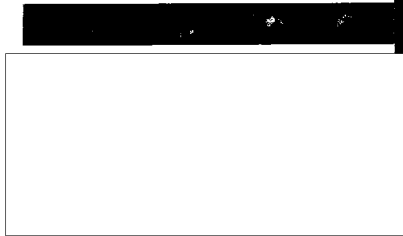




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National Intelligence Daily

*Saturday
14 July 1979*

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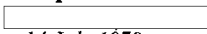
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The Overnight Reports, printed on yellow paper as the final section, will often contain materials that update other articles in the *Daily*.



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SITUATION REPORT

NICARAGUA

President Somoza's trip to Guatemala yesterday to meet with the Presidents of Guatemala, El Salvador, and Honduras probably represented a last-ditch attempt to obtain assurances of military assistance for the National Guard after Somoza steps down. The Guard is holding near Rivas, but the Sandinistas are advancing elsewhere.



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The three Central American leaders reportedly told Somoza on 28 June that they would not send troops to support the Guard. They are unlikely to reverse this decision but may well agree to increase arms shipments to the Guard once Somoza leaves and presumably will offer to provide safe haven to Guard personnel who seek it.



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A US company apparently has provided Nicaragua with two additional T-28s. The aircraft were scheduled to arrive in Nicaragua Thursday night and probably were among the four recently arrived T-28s that the

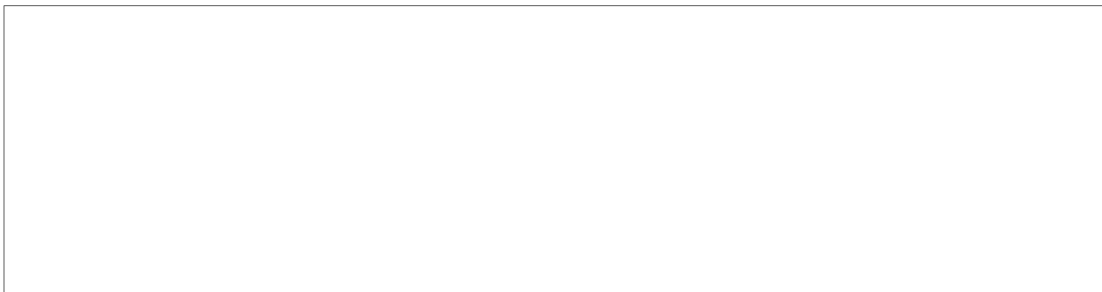


yesterday. The total number of T-28s in Nicaraguan hands is still not certain.



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On Thursday--for the second consecutive day--the Nicaraguan Air Force reportedly bombed highway bridges and other targets in Costa Rica south of Penas Blancas.



