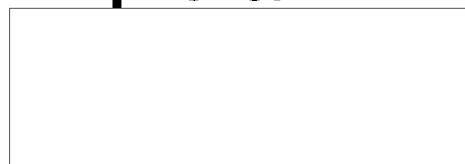


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Weekly Review

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20 September 1974

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The WEEKLY REVIEW, 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, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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CYPRUS TALKS INCH FORWARD

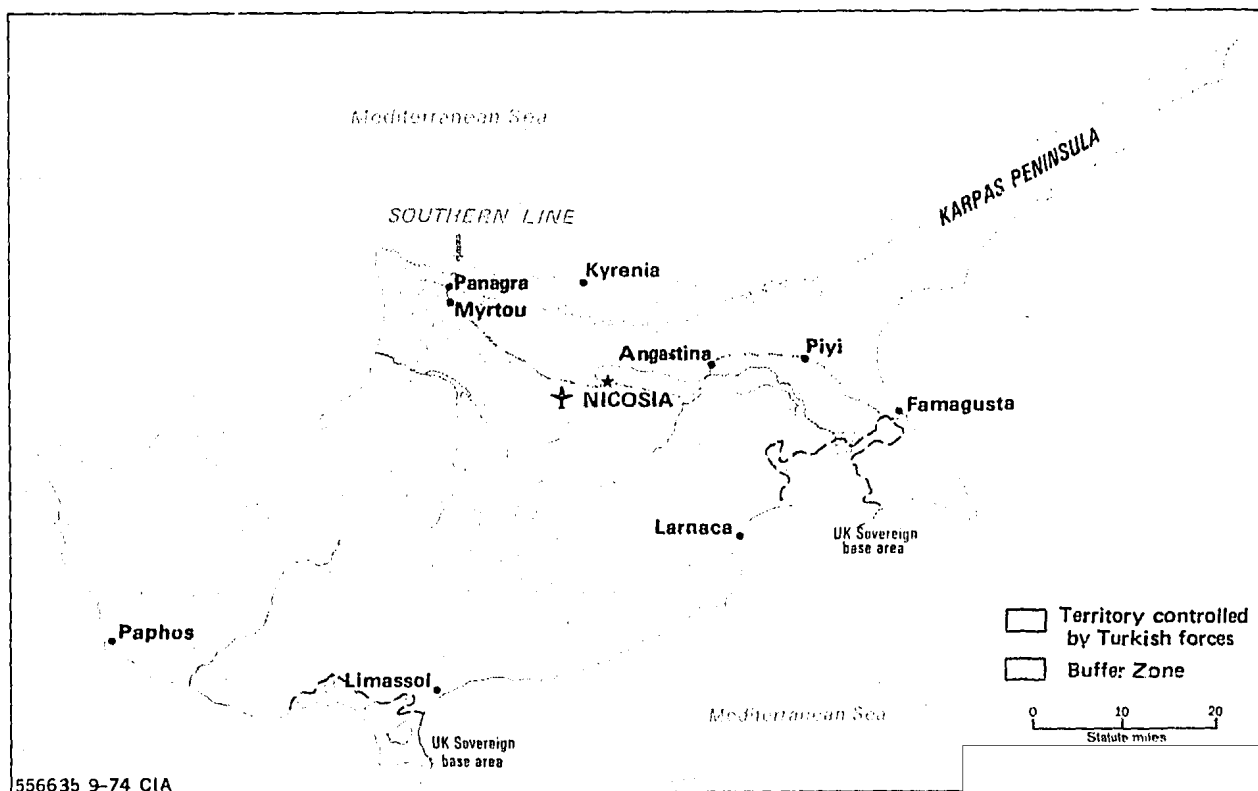
Greek and Turkish Cypriot leaders have moved from a limited discussion of humanitarian matters to broader political concerns. Not much progress was made in their meeting on September 13 on political issues, however, and negotiations, particularly on population transfers, are likely to be protracted.

Under Clerides' plan, Greek Cypriot refugees who have fled to the south could return to this area, and a "quiet" migration of Turkish Cypriots in the south to the Turkish-held north also would be allowed. Clerides said that if the "southern line" were acceptable, all prisoners between the ages of 18 and 55 would be released immediately. He added that an announcement would be made concerning UN protection of Turks who remain in Greek Cypriot areas until an agreement is reached. Clerides also said he had Athens' support for the proposal.

Acting Cypriot President Clerides proposed that Turkish forces withdraw to what he called the "southern line,"

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Clerides' offer was confirmed by UN reports given to the US embassy in Nicosia. According to this account, Turkish Cypriot leader Denktash was cold to Clerides' proposal. The Turkish ambassador in Nicosia also objected because it asked Turkey to pull back with no assurance of



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Prisoner of war exchange in Nicosia

what it would be getting in return. According to the UN reports, Denktash will bring counter-proposals to his next meeting with Clerides, scheduled for September 20.

Denktash thinks all Turkish Cypriots will opt to go into the north, although the UN is far from sure of this. He said that certain Greek Cypriots would be allowed to return to the Turkish zone as long as they remain in the minority and do not constitute a security threat. In a press conference this week, Turkish leader Ecevit said the space available for Greek Cypriots in the north will not be known until all the Turkish Cypriots who wish to move to the north have done so.

The resignation this week of Turkish Prime Minister Ecevit and the ensuing governmental crisis—which may last several weeks or more—are bound to have an effect on the Cyprus negotiations. Greek officials believe some of the pressure of the Cyprus crisis will be eased while Turkey is in the middle of an election campaign, and they are even more eager than before to hold their own elections before the end of the year. Prime Minister Karamanlis has announced that parliamentary elections will be followed by municipal elections.

Clerides issued a statement on September 14 confirming that Makarios would address the UN

General Assembly as president of Cyprus; he also said that there was a "common line" between himself and Makarios on the handling of the Cyprus problem. According to the US embassy, however, Clerides recognizes Makarios' potential to undermine the present negotiations and Clerides' own position by grandstanding at the UN.

Ilichev's Cyprus Mission

Soviet Deputy Foreign Minister Ilichev's mission to Athens, Nicosia, and Ankara has served to reassert Russian interest in a settlement, has kept alive the Soviet proposal for an international conference, and has enabled Moscow to sound out Greek, Turkish, and Cypriot attitudes toward UN General Assembly debate on the question.

The Russian's reception in Ankara was somewhat cool, but he went out of his way to avoid offending the Turks. He sought renewed Turkish assurances that Ankara is not opposed to a sovereign and nonaligned Cyprus. In return, he expressed explicit Soviet approval of a federated state. Ilichev also sought to keep bilateral relations on the right track, promising that the Turkish finance minister's visit to Moscow this October will be "most fruitful."

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TURKEY: Resignation Aftermath

The coalition that has governed Turkey for eight months was dissolved on September 18 when Prime Minister Ecevit resigned. Ecevit will remain in office as caretaker until a new government can be formed. President Koruturk is expected to ask Ecevit to try to form a new coalition, and the Republican People's Party leader appears to be wooing the relatively small right-of-center Democratic Party.

Problems within the governing coalition came to a head when Deputy Prime Minister Erbakan, leader of the junior coalition partner, announced that cabinet ministers of his National Salvation Party would not sign a decree authorizing Ecevit to travel to Scandinavia as the official representative of Turkey. This denial came in retaliation for Ecevit's decision to name a minister from his own party instead of Erbakan to head the government in his absence.

Relations between the two coalition parties may have reached the breaking point sooner than Ecevit expected, but the coalition was fragile from the beginning and he was looking for a way out. Ecevit became something of a national hero as a result of Turkey's intervention on Cyprus and hoped to be able to translate his personal popularity into a parliamentary majority, negating the need for a coalition. He is aware, however, that his image could fade as economic problems recapture public attention and he is, therefore, pressing for elections before the end of the year. Ecevit will need a majority vote in parliament to approve holding elections before those scheduled for 1977.

President Koruturk has begun a round of talks with leaders of the various political parties, the first step toward forming a new government. After completing these talks, the President is expected to ask Ecevit to try to form a new government. If Ecevit should fail to arrange an alliance that would give him a majority in parliament, Koruturk could ask him to lead a

minority government or he could turn to another political leader.

Democratic leader Bozbeyli appears to have given Ecevit a favorable initial response to the possibility of joining a coalition. A coalition of Ecevit's Republican People's Party and Bozbeyli's Democratic Party would have only a slim four-vote majority in the National Assembly, however, and it is not yet clear that Bozbeyli can deliver all 45 of his party's votes.

The Democratic Party is generally considered to be more politically mature and responsible than Ecevit's former coalition partner, but a coalition of the Republican People's Party and the Democrats would be strictly a marriage of convenience. The Democrats have strong ideological differences with the moderately leftist Ecevit and in the past have rejected any suggestion that they might join with him.

Even if the Democratic Party decides against joining a coalition, it could give Ecevit a majority vote in parliament, enabling him to organize a one-party minority government. Ecevit might also draw the votes of even the smaller Republican Reliance Party, which would give him a little more breathing room. The Republican Reliance, which controls only 13 seats in the assembly, is made up of former members of the right wing of Ecevit's own party.

