Directorate of Intelligence



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# European Review

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**29 August 1986**

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# European Review

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*Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views. Comments may be directed to the authors,* [redacted] 25X1
[redacted] 25X1

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# European Review

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## Briefs

**Western Europe**

### Progress on New Fighter Aircraft

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The Eurofighter—a joint project by Britain, Italy, Spain, and West Germany previously known as the European Fighter Aircraft—moved a step closer to reality in early August when a prototype aircraft by British Aerospace flew for the first time. The flight followed closely the debut of France's advanced experimental combat aircraft, the Rafale, in July. Both are outgrowths of attempts to develop a common European fighter to replace the aging Jaguars, F-4 Phantoms, and F-104 Starfighters in West European air forces.

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According to press reports, British Aerospace's experimental aircraft is the first fighter to be assembled entirely in the United Kingdom since 1954 and represents a $270-million research and development investment. This prototype will test advanced technologies for the next generation of European fighters, including digital fly-by-wire control, relaxed static stability, integrated avionics and electronic cockpit displays, and carbon-fiber composite airframes. Members of the Eurofighter consortium agree that the primary role of their fighter will be air-to-air combat but have been unable to settle on which radar or engine to use.

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The consortium earlier discouraged major US participation in the project. Failure to resolve British–West German differences and fears of increasing costs and delays caused by the introduction of new technologies, however, may lead to US involvement in electro-optics as well as radar and engines.

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**Portugal-Italy**

### NATO Brigade Plans Movement by Train

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The NATO Brigade of the Portuguese Army in September plans a trial exercise in moving the unit by train to its assigned operational area in northern Italy, according to the US defense attache. The brigade will practice loading procedures for a complement of 350 men, and—if the exercise is successful—train transport of the trial group will take place sometime in 1987.

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Refusal by Spain to allow transit across its territory had blocked previous plans to move the brigade by train. Since then, the Portuguese have perceived a change in Madrid's position and are optimistic they will now be granted permission. The Portuguese will also have to secure approval for the brigade to travel through France. Although obtaining French permission will require delicate handling because of France's reluctance to commit itself to NATO in advance of a war, Paris probably will permit the train to transit France. The brigade's major weapons systems and vehicles, however, are still projected to go by sea. 25X1

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**Iceland–United States**

**Heavy Weather on Maritime Issues** 25X1

The Icelandic Government is under increasing pressure from members both of its own coalition and the opposition parties to take a tough stand with Washington over cargo shipping rights to the NATO base at Keflavik. After appearing to buckle under to US pressure to limit its "scientific" [1] whaling and export of whale products, recent press reports hint that Reykjavik has not ruled out actions that could affect Keflavik if Icelandic shipping companies are not allowed to compete with a US cargo company servicing the 3,000 US servicemen at the base. These two controversies have been compounded by domestic scandals and Iceland's misunderstanding of US policy on scientific whaling. 25X1

A 1904 law requires that preference be given to US ships in transporting supplies to US military bases overseas. In 1984, in accordance with this law, a US cargo firm—Rainbow Navigation—took over the transport of supplies to the base from several Icelandic shipping companies that had the franchise when there were no US competitors. After the takeover, one of the Icelandic companies, Hafskip, went bankrupt, and some of its officials were later arrested on charges of embezzlement and mismanagement. The scandal kept the dispute between Iceland and the United States over the cargo issue in the public eye. 25X1

[1] IWC rulings permit the take of a limited number of whales for research; commercial whaling, restricted by the IWC, refers to the hunt of whales for the sale of whale products. 25X1

The Pelly Amendment to the Fisherman's Protective Act of 1967 requires the Secretary of Commerce to certify countries whose whaling policies violate International Whaling Commission (IWC) rules on scientific whaling. Because Iceland planned to export most of the whale meat to Japan, the United States judged that Iceland had contravened the IWC rule that whale products only be consumed locally and planned to certify Iceland on 28 July. Certification does not automatically lead to a ban on the importation of fishery products from the certified country. Incorrectly believing it had been threatened with a total cutoff of its fish exports to the United States ($203 million in 1985), Iceland suspended its whaling on 28 July. On 7 August, Reykjavik agreed to consume 51 percent of Icelandic whale products locally and to limit the catch to 120 whales. 25X1

Criticism of Prime Minister Hermannsson's compliance with the US interpretation of the IWC rulings prior to certification has increased the pressure on his strongly pro-NATO government to take a tough position on the cargo issue. According to the US Embassy and the Icelandic press, several options are being considered. Most likely, in our view, would be an Icelandic law to prohibit cargo services to Iceland under the cover of foreign monopoly law, making the Rainbow Navigation cargo services between Iceland and the United States illegal. Reykjavik could also ban the import of meat to the base, limit the movement of US military personnel, delay contracts with US companies, or start charging the US Government for what are now rent-free military facilities. The cargo and whaling issues have stoked Icelandic nationalism and may push the government increasingly to take tougher measures as the election next April approaches. 25X1

**Sweden**

**Moderates Choose New Leader** 25X1

Carl Bildt will replace Ulf Adelsohn as Chairman of the Moderate Party, the largest in Sweden's nonsocialist opposition. Adelsohn announced his resignation in June after failing to lead the nonsocialists to victory in last year's national election and watching his party's standing in the polls drop by one-half during the last two years. A special Moderate Party selection committee voted unanimously to recommend Bildt to the party congress earlier this month. One of Sweden's foremost experts on security policy, Bildt was chosen over Ingegerd Troedsson, a spokesman for the Moderates on welfare issues. Bildt's selection is a victory for former party leader Gosta Bohman (Bildt's father-in-law) and for the "New Moderates," a group of bright young conservatives, predominantly from Stockholm, who favor liberal economic policies and closer alignment of Sweden—as a neutral—with the West. 25X1

