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Top Secret

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NATIONAL INTELLIGENCE DAILY CABLE

Saturday January 22, 1977

CG NIDC 77-017C

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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

On file Department of Agriculture release instructions apply.

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State Department review completed

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National Intelligence Daily Cable for January 22, 1977,

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

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USSR-EGYPT: Relations

Efforts by the Soviet media to exploit the antigovernment demonstrations this week in Cairo will do nothing to improve Soviet-Egyptian relations. Moscow was far more circumspect in covering Egyptian internal disorders in 1972 and 1973.

Soviet broadcasts in Arabic have termed the "stormy and bloody events" an indictment of recent Egyptian economic policies. Tass has replayed foreign press accounts that say President Sadat's tenure in office may be dependent on external economic assistance and the renegotiation of foreign debts. Soviet leaders, in fact, hope the debt problem has given them some leverage over Sadat; a Soviet trade delegation that has been in Cairo since Tuesday could discuss rescheduling Egypt's debt to the USSR.

The media commentary has been consistent with Moscow's efforts over the past several years to counter Cairo's shift away from the "socialist path" of development. Soviet statements have implied that aid to Arab countries will be conditioned on their adherence to "progressive" social development, and have pledged to struggle against "forces" that are trying to push the Arabs off such a path.

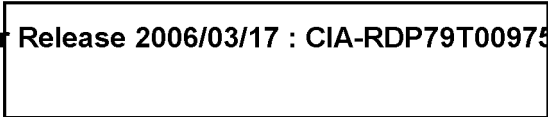
The Soviets probably think that internal pressures will reinforce Sadat's desire to negotiate a settlement in the Middle East.

USSR: Dissidents Marking Time

Soviet authorities have somewhat relaxed measures against certain prominent dissidents in Moscow while threatening sterner steps against others. Moscow's propaganda on the human rights issue continues the twin lines of rejecting alleged Western interference in Soviet internal affairs while claiming compliance with the Helsinki accords.

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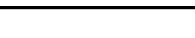
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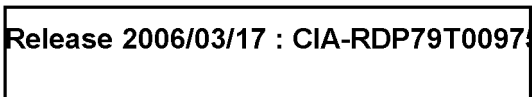
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A wide-ranging commentary in *Pravda* this week charged that mounting Western publicity concerning dissidence in the USSR and Eastern Europe is part of a continuous "slander campaign" that also includes allegations of a Soviet military threat. Simultaneously, official efforts are being made to document Soviet compliance with the Helsinki agreements. The chief Soviet emigration official, for example, recently said that over 98 percent of those who want to leave the country can do so.

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25X1 [redacted] In addition, two Soviet propagandists have been dispatched to Rome with the evident task of defending Moscow's record on human rights as emphatically as possible. This follows particularly strong attacks by Italian Communists on the Soviet record and on antidissident moves in Czechoslovakia.

25X1 [redacted]

OAU-RHODESIA: Aid to Nationalists

25X1 [redacted] The Organization of African Unity has scheduled meetings late this month and in early February that could produce substantially larger African assistance to the black Rhodesian nationalists.

25X1 [redacted] The OAU's African Liberation Committee, which funnels aid to southern African liberation groups, has a regularly scheduled meeting in Lusaka beginning on January 29. At the behest of President Amin of Uganda, the OAU has set an extraordinary session of its defense committee immediately afterward.

25X1 [redacted] The defense session will consider what measures the OAU should take to assist the five front-line states in supporting the Rhodesian nationalists. A top OAU official told a US embassy officer in Addis Ababa that the liberation committee in its earlier meeting would endorse the decision by the front-line countries to back Joshua Nkomo's and Robert Mugabe's Patriotic Front as the principal black Rhodesian nationalist organization. This will put considerable pressure on the defense committee to do the same.

25X1 [redacted] The OAU official also recognized the leading role played by the front-line presidents and asserted that their actions were accepted by the majority of OAU members. A number of OAU countries have in the past preferred to support various liberation groups, but the OAU official said these were ministerial decisions which could be overruled by their presidents.

