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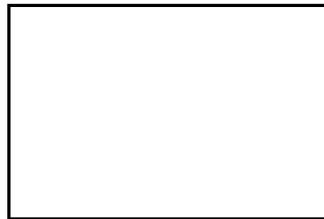
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Monday December 20, 1976 CI NIDC 76-296C

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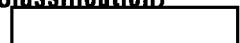
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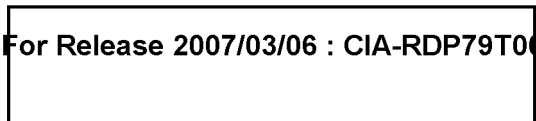
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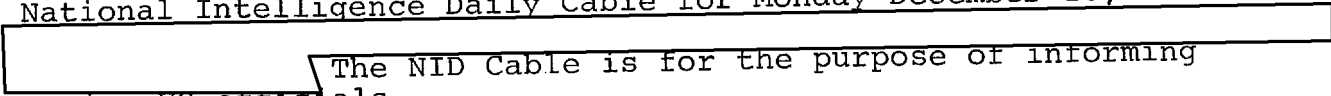
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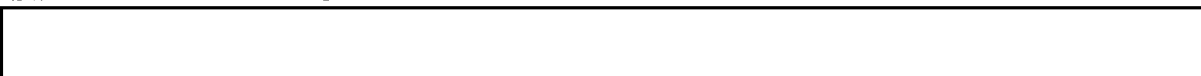
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National Intelligence Daily Cable for Monday December 20, 1976.



The NID Cable is for the purpose of informing senior US officials.

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ISRAEL: Political Problems for Rabin

25X1 [] Israeli Prime Minister Yitzhak Rabin's decision to break with his conservative coalition partner--the National Religious Party--is likely to advance the timetable for holding national elections, now scheduled for next October, and will pose a major obstacle to an early resumption of the Geneva peace talks.

25X1 [] The break leaves Rabin in charge of a minority government that controls only 57 of the 120 seats in parliament. Rabin is likely to demand early elections himself in the hope of pre-empting a challenge to his leadership of the Labor Party by Defense Minister Shimon Peres, his principal rival in the party. Rabin would also hope to forestall the growing strength of Yigael Yadin's newly emergent Democratic Movement.

25X1 [] Rabin apparently believed he had little choice but to precipitate a government crisis to arrest the steady erosion of his political support. He may be calculating that the Labor Party will now close ranks behind him to avoid a major power struggle that would further erode the party's popular support.

25X1 [] Although Rabin's decision was based primarily on domestic considerations, his action will seriously complicate efforts to reconvene the Geneva conference by March 1977. It is likely to take at least three months to prepare for new elections, should they be called, and Rabin would very likely argue that he simply had no mandate to commit Israel to peace negotiations before elections.

25X1 [] Rabin's political situation is likely to have little impact on the Arabs' overall negotiating strategy. Although the principal Arab states are likely to realize that Rabin will have little inclination to resume negotiations before Israeli elections, they are likely to continue to press for a resumption of talks, possibly before and certainly immediately after such elections.

25X1 [] The Arabs will also continue to attempt to secure public US and other international endorsement of a Palestinian state on at least the occupied West Bank and of the right of the Palestine Liberation Organization to participate from the beginning in a reconvened Geneva conference.

25X1 [redacted] Arab leaders may actually be encouraged by the prospect of early Israeli elections. Their chief concern has been that the US would plead that there could be no progress until after the Israeli elections next fall; they will now expect that earlier elections will leave the Israelis with no excuse for delaying the negotiating process.

25X1 [redacted] In the meantime, the Arabs, with Egyptian President Sadat taking the lead, will want to create the appearance of as much diplomatic movement as possible. Sadat, who is under more serious economic and political pressure than Syrian President Asad, is relying heavily on some negotiating progress within the coming year to shore up his domestic position and refurbish his pan-Arab leadership credentials.

25X1 [redacted] At a minimum, Sadat will want to ensure that early, substantive discussions are carried on with the new US administration, with UN Secretary General Waldheim, and with key European leaders. [redacted]

SYRIA-EGYPT: Negotiations

25X1 [redacted] Syrian President Asad's current visit to Cairo is being billed by both sides as a major effort to coordinate Egyptian-Syrian strategies on Middle East peace negotiations, to enhance Arab solidarity, and to cement bilateral ties. Given past differences, each man probably still has some reservations about the other's positions, but they will probably conclude their sessions in tactical agreement on the direction in which they want to move.

