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Top Secret 233

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NATIONAL INTELLIGENCE DAILY CABLE

Monday September 20, 1976

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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Monday, September 20, 1976

The NID Cable is for the purpose of informing senior US officials.

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LEBANON: Situation Report

25X1 [] The failure of yesterday's tripartite Lebanese talks sharply reduces the prospects that the Syrians and Palestinians will be able to reach any kind of accommodation without further fighting. President-elect Sarkis, Palestine Liberation Organization chief Yasir Arafat, and Syrian Deputy Defense Minister Jamil have announced that they will meet again on Friday after Sarkis' inauguration ceremony but this announcement was probably intended only to mask the fact that their talks had ended in a deadlock.

25X1 [] Arab League mediator al-Khuli admitted privately before the session yesterday that he had tried in vain to persuade Arafat to agree to an unconditional withdrawal of Palestinian forces from the Mount Lebanon area. Both Sarkis, representing the Christian side, and the Syrians reportedly had insisted on that provision being included in any new cease-fire accord.

25X1 [] Al-Khuli indicated that he did not believe Arafat possessed the strength to impose such a compromise on his own forces because of opposition from extremist members of the Rejection Front and from Fatah hard-liners lead by Salah Khalaf.

25X1 [] Each side apparently only rehashed its standard position at yesterday's meeting. Baghdad radio reported that Arafat offered to withdraw from the mountains but only if the Syrians and Christians would make comparable withdrawals and agree to allow displaced persons to return to their own areas, particularly to the Tall Zatar refugee camp overrun by the Christians last month. Neither the Syrians nor the Christians could be expected to agree to such a condition.

25X1 [] Yet another meeting to resolve the Lebanese conflict may be under consideration, this time in Saudi Arabia. *An-Nahar*, a reputable and usually well-informed Lebanese newspaper, reported yesterday that Sarkis and several other prominent Lebanese leaders who visited Cairo recently are pressing for a

four-power Arab summit conference in Jidda to promote a reconciliation between Egypt and Syria that would facilitate efforts to end the Lebanese civil war.

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[redacted] Presidents Sadat and Asad are said to be agreeable to such an approach, under the auspices of the Saudi and Kuwaiti monarchs, who have been trying for months to patch up relations between Egypt and Syria. *An-Nahar* said that no date had been set yet, but that Sadat had indicated he was willing to attend such a meeting on Friday or Saturday, immediately after Id al-Fitr, the Muslim holiday celebrating the breaking of the month of fasting, Ramadan.

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[redacted] Sarkis is also reported to have asked Sadat--allegedly with Syrian approval--to contribute troops to the Arab League peace-keeping force now in Lebanon.

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[redacted] Should the proposed summit talks go well, Sarkis and Arafat might be asked to join them, according to *An-Nahar*. Although Asad and Sadat may have agreed to meet, we are highly skeptical that they are ready to put aside their differences in order to resolve the Lebanese conflict.

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[redacted] The article may reflect the wishful thinking of some Lebanese leaders, perhaps encouraged by the Egyptians. Sadat could well be receptive to such an idea because it would place him on a par with Asad as a final arbitrator in any Lebanese political settlement--a status that until now has eluded him.

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[redacted] The USSR is at least trying to create the impression that it is involved actively behind the scenes during the talks among Lebanese, Palestinian, and Syrian officials. PLO political chief Qaddumi left Moscow on Saturday, following several days of talks with Soviet officials, including Foreign Minister Gromyko.

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[redacted] Soviet press commentary over the weekend suggests that Soviet spokesmen are urging the Palestinians to compromise in order to reach a negotiated settlement in Lebanon. Tass, in

describing the talks, said that all progressive Arab forces must cooperate to end the crisis, which indicates that Palestinians as well as Syrians should be forthcoming at the talks.

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[redacted] *Pravda* has emphasized the importance of a political solution and made no mention of the need for a Syrian troop withdrawal, a major obstacle to any settlement. Soviet press commentary has recently been stressing the importance of a Syrian withdrawal, and Soviet officials have also been taking the same line in private. Moscow may have decided to importune the Palestinians at this juncture.

