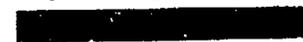


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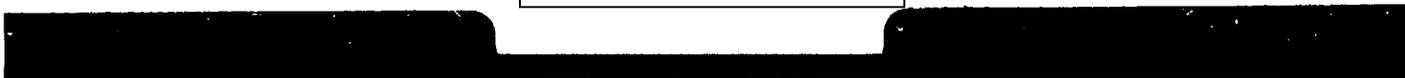
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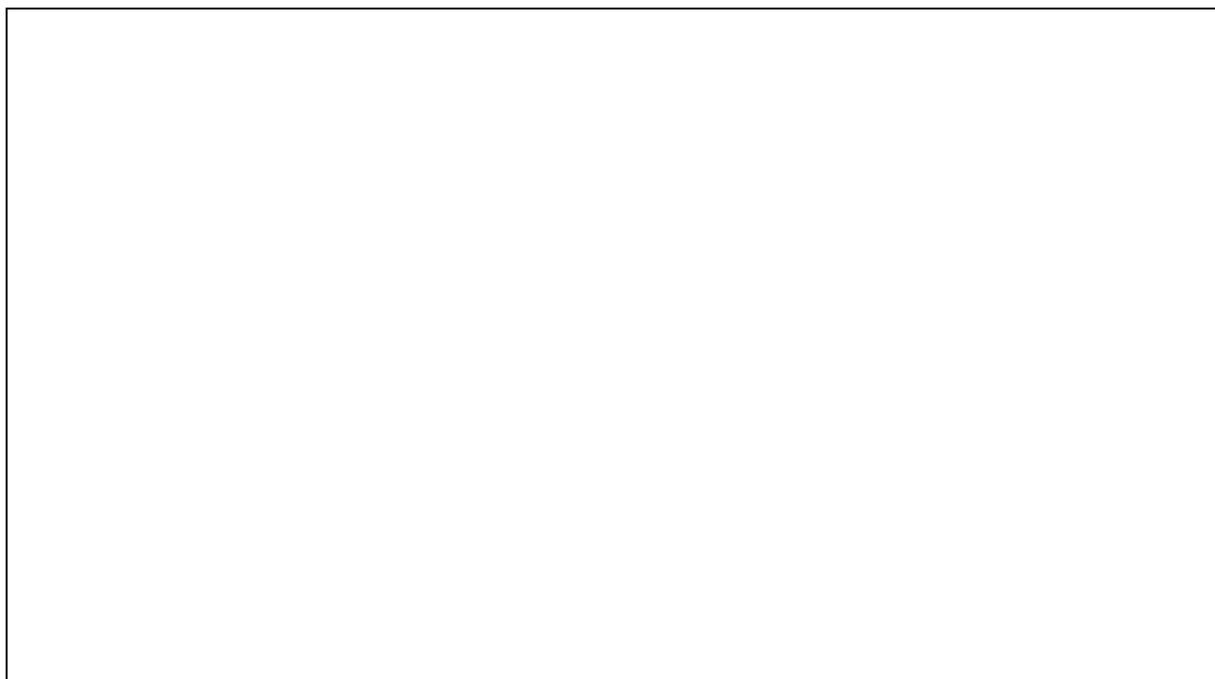


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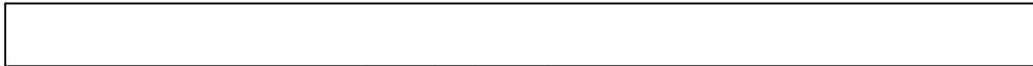
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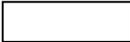
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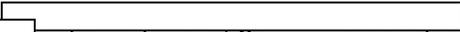
POLAND: Price Increases

There apparently has not been any immediate reaction to the price increases that went into effect yesterday. The demonstration in Gdansk on Saturday was larger than the government admits. Solidarity militant Bujak may have been arrested. 

