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No 669

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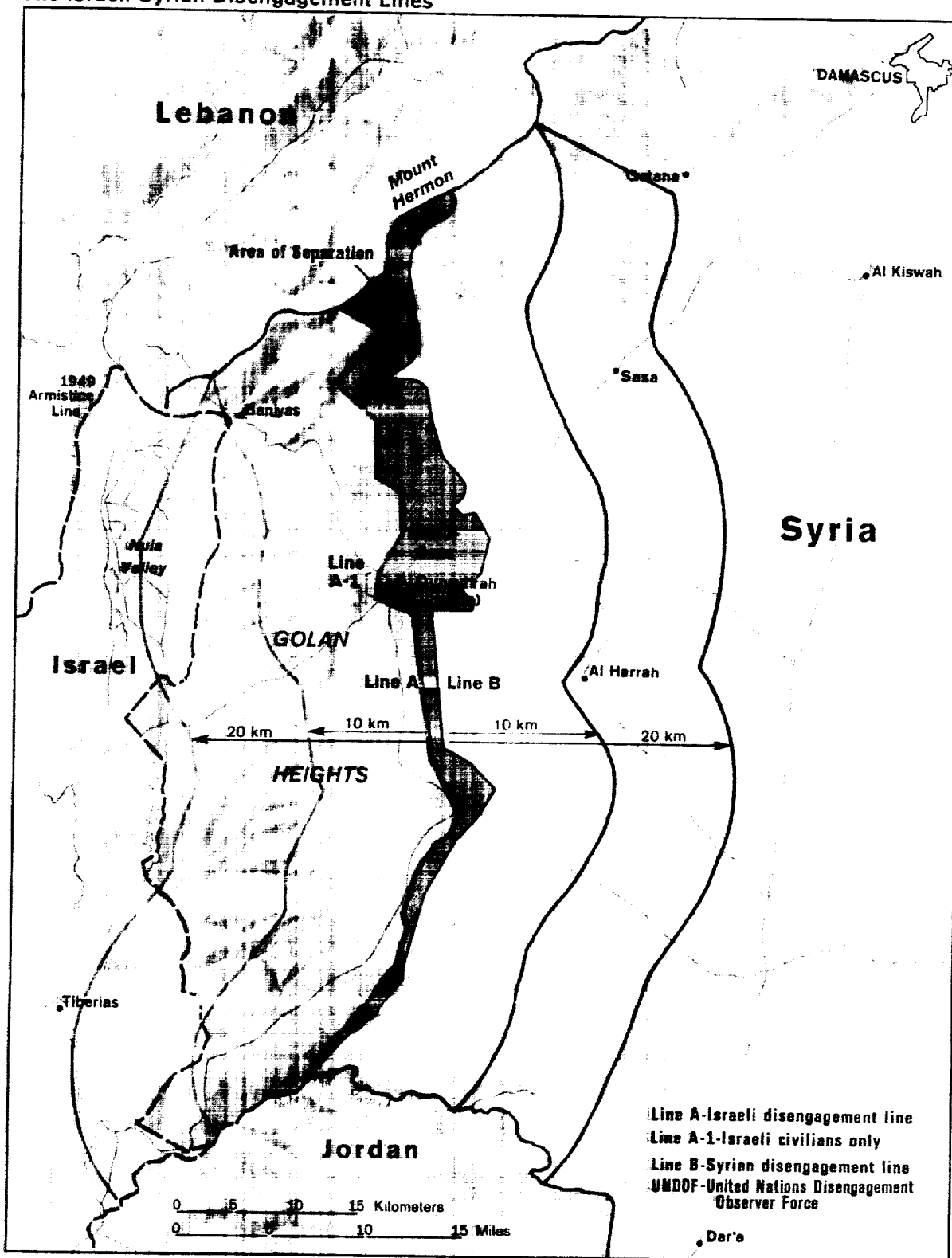
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SYRIA-ISRAEL

The Syrians continue to take military measures that would allow them to start some form of hostilities on short notice.

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[REDACTED] There are also an increasing number of rumors in Damascus that President Asad is planning to allow the UN observer forces' mandate to lapse at the end of November and to start a limited war of attrition on December 1.

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At a minimum, the military moves and rumors are part of a calculated effort by Asad to put pressure on the US and Israel to seek some way of satisfying Syria's negotiating demands before the UN mandate expires. Asad, however, knows that the US and the Israelis have been expecting him to do just that. In order to pose a credible threat, Asad would want to create the impression that he is prepared to go beyond mere military posturing and that he regards some form of limited military action as an acceptable risk.

If these pressure tactics are not successful, he could well rationalize the necessity for some form of war of attrition or a limited seize-and-hold operation, banking on the Israelis to react with restraint for fear of jeopardizing the Sinai accord with Egypt. Many Syrians believe that they obtained satisfactory disengagement terms in May 1974 only after waging a three-month war of attrition. Asad is under no illusion that he can inflict a major military defeat on the Israelis.

