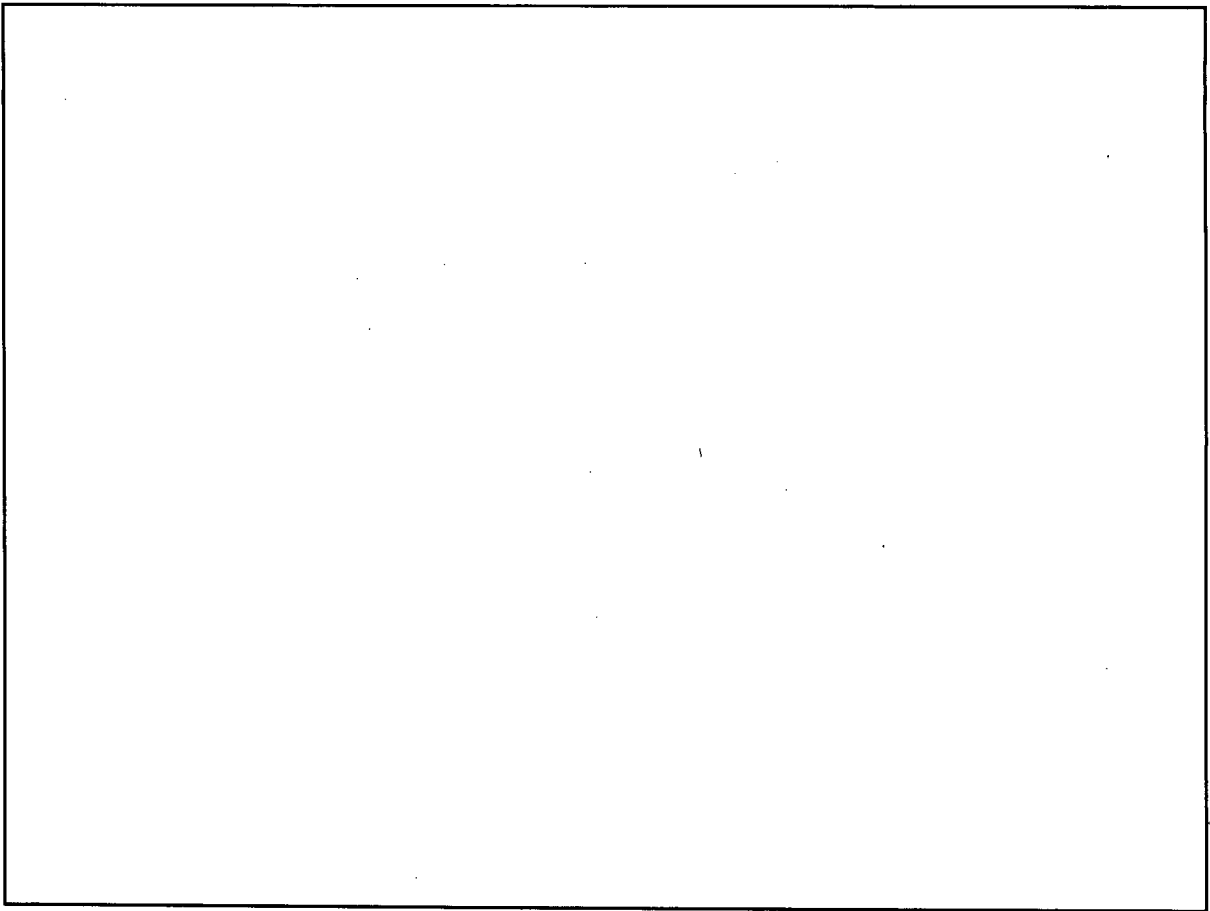


ARAB STATES - ISRAEL: Fighting continued yesterday in the vicinity of Suez city. The remainder of the Egyptian front and all of the Syrian front were quiet.

Heavy fighting took place at the southern end of the canal yesterday, but the northern sector remained calm. An Israeli spokesman reported that elements of the Egyptian 3rd Army attacked at five points along the canal on the afternoon of 26 October in an attempt to cross back to the west bank. Tel Aviv claimed that Egyptian efforts to bridge the canal and move infantry by boat were repulsed.