The political maneuvering and negotiations necessary to organize a new government could take as much as three or four weeks; it took three months following the indecisive elections last October. If Ecevit is unable to gather enough support to govern, the Justice Party led by Suleyman Demirel might be called on by President Koruturk to try to put together a center-right coalition. This would delay even longer the time when Turkey can again turn its full attention to such problems as inflation and the effort to reach a political settlement on Cyprus.

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UK: THE CAMPAIGN OPENS

Britain's political parties have launched their national election campaigns with the publication of their manifestos. In Wednesday's long-awaited announcement, Prime Minister Harold Wilson set the election date for October 10.

Mud-slinging accusations are conspicuously absent from the Labor, Conservative, and Liberal manifestos. The campaign tone is somber, in fact, as all three parties focus on Britain's serious economic problems.

Of the three party programs, Labor's is the most partisan. Titled "Britain Will Win With Labor," it offers few surprises. Frankly socialist, it calls for redistribution of national wealth and expanded state ownership of industry, including greater public control of North Sea oil and gas reserves. The manifesto comments on the nation's economic ills, but offers no proposals for tackling inflation beyond the "social contract" concept of voluntary wage and price control. Labor also promises a referendum within a year on UK membership in the European communities and rules out participation in a coalition government.

Leaving the coalition question open, the Tory manifesto pledges consultation with all other party leaders if a Conservative government is formed after the elections. It calls for national unity and makes conciliatory overtures to Britain's trade unions with promises of increased pension benefits, government assistance in training union officers, and greater recognition of strikers' rights. The Conservative platform incorporates some of the economic views of the shadow home secretary, Sir Keith Joseph, who has been applauded in the press for his controversial analysis of errors in the Conservatives' previous economic policy. The Tory anti-inflation program includes control of the money supply, as Joseph urged, as well as restraint in public spending and in wage and price demands.

The Liberal campaign has begun on a note of realism. At the party's Brighton convention last weekend, delegates overwhelmingly defeated a resolution opposing any coalition with the Conservatives or Labor. Party leader Jeremy Thorpe did move to placate left-wing Liberals, who are



concerned about an alliance with the Conservatives, by stipulating that any coalition would be for a limited period. The Liberal manifesto, like its Tory counterpart, avoids promising easy solutions to inflation. It admits that the government will need to reinstitute mandatory wage and price controls, which are unpopular with trade unions. The Liberals, however, urge the adoption of such social programs as the redistribution of national wealth, a review of electoral processes, and introduction of power-sharing in industry before statutory wage and price controls are applied.

The Conservatives and Labor appear to be running neck and neck. The Conservatives have made some gains since last week, helped by the reasoned, conciliatory tone of their manifesto, which was well received in the British press. A Gallup poll issued last week showed Labor leading

with almost 41 percent of the vote, compared with 38 percent for Conservatives; the Liberals had 18. A new poll published this week showed the Tories ahead by one percent.

amendments lightened the tax burden on low income groups at the expense of corporations and the more affluent.

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The Communists do not appear to be demanding actual membership in the next government. For the moment, they would be satisfied with such a limited but still important concession as formalized consultations on the government's legislative program. Communist leader Berlinguer thinks that such a step would go far toward achieving his goal of gradually "conditioning" the public to accept his party as a legitimate candidate for coalition membership.

ITALY: HEATING UP

The new political season will not open formally until parliament reconvenes on September 24, but Italian politicians have been engaged in a wide-ranging public debate since the end of the traditional August holiday. Prime Minister Rumor's government is not expected to last long and the main issue—particularly in view of the Communist Party's spirited efforts to establish a "new relationship" with the center-left coalition—is the complexion and modalities of the next government.

The coalition parties are divided on the Communist question. Most Socialists favor some form of governmental collaboration with the Communists, while the Social Democrats and Republicans are opposed. The official response of the dominant Christian Democratic Party is negative, but some prominent members of the party's left wing are publicly supporting closer relations with the Communists.

Sharp differences among the coalition partners have been papered over on numerous occasions since Rumor took office in July 1973 with the rationale that the country could not afford a political crisis and an economic crisis at the same time. Now that parliament has passed an austerity program and the government has secured a \$2 billion loan from West Germany, party leaders may feel that they have enough breathing space to attempt the political "clarification" that has been discussed behind the scenes for months. They may have concluded, moreover, that further progress on the economy is not possible until the coalition partners have ironed out their differences—or at least made them explicit through negotiations for a new government.

In his most recent statement on the subject, Christian Democratic leader Amintore Fanfani seemed to be setting the stage for a serious debate on the issue. He noted all of the practical problems that a deal with the Communists would create for his party—a loss of votes, soured relations with the other coalition parties, and more neo-fascist violence—and remarked that such a decision could only be made by a national party congress.

The Communists are trying to extend their influence in national policy making, and they cite their role in the shaping of the austerity program as evidence that the government is already compelled to give weight to Communist views. In parliamentary debate over the program, some Communist-sponsored amendments attracted enough support from left-of-center elements within the coalition to secure their passage. The

Fanfani also made much of the difficulties that increased Communist influence would create for Italy's role in NATO. In a series of carefully balanced statements, the Communists have hinted that they could live with NATO, provided Italy did not broaden its commitment to the alliance. The Communists realize, however, that their ambiguity on NATO remains a major obstacle to closer relations with the governing parties.

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FRANCE

LABOR MODERATE, FARMERS MILITANT

Recent statements by French labor leaders have stressed moderation and the desirability of negotiating with government and management. Their tone contrasts sharply with veiled threats in June and July of a reckoning in the fall. Leaders of the three most important labor organizations, including the Communist-dominated General Confederation of Labor, continue to criticize President Giscard's policies, but their speeches lack the customary apocalyptic overtones and are remarkably free of menacing words about trade union action. Labor's cooperative attitude has not been matched by the farmers, however, who are vigorously protesting the level of EC and government support for agriculture.

Labor's moderation may be a by-product of its recognition that France's economic plight is severe, and that the rank-and-file union member is not in the mood for militant action. Most workers seem paralyzed by the specter of unemployment and the bleak prospects facing them if France's inflation is not controlled. Union belligerence has also been dampened by the fact that, for most members, wages have risen faster than prices.

The closeness of the recent presidential election also has encouraged the leftists to avoid rash behavior in the hope of further improving their political position. Labor and leftist leaders are correspondingly more sensitive to allegations that labor could aggravate France's political and economic problems through industrial action. They fear that such claims could hurt leftist candidates in the next legislative election.

Labor's emphasis on negotiations rather than militancy also derives from a recognition that Giscard's government has shown sympathy for many leftist goals. The establishment of a commission to look into industrial relations, for example, gives the left something to gain from cultivating the good will of the government. Furthermore, labor leaders believe that insistence

on negotiation now could pay political dividends in the future if Giscard seems to follow their lead—as they anticipate—by calling for talks between the government and organized labor to form a common front against inflation.

While organized labor bides its time, however, the historical process of elimination of small businessmen and farmers has been accelerated by inflation and the credit squeeze. During the first half of 1974, 6,000 small- and medium-sized businesses cashed in their chips—23 percent more than in the first half of 1973. Inevitably, the workers, too, have been affected. Although the employment level in France as a whole remains fairly high, the business failures are creating pockets of unemployment and labor discontent. Thousands of workers—some 4,000 in the past week alone—have occupied bankrupt factories this summer in attempts to save their jobs. Government and labor leaders alike are keeping a close watch on these trouble spots, waiting for the spark that could set off a national reaction.

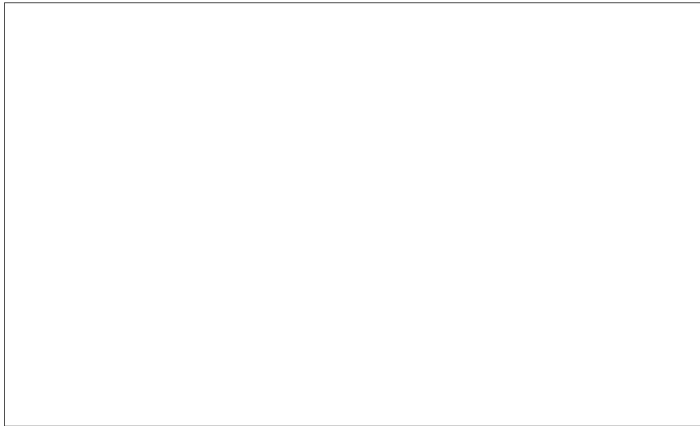
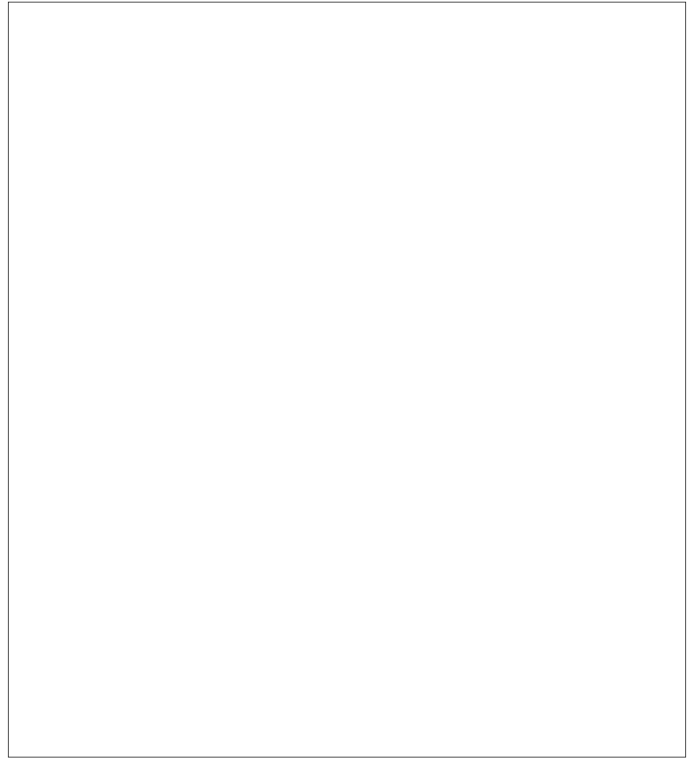
Farmers form one of the most volatile interest groups in France today. Staunch Gaulists, they voted overwhelmingly for Giscard last May, but are now saying they have had enough of "liberalism." The farmers have been hard hit by inflation and, lacking an effective centralized organization, they have resorted to mass demonstrations and occasional violence. Their action forced the government to make a number of temporary concessions this summer, but the demonstrations continue. Unless the EC agricultural ministers can reach agreement this month on a substantial increase in the support price for agricultural produce, farmer unrest in France could become a serious problem for Giscard's government.

