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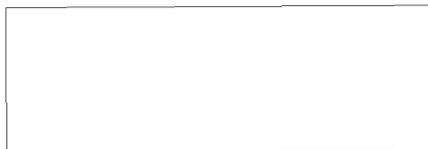
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Director of Central Intelligence

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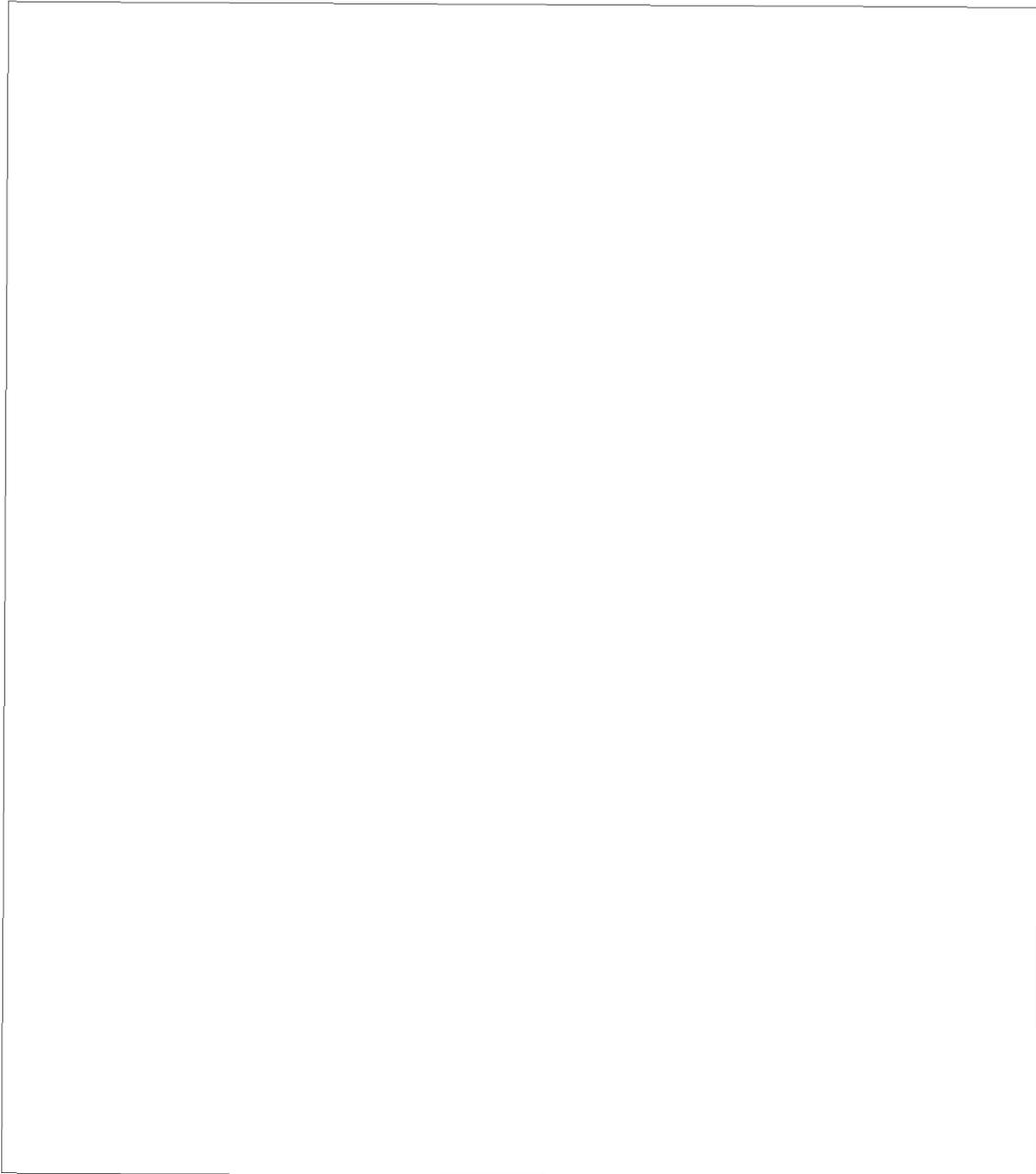


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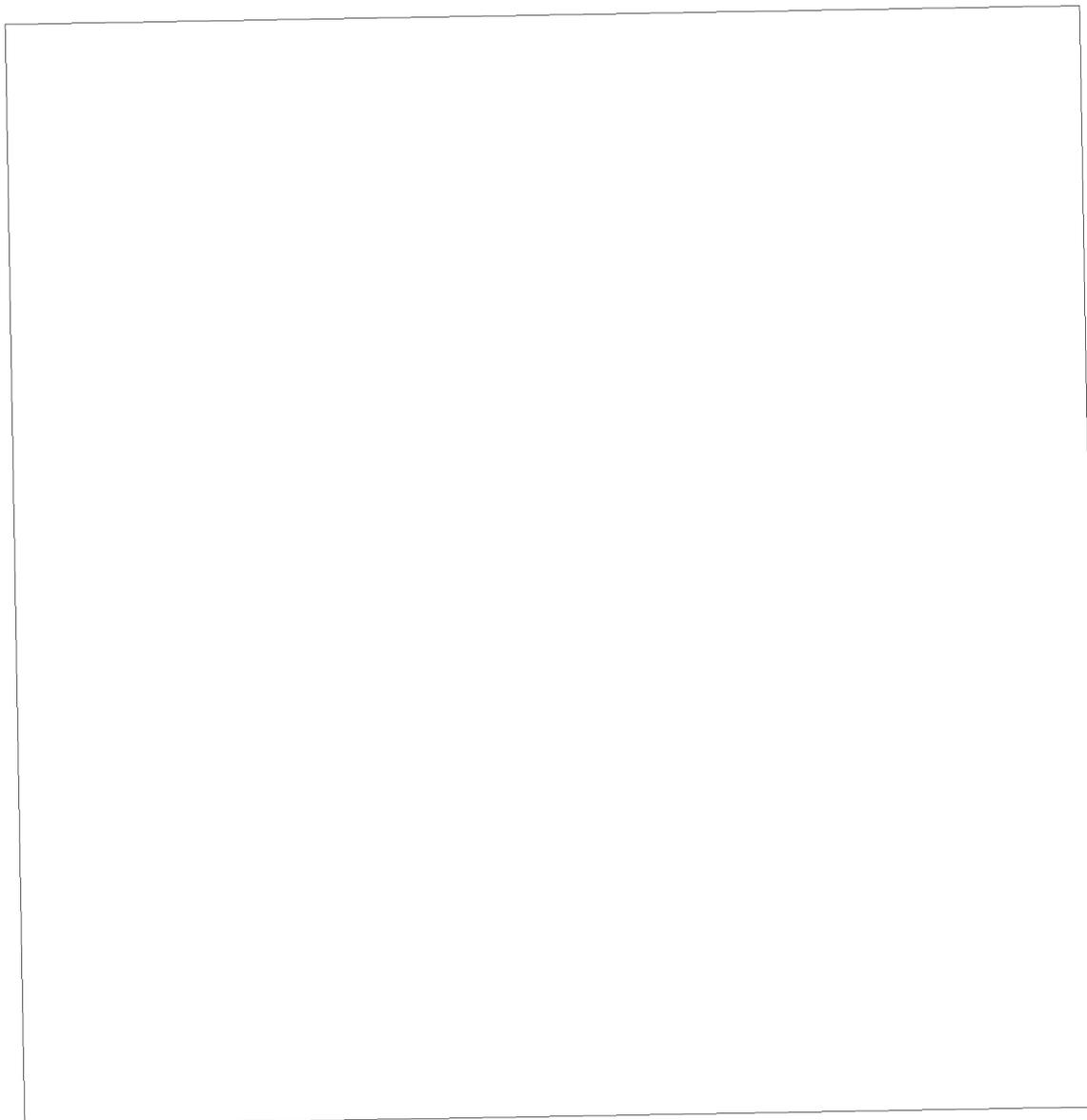
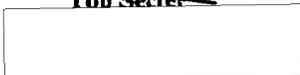


