that their fish take in the zones would be reduced to the surplus remaining after exploitation by the coastal states.

Fisheries

The question of access to fishing grounds and exploitation of fish resources may well become another major issue at the conference. The lesser developed countries--many of whom depend heavily on fish for human consumption--argue that complete control of the resources

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in the "economic zones" includes not only that of the fish stocks themselves but also the right to set conservation standards within the zone, including the establishment of limits on catches. Under this proposal, fish stocks that the coastal state determines that it cannot itself use would be declared surplus and foreign fishing fleets could be licensed to exploit them.

Some proposals would give the coastal state various forms of management authority or preferential rights even beyond a 200-mile zone. Regional organs have been proposed to manage highly migratory species of fish.

Fishing Access

Countries with distant-water fishing fleets--like the USSR and Japan--find many of these proposals unacceptable, because they would limit access to traditional fishing grounds. The rich fishing states had been inclined to consider some kind of international regulatory agency to set fishing quotas and conservation standards, but there has been a shift in recent months. The USSR, perhaps resigned to victories in Caracas by the poorer coastal states, is now willing to concede the right of coastal states to set catch yields and to license foreign fleets to fish the surplus, conditional on coastal state acceptance of other Soviet demands.

The USSR still insists that coastal states be obligated to grant others access to that portion of the allowable catch not used by the coastal state. Moscow would prefer that priority access be granted those countries that traditionally have fished these waters.

Although the landlocked and other geographically disadvantaged groups have demanded equal rights with the coastal states to exploit coastal resources, the coastal states themselves have until now rejected such claims. The numerical strength of the landlocked may, however, be crucial in shaping any eventual agreements.

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One of the principal demands of the developing countries in general, and the landlocked in particular, at Caracas will be the establishment of some form of international authority to regulate the exploitation of the deep seabed and to divide the revenues. The developing countries are determined that such an authority be given major responsibility for deep seabed mining, including control over mining enterprises and apportioning areas to be mined.

The US and the few other countries that have the technology to exploit the seabed oppose giving discretionary licensing power to an international authority and insist that the primary responsibility for exploiting seabed resources belongs to those with the technology to do the job. The fears of some developing states that increased availability of some seabed minerals would undercut the value of their own raw materials will add another dimension to the problem.

Archipelagos

How archipelagos and archipelagic waters are defined at the Caracas meeting will have important consequences for the issue of the transit of straits--a matter of considerable strategic and economic concern to the major powers.

The Philippines and Indonesia, the two major archipelagic states, control most of the major shipping lanes in the Far East. The two do not agree on the rules for passage within the waters they claim. The Indonesians advocate an "archipelagic transit right" which represents a new type of transit regime, specifically formulated for this type of geographical configuration. This regime would demarcate specific "archipelagic sea lanes" within which the coastal state would not be given the same comprehensive assurances by the transiting state as under an innocent or unimpeded passage regime. The Philippines, preoccupied with internal security, is demanding adherence to an even stricter "authorized passage" formulation, which would require prior notification of transit by warships within Philippine waters.

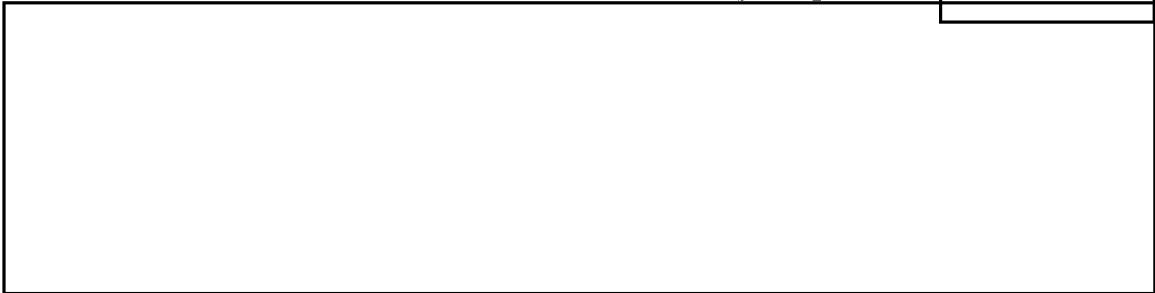
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FOR THE RECORD

Cuba. Below-average rainfall could pose a serious threat to the island's agricultural production. Rainfall during the November-April period totaled only about 51 percent of normal for the island as a whole, and was even less in the two important sugar-growing provinces. If precipitation does not increase appreciably during the May-October growing season, most agricultural crops, including the 1975 sugar crop, will be seriously damaged. The prospect of a significant decline in Cuban sugar production in 1975 would exert further upward pressure on world prices, which already have doubled since the beginning of the year to 23.2 cents per pound.

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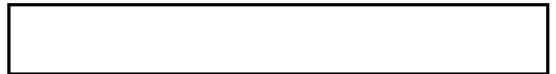
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