



**Director of
Central
Intelligence**

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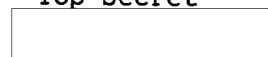
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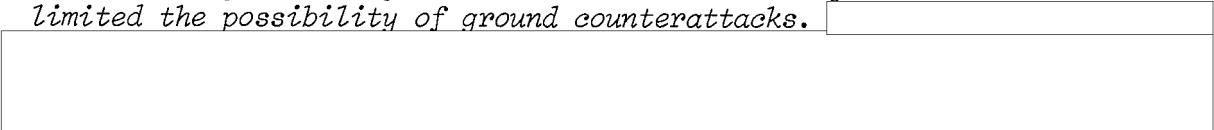
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UK-ARGENTINA: Fighting Quickens as Diplomacy Lags

//Weekend fighting in the Falklands was confined primarily to the air, as the British continued consolidating their ground positions and Argentine logistic constraints and strategic concerns limited the possibility of ground counterattacks.



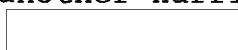
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There was little progress on the diplomatic front.

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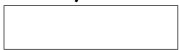
//Since the invasion began, the British claim to have destroyed 28 aircraft and probably downed five others and to have put a Coast Guard vessel and a transport out of commission. They acknowledged 48 dead, not counting any losses in action yesterday. The UK admits one frigate sunk, two others seriously damaged, and some damage to several more, as well as a Harrier jet and two helicopters lost. Buenos Aires claims to have downed another Harrier and to have knocked out seven warships.



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Military Action

//Military action on Saturday was limited as Argentina made only a two-plane airstrike against ships in the San Carlos area and inflicted no damage. British Harriers struck Darwin, wrecking an Argentine Coast Guard vessel; Argentine forces claimed one Harrier was downed.



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The UK made further air attacks on Goose Green yesterday and claimed to have shot down one helicopter and damaged two others. Argentina followed up a morning attack on San Carlos by two planes with a major air assault in the afternoon. The British claim they shot down six Mirages and Skyhawks and probably destroyed three more. The Argentines announced they seriously damaged a transport, and London acknowledged damage to a frigate as well.



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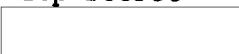
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Comment: *//The Argentine Coast Guard vessel destroyed Saturday was trying to reinforce the garrison in the*

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[Redacted]

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Darwin/Goose Green area--the most likely next British objective--just as the British are attempting to soften up the outpost prior to an assault.// [Redacted]

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//The Argentine return to large-scale air attacks yesterday after the previous day's lull suggests they needed time for extensive preparations before launching further strikes. The Argentines have now lost about 50 aircraft during the crisis.// [Redacted]

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EC Foreign Ministers' Meeting

//EC foreign ministers, meeting in Brussels today and tomorrow, face complicated issues concerning the Falklands and internal Community disputes. Foreign Secretary Pym will ask for a reaffirmation of EC solidarity with the UK and may request another extension of sanctions against Buenos Aires.// [Redacted]

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Comment: //The British continue to view sanctions as an important mark of European disapproval for the Argentine invasion. Given the increase in fighting, domestic pressure in several member states, and dissension over the Community's budget and farm price increases, the British are probably not optimistic that they can obtain a comprehensive renewal. Britain's European partners are likely at the least to call for compliance with UN Security Council Resolution 502, and for a cease-fire accompanied by Argentine withdrawal.// [Redacted]

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Other Diplomatic Activity

Galtieri also sent a message to Pope John Paul II yesterday that Argentina was ready to accept a cease-fire and negotiate. London will reply to the Vatican's peace initiative today. [Redacted]

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[Redacted]

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The UN Security Council debate continued yesterday, but no resolutions were put forward. Argentine Foreign Minister Costa Mendez denounced British "criminal aggression" and denied that Buenos Aires sought a cease-fire from the Council. [Redacted]

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Comment : //The British will veto any resolution that does not call for immediate withdrawal of Argentine forces.// [Redacted]