Steep food price increases took effect yesterday apparently without any major immediate reaction from the populace. At the last minute, the regime tried to soften the impact of the hikes by increasing the amount of food for sale, promising to monitor closely price changes on manufactured goods, and increasing the value of savings accounts by 20 percent. It had earlier boosted wages. 

Comment: Although a government communique issued last week on the price reform claimed that the value of wage compensation would exceed the amount of the price increases, other regime statements strongly imply that the consumer has not been fully compensated. The cost of living--which increased 25 percent last year--will most likely rise again in 1982. The increased market supplies are a temporary measure that the regime can sustain only for a short time. 

Gdansk Demonstration

The demonstration in Gdansk on Saturday was larger than the regime has admitted. 

 of perhaps 50 young people started the demonstration outside the Lenin Shipyard, but it was joined by workers changing shifts and others until a crowd of about 2,500 marched through town. Some in the crowd threw rocks at police and set fire to a police vehicle. Later a small group, throwing stones and at least one "firebomb" at the provincial party building, was dispersed by security forces. 

Comment: The regime probably is most alarmed that shipyard workers were willing to join the demonstration. Since the imposition of martial law, the authorities apparently have fired the most militant workers--the

--continued



work force at the Lenin Shipyard evidently has been reduced by 25 percent--in order to maintain calm at the workplace. [redacted]

Workers' concern about jobs and the problems of unemployment--including reduced rations and mandatory work assignments--has probably cooled their ardor for protest, but the Gdansk incident demonstrates that worker militancy runs deep and can be brought forth spontaneously. [redacted]

Solidarity Activity

The Paris daily *Le Monde* has published the alleged government internment order for Solidarity leader Walesa and a written statement smuggled out from him calling on Solidarity not to retreat. Meanwhile, the West German press service reported that militant union leader Bujak had finally been arrested. [redacted]

Comment: Walesa's appeal will boost the morale of the Solidarity underground activists, but Bujak's arrest would eliminate a key organizing talent. The documents published by *Le Monde* apparently are the basis for earlier reports that Walesa's status had changed. [redacted]

[redacted]

[redacted]

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USSR: Heightened Gold Sales Activity

Moscow has been active in the international gold market in recent months and may continue to make substantial sales.

In 1981, when its hard currency deficit was \$6 billion, gold sales earned the USSR more than \$2.5 billion. The balance was covered by drawing down foreign exchange and increasing trade credits.

Comment: If imports are not curbed, the USSR will need almost \$10 billion in hard currency this year. Moscow probably has already arranged about \$4 billion in Western credits. The remaining gap must be covered by additional Western credits and gold sales.

For every \$1 billion not financed through credit, the Soviets at today's price would have to sell 80 tons of gold. Moscow's gold stocks total 1,800 tons and, after consumption, the Soviets would have an additional 275 tons available for sale from current production.

The Soviets usually prefer not to sell gold in a bear market.

The USSR, however, will need cash. Foreign currency reserves amount to less than two months' worth of imports. The growing wariness of international banks toward lending to Communist countries will make it more difficult for Moscow to obtain new credits.

Large Soviet gold sales would further dampen gold prices and compound Moscow's financing difficulties. Demand for gold has already declined appreciably over the last few months, primarily because of the higher real return on other investments and market uncertainty over the amount of Soviet sales. Gold prices also could weaken if the rich oil producers--large buyers in 1980-81--curb purchases as current account surpluses dwindle.

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LIBYA: Status of Oil Production

Most major US operators are continuing to have little difficulty in replacing US technicians, mostly with Canadians and Europeans.

Recruitment offices have been opened in the US, Canada, and the UK to hire workers. Some US workers in Libya also have been hired by the Libyan National Oil Company.

Maintenance of US-manufactured equipment can be performed by foreign employees of leading US service companies or by foreign companies.

Tripoli cut prices to \$36.50 per barrel on 1 January and has proposed an additional \$1.50 equity discount to foreign operators. Nevertheless, customers claim that Libyan crude is still overpriced.

