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International Issues Review



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April 1984

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International Issues Review



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This publication is produced by the Office of Global Issues. Some issues contain articles drafted in other offices. Some articles are preliminary or speculative in nature, but the contents are formally coordinated as appropriate with other offices within CIA. Occasionally an article represents the views of a single analyst; these items are clearly designated as noncoordinated views.



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GI IIR 84-002
April 1984



Contents

	<i>Page</i>
Arms Transfers	25X1
Declining West European Arms Sales: Implications for the United States <input type="text"/>	25X1
<input type="text"/>	25X1
Recession in developed countries and financial difficulties faced by some LDCs are reducing arms sales by West European arms manufacturers. <input type="text"/>	25X1
International Narcotics	
Burmese Communist Party Poses Major Obstacle to Narcotics Control <input type="text"/>	25X1
<input type="text"/>	25X1
Since the reduction of Chinese support in the mid-1970s, the Burmese Communist Party has depended on the illicit drug trade to finance its insurgency. The BCP's increased role in narcotics trafficking will complicate antinarcotics control efforts. <input type="text"/>	25X1
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[Redacted]

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Communist Activities

Cuba's Expanding Civil

Aviation Web [Redacted]

[Redacted]

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Cuban air service is only a modest source of hard currency for the Cuban economy but plays an important role in meeting Havana's political objectives, particularly in Latin America and the Caribbean. [Redacted]

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[Redacted]

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Declining West European Arms Sales: Implications for the United States ¹ [redacted]

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Summary

West European arms sales are declining. Recessions in developed countries and financial difficulties faced by some LDCs are reducing arms purchases. Aggressive US sales in Southwest Asia and the Middle East following the Soviet invasion of Afghanistan also have hurt West European sales. West European reactions to these unfavorable trends pose serious implications for the United States. [redacted]

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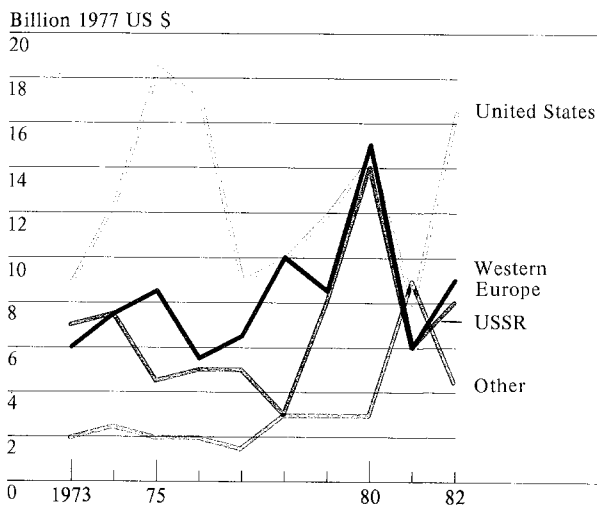
Declining Sales

West European arms suppliers have been hurt more than the United States and the Soviet Union by the sluggish international arms market (figure 1). After peaking at \$15 billion in 1980, West European arms sales averaged only about \$7.5 billion annually in 1981 and 1982 (table).² We believe 1983 figures also will be in this range. French press sources, for example, indicate that Paris expected a sizable sales drop in 1983 with orders in the first half of the year down by 25 percent over the same period in 1982 (figure 2). [redacted]

Economic problems have caused this decline. Recession in the developed countries, international financial problems in many LDCs, and, most importantly, the decline in oil revenues by Middle Eastern states have caused defense budgets and arms sales to shrink. For [redacted]

² We estimate that approximately \$9 billion in arms sales have taken place between the United Kingdom, Italy, and West Germany as part of the Tornado aircraft program. We have not included them in this study, but their inclusion would not change the overall trend on declining West European arms sales, however. To estimate their value, we assumed a base price of \$35 million for the aircraft in 1978, multiplying this price by the OECD deflators and by orders placed for the aircraft by the United Kingdom, Italy, and West Germany between 1978 and 1982. [redacted]

Figure 1
Arms Sales, 1973-82



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Arms Sales and Market Shares, 1973-82

	Total	Western Europe	United States	Soviet Union	Others
<i>Billion 1977 US \$</i>					
1973	24.0	6.0	9.0	7.0	2.0
1974	30.0	7.5	12.5	7.5	2.5
1975	33.5	8.5	18.5	4.5	2.0
1976	29.5	5.5	17.0	5.0	2.0
1977	22.0	6.5	9.0	5.0	1.5
1978	26.0	10.0	10.0	3.0	3.0
1979	31.5	8.5	12.0	8.0	3.0
1980	46.5	15.0	14.5	14.0	3.0
1981	29.0	6.0	8.0	6.0	9.0
1982	38.0	9.0	16.5	8.0	4.5

	<i>Percent</i>				
1973	100	25	38	29	8
1974	100	25	42	25	8
1975	100	25	56	13	6
1976	100	19	57	17	7
1977	100	30	40	23	7
1978	100	38	38	12	12
1979	100	27	38	25	10
1980	100	33	31	30	6
1981	100	21	28	21	30
1982	100	24	43	21	12

[Redacted]

example, according to Embassy and [Redacted] have reduced their military procurements by as much as 50 percent as a result of the soft oil market.

[Redacted]

Financial difficulties faced by some LDCs are interfering with West European plans to penetrate markets dominated by the Soviet Union.

