



The President's Daily Brief

January 13, 1977

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FOR THE PRESIDENT ONLY

January 13, 1977

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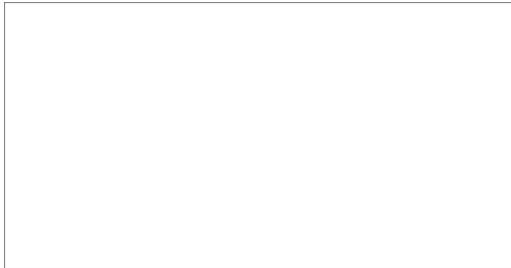
Notes: USSR; France; Iran-Pakistan; South Korea; Iran-Oman (Pages 6, 7, and 8)

At Annex, we discuss the implications of East German actions since the beginning of the year that seem to be low-keyed probes of the limits of Allied forbearance on the Berlin issue and of Allied ability to coordinate a response during the transition between US administrations.

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OPEC: Success of the Saudi effort to hold down the price of oil will depend to some extent on how rapidly production can be expanded.



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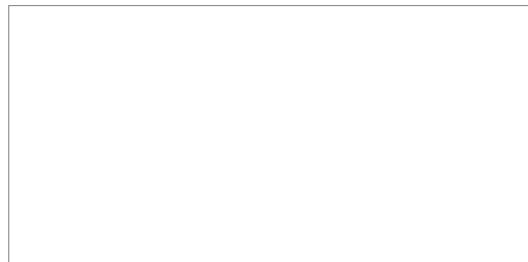
Demand for Saudi crude has soared.

Shell Oil alone has requested direct purchase of an additional 500,000 barrels per day. Many smaller independent and national oil companies have submitted orders and rescheduled tankers to lift more Saudi oil immediately.

Even if Saudi output should not rise, Iran and Kuwait will have to absorb a major portion of the production cuts--3 million barrels per day or more--that we estimate OPEC will sustain as companies unload excess stocks in January and February. In the past, Saudi Arabia has absorbed up to one half of these declines.

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Iran's sales dropped by over 2 million barrels per day in early January, and Kuwait is resigned to a level of production that may drop to 1 million barrels per day or lower.



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CHINA-US: *The Chinese are continuing to show concern about what they apparently believe is insufficient attention to China by the incoming Carter administration.*

In a recent article in People's Daily, a group of Foreign Ministry writers called for talks between Peking and Washington on the Taiwan issue. This public appeal follows several private remarks since the US election that suggest the Chinese fear that the new administration will be so preoccupied with domestic affairs and with US-Soviet relations that little attention will be devoted to resolving the Taiwan matter--the chief obstacle to improved Sino-US relations. Some of these private remarks have included hints of Chinese flexibility on the Taiwan issue.

The public call seems designed to convey a positive atmosphere for negotiations that Peking clearly hopes will be seriously considered by the new administration.

The recent article called for resolving the dispute between China and the US "through negotiations without the use of force," language that dates from the 1950s when the two sides were actively negotiating a non-use-of-force agreement for the Taiwan area. The reference to not using force was in the context of a possible Sino-US confrontation over Taiwan and does not rule out the possibility that China might eventually resort to military means to "liberate" Taiwan. The article, however, implied no change in Peking's basic attitude toward the Taiwan issue.

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In announcing the meeting last week of Chinese liaison office chief Huang Chen with Secretary Kissinger and his successor-designate, Cyrus Vance, Chinese media pointed approvingly to Vance's statement that US relations with China would be "guided" by the Shanghai communique.

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ISRAEL: Defense Minister Peres faces some formidable obstacles in his quest for the Labor Party nomination for prime minister.

He will have to overcome the ingrained opposition of Foreign Minister Allon's faction and of former prime minister Golda Meir and the Labor Party bosses who still hold his bolting the party in 1965 against him. Labor's left-wing coalition partner, Mapam, also opposes Peres and has threatened to break up its electoral alliance with Labor unless the Labor Party adopts a more explicitly dovish party platform on peace negotiations than Peres favors.

To complicate matters further, former foreign minister Abba Eban has also declared his candidacy in a calculated effort to woo Labor Party doves away from Prime Minister Rabin and, paradoxically, lock up the nomination for the more hawkish Peres. Eban, who holds a long-standing grudge against Rabin, has already indicated he would be willing to serve in a Peres cabinet.

Any government headed by Peres would adopt a tougher, more independent line--particularly in tone--on Middle East peace negotiations than one led by Rabin.