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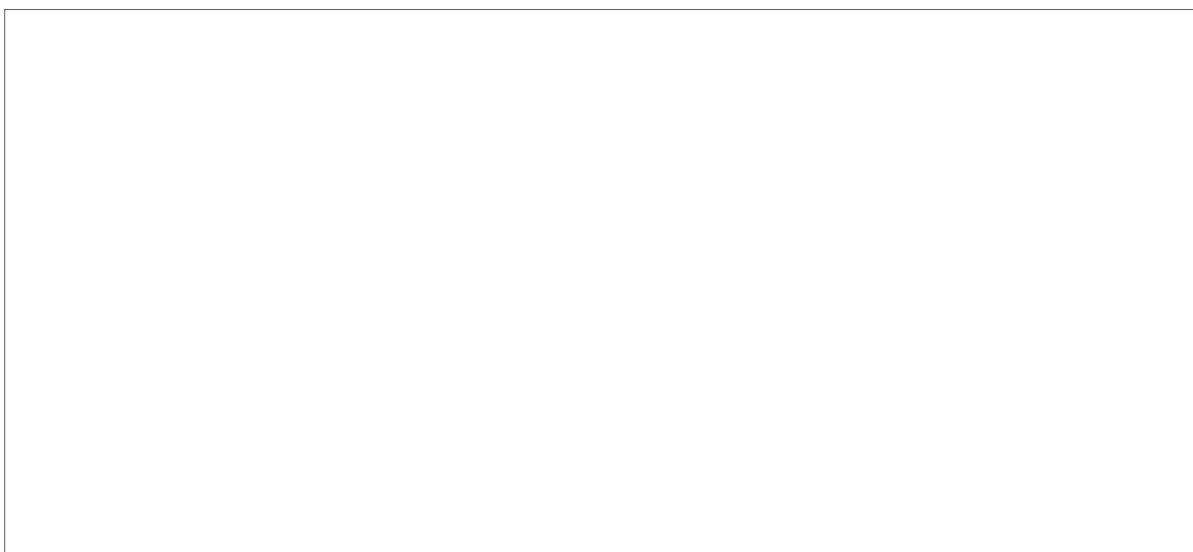
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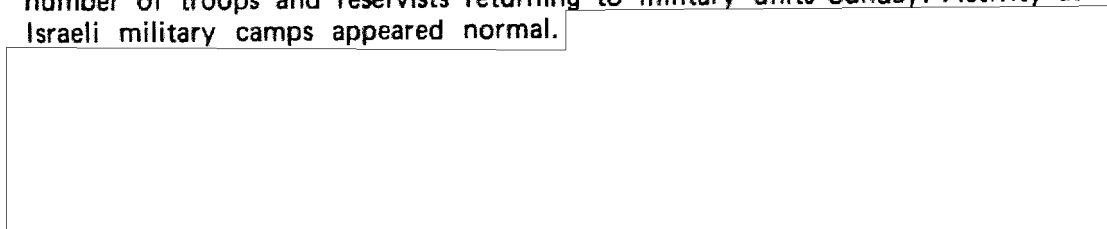
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Although Tel Aviv is concerned about the Syrian moves, it is perplexed about Syria's intentions. The Israelis appear to have focused on November 30 as the time of most likely danger and are not expecting the Syrians to take action before then. Syrian forces, however, have the capability to initiate military action at any time because they are deployed close to the front.

Meanwhile, Israel may have taken some limited military measures to meet any Syrian threat. A US military attache in Tel Aviv reported seeing a larger than usual number of troops and reservists returning to military units Sunday. Activity at Israeli military camps appeared normal.



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LEBANON

The fighting in Beirut entered a new stage over the weekend, as Christian and Muslim extremists for the first time engaged in sustained battles for control of heretofore neutral areas in central Beirut. Previously, the two sides had stayed generally within their respective enclaves, shelling nearby areas controlled by their opponents and venturing out only for hit-and-run bombing attacks in the commercial areas of the city.

The US and some other foreign embassies have been hit in the widespread firing. Predictably, this has prompted several embassies to speed the evacuation of nonessential personnel from Lebanon. Approximately half of the 7,000 Americans normally resident in Beirut have already departed.

The expansion of the area of hostilities has reduced further the limited area over which the Lebanese government has effective control. Prime Minister Karami announced the eighth in the most recent series of cease-fires after an emergency cabinet meeting Sunday afternoon; his call was immediately and widely disregarded.

[REDACTED]

[REDACTED] So far, the army has been used only to secure the road from the city center to the international airport, to control selected government buildings and installations in Beirut, and in a very limited way to replace internal security service units on the periphery of the city.

The spread of fighting over the weekend apparently represented only the continuing deterioration of the general security situation rather than the introduction of any additional groups into the hostilities. The major fedayeen groups, including Fatah and Saiqa, reportedly are supplying weapons to Lebanese and Palestinian extremists, but they have not yet become directly involved in the fighting. Fatah headquarters in Beirut continues to admonish all Fatah units to respect the cease-fire.

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Parliament tried twice over the weekend to convene, but failed for lack of a quorum. Many members stayed away because of the security problem, others probably to forestall a widely anticipated public split between Karami and Shamun.