On the whole, the labor scene in France this fall will probably remain quieter than expected. A serious jump in unemployment, however, or a decline in other economic indicators could reverse the moderate mood.

NUCLEAR TEST SERIES ENDS

France's 1974 nuclear test series in the South Pacific ended on September 14 after seven low to intermediate-yield detonations, and at least one safety test. Paris probably views the series as a success, although it was marked by a succession of delays caused by bad weather and technical problems. The concluding shot may also have been France's last atmospheric nuclear test, as the government had announced earlier this summer that future tests would be held underground.

Major goals of the 1974 program included testing nuclear components for multiple re-entry vehicles, and the further miniaturization and improvement of fission "triggering" devices for thermonuclear weapons. The French may also have tested a device for a warhead to be used on a new stand-off air-to-surface missile system.

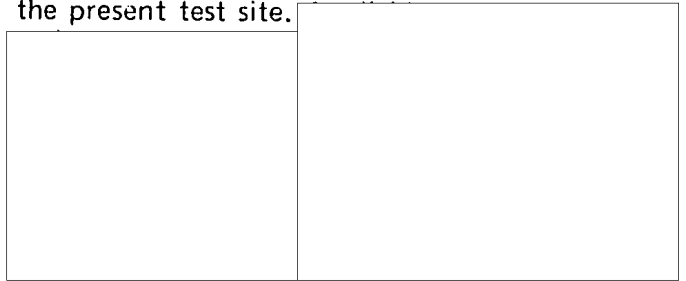
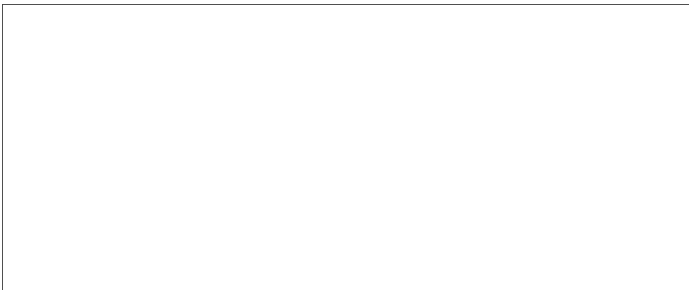


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International protest over French testing in the atmosphere was more subdued this year than in the past. Although Australia and New Zealand registered protests after each test, their lower key complaints apparently were tempered by Paris' announcement that future tests would be held underground.

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France is expected to begin underground testing next year at Fagataufa Atoll, which is near the present test site.



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NUCLEAR SUB FORCE EXPANDING

[redacted] Paris has decided to construct a sixth nuclear-powered ballistic-missile submarine. One press report claims the decision was made last April.

Stationing submarines in the Mediterranean would place targets in the southwestern USSR—including such major cities as Kiev, Odessa, and Baku—within the range of French seaborne missiles. The submarines could also supplement existing French coverage of the northwestern USSR, including Moscow and Leningrad.

France now has three missile submarines in operation: two have been rotating on patrols for almost two years; the third is expected to sail for its first patrol around the end of this month. A fourth was launched on September 17, and work on the fifth will begin shortly. At the current pace, all six could be in operation by 1982.

The French, at some point, are likely to build facilities capable of handling missile submarines at a Mediterranean port in order to reduce transit time between base and patrol area and to simplify logistic support. Only the Atlantic coast facility at Ile Longue is now capable of servicing nuclear ballistic-missile submarines.

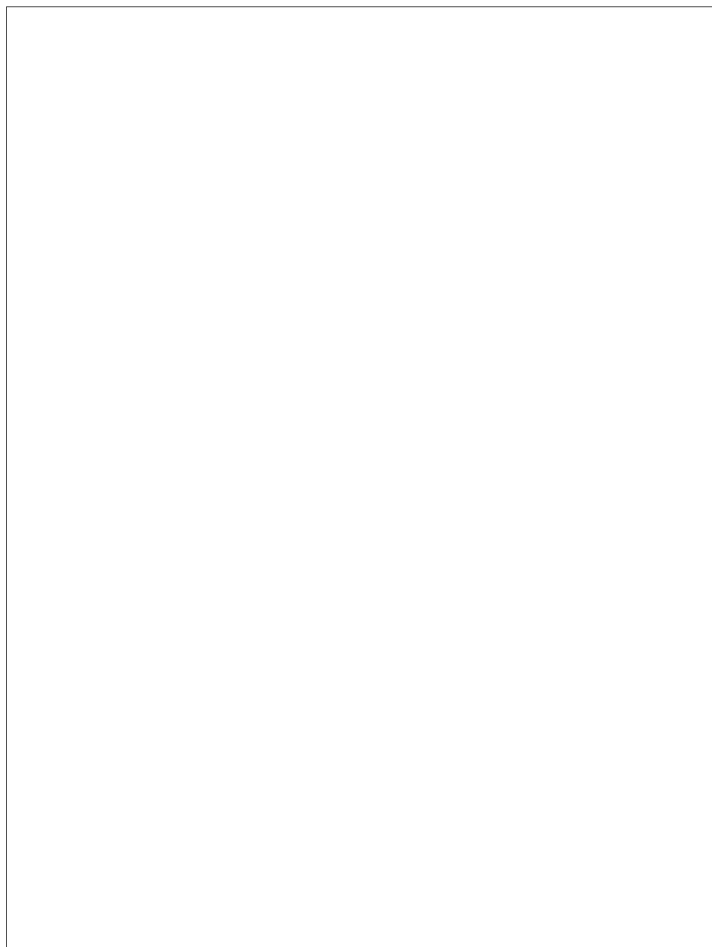
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Patrol Zones

French missile submarines routinely operate in the Norwegian Sea—the primary patrol zone for potential operations against Moscow, France's highest priority target. During the last three years, the two oldest submarines have completed 16 such patrols. Because of the limited number of submarines, the French have been forced to spend long periods on station—more than 50 percent of each patrol cycle in the Norwegian Sea. This has permitted continuous patrolling since late 1971, but at the cost of greater equipment wear.

France's first missile submarine, Le Redoutable, recently completed its tenth patrol, and is scheduled for a 15-month overhaul at new dry-dock facilities at Ile Longue. It probably will be fitted with an improved missile that has greater range and accuracy than the one it now carries. Le Foudroyant, which was turned over to the navy in June, probably will replace the Le Redoutable on patrol later this month.

By the late 1970s, the French should be able to operate missile submarines continuously in two patrol zones—the Norwegian Sea and the Mediterranean.



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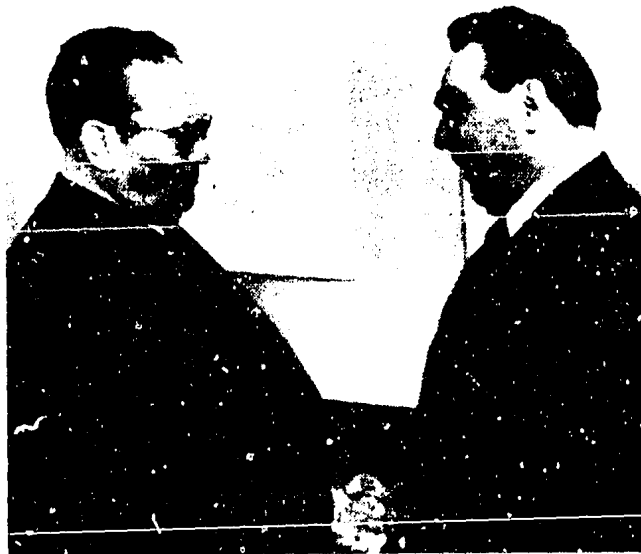
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YUGOSLAVIA-USSR: A RUDE AWAKENING

Soviet-Yugoslav relations, which had steadily improved after Brezhnev's visit to Belgrade in September 1971, are now clouded by Belgrade's allegations that the Soviets have meddled in Yugoslav political affairs. The trials of the group of Moscow-oriented plotters—and Tito's promise that the trial proceedings will be published—will deepen suspicions of the USSR among both Yugoslav officials and citizens.