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[redacted] The USSR is also in touch with Syria. The Soviet representative at the Geneva conference on the Middle East, Vladimir Vinogradov, arrived in Syria on Friday and consulted with Deputy Prime Minister and Foreign Minister Khaddam the following day. Vinogradov customarily travels to the Middle East during periods of Arab negotiations so that Moscow can be informed of Arab policies. He performed this function during the disengagement talks in 1974 and 1975. [redacted]

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CHINA: Leadership Appearance

25X1 [] All active members of the Politburo, including those based in the provinces, attended the memorial service for Mao on Saturday in Peking's Tienanmen Square. This was the first time since May 1971, Mao's last public appearance, that the entire leadership appeared before the Chinese people.

25X1 [] The leaders were arranged in strict protocol order, revealing no changes in the alignment. Mao's unpopular wife, Chiang Ching, stood in political rank order with the rest of the leadership and was accorded no special status--for the public record, at least--as Mao's widow.

25X1 [] Premier Hua Kuo-feng, who was identified as first vice chairman of the party and premier, posts he has held since April, delivered a 20-minute eulogy. Hua's remarks, touching on all aspects of the Chinese political scene, seemed designed to placate civilian and military leaders of all political stripes and suggested that no single faction in the leadership had the upper hand in drafting the eulogy.

25X1 [] Hua included a low-key reference to the current campaign to criticize the ousted Teng Hsiao-ping, praised the military, took several swipes at the Soviet Union, and mentioned the need to carry on Mao's revolutionary foreign policy line--a codeword for the opening to the US.

25X1 [] An abbreviated list of others who attended the memorial service shed no new light on the status of several officials who have come under attack since the anti-Teng campaign began. Although almost the entire party Central Committee, including most of the province chiefs, appeared in Peking during the mourning period, very few were mentioned on the list. Presumably, most of these people attended the memorial service and will remain in Peking for a major party meeting to begin the arduous process of arranging for a successor leadership. []

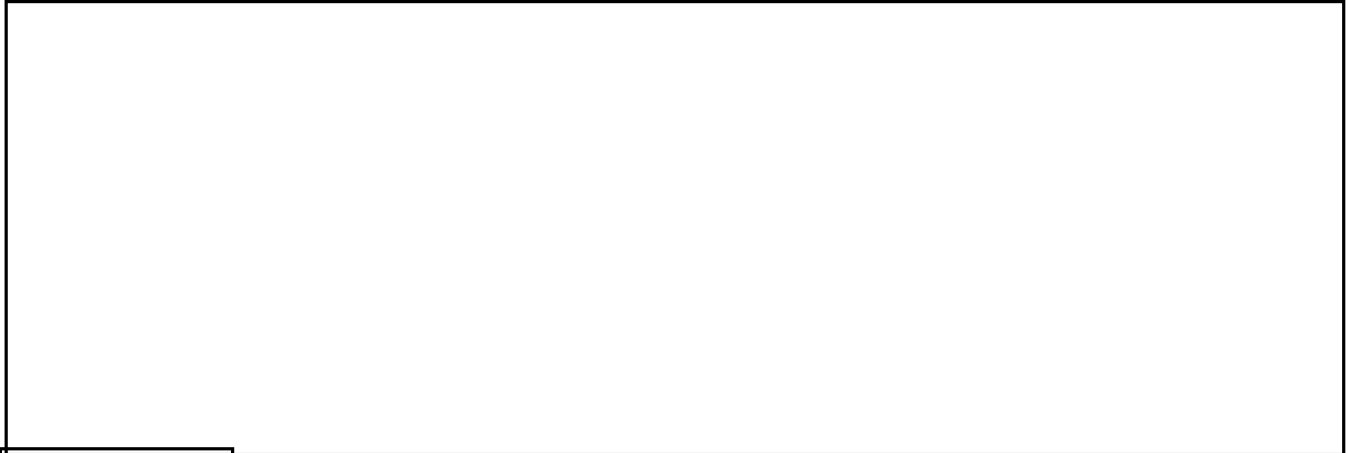
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PORTUGAL: Moving Against Squatters