25X1 [redacted] //Many African leaders have been concerned over the raids into Mozambique by the Rhodesian security forces, and Mozambique's inability to protect either itself or the guerrilla camps near the Mozambique-Rhodesia border. The front-line

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presidents, in particular, have been seeking substantial African assistance since last November

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Most OAU members, however, do not have the resources to provide troops or other substantial forms of assistance. Some, such as Ghana, still support a negotiated solution to the Rhodesia problem.

A significant number of African countries nonetheless are likely to make at least limited commitments of financial aid or military supplies. The front-line presidents, who control the delivery of military supplies, will see to it that the forces of Nkomo and Mugabe receive the bulk of any new assistance.

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USSR-POLAND: Increased Oil Deliveries

Moscow has agreed to increase its deliveries of crude oil and oil products to Poland without exacting reciprocal deliveries from Poland in "hard" commodities

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The agreement was reached in the recently concluded 18th Session of the Polish-Soviet Economic and Scientific Committee, the chief task of which was to work out the operational details of general economic accords reached during Gierek's visit to Moscow last November.

Balancing trade in "hard" goods--products with a ready market in the West--has always been a vexing problem in trade among Communist countries. Each country generally attempts to obtain as much of these goods as possible while making payments in "soft" commodities, which are either unmarketable in the West or salable only at heavy discounts.

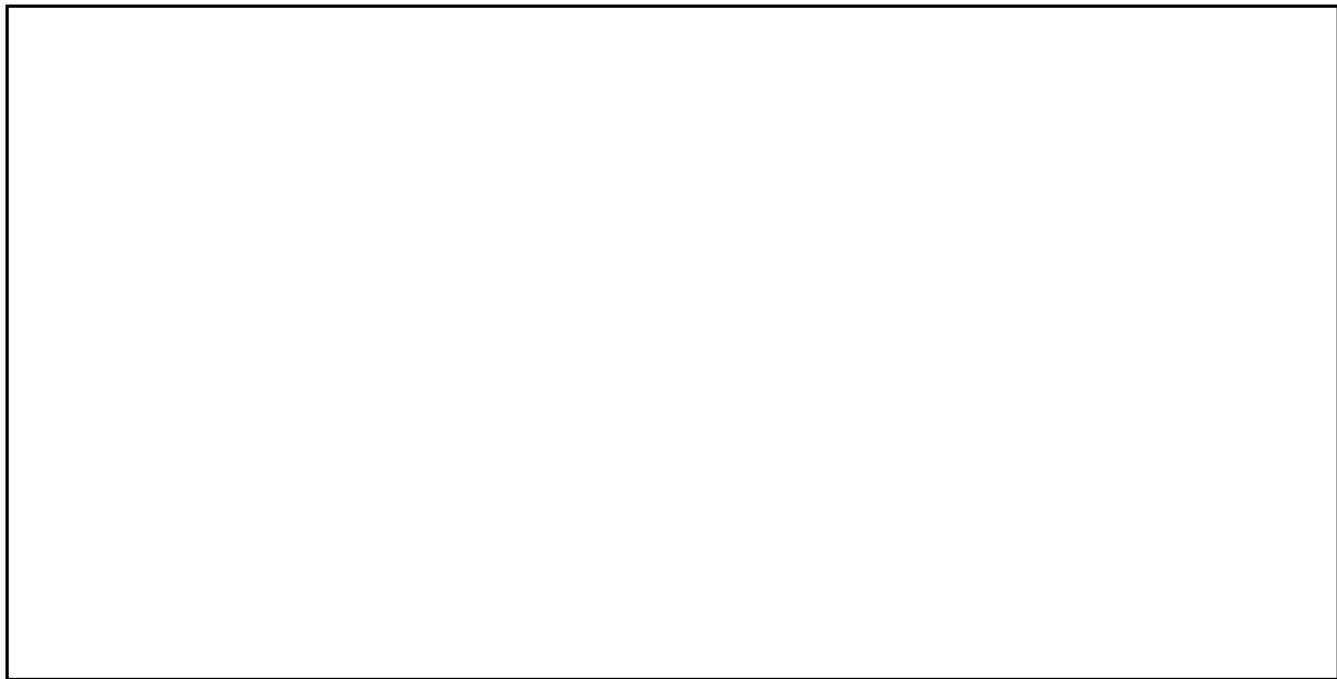
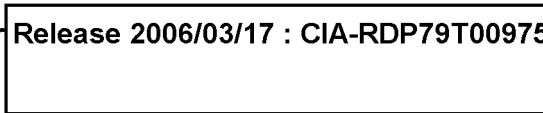
25X1 [redacted] Poland reportedly will receive 63 million metric tons of crude oil under the revised 1976-1980 trade agreement. This is 13 million tons more than originally scheduled, including 4 million tons associated with Poland's building of the Polotsk pipeline in the USSR. Poland also will be receiving 12 million tons of petroleum products--an increase of 5.5 million tons over deliveries originally scheduled for 1976-1980.