25X1 [redacted] Asad has already set the tone for the discussions by indicating his readiness to follow Sadat's lead and to support Egypt's so-called "peace offensive." In an interview broadcast over Cairo Radio on Saturday, Asad underscored the importance of resuming the Geneva peace talks. He also strongly supported Sadat's idea of forming a joint Arab delegation to Geneva that would include Egypt, Syria, Jordan, and the Palestine Liberation Organization.

25X1 [redacted] Sadat is likely to probe Asad's acceptance of Egypt's negotiating objectives--an end to belligerency in exchange for the establishment of a Palestinian state composed of the West

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Bank and Gaza and Israeli withdrawal approximately to its 1967 borders. Although Asad probably agrees with these objectives, he is less optimistic than Sadat about the prospects for achieving such an agreement.

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[redacted] Asad is likely to press for closer Syrian-Egyptian military cooperation and to encourage Sadat to improve his relations with the USSR in order to reopen the Soviet military supply line and thus strengthen the Arabs' military options in case negotiations fail.

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[redacted] Asad has long believed that Sadat has seriously reduced Egypt's room to maneuver by cutting ties with the Soviets and that he has weakened the Arabs' negotiating position by relying almost exclusively on US diplomacy.

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[redacted] The future role of the PLO is also likely to figure prominently in the two leaders' talks. The Egyptians are still suspicious of Syrian efforts to replace PLO chief Yasir Arafat with a pro-Syrian leadership. Although Asad and Arafat appear to have reached an accommodation for the moment, Sadat is likely to reiterate his opposition to any move to unseat Arafat that would weaken Egypt's own influence among the Palestinians.

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[redacted] Asad and Sadat will probably explore ways of manipulating the Palestinians to their mutual advantage and of ensuring that the PLO does not become an impediment to Middle East negotiations. Both are likely to continue to concentrate on forcing the Palestinians to moderate their position in an effort to make it difficult--for the US at least--to deny the PLO a role in the Geneva conference.

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INTERNATIONAL: Wheat Harvest

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[redacted] Record wheat harvests and overall sluggish demand for wheat have increased competition among exporters in the international wheat market and lowered worldwide prices.

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[redacted] The International Wheat Council is estimating world wheat production at 410 million tons for the 1976-1977 marketing year, a 16-percent increase over the previous year. The council estimates that import demand for wheat will fall to 60 million tons this year from the 1975-1976 level of 67 million tons.

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[redacted] The most aggressive exporter now is Argentina. Its record 12-million-ton harvest has resulted in an exportable surplus of 7 million to 8 million tons. Unless exports increase prior to its spring grain harvest, Argentina will be faced with severe storage problems.

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25X1 [redacted] In an effort to sell its wheat, a very important foreign exchange earner, the Argentine government has suspended its wheat export tax. This action, along with aggressive pricing and the devaluation of the Argentine peso, has enabled exporters to capture a larger share of the South American market. Argentine wheat delivered to Western Europe is currently priced \$8 to \$12 per ton cheaper than US wheat.

25X1 [redacted] Argentina has recently dominated Brazilian import tenders and sold 500,000 tons to Chile and 200,000 tons to China.

25X1 [redacted] Canada, a very aggressive seller during its summer and fall harvest season, has since backed off somewhat. We estimate that Canadian exports will total 12.5 million tons--a large share of which has already been sold--from a bumper harvest of 23.5 million tons.

25X1 [redacted] Canada's recent sale of 750,000 tons to China was the conclusion of a previous agreement and somewhat less than hoped for by the Canadian Wheat Board. The Board will be pushing for a new agreement in 1977. Canada recently sold 500,000 tons of wheat to Egypt after lengthy negotiations.

25X1 [redacted] Late-season improvements in weather conditions have raised estimates of Australia's wheat harvest to about 10 million tons. With an exportable surplus of 8 million tons, the Australians should become more aggressive in the international market. The recent devaluation of the Australian dollar does not appear to have had any significant effect so far on wheat sales. Australia recently completed sales of 500,000 tons to China under an old agreement and has been negotiating with the Chinese for a new wheat purchase agreement.

