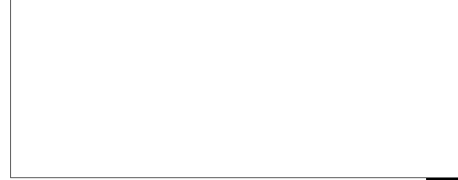




**Director of
Central
Intelligence**

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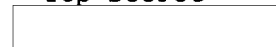
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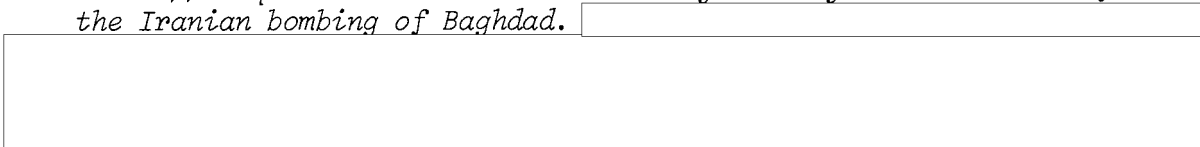


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IRAN-IRAQ: Escalating Air War

(Information as of 2300 EDT)

//Iraq bombed two Iranian cities yesterday in retaliation for the Iranian bombing of Baghdad.



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Iraqi aircraft yesterday bombed Ahvaz and Dezful. Tehran claims the airstrikes inflicted heavy civilian casualties.

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The Iranian attack on Baghdad caused little if any damage. Iran admits losing one of the two aircraft involved in the strike.

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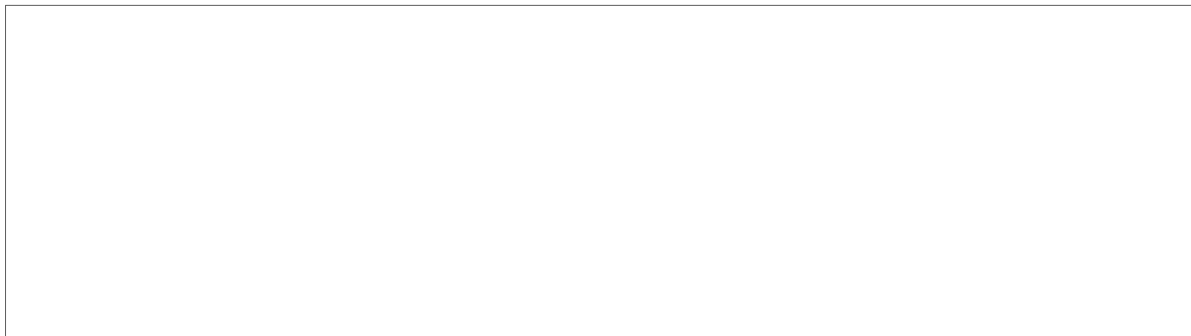
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Comment: //The attack on Baghdad was the first since October 1980, and probably responds to Iraq's recent heavy bombings of Iranian cities. Tehran also may have intended the strike to frighten Third World nations from attending the nonaligned conference in Baghdad in September.//

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//Iraq almost certainly will launch additional airstrikes against Iranian cities, possibly including Tehran. Iran has only about 100 operational fighter aircraft remaining and cannot sustain large-scale attacks against strategic Iraqi targets, although it can continue to carry out limited raids.//

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[redacted]

ISRAEL-LEBANON: Guerrilla Raids

(Information as of 2300 EDT)

The cease-fire in Beirut is holding, but the Israelis are becoming more concerned about Palestinian guerrilla attacks. The Lebanese are preparing to hold presidential elections. [redacted]

Israeli radio announced yesterday that Palestinian guerrillas infiltrated through Syrian lines in central Lebanon and attacked an Israeli unit, killing five soldiers. Israeli military spokesmen recently have warned [redacted] that serious consequences could result from continued Palestinian guerrilla raids from Syrian-controlled areas. [redacted]

Comment: The number of casualties resulting from the attack and the Israeli publicity suggest the Israelis may be preparing to retaliate. [redacted]

Lebanese Presidential Election

[redacted] the Speaker of the Chamber of Deputies has notified the deputies the Chamber will convene on 29 July to begin the process of electing the new Lebanese president. The presidential "campaign" is scheduled to begin tomorrow and run through 23 August. The balloting by the Chamber of Deputies, whose members elect the president, can occur on any date during the campaign. The vote reportedly will be held on 3 August.//

