

ROUTING

Top Secret 233

(Security Classification)

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NATIONAL INTELLIGENCE DAILY CABLE

Friday July 2, 1976

CI NIDC 76-155C

[Redacted box]

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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

DIA review(s) completed.

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State Dept. review completed

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National Intelligence Daily Cable for Friday, July 2, 1976.

[REDACTED] The NID Cable is for the purpose of informing senior US officials.

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LEBANON

[REDACTED] //Lebanese Christians yesterday launched what they expect to be the final attack on the Tall Zatar refugee camp. The Palestinian defenders of the camp, whom we estimate to number 6,000, have reportedly been ordered not to surrender despite the fact that most Palestinian leaders expect the camp to fall soon.//

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Concern over Reprisals

[REDACTED] Fear of Palestinian and leftist reprisals has gripped Beirut, as the battle for Tall Zatar enters its final stage. The greatest concern is for some 70,000 Christians living in Muslim-controlled areas of Beirut and its environs.

[REDACTED] A high-ranking Christian militia officer told US officials yesterday that he--and apparently others--are frustrated with the principal Christian leaders, who apparently have shown little concern over the repercussions of their actions. The officer accused Camille Shamun and some Phalanges leaders of trying to establish partition, and in so doing, jeopardizing the lives of many of their fellow Christians.

25X1 [redacted] Muslim leftist leaders and Salah Khalaf--the ranking Palestinian leader during Yasir Arafat's absence from Lebanon--are reportedly trying to prevent unauthorized acts of venegence. They have promised publicly that "peaceful" Christian enclaves will not be attacked. Neither Palestinian nor leftist leaders, however, are able to control the numerous undisciplined factions operating throughout Beirut, and they no doubt fear that they may soon be faced with a major cycle of uncontrollable violence.

25X1 [redacted]

25X1 [redacted] Jumblatt apparently told an Arab League official on Wednesday that he was prepared to consider any form of negotiation if the Christians would withdraw to their former positions around Tall Zatar.

25X1 [redacted]

Arab League Efforts

25X1 [redacted] Arab League Secretary General Riyadh and his two-man peace committee left for Beirut yesterday by way of Damascus, despite the fact that their call for a cease-fire yesterday has been completely disregarded. The committee will have virtually no impact on the situation until the Christians have achieved their victory over Tall Zatar, and even then the prospects for negotiating a truce are bleak.

25X1 [redacted] The Saudi and Sudanese contingents of the League's security force have entered Lebanon. Unconfirmed press reports say they were stationed yesterday on the outskirts of Beirut. The Saudis, however, have all but declared publicly that their chief concern is the safety of their troops--not the imposition of a cease-fire--and that they will not become embroiled in the fighting.

25X1 [redacted] The League apparently has called for other members who had not previously agreed to contribute to the peace-keeping force

to send troops to Lebanon immediately. So far, only Iraq and, reportedly, North Yemen have indicated they would respond; the Iraqi offer, of course, would be unacceptable to both Syria and the Lebanese Christians.

Soviets and Others Leave Beirut

25X1 [] The plight of Beirut residents worsens daily, and foreigners as well as many Lebanese continue to leave the city. Only small quantities of drinking water are available in most areas of the city, and food, fuel, and medicine are in dangerously short supply. The American University Hospital has apparently been hard hit by shortages of water and electricity, and now depends on receiving its most urgently needed supplies overland from Damascus.

25X1 [] A Soviet diplomat in Damascus told a US official yesterday that the Soviets are planning to evacuate some of their nationals by sea from the southern city of Sidon. He gave no details on the timing and size of the evacuation. According to the Reuter press service, which is generally accurate in its coverage of Lebanon, the Soviet evacuation was under way yesterday.

25X1 [] //Earlier this week, the Soviet defense attache in Damascus told the US defense attache that the total number of official and unofficial Soviet citizens in Lebanon was no more than 100 and that most dependents and non-essential personnel had been sent home some time ago. The Soviet attache expressed his personal view that both the US and the USSR should try to maintain some sort of presence in Lebanon, despite the current difficulties.// []

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SPAIN

25X1 [] The resignation yesterday of Prime Minister Arias, reportedly at the bidding of King Juan Carlos, could give a boost to the Spanish government's reform program. The move came as a complete surprise to the cabinet, which must also resign.