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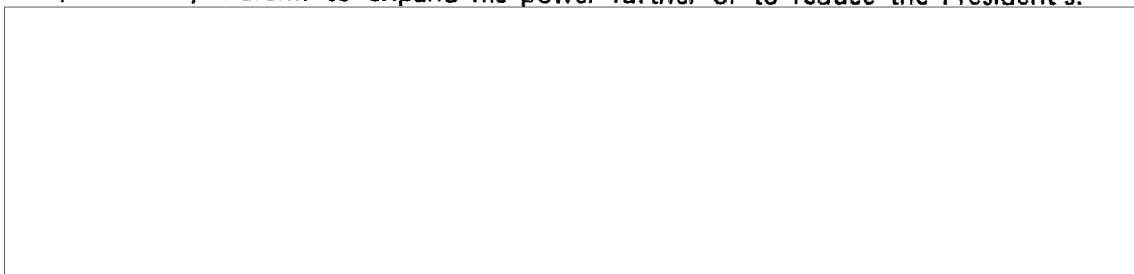
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The Prime Minister has been inching toward an open challenge to Shamun and President Franjyah, and any comprehensive parliamentary debate could end in a vote of confidence in Karami or even introduction of a motion demanding Franjyah's resignation.

The majority of the parliament is Christian, but Karami may now be prepared to gamble that he would win a confidence vote. At the same time, he may believe he could force a showdown that would, at a minimum, prompt Muslims and leftists, including Socialist leader Kamal Jumblatt, to rally behind him. He may see this as a way to oblige moderate Christians indirectly to criticize Franjyah by acknowledging that Karami is preferable to any likely alternative. Despite his inability to end the fighting, Karami apparently retains the important backing of the Syrian government and the Palestinians. He has steadily gained strength among Lebanese at Franjyah's expense.

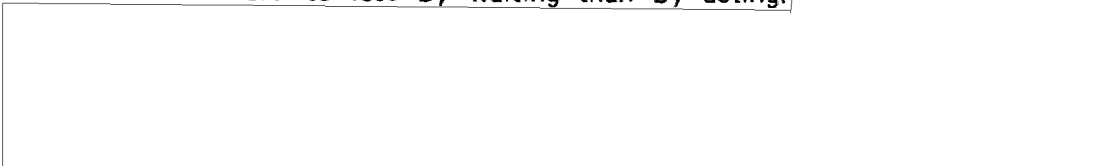
Franjyah almost certainly has been counseled by right-wing extremists to resist any move by Karami to expand his power further or to reduce the President's.



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It is also possible that if the security situation continues to deteriorate, Christian army officers will be moved by a sense of frustration or the President's ineptness to seize control of the government, with or without Franjyah's acquiescence. In the past, such thoughts would have been discarded by awareness among high-ranking officers that any such move would lead to civil war and to widespread divisions within the army.

These officers could soon conclude that Lebanon is already in civil war, and that there is more to lose by waiting than by acting.



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PORTUGAL

The government appears to have emerged from the events of the past few days with its authority somewhat strengthened, despite a series of terrorist bombings and a spate of coup rumors.

On his arrival Saturday in Porto, where he went to shore up the regional military commander in the face of leftist attacks, Prime Minister Azevedo said that authority and discipline would be reinstated in Portugal "at any price." Although Azevedo's words at the pro-government rally were not as uncompromising, the Prime Minister's trip to Porto signaled his strong support for the northern commander's efforts to restore military discipline. Such efforts were undermined earlier this month by Army Chief of Staff Fabiao when he acquiesced to the demands of rebellious soldiers.

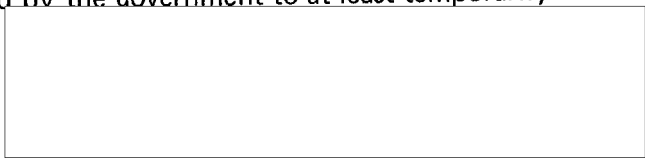
The Prime Minister said his visit to Porto was the first in a series to various parts of the country, which presumably he will use to mobilize popular support for his government. Although the Communists urged their supporters not to attend Azevedo's rally, his appearance in Porto drew about 100,000 people. This number contrasts sharply with an anti-government demonstration last week in Lisbon, which drew only about 13,000.

In a further positive move, the government on Friday announced new commanders for the Republican National Guard and the civil police.



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The military alert announced on Friday ended abruptly on Saturday with the explanation that the country is now calm. Whatever the reason for the alert, it appears to have been skillfully used by the government to at least temporarily seize the initiative and marshal its forces.



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SPAIN

Most Spanish officials do not believe General Franco will recover from his grave illness and have focused their attention on the post-Franco period.

Various elements of what has been the illegal opposition during the Franco era have indicated that they are prepared to act in a cooperative, responsible manner during the initial phase of the transition period.

--A leading official of the Communist-dominated Workers' Commissions told the US labor attache that they have spread the word to their membership to avoid strike activity and other protest action during the transition.

--Felipe Gonzalez, secretary general of the Spanish Socialist Workers Party, told US Ambassador Stabler that his party will give Prince Juan Carlos a chance to open up the political system. A Basque Socialist Party official echoed these sentiments, and Gonzalez believes that Spanish Communist Party leader Carrillo also supports this attitude, despite the contradictory statements made by Communist Party officials.

