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SITUATION REPORT

IRAN

President Bani-Sadr's comments last night indicating that the US has not met Iran's conditions for transferring the hostages to government control probably reflects his weak political position.

Bani-Sadr almost certainly has faced serious opposition to his proposal and he may well continue to ask for more concessions to avoid appearing too conciliatory toward the US. Even if he has good intentions, Bani-Sadr lacks the political influence to carry out his pledge to transfer control of the hostages unless Ayatollah Khomeini directly orders the militants to comply.

In a hardline statement yesterday Khomeini pointedly ignored the transfer issue, indicating he is unlikely to reverse his public support of the militants. The Ayatollah apparently believes that the Shah, abetted by US plotting, continues to threaten his Islamic Republic.

The President's assertion that the Revolutionary Council favors transferring the hostages is also open to question. He and Foreign Minister Ghotbzadeh have in the past consistently overstated their support from the Council and Khomeini.

The militants continue to receive support from powerful political allies including the left and the cleric-dominated Islamic Republic Party. A spokesman for the militants indicated yesterday that they will only obey instructions from Khomeini. A Foreign Ministry spokesman admitted, moreover, that no action against the militants is possible without Khomeini's approval.

The Kurdish Problem

Both Khomeini and Bani-Sadr took a tough line on Kurdish opposition to the government in their statements yesterday. Khomeini suggested no one's interests would

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be served unless the Islamic Republic survived, and called upon Kurdish "brothers and sisters" to desist from their separatist ways and recognize the authority of the central government. [redacted]

Citing national security as a primary concern, Bani-Sadr called on the Kurdish Democratic Party to lay down its arms. He confirmed recent reports of Army activity against armed Kurdish groups, and threatened that military operations would continue as long as internal security is endangered. [redacted]

Khomeini's position--that the Kurds are misguided and subject to manipulation by external powers--is not new, but Bani-Sadr's rejection of further compromise signals a significant hardening of the government's attitude that is likely to heighten tension with the Kurds. [redacted]

Oil Production

Preliminary data from the National Iranian Oil Company indicates that during the 30-day period ending 20 March Iranian oil production averaged 2.3 million barrels per day. Production apparently has rebounded from a mid-month drop caused by a series of sabotage incidents. Exports averaged 1.4 million barrels per day, down 300,000 barrels per day from the previous month. [redacted]

Relations With Iraq

Iraqi Deputy Prime Minister Tariq Aziz was slightly wounded yesterday by an "Iranian" terrorist, according to the official Iraqi news service. The announcement did not claim that the terrorist, who was killed by Iraqi security forces, was acting on the orders of the Iranian Government. Nevertheless, the incident will strengthen Baghdad's determination to undermine the regime in Tehran. The Iraqis already provide aid to a wide variety of Khomeini's domestic opponents. [redacted]

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BRIEFS AND COMMENTS

SPAIN: Delayed EC Accession

Delays of a year or more in Spain's timetable for attaining EC membership pose a potentially serious problem for Spanish foreign and defense policies. [redacted]

[redacted] Spanish Minister for EC Relations Calvo Sotelo recently told Belgian Foreign Minister Simonet that full accession by Spain to the EC is not likely before late 1983 or even 1984. Calvo Sotelo maintained that realistic negotiations on the most troublesome issues--particularly agriculture--could not even begin before the French presidential election in 1981. [redacted]

French farm interests are threatened by the prospect of Spanish competition and by the difficulties Spanish accession would pose to the crisis-ridden EC agricultural pricing system. While French leaders remain committed to melding Spain eventually into the EC, presidential candidates will try not to alienate the agricultural lobby. [redacted]

In Spain the delay could cause a loss of momentum for Community membership. All major parties support joining the EC for economic reasons and because it would signal final acceptance of Spanish democracy by Western Europe. Spanish businessmen and farmers, however, are just beginning to grapple with the attendant social and economic costs. [redacted]

The delay is likely to impede progress on Spain's recognition of Israel and on the difficult Gibraltar issue, which will continue to sour relations with the UK. More important, since Madrid seems to be linking a final decision on NATO membership to entry into the EC, the NATO issue might not be decided until after the next Spanish parliamentary election, which must be held before March 1983. If the Socialists were to win the election or strengthen their position, Spanish plans to join the Alliance could face serious trouble. [redacted]