25X1 [] The King probably hopes to make the cabinet more cohesive. Arias has reportedly been at loggerheads with key members of the government like Interior Minister Fraga and Foreign Minister Areilza over the reform program.

25X1 [] Juan Carlos has reportedly been displeased for some time with Arias' failure to provide strong leadership for the government's liberalization efforts but has hesitated to replace him. The King must select a new prime minister from a slate of three names drawn up by the rightist-dominated Council of the Realm--a 17-man senior advisory body.

25X1 [] When General Franco died last November, Juan Carlos was reportedly blocked in his attempt to replace Arias because he could not be sure that the Council would include a candidate on its list favorable toward reform. The King apparently feels more confident now that he can prevail on the Council to nominate a man of his choice. The Council, which met yesterday, must submit its list within 10 days.

25X1 [] The King's secretary told Ambassador Stabler that the new prime minister would be a member of the present cabinet.

25X1 [] The most likely candidate at this stage appears to be Fraga, the chief architect of the reform program and the dominant force in Arias' government. He has made many enemies with his forceful personality, however, and he has recently been criticized by both the right--for his strong support of liberalizing reform--and the left--for his role as chief of the internal security forces.

25X1 [] Areilza, another candidate, is more popular abroad than at home, where he is distrusted by the right and the military because of his image as a strong liberal.

25X1 [] If both men are considered too liberal by the Council of the Realm, someone who is further to the right but still in favor of gradual reform might be chosen as a compromise candidate--for example, the young and dynamic minister of the National Movement, Adolfo Suarez.

25X1 [] If the King is unable to get the civilian of his choice, he might opt for a progressive military leader like the new chief of the army general staff, Lieutenant General Gutierrez Mellado.

25X1 [] Lieutenant General Santiago y Diaz de Mendivil, deputy prime minister and minister for defense affairs, has been named acting prime minister until a new one is sworn in. []

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PERU

25X1 [] Violence erupted yesterday following the Peruvian government's announcement of severe economic austerity measures. The military regime reacted swiftly to quell demonstrations and strikes in Lima and its port, Callao. By afternoon the disturbances had been brought under control.

25X1 [] Some violence has occurred in the southern city of Arequipa; a general strike is reported under way there.

25X1 [] The violence does not appear to have been widespread; only isolated and apparently uncoordinated incidents, such as the burning of buses and cars, rock-throwing, the setting of bonfires, and some looting, have been reported.

25X1 [] The government has established a 30-day state of emergency which suspends certain personal freedoms. It also imposed a curfew for Lima and Callao and declared today a "non-work day." In addition, riot police and military armored cars are patrolling the capital.

25X1 [] //The unpopularity of the economic measures will cause further problems. The measures include:

--Wage freezes for a year, after a small initial increase.

--Lifting of price controls and removal of subsidies from many basic items.

--Doubling the price for petroleum products and raised fares for public transportation.

--A budget reduction of \$218 million that will cause a drastic cut in public investment and eliminate new employment and promotions.//

25X1 [] //The government weathered yesterday's outbreaks well, but workers idled by the "non-work day" may engage in further protests against the austerity program. The government may have to react harshly to control new anti-government demonstrations.//

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JAMAICA

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[REDACTED] The state of emergency imposed on June 19 appears to be hastening political polarization in Jamaica and solidifying Prime Minister Manley's alliance with the radical wing of his party.

25X1

[REDACTED] On June 26, Security Minister Munn announced that 353 persons had been arrested, of whom more than 130 have been imprisoned. Many reportedly are leaders and organizers of the opposition Jamaica Labor Party. We know of only one official of Manley's People's National Party who has been detained.

25X1

[REDACTED] Labor Party leader Seaga has denounced the government's actions as a "political witch hunt" aimed at assuring a victory by Manley and a majority of his party's candidates in the election to be held by next spring. Pearnell Charles, a Labor Party senator and its deputy leader, has been arrested and indicted under the emergency orders. Seaga says three of his party's candidates and many of their workers have also been arrested.