--An intimate of Tierno Galvan, leader of the Popular Socialist Party and a rival of Gonzalez', claims that his party will not make trouble for Juan Carlos, at least initially.

These comments strongly suggest that a majority of political groups believe that full-scale opposition tactics at this time would only prejudice their long-term interests and invite repression. Their future course of action, however, will depend on their assessment of Juan Carlos' performance.

The first clues as to Juan Carlos' intentions should appear in the nationwide speech he is expected to make after the transfer of power ceremonies. He hopes to form a new government, and its composition will be used by opposition groups to measure how far and how fast Juan Carlos is prepared to press for reform.

The new head of state will not be able to satisfy all shades of political opinion, but he has a good chance of winning the support of a commanding majority if he develops a policy that clearly departs from the tenets of Franco's rule without appearing to be an abrupt rupture from that era. Thus, he will have to make some progress toward establishing a freer political system, but only gradually, and with clear indications that the evolution is being tightly controlled by competent authorities.

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Inevitably, there will be some trouble regardless of how skillfully Juan Carlos manages this process. Fifteen alleged members of the far-left terrorist Antifascist and Patriotic Revolutionary Front were arrested over the weekend; this group will continue, and may intensify, its terrorist campaign when Juan Carlos assumes power.

Violence from the extreme right may also increase. On Sunday, a right-wing group called the Death Commandos publicly ordered 17 prominent Catalans associated with leftist political groups to leave the country 24 hours after Franco's death or face death themselves.

The military, and to a greater extent the police forces, are maintaining a low-level alert status.

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SPANISH SAHARA

Spain and Morocco are optimistic that they can agree on a settlement of the Spanish Sahara. Moroccan Foreign Minister Laraki was in Madrid for talks late last week, and a high Spanish official told the US embassy that when the Moroccan negotiators returned to Madrid soon, possibly this week, progress would be evident.

A dispute in the Spanish government between Prime Minister Arias' policy to cede the Sahara to Morocco in return for guarantees regarding Spanish interests in the territory and Foreign Minister Cortina's insistence on granting self-determination was settled by discarding Cortina's policy, according to the official. The source claimed the government considered the present problem to be between Spain and Morocco and not between Spain and Algeria. Previously, Spain had insisted on Algerian agreement to avoid a Moroccan-Algerian clash when Spain withdrew. The Spaniards are being very tight-lipped about the actual terms of the proposed settlement. If Algeria has a problem with Morocco, that is a separate matter.

The Spaniards want to settle the Sahara problem quickly, before the Moroccan march to the Sahara proceeds much further. The Spanish official said under no circumstances could Spain let the marchers enter Saharan territory. Spain may also want to have a settlement before the post-Franco era gets under way. To facilitate a settlement, a bill has been submitted to the Cortes which would empower the government to take any action necessary to decolonize the Sahara.

Spain apparently wants the UN's blessing. The information minister also stated that Spain stood by its policy, communicated to the UN Secretary General last May, to decolonize under UN auspices. Such decolonization, however, could in the Spanish view include handing the territory over directly to the Moroccans.

Moroccan Foreign Minister Laraki at his departure October 25 commented that he was "very satisfied" with the conversations in Madrid. He said the two sides discussed ways of settling the dispute peacefully in accordance with the UN Security Council resolution of October 22, and that Spain and Morocco were "on the road to agreement." After briefing King Hassan in Marrakech, the foreign minister made a quick trip to Mauritania on October 26. His Mauritanian counterpart reportedly arrived in Morocco yesterday for talks with the King. Both countries claim the Spanish Sahara and apparently have an agreement to partition the territory.

Meanwhile, diplomatic contacts are continuing in an effort to avert a crisis over Morocco's mass march to the Spanish Sahara. King Hassan, in an interview broadcast yesterday, repeated his intention to proceed with the march, although Rabat is

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delaying the final leg from the border to El Aaiun, the Spanish territory's capital. According to press reports from Marrakech, King Hassan now plans to lead the march into Spanish Sahara in about two weeks.

UN Secretary General Waldheim, by a recent Security Council resolution authorizing him to undertake immediate consultations with the parties involved, spoke with King Hassan October 26 and went on to Mauritania the same day. He was in Algiers yesterday and arrived in Madrid last night. Tunisian and French diplomats were also in Morocco over the weekend to urge Hassan to exercise restraint.

In the Spanish Sahara, evacuation of Spanish civilian and military dependents is said to be under way. The Polisario Front, a Saharan political group supported by Algeria, held a large demonstration in El Aaiun October 26 in support of independence for the territory.

Algeria is increasing its press attacks against Morocco to counter King Hassan's claim to Spanish Sahara and respond to virulent anti-Algerian attacks being printed by opposition political parties in Morocco. The Algerians are giving heavy play to adverse world press reaction to Morocco's planned march. They are openly questioning how bilateral negotiations between Rabat and Madrid can be reconciled with the Security Council resolution last week that called for a dialogue among all interested parties, a formulation that would allow Algerian participation in any talks. The Algerian press also has pointedly emphasized that Morocco's historically "non-existent" territorial claim to Spanish Sahara was recently questioned in an advisory opinion by the International Court of Justice.

