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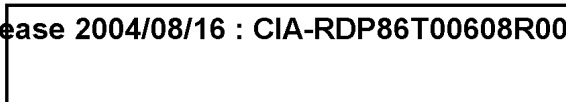
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Meetings Show Opportunities and Limits of EC  
Mediterranean Diplomacy

The EC's ambition to assert a "European identity" in the Mediterranean and Middle East was evident at community meetings in Luxembourg and Rome this week, but so also were the problems that make showing a common front a slow business.

Nearest to home and the current political preoccupations of Western Europe were the situations in Spain and Portugal, addressed at an EC Council of foreign ministers in Luxembourg. The Council ended up by supporting the EC Commission in breaking off current EC-Spain negotiations, but the Nine were quite divided on how strongly the community should publicly condemn Madrid. Even on the trade negotiations, it seems clear that some of the Nine wonder whether a long-term suspension would serve the goal of eventually drawing a democratic Spain closer to the EC.

The aid which the community agreed to make available to Portugal reflects more a hope that Lisbon's continuing political crisis will in fact permit an effective "pluralist democracy"--the EC's original condition for aid--than a sanguine belief in Portugal's prospects. It is in any case a good sign that the EC, in also pledging to negotiate with Portugal on the "evolutionary clause" of the preferential EC-Portugal trade agreement, apparently recognizes that trade may be even more important to Lisbon now than financial aid. It may nevertheless be difficult for the community to demonstrate generosity to Portuguese exports when the bargaining comes.

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The EC-Nine have not had much effect with their demarches to Turkey and Greece over Cyprus, but at a meeting of the EC political directors in Luxembourg they stated their intention to pursue their efforts, particularly in Turkey after Sunday's senate elections. The Nine continue to want to be in phase with US, and UN, attempts to pressure the parties.

The EC ministers made no substantial progress on the negotiations for association agreements with the Maghreb countries, but it appears that an effort will be made to advance the Tunisian and Moroccan accords, leaving the more contentious negotiations with Algeria until later.

Financial questions were uppermost in discussions of the pending EC accord with Malta and the preparations for talks with the Mashrak states. A German proposal was agreed to that will increase the EC's previously "non-negotiable" offer of aid to Malta. Overruled was opposition by the French, British, and Dutch, who doubtless fear that any softening on the part of the community would be taken advantage of by Mintoff in a repeat performance of the negotiations with Britain and NATO over retaining base rights on the island.

On the proposed Mashrak negotiations there is evidently some reserve about according financial aid, in part because of doubts these eastern Mediterranean states really need concessionary assistance and also because of possible budgetary constraints when demands for aid from other non-associated countries are taken into account. A financial package for the Mashrak countries could also open up again the question of a financial agreement with Israel, something the EC would rather avoid having to deal with at present.

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[REDACTED]

In discussing a Commission proposal for long-term food supply contracts with Egypt-- in fact already negotiated in detail with the Egyptians by agricultural commissioner Lardinois prior to any authorization by the Council--the foreign ministers made clear that they consider such matters primarily a political exercise that should be firmly under their control. It appears that approval will ultimately be granted, but the Germans and others will have to be assured that the agreement will not set a precedent that could aggravate relations with other large agricultural exporters (the US and Canada, in particular) and that private traders, not the EC, will have to bear the economic and monetary risks inherent in a long-term deal.

EC Middle East experts, meanwhile, meeting in Rome, again tried to come to grips with updating the Nine's declaration of 1973 on the Middle East situation. Paris is apparently pushing for a new declaration and the Germans seem willing to sponsor one, but there is no great enthusiasm from the other EC partners, especially from the Dutch and Danes, who probably fear another statement that might be criticized domestically for an anti-Israeli slant. [REDACTED]

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West German Foreign Minister in Warsaw to  
Sign Accord

West German Foreign Minister Genscher arrived in Poland today to sign an agreement providing West German economic aid in return for the repatriation of ethnic Germans. Genscher also will meet with Communist Party leader Gierck and other high-ranking officials to discuss bilateral relations, particularly the further development of economic cooperation.

The agreement was worked out by Chancellor Schmidt and Gierck during the European security conference summit meeting in July. The accord specifies that Bonn will make a lump sum payment of about \$500 million to a Polish pension fund and extend a low-interest loan of about \$400 million. In return, Warsaw will permit some 125,000 ethnic Germans to emigrate over the next four years.

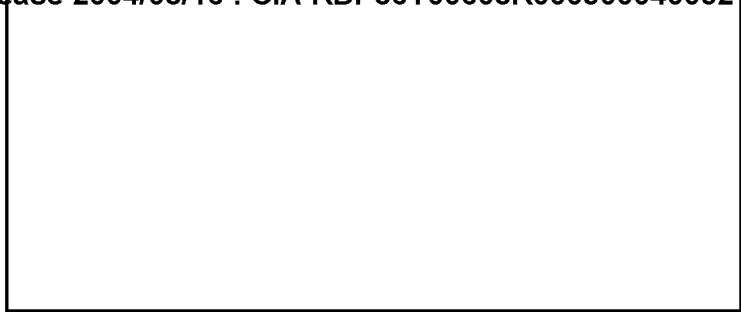
Schmidt must obtain parliamentary approval of the payment to the Polish pension fund. Opposition Christian Democratic leaders have criticized the accord, charging the Poles with using extortionary methods. They also accuse Bonn of having paid twice for the same thing, a reference to the Brandt government's political payment for the emigration of ethnic Germans through recognizing the Oder-Weisse line in the 1970 treaty.

