

ARAB STATES - ISRAEL: The implementation of the cease-fire agreement began yesterday, with no significant problems developing.

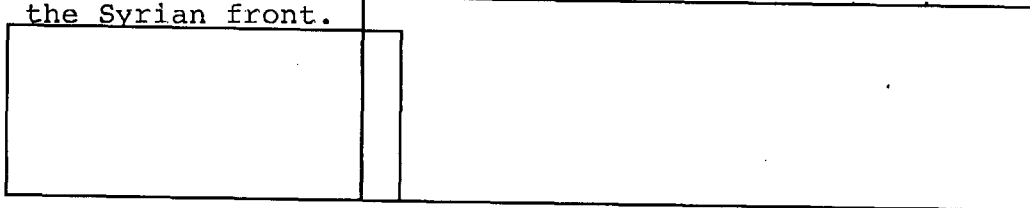
The first stage of the prisoner-of-war exchange took place with the transfer of 26 Israeli wounded prisoners and over 400 Egyptians. According to a press account, Egypt was unable yesterday to organize the repatriation of a larger number of Israeli prisoners. No adverse Israeli reaction to Cairo's delay was reported.

Contingents of the United Nations Emergency Force (UNEF) took control of the Israeli checkpoints at Kilometers 101 and 119. A UNEF press spokesman claimed that there are no other Israeli checkpoints on the Cairo-Suez road. Trucks carrying relief supplies to Suez city passed through the checkpoint at Kilometer 101 yesterday. An International Red Cross spokesman has also announced that the evacuation of more than 1,000 sick and wounded Egyptian civilians from Suez city will begin today.

According to press reports, Israeli Defense Minister Dayan said yesterday that Tel Aviv had made "far reaching" proposals to Damascus including an exchange of prisoners of war and offered to allow about 15,000 displaced civilians from newly captured areas on the Golan Heights to return to their homes. Meanwhile, Israeli Foreign Minister Eban and Secretary-General Waldheim at the UN and a special UN envoy in Damascus are seeking ways to resolve the Israeli-Syrian prisoner issue.

Minor cease-fire violations were reported on both fronts yesterday. A brief exchange of tank and artillery fire took place on the northern sector of the Syrian front.

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Egyptians have generally been satisfied with the Egyptian-Israeli decision of Wednesday to proceed with the implementation of four elements of the six-point agreement of 11 November, according to the US Interests Section. The new, but restrained optimism ends a period of gloom and frustration over what Egyptians considered Israeli obstructionism and a breakdown of negotiations. The Egyptian Government is underscoring the need for intense pressure on Tel Aviv, and Cairo implies that recent progress in getting Israel to be more forthcoming has been a result of Egyptian-US interaction.

The Interests Section believes that there is no real challenge to Sadat's leadership and reports that his popularity appears to be high. Some unhappiness exists among university students, and there is muttering by younger officers, who complain that the cease-fire was entered into for political, rather than military reasons. Nevertheless, Egypt appears ready to give Sadat's political and diplomatic efforts a chance to succeed.

Radio Tripoli yesterday carried what was described as a cable sent by President Qadhafi to President Sadat dealing with the Arab-Israeli war and its aftermath. Qadhafi's message bitterly condemned Sadat's acceptance of the cease-fire; the war, Qadhafi said, should have been continued "even if it developed into hand-to-hand fighting." The Libyan leader said he was furious at the Egyptian-Israeli talks at Kilometer 101: "I cannot sleep at what is happening at Kilometer 101, or perhaps I am asleep and it is a terrible and peculiar nightmare."

