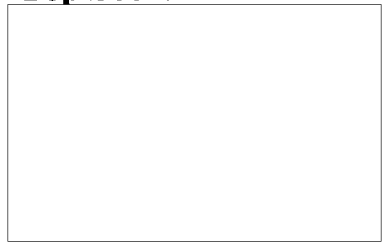




**Director of
Central
Intelligence**

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National Intelligence Daily (Cable)

29 April 1982

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CPAS NIDC 82-100C

29 April 1982

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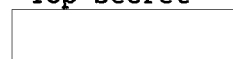


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UK-ARGENTINA: Heightened Military Preparations

//The extended British blockade reflects the imminent arrival of the UK's naval forces near the Falklands. Argentina is intensifying its preparations and may be considering a preemptive strike.

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The British Government yesterday announced a full air and sea blockade of the Falkland Islands to begin tomorrow. Civilian and military ships and aircraft of any country that violate the blockade will be subject to attack. The British also announced that the airfield at Port Stanley will be closed, and that aircraft on the ground will be regarded as hostile.

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Comment: //The announcement reflects the likelihood that British naval forces will be in position tomorrow to support the blockade. London apparently is pessimistic about Argentina's acceptance of the latest US proposals. Labor leader Foot--who continues to prepare his party to take advantage of a military disaster--probably will denounce the government's decision in Parliament today, but Labor backbenchers still show considerable sympathy for the government's position.//

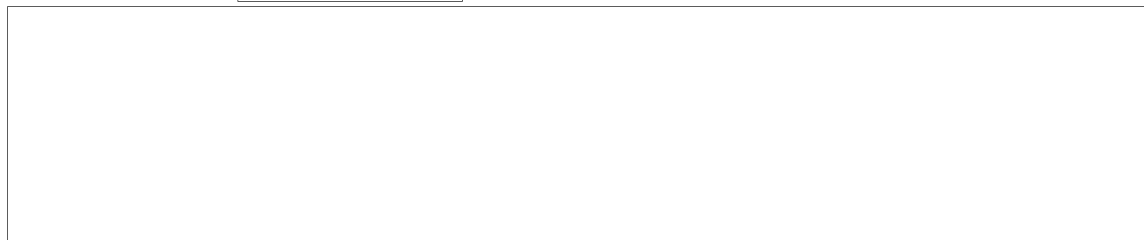
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Argentine Military Activity

//Argentina's preparations for a British attack are intensifying. Coastal defensive forces are on maximum alert, and journalists have been ordered to leave coastal towns in the war zone. According to press reports, Buenos Aires is considering a preemptive airstrike on British naval units before the blockade goes into effect.//

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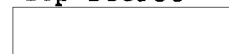
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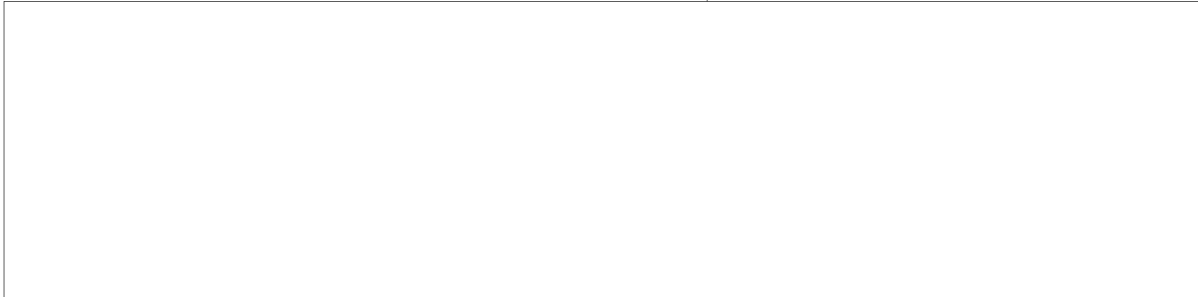


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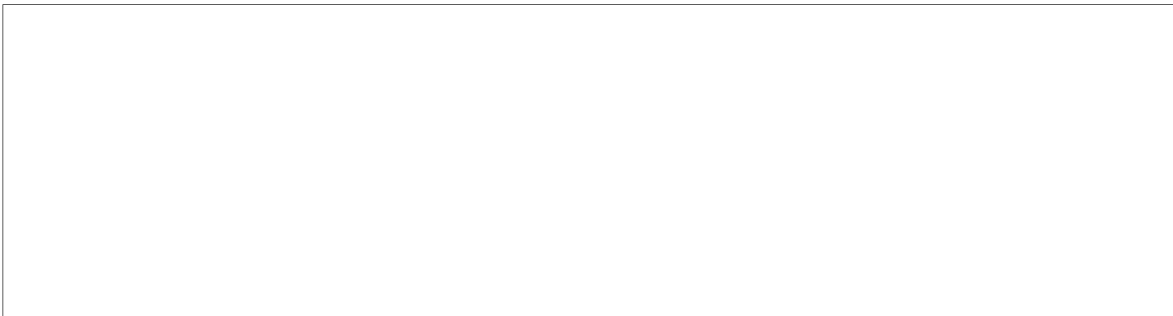
Comment: The Argentines probably are prepared to accept the high risk involved in a preemptive strike only if they believe that they could cause substantial damage to a major British warship.