25X1 [] //Portuguese Prime Minister Mario Soares is said to be preparing to evict pro-Communist farm workers from

land they illegally occupied after the 1974 coup. If he goes through with the plan, it would be his government's first important test of strength.//

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Soares' decision probably reflects the increasing pressure he has been under to show some progress in straightening out the Portuguese economy. Although the squatters have generally maintained production, they evidently have run the farms very inefficiently and used the profits to subsidize Communist Party activities rather than repaying sizable agricultural loans to the state. The government approved legislation on September 14 authorizing forcible collection of these loans, thereby putting further pressure on the Communist rural workers' union.

Communist resistance on the farms themselves would not be the only problem for the government. The Communists will oppose the present plan in the parliament, where they control the agricultural committee. They could create further trouble in the Agriculture Ministry, where party members occupy some posts. The Communists might also use their influence in the Portuguese labor movement to stir up workers in other parts of the economy.

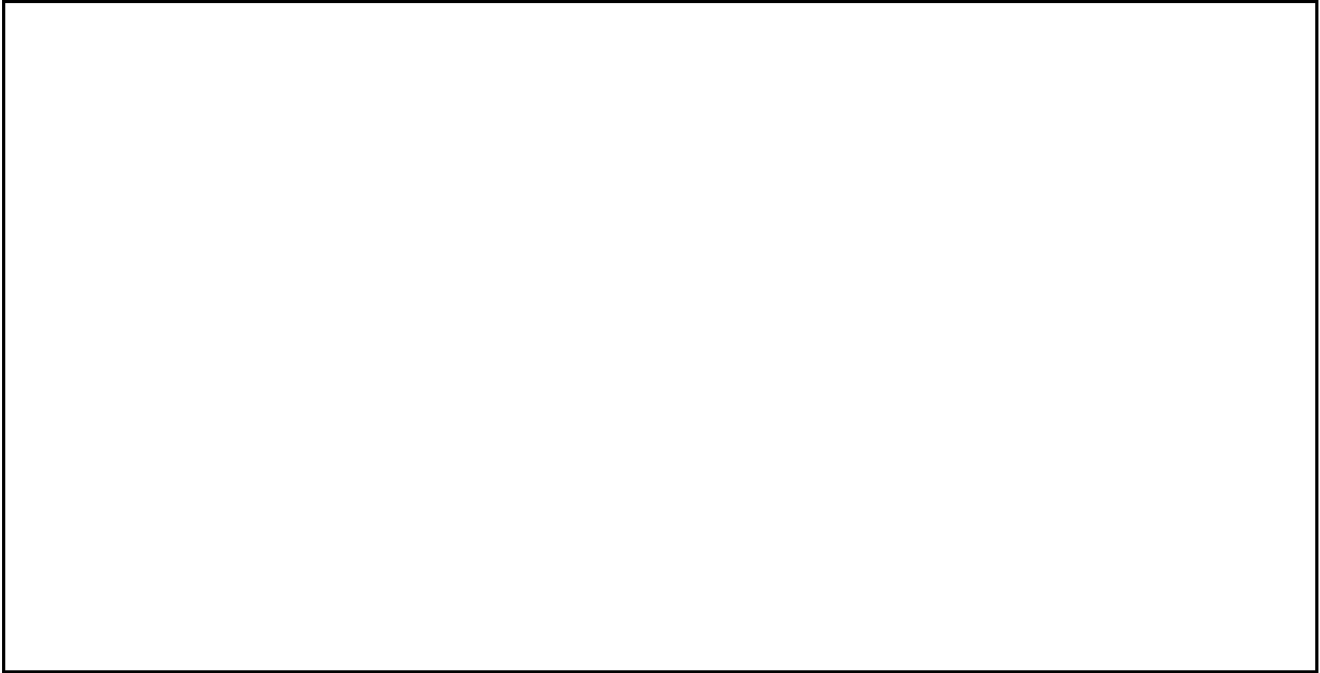
Left-wing leaders in Soares' own Socialist Party--led by Agriculture Minister Lopes Cardoso--reportedly are opposed to pressing the Communists too hard. Soares thus might even split his own party if the government moves forcefully.

