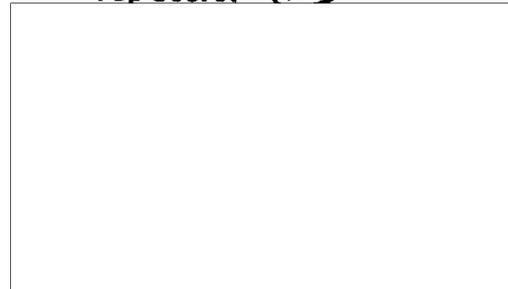


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Director of  
Central  
Intelligence

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CIAC PAS WID 85-248JX

# National Intelligence Daily

Thursday  
24 October 1985

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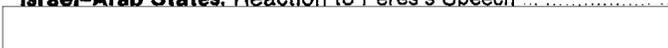
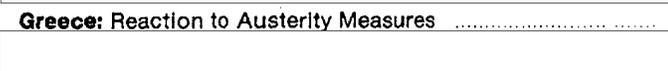
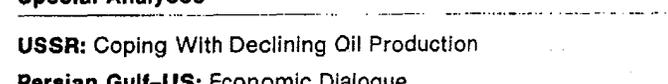


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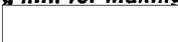
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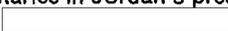
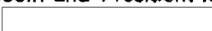
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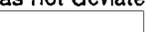


**ISRAEL-  
ARAB STATES:**

**Reaction to Peres's Speech**

***Jordanian and Egyptian officials are reacting cautiously to Prime Minister Peres's speech at the UN on Monday, while hardliners in Peres's national unity government are criticizing him for making unauthorized proposals on peace negotiations.*** 

Initial commentaries in Jordan's press reject Peres's peace proposals, but  King Hussein and his senior advisers have not yet stated their official position. The most recent media reports indicate that officials in Amman are studying Peres's stated willingness to accept an international framework leading to direct Israeli-Arab talks. Hussein and President Mubarak are to meet today to discuss the speech. 

In Israel, Minister of Commerce Sharon and Deputy Prime Minister Levy, key figures in the hardline Likud party, have attacked Peres for broaching ideas publicly before discussing them in the Cabinet. They have noted pointedly that his reference to an international framework for negotiations violates understandings between Likud and Peres's Labor Party. Likud leader Shamir is playing down the controversy, however, arguing that Peres has not deviated significantly from government policy guidelines. 

**Comment:** King Hussein probably is encouraged by Peres's remarks on holding peace talks under international auspices—a major element of Hussein's own strategy. The King also wants to demonstrate to the US that he remains committed to pursuing negotiations with Israel despite his intense frustration with the PLO over the Achille Lauro hijacking. He will not reject Peres's initiative out of hand. 

As long as direct Israeli-Arab talks are not imminent, Shamir probably will try to prevent the Likud debate about Israel's negotiation strategy from threatening the unity coalition. Shamir does not want to create a crisis that could prevent him from assuming the premiership next October as called for in the coalition agreement. 



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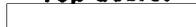
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**ARGENTINA:**

**Crackdown on Terrorism**

***The arrest this week of suspected rightwing terrorists will improve President Alfonsin's political standing for the congressional and provincial elections on 3 November.***

The government claims the active-duty and retired military personnel and civilians it arrested are responsible for a spate of bombings in Buenos Aires over the past month. Alfonsin has publicly accused the group of attacking military targets to create an impression of leftist terrorism and to sow discontent in the armed forces as the trial of former junta members for human rights abuses ends.

**Comment:** The group probably wanted to foster an atmosphere of lawlessness and government ineptitude that would erode public confidence in Alfonsin. Although the gang may have planned to crown its actions with a coup attempt, even a sharp increase in terrorism probably would not destroy the consensus among Argentine political forces favoring civilian rule and conclusion of the junta trial. Moreover, those arrested are discredited extremists who would have great difficulty winning the military and political backing needed for a successful coup.

The arrests will enhance Alfonsin's reputation—built on his bold economic "shock program"—for forceful leadership. They also will improve his Radical Party's already good prospects in the elections. The Radicals are likely to appear particularly impressive against the bickering that has characterized the campaign of his Peronist opponents.

The detentions probably will only slow the pace of violence, although the sporadic acts are unlikely to have much effect on either Alfonsin's standing or the junta trials. Other rightist groups are almost certainly operating undetected; a bomb exploded near a military installation shortly after the suspected terrorists were jailed.