Bildt will take the helm at a low point for the party: Social Democratic Prime Minister Ingvar Carlsson has the highest approval rating of any postwar Swedish Premier, and Liberal Party Chairman Bengt Westerberg has established himself as leader of the nonsocialist opposition. Bildt's key tasks will be to challenge Social Democratic policies and reassert his party's prominence within the opposition, but he must be careful not to appear confrontational in dealing with Carlsson nor spur fighting among the nonsocialists during the runup to the 1988 election. 25X1

**EC-CEMA**

**More Talks on Closer Ties** 25X1

EC officials have proposed a meeting with CEMA counterparts in September for exploratory talks on establishing relations between the two organizations, according to US Embassy sources. The EC's main goal remains bilateral agreements with individual East European states, and it plans to go slowly in negotiations with CEMA until at least two East European countries establish diplomatic relations with the EC. Romania has indicated willingness for bilateral diplomatic as well as economic agreements, possibly by the end of the year. Hungary, Czechoslovakia, and Poland have shown interest in commercial agreements, while Bulgaria, East Germany, and the USSR insist on progress in EC-CEMA relations first. 25X1

The talks are unlikely to produce formal EC-CEMA ties soon. Romania is the only CEMA country close to establishing diplomatic relations with the EC. Some EC officials place a high priority on a broad agreement with Hungary, but talks apparently have bogged down over Budapest's longstanding demands for trade concessions. EC concerns about human rights in Poland may complicate negotiations with Warsaw. 25X1

## Articles

### France: Policy Toward Central America

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In private conversations with high-ranking US officials during the last six months, French Prime Minister Jacques Chirac has expressed full support for US policy in Central America and promised to change France's policy toward the region from that followed by the previous Socialist government. Since the election in March, Paris has indeed been less confrontational toward Washington on Central American issues, but this has been due more to the political situation created by cohabitation than any directive for change.

The lack of any strong direction from the top militates against any major shifts in French Central American policy in the near future. Following a trend started when the Socialists controlled the government as well as the presidency, France will probably continue gradually reducing support for the Sandinistas in favor of the Central American democracies. Disenchantment with the Sandinistas, however, will not necessarily translate into backing for US policy, and France is not likely to support active US measures to apply economic and military pressure against the Sandinistas.

**Policy Under the Socialists**

French policy toward Central America during the early days of Socialist rule was blatantly antagonistic to the United States. Originally, the Socialists followed a policy of actively supporting revolutionary groups in Central America based on a view of global politics that conveniently combined Socialist ideology with French national interests. Although France's economic stake in Central America is not large, the Socialists saw Central America as a microcosm of broader trends in the Third World. In their view, inequality, exploitation, and authoritarianism rather than East-West competition were responsible for instability in the Third World. In addition, they believed the United States and the Soviet Union were exploiting this unrest in order to reassert their own faltering hegemony, thereby risking a dangerous confrontation.

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According to the Socialists, socio-economic reform would lead to the domestic political stability needed to close off opportunities for US-Soviet intervention and thus restore international stability. France could play a leading role in this process by supporting "progressive" (that is, revolutionary) forces. Optimistic Socialists envisioned a global transformation bringing peace, independence, and democracy to the nations of the world. In addition to these altruistic goals, pragmatic Socialists hoped to increase French influence with other Latin American countries and enhance France's prestige as a world power.

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Once in power, the Socialists moved quickly to implement their goals. Paris issued a joint declaration with Mexico in August 1981 supporting El Salvador's guerrilla alliance—the Democratic Revolutionary Front/Faribundo Marti National Liberation Front (FDR/FMLN)—and sold arms to Nicaragua in December 1981. This initial activism, however, was short lived and French policy toward Central America was relatively restrained during 1982 and 1983. Several factors account for this passivity. Negative US and Latin American reactions to the joint

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***French Economic Relations With Central America***

***Trade.*** *France's interest in Central America is primarily political, not economic. French trade with the five countries of Central America (Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica) accounts for less than 1 percent of France's total foreign trade. Trade with Nicaragua alone accounts for about one-third of 1 percent of the total and is far more significant for Nicaragua than for France. In 1985, France accounted for 6.9 percent of Nicaragua's exports and 5.6 percent of its imports. Although France's trade with Nicaragua is not insignificant, it is doubtful that France could effectively use trade as a lever against Nicaragua.*

***Direct Aid.*** *Nicaragua also has been the greatest beneficiary of direct French aid to Central America. Direct aid has remained fairly steady at $8.5 million since 1982, roughly double the amount given to the other Central American countries, and has mostly been in the form of food and medicine.*
*While French aid has remained steady, aid from several other West European countries—notably Sweden and the Netherlands—has increased. The new Chirac government has indicated that it intends to phase out aid to Nicaragua after 1987 in favor of the other countries in Central America.*

***Loans and Credits.*** *Since 1982, France has given Nicaragua approximately $15 million a year in loans and credits, while extending almost nothing to other Central American countries. Most of this aid has been tied to the purchase of French goods, thus artificially overstating the amount of French-Nicaraguan trade. Furthermore, the French have often made access to these credits contingent on repayment of previous credits.*

declaration with Mexico on the FDR/FMLN and the Nicaraguan arms sale alerted France to the potential costs of an active policy in the region. Furthermore, increased repression by the Sandinistas and lack of popular support for the rebels in El Salvador gradually persuaded pragmatic Socialists that their original understanding of these groups had been flawed. However, the most important factor explaining French quiescence was the crisis over INF deployment in West Germany, which dominated France's foreign policy agenda after the fall of Helmut Schmidt's government in October 1982. Faced with the need for NATO solidarity, the French government became more reluctant to antagonize the United States on Central American issues. 25X1