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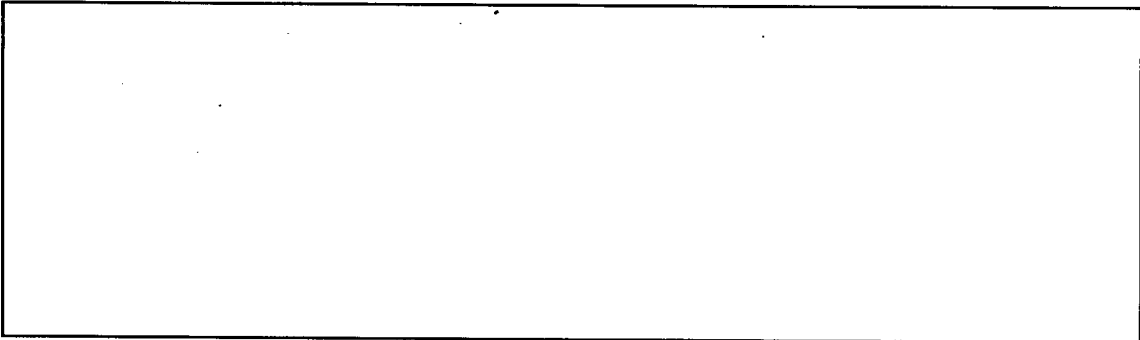


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The Soviet naval ships that had gathered about 100 nautical miles north of the Egyptian coast on 25 October have dispersed. Four of these ships--a cruiser and three destroyers--appear to be moving slowly to the northeast in the direction of the Syrian coast. A destroyer, a minesweeper, and an amphibious ship are already located in the waters between Syria and Cyprus. Another destroyer, a minesweeper, and an intelligence collection ship are holding about 60 nautical miles south of Cyprus. There have been no other significant changes detected in the activity of the Soviet Mediterranean force.

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The mood of the Egyptian public has become more somber, pessimistic, and confused over the past few days as news of the major Israeli gains along the Suez Canal slowly become known. According to the US Interests Section in Cairo, educated Egyptians nevertheless still believe that, on balance, Egypt has achieved a limited victory in the war. The Interests Section points out that this feeling could quickly dissipate, however, should Cairo suffer additional serious military reverses, such as the fall of Suez city to the Israelis, the surrender or destruction of the Egyptian 3rd Army, or the bombing of Cairo or other major population centers. So far, President Sadat and the army high command have apparently escaped coming under any direct criticism, although questions and rumors indicating disagreement and dissatisfaction with certain military decisions are circulating.

Although the level and aims of Soviet assistance to Egypt are coming into greater question in more politically sophisticated circles, there are indications that the United States may end up as the real scapegoat for Cairo's military reversals and for delays in implementing the cease-fire. The editor of the influential Cairo daily Al Ahram reported yesterday that Sadat told him Egypt was forced to accept the cease-fire on 22 October because of direct US intervention in the fighting. Sadat was quoted as saying that his troops "defeated Israel when both sides were without help. But I can't order them to continue the war against the United States."

In Israel, Prime Minister Meir and Defense Minister Dayan--under some domestic pressure as a result of the government's handling of the war and its

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acceptance of the cease-fire--have assured the ruling Labor Alignment Party that these moves were "indispensable" to maintain US support and to seek a settlement. Mrs. Meir emphasized the "great danger" she saw for Israel in Moscow's moves, and indicated her trust in the actions of President Nixon and Secretary of State Kissinger. Dayan similarly emphasized his recognition of Israel's dependence on the US for diplomatic and material support, and said that Israel could not have jeopardized this support by taking preemptive military action or by refusing the cease-fire. For "political reasons," Dayan said, Israel could not destroy the Arab armies and their weapons, but is nevertheless in a good strategic position and has left the Arabs "incapable" of renewing their attacks.

The Syrian foreign minister said yesterday that all Iraqi Air Force units had left Syria, and that all Iraqi ground forces were being withdrawn.

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USSR: In his address to the World Congress of Peace Forces in Moscow yesterday, Brezhnev underscored Moscow's undiminished commitment to detente and indicated that the Middle East crisis has not jeopardized prospects for improved relations with the US.