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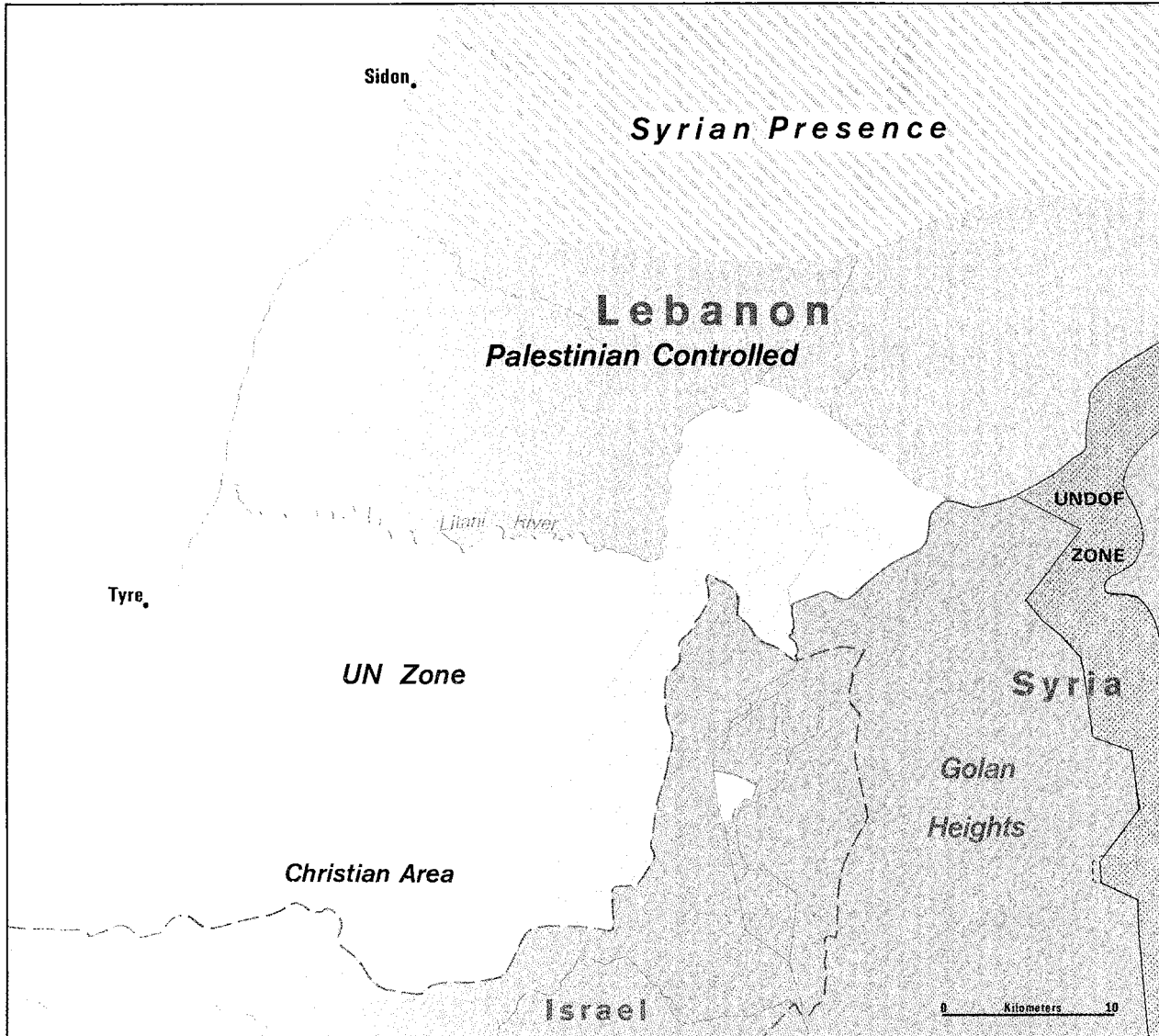
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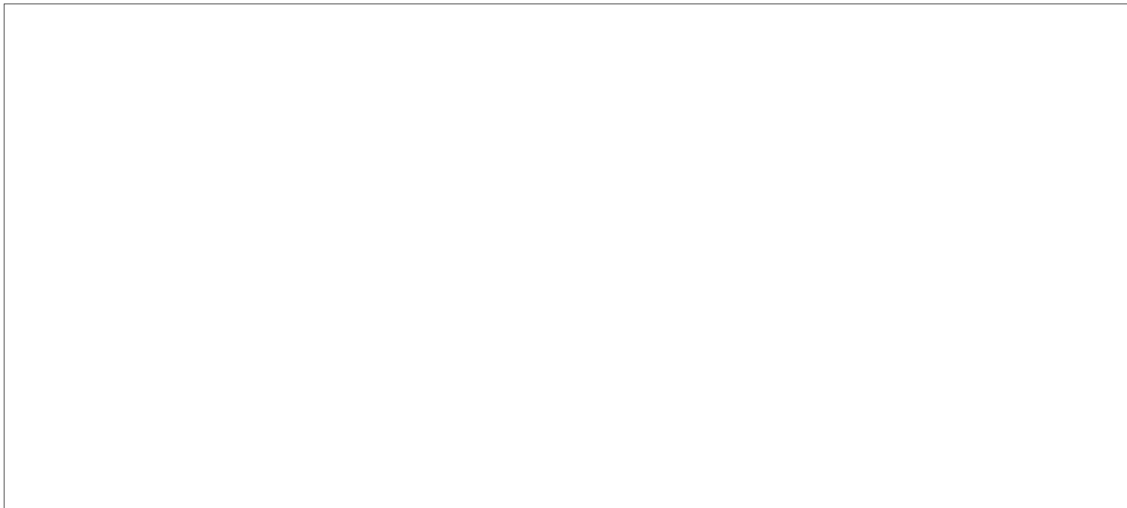
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BRIEFS AND COMMENTS