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[REDACTED] The blatantly partisan enforcement of the state of emergency is causing public opinion to turn against the government, in the opinion of the US embassy in Kingston. Manley's failure so far to establish a tribunal to review the cases of persons detained--as required by law--has damaged the government's credibility.

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[REDACTED] Manley took the offensive against his critics on Tuesday in a televised speech in Parliament. He said the security forces have uncovered evidence of subversion and terrorism aimed at overthrowing his government. He read from documents that allegedly brand him and the government as communist. A subsequent government-sponsored propaganda campaign has attempted to link the Labor Party with these "plots" against the government.

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25X1 [redacted] Manley's campaign against Seaga and the Labor Party undoubtedly has been urged on him by the increasingly influential radical wing of his party. A member of that group was sworn in as parliamentary secretary in the Ministry of National Defense on June 21. This is one step in what is likely to be a series of moves to bring the military and constabulary forces more under the control of the left wing of the government and Manley's party. [redacted]

JAMAICA

25X1 [redacted] //Jamaica's economic problems--declines in bauxite output, reduced tourist trade, lower sugar prices, and a dearth of private investment--have resulted in serious foreign exchange difficulties and a further reduction in economic activity.//

25X1 [redacted] //The only easy recourse for Prime Minister Manley's government would be to raise taxes on the aluminum companies, which would have no choice but to raise bauxite and alumina prices. We believe other Caribbean bauxite producers as well as Guinea would follow any price increase by Jamaica. These producers account for about 75 percent of US bauxite and alumina imports.//

25X1 [redacted] //When the left-leaning Manley became prime minister in 1972, the country had excellent growth prospects, especially in aluminum and tourism. At first the economy did well under Manley, but in the past 18 months it has deteriorated rapidly:

--Government pressure against the aluminum companies have caused a sharp decline in bauxite and alumina investment.

--Manley's socialist rhetoric and his rapprochement with Cuba have scared other foreign investors away and led to large capital flight.

--Strikes have brought on a 30-percent drop in bauxite and alumina output in the first half of 1976.//

--Violent crime, on the rise for years, has recently taken an anti-foreign turn leading to a sharp drop in tourism.

25X1 [REDACTED] //In the first half of 1976 the price of sugar, one of Jamaica's main exports, fell 50 percent from the 1975 level.//

25X1 [REDACTED] //The Jamaican economy slumped badly in 1975 when real gross national product dropped 2 percent, and the slump worsened this year.// Despite the government-imposed import restrictions, Jamaica had a record current-account deficit of \$192 million during the first six months of 1976.

25X1 [REDACTED] Manley has stepped up public investment spending in the hope of offsetting declines in business output. To limit inflationary pressures, he has increased income and property taxes and has instituted stringent controls on credits for private business. These measures are intensifying the impact of import restrictions on business output and employment. The government has prevented unemployment from increasing beyond the 20 to 25 percent rate prevailing since 1970 only through padding public employment rolls by 40 percent.

25X1 [REDACTED] //Rising world demand for aluminum and the end of the bauxite strikes will probably allow bauxite and alumina exports to increase by 50 percent in the second half of this year. We expect no improvement in earnings from sugar; we anticipate a drop in tourism receipts. With continued import restrictions, the current-account deficit for the second half should fall by \$100 million to perhaps \$92 million.//

25X1 [REDACTED] Jamaica could finance this deficit with the recent \$87-million loan from its Caribbean Common Market partners and additional aid from the World Bank and other official sources. This, however, would largely exhaust Jamaica's borrowing potential and would leave imports 15 percent below the 1975 level.

25X1 [REDACTED] //In order to increase imports from present restricted levels, Jamaica will have no choice but to raise bauxite taxes and prices. An average price hike of 30 percent for bauxite would be required to allow imports to rise to the 1975 level. The likelihood of a price increase will grow with the approach of the national election late this year.//

25X1 [REDACTED] //The aluminum companies probably will not resist further tax increases, particularly in the face of rising demand.