25X1 [redacted] At the same time, scheduled deliveries of Polish coal and coke to the USSR will not be increased above the 1971-1975 level. Although there will be a significant increase in Polish deliveries of sulfur, a Polish official believes that increased deliveries of textiles and consumer goods, along with additional amounts of basic machinery and equipment, would constitute the main offset items. Poland also will be able to draw on a 1-billion ruble (\$1.3-billion) credit reportedly granted last November to help cover deficits in trade with the USSR.

25X1 [redacted] The agreement will allow Poland to save considerable hard currency that it would otherwise have to spend for oil on the world market, and will thus provide some relief to its hard-currency balance of payments. It will also free Poland from having to divert coal and coke sales from the West, where these earn hard currency. It is unlikely, however, that Poland will be able to greatly increase exports of consumer goods because of chronic domestic shortages. [redacted]

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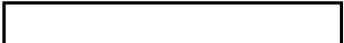

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ETHIOPIA: Armed Forces Dissension

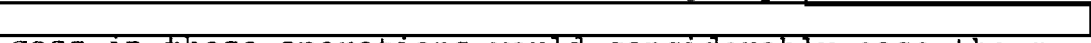
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 //Dissension is again spreading among the Ethiopian armed forces in Eritrea in the wake of recent defeats.//

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 //Two isolated army posts were overrun recently, and the latest effort to lift the four-month siege at Nacfa has failed. Eritrean rebels also are active south of Eritrea along the Sudanese border, where they are cooperating with followers of the Ethiopian Democratic Union, a guerrilla organization led by prominent political exiles. One important post has already fallen to the two groups 

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 Success in these operations would considerably ease the movement of supplies to the Eritrean insurgents.//

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 The center of dissension in Eritrea is at Keren, where a government relief force for Nacfa ended its retreat after obtaining safe passage from the insurgents. A delegation that supposedly represents all of the government troops in the Keren area has gone to Addis Ababa to demand that the regime negotiate a peaceful settlement of the Eritrean problem.

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25X1 [redacted] Relations between the troops in Eritrea and the ruling military council in Addis Ababa have undergone periodic stress, sometimes resulting in minor mutinies. Many troops are weary of a war they believe cannot be won, and some are dissatisfied with the council's radical socialist policies. The situation quieted late last year after the replacement of top military commanders in the province, but recent military setbacks have rekindled antigovernment sentiment.

25X1 [redacted] The government lacks the resources to improve its military position, especially now that it apparently faces a growing threat from the Ethiopian Democratic Union in western Ethiopia and from Somali-supported insurgents in the south. The council, however, is still reluctant to offer concessions that might induce the rebels to negotiate a political settlement. [redacted]

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INTERNATIONAL: Non-OPEC Financial Reserves

25X1 [redacted] Developing countries that are not members of the Organization of Petroleum Exporting Countries last year achieved their first substantial improvement in international financial reserves since the oil price hikes of 1973 and 1974. Reserves for the group reached an estimated \$37 billion, more than double the 1971 level and \$6 billion higher than the 1974 peak.