At the UN, Algerian Foreign Minister Bouteflika can be expected to argue that the recent Court opinion clearly supports self-determination for the Spanish Sahara. He is also likely to call for consultations with the people of Spanish Sahara, as recommended in a recent UN fact-finding report.

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TURKEY

Turkish Prime Minister Demirel is still trying to reach a consensus within his coalition that would allow him to act decisively on both the bases issue and the Cyprus problem. Negotiations on the status of the US bases are scheduled to begin this week; no date has been set to resume the talks on Cyprus.

The National Security Council meeting on October 20 agreed to recommend that talks be opened with the US on the bases and to try again for a solution to the Cyprus problem. The cabinet has yet to meet to consider the Council's recommendations, and when it does, Demirel's most troublesome coalition partner, Necmettin Erbakan—who feels on stronger ground there than in the Security Council—may still raise objections to the Council's recommendations.

Erbakan appears determined to maintain his obstructionist position within the government despite his party's substantial losses in the recent senatorial elections. [redacted] relations between Demirel and Erbakan have deteriorated since the election. Erbakan's party has openly threatened to boycott cabinet meetings until Demirel accepts its conservative policies reiterated by the leadership on October 20.

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That threat, which was accompanied by Erbakan's reiteration of his uncompromising position on Cyprus, sparked a wave of speculation about the possible break-up of the coalition. The government will probably survive, but there is likely to be continued bickering between Demirel and Erbakan in the coming weeks, with the Prime Minister's ability to act decisively hanging in the balance.

Demirel is trying to reduce Erbakan's influence in the coalition by wooing dissident parliamentary deputies from minor parties on the right—including Erbakan's.

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[redacted]

Demirel is unlikely, however, to win enough support through these maneuvers to offset the possible defection of Erbakan from the coalition. The Prime Minister is said to be also considering offering more ministries to Salvationist deputies in exchange for a softening of Erbakan's position on the Cyprus question.

In approaching sensitive foreign policy issues, Demirel will also be keeping an eye on opposition leader Ecevit and the military. Ecevit's strong showing in the election may make him more aggressive and reluctant to give Demirel the latitude he needs to deal decisively with these problems. Their views on Cyprus are not far

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apart, but Ecevit continues to take a hard line on the US bases.

The military wants to consolidate gains made last summer on Cyprus, restore relations with the US, and ease Turkey's sense of international isolation. Military leaders generally agree that the government's continuing inaction is adding to these already sensitive problems. They may already have put pressure on the politicians—Demirel in particular—to reach some solution on the Cyprus issue and move to normalize relations with the US.

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USSR-EGYPT

The USSR issued its strongest attack to date on Egyptian policies and Sinai II on the eve of President Sadat's arrival in the United States.

Pravda on Saturday, in an article signed "Observer," indicating top-level Kremlin endorsement, bitterly rebutted Sadat's allegations of less than wholehearted Soviet diplomatic and military support. The article seemed aimed at getting Moscow's case on the record and discrediting Sadat's arguments for dealing with the US.

Pravda was particularly resentful about Egyptian public criticism of Soviet military aid, saying it was "utter distortion" to suggest that all Moscow had sent to Egypt during the 1973 war were "several bagfuls of spare parts." It also demonstrated continuing Soviet nervousness about the future of the Soviet-Egyptian treaty, saying that Sadat himself had called for the accord.

In an apparent allusion to Sadat's plans to discuss US military assistance during his Washington visit, Moscow reminded the Egyptians that their experience with the West in the early 1950s demonstrates that "one would hardly expect imperialist states to show concern for building Egypt's military strength."

Despite its scathing tone, the article did not attack Sadat by name and kept the door open for better Soviet-Egyptian ties. *Pravda*, however, clearly put the burden on Egypt for initiating such an improvement, saying that cooperation cannot develop if one party follows policies that undermine it.

In the context of attacking Sadat's reliance on Washington for a Middle East settlement, the article issued Moscow's most authoritative exposition of its opposition to Sinai II. Although toughly worded, the statement essentially expressed publicly what the Soviets have been saying privately. It particularly chastises the provision for US observers in the Sinai, calling it "fraught with far-reaching, dangerous consequences."

Although *Pravda* reiterated the usefulness of the Geneva conference as the forum for resolving the conflict, it did not completely reject further partial steps toward a settlement under the Geneva umbrella. The impression created is that Moscow does not close out any practical options for the next step in Middle East diplomacy, as long as it is undertaken with Soviet participation.

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USSR-CHINA

The Soviets continue to take some fairly sharp propaganda shots at the Chinese, but their public and private commentaries on the relationship suggest stalemate rather than further deterioration.

On October 22, *Pravda* carried an article accusing the Chinese of escalating their anti-Soviet campaign. The article attacked the Chinese for failing to normalize relations with Moscow, charging that Peking had dragged out negotiations on the 1975 Sino-Soviet trade agreement and made it impossible for the two sides to hold their annual river navigation talks. It attributed China's increased hostility toward Moscow, however, to Mao's frustration over the failure of his domestic and foreign policies.

Moscow's decision to publicize Sino-Soviet problems at a time when Sino-US discussions were in progress is very unusual. In the past, the Soviets have generally sought to convey an upbeat impression of Sino-Soviet relations.