Toward the end of 1983, France again assumed an active posture toward Central American affairs. Successful INF deployment in West Germany alleviated French security concerns, while the US-led Grenada invasion heightened French fears of direct US military intervention in Central America. France saw US economic and military pressure on Nicaragua as a dangerous step down this road and took a number of actions in various international forums to undermine US policy. By serving as an intermediary between Nicaragua and Costa Rica, between the Sandinistas and the Miskito Indians, and between the Duarte government and the FDR/FMLN, France tried to defuse the growing militarization of the Central American crisis. 25X1 25X1

While French policy was certainly anti-US during this period, it became decidedly less pro-Nicaraguan. At the higher levels of the French Government, fear of US military intervention in Central America outweighed sympathy for the Sandinistas, especially after 1983. Actually, French irritation with the Sandinistas began as early as 1982. The declaration of a state of emergency in March and Ortega's visit to Moscow in May called Nicaraguan claims of political pluralism and nonalignment into question. Although disturbed by these actions, French policymakers were reluctant to publicly criticize the Sandinistas for three reasons: they did not want to appear to support US policy in the region; they did not wish to upset Third Worlders within the Socialist party who remained strongly sympathetic to the Sandinistas; and they hoped that the Sandinistas might still be persuaded to make good on their promises of political pluralism and 25X1 25X1

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nonalignment. Thus began a pattern of French officials criticizing the Sandinistas privately while defending them in public.

However, the Socialist government's disenchantment with Nicaragua reached its zenith after the Sandinistas expanded the state of emergency in October 1985. Sandinista stock with the French probably fell even further in February 1986 when they hosted a conference of anti-imperialist organizations that called for the independence of France's Caribbean departments.

**Policy Under Cohabitation**

Although the tone of French policy has certainly changed since March, this has more to do with the vagaries of the political situation created by cohabitation than anything else. Chirac's proclaimed support for US policy in Central America is probably rather thin. Chirac and his key advisers are not very knowledgeable about Central American issues, and Chirac has paid little attention to the region since coming to power. A dramatic move on Chirac's part in support of US policy—such as direct contact between Chirac and Nicaraguan rebel leaders—is unlikely, especially after the July death of Joel Fieux, a naturalized Nicaraguan citizen of French birth, in a Contra ambush.

Chirac has also indicated to US officials that aid to Nicaragua will be phased out and rerouted to the Central American democracies. Closer scrutiny reveals that this really does not represent a radical departure from previous policy under the Socialists—the decision to reduce French aid to Nicaragua had probably already been made in late 1985 by the previous Socialist government. Furthermore, diplomatic relations between France and El Salvador had been gradually improving since 1983, culminating in the appointment of a permanent French Ambassador in April 1985. In any case, the amount of redirected aid these democracies can expect from France will be small, since French aid to Nicaragua has been only about $15 million a year for the last four years.

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Mitterrand, on the other hand, seems less willing to become involved in Central American issues than he has in the past. His reaction to the US House of Representatives approval of Contra aid in July 1986 was mild compared to his response to the US trade embargo against Nicaragua announced in May 1985. Furthermore, Mitterrand apparently did not try to influence France's position in the UN Security Council's debate on the International Court of Justice (ICJ) decision that condemned the mining of Nicaraguan ports and the US role in the Nicaraguan conflict. France abstained on a resolution calling on the United States to comply with the ICJ's decision.

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For the time being, Central America is a banana peel no one wants to slip on. Both Chirac and Mitterrand probably worry that supporting either the Sandinistas or the Contras is potentially embarrassing, and each is wary of making a mistake his opponent might exploit.

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With neither Mitterrand nor Chirac willing to take a leading role, Foreign Minister Jean-Bernard Raimond is likely to play a key role in determining the substance of Central American policy. Raimond, a compromise choice for Foreign Minister, is a career diplomat, not a Chirac loyalist.

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A Soviet–East European specialist, Raimond does not have a strong background in Central American affairs, but he has laid down some principles for France's future Central American policy that emphasize continuity over change. Raimond continues to support the Contadora process and the EC's policy of granting aid to all the nations in the region, including Nicaragua. He also stresses that

France will reject military means to bring about change in the region and will continue to support the principle of nonintervention in internal affairs. Raimond recently observed to US diplomats that, unlike Cuba, Nicaragua is not yet a member of the Soviet Bloc—clearly implying that he is unlikely to support Nicaraguan rebels. Nevertheless, he says France will not undercut United States policy in the region, and he is unlikely to seek a confrontation with the US on Central America.

As part of his effort to ensure continuity in French foreign policy, Raimond has left in place at the Foreign Ministry several officials responsible for Central America appointed under the Socialists, especially Remy Lahaye, the pro-Sandinista director for Central America. Furthermore, actions by French officials in Managua indicate they remain strongly sympathetic to the Sandinistas. As a result, much of the information French policymakers receive on Central American affairs carries a bias against US policy.

**Outlook**

In the short run, the strains of domestic politics will keep the French from undertaking any major new initiatives toward Central America. Support for the Sandinistas is likely to wane gradually. France will probably oppose military solutions to the region's problems, as well as policies aimed at isolating Nicaragua diplomatically or economically, but not in a way that might provoke a confrontation with the United States.