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The Diplomatic Front

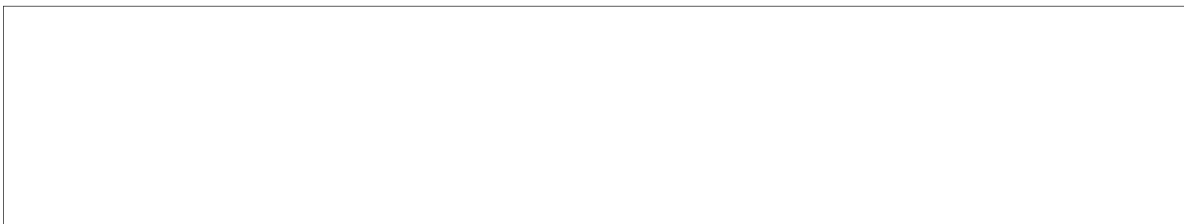


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The OAS yesterday approved by a vote of 17-0 with four abstentions a resolution backing Argentina's claims to sovereignty over the Falklands and calling for an immediate truce and withdrawal of forces under UN Security Council Resolution 502. The final resolution mirrored a draft approved on Tuesday, which the Argentine media and government are touting as a diplomatic triumph and a sign of Latin American solidarity.

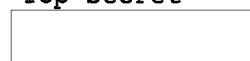


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The OAS's support for Argentina's claim, which for legal reasons Argentina believed could not be considered by the OAS, came as welcome news to Buenos Aires. The resolution is aimed at discouraging the UK from launching an assault in the face of strong Latin American backing for Argentina.

[Redacted]

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Argentine Economic Uncertainty

Public concern is increasing in Argentina about the economic impact of the financial panic caused by the crisis. The Minister of Interior has publicly appealed to the people to stop withdrawing funds from bank accounts. Funds are being rapidly depleted as depositors move into dollar accounts in Uruguay and Switzerland, and interest rates have risen substantially as banks struggle to hold on to funds.

[Redacted]

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Comment: The Interior Minister's announcement is likely to increase uncertainty over the government's ability to control the situation, precipitating further runs on deposits.

[Redacted]

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British Pressure on Israel

//A senior Foreign Office official, in answer to a parliamentary question on Tuesday, said that London has asked Israel to halt arms sales to Argentina. According to press reports, Israel will abide by its signed contracts.

[Redacted]

[Large Redacted Block]

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Comment: //The parliamentary question was almost certainly prearranged to publicize British concern that the Israelis may be supplying Buenos Aires with advanced weapons that could be used against the task force. London probably hopes to put additional pressure on Tel Aviv, including from the US, to stop arms sales.//

[Redacted]

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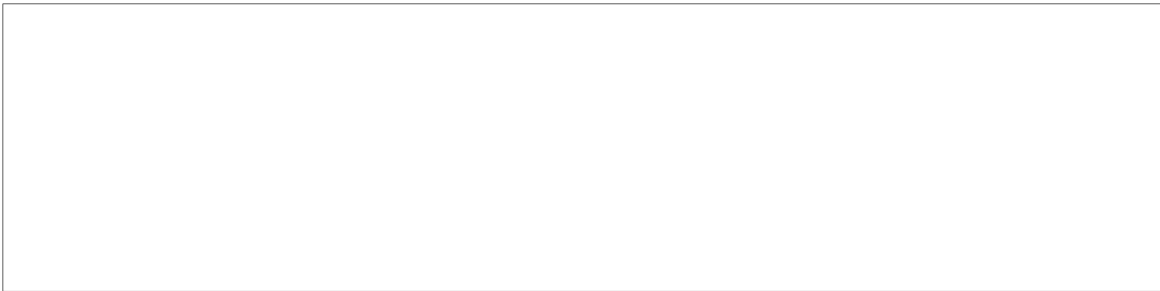
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Soviet Developments

