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NATIONAL INTELLIGENCE DAILY CABLE

Friday 10 February 1978 CG NIDC 78/034C

[Redacted box]

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Approved For Release 2007/03/07 : CIA-RDP79T00975A030500010066-0

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National Intelligence Daily Cable for Friday, 10 February 1978.

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

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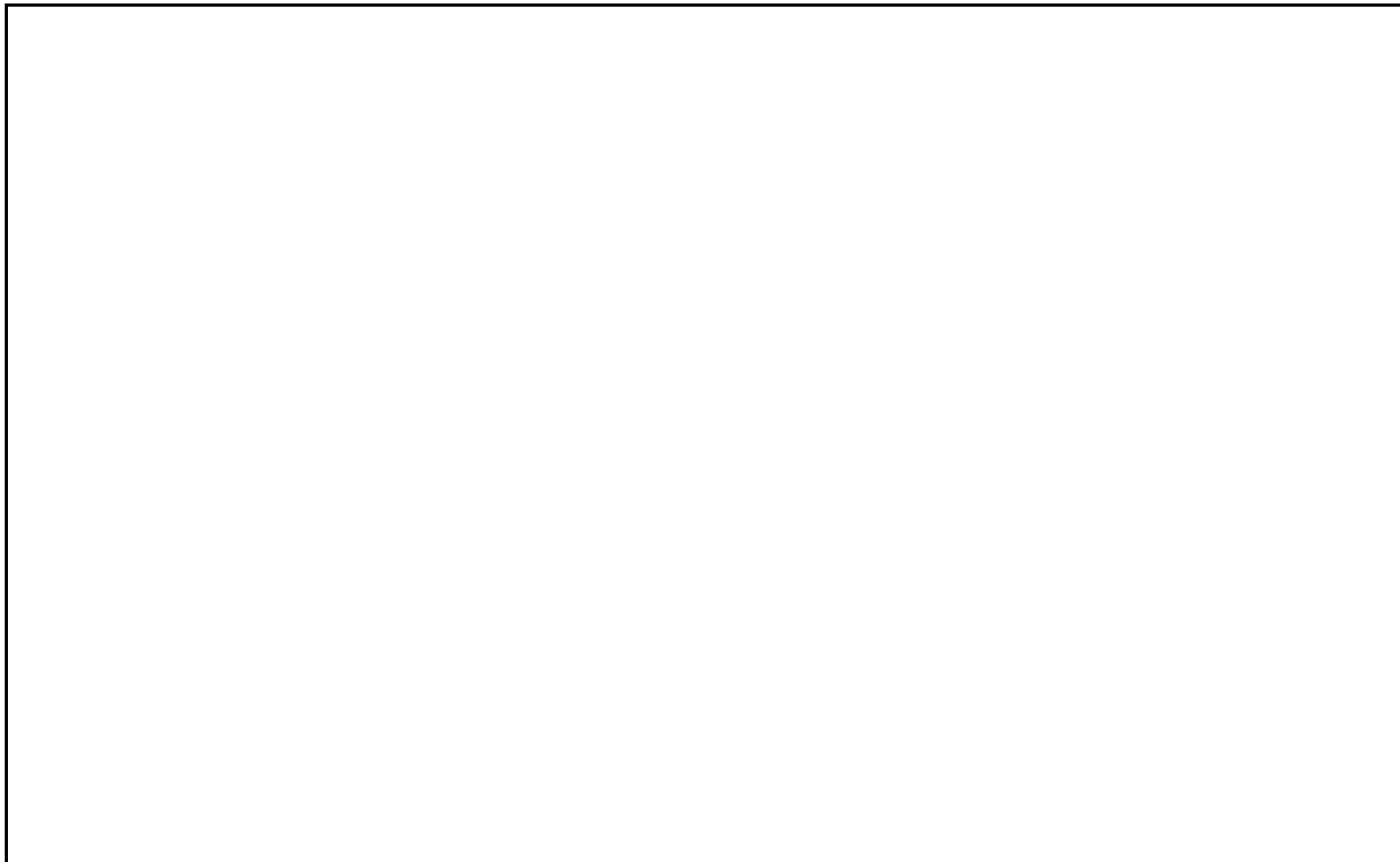
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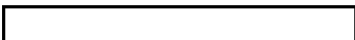
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**LEBANON: Situation Report**