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GERMANY.

Moving Toward Unity Treaty

The two Germanys will move rapidly toward unification—on Chancellor Kohl's terms—now that external roadblocks have for the most part been removed.

A first draft of the German Unification Treaty may be ready by tomorrow. Major issues included whether to specify Berlin as the capital and what ground rules should be used to elect an all-German legislature. The negotiation schedule calls for formal talks this month and next, agreement on a text by the end of August, and ratification in September.

An East German Christian Democratic Union (CDU) legislative leader says some members of his group want to vote Sunday to accede to West Germany via Article 23 of its Basic Law one day before planned all-German elections on 2 December. Prime Minister de Maiziere has publicly objected, but West German Chancellery chief Rudolf Seiters has said Bonn is openminded.

Comment: The unification treaty is likely to be ushered through largely on schedule, and an early vote for accession is also possible. The treaty will create a new Germany that retains the political and economic structure of West Germany. With the recent elimination of external obstacles to unification and a strong CDU position in both Germanys, Kohl may be willing to make small compromises to ensure smooth sailing. He has favored letting an all-German legislature make the final decision on the capital, but to satisfy the East Germans he may endorse references in the treaty to moving the capital eventually to Berlin.

Kohl may also shift on his desire to hold separate elections under different rules for an all-German Bundestag. A lower threshold for legislative representation in the East would help the Christian Democrats by splitting the left, weakening the Social Democratic Party (SPD), and bolstering allies of the CDU-East. Kohl's Free Democratic partners share the SPD's opposition to different rules, and he could decide that insisting on different rules might slow the unification treaty. The Seiters statement indicates Kohl may now believe he will be elected chancellor of a united Germany regardless of electoral procedures.

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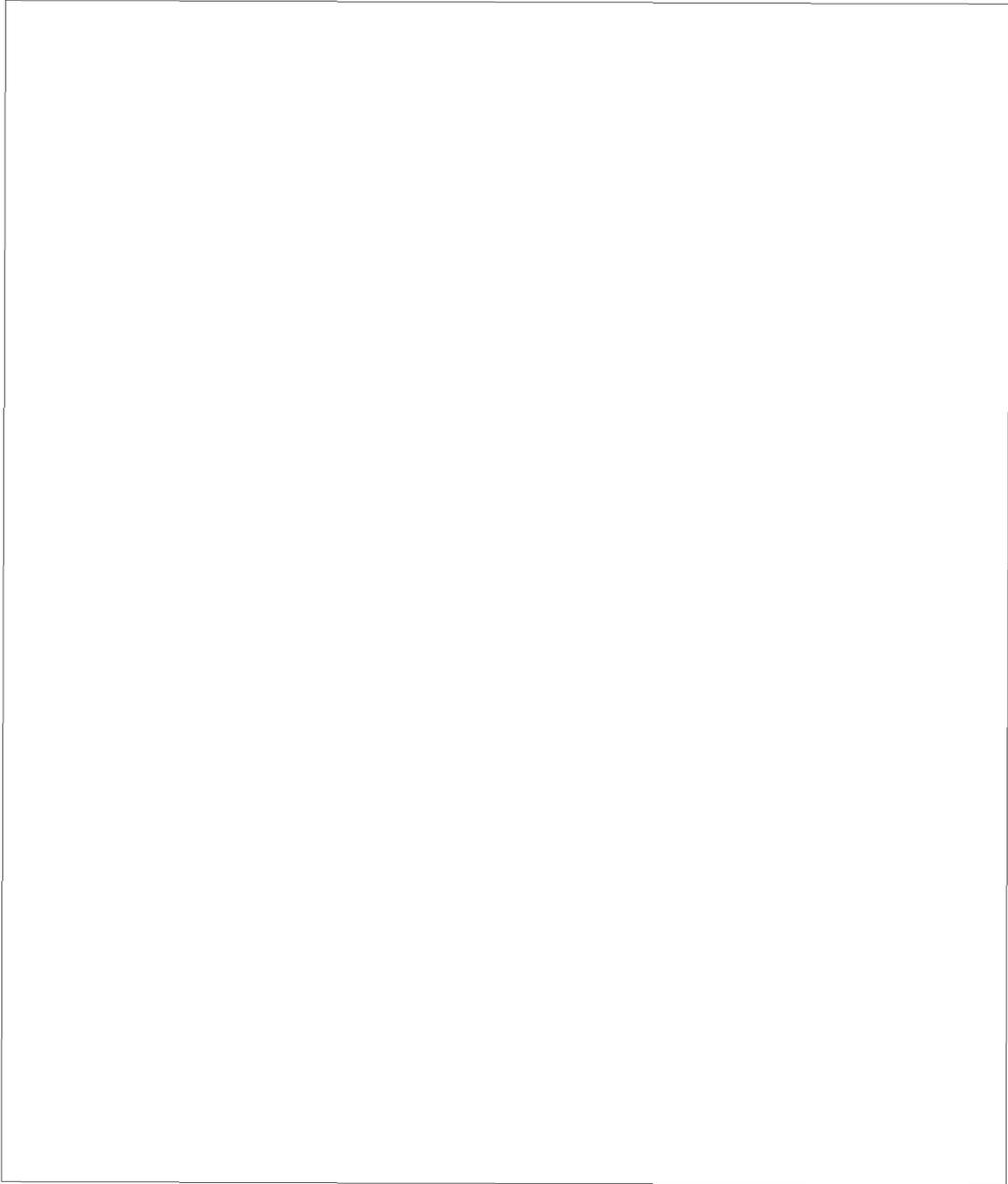


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USSR: Congress Decisions Push Party Reform

New bylaws adopted by this month's Soviet party congress retain ambiguous and compromise language but could be the basis for a radical democratization of the Communist Party.

