

# THE MIDDLE EAST WAR

During the second week of the fourth Arab-Israeli war since 1948, fighting continued and was at times intense on both the Suez front and in the Golan Heights area. Neither side made any decisive gains. The fighting forces of both sides are still largely intact and are being resupplied; so neither side is under any immediate pressure from the military standpoint to bring hostilities to a quick conclusion. The positions taken publicly this week on conditions for a cease-fire remained far apart.

The success so far of the Arab fighting forces, especially in comparison with their record in 1967, is attracting strong expressions of support from the Communist, the Muslim, and the non-aligned worlds. The Soviets are committed to a large-scale logistic effort in support of the Arabs. In addition, oil-rich Arab nations have given Egypt and Syria immense sums of money; the Arab oil producers have agreed to cut production by not less than 5 percent a month until Arab demands are met; and, there is talk—but so far little action—about the Arabs divesting themselves of their dollar holdings.

## The Egyptian Front

The fighting along the Suez Canal increased this week as Israel, partly in response to an Egyptian thrust into the Sinai on 14 October, began to focus its attention on that front. The Egyptian attack was soon checked, but Cairo has continued to reinforce its troops on the east bank of the canal. It moved surface-to-air missile equipment there for the first time, but by the end of the week, had reportedly moved the missiles back to the west bank. In general the Egyptian penetration into the Sinai extends about seven miles; in a few places their lines extend 20 miles from the canal.

The Egyptian armored divisions apparently are on the east bank. Other Egyptian combat forces, as well as field and antiaircraft artillery units, are positioned along the canal northeast of Ismailia.

Action during the week was highlighted by several large armor engagements and each side claimed to have gained the upper hand. Some of these engagements apparently resulted from Egyptian attempts to move toward the key Mitla and Gidi passes that control movement within the Sinai. The Israelis so far have been successful in repulsing the attacks.

On 16 October, the Israelis managed to put a small armored force onto the west bank of the canal in the Deversoir area. The mission of the force apparently was to destroy Egyptian SAM and antiaircraft batteries on the west bank. The force reportedly suffered heavy losses, but it was still operating behind the Egyptian line on Thursday and apparently had been substantially reinforced.

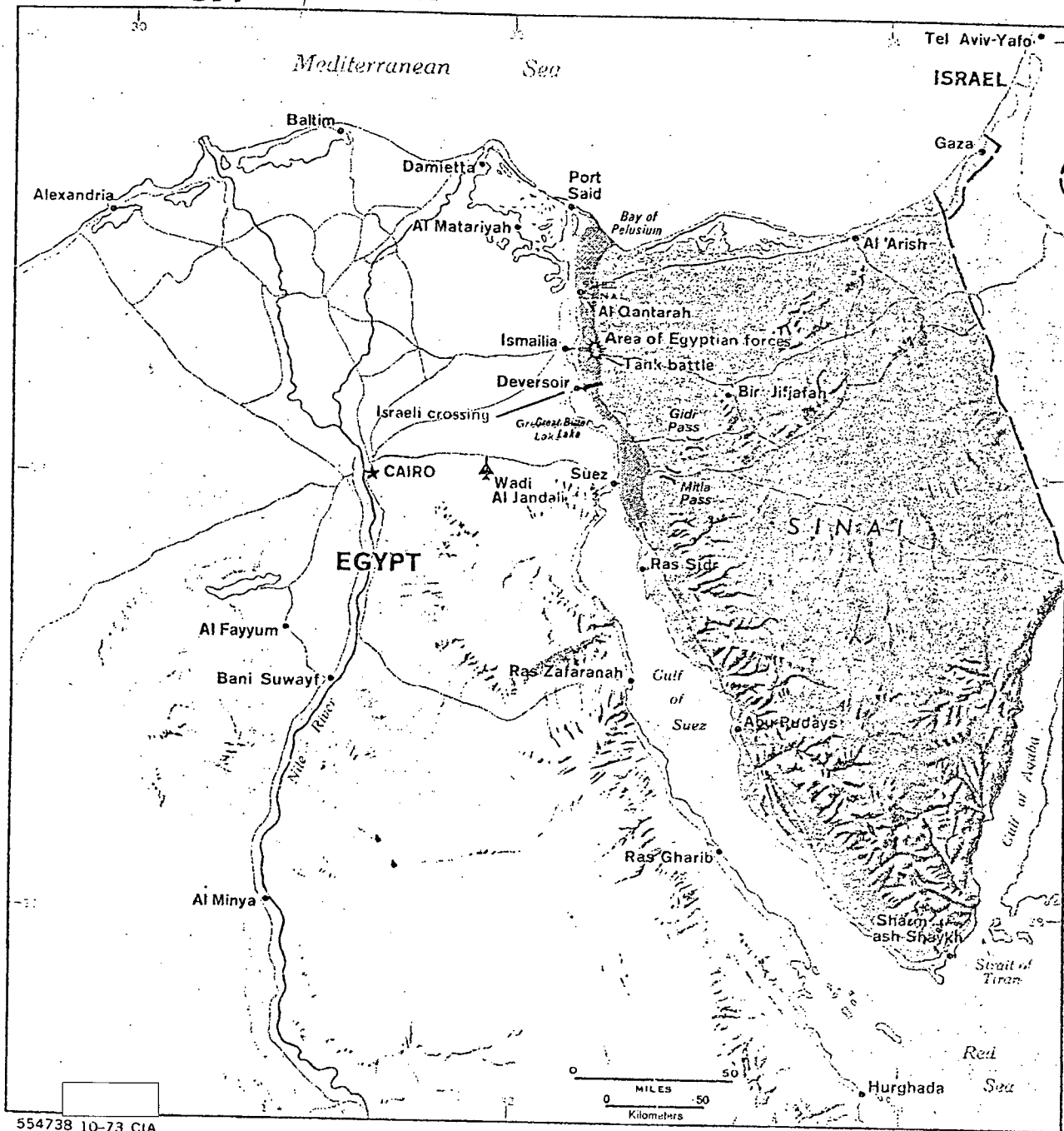
Aerial activity by both the Egyptians and Israelis increased during the week. Previously the Egyptians had withheld most of their air force from combat. Cairo may now challenge Israel in the air as well as on the ground.