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PANAMA: Weekend Calm

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[redacted] //Panama was calm over the weekend as officials met with student leaders to explain the country's economic situation. The government softened its accusation that US intelligence services were behind last week's disturbances. The US citizen arrested by the Panamanians is still being held.//

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[redacted] //The four days of demonstrations against government-imposed price increases highlighted the growing economic difficulties, which may become Torrijos' most serious challenge.//

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[redacted] //The protests by several thousand people were the largest anti-government demonstrations since General Torrijos came to power in 1968. The National Guard finally intervened to halt looting; property damage amounted to millions of dollars.//

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[redacted] //Although students incited the protests, the demonstrations attracted significant additional support. Two organizations that generally back the government, the major student group and the communist-dominated labor federation, publicly called for price rollbacks.//

25X1 [redacted] //Some of Panama's economic problems are beyond Torrijos' control. The world recession triggered Panama's economic slump two years ago. Recently, a serious drought has dimmed prospects for the agricultural sector, the only area of significant economic growth last year.//

25X1 [redacted] //In addition, the government's uneasy relations with the private sector have probably contributed to the sharp drop in local investment. Large public expenditures and ambitious long-term projects necessitated foreign borrowing, which will probably also contribute to the economic problems.//

25X1 [redacted] //Panama's public debt, most of it external, is already high and projected to rise to \$250 million or \$300 million by 1980--giving Panama one of the highest per capita debt rates in the world. According to the US embassy, direct debt service obligations would then amount to one third or more of central government revenues. Panama has initiated a number of major revenue-producing projects, but none will take effect before 1980.//

25X1 [redacted] //Panama's ability to secure foreign loans has eased its financial burden in the past, but there could be growing questions about the government's creditworthiness. Recent, more pessimistic economic projections and the government's failure to conclude negotiations for a new canal treaty will complicate the search for loans.//

25X1 [redacted] //The government has tended to neglect its domestic problems, emphasizing instead Torrijos' forays abroad in search of support for Panama's stand on treaty issues. The demonstrations may persuade Torrijos that he must pay greater attention to domestic needs, convince the public that some belt-tightening is necessary, and--in the absence of an economic turnaround--secure a new canal treaty. [redacted]

CHILE: Problems With Andean Pact

25X1 [redacted] //Despite official denials, Chile reportedly has decided to quit the Andean Pact, the six-member common market that includes Bolivia, Colombia, Ecuador, Peru, and Venezuela.//

25X1 [redacted] Chile is convinced that Pact rules on foreign investment have greatly hampered its ability to attract foreign capital and that complete termination of controls on foreign investment will be required to enable Chile to obtain the necessary foreign capital to accelerate economic growth.

25X1 [redacted] The Andean Pact Commission adjourned prematurely on Thursday after failing to resolve the impasse reached in early August when Chile resisted proposed compromises on delays in tariff reductions and on direct foreign investment controls. Pact officials have characterized the Chilean position as irreconcilable with those of the other members.

25X1 [redacted] //During the past month, Chile has attempted to prepare public opinion for an early withdrawal from the Pact. At the same time, Chile is taking steps to increase economic ties with Argentina, Uruguay, Paraguay, and Brazil, countries with which Chile already has a strong political alignment.//

25X1 [redacted] Withdrawal from the Andean Pact will not cause Chile to forfeit the benefits of intra-common market trade concessions already received. [redacted] 25X1

USSR: Yakubovsky Ill

25X1 [redacted] Warsaw Pact Commander in Chief Marshal Yakubovsky was not mentioned in Soviet news coverage of the recently concluded Pact joint exercise, "Shield-76." This tends to corroborate a report that Yakubovsky has been seriously ill since spring.

