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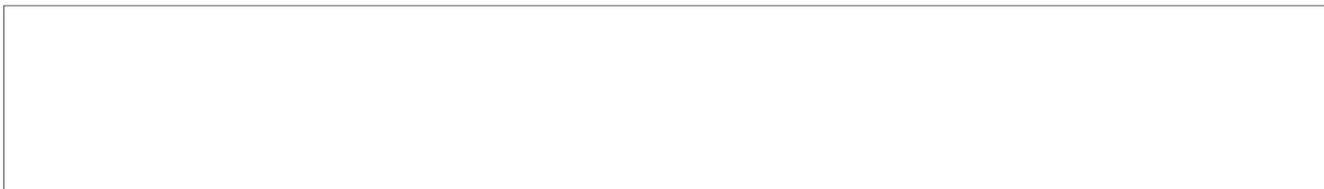
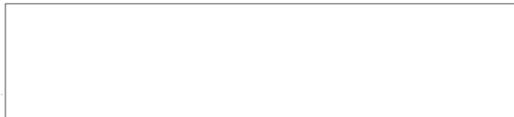
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USSR-SYRIA-LEBANON

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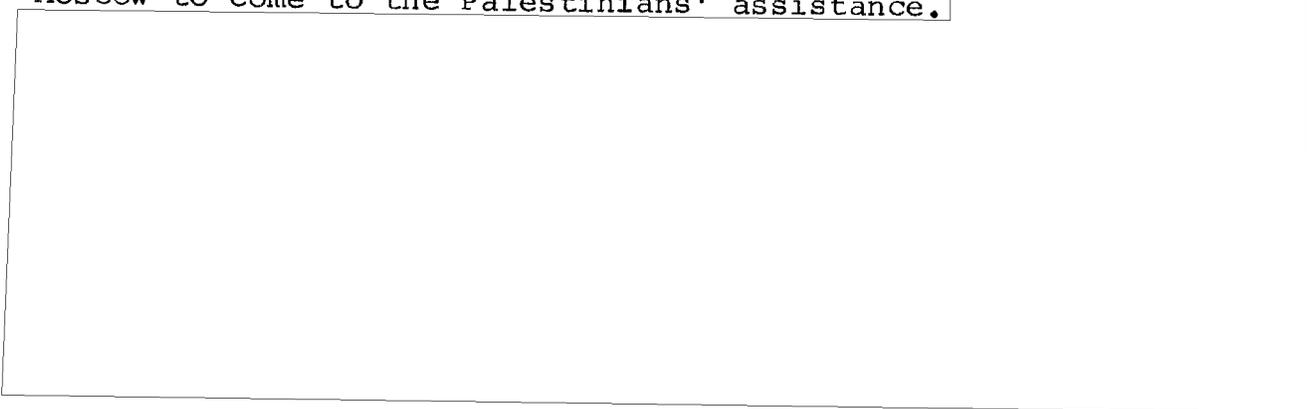
[redacted] An undramatic but perceptible public adjustment in Soviet policy toward Syria, the Palestinians, and the Lebanese crisis has been under way for several weeks.

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[redacted] The direction is clearly toward more overt support for the Palestinians and a still muted but increasingly open criticism of Syrian intervention.

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[redacted] The Soviets are responding to events as they unfold in Lebanon. The decline in the fortunes of the Palestinians since the Syrian intervention has resulted in increased pressure on Moscow to come to the Palestinians' assistance.



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[redacted] The Soviets also made some gestures on the political side. Last week, the "unofficial" Afro-Asian solidarity committee issued a statement on Lebanon calling on all peace loving forces to support the Palestinians and Lebanese leftists. It contained a reference to the Syrian troop involvement, charging that the Syrians were "aggravating" the situation. On Thursday *Pravda* ran an account of the press conference held by the newly appointed PLO representative in Moscow, including his expression of "deep regret and bewilderment" over the action of Syrian military units in Lebanon.

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[redacted] According to the Yugoslav news agency, *Pravda* yesterday carried its first extensive commentary on Lebanon in recent months, but it appears to be a generally mild statement. It reportedly says that Moscow is seeking to end the fighting on the basis of respect for independence and territorial integrity without outside interference.