In the short run, the companies cannot readily shift sources of supply, since US alumina refineries are built to process a particular type of ore. A large share of company alumina capacity is in the Caribbean--17 percent in Jamaica alone.//

25X1 [redacted] //Company resistance would expose \$850 million in investment to expropriation. In any event, increased costs can be passed on to consumers, particularly since bauxite is only about 15 percent of the total cost of aluminum metal. For example, a 30-percent rise in bauxite prices would increase aluminum prices by 5 percent, or 2 cents a pound.// [redacted] 25X1

CHILE

25X1 [redacted] //The Pinochet government reportedly is gratified with the outcome of the recent meeting of the OAS General Assembly in Santiago, from which it derived a measure of badly needed respectability. [redacted] 25X1

25X1 [redacted] //The Chileans made a good impression on most of the visitors, some of whom departed expressing skepticism about charges of human rights violations. The apparent order and stability did much to convince Latin American delegates that allegations of continuing repression are exaggerated.//

25X1 [redacted] //During the meeting Chile also succeeded in forging an informal alliance with countries having similar ideological leanings. Foreign ministry officials were pleased by the support Chile received from what they describe as the "anti-Marxist bloc" consisting of Brazil, Argentina, Uruguay, Paraguay, Bolivia, and Nicaragua. These groups can probably be counted on to come to Chile's defense on the human rights issue.//

25X1 [redacted] While international criticism of the Pinochet regime will continue to cause problems for Chile, it may begin to abate somewhat. The measures it has taken to ease up the worst aspects of its detention procedures and to release prisoners are likely to win it at least grudging acceptance.

25X1 [redacted] Judging by past performance, improvements in the
treatment of political prisoners and dissidents will be slow,
and retrogression is a distinct possibility. [redacted]

25X1

25X1 [redacted]
ITALY

25X1 [redacted] Italy's Christian Democrats, in their first official
proposal for a post-election government, have called for another
coalition with the Socialist Party and offered the Communist op-
position a limited consultative role in the formulation of gov-
ernment policies.

25X1 [redacted] Christian Democratic chief Zaccagnini, in a statement
approved unanimously this week by the party directorate, said that
such a coalition would also be open to the smaller parties except
the neo-fascists. He emphasized, however, that the Socialists
would be the Christian Democrats' key partner and promised the
Socialists that they would be treated as political equals by the
Christian Democrats--a recognition that only the Socialists, with
about 10 percent of the seats in parliament, can guarantee the
Christian Democrats a non-Communist majority.

25X1 [redacted] Zaccagnini made it clear that the Communists would be
consulted on the new government's program but insisted that they
would have to remain in the opposition rather than becoming part
of the government's working majority in parliament, as the So-
cialists have been demanding. The Socialists want to tie the
Communists as closely as possible to the government's program in
order to limit the Communists' ability to exploit their opposi-
tion status.

25X1 [redacted] While Zaccagnini was vague about the format for discus-
sions with the Communists, he implied that the negotiations would
take place in parliament. The Christian Democrats have in the
past resisted the idea of negotiating openly with the Communists
in parliament on the grounds that such an arrangement would tend
to blur the distinction between the governing majority and the
opposition.

25X1 [redacted] In an obvious effort to make the proposal more palat-
able for the Communists, Zaccagnini did not exclude the possi-
bility of the Communists acquiring the presidency of either the

senate or the chamber when the new parliament convenes on July 5. The Communists have insisted that their increased numbers in the legislature entitles them to one of these offices, which have always been the preserve of the governing parties.

25X1 [redacted] The Christian Democratic leader argued against the installation of a temporary caretaker government. [redacted] 25X1

25X1 [redacted] the Christian Democrats would be willing to form such a government if it appears that the Socialists need more time to sort out their options.

25X1 [redacted] Although serious negotiations will not begin until after parliament is seated, some indication of the Socialist attitude may emerge from a meeting of the party directorate today. The Socialists are likely to have trouble formulating a united response due to internal divisions stemming from their failure to score any gains in the election. There are increasing signs of a revolt against party leader De Martino, and an authoritative Socialist answer to the Christian Democrats may have to await the outcome of a leadership struggle in the party.

25X1 [redacted] The Communists may take up the Christian Democratic proposal during a central committee meeting that opens today. The Communists have so far avoided committing themselves to specific formulas, although the party press has reacted favorably to suggestions that the Communists be given an indirect consultative role in the next government. [redacted] 25X1

POLAND

25X1 [redacted] More details are available about the disturbances in Poland last week over proposed price hikes on food.

