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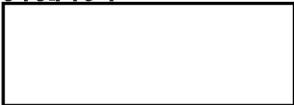
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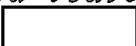
CUBA: The Middle East Connection

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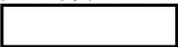
IRAN: More Demonstrations

Anti-Shah demonstrations occurred yesterday for the sixth straight day in Tehran and other Iranian cities. Supplies of kerosene and heating oil became critically short and long lines formed in Tehran at the few retail outlets still selling them. Some Army officers are becoming concerned about morale and the reliability of their troops. Efforts to find a political solution that would leave the Shah in power appear to have stalled. 

Sporadic clashes between anti-Shah demonstrators and military forces were reported in Tehran, Ahvaz, Qazvin, and Shiraz yesterday. The military is still trying to avoid major violence by exercising some restraint, but both sides are taking casualties. 

The situation may worsen this weekend. Ayatollah Khomeini has called for a national day of mourning on Saturday--the last day of the Muslim holy month of Moharram--to be marked by a general strike and more demonstrations. 

The effectiveness of the oil strike kept production at a trickle--340,000 barrels yesterday--all to be delivered to the Abadan refinery, the only one now operating. Even if the refinery is processing the crude oil for the maximum output of kerosene and heating oil, only 30 to 40 percent of current demand can be met. Even these limited supplies, however, may not reach most consumers because of distribution problems. 

The head of the National Iranian Oil Company has asserted that the nation's oil supplies will last for only a week but, in Tehran, Tabriz, and probably several other major cities, the US Embassy reports that stocks have already been exhausted. Even if oil and gas output resumes soon, distribution problems will cause recurrent shortages in many parts of the country. 

//Despite the deteriorating situation, the US Embassy in Tehran reports no sense of urgency among top political figures. Some of the politicians Gholam Sadiqi had hoped to bring into a new civilian government have privately indicated they will not serve. In any case, the Embassy believes that a new government would have

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[redacted]

only the same options the present government faces--a
hardline military crackdown or surrender to opposition
demands.// [redacted]

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//If the Army's cohesiveness and loyalty are in
fact seriously eroding, the military may not be able to
crack down successfully on the opposition. Much depends
on the Shah's willingness to act decisively--he still
does not appear to have settled on a course of action.//

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[redacted]

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CHINA-VIETNAM: Policies

China has stepped up the level and frequency of its warnings to Vietnam in the aftermath of fighting along their common border on Saturday. Official statements link Peking's tougher stance toward Hanoi with China's efforts to deflect Vietnamese pressure on Kampuchea. []

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China issued two warnings yesterday demanding that Vietnam "stop immediately" its "provocations and incursions along the China-Vietnam border." The statements followed two formal protests by the Chinese Foreign Ministry on Sunday and a strongly worded editorial in *People's Daily* on Monday. The editorial said Vietnam's "bullying of China has reached an intolerable point" and gave "clear warning" that if China "is attacked, it will certainly counterattack." []

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After previous incidents along the border and in the Tonkin Gulf, Peking warned Hanoi that China's "forbearance has its limits." The Foreign Ministry assertion that those limits have now been passed and the warning in the *People's Daily* editorial that the situation has reached an "intolerable point" represent a toughening of China's warnings, although they fall short of even stronger warnings China has issued before past outbreaks of fighting with other countries. []

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In a *People's Daily* editorial and a Foreign Ministry statement yesterday, Peking also reiterated its opposition to Vietnam's claims to the Spratly Islands, in the South China Sea, and to most of the Tonkin Gulf. China seems to be strengthening the basis for its claims to these areas, and this may presage more assertive Chinese patrolling there. China's ability to act against the Vietnamese is much stronger in the Tonkin Gulf than in the Spratly Islands, where distance and the presence of small Philippine and Taiwan garrisons, in addition to Vietnamese forces on six of the islands, pose difficult military and diplomatic hurdles. []

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EUROPE: Monetary System In Question

//France is threatening to block the startup of the European Monetary System on 2 January after it failed to win concessions on agricultural pricing policy at the EC agricultural council meeting last week. The French and West Germans are now seeking a compromise on pricing policy that would permit the new monetary system to begin on schedule. If no solution can be found in time, the West German Finance Ministry has indicated that an exchange rate stabilization scheme could be started without France.// [redacted]

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//In recent weeks, the French Government has come under increasing pressure from the politically powerful farmer federations to revise the EC system of agricultural support prices and the related system of taxes and subsidies for agricultural trade--referred to as Monetary Compensatory Amounts. French farmers complain that the present setup results in lower support prices in France than in West Germany or the Benelux countries. At the same time, farm exports from these countries to France are subsidized, thereby enabling them to undersell domestic products.// [redacted]