25X1 [redacted] The improvement reflects higher demand for developing countries' exports, official policies restraining import growth, large-scale borrowing on international capital markets, and continued balance-of-payments assistance from the International Monetary Fund.

25X1 [redacted] The current reserve level is equal to little more than three months of imports. A three-month reserve/import ratio for the group as a whole through the 1960s was often cited as a norm. This ratio was surpassed in 1972 and 1973 with the boom in developing countries' commodity exports. It fell back in 1974 and 1975 because of increasing oil prices and the global recession.

25X1 [redacted] Some of the more advanced developing countries such as South Korea and Brazil have borrowed extensively from private

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capital markets. These countries last year managed to attain again or exceed the comparative reserve strength of the 1960s. Mexico was a conspicuous exception; the peso came under persistent speculative pressure and, despite a strengthening toward the end of the year and borrowing abroad, the government probably was able only to sustain a reserve/import ratio roughly half that of 1975.

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[redacted] Most other developing countries, by contrast, have been unable to borrow as freely or to adopt other means to maintain reserve/import ratios. The development plans of these countries could not attract sustained private capital flows, in large part because their economies are not sufficiently diversified. Their low and volatile reserve/import ratios simply reflect the changing relationship between their import requirements and their export earnings.

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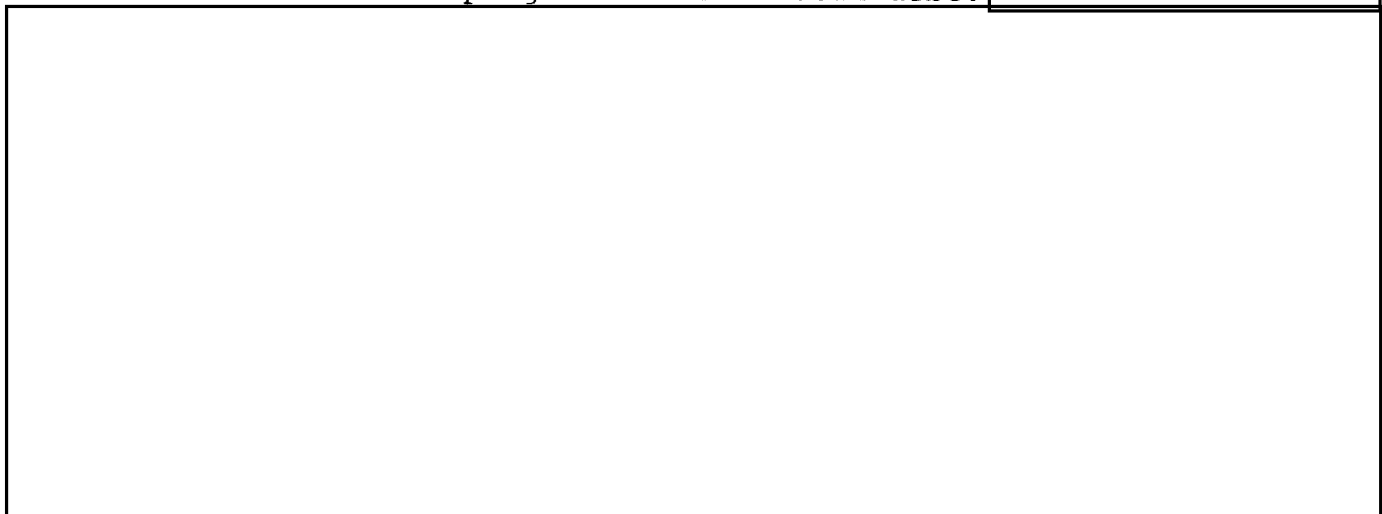
[redacted] Reserve patterns for this year are especially difficult to forecast because of the greater uncertainty in such diverse factors as the impact of the oil price hike on import bills, the performance of primary commodity prices in world markets, the pace of economic recovery in industrial countries, and the availability of international capital market funds.