[Redacted]

predominantly Soviet equipped air forces. Iraq has also recently signed a new arms contract with Moscow, although it prefers some types of more expensive [Redacted]

[Redacted] potential though less wealthy candidates for Western penetration, Angola and Mozambique, have made overtures to Portugal for training and ground forces equipment but continue to rely on Moscow for grant military assistance, according to Embassy sources.

[Redacted]

US efforts to establish a military presence in Southwest Asia and the Middle East following the Soviet invasion of Afghanistan also have reduced West European sales opportunities in countries that have traditionally used West European arms to bolster their nonaligned image. For example:

- [Redacted] stepped-up US training and military assistance have caused Egyptian military officers to prefer US equipment, thus limiting their sales opportunities despite Cairo's professed interest in diversification, [Redacted]

- Saudi military officials have informed British arms salesmen that West European countries have little [Redacted]

- Morocco has exchanged increased US security assistance for basing rights causing the Mitterrand government to warn King Hassan about the dangers of "superpower" involvement in regional disputes. [Redacted]

Similar US efforts in NATO's southern flank have reduced West European arms sales. [Redacted]

[Redacted]

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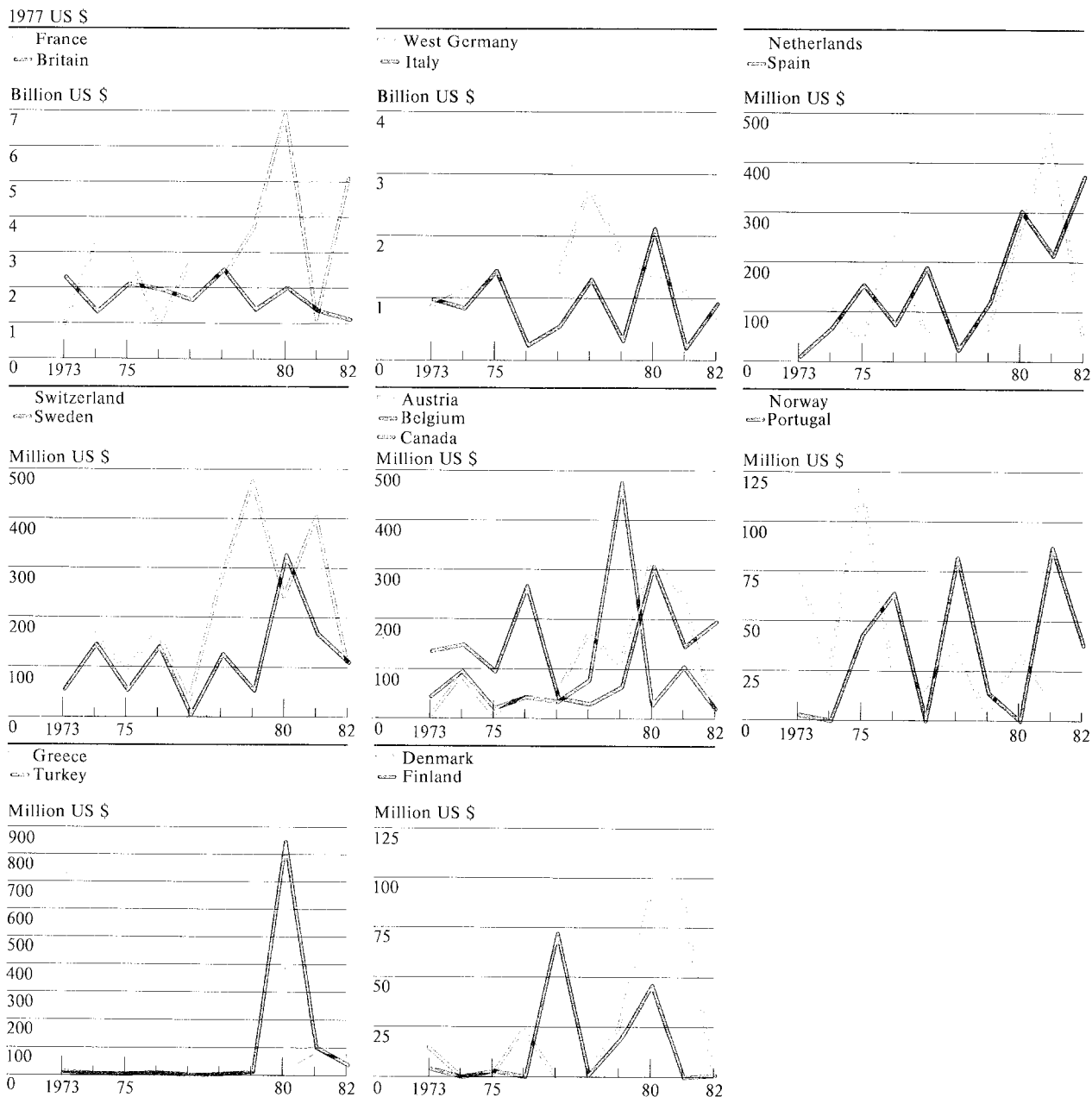
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Figure 2
West European Arms Sales, 1973-82