However, the balancing act of cohabitation will probably not last very long. Legislative elections are likely to follow France's next presidential election, which will probably occur in March 1988. A leftwing president would seek to gain a governing majority, while a rightwing president would try to capitalize on his election victory to expand the right's present razor-thin majority in the National Assembly. If the Socialists came back to power, they would probably again oppose US economic and military pressure against Nicaragua. They might also try to placate hardcore supporters of the Sandinistas on the party's left by making a few symbolic gestures toward Nicaragua. For the most part, however, the Socialists are likely to be cautious in their dealings with Nicaragua and would probably be reluctant to extend any new aid—economic or military—to the Sandinistas without concrete political concessions.

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If the right should take the presidency as well as maintain power in the National Assembly, the best Washington could probably hope for in Central American policy would be a kind of benign neglect. Although the right would certainly be less reluctant to criticize the Sandinistas, this will not necessarily translate into support for US policy. Chirac has indicated such support, but his attachment to this position (as to any position) is probably not very deep. The French right has traditionally taken less interest in Latin American affairs than the left and at present seems more concerned with using limited French resources to maintain France's traditional ties to its African clients. Furthermore, broad elements of the center and right worry that US military involvement might weaken US commitments to Western Europe and provoke anti-American sentiment in France as it did during the Vietnam war. On a more negative note, many old- and new-style Gaullists on the French right might argue for a more active role in Central America. Therefore, if fears of US intervention were to increase, a rightwing French government might become more critical of US policy. However, for the most part, the right will probably feel little is to be gained by provoking Washington over Central America.

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Future French governments of either the left or the right could revive a more activist French policy in Central America. The persistent influence of Gaullism and the desire to play a world role often lead the French to herald prematurely the decline of US-Soviet influence as the basis for French opportunity. In the final analysis, France does not have the power to shape events in the region and can only react to opportunities as they arise. Furthermore, before making any serious effort to exercise its influence in Central America, Paris would need to sense that it can afford to provoke Washington and that something can be gained by becoming involved in the region's affairs.

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# Portugal–United States: Problems Ahead in Security Relations

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Security ties between the United States and Portugal remain strong, but friction between the two sides is building. Lisbon perceives itself as a loyal ally that has sacrificed and risked much to maintain close ties to the United States and its NATO partners. Portuguese officials believe, however, that they have received little in return and that recent cuts in US security assistance illustrate Washington's neglect of its older Iberian ally. A stagnant economy and military budget cuts have compounded Portugal's difficulties and resulted in complaints at the highest levels of government about decreasing US financial aid. The potential for divisiveness almost certainly will grow as several related existing and emerging issues—such as the review of the Lajes Air Base agreement in early 1988—complicate security relations between the two nations.

## Crux of the Problem: Portuguese Perceptions of the US Commitment

According to US Embassy reporting, Portuguese officials believe the facilities and cooperation they provide to the United States and NATO should be counterbalanced by substantial amounts of security assistance, especially from the United States. In light of cutbacks in Portugal's military budget—brought on by domestic economic problems—this aid has become much more important. Indeed, Lisbon's perception that US aid levels are inadequate stems directly from domestic economic constraints. The military budget for 1986 illustrates Portuguese frustration. According to defense attache reporting, defense spending, adjusted for inflation, will remain at virtually the same relatively low level as in 1985 and will probably necessitate cutbacks in training and weapons modernization programs.

interservice rivalries will intensify as the armed forces feel the budget squeeze.

General Lemos Ferreira, Chief of the Portuguese Armed Forces General Staff, has blamed US security assistance levels for the armed forces' difficulties, and US diplomats report similar complaints from the Prime Minister, Foreign Minister, and Defense Minister. Portuguese officials base their criticism on a US pledge—made during the 1983 renegotiation of the Lajes Air Base agreement—that Washington would make its "best effort" to provide as much aid as possible to compensate Portugal for "new risks" it was assuming in providing new facilities and expanded cooperation with the United States. Washington maintains that all such promises have been upheld—despite its own budget constraints and the process of Congressional approval—and points to assistance funds it has requested for Portugal for fiscal year 1987 as proof of its good intentions. Portuguese military and civilian officials remain unconvinced, however, and argue that US deficits are not a valid justification for "violations" of security assistance pledges.

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## Specific Problem Areas

Current strains in Lisbon's relationship with Washington over security assistance both complicate and are complicated by several specific issues, including construction of a satellite tracking system, prepositioning of US equipment and supplies, and procedures for the evacuation of disabled personnel from US submarines.

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***GEODSS.*** The question of US compensation already is posing problems for the planned construction of a US ground-based electro-optical deep space surveillance system (GEODSS) designed to track enemy satellites. During the renegotiation of the Lajes base agreement in 1983, US participants believed they had received, in return for substantial US aid, a commitment from Lisbon to establish the GEODSS facility on Portuguese territory. Since then, the issue of compensation has halted progress completely. According to Embassy reporting, Lisbon has repeatedly contradicted itself as to whether it

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**US Security Assistance to Portugal** [a] *Million US $*

| | 1982 | 1983 | 1984 | 1985 [b] | 1986 [c] | 1987 [d] |
|---|---|---|---|---|---|---|
| **Total assistance** | **97.386** | **137.546** | **158.213** | **207.500** | **188.912** | **233.000** |
| Military | 77.386 | 117.546 | 108.213 | 127.500 | 112.352 | 153.000 |
| MAP | 30.1 | 63.0 | 60.2 | 70.0 | 66.99 | 75.0 |
| IMET | 2.286 | 2.046 | 3.013 | 2.500 | 2.297 | 3.000 |
| FMS | 45.0 | 52.5 | 45.0 | 55.0 | 43.065 | 75.0 |
| Economic (ESF) | 20.0 | 20.0 | 50.0 | 80.0 | 76.56 | 80.0 |

[a] The four types of assistance listed include both grants and loans and are either military or economic in nature:
1. Military Assistance Program (MAP)—grant aid given for armaments, force modernization, and other military-related outlays.
2. International Military Education and Training (IMET)—training progams established primarily to encourage development of professionalism in midlevel officer corps and to increase the ability of Portugal to manage resources, plan, and operate within NATO.
3. Foreign Military Sales (FMS) Credits—funds lent at concessional or Treasury rates for the purchase of US-manufactured military equipment.
4. Economic Support Funds (ESF)—cash transfer payment whose purpose is to promote social and economic development and to build long-term public support for bilateral and NATO defense cooperation.