25X1 [redacted] An obituary for a retired general in *Krasnaya Zvezda* on September 14 has Yakubovsky's name in its usual position immediately after Minister of Defense Ustinov. This indicates that Yakubovsky has not been replaced as Soviet first deputy minister of defense and commander in chief of Pact armed forces.

25X1 [redacted] The Soviet reporting of "Shield-76" also fails to identify anyone occupying the late General Shtemenko's former post as first deputy commander in chief and chief of staff of Pact armed forces.

25X1 [redacted] It may be difficult to find replacements who have the proper military qualifications and who are also politically acceptable to non-Soviet Pact members. Defense Minister Ustinov and representatives of Pact member states probably used the opportunity presented by "Shield-76" to discuss the question. Even though there may be further delay in making the appointments, the Soviet leadership will have the decisive voice.

25X1 [redacted] A lengthy delay in the selection of these replacements could further retard progress under way since 1969 to enhance the Pact's command and control posture. [redacted]

USSR - EAST GERMANY: New Tank

25X1 [redacted]
25X1 [redacted] the USSR's newest medium tank--the T-72--has been introduced into the Soviet ground forces in East Germany. The tanks were seen at Bernau just northeast of Berlin. This is the first time that the T-72 has been seen in units outside the Soviet Union.//

25X1 [redacted] the T-72 has a large-caliber, smooth-bore gun with an automatic loading system that requires one less crew member than other Soviet tanks. The tanks reportedly have improved armor and a better suspension system and are lower and faster than the present tank models in East Germany. Development of the T-72 began in the 1960s, and full-scale production has been under way since 1974.

EAST GERMANY: Credits for Grain Purchases

25X1 [redacted] East Germany is reportedly seeking up to \$400 million in credits from Western banks to finance large imports of grain and fodder. Severe drought has destroyed a large portion of this year's harvest.

25X1 [redacted] We estimate East Germany's total grain import requirements to be at least 4 million tons, valued at \$600 to \$700 million. About 3 million tons will probably be acquired

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from the US; purchases of US wheat and corn already exceed 2.2 million tons. The balance will have to come from other Western suppliers.

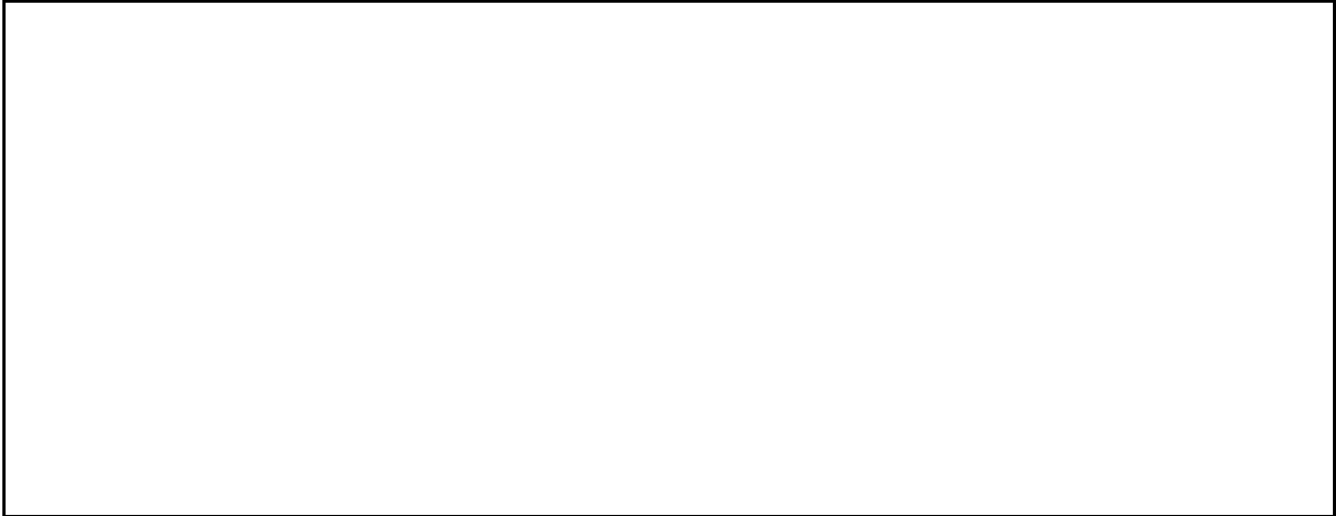
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The need to import large amounts of grain on credit will add substantially to East Germany's debt. Western banks may be willing to finance these purchases, although at higher rates than normally charged to East Germany.