According to texts published this week, the rules and program make no mention of the party's vanguard role, calling only on its members to struggle for "political leadership." Democratic centralism, long used to impose tight discipline, has been eliminated, although party members are still obligated to carry out decisions once adopted. While party rules continue to outlaw factionalism, they permit members "to unite around platforms in the course of debates." The rules also accept the formation of party groups in democratically elected legislatures, requiring them only to "consider" the decisions of party committees.

The bylaws further decentralize power by transferring much decisionmaking authority to republic and grassroots-level organizations. In the military, for example, the Main Political Administration, a bastion of traditionalists, has been downgraded, replaced in part by the all-army party conference; the change should permit company- and field-grade officers a greater say in policy. The rules indicate the party organizations in the KGB and police will be reformed to reduce their ability to dictate policy. The party program published Sunday spurned the *nomenklatura* system, by which the center selected candidates for party, state, military, and media posts.

Comment: The program and rules go far to meet the demands of the westernizing reformers in the party's Democratic Platform and may reduce wholesale desertions by supporters of Boris Yel'tsin. Although vague and contradictory, they are sufficiently flexible to allow the party to evolve at the grassroots into a genuine political party and to abandon its Leninist heritage of tight discipline.

Nevertheless, the reforms may come too late. Recent opinion polls suggest the party is at an alltime low. In a survey of public opinion shortly before the congress opened, only 18 percent believed the party could ease the current crisis; 46 percent supported the immediate resignation of the administration. Other polls show the party is held in lower regard than the Supreme Soviet, the armed forces, the KGB, or the Russian Orthodox Church.

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IRAQ: Threatening OPEC Overproducers

Baghdad is threatening "effective action" against Kuwait and the United Arab Emirates to coerce them into reducing oil production to support higher prices.

President Saddam Husayn on Tuesday severely criticized unnamed Arab states for helping what he called a US effort to keep oil prices low; he threatened to take action against oil overproducers. Foreign Minister Tariq Aziz has written the Secretary of the Arab League specifically accusing Kuwait and the UAE, OPEC's largest overproducers, of colluding to keep oil prices low. He also charged Kuwait with stealing oil from Iraqi oilfields and encroaching on Iraqi territory, according to press reports.

There is no evidence of Iraqi military preparations. Kuwait, however, has put its military on full alert, dispatched its foreign minister and other envoys to Arab capitals, and appealed to the five permanent members of the UN Security Council for support. An emergency session of Kuwait's National Assembly condemned the Iraqi threats yesterday.

Comment: The threatening rhetoric, strong even by Iraqi standards, is aimed at increasing pressure on Kuwait and the UAE to reduce production before the semiannual OPEC ministerial meeting in Geneva next week. Oil futures prices firmed at around \$1.50 a barrel after oil ministers from Saudi Arabia, Iraq, Kuwait, and the UAE met in Jiddah last week, but Saddam's speech so far has had little impact on the market. Baghdad, desperate for increased revenues to fund major reconstruction and military projects, probably also hopes to extort financial assistance from Kuwait. If it believes its threats are not working, it probably will make threatening gestures along the long-disputed Iraq-Kuwait border.

Kuwait and the UAE announced cuts in oil production last week and are not likely to reduce production further solely because of Baghdad's threats. Kuwait has steadfastly resisted past Iraqi intimidation and probably put its military on alert to signal resolve. The Amir probably hopes to evoke an international reaction, particularly among Arab countries, that will be strong enough to make Baghdad step back.

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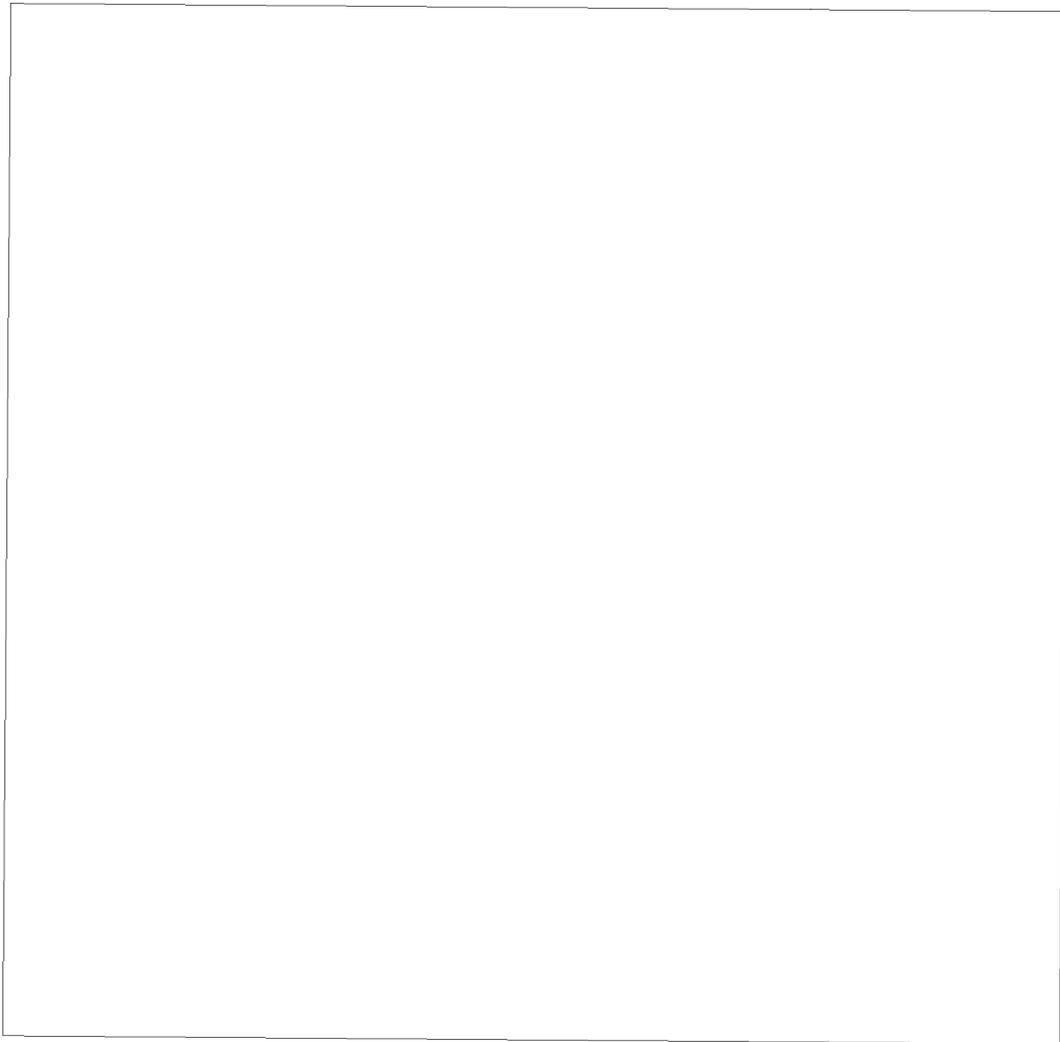
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West European Views on Cuba