## The Syrian Front

Israel's Defense Minister Dayan claimed on 15 October that the Syrian forces had been pushed back far enough so that Israel could now give the highest priority to the Suez front. Israel, in fact, seemed to have decided on a holding operation on the Syrian front and is now dealing with the Egyptians in the Sinai. Some Israeli forces may have been shifted to the Sinai by last weekend.

Syrian troops that remain in contact with the Israelis are putting up stiff resistance, and there have been no reports of entire units surrendering, such as occurred in the 1967 war. Israeli tallies of Syrian prisoners were surprisingly low. On 16 October, the Syrians claimed to have counterattacked and to have retaken some high ground overlooking the road from the Golan Heights to Damascus. They also continue to make effective use of artillery against Israeli positions.

# The Egyptian Front



The Israeli strategy on the Syrian front appears to be aimed at holding and consolidating their salient. They hope to block any effective coordinated operations by the several national forces now arrayed against them. The Israelis have voiced concern that Syrian forces might get a breather by employing other Arab forces in the battles. Moroccan forces, which were in Syria before the fighting began, and Iraqi units have already seen much action. On 16 October Jordan's armored brigade joined in an engagement

with the Israelis for the first time. The Israelis believe that the Syrians, Iraqis, and Jordanians are still operating as separate entities with little overall coordination.

Syria reportedly has suffered heavy civilian as well as military casualties. Some 300 people reportedly were killed in Damascus and another 200 in Homs as a result of Israeli air strikes. [redacted]

## Impact of the War

### ON THE ARABS

The continued strong showing of Arab military forces has, at least for now, greatly strengthened President Sadat's political position in Egypt and the Arab world generally. The fact that he launched a war marked by successes rather than immediate defeat has gained him a respect and popularity that he never knew before. Even some of his former critics now acknowledge that he is a worthy leader.

The Egyptians have not yet suffered much from the fighting, and this has contributed to their new confidence and pride in themselves and their leader. Anticipated Israeli deep-penetration raids have not so far been on a scale to terrorize the populace, and shortages of foodstuffs and other consumer items were eased by the quick arrival of new supplies.

Riding this wave of unaccustomed favor and success, Sadat has taken a tough line on a cease-fire with only a few hints of flexibility. His position—outlined in a speech billed as an open message to President Nixon—is that Egypt will accept a cease-fire only after Israel agrees to return to the boundaries existing prior to the Arab debacle in 1967. Sadat's statement of these Egyptian terms was punctuated with an implied threat to employ "Egyptian-Arab" rockets that he claimed are capable of striking at any point in Israel.