Note scale change

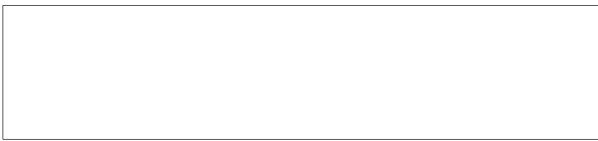


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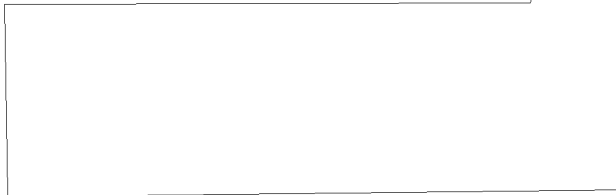
Finally, the completion of many defense modernization programs in both Europe and the Third World also contributed to this change in patterns. The last 10 years were marked by an expansion in Third World arms inventories and a modernization of many West European defense establishments, but armament cycles now appear to be at a low ebb:


- Many military forces are absorbing equipment recently purchased. Argentina, for example, has received the last of its 14 Super Etendards, plans no additional purchases, and is integrating these aircraft into its fleet, 
- Expensive arms procurements have exhausted funds for additional purchases. Cost overruns on the Tornado program, for example, forced Britain and West Germany to make painful cuts in other programs, according to Embassy reports. 


Implications for the United States

One West European reaction to this downturn has been to place increasing pressure on Washington for US military contracts, increasing existing tensions with the United States over transatlantic arms cooperation. Recent US restrictions on specialty metals imports did not seriously affect the already small West European share of the US domestic arms market but drew a vociferous response from NATO Allies. West European governments are also tying the fate of their arms industries to US plans to improve the conventional defense of NATO. In bilateral and multilateral discussions, British, West German, and Norwegian officials have linked arms cooperation to the development of emerging technologies, which many military planners hope will lessen NATO's dependence on tactical nuclear weapons, according to Embassy reporting. We expect other NATO Allies to make this connection in negotiations. As with the British, they probably will insist upon a division of labor between US and West European defense industries as a way of meeting the Soviet military challenge and promoting a "two-way street." 

At the same time, we believe West European arms manufacturers will continue to replace US components in their weapons systems whenever possible in order to circumvent US export restrictions and increase their freedom to market their products. 



We also believe, however, that West European aerospace firms will increasingly turn to US partners for advanced technology, cost sharing, and assistance in penetrating the US market. British firms have already collaborated with US industry in the development of the Harrier V/STOL attack aircraft and the modification of the BAe HAWK trainer for the US Navy. Other West European firms had bid for the Navy contract; Dornier teamed up with Aerospatiale to offer the Alpha Jet through Lockheed. Additional penetrations of the US market could be achieved if West European firms were willing to abandon the prestige and privileges of being the primary contractor for a weapon system and accept the necessity of a US partner in order to lessen US domestic political concerns. 

US arms manufacturers also will face increasingly aggressive marketing efforts from their West European counterparts. We expect Washington to receive more complaints from US arms manufacturers about "unfair" trading practices—subsidized prices, bribes, and excessive offset packages—being offered by West European competitors. Undoubtedly, individual sales will be lost to West European competitors as a result of these practices, but we do not envision dramatic inroads being made into US-dominated markets in Japan, South Korea, Egypt, Israel, Pakistan, and Saudi Arabia. West European suppliers should, however, continue to consolidate their position in Latin America, taking advantage of marketing opportunities in Brazil, Argentina, and Chile. 

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Moreover, the strong dollar will give West European financing packages an added attractiveness in the short term. For example, currency fluctuations increased a \$2 million French price advantage over a US bid for Kuwait communications system to \$9 million and helped clinch the deal for the French, according to Embassy reporting. [redacted]

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Even with reduced sales, the transfer of production technology to the Third World will accelerate. We do not believe these transfers will be sufficient to improve dramatically Third World defense industrial capabilities. They will, however, improve the ability of Third World military forces to threaten each other, as well as US forces. US forward deployed naval units and bases in the Middle East are particularly vulnerable. Moreover, it is not clear that the West Europeans will take adequate steps to prevent their most advanced weapons and production technologies from being passed to Soviet allies or compromised by Soviet intelligence collection efforts. For example, Britain has:

- Offered the rights to license production of the RB199 engine, which powers the Tornado to Yugoslavia, according to press reports.
- Sold highly sophisticated thermal imaging sights to

[redacted]

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International Narcotics

Burmese Communist Party Poses Major Obstacle to Narcotics Control

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Summary

A major obstacle to narcotics control in Burma is that opium production occurs in rugged territory largely controlled by insurgents, primarily the Burmese Communist Party (BCP). Over the past two years the BCP has steadily expanded its role as a major narcotics trafficker in the Golden Triangle. The party's size, strength, and remote location of its base of operation present nearly insurmountable problems for the Burmese Government and antinarcotics programs in the region. Accommodations reached with other trafficking groups for processing and marketing narcotics probably will enhance the party's ability to control a larger share of the narcotics market. Involvement of political insurgents in narcotics trafficking not only complicates Burmese enforcement operations but limits the Burmese ability to promote economic development in the Shan State, which might bring hill tribe cultivators into mainstream Burma.

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Growing BCP Involvement in the Narcotics Trade

Since 1982 the BCP has expanded its involvement in narcotics in the Golden Triangle from supporting opium cultivation to heroin processing and trafficking. Initially the extent of BCP involvement in the narcotics trade was limited to brokering opium sales within its sphere of influence in the Shan State. Through production in its own base area, purchases from allied groups, and regulation of opium caravans, according to US Embassy reports, the party gained control of over half of the opium flowing through the Golden Triangle.