[b] Estimated outlays.
[c] Congressionally approved levels minus 4.3 percent mandated by Gramm-Rudman-Hollings deficit reduction law.
[d] Proposed levels per FY 1987 Congressional Presentation Document.

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believes the United States has paid for the station, despite US contentions that compensation has been made through Economic Support Funds provided under the terms of the base agreement. Other obstacles include disagreements over taxation, the question of increased compensation for Portugal's assumption of "new risks," and the issue of economic development in the region where the facility is to be constructed. Recently, Prime Minister Cavaco Silva appointed a retired Portuguese diplomat to study the whole GEODSS issue in consultation with the US Government. By dragging its feet on GEODSS, however, Lisbon has significantly increased tensions with Washington.

***Maritime Prepositioning of Ships.*** Another difficult issue identified by the US Embassy in Lisbon is that of US Navy ship visits to Portuguese ports. Foreign Ministry officials have begun complaining that US vessels involved in NATO's maritime prepositioning program [1] visit Portugal too frequently and without proper notification. Lisbon considers the matter particularly sensitive because of the possibility that these ships would be used in non-NATO, out-of-area operations. Recently, the government has placed restrictions on, and denied, port visits to underscore its demand for negotiation of a formal notification agreement.

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***Submarine Evacuations.*** Within this same notification context, which the Portuguese view as a question of sovereignty, Lisbon now is placing conditions on the medical evacuation of US Navy personnel through Portuguese ports. Historically, injured or ill crewmen were evacuated from US

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[1] The Maritime Prepositioning of Ships (MPS) program involves US naval vessels that operate off the coast of Portugal and contain contingency supplies for US forces deployed to Europe in wartime.

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submarines in Portuguese waters with minimal discussion of the vessel's identity. Recently, Portuguese officials have requested full disclosure of all pertinent information about the submarine and its mission, including its nuclear status. For reasons of security, US officials are unwilling to divulge this information. Embassy reporting indicates the Portuguese consider it an insult that the United States apparently does not trust its ally with such sensitive information and has made evacuations in Portuguese waters a question of national pride.

**Emerging Problems**

A number of other emerging issues almost certainly will affect the tenor of US-Portuguese security relations in the future. Chief among them is US access to Beja Air Base on the Portuguese mainland.

Portuguese officials believe such access is feasible but that any negotiations would have to be trilateral and that the increased risks attendant upon US use of Portuguese mainland facilities would require compensation through increased security assistance.

A second emerging, and as yet amorphous, issue is that of Host Nation Support,[2] which is especially delicate because it could involve the presence of US forces on the Portuguese mainland. At this point, according to Embassy reporting, it is uncertain what type of support would be provided by Portugal and what compensation would be offered by the United States in return. As the issue develops, however, Portuguese requests for additional aid almost certainly will be heard.

**Defense Industrial Cooperation**

Embassy reporting indicates that Lisbon thinks the United States could compensate for assistance levels the Portuguese believe to be too low by increasing various forms of defense industrial cooperation, including:

- Encouragement of US investment in Portugal.
- Joint ventures between US and Portuguese defense industries.
- Increased US purchases of Portuguese defense-related items.
- Delivery of US "excess" or "surplus" military equipment to Portugal.
- Increased US use of Portuguese repair facilities. 25X1
- More US employment of Portuguese contractors for construction at sites used by US forces.

Although US officials do promote such cooperation, certain requirements must be met, and contracts cannot simply be handed to Portuguese firms. Lisbon probably will continue to press Washington for defense industrial cooperation in the future as long as US aid levels remain in question. 25X1 25X1

**Outlook**

Despite relatively good relations between the United States and Portugal, we believe the security assistance issue will continue to present the potential for divisiveness. Portugal's persistent economic problems almost certainly will force further fiscal austerity, restraints on military spending, and demands for increased US aid, thus complicating both existing and emerging problems. These difficulties are virtually certain to color the proceedings when the United States and Portugal begin to review the Lajes base agreement in February 1988. Because US security aid to Portugal is based primarily on obligations arising from the Lajes accord, we expect Portuguese officials to use the occasion of the review to press for more aid across the board. Given the importance of Lajes to US and NATO security interests and the dependence of Portugal on US assistance, the meeting promises to be difficult. 25X1 25X1 25X1

For the present, even though Portuguese officials realize that their leverage has slipped significantly in light of Spain's renewed integration into NATO, they will continue to vocalize their demands for increased US aid. As long as Portugal views the relationship as

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[2] Host Nation Support (HNS) involves the infrastructure and support a NATO country, such as Portugal, would provide for US troops passing through on their way to the front in a European war.

one in which it sacrifices much and receives little, there will be an element of tension in relations with the United States. [redacted] 25X1

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## Belgium-Zaire: Palpitations in the "Heart of Darkness"

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Prime Minister Martens's Social Christian–Liberal government is expressing concern that the latest in a long series of disputes could erode Belgium's political influence in Zaire. Foreign Minister Tindemans, Defense Minister de Donnea, and Trade Minister de Croo are spearheading a campaign to rehabilitate relations. Brussels is anxious to defend its preeminent position against French incursions and has sought to rebuild its standing by promoting Belgo-Zairian military cooperation and agreeing to plead Kinshasa's case before Zaire's international creditors. Despite Belgium's straited economy, Martens's government is likely to continue pushing for improved relations with Zaire even if some additional foreign aid is required. Brussels probably will continue to seek US assistance in these efforts, especially it if can ease Belgium's financial burden.