Tito revealed on September 12 that a group of "Cominformists" had established an illegal Communist party at a secret congress in Yugoslavia earlier in the summer. He charged that the group had circulated "vast" quantities of propaganda materials, which had been printed abroad, and had "even elected its leadership," including a secretary who is someone "outside our country." Yugoslav authorities soon began to spread the word informally that the group's tracks led to Moscow and Prague.

Tito's description of the group as "Cominformists" links them to Yugoslavs who threw in



Tito and Brezhnev meet in 1973

their lot with Stalin at the time of his break with Tito in 1948. A subsequent radio commentary denounced members of this Stalinist group for treason and criticized those countries that still harbor Cominformist emigres.

Some Yugoslavs had come to accept Tito's assurances of a basic change in the Soviet attitude toward Yugoslavia; even more viewed the improved relations as a distasteful—but necessary—deal with the devil. All will be shocked by this latest development.

For the moment, scheduled visits of Soviets to Yugoslavia appear to be following a proper—if somewhat cool—course. The activities of Vladimir Novikov, a Soviet deputy premier, have been played down by the media, and the chief of the Soviet General Staff, who arrived on schedule on September 17, has so far seen only his Yugoslav opposite number.

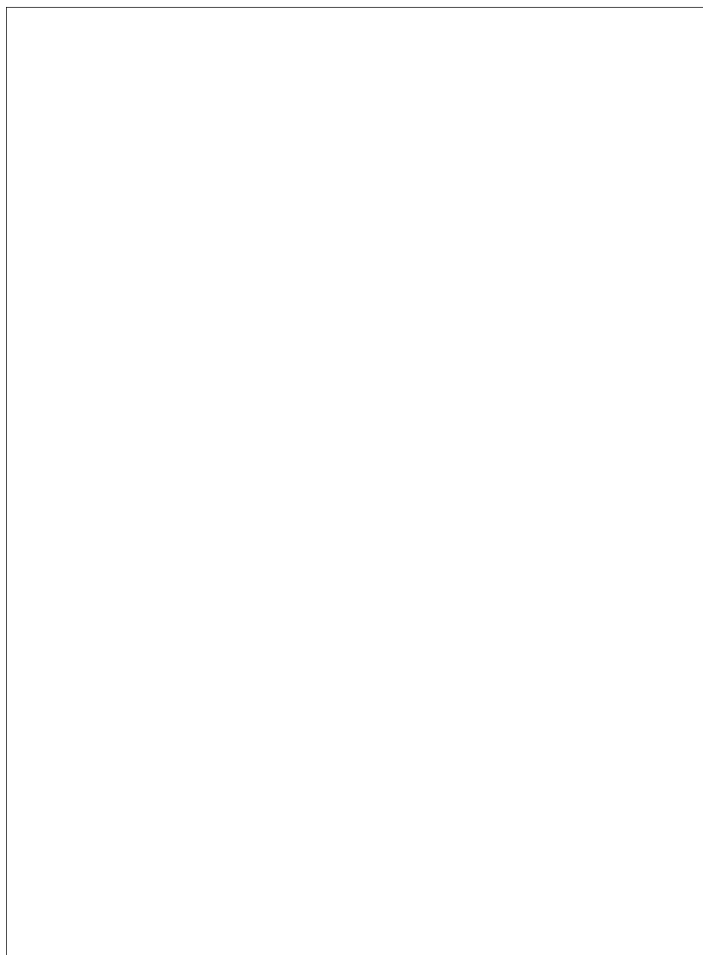
A Yugoslav diplomat in Budapest said this week that his country was no longer interested in obtaining Soviet surface-to-air missiles. This is a reversal of the previous Yugoslav position and may indicate that an impending arms deal is imperiled. On the political level, the diplomat implied that Yugoslavia would probably not attend any international communist gathering when he said that the final decision depended on the results of the trials.

Tito's decision to make public the Cominformist affair raises the possibility that other problems in Soviet-Yugoslav relations may also surface. For the past several years, differences between the two countries have been smoothed over in order to bring about a rapprochement. Now that the door has been opened, Yugoslav complaints could easily multiply and cause another downturn in relations.

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up of developed, developing, and undeveloped nations. This formulation runs counter to Soviet doctrine by taking a non-class approach to political groupings and moves Bucharest closer to the views of Peking and the nonaligned states. It implicitly lumps the Soviet Union with the developed capitalist states. 25X1

The program also parts ideological company with the Soviets by:

- Criticizing the Sino-Soviet dispute as harmful to socialism and pledging the Romanian party to act with all "determination" to surmount differences between socialist states;
- Describing the "nation" as an abiding and enduring force, one of Ceausescu's favorite themes that leaves Bucharest vulnerable to charges of "bourgeois nationalism";
- Asserting that socialist, as well as capitalist, societies contain "inner contradictions," a view similar to Chinese formulations.

The program criticizes the socialist movement (read Moscow) for seeing all parties in the same light without recognizing the special needs of each party in its development. The document also asserts that integration can be achieved only when equal levels of development have been reached by all socialist countries. Finally, the program focuses on the humanist purposes of society, a subject conspicuously avoided elsewhere in the Soviet camp since Dubcek's Czechoslovakia.

ROMANIA: THE PARTY PROGRAM

The new Romanian party program throws down the ideological gauntlet to Moscow, implicitly challenging the Kremlin's authority to be the sole interpreter of Marxism-Leninism. The program widens the gap between Moscow and Bucharest and leaves Romania open to charges of pursuing a "revisionist" and "national communist" course.

The cardinal Leninist tenet of a world divided into capitalist and socialist camps is rejected. Instead, the Romanian program contends it is necessary to recognize that the world is made

The program is to be formally adopted at the party congress in late November. In the meantime, nationwide debates and discussions are to be held to educate the public and to drum up support for the program. [Redacted]

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SALT: UNCERTAIN PROSPECTS

The Strategic Arms Limitation Talks resumed this week after a six-month recess. The 1972 Interim Agreement on offensive arms expires in 1977, and the goal is to replace it with a ten-year pact that would run until 1985.

The new session faces uncertain prospects for an early resolution of the differences separating the two sides. Nevertheless, the Soviets, particularly since the summit in June, have repeatedly stressed their interest in the negotiations. In July, General Secretary Brezhnev declared that the Soviets were eager to go beyond the arms control measures agreed on at the Moscow summit, which included a partial underground test ban, further restrictions on ABM deployment, and an agreement covering environmental modification for military purposes.

Soviet hints about specific new areas for negotiation have been notably absent. Proposals from Moscow, frequent since June, for a de-nuclearization of the Mediterranean and a comprehensive nuclear test ban have been advanced primarily for their propaganda value.

The change of administrations in Washington is probably viewed with mixed feelings by senior planners in Moscow, who are uncertain about where President Ford stands on the specific problems of arms limitation. They have emphasized how important the personal relationship between Brezhnev and former president Nixon was to the arms talks. Although Moscow began a concerted public campaign to de-couple detente—and, by implication, arms control—from "accidental" factors in the waning months of former president Nixon's administration, the Kremlin still espouses leader-to-leader diplomacy.

A debate has evidently been under way in Moscow for some months over the present and future role of nuclear arms. Spokesmen for one side—centered in, but not confined to, the Soviet defense establishment—argue that Soviet foreign policy successes, including detente, are inextricably linked to a position of strength. The military newspaper, *Red Star* declared in August that the stronger the Soviet armed forces become, the shorter will be the road to lasting peace.

DIA disagrees with the view expressed in this article that the Soviets are polarized into two separate camps—essentially those calling for more weapons and those satisfied with the current balance. DIA finds Soviet military reaction to the Strategic Arms Limitation Talks and detente in general to be quite favorable. DIA finds no military spokesmen criticizing detente or voicing worries about the wisdom of Strategic Arms Limitation Agreements; on the contrary, the military press extols both.

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The arguments for the opposing side—that the nuclear arms race carries great risks for the Soviet Union—are usually advanced by members of the USA Institute, but they have also been endorsed publicly by Brezhnev. During a speech in July, Brezhnev denied the validity of the thesis, "If you want peace, be ready for war," by saying, "If you want peace, conduct a policy of peace and fight for that policy."

The debate continues, indicating that both factions are strong, but not strong enough to force a decision. Meanwhile, the USSR is progressing rapidly toward the deployment of major new strategic weapons systems, a deployment that is permitted under the 1972 Interim Agreement. Of chief concern to the US are four new Soviet ICBMs, three of which have been tested with MIRVs and are in the late phases of their flight-test programs.

The USSR accuses the US of concentrating its demands on areas of greatest Soviet strength. The Soviets have consistently attempted to broaden the negotiations to include systems other than ICBMs, SLBMs, and heavy bombers. The Soviets especially want to include the so-called forward-based systems of the US. This issue will probably again be raised by the Soviets, as it has been consistently at past sessions. The Soviets argue that they must have larger strategic forces than the US because they face nuclear threats from "third countries"—the UK, France, and China. Moscow recognizes, however, that asymmetry in the strategic forces of the two super powers means that the search for "equal security" is likely to proceed slowly.