East Germany's hard currency debt has risen substantially in recent years--from \$1 billion at the end of 1970 to \$3.8 billion at the end of 1975. It still has a comparatively low debt service ratio and should have no difficulty meeting its current obligations.

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THAILAND: Thanom Returns

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[redacted] Thanom Kittakhachon's ordination as a Buddhist monk may dampen student reaction to his return yesterday to Thailand, prompted by the apparently imminent death of his father. The former prime minister was accepted into the monkhood within hours of his arrival.

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[redacted] //Thanom's return was sanctioned by the government, which approved a visit of seven days. His stay is likely to be indefinite, however, unless it leads to a repeat of the violence caused last month by the return of Thanom's former deputy, field marshal Praphat.//

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[redacted] //Although leftist student leaders are considering demonstrations,// they may find it difficult to gather much support. Thanom never inspired the intense dislike that was felt toward Praphat. Thanom's entry into the monkhood is a gesture that undoubtedly meets with general approval, and one hard for the students to oppose.

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[redacted] Moreover, the deaths and injuries that resulted from the confrontations last month should have reduced student eagerness to take to the streets. Some demonstrations will probably take place, but they are not likely to create the turmoil that greeted Thanom's return two years ago. [redacted]

SWEDEN: Social Democrats Upset

25X1 [] Sweden's Social Democrats suffered their first defeat in nearly 44 years in yesterday's election. With approximately 90 percent of the vote counted, the three non-socialist parties appeared to have won a clear majority, although the final official tally will not be known until midweek.

25X1 [] Computer projections give the Center, Liberal, and Conservative parties a total of 180 seats, against 169 for the Social Democrats and their Communist Party allies, in the 349-seat parliament. Swedish election analysts claim the final result is not likely to vary more than one or two seats from the computer projection.

25X1 [] Thorbjorn Falldin, chairman of the Center Party, is almost certain to be named prime minister if the non-socialist parties can agree on a coalition. The Centrists' and Liberals' differences with the Conservatives have thwarted cooperation in the past.

25X1 [] Recent statements by the leaders of the three parties, however, suggest that they will make every effort to put together a government this time. Prime Minister Olof Palme appeared convinced that their efforts would succeed when he all but conceded defeat in a statement late last night.

25X1 [] Some Social Democratic leaders blamed the loss on the opposition's concentration on the nuclear power issue. In August, Falldin focused on the government's elaborate and expensive plan for expanding nuclear energy throughout Sweden. Five nuclear plants are operational and several more are under construction.

25X1 [] The main issues, however, were high taxes and greater centralization of the government under successive Social Democratic administrations.

25X1 [] The nuclear issue could complicate efforts of the non-socialist parties to cooperate among themselves. Some Conservatives, for example, have supported nuclear expansion and may have difficulty rationalizing unified opposition to it. This is just one of a number of issues a non-socialist coalition may have to resolve in order to govern.

25X1 [redacted] The new government will be formally announced when parliament convenes on October 4. If the non-socialist parties succeed in forming a coalition headed by Falldin, he is likely to insist that deputy Center Party chairman Johannes Antonsson be his foreign minister. Speculation on other key cabinet posts in such a government include Conservative Party leader Gosta Bohman as defense minister and Per Ahlmark, head of the Liberal Party, as finance minister. [redacted]

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