At the same time, Sadat repeatedly asserted that he did not seek the annihilation of Israel. He

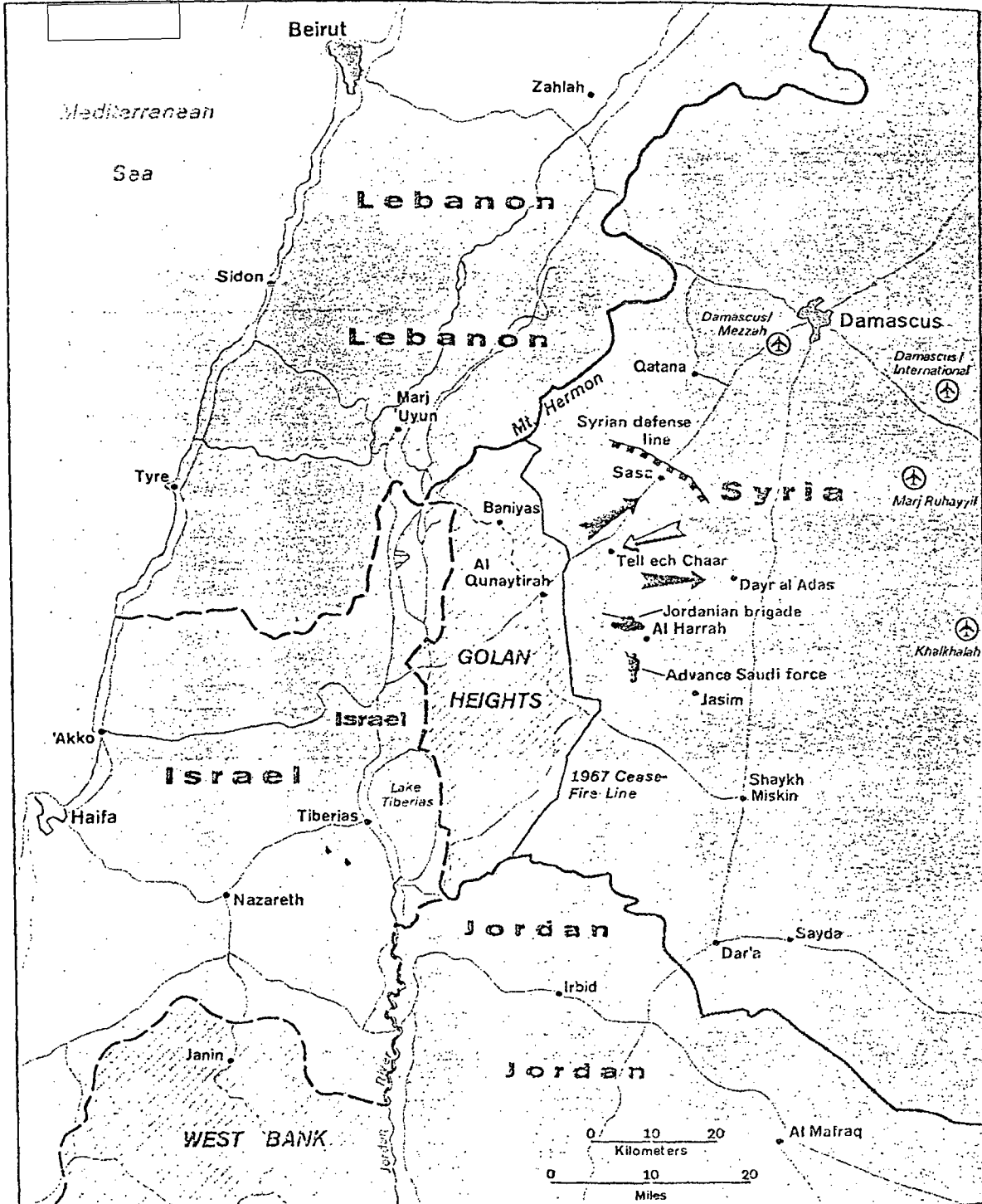
promised, upon completion of Israel's withdrawal from the Arab territories they have occupied, to participate in a UN-sponsored international peace conference. He also made it clear, even while calling for recognition of the rights of the Palestinians, that he does not intend to back their claims to territory in Israel proper.