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#### WARSAW PACT: Summit Ends

The closing statement issued yesterday by the Warsaw Pact's Political Consultative Committee proposed a Soviet-US general freeze on military personnel, including those stationed abroad, as of 1 January 1986. It also urged the USSR and the US to pledge not to develop or produce new types of conventional arms with "destructive potential comparable to that of mass destruction weapons" nor to increase their defense budgets, beginning with the next fiscal year. In addition, the statement reaffirmed previous Warsaw Pact arms control overtures and endorsed General Secretary Gorbachev's recent package of proposals for Soviet-US negotiations on nuclear and space weapons.

**Comment:** The session provided the Soviets a safe, convenient, and highly visible international forum to introduce proposals intended to enhance their public image. Most of these proposals have appeared before in one form or another, although the call for a ban on advanced conventional weapons appears to be a new wrinkle.

#### FRANCE: Nuclear Testing Resumes

France will resume nuclear testing today in the South Pacific. Prime Minister Fabius and Paul Quiles, the new Defense Minister, will observe the test with a parliamentary delegation and handpicked journalists. Press reports indicate that protest ships from Greenpeace have left the area because of mechanical problems and heavy weather. The French press speculates that the government has been especially wary about this series of tests because of allegations it may include a neutron weapon.

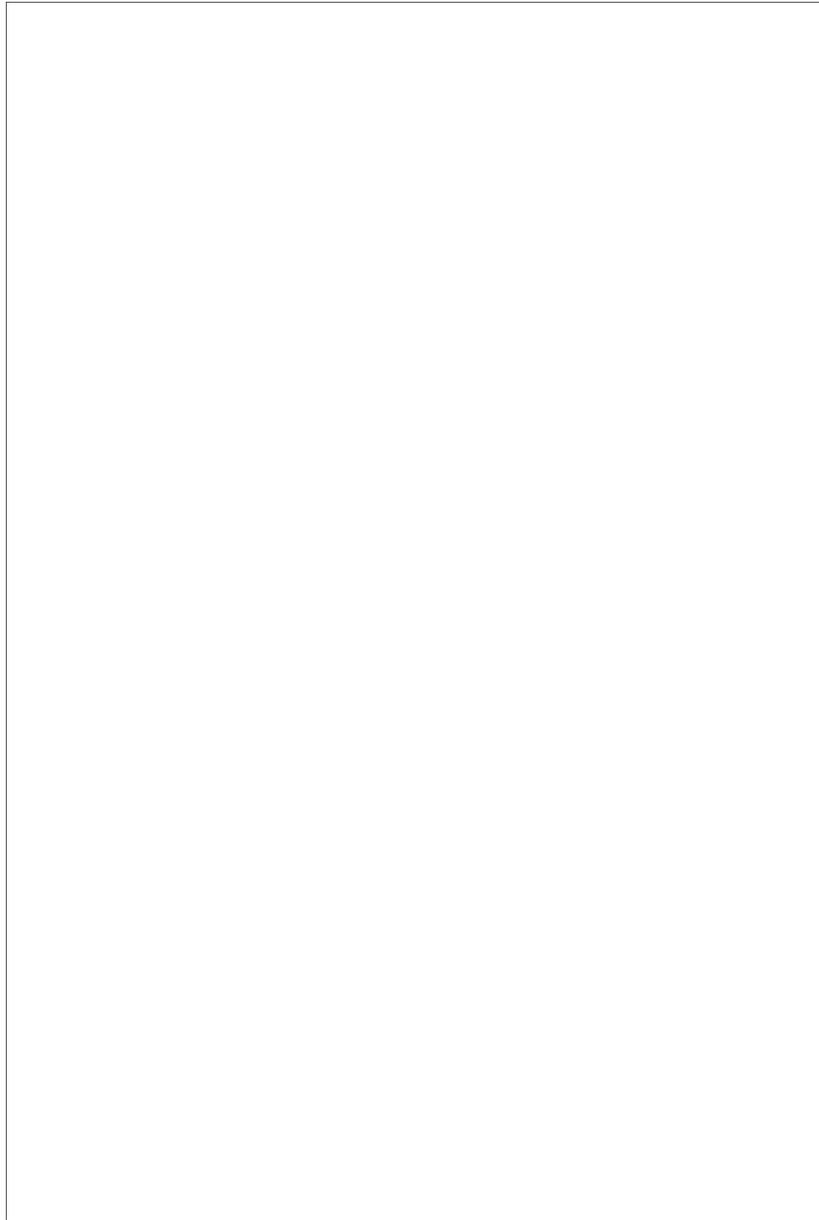
**Comment:** The high-level delegation is a sign of French determination to continue testing and an effort to counter claims that the tests are harmful. International protests against French nuclear testing and the Greenpeace scandal have focused unwelcomed attention on the tests. Paris is extremely sensitive about how world opinion will view the current testing, and the absence of Greenpeace ships leaves French officials in control of media reporting. France has the capability to produce neutron weapons, and former Defense Minister Charles Hernu has said publicly that he witnessed a test in 1981. The French maintain, however, that they have made no decision to proceed with production of such a weapon.

