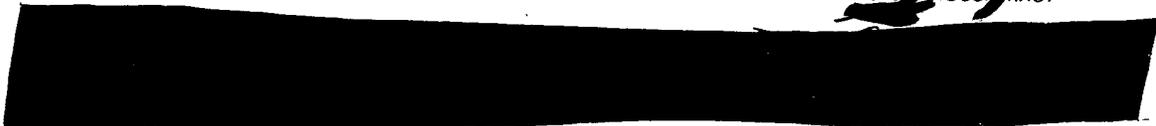




Director of
Central
Intelligence

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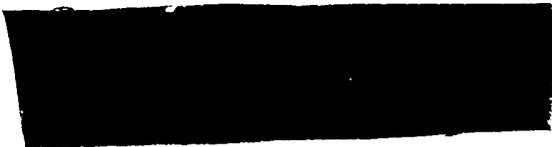
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National Intelligence Daily

Saturday
27 September 1986



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27 September 1986

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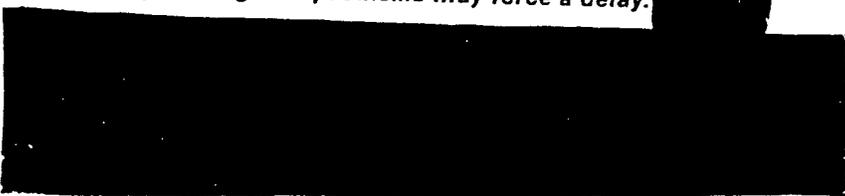
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IRAN-IRAQ:

Developments

Preparations for Iran's fall offensive are continuing, but recruiting and logistic problems may force a delay.

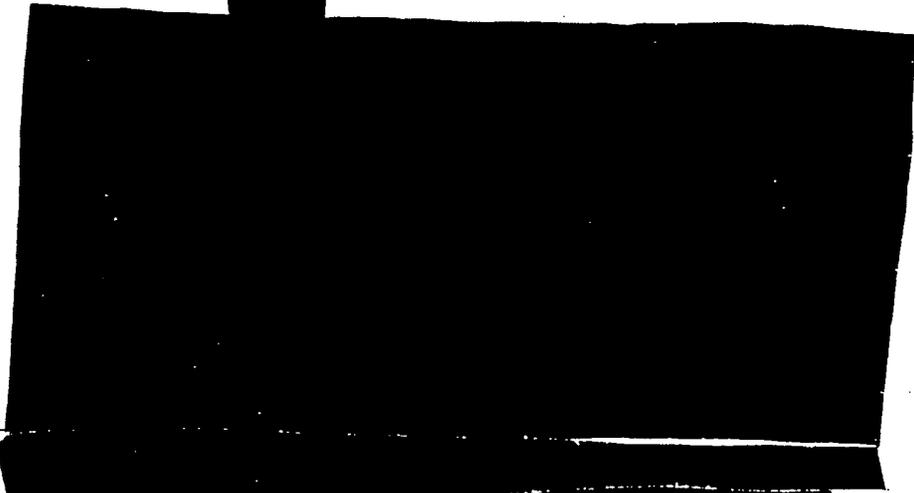
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Assembly Speaker Rafsanjani had stated earlier that new battalions would be at the front by last Monday. In speeches this week on the anniversary of the war, other Iranian political leaders have suggested that a final defeat of Iraq, although ultimately inevitable, may not occur this year.