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[redacted] Moscow is obviously fearful that Asad will destroy the Palestinians as an independent political factor in the Middle East, and hence deny them one of the few remaining cards in their Middle East hand. But the Soviets would also be highly reluctant to mortgage their considerable investment in Syria to the fortunes of the Palestinians, about whom they have long had ambivalent feelings--especially if there is no guarantee that they can, in fact, save the Palestinians. [redacted]

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#### LEBANON

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[redacted] Palestine Liberation Organization leader Yasir Arafat refused to go to Damascus yesterday, and Palestinian and Lebanese leftist leaders appear to be demanding such extensive conditions before negotiations can proceed that they are effectively precluding any talks with the Syrians.

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[redacted] The Palestinians announced after meeting with Arafat on Thursday night that he would refuse to begin talks until Syria had proved its "good will" by withdrawing completely from the south and the Mount Lebanon area, and until a satisfactory agenda had been agreed on in advance.

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[redacted] Other leftists added that Syria must also withdraw from both Balabakk and Tripoli before a dialogue can take place.

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[redacted] The Palestinians left open the possibility of sending a lower level delegation to work out an agenda, but there has been no reaction from Damascus.



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[redacted] The heaviest fighting yesterday was in the north. The Syrians have surrounded the Nahr al-Barid refugee camp near Tripoli and captured a crossroads north of the camp after heavy fighting with both tanks and infantry.

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[redacted] It is doubtful that the Syrians are eager to involve themselves in anything as potentially bloody as an attack on West Beirut, but they may at some point give the Christians a green light to hammer away at selected targets.

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[redacted] In a talk with the US ambassador to Damascus on Thursday, Syria's deputy prime minister for economic affairs made it clear that the Lebanese crisis has been a severe drain on Syria's economy. Perhaps as many as half a million Lebanese refugees have fled to Syria, many of them without shelter. The minister



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noted that there have been acute country-wide shortages of bread, sugar, and rice; other shortages have been caused by Lebanese entering Syria to buy up provisions and then return home.

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UK-KENYA-UGANDA

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 //London newspapers reported yesterday and Thursday that the UK would airlift artillery, small arms, and ammunition to Kenya.//

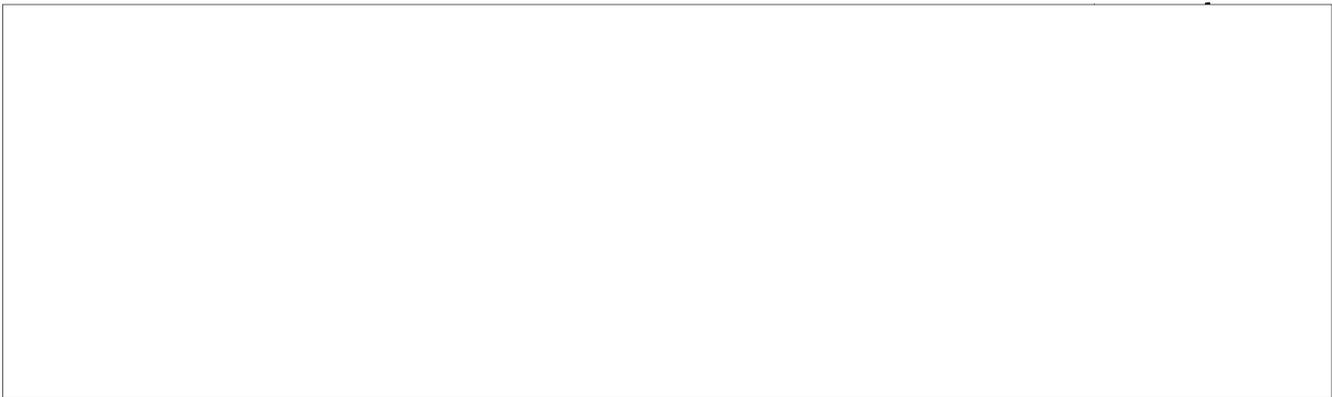
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 //The publicity could indeed lead Amin to take reprisals against British citizens in Uganda, perhaps accusing some of espionage or other crimes. British citizens may also be harassed by Ugandan civilians and undisciplined soldiers with the government's tacit approval. Amin could decide to expel all British citizens.//

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 //Amin will probably step up his verbal attacks on Kenya and may make threatening moves along the border, although he will probably avoid a major military attack. Constraints on Amin include a fuel shortage because of Kenya's partial blockade of petroleum supplies and the general inefficiency of his armed forces. If he does decide to retaliate, he is likely to order limited cross-border air or ground raids.//

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## SUDAN - EGYPT - SAUDI ARABIA

25X1 [ ] Sudanese President Numayri and Egyptian President Sadat will begin a three-day visit to Saudi Arabia today. They probably will discuss with Saudi leaders how to shore up Numayri's position in the wake of the abortive coup against him in early July. The coup attempt was apparently backed by Libya, and the three leaders may also talk about what to do about Libya.