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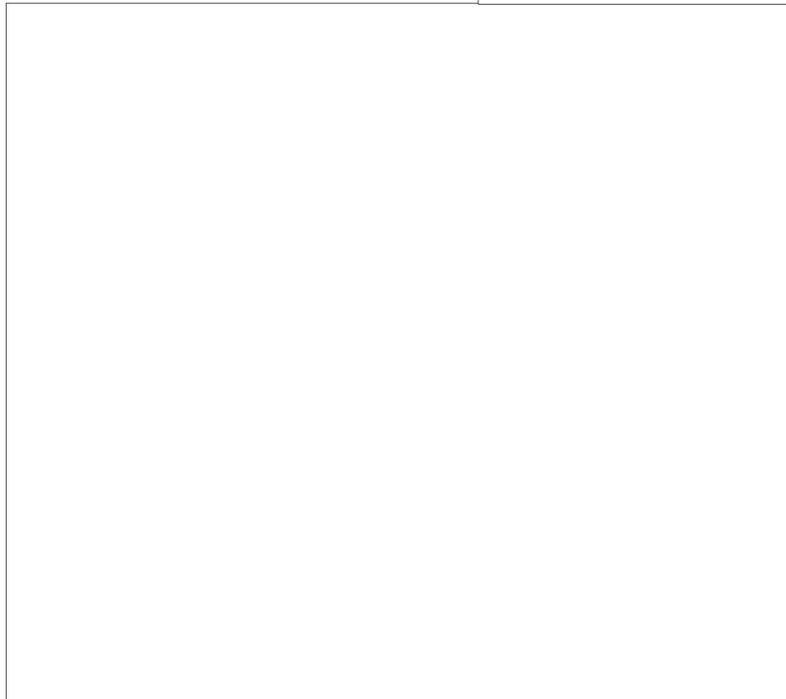
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**GREECE: Reaction to Austerity Measures**

Prime Minister Papandreou's latest economic belt-tightening has sparked large protest strikes this week, and more are likely. Trade union leaders and workers—including Socialists—are reacting strongly to the two-year freeze on wage increases for private employees and to wage increases well below the rate of inflation for public employees. Shopkeepers also are protesting price controls and increased taxes. 

**Comment:** The strikes are not enough to make Papandreou back away from his economic policies. He has already purged eight union leaders from his party for supporting the Communists' call to strike. Papandreou has said publicly and privately that tough measures are needed to reduce high inflation and correct the worsening current account deficit, which is expected to reach a record \$2.8 billion this year. Nonetheless, most of the new measures address only short-term problems. Fundamental steps are needed to promote declining private investment and competitiveness. 



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**INTERNATIONAL: Press Leak Hampers COCOM**

A serious leak to the press may delay the first of COCOM's Security and Technology Experts' Meetings.

The French Government has called for an ad hoc committee to meet on security today and for another to meet in late November on contacts with the press. The French delegate said that, unless his government receives formal assurances from all member countries that COCOM discussions will be kept confidential, France will not attend the first scheduled meeting on 15 November. The Japanese delegation has announced that the leak forced it to postpone its approval of a meeting.

