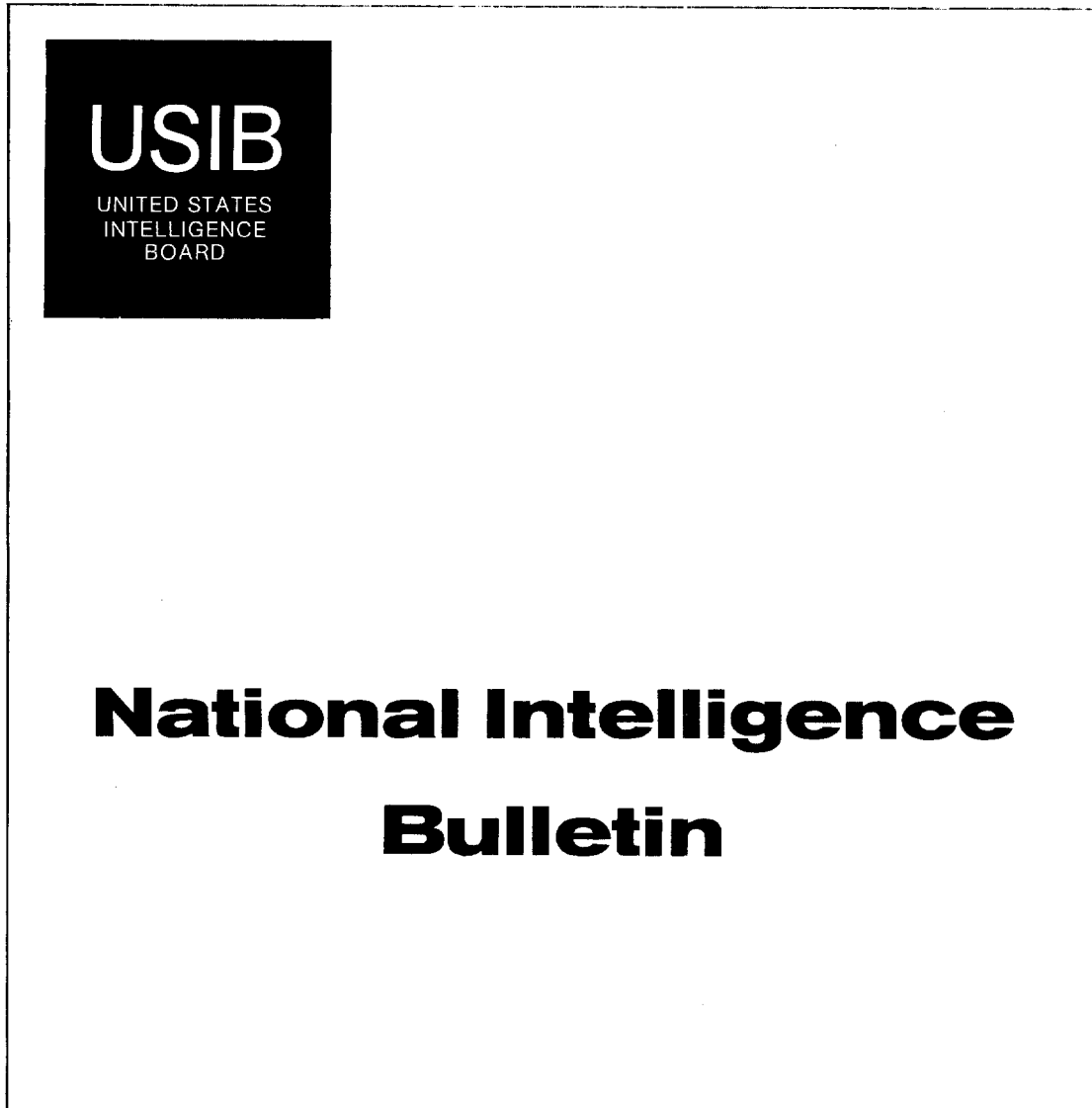


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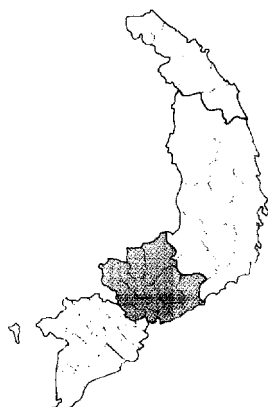
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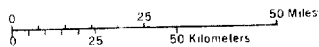
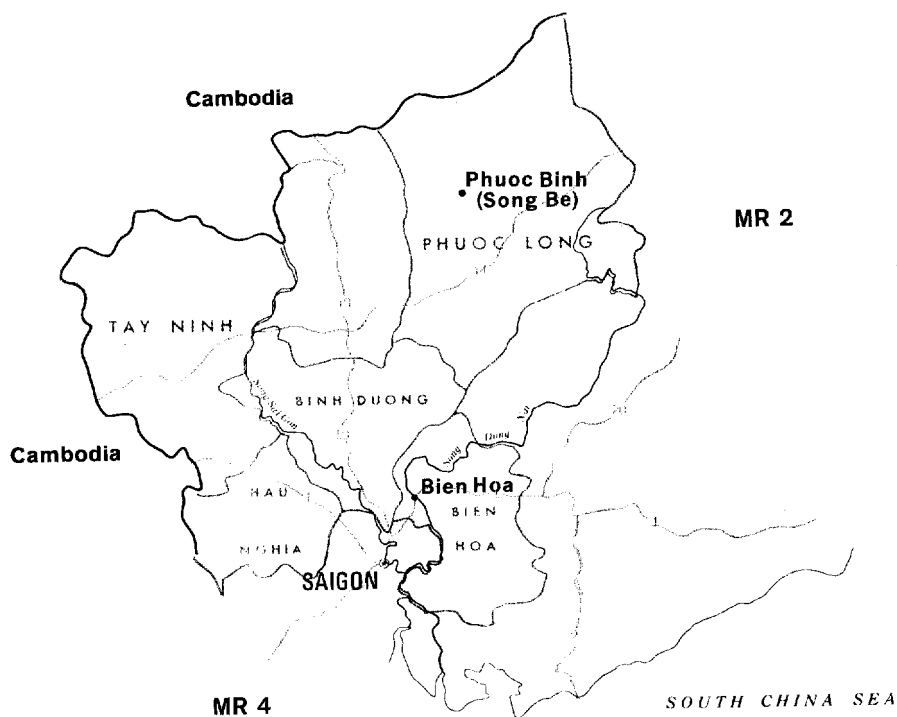
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Military Region 3



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SOUTH VIETNAM

The South Vietnamese have lost Phuoc Binh, the capital of Phuoc Long Province, after six days of heavy fighting. Yesterday morning, North Vietnamese forces, supported by heavy artillery and armor, apparently forced the remaining government defenders to retreat. The garrison was reinforced over the weekend with a 300-man unit, but the defenders were without artillery and sufficient ammunition to withstand the Communist assault.

An enemy force upward of a division, which included main-force units, was committed to the fighting. Despite the heavy support of Communist armor and artillery, the North Vietnamese did not easily slice through the government's outnumbered local-force defenders. The fighting at Phuoc Binh suggests that, in any direct collision between opposing regular army forces, South Vietnamese regular army troops probably will be able to hold their own. The major difference that may determine the outcome of future battles is the government's willingness or ability to match North Vietnamese artillery and armor. Currently, this appears to be the single most important question in the minds of many South Vietnamese commanders.

When the Communist campaign began in early December, South Vietnamese commanders in Military Region 3 decided that they would not commit main-force units to the countryside in defense of isolated towns and remote outposts. In the Phuoc Binh fighting, South Vietnamese commanders were generally pessimistic about the government's ability to hold the town without substantial reinforcements. Territorial units in the city, mostly Montagnards, were viewed by the South Vietnamese as poor fighters.

