



# The President's Daily Brief

*January 10, 1975*

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~~*Top Secret* 25X1~~



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*FOR THE PRESIDENT ONLY*

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WORLD OIL

*Barring major new political or military developments, we foresee the following situations in the international oil market this year:*

--The price of oil to the international companies operating in the Middle East will average between \$10.15 and \$10.50 per barrel through next September, in accordance with the recent OPEC decision.

--By mid-summer the demand for OPEC oil will probably fall by at least 3 million barrels per day as a result of high prices, conservation measures, the seasonal pattern of oil consumption, and the continuing high level of stocks. This estimate does not assume a sharp drop in US imports, which would be additional.

--OPEC members are likely to maintain prices by cutting production. Excess production capacity would then exceed 11 million barrels per day.

--At the expected price and output levels, OPEC members will earn about \$109 billion, and their foreign assets will increase by \$55 billion to \$65 billion, reaching \$135 billion to \$145 billion by the end of the year.

--Despite efforts to diversify, a disproportionate share of OPEC countries' assets will continue to be held in dollars.

--Problems of financing oil deficits will increase, even though additional recycling schemes are likely to be initiated.

--High oil bills will continue to slow recovery from the worldwide recession.

--Saudi Arabia will take 100-percent control of the Arabian American Oil Company (ARAMCO) early this year, and most other Arab producers will fully nationalize their industries soon thereafter.

--Venezuela also will nationalize foreign oil company holdings sometime during the year.

(continued)

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--The OPEC nations probably will adopt an indexing scheme, tying the price of oil to the prices of selected industrial commodities. The scheme is unlikely to be introduced before the fourth quarter unless inflation in industrial countries intensifies.

--Oil exploration activity around the world is likely to remain at 1974 peak levels, yielding numerous discoveries.

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## EGYPT

*President Sadat's public charges this week that the Soviet Union still has not rearmed Egypt fully may be an effort to justify to other Arabs his readiness to conclude another agreement with Israel. His complaint, however, endangers those military deliveries the Soviets recently promised.*

In the course of an interview, carried in a Beirut newspaper Wednesday, Sadat acknowledged that Soviet leaders agreed, during Foreign Minister Fahmi's recent visit to Moscow, to provide "a part" of Egypt's arms demands. He asserted that this will not meet Cairo's needs for either replacements or new arms. Addressing his remarks to "every Arab," Sadat contrasted Egypt's situation with that of Syria and Israel. He said Syria has received full "compensation" from the Soviets for war losses, and Israel has acquired both compensation and new types of weapons from the US, while Egypt has received only "a few arms" and small quantities of ammunition and spare parts.

Sadat indirectly accused the Soviets of involvement in recent leftist-inspired demonstrations in Cairo. He said there is "no room" in Soviet-Egyptian relations for interference in domestic affairs, and that if the left is "exploited for sabotage," it will be dealt with like "any other group of saboteurs."

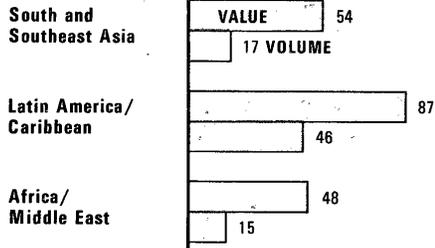
Sadat's complaints are the strongest since his critical public statements last spring, which probably played a large part in Moscow's suspension of arms deliveries between April and August.

Sadat's implicit message to other Arabs may be that Egypt is justified in taking what it can get from US diplomatic efforts in negotiations because Syria gets what it wants from the Soviets. In a second installment of his interview published yesterday, Sadat reinforced this impression. He observed that the Geneva conference should not be reconvened until the US and the USSR themselves agree on strategy. He said that, in the meantime, no Arab should disregard any "opportunity" for "other steps toward peace."

**JAPAN: Export Trends**

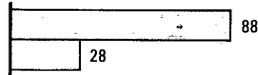
**LESS DEVELOPED COUNTRIES<sup>1</sup>**

Percent Increase in Exports  
Jan-Sep 1974 over Jan-Sep 1973

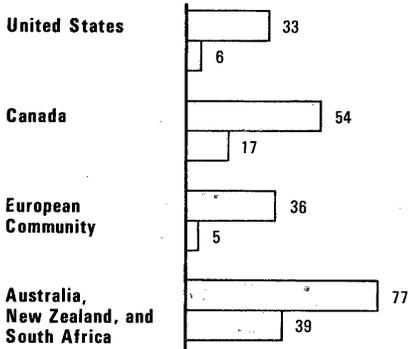


<sup>1</sup>Excluding OPEC States

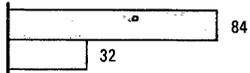
**OPEC COUNTRIES**



**DEVELOPED COUNTRIES**



**COMMUNIST COUNTRIES**



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## JAPAN

*Japan successfully offset the rise in its oil import costs in 1974 by boosting exports faster than any other developed country.*

Prodded by the weakness in domestic demand, the Japanese raised exports by 50 percent, to \$54 billion. This remarkable achievement, together with slack demand for imports, produced a trade surplus of about \$1.4 billion despite a \$14-billion jump in Japan's oil bill. The current account as a whole was in deficit by \$5 billion in 1974, compared with a deficit of \$100 million in 1973.