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EGYPT-USSR: NO CONCESSIONS

Moscow and Cairo are continuing to keep alive the prospect of better relations, but neither appears willing to make the concessions necessary for any significant improvement.

Last week, Soviet President Podgorny met with Egyptian First Deputy Premier Hijazi in Bulgaria to discuss the possibility of a Brezhnev-Sadat summit. Although the meeting was cordial, the only agreement reported was that Foreign Minister Fahmi should take up the question when he visits Moscow next month.

Podgorny reportedly said that Moscow wants to begin a new chapter in Soviet-Egyptian relations, but the Soviets continue their attempts to influence Sadat by withholding—as they have since last spring—significant supplies of new weapons. There have been no new deliveries of military equipment since two ships arrived last month carrying ammunition and spare parts, primarily for the Egyptian air force. Press reports that the Soviets recently delivered some 50 MIG-23 aircraft to Egypt are false.

As a result of the cutoff, President Sadat undoubtedly is feeling some heat from the Egyptian military. In an apparent gesture to Moscow, Sadat openly acknowledged this week that Egyptian attempts to obtain other sources of arms notwithstanding, there is no practical alternative to the USSR in the near future.

This will please Moscow, but the Soviets want more than Sadat's recognition that Egypt continues to need the USSR. They want Sadat to give the Soviets a more substantial role in Middle East peace diplomacy and to limit his dialogue with the US. They also want him to abandon efforts to undercut Soviet influence elsewhere in the region—such as in South Yemen and Somalia. And finally, they want Sadat to reverse his swing away from socialist development of the Egyptian economy.

The Soviets apparently hope that by later this year their pressure tactics, combined with Egyptian disillusionment with the US, will force Sadat to be more amenable. In the meantime, the

Soviets are continuing to hold out the prospect of significant new military aid. The Soviets will be looking to the visit of Fahmi and Chief of Staff Gamasy next month to determine if movement in Egyptian policy warrants the long-talked-of Sadat-Brezhnev summit.

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RABIN'S US VISIT**Israelis Pleased...**

Prime Minister Rabin's five-day official visit last week appears to have resulted in some easing of apprehension in Israel over the future of Israeli-US relations.

Senior Israeli officials, liberals and conservatives alike, told US embassy officers in Tel Aviv that the reception accorded Rabin in Washington had a favorable impact in Israel. The officials expressed particular satisfaction with the spirit in which talks about next steps in the peace negotiations were conducted. Behind these favorable remarks probably lay a considerable feeling of relief that the US had not forced its views on Rabin.

Rabin himself told reporters, on his return, that he was satisfied with the military-aid package promised by Washington, although he hinted that he had been unable to extract the multi-year commitment from the US that the Israelis were after. He commented that it will require a constant struggle on Israel's part to achieve all its goals on this score.

Israeli media emphasized the red carpet treatment given the Prime Minister, the cordial atmosphere of the talks, and the personal rapport between Rabin and President Ford. In their initial assessments of the trip's results, most press commentators have reflected satisfaction over the US response to Rabin's request for increased US military aid, at least as far as Israel's short-term needs are concerned. On the other subject of vital interest to all Israelis, prospects for further

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negotiations with the Arabs, the commentators concluded that Washington's views are not entirely in line with Israel's. Some have stated that complete agreement and cooperation between the US and Israel is impossible because of US efforts to strengthen its ties with the Arabs.

Rabin stressed in a radio interview on his return that the next stage of the peace talks must include political concessions by the Arabs. He gave no indication as to whether Egypt or Jordan would be Israel's initial negotiating partner when talks resume. Although earlier he had reportedly said that his discussions in Washington had strengthened his personal conviction that talks with Egypt should come first, he said in the radio interview that this is not an absolute condition. Moreover, Rabin reiterated his stand that a solution to the Palestinian problem must be sought in negotiations with Jordan. He strongly criticized the Palestine Liberation Organization's pretensions to represent the Palestinians and said Israel must do all it can to thwart the PLO's efforts to gain international acceptance of its claim.

Meanwhile, Rabin's attempts to broaden his narrow coalition received a boost this week when the ruling body of the National Religious Party voted to rejoin the cabinet. The leadership of Rabin's Labor Party had previously approved a compromise formula for getting the Religious Party, which controls ten Knesset seats, back into the cabinet. Rabin is now seeking to obtain the consent of his three smaller liberal coalition partners. One of them, the Citizens Rights Party, which holds three Knesset seats, has threatened to leave the coalition if the Religious Party returns, but Rabin may be able to persuade the other two to go along with him. If so, he would expand his present one-vote Knesset majority by seven. The Religious Party's participation in the cabinet is likely to make it more difficult for the government to arrive at a flexible negotiating position on the West Bank with its numerous Jewish religious sites and intimate association with historical Israel.

...and Arabs Reserved

The Arab response to Rabin's visit to Washington has thus far been reserved. Arab media treatment of the visit and of the military aid requests Rabin brought with him was more extensive before the Israeli leader arrived. Since his departure, such criticism as there has been from Arab capitals has focused on Israel rather than on the US, suggesting that the Arabs intend to reserve judgment on the US-Israeli military relationship and its possible effects on peace negotiations until they are more sure of the degree of satisfaction that Rabin achieved.

The Egyptian media's treatment of the visit was typical among Arab countries. Before the visit, commentators saw in it an attempt by Israel to obstruct negotiations by seeking US support for Tel Aviv's military, political, and "moral" rearmament. Despite an implied presumption that a new US-Israeli arms agreement would be concluded, Cairo's editorialists expressed confidence that Washington would neither underwrite a military imbalance in Israel's favor nor support an intransigent negotiating position.

Since the visit, commentary has been sparse. Editorialists have again taken the position that Israel is seeking military aid for aggressive purposes, but they have studiously avoided comment on whether agreements concluded in Washington in fact meet the alleged Israeli goal. Although the commentators note that Rabin did obtain an agreement for continued US military assistance and that this could raise tensions in the area, they shrug off the US role in this as expected—and, thus far, not unacceptable—in view of continuing US ties with Israel. The change in Washington's policy toward the Arabs, one newspaper commented in an adaptation of a standard Egyptian line, was never expected to bring tangible changes in US policy toward Israel.

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Ethiopian military guard the palace gates

ETHIOPIA

TESTING THE MILITARY

Ethiopia's military leaders apparently encountered little or no public opposition to their removal of former emperor Haile Selassie last week. The move had been preceded by a harsh propaganda campaign against Haile Selassie and the nobility. Many people in the country's urban centers welcomed the emperor's downfall, while the countryside, once Haile Selassie's stronghold, remained quiet. The military rulers are now being confronted with demands for immediate civilian participation in the government from their former civilian allies—students, teachers, and organized labor. The military has thus far acted with re-

straint, but it can be expected to get tough with students and labor if they continue to cause problems.

Following the deposition of the emperor on September 12, the Armed Forces Coordinating Committee proclaimed a provisional military administration to serve until an elected constitutional government takes over at an unspecified time in the future. Effective power continues to be wielded by the still largely anonymous committee—consisting of officers and enlisted personnel from all the military and public security services—which is unlikely to relinquish any authority to civilians.

Last February, student demonstrations helped set in motion the events that culminated in the collapse of the old regime. Until now, the approximately 5,000 university students and a much larger number of secondary students in the capital have sided with the military, which has stirred them up by its propaganda attacks against Haile Selassie and the Ethiopian establishment.

Early this week, however, secondary students staged a sit-down demonstration near the campus demanding an immediate end to military rule. Soldiers and police broke up the crowd without violence, but several thousand students later defied the military's ban on gatherings by congregating on the university campus to hear speakers harshly condemn the military as "scoundrels" who were unrepresentative of the Ethiopian people. Military committee spokesmen appeared briefly and addressed the students in a conciliatory fashion. The military decided to permit the students to let off steam, but troops and police ringed the campus to keep the students from marching downtown.

The students were reported earlier to have demanded membership on the dominant military committee as well as the abandonment of the committee's plan to send a large number of university students to rural areas for two years to carry out literacy and development programs and to indoctrinate the population on the military's goals. The 18,000-member teachers association was also reported to have urged expansion of the military committee to include civilians and has expressed doubts about the program to send the students to the countryside.

Early this week, the Confederation of Ethiopian Labor Unions adopted a resolution supporting most of the military's programs, but deploring what it considers the Ethiopian people's loss of rights under the new provisional military government. The resolution urged the establishment of a civilian "people's government," and made veiled reference to a general strike should the military attempt to move against the confederation. The confederation claims 140,000 members nationwide, but internal divisions and widespread unemployment would probably make it hesitant to carry out the threat of a general strike.

The military would prefer to avoid making martyrs of either the students or trade unionists. Some enlisted army personnel and probably a large part of the air force are believed to share the outlook of the students and labor militants. There are no indications at this time, however, that military and police personnel would refuse to obey orders to crack down on demonstrations or strikes.