Over the past two years as Thai military actions against the Shan United Army, once

the principal buyer of BCP opium, have disrupted narcotics trafficking in the Thai-Burmese border area, the BCP has moved into heroin processing and trafficking in its own right. The BCP was able to make this shift in part because, according to US Embassy sources, chemicals for processing heroin became available from China as well as India.

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Forging Alliances

In order to facilitate the BCP move into the narcotics business, the party has established links to other Burmese liberation and trafficking groups. Several accommodating alliances have been formed or firmed up:

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- The Shan United Revolutionary Army (SURA) in close alignment with the avowedly anti-Communist 3rd Chinese Irregular Force (CIF) has increased its

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The Burmese Communist Party

Although one of Burma's oldest insurgent groups—underground since 1948—the BCP did not become a significant Shan State force until the late 1960s when China substantially increased its political and material support for the party. With the spillover of China's Cultural Revolution into Burma, the insurgents, backed by Chinese troops, opened a front in the northern Shan State east of the Salween River. The party established administrative control over much of the remote territory in northeastern Burma and parts of the central Shan State, Kachin State, and western Burma. By 1975 the party had grown large enough to allow the Chinese troops to withdraw. [redacted]

The gradual improvement in relations between Rangoon and Beijing in the 1970s apparently resulted in a cutback in Chinese aid to Southeast Asian insurgencies, and the Burmese Communist Party was forced to look for additional means of support. [redacted]

[redacted]

According to US Embassy reporting, however, the BCP has remained dependent on China as its primary source of military equipment. [redacted]

dealings with the BCP in order to protect its heroin-processing interests along the border. Since the military attacks against the SUA, the SURA has become a major buyer of BCP opium supplies.

[redacted]

[redacted]

Potential Challenges to the Burmese Government

The BCP is the strongest insurgent force in Burma with a military strength currently estimated at 15,000 to 20,000 men. In their base areas east of the Salween River, they operate with the home field advantages of familiar terrain, languages, and inhabitants, while the Burmese Army is largely restricted to garrison towns. The party is slowly expanding its territorial control through guerrilla operations and occasional large, setpiece battles against the Burmese Army. [redacted]

The Burmese Army has had to commit over half of its military resources to counterinsurgency campaigns to contain the insurgency. [redacted]

[redacted]

The Burmese Army's inability to penetrate BCP-controlled areas or establish a continued presence in major opium-growing areas apparently has forced

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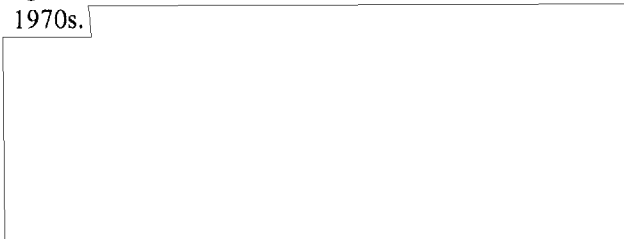
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Rangoon to consider employing surrogate paramilitary troops—a tactic widely used by the Burmese against the Communists in the late 1960s and early 1970s.



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Implications for Narcotics Control

The BCP's increased role in all aspects of the drug trade will make it even more difficult for the Burmese to establish control over its major poppy-growing areas. By integrating its operation vertically, the BCP has consolidated its control over Burma's most productive poppyfields and has established working relationships with other trafficking groups in the region. Other factors will also complicate any Burmese anti-narcotics efforts:

- Increased protection of farmers by the BCP from the Burmese opium eradication effort probably will increase the costs of carrying out this already ineffective campaign.
- Crop substitution projects designed to wean hill tribes away from opium production will not be able to compete with opium farming particularly when the price of opium is high as it is now. According to Embassy reports, opium farmers in Burma offer wages that are as much as three times that of minimum wages paid in lowland Burma.
- The more diversified smuggling methods used by traffickers may be even more difficult to police inasmuch as they traverse parts of Burma, Thailand, and India where there is little government presence.



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Communist Activities

Cuba's Expanding Civil Aviation Web

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Summary

Cuban civil aviation plays an important role in Havana's contacts with the rest of the world. Cuban air service helps Havana's political goals by establishing a presence in countries Cuba deems important, providing support for Cuban military and economic missions overseas, and conducting intelligence-related activities. The aviation sector is also a modest—but potentially important—source of hard currency for the beleaguered Cuban economy. Havana has managed to develop, largely in the last 10 years, a thin international network with connections to destinations in the Caribbean, North and South America, Europe, and Africa. These routes are serviced by a potpourri of about 60 mostly Soviet-built aircraft with occasional aircraft leased from other countries. In the future Cuba will continue to push the expansion of its civil aviation links to areas of the world where it wants to extend its political influence, support its overseas missions, and earn hard currency. Latin America and the Caribbean will remain the focus of these efforts.

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Cuba's Airlines

Since coming to power in 1959, Castro has slowly built a small international civil aviation network with connections to the Caribbean, North and South America, Europe, and Africa. Cubana, the primary national carrier, services a number of foreign and domestic points with both scheduled and nonscheduled flights and performs a variety of tasks within Cuba such as air ambulance service. Aero Caribbean (also known as Aero Caribe), a government-owned charter airline, was established in 1982 to tap the lucrative tourist and air cargo markets in the Caribbean area.