25X1 [ ] Numayri has been in Egypt since Tuesday to discuss the coup attempt and Sudan's other problems. Press reports say that political, economic, and military "integration" has been discussed. Saudi royal adviser Kamal Adham sat in on some of the Sadat-Numayri meetings.

25X1 [ ] Both Sudan and Egypt appear convinced that Libya's President Qadhafi, in supporting the coup attempt, was working at the behest of the USSR, although the coup plotters were extreme religious conservatives.

25X1 [ ] Sadat said in an interview last weekend that the coup was an "extremely big scheme for Qadhafi's mentality" and must have been backed by "world professionals." Numayri publicly charged on Tuesday that the plot must have been organized from outside Sudan.

25X1 [ ] Sudan will undoubtedly be looking for military and economic aid at the Saudi meeting. The coup attempt early this month was the fifth since Numayri took power in 1969. He would like to ensure the backing of the Sudanese armed forces by obtaining modern weapons to replace aging Soviet-supplied arms. A Saudi handout of cash or aid for development projects would also buttress Numayri's domestic position.

25X1 [ ] Sadat and Numayri will probably play on Saudi fears that the ouster of the Numayri government would eventually bring a radical leftist regime and increase Soviet influence along the Red Sea. The Saudis are already concerned by the Soviet presence in Somalia.

[REDACTED]

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[REDACTED] Egypt might be willing to provide limited military assistance to Sudan, but Sadat is probably more interested in discussing the Qadhafi problem. A coup in Sudan that led to the installation there of an unfriendly government would leave Egypt surrounded by hostile neighbors.

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[REDACTED] Cairo has been hinting publicly that it might be planning an operation against Qadhafi. Sadat moted cryptically in a recent interview that "we know of all the training camps" in Libya used for training saboteurs and terrorists, and Cairo's leading daily on Thursday suggested that "if Egyptian or any other Arab intelligence organization plans any action outside its borders," Qadhafi would be the most likely target.

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[REDACTED] These threats may be only an attempt to intimidate Qadhafi. On the other hand, Sadat may explore with the Saudis the advisability of--and financing for--some sort of operation against Qadhafi.

[REDACTED]

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PANAMA

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[REDACTED] A leading daily this week charged that US planes overflowed and fired on Panamanian troops near the Canal Zone. According to the story, Panama is preparing a formal protest.

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[REDACTED] //A second press report alleged that two Panamanian students arrested for trespassing in the Zone had been abused at their court hearing and that Panamanian reporters covering the story were mistreated.//

[REDACTED]

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[Redacted]

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[Redacted] //The allegations appear groundless. The US flights in question, for example, were routinely cleared in advance by Panamanian authorities. Senior National Guard officers have told US officials privately that the stories are unfounded.//

[Redacted]

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[Redacted] //The government is probably primarily trying to distract students whose increased political activity during recent student elections has resulted in greater criticism of Torrijos by the extreme left. The lack of tangible progress in the canal treaty negotiations has also led to increased criticism of Torrijos.//

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[Redacted] //With the anti-US articles, Torrijos hopes to make common cause publicly with nationalists through a renewed propaganda effort against the "US colonialist presence." The government may well forgo any formal protest, however, since it is seeking domestic rather than international impact.// [Redacted]

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IRAQ-SYRIA

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 //Baghdad is continuing to build up its military strength in western Iraq. Over the past three weeks, more than 20,000 Iraqi troops have been shifted from the east to an area in central Iraq west of the capital. These movements bring the number of troops in the border area opposite Syria to about 70,000, where only some 20,000 are normally stationed.//

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 //In addition, another 10,000 troops have been moved to northwestern Iraq since late June--apparently for use against resurgent Kurds. They may be intended for use on the Syrian-Iraqi border.//

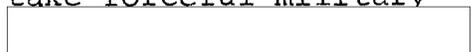
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 //Included in the buildup opposite Syria are about two thirds of the Iraqi army's combat brigades, some surface-to-air missile units, and various service elements.//

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 //The forces remain along the three main roads that lead into Syria. Over half are stationed in the central area, with the remainder divided nearly evenly between the north and south. Three fourths of Iraq's tanks are now located west of Baghdad, almost all of them in the central and southern sectors.//

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 //The westward movement of Iraqi forces began over a month ago, and we remain uncertain about Baghdad's intentions. The forces on the border have not caused Damascus to divert Syrian troops from Lebanon--nor have they led domestic enemies of Syrian President Asad to rise against him. The movement of troops, however, has placed Iraq in a position to take forceful military action against Syria with little warning. 