Moscow's handling of Secretary Kissinger's visit suggests that the Soviets are not as concerned as they once were about China's ability to use its contacts with the US against the USSR. For the first time, Soviet propaganda has contrasted China's opposition to detente-related development with the position taken by the Secretary. Moscow has especially noted Sino-US differences in assessing the results of the recently concluded European security conference.

Privately, Soviet officials, including China expert Mikhail Kapitsa, have been playing down the significance of Moscow's harsher propaganda line on China ever since it appeared in mid-August. In a recent conversation with Ambassador Stoessel, Kapitsa ran through the litany of stalemated substantive issues, noting that:

- the volume of Sino-Soviet trade will probably decline in the coming year,
- the annual river navigation talks were not held because of Peking's insistence on discussing broader issues,
- no progress has been made in the border talks, although the chief Soviet negotiator might return to Peking in a few months,
- no access had been granted to the Soviet helicopter crew that China has detained since March 1974.

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Meanwhile, the Soviet and Chinese reconnaissance flights, which have prompted speculation about heightened tension along the border, continue. We have no evidence of any border incidents, however, and Kapitsa said there had been none since March 1974.

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VIETNAM

The Vietnamese communists have agreed to repatriate some 1,600 refugees who set sail from Guam nearly two weeks ago.

Hanoi announced over the weekend that the communist government in South Vietnam, while deploring Washington's decision to allow the refugees to depart Guam without Saigon's permission as a "blatantly provocative" violation of Vietnamese sovereignty, had nevertheless decided to accept the refugees on humanitarian grounds—"this time only." The North Vietnamese indicated, however, that all future requests for repatriation will be decided by the Saigon regime alone on a case-by-case basis.

The communists remain highly suspicious of the refugees. Communist air and naval units immediately surrounded the ship carrying the refugees when it arrived off the South Vietnamese port of Vung Tau on Saturday. Moreover, intercepted communist military communications advocated "capturing the refugees under the terms of unconditional surrender."

Thus far, we have no evidence that the communists have actually permitted any of the refugees to disembark. The ultimate point of debarkation is also unclear.

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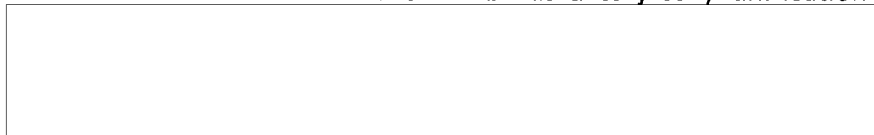
PORTUGUESE TIMOR

Indonesian reinforcements have reached the front lines in Portuguese Timor, following an unsuccessful Fretilin counterattack against Lahamea. The arrival of reinforcements and continuing aerial reconnaissance suggest that a new Indonesian offensive against Atabai and Bobonaro can be expected soon.

The Fretilin counterattack on October 23 was beaten back by Indonesian heavy weapons fire, possibly including PT-76 tanks committed earlier in the week. Indonesian communication intercepts indicate that Fretilin is being troubled with undisciplined personnel and a lack of trained heavy weapons personnel.

A second infantry battalion from Java has been dispatched to Timor. Two companies were airlifted in and deployed immediately to the front. The rest of the battalion with attached artillery has sailed on a merchant vessel. Jakarta has consistently underestimated the strength of the Timorese leftists, and further reinforcements may be necessary.

On the political scene, Jakarta has agreed to meet with Portuguese diplomats in Rome on November 1. Indonesia will undoubtedly continue to insist that the Portugal regain control of Timor or authorize Indonesian intervention. Lisbon still hopes for UN or multination intercession, but these hopes are growing increasingly dim. Indonesia is continuing to deny invasion, but the continued flow of reinforcements implies that military pressure will increase until a bid for integration from the Indonesian-backed Timorese factions can be used to justify unification with Indonesia.