25X1 [redacted] In an effort to combat falling world prices and protect traditional markets, the EC recently increased export subsidies on soft wheat and wheat flour. EC officials are now forecasting 1976-1977 wheat exports at 5.6 million tons, up from earlier forecasts of less than 5 million tons. [redacted]

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EGYPT: Gaining Spare Parts

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[redacted] //The Egyptians reportedly have made substantial progress in negotiations with various British firms for weapons spare parts and maintenance support.//

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[redacted] //If significant British assistance is obtained, Egypt may soon be able to maintain large numbers of its Soviet-designed medium tanks and MIG-21 fighter aircraft despite Moscow's continuing cut-off of military aid. This would reduce the pressure on Egypt to make concessions to the USSR in return for badly needed spare parts and maintenance assistance.//

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[redacted] //Perhaps because of the expense, Egypt apparently has shelved earlier plans to refit its tanks with British or US-designed engines. Negotiations apparently are continuing with the UK and Italy to replace the main gun of the Egyptian T-54, T-55, and T-62 tanks with a 105-mm. gun that will fire standard NATO ammunition. This modification would not significantly enhance the fighting capability of the tanks, but it would enable Egypt to obtain ammunition and spare parts from Western sources.//

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[redacted] //The US defense attache in Cairo reported late last month that Egypt was making considerable progress toward self-sufficiency in overhauling MIG-21 engines, including the more advanced R-13 that powers more than two thirds of Egypt's MIG-21s. The Egyptian air force, along with Rolls Royce advisers, reportedly will overhaul 25 R-13 engines this year.//

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[redacted] //Only one of the overhauled engines has been installed in an operational aircraft thus far; it is said to be performing well. The other overhauled R-13s reportedly will be held in reserve until the first has been tested.//

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[redacted] //Egypt is still seriously considering the British-built Hawk jet trainer and light-attack aircraft for production in Egypt, but first must confer with the three other members of the Arab Organization for Industrialization--Saudi Arabia, the United Arab Emirates, and Qatar. [redacted] the US defense attache in Cairo reported that representatives of the four met in Cairo last week to discuss feasibility studies for Arab production of tactical missiles and a fighter aircraft.//

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[redacted] the competition had been narrowed to the French Mirage F-1 and the British Hawk. The four countries reportedly want to delay a decision pending further study.//

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[redacted] //Successful conclusion of these various efforts may allow Egypt to extend the lifespan of some key hardware and perhaps lay the groundwork for a domestic arms industry capable of producing some sophisticated weaponry. At best, however, these measures will only slow the erosion of Egyptian military capabilities. [redacted]

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NAMIBIA-ANGOLA: Factionalism

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[redacted] //The decision by the leadership of the Namibian nationalist South-West African People's Organization to switch its support at a late stage in the Angolan civil war from Jonas Savimbi's National Union to the Popular Movement of Agostinho Neto has caused divisions within SWAPO ranks.//

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[redacted] //Before Angola gained independence, SWAPO supported the National Union, whose base, like SWAPO's, was in southern Angola. Both SWAPO and the National Union draw most of their support from the Ovambo tribe, which lives on both sides of the Angolan-Namibian border.//

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[redacted] //SWAPO shifted tactics and joined in the Angolan-Cuban drive that was launched in October against National Union bases in southern Angola. Some SWAPO guerrillas, however, sided with the National Union in resisting the drive, according to National Union officials.//

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[redacted] //SWAPO leaders may view their support of the Popular Movement as an expedient move that will help secure bases in southern Angola and training assistance from the Cubans for the fight against South African domination of Namibia.//

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[redacted] //Ovambo tribal ties, nevertheless, could be a source of continuing problems in SWAPO's relations with the Popular Movement government in Angola.//

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25X1 [redacted] // [redacted] refugees--mostly Ovambos--have fled to Namibia this year because of fighting in the border area. According to press reports, many were extremely upset over SWAPO participation in the fighting alongside the Cuban and Angolan military forces.//

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25X1 [redacted] //In addition, President Neto may favor a large Cuban role in aiding SWAPO for fear of South African retaliation. [redacted]

SAUDI ARABIA - WESTERN SAHARA: Dispute

25X1 [redacted] The Saudi effort to mediate the dispute over Western Sahara is continuing in the wake of last month's visit by Saudi Crown Prince Fahd to Algeria, Morocco, and Mauritania and the subsequent meeting in Paris of the foreign ministers of the three countries. This week, Moroccan Foreign Minister Laraki told the US ambassador in Rabat that he had just returned from Geneva where he had delivered a message from Moroccan King Hassan to Saudi King Khalid.

