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MIDDLE EAST – AFRICA – SOUTH ASIA

This publication is prepared for regional specialists in the Washington community by the Middle East - Africa Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

CONTENTS

May 8, 1975

Israel-EC

Trade Pact

1 The EC and Israel expect to sign a free trade agreement this weekend that will enter into force on July 1.

1, 2 It will be the first accord to be signed as part of the EC's so-called Mediterranean policy. The agreement provides for the gradual establishment of an industrial free trade area, a reduction in agricultural tariffs and increased technical, scientific, and industrial cooperation. It also allows Israel to apply for financial assistance once similar arrangements are negotiated between the EC and Egypt, Syria, Lebanon and Jordan.

Italy continues to object to easing EC tariffs on agricultural products that compete with Italy's. As a result, agricultural provisions of the accord will not come into effect until Rome's problems can be resolved, in part probably through higher community farm subsidies for Italy. This also means that the farm section of the agreement with Israel will not be activitated until the negotiations with the Maghreb states, stalled over the same issue, are concluded.

2, 3 Nevertheless, for Israel, the agreement with the EC could not come at a better time. The government, in addition to expecting substantial economic benefits to flow from the association, is pleased with the implied broadening of its international political position as it braces to resist pressures from the Arabs, the US, and some Europeans for a modification of its stand on Middle East settlement issues. (CONFIDENTIAL NO FOREIGN DISSEM)

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Saudi Arabia

Oil Production Cut Again

Saudi Arabia allowed a further deep cut in its
1 oil output last month; production fell below 6 million
2 barrels a day, a decline of more than 3 million
1 barrels a day since last October. This is the clear-
1 est indication to date that the new leadership plans
to continue the late King Faysal's policy of strong
support for the Organization of Petroleum Exporting
Countries.

The Saudi cut helped make it possible for other OPEC states to increase their liftings. Abu Dhabi and Libya have been pressing the oil companies to increase production and have reduced their quality and transportation price differentials in an effort to boost sales.

3 In response to these measures, production in these two countries has risen by a total of about 700,000 barrels a day since February. If other OPEC states succeed in getting the companies to increase their production in this period of slack oil demand, the Saudis will be under pressure to cut even further. They could reduce production to as little as 4 million barrels a day and still meet their foreign exchange requirements from current revenues.

4 Cuts have also been made in other OPEC countries. Indonesia's production in March was 100,000 barrels a day lower than February. The companies attribute the drop to Indonesia's insistence on charging $12.60 a barrel for crude oil. Comparable Chinese crude is selling for about $12.10.

5 Nigeria's production fell in April for the sixth consecutive month and is now down 800,000 barrels a day from last October. Most of the latest cuts stem from a refusal by the companies to continue lifting government oil that Lagos has been unable to sell. The government proposal in mid-April to reduce some prices was too little or too late to prevent further cuts.

(Continued)

Even if OPEC production remains at the current level, the excessive oil inventories that have been putting downward pressure on oil prices could be dissipated by late summer. By September, when the OPEC price freeze is scheduled to expire, reduced inventories and prospects of a seasonal increase in demand for crude may allow OPEC to raise prices without sacrificing production. (CONFIDENTIAL)

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Pakistan

Security Situation Improved in Frontier Provinces

Prime Minister Bhutto's government continues to make progress in consolidating its control in Pakistan's politically sensitive western border provinces.

Last week Bhutto installed a new provincial government in the North-West Frontier Province, ending the direct rule by the central government he had imposed there last February following the assassination of his chief political lieutenant in the province. Bhutto apparently was able to lift direct federal rule because the level of violence in the province has not increased significantly since February. Many observers had expected an upsurge of unrest following Bhutto's suppression of the leading opposition party; Bhutto claims the party was behind the assassination.

A number of the government's more militant opponents in the province managed to avoid arrest in February and could cause trouble in the future. Some of them reportedly are receiving guerrilla training in neighboring Afghanistan, which supports their efforts to attain self-determination for the frontier region. Pakistan's army, however, is probably capable of containing these dissidents.

Baluchistan, Pakistan's other troublesome western border province, has been generally quiet since last fall. A sizeable army presence, together with political maneuvering by Bhutto's supporters and heavy new government spending on economic development, has helped to keep the lid on. Portions of the province had been disrupted in 1973 and 1974 by an insurrection on the part of tribesmen opposed to central government control. (SECRET/NFD)

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