When the Egyptians struck across the canal on 6 October their minimum military goal [redacted] was to establish a beachhead on the east bank of the canal. A second goal was to occupy the major Sinai passes in order to form a defensive line against Israel. The territory between this defensive line and Israel proper would become a buffer zone that might be supervised by a UN force. [redacted] any Egyptian military action beyond the passes is unlikely.



In Syria, the populace is still relatively calm, despite the battering sustained by the Syrian armed forces, civilian casualties, and the Israeli advance toward Damascus. President Asad has taken an optimistic line and morale in general remains fairly high. The war is widely viewed as a task too long delayed.

The atmosphere is also calm in the Iraqi capital of Baghdad, where a propaganda outcry, limited defense measures, and the start of mobilization are the only outward signs of the new war. The few indirect reflections of the public attitude toward the war available so far indicate a growing excitement over the country's military

# The Syrian Front



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 Israeli attack  
 Syrian attack

**TOP SECRET** [Redacted]

involvement and pride in the Arab performance to this point.

Jordan's active involvement in the war, although confined to one armored brigade, is paying political and economic dividends. King Husayn and his country, ostracized until recently by a number of Arab regimes, is now reaping favorable publicity; diplomatic ties are being restored. More important to Husayn, Kuwait has announced it will resume paying the \$41-million annual subsidy to Jordan that was suspended in 1970 when Husayn expelled the fedayeen from his country. Jordan is still being pressed to broaden its commitment to the fight, but the King appears determined to keep his country's involvement at a minimum and would like an early cease-fire.

Other Arab states continue to back up their pledges of solidarity with a few troops and large amounts of money. Morocco's King Hassan has dispatched a second contingent of Moroccan troops, this time to the Egyptian front. Sudan has sent troops to the battle zone.

The oil-rich states, for their part, are throwing their financial might into the fight. Since the outbreak of hostilities, they have supplied Egypt with about \$850 million and Syria with as much as \$1.2 billion. Saudi Arabia and Kuwait are the largest contributors, but goodly sums have also been provided by Libya, Abu Dhabi, and Qatar. These amounts are well beyond any immediate financial need of either Egypt or Syria, but provide important psychological advantages as the two countries look to the post-war period.

The Arab reaction to the announcement of the US resupply effort to Israel has been bitter, but thus far relatively restrained. Clearly, the effort was widely anticipated, especially once the Soviets had started deliveries to their friends. Sadat and Asad, in speeches on 16 October, touched only lightly on the subject. Cairo media are taking some satisfaction from the US airlift, pointing out that US support for Tel Aviv proves that the Israelis are hurting badly. Despite the US move, some Egyptian and Syrian diplomats are

professing to believe that Washington can still play a vital role in ending hostilities.

Nevertheless, the level of anti-American sentiment is on the rise throughout the Arab world and will probably continue to rise while the war lasts. It is being fueled also by expressions of apprehension regarding US military intentions. As long as the Arabs' present exhilaration resulting from their military showing lasts, feelings against the US may not get seriously out of hand. Should the Arab armies begin to suffer major setbacks, American nationals and US property could quickly become targets of mob violence and terrorist action in many Arab countries.

#### ON ISRAEL

The Israelis, beginning with Prime Minister Meir, are now concentrating on the war, and they are grimly determined to secure what they regard as vital security interests. They voice confidence in final victory, and they have been buoyed by the US decision to resupply them with arms and equipment. Public confidence has been shaken, however, as the realization has spread that this war will, as Dayan says, be "more protracted, more difficult, more bloody."

Having grown accustomed to quick and dramatic military victories, the Israeli public has been stunned by the boldness of the Arab attack, by the tenacity the Arab forces, and by the heavy personnel and equipment losses inflicted on Israel. The public knows, too, that the Syrian forces, although expelled from the Golan Heights and badly mauled, are continuing to fight. Moreover, the crucial battle—that with Egypt, always the primary enemy—still looms ahead and will, in all likelihood, be even more costly.

In a major speech on 16 October, Mrs. Meir told the Israeli parliament that Tel Aviv would never agree to a cease-fire predicated on an Israeli withdrawal to the borders they had before the 1967 war. An end to the fighting would come, she said, only when the Arabs are defeated on both fronts. Mrs. Meir discounted Arab assertions that their goal is limited to recovering the territories they lost in 1967, charging that the destruction of Israel is their real objective.