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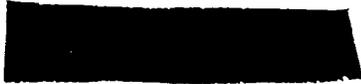
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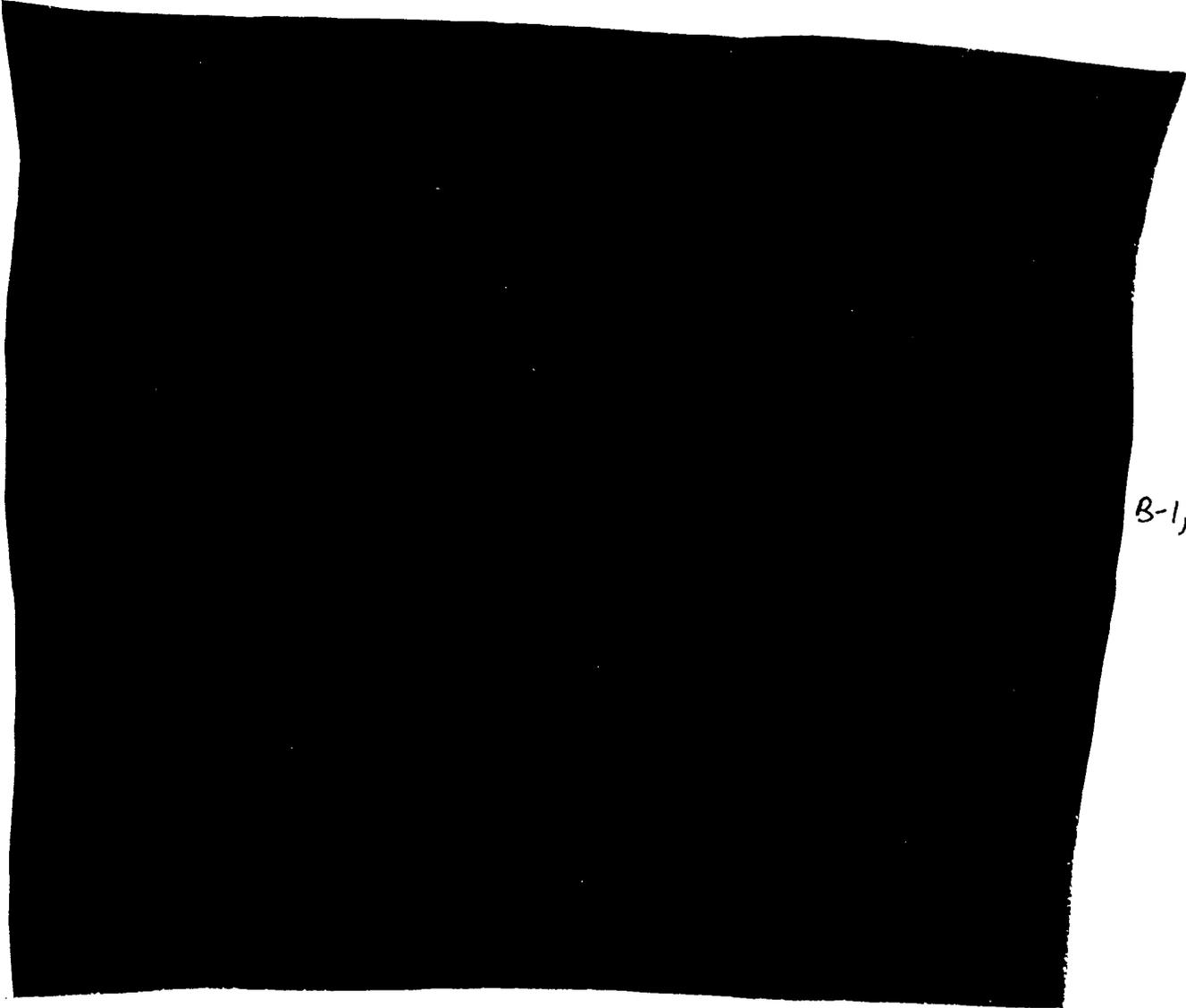
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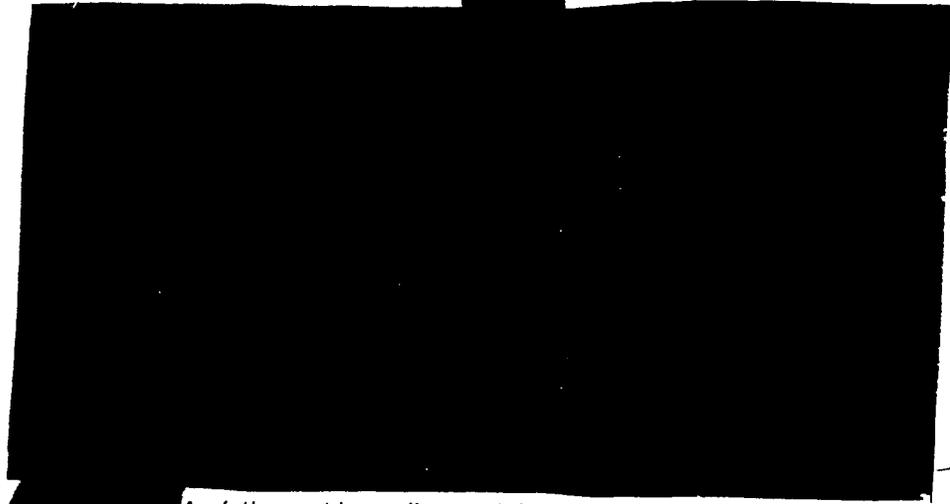
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PLO:

Challenge to Arafat

PLO Chairman Arafat faces a growing challenge to his leadership in part as a result of Tunis's decision to close most of the remaining PLO offices in Tunisia.

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Arafat's most immediate task is to relocate the PLO offices and personnel expelled from Jordan and Tunisia. He apparently fears that he will alienate Baghdad, which has permitted more than 2,000 Palestinians to reside in Iraq since 1982.

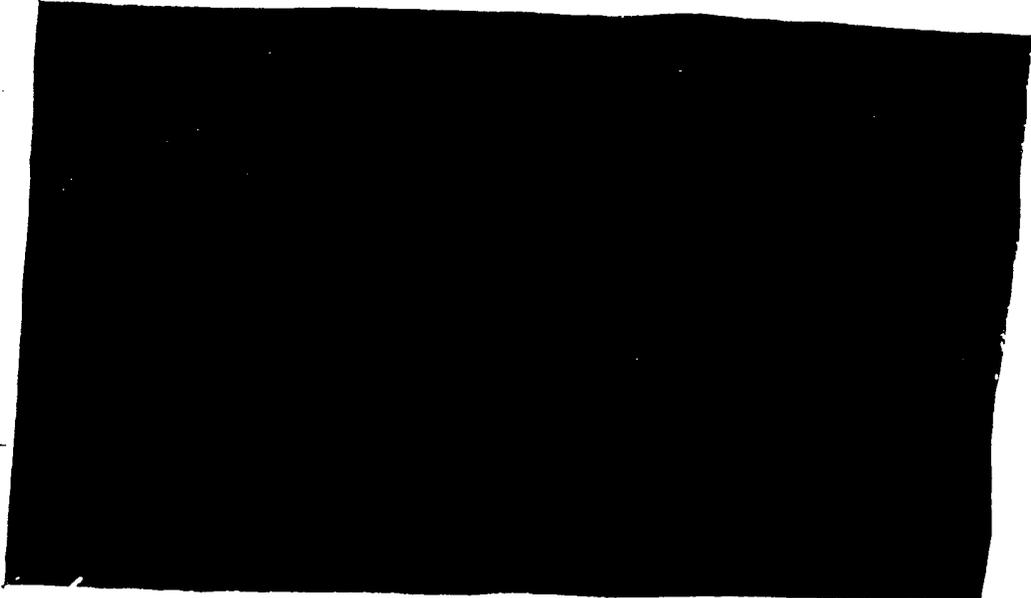
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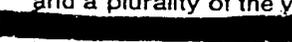