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 //Heavy fighting between Lebanese Christian militiamen and Syrian peacekeeping troops continued yesterday in Beirut and the suburb of Fayyadiyah. Christian Phalanges Party, Palestinian, and Lebanese Muslim leaders are urging restraint. There has been no official Israeli reaction, nor any unusual Israeli military activity along the Lebanese border.//

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 In the fighting, Syrian forces in the al-Shiah section of Beirut exchanged rocket and artillery fire with Christian forces in Ayn Rummanah. There were also reports of heavy fighting in the Christian area of Ashrafiyah. Senior Lebanese and Syrian officials are meeting in Damascus in an attempt to arrange a cease-fire.

25X1 [redacted] The Syrians are demanding that the Lebanese turn over to them the Christian military commander, who the Syrians believe was responsible for the initial clashes at Fayyadiyah on Tuesday, in which Syrian forces took substantial casualties. Neither the government nor Christian leaders of the Lebanese Front are ready to meet the Syrian demand for the arrest of the army commander, and cease-fire efforts are apparently being held up by this issue.

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25X1 [redacted] //The Palestinian leadership probably is concerned that any significant involvement in the current fray will serve only to intensify anti-Palestinian sentiment in Lebanon. Syria, moreover, doubtless is strongly counseling restraint by the Palestinians.//

25X1 [redacted] Lebanese Muslim leaders are also urging their followers to remain calm. Former prime ministers Rashid Karami and Abdallah Yaffe, both moderate Muslims, issued calls for restraint. There have been only isolated reports of activity among Lebanese leftists forces, and the heavily Muslim areas of western Beirut have remained quiet.

25X1 [redacted] The Israelis' low-key behavior thus far probably reflects their hope that the fighting will diminish quickly and not become a major issue that could complicate peace talks with the Egyptians.

25X1 [redacted] Israeli Defense Minister Weizman, the cabinet official responsible for policy on Lebanon, has taken special precautions since the beginning of negotiations with the Egyptians to avoid provocative entanglements in Lebanese affairs. He will favor continued caution and will counsel Israel's Lebanese Christian allies against escalating hostilities with the Syrians.

25X1 [redacted] Should the Syrians inflict major military losses upon Christian forces, however, the Israelis would see no alternative to providing logistic or other support essential for the Christians' defense. The Israelis would also perceive less need for restraint in support of the Christians should Palestinian military units, with apparent Syrian backing, attack Christian positions in southern Lebanon or elsewhere in the country, or should Palestinian guerrillas stage cross-border terrorist raids or rocket attacks on northern Israel. [redacted]

USSR: Winter Grain Conditions

25X1 [redacted] The USSR's winter grain crop--normally about one-third of total grain production--has thus far sustained only an average amount of winterkill. About one-third of the winter grain area has at best minimal snow cover, however, and is vulnerable to sudden cold snaps. Assessment of the full extent of this winter's damage cannot be made until late spring. Because winterkilled areas will be reseeded to spring grains, even more than normal losses this winter would not necessarily preclude a successful 1978 grain harvest. A crop of 205 million tons, the midpoint of a range indicated by the projection of past yield trends, would suggest Soviet imports of 20 million to 25 million tons in marketing-year 1979.

25X1 [redacted] Winter grain sowing operations last fall were largely successful. Favorable weather in the main winter grain areas of the European USSR allowed seeding on about 38.5 million hectares. This is equal to the area sown for the 1977 harvest and roughly 3 million hectares above the average for the last five years.