The Christian Democratic opposition has a one-vote majority in the upper house of parliament, and could block the pension payment. This would involve a major political risk, however, for the government could accuse the opposition of endangering a humanitarian accord.

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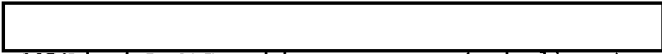


EC Delegation Holds Talks in Bucharest

An EC commission delegation is in Bucharest to discuss a bilateral textile agreement.

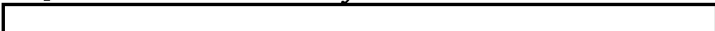
These are the first negotiations between the EC commission and an individual CEMA member since the Soviets began pressing for an overall EC-CEMA relationship almost two years ago. Romania and Hungary indicated to the EC last spring that they were willing to negotiate a textile agreement in the context of the International Multilateral Fiber Agreement that each has signed.

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 the Romanians also want to use the current talks to discuss a broad range of trade issues, outside the CEMA context and without any Soviet participation. Thirty percent of Romania's trade is already with the EC, and Bucharest is eager to increase this figure. The Romanians may press for loans and credits at favorable rates as well as increased industrial cooperation, including joint ventures in Romania.



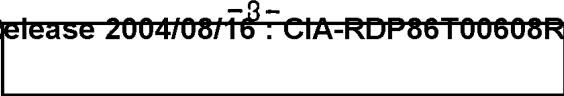
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The timing of the EC-Romanian textile negotiations--just before the planned CEMA summit next month--underscores Bucharest's determination to pursue and expand bilateral ties with the EC. Deputy Premier Patan recently asserted, in fact, that such contacts could proceed without waiting for the conclusion of a CEMA-EC general accord. The Soviets, however, prefer to have the general accord precede bilateral contacts. Moscow apparently also wants a more comprehensive agreement than does Bucharest. Foreign Minister Macovescu informed his visiting Belgian counterpart last week that Romania is hoping to establish good relations with the community. 

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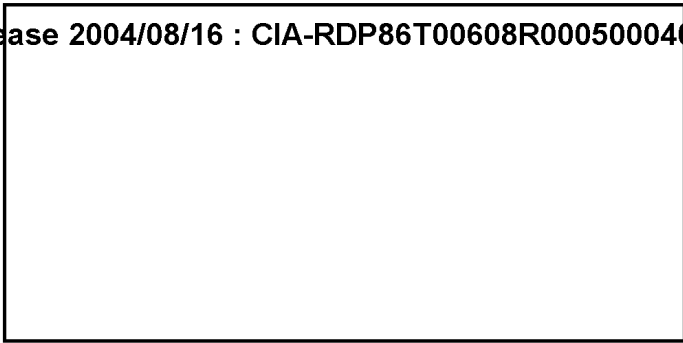
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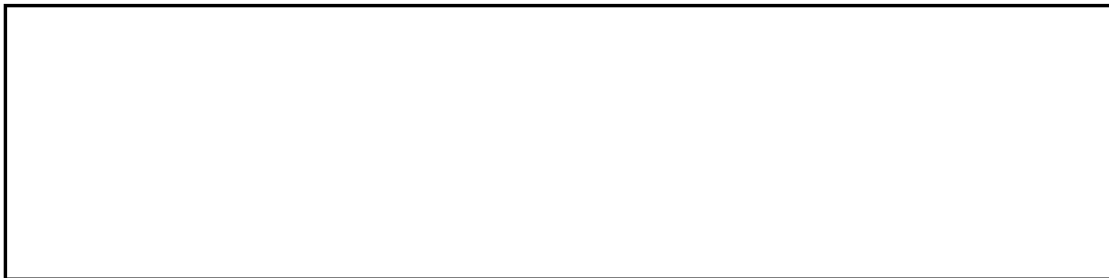
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Swedes Catch Finn Smuggling

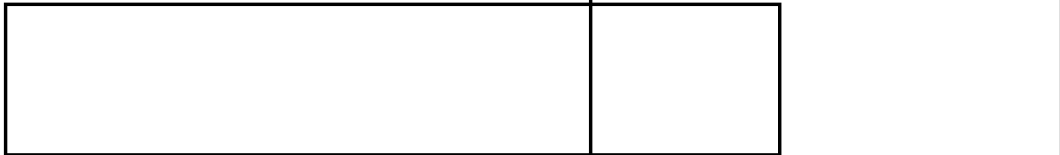
The treasurer of the Finnish Social Democratic Party, Pentti Ketola, was seized by police at Stockholm's Arlanda airport on October 5 trying to take \$44 thousand in Swedish currency out of the country without a permit.

Ketola claimed that he had received the money at the recent Swedish Social Democratic Party congress, and did not know that he needed a permit.



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Initial press reports led to a series of embarrassing denials and retractions by various officials in both countries.

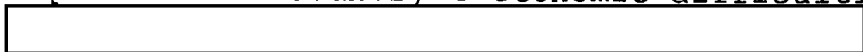


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Finnish Social Democrats, considered ahead in the Metalworkers Union campaign, are hopeful that this contretemps will not cost them the election next month. A Communist victory would lessen chances that Finnish politicians, in the wake of the inconclusive parliamentary election last month, can put together a moderate coalition able to enact overdue austerity legislation to cope with the country's economic difficulties.

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