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TURKEY: Government Favored in Byelections

The latest opinion polls show that Prime Minister Ozal's conservative Motherland Party is likely to win a majority of the 11 seats at stake and a plurality of the vote in the parliamentary byelections tomorrow.

 leaders of the main opposition party—the leftist Social Democratic Populist Party—expect to win only half as many seats as Motherland but still hope for a nearly even share of the vote. The seats at issue are widely distributed nationally, and the media, as well as the public, view the contests as a referendum on the government's standing.

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B-3
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If the governing party does not receive a clear plurality of the vote or—even less likely—falls to win a majority of the seats, the Prime Minister probably will face strong pressure to ease his stringent economic policies and to set a date soon for the general election that is due by 1988.

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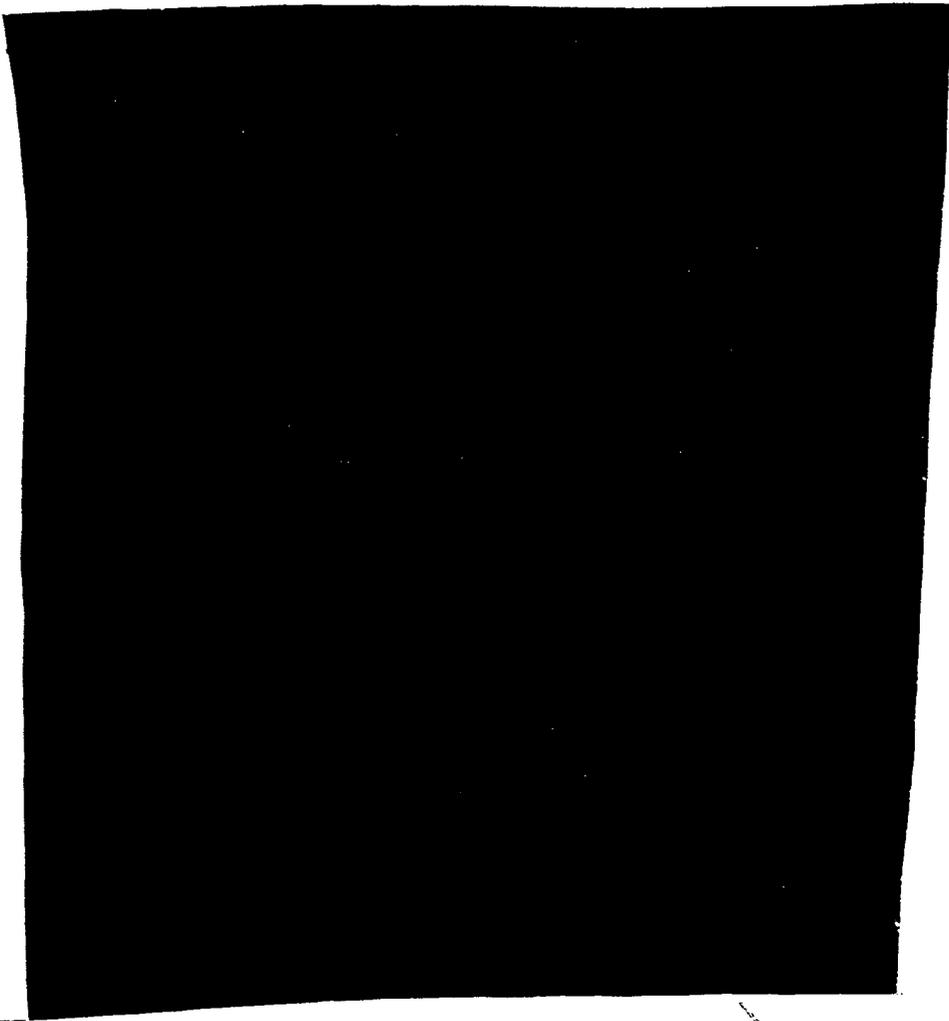
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PANAMA-COLOMBIA-US: Laundering Drug Money