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EGYPT-CHINA: New Aircraft Deal

A reported new accord between Egypt and China for F-7 aircraft--Chinese versions of the Soviet-designed MIG-21 that is the mainstay of the Egyptian Air Force--could be stalled by payment delays on an earlier aircraft agreement. [redacted]

[redacted] the Egyptians have not paid anything on the contract for 50 F-6 fighters--Chinese versions of the MIG-19--since making a down payment at least a year ago. [redacted] this could hurt other Chinese arms sales to Egypt, particularly the F-7 agreement. [redacted]

The F-7 is a day fighter that is less advanced than many of the Soviet-built MIG-21s already in the Egyptian inventory. Nonetheless, it could allow Egyptian pilots to expand training again after several years of increasingly restricted air time. [redacted]

[redacted] The Chinese probably cannot deliver more than a few new aircraft very quickly. [redacted]

The payment problem could be the first major setback in Egypt's growing military relationship with China, which is now Egypt's second most important arms supplier. In addition to selling or giving the Egyptians new equipment, the Chinese have provided them with spare parts for key weapons, such as tanks and transport aircraft, in their largely Soviet inventory. [redacted]

1992



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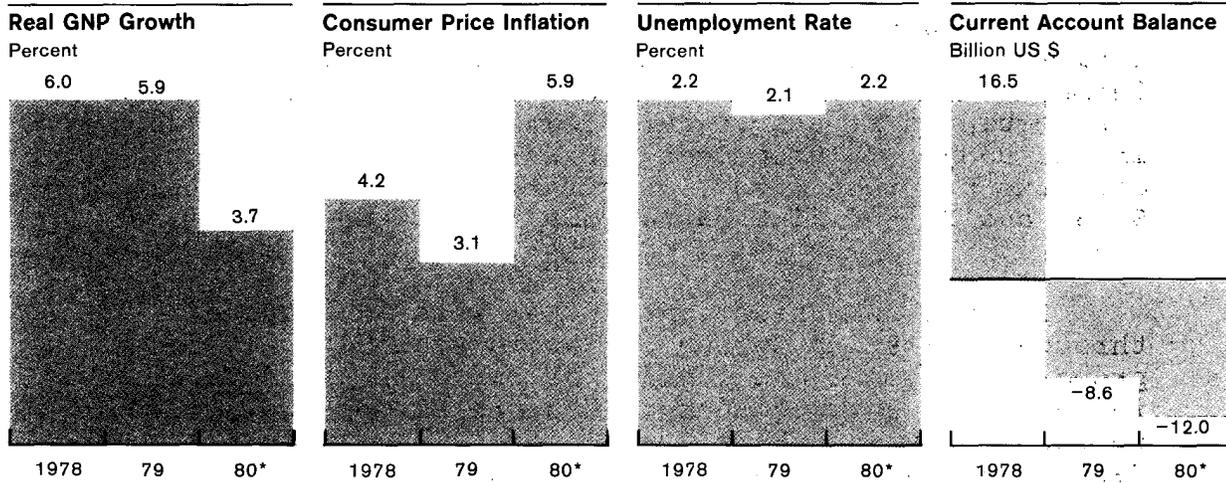


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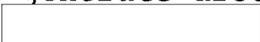
Japan: Selected Economic Indicators