The physical volume of Japanese exports rose 15 percent in the first nine months of 1974, with sales to less-developed and Communist countries showing by far the largest gains. Export prices were up by 25 to 50 percent in the major markets. As a result, Japan was able to increase its trade surplus in 1974 with every major group of countries except OPEC.

--The surplus with non-OPEC less-developed countries nearly doubled, to \$9.5 billion--roughly one third of the overall trade deficit of these countries.

--The surplus with developed countries increased by \$2 billion, reaching \$3.7 billion--one half of this with the United States.

--The surplus with Communist countries rose from \$30 million to \$800 million.

--The deficit with OPEC countries totaled \$13 billion, up from \$3.6 billion in 1973.

--Japan, nevertheless, made its most striking export gains in OPEC countries, nearly doubling sales to \$5 billion. Much of the increase consisted of steel products. The rise in exports to OPEC states offset about one fifth of the increase in oil payments.

Tokyo has a good chance of realizing its goal of a \$6-billion trade surplus in 1975. Even though export growth will drop sharply, we estimate that export value will still rise by 15 percent, while there will be a small gain in volume of exports. Most of this latter gain will come from sales to OPEC and Communist countries. At the same time, sluggish domestic economic activity will limit the growth in import costs to about 10 percent, with most of this increase reflecting higher average prices for oil and manufactured goods.

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SOUTH VIETNAM

*President Thieu is attempting to rally international and domestic support for his government in the wake of recent military setbacks.*

In an address to the nation planned for today, Thieu, [redacted] will make the following points:

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--The Communists have launched a general military and political offensive to overthrow the government in serious violation of the cease-fire agreement.

--The loss of Phuoc Binh was due to overwhelming Communist military force and not to ineffective government leadership as some opposition elements have claimed.

[redacted] the government intends to bolster public confidence by emphasizing that it retains strong US support. The pending visit of the US Air Force chief of staff will be made known publicly. Government spokesmen also will not discourage rumors now circulating in Saigon that Washington's Special Action Group has met to discuss possible US intervention in Vietnam and that a US naval task force may be stationed off the South Vietnamese coast. The government will almost certainly encourage speculation that supplemental US military aid will be provided.

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The initial reaction to the loss of Phuoc Binh within official circles has been relatively mild. Senior military commanders concurred in Thieu's decision not to reinforce the province, realizing that it would have weakened government defenses in other more strategic areas and would have imposed severe strains on resupply capabilities. Although viewed seriously, the loss thus did not have the shock impact that the unexpected fall of Quang Tri City had in the 1972 offensive.

There is more apprehension, however, among middle grade government officials and military officers that the Communists will be able to take over other towns and provinces. At this level, the recent losses are attributed to a combination of reduced US support, as well as to inept leadership, and corruption. The psychological boost gained by the seizure of Phuoc Binh may increase Communist willingness to test Saigon and US reaction by assaulting a more significant provincial capital.

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FRANCE

*The French are moving directly to the development of a multiple independently targetable re-entry vehicle (MIRV).*



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The MIRV warheads will be installed on the M-4 submarine launched ballistic missile. The missile and the MIRV warheads are expected to be used with France's sixth nuclear powered submarine



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One of the major goals of France's 1974 nuclear test series in the South Pacific was to test nuclear components for MIRVs.



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CYPRUS-TURKEY

*The Turks are currently engaged in a well-publicized effort to obtain the release of the Turkish Cypriots who sought refuge at a British Sovereign Base in southern Cyprus during the fighting last summer. The British resisted earlier Turkish representations on this issue in an effort to strengthen the Greek Cypriot bargaining position, but they reportedly are now preparing to release the refugees in the face of the well-orchestrated Turkish campaign.*

[redacted]

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passed a personal message [redacted]

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[redacted] to Archbishop Makarios stressing the problems arising because of the refugees. The message reportedly concluded with a warning to Makarios that unless there were positive developments [redacted] would be forced to release the Turkish Cypriot refugees.

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[redacted]

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Feeling sure of their ground, the Turks may be publicizing their current effort on behalf of the refugees to gain credit for a diplomatic victory. Such a success in turn could enable the Turkish government to show more flexibility in the forthcoming Cyprus talks. The Turks are still grappling with their domestic political problems, and the appearance of bowing to US pressure makes it more difficult for Ankarato give the kind of concessions necessary for a settlement.

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NOTE

*Ethiopia's Eritrean rebels threw grenades into the USIS library in Asmara on Wednesday as a symbolic protest against US military aid to the Ethiopian government, in the opinion of the US embassy in Addis Ababa.*

The attack came after the library had closed for the day, and the perpetrators fired warning shots before throwing the grenades. The attack may mean the Eritrean insurgency has entered a phase more directly dangerous to the US presence in that province. It does not necessarily signal the opening of indiscriminate attacks on American nationals or installations there, however.

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