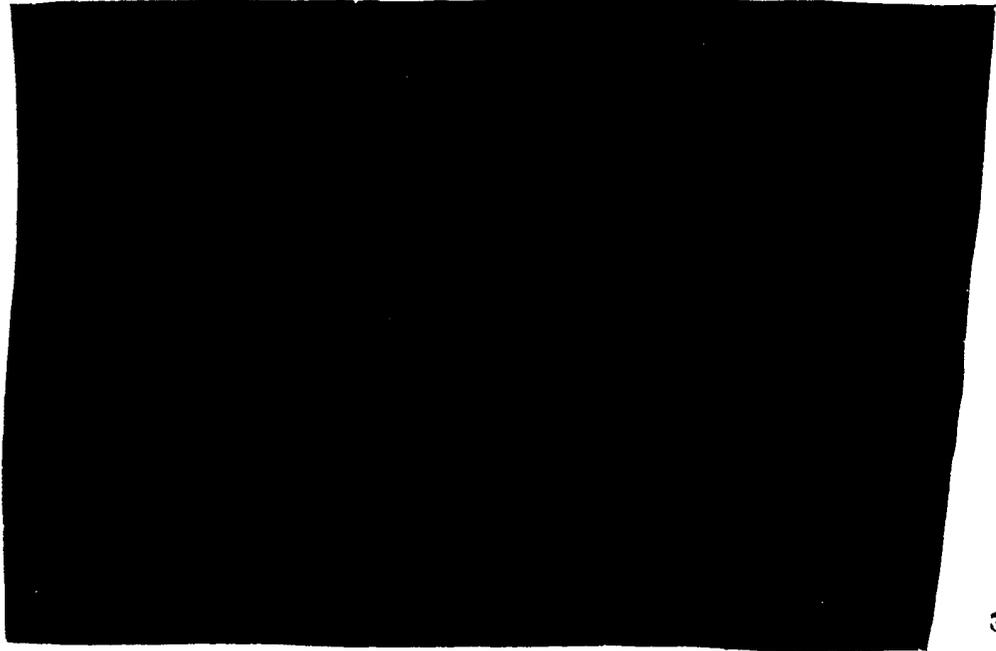
Some Latin American drug traffickers may be moving their money-laundering efforts from Panama to new regional centers—including Colombia—because of US pressure. The amount of US currency returned to the US Federal Reserve by Panama during the first eight months of this year is 40 percent less than in a similar period in 1985, but US currency shipments from Colombia have more than quadrupled.

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The currency moving through Panama may not have dropped as much as the statistics indicate. Panamanian bankers probably are dispersing surplus cash to other countries from which it is returned to the Federal Reserve. Panamanian officials may try to use the reduced level of cash returned to prove that they are cracking down on money laundering to avoid changing Panama's bank secrecy laws significantly and to avert pressure for a mutual legal assistance treaty with the US.

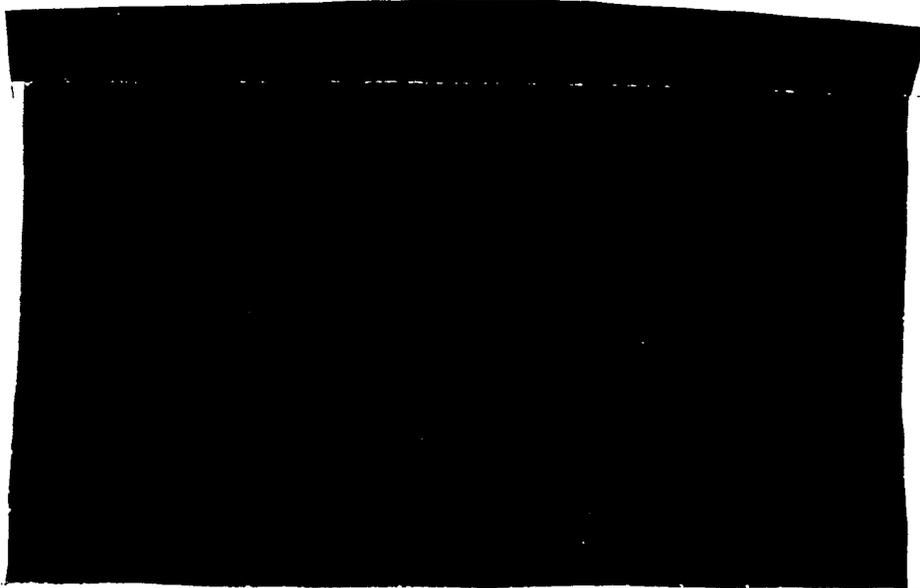
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NONALIGNED MOVEMENT-US: Appeal for Meeting

Zimbabwe's permanent representative to the UN has requested that President Reagan meet with eight nonaligned Foreign Ministers— from Algeria, Argentina, Congo, India, Nigeria, Peru, Yugoslavia, and Zimbabwe—to receive an unspecified message.

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The Foreign Ministers are all in New York for the UN General Assembly session.

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The Foreign Ministers probably intend to deliver an appeal for comprehensive sanctions against South Africa. The final communique from this month's Nonaligned Movement summit in Harare mandates that they lobby key industrial countries, especially the UK, West Germany, Japan, and the US, for sanctions. The proposed meeting is part of an effort to press the UN Security Council to impose mandatory sanctions at a meeting that will probably be held next month.

