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The Situation and Prospects in Egypt

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THE SITUATION AND PROSPECTS IN THE UAR

THE PROBLEM

To assess the situation in Egypt and the domestic and foreign factors affecting Egyptian policy, and to estimate probable developments over the next 6 to 12 months.

CONCLUSIONS

A. Shock waves from the UAR's humiliating defeat are still spreading, but no drastic political changes have occurred. The top command of the armed forces has been ousted, some senior commanders are reportedly on trial for treason, and there is discontent among many younger officers at their elders' incompetence. Nasser has, however, been confirmed in office and apparently still enjoys the support of his long time associates.

B. The war has placed additional strains on an already troubled economy. Food supplies are assured until early in 1968, but an adequate supply thereafter will require some expenditure of scarce foreign exchange. The loss of foreign earnings will begin to have severe internal effects about the end of 1967. There is unemployment in the cities, and this will probably get worse. A stringent austerity program has been adopted entailing higher taxes, stricter rationing, and reduced availability of consumers' goods; pressures for relaxation of these controls could lead to some inflation. Such circumstances are likely to cause some discontent in the cities, but are unlikely to erupt into unmanageable problems of public order.

C. Most Egyptians are probably not ready to envisage the UAR without Nasser. Yet economic and political stresses, as well as the difficulties of making progress on a resolution of the Israeli problem, may erode Nasser's popular appeal and perhaps encourage the growth

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of opposition, or even weaken the prospects of his remaining in office. All things considered, however, we believe the chances are better than even that he will remain the dominant influence in the regime for at least the period of this estimate.

D. The UAR is more than ever dependent on the USSR for military and economic aid and for political support. This gives Moscow a substantial degree of influence, which is partially offset by Egyptian suspicion of foreign advice and a certain resentment of Soviet attitudes. There are increased numbers of Soviet military advisors, though we do not know how far their functions go beyond the technical level. In its political organization, the UAR may develop a sort of regimentation resembling Soviet and East European models. In part at Moscow's urging, Cairo seems to be following a relatively moderate policy toward Israel.

E. Nasser probably believes that the closure of the Canal acts as a lever on the big powers to force Israel to make concessions. Accordingly, the present confrontation along the Canal is likely to persist—perhaps beyond the period of this estimate—despite the economic loss to Egypt and pressures for resolution from both Communist and non-Communist countries.

F. In essence, the Egyptians are attempting to regain a degree of flexibility in their foreign policy. They must, in the interest of security, demand and accept Soviet military resupply, but in so doing they will seek to avoid Soviet domination. Nasser is attempting to restore his position in the Arab world, while keeping open the option of making some concessions to Israel. In his dealings with the US, he will remain distrustful and to some degree inhibited by his dependence on the USSR; yet he will not foreclose some improvement in American-UAR relations. Because of these conflicting objectives and the narrowness of the available options, it will probably be some time before he feels able to undertake any very firm policy initiatives.

DISCUSSION

I. INTRODUCTION

1. The shock waves from Egypt's defeat are still spreading, and the country's prospects, both domestic and foreign, are clouded by a number of uncertainties. Many of these uncertainties are inherent in the situation itself; a number of difficult dilemmas have still to be resolved, and longstanding relationships within the regime have almost certainly been strained and unsettled by the traumatic experiences of this summer. Additional uncertainties arise from the fact that the policies of foreign powers—especially the USSR—will inevitably affect Egypt's outlook, and these external factors are still far from clarified. Finally, some uncertainties arise from the paucity of our information concerning the state of affairs in the UAR.

2. In the weeks immediately prior to the fighting, Nasser was riding high in the Middle East. The efforts of the US and other Western Powers to lift the blockade of Eilat had gotten nowhere. Other Arab states were rallying to the UAR's side. Jordan had signed a defense pact; Kuwait had sent troops to Egypt; an Iraqi force was on the way to Jordan. There was mass enthusiasm within Egypt for the confrontation with Israel. Then, within four days, the Egyptian air force was destroyed, the Egyptian army shattered and routed, and the entire Sinai Peninsula in Israeli hands. Today, the Israelis sit on the east bank of the Suez Canal and have a voice in deciding its future.

3. Despite the profound humiliation and shock of defeat, the war has apparently brought no drastic political changes within Egypt. Nasser has been confirmed in office and apparently continues to rely on the same group of senior officials, including two close collaborators of many years standing, Zakariya Muhi al-Din and Ali Sabri. No new blood has been introduced, nor has Nasser recalled any of the half dozen former members of the revolutionary command council who had been edged out of the inner circle in the past decade. Only one of Nasser's inner circle of advisors, Field Marshal Abd al-Hakim Amir, formerly chief of the armed forces and the senior Vice President, has resigned.