After the initial assaults, however, the government's attitude appears to have changed. The Montagnards held off the initial attacks, inflicting heavy casualties on Communist troops and armor. By the third day, government commanders at Bien Hoa decided to send reinforcements--a 300-man Ranger unit--in at least a token effort to hold Phuoc Binh and to boost the defenders' morale.

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In addition, the government ordered increased air strikes in the area, in hopes of taking some of the pressure off the defenders by destroying North Vietnamese gun emplacements and armor. Air resupply to the town initially was successful, but North Vietnamese anti-aircraft defenses intensified and forced the South Vietnamese to drop supplies from such high altitudes that most of them fell outside the town's defenses.

By the sixth day, General Dong, the government commander for the region, apparently decided that the defense of Phuoc Binh was important and requested President Thieu to send additional reinforcements. Dong proposed to send in two regiments and artillery and make a major stand to hold the town. His proposal, however, came too late, and the loss of Phuoc Binh thus may have been more of an example of South Vietnamese indecision than North Vietnamese tenacity. The failure to reinforce Phuoc Binh more substantially could take its toll on the morale of other government garrisons in remote areas.

The attacks on Phuoc Binh may set the pattern for future North Vietnamese operations. The initial assaults were conducted by local forces supported by heavy artillery. When these proved unsuccessful, later attacks employed main-force North Vietnamese units supported by heavy artillery and armor. The number of rounds fired against Phuoc Binh and its district towns indicates that future government targets may experience a heavy pounding prior to infantry assaults. The North Vietnamese also made considerable use of their air defenses, forcing the South Vietnamese to be cautious in using tactical air strikes and helicopters to support and reinforce the beleaguered garrison.

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VENEZUELA-ECUADOR

Caracas and Quito have called for a special session of the Organization of American States to discuss what Venezuelan President Perez charges is the economic aggression and political pressure represented by the US Trade Reform Act.

Yesterday, Peruvian President Velasco charged the act had "coercive and discriminatory" terms that threatened Latin American development. He sent notes of support to his two colleagues.

The call by Venezuela and Ecuador caps several weeks of angry reaction--particularly in Venezuela--to those provisions of the act that would deny US tariff preferences to members of cartels raising prices on vital commodities. Perez believes such provisions are aimed specifically at Venezuela and other states in the Organization of Petroleum Exporting Countries.

In his New Year's Day address to the nation, Perez criticized the US for actions that "create a climate of confrontation." In a public telegram sent to Ecuadorean President Rodriguez on Saturday, Perez stated that the "new dialogue" promised by Secretary Kissinger with Latin America is inconsistent with the signing of the trade act by President Ford.

Perez supports Rodriguez' decision not to attend the meeting of OAS foreign ministers scheduled for Buenos Aires in March, and Venezuela too may boycott the meeting.

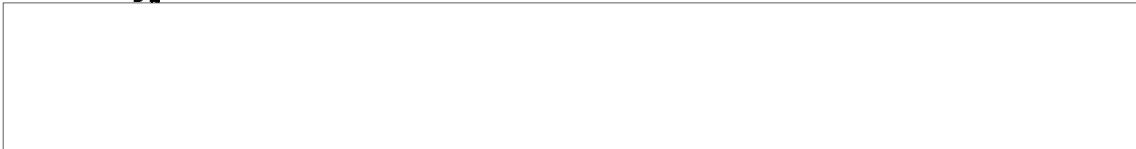
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Perez is in an emotional frame of mind, which is being reflected in Venezuela's reaction to the trade act. It is apparent that he is seeking to unify Latin

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American countries in the OAS to oppose the act as contrary to the interests of all Latin American countries. At the same time, Perez is trying to strengthen further his position as a leader in the hemisphere.

The petroleum, finance, and foreign ministers of the OPEC countries will hold a special session in Algiers on January 24 to discuss "worldwide economic strategy" on matters that will include the US trade act.



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ARGENTINA

Recent changes in President Peron's staff that strengthen the power of Lopez Rega, the controversial minister of social welfare, are certain to alarm military leaders, opposition parties, and even the Peronist movement.