25X1 [redacted] The mayor of Radom, where the party headquarters building was gutted, said Wednesday that 75 militiamen had been hurt in the "fighting." He added that two demonstrators were accidentally killed by their own comrades but did not say how many dissidents had been injured. The mayor said that some of those detained had already been sentenced and all would be punished. The authorities appear to be avoiding general criticism of the demonstrators, concentrating instead on those incidents where violence was most evident.

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[redacted] The US embassy in Warsaw has received a report that workers took over one of the steelworks in Nowa Huta near Krakow and threatened to burn it down if police interfered.

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[redacted] Polish party leader Gierek will make a "major" speech today in his home town of Katowice, according to a Polish foreign ministry official. It will be Gierek's first public appearance in Poland since the eve of the riots last Friday.

25X1

[redacted] The violence and the regime's decision to withdraw its price package have undoubtedly prompted Gierek to reassert personal leadership. He can be confident of a large and warm welcome in Katowice, where he was party chief for 13 years. He will probably defend the continuing need for price increases but will also say that party and government leaders are carefully considering workers' proposals. In addition, he is likely to criticize those who resorted to violence and to call on Poles to rally behind him and the party in these difficult times.

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[redacted]



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USSR

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[redacted] The USSR reportedly has bought about 1.5 million tons of US and Brazilian soybeans for delivery this fiscal year. It bought a similar amount from the US and Brazil during the fiscal year that ended on June 30. The new purchases are in addition to about 12 million tons of grain bought so far this calendar year.

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[redacted] The Soviets can use the imports to rebuild their livestock herds after the distress slaughtering of last year when inventories of hogs and poultry dropped 20 percent and 15 percent, respectively. Soybeans contain large amounts of protein that are particularly important for swine and poultry. The USSR also can use the soybeans to cover any shortfalls in vegetable oil output this year.

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[redacted] Soybean prices have been strong recently, and we do not expect them to drop soon. A recent pick-up in world demand, including a Chinese purchase of 100,000 tons of beans from Brazil, could have spurred the Soviets to buy now. [redacted]

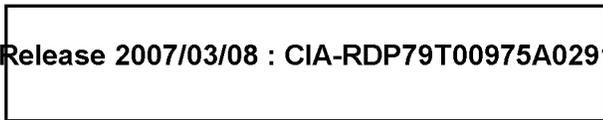
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OAU

25X1 [] African leaders who attend this year's summit meeting of the Organization of African Unity, which opens today in Mauritius, will focus primarily on South Africa and Rhodesia. Only nine heads of state will be present; the others are to be represented by stand-ins.

25X1 [] The participants will include newly independent Seychelles, which has been admitted as the OAU's 48th member. In keeping with OAU tradition, the host, Mauritian Prime Minister Ramgoolam, will probably be named chairman of the organization for the coming year, replacing Uganda's President Amin.

25X1 [] Proposals calling for tightened economic and political sanctions against South Africa and for increased support to Rhodesian, Namibian, and South African insurgents reportedly top the agenda drawn up by the foreign ministers in the preparatory conference that ended yesterday. South Africa was strongly condemned for its handling of the recent riots.

25X1 [] The ministers also proposed that an OAU fund be created to help compensate Mozambique for applying UN sanctions against Rhodesia. They recommended that Arab states be approached to provide the bulk of the financing.

25X1 [] We do not know what, if any, measures the foreign ministers recommended on Western Sahara and the French Territory of the Afars and Issas. Wrangling over diametrically opposed resolutions on the FTAI offered by Ethiopia and Somalia forced the ministers to extend their session by two extra days.

25X1 [] South African Prime Minister Vorster's visit to Israel earlier this year had a strong impact in black Africa, and few African leaders would resist a move by Arab OAU members to have the summit endorse the resolution equating Zionism with racism like the one adopted last year by the UN General Assembly.