Cubana. In the more than 50 years since its founding, Cubana has grown from a small domestic carrier to a modest-size international airline with service to destinations in the Caribbean, North and South America, Europe, and Africa. Cubana began operations in 1929 as Compania Nacional Cubana de Aviacion Curtiss. It opened its first international route in 1946 with the inauguration of service to Miami. Prior to the Castro takeover, Cubana operated a fleet of 10 mostly US-built aircraft on routes to Madrid, Lisbon, Mexico City, New York, and a number of Caribbean points.

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Aircraft Fleet

Cuba's civil aviation inventory of passenger and transport aircraft is a hodgepodge of nearly 60 mostly Soviet-built aircraft of various vintages. Since the mid-1970s the Cubans have been slowly modernizing their fleet. The entire jet inventory of 30 aircraft has been acquired from the Soviets within the past eight years. Almost half of these are medium- to long-range jets—four or five medium-range TU-154s and nine long-range IL-62Ms. The rest of the fleet consists of about 27 older propeller-driven aircraft. Of these, the most significant are 18 highly versatile AN-24 and AN-26 twin turboprops, which have the range to reach any point in the Caribbean and are used for both cargo and passenger transport. In addition, Cuba also has a variety of US-manufactured light aircraft and about 50 AN-2 single engine biplanes. [redacted]

Cuba has supplemented their limited aircraft fleet by leasing Western and Soviet aircraft. These have included DC-8s from Air Canada and FINNAIR, Boeing 707s from Yugoslavia, and IL-62Ms from Aeroflot. State Department reporting indicates that Havana most recently has been trying to buy or lease Boeing or McDonnell Douglas aircraft from Nicaragua, France, Venezuela, and other countries. [redacted]

Following the Castro takeover, air transport in Cuba was nationalized, and Cubana was consolidated with two smaller airlines as Empresa Consolidada Cubana de Aviacion. With Cuba's swing into the Communist sphere, however, international operations were drastically reduced as countries broke diplomatic relations with the Castro government. Through the 1960s and early 1970s, Cubana's international service was limited to Mexico City, Madrid, Prague, and Moscow. [redacted]

In the mid-1970s, however, Havana began to rebuild Cubana's international network as many Latin American countries normalized relations with Cuba and Castro sought political and economic ties with the non-Communist world. By the late 1970s new routes linked Havana with numerous destinations in Latin America and the Caribbean, three in Africa, two in the Middle East, and one in Canada. [redacted]

Published international schedules show that—in spite of the fact some routes have been dropped—Cubana in the last five years has managed to add to its route network. The airline currently operates 22 weekly, two semimonthly, and two monthly flights to 18 countries over a route network of some 50,000 kilometers (figure 1). [redacted]

Cubana also frequently employs its aircraft on non-scheduled charter flights. Because charter flights usually can be organized on an ad hoc basis without a formal bilateral air agreement, Cubana's charter network serves a wider variety of destinations than its scheduled route network (figure 2); nonscheduled Cubana charters last year reached seven more cities than the scheduled service. These charter flights are aimed primarily at the tourist market to earn hard currency. [redacted]

Cubana charter flights to Venezuela illustrate the wide range of Havana's hard currency earning schemes. [redacted]

Aero Caribbean. Aero Caribbean is the Cuban Government's latest entry into civil aviation. [redacted] official dissatisfaction with Cubana's failure to tap the tourist and cargo markets in the Caribbean was a key factor in Aero Caribbean's creation. The airline's first official flight in December 1982 was to Cancun, Mexico, to pick up tourists for Havana. It has since conducted frequent nonscheduled passenger and cargo service throughout the Caribbean and last fall inaugurated service to Western Europe with flights to Milan. It also services

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Figure 1
Cubana Airlines: International Scheduled Routes, 1984

