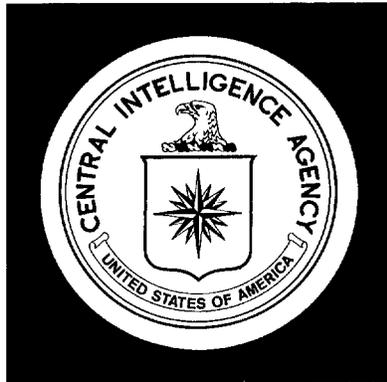


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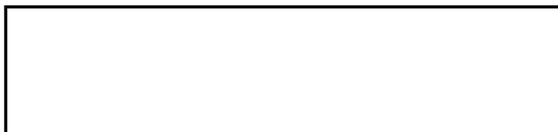


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**ARAB STATES - ISRAEL:** While both sides are maintaining a high state of military alert, they apparently plan to continue for the time being to seek a negotiated peace settlement. Today's meeting of the disengagement talks in Geneva is expected to proceed as scheduled, following an interval during which the Egyptian and Israeli negotiators returned to their respective capitals, and General Siilvasvuo, commander of the UN Emergency Force, held talks with high officials in Cairo and Jerusalem. Neither side has given any public indication of a willingness to modify its position, but neither appears anxious to break off the talks at this point.

The first break in the deadlock over the POW issue, a key factor in the refusal of Israel and Syria to negotiate with one another, may have come with the publication on December 31 of the first photographs of Israeli prisoners held in Syria. The French magazine, *Paris-Match*, pictured seven individuals and identified three, all pilots shot down during the war, by name.

For the immediate future, the principal Arab leaders appear inclined to take a wait-and-see attitude and find out what type of government and policies emerge from the Israeli elections.

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Military activity on both the Suez and Golan fronts was light over the past two days.

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ISRAEL: Monday's parliamentary elections failed to give any party a clear majority, and Mrs. Meir's Labor Alignment faces the prospect of long and difficult bargaining sessions over the make-up of a new coalition government. Any government likely to emerge probably will be even more cautious about concluding any peace agreement with the Arabs that embodies extensive territorial concessions by Tel Aviv.

Outgoing Minister of Transport Peres told reporters yesterday that it will take some time and a great deal of bargaining to form a new government, but that he expected the Alignment--still the strongest group in the Knesset--to head a new coalition government commanding 66 of the 120 Knesset seats. In a heavy voter turnout, the Alignment received just under 40 percent of the vote, losing, according to preliminary returns, 6 of its 57 seats. The Alignment-led government coalition lost 8 of its 77 seats, according to these returns. The Alignment's election chief also held out the possibility that new elections might have to be called within a year if Mrs. Meir's difficulties in forming a new government prove too great.

There will probably be no change in coalition partners in the new government when it is eventually formed. Mrs. Meir's major coalition partner, the National Religious Party (NRP), which is less disposed to make concessions to the Arabs than the Alignment, will probably seek to take advantage of the Alignment's relatively poor electoral showing to enhance its own position and influence within the government. Its bargaining position, however, will be tempered somewhat by the fact that it, too, lost strength, giving up 1 of its 12 Knesset seats.

As anticipated, the rightist opposition group, Likud, emerged the big gainer, receiving just over 27 percent of the vote and increasing its Knesset seats from 31 to 38 or 39, according to the preliminary tabulations. Its leader, Menahem Begin,

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claimed at a post-election rally yesterday that Likud's strong showing demonstrated to all the world that there is in Israel a "clear majority" against any proposals to "repartition" the country. Likud failed, however, to gain enough seats to enable it to form a government or to force the Alignment to take it into a national unity government.

Final election results are not expected for several days. Counting of the ballots cast by voters in the military, an estimated 15 percent of the electorate, is particularly slow but is in any case not expected to change significantly the overall electoral results.

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**CHINA:** New Years Eve rallies reveal a massive reshuffle of powerful military region commanders.

Incomplete information indicates that the rotation involved the commanders of seven of China's 11 military regions and the head of the army's General Political Department. Political commissars of the military regions remain the same. It is not clear whether or not the changes will be accompanied by appointments to long-vacant central military positions such as minister of defense or chief of staff. No purges have resulted, but the transfers separate leaders from provincial power bases secured during the Cultural Revolution.

It is not yet known whether the leaders, all but one of whom headed their provincial party and government bodies, also exchanged these civilian positions. If not, a majority of top provincial party spots would probably revert to civilian leadership for the first time in over seven years.

The moving force behind the shakeup is almost certainly the top-level political controversy in Peking. At least one of the provincial military region leaders, Politburo member Chen Hsi-lien, figured prominently in the politically motivated debates over education and other policies which spilled over into the open media last summer. Chen has been moved from his Manchurian base to the Peking Military Region. He will thus be more directly accountable to his political opponents but can also play a greater day-to-day role in top-level leadership councils in concert with his political allies.

Chen's replacement in Manchuria is Li Te-sheng, a party vice-chairman and army political department head. On the surface this move represents a promotion for Chen and a demotion for Li, who had appeared to be a candidate for a top central military post.

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OIL: Nigeria apparently will receive an extremely high price for its first offering of state-owned oil.

Nigeria will acquire 320,000 barrels of oil per day beginning this month under existing agreements which reserve to the government 14.5 percent of the country's total daily production. According to the US Embassy in Lagos, the government has succeeded in selling the entire amount at \$22.60 a barrel to several US and Japanese oil companies.

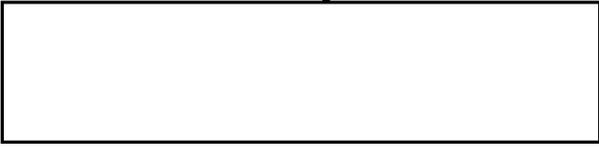
Although bidders initially refused to buy Nigeria's desirable low sulphur oil at this price, they reconsidered after the announcement of higher prices last week in the Persian Gulf. The contracts are for two years with quarterly price revisions.

Meanwhile, Nigeria has increased the posted price of its crude oil marketed by the oil companies to \$14.69, effective January 1. Nigeria, which produces 2.2 million barrels of oil daily, is the second largest source of crude imported by the US. US-produced low sulphur oil not regulated by the Cost of Living Council has been selling at less than \$9.00 per barrel.

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