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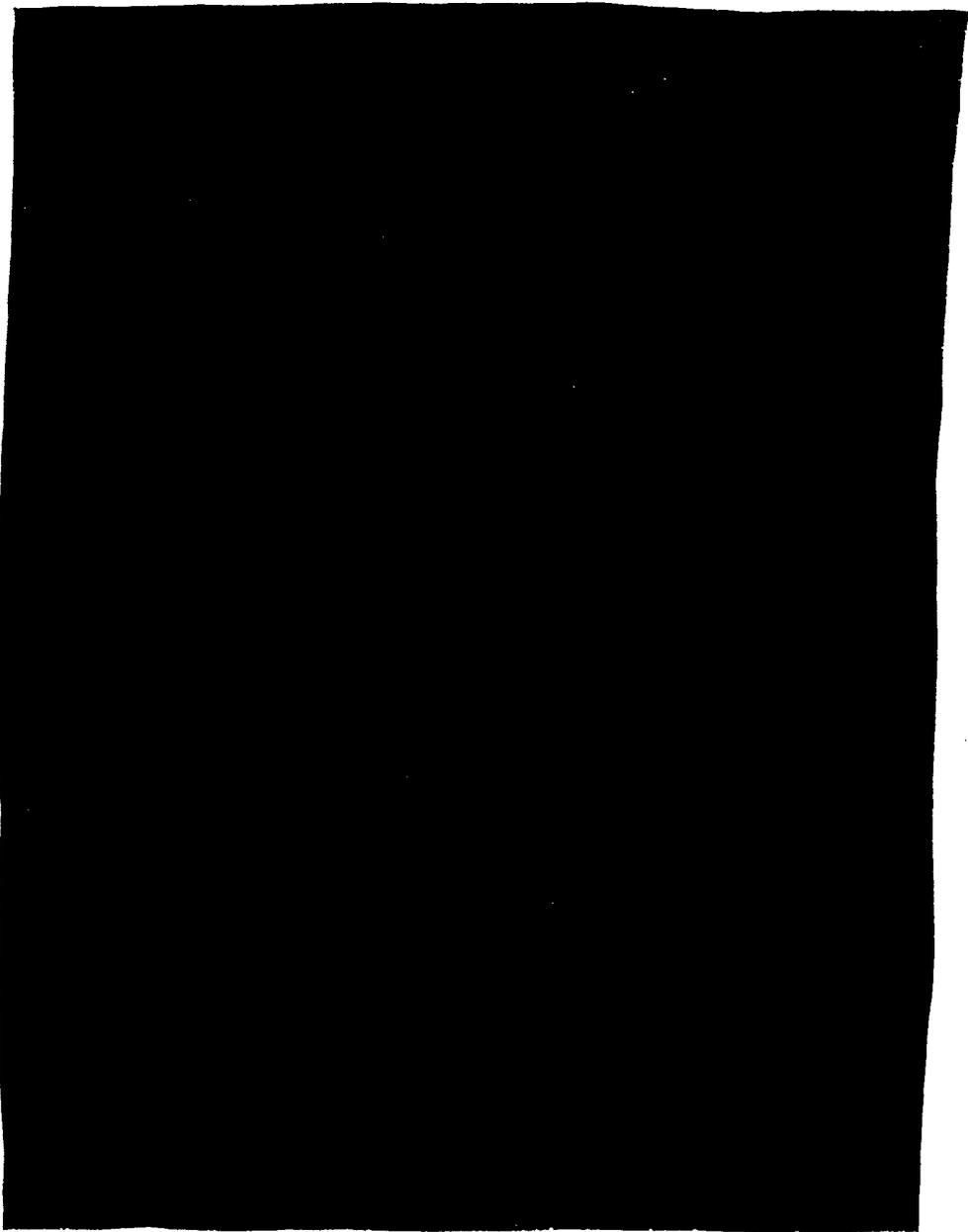
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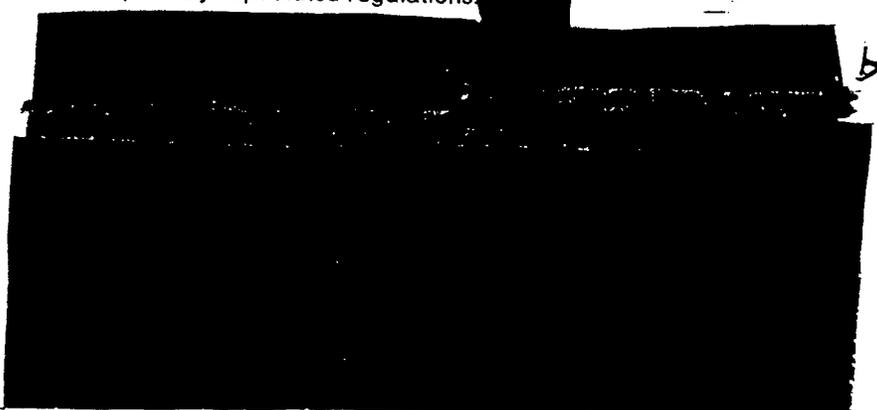
In Brief

Americas

— **Brazil** has issued regulations that for first time specifically restrict foreign software imports . . . probably attempt by protectionists to sabotage Informatics negotiations with US . . . President Sarney has publicly repudiated regulations.