The constitution provides that a two-thirds majority of the vote is needed on the first vote, but only an absolute majority on subsequent ballots. The Chamber of Deputies consists of 99 seats, but seven are vacant. The constitution is vague on whether the number of votes required to elect a president should be based on 92 or 99 and on how many deputies must be present to establish a quorum. [redacted]

Comment: The number of deputies on hand will largely determine whether the election proceeds smoothly or becomes one more dispute among Lebanon's political factions. [redacted]

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EGYPT: Foreign Policy Concerns

The conflict in Lebanon has hardened Egyptian objectives in the Middle East peace process and caused Cairo to look to the US to play a more active and innovative role. [Redacted]

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[Redacted] the Egyptians view developments in Lebanon as adversely affecting their foreign policy. The widespread belief in Egypt that the US shared Israeli objectives has embarrassed Cairo and caused many Egyptians to question the credibility of the US as a partner in the peace process. Egyptian officials fear that in the long run radical trends in the area will increase, thereby jeopardizing regional stability, Egypt's interests in the Arab world, and the survivability of the Mubarak regime. [Redacted]

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Regardless of the fate of the PLO, Egypt will place even greater emphasis on the Palestinian question as the key issue underlying a comprehensive peace in the Middle East. [Redacted] Cairo now cannot secure enough domestic support for a settlement that promises anything less than the prospect of full Palestinian self-determination. [Redacted] the Egyptians will look to the US to increase its efforts to achieve this goal. [Redacted]

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Comment: //The Egyptian commitment to the peace process has not dissipated because of the conflict in Lebanon. Egyptian policymakers still believe they have a central role to play in that process.// [Redacted]

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//Cairo's hope for renewed efforts toward a comprehensive settlement is in part a response to domestic criticism over its close ties with the US and Israel. It also underscores Egypt's strong desire to regain its position in the Arab world.// [Redacted]

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[Redacted]

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EC - MIDDLE EAST: Turning to the US

//EC members are increasingly inclined to urge the US to take the lead in dealing with the conflict in Lebanon.// [redacted]

//EC Foreign Ministers on Tuesday agreed the EC should not take any independent action on Lebanon, but should encourage the US to accelerate its efforts to achieve a disengagement in West Beirut. Some ministers reportedly implied the EC itself cannot directly affect the situation in Lebanon because of its lack of influence over Israel. Regarding the war between Iran and Iraq, the ministers merely noted that the conflict might add to instability in the Middle East.// [redacted]

//The ministers also expressed concern that what they see as growing anti-Americanism in the moderate Arab nations may take a generally anti-Western turn. To try to prevent this, they called on EC Political Directors to consider ways of improving the dialogue between Western Europe and the Arab moderates.// [redacted]

Comment: //In addition to a feeling of helplessness, the EC's current emphasis on coordination with the US in dealing with the crisis in Lebanon probably reflects a hope that US policy on the region may be evolving more in line with West European preferences. West European leaders also may be reluctant to complicate relations with the US by independent action on Lebanon, because they fear the hostilities between Iran and Iraq might require a joint Western response. Nevertheless, their concern with the spread of anti-Americanism suggests they will continually reassess how closely they want to be identified with the US in the Middle East.// [redacted]

//The West Europeans are likely to try to persuade the US to seek a general solution to Arab-Israeli differences, and will push in particular for action on the Palestinian question. They fear the PLO will become more of a force for instability unless it is allowed to participate in a Palestinian self-determination process or receives some other form of political compensation to offset its military defeat.// [redacted]

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EASTERN EUROPE: Declining Debt to Western Banks

Newly released data from the Bank for International Settlements show Eastern Europe's liabilities to Western banks fell by \$4.2 billion in the first quarter of 1982. To repay the banks, the East Europeans, including the Yugoslavs, drew down their foreign exchange reserves by \$2 billion, sold gold, and slashed imports from the West by nearly 20 percent, as compared with the first quarter of 1981. East Germany lost \$1.2 billion in credits and \$600 million in reserves, and Hungary's liabilities fell by \$900 million and its assets by \$400 million.