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[REDACTED]

25X1 KUWAIT-USSR

[REDACTED] //Kuwait's deputy prime minister this week told the US ambassador that Kuwait has agreed to purchase \$300 million worth of Soviet weapons. Negotiations, which began last summer, may in fact have been concluded early this year when Kuwait sent 200 military personnel to the USSR for training on Soviet equipment.//

25X1 [REDACTED] //The status of Kuwait-USSR arms negotiations has been difficult to pin down. Early in January the Kuwaiti finance minister unequivocally announced to the press that Kuwait had concluded its first arms accord with the USSR.

UNCODED

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[REDACTED] UNCODED Reports of an impending Soviet-Kuwaiti arms agreement persisted throughout the spring and early summer but could not be confirmed.//

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25X1 [REDACTED] //The deputy prime minister stated that most of the advisers needed to train Kuwaitis to use these weapons would be brought in from Egypt and Syria, and that Soviet advisers would be kept to a minimum. The minister of defense had indicated earlier that Egyptian and Syrian advisers would assume a principal role. Some 90 Kuwaitis went to Cairo in late April for air defense training.//

25X1 [REDACTED] //The agreement would be Kuwait's first major arms deal with a communist country. It would also mark Moscow's first entrance into the lucrative market of conservative Arab states of the Gulf that has given Western arms suppliers about \$10 billion worth of orders since 1973.//

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ITALY

25X1 [redacted] Italian prime minister - designate Andreotti met yesterday with a Socialist Party delegation headed by new party chief Bettino Craxi, but he appeared to make little progress toward forming a new government.

25X1 [redacted] The Socialists reportedly reiterated their demand for a broad-based emergency government that would include the Communists, at least in its parliamentary majority--a formula the Christian Democratic directorate ruled out earlier in the week.

25X1 [redacted] The meeting with Andreotti was Craxi's first official task after his election as Socialist leader yesterday at the end of a stormy three-day session of the party directorate. The meeting produced the resignation of Francesco De Martino, who had served as party leader since 1972.

25X1 [redacted] De Martino stepped down after the Socialist left-wing faction--which favors an immediate alliance with the Communists--emphasized its opposition to his leadership by resigning from the party directorate.

25X1 [redacted] This tactical victory for the left is balanced somewhat by the selection of Craxi, who comes from the Socialist right-wing faction that stresses the party's autonomy from the Communists.

25X1 [redacted] Among younger Socialist leaders, the 42-year-old Craxi is one of those most disposed to work with the Christian Democrats. As suggested by his initial meeting with Andreotti, however, Craxi's freedom of maneuver will be sharply limited by the rising influence of the Socialist left and the divisions in the party over future policy.

25X1 [redacted] Andreotti also met with Communist leader Enrico Berlinguer yesterday and may consult with some of the smaller parties over the weenend. He is scheduled to report the results of his soundings to the Christian Democratc directorate on Monday. [redacted]

25X1 [redacted]



EC-GREECE-TURKEY

25X1 [ ] //The EC foreign ministers hope to announce at their meeting next week the formal opening of negotiations on July 27 for Greece's entry into the Community. The negotiations will be closely linked to talks with Turkey on improving its association agreement, and a go-ahead for the opening of negotiations with Greece hinges on Ankara's acceptance of an EC aid package for Turkey.//

25X1 [ ] //Substantive negotiations on Greek entry will probably begin in September. The Greek government, which is aiming for EC membership by 1980, has already proposed legislation to ease the shock of EC entry by improving the competitive position of Greek industry and agriculture. One bill, for example, will encourage consolidation of small land holdings and the creation of agricultural cooperatives. Another provides incentives for the formation of trucking companies--most trucks now are owned and operated by individual drivers.//

