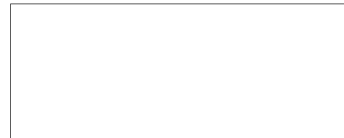




**Director of
Central
Intelligence**

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National Intelligence Daily (Cable)

7 January 1982

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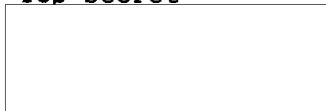
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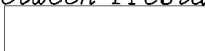
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POLAND: Soviet and Vatican Influences

Soviet and Polish leaders yesterday signed a trade protocol that permits Poland to run a trade deficit with the USSR of 1.2-billion rubles in 1982. The Pope still is considering a trip to Poland in August, but he and the Church have only limited influence on the martial law authorities. Moscow's initial public criticism of the talks on Tuesday between President Reagan and Chancellor Schmidt was predictable.



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Moscow yesterday granted Poland soft currency credits to cover a 1.2-billion-ruble trade deficit this year as well as the 1.5-billion deficit from 1981. Earlier, the Soviets had threatened to force the Poles to balance their trade with the USSR. There was no mention in the trade protocol of hard currency credits.



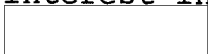
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Despite their authority, Church leaders--including the Pope--have only a limited ability to affect policy decisions by the martial law regime. This is partly due to the Church's aversion to interfering in clearly political matters. Moreover, some regime leaders accuse the Church of having been too pro-Solidarity and point out that some of Solidarity leader Walesa's advisers were closely associated with it.



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The government is also well aware of--and it is exploiting--the fact that the Church will not encourage active opposition to martial law because of its basic interest in preventing bloodshed and a Soviet invasion.

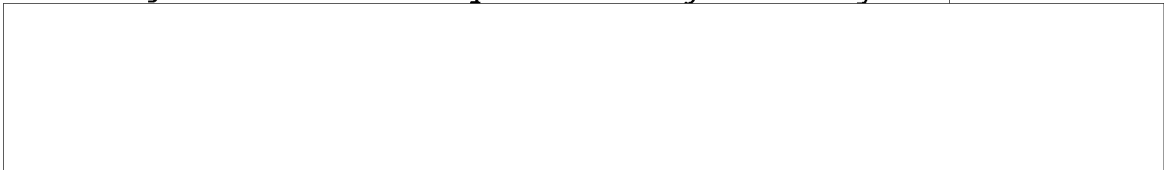


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Despite government reports to the contrary, a Church official yesterday scoffed at the idea that the Church and regime are currently conducting a dialogue.



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The regime already has demonstrated that it is watching Church activities closely and is willing to use pressure to gain conformity.



the secret police have warned priests not to go too

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far in their homilies. The authorities also prevented a prison priest from visiting detainees after Archbishop Glemp had paid an unexpected visit to the prison. 

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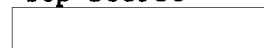
Although Moscow criticized the talks between President Reagan and Chancellor Schmidt, it was less critical of Schmidt than of Reagan. TASS attacked both leaders for attempting to "dictate to the Polish leadership" but noted that Schmidt "kept his own opinion" of the inefficacy of sanctions against the USSR. The commentary significantly failed to mention Schmidt's public agreement with the US position that the Soviets ultimately bear responsibility for events in Poland. 

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An economic newspaper yesterday accused the US of systematically manipulating its food aid to interfere in Poland's internal affairs. The article alleges "unparalleled duplicity and hypocrisy" on the part of the US in using blockades, sanctions, and other forms of interference throughout the period following World War II. It fails, however, to mention the 1980 grain embargo against the USSR. Moreover, there is no reference to Moscow's own food aid policy, possibly reflecting domestic unpopularity of food aid to Poland. 

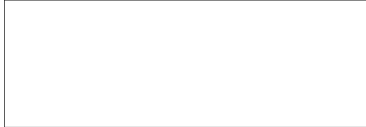
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JORDAN - SAUDI ARABIA: King Hussein's Visit

King Hussein's discussions with Saudi leaders today probably will focus on ways to shore up Iraqi President Saddam Hussein's deteriorating position and improve security in the Persian Gulf region. 


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//Both the Jordanians and the Saudis are becoming increasingly concerned about Iraq's weakening position. The Saudis in particular fear that Iran will emerge from the war as the dominant power in the region and a greater threat to the Arab regimes.// 

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Hussein probably hopes to capitalize on Saudi concerns to promote closer political and security cooperation, and get additional Saudi aid. The King believes that he already has earned some credit with the Saudis by supporting Crown Prince Fahd's peace plan at the recent Arab summit in Morocco. 


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//The Jordanians have backed Iraq since the beginning of the war and have developed a close military relationship with Baghdad. Hussein would be extremely reluctant, however, to send troops to Iraq. 

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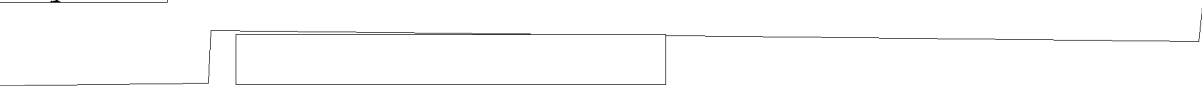
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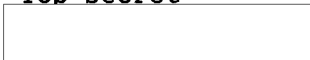
//Hussein also may want to discuss Saudi support for Syria. 

