

~~SECRET~~



**EGYPT-ISRAEL**

The pace of Middle Eastern diplomacy quickened this past week with Prime Minister Begin's sudden trip to Washington and the subsequent announcement that Begin and President Sadat would meet in Ismailia on Christmas Day for talks on Israeli peace proposals. Begin's decision to brief President Carter is being interpreted in some quarters in Israel as an attempt to reestablish close coordination between Washington and Tel Aviv on peace efforts.

Begin was also mindful of the favorable impact Sadat's visit to Jerusalem last month has had on US public opinion. He undoubtedly hoped to garner broad support for his proposals both from the US Government and from leaders of the American Jewish community prior to meeting with Sadat in order to forestall any US pressure on Israel to go beyond the solution Begin is prepared to propose to resolve the Palestinian problem—the core of the Arab-Israeli dispute. Israeli leaders clearly want the US to assume a supportive role in negotiations; they also want to prevent the US from lining up on Sadat's side or resuming its previous mediating role.

Begin outlined the basic points of his proposal for dealing with the Palestinian question in an interview on American television last weekend. The plan would permit a large measure of self-government for "Palestinian Arabs" in the territory on the West Bank of the Jordan River and in the Gaza Strip but would also permit Israelis to continue for an indefinite period to settle and maintain a security presence in these areas, which have been occupied by Israel since the 1967 Arab-Israeli war. Begin left open the question of ultimate sovereignty. The Israeli leader is apparently prepared to offer sweeping concessions in the Sinai, subject to the negotia-

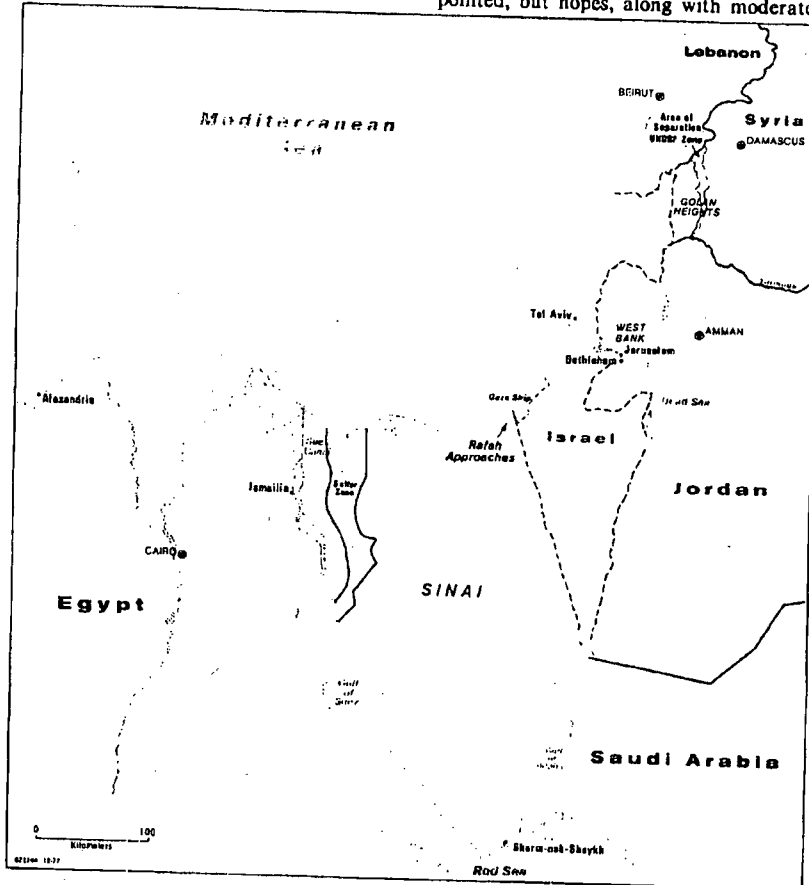
tion of some special security arrangements.

The unveiling of the West Bank proposal on US television has rankled some government supporters as well as opposition members in the Israeli parliament, who have been kept largely in the dark on Begin's negotiating strategy. The proposal of even limited autonomy for the West Bank has struck a nerve among Israeli hardliners who have long favored annexing the region; many of these diehards are members of Begin's own Herut faction, which dominates the ruling Likud bloc. Begin's public support is so broad at present, however, that he would probably have little difficulty coping with any challengers from within the governing coalition.

**Arab Reaction**

Initial Arab reaction to Begin's proposals on the West Bank and Gaza has generally been negative. Arab commentators have complained that Begin's plan fails to deal with the nearly 2 million Palestinian refugees living outside of Israel and the occupied territories. The Arab press has also noted that the plan would maintain an Israeli military presence on the West Bank and continue Israeli control over East Jerusalem.

All the major West Bank leaders rejected the plan as inadequate. Leaders sympathetic to the Palestine Liberation Organization rejected the continued presence of Israeli settlements and troops. The general populace reportedly is also disappointed, but hopes, along with moderate



~~SECRET~~

~~SECRET~~

leaders like Bethlehem's Mayor Ilyas Frayj, that more favorable details will be released soon.