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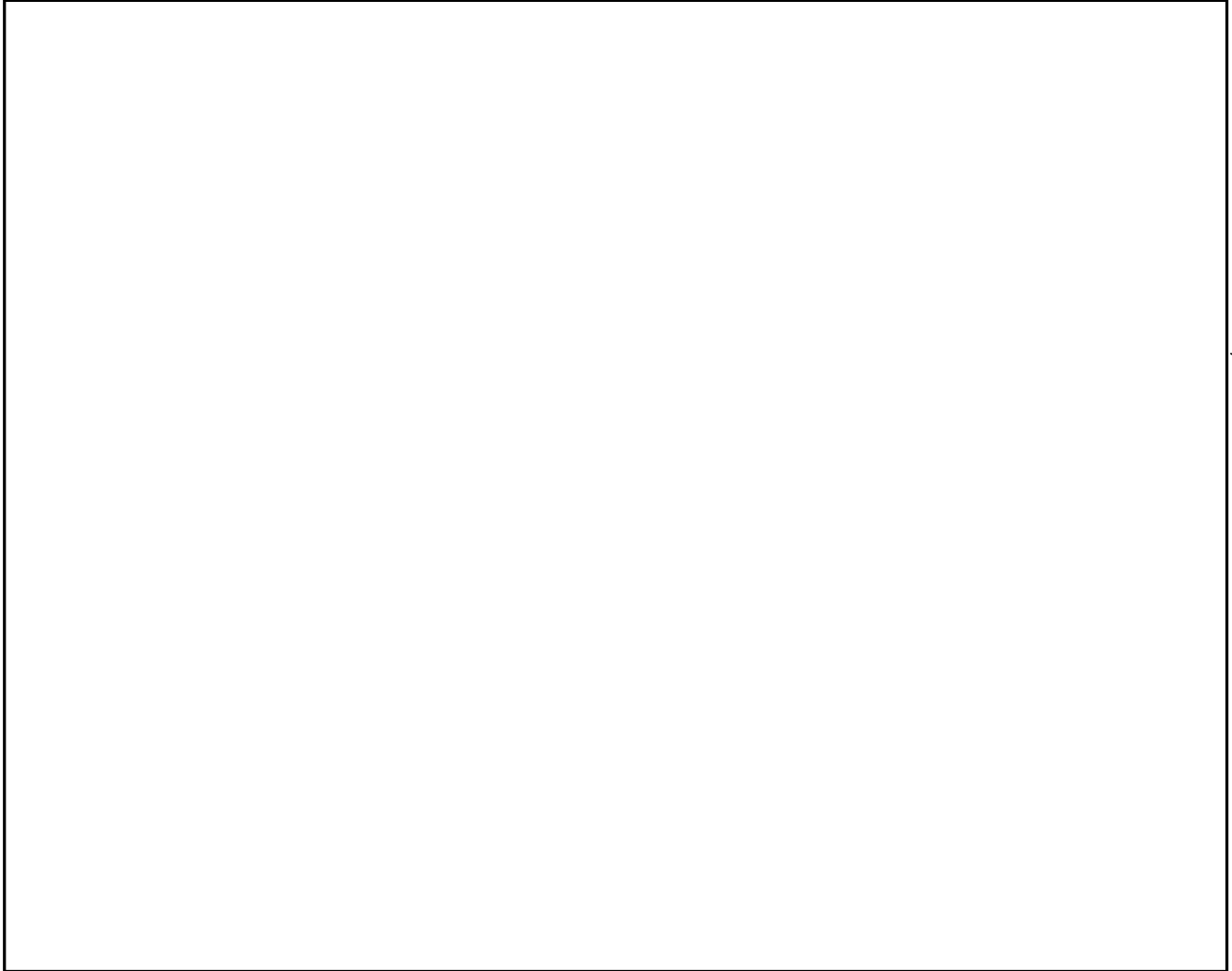
[redacted] In any event, the current-account balance for these countries is likely to deteriorate by \$3 billion this year. Maintaining the 1976 reserve/import ratio could entail a large increase in the developing countries' total debt. [redacted]

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INTERNATIONAL: High Cocoa Prices

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[redacted] Short cocoa supplies, poor crop prospects, increased consumer demand, and high coffee prices probably will continue to drive up already high cocoa prices.

