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THE MIDDLE EAST

Breakthrough on Disengagement

1 Israeli forces began moving off the Suez Canal's west bank this week in implementation of the Egyptian-Israeli disengagement agreement signed on January 18. During the 40-day disengagement period, the UN Emergency Force will establish a buffer zone several miles wide inside the Sinai Peninsula, to be flanked on each side by "security zones" for limited and lightly armed Egyptian and Israeli forces. The Egyptian area will be located between the canal and the UN zone; the Israeli area, between the UN forces and a point just west of the Sinai passes, thus leaving these in the full control of Israel's main force.

1 Israeli military sources have said that the evacuation of the west bank salient will be undertaken in three stages, all to be completed by February 12. The entire disengagement process is to be completed no later than March 6. According to the Israelis, forces deployed on the Cairo-Suez road blocking access to the city of Suez and the Third Army will be evacuated first, probably within the week, and as each stage proceeds, UN forces will move in to replace the Israelis briefly before turning the areas back to the Egyptians.

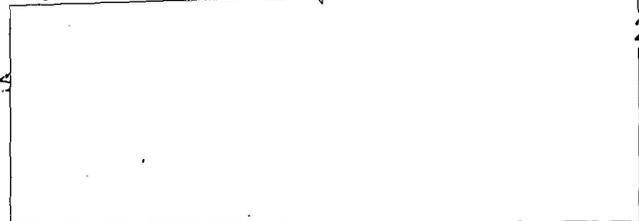
5 Both sides made concessions to achieve the agreement. By accepting limitations on its forces and armament on the east bank, Egypt conceded its freedom to use recaptured territory as it sees fit. Israel, of course, has committed itself to with-

draw from territory it has occupied for years, and it did not receive the firm assurance of an enduring peace it had apparently sought as an earnest of Egypt's sincerity in pursuing a negotiated settlement.

2,5 Reaction to the disengagement agreement in the Arab world has ranged from Syria's pointed silence, through unenthusiastic acceptance by many of the peripheral states, to the severe opprobrium of Libya, Iraq, and the majority of the fedayeen leaders. The reaction is chiefly based on widespread apprehension that Egypt intends to negotiate a unilateral settlement with Israel, in disregard of over-all Arab interests.

Egyptian Follow-up

2 To counter this impression, President Sadat launched a wide-ranging diplomatic offensive among the Arab states immediately following the agreement's conclusion.



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1,2 Public Egyptian commentary on the disengagement agreement has been 25X1

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carefully designed to reassure the Arabs about Egyptian intentions. The media and official statements, for instance, have repeatedly emphasized that the agreement is a military accord only and that a similar Syrian-Israeli disengagement should be negotiated before the full Geneva conference can be resumed. The Cairo media have also jabbed at Arab dissenters, calling for continued joint Arab action as the best assurance of progress toward Israeli withdrawals on other fronts.

Syria has been the chief target of the Egyptian efforts. Cairo can point to the disengagement agreement to refute charges from militant Arabs that only war can bring progress toward an Israeli withdrawal, but without Syrian support, Sadat's insistence that he is not pursuing solely Egyptian interests remains suspect. Syria is a key element, in the Egyptian view, in the continued success of negotiations, and Sadat has made a particular effort to convince the Syrians that he does not intend to leave Damascus or the other Arabs behind.

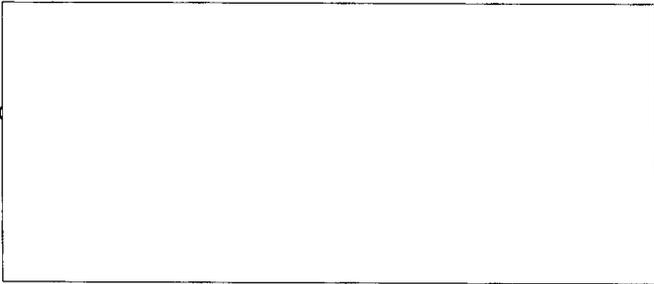


Egyptian Chief of Staff Gamasy reviews Israeli map of disengagement zones

5 He is unlikely to make any decision, therefore, on whether to turn over a POW list to Tel Aviv—an Israeli prerequisite for holding disengagement talks—until sometime after he receives a response to the suggestions he gave Secretary Kissinger to pass on to Israeli leaders. Indeed, he may wait for Secretary Kissinger to resume the shuttle diplomacy that brought the Egyptians and Israelis together.

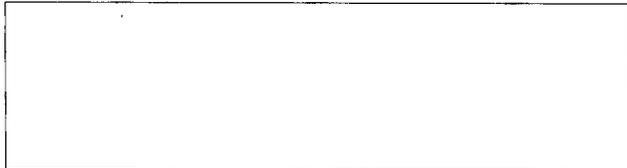
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Syria's Reaction

If anything, the Egyptian-Israeli accord seems to have sharpened Syrian distrust of Egypt and deepened the divisions within the Asad regime between those opposed to negotiations with Israel and those at least willing to explore that path. In Damascus last weekend, Sadat encountered deep skepticism among Syrian leaders, with the notable exception of President Asad, about Cairo honoring its commitments not to negotiate a separate peace settlement with Israel. Asad probably still hopes to attend the Geneva conference, but he is likely to play his cards very cautiously, not only to drive a hard bargain but to protect his own position.