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Europe

— **USSR** buying 1 million tons of EC soft wheat . . . EC, responding to US subsidy program, boosted subsidy, making net price \$80 a ton—some \$10 less per ton than US price . . . determined to retain Soviet market share.

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Africa



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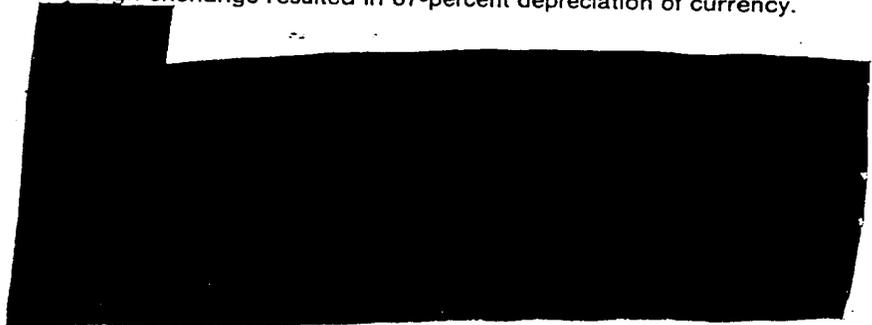
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— **Nigeria** inaugurated two-tier foreign exchange market yesterday, . . . Initial weekly auction of \$50 million in foreign exchange resulted in 67-percent depreciation of currency.

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Middle East



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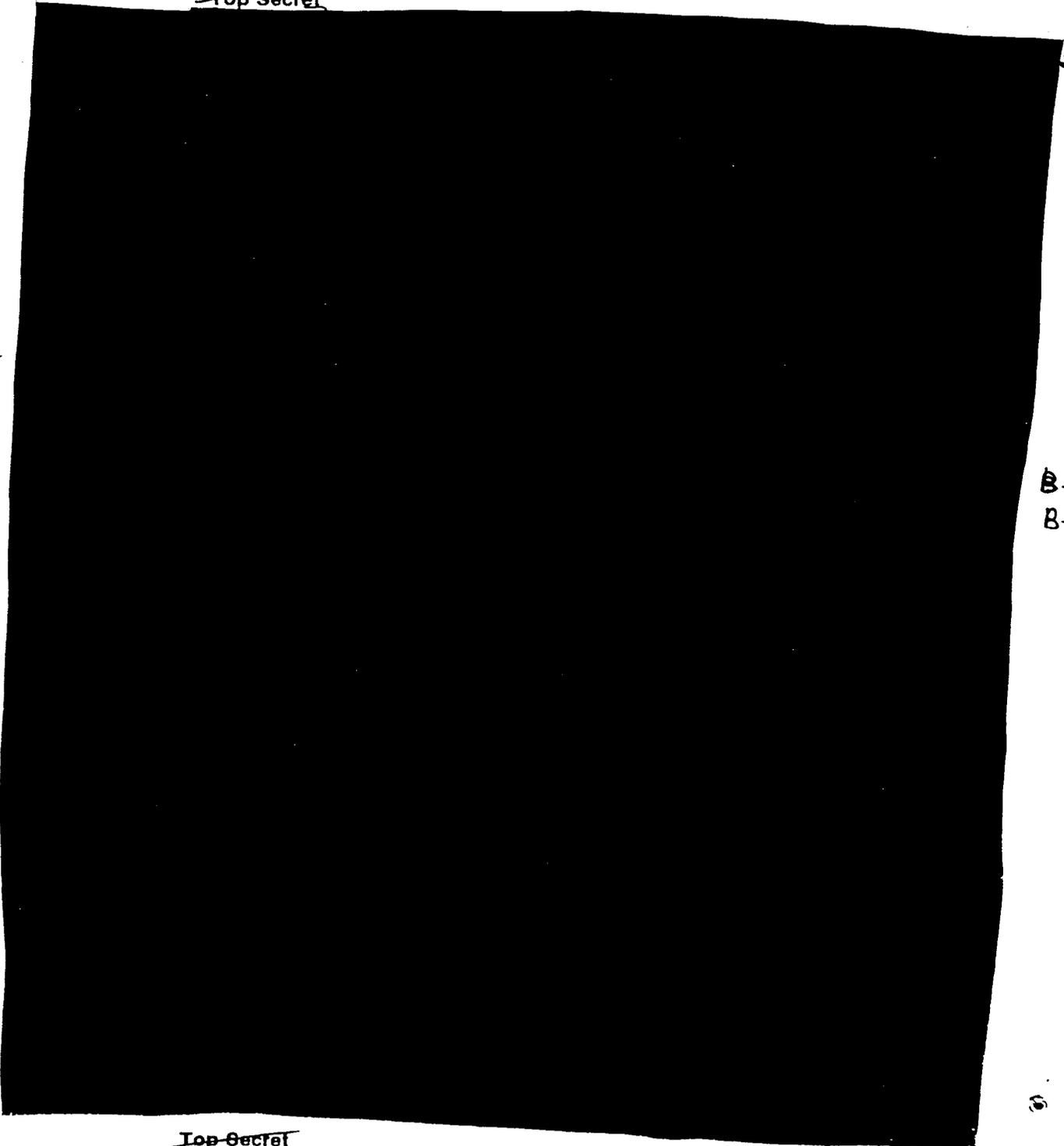
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Special Analysis

IRAQ-IRAN:

Impact of Iraqi Air Attacks

Increasingly effective Iraqi air attacks on Iran's oil refining and export systems are substantially raising the pressure on an economy already reeling from low oil prices and increased war spending. With the onset of cold weather, a severe shortage of heating oil and electricity would be a major blow to civilian morale.