The Israeli aim is to drive the Syrians and Egyptians back beyond the 1967 cease-fire lines. Their ability to do this, and the cost to them in men and equipment, will determine their real attitude toward a cease-fire. Mrs. Meir left open the possibility that Tel Aviv might settle for something less than the 1967 cease-fire lines and, in fact, there have been signs all week that it might be receptive to proposals for a cease-fire "in place" that would leave an Egyptian force east of the canal. But they argue that the Arabs, buoyed by their military successes, are not now interested in any cease-fire talks and will have to be hit hard first.

Meanwhile, the economic cost of the war to Israel is mounting. The Israelis this week estimated that it is costing around \$240 million a day. The estimate tries to measure the impact of the diversion of productive factors from the civilian economy, which is operating at reduced speed, although still at a level sufficient to keep the population supplied with basic necessities. With respect to the more narrow problem of financing the war, the government plans to raise \$550 million through the issuance of compulsory and voluntary loans and by cutting the development budget. World Jewry is likely to contribute another \$150 million or so in addition to the \$350 million that was expected before the outbreak of the war. Finally, Israel has \$1.5 billion in foreign reserves. Tel Aviv will turn to the US for additional assistance if the war drags on very long.

ON THE MUSLIM WORLD

Although Turkey has given verbal support to the Arab cause, it has come under heavy pressure from the Arabs to take a more forthright stand. It has fended off requests to allow Iraqi armor to transit Turkish territory en route to the front and Soviet aircraft to overfly its territory. More recently, Turkey has allowed a few Soviet planes to overfly, including, on 17 October, three AN-12s engaged in the resupply operation.

In Iran the Shah's government has voiced public support for the Arabs, largely as a gesture of solidarity with fellow Muslims. The pro-Arab sentiment among the Iranians is unlikely to

induce the Shah to go much further. He is not likely, for example, to take part in the Arab effort to use oil as a weapon, or to provide materiel or funds to the Arab combatants.

Pakistan, too, has reaffirmed its backing for the Arabs and has offered some material assistance, including arms and ammunition. Pakistani military instructors are stationed in a number of Middle East countries, and those closest to the fighting may be allowed to take part in defensive operations.

ON THE SOVIET UNION

The past week has seen a significant increase in Soviet involvement in the Middle East situation. The Soviet resupply operation to the Arab combatants continued at a high level, some additional ships were added to the Mediterranean Squadron, and Premier Kosygin landed in Cairo for a hastily arranged visit.

Moscow accelerated its airlift of military supplies to the Middle East over the past week. The airlift this week was the largest ever mounted by the Soviets over a seven-day period. The planes are probably carrying mostly air defense equipment. In addition, Moscow has mounted a sealift of considerable size. By noon on 18 October, 12 possible arms carriers had left for Middle East ports since hostilities began, and eight had already arrived. These ships may be carrying heavy military equipment, including tanks not suitable for air transport.

The Soviet naval force in the Mediterranean has been increased to 74 ships, compared with a normal 45-50. This is the largest number ever observed there. In terms of major combatants, there were 14 before the war broke out; now there are 17. Two of the additional combatants are making a long-scheduled visit to Italian ports.

Soviet commentaries on the war have, of course, supported the Arab position. Algerian President Boumediene who was in Moscow on 14-15 October, for instance, came away with a Soviet pledge to "assist in every way." Moscow continues to avoid strident attacks on the US,

however, even after the US announcement on 15 October of a major resupply effort to Israel. In meetings on 15 and 16 October

