

**Top Secret**

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NATIONAL INTELLIGENCE DAILY CABLE

Friday July 1, 1977

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National Intelligence Daily Cable for Friday July 1, 1977.

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

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MIDDLE EAST - US: Reaction to US Statements

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[ ] The US statement on the Middle East Monday has prompted generally favorable comment from Arab moderates. They view the statement as further assurance of US determination to continue peace-making efforts in the face of what they believe to be the unfavorable outcome of the Israeli election last month.

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[ ] Syrian officials described the statement as timely and positive. They commented that it was encouraging to the Arabs, who feared the US might be backing down in the face of the "current Zionist pressure campaign."

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[ ] The Egyptian media clearly signaled Egypt's pleasure with the statement. Egyptian commentators seized on the aspects of the statement which most closely parallel the official Egyptian position regarding settlement issues.

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[ ] //Egyptian Foreign Minister Fahmi, however, was totally negative in private remarks to the US ambassador. He castigated the statement for its ambiguity and contended that it was a "one hundred percent" reflection of the Israeli position. Fahmi's comments do not appear to reflect the Egyptian position. Moreover, in a subsequent conversation with the ambassador, Fahmi admitted he was a minority of one on this subject. The foreign minister has become increasingly skeptical of US ability and determination to force concessions from the Israelis, and he is trying to convince Egyptian President Sadat and others that Egypt must begin to develop a more balanced policy toward the US and the USSR. Fahmi's deputy, in contrast, termed the US statement a courageous and helpful action at a particularly difficult time.//

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[ ] Palestinian broadcasts have taken a negative stand. A commentary from Cairo quoting a newspaper of the Palestine Liberation Organization published in Beirut described recent announcements by the US as part of a "campaign to weaken the Arab nation and create further confusion in the minds of its citizens." The chairman of the Palestine National Council, Khalid Fahum however, reportedly issued a statement applauding the US statement.

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[ ] Official Israeli reaction to the US statement has been subdued, but unnamed government officials quoted in the press have expressed bewilderment and anger at some parts of the statement.

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[ ] A tersely worded Foreign Ministry announcement released yesterday noted that it was incorrect to say that the Begin government had ruled out negotiations on any of the occupied territories. The Foreign Ministry called attention to Prime Minister Begin's statement of last week that "all issues" are open to negotiation without prior conditions. The low-key official reaction is probably because of an Israeli desire to avoid troubling the atmosphere prior to Begin's visit to Washington.

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[ ] The Israeli press, frequently relying on quotes from anonymous government sources, has reacted sharply. Most newspapers assert the statement indicates a significant erosion of US support for Israeli negotiating positions and see it as the first step in a US campaign to pressure Israel.

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[ ] Former prime minister Yitzhak Rabin called the US statement an "act of unprecedented impoliteness" and asserted that it contradicted assurances he had received from President Carter during his visit to Washington in March. [ ]

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YUGOSLAVIA-US: Political Contacts

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[ ] *Yugoslavia has agreed to increase political contacts with the US. The Yugoslavs would like to be in a better position to exert influence on US policy while President Tito is still alive.*

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[ ] Party secretary Stane Dolanc has told Ambassador Eagleburger that he deplores the "serious handicap" in our relations resulting from the lack of political contacts. Dolanc said that Belgrade accepts US initiatives and is ready now to begin "party-to-party" meetings and to approve other exchanges involving Yugoslav youth groups and mass front organizations. Informal contacts have been minimal since Tito began a "vigilance campaign" against Western influences in 1972.

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[ ] Dolanc's stance does not signify that Belgrade is departing from the support of radical groups or governments in the Third World that frequently results in clashes with the US. Rather, Belgrade probably hopes that the impact of these differences can be softened if channels of communication are reopened. [ ]

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**TURKEY: Political**

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*[redacted] Turkish Prime Minister Ecevit's minority government will face its first test of strength in a confidence vote in the next few days, perhaps as early as Sunday. All indicators point to a close vote on Ecevit's efforts to attract the few deputies necessary to give his Republican Peoples Party a working majority in the National Assembly.*

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25X1 [ ] Even if Ecevit achieves a majority, his position is likely to be sufficiently tenuous--at least in the short run--to force a cautious approach to the decisions that need to be made soon on the economy and domestic disorders. If Ecevit fails to gain a working majority, President Koruturk will probably give Justice Party leader Demirel a chance to form a government.

