

The President's Daily Brief

17 August 1973

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FOR THE PRESIDENT ONLY

THE PRESIDENT'S DAILY BRIEF

17 August 1973

PRINCIPAL DEVELOPMENTS

A new round of coup rumors in Phnom Penh points up the current high level of political tension in the capital. (Page 1)

The debate continues in the Saudi Government over the level of future oil production. Opinions on the issue among senior government officials run the gamut from freezing current levels of production to allowing unrestricted growth. (Page 2)

Laotian Prime Minister Souvanna is using a threat to resign to force right-wing elements in the cabinet and the army to drop their opposition to the political settlement he has negotiated with the Communists. (Page 3)

The dollar strengthened further yesterday, although skepticism persists about its prospects relative to the mark and other European currencies. (Page 4)

The gap that separates Romania and the USSR on aspects of the European security talks reportedly was widened as a result of the recent Crimea summit and the subsequent Brezhnev-Ceausescu talks. (Page 5)

In Afghanistan, the government remains paralyzed by internal squabbling a full month after the coup that brought President Daud to power. (Page 7)

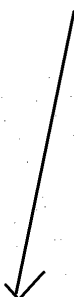
EC producers are demanding protection from rapidly rising imports from Japan. (Page 8)

A note on the serious flooding in Pakistan appears on Page 9.

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CAMBODIA



A new round of coup rumors is circulating in Phnom Penh. On August 16, a Cambodian Army staff officer claimed that army commander General Sosthene Fernandez would attempt a coup tomorrow. The officer said that Fernandez is fed up with trying to deal with Prime Minister In Tam.

On the same day, former prime minister Hang Thun Hak told a US Embassy officer that he had received a report earlier in the week that Sirik Matak and army officers associated with him were involved in a plot to seize power.

At a minimum these reports point up the current high level of political tension and disunity in Phnom Penh.

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SAUDI ARABIA

The debate apparently continues in the Saudi Government over the level of oil production. King Faysal has been signaling that he considers Western access to Saudi oil to be linked to US policy on Arab-Israeli matters, but an earlier report that he planned to order a cutback this week has not been borne out.

A wide range of opinion on production levels is evident in senior government ranks. Some, including Oil Minister Yamani, favor a relatively unrestricted increase in production until 1980. Others support an annual growth limit of 5 to 10 percent. If production were allowed to grow at the 10 percent rate, the country would be producing more than 15 million barrels a day by 1980. This would be sufficient to meet anticipated world requirements for Saudi oil.

Still others involved in oil and economic development matters have recommended a freeze at current levels, or even a cutback. A freeze would create some supply dislocations and would force prices up. This group argues that the Saudis have not received adequate political compensation for meeting Western oil needs and that, even in economic terms, increased production makes little sense. They contend, with some justification, that the government is not sufficiently well organized to use effectively the revenue it derives from current production.

Yamani told Ambassador Thacher on August 12 that the weight of opinion within the government's petroleum council favors some limitation on growth. Yamani said he is trying to delay any such recommendation to the King, who will ultimately make the decision.

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LAOS

Prime Minister Souvanna told his cabinet on Wednesday that he would resign if negotiations for a political settlement with the Communists are not completed "to the satisfaction of all parties" by August 29. Souvanna's remarks were aimed at right-wing elements in the cabinet and army who have been insisting that he seek last minute revisions in the draft protocol tentatively agreed to by both the government and the Communists.

The rightists' objections were forcefully presented by deputy army commander Kouprasith at a conference of military commanders on Tuesday.

--They oppose withdrawal of most army units from Vientiane and Luang Prabang and the tentative demarcation of Communist and government zones of control.

--They favor equal status for the two deputy prime ministers in a new coalition.

--They favor greater non-Communist participation in the Joint National Political Council, which they fear may replace the present rightist-dominated National Assembly.

Although angry and frustrated over this latest display of non-Communist disunity, Souvanna has agreed to attempt to renegotiate these areas. At the same time, he has made it clear that he expects few if any significant concessions from the Communists.

Souvanna's resignation would torpedo any hope for the early formation of a new coalition government. His threat can probably be taken with a grain of salt, however. In the weeks prior to the conclusion of the Laos cease-fire agreement in February, Souvanna faced similar right-wing obstruction and delivered a similar threat to resign. Rather than carry through on his threat, Souvanna eventually signed a cease-fire and presented it to the rightists as a fait accompli. He can probably handle the right wing in the same fashion this time if it is necessary to reach a settlement.

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Changes in the Dollar Value of Foreign Currencies Since 19 March
(in percent)

	16 August	9 August	27 July	11 July	6 July
Mark	+13.9	+19.0	+23.1	+17.6	+25.1
French franc	+ 4.8	+ 9.5	+12.5	+11.6	+19.9
Sterling	0.0	+ 0.8	+ 1.9	+ 3.6	+ 3.9
Yen	- 0.1	- 0.1	- 0.2	+ 0.2	+ 1.1

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INTERNATIONAL MONETARY DEVELOPMENTS

The dollar strengthened further yesterday. According to German foreign exchange dealers, sentiment toward the dollar in foreign exchange markets was gradually changing even before the release of favorable US balance-of-payments data. Customers who have been short on dollars for some time are now anxious to cover their positions before the dollar rises further.