25X1 [redacted] In his conversation with the ambassador, Laraki indicated that the Moroccans would continue to refuse to negotiate directly with the Polisario Front, which seeks independence for Western Sahara. Laraki also said he doubts the Algerians are prepared to alter their insistence that the Polisario Front be included in any talks.

25X1 [redacted] Guerrillas of the Algerian-backed Polisario Front are continuing to operate at will in Western Sahara despite stepped-up efforts by the Moroccans to curb their activities. Morocco's antiguerrilla operations have been ineffective because of the Moroccan's inability to respond quickly to attacks by small, mobile Polisario units.

25X1 [redacted] Despite their ability to evade extensive Moroccan sweep-and-clear operations, however, the capability of the guerrillas is limited to harassment of Moroccan units and bases in outlying areas. The Moroccans and Mauritians remain in firm control of the principal towns, and the estimated 3,000 guerrillas are no match for Moroccan and Mauritanian forces in any direct engagement. [redacted]

EC-TURKEY: Foreign Ministers Meet

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[redacted] //EC foreign ministers will meet with Turkish Foreign Minister Caglayangil in Brussels today to discuss terms for improving Turkey's association agreement with the Community. The EC is anxious to demonstrate even-handedness in its dealings with Turkey now that substantive negotiations on Greek entry are under way.//

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[redacted] //Ankara reportedly does not expect much movement on specific economic issues, but hopes to reduce strains in the relationship, which have intensified in recent months.//

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[redacted] //EC foreign ministers reached general agreement in Brussels last week on a number of measures designed to break the impasse in negotiations with Turkey. The Nine agreed that Turkish workers would be given preferential consideration for jobs that cannot be filled by Community nationals and approved some minor agricultural concessions.//

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[redacted] //The EC refused Ankara's request for an increase in the amount of financial aid the Community is offering Turkey--about \$350 million over five years--but may agree to make the funds available over a shorter time period. The EC has also indicated it will not object if Turkey fails to reduce tariffs on imports from the EC, as the current agreement requires in January.//

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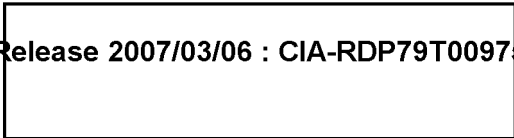
[redacted] //In other matters, Ankara is seeking specific guarantees from the EC that Greece's entry will not prejudice a Turkish membership bid or influence Community positions on issues dividing Greece and Turkey.//

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[redacted]

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UK: Austerity Problems

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[Redacted] //British Prime Minister Callaghan apparently is concerned that members of his own Labor Party will not support the government when Parliament begins debate next Tuesday on the government's new austerity program. Left-wing members of the Labor Party's parliamentary group reportedly are bitter and very critical of some of the measures.//

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[Redacted] //The Callaghan government will survive no matter how the left wing votes next week because the opposition Conservatives are reluctant to take the chance of bringing the government down at this time and reportedly plan to abstain during the voting.//

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[Redacted] //Abstentions or negative votes from the Labor Party, however, will demonstrate the vulnerability of the government, which has only a narrow working majority in Parliament. Callaghan reportedly told the Labor Party legislators on Thursday that they should put aside their differences and support the government if they want it to survive.//

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[Redacted] //The labor unions, the main support of the Labor Party and the Callaghan government, have given mixed but generally positive reviews to the government's new program. Len Murray, head of the Trades Union Congress, said Thursday that his organization would continue to support the government's economic policy.//

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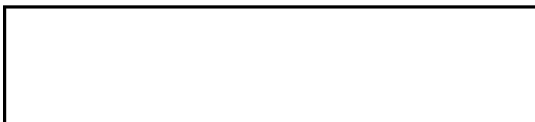
[Redacted] //Murray also said that the unions are disappointed with the economic package proposed by Chancellor of the Exchequer Healey. Jack Jones, head of the most powerful British trade union, said, however, that the unions have no alternative but to support the government.//

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[Redacted] //The labor unions do not want to see the Conservatives return to power and presumably will find a way to accommodate the government's plan. [Redacted]

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