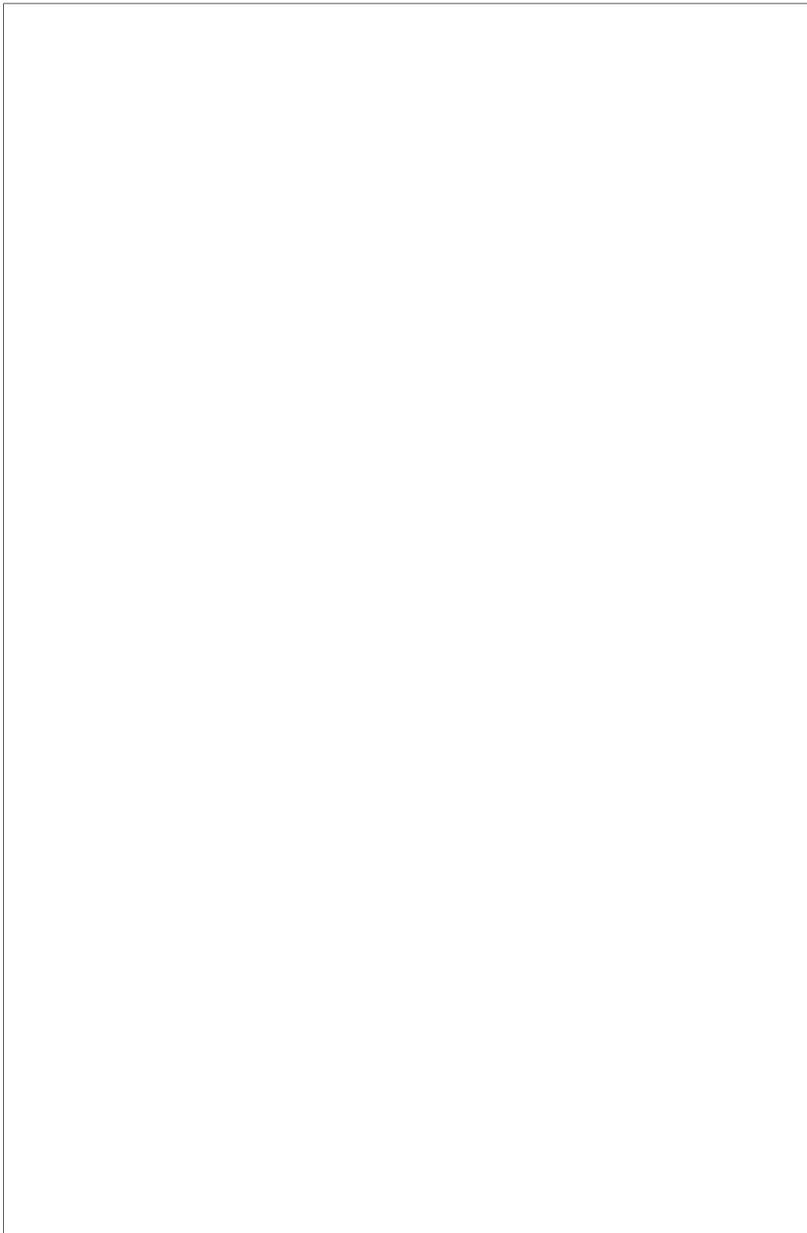
**Comment:** An increasing number of leaks from COCOM over the last few years have jeopardized the confidentiality that is vital to its cohesiveness. The latest leak was most embarrassing to the West German and Japanese delegations, which the article named as the last holdouts against the concept of Security and Technology Experts' Meetings. The decision to join was politically very sensitive for Japan and may be impossible to implement if it becomes an issue at home. Although the first meeting may be indefinitely postponed, the controversy over the leak probably will not prevent the formation of the new group.

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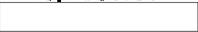