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[redacted] New York cocoa prices, which have averaged \$1.65 a pound so far this year, currently are 57 percent above the level in May 1974, when a record high was established.

25X1 [] Last month, the US Department of Agriculture predicted that world cocoa bean production for the marketing year ending September 30, 1977, would reach only 1.4 million tons, 7 per cent below what it was last year. This will be the second consecutive annual decline.

25X1 [] Poor weather and other production problems in West Africa, where two thirds of the world crop is grown, may lead to a further reduction in this year's estimate. Output this year is also down slightly in Brazil, the only major producer where production has generally increased since 1972.

25X1 [] The decline in African output since 1972 stems largely from low fixed producer prices. In addition, most governments have done little to help small farmers improve cultivation practices and eradicate disease. Only in Ivory Coast is the government trying to stimulate production.

25X1 [] In Nigeria, even though the cocoa price at 48 cents per pound is higher than in the four other cocoa-producing African countries, farmers are turning to work in the cities. Producer prices in Ghana, the world's largest producer, are fixed at 29 cents per pound for the current crop, giving the government the bulk of the benefits from higher world prices.

25X1 [] Brazil's long-run outlook for production is favorable. Despite disease and weather problems in recent years, cocoa plantings have been expanding. Producers are permitted to sell directly to private exporters and are responding to higher prices as well as government production and marketing programs. Nevertheless, production will expand only gradually because new plantings require about eight years to reach maturity.

25X1 [] We believe that the decline in stocks since 1964, generally rising demand, and a poor production outlook are the basic reasons for current high prices. Speculation and weakness in the pound sterling--factors often cited by the press--have had only limited short-run effects on the price rise.

25X1 [] World cocoa stocks by the end of the current marketing year are likely to fall to a level of 350,000 to 400,000 tons, about three months' supplies. Supplies will remain tight at least through most of 1977, and prices over the longer term will remain high until stocks can be rebuilt.



25X1 [redacted] Cocoa product prices have not fully reflected the in-
crease in cocoa bean quotations. Manufacturers have been able
to hold the line on retail prices because prices for sugar--an
important ingredient in cocoa products--have fallen sharply
since 1974, and the use of cocoa substitutes and lower quality
25X1 cocoa beans is up. [redacted]

USSR: Nuclear Policy

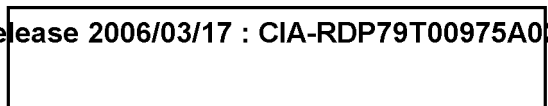
25X1 [redacted] There is some evidence of differences within the So-
viet bureaucracy on their position that any future comprehen-
sive nuclear test ban should not impose greater restrictions
on peaceful nuclear explosions than now exist under the 1976
25X1 treaty on peaceful nuclear explosions.

25X1 [redacted] Georgi Arbatov, head of the USA Institute, report-
edly suggested that the USSR might agree to a five-year mora-
torium on peaceful nuclear explosions in order to achieve a
comprehensive ban on nuclear weapons tests. Other influential
members of the Soviet Academy of Sciences also oppose such ex-
plosions, although they have not specifically favored a five-
year moratorium. They are more skeptical of the potential bene-
fits of peaceful nuclear explosions than is the State Committee
for Utilization of Atomic Energy.

25X1 [redacted] The official Soviet view is that nuclear test ban
treaties must not preclude the future peaceful application of
nuclear explosions. The USSR believes such explosions are valu-
able not only for engineering applications but also in their
view as a means to discourage the proliferation of nuclear
weapons by providing peaceful nuclear explosion services to
25X1 non-nuclear weapon states.