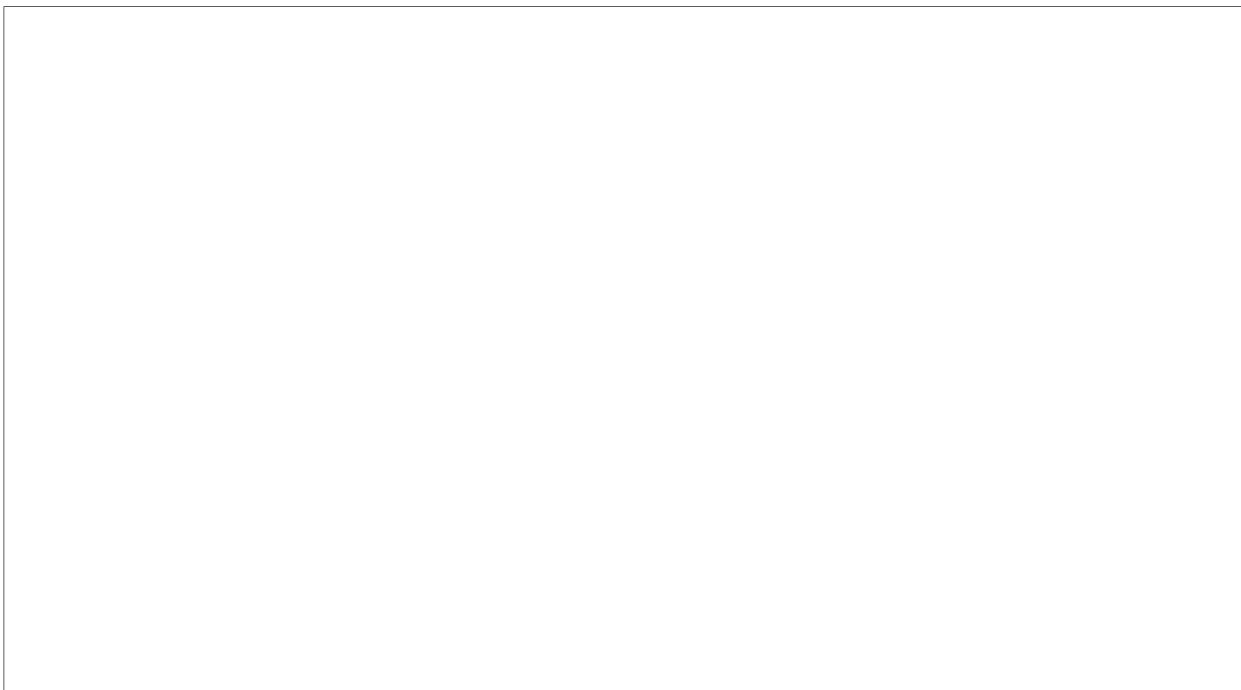


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Comment: The decision of Western bankers to reduce their exposure probably forced East European countries to pay off at least 50 percent of liabilities maturing between January and March. These cutbacks in credit have already brought Hungary to the brink of insolvency. Although East Germany still has substantial hard currency assets, continuing problems in refinancing maturing credits could jeopardize East Berlin's financial position in the next few months.

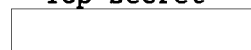


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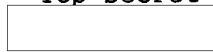
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WESTERN SAHARA: Increasing Military Action

//Clashes are increasing in Western Sahara between Moroccan forces and Polisario Front guerrillas. A Polisario communique on Monday claimed several recent operations against Moroccan positions, and a Moroccan military official reported airstrikes against the insurgents last week. Earlier this month, the guerrillas attacked Moroccan Army units protecting crews at work near Semara on a new section of the defense barrier.//



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Comment: //The Polisario has undertaken at least three operations against the Moroccans this month in part to block extension of the fortified barrier that has enabled Rabat to control the core section of the territory. Some of the insurgents' more heavily armed units have moved closer to the new construction area. In addition to protecting the extension, renewed Moroccan air activity is intended to preempt an attack by the Polisario on a target likely to gain it wide publicity-- such as the recently reopened phosphate mines at Bu Craa-- just before the Western Sahara issue comes up again at the OAU summit in Tripoli early next month.//



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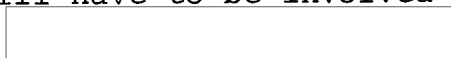
ANGOLA: UNITA Clashes With Cubans

//Insurgents of Jonas Savimbi's National Union for the Total Independence of Angola ambushed an approximately 1,000-man Angolan and Cuban force in southern Angola last month. Several Cubans were killed. this was the first major engagement between Cuban combat troops and UNITA since 1980.//

Comment:



UNITA also may be concentrating on capturing whites to dissuade foreign governments from assisting the Angolan regime. This recent increase in insurgent activity may be an attempt by Savimbi to draw additional attention to his assertions that UNITA will have to be involved in any settlement on Namibia.