ISRAEL: Operations in Southern Lebanon



A high-level UN official has confided to US officials that he was convinced the Israelis considered themselves free to intervene within the UN area of operations. He emphasized that the Israeli raids had antagonized the countries contributing troops to the UN force. The official said that if the Israelis continued their search-and-destroy policy within the UN zone, he ultimately might recommend to the Security Council a withdrawal of the UN force.

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PORTUGAL: New Elections

By opting to dissolve parliament and hold early elections in the fall, Portuguese President Eanes has alienated the country's major political force, the Socialist Party. The Socialists are embittered by Eanes' repeated refusals to let them end the current crisis by forming a government. The election campaign is likely to be acrimonious; the results are not expected to resolve Portugal's deep-seated problems and, in any case, elections must be repeated next year. [redacted]

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A senior Socialist official told a US Embassy officer earlier this week that if Eanes refused to allow the Socialists to form a government they would campaign for his resignation. The Socialists charge that Eanes has defied democratic procedures by withholding support for the majority government they proposed to form with the dissident Social Democrats. [redacted]

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In his efforts to resolve the government crisis, Eanes also offended the conservative Center Democrats by leaving them out of his proposals for forming a government. Moreover, he took on the military's Revolutionary Council, which reportedly was split over whether to approve the dissolution of parliament but nevertheless approved Eanes' decision. [redacted]

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In a broadcast last night, Eanes justified his decision on the grounds that no stable government alternative was possible. He made a slight concession to the left by announcing that he would appoint a noncontroversial figure to serve as interim prime minister in place of the unpopular Mota Pinto. [redacted]

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EGYPT-CHINA: Chinese SAMS to Egypt

China is providing Egypt with two batteries of its version of the Soviet-designed SA-2 surface-to-air missile system, according to sources of the US defense attache in Cairo. Earlier this year, China delivered nearly half of an Egyptian order for 40 Chinese-built F-6 fighter aircraft, which Egyptian pilots have recently begun to fly. Like the aircraft, the significance of the missiles is more political than military; the arrival of token amounts of equipment from China, the West, and Romania will increase President Sadat's prestige with the armed forces, at least in the short term. All of Egypt's more than 60 older, Soviet-supplied SA-2 batteries have deteriorated steadily since the USSR cut off aid, and Egypt will soon need to replace many of them.

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CANADA: Aid for Indochinese Refugees

Canada plans to accept as many Indochinese refugees as possible and to urge that other countries apply political pressure on Vietnam by condemning its actions. Mounting Canadian public interest in the refugees and the increase in private sponsors now seem likely to push the intake of refugees well beyond the 12,000 target the government set three weeks ago. The Province of Quebec has agreed to accept up to 4,000 refugees, and Alberta plans to donate \$1 million to the UN refugee program.

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[Redacted]

GHANA: Political Situation

Lieutenant Rawlings, chairman of the Armed Forces Revolutionary Council, told a Ghanaian student delegation on Thursday that President-elect Hilla Limann must purge his People's National Party of persons the Council considers corrupt as a prerequisite for the military's support when Limann takes office in October. Sources of the US Embassy in Accra report that the Council in particular wants several senior party officials removed. Rawlings' statement is the first indication that the Council is ready to extend its housecleaning campaign to former civilian politicians. The removal of the party's old guard would allow Limann to establish his own authority over the party. Rawlings' move may be an attempt to preoccupy the students and prevent them from making common cause with the more radical members of the Council--largely enlisted men. He also may hope that the purge will satisfy extremist students who are pushing for the resumption of executions.