25X1 [redacted] //Despite some localized problems, crop development during the fall was favorable. Gradual cooling from mid-September to early October hardened plants in most areas, making them less susceptible to freezing. By mid-October, winter grains in the northern regions had entered winter dormancy and growth in the southern winter grain areas had slowed. [redacted]

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25X1 [redacted] //Most of the damage done thus far occurred between mid-December and mid-January. A succession of high pressure systems moved slowly across the northern European USSR, bringing cold arctic air into the southern winter grain areas. Freezes to -22 degrees Celsius were common, with temperatures as low as -20 degrees reported as far south as Krasnodar. Because of unseasonably warm weather in November, plants in some areas had renewed growth and were not sufficiently hardened to withstand severe cold. In addition, snow cover over much of this area was not adequate to insulate the crop.//

25X1 [redacted] //For the USSR as a whole, the area lost to winterkill thus far appears to be no greater than average, roughly 15 to 20 percent of the sown area. Conditions have been variable,

however, and in some localized areas losses are believed to be substantial. Poor emergence and exposure to killing frosts have lowered yield prospects for much of the central black earth zone.//

25X1 [redacted] //In some parts of the important winter grain producing areas of Moldavia, the Ukraine, and the north Caucasus, frequent exposure to killing temperatures without adequate snow cover has led to above-average winterkill.//

25X1 [redacted] Although the area with at least minimal snow cover has expanded since mid-January, much of the winter grain area remains snow-free and vulnerable to extreme temperatures. Alternate periods of thawing and freezing, which can cause widespread damage, are common from mid-February through mid-April.

25X1 [redacted] Although areas lost during the winter will be reseeded to lower-yielding spring grains, above-average winterkill would not preclude a successful 1978 grain crop. Soviet plans call for a harvest of 220 million tons, which is almost 25 million tons above 1977 production.

25X1 [redacted] Projection of past yield trends, employing varying assumptions regarding 1978 weather prospects, indicate that expectations for a crop of between 195 million and 215 million tons would be more reasonable. A crop within this range, which is by no means certain, would leave the Soviets short of the grain required to continue the current strong recovery of the livestock program and would necessitate imports. For example, a crop of 205 million tons, the midpoint of this range, suggests Soviet imports in marketing-year 1979 (October 1978 - September 1979) of 20 million to 25 million tons. [redacted]

GREECE-TURKEY-CYPRUS: Relations

25X1 [redacted] //The prime ministers of Greece and Turkey have agreed to an exploratory summit meeting sometime next month to establish a "climate of confidence" in bilateral relations. The meeting will be the first between leaders of the two countries since May 1975.//

25X1 [redacted] //The initiative for the meeting was taken by Turkish Prime Minister Ecevit, who is looking for a foreign policy success to consolidate his position and help secure

badly needed military and economic aid. Greek Prime Minister Caramanlis was equivocal at first, fearing that Ecevit was more intent on improving Turkey's image than on finding solutions to the Cyprus and Aegean disputes.//

25X1 [redacted] //Caramanlis has dropped his demand that there first be progress at lower levels, and both leaders now view the meeting as exploratory. Caramanlis' recent meetings with major West European leaders may have contributed to his change of mind. It is also possible that the new Turkish administration has already relayed to the Greeks its general approach to the Aegean and Cyprus problems.//

25X1 [redacted] //Comments by Turkish officials to US Embassy officers suggest that on the Aegean, the Turks are not in principle opposed to the Greek plan for delimiting the coastal shelf. The Greeks envisage a series of alternating finger-like salients, with the Greek salients encompassing the easternmost Greek islands and the Turkish salients extending midway into the Aegean. The Turks would prefer an emphasis on joint exploitation and a minimum coastal shelf for each side.//

25X1 [redacted] //On Cyprus, the Turks apparently intend to submit detailed constitutional proposals. Their as yet unpublicized plans on territory have reportedly drawn fire from the Turkish Cypriot leadership, suggesting that Ecevit may intend to offer more than a token return of territory to the Greek Cypriots.//

25X1 [redacted] //The Ecevit administration's position on the Aegean will become clearer on Sunday, when talks on the coastal shelf resume in Paris. Turkish proposals on Cyprus will be relayed to UN Secretary General Waldheim later this month. He will then determine whether they warrant a resumption of the intercommunal talks, probably sometime in March before the Caramanlis-Ecevit summit. [redacted]

WEST GERMANY: Economic Growth

25X1 [redacted] *West German Chancellor Schmidt, in his mid-January state-of-the-nation address, cited data from the First National City Bank of New York to support his contention that the West German "locomotive" alone does not have sufficient power to*

pull other developed countries out of recession. The Citibank figures purport to show that 1-percent faster economic growth in West Germany would generate additional growth of only 0.05 percent in the UK and 0.07 percent in France, but these figures appear to be based on incomplete analysis.