ECONOMIC SITUATION

The military rulers will be in a fairly comfortable financial position, but they will have trouble delivering on promises made over the past several months to modernize Ethiopia's economy and to ease urban inflation and unemployment.

The new government has inherited an economy adversely affected by years of drought and months of political uncertainty. They have to contend with living standards that are among the lowest in the world. Semi-feudal traditions continue to defy progress toward economic modernization. The church and the nobility still oppose changing a primitive system of land tenure and sharecropping methods.

Nevertheless, the country has accumulated foreign assets sufficient to cover about 14 months of imports. Export earnings have been better than usual because of high prices for coffee and a greater volume of other agricultural exports, while imports have been depressed by an austerity program and political uncertainty. Government finances are also healthy because of increased efforts by the military to collect taxes.

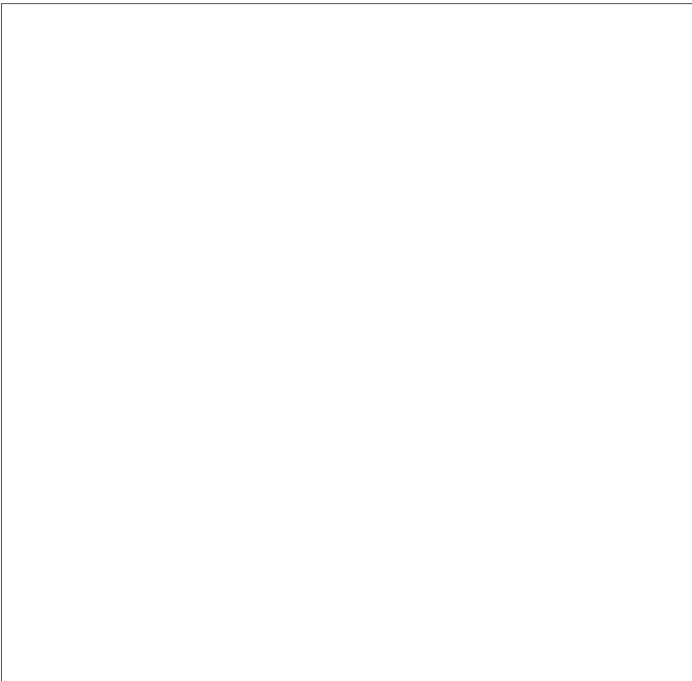
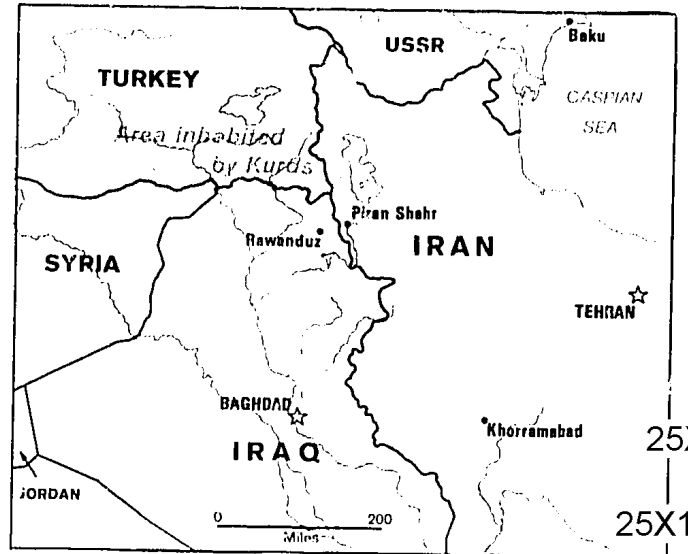
Even so, the military is under great pressure from students and labor groups to improve living standards rapidly, and they must find a way to continue paying for concessions already given to armed forces and police personnel. They have already moved to control prices of food, petroleum, and other goods, probably in light of the fact that urban demonstrations over living conditions contributed to the success of the military revolution.

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IRAQ-IRAN: KURDS WIN A ROUND

The Iraqi drive against the Kurds that began in mid-August suffered a serious setback last weekend when the rebel forces repulsed an attack on their mountain positions northeast of Rawanduz. During a ten-hour battle, a reported 300 Iraqis were killed—including a brigade commander—and a large quantity of military equipment was lost. Baghdad's aim in this latest phase of its offensive was to drive the Kurds from two strategic heights overlooking the road from Rawanduz and to separate Kurdish forces in the north from their supply points along the Iranian border.



The Kurdish leadership considers the victory at Rawanduz one of the most significant battles since hostilities were renewed in March. The success has boosted the morale of the Kurdish forces and reportedly has made the Iraqis realize that their offensive is not achieving its objectives. As winter approaches, the Iraqis may commit additional forces to the action in an effort to end the conflict quickly. Once the winter weather sets in, however, large-scale offensive operations will become impossible.

Kurdish troops training

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INDIA-PAKISTAN: SUCCESSFUL TALKS

India and Pakistan have successfully completed another round in the normalization process that began with the Gandhi-Bhutto meeting at Simla, India, two years ago. The prospects seem reasonably good for further gradual progress, despite the persistence of strong mutual suspicions.

After three days of negotiations in Islamabad, agreements were signed on September 14 restoring postal, travel, and telecommunications facilities that had been suspended since the 1971 war.

they agreed to hold subsequent talks to explore possibilities for the establishment of scientific, cultural, and trade links, and for the resumption of air travel and overflight rights.

No dates were set for these further discussions, nor was any mention made of restoring diplomatic relations, also broken in 1971. Pakistan is now ready to resume diplomatic ties, but India wants this step to await further progress on other issues.

The agreements demonstrate that both countries remain willing to continue negotiating despite deeply ingrained suspicions of one another and differences on a variety of issues. For instance, Pakistan continues to be critical of India's nuclear detonation of last May. In fact, it was the Indian nuclear test that led Pakistan to delay the recent round of talks, originally scheduled for June.

India, for its part, has been unsympathetic to Pakistan's recent proposal at the UN for a South Asian zone free of nuclear weapons. New Delhi recognizes that the Pakistani proposal was intended primarily as a rebuke for India's nuclear program. The Indians also are wary of the Pak-

istani proposal because it would not include China and because its provisions for international supervision would run counter to India's policy of opposing foreign inspection of its nuclear facilities, other than those already covered by existing agreements.

Islamabad is also unhappy over New Delhi's current efforts to reach a political accommodation with the leaders of Indian-held Kashmir. India appears willing to give the state more autonomy in return for greater cooperation on the part of Kashmir's most influential political leader, Sheikh Abdullah. Bhutto is obliged by political pressures to criticize any step that suggests Kashmir's status as an Indian state is irreversible.

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Moreover, Pakistan suspects India of encouraging the Afghans to maintain tensions along the Pakistani-Afghan border. In recent months, New Delhi has provided Kabul technical assistance and has promised military training. It reportedly has also given some assurances of support should Pakistan attack Afghanistan. At the same time, New Delhi is concerned that trouble could erupt along the Afghan border with unpredictable consequences, and it has therefore advised the Afghans to be careful.

Finally, the Pakistanis were strongly critical when India tightened its control over Sikkim earlier this month, although the Indian move apparently was consistent with the wishes of the Sikkimese legislature. Bhutto publicly condemned the Indian action as "the latest demonstration of Indian psychosis—a craze to dominate, to spread their wings."

These sources of tension could slow the pace of progress in future negotiations, but they are unlikely to halt the "Simla process" altogether.

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Samora Machel

Portuguese Africa A GOVERNMENT FORMING

Mozambique's transitional government, which will guide the territory toward independence next June, is in the process of being formed. Although the government will be dominated by members of the former black insurgent movement, the Front for the Liberation of Mozambique, it will be heavily dependent upon Portuguese technical expertise.

A 72-member delegation from the Front arrived in Lourenco Marques this week from the Front's headquarters in Dar es Salaam. The delegation was led by Joaquim Chissano, the Front's defense minister and third-ranking officer. Also in the group were the deputy information minister and Janet Mondlane, the US-born widow of the Front's founder. Front President Samora Machel and Vice President dos Santos remained in Tanzania. Their absence raised speculation among political and diplomatic observers that the Front would name Chissano prime minister.

Portuguese forces and troops of the Front, who arrived in Lourenco Marques last weekend, have maintained tight security in the capital since

the Front group arrived. Local authorities are anxious to avoid any repetition of the violence that spread through the city last week following white and black protests against the dominant position conceded to the Front in the transitional government. Lisbon's high commissioner, who will govern jointly with a Front prime minister during the interim regime, announced on September 13 that "the 20 or so agitators" responsible for the recent "subversion" will be "severely punished."

Once officially installed, the transitional government will have to deal with Mozambique's serious economic problems. The government will be subject to heavy pressures from Mozambique's blacks to overcome widespread black unemployment, and from all elements of the society to clamp down on steadily rising prices. The Front's leaders are unacquainted with Mozambique's complex and white-dominated economy, and they will need the expertise and cooperation of Lisbon and the Portuguese settlers in order to cope with it. Front leaders have declared that they will not tolerate any labor unrest and have assured the business community that they will not challenge Mozambique's lucrative economic links with South Africa.