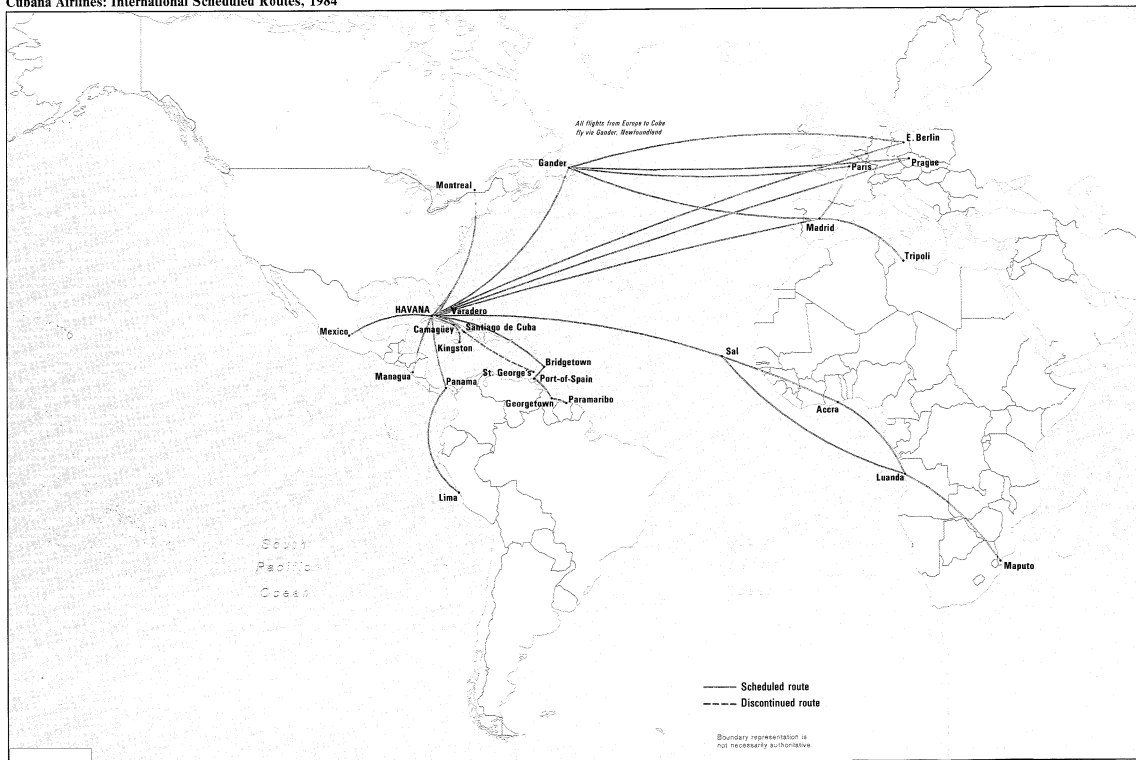
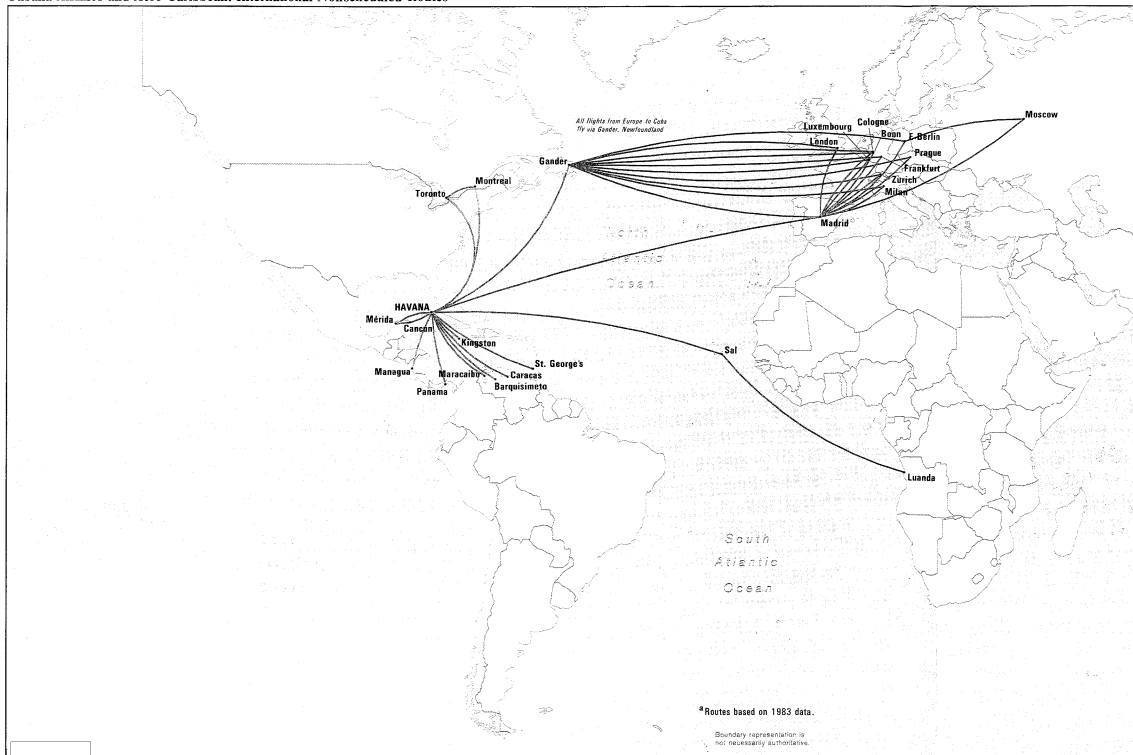


Figure 2
Cubana Airlines and Aero Caribbean: International Nonscheduled Routes^a



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a number of Cuban cities including Cayo Largo del Sur, Varadero, Santiago de Cuba, Holguin, and Nueva Gerona on the Isle of Youth. [redacted]

Bilateral Civil Aviation Agreements

Cuba's international route network of both scheduled and nonscheduled flights is based primarily on bilateral civil aviation agreements with at least 46 countries (table). Most of these agreements give Cuba overflight rights and landing and service privileges, and provide reciprocal rights in Cuba for each country's national carrier. Only seven countries—the USSR, Czechoslovakia, East Germany, Spain, Angola, Canada, and Mexico—take advantage of their reciprocal rights and fly scheduled routes to Havana. Most agreements contain a charter clause to facilitate nonscheduled tourist and cargo flights. [redacted]

While Havana has generally abided by the terms of its bilateral civil air treaties, it has on several occasions violated the agreements and has forced temporary suspension of service. For example [redacted] in 1976 Venezuela suspended Cubana charter flights after several Cuban attempts to infiltrate unmanifested passengers hidden aboard Cubana aircraft into Venezuela. The United States also suspended Cubana overflight rights for two weeks in early 1983 following unauthorized diversions near Griffiss Air Force Base, New York, from the flight route to Montreal. [redacted]