25X1 [ ] //The EC's negotiations with Athens are likely to be protracted, if only because of the political questions EC membership would raise. Greek-Turkish differences over the Aegean and Cyprus, for example, are certain to affect the pace of negotiations.//

25X1 [ ] //EC members have supported the reconvening of the Cyprus intercommunal talks and may raise this matter directly in meetings with the Greeks and the Turks. The Nine have also urged moderation on both sides with regard to the expected dispatch by Turkey of a seismic exploration ship into Aegean waters.//

Strains with Turkey

25X1 [ ] //The Nine are planning to hold ministerial-level talks with Turkey on July 24 in Ankara, but this meeting may be postponed if Turkey rejects the EC offer to improve the terms of its association agreement. Turkey wants substantial concessions for its agricultural exports to the EC, increased benefits for migrant workers, and more help from the Community for industrialization.//



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//Turkey's trade deficit with the Community has increased dramatically over the past two years, and Ankara is demanding a firm assurance that the EC will take steps to reverse this trend. EC members are anxious to improve relations with Ankara, and have tried to reach a suitable arrangement before opening talks with Greece.//

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//The Nine seem willing to compensate Italy or any other member that would be adversely affected by agricultural concessions. This should pave the way for giving Turkey preferential treatment for about 90 percent of the farm goods it exports to the Community. The EC has also agreed to provide Turkey with about \$360 million in financial assistance over a five-year period, to allow a more gradual elimination of tariffs Turkey places on EC exports, and to reinforce provisions for economic and technical cooperation.//

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//If Ankara accepts this package, the Nine can proceed almost immediately with the ceremonial opening of negotiations on Greek membership. The initial meeting will also discuss harmonization of agricultural policies and financial assistance for Greece--now expected to total about \$330 million over five years.

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PORTUGAL

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Portuguese President Eanes yesterday formally asked Socialist Party leader Mario Soares to form a minority government.

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The cabinet selection has virtually been completed, but Soares may delay announcing the names until his program is approved by the Assembly of the Republic.

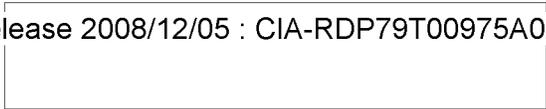
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The cabinet reportedly will consist almost entirely of Socialist Party members.

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The ministers who will be responsible for economic policy are competent, but do not appear to be the top-notch team many Portuguese expected. We question whether they will have sufficient influence to get party leaders to accept necessary, but politically unpopular, economic austerity measures.