Similar progress on decolonization in Angola is still held up by the inability of that territory's three rival insurgent groups to agree on a common strategy for negotiating with Lisbon. Breaking the impasse was probably the main topic of conversation in a meeting last weekend in the Cape Verde Islands between President Spínola and Zairian President Mobutu, the principal patron of one of the Angolan rebel groups.

In an attempt to show some forward motion, Lisbon is preparing a new law granting the territory internal self-government. For the time being at least, Angola will be governed by a "provisional" government that was sworn in on September 14. The government, composed of whites and mestizos, will function under the guidance of the territory's military junta.

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JAPAN - SOUTH KOREA: DISPUTE SETTLED

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South Korea and Japan this week patched up the sharpest and most prolonged diplomatic dispute the two countries have experienced since establishing relations in the mid-1960s.

in Tokyo, there is no doubt that the recent controversy, at least over the near term, has resulted in greater Japanese sensitivity to South Korean interests.

The immediate crisis, which last week seemed on the verge of disrupting relations, was settled when a high-level Japanese envoy brought President Pak Chong-hui both a personal letter from Prime Minister Tanaka and assurances—negotiated in advance—that Tokyo accepted a degree of responsibility for the assassination in Seoul last month. The envoy also promised that Tokyo would take action to curb anti-Pak Korean activists in Japan; a compromise was struck on language referring to Chosen Soren, the pro-Pyongyang group in Korea that Seoul wanted explicitly condemned. Both Seoul and Tokyo have acknowledged publicly that US mediation played an important role in bringing about a settlement.

The Japanese say that any rapprochement with North Korea will have to be very gradual and can only take place during a period of good Seoul-Tokyo relations.

President Pak this week provided the US ambassador in Seoul with some additional insight into Korean objectives in the recent dispute. Emphasizing his deep concern over what he described as a leftward trend in Japan over the past two or three years, Pak pointed out the potential danger to South Korea if this continued and Tokyo adopted neutralist or pro-communist policies. Pak's remarks somewhat reinforce the view that Seoul's heavy-handed anti-Japanese campaign of recent weeks cannot be explained fully by Korean emotional and domestic factors, but that it was also a deliberate attempt by Pak to check a policy drift in Tokyo, including moves toward Pyongyang, at least until Seoul can shore up its own international standing.

Still, over the long term, there is little room for optimism that the path of Seoul-Tokyo relations will be smooth. Korean-Japanese animosities are deeply rooted, and there is likely to be lingering resentment in Tokyo for some time over recent Korean pressure tactics and the events of the past year. Tokyo is unlikely to be willing to give to Seoul the kind of blanket commitment that the South Koreans feel they need while still facing a hostile North Korea.

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A question being pondered now in both Seoul and Tokyo is what impact the dispute will have on future relations between the two countries. The fact that Tokyo has gone far to accommodate Pak's demands has probably encouraged him to believe in the effectiveness of tough tactics in dealing with the Japanese. In his talk with the US ambassador, Pak gave the impression that he took satisfaction from the latest turn of events.

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CAMBODIA: BITING THE BULLET

Just before leaving Phnom Penh to attend opening ceremonies at the UN General Assembly this week, Cambodian Prime Minister Long Boret announced a sweeping economic reform package aimed at putting domestic prices for key goods more in line with world prices. The announcement of the package was prompted by continuing rampant inflation and by the prospect of a substantial cut in US economic aid. The reform measures provide for greatly increased prices for both domestic and imported rice, for similar steep increases in the price of petroleum products, and for a major devaluation of the *riel*. Implementation of the unpopular reform measures involves some political risk, but the government is granting moderate salary increases to civilian employees and military personnel to partially offset the impact on living standards.

The Military Scene

Government efforts to gain some favorable publicity on the eve of the UN battle fizzied as the major Cambodian army operation southeast of Phnom Penh has now bogged down completely. Army units made some initial gains in the operation—which began on August 22—and succeeded in pushing the Khmer Communists out of rocket range of the capital. Flooding, caution on the part of army commanders, and the need to withdraw some units for rest have cost the government the initiative, however, and have allowed the insurgents to move into strong defensive positions. Battle lines in the area are now drawn along high ground.

Fighting continues to seesaw in other parts of the country. Army troops have mounted successful clearing operations in the northwest, where over 20,000 civilians have crossed over to government territory since early last month. The Communists, for their part, are keeping steady pressure on government units along Route 4 in the southwest and have used artillery to shell the northern provincial capital of Kompong Cham for the first time in nearly a year.

SOUTH VIETNAM

Political Opposition Rises...

During the past several days, political dissidents of varying stripes have stepped up their opposition to the Thieu government. A Catholic splinter group organized demonstrations in Hue to denounce government lethargy in coming to grips with corruption. A Buddhist group led by Senator Vu Van Mau is forming what could be a new party organization that will be mildly anti-government. Opposition legislators and newspaper publishers have been pressing the government to relax restrictions on the press and to lower requirements on forming political parties.

While these actions represent a departure from the inactivity that has characterized opposition forces in recent years, they do not pose any immediate threat to the stability of the Thieu government. Indeed, Saigon so far has treated the disturbances calmly, and police and security officials have been ordered to take a tolerant attitude toward the protesters. Although President Thieu no doubt will be careful to keep the protest movements from gathering too much steam, he appears satisfied that, for the time being at least, some opposition is good for appearances, especially while the US is deliberating the amount of aid it will send his government. Moreover, the common theme of anti-corruption adopted by these groups could be used by Thieu as a pretext for dismissing some of his more incompetent officials to demonstrate his willingness to clean up the government.

...While the Fighting Lessens

Although the level of fighting declined throughout much of the country this week, the Communists recently have been having considerable success using their firepower to keep government forces from retaking lost territory.

In the southern part of Military Region 1, North Vietnamese shelling attacks have slowed

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the South Vietnamese drive toward Thuong Duc district town and other positions in Quang Nam Province that were lost in late July and early August. In Thua Thien Province, Communist shellings have forced government troops out of a number of small outposts several miles west and south of Hue. After destroying a key bridge on Route 1 southeast of Hue on September 11, the Communists used mortars and rockets to harass South Vietnamese engineers repairing the road and to delay its reopening until the next day. The road is a vital supply route for Hue.

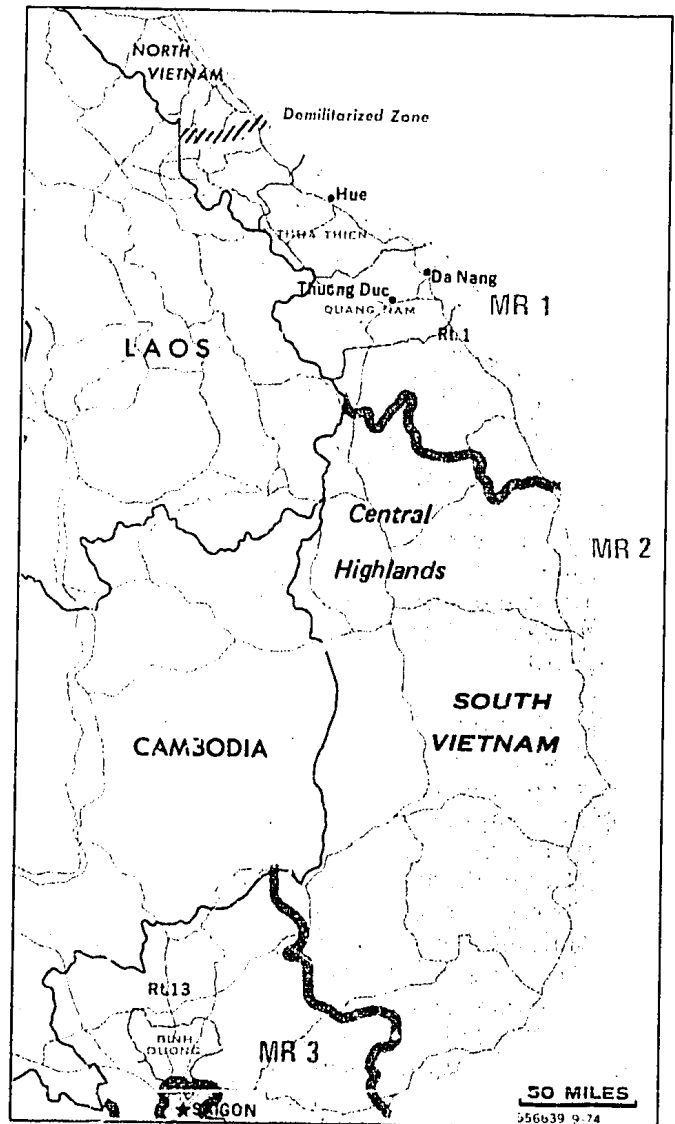
The Communists have been using mostly mortars, rockets, and small-caliber artillery in recent weeks, although North Vietnamese artillery units possess large numbers of heavy field guns. They are estimated to have enough ammunition to sustain large-scale offensive action, comparable to that of 1972, for nearly two years.

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In Military Region 3, Communist gunners have used mortars with telling effect against government forces attempting to retake two positions just west of Route 13 in Binh Duong Province that were lost in June. Despite President Thieu's orders to retake the bases, the South Vietnamese are no longer optimistic over their prospects for doing so.