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[Redacted]

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CUBA: Shift in Agricultural Policy

Public dissatisfaction and economic woes apparently have led President Castro to ease somewhat his efforts to curb private enterprise in agriculture. [redacted]

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In a speech last week before the National Association of Private Farmers, Castro backed away from earlier threats to close Cuba's free markets. He warned, however, that prices could not fall as low as the consumer would like without causing a decrease in agricultural production that would divert farm products to the black market and thus result in even higher prices. [redacted]

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Comment: Castro now evidently sees the markets-- which have played a key role in stimulating agricultural production--as a necessary evil. His turnabout reflects unusual sensitivity to public opinion and probably stems partly from his concern that a "Polish" problem not develop in Cuba. The President is likely to face pressure both from government hardliners--who want to bring the agricultural sector completely under state control--and the technocrats, who advocate even more pragmatic economic policies. [redacted]

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Restrictions which might eventually be imposed, including price controls, taxes and closer government supervision, probably would result in lower agricultural production. Other steps that the regime is still planning to take to regulate private farmers are likely to have the same effect. [redacted]

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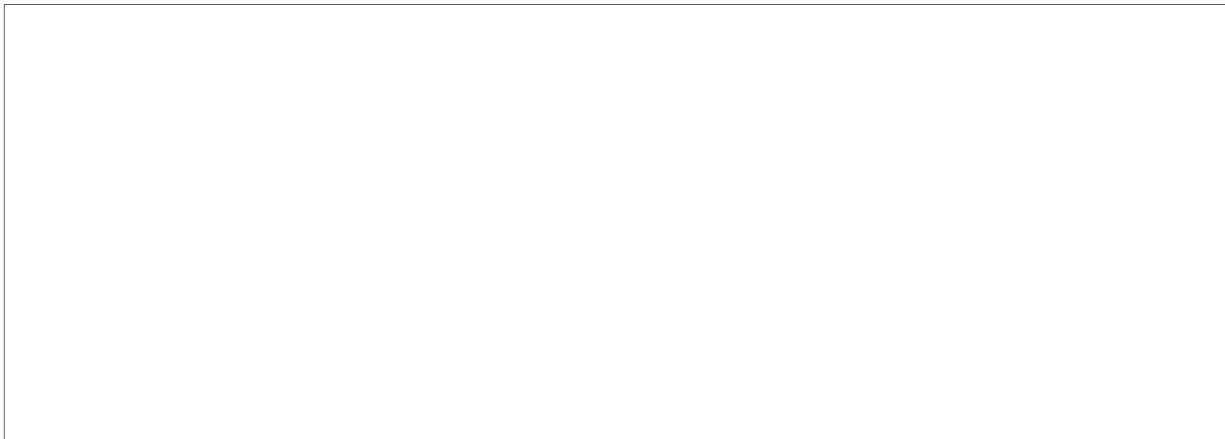
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JAPAN: Diet Session Extended

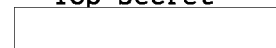
Prime Minister Suzuki's efforts to strengthen his political standing before the party presidential elections this fall could delay action on some US-Japanese issues. Suzuki agreed to extend the Diet session into August to be able to push through a bill on election reform and fulfill his pledge to promote clean politics. The extension, however, will also give the opposition opportunities to criticize the government on economic problems and the Lockheed scandal. 

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Comment: Key members of the bureaucracy usually remain in Tokyo to prepare responses to questions raised in the Diet, which probably will necessitate reducing the size and level of the Japanese delegation to the US for security cooperation talks in mid-July. Japan may ask for a postponement, particularly if progress on its own defense plans remains stalled because of the longer Diet session. The government also may postpone announcing a policy on defense technology transfer to the US in order to avoid open debate on that sensitive issue. 

