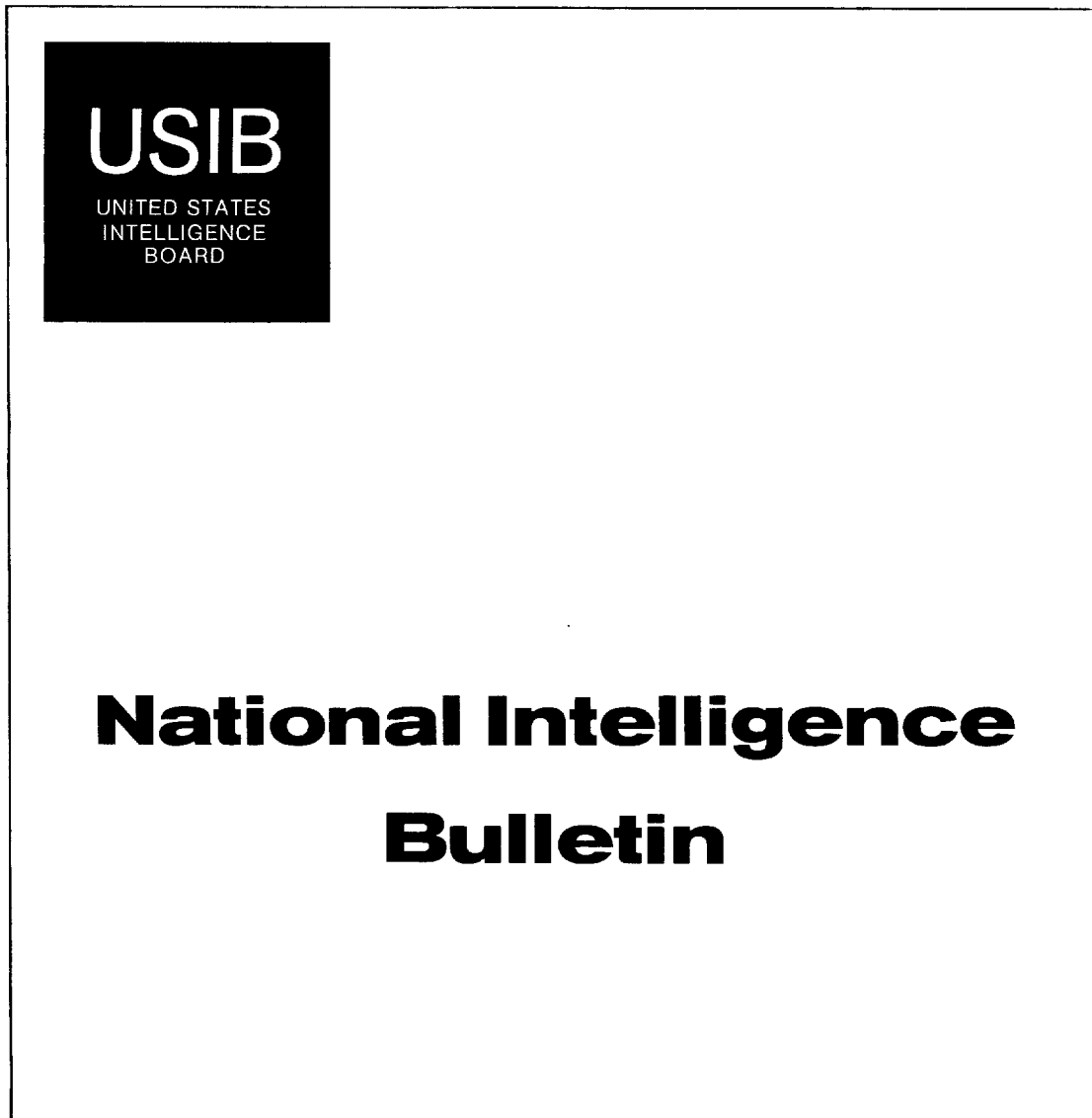


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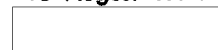