25X1 [] The summit will also review the proposals for closer Afro-Arab cooperation advanced last April at the Dakar conference of Arab and African foreign ministers and may try to arrange a definite date for a future Afro-Arab summit that would put the proposals into action. []

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SOUTH AFRICA

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[] South Africa has been experiencing a foreign exchange bind that is likely to persist for several more months.

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[] The government has little choice but to continue measures to discourage imports and hope that gold prices do not sag further. The economy as a result will probably grow only about 2 percent this year.

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[] South Africa's payments position began to deteriorate in late 1974 as imports rose rapidly and nongold exports remained stagnant. The situation worsened in early 1975 as gold prices began to fall, resulting in a record \$1.1-billion current-account deficit in the first half of 1975. Even when South Africa devalued its currency by 4.8 percent in June 1975, the deficit remained high because gold prices continued to slide, and in September the government was forced to devalue by an additional 17.9 percent.

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[] Foreign exchange reserves were rebuilt temporarily after devaluation, but this year conditions again deteriorated because of a drop in gold prices, continued weak demand for exports, and a continuing high level of military purchases.

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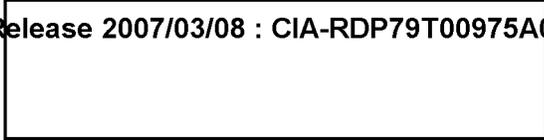
[] The government has borrowed heavily and rolled over short-term loans obtained in 1975 to increase capital inflows.

25X1

[] South Africa's options in dealing with its payments problems have narrowed. Shaky prospects for world gold prices rule out any abrupt increase in sales of gold from stocks. //The international market already is absorbing increased Soviet sales, // and periodic IMF auctions will add to international supplies. Industrial demand for gold is running roughly 30 percent below its 1971 peak level. Speculative demand, which accounted for slightly more than half of free world demand last year, is down sharply because of moderation in inflation and an upturn in real interest rates.

25X1

[] With domestic inflation again edging upward to more than 10 percent, the government is unwilling to stimulate prices further by another devaluation. It is also reluctant to impose



additional import controls or to pile more restraints on a sluggish economy. It already has stiffened monetary and fiscal measures during the past six months and has repeatedly tightened foreign exchange rules to relieve speculative pressures on its currency. It does not want to cut foreign military purchases.

Exports probably will not begin accelerating appreciably until the fourth quarter. By then, the Western economic recovery may be making itself felt, and major new coal and iron ore export projects will have started paying off. By continued scrimping and borrowing, the government should be able to muddle through unless gold prices sag badly. Foreign borrowing will be more expensive, however, because South Africa's economic and political problems have weakened its credit rating.



ETHIOPIA

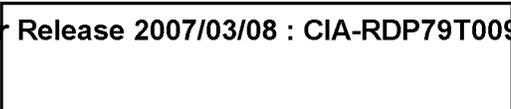
Ethiopia held a military exercise near its border with Somalia and the French Territory of the Afars and Issas on Tuesday. Press reports from Addis Ababa say the exercise took place near Aysha, some 10 kilometers (6.2 miles) from the Somali border.

Ethiopia does not normally have units stationed in the tri-border area, but the US defense attache has reported that troops and materiel have been shipped there by rail from the capital over the past two weeks. The exercise was conducted primarily by Ethiopia's Third Division, located along the Somali border, and the air force reportedly provided air support.

The presence of Ethiopian units in the tri-border area almost certainly concerns Somalia. A source of the US attache in Addis Ababa says Somalia ordered three battalions to move to the border area.



The maneuvers apparently were to show Ethiopia's resolve to contest any Somali moves into the FTAI.



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[REDACTED] //General Teferi Benti, the council's chairman, expressed Ethiopia's concern over Somalia's intention to Ambassador Hummel this week. Teferi said Mogadiscio has begun moving troops and making other preparations to take the territory by force. He also said that Somali-supported insurgent activity in southern Ethiopia is increasing. This was the first official Ethiopian reference to the infiltration across the southern border.//

25X1

[REDACTED] //Teferi said the Ethiopians considered "less than satisfactory" private Soviet assurances to Addis Ababa that Moscow would do its best to restrain Somalia. He urged US-Soviet collaboration to preserve peace in the area.// [REDACTED] (FORN, ORCON)

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