Comment: Libyan oil production, now at 1.1 million barrels per day, could fall to around 900,000 barrels per day this month because of the current soft market and Tripoli's pricing policies. If Libya reduces its prices, Nigeria, Algeria, and other producers would be forced to reevaluate their prices.

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[Redacted]

WEST GERMANY: Opposition Attitudes on Sanctions

Several influential moderates of the opposition West German Christian Democratic Union claim there is little sympathy in the party for sanctions against Poland or the USSR, except among a right-wing minority. [Redacted]

The moderates doubt the effectiveness of sanctions and claim that only those who violate them would benefit. Nevertheless, they find it difficult to express openly their basic agreement with the government's position.

[Redacted]

Party conservatives pushed through a policy rejecting the government's "soft" position before Chancellor Schmidt's visits to Washington and Paris strengthened public support for his policy of restraint. The moderates now feel compelled to stand by the conservatives, in part because they failed to support conservative efforts to present a unified opposition to the government's budget proposals.

Comment: Moderates on the sanctions issue almost certainly outnumber conservatives in the Christian Democratic Union itself

[Redacted]

The advent of state elections later this year may prompt the moderates to work for a less aggressive policy. They know that the Social Democrats intend to portray the elections as part of the struggle for power in Bonn. Consequently, they believe that their party will do better if the voters concentrate on local issues and are not distracted by concern that a Christian Democratic government in Bonn would seek confrontation with the East.

[Redacted]

[Redacted]

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[Redacted]

NATO-SPAIN: Obstacles to Madrid's Membership

Spain's application to NATO still faces delays in some capitals, and domestic politics could scuttle it if the process is not completed by the proposed Alliance summit in June. [Redacted]

The Spanish want the ratification process completed in time for the NATO ministerial sessions in May but prefer to delay the meetings if all the Allies have not approved their application by that time. Delays have appeared likely for some time [Redacted]

[Redacted]

Madrid apparently hopes that the new deadline will allow enough time to complete the process. If the application has not been approved before the proposed summit, however, the case for membership could unravel. [Redacted]

Spain may face general elections within the next nine months, [Redacted] could seize on this to continue delaying their ratification. If the Socialists win as they are currently favored to do, they would be unlikely to pursue the NATO application. [Redacted]

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OAU: Committee Meeting on Western Sahara

The OAU's effort to arrange a settlement of the Western Sahara problem resumes tomorrow when its committee on the issue convenes in Nairobi. [redacted]

The committee is to meet first at the level of foreign ministers with a summit session scheduled to begin on Sunday. It has not met since last August, when it formulated and circulated a vaguely worded "draft" resolution. Since then, Morocco, Algeria, and the Polisario Front have publicly interpreted the key sections of the resolution differently. [redacted]

Kenyan President Moi, the OAU's current President, has said that the committee will try to broker a cease-fire and also will discuss the issues of voter registration, the modalities of a referendum, and an interim administration. Moi said that the UN will furnish 10 experts to assist with technical questions. [redacted]

Moi wants to accelerate the peace process in order to complete it before his term expires. The Moroccans also are eager for an OAU-sponsored referendum before Libyan leader Qadhafi takes over as OAU chairman this summer. [redacted]

Comment: The Polisario's reported new willingness to go along with the OAU's plan to work out a cease-fire indirectly with Morocco, which refuses direct contact with the guerrillas, probably depends on Rabat's agreement to set up an effective third-party administration to supervise a vote and to confine Moroccan troops to barracks. Rabat, however, has shown little inclination to take these steps. [redacted]

The Algerian attitude remains the key because of Algiers' past pressure on the guerrillas to moderate their demands. Morocco's acquisition of advanced military equipment since last fall probably has magnified Algeria's fears that King Hassan will proceed with a military solution if he cannot arrange a vote which legitimizes Moroccan control over Western Sahara. [redacted]

[redacted]

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USSR-VIETNAM: Ogarkov's Visit

Marshal Ogarkov, Chief of the Soviet General Staff, arrives in Vietnam tomorrow for a weeklong visit. He is the highest ranking Soviet military officer to visit Vietnam since 1974. [redacted]