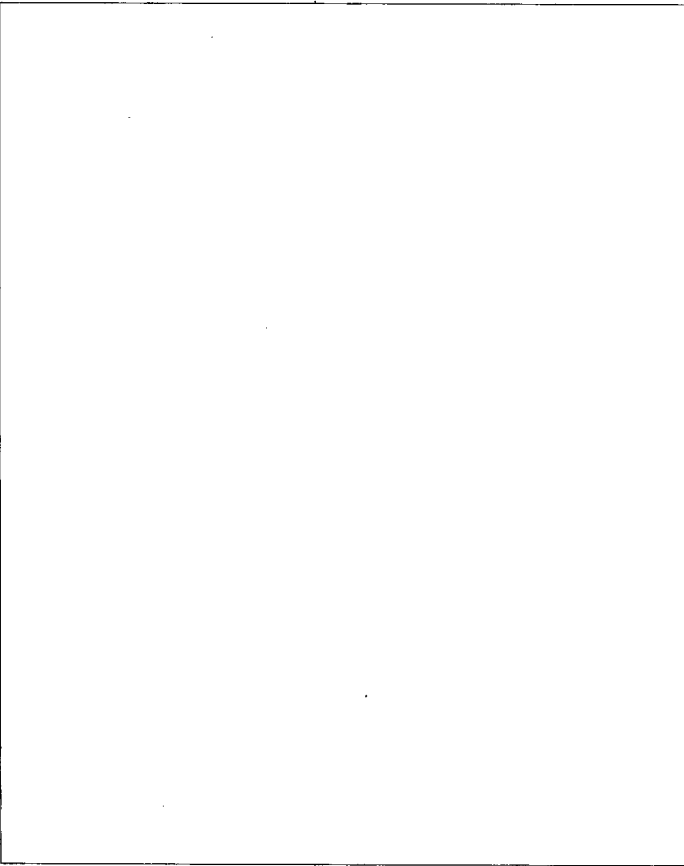
Premier Kosygin and party chief Brezhnev stressed that "escalating" war presented a "serious" situation. They said they hoped that it would not halt movement toward improved relations with the US.

The impact of the Middle East war on broader questions—including US-Soviet relations and even the stability of the Soviet leadership—surely weighs on Kremlin minds. There is some evidence that questioning of the detente policies with which Brezhnev is associated had been revived before the war broke out. The extensive Soviet support for the Arab cause should weaken those critics who argued that pursuit of detente had cost the USSR its ability to support its friends in time of need. If the movement toward better relations with the US is set back substantially, however, and the fruits of detente seem less clear, any internal political gains for Brezhnev will be short-lived.

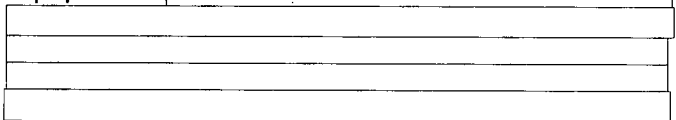
Perhaps the best evidence of how seriously the Kremlin views the broader implications of the war is the Kosygin mission to Egypt, which was not given public notice in either Cairo or Moscow until two days after it began. There is little reporting on what Kosygin is saying to the Egyptian leaders, but he may be telling them that now is the time to accept a cease-fire linked with some fairly explicit pledge of a return of all the territory occupied by Israel in 1967.

ON EASTERN EUROPE

East European reaction to the Middle East war has followed predictable lines. All Warsaw Pact members except Romania have followed the Soviet lead, although with varying intensity, by blaming Israel for the outbreak of hostilities and giving strong vocal support to the Arabs. The Romanians, the only Pact member with diplomatic ties to Israel, are making every effort to sustain a "neutral" stance, but they did say that the "continued occupation of Arab territory is a permanent source of conflict." Outside the Soviet sphere, Yugoslavia and Albania are shrill supporters of the Arab cause.



In spite of their verbal support of the Arab cause, the East Europeans are not in a position to supply the Arabs with large amounts of military equipment.



The Yugoslavs have publicly admitted only to supplying Arab forces with medical supplies, including blood plasma. Belgrade's formulation that it will give "comprehensive assistance" suggests that the Yugoslavs could well be sending limited quantities of military hardware.

ON WESTERN EUROPE

The war in the Middle East has again brought home to the West Europeans their impotence in the face of a potentially grave threat to their energy supplies and to East-West detente.

~~TOP SECRET~~

Even before the Arab attacks, the Europeans were nervous about being caught in the middle of an Arab-US confrontation on oil.

Since the fighting began, both Israel and the Arab states have lobbied heavily in EC capitals for a statement advantageous to their cause. Meeting in Copenhagen last week, the political directors at the foreign ministries of EC members agreed to suspend arms shipments to the belligerents and wrestled with a declaration on the Middle East situation that would express a consensus of the Nine. Although bland, the text that was subsequently issued appeals for a cease-fire linked to "true negotiations within an appropriate framework" and for a settlement conforming to Security Council Resolution 242. It has been criticized by the Arabs as deficient.