Peres, a protege of former defense minister Dayan, has as his main base of support the right wing of the Labor Party. Moreover, in the past Peres has been more favorably disposed than Rabin to the

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re-establishment of a national unity coalition government with Likud, which takes a much harder line on territorial concessions and favors the annexation of the West Bank.

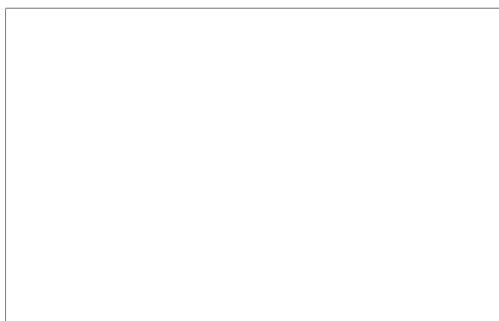
In recent interviews, Peres has indicated that he favors a resumption of the step-by-step approach instead of a reconvening of the Geneva peace talks, which he probably believes would only end in stalemate over the issues of Palestinian participation in the negotiating process and Israeli withdrawals from the West Bank and Gaza strip.

Peres has said he prefers a "functional" rather than a territorial agreement with Jordan over the West Bank. By this, he means an arrangement that would allow Jordan to reassert its civil authority over most of the area but permit the Israelis to keep their armed forces there and to continue to establish settlements.

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USSR-SYRIA: *The Syrian threat to close naval facilities at Tartus to Soviet naval ships may well have been a demonstration of President Asad's displeasure with Moscow's heavy-handed criticism of Syrian intervention in Lebanon.*



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The Syrians, unlike the Egyptians, have never been interested in an open break with the Soviets and do not want to jeopardize military relations. In fact, the Syrians may be building a little leverage for additional Soviet military assistance.

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NOTES

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The US embassy in Moscow has learned [redacted]

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[redacted] that in addition to the publicized explosion in the Moscow subway on Saturday there were at least two other blasts in the city the same day.

[redacted] the three explosions, which [redacted] were "definitely" caused by bombs, represent a potentially serious challenge to the authorities as well as to the overwhelmingly non-violent Soviet dissident movement. [redacted] the explosions would be used by the authorities for serious new moves against dissidence of all kinds.

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French [redacted]

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[redacted]

[redacted]

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The French government has become increasingly concerned over its balance-of-payments deficit, which totaled roughly \$6 billion in 1976, and probably will remain high this year.

French industrialists recently have pressed the government for measures to stem the rising tide of imports from countries with low labor costs.

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[redacted]

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Prime Minister Barre so far has rejected calls for protectionist trade measures and has instead opted for more general economic austerity measures to deal with France's trade imbalance. The government does not want to jeopardize the current multilateral trade negotiations, which it hopes can be completed by the end of the year.

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Iran
Pakistani

[Redacted] 25X1

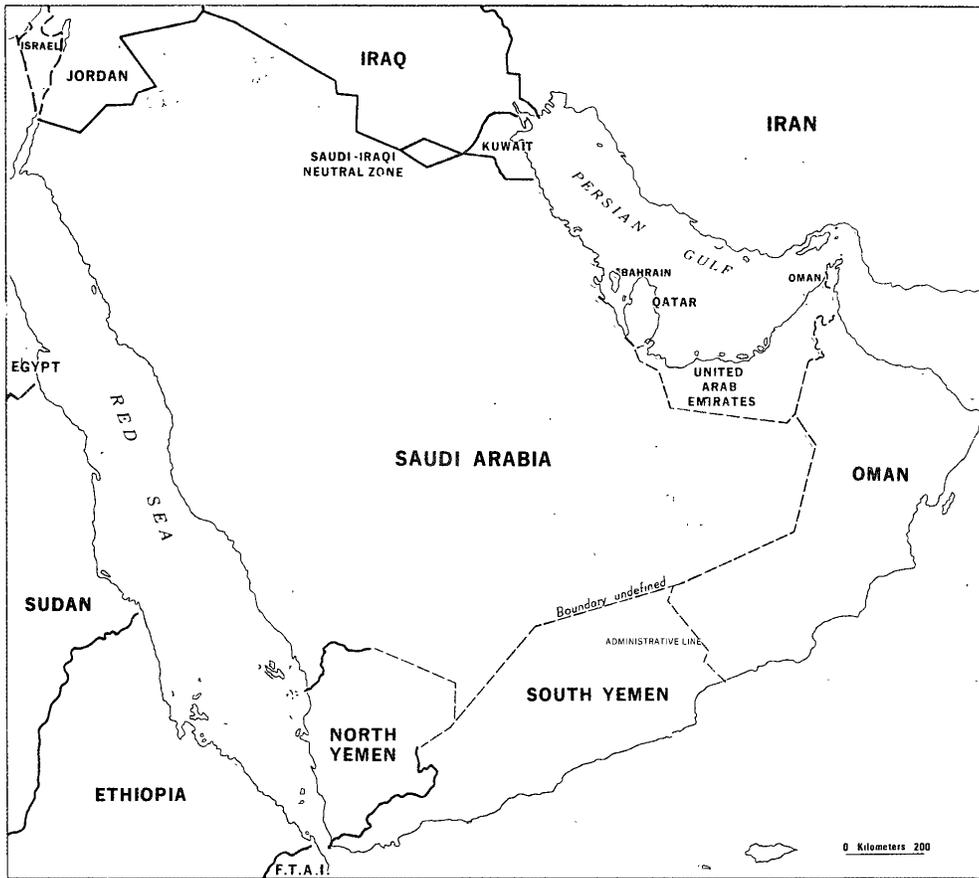
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South Korean newspapers, including a government daily, are urging editorially that Vice President-elect Mondale visit Seoul at the time of his coming visit to Japan.