B-3

Iraqi attacks, compounded with weather and technical problems, have reduced Iranian oil exports, and in turn aggravated the shortage of foreign exchange. Exports since early August have averaged about 1.1 million barrels per day, 600,000 b/d below Iran's OPEC quota.

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Tehran has not been able to activate offshore oil terminals at Ganaveh or to solve problems with the shuttle system for exports.

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Failure to acquire outside expertise and spare parts may hamper exports for several months.

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In addition, Iraqi attacks on refineries and pumping stations are causing shortages of gasoline, heating fuel, and electricity that are likely to become worse.

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Low oil prices and increased military expenditures had earlier forced Iran to make deep cuts in spending for the civilian economy. Acute shortages of consumer items, soaring prices for food and other necessities, and rapidly rising unemployment have been evident for several months.

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the shortage of foreign exchange has caused widespread layoffs at businesses and factories. Since early this summer

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[redacted] shortages of food and other commodities throughout Iran. [redacted] prices of consumer goods in northwestern Iran were up sharply in May and June. [redacted]

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Risks to the Regime

A sustained shortage of heating and diesel fuel could cause serious unrest, particularly among the lower classes that provide the regime its principal support. Tehran will meet military fuel needs first, making civilian shortages that much greater. Inadequate supplies of diesel fuel will hamper distribution of goods. In past years, shortages of heating oil less serious than those likely this year have provoked demonstrations [redacted]

B-3

Tehran is concerned about the impact of economic problems on civilian morale, especially if its forthcoming military offensive fails. Officials have become increasingly sensitive to attacks on economic policies in the Iranian press. In public statements many have linked increased economic sacrifices to the goal of defeating Iraq this year. Majles Speaker Rafsanjani has warned against unrealistic expectations of victory, however, probably fearing an outburst of pent-up frustration if the situation becomes worse. [redacted]

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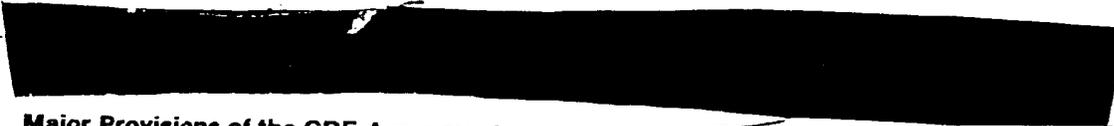
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The Warsaw Pact and CDE

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Major Provisions of the CDE Agreement:

- **Notification of Military Exercises and Other Activities:** Parties required to inform other signatories of military activities involving more than 13,000 men or 300 tanks at least 42 days in advance.
 - **Observation of Exercises:** Parties required to invite observers from other signatories when exercises involve more than 17,000 men.
 - **Annual Calendars:** Parties required to publish annual calendar of anticipated notifiable activities by 15 November of previous year. Exercises to involve more than 40,000 men to be listed one additional year ahead. Those to involve more than 75,000 men to be listed two years in advance.
 - **Verification of Compliance:** Signatories have right to demand on-site inspection of territory of another state whenever suspicious that exercises or other military activities exceeding specified limits are occurring without agreed notification or observation. Parties must accept up to three inspections per year, but no one state can demand more than one such inspection of any other single state per year. Inspections may be carried out by air, on the ground, or both, with the inspected state having a veto over the source of any aircraft and crew.
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Special Analysis

USSR-WESTERN
EUROPE:

Conventional Arms Control

The Soviets will use the agreement reached at the Conference on Disarmament in Europe at Stockholm last week to campaign for new talks on reducing conventional forces. They almost certainly will call for a new CDE to consider the Warsaw Pact's Budapest Appeal in June for troop reductions. Allied responses will depend largely on whether the French would be willing to follow NATO's instructions in such a forum.

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Soviet and East European commentaries claim compromises by the East enabled the conferees to overcome US resistance and reach a CDE agreement. Although the agreement does not constrain military activities nor require troop reductions.

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[redacted] they had problems with some of its provisions, particularly those requiring on-site inspection of exercises west of the Urals. The Soviets accepted a document that omits many of their opening demands, including separate notifications of naval and air exercises.

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The Soviets have sought a meeting with members of a high-level NATO task force to discuss the Budapest Appeal and the future of arms control talks.

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[redacted]

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The Budapest Appeal called for equal reductions from the Atlantic to the Urals of NATO and Warsaw Pact ground and air force troops and equipment. Reductions by each side of 100,000 to 150,000 troops would be made within a year or two; a second cut of 350,000 to 400,000 would follow in the early 1990s. The Budapest Appeal proposes accomplishing the reductions by disbanding units rather than by thinning out their ranks, and it provides for weapons and equipment to be destroyed or stored in the territories of the states involved.

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Assuming Western willingness to accept equal numerical reductions, NATO would presumably insist on more-wide-ranging verification than the limited on-site-inspection provisions the Soviets agreed to at Stockholm.