Comment: The visit underscores the importance of Soviet military support to Vietnam at a time when some Vietnamese are rumored to be questioning excessive dependence on the USSR. The Soviets are unhappy with Hanoi's misuse of economic assistance, and Ogarkov could be interested in ascertaining whether the Vietnamese are making effective use of the estimated \$2.1 billion in military aid Moscow has provided since 1979. Even if Soviet military aid were being misused, however, he probably will offer more. Talks probably will also focus on the threat closer Chinese-US strategic cooperation poses to Soviet and Vietnamese interests in Southeast Asia. Ogarkov may argue for greater Soviet use of Vietnamese facilities. [redacted]

SAUDI ARABIA: Yamani Comments on Oil Sanctions

Oil Minister Yamani told the press last Friday that Saudi Arabia would not impose oil sanctions against the US for vetoing the recent draft UN Security Council resolution on the Golan Heights. [redacted]

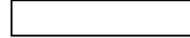
Comment: The timing of Yamani's interview is a clear signal to Syria that the Saudis are not prepared to discuss economic sanctions against the US at the Arab League Foreign Ministers' meeting now scheduled for 12 February. Although the Saudis are unhappy with the US for ignoring their offer to work for compromise language in the UN resolution, they are equally displeased with the Syrians for not taking a more moderate tack during the Security Council debate. [redacted]

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INDIA-PAKISTAN: Results of Discussions

The talks between India and Pakistan concluded yesterday in New Delhi with agreement to resume consideration of Pakistan's proposal for a bilateral nonaggression agreement later this month. Prime Minister Gandhi's proposal for a joint commission to improve bilateral relations was also well received. 

Comment: India hosted the talks to offset the publicity Pakistan had received by proposing the nonaggression pact last fall. Gandhi's call for a joint commission also is designed for propaganda purposes and does not imply a softening of opposition to Islamabad's arms acquisition and nuclear programs. 

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ANGOLA-USSR: Improved Coastal Security

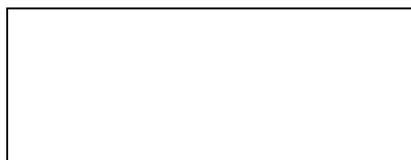
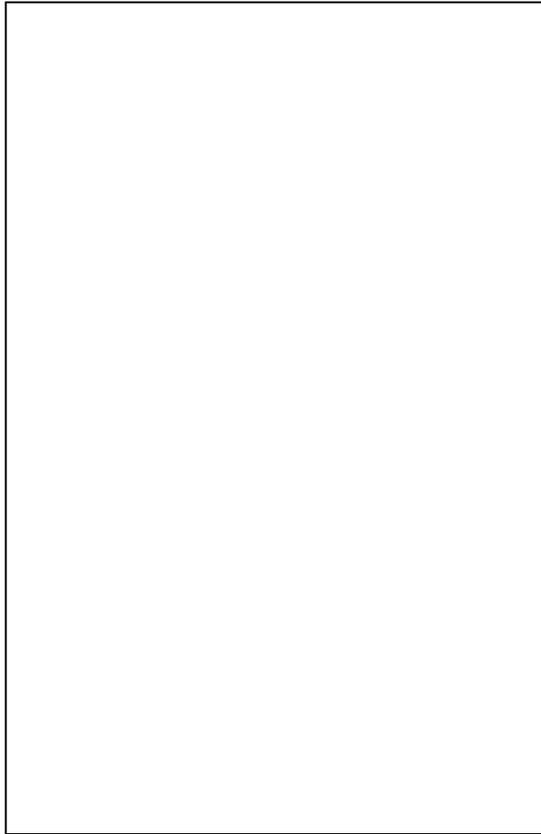
[redacted]
[redacted] Soviet-made coastal surveillance radars in the Luanda harbor area. Similar radars have been in use for nearly 25 years in Eastern Europe. [redacted]