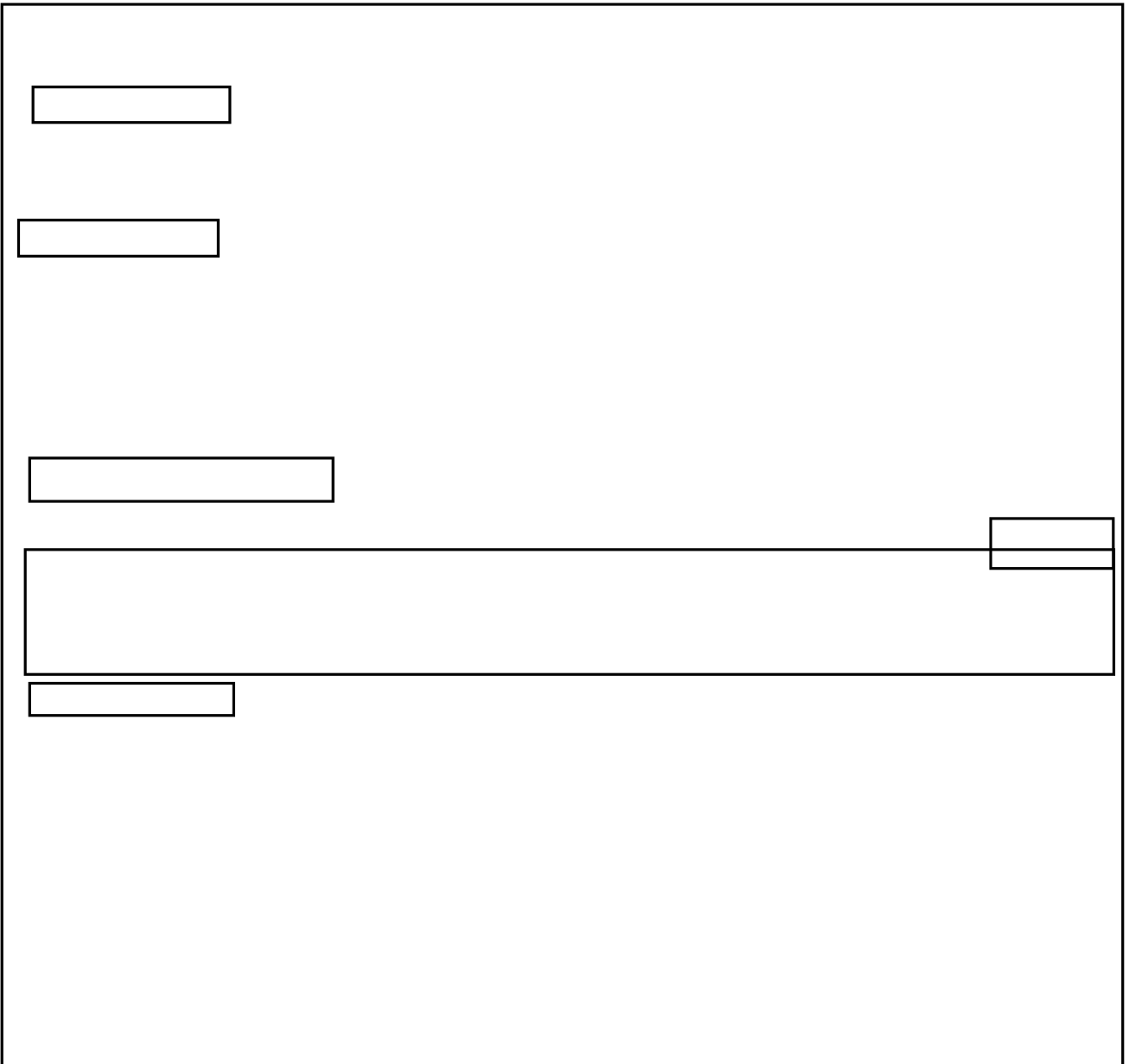


25X1 [redacted] The deputy chairman of the State Committee for Utili-
zation of Atomic Energy, I. D. Morokhov, is the most forceful



proponent within the Soviet bureaucracy of peaceful nuclear ex-
plosions. Morokhov managed the Soviet negotiating team for the
Threshold Test Ban and Peaceful Nuclear Explosions treaties and
would probably play a prominent role in any comprehensive test
ban negotiations.