25X1 [ ] Arrayed against Ecevit are the leaders of the three center-right parties, who among them nominally control a majority of seats in the lower house. The three are working feverishly to hold their respective blocs together, and Ecevit cannot win if each can maintain voting discipline.

25X1 [ ] Ecevit needs to win only a majority of those present and voting when the confidence motion is raised, however, and behind-the-scenes efforts are undoubtedly being made to persuade five or six opposition deputies to change sides or be conveniently absent. Ecevit's cabinet, moreover, was clearly designed with the confidence vote in mind; it is a carefully balanced collection of old and new faces chosen to maximize support and minimize controversy.

25X1 [ ] Interest in the confidence vote is running high among politically aware Turks, and various groups are seeking to influence the outcome. Earlier this week, Turkey's largest labor confederation, which had remained neutral during the election campaign, endorsed Ecevit's efforts to form a government. There have been rumors that some industrialists--who as a group traditionally support Demirel--are lobbying for Ecevit as the best hope for political stability. On the other hand, there has been at least one press report that extreme right-wing groups plan to attack those deputies of the rightist parties who vote for the new government. [ ]

EC: Summit

25X1 [ ] //EC Commission president Roy Jenkins characterized as "strong on discussions, but not so strong on decisions" this week's meeting of EC leaders in London, the second European Council meeting this year. Not all the EC heads of government would share Jenkins' apparent disappointment, since discussion may have its own rewards, but the two-day summit again confirmed that the leaders have no magic touch for solving pressing problems or instilling a new sense of community purpose.//

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[ ] //Largely to demonstrate that the EC could play a role in combating low economic growth, the Commission has been trying to promote a large borrowing on international financial markets to bolster EC investment and form the basis of a deliberate community-wide investment policy. French and West German suspicions of a Commission role overcame the willingness of the other members to consider the Commission plan, however, and the question has been remanded to the finance ministers for further examination.//

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[ ] //The leaders did approve more liberal lending by the European Investment Bank for capital investments, but this merely confirmed a decision taken last week by the finance ministers. An increase in the bank's lending capacity is also likely to be approved next year.//

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[ ] //Growth, unemployment, and inflation occupied most of the leaders' time in London, but programs for joint action or EC-wide coordination are not in the cards. Controversies over strategies against unemployment were even more clearly in evidence earlier in the week at an EC forum for labor, business, and government representatives in Luxembourg; again, there was no resolution.//

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[ ] //The economic discussions in London presumably found British Prime Minister Callaghan emphasizing unemployment and West German Chancellor Schmidt warning against inflation. The two countries are at odds on other issues that came up at the summit. Their rivalry over a site for an expensive EC nuclear fusion research project was not resolved. Press reports have suggested that West Germany was willing to relax its stand on another important matter--the UK request for a lower contribution to the EC budget--in order to gain the nuclear project for West Germany. At a post-summit press conference, however, Callaghan was still calling for locating the project in the UK.//

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[ ] //The London Summit is the last under the UK's current term in the EC presidency. In light of their criticism of the UK's performance--ranging from charges of indifference to hostility toward the EC--the UK's partners may not be sorry to see the presidency pass to Belgium for six months. To what extent Callaghan was lectured by his partners is not known. His press conference allusion to the UK's keeping up with the others

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on introducing legislation for direct elections to the European Parliament may, however, imply that the timing and form of the belated UK action--which threatens to force postponement of next spring's scheduled elections to the European Parliament--also came in for criticism.//