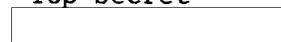
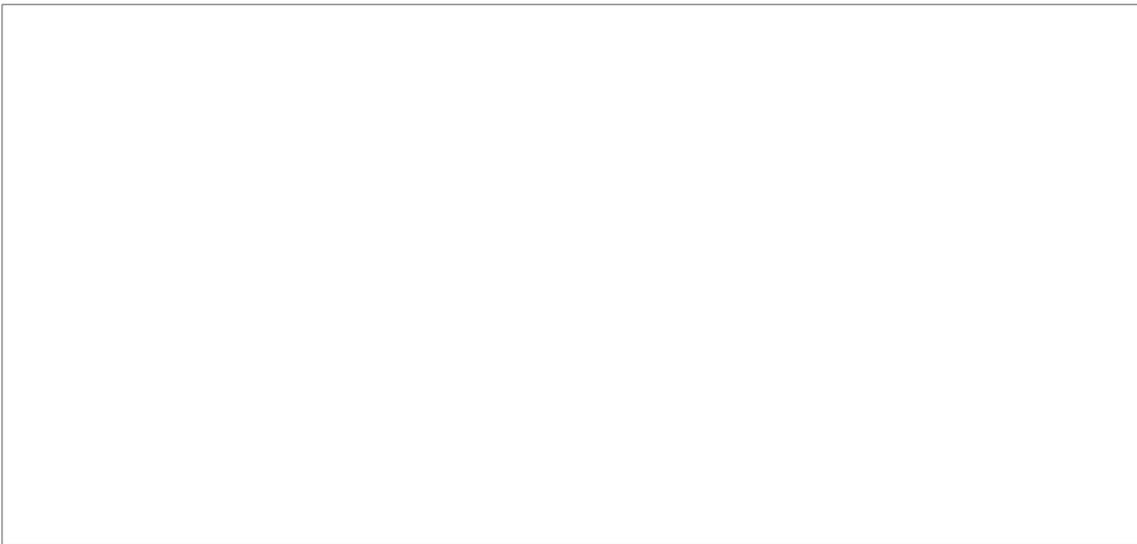
*Projected.



JAPAN: Economic Outlook

Prime Minister Ohira's political position has not deterred his efforts to push forward with his conservative economic policies--wage restraint, tight monetary and fiscal policies--aimed at reducing Japan's large budget deficits and restraining inflation. Given the government's focus on anti-inflation policies, exports should generate around half of Japan's GNP growth this year. 

If Japan reaches its growth and inflation targets this year, it could move toward posting perhaps the best all-round economic performance of any major country in 1981. With inflation easing, Tokyo will be able to relax monetary policy, spurring increased investment. Coupled with continued export growth, these factors could push Japan's GNP growth over 4 percent next year and hold the current account deficit to less than \$5 billion. 



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SPECIAL ANALYSIS

THE PALESTINIANS: Prospects for Increased Militancy

[REDACTED]

Few Palestinians or other Arabs believe the Egyptian-Israeli autonomy talks will satisfy even minimum Palestinian political demands. The failure of the talks to make arrangements acceptable to the Palestinians would, under any circumstances, intensify Arab criticism of US policies. Several recent trends in the Middle East threaten to step up Arab demands for new US initiatives to deal with the Palestinian issue. [REDACTED]

Palestine Liberation Organization leaders recently have interpreted efforts by the US to improve its military posture in the Persian Gulf and Indian Ocean and to mobilize Arab opinion against the USSR following its invasion of Afghanistan as a possible threat to Palestinian political interests. According to this view, the US is exploiting an alleged danger of Soviet expansion to divert attention from the Palestinian issue and to postpone addressing it indefinitely. [REDACTED]

The PLO leaders fear that the US is moving to consolidate a separate Egyptian-Israeli peace that would leave Israel in control of the West Bank and Gaza and the Palestinian issue unresolved. This fear is likely to grow if the US expands its military presence in the Near East while progress on the Palestinian issue is stalemated. [REDACTED]

If the autonomy talks are unsatisfactory, the PLO and Palestinians in general probably will become increasingly radical in their opposition to US policies and question the moderate policies of PLO Chairman Yasir Arafat. Arafat's diplomatic initiative to gain West European and Japanese support is already under increasing attack by hardline Arab states and PLO rejectionists. [REDACTED]

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One of Syrian President Assad's principal reasons for withdrawing most of his peacekeeping forces from Beirut and southern Lebanon was to remind Arafat of the PLO's dependence on Syria. Libyan leader Qadhafi has attempted to punish Arafat by expelling the Fatah representative from Tripoli and by trying to mold the rejectionist groups into a more effective alternative to Arafat. [redacted]

Arafat's recent decision to press for immediate UN Security Council consideration of a tough resolution affirming Palestinian political rights is largely designed to placate his critics. The PLO chief's continued success in gaining European support has helped keep his more radical critics off balance, but it also heightens the Arab and Palestinian view of the US as the main obstacle. The PLO probably hopes that by this summer the US will either have to undertake new initiatives or face increasing isolation from the Arabs and West Europeans. [redacted]