**From Colonial Masters to Influence Seekers**

Since King Leopold II exploited Zaire—then known as Congo—as his private economic preserve in the 19th century, Belgium has played a central part in the country's development. Belgium ruled Congo as a colony until granting it independence in 1960. At that time, the new government severed its formal diplomatic relations with Belgium. Diplomatic relations were not restored until 1964 when the Belgian Foreign Minister made the first move by offering Kinshasha financial and technical aid. Since the restoration of bilateral ties, and especially since President Mobutu seized power in 1965, Brussels has continued to aggressively court Kinshasa in an attempt to maintain Beligum's position as a predominant Western influence in Zaire.

**Belgium's Strategy: Buying Influence**

The need to reconcile another Belgo-Zairian spat provided Martens's government with an opportunity to strengthen its standing in Kinshasa. Mobutu's most recent complaint was grounded in pique over the treatment of Zairian nationals at Belgian airports—customs officers pay particular attention to Zairian visitors as potential terrorists and smugglers. Adding to Mobutu's anger was the impounding of a Zairian Airlines DC-8 by a Belgian court in April, the result of a Belgian pilot's suit for back wages against the airline. These incidents resulted in Kinshasa suspending landing rights in Zaire for Belgium's Sabena Airline and offering Sabena's routes to a French competitor. Materially the dispute was of little consequence, but, according to US diplomatic reporting, Kinshasa viewed Belgium's customs regulations as racially demeaning and complained that Brussels was abandoning its longtime "special relationship" with Zaire.

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The disagreement was resolved in a manner becoming all too familiar to Belgium: Brussels blinked first and moved at the highest levels to restore amity. In the midst of a series of derogatory articles about him in the Zairian news service AZAP, Foreign Minister Leo Tindemans visited Zaire in late April, wined, dined, and flattered Zairian officials and persuaded Kinshasa to restore Sabena's landing rights. Tindemans and Zairian Foreign Minister Mandungu, in fact, agreed to establish special branches in their respective ministries to handle Belgo-Zairian problems before they reach the crisis stage. Tindemans also pledged that Brussels would plead Zaire's case for special economic treatment before the IMF's Executive Committee; since his visit, Belgian officials have urged Washington and Paris to press the IMF to more strongly support Zaire's case.

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While Tindemans offered little new Belgian aid during his visit, his blandishments nonetheless suggest that Brussels is intent on preserving its influence in Zaire and is willing to pay a price to do so. Indeed, US diplomatic reporting has suggested that Brussels may have to move beyond formal economic assistance and seek to exploit the venality of Zairian officials, a tactic that the Zairians have also found useful in

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***Zaire in Belgian Politics***

*Since King Leopold II began to exploit Zaire's rubber and ivory resources in 1876, events in and perceptions of the country have influenced the course of Belgian politics. The unvarnished avarice of Leopold and his associates, as well as their lack of concern for Zaire's internal development and its people, gradually generated a public outcry in Belgium and throughout Europe. In particular, the mistreatment of the natives—spotlighted for public consumption fictionally by Joseph Conrad's* Heart of Darkness *and factually by the investigations and testimony of British civil servant Roger Casement—inflamed liberal Europe and forced Leopold to cede his private domain to the Belgian Government in 1908.*

*Public concern about the lack of respect for human rights in Zaire continues to influence contemporary Belgian politics. In recent years, for example, public and media dissatisfaction with President Mobutu's authoritarian regime limited Belgium's ability to increase the aid it provides to Zaire—military assistance to Kinshasa has been particularly frowned on by the press and Belgium's Flemish Socialist Party. Moreover, the issue of aid to Zaire, and whether to restrict the activities of Zairian dissidents in Belgium, has caused tensions both between Kinshasa and Brussels and between the Prime Minister's Flemish Social Christian Party (CVP) and Vice Prime Minister Jean Gol's Walloon Liberal Party (PRL). The CVP's left wing often presses Martens to curtail aid to Mobutu, and its criticism is augmented by the criticisms of such aid that are voiced by the Flemish Socialists and Catholic relief agencies.* 25X1

*Balancing this pressure on Martens, however, is the insistence of his PRL partners—led by Vice Prime Minister Gol and Defense Minister de Donnea—that Brussels more or less ignore the human rights situation in Zaire and continue to implement policies that enhance Belgium's political leverage with Kinshasa, enrich the 200 Belgian firms doing business in Zaire, and augment the $756 million in bilateral trade conducted in 1985. Although tensions over Zairian aid are unlikely to cause the breakup of Martens's coalition by themselves, the Zairian issue remains a potentially disruptive element in the welter of Belgian coalition politics.* 25X1

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influencing Belgian decisionmaking.[1] The Belgians' long historical experience in the country has made them savvy in extracting value for their money from the Zairians, but it is likely that Brussels may have to spend increasing sums to maintain its traditional influence.

**The Zairian Military: A Target for Belgian Policy**

While Tindemans set the stage for a bilateral rapprochement, Defense Minister de Donnea has been the minister most actively involved in the nuts-and-bolts of the proceedings. De Donnea has focused on Belgian military assistance to the Zairian armed forces, which he has told US officials are especially weak in operational air and ground transport.