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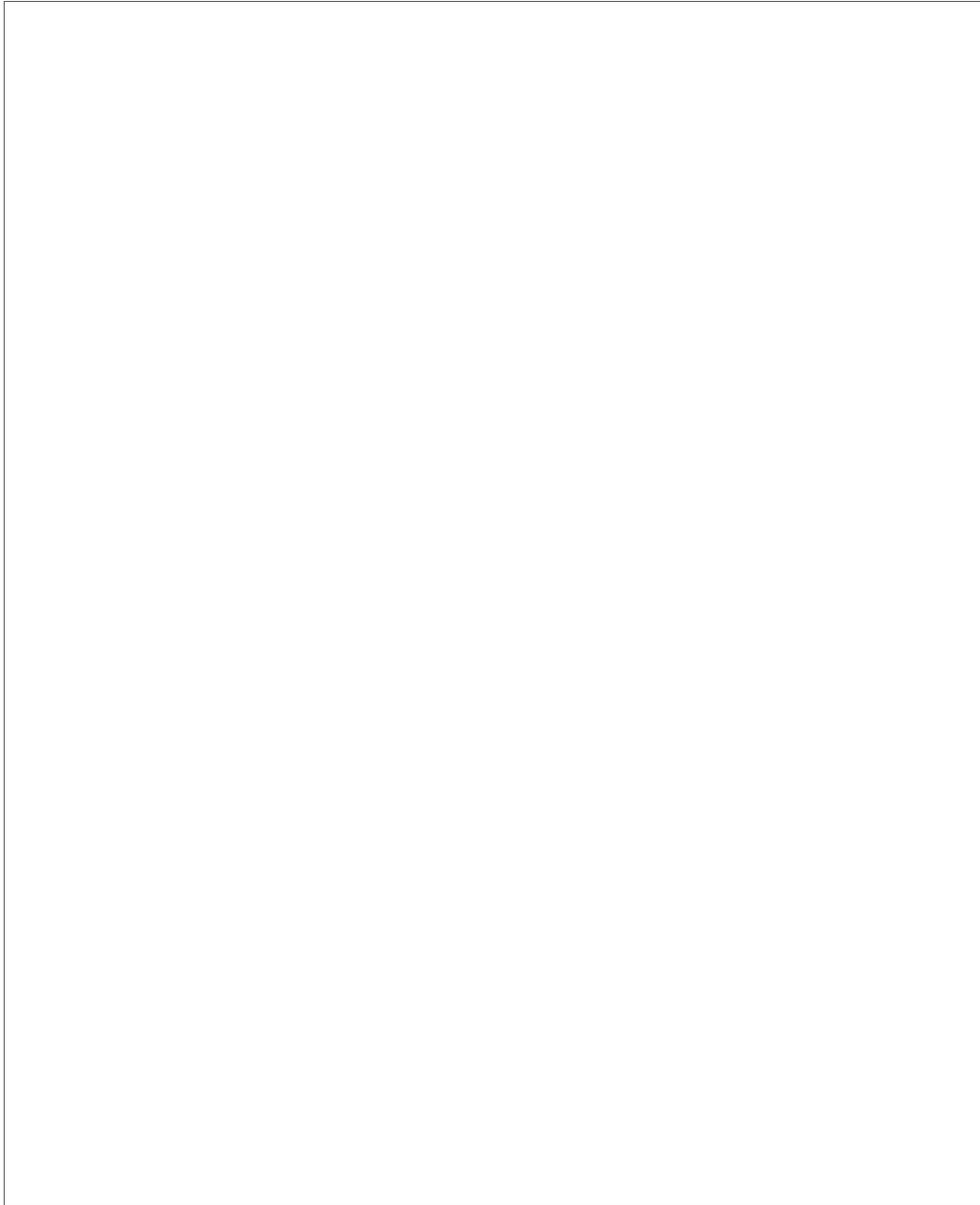
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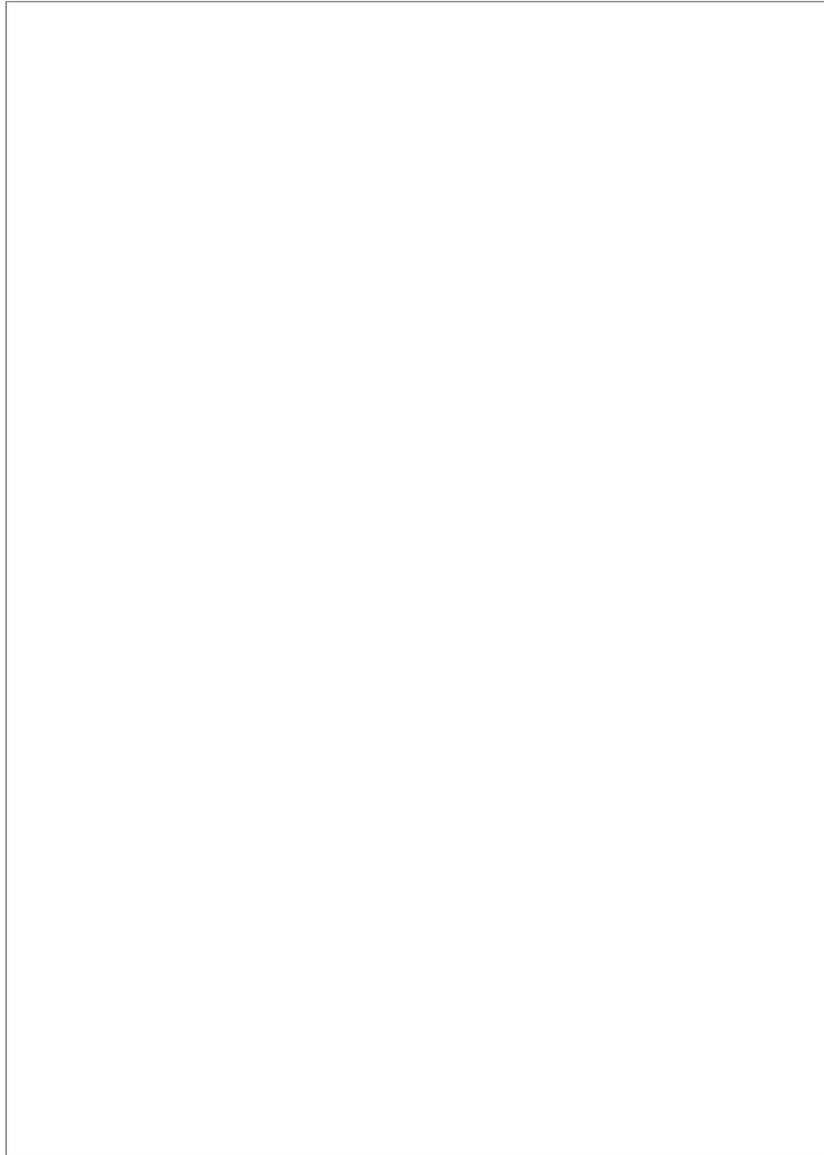
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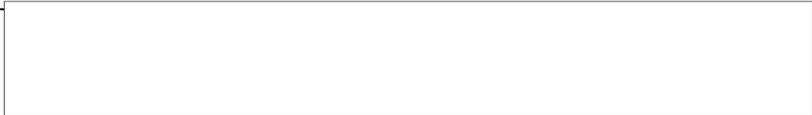
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**In Brief**