The declaration marks a new effort by EC members to concert their policies toward the Middle East, despite the failure of their earlier attempts to do so. Although the practical import of the declaration is slight, concessions made by both pro-Israeli and pro-Arab members of the community indicate a desire by the Nine to overcome differences in the interest of affirming a "European" position.

Although European concern about the Middle East has yet to make an impact on the European security conference in Geneva or the preliminaries to the force reduction negotiations in Vienna, NATO Secretary General Luns called a restricted meeting of the North Atlantic Council this week to discuss the war's effect on the Alliance and on detente. The Soviet role in the war has generated European questioning of the spirit if not the letter of the US-Soviet agreement on prevention of nuclear war.

Although public sympathies for Israel have declined somewhat in Europe since the 1967 war, France's and Britain's arms embargoes to the "battlefront" states have still given rise to domestic criticism on the grounds that the measures work primarily to Israel's disadvantage. In France the political effect of such criticism on the government is minimal because both the government coalition and the opposition Socialist-Communist alliance are split on the issue.

Portugal's agreement, meanwhile, to allow US use of the Azores base for resupply operations may well lead to demands for a quid pro quo in the negotiations coming up for continued US use of the Azores when the present agreement expires next February.

#### ON THE UN

A second week of intensive diplomatic activity at the UN yielded no appreciable progress toward a peace settlement. The refusal of both Arabs and Israelis to encourage negotiations for a cease-fire suggested that the diplomatic stalemate would continue until one side or the other achieves a decisive military advantage. Pressures on the US to break the stalemate with a cease-fire initiative abated. Security Council members agreed not to meet until there was a consensus on a course to follow, and they seemed to look instead for progress from the rumored US-Soviet negotiations.

#### ON THE OIL BUSINESS

The Organization of Arab Petroleum Exporting Countries announced on 17 October that the Arab producing nations will reduce production by not less than 5 percent per month until Arab military and political demands are met. Until the US decision to provide additional materiel to Israel, King Faysal had shown reluctance about using Saudi Arabian oil as a lever against the West. Now Riyadh says it will cut output by 10 percent. The agreement hammered out in Kuwait by the Arab oil ministers is probably sufficiently flexible to satisfy Arab divergences over the use of oil as a weapon. The reduction—initially about 1 million barrels per day—will have little immediate effect, but could cause considerable economic dislocation in Western Europe and Japan by mid-winter. The US, which had hoped to import as much as 600,000 barrels per day of heating oil this winter, will also be affected.

News reports indicate Abu Dhabi and perhaps Kuwait have also instituted a total embargo on oil shipments to the US. The action is more significant for its political implications than for its economic impact since the US imports less than 100,000 barrels per day from the two.



Earlier, all of the pipeline terminals in the eastern Mediterranean had been closed. The Syrian terminals were damaged, and high insurance rates made it unprofitable for tankers to load in Lebanon and Israel. Closure of the east Mediterranean ports cut off delivery of some 2 million barrels a day, 13 percent of Western Europe's oil consumption. Most of this oil has been going to France, Italy, Spain, and Austria. Tripoli had begun to place some restrictions on the destination of its oil. For example, Tripoli refused to load tankers headed for Greece on the grounds that the oil could be used to fuel the US Sixth Fleet.

Western Europe continues to receive its normal 950,000 barrels per day from the Soviet Union and Eastern Europe. Deliveries to East European countries from the Middle East and North Africa have for various reasons fallen to about three fifths of the 580,000 barrels per day planned for 1973. This reduction may force some diversion of Soviet supplies from Western to Eastern Europe. In this event, Sweden would be most affected, followed by Italy and West Germany.

On top of all this, the Persian Gulf producers have decided to present Western oil companies with a non-negotiable demand for a 70-percent increase in crude oil posted prices. The companies—with little leverage in the current sellers' market—may be forced to accept. Demands for a price increase, although first voiced last June, have doubtless been strengthened by the Arab-Israeli war. Historically, Persian Gulf oil prices have been set either by the companies alone or through negotiations with the oil-producing governments. The Persian Gulf countries supply about two thirds of the oil in world trade. Other producers are certain to raise their prices to reflect Persian Gulf increases.