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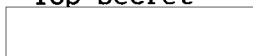
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BOLIVIA: Inauguration Day

The presidential swearing-in ceremony yesterday for General Vildoso was delayed until late evening because of power struggles between military factions over key positions--including the top Army post. The junta of service commanders that appointed Vildoso also was trying to ensure a dominant role for itself in the new government before permitting Vildoso to take office.



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Comment: The military infighting indicates the weakness of Vildoso's support among his colleagues. The deals necessary to allow him to assume the presidency probably will limit the effectiveness of his government further. As the alignment of the new cabinet members becomes apparent, it will indicate how successful Vildoso has been in putting his stamp on the new government.



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SPECIAL ANALYSES

POLAND: Implications of Jaruzelski's Speech

Premier Jaruzelski's speech yesterday to the parliament will gain little popularity for the regime or its policies and does not foreshadow a break in the domestic stalemate. The West Europeans are not likely to use the decisions of the Polish Government as a lever to press Washington for immediate relaxation of post-martial-law sanctions.

Jaruzelski clearly wants to remove the superficial irritants of martial law. He plans to proceed at his own pace, however, and base his actions on the level of opposition activities.

The Premier will not hesitate to return to more harsh tactics if resistance increases. He also has held out the possibility of ending martial law and of a papal visit only if there are sure signs of domestic peace.

The speech reflects the regime's increased confidence about its ability to maintain control. This may be due partly to the belief that Solidarity is plagued by weakness and indecision. Nevertheless, Jaruzelski still harbors strong reservations about the union's intentions and potential strength.

Jaruzelski explicitly stated that his long-term goal is to create an effective, competent, and highly disciplined state apparatus, and that the military must play a key role. He will continue to place military men in important positions, even in the party, and bureaucratic procedures used by the military will be imposed on civilian government offices. These practices will contribute to the feuding and bickering within the regime.

Solidarity and the Church

Solidarity's rank and file, comprising most workers, will find little new or encouraging in the speech. Jaruzelski reaffirmed that economic conditions will

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remain bleak and that the government even intends to crack down on increased absenteeism, particularly on the part of younger workers. [redacted]

The unconditional release of 913 internees and conditional release of 314 more may ease somewhat the reported pressure for Solidarity activists to stage demonstrations today--Poland's national day. The underground leadership, however, will continue to agitate for the release of the remaining 600 to 800 internees and will not accept the Premier's refusal to engage in a serious dialogue. [redacted]

Solidarity's leadership currently is trying to re-assess its strategy of how to bring effective pressure on the regime. Jaruzelski's speech and the unwillingness of the regime to map out a future role for trade unions probably will strengthen the conviction of many union leaders that a dramatic gesture--possibly in the form of a general strike--eventually will be necessary to force concessions. [redacted]

With the postponement of the papal visit, the Church has again been forced to bow to the government's will. Church leaders will welcome the release of internees but will remain privately skeptical that the regime is seriously interested in a dialogue with it and Solidarity on the country's future. Nonetheless, they will continue to work cautiously for the release of the other internees,, urging restraint to the underground and the populace. [redacted]

West European Reactions

//The allies will welcome in principle any relaxation in the Polish internal situation. They are not likely, however, to view Jaruzelski's announcement as much more than a minor effort to enhance the regime's internal legitimacy and international image. The West Europeans are likely to continue to insist on their original demands that Jaruzelski release all internees, abolish martial law, and restore a dialogue with Solidarity and the Church.// [redacted]

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[REDACTED]

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//The West Europeans probably believe renewed debate at this time over Western post-martial-law sanctions would aggravate differences with the US over the gas pipeline and other issues. An additional relaxation of martial law, however, could lead to West European pressure on the US to remove or relax sanctions.//