The ambitious social welfare minister will head a newly restructured presidential secretariat that will "coordinate" all of the President's audiences with ministers and state secretaries. In addition, the head of the presidential military household and several of his key aides have been replaced by officers presumed by Lopez Rega to be less eager to undercut his influence with Mrs. Peron.

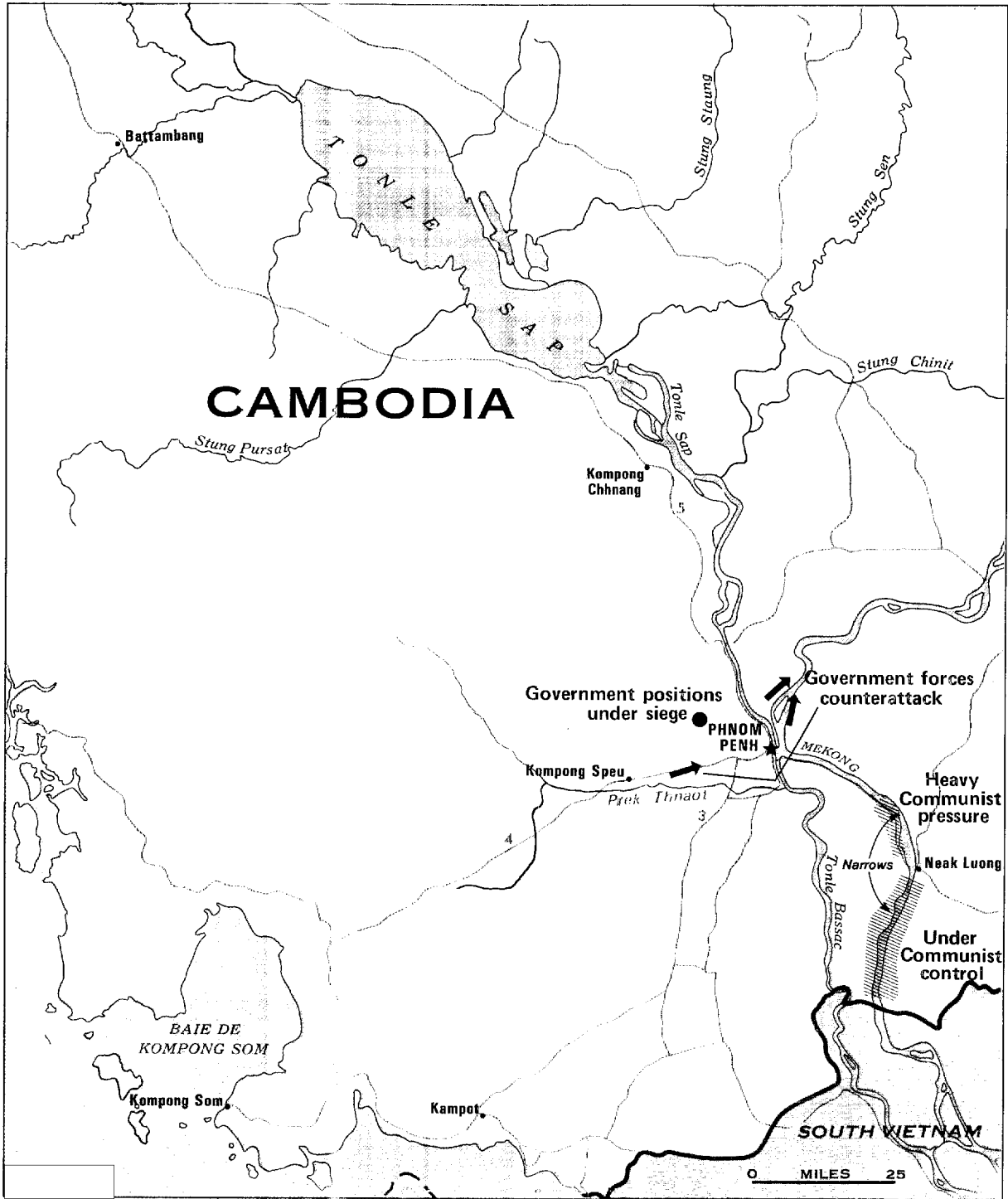
Cabinet ministers who in the past have voiced resentment over Lopez Rega's interference and overshadowing position are likely to see his new post as a blatant maneuver to isolate the President and control governmental decision-making.