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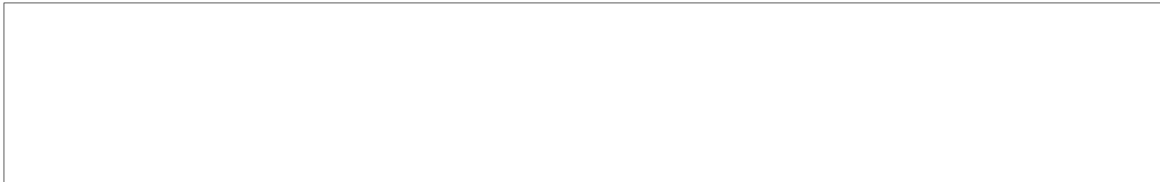
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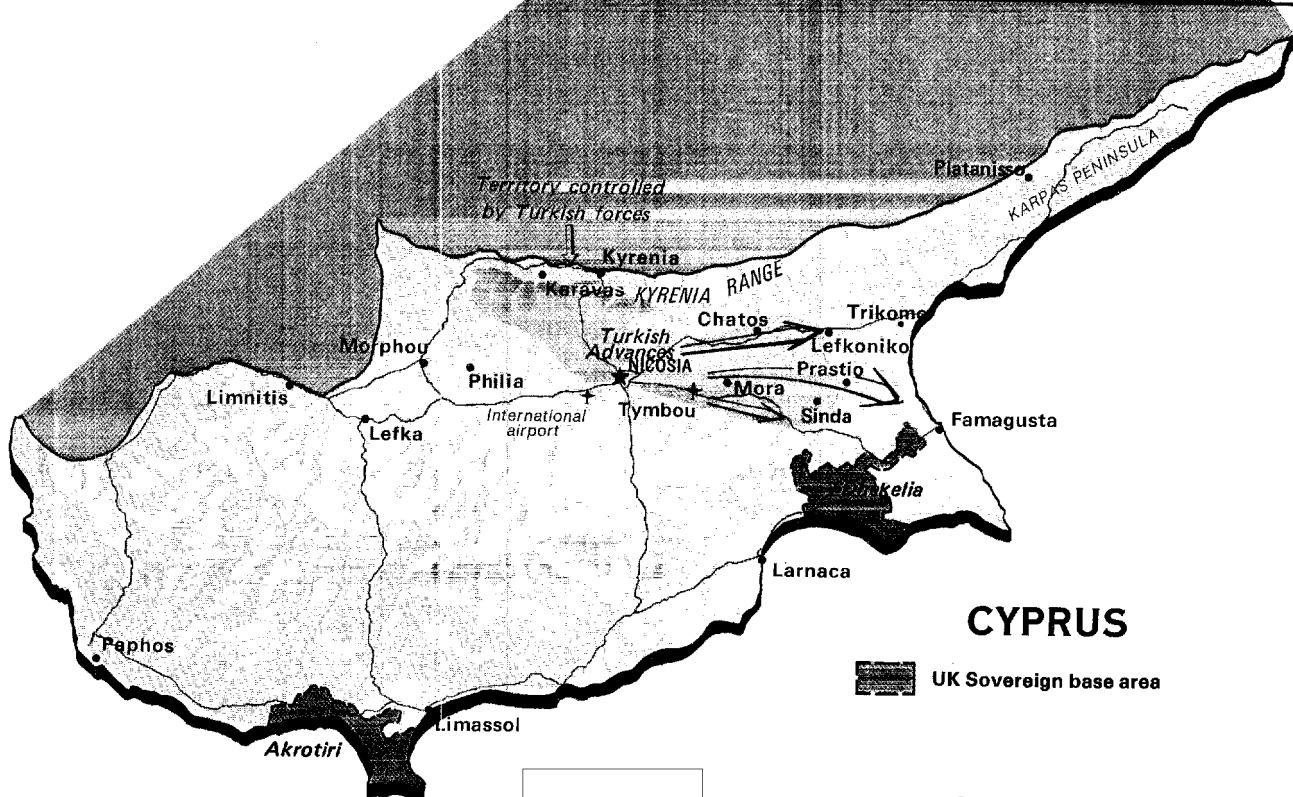
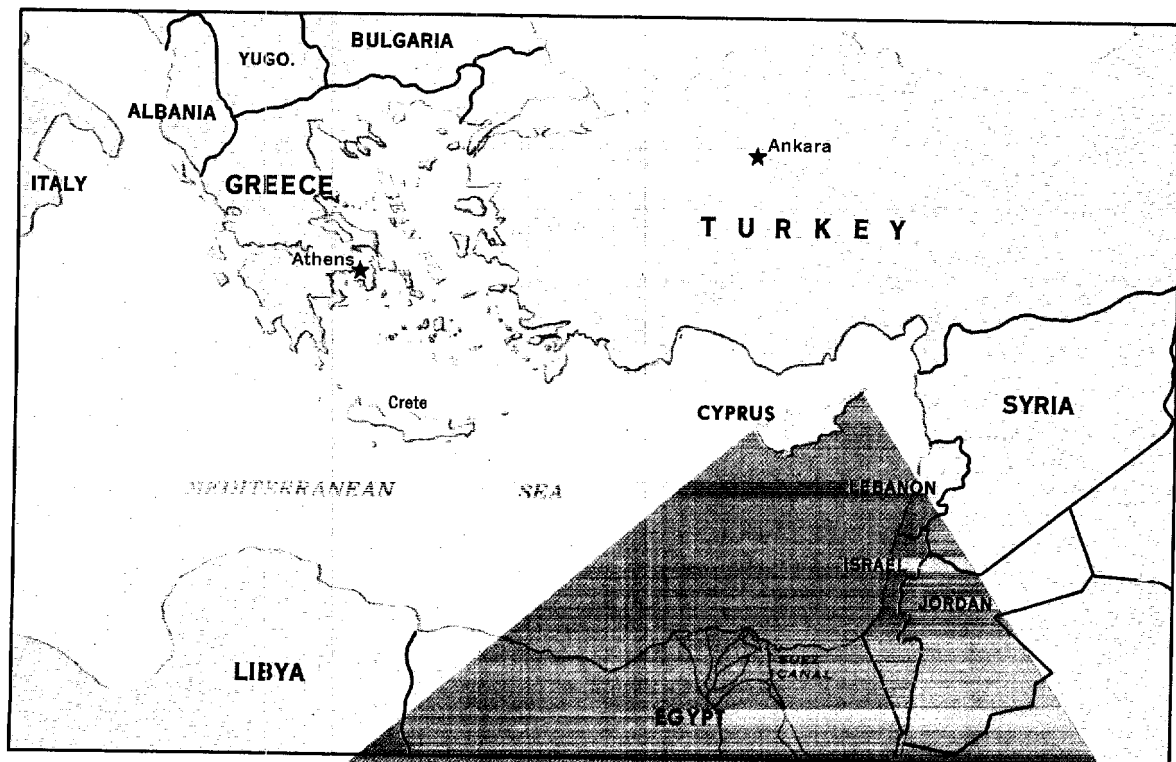
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GREECE-TURKEY-CYPRUS