If the companies accept, Persian Gulf oil revenues will be increased by about \$10 billion a year; other producing countries will benefit by about \$5 billion. The 1974 oil revenues of Saudi

Arabia, Abu Dhabi, Qatar, and Kuwait—all of which have limited abilities to absorb capital—will approach the amounts that, only a few weeks ago, were being estimated for 1980. The oil import bills of the US in 1974 will probably be increased by about \$3 billion; Western Europe's bill will go up by \$8 billion; Japan's by almost \$3 billion. Some of the increases will return to the industrialized countries through the sale of goods and services to the producing countries and repatriation of company profits.

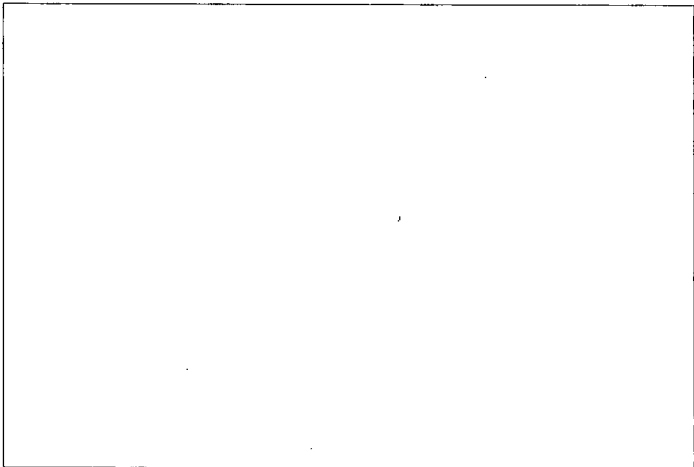
#### ON THE MONEY MARKET

The dollar held steady on European money markets through Thursday, despite rumors that Arab governments were thinking of switching out of dollars into other currencies and withdrawing their deposits from US banks. The Libyans weighed in with a proposal that all Arab states do so, but at week's end no evidence was available of any substantial dollar sales.

The Arab oil states have enough liquid foreign exchange reserves to disrupt currency markets temporarily. They customarily maintain most of their reserves in liquid form—cash, time and demand deposits, and short-maturity bills and certificates of deposit. Arab liquid dollar holdings currently amount to an estimated \$5 to \$7 billion. By way of comparison, European central banks were forced to absorb \$12 billion during the currency troubles early this year.

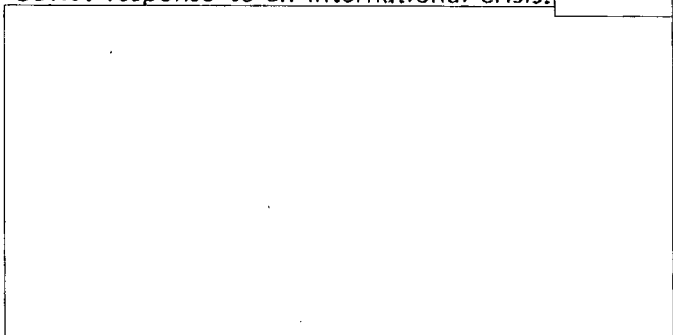
Nevertheless, most Arab states might not want to dump dollar holdings. Exchange controls surrounding the strongest European currencies—including the Swiss franc—minimize earnings on foreign-owned deposits and thus make transfers into these currencies expensive. Sterling, the major currency least encumbered by controls, is unstable, and London might also freeze Arab holdings. Kuwait and Saudi Arabia, the largest dollar holders in the Middle East, are sensitive to actions resulting in depreciation of their holdings despite their commitment to the Arab cause.

Only one small movement of Arab funds out of the US has been confirmed. [redacted] an Arab nation transferred about \$25 million to Europe, and it is not clear if this sum has been shifted out of dollars.



The Arabs probably are not particularly worried about a US freeze. Only about half of their foreign exchange reserves are held in dollars, and only a very small proportion of these are deposited in the United States. Most Arab dollars are held in Western Europe, particularly in London branches of US banks and in Swiss and French banks. Bern and Paris probably would not cooperate in an asset freeze. In any case, the Arab oil producers have enough funds beyond the reach of the leading oil importing countries to finance any needed imports.

Increased photoreconnaissance is a normal Soviet response to an international crisis. [redacted]



**SOVIETS WATCHING MIDDLE EAST**

Soviet satellite photoreconnaissance of the Middle East war intensified with the opening of hostilities there on 6 October. [redacted]