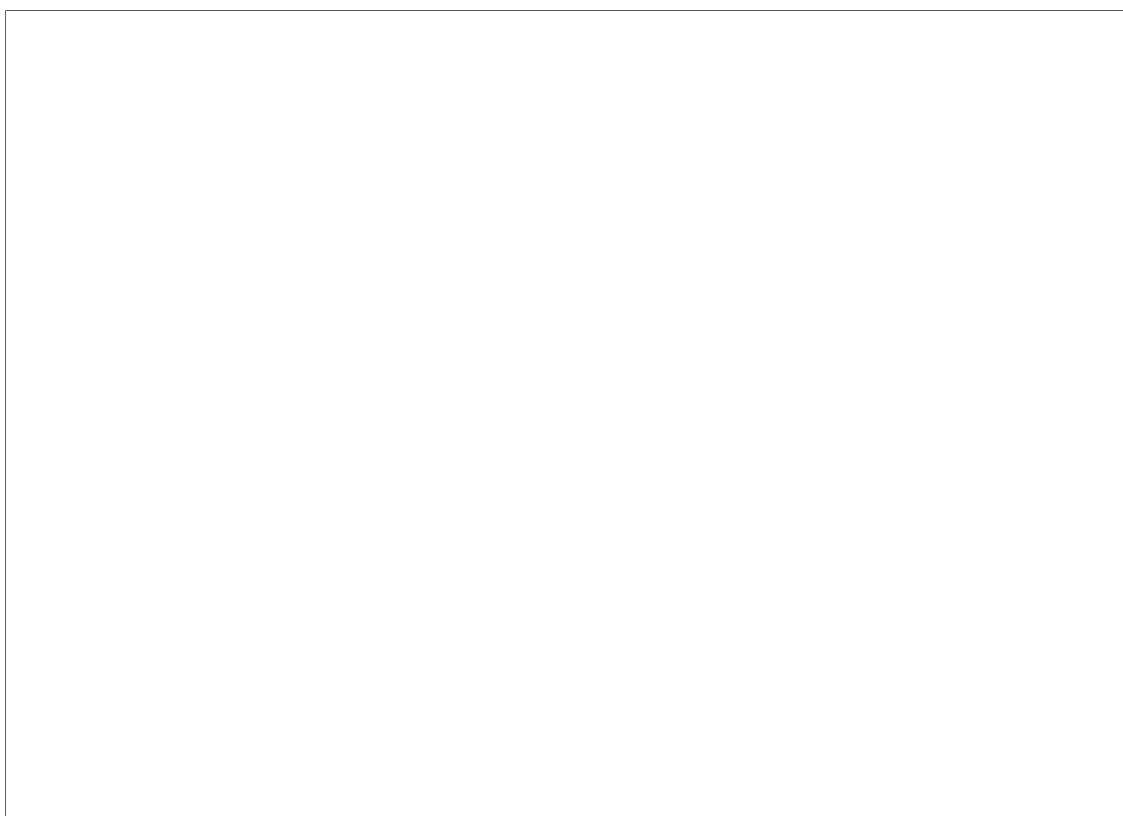


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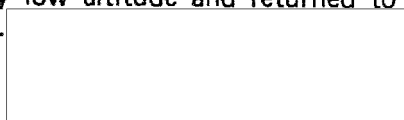
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FOR THE RECORD



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CUBA-US: A US Coast Guard aircraft on a search-and-rescue mission south of Florida was harassed by Cuban fighters Sunday. After intercepting the US aircraft about 40 nautical miles northwest of the Cuban coast, the fighters made numerous close passes and rocked their wings indicating that the Coast Guard aircraft should follow them. The US aircraft descended to a very low altitude and returned to Florida with the fighters following for some distance.



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USSR-YUGOSLAVIA: The Moskva-class guided-missile helicopter ship Leningrad, a "destroyer," and a submarine are scheduled to visit Dubrovnik, Yugoslavia, from October 30 to November 5. While not identified, the submarine will most likely be an F-class, and the "destroyer" will probably be a Kara-class guided-missile light cruiser. There has been one previous visit to Yugoslavia by a Kara-class ship in 1973 and one by a Moskva-class ship in 1974. Currently, an F-class submarine is undergoing overhaul in Tivat. These port visits are indicative of Moscow's intentions to maintain cordial military ties with Yugoslavia.

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ANNEX

Egyptian President Visits Washington

President Sadat's isolation in the Arab world as a result of the second Sinai agreement affects his domestic position, and it is here that he will look to the US for insurance against an erosion of his support at home.

Despite criticism from Egyptian leftists, who instinctively oppose Sadat's policies, especially the disengagement agreement, the majority of Egyptians currently support the agreement and back Sadat.

--They had been growing restive over the continuing no-war, no-peace situation and are pleased that demonstrable progress has been made toward a return of more Egyptian territory.

--They anticipate that a respite from preparations for war will give the government time to concentrate on revitalizing the economy and will encourage foreign investors who have been deterred by the possibility of war.

--They rally around Sadat precisely because the other Arabs are criticizing him and the agreement so vehemently.

A Strong Prop

Indeed, the criticism by outsiders is, in a way, Sadat's strongest domestic prop at the moment. Egyptians think of themselves as a bit better than other Arabs and do not like being told how to run Egyptian affairs by brethren who have not always been successful in running their own affairs.

The Egyptians believe, with a touch of self-pity, that while they have borne the brunt of four wars in the service of other Arabs, the others have profited with arms and oil money in abundance. They deeply resent that they or their President should be tagged an Arab traitor.

Dangers, for Sadat, nonetheless, lurk in the very things that now work to his advantage. The current Egyptian satisfaction with the progress made in negotiations will wane as time passes, and it is likely that satisfaction will turn to impatience as the months pass and Sadat does not press for more negotiations for the next few years.

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If the few years do not bring either negotiated territorial returns or war, discontent may become a problem within the military. Senior military officers recognize that Egypt probably could not have succeeded in taking by force the territory it has retrieved through negotiation. They are, therefore, generally satisfied with the disengagement agreement.

Many younger officers, however, seem to have an exaggerated notion of Egypt's military capabilities and apparently believe that Egypt might have gained more militarily.

Discontent in the armed forces may be magnified if the virtual termination of Soviet military deliveries is not compensated for by a substantial influx of equipment from other sources.

Economic Expectations

Sadat faces a difficult time economically. While the disengagement agreement is welcomed for the economic benefits that are expected to flow from it, Sadat will be in trouble if the benefits are not soon evident to the man in the street, who is weary of standing in food lines, finding other essentials in short supply, and paying high prices for what he does obtain.