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//Gaullist leader Jacques Chirac, who is a presidential aspirant, has recently stepped up his attack on Giscard's European policy as a sellout to West Germany. He charges that EC agricultural arrangements show how Giscard's pro-European policies hurt France. Giscard apparently feels compelled to demonstrate that he too can be stubbornly nationalistic.// [redacted]

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//At last week's meeting, the French Agriculture Minister, Pierre Mehaignerie, demanded that Monetary Compensatory Amounts be phased out over a specified period and that EC support prices for French products be raised. West Germany adamantly opposed the proposal because it could reduce West German agricultural support prices. While Italy sided with France on Monetary Compensatory Amounts, Rome has not linked the issue to its own membership in the European Monetary System.// [redacted]

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//Failing to win acceptance of its proposal to phase out the subsidy scheme, France placed a formal reservation on decisions regarding startup of the European Monetary System that were adopted by the EC Finance Ministers Council on 18 December. Unless this reservation is

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[redacted]

lifted, the European Monetary System apparently cannot operate under EC auspices. Nevertheless, the central banks of the remaining prospective members could agree among themselves to start a similar system without EC approval.// [redacted]

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//Both Giscard and West German Chancellor Schmidt have staked a substantial amount of prestige on the European Monetary System. We believe that both remain committed to it and that a last-minute face-saving compromise is still possible.// [redacted]

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[redacted]

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EAST GERMANY: Energy Constraints

East Germany's normal winter energy shortage is worse than usual this year because of internal production problems and external supply constraints. The shortage has undercut efforts to fulfill the 1978 economic plan and will affect next year's economic performance.

[redacted]

//The production of domestic lignite, East Germany's primary energy source, has fallen below plan during the fourth quarter because rain damaged open pit mines. This month's report of the party's ruling Politburo mentioned a "large production deficit," and the shortfall is serious enough that East German officials have augmented the labor force.//

[redacted]

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//Deliveries of Polish anthracite and coking coal have slowed significantly, apparently because of high Polish demand. Last year, Poland provided almost 20 percent of East Germany's total coal imports. In addition, Soviet crude oil deliveries are said to have fallen at least 6 percent below those scheduled for 1978, and further cuts are likely next year.//

[redacted]

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East Germany's 1978 plan calls for a growth in national income of 5.2 percent, but this is in jeopardy because of production bottlenecks and raw materials shortages. Energy-related problems will almost certainly hold growth this year below 5 percent.

[redacted]

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The country's recently announced 1979 economic plan calls for an increase in national income of only 4.3 percent, the lowest annual goal of the present five-year plan. Further cuts in energy supplies, particularly in oil from the Soviet Union, will force the East Germans either to rely more on Western suppliers--which will increase their already serious hard currency trade deficit--or to reduce economic growth even further--which could lead to domestic unease. There have been no signs, however, of active unrest.

[redacted]

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BRIEFS

Albania

Albania has publicly denied that the "grave economic difficulties" arising from the economic break with China will drive it into seeking an alliance with any other power. In a speech to the Albanian parliament this week, Premier Mehmet Shehu specifically excluded the possibility of reestablishing relations with either the USSR or the US. [redacted]

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Shehu also acknowledged for the first time that China, in addition to terminating economic and military aid, has suspended trade with Albania. He said Peking still has not signed the 1978 trade protocol, although negotiations have been under way since November 1977. Two-way trade with China in 1977 reportedly amounted to \$60 million, a \$140 million decline since the previous year. Tirana probably has been trying to make up for the loss by reorienting its trade toward other partners. [redacted]

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We believe that diplomatic relations are now reduced to the charge d'affairs level. [redacted]

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Kenya

Swarms of desert locusts--which have been devastating croplands in Ethiopia, Somalia, and Sudan--have been reported in the Ogaden region of Ethiopia, and winds of the northeastern monsoon could carry them into Kenya at any time. [redacted]

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If the swarms reach Kenya, they are likely to remain in the sparsely populated and little developed north and northeast until February or March. US experts believe that specialized Kenyan and East African teams can probably bring the swarms under control in Kenya and that damage to that nation's economy will be slight. [redacted]

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If these efforts fail, the locusts could spread by April into Kenya's densely settled southwestern highlands--the country's economic heartland--where they could seriously damage both cash and food crops, especially