Turkish forces, intent on getting their "fair share" of Cyprus, yesterday made significant gains in their effort to secure control of the northern part of the island. The major Turkish thrust was a three-pronged, armored drive from east of Nicosia toward Famagusta. By nightfall, two columns reportedly had reached Lefkoniko and Sinda, while the third was only five miles from Famagusta. The Turks are expected to launch an assault against Famagusta at dawn, and should take the city sometime this morning.

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During the course of yesterday's advance, the Turks captured Tymbou airfield southeast of Nicosia, but the Nicosia airport, while surrounded, remains in UN hands. In Nicosia itself, a cease-fire went into effect last night after a day of sporadic, but at times heavy, fighting. To the west, Greek positions were heavily shelled throughout the afternoon, but Turkish forces made only moderate gains in their effort to seize control of the western end of the Kyrenia Mountain range.

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Turkish Prime Minister Ecevit told a news conference yesterday that Turkey did not intend to annex the island or upset the territorial integrity of Cyprus and that he expected the operation to be brief. There is widespread political backing in Ankara for the government's decision to resume the fighting on Cyprus. The leader of the primary opposition party has publicly pledged his full support.

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In Athens, the Council of Ministers approved Prime Minister Karamanlis' handling of the crisis to date. The Prime Minister also received support from former Greek political leaders as well as from exiled King Constantine.

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The US embassy in Athens reported that the Greek news media have claimed that the US is encouraging the Turks and has "betrayed" the Greeks. Leftist groups in Greece reportedly may take advantage of growing anti-US sentiment to attack Sixth Fleet personnel.

A high-ranking Greek Foreign Ministry official told US Ambassador Tasca that Athens' withdrawal from military participation in NATO was a very serious matter. He said the NATO facilities at Souda Bay and Namfi will have to go and that all of the Alliance's facilities in Greece will be subject to review.

The UN Security Council is scheduled to meet at 1100 today. The Cypriot representative requested a special meeting last evening, but was unable to table any proposals in preliminary consultative sessions.