[redacted]
They probably will be used in the Luanda area to warn against seaborne commando raids such as the one last November that damaged the capital's petroleum refinery. They have also been introduced into northern Africa and have recently appeared in some other black African countries. [redacted]

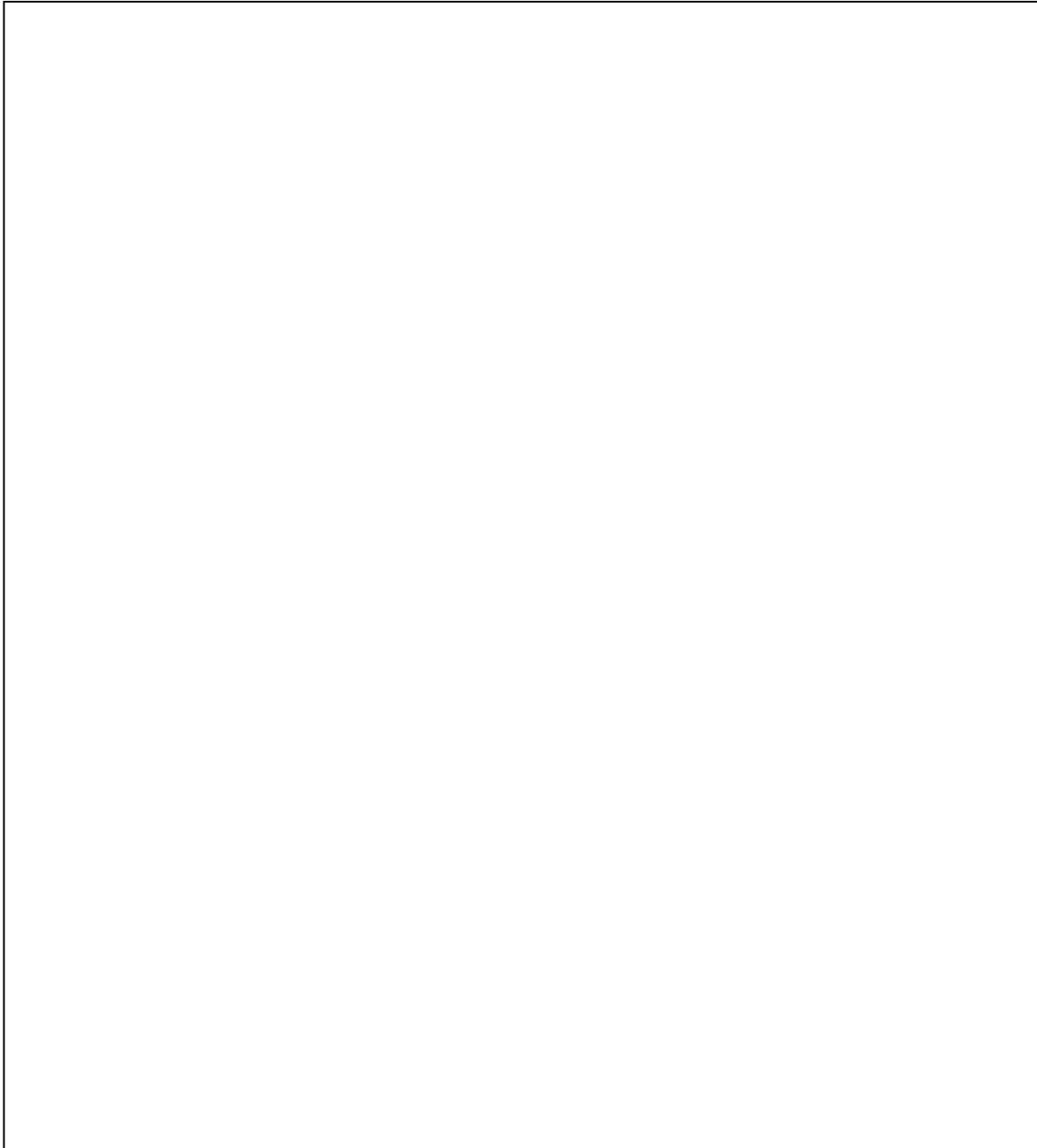
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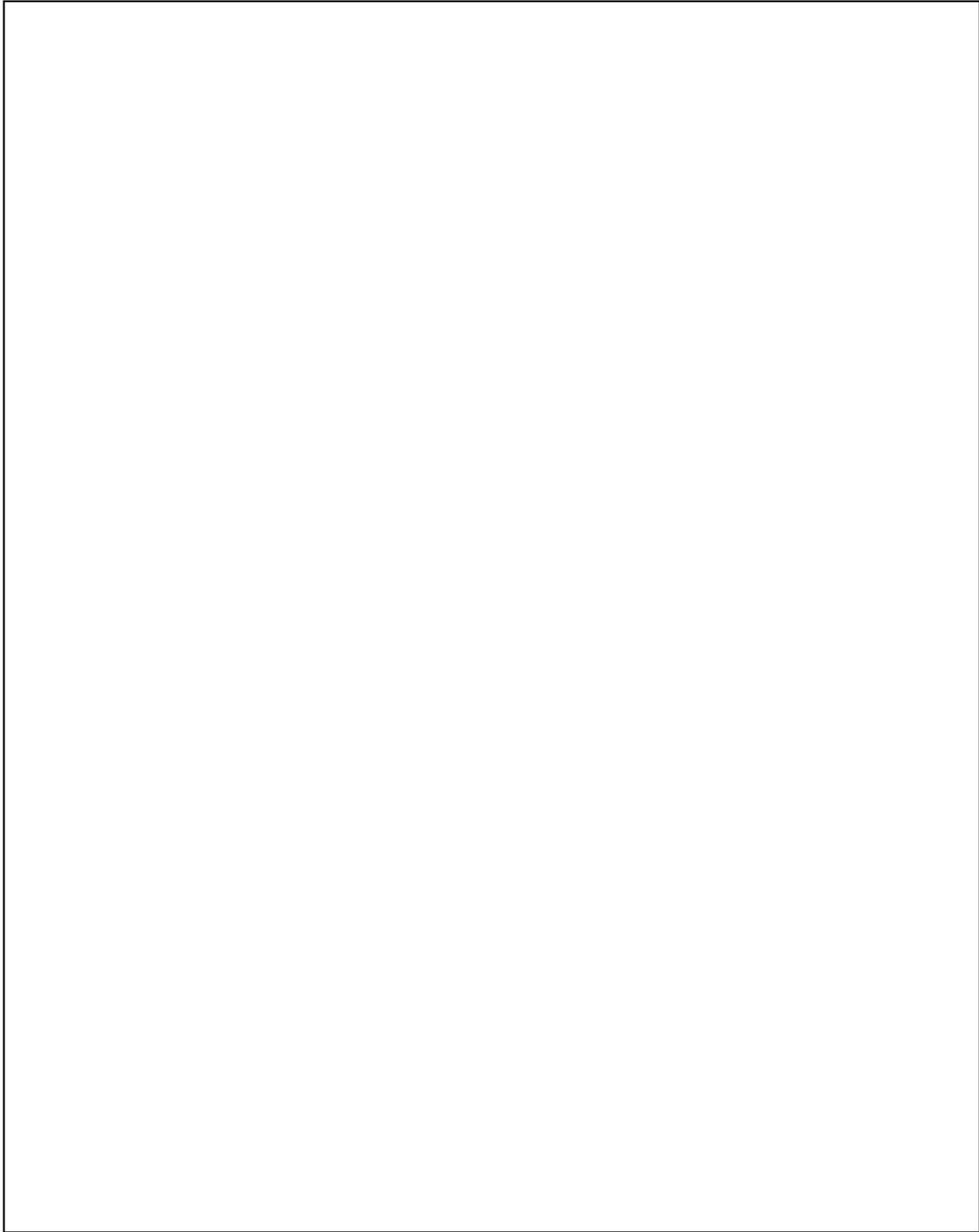
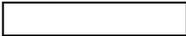