West Europeans agree that Castro will ultimately suffer the same fate as Eastern Europe's Communist leaders, but they differ on the means to encourage reform. Italy has taken the toughest line; Foreign Minister De Michelis has suggested making ending support for Castro a condition for aid to the USSR. West Germany opposes such linkage, but has decided to discontinue East German trade commitments next year—sharply reducing bilateral trade—and has been noncommittal on Havana's requests for new cooperation agreements after German unification. France, however, reportedly argues that increased engagement with Havana will weaken Castro's grip on power. Most West Europeans do not place a high priority on relations with Havana and are unlikely to take strong action to speed a restoration of democracy.



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~~Top Secret~~**SPAIN-CUBA: Tension Mounting Over Refugees**

Madrid's decision to recall its Ambassador in Havana adds to the tension over the refugees in the Spanish Embassy, and the decline of the formerly good relationship will reinforce Castro's growing isolation.

The strain began last week when Cuban police dragged a would-be refugee from the Spanish Embassy compound. Havana apologized, but Spanish Foreign Minister Fernandez-Ordonez's insistence on a negotiated settlement on three other refugees in the Embassy and his promise to keep the doors open to asylum seekers have prompted Cuban protests. Havana has charged that Fernandez-Ordonez is acting like a colonial administrator, and Madrid has suspended a meeting of a Spanish-Cuban cooperation commission set for this month. A press report says another Cuban refugee made his way to the Embassy yesterday.

Comment: The Cuban moves will further weaken Spanish sympathy for the Castro regime. Although Spain has long urged other West Europeans to give Castro the benefit of the doubt, political changes in Eastern Europe and Nicaragua are impelling Madrid to adopt a tougher policy. In recent months Spain has voted in the UN to condemn Cuban human rights violations, and Prime Minister Gonzalez reportedly urged Castro to reform his regime. Castro rebutted publicly, criticizing Spain's political system and King.

Regardless of how the refugee problem is resolved, Spain's policy toward Latin America will become more pragmatic and its relations with Cuba are unlikely to recover completely. Castro believes he must respond to diplomatic challenges to maintain credibility at home, but he realizes Havana could lose much by alienating Madrid and jeopardizing extensive Spanish investment in Cuba's tourist industry.

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USSR: Republics Form Military Units

The Lithuanian legislature yesterday passed a provisional law, effective this fall, creating an armed force for the transition to independence. Draftees will serve six to 18 months with the border guards, the interior troops, or the firefighting units unless they choose alternative service. A Lithuanian paper yesterday published a letter from Soviet Defense Minister Yazov protesting efforts against the national draft by Vilnius. *Red Star* reports that only 33.6 percent of Lithuanian draftees responded to this year's callup. Another press report indicates Georgia, which had only a 27.5-percent draft turnout, has formed a national guard.

Comment: Moscow, frustrated by the refusal of local governments to prosecute draft resisters, may choose to involve itself directly to prevent the creation of republic military forces. If Lithuania and Georgia are successful in establishing military units, other non-Slavic republics probably will follow their lead.

USSR: Putting Best Face on Spring Draft

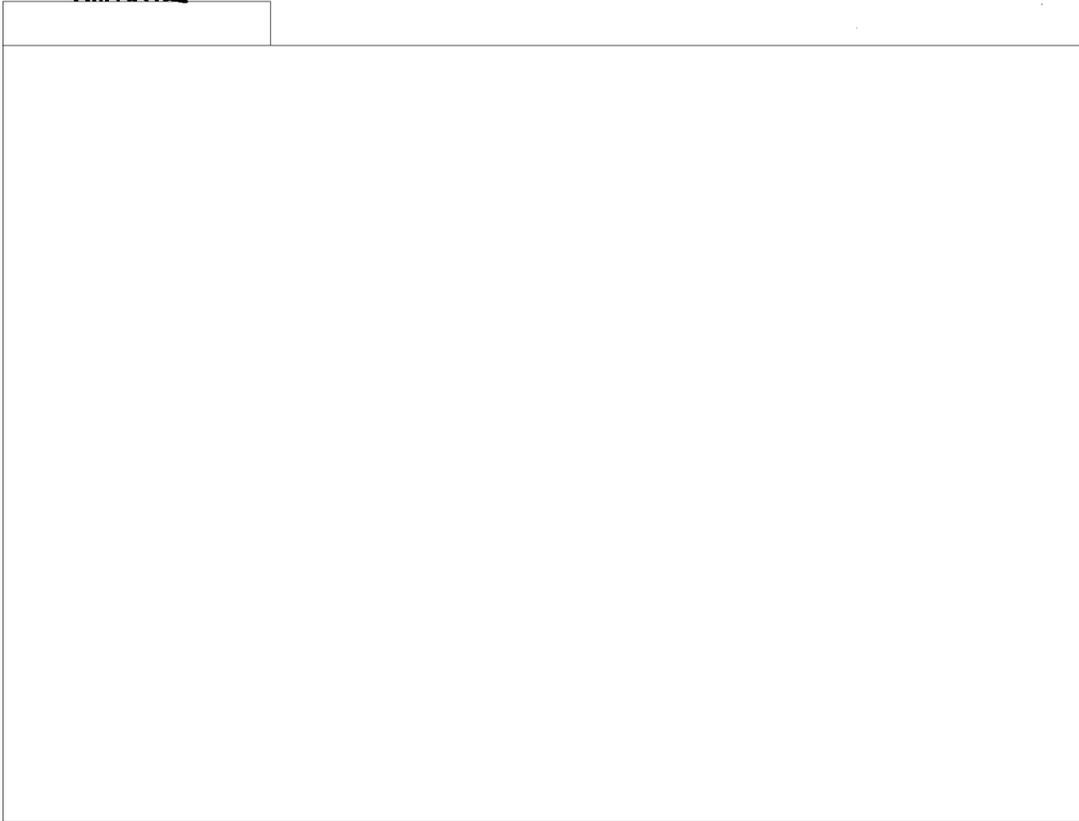
The Deputy Chief of the General Staff, Col. Gen. Krivosheyev, has claimed 95-percent fulfillment of the spring nationwide draft callup plan. The Soviets say this number will increase as those given deferments to take final examinations report for induction. A table published last week indicates 10 of the 15 Soviet republics had fulfillment rates of 87 percent or higher. The exceptions—the three Baltic republics, Georgia, and Armenia—had rates ranging from 54 percent to as little as 7.5 percent.