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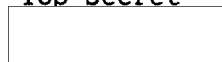
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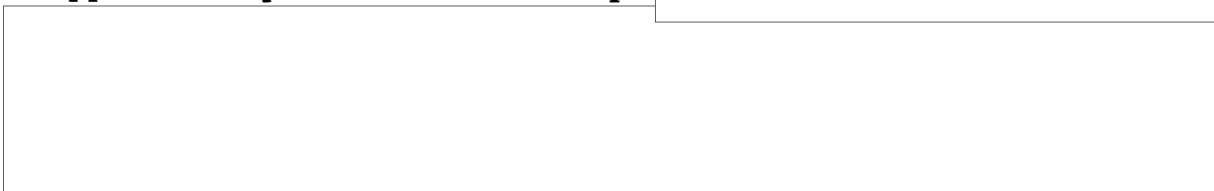
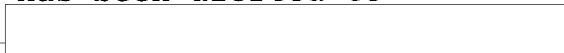
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SUDAN: Demonstrations Continue

Student demonstrations over increases in the price of sugar and tea continued yesterday in Khartoum for the fourth straight day. For the first time, some of the protests took on an anti-American aspect, although there was no damage to US property. Sudanese security officials are concerned that the demonstrations may become more violent during the celebration today of the Prophet's birthday, and the Army has been alerted to support the police if necessary.



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SPAIN: King's Concern About the Military

//King Juan Carlos, in a bid to head off further public expressions of military unrest, yesterday urged the armed forces to respect democracy and maintain discipline. He also sympathized with the difficulties the military faces and thanked officers for their past loyalty.



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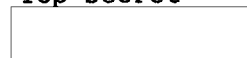
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Although the speech will reinforce the King's position as commander in chief, it is unlikely to reduce the simmering discontent in military ranks.//



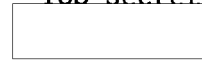
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USSR-CZECHOSLOVAKIA-HUNGARY: Combined Exercise



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[redacted] a combined Czechoslovak-Soviet-Hungarian exercise--Druzhiba 82--will be held at the end of this month. The exercise will involve 25,000 troops and will take place in northwestern Czechoslovakia.

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[redacted] The announcement of the exercise meets the terms of the Confidence-Building Measures under the CSCE.

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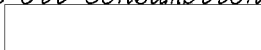


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SPECIAL ANALYSIS

INTERNATIONAL: Oil Market Outlook


by Neil McKeown, CIA

Weak demand for oil and surplus production capacity in OPEC countries probably will cause a further drop in real prices in 1982 and possibly into 1983. The extent of market softness will depend largely on oil consumption trends and the level of exports from Iran and Iraq. 

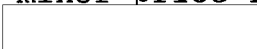
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A fairly rapid economic recovery in the industrialized countries, combined with continued conservation and fuel-switching induced by high oil prices, is likely to keep demand for OPEC oil at about the same level as last year--roughly 23.5 million barrels per day. 


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Oil consumption in non-Communist countries will fall slightly this year to about 46 million barrels per day. An end to the inventory reductions by importing countries, on the other hand, will raise demand for OPEC oil by 1 million--2 million barrels per day. 

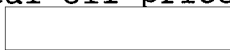
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If demand remains at about 23.5 million barrels per day, the OPEC benchmark price of \$34 per barrel probably can be maintained. This would not preclude additional minor price reductions by some members during early 1982. 

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The market, however, could get softer. If economic growth falls below the moderate recovery now anticipated, demand for OPEC oil could be reduced by 1 million barrels per day or more in 1982. This would make much more difficult and perhaps impossible for OPEC to prevent a decline in nominal prices. 

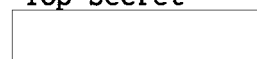
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The Saudis and other OPEC members probably will be largely successful in defending the \$34 benchmark. Oil prices adjusted for inflation, however, will almost certainly fall substantially over the next 12 to 18 months, and real oil prices may decline 20 to 25 percent through 1983. 

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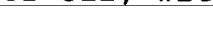
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The market is likely to remain stable even with a fairly rapid economic expansion in 1983. Oil consumption probably will increase only moderately, raising demand for OPEC oil by only about a half million barrels per day. Supplies should remain ample and prevent renewed pressure for price increases, especially if output from Iran and Iraq rises. 

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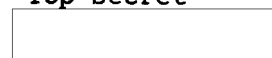
Despite the supply cushion and prospects for a soft oil market, several possible developments could alter this outlook. Events in the Middle East, for example, could disrupt supplies. At the current rate of reduction in inventories, surplus stocks will be depleted early this year, leaving the market vulnerable to another disruption in supplies or a sudden increase in demand. 

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The steady decline in real oil prices almost certainly will slow conservation measures and efforts to change to other fuels, and it may delay energy-related capital investments more than currently predicted by market analysts. This would lead to a somewhat higher demand for oil, with a resulting upward pressure on prices. 

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