The government's inability to advance in these areas is not due to a lack of artillery firepower. Despite recent orders from Saigon to conserve fuel and ammunition, the South Vietnamese have been firing approximately the same number of shells as earlier in the summer. But government troops may have adopted more cautious tactics as a result of the supply constraints.

A more significant development, however, concerns the performance of South Vietnamese units. In the recent fighting southwest of Hue, two regiments of the government's 1st Infantry Division—which was thought to be one of its best fighting units—apparently abandoned their positions after offering only token resistance. The regional commander has realigned his forces in this sector, and he may replace several leaders—including the division commander. Government forces in Military Region 3 also have been criticized for a lack of aggressiveness.



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PANAMA: RAPPING THE COMMUNISTS

The Torrijos government is cracking down on Communists because of their role in promoting student actions not approved by the administration. The authorities have been told not to permit the secretary general of the Moscow-line Peoples Party to return to Panama from his travels, and his brother, who is also a party functionary, has been exiled to Peru. In response, the party hierarchy has expelled a large number of pro-government young militants and has ordered affiliates in secondary schools and the University of Panama to go underground.

The current rift between the government and the Communists appears to have been sparked by the party's involvement with a small anti-government student group. These radical students apparently were responsible for the violence that erupted during what was supposed to have been a peaceful demonstration at the US embassy in August, and for the hostile reception given Torrijos when he appeared at the convention of the Panamanian Students' Federation early this month. They also probably organized the unauthorized demonstration at the Chilean embassy last week marking the fall of the Allende regime.

Torrijos places much of the blame for the students' unruliness on the Communists, and he has told them to stay away from the youth. Since coming to power in 1968, Torrijos has generally been tolerant of the Communists and has occasionally used both them and the students to organize demonstrations of public support for his government.

In addition, the Peoples Party is the only political organization he has allowed to continue functioning, and approximately 200 of its members and sympathizers now have jobs with the government. On the other hand, he frequently does not consult the party leaders on government policy, even when it appears to concern them. For example, they were very displeased by his failure to consult them before re-establishing diplomatic relations with Cuba. Nevertheless, the Communists' desire to preserve whatever measure of influence they now have with Torrijos is likely to lead them to try to heal the present rift.

VIOLENCE MOUNTS IN ARGENTINA

President Maria Estela de Peron has closed the University of Buenos Aires, a major center of leftist agitation, and is attempting to formulate other measures to cope with the terrorist violence and labor disputes that have engulfed Argentina during the past week.

A new university administrator, appointed by Mrs. Peron, has declared a week's holiday for faculty and students, but the government has indicated that it is prepared to extend the closure for the remainder of the school year, if necessary. For the past month, leftist youth, including a number of Peronists, have occupied university buildings in protest against the appointment of Oscar Ivanissevich, an old-guard Peronist, as education minister. Several hundred demonstrators have been arrested in recent weeks, but it was not until the homes of both the rector and a department chairman were fire-bombed, presumably by right-wing groups, that the government decided it must intervene directly. The move probably will precipitate even more violence on the part of radical youth, especially the Montoneros, who have used the university as their chief stronghold.

Since the Montoneros broke with the government two weeks ago, bombings and assassinations have taken a quantum jump. So far, the wave of violence has included over a hundred bombings and nearly a dozen assassinations. The death of the most prominent victim, Atilio Lopez, a union leader and former vice governor of Cordoba Province, has touched off a new wave of strikes.

Earlier this week, representatives of Peronist workers met with a number of leftist and Marxist union leaders in the provincial city of Tucuman and announced the formation of a rival organization to the orthodox Peronist labor confederation. Although the new grouping does not yet include national-level unions, it does create an important nucleus of anti-government sentiment that could cause serious problems for Mrs. Peron.

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OPEC: OIL PRICES UP AGAIN

At their conference in Vienna last week, the oil ministers of the Organization of Petroleum Exporting Countries decided to freeze posted prices, but to raise the taxes paid by the international oil companies. Depending on how each of the OPEC members implements the tax increase, the average cost of oil to the companies is expected to increase between 40 and 50 cents per barrel.

The ministers made an effort to convince the consuming nations that the increase in taxes could come out of oil company profits and should not result in higher oil prices to the consumer. It is unlikely, however, that the companies will absorb much of the increase.

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If the companies pass on the full tax increase, the oil bill for consuming countries will rise some \$4.4-5.5 billion annually.

The ministers also decided that, beginning in January 1975, the rate of inflation in the industrialized countries will be taken into account in setting oil prices. This action would preclude any easing of the burden of oil prices as a result of continuing world inflation.

COST INCREASE FOR MAJOR OIL-CONSUMING COUNTRIES

Million US \$

| | |
|--------------|-----------|
| US | 900-1,130 |
| Japan | 775-970 |
| UK | 335-420 |
| West Germany | 450-560 |
| France | 410-510 |
| Italy | 290-360 |

The OPEC ministers agreed on little else at Vienna. Some of the more contentious issues, such as managing production cuts and schemes to establish a single price for oil, were referred to working groups in preparation for the OPEC meeting in December. The issue of apportioning production cutbacks was particularly touchy. Iran's representative, for example, was opposed to any scheme that could require his country to cut production.

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Saudi oil minister Yamani was odd man out in Vienna, just as he was at Quito in July. He refused to go along with the other members' plans to increase oil revenues by raising company taxes. Instead, he indicated that the Saudis would increase their revenues by raising the buy-back price of government-owned oil to nearly 95 percent of posted price—the buy-back price for most of the Gulf countries being 93 percent. If the Saudis stick to this formula, they will be receiving at least 20 cents per barrel less than other OPEC members.

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Yamani probably was posturing, publicly choosing a smaller price increase while knowing that the Saudis would later insist that Aramco pay Saudi Arabia at least as much per barrel as other Gulf producers are getting. Aramco will doubtless price their oil with this in mind. In any case, the Saudis apparently plan to take 100-percent control of the company next month and to introduce a new pricing system.

Despite a production cutback of 300,000 barrels per day in Abu Dhabi, the world oil surplus still exceeds a million barrels a day. At the OPEC conference, a number of countries reportedly announced decisions to cut production, but no details are available. If the initiative to reduce liftings is left to the companies, the cuts would fall most heavily on high-priced buy-back oil. Most affected would be those Arab countries that have already borne the brunt of the cutbacks—Kuwait, Abu Dhabi, and Libya.

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LAW OF THE SEA: UNRESOLVED

The UN Law of the Sea Conference at Caracas ended its ten-week session last month with a number of contentious economic questions unresolved. The three committees into which the conference was divided are now trying to crystalize the major issues for presentation at meetings to be held in Geneva next spring.

Committee 1

This committee is to take up questions regarding seabeds beyond the limits of national jurisdiction, primarily deep seabed mining, but an agreement seems further away now than at the outset of the Caracas meeting. The establishment of an international authority that would license and regulate deep sea mining was generally acceptable to most participants, but negotiators were unable to agree on the framework and power of the authority. Developing countries already producing minerals on land favor the imposition of strict controls to protect their land-based industries. Developed countries—concerned over the US technological lead in deep seabed mining—are insisting that a quota be placed on the number of sites any nation could control.

Mining of high-purity mineral nodules—which lie on the deep seabed in tremendous quantities—could satisfy all of the world's demand for manganese and provide substantial amounts of cobalt, nickel, and copper. Commercial production is likely in about ten years.

Committee 2

This group—covering territorial seas, straits, and economic zones—seems certain to reach agreement on a 12-mile territorial sea and an additional 188-mile economic zone. Freedom of navigation through straits and archipelagic waters is receiving some support. Progress is also being made in accommodating the demands of maritime nations for "free passage" with the concerns of straits states over security, safety, and pollution.

The extent of coastal-state control over fishing, research activities, mineral exploitation,

and regulation of pollution in the economic zone is still being negotiated. States with broad continental shelves—often extending beyond 200 miles—are seeking exclusive exploitation rights over the full extent of the shelf. Offshore oil is almost always found on the continental shelf.

The USSR and Japan are expressing growing concern over these developments. Most of the world fisheries lie over continental shelves extending from a few to several hundred miles offshore. Imposition of a 200-mile economic zone could drastically reduce the Soviet and Japanese fish catch, a major source of protein for both countries.

Committee 3

The third committee is dealing with matters pertaining to pollution and scientific research. The developing countries are seeking a double standard for pollution control—strict for the industrial countries, permissive for themselves. This would enable them to pursue national development plans—chemical plants and steel mills, for example—without regard to protecting the marine environment. Freedom to conduct scientific research in the economic zone is gaining some acceptance. Coastal states however, seek information about the projects, an opportunity to participate in the research, and access to the data acquired.

Outlook

In the six months before the Geneva meeting, these issues will be the subject of vigorous negotiations. Warsaw has already agreed to play host to an international symposium on world fisheries to review developments at Caracas, while the UN has planned a number of meetings, especially for groups dealing with seabed mining. Current plans call for the conference to draft a treaty at Geneva in the spring of 1975 and return to Caracas in midsummer for an official signing ceremony. Drafting probably will not be completed at the spring session, however, and a third working session may be required.

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