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grains and pasture grasses. The swarms are not likely, however, to spread farther into Uganda or Tanzania. A seasonal shift of wind direction will blow them northward out of Kenya by June, and the country will remain free of locusts until at least November or December. [Redacted]

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FEATURE ARTICLE

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CUBA: The Middle East Connection



//The mid-December visit to Cuba by Iraqi leader Saddam Husayn highlights the expansion of Cuba's relations with the radical Arab states in recent years, a development that has given Havana valuable political friends and a major new source of hard currency. One measure of the importance Cuba attaches to these ties is that--at least partly in deference to Arab governments--it refrained from a major military involvement in Eritrea during Ethiopia's decisive offensive there last month.//

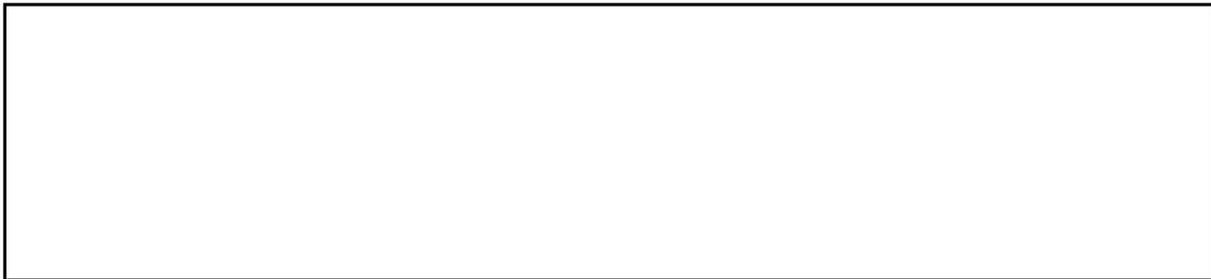
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Cuba's commercial relations with the major radical Arab states--Algeria, Iraq, Libya, and Syria--have increased significantly, bringing hard-currency revenues at a time when Cuban trade with and borrowing from the West have been adversely affected by low world sugar prices. The radical Arab states now constitute Cuba's third largest non-Communist market, accounting for about 10 percent of Cuba's total hard currency earnings. Cuban sugar exports to the four nations have more than tripled since 1974 and now comprise about one-fifth of Cuba's total sugar exports to the world free market. Revenues from this trade have enabled Havana to purchase sorely needed industrial goods from Western countries.



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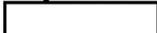
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//The Cuban national airline is planning to initiate service to Algeria, Libya, Iraq, and probably Syria next year. The new links will help move Cuban technicians and the growing number of delegations traveling between the

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countries. The air service may be expanded to include Addis Ababa; it could then be used to transport Cuban troops and civilians to and from Ethiopia.// [redacted]

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Havana is exploiting its growing ties to elicit radical Arab support for Cuban foreign policy interests. Iraq, for example, has apparently signed the International Sugar Agreement, and Cuba is urging the Syrians, Libyans, and Algerians to do likewise in order to press the EC, whose footdragging has inhibited the pact's effectiveness. [redacted]

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Other Arab support for Cuba includes Libyan and Algerian financial backing for the World Youth Festival in Havana last July and radical Arab promises to help pay for the nonaligned summit meeting scheduled for Havana next September. Algerian officials have already helped Cuba with organizational and logistic preparations for the summit. In addition, Iraq joined Cuba this summer in promoting Puerto Rican independence by cosponsoring a resolution in the UN Decolonization Committee. [redacted]

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[redacted]

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Cuba's stake in maintaining cordial relations with radical Arab countries has influenced its actions in Ethiopia. Pressure from the radical Arabs--who support the Eritrean separatists--was a major factor in dissuading the Cubans from becoming heavily involved in the recent Ethiopian offensive in Eritrea. Havana doubtless realized that such a move would have seriously affected its efforts to form a nucleus of "progressive" states within the nonaligned movement and could have jeopardized its growing economic stake with the radical Arabs. [redacted]

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Cuba's ties with the Arabs are not wholly problem-free, however. Relations with Syria have been less cordial than with other radical states as a result of Syria's intervention in Lebanon and its confrontations with the Palestinians there. In addition, Cuban military support to Ethiopia has revived concerns among some radical Arab governments that the Cubans are too closely aligned with the USSR. [redacted]

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Nonetheless, Havana is well aware that cooperation with the Arabs is crucial to achieving its foreign policy goals, and it will continue working to strengthen relations. As long as it shows restraint on contentious issues such as Eritrea, Cuba's ties with the radical Arabs are likely to continue to grow. [redacted]

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