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Fedayeen Disarray

1,5 The leaders of all the major fedayeen organizations but Fatah have criticized Egypt's willingness to get ahead of the other Arab states and the Palestinians by signing the disengagement agreement with Israel. Palestine Liberation Organization Chairman Arafat, sensitive to the need to cooperate with Egypt, is seeking, so far with little success, to moderate the statement denouncing the Egyptian initiative put out in the name of the organization's Executive Committee while he was in Cairo. Although he has been able to keep his followers within Fatah in line, Arafat has only

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limited influence with the leaders of the other fedayeen groups.]

1, 5 [Saiqa, the Syrian-supported fedayeen organization, will be unable to approve the disengagement accord or any Palestinian role in peace negotiations until Damascus does. The smaller and more radical organizations— whose policies often parallel those of Libya and Iraq—oppose the agreement as a sell-out of Palestinian interests. Facing this opposition, and caught between Egypt and Syria, Arafat is making little headway in his efforts to lead the Palestinians to the peace talks.]

Israel

1 [Israel's Knesset, meeting this week for the first time since the December election, approved the disengagement agreement after heated debate. The conservative opposition Likud bloc, which sharply criticized the accord as well as the government for signing it before referring it to parliament, was able to organize sizable public protest demonstrations early in the week. Opinion polls indicate, however, that a majority of Israelis favor the agreement.]

6 [Prime Minister Meir and other Israeli leaders are engaged in a campaign to reduce domestic opposition to the agreement. In addressing the Knesset on January 22, Mrs. Meir stressed that Israel was not required to make, nor would it undertake, any commitments beyond stabilization of the cease-fire and the separation of forces. The Prime Minister discounted claims by some Egyptian leaders that the accord placed few restraints on the deployment of Egyptian forces as designed for "public consumption in the Arab countries."]

5 [The government's public relations efforts are in large part designed to facilitate the formation of a new government. With Likud in opposition, Mrs. Meir's Labor Alignment cannot form a viable coalition without the cooperation of the National Religious Party, the third largest in the Knesset. On security matters that party's position is closer to Likud's than to Labor's.]

7 [Talks between Labor and representatives of the National Religious Party have prompted cautious optimism among Alignment leaders that the National Religious Party will ultimately soften its demands for legislation establishing rigid standards for conversion to Judaism. Such legislation is unacceptable to the Alignment. In return, the Labor Alignment is likely to agree to a policy statement which, although paralleling that of the existing government in almost all respects, leaves in abeyance official policy on the sensitive issue of withdrawal from the Israeli-occupied West Bank.]

1 [Israeli spokesmen this week have refused to confirm press speculation that a breakthrough is near on possible Israeli-Syrian negotiations.] In her address to the Knesset, Mrs. Meir claimed that contacts with Damascus have yielded no progress, and Foreign Minister Eban told reporters that talks between Tel Aviv and Damascus "had barely entered a pre-preliminary stage." Both repeated that Israel will not discuss a separation of forces with Syria until it has received a list of Israeli POWs.]

Soviets Unhappy with Cairo

14 [The Soviets are not saying very much in public, but privately they have made it clear they are very unhappy with Cairo. The head of the Soviet delegation in Geneva, Vinogradov, rebuked the Egyptians for "having forgotten their true friends." In Moscow, Gromyko told Egyptian Foreign Minister Fahmi that the USSR does not object to US efforts in the Middle East provided that they preserve Arab and Palestinian rights and are not detrimental to a "third party." Gromyko seemed to imply that the US-orchestrated disengagement talks did not fit the bill.]

14 [The Soviets are irritated because they were largely cut out of the disengagement talks and because the prominent, and effective, role played by the US diminished Moscow's stature all the more. The Soviets clearly would prefer to have all issues discussed and resolved at Geneva, where they have a voice.]

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Moscow is therefore apparently attempting to force the focus of the negotiating efforts back to Geneva. Fahmi's arrival in Moscow on January 21 has probably provided the Soviets an opportunity to impress upon Fahmi their disappointment at having been excluded. Moscow may be using other means to put pressure on Cairo. For example, recent articles in Soviet-influenced Arab newspapers have denounced Egypt and the disengagement agreement for betraying the Arab cause.

The unanswered question is how tough Moscow is prepared to be with Sadat. If the issue between the two countries is only a question of Egypt's recognition of the proprieties, i.e., Moscow's desire to be part of the action, then returning the next stage of the negotiations to Geneva should get their relations on a more even keel. But if Moscow is determined to do what it can to forestall closer Egyptian-US relations and a continuing prominent US role in working toward a peace settlement, then tougher days lie ahead.