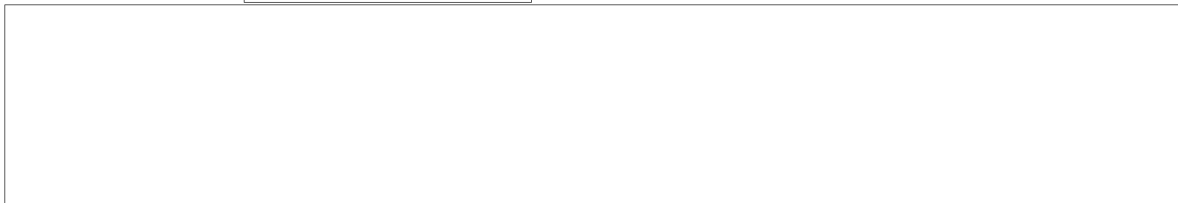
//A Soviet Deputy Foreign Minister told the British Ambassador in Moscow on Tuesday that Moscow has told the Argentines that there is "no hope that the USSR will join either side in the conflict."//



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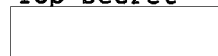
Comment: //Despite their private protestations to the British of evenhandedness, the Soviets have continued publicly to side with the Argentines and have privately assured them of support in international forums such as the UN.//



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USSR: Industrial Output

Soviet industry grew less during the first quarter of this year than any comparable time since World War II. 


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The Central Statistical Administration's report issued last week indicates that civilian industrial output was only 0.6 percent above that achieved for the comparable period last year, and labor productivity did not grow at all. In four of the 10 major industrial categories, including ferrous and nonferrous metals, construction materials, and soft goods, production ranged from 0.5 to 5 percent below levels of 1981. Metals shortages have been cited by the press as the main problem affecting the civilian machinery sector, which grew by only 2 percent. 


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Natural gas production increased nearly 7 percent and electric power 2.8 percent. Oil and coal output, however, were virtually unchanged from last year. 

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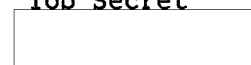
Comment: Moscow will be deeply concerned about the slowing rate of industrial growth, which could hurt investment, consumer, and even defense programs. The poor harvest in 1981, for example, ensures continued stagnation or possibly a decline in the food and soft goods industries through at least mid-1982, while continued shortfalls in metals and machinery production may force further revisions to investment plans. 

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Industry's poor performance could receive considerable attention at the party plenum, which may be held next month. Some improvement is likely by the end of this year, and industrial production may grow some 1 to 1.5 percent during the year as a whole, but this still would be a record postwar low. 

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[REDACTED]

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MOZAMBIQUE-PORTUGAL: Military Aid

A military cooperation agreement concluded by Mozambique and Portugal on Tuesday is a sign of President Machel's frustration over his regime's reliance on Moscow. [REDACTED]

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Portugal agreed to provide Mozambique with 10,000 light weapons and other items. Mozambican personnel will also be trained in counterinsurgency tactics in Portugal. [REDACTED]

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Comment: The accord was concluded during a visit to Maputo by a high-ranking military delegation, but its outlines apparently were worked out during President Eanes's visit to Mozambique last November. It is Mozambique's first military cooperation pact with a Western country since independence in 1975. [REDACTED]

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The new agreement reflects Machel's desire to reduce Maputo's dependence on Moscow. Despite considerable Soviet military aid, the Mozambican military remains unable to defeat the National Resistance Movement insurgents. The agreement also is the most important step Portugal has taken since its revolution to establish a security relationship with a former colony. [REDACTED]

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Although Portugal's assistance will not jeopardize the USSR's position as Mozambique's principal source of military assistance, the Soviets--and pro-Moscow ideologues within the Mozambican Government--almost certainly will be unhappy over the accord. Moscow already appears uneasy over signs that Eanes's visit to Angola in mid-April could lead to closer economic and possibly military cooperation between Lisbon and Luanda. [REDACTED]

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Terms of payment for the Portuguese assistance to Mozambique evidently have not yet been worked out. Agreement on terms could prove difficult to attain, particularly in view of the economic problems both countries face. [REDACTED]

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The accord could place new strains on Portugal's relations with South Africa, given Pretoria's support for the National Resistance Movement. The new pact also may lead the insurgents to increase acts of violence against Portuguese citizens in Mozambique. [REDACTED]

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[REDACTED]

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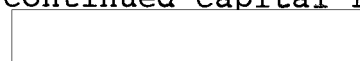
MEXICO: Skepticism on Stabilization Program

The peso's continued decline reflects the skepticism among the public about the government's willingness to enforce its stabilization program rigorously. To help stem capital flight, the government has raised short-term interest rates substantially, and it has raised reserve requirements to limit credit expansion.



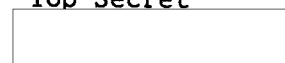
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Comment: The government appears committed to enforcing a tough austerity program, although it apparently has not yet taken the essential step of cutting its own spending. To restore the confidence of the business community and foreign lenders, some current government-funded projects will have to be reduced, funds for new investment denied, and food subsidies and other welfare programs curtailed. The Lopez Portillo administration probably prefers to wait until after the elections in July to impose measures that will substantially increase prices and unemployment, but continued capital flight may force it to move sooner.



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