Despite the current strength of the dollar, skepticism persists about its prospects relative to the mark and other European currencies. In Germany, dealers feel that over the medium term, the dollar is now somewhat overvalued in relationship to the mark.

West Germany's domestic monetary situation will probably tighten further in late September when heavy tax payments will require substantial bank withdrawals. This development, combined with coming German wage settlements that may turn out to be overly inflationary, could prompt the Bundesbank to push interest rates up, thereby further strengthening the mark.

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EASTERN EUROPE - USSR

The "large gap" that separates Bucharest and Moscow on certain aspects of the European security talks was widened, according to a Romanian foreign office official, as a result of the recent Crimea summit and the subsequent Brezhnev-Ceausescu talks.

In discussing Soviet-Romanian differences with a US diplomat, the official concentrated on the issue of frontiers in the security talks. He stated that, while Moscow calls for the inviolability of existing frontiers, Romania favors a formulation that would rule out the use of force to change them but would leave open the possibility of future border adjustments by mutual consent.

This formulation is designed to protect Bucharest's interest in avoiding permanent foreclosure of its claim to northern Bukovina and Bessarabia which are now part of the USSR.

In speaking of the considerable disagreement between the Soviets and the Romanians over China, the official maintained that only Romania's presence at the meeting prevented condemnation of Peking in the final communiqué.

[redacted] Romania is increasingly concerned about Soviet efforts to push for greater economic cooperation within the Council for Economic Mutual Assistance.

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Bucharest's sensitivity to Soviet plans for closer coordination of the member states' economies is always near the surface and dates back to Khrushchev's plan for "supranational economic integration." Under the scheme, Romania's industrial development would have been virtually stopped, and Romania would have been forced to specialize in agriculture. Bucharest balked at the plan, recognizing that without a degree of freedom to develop "mutually advantageous economic relations" with all countries it would lack the base from which to move toward a more independent path in foreign affairs.

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Soviet efforts to achieve increased integration among bloc countries may already be under way. Polish Premier Jaroszewicz and Warsaw's leading CEMA specialist, Deputy Premier Jagielski, went to Moscow on August 15 to discuss "basic trends" for "coordination and development of the national economies of the USSR and Poland" with Kosygin. Jaroszewicz' visit, following Hungarian Premier Fock's trip to Warsaw on August 9-11, suggests that the new cooperation proposals may also concern Hungary.

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AFGHANISTAN

In the month following the military coup that brought President Daud to power little has been accomplished. Government decision-making, except for routine matters, is nearly paralyzed. The US Embassy foresees at least several more months of inaction and inefficiency.

The new rulers have been spending most of their time trying to consolidate their power, and backstage maneuvering among them is intense. Daud appears to be increasing his power, but the outcome of his disagreements with the junior officers who staged the coup is unpredictable.

Senior and middle level officials refuse to make any decisions that might be regarded as controversial. US AID advisers report that the officials with whom they deal are sometimes completely in the dark as to what course the government will pursue.

Inaction has also characterized the new government's foreign policy, and no decisions have been made with respect to the ratification of an important water agreement with Iran that was concluded before the coup. Although Daud has long advocated independence for Pakistan's frontier provinces--the Pushtunistan issue--no action has been taken on this either.

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EC-JAPAN

EC producers are increasingly demanding protection from rapidly rising imports from Japan. Between 1970 and 1972, Japanese exports to the Community jumped 75 percent. Although Japanese purchases of EC goods are also increasing, the trade surplus with EC countries this year alone may approach \$2 billion.

Japanese exporters are pushing sales to the EC as a means of maintaining export growth while reducing dependence on the US market. Currency realignments have also helped to make Western Europe a more attractive market relative to the US.

In some cases, EC businessmen have negotiated market sharing arrangements with the Japanese, but in general these measures have not satisfied the Europeans. Some EC member countries are now pressing the Japanese to adopt more restrictive export controls.

Efforts to negotiate an overall trade agreement have foundered on Tokyo's refusal to accept strong protectionist clauses. EC Commissioner Soames will talk further with Japanese officials next month, and in the fall the EC Council is scheduled to discuss EC-Japanese trade problems.



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NOTE

Pakistan: Islamabad is asking foreign governments for emergency aid, following severe rains and widespread flooding--possibly the worst in more than two decades--that has already taken some 100 lives and damaged a sizable quantity of food stores. The government estimates that at least 20 million persons are affected and that nearly 3 million acres have been flooded. Thus far, about 6 percent of the summer crop appears to have been severely damaged. The Pakistanis are asking for food, medical supplies, rescue equipment, seed, fertilizer, and money.

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