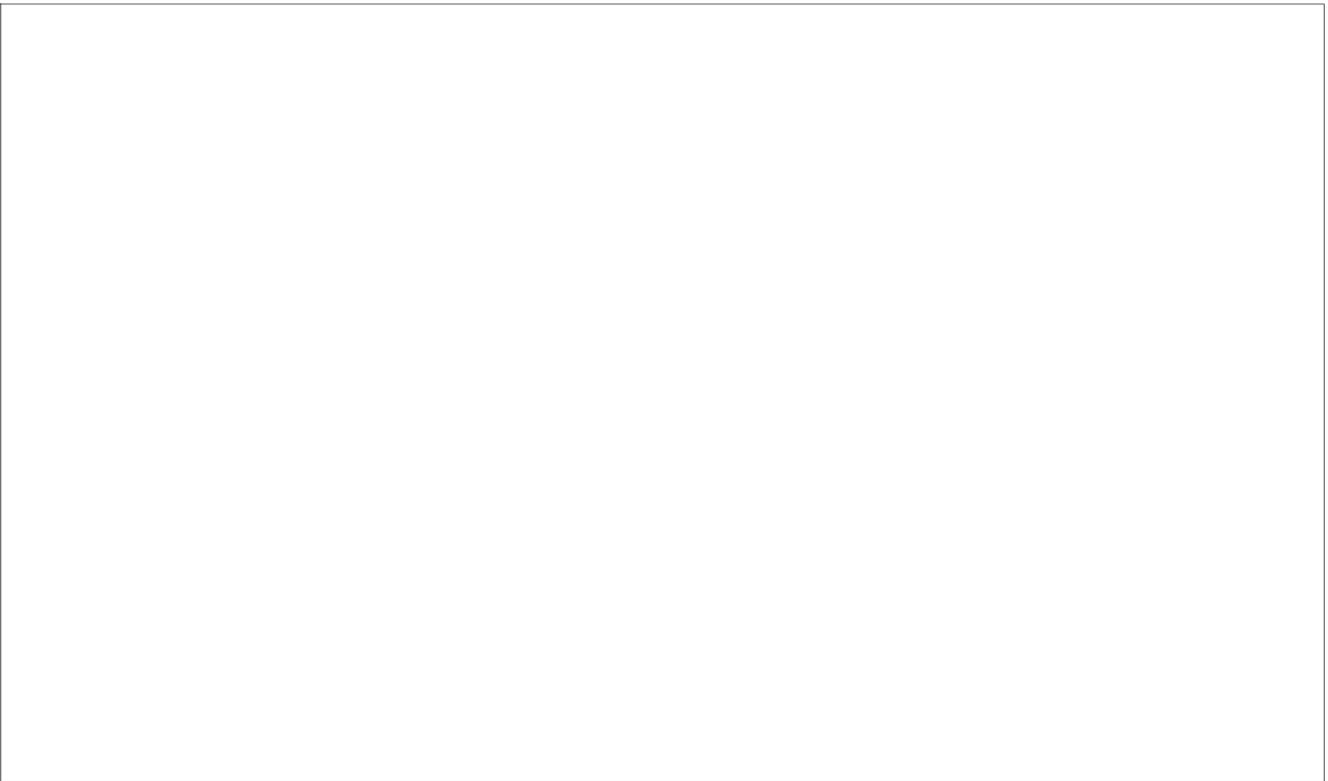
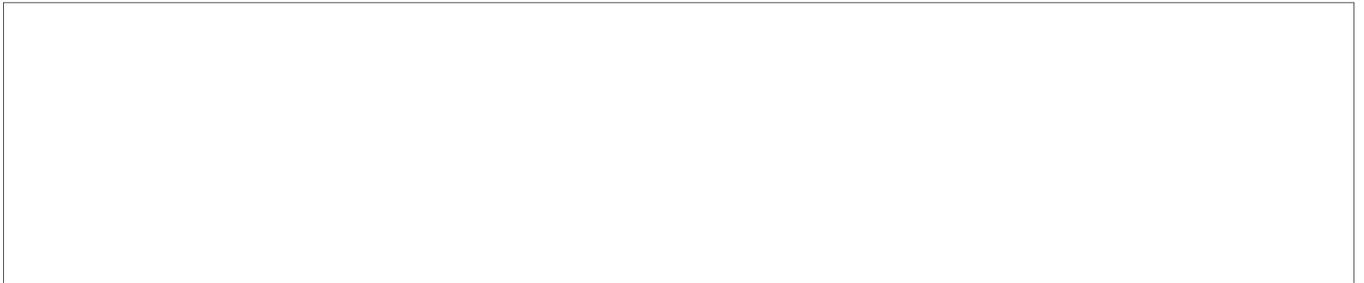


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 Soares' program is expected to pass the legislature with little difficulty, but the Socialists--who hold only 40 percent of the seats--will have a harder time on future legislation.

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 Two of the major parties have already announced that they will be selective in their support of the Socialist government's legislative proposals. The Communists plan to enter into outright opposition; they will probably attempt to provoke unrest, most likely by exploiting their continuing dominance of labor.



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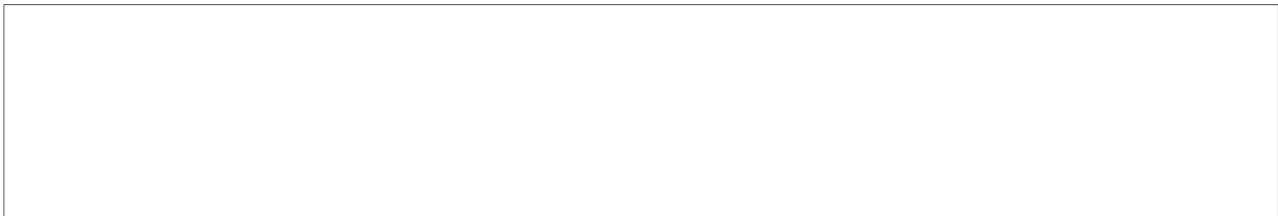
FRANCE

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[redacted] For political reasons, Paris badly needs to take some highly visible action on inflation. With polls showing rising public concern about prices, failure to act would give the Socialist-Communist opposition an issue to exploit in local elections in 1977 and legislative elections in 1978.