The Soviets' brief, factual media treatment of yesterday's events and Soviet UN delegate Malik's failure to condemn Turkey by name in the renewed Security Council debate indicate that the USSR, deeply concerned

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about partition of the island, still is inclined to avoid open criticism of Ankara. Malik is pushing again--with no apparent success--the Soviet call for a special Security Council mission to Cyprus. Pravda today reiterates the standard Soviet line that developments on the island result from NATO's interference. The article calls for unspecified UN action and the withdrawal of all foreign troops from Cyprus.

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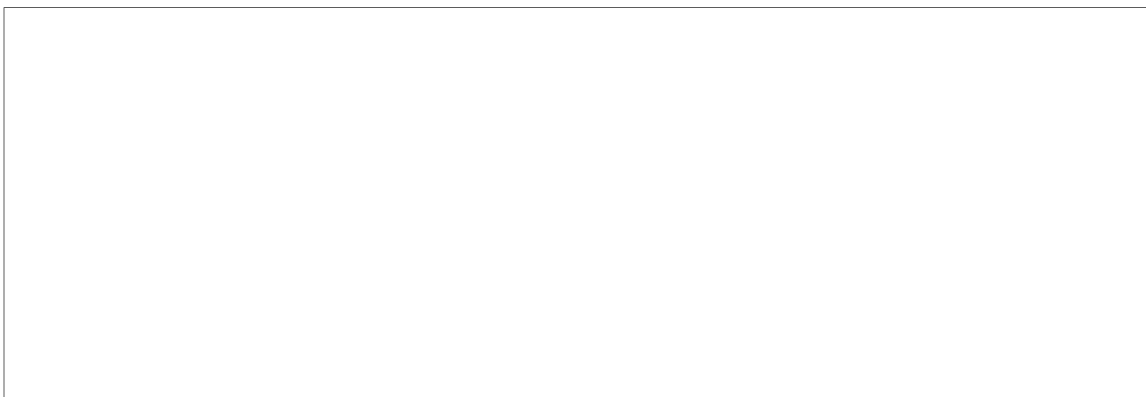
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USSR-FEDAYEEN

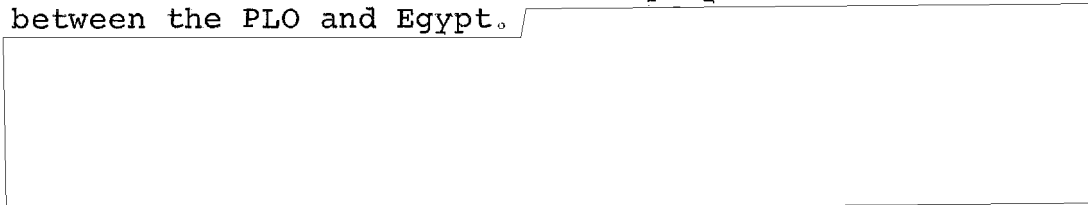
The Soviets took a cautious line with fedayeen leader Yasir Arafat during his visit to Moscow early this month, stressing that Soviet recognition of a future Palestinian government-in-exile would be linked to Arab backing of such a regime and to Palestinian unity.



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Any Soviet assurances on future recognition may have been aimed at cushioning PLO disappointment with Moscow's failure to give it more forthright public endorsement. The Soviets were said to have emphasized, however, that progress by Palestinians toward forming a government-in-exile was essential before the Geneva conference could be resumed.

The Soviets did not seek to play on recent strains between the PLO and Egypt.



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CHINA

Peking since spring has called home senior diplomats at a rate unprecedented in recent years. More than half of China's heads of mission and either the chief or deputy from all important missions have returned for several weeks at a time. Still more are scheduled to return in the near future. About 20 percent of China's ambassadors went home during a comparable period last year.

Only a small percentage of this year's returns seem to be for routine medical reasons, home leave, or reassignment. Some are connected with foreign policy developments: the ambassador to Moscow returned prior to the Nixon-Brezhnev summit, and the ambassador to Tokyo returned during a lull in Sino-Japanese commercial negotiations.

The return of the majority of these people, however, is unexplained. The possibility cannot be ruled out that the recalls were caused by some change in the leadership situation or in China's foreign policy. There has been no evidence of this, however, and the spacing of the visits--early May through late July--suggests such developments were not responsible.