The papers express regret over the Vice President-elect's plan to visit "next door" without also coming to Seoul, in view of the linked security interests of the US, Japan, and South Korea. As yet, no government sources in Seoul have made approaches along these lines to the US embassy, but the press articles could presage an official suggestion.

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Iran has decided to withdraw part of its task force from Oman.

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Iran has had a contingent of troops in Oman since 1972--now numbering 3,500 men--which has been a source of friction between Oman and its fellow Arabs. Problems also have arisen between Iran and Oman over Tehran's failure to coordinate some of its military activities in Oman.

Relations were strained in November when an Iranian reconnaissance plane was shot down by South Yemen along its border with Oman. The flight had not been cleared with Omani authorities. Qabus, unhappy over the resulting military tensions with the Yemenis and the renewed propaganda attacks from Arab radicals, may finally have yielded to his top military advisers

[Redacted]

A small force in Oman will be sufficient to underscore the Shah's commitment to the Qabus regime. Neither the Shah nor Qabus wants to end the Iranian military presence entirely.

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SOVIET-EAST GERMAN ACTIONS IN BERLIN

The East Germans since the beginning of the year have taken a series of actions aimed at unilaterally modifying the legal status of East Berlin, and exploiting ambiguities in the terms of the Quadripartite Agreement of 1971. It is not clear that what East Germany has done is specifically banned by the agreement.

It seems likely that the USSR has authorized the East German moves with a view to continuing to probe, in a low-keyed manner, the limits of Allied forbearance on the Berlin issue, and of Allied ability to coordinate a response during the transition between US administrations.

Three new East German actions have been taken:

--Effective January 1, 1977, the passport regulations controlling travel between East and West Berlin were changed to require day visas for third-country travelers to East Berlin. These had not previously been required, and removed the main distinction between visa requirements for East Berlin and East Germany proper.

--Sometime during the first weekend in January, the border control posts between East Berlin and East Germany were removed. This eliminated one of the last visible proofs of East Berlin's status as an entity legally distinct from East Germany.

--In addition, on Tuesday, East German police began barring access to the West German diplomatic representation in East Berlin to East German citizens, who had been going there in large numbers to initiate emigration proceedings.

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East Germany remains in many ways an artificial creation, and the loyalties of its citizenry are at best questionable. Any action which can widen the legal and psychological gulf between East and West Germany and bolster the East German state's claims to legitimacy are to its obvious advantage.

Soviet motivation in permitting the East Germans to act as they have is somewhat more difficult to reconcile with other Soviet interests. It was, after all, Soviet pressure which compelled the East Germans to regularize their relations with Bonn, and the Soviets retain a large stake in keeping the German problem quiescent as long as the broad outlines of their policy objectives in the West remain unchanged.

The Soviets may regard the sort of nibbling actions the East Germans have engaged in as a low-risk gamble.

It is striking that none of the East German actions have directly affected Allied rights or prerogatives. Furthermore, the Soviets themselves have not taken any part in East German actions and can claim non-involvement. Finally, while the East German actions have violated the spirit of Four Power and inter-German understandings on Berlin, they do not yet appear to have violated the letter of any agreement. The Soviets may anticipate that it will be correspondingly difficult for the Allies to coordinate an effective response, particularly during a period when the US Government is in transition.

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