[Redacted]

[Redacted]

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USSR-UGANDA: Soviet Personnel Return

The USSR is bringing its Embassy, trade mission, and information offices in Kampala back to full strength, [Redacted] Soviet personnel were evacuated in April during the conflict with Tanzania.

[Redacted]

The Soviet charge signaled Moscow's willingness in May to continue relations with the new Ugandan Government in accordance with previous political and cultural agreements. The return of the Soviet staff presumably will pave the way for improved relations. The new government of President Binaisa is more leftist than its short-lived predecessor, but we have no evidence that it has yet made any overtures to the Soviets.

[Redacted]

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Million b/d

**Oil Supplies Available
to OECD Countries ¹**

	1978	1979	1980	1982
OPEC production ²	30.4	30.6	30.2	30.2
OPEC consumption	2.2	2.3	2.5	2.9
OPEC exports	28.2	28.3	27.7	27.3
Net imports of:				
Non-OPEC LDCs	2.8	2.8	2.7	2.6
Other developed countries ³	0.7	0.6	0.8	0.9
Net exports of Communist countries	1.0	0.8	0.4	-0.7
Oil available for import to OECD	25.7	25.7	24.5	23.1
OECD production ²	13.7	14.3	14.5	14.8
Stock drawdown	0.3			
OECD oil consumption	39.7	40.0	39.0	37.9

¹ Excluding Australia and New Zealand. Because of rounding, components may not add to the total shown.

² Including natural gas liquids.

³ Including Australia, Israel, New Zealand, and South Africa.

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SPECIAL ANALYSES

INTERNATIONAL: The Future of the World Oil Market

[REDACTED]

Total oil supplies available to the major industrial countries over the next few years are unlikely to increase significantly and may well fall. Alternative energy sources will help take up some of the slack during the 1980s, but not quickly enough to prevent a significant lowering of economic growth in the major industrialized countries. Opportunities will multiply gradually for energy conservation and for the development of substitutes for oil. For the next decade, however, the adjustments are likely to be extremely difficult. [REDACTED]

Members of the Organization of Petroleum Exporting Countries as a group are not likely to increase their oil production for the foreseeable future. For the Persian Gulf producers with ample oil reserves--Saudi Arabia, the United Arab Emirates, Kuwait, Iraq, and Iran--productive capacity and output will be constrained by policy considerations rather than by technical factors. For most other members of OPEC, technical constraints and limited reserves will impose upper limits on the amount of oil produced. [REDACTED]

On balance, OPEC oil production probably will remain near 30 million barrels per day over the next several years. If so, exports will drop as domestic needs grow. Although several members of OPEC together would have the capacity to increase production by 3.5 million to 4 million barrels per day, they are not likely to make this oil available to the world market except for compelling foreign policy reasons. [REDACTED]

Outside OPEC, changes in production and capacity will tend to offset each other. There is likely to be:

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- A marked increase in North Sea oil production, which probably will peak in 1982 or 1983.
- A decline in US production.
- An increase in production in less developed countries outside OPEC, especially Mexico and Egypt; most of the increase, however, will be offset by a rise in consumption in the developing countries.
- A decline in the net exports of oil from Communist countries as Soviet production peaks and then begins to decline. (DIA does not agree that Soviet oil production will peak and drop over the next several years.)

With traditional oil supplies thus restricted, the importance of alternative energy sources--tar sands, shale oil, natural gas, coal, and nuclear energy--will increase. Except for natural gas, the resource base for alternative energy sources is sufficient to allow a large expansion of output, but there are severe cost and environmental constraints. Moreover, even with the enhanced profitability resulting from higher real oil prices, large-scale development of these resources would take many years.

Even if coal supplies increase by 2 million barrels per day oil equivalent and there are no further delays in nuclear power programs in the member countries of the Organization of Economic Cooperation and Development over the next three to four years--an optimistic projection of nonoil energy production--total energy supplies for those countries would grow only 1 to 1.5 percent annually.