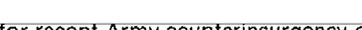
**USSR**



- Industrial performance in **USSR** through September continued to improve . . . up 3.3 percent over same period last year . . . third quarter better than second . . . machinery led growth, but basic materials still struggling to overcome winter slump. 
- **Soviet** spokesman said in press conference Tuesday draft of new party program to be published Saturday, revised party rules week later . . . will give sign of Gorbachev's agenda, timetable to reshape domestic policy, revitalize party. 



**Americas**

- M-19 guerrillas wounded **Colombia's** Army commander yesterday in unsuccessful kidnap attempt . . . General Samudio in good condition,  probably retaliation for recent Army counterinsurgency operations. 
- **Panamanian** Defense Forces intimidating press, broadcasters,  warning not to criticize military, comment on Spadafora murder . . . could lead to broader censorship. 
- **USSR** to renew current five-year grain agreement with **Argentina** due to end in December . . . probably to cover annual Soviet purchases of 4.5 million tons corn, sorghum, soybeans . . . Argentines disappointed meat, wheat not covered. 

**Africa**

- Violence continues in widely scattered parts of **South Africa**, especially western Cape Province . . . mixed-race mob yesterday burned two businesses, stoned police in white suburb of Cape Town . . . press reports 150 arson attacks in nonwhite townships around Cape Town Tuesday. 
- **Sudanese** Chief of Staff to visit **China** soon . . . part of intensive effort to increase foreign military aid to support war in south . . . China unlikely to give more than token assistance without payment. 

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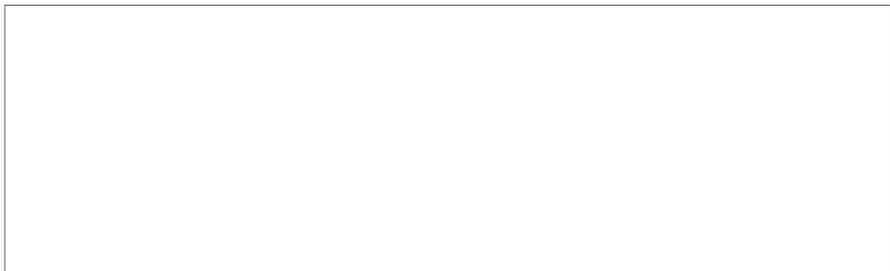


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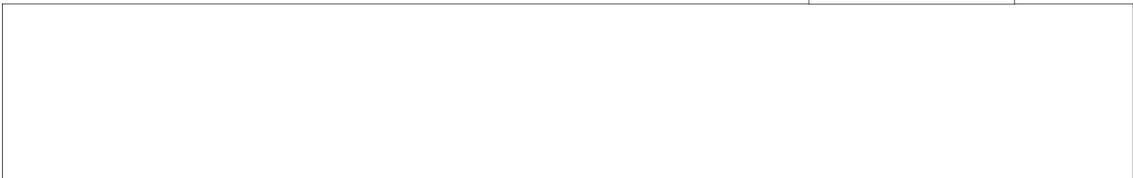


**South Asia**



**Afghan** soldiers beat up **Saudi**

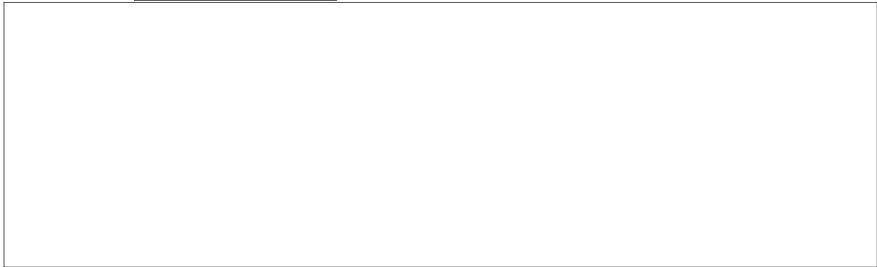
Chargé this week . . . probably attempt to intimidate unfriendly foreign missions . . . may presage new propaganda campaign by regime against countries supporting insurgents.