4. Beyond this, our information on the political situation in the UAR is very limited. We do not know whether senior officials have a controlling influence on Nasser's major decisions or circumscribe his authority. Nor do we know in any detail the thrust of their advice. In a general way, Sabri is more doctrinaire and more disposed to work with the USSR, while Muhi al-Din is more comfortable dealing with Westerners and Western concepts. Nonetheless, both of them support Nasser's Arab socialism at home and his foreign policies of anti-imperialism and Arab nationalism, though they differ in their opinion as to how far and how fast socialization should go, and the extent to which compromise with socialist doctrine and "anti-imperialism" is required by economic and political realities. Both have over the years displayed consistent loyalty to Nasser

and neither has shown signs of aspiring to displace him. In the postwar government, Muhi al-Din and others like him have a more prominent role.

5. In the military establishment, the changes have been more far-reaching. Not only has Abd al-Hakim Amir departed, but the War Minister and most of the top command of the armed forces have been ousted. The air force chiefs and a number of other high-ranking officers are reported to be on trial for treason, and several hundred officers further down in the military establishment may have been retired. There is severe criticism of those officers with upper and middle class backgrounds for spending more time feathering their own nests than attending to their military duties. Many of the officers who came into the military establishment during the 15 years of the Nasser regime are reported to be unhappy with the wartime performance of their elders. The morale of the armed forces has been impaired, and discipline may be more difficult to maintain.

II. THE ECONOMIC SITUATION

6. Even before the war, the UAR faced serious economic problems which centered on a foreign exchange shortage. These problems have been sharply aggravated. Prior to hostilities, the UAR could have expected foreign earnings of slightly more than \$1 billion and expenditures of just over \$1.3 billion for the calendar year 1967. Since early June, Cairo's foreign exchange receipts have dropped by about \$30 million monthly, due to closure of the Suez Canal (\$20 million in tolls per month), cessation of tourism, and the loss of oil from fields in Sinai. If the present situation persists, foreign earnings in 1967 are likely to total less than \$800 million. The loss will be partially made up by emergency assistance in cash from other countries; \$100 million has already been pledged.

7. If the Canal remains closed beyond the end of 1967 and if the Israelis remain in control of the Sinai oil fields, curtailment of foreign exchange earnings will become increasingly burdensome. In these circumstances, cumulative loss of foreign earnings probably would exceed \$450 million by mid-1968, even assuming normal crops and continued implementation of the UAR's plans to exploit its available petroleum resources. There are reports of pest damage to the cotton crop due to be harvested in the fall of 1967; should such damage prove serious, the drop in foreign earnings would be even greater. Cairo will probably receive further emergency assistance during this period, primarily from Arab countries, but not enough to make up for more than a modest part of its losses.

8. The war itself has not seriously aggravated the already tight Egyptian food situation. The Soviets have almost completed delivery of 650,000 metric tons of wheat promised earlier this year, and have just agreed to supply an additional 350,000 tons between September 1967 and February 1968. This will increase the UAR's short-term debt to the USSR from less than \$50 million to over \$100 million, but the Soviets apparently are not pressing for repayment. Egypt has also been promised a total of 430,000 tons of wheat by other Communist countries—including China and Rumania—as well as smaller amounts of food from

other nations, and has bought more on the international market. The UAR's current wheat crop of 1.6 million tons has just been harvested, but most of it will be consumed in rural areas. This domestic crop plus scheduled imports will probably suffice to meet Egypt's grain needs through January 1968. To cover the following six months, Cairo will have to purchase or otherwise acquire one million tons of wheat. It can probably do this, but will have to spend about \$75 of scarce foreign exchange for each ton purchased from Western suppliers.

UAR URBAN WHEAT SUPPLY AND CONSUMPTION
(thousands of metric tons)

Estimated stocks, 1 January 1967	300	
Domestic production	300	Estimated amount of domestic crop available for <i>urban</i> consumption.
Imported or on order, as of 10 August 1967	2,100	
TOTAL	<u>2,700</u>	
Estimated consumption	<u>2,220</u>	Normal urban consumption is 220,000 tons per month. This rate used for January-May period. Lower rate of 160,000 tons per month, which UAR could get by on, used for June-December period.
Balance: Projected stocks, 1 January 1968	480	

9. The question of food will present a continuing problem for Egypt. The Soviets and East Europeans are reluctant to assume indefinitely the burden of filling Egypt's needs. The UAR could find enough foreign exchange to purchase grain in world markets—the cost would be at least \$150 million per year, or upwards of 20 percent of Egypt's normal hard currency earnings. But such expenditures would of course impair Egypt's ability to finance other imports.