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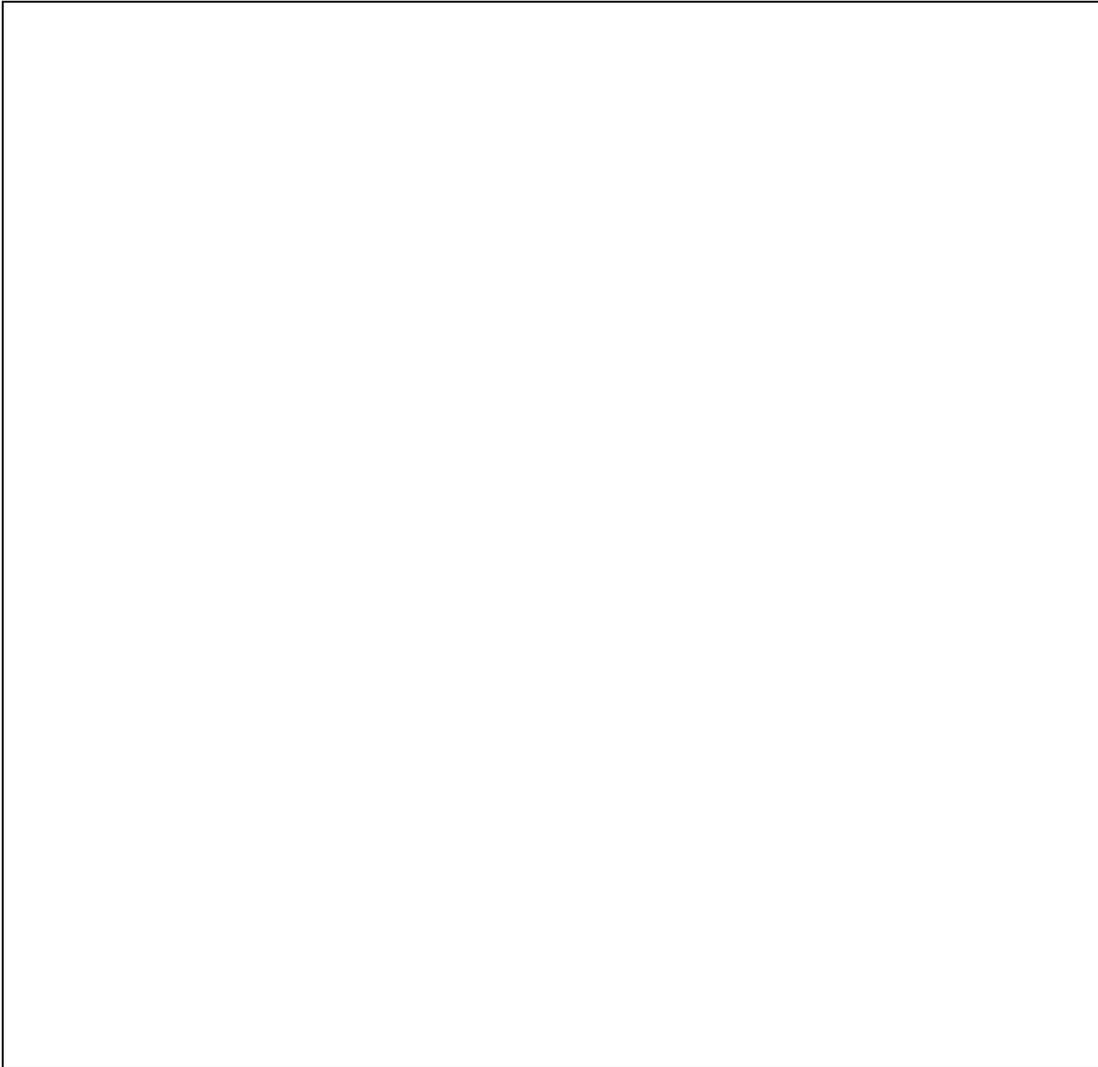
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