The PLO also rejected Begin's proposals. Yasir Arafat's deputy, Salah Khalaf, called the plan "dangerous" and an effort to maintain "the military occupation of the West Bank," and the PLO Information Bureau in Beirut described it as "unacceptable."

PLO leaders are clearly worried that their interests will be ignored in the Egyptian-Israeli negotiations, [redacted]

Jordan, [redacted]

[redacted] has reacted cautiously. Jordan's Minister of Information announced that the proposal as stated by Begin on US television, constitutes an attempt to regulate the occupation, not to end it. A semiofficial Jordanian newspaper found some consolation in the fact that Begin's ideas were not final and were subject to negotiation with Sadat.

The state-owned radio in Saudi Arabia said Begin's proposals were inadequate. It rejected continued Israeli sovereignty over East Jerusalem and said "there is no room for optimism." Most Saudi leaders approve of Sadat's initiatives—[redacted]

[redacted] They do not rule out the possibility of a satisfactory comprehensive Arab-Israeli settlement arranged by the Egyptians, but insist that any such settlement must include the return of East Jerusalem to Arab control.

In Syria, where the Asad regime continues to appear adamantly hostile to the whole peace effort begun by Sadat, the official radio bitterly attacked the Israeli proposal as part of an American plot to "pave the way for signing a separate agreement between Egypt and Israel." The Syrians also criticized Begin's failure to mention withdrawal from the land they lost on the Golan Heights in 1967.

The Egyptians have been essentially noncommittal, pending Sadat's meeting

with Begin. Sadat told reporters that he was optimistic that his talks with the Israeli Prime Minister would produce "tangible results," but refused to comment on the press accounts of Begin's peace proposals.

#### Talks in Egypt

The Cairo conference was further upstaged this week by Israeli Defense Minister Weizman's two days of talks with President Sadat in Ismailia and with Egyptian War Minister Jamasi near Alexandria. In addition to making final preparations for Begin's visit, Weizman and the Egyptians reportedly discussed mutual troop pullbacks in the Sinai and a scaling down of maneuvers there as goodwill gestures during the current negotiations. They also talked about long-term Israeli security arrangements in strategic areas like the Rafah Approaches, south of the Gaza Strip, and Sharm-ash-Shaykh in return for Israeli withdrawal from the rest of the Sinai.

Meanwhile, the middle-level Egyptian and Israeli conferees in Cairo have been engaged in a series of meetings—both formal sessions and informal private discussions—in an attempt to work out procedural differences and a substantive agenda. The atmospherics have been good, and conference spokesmen have sought to convey the impression that progress has been made. In fact, the delegates have been largely marking time since the announcement of the coming Begin-Sadat summit.

#### Soviet Treatment

The Soviets are still engaged in their low-level sniping at alleged US-Egyptian-Israeli efforts to conclude a separate peace agreement outside the framework of the Geneva conference. They have criticized the Israeli peace proposals, drawing particular attention to Arab and Palestinian criticism of the key proposal regarding "autonomy" for West Bank and Gaza Arabs.

Soviet Arabic-language broadcasts see US-Israeli collusion in the Israeli proposals and predict that Egypt will go along with them. Earlier this week, TASS viewed US "support" for Begin's plan as

consistent with past US encouragement of "bilateral deals." Soviet commentary has also discounted US and Israeli statements that the goal of their talks in Washington remains a comprehensive settlement concluded at Geneva.

Moscow clearly suspects that it is being deliberately excluded from the current peace initiatives, but it has decided, at least for the time being, not to give further encouragement to the Arab "rejectionists" until it assesses the effects of the current round of talks in the US and Egypt. [redacted]

#### EGYPT

Egyptian President Sadat's diplomatic initiatives could create serious financial difficulties for Egypt if its financial benefactors conclude that he is bent on a separate agreement with Israel. Egypt needs an additional \$500 million during the first half of 1978 to finance essential imports and debt service payments.

At least two-thirds of Egypt's cash aid this year has come through the Gulf Organization for Development in Egypt, a multilateral Arab organization established under Saudi auspices. Its initial \$2 billion loan capital was severely depleted by this aid, which was authorized on an emergency basis following the consumer riots in Egypt last January.

Egypt and its Arab benefactors were at odds over disbursement of the organization's remaining capital of \$750 million even before Sadat's diplomatic moves. Saudi Arabia, Kuwait, Abu Dhabi, and Qatar preferred to reserve these assets for project aid; the Egyptians wanted a cash disbursement of \$550 million.

These donors now may withhold support altogether pending further assurances that Egypt does not intend to make a separate peace with Israel.

A lengthy delay in aid receipts could force the Egyptian Government into unpopular controls on consumption. Sadat could resort to massive short-term borrowing and defer debt payments, but this would jeopardize Egypt's standby agree-

~~SECRET~~

ment with the International Monetary Fund, which is the basis for most of Cairo's other outside assistance. Iran may provide Egypt with additional aid. [redacted]

[redacted] A bond drive among expatriate Egyptians, who now finance at least \$400 million in luxury imports annually, might also provide funds for essential imports. [redacted]

~~SECRET~~