**Europe**



— **France** to push Hermes spaceplane at meeting of European aerospace officials tomorrow, but **West Germany** still worried about cost . . . West Europeans fear dependence on US shuttle may limit their access to planned space station . . . decision likely in 1986.



**East Asia**

— Governor of insurgent-ridden **Philippine** province in Mindanao assassinated . . . authorities claim Communist New Peoples Army responsible, have stepped up security for local officials . . . highest ranking civilian killed to date.



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### Major Oil-Producing Areas



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Special Analysis

USSR:

Coping With Declining Oil Production

**Soviet oil production has fallen from more than 12.2 million barrels per day last year to about 11.9 million b/d and may drop as low as 11.3 million b/d next year. General Secretary Gorbachev's options for dealing with the decline—none of them palatable—include reducing oil exports to hard currency countries, trimming domestic oil allocations, and cutting oil deliveries to Eastern Europe.**

The sharp production drop seems to have caught the leadership by surprise. Until they recently cut back oil exports to Western Europe and some developing countries, the Soviets had not behaved as though they were worried about future hard currency earnings.

A new oil management team was installed early in the year, but it may have needed several months to learn the magnitude of the problems facing the industry and to realize that the decline in output last fall could not be reversed simply by increasing the number of repair teams sent to the Siberian oilfields.

Efforts To Stem the Decline

During a visit in September to the important Tyumen' fields in West Siberia, Gorbachev pledged to improve working conditions there and to raise the quality and quantity of oil-production equipment. He may be counting on short-term gains from greater worker discipline and improved management to sustain production until improved oilfield equipment is available.

A concerted effort to increase production drilling, even with available equipment, and to reduce the number of inoperable wells might slow the decline for a time. But this would set back already lagging exploratory drilling and require further harmful overproduction of existing fields. As Gorbachev noted in his Tyumen' speech, the USSR already has depleted most of its high-quality reserves in West Siberia.

The Soviets are actively exploring in the Barents Sea, an offshore area with huge oil potential. Output from this area may provide some relief, but not before the mid-1990s.

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### Hard Choices Ahead

If the leadership has a strategy for coping with the effects of the decline in oil production, it has kept it close to the vest, perhaps because none of its options are attractive. [redacted]

Sustained cutbacks in oil exports will reduce hard currency earnings and entail difficult choices in regard to imports. State-of-the-art equipment and technology from the West are important to the modernization program, and Gorbachev's pledge to improve consumer welfare appears to rule out deep reductions in grain imports that would adversely affect meat production. [redacted]

The Soviets have not substantially reduced domestic demand for oil, and major cutbacks in domestic oil allocations probably would create bottlenecks that jeopardize the modernization program. [redacted]

Although Moscow reduced oil deliveries to Bulgaria slightly this year, the Soviets show no sign they plan to cut oil exports to Eastern Europe in 1986. Rather than risk the potential economic and political consequences of such a move, Gorbachev is more likely to push the East Europeans even harder to provide quality equipment and technology in compensation for sustained oil deliveries and to share the hard currency costs of joint projects, such as natural gas pipelines. [redacted]

One possibility for the long term would be the more active solicitation of Western (not necessarily US) equipment and technology for exploration and development in the Barents Sea. This might include on-site participation and profit sharing, but it probably would be resisted by military commands concerned about foreign presence in this sensitive area. [redacted]