Comment: Yazov recently complained of a shortfall in the armed forces of 400,000 men, in marked contrast to the new claim the overall draft was a success. The new figures may understate the number of men evading the draft. Soviet officials may have allowed for some evasion in their planned conscription numbers or even adjusted the numbers out of fear that reporting a low turnout would fuel resistance to military service. In any case, the callup in the Baltic republics, Georgia, and Armenia was clearly a failure, and Soviet leaders must decide how to react. They could either try to press republic leaders to enforce the conscription laws or take unilateral action to enforce them; either step probably would harden resistance by republic leaders and people. The Soviets may decide to accept their shortfalls in this callup, even though doing so would set a precedent of tolerating regional dissent on military service.

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USSR: Housing Crunch Fueling Central Asian Unrest

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At Uzgen in the Kirghiz SSR, housing construction by the republic government on land previously farmed by Uzbeks has resulted in a monthlong state of emergency and repeated violence. Indigenous groups, hoping to acquire vacant housing, are demanding that European Slavs leave the area.

Comment: Republic authorities in Central Asia have given high priority to allocating land for prefabricated, frequently self-built housing—a program first begun in the Brezhnev years. The region's rapid population growth, increased migration to urban areas, and influx of refugees have far outstripped the pace of new construction. Unauthorized shantytowns inhabited largely by the destitute have sprung up around major cities, becoming breeding grounds for social unrest and violence.

USSR: Crime Rate Continues To Rise

Internal Affairs Minister Bakatin recently announced that crime in the USSR increased by 14.6 percent in the first half of this year, continuing a rapid climb countrywide; he predicted that the increase would be even greater during the transition to elements of a market economy. He expressed particular alarm over the escalation of violent crimes such as murder, rape, and assault. As part of a new unionwide crime-fighting program, the police have been given a larger budget, more automobiles and communications equipment, pay raises, and expanded training and personnel services.

Comment: Although Soviet data indicate the crime rate is rising more slowly than in the first six months last year, its continued upward trend and forecasts of further increases have the leadership worried. Opinion polls show Soviet citizens share that concern. Lawlessness is likely to increase as central control over society weakens and as criminal elements exploit the early consequences of the move toward markets—more shortages, higher prices, and longer lines. Increasing public pressure on the Gorbachev leadership will force it to divert even more scarce resources to combat crime.

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~~Top Secret~~**YUGOSLAVIA: Heading Toward State of Emergency**

A frustrated Prime Minister Markovic is considering calling a national referendum on secession to preempt moves by the republics of Slovenia and Croatia in that direction.

The referendum would be part of a state of emergency Markovic would announce later this month. He reportedly believes he has the backing of Defense Minister Kadijevic, the federal army, and a majority of the federal presidency. The republics are increasingly implementing their own reform programs and ignoring the Prime Minister's efforts to jumpstart his reform program; Slovenia, for example, unilaterally raised gas prices and abolished its relationship with the republic headquarters of the Territorial Defense Force, a reserve force, according to press reports.

Comment: The federal leadership is desperate to curb the republics' centrifugal tendencies but, short of military intervention, has few options. The republics may accept a referendum on secession, but the declaration of a state of emergency might provoke Croatia and Slovenia to declare independence and bolt the federation. Slovenia's effort to dismantle the Territorial Defense Force is a move toward forming its own army, a measure that might lead to federal military intervention.

CYPRUS: Tension Escalating

The imminent transfer of control over the disputed town of Varosha from Turkey to the Turkish Cypriots and Turkish Cypriot leader Denktash's threat to resettle the area have raised tensions on the island. Further Greek Cypriot posturing in response is likely.

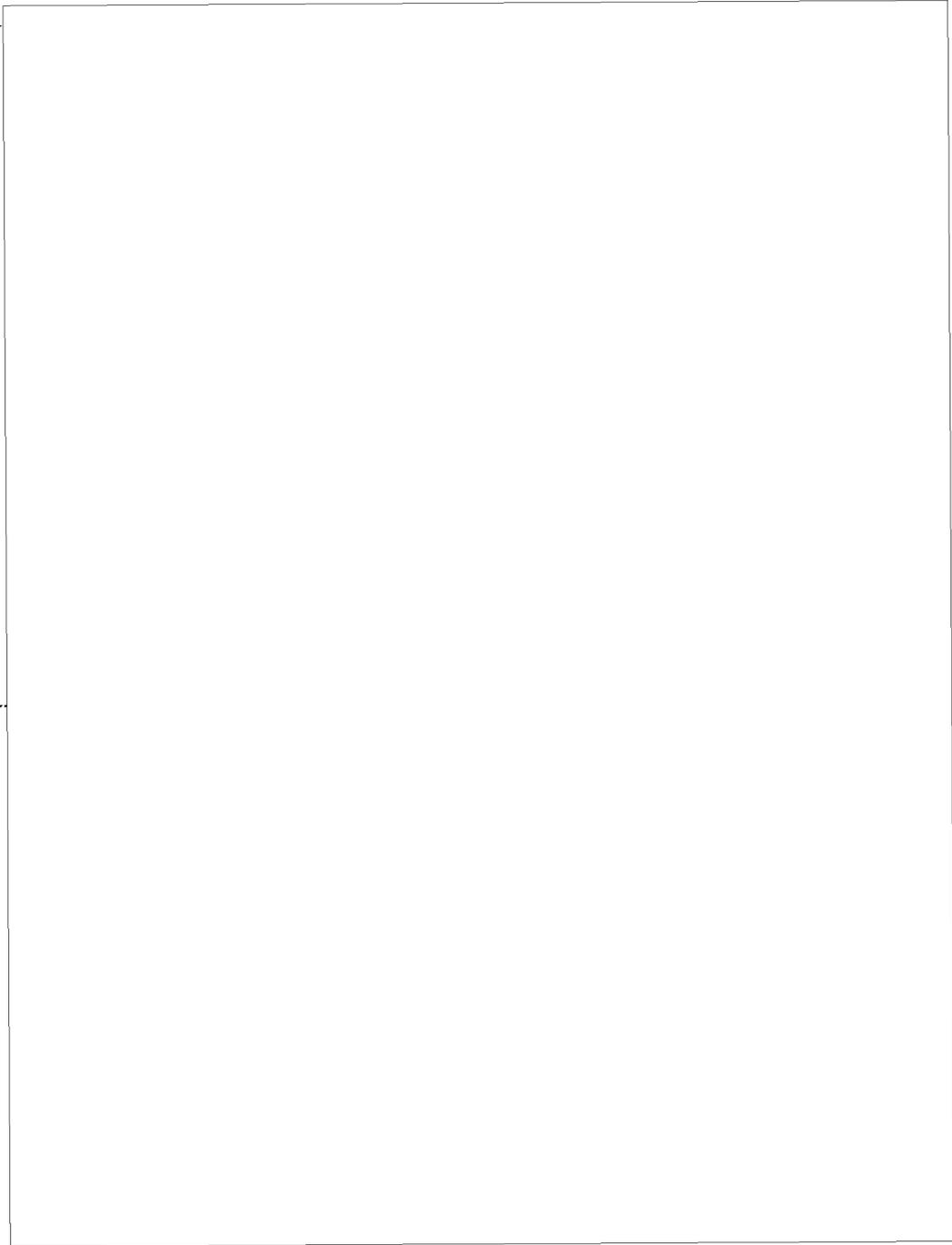
Greek Cypriot President Vassiliou prefers a diplomatic recourse to the UN Security Council over the use of military force.