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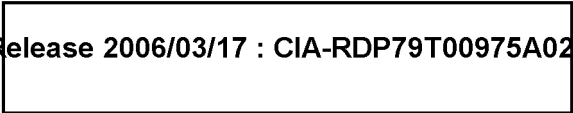


TURKEY: Foreign Trade

A disagreement over foreign trade policy has developed between the principal members of Turkey's "nationalist front" government, underscoring the coalition's instability and foreshadowing a major point of contention during the coming parliamentary election campaign.

In previous years, foreign trade policy has been routinely approved by the cabinet. This year it has become a potentially explosive political issue between Prime Minister Demirel and Deputy Prime Minister Erbakan. The Prime Minister wants to continue a policy of gradually lifting trade restrictions, particularly with respect to the EC, but Erbakan is opposed. Parliamentary action on the 1977 budget cannot proceed until a compromise is reached.

Since last fall, Erbakan and Demirel have tried to outdo each other in persuading the electorate of their commitment to Turkish industrial development. They have crisscrossed Turkey to attend foundation-laying ceremonies for various industrial facilities. Some projects that Erbakan has pushed have not been in the budget.





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[Redacted] With the election to be held no later than October, Erbakan has concluded that he must make sure funds are available for all the factories he has already dedicated. He demanded that money be allocated for some of his pet projects in the draft 1977 budget.

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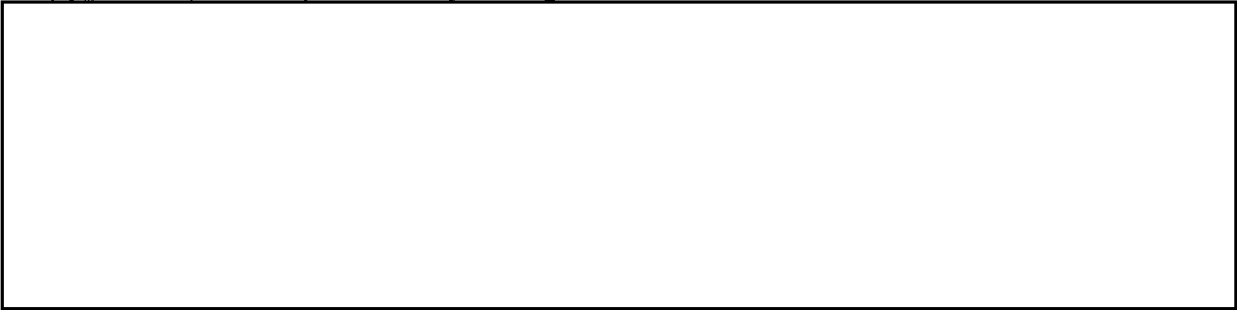
[Redacted] Demirel acquiesced despite the resulting increase in the budgetary deficit, but it has become apparent to Erbakan that Demirel's concession could prove illusory as long as Demirel controls the disbursement of funds and regulates imports of capital goods through his party's control of the ministries of finance and trade.

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[Redacted] Demirel has attempted to play down the current disagreement with Erbakan, as he has often in the past. Guided by the belief that it is in his interest to hold the government together until election time, Demirel may be willing to yield some ground to Erbakan on trade policy. He is sensitive, however, to critics in his own party who say he has been too conciliatory in dealing with Erbakan. He is, moreover, determined to prevent Erbakan from taking credit for the government's efforts to spur industrial development.

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[Redacted] Erbakan has often threatened to withdraw from the government as a means of getting his way. He has won sometimes, but just as often he has stepped back from the brink. This time, with an eye on the coming election, he may be willing to push a bit harder. He may view a cabinet crisis or even the collapse of the coalition as a useful first step toward cultivating a separate identity for his National Salvation Party. Observers in Ankara have assumed that Erbakan would wait to make his move until after the budget is approved on March 1, but his maneuvers regarding trade policy could be giving them some doubts.



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