25X1 [redacted] Analyses by the Organization for Economic Cooperation and Development's secretariat and by CIA suggest that increased West German growth would have a significantly larger impact on the economies of its principal trading partners. The Citibank data referred to by Schmidt apparently include only the direct, first-round impact of faster West German growth and ignore the ripple effects of international trade linkages.

25X1 [redacted] According to preliminary OECD calculations, which include both the direct and indirect effects, 1-percent faster growth in West Germany, sustained for 12 months, would add about 0.2 percent to GNP in the UK, 0.3 percent in France, 0.4 percent in Italy, and about 0.5 percent in Scandinavia and the Benelux countries. CIA's linked-trade model shows slightly smaller increases than those of the OECD: 0.18-percent incremental growth in the UK, 0.24 percent in France, 0.2 percent in Italy, and just under 0.4 percent in the smaller developed countries. [redacted]

UK: Wage Settlement Victory

25X1 [redacted] //British Prime Minister Callaghan extended his string of wage settlement victories yesterday, when the executive committee of the National Union of Miners accepted in principle the government's pay offer. Radical union leaders have condemned the decision but appear powerless to stop it. Unions that have not yet come to terms with the government will now be under increased pressure to settle.//

25X1 [redacted] //The settlement, which will give the miners a wage increase close to the 10-percent limit set by the Prime Minister, is the government's biggest success to date in its current effort to control inflation. Initially, the union demanded a 90-percent increase.//

25X1 [redacted] //The government's hand was strengthened by earlier settlements with other unions that stuck to the guidelines and by a lack of support for the miners from the Trades Union Congress and other unions. The government was also bolstered by the improving economic picture; inflation is dropping even faster than the government had anticipated.//

25X1 [redacted] //Possibly the most important point in the government's favor, however, has been the gradual acceptance in every mine region--even the most radical--of lucrative productivity incentive schemes to supplement income. At the outset of negotiations, when the union was more confident, such schemes were rejected by the national membership.//

25X1 [redacted] //The situation is far different from that in 1974, when militant miners, with the support of then opposition spokesman Callaghan, were able to topple the Conservative government of Prime Minister Edward Heath. The current mine leaders have accepted the government's offer as a "fact of life." Only a few die-hard radicals continue to call for rejection of the pact and a campaign of industrial action, although even they now seem resigned to the inevitable.//

25X1 [redacted] //Details of the settlement, including its size, will be worked out between the two sides during the next two weeks. After that, the executive committee will formalize its acceptance. Yet undecided is the question of placing the package before the 250,000-member union for rank-and-file approval.//

25X1 [redacted] //Government negotiators will now turn to other unions in an attempt to preserve the incomes policy. Although agreement with the miners strengthens Callaghan's hand for the future, the government still faces several difficult tests, each requiring cautious maneuvering. Talks with the electric power workers will begin soon, and will be followed by talks with railway workers, gas and steel workers, shipbuilders, gaso-
line tanker drivers, civil servants, and others. [redacted]

JAPAN: Foreign Exchange Controls

25X1 [] Japan announced a 12-part program late last month to relax foreign exchange controls. The program stems from the mid-January US-Japanese agreement calling for a sweeping review of Japan's foreign exchange control system as one step toward reducing its balance-of-payments surplus.

25X1 [] The package, scheduled to take effect on 1 April, provides for the following, in order of importance:

- Procedures will be simplified for overseas direct investment by Japanese, direct investment in Japan by foreigners, the introduction of foreign technology in Japan, and overseas real estate investments by residents of Japan.
- Standard Method of Settlement regulations will be relaxed to give importers more flexibility in their financial arrangements.
- Limits on certain transactions--for example, on remittances sent abroad, currency acquired for travel overseas, and foreign currency bank deposits--will be raised or removed.

