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THE DIRECTOR OF CENTRAL INTELLIGENCE

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National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: Charles E. Waterman, NIO/NESA

SUBJECT: A Six-Month Look Ahead - Middle East

The following is a non-coordinated projection of where four key Middle East crises will probably stand in roughly six months time - i.e. early April 1983. This assumes no major change in US policies on these issues.

A. Lebanon

- Beirut and its environs will have been decisively pacified. The central government will have consolidated effective control in this limited area.
- A phased Israeli-Syrian mutual withdrawal agreement (including armed PLO) will have been reached well before year's end. The initial phases will have occurred, and be sufficient to have brought about disengagement of forces in the Biqa' Valley. This disengagement, combined with agreement in principle for a total withdrawal, could permit withdrawal of the MNF from all Lebanon by the end of this year, if desired.
- Whether or not all Syrian and Israeli forces will have withdrawn, an armed Palestinian presence will either remain or return to the north and the northern Biqa' Valley. This presence may increase by returnees from the Beirut diaspora. Palestinian civilians from Beirut and south Lebanon, intimidated by central government activity, will probably also find their way north - either directly or via Syria after expulsion from Lebanon. Over time, this will feed armed militias with new recruits. All of this will permit a continued Syrian zone of influence, given their partial control of reinfiltration and supplies.
- In a similar manner in the south, Israeli troops may or may not remain in areas designated for final withdrawal. Armed Lebanese elements responsive to Israeli security needs for a cordon sanitaire

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will remain, either via a security agreement with the central Lebanese army or with continued existence of the Haddad militia. I suspect a combination of both will have occurred, although probably not an overt formal Lebanese-Israeli peace treaty by 1 April.

- The net result of these events will be a continued Palestinian/Syrian zone of influence in the north and a central Lebanese government/Israeli southern security zone. As an intermediate range situation while Lebanese central army strength slowly grows, this situation is "tolerable" from the point of view of US interests.

B. US Palestine Initiative

- Intermediate-range requirements of the US initiative are to narrow positions in the following areas:

- 1) The Arab consensus position must move from its present vague formulation of "security for all states in the region" to one which explicitly states an Arab willingness to recognize Israel under appropriate circumstances.

- 2) The Israelis must move towards a willingness to recognize the principle of territorial exchange in the West Bank/Gaza for recognition and security guarantees, as opposed to their present formulation of autonomy for inhabitants only.

- In six months, I believe it is realistic to anticipate one or two explicit Arab statements of a conditional willingness to recognize Israel in return for a complete withdrawal to the 1967 lines. Saudi Arabia, Jordan, and Morocco are of course the prime candidates. This statement would not be sufficient for any Israeli change, but would increase pressures for some form of reciprocity.

- The Begin government will not have accepted, in six months, the principle of territorial exchange. However, serious debate will have increased in Israel on it, perhaps including the Likud.

- As debate in Israel intensifies, it will increasingly focus on differences between the Labor Party "Allon-plan" - which envisages an Israeli security belt including most of the Jordan valley - and the concept of "minor border rectifications" which previously comprised the American position.

- Overall, I suspect a narrowing of positions along the above lines will have occurred in six months time. If some modification in Israeli governing circles also transpires (i.e. perhaps dropping of Sharon or even emergence of a weak Labor coalition government) -

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which is not predictable at this stage - then initial progress toward an ultimate solution will have been made.

- Egyptian-Israeli ties will continue to deteriorate if Begin stays in power. Cairo's ambassador will not return to Tel Aviv and the rhetoric on both sides will be shrill, especially if Arafat visits Egypt. A complete break in relations is unlikely, however.

C. Iran-Iraq

- All current indicators point towards continuing stalemate of the war effort. I suspect a relatively low-level border war of attrition will be continuing in six months time, with neither side significantly threatening the other. Under these circumstances, the war's continuation is tolerable from the point of view of American interest.
- The Iranian regime will probably continue to strengthen its grip on power. No opposition movement of the right or left has sufficient strength to change this situation. Petroleum exports are at a 1.5 million BBLS/day, even in the face of recent Iraqi air attacks on Kharg Island, and this output level will probably continue.
- Iranian subversive attempts in the Arab Gulf states have been uniformly inept - whether the Bahrain coup attempt or demonstrations in Mecca. Presumably, elements in the Iranian hierarchy will be continuing these efforts in six months time - probably with the same lack of success.
- No mitigation of hostility towards the United States is likely. There are increasing non-definitive indications of Iranian-Soviet friction - especially in the Afghanistan border area - and relations may have deteriorated further in six months time.

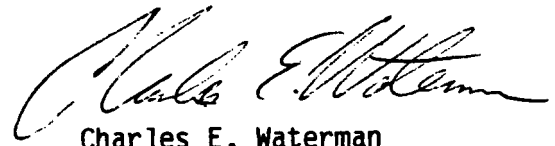
D. Political Impact of Continuing Depressed Petroleum Market

- The current Saudi Arabian oil production rate of about 5.5 million BBLS/day at \$34 price is not sufficient to cover expenditures. Over the next six months, the Saudis will make every effort to maintain prices at the \$34 level, fearing that an indication of their willingness to cut prices will encourage serious price undercutting by other OPEC members. The Saudis probably will be unable to increase significantly production from the current level, but modest world economic recovery and rebuilding of stocks may raise the production/export level somewhat over the six-month period. To meet its financial requirements, the Saudis probably will have to drawdown reserves from the current level of approximately \$156 billion.

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- This situation could start to require a reduction in spending in six months, presumably in the following order: external security/ economic assistance and the internal development program. Military budget and state welfare programs are seen by the Saudi regime as essential to maintain. They would be cut only in the event of financial problems much more serious than those likely to develop over the course of the next six months.
- The security assistance drawdown may ultimately adversely affect US security programs in Morocco, Sudan, Somalia, Pakistan, Jordan, and Lebanon.
- A drop in development expenditures will adversely affect large foreign exchange earnings transferred home by workers from several East Asian as well as Islamic countries.
- In summary, the security and economic situation of a number of third world US allies will suffer, and this process could have commenced in six months time.



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