Comment: Although Vassiliou almost certainly will continue to resist calls for military action, Turkish Cypriot resettlement would put him under considerable pressure to reconsider. Greek Cypriot civilian demonstrations planned for tomorrow, the anniversary of Turkey's invasion in 1974, might lead to confrontations along the Green Line.

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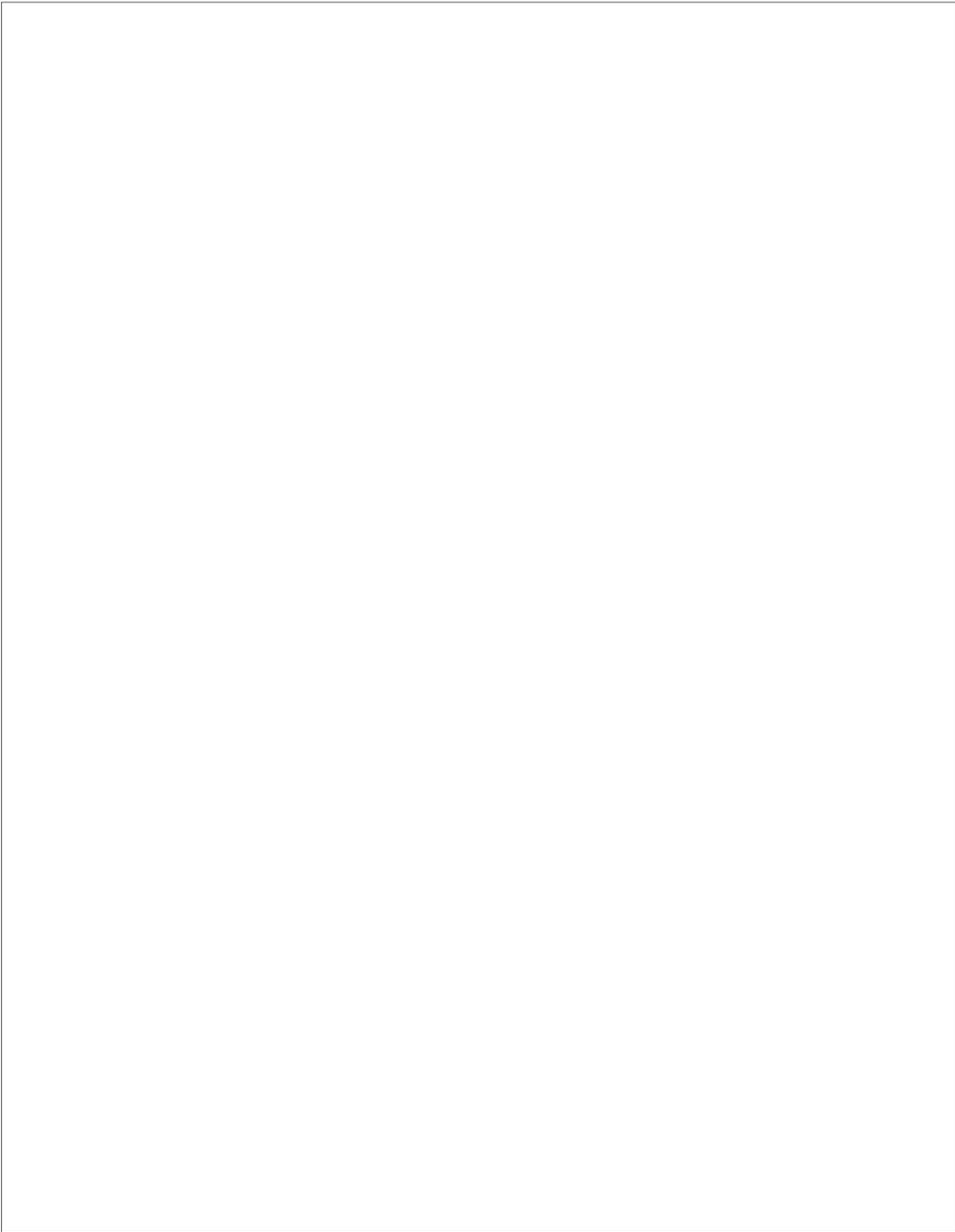


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The Cuban Human Rights Movement

Cuba's human rights movement consists of about a dozen small groups that pursue causes ranging from freedom of expression and religion to environmental protection. The activists, who are nonviolent and generally ineffective, have been targets of periodic government crackdowns. The latest was in March, when the UN Human Rights Commission passed a resolution critical of Cuba. The Cuban Human Rights Party, one of the more confrontational groups, staged occasional demonstrations and pushed for a plebiscite on the Castro regime before its leaders were arrested earlier this year. The government may be trying to smear the Human Rights Party by linking it to accusations of sabotage. It appears certain the party's imprisoned leaders will face serious charges when they are tried.



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~~Top Secret~~**CUBA: Harsh Moves To Counter Dissent**

The Havana press yesterday reported the sentencing of 11 young, unemployed Cubans for planning acts of sabotage, a rare admission that the Castro regime faces potentially violent domestic opposition. The dissidents, who were given prison terms of up to 15 years, belong to a group associated with the illegal Human Rights Party, which Havana believes is linked to the US Interests Section. The regime alleges that the activists planned to destroy government buildings in Havana with explosives and detonators stolen from military units.

Comment: Although Havana probably has exaggerated the dissidents' activities, by playing up the threat of antiregime violence Castro can portray any new repressive measure as necessary to preserve public order. The harsh treatment of the dissidents reflects Castro's determination to squelch opposition as he tries to deter asylum seekers from seeking refuge in embassies and to minimize the effects of political change in Eastern Europe. Although the regime routinely claims dissidents are manipulated by the US, it may use this case to rally nationalistic support by accusing Washington of actually promoting instability.