The government has raised expectations to a high pitch, and it will be hard-pressed to fulfill them. Shortcomings here will provide leftist agitators fertile ground for fomenting political protest.

Sadat faces another internal danger because of the position in which the disengagement agreement has placed him with other Arabs. Although he is currently the object of approbation by Egyptians, who applaud his vehement responses to Arab criticism, these same Egyptians may eventually come to regret that Sadat has, through the second Sinai agreement, allowed Egypt's leadership of the Arab world to diminish.

This sentiment is already apparent among leftists in Egypt, and Sadat could become much more vulnerable to charges of destroying a legacy of Arab leadership that Nasir devoted his life to building up. Even those Egyptians who support Sadat may come to believe, through an emotional evocation of the hero Nasir, that things were somehow better before Sadat came along.

Economic Aims

Since late 1973, President Sadat has been trying to overcome six years of zero growth and declining living standards. He aims to overhaul Egypt's highly inefficient economic structure, entice foreign investment, and reorient the economy so it can begin to compete in Western markets.

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Sadat has rebuilt much of the war-damaged Canal Zone and stabilized the Egyptian standard of living. These successes have been financed by the rich Arab states, whose assistance jumped from \$650 million in 1973 to \$2 billion in 1975.

This money allowed the value of Egyptian imports to rise 90 percent in 1974 and some 60 percent this year. As a result, the 1975 current-account deficit will likely reach \$3 billion, one of the largest among the developing countries.

Sadat must, however, maintain economic momentum. A continuation of the 5-percent growth rate will require financial assistance equal to 1975 and for at least the next few years. Egypt will earn foreign exchange from the Suez Canal and from Sinai oil, but the increases will just offset expected hikes in imports.

Sadat so far has been unable to line up the financial support needed. The rich Arabs have kept him on hand-to-mouth basis, and this has deterred Egyptian long-term planning and led to excessive short-term commercial borrowing, designed in part to force Arab donors to rescue Cairo from its financial straits.

This financial brinksmanship has in turn reinforced Arab distrust of Egyptian administrators and further delayed long-term aid.

Unable to secure a satisfactory financial commitment from other Arabs, the Sadat government has sought since last year to extend the moratorium on military debt to the USSR. Moscow so far has refused. Egypt is in arrears, and shipments of Soviet military goods have all but stopped.

Failure to reach a financial accommodation with the USSR would be costly to Egypt in the absence of further Western or Arab assistance. If Soviet repayment terms are to be met, Cairo must divert to the USSR \$300 million annually in goods now being shipped to the West. Continued refusal to pay the USSR may threaten Egyptian exports to the USSR. Because Egypt would have a hard time marketing these goods elsewhere, an additional hard-currency outlay of perhaps \$300 million would be required to replace Soviet with Western goods.

Looking to the US

Sadat will look to the US for the economic and military aid he believes will be needed to shore up his position against possible domestic threats.

On the economic side, he probably will seek a multi-year economic aid commitment, large enough to serve as an example for other donors. He will also want sufficient technical and administrative support, through either a bilateral agreement or a consortium arrangement, to inspire substantial long-term Arab aid and investment.

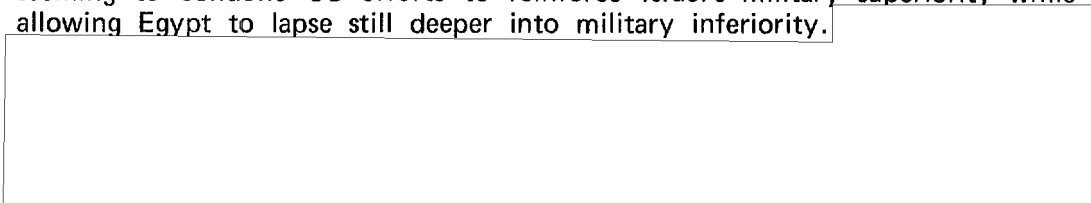
National Intelligence BulletinOctober 28, 1975

On the military side, he will ask the US to lift its embargo on arms shipments to Egypt. The fact that the US delivers arms to Israel does not in itself bother Sadat; he recognizes this as a necessary ingredient in Washington's ability to press Israel diplomatically.

What does bother him is that the US does not deliver arms to Egypt. This uneven treatment, this lower priority accorded Egypt, is in his mind almost the only thing still wrong in the US-Egyptian-Israeli triangle.

He does not expect parity, and he does not want to be dependent again on a single source of arms. He does hope for some US military equipment, both as a symbol that Egypt is as important to the US as is Israel and as a means of righting what he sees as the heavy imbalance caused by Israel's rearmament when Egypt's prime source of arms has been all but cut off.

Sadat needs US arms for reasons more important than simply his frame of mind. He has frequently been subject to criticism from the Egyptian military for endangering Egypt's supply of Soviet equipment. Unless he can obtain a relatively steady flow of arms, preferably from the US, he is likely to come under attack for seeming to condone US efforts to reinforce Israel's military superiority while allowing Egypt to lapse still deeper into military inferiority.



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