ARAB OIL REVENUES

The Arab oil producers anticipate a \$30-billion current account surplus this year, and have taken several preliminary steps since December to deal with their burgeoning reserve holdings:

- Saudi Arabia, Kuwait, Abu Dhabi, Qatar, Egypt, and Sudan formed an investment company to finance Arab agriculture and shipping ventures;
- The Arab Bank of Jordan and a London merchant bank established a joint venture to assist Arab governments in channeling surplus oil funds into large-scale development projects, such as oil refineries and manufacturing plants;
- Kuwaiti quasi-public and professional organizations will sponsor a seminar in

Kuwait next month on investment of Arab surplus funds;

- Twenty-five Islamic nations are stepping up preparations to establish an Islamic Development Bank by April 1974;
- The Arab League agreed on January 23 to set up a fund to speed economic development for African countries.

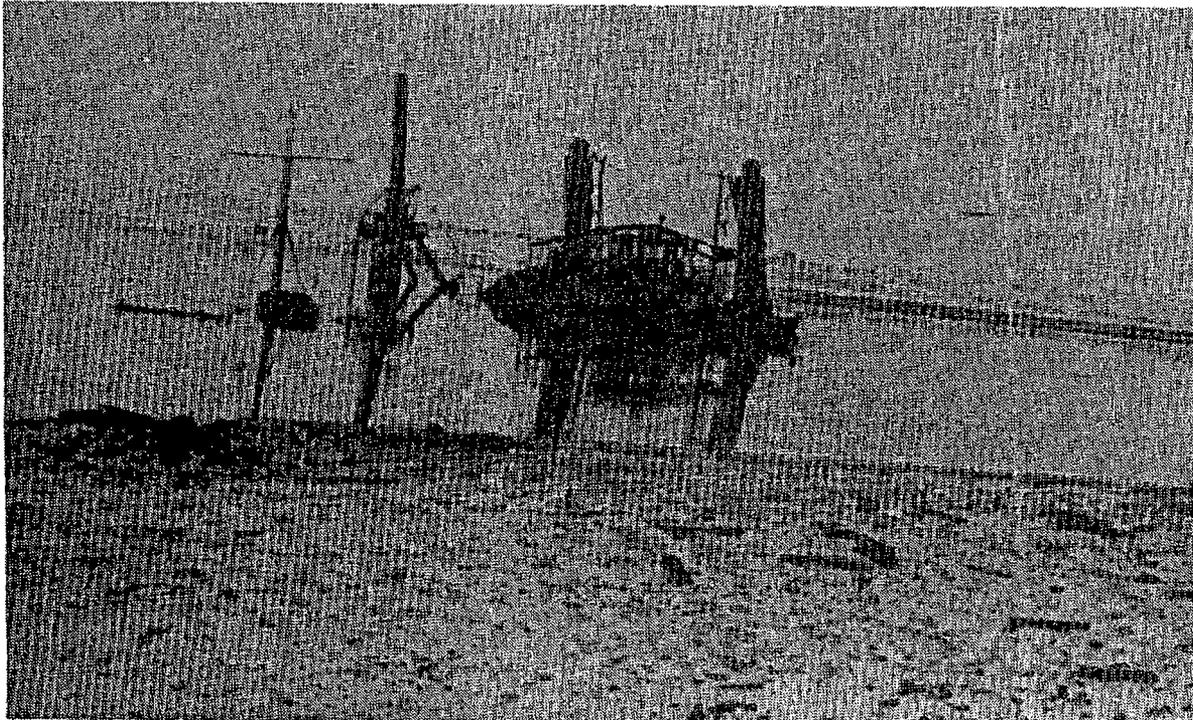
These actions should markedly increase the amount of money directed to domestic Arab development. More Arabs will also inevitably be involved in development administration—an important consideration in an area where foreigners are traditionally distrusted and where lack of trained personnel has been the greatest stumbling block in diverting investment to domestic development. Greater Arab cooperation in financial matters should also be a by-product, but because of basic differences in investment policy, the wealthier nations are unlikely to pool more than a small fraction of their assets. Western capital markets, therefore, will probably absorb the bulk of Arab funds.

RE-OPENING THE SUEZ CANAL

The Suez Canal Authority is ready to start clearing the canal whenever disengagement of Israeli and Egyptian forces is accomplished. The immediate problem is clearing the canal and its banks of unexploded munitions and sunken obstacles, which will probably take four to six months. At the same time, the canal will be dredged to shape the bottom and restore it to its pre-1967 depth. Best estimates indicate that the dredging portion of the project will also take four to six months. Silting, once thought to be a major problem in clearing the canal, appears to be less than previously estimated.

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A ship reportedly sunk by the Israelis during the June 1967 war

The Egyptian Armed Forces will do most of the work of clearing the canal area of mines and unexploded munitions. The canal authority will use its own personnel to do the bulk of the dredging. Negotiations are in an advanced state with a consortium of two European firms, Ulrich Harms of West Germany and Brodospas of Yugoslavia, to do the heavy work of raising and clearing obstacles in the canal and its approaches.

Cairo has plans for widening and deepening the canal, but this depends on the canal being open, and even then would take several years to complete. Japanese Deputy Premier Miki recently promised Egypt \$140 million in credits at very favorable terms to start the job, and has indicated Tokyo's willingness to increase the loan to \$280 million if Cairo wishes, enough to cover 70 percent of the cost of repairing and enlarging the canal.

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