De Donnea also believes that, although the quality of leadership provided by Zaire's officer corps is improving, Belgium should play a major role in upgrading training standards. While asserting to US counterparts that Belgium's military influence in Kinshasa protects Western interests and African stability, de Donnea almost certainly believes that Zaire's military dependence on Belgium is the surest means of providing Brussels with enduring and effective influence in Zaire. Toward this end, Brussels recently chose as its ambassador in Kinshasa a diplomat who is also a colonel in the military reserves.

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[1] In 1984, several prominent Belgian politicians—including two former prime ministers—were investigated for taking bribes from the Mobutu regime.

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Despite budget austerity at home, Martens's coalition government increased military aid to Zaire from $9.2 million in 1985 to $10.7 million in 1986. Moreover, Brussels has stationed between 90 and 110 Belgian military advisers in Zaire to assist in training and supervising military construction projects; because of the risk of a domestic outcry, and unlike the advisers supplied by France, none of the Belgians command operational units of the Zairian armed forces. Belgium's military assistance program is now concentrated on five major projects:

- Staffing an officers training school in Kananga.
- Staffing the Zairian staff college at Kinshasa.
- Staffing a command training center at Kota Koli.
- Supervising the construction of a military hospital at the Kamina airbase.
- Providing technical assistance to the 21st Brigade in Lubumbashi.

De Donnea's enthusiasm may have carried him too far during a visit to Zaire last month when he promised additional military aid. Tindemans and Martens later said that for budgetary reasons such aid probably would not be forthcoming in the near future.

Even with an expanded aid program, Brussels is worried that it cannot afford to continue supplying Zaire's military assistance needs. The Belgians, according to US officials, are also afraid that if they cannot increase their aid to a level fulfilling Zairian expectations, Kinshasa may turn to the Soviets or the French. De Donnea himself seems particularly concerned that the French—long the chief rival for Mobutu's favor—are ready and eager to displace the Belgians if an opportunity presents itself. Because of these considerations, both de Donnea and Trade Minister de Croo have urged Washington to give more aid to Zaire and to cooperate more closely with Belgium in upgrading the capabilities of the Zairian military. De Donnea, in fact, has claimed that US military aid to Zaire is "too dispersed" and has recommended that Washington concentrate on helping to improve the equipment and training of the 21st Brigade and to modernize the Kamina airbase. Both projects, not coincidentally, are top priorities on Belgium's military aid agenda in Zaire.

De Donnea has also already asked US officials if Washington would be willing to compensate Belgium for increased aid to Zaire by reducing the purchase price of the Patriot air defense system or new military helicopters. Perhaps the most telling evidence about the nature of Belgian goals in Zaire is provided by de Donnea's suggestion that US assistance be provided discreetly and delivered through Belgian channels. De Donnea and his Cabinet colleagues almost certainly are exclusively concerned with strengthening Belgo-Zairian ties and not on minting a new triangular relationship that includes Washington.

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**Outlook**

The efforts of Tindemans and de Donnea probably have steadied Belgo-Zairian relations for the time being. Nonetheless, several factors militate against the long-term success of Brussels' efforts to reinvigorate Belgo-Zairian relations:

- Belgium's large budget deficit makes it unlikely that Belgian aid can be increased substantially in the near future.

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- Even if funds were available, the Belgian electorate would balk at greatly increasing assistance—especially military aid—to Mobutu's authoritarian regime. In recent years, for example, Martens's government has been widely criticized by the Belgian media for not demanding an end to Kinshasa's human rights abuses in return for Belgian aid.

- The Zairians themselves, according to US officials, prefer US assistance to Belgian aid because the US variety comes with fewer strings attached. Moreover, aid from Belgium remains odious to many Zairians because of its status as the country's former colonial ruler.

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## Poland: Dismal Economic Prospects

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Poland's recovery from its economic crisis of the early 1980s has stalled, and prospects for sustained improvement over last year's disappointing performance appear slim for the rest of the decade. As a result, Warsaw, Western creditors, and the USSR will find no escape from the dilemma posed by Poland's economic weaknesses:

- Failure to meet consumer demands with increased supplies will leave the Jaruzelski regime saddled with a sullen and unproductive labor force. Although the regime's use of force and intimidation may maintain a superficial calm, continued economic problems will erode the more enduring political stability that the regime is seeking.
- Even under optimistic assumptions about Poland's hard currency trade performance, Warsaw will make little progress in meeting its financial obligations. Western creditors face more years of debt reschedulings, missed payments, and pleas for new credits from the Poles.
- The USSR will have to continue providing substantial assistance if it wants to stave off economic decline in Poland.

**Requirements for Revival**

To sustain economic recovery, in our view, Warsaw must do three things:

- Increase consumption to provide incentives for improved worker performance and to ease social tensions.
- Increase investment to expand productive capacity and to lessen dependence on hard currency imports.
- Improve hard currency export performance to restore some semblance of creditworthiness.

The dilemma facing Poland, however, is that an attempt to meet any one of the requirements conflicts fundamentally with the other objectives. Moreover, Moscow's demand for elimination of Poland's trade deficit with the USSR may limit the resources available to increase consumption, investment, and hard currency exports.

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**Warsaw's Recovery Program**

Poland has given Western creditor governments its blueprint for dealing with these problems in its "Program for Improving the State of Poland's Economy." The program projects annual increases in GNP of nearly 4 percent during the period 1986-90. It emphasizes growth in investment and exports but allows for a modest increase in per capita consumption as well. The key provisions of this program—with growth rates scaled back—have been incorporated into Poland's 1986-90 economic plan.