[REDACTED]

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//Warsaw's latest decisions probably are enough to convince most allies to support the desire of West European neutrals to end the deadlock at the CSCE meeting in Madrid and resume discussion on the substantive issues blocking agreement on a post-Madrid security conference.//

[REDACTED]

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//NATO participants refused to continue CSCE negotiations after the imposition of martial law in Poland. Now, however, the allies almost certainly will support the Swiss view that, with the beginning of START and INF talks, CSCE should not become the "orphan" of the European security process.//

[REDACTED]

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Outlook

Poland's domestic political situation is unchanged. The perseverance of the underground Solidarity leadership, combined with the unhappiness and alienation in factories, will ensure that opposition sentiment and activity continue.

[REDACTED]

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The government will keep up its efforts to quell opposition. Prospects remain reasonably high that opposition activities in coming months will lead to clashes with the security forces, thereby perpetuating martial law.

[REDACTED]

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[REDACTED]

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[redacted]

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IRAQ: Economic Problems Mounting

[redacted]

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The Iranian invasion has intensified Iraq's already serious financial problems. Additional aid from Arab neighbors in the Persian Gulf region will not offset the war-related loss of oil revenue. Iraq already has been forced to draw down its foreign exchange reserves substantially to avoid import cutbacks, especially for military equipment. [redacted]

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The conservative Arab states of the Persian Gulf are unlikely to provide Baghdad with enough additional aid to enable President Saddam Hussein to avoid new austerity measures. [redacted]

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Baghdad has been spending an estimated \$1 billion per month on the war. Military contracts concluded this year alone total some \$3 billion, divided about equally between Western suppliers and the Soviets. [redacted]

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Financial Squeeze

Iraq's revenues in 1982, however, will be only about \$10 billion. This will be about half the prewar level and is based on an assumed oil export average of about 800,000 barrels per day. [redacted]

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It will be difficult to maintain this level if Iran retaliates for Iraqi strikes on Iranian oil facilities by trying to sabotage the pipeline that carries Iraqi oil across Turkey. Iraq's other oil export facilities, the terminals in the Persian Gulf and the pipeline across Syria, have been closed because of the war. [redacted]

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As a result, Iraq faces the prospect of an \$11 billion foreign exchange gap this year. Its import bill alone probably will be twice as large as oil revenues because of spending for many civilian projects begun earlier and for military requirements. [redacted]

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Baghdad already has drawn down its foreign exchange reserves by an estimated \$5 billion this year to pay for its foreign obligations. Its remaining reserves are

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[Redacted]

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estimated at \$15 billion--less than half the prewar level. [Redacted]

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Iraq's credit standing has been slipping in international banking circles because of the war, dwindling foreign exchange reserves, and delays in making payments on existing loans. [Redacted]

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[Redacted]

Domestic economic activity already is slowing as civilian development projects are postponed or canceled. Much of Saddam's popular support has hinged on his ability to insulate the consumer from the war. The regime, therefore, will give priority to ensuring an adequate supply of basic necessities. [Redacted]

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Arab Aid

The invasion is likely to prompt the Persian Gulf states to renew their aid commitments to Iraq. These countries do not see an acceptable alternative to Saddam and fear the regional consequences of an Iranian victory. They have provided \$20 billion since the war began and have promised an additional \$4 billion to cover most of the loss caused by closure of the Syrian pipeline. [Redacted]

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The Persian Gulf states, however, have their own financial difficulties this year because of the soft world oil market. They probably will be hesitant to dip deeply into their reserves to help Iraq. [Redacted]

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What aid they do give will be designed to keep Iraq afloat, not to allow significant economic development. Moreover, the rich states anticipate the need to pay reparations to Iran, either on behalf of Iraq or as part of their own effort to appease Tehran. [Redacted]

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Cash alone will not guarantee the flow of imports. An Iranian attack across the Shatt al Arab probably would sever Iraq's primary Persian Gulf trade route through Kuwait. [Redacted]

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This route now handles about one-fourth of Iraqi imports and nearly all Soviet military equipment bound for Baghdad. Alternative routes through Jordan, Turkey, and Saudi Arabia would be unable to cope with the added load. [Redacted]

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[Redacted]

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