VENEZUELA-NICARAGUA: Oil Trade Reestablished

Venezuela recently rescheduled Nicaragua's \$143 million oil debt, paving the way for a resumption of oil shipments, suspended in 1985, under the concessionary terms of the San Jose Accords. The settlement shows the commitment of President Perez to support the Chamorro government and help it avert a possible oil shortage. Managua will repay \$18 million over a five-year period at market rates and the remaining \$125 million over 40 years at 3-percent interest. Nicaragua is touting the agreement as a major diplomatic victory.

Comment: The easy terms extended to Nicaragua reflect the determination of Perez to play a leading political and economic role in the region. They set an expensive precedent for Venezuela's negotiations with other countries in the region, such as the Dominican Republic, at a time when the Venezuelan economy is recovering from a severe recession. Resumption of Venezuelan oil deliveries under the San Jose Accords will ease Managua's financial burden and replace Soviet shipments when that contract expires.

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In Brief

Middle East

— US, UK, and UAE companies awarded Yemen oil concessions in former Soviet contract area for \$45 million up front . . . Sanaa frustrated with poor results of Soviet development . . . Soviets pressing for debt repayment.

USSR

— Initial Soviet reaction appears mild to Secretary Baker's comments on US contact with emerging democratic opposition groups in USSR . . . presidential press spokesman Maslennikov said such comments "cannot but cause questions and perplexity."

— Soviet officials say they would accept CSCE summit document based on NATO's London declaration . . . likely to focus in postsummit negotiations on responsibilities of conflict resolution center, Soviet proposals not in London declaration.

Europe

— France's Jacques Delors in Moscow today to explore Soviet economic needs in anticipation of EC aid . . . first official visit to USSR by an EC Commission president.

Americas

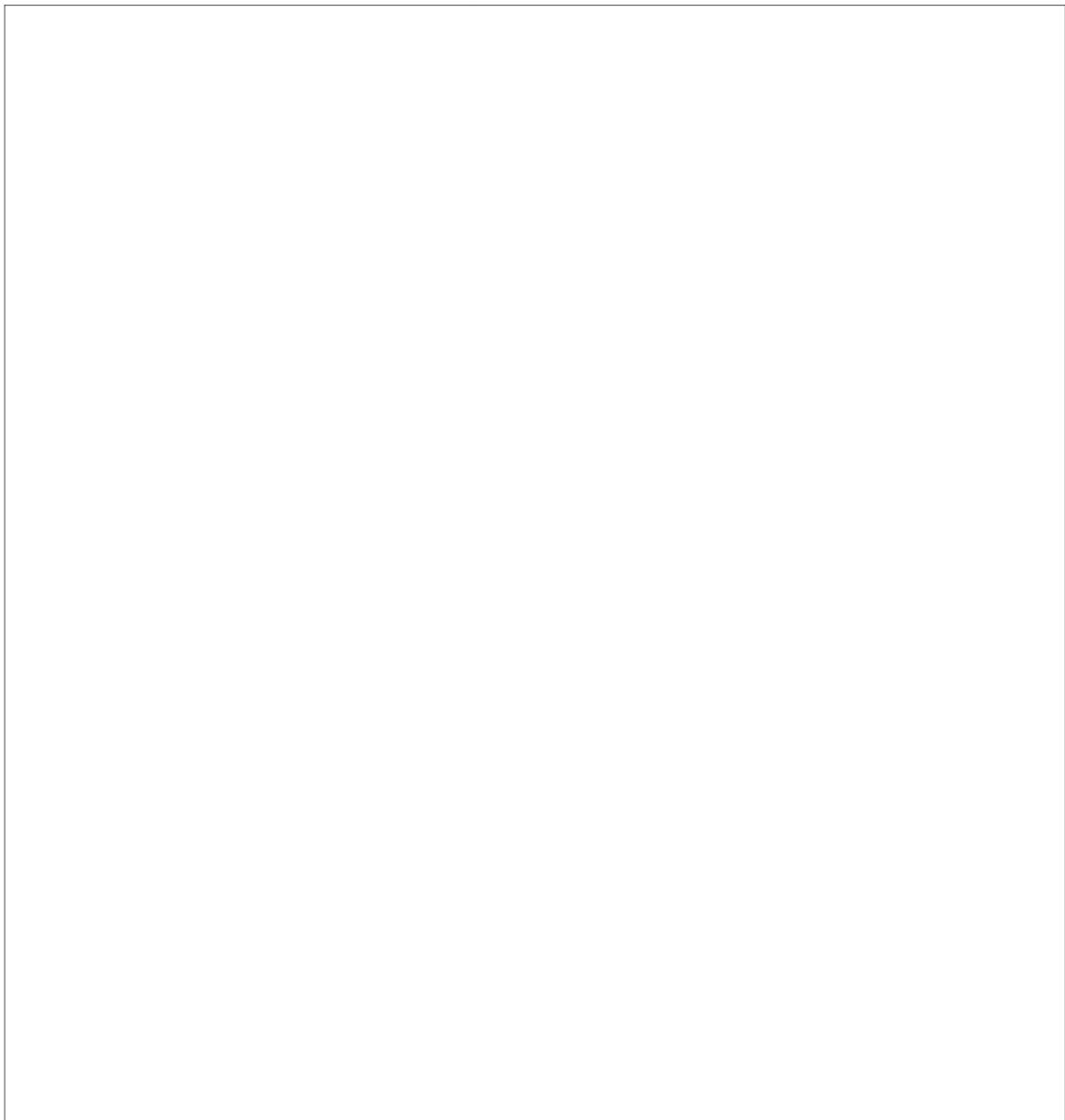
— Sandinistas organizing large rally today to celebrate 11th anniversary of Nicaraguan revolution . . . tensions remain high in wake of recent strike . . . pro- and anti-Sandinista groups well-armed, confrontations likely.