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//The EC leaders not surprisingly had difficulty enunciating unequivocal support for free trade. A rewritten portion of the communiqué now calls attention to the potential adverse impact on employment in sensitive domestic industries of an open and liberal commercial policy. French President Giscard was reportedly the main advocate of the watered-down trade commitment. While Giscard was in London, at home the French employers' association issued a statement that went even further and called for a temporary suspension of the Geneva trade negotiations in favor of an effort to aim at an "orderly" expansion of trade through a "new economic order" rather than through a division of labor and lowered customs duties.//

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//For Giscard, the principal achievement of the summit was the declaration on the Middle East. The statement, an "updated" version of one that the EC had ready to issue last January but held back because of a US request, is now--probably to the dismay of many EC members--being portrayed in much of the press as an attempt to align the EC with recent US statements.//

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//The new EC declaration differs from the earlier one notably in calling explicitly for a Palestinian "homeland" and in offering the Nine's participation in guarantees "in the framework of the UN." In a press interview following the summit, Giscard used the Middle East statement to demonstrate to his domestic audience that the European Council--an institution that resulted largely from the French President's efforts--is a successful embodiment of the "confederal" approach to Europe: it ensures the convergence and rapprochement of national policies without taking power away from individual countries.

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#### INTERNATIONAL: Maritime Industries

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*The depressed world tanker market is becoming increasingly burdensome to shipowners, shipbuilders, banks, and governments. Several major shipbuilding nations have increased*

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*subsidies to attract ship orders. Foreign maritime nations are concerned that the US may require more oil imports to be carried on US flag tankers.*

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[ ] Shipowners worldwide are having difficulty covering operating costs and paying the interest on an estimated \$20 billion in tanker mortgages. Some major European and Japanese shipping companies already have failed because of their heavy investment in tankers. Surplus tanker capacity will exist at least into the early 1980s.

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[ ] The consequent decline in demand for new ships has stimulated a number of governments to provide shipbuilding subsidies that threaten to nullify an effort that the Organization for Economic Cooperation and Development has been making for the past ten years to end such subsidies.

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[ ] Foreign maritime nations are watching with grave concern a US bill that would reserve 30 percent of US oil imports by 1980 for US-flag tankers. Their current share is about 5 percent. If the legislation is confined to US-built tankers, it would require the construction of ships totaling 10 million to 20 million dead weight tons in US yards, thereby prolonging the depression for foreign tankers. US firms owning 17 percent of foreign-flag tanker capacity would also suffer unless provision were made to permit their foreign-built tankers to be transferred to US registration. [ ]

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#### CANADA: Pipeline Report

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[ ] //The recommendations of Canada's National Energy Board on competing Arctic gas pipeline proposals will be released on July 4 and are likely to play a major role in the government's selection of a pipeline route. The government has agreed to make a decision by September 1.//

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[ ] //The report, in conjunction with the Berger report on the Mackenzie Valley route issued last month and the Lysyk report on the Alcan route due August 1, will be used by the Canadian cabinet in mid-August to address the country's energy needs and pipeline options. Current speculation in Ottawa holds that the board is leaning toward the Mackenzie Valley option despite Berger's negative appraisal.//

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25X1 [ ] //Although the Mackenzie Valley route presents a host of environmental, social, and financial problems, the board may believe that substituting delta gas for expensive imported oil in the eastern markets of Canada, particularly in Quebec, could outweigh the potential problems. The government may also be influenced by the argument that the Mackenzie pipeline would be a cheaper way of moving gas from the Mackenzie Delta south than would the Alcan line, which could also be used to transport delta gas.//

25X1 [ ] //The cabinet clearly faces a tough task. In addition to the Lysyk report, the cabinet will also review an environmental impact statement on the Alcan route and a second Berger report on the Mackenzie Valley route. Each can be expected to revive the political debate that started with the original Berger report.//

25X1 [ ] //The underlying question is which route would give the best trade-off between northern development and southern energy requirements without either provoking Canadian national sentiments or offending the sensitivities of native people. [ ]

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