On the Middle East, Brezhnev accused the Israelis of repeated violations of the UN-sponsored cease-fire, said that Moscow had already complied with the Egyptian request to send Soviet "representatives" to supervise the fulfillment of the cease-fire resolution, and expressed the hope that the US would react similarly. A Soviet Foreign Ministry spokesman later said that Brezhnev's reference to representatives meant "observers."

At the same time, Brezhnev noted "all sorts of fantastic speculations" regarding Soviet intentions in the Middle East, and blamed some NATO countries for disseminating such ideas. Brezhnev urged his audience to work for an immediate and full implementation of the 22 October UN resolution and said that "urgent and vigorous" measures were necessary to ensure enforcement of the cease-fire decisions. Alluding to possible new Soviet moves, Brezhnev also said that the Soviet Government was considering "other possible measures" in addition to the ones that it has already taken.

Other aspects of Brezhnev's speech were designed to show that detente is becoming a reality and an "irreversible factor" in international relations. Brezhnev pointed to the "historic" role of the Conference on Security and Cooperation in Europe and expressed his belief in the ultimate success of the conference's deliberations despite "difficulties" that still must be surmounted. Similarly, he stressed the need for military detente in Europe and for the first time addressed the MBFR discussions in some detail, saying that the Soviet Government was prepared to take practical steps in the reduction of military forces and arms in central Europe "as early as 1975." On Moscow's relations with the US,

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Brezhnev said that the prospects for further improvement were good and pointed to President Nixon's planned trip to the USSR next year as offering an opportunity for "fresh major steps" in improving US-Soviet relations.

Asian problems were not treated at any great length in the speech, although Brezhnev reiterated Moscow's call for a collective security system in the area. He covered Moscow's problems with China--the first such exposition of Soviet views on the subject in an ostensibly non-communist international forum--and again blamed Peking for aggravating the world situation in general.

Throughout his speech, Brezhnev endeavored to put the best possible face on the policy of detente, which has become intimately associated with his leadership. His discussion of the Middle East, though blunt, was nonetheless restrained in comparison to similar periods of tension in the past. His references to the US were on the whole positive, and only once did he allude to US backing for Israel. In discussing Soviet relations with Western Europe, Brezhnev made it clear that there are no viable alternatives to the current process of detente. Even his discussion of the human rights issue, the most controversial topic in the European security conference, was relatively mild. It seemed more designed to reassure his audience that the Soviet Union could resist Western pressures for internal liberalization, rather than to project uneasiness over alleged Western attempts to subvert Soviet society. In sum, Brezhnev treated the contentious issues in East-West relations as temporary stumbling blocks, and not as major obstacles to his policy of normalizing relations with the West. [REDACTED]

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EC - OIL POLICY: The EC Commission has approved a draft program for monitoring oil movements and supplies in the Community. The proposed regulation, which may enter into force in the next few days, would require member states to inform the Commission of all imports and exports of crude oil and refined products, as well as stockpile levels. It is urging rapid passage of the measure, noting that some member states have already established petroleum export licensing systems that are not compatible with terms of the Treaty of Rome. Although the Commission probably will succeed in establishing this common information system it has long urged, EC action toward an explicit oil-sharing program remains unlikely.

The proposed regulation is prompted in part by the divisive potential of selective Arab oil cutbacks. The cutoff of crude oil shipments to the Netherlands by Kuwait, Algeria, Qatar, Iraq, Abu Dhabi, and Oman poses a particularly serious problem because about half of Dutch imports are normally re-exported to other EC members. The Commission may be attempting to forestall unilateral Dutch export controls on other oil supplies still entering Rotterdam for transshipment to nearby countries. At the same time, despite the Arabs' warning that their embargo will be extended to those who re-export oil to countries already sanctioned, the Commission is urging Community members to support the Netherlands and any other EC country facing a supply crisis.

Most EC countries have set up mechanisms that could restrict exports both inside and outside the Community. If a supply crisis develops, exports outside the Community will be much more severely restricted than intra-EC exports. In such circumstances, shipments of refined products to the US are likely to be sharply curtailed. Although European shipments accounted for only about 1 percent of US consumption last year, their loss would exacerbate shortages already expected this winter, especially for heating fuels. [REDACTED]

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