Cuban Bilateral Civil Aviation Agreements, February 1984

USSR and Eastern Europe

USSR	East Germany
Bulgaria	Hungary
Czechoslovakia	Poland

Western Europe

France	Spain
Ireland	Switzerland
Portugal	United Kingdom

Africa

Angola	Guinea
Cape Verde Islands	Malagasy Republic
Congo	Mozambique
Equatorial Guinea	Sierra Leone
Ethiopia	Tanzania
Ghana	

Middle East

Algeria	Libya
Iraq	Morocco
Lebanon	Syria

Asia

Laos
Vietnam

North America

Canada
United States

Latin America and the Caribbean

Barbados	Nicaragua
Chile	Panama
Grenada ^a	Peru
Guyana	Suriname ^a
Jamaica	Trinidad and Tobago
Mexico	Venezuela
Netherlands Antilles	

^a Suspended.

[redacted]

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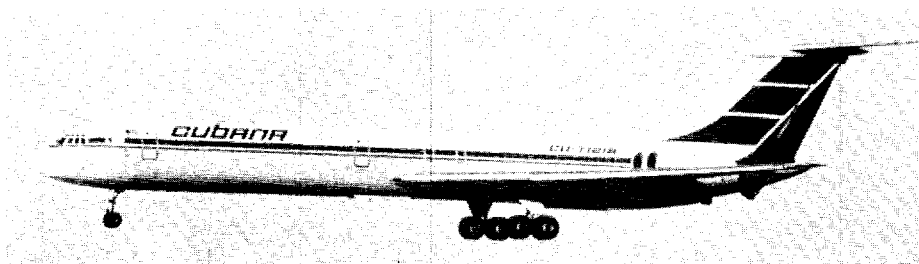
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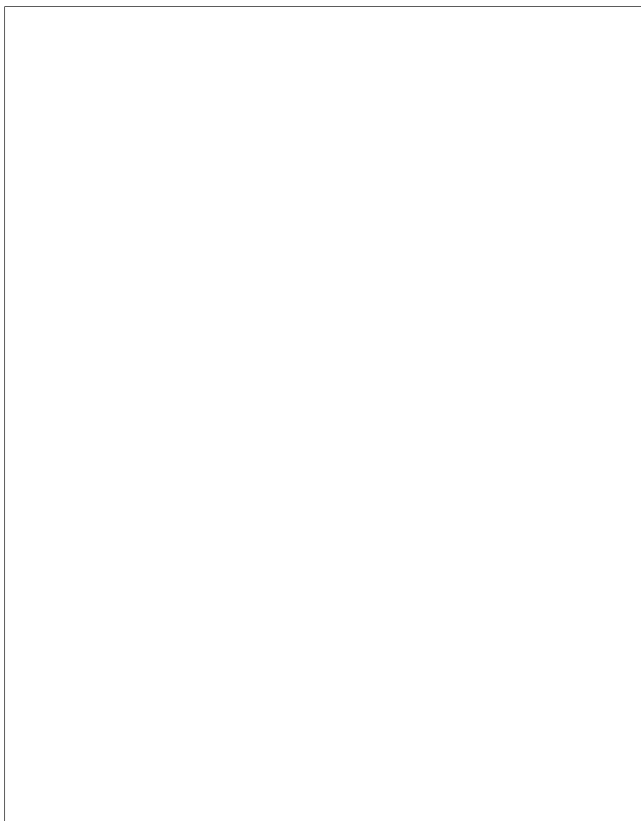
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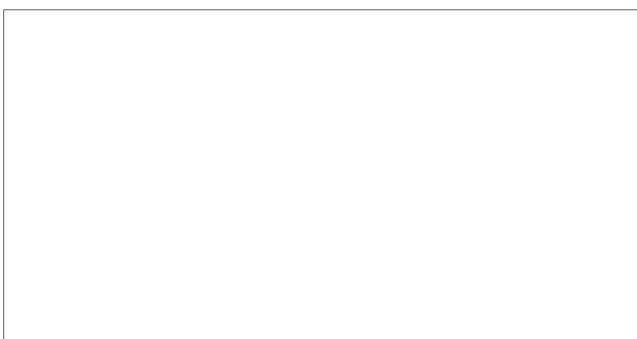
An IL-62M, flagship of the Cuban fleet. [redacted]



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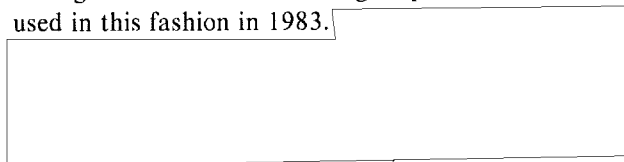
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Cubana nonscheduled charter flights have been used to carry Cuban military personnel to and from Angola.³ These special "charters" supplement three scheduled flights each month that we believe also support the Cuban military presence in Africa. During the first five months of the Cuban airlift to Angola (September 1975 to January 1976), Cubana aircraft completed 45 flights between Havana and Luanda, transporting an estimated 4,500 troops. Subsequent loss of Barbados and Trinidad as refueling stops led to Havana's decisions to lease Aeroflot IL-62M long-range jets and to acquire identical jets for the Cuban inventory to continue to accomplish this mission. An average of 20 nonscheduled flights per month were used in this fashion in 1983. [redacted]