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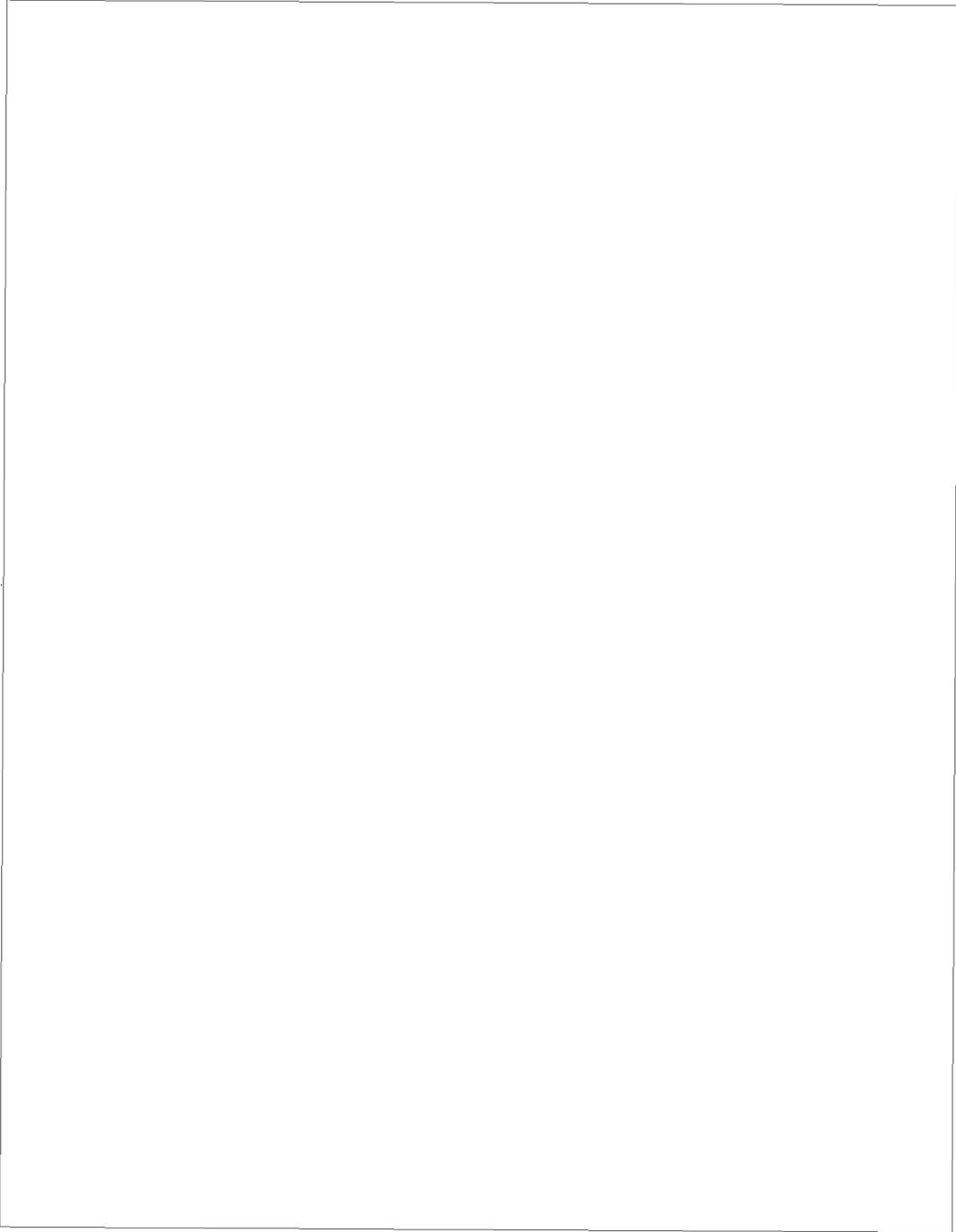


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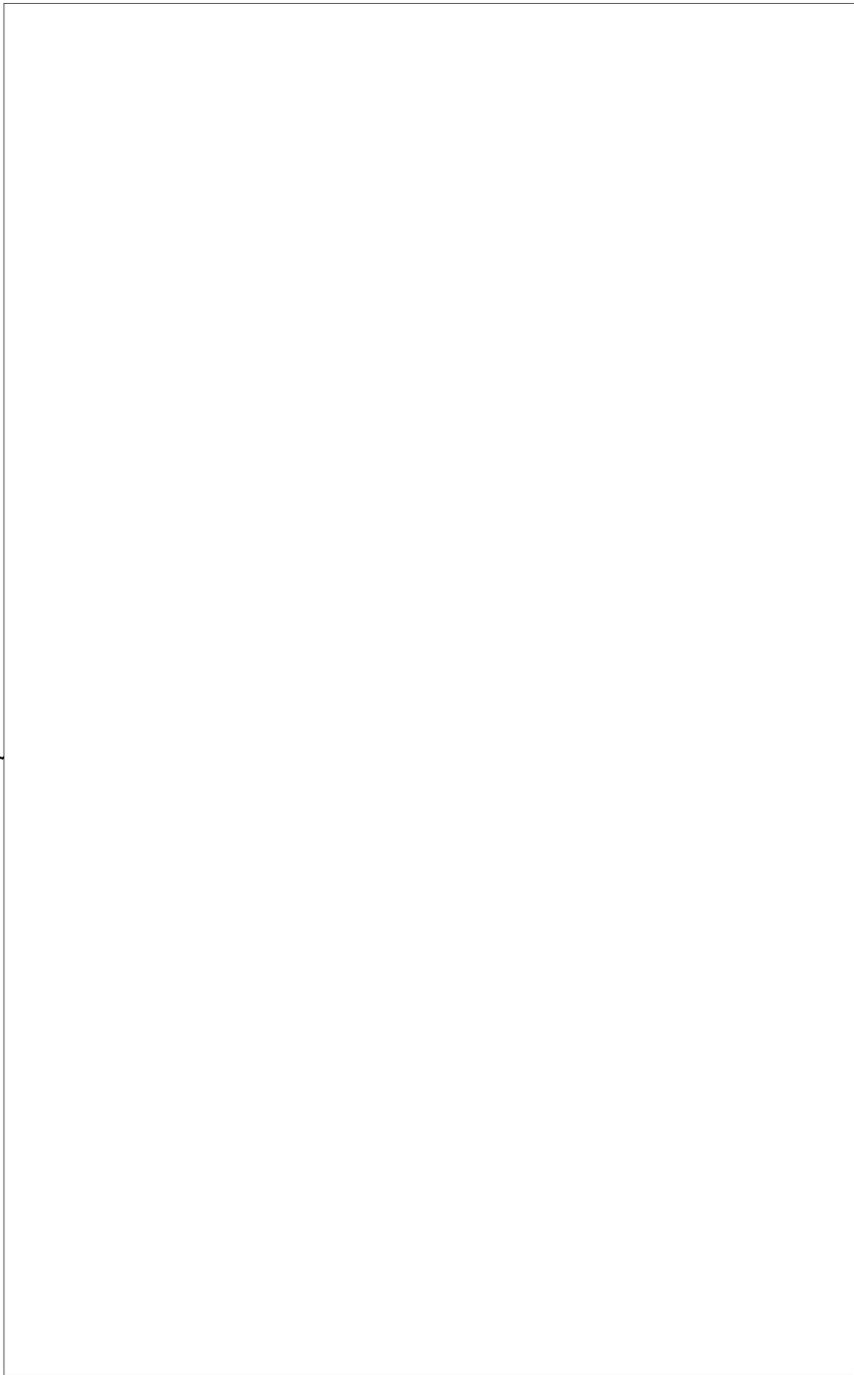


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