The consuming countries will find it very difficult to adjust to such a slow growth of energy supply. Holding energy demand to projected supply levels without lowering economic growth of OECD countries below the 3- to

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[redacted]

3.5-percent rates generally considered acceptable would require unprecedented rates of conservation. Although government policies could help, most conservation is likely to be imposed by market forces. [redacted]

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If consumer countries continue supporting economic growth and producing countries continue to limit production, this will operate to push up the price of oil. Higher oil prices in turn will slowly stimulate energy production and conservation. During the next few years at least, the higher oil prices will work to cut demand by holding down the economic growth of the OECD countries--to perhaps 2.5 percent annually or less on the average. [redacted]

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Higher oil prices will depress economic activity over the next two years; in turn, real oil prices could stabilize or even decline slightly. Weak demand thus may mask the worsening energy situation, as was the case between 1975 and 1978. The problem of public perception is complicated by the fact that very small swings in production or consumption can create enough slack in the oil market to create the illusion of ample oil supplies. [redacted]

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The oil market may be either tightened or eased by the policy reactions of both oil exporters and oil importers to these events. At the same time, other contingencies would almost certainly make things worse rather than better. The political situation in Iran remains extremely unstable, and exports from that country could fall or even cease. Unexpected supply interruptions could occur elsewhere as well. [redacted]

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In a basically tight energy market, even such common events as a harsh winter or a coal strike could create disruptive energy shortages and higher prices. Use of oil as a political weapon by one or more producers also would cause economic dislocations. [redacted]

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The oil supply problem is likely to get worse later in the 1980s. Although higher prices will stimulate oil

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exploration and development, enhanced recovery, and production of heavy and shale oil, progress in these areas will take time. The predominant view among geologists is that the chances of discovering enough quickly exploitable oil to offset declines in the known fields are slim. If the Persian Gulf countries and some non-OPEC producers continue to limit production, as we expect they will, world oil production probably will begin to decline in the mid-1980s. [redacted]

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CHINA: National People's Congress

[Redacted]

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The latest session of China's National People's Congress, which ended early this month, focused on economic issues and resulted in greater influence for leaders with economic expertise. On domestic issues, the Congress adopted a number of policies that interest Vice Premier Deng Xiaoping, but other, more controversial policies especially important to him remain unresolved. Premier Hua Guofeng reiterated the pragmatic line on foreign policy established by Mao Zedong and Zhou Enlai in the early 1970s and avoided revolutionary rhetoric. [Redacted]

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The Congress established a high-powered commission to oversee the economic "readjustment" program and presumably to prevent faulty planning in the future. Party vice chairman Chen Yun, head of the commission and architect of the readjustment, has emerged clearly as China's economic czar. The elderly and frail Chen, however, is likely to leave much of the day-to-day work to younger economic specialists who have become increasingly important in the leadership as China concentrates on problems of economic development. [Redacted]

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Political Aspects

The Congress also highlighted the growing prominence of some older officials who were purged from senior positions in the 1960s and recently awarded important jobs. Significantly, however, Beijing did not reveal their place in the "pecking order"; it chose to obscure the sensitive protocol problem involving these veteran officials and younger, less-experienced officials in similarly high-ranking posts. [Redacted]

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Although Vice Premier Deng Xiaoping probably favored many of these personnel appointments, his closest associates did not win government positions; Deng does not appear to have benefited personally from the Congress. Indeed, the Congress is the only major meeting in which

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[redacted]

Deng did not play an active role since he returned to office two years ago. He did not speak at the Congress, and only one of his appearances there was publicized. [redacted]

Deng, however, clearly exerted behind-the-scenes influence. He probably helped draft and undoubtedly was cheered by proposals designed to protect individuals from indiscriminate arrest, to give them a greater sense of participation in the government, and particularly to allow more open discussion and criticism of the government and its policies. The endorsement of "democratic" activity was a partial vindication of Deng, who had been criticized earlier for advocating democracy at the expense of social order. The Congress, on the other hand, failed to act on some policies especially important to Deng, including a detailed reappraisal of Mao, an assessment of the Cultural Revolution of the mid-1960s, and the removal of some officials who cling to the Maoist past. [redacted]

The party did not hold a Central Committee meeting before the Congress, a sign that it is not close to resolving these issues. In the major address to the Congress, Premier Hua endorsed Deng's pragmatic approach to decisionmaking but did not support the position that Mao was fallible and neither praised nor condemned the Cultural Revolution. [redacted]