25X1 [] One of the most significant aspects of the package appears to be the increased role it assigns to the Bank of Japan in monitoring the foreign exchange system. For example, in the case of direct investment in Japan, the bank will apparently replace the Ministry of International Trade and Industry as the final voice on approvals. The ministry in the past has generally responded to pressure from Japanese industry and resisted foreign investment in Japan. In view of sagging profits and substantial excess capacities, Japanese industries will likely keep similar pressure on the Bank of Japan. []

PHILIPPINES: Political Maneuvering

25X1 [] The decision by the major opposition group in the Philippines--the resurrected Liberal Party--to boycott the 7 April parliamentary election is aimed at seriously undercutting

President Marcos' effort to demonstrate the legitimacy of the first election held under martial law. Some opposition figures may, however, form another slate or run on an individual basis.

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[redacted] Marcos had attempted to mollify opposition critics by meeting some of their demands, such as non-partisan supervision of the polling booths and confining the police to their barracks on election day. Liberal Party leaders, however, objected to a provision of the new electoral code permitting the voter to cast his ballot for a straight pro-Marcos ticket.

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[redacted] Marcos has already moved to counter the boycott by announcing the formation of a new political organization called the "New Society Movement," a coalition of pro-Marcos elements including legislators from Marcos' pre-martial law Nationalist Party, some liberals, and members of civic organizations, to run in the election. The Philippine leader evidently hopes to create an atmosphere of political give-and-take as candidates maneuver to have their names included on the pro-Marcos slate.

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[redacted] The political campaign is scheduled to get under way officially on 17 February. Marcos intends to appoint a number of cabinet members to parliament but has told several others--including Defense Secretary Enrile--that he expects them to compete in the election. In addition to Marcos, 14 parliamentary representatives will be elected from pro-Marcos sectors of labor, agriculture, and the national youth movement. The remaining members of the 200-man body will come from the Philippines' 14 provincial regions.

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[redacted] There are reports that Mrs. Marcos hopes to head the list of candidates from the Manila region in what would be her first bid for elective office. She was appointed governor of the metropolitan area two years ago. [redacted]

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BRIEFS

Romania

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[redacted] Egyptian President Sadat will visit Romania this weekend, presumably to brief President Ceausescu on the outcome of his talks in the US and Western Europe.

25X1 [redacted] Ceausescu fully supported Sadat's peace initiative in November, and he no doubt believes that a peaceful settlement would vindicate his decision to maintain diplomatic relations with Israel when the other Warsaw Pact states broke relations in 1967.

25X1 [redacted] In recent public speeches, Ceausescu has reiterated Romania's position that there must be a complete Israeli withdrawal from the occupied territories, the establishment of a Palestinian state, and a security guarantee for all the states in the region, including Israel. [redacted]

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Syria

25X1 [redacted] Syrian President Asad, running unopposed, was re-elected on Wednesday to a second seven-year term. A massive government and Baath Party effort ensured that voter turnout was relatively high, although probably nowhere near the 97 percent the government claimed. Asad is certain to portray the results as an overwhelming mandate for his current policies, especially his opposition to Egypt's peace initiative. [redacted]

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Canada-USSR

25X1 [redacted] //Canadian External Affairs Minister Jamieson announced in Parliament yesterday that 13 Soviet officials were being expelled from the country for espionage. Jamieson said that all 13 had been involved in an attempt to recruit a member of the Royal Canadian Mounted Police in order to infiltrate the Security Service. Jamieson said that a strong protest has been conveyed to the Soviet authorities about these activities. The Canadian Ambassador to Moscow will not be withdrawn, but Jamieson will cancel his planned visit to the USSR next month. The Canadian Government and the RCMP will both win domestic approval from the incident. [redacted]

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Paraguay

25X1 [redacted] Paraguayan President Stroessner is sure to win another five-year term in the general election on Sunday. He has been President for 24 years. In the past year, the constitution has

been amended so that he can succeed himself indefinitely, and the government has maneuvered the traditional opposition parties out of the picture by officially recognizing two discredited minority factions.

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[redacted] The voting probably will not need to be rigged because Stroessner is genuinely popular and is given credit for the economic expansion and political stability the country has experienced during his regime. Stroessner is staging the election primarily to improve Paraguay's image abroad. [redacted]

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