There have been numerous developments both in China and abroad in recent months that, cumulatively, might cause the leadership to call in its senior overseas representatives for briefings and consultations: the energy crisis, the Middle East situation, leadership changes in the West, continued Sino-Soviet hostility, and, in particular, the anti-Confucius campaign and Chou En-lai's illness, both of which still seem to preoccupy the leadership. Indeed, a relatively large number of envoys returned in May, shortly after Chou's health problems first caused a reduction in his workload. Another large group returned in July after Chou's hospitalization and at a time when the anti-Confucius campaign entered one of its lulls.

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CHINA-USSR

Unfavorable weather conditions in the USSR and China have diminished prospects for favorable grain harvests in both countries.

Because of dry weather in July, the Soviet crop is likely to be less than 200 million tons this year. A crop of this size would be the USSR's second largest, but would barely meet rising requirements. Estimates of Soviet domestic needs and export commitments range from 198 to 211 million tons.

East of the Urals, the rains failed over a wide area when the grain reached its critical heading stage. Hot, dry conditions prevailed over parts of Kazakhstan and western Siberia, resulting in an estimated loss of about eight million tons of grain.

West of the Urals, rains were heavy and winds strong at the start of the wheat harvest. Early this month, the rate of harvesting was substantially below last year's, and poor field conditions will reduce the milling quality of the wheat. The reduced quality will compound the problem of a smaller harvest--an estimated 85 million tons of wheat this year, compared with 110 million tons in 1973.

China's grain crop also appears unlikely to reach record levels. Even if the weather were unusually favorable for the rest of the year, the chances of output increasing as fast as population--by 2 percent, or 5 million tons--are small.

Early harvested grain crops--which normally account for 40 percent of grain output--were poor because of drought in the north and unseasonable frost in the south. Erratic spring rains, together with unusually low temperatures, have forced changes in acreage patterns that will adversely affect fall-harvested crops. Also, the growth of domestic fertilizer production has slowed, and deliveries from Japan--China's major source of imported fertilizer--have been reduced.

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In the USSR, the reduced crop does not necessarily signal an increase in imports, because Moscow can draw on its stocks. The quality of wheat stocks and the price of imports will be major factors in Moscow's decision whether to import. Grain prices on the world market are high, and they probably will remain so if US harvest prospects do not improve.

China's grain imports are increasing. Contracts for delivery of 9.6 million tons of grain in FY 1975--20 percent more than in FY 1974--have already been signed, and more purchases are likely.

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ITALY

After lengthy discussion and considerable amendment, the Rumor government succeeded in pushing through its austerity tax package before parliament recessed for the summer yesterday.

With intervention on behalf of the lira resuming in August after a six-week hiatus, the government may shortly follow up ratification of its austerity program with formal applications for long-term loans from other industrial nations. The amendments, many of which were advocated by the labor unions and the Communist Party, aim to lessen the tax burden on lower income groups at the expense of corporations and higher income groups. They probably will not change substantially the government's \$4.7-billion revenue goal.

In the process of ratifying the program, the coalition parties were able to trade off measures that reduced tax revenues for those that increased them. Some important features of the government's original tax package, such as higher utility rates, apparently were retained.

The parliamentary amendments reportedly include:

--a one-time surcharge on incomes over \$15,000;

--a boost in the corporate income tax rate from 25 to 35 percent, instead of the 30 percent originally suggested;

--an expanded list of luxury goods subject to the new value-added tax rate of 30 percent;

--increased tax exemptions on wage and salaried income;

--a reduction in the number of beef and veal products that the new value-added tax on beef and veal applies to;

--the extension of a value-added tax break on some food items into 1975.

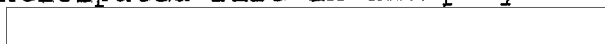


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Even assuming that the government's revenue estimates are on the high side, this tax package, combined with a currently tight monetary policy, will have a sharply deflationary impact on the economy over the next 12 months. Domestic demand will decline, although export sales will probably prevent a drop in the GNP. The drop in domestic demand will moderate and eventually reduce inflationary pressures.

The amendments to the program, however, may distribute the impact of the tax package somewhat differently than the government would like. A number of the changes, such as the tax surcharge on incomes over \$15,000, could adversely affect savings and investment more than consumption, and add to an anticipated rise in unemployment over the next 12 months.