Foreign Affairs

During his speech, Hua reaffirmed that China would continue the basic foreign policy set in motion by Mao and Zhou Enlai. Hostility to the USSR, closer relations with the West, including the US and Japan, and the pursuit of influence in the Third World remain cornerstones of Chinese foreign policy. Hua advocated a cautious, even defensive foreign policy designed to increase China's security and assist in its economic modernization. The Congress issued a separate resolution affirming the correctness of policies toward the US, the USSR, and Vietnam. This unusual move suggests the Chinese leaders have had disagreements concerning these policies. [redacted]

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[redacted]

If Hua has become less polemical, his discussion of Soviet expansionism and Sino-Soviet relations leaves no doubt that the USSR remains China's principal enemy. Although he used more muted terms than last year, Hua continued to press for international cooperation to contain the USSR. Hua noted that the Sino-Soviet talks proposed by China should be directed at solving "outstanding problems." He thus left open the possibility that during the negotiations China might resurrect such thorny issues as the withdrawal of Soviet military units from Mongolia. The Premier cautioned that prospects for Sino-Soviet negotiations also depend on a change in the Soviet position on China's principle of antihegemony. [redacted]

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Hua's treatment of Vietnam fully reflected the deterioration in mutual relations. Whereas his 1978 report only implicitly criticized Hanoi's conduct toward its neighbors and did not link Vietnam and the USSR as countries seeking hegemony, Hua this year made the linkage explicit. He did not, however, threaten Hanoi with a second "lesson." [redacted]

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The Premier's temperate handling of Sino-US relations imparted a US tilt to the foreign policy overview. He sounded mildly optimistic about future relations with Washington, but he implicitly warned that the US should not pursue a policy toward Taiwan that is harmful to China's interest. Hua probably was signaling the US that it should carefully consider its position on continued military sales to Taiwan. His comments evidently also were designed to minimize any domestic criticism of Beijing's policy toward US-Taiwan relations. [redacted]

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[redacted]

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[redacted]

OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the Intelligence Community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

Turkey

Four Palestinians of the extremist "Eagles of the Revolution" guerrilla group continued to hold 16 hostages in the Egyptian Embassy in Ankara this morning after three hostages escaped and a fourth died as a result of a leap from the top of the Embassy building. The terrorists demand the release of two of their comrades imprisoned in Egypt, Turkish recognition of the "Palestine State," severance of Turkish diplomatic relations with Egypt and Israel, and safe passage to a friendly Arab country. Although they threatened to blow up the Embassy if their demands were not met, early this morning they reportedly agreed to postpone their deadline indefinitely. Turkish officials and Arab diplomats remained in contact with the guerrillas during the night, but no details were available on the status of negotiations. [redacted]

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Spain

A communique issued by the political-military wing of the Basque separatist group ETA said it would suspend its campaign of bombings in Spanish resort areas while Basque leaders and the central government discuss draft plans for Basque autonomy. According to a news report, the ETA also claimed responsibility for the shooting of a member of parliament last week and for a \$2 million bank robbery. The member of parliament was a member of the Union of the Democratic Center, which opposes the autonomy plan. [redacted]

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Ghana

Military leaders have resumed secret trials after suspending them for eight days during the presidential election period. According to an official announcement, three former senior military officers were convicted of amassing wealth illegally, ordered to forfeit their assets to the state, and sentenced to a total of 28 years imprisonment. These were the first prison sentences meted out by the Revolutionary Council; previously, eight top military officers, including three former heads of state, were sentenced to death. (See Page 5 for a current assessment of the situation in Ghana.)

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Peru

The military regime of President Morales Bermudez declared yesterday that it accepted the new draft constitution but, contrary to the wishes of the 100-member Constituent Assembly which drafted it, refused to make any of its provisions effective before the transfer of power to a new civilian government in July 1980. The military objected to immediate adoption of articles that would abolish the death penalty, recognize the UN declarations of human and political rights, and limit the power of military courts to try civilians.

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