The military high command also can be expected to react negatively and possibly to step up pressure for Lopez Rega's removal. There are growing signs that army leaders want him eased out. They apparently are uncertain about how to proceed, however, particularly since any move against Lopez Rega might cause Mrs. Peron to resign.

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Even before these changes, the papal nuncio in Buenos Aires had told the US ambassador that Mrs. Peron was no longer turning to him for spiritual advice and that "she now is completely under the domination of Lopez Rega." If the controversial minister continues to gain ground, political contention is likely to increase and could lead to serious plotting to force his removal.

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CAMBODIA

Khmer Communist forces have increased pressure against government defenses northwest of Phnom Penh, but government forces appear to have the situation under control.

The Cambodian army's 7th Division headquarters, some nine miles northwest of the capital, remains isolated, and a division command post is encircled and under siege. A government task force is attacking west from Route 5 to link up with these positions, but it is meeting heavy resistance; heavy air support is being provided for the operation.

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West of the capital, government forces attacking on both sides of Route 4 have secured additional territory. Government operations in this area reportedly have prompted partial Communist withdrawals and may have preempted insurgent plans to launch supporting attacks between Routes 3 and 4.

Government troops are also continuing clearing operations east and northeast of the capital on both banks of the Mekong River. Except for sporadic rocket fire against the capital from these areas, Communist activity has been largely contained.

Farther south along the Mekong River, however, Communist gains have been substantial, and insurgent forces are continuing efforts to expand and consolidate their holdings. No government counteraction has yet been initiated.

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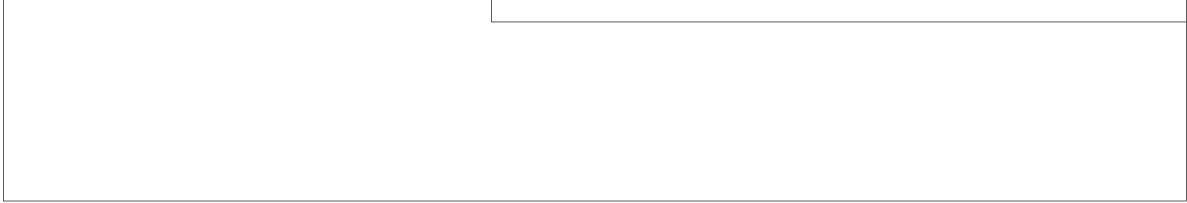
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In addition, insurgent forces still hold at least nine miles of Route 1 north of Neak Luong. As a result of these gains, the Mekong River convoy scheduled to transit the river from South Vietnam today has been delayed. Until the situation around Phnom Penh improves sufficiently for reinforcements and air assets to be committed to re-establish government control along the Mekong, resupply convoys will not be able to navigate the river without serious risk.

Elsewhere, Communist initiatives in the outlying provinces remain limited



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ANGOLA

The three rival liberation groups in Angola have announced agreement on a common negotiating position for talks with the Portuguese, tentatively scheduled to begin in Portugal on January 10.

On Sunday, following talks during the weekend in Mombasa, Kenya, leaders of the three groups issued a communiqué in which they pledged to work together for an independent Angola. The communiqué failed to mention any arrangement for a division of responsibility among the liberation groups in a transitional Angolan government. In the past, they have refused to share power with each other.

Lisbon has offered the leaders of the three groups positions as ministers without portfolio. In Lisbon's view, the leaders would act as an advisory commission on decolonization.

The apparent willingness of the three groups to agree to a common position suggests they may be ready to accept the Portuguese offer--at least as a short-term political expedient--in order to revitalize the decolonization effort. Given the personal ambitions of the insurgent leaders and the deeply rooted antagonisms among the groups, however, cooperation could be short-lived.

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