10. Cairo has announced a revised budget for the fiscal year ending June 1968, designed to cope with problems created by the war. It includes measures to collect additional revenues of about \$300 million and to slash nonmilitary expenditures by about \$500 million.¹ More than half of the cuts are in the development budget, where all "nonessential" projects are to be postponed. Taxes are being increased; rations of subsidized consumer items are being reduced; salaries are being frozen or even cut. In terms of curtailing consumption, reducing imports, eliminating wasteful spending, and reducing inflationary pressures, the announced program is more austere than anything attempted since Nasser came to power, and goes further than anything heretofore advocated by the International Monetary Fund. The austerity program will undoubtedly cause fairly widespread dissatisfaction.

11. There is already unemployment in the cities, and, with half a million Egyptians reaching working age each year and rural underemployment already common, it is almost certain to become worse. The loss of foreign earnings

¹ Appropriations for military and security purposes have been increased by some \$135 million.

has begun to affect the employment picture in 1967, and it will become progressively worse in 1968. There is probably considerable unemployment already in the tourist industry and in the Suez Canal region. The government is continuing to pay the salaries of Canal employees, and it will probably try to absorb other displaced workers in paramilitary and public works. But the government will find it hard to do much along these lines within the limits of the austerity budget.

12. The repercussions of the war will curtail domestic economic growth. In 1966, gross national product (GNP) grew by five percent; for 1967 as a whole, the rate of growth probably will be no more than three percent, barely enough to keep per capita GNP relatively steady. Under present circumstances, stagnation of GNP and decline in per capita GNP seem likely, at least by the early months of 1968. So long as the regime holds to the austerity budget, inflation can probably be avoided. Over the longer term, the regime is likely to yield to pressures to relax controls.

III. THE DOMESTIC OUTLOOK

13. The next year will be a time of strain within Egypt. Shortages of certain consumer goods, rising unemployment, higher taxes, and probably higher prices are likely to give rise to dissatisfaction in the cities, possibly involving some demonstrations or riots. The regime is undoubtedly aware of this and will strive to keep shortages to a minimum. It will, of course, rely heavily on its security services and probably will be able to maintain an acceptable standard of public order. Nonetheless, dissatisfaction may be sufficient to encourage potentially significant political opposition.

14. For the present, Nasser retains considerable political assets. He appears to enjoy very broad popular support and remains a unique figure in Egyptian politics. His principal aides have so far given no sign that they wish to supersede him. It is possible that a clique might be formed with the object of thrusting him aside, but it seems more likely that his associates now consider that their interests are better served by hanging together under Nasser.

15. Except for the regime-sponsored Arab Socialist Union, organized political activity is illegal and probably not very extensive. Nevertheless, the Muslim Brotherhood, which Nasser believed he had crushed in the mid-1950's, had by 1965 reestablished an extensive clandestine apparatus. Although many arrests were made, the Brotherhood still survives, and its appeal to certain discontented and disillusioned elements could be considerable. At least for the period of this estimate, local Communists are likely to seek increased influence in the regime, rather than its overthrow.

16. The decisive factor, however, will be the attitude of the military establishment. Even a palace revolution would require the support of substantial elements of the armed forces in order to be successful. And, in fact, the armed forces are the most likely source of serious opposition to Nasser. The nucleus of such opposition would probably be those elements within the armed forces

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which have no stake in the present regime, e.g., those whose careers have not yet brought them lucrative or powerful appointments. Shame at the performance of their seniors in the recent combat could be a stimulus to action for members of this group.

17. Nasser does not appear to be widely blamed for Egypt's defeat, and it appears that the bulk of the Egyptian population could not at this point conceive of an Egypt without him. Thus, a move by people in the UAR power structure to put him aside or openly restrict his authority would probably run into considerable public opposition. In the months to come, economic problems, political dissatisfactions, competing policy pressures, and the hazards of proceeding toward some resolution of the Israeli problem will all add to his difficulties and perhaps weaken his popular appeal or his desire to retain office. In this event, he might be forced, or persuaded, to surrender some of his power or even to step aside. All things considered, however, we think the chances are better than even that Nasser will be the dominant force in the government for at least the term of this estimate.

IV. CHOICES IN FOREIGN POLICY

18. Aside from domestic political and economic considerations, several factors bear on the UAR's conduct in the international field. The first of these is its apparently genuine fear of a new attack by Israel. The Cairo regime is aware that it was soundly beaten in the first week of June. The current disposition of UAR forces is clearly defensive. We do not believe that the UAR contemplates renewing hostilities either in a conventional fashion or through guerrilla warfare at any early date, although there are likely to be skirmishes from time to time.