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Military Uses of Civil Aircraft

Flights operating under Cubana and Aero Caribbean supplement the Cuban Air Force's (DAAFAR) limited domestic transport capability.² The Air Force supposedly operates no aircraft larger than an IL-14, which has a capacity of only 8 metric tons and a range of just 3,000 kilometers. The DAAFAR fleet is thus totally inadequate for supporting Castro's foreign military adventures. [redacted]

³ Cuban personnel transiting to Ethiopia typically fly to Luanda to pick up an Ethiopian Airlines flight to Addis Ababa. [redacted]

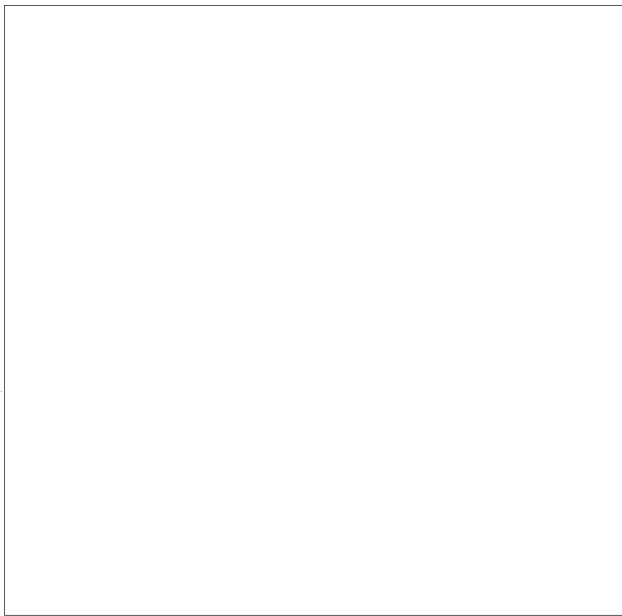
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attract more tourist traffic by offering special charter flights and package arrangements, especially in Western Europe. Since 1981, Cubana and two Cuban tour agencies, CUBATUR and HAVANATUR, have opened offices in Luxembourg, Frankfurt, and Paris and signed contracts with European tour firms to encourage tourist travel to Cuba. In the past year charter flights have started during the summer season between Havana and several West European cities, including London, Frankfurt, Cologne, Bonn, and Paris. Aero Caribbean has expanded the scope of its operations to include cargo charters, and it recently inaugurated service to Western Europe. The American Embassy in Lima reported recently that Cubana was actively selling discounted tickets between Peru and Europe as well as improperly ticketing passengers for debarkation at the technical stop in Panama City.

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Hard Currency Earnings

We believe that Cuba's civil aviation operations are a modest—but potentially important—source of hard currency for the country's beleaguered economy.

Many of the scheduled routes established for political purposes are operated with low load factors and incur significant losses. According to the American Embassy in Lima, load factors on Cubana flights into and out of Lima between January 1982 and mid-1983, for instance, ranged from only 26 percent to 42 percent. The run to Jamaica is also reported to be a loser, with load factors of considerably less than 40 percent.⁴ The nonscheduled tourist charters, however, probably operate profitably because they fly with higher load factors and are usually ticketed with hard currency payments. In particular, the charter flights to Cancun, Montreal, Bonn, Cologne, and Milan are likely to be significant hard currency earners.

To conserve the relatively small hard currency earnings from its air operations, the Castro government has attempted to cut Cubana's overseas operating expenses.



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Future Directions

Cuba will continue to expand its civil aviation links into areas of the world where it wants to extend its political influence, support its overseas military and civilian missions, and take advantage of the potential for hard currency earnings. In such cases, nonscheduled Cuban air service will precede formal bilateral air agreements and the inauguration of scheduled service. Latin America and the Caribbean will remain the focuses of such efforts largely because of Castro's interest in undercutting US influence and enhancing his own in the region.

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countries where the Cubans are likely to push for new routes include Argentina, Venezuela, Colombia, Ecuador, and Belize.

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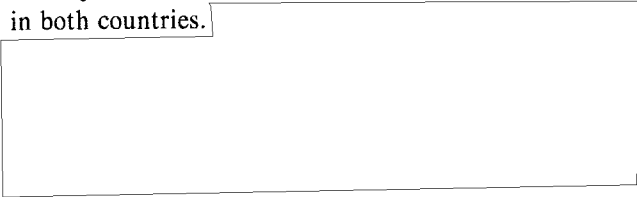
Cuba's desperate need for hard currency to service its large foreign debt has led the Cuban regime over the last three years to take a number of steps designed to improve the profitability of its aviation sector. The most important move has been an intensive effort to

⁴ At current competitive international rates, aircraft must typically operate with load factors of more than 50 percent to break even.

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In Europe the most likely candidates for the establishment of scheduled service are West Germany and Luxembourg because of the potential tourist market in West Germany and the Benelux countries. Cuba already has charter arrangements with tour operators in both countries.



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Elsewhere, service is likely to be established to countries in which there is a current Cuban presence or with which Cuba already has air agreements. These would include, among others:

- In Africa: Ethiopia, Algeria, Guinea, Congo, Sierra Leone, and Equatorial Guinea.
- In the Middle East: Syria, Iraq, and Lebanon.



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