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[redacted] French inflation held near 10 percent throughout 1975--about the level that it had attained in mid-1973, before the oil crisis briefly pushed the rate as high as 17 percent. A short-lived decline to about 8 percent last fall reflected government delays in raising prices for some public services. With economic recovery this year, the rate has been about 11 percent--a pace that is likely to continue into 1977.

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[Redacted]

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[Redacted] //Recognizing that it almost certainly cannot meet its commitment to hold inflation to 7.5 percent this year, the government apparently is seeking a scapegoat. The drought is an obvious choice because it will in fact have an adverse effect on food prices. Two French bank studies, however, place the currently expected impact on consumer prices at less than 1 percent in 1976.// [Redacted]

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SPAIN

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 The new Spanish government's program, announced last night, does not appear to differ markedly from that of its predecessor, although the vaguely worded promise to hold a referendum "touching on constitutional reform" may presage a new approach to pushing democratization past the rightist-dominated parliament.

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 Prime Minister Adolfo Suarez intends to simplify the referendum proposal that will be submitted to the Cortes and then to the nation. Instead of presenting a detailed referendum on its liberalization program, the government will seek a broad popular mandate.

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[redacted] Armed with this mandate, the government could implement its reform program by decree law, avoiding the necessity of haggling over a detailed reform package on the floor of the Cortes. This would establish its legitimacy and clear up the authority-sapping confusion that has followed the death of General Franco.

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[redacted] The opposition is likely to be disappointed by the absence of details about the referendum and a specific timetable for reforms, but the government did make an effort to meet some opposition demands.

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[redacted] The government's statement pledged a parliamentary election during the first half of next year and recommended that King Juan Carlos grant amnesty to non-terrorist political prisoners--a move that is expected to free about half of the remaining 600 people jailed for political offenses. Former interior minister Fraga had promised similar action as soon as the Cortes passed the penal reform bill. The bill was passed on Wednesday.

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[redacted] By carrying out the promise on amnesty, the Suarez government may win badly needed support. The opposition has made it clear that political amnesty is a primary condition for any cooperation with the government's reform program.

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[redacted] Suarez hopes to win that cooperation; he demonstrated a willingness to open a dialogue with the opposition during his negotiations to form a cabinet, and recently he met with two of its leaders, Christian Democrats Ruiz Gimenez and Gil Robles--a step former prime minister Arias had refused to take.

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[redacted] In its statement last night, the government committed itself to "accepting criticism and recognizing that civilized dissidence is a service to the community." It did not touch on the sensitive issue of legalization of the Communist Party. [redacted]

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[redacted]

#### PERU

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[redacted] The ouster of radical Prime Minister Fernandez Maldonado and some of his cabinet supporters yesterday suggests a movement toward moderation in Peruvian government policies.

[redacted]

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[redacted] The personnel changes were apparently a fallout from the showdown last week between Fernandez Maldonado and conservative army General Bobbio. Fernandez Maldonado forced Bobbio's retirement, but the navy continued its pressure for the prime minister's removal. At the same time, growing dissatisfaction among the army commanders apparently precipitated yesterday's moves by President Morales Bermudez. Officially, Fernandez Maldonado requested retirement.

[redacted] The new Prime Minister and Minister of War is General Guillermo Arbulu Galliani, former chief of the armed forces joint command. As the new army commander, he becomes de facto strongman of the revolutionary junta, which is composed of the three service chiefs.

[redacted] Arbulu is considered a staunch member of the faction oppose to the radicals in the armed forces. To make him prime minister, Morales Bermudez had to skip over Army Chief of Staff General Luis La Vera. La Vera presumably will now retire.

[redacted] The most significant of three other cabinet changes involves the ministries of agriculture and foreign relations. The previous incumbents had been close allies of the radical prime minister. New Minister of Agriculture Luis Arbulu Ibanez and Foreign Minister Jose de la Puente appear relatively non-controversial. De la Puente, a civilian, is a respected career diplomat who has been active in negotiations with the US aimed at settling the Marcona Mining Company compensation dispute.

[redacted] The latest changes may signify some reduction of the continual squabbling that has drained military energies in recent months. Those ousted were primary targets of conservative criticism, although some radicals remain in the cabinet. We have no information to indicate that Fernandez Maldonado's supporters have so far mounted any opposition to his removal. [redacted]

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