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Soviet and Warsaw Pact military leaders would be more resistant to such comprehensive measures than to manpower cuts on the order of those specified for the first stage of the Budapest Appeal. For economic and demographic reasons, General Secretary Gorbachev

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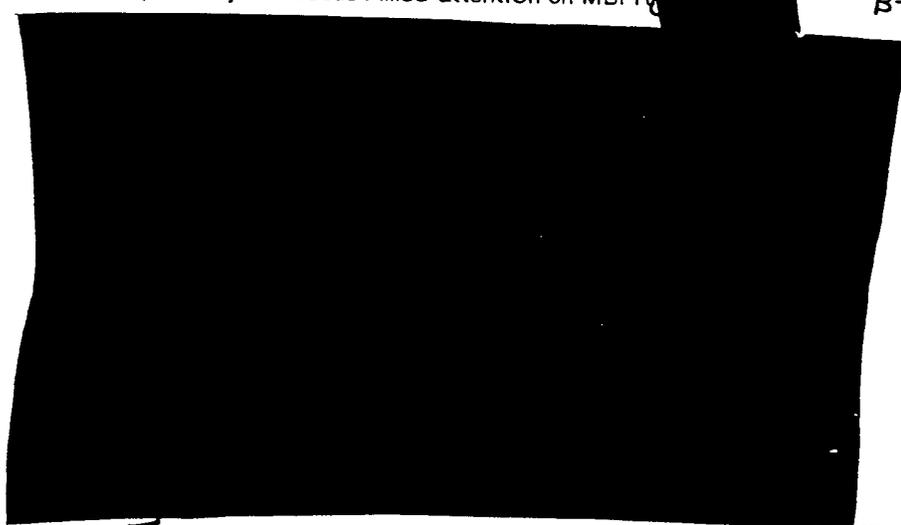
may therefore attempt unilateral, but militarily insignificant, reductions in the Soviet Armed Forces that could be trumpeted as evidence of Moscow's commitment to disarmament. Such cuts would have a substantial impact on European opinion and could undermine Western public perception of the need for NATO's conventional modernization program more than any negotiated agreement.

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Allied Reactions

Successful completion of CDE has opened the door for consideration by NATO of other forums for discussion of conventional arms control and will probably also focus Allied attention on MBFR.

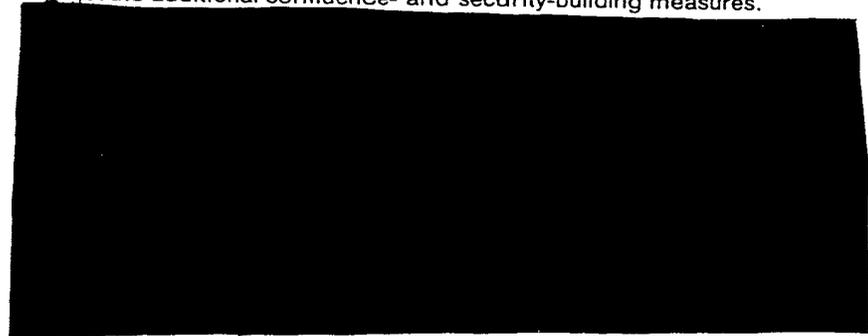
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Allied movement toward a new CDE to address force reductions will be largely contingent on the establishment of an alliance-to-alliance subgroup for that purpose at the same time that all 35 participants negotiate additional confidence- and security-building measures.



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Special Analysis

CHINA-CAMBODIA-
VIETNAM:

Beijing's Cambodian Strategy

China used a meeting of Cambodian resistance leaders in Beijing earlier this month to reiterate strong support for the resistance. President Li Xiannian also used the meeting to assure ASEAN and the West publicly that China does not intend to restore to power the discredited Khmer Rouge or to seek a sphere of influence in Cambodia.

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China's efforts to strengthen the cohesion of the resistance coalition over the past year—largely by trying to make the Khmer Rouge a more acceptable coalition partner—continue to raise suspicion in ASEAN about Beijing's objectives. By blurring distinctions between the Khmer Rouge and the two non-Communist resistance groups, China has probably unintentionally undercut the non-Communists' efforts to develop an independent political following in Cambodia. Because most Chinese military aid to the resistance goes to the Khmer Rouge, some ASEAN and Western officials blame China for the wide disparity in military capabilities between the Khmer Rouge and the non-Communists.

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China is unlikely to alter soon its fundamental strategy of protracted military and diplomatic pressure on Vietnam. Beijing places the onus for progress in Cambodia on Hanoi and Moscow and expects no early concessions. China recognizes that its ability to achieve its preferred outcome—a complete Vietnamese withdrawal and a Cambodian Government free of Vietnamese control or influence—is sharply limited by its unwillingness to take decisive military action against Vietnam and by regional sensitivities to an overly aggressive Chinese approach to the Cambodia problem.

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Beijing would view an inconclusive outcome in Cambodia over the next several years as an acceptable alternative because it would involve relatively low costs, prevent Hanoi from consolidating its hold on Indochina, and keep the Soviets committed to burdensome aid programs in Vietnam and on the diplomatic defensive in Asia.

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