19. The UAR is more than ever dependent on Moscow for military supplies to rebuild its shattered forces. It also needs Soviet economic aid as well as assistance in the political field. Therefore, Moscow has a substantial degree of influence in the UAR, but this is hard to measure. The USSR is using its influence to encourage UAR moderation toward Israel. We are not certain how far the USSR wishes to go in this direction or in providing political and economic support for Nasser. Mutual disillusionment between the UAR and the USSR has grown, but neither seems to feel that it can abandon the other at this point.

20. There are reports of "Sovietization" and of growing Communist influence within the UAR Government. The Communists and the Soviets probably believe that they have a good opportunity to increase their influence in the UAR. The Arab Socialist Union may develop as an instrument for political regimentation, with an organization generally modeled on Soviet and East European Communist Parties. The UAR armed forces have accepted numbers of Soviet advisors and may have to accept more, though we do not know how far the functions of these advisors will go beyond the technical level. At the same time, Egypt is suspicious of foreign advice and intervention, and without more evidence we are not inclined to believe that Nasser is prepared to accept

Moscow's dominance. There is resentment in Egypt against the USSR, although far less than against the US. For the time being, the UAR may have to accept its dependence on the Soviets, but it will probably search for ways to lessen it.

21. Nasser probably believes that the US has consistently sought to thwart his aspirations and over the last two years or so has sought to unseat him. He sees the US position before, during, and since the recent war as confirmation of his long held suspicion that the US is fundamentally on the side of Israel. It is unlikely, therefore, that Nasser's distrust of the US will diminish during the next year. Nonetheless, he may consider it prudent to keep the door open for some improvement in relations with the US. One motive would be a desire to return to a more nonaligned position.

22. Nasser's stature among the Arabs is diminished. His role as a leader of the revolutionary states and a symbol of the radical forces is in question. Damascus and especially Algiers are challenging his leadership. Iraq is pulled between the calls of the extremists and its feeling of solidarity with the UAR. Nasser finds himself in the unusual position of sharing a cautious approach toward Israel with Jordan's Hussain. But Nasser's diminished role limits his options in respect of Israel, since he is now more vulnerable to charges by other leaders of being "soft on Israel."

23. Nevertheless, the UAR is moving for at least a temporary accommodation with the conservative Arab states. Nasser has told Hussain that a cautious, nonbellicose policy toward Israel is mandatory for both. He has supported the holding of a conference of all Arab heads of state, despite the opposition of Syria and Algeria. The UAR has offered to reactivate the 1965 agreement it made with Saudi Arabia to effect a settlement of the Yemen problem. A lightening of its Yemen burden would help Egypt economically, and withdrawal of troops—presently numbering about 25,000—would improve its very weak military position vis-a-vis Israel. However, since Nasser would want to leave in Yemen a government favorable to the UAR, and Faisal would oppose this, the chance of agreement is not great.

24. The UAR moves seem designed to rally support for its Israel policy from as broad a group of Arab states as possible. We believe the UAR wants to use such support to counter Algeria's and Syria's advocacy of sustained guerrilla and terrorist actions against Israel and to counter their threat to its leadership. We believe that the UAR considers a united Arab policy toward Israel as having higher priority for the present than the pursuit of its feud against the more conservative Arab states.

25. The UAR seems to realize that it must make some concessions in order to get Israel to withdraw from Sinai. For example, at the UN it was willing to entertain a formula which would imply an end to belligerency in return for Israeli withdrawal. Nasser naturally wishes to lose as little as possible in getting the Israelis to pull back, but he is aware that outside powers are not going to rescue him as they did in 1956. We believe that Nasser will not consent to formal peace

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negotiations with the Israelis, but that he will strive for some accommodation which limits as far as possible the damage to his prestige.

26. Despite pressures from Communist and non-Communist countries for opening the Canal, any arrangement to end the present confrontation there will take considerable time, perhaps longer than the period of this estimate. Economic pressures are not likely to be very compelling, at least for the next six months or so. Nasser probably believes that the closure of the Canal and the suspension of Arab oil shipments to the US and the UK acts as a lever on the big powers to put pressure on Israel to be accommodating.

27. In essence, the Egyptians are attempting to regain a degree of flexibility in their foreign policy. They must, in the interests of security, demand and accept Soviet military equipment, but in so doing they will seek to avoid Soviet domination. Nasser is attempting to restore his position in the Arab world, while keeping open the option of making some concessions to Israel. In his dealings with the US, he will remain distrustful and antagonistic and to some degree inhibited by his relationship with the USSR; yet he will not wish to foreclose some improvement in American-Egyptian relations. These conflicting objectives and the narrowness of the available options will not make the road ahead easy for him, and it will probably be some time before he feels able to undertake any very firm policy initiatives.

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