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Yesterday's communiqué following the Tito-Brezhnev talks in Kiev broke no new ground on the Middle East. Both leaders recognized the importance of obtaining a Middle East settlement and reaffirmed their readiness to make efforts in that direction. The communiqué accused Israel of "crude flouting" of the UN cease-fire resolutions and noted the "dangerous consequences" of Israel's "adventurous actions." Meanwhile, in Moscow, Premier Kosygin told a Guinean delegation that the Soviets will continue to give the "utmost assistance" to implement UN resolutions on the Middle East. Pravda also emphasized Moscow's continuing role in achieving a Middle East settlement. The Soviet weekly New Times touched on the sensitive subject of Arab financial holdings in the West by noting that substantial sums are held in US and West European banks. It said "if the Arabs withdrew only half of their investments, it would lead to a serious upheaval of the finances of many West European countries." The US was not explicitly mentioned in this regard. Although Moscow has endorsed the use of Arab oil, it has not made such explicit reference to the significance of Arab financial reserves.

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Further progress has been made at the UN in assembling the peacekeeping force. The UN Emergency Force now has approximately 2,200 troops in the Middle East and enough pledges to bring it close to the 7,000-man goal. Negotiations have also reached tentative agreement on a special assessment scale for the

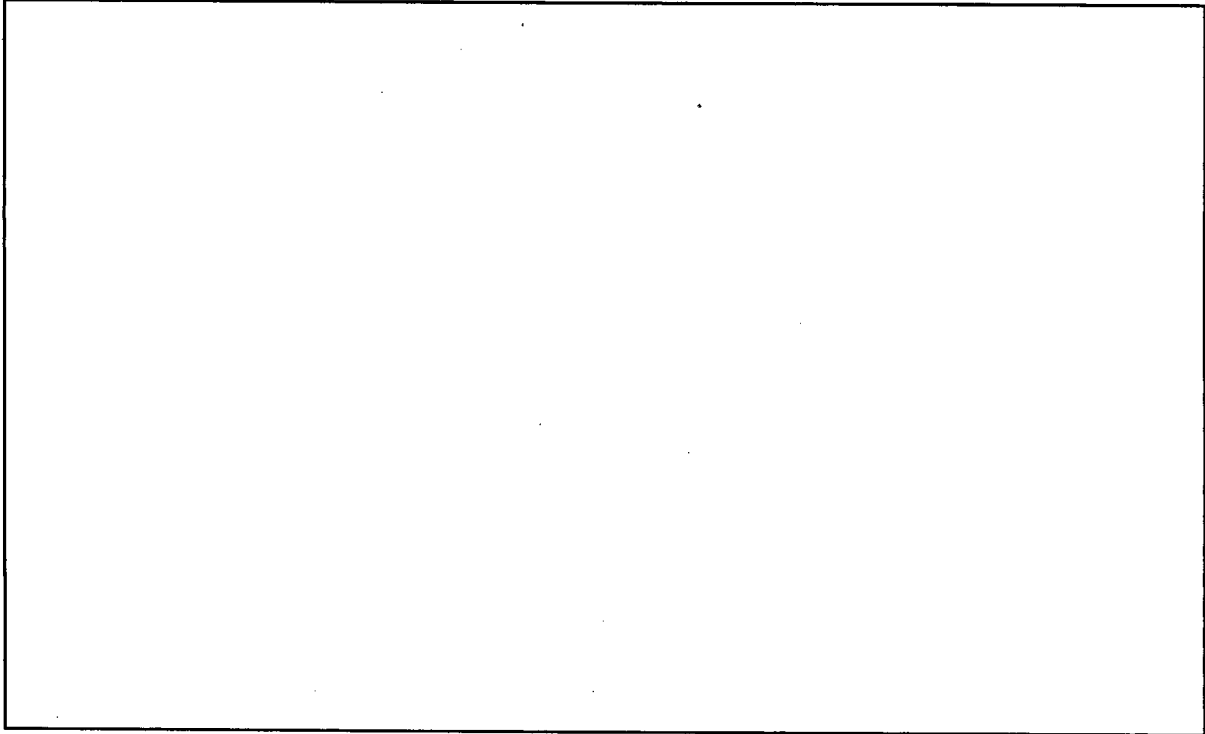
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financing of the emergency force. UNEF, however, is still without adequate supplies or logistic support for its rapidly growing forces.



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