The growing militancy among West Bank inhabitants also is likely to increase Arab concern over the Palestinian problem. The area's leaders, who have become more unified, are devoting more attention to creating a regional organization with which to confront the Israeli occupation. [redacted]

The two most active groups on the West Bank are leftists and Islamic fundamentalists, whose policies have a strong anti-US and anti-Israeli content. A substantial growth in West Bank extremism would play into the hands of PLO rejectionists and probably would force Arafat to push a more radical line in order to protect his influence. [redacted]

Arab Perceptions

Arab leaders in Saudi Arabia and other Persian Gulf states are arguing more forcefully that resolution of the problem is crucial to the US position in the Middle East. Meanwhile, they are increasingly inclined to judge the US on its Palestinian policy alone. [redacted]

The moderate Gulf states' impatience with US policy is reinforced by the link that they see between threats to their internal security and the unresolved Palestinian

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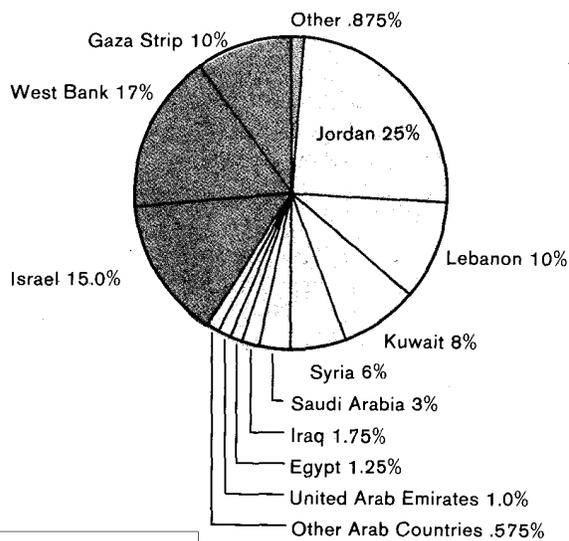
Estimated Distribution of Palestinian Population

In Percent

Total Population
4,000,000

**Total Population in Israel and
Occupied Territories**
1,700,000

**Total Population in
Arab Countries**
2,300,000



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issue. They anticipate increasingly serious difficulties with dissidents in light of the Mecca incident last fall and the attempt by religious figures in Iran to export revolution. Palestinian fedayeen ties with the revolutionary government in Iran and with Shia leaders in the Gulf states have raised new concerns among the Arab regimes about the Palestinians as a potential security threat. [redacted]

Palestinian moderates support the existing regimes. The rejectionist PLO groups, however, are more closely tied to Gulf dissidents; some apparently are attempting to expand their own subversive capabilities. They may begin to co-opt more local Palestinians if the latter become convinced that the more moderate policies of Fatah are failing. [redacted]

Outlook

All these factors are gaining momentum and could badly damage the ability of the US to determine the agenda and timetable for dealing with the Palestinian issue. The interaction of these forces over the next few months is likely to cause the Palestinians, the PLO, and many Arab states to judge the US even more harshly if it fails to satisfy their demands. Without progress, radical influence in the PLO and among Palestinians is likely to grow--a development that probably would lead to even more strident demands for a swift resolution of the problem. [redacted]

The prospects for major violence between the Palestinians and Israelis have increased. Following clashes between Israeli security forces and inhabitants of the West Bank and increasing political activity there, Israel has adopted harsh tactics to keep the situation under control. [redacted]

Prolonged violence in the West Bank would almost certainly cause Arab governments to demand a US initiative to end the Israeli occupation and to solve the Palestinian issue. Those governments, already troubled by domestic unrest and concerned that it might spread to the local Palestinian population, probably would demonstrate

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increased sensitivity to the charge of being soft on the Palestinian issue. For its part, Israel would be even more resistant to US pressure. [redacted]

In the event of serious Palestinian-Israeli clashes in the West Bank, many Palestinians in the diaspora are likely to stage sympathy demonstrations in their host countries. Leftist and Islamic fundamentalist dissidents probably would join the demonstrations and try to use them to foster more antiregime activity. This would in turn reinforce the pressures on the local government to adhere to a hardline position and to demand a US initiative. [redacted]

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