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Our analysis using the POLGNP econometric model [2] indicates that Poland cannot meet the recovery program targets for both economic growth and foreign trade balances. In our view, Polish planners have underestimated popular pressures for large increases in consumption, the amount of investment needed to modernize the capital stock, and the economy's need for energy and high-quality materials. Poland must overcome all these constraints to achieve the program's targets, but our model indicates this would require a much higher level of imports than the program projects. Whereas the recovery program calls for hard currency imports to grow only 4.5 percent

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and for soft currency imports to increase by 3.5 percent annually in 1986-90, we project these requirements at 7.5 and 6.5 percent, respectively. Unless imports grow at a more rapid rate than Warsaw projects, Poland will be unable to achieve simultaneously its basic objectives of moderately rapid economic growth, restoration of at least minimum creditworthiness with the West, and balanced trade with the USSR. Under the recovery program's growth targets, our model projects that:

- The hard currency trade surplus would increase from $1.1 billion in 1985 to only $1.8 billion by 1990, short of the Poles' goal of a $2.1-2.7 billion surplus.

- Poland's soft currency deficit would rise from approximately 650 million rubles in 1985 to 1.1 billion rubles by 1990 in constant 1984 prices. Thus, the goal of balanced soft currency trade by 1988 and a surplus by 1990 set in the Polish-Soviet trade protocol would have to come from improvements in Poland's terms of trade with the USSR.

Thus, we do not see the recovery program as a workable approach to Poland's major economic problems. The Poles will not to able to meet their growth targets unless Western creditors and the Soviets temper their demands for net resource flows from Poland. The unwillingness of the West and the USSR to finance a large net flow of imports for Warsaw will hold Polish economic growth well below the program's goal. Yet foreign creditors also face a limit on the amount of resources that can be squeezed out of the Polish economy.

**Impact of Slow Growth**

Our model's analysis indicates that economic growth will probably average 1 to 2 percent annually between now and 1990. This would prevent a deterioration in the Polish standard of living, but it would not provide the gains in consumption desired by the Polish people. At this rate of economic growth, the hard currency surplus could increase to $3.5 billion by 1990—sufficient to halt the growth of the debt by covering interest payments but not enough for debt repayments. This seems the maximum amount of debt service payments Western creditors can expect.

Efforts to extract more would slow GNP growth below 1 percent but would add little to the trade surplus because savings on imports would diminish. If creditors are willing to accept less, Polish growth could rise above 1 to 2 percent. The hard currency surplus would contract rapidly, however, because import needs would rise much faster than GNP. 25X1

In contrast to the West, the USSR cannot stem—much less reverse—the net flow of real resources to Poland without risking serious damage to the Polish economy. Furthermore, slow growth could even widen Warsaw's deficit with the USSR by limiting Poland's capacity to expand soft currency exports while soft currency imports needs would continue to rise. Cutting back deliveries to Poland would not benefit the USSR because it would depress Polish export capacity and could risk economic collapse. Even if Moscow can force the Poles to redirect some exports from the West to the USSR, the Soviets probably will continue putting more into Poland than they will get back. 25X1

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## Economic News in Brief

### Western Europe

**Economics Minister Bangermann reported West German economy grew 3 to 3.5 percent in second quarter over same period last year** . . . predicted growth would accelerate during rest of 1986 and into 1987 and rejected US calls for Bonn to stimulate domestic demand . . . Chancellor Kohl's coalition hopes strong, noninflationary growth during remainder of year will vindicate its tight economic policies before national election in January. 25X1

**Spanish economy grew at annual rate of 3 percent in first quarter, almost double the rate a year earlier** . . . due primarily to recovery in domestic consumption and surge in fixed investment . . . accelerating wage costs and rising imports, however, may slow growth rate by yearend. 25X1

25X1 **France and Iran have agreed on amounts to be repaid on loans** . . . Paris pushing Tehran to secure freedom for all French hostages before completely settling claims, but likely to settle for release of some. 25X1

**Press reports 20 more Italian firms owed money by Tripoli asking courts to freeze Libyan assets in Italian banks** . . . Rome wants to avoid suits . . . likely to increase pressure on Tripoli to make token payments. 25X1

### Eastern Europe

**More than 700 Hungarian coal miners recently resigned after government announced pit closures and longer hours** . . . represents small share of mining work force, but protest reflects regime's problems in restructuring inefficient industries. 25X1

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## Looking Ahead

*September/November*

***Western Europe***

West German Bundestag reconvenes 10 September, opening federal preelection season . . . Green national congress in Nuremberg, 27-28 September . . . Christian Democratic congress in Mainz, 6-8 October . . . Social Democratic campaign platform convention in Offenburg, 25 October . . . Christian Social Union kickoff in Bavaria, 20-21 November . . . Free Democratic convention in Mainz, 21-22 November . . . state elections in Bavaria on 12 October and Hamburg on 9 November offer additional preludes. 25X1

Turkish Foreign Minister Halefoglu is the Motherland Party candidate for the Ankara seat in parliamentary byelections on 28 September . . . Turkish officials told the press he is canceling his 10-12 September visit to the United States because of the elections . . . Halefoglu could remain as Foreign Minister while serving in parliament, 25X1

25X1

Dutch Prime Minister Lubbers will visit USSR 20-21 November . . . repeatedly has said INF deployment in Netherlands not subject for negotiation . . . may still probe Soviet flexibility on INF, other arms control issues, such as chemical weapons. 25X1

***Eastern Europe***

Warsaw Pact invited United States for first time since 1979 to observe biannual Druzhba military exercise . . . other NATO observers also to attend in Czechoslovakia next month . . . setpiece demonstration likely, not tactical exercise. 25X1

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