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ARGENTINA

President Peron yesterday chose three Peronist veterans to replace the cabinet ministers whose resignations she accepted on Tuesday. All are conservative bureaucrats, apparently picked for their devotion to the Peronist movement.

For the politically sensitive post of education minister, Mrs. Peron chose the 79-year-old Oscar Ivanisevich, who had held the post when Juan Peron was overthrown in 1955. Student leaders then were instrumental in stimulating the coup, and Ivanisevich's reinstatement is surely to meet with an icy reception among today's students.

The new interior minister is Alberto Rocamora, a former Peronist congressional leader who is a staunch opponent of left-wing Peronism. He will be responsible for the security organizations charged with the fight against terrorism.

Adolfo Mario Savino is the new defense minister. He served in a number of economic posts under Juan Peron in the 1950s.

Social Welfare Minister Lopez Rega, Mrs. Peron's controversial adviser, most likely had a decisive role in selecting the new ministers. Should they turn out to be subservient to him, the breach in the unstable Peronist movement will surely widen.

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CHILE

Junta President Pinochet has pledged an end to executions and declared that severe disciplinary action is being taken against military men who have ignored government guidelines on the treatment of prisoners.

The government has followed a tacit "no execution" policy since early this year, and there have been vague references to punishment of overzealous interrogators, but Pinochet's statements to the Associated Press put the government on record. Increasing concern that Chile's international image will have a negative impact on its arms procurement program--especially on possible Congressional attempts to cut US credits and sales--may have prompted the move.

Pinochet also indicated that trials of high-ranking officials of the Allende regime and leftist party leaders will be "semi-public," i.e., open to the press but given limited publicity. Pinochet said details of when and how these prisoners will be tried are still being worked out.

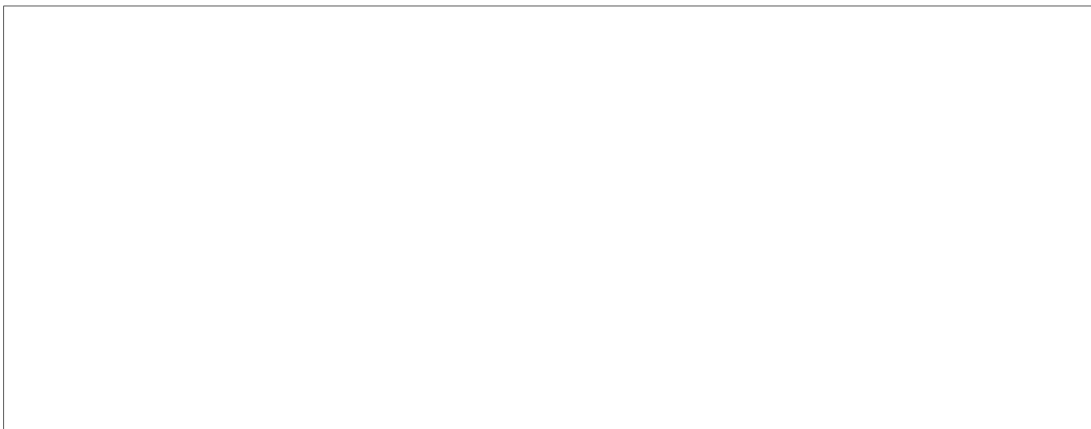
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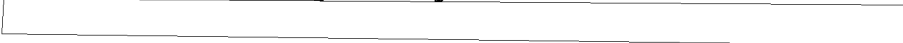
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FOR THE RECORD



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Dominican Republic: Joaquin Balaguer will be inaugurated on August 16 for his third consecutive four-year term as president. He enjoys considerable popular support and military backing, and is not likely to alter his goals and programs significantly. Businessmen favor him because his stable administrations have attracted large amounts of foreign investment and have spurred unprecedented economic growth. His support in rural areas has been enhanced by the government's land reform program. 

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Panama: In Panama, National Guardsmen made no attempt yesterday to prevent a demonstration by some 300 rock-throwing students at the US embassy. The Guardsmen broke it up only after embassy officials asked the government to act. A student demonstration at the embassy last week was peaceful. A government-controlled television station has deplored the violence, but the government is likely to continue to use demonstrations and abrasive articles in the government-controlled press to build a case against the US-owned United Brands Company. General Torrijos has been trying to get the company to pay a \$1-per-box tax on banana exports and was irritated when the company recently decided instead to stop exports. 

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