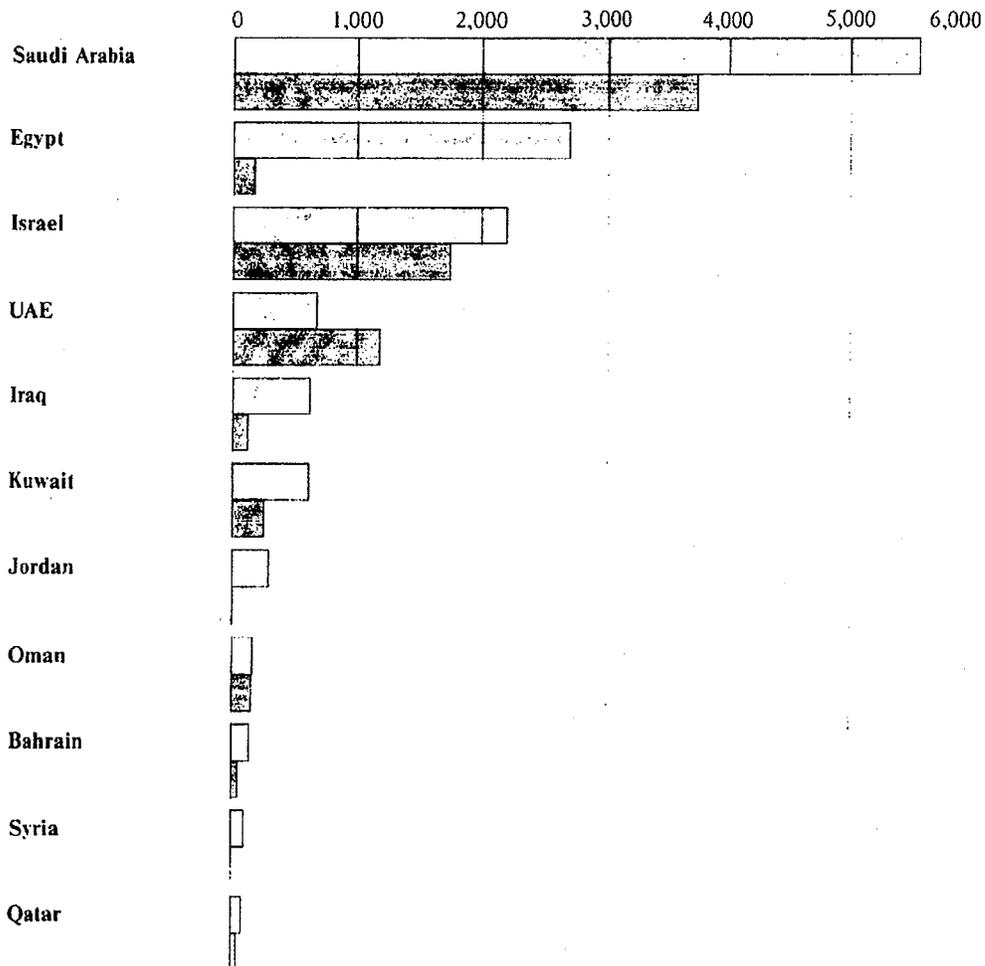
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US Trade With Selected Middle East Countries, 1984

US exports to country  
US imports from country  
Million US \$



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**Special Analysis**

**PERSIAN GULF-US: Economic Dialogue**

*The Saudis have pushed for economic talks between the Gulf Cooperation Council and the US—now scheduled to start in December—because they hope to protect access to the US market for their petrochemical exports, in which they have invested billions of dollars. The smaller Persian Gulf states will be content to sit back and let the Saudis take the lead on trying to hammer out an overall agreement covering all aspects of trade and financial affairs.*

The Council has proposed an agenda for the first round of talks that includes trade and market access, energy—excluding pricing and production levels—investments and financial safeguards, and technology transfer and industrial cooperation. It hopes to encourage transfer of technology through joint ventures and to protect investment opportunities in the US, including in downstream facilities.

Council members expect that the preliminary talks—probably lasting six to nine months—will result in an overall trade agreement. The Council is willing to consider various types of agreements. As an opening gambit, it may demand equal treatment and push for a free trade area similar to one arranged between the US and Israel earlier this year.

**Saudi Motivations**

The Saudis need access to Western markets for their rapidly expanding petrochemical industry. Riyadh has tried to negotiate for such access bilaterally with its major trading partners but failed last summer when the EC decided to reimpose duties on petrochemical imports from Saudi Arabia and other Gulf states. Riyadh now worries that recent protectionist sentiment in the US will impel it to follow suit.

Saudi Arabia now is trying to use the Gulf Cooperation Council to strengthen its negotiating position and to protect its national interests, much in the way it used OPEC in the past. Council official Abdallah Quwais—who is also a Saudi economic official—claims the Gulf states seek to negotiate together to protect common interests, but in fact the smaller states are unlikely to play much of a role on most issues.

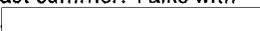
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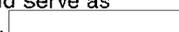
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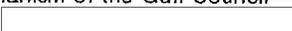
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Riyadh has begun similar Gulf Council trade talks with the EC and the Japanese; clearly the Council hopes to play off the US, the EC, and Japan against one another. Gulf and EC officials met in Luxembourg last week but were still trying to smooth tensions created by the EC's imposition of duties on petrochemical imports last summer. Talks with the Japanese are still in the preliminary stages 

**Implications for the US**

The Secretariat of the Gulf Cooperation Council has become more influential in the past year. An economic dialogue with the Council offers the US potential commercial advantages—including preferential access to the Gulf regional market—and would serve as an important political gesture to Council members as well. 

Riyadh is particularly sensitive to its growing trade deficit with the US. It has spent nearly \$14 billion to develop its petrochemical industry and will protect its investment aggressively. If the talks falter or if US protectionist pressure grows, the Saudis may threaten retaliatory measures—through the mechanism of the Gulf Council—in order to defend its markets in the US. 

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