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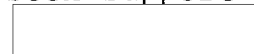
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DENMARK: Government Faces Showdown

Prime Minister Anker Jorgensen's minority Social Democratic government could fall unless it finds new parliamentary allies to support its economic recovery program in the debate scheduled to begin today. The two leftist parties that have backed the government have added new conditions for their continued support of the government's plan, prompting Jorgensen to seek support from the parties of the center and right.

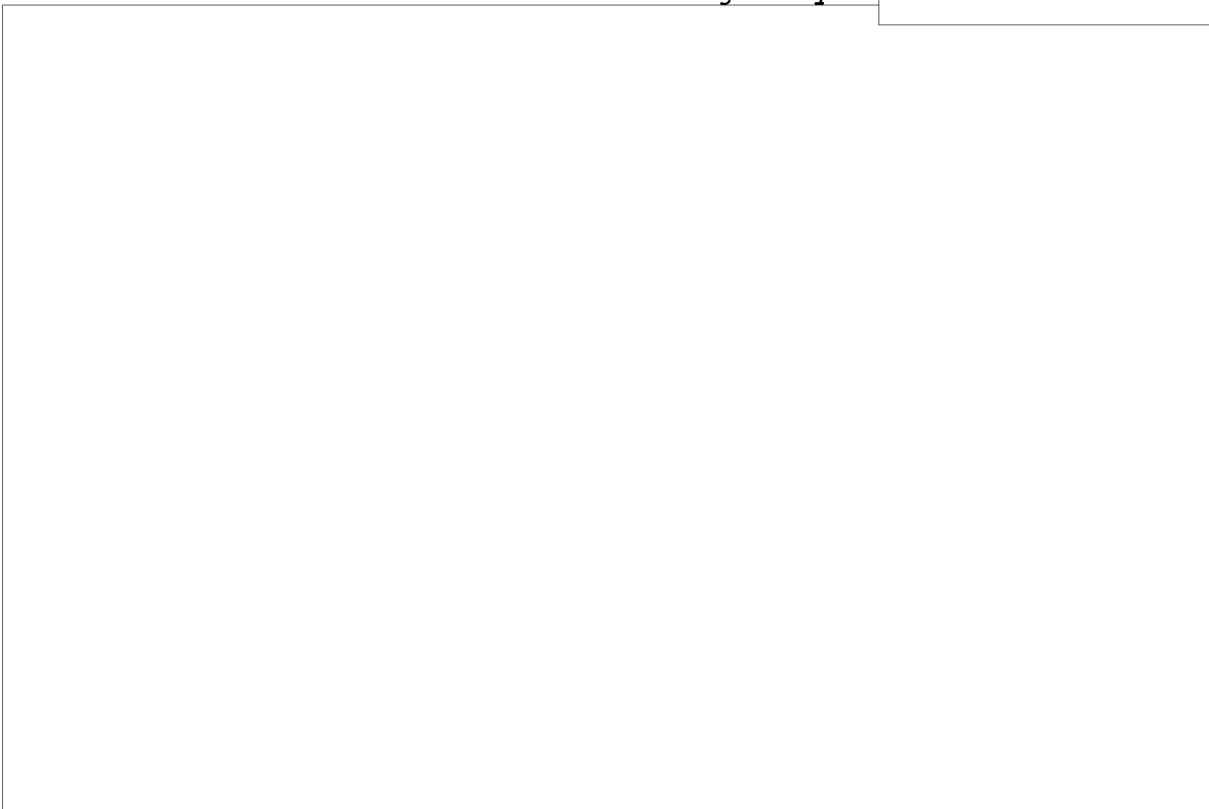


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Comment: Denmark's NATO Allies would welcome a Social Democratic decision to look toward center and rightist parties rather than continue to cooperate with leftist parties opposed to increased defense spending, but Social Democratic leftwingers would be alienated. With his own party in disarray over how to proceed, Jorgensen may await the outcome of the first reading of the proposed legislation today before making a final decision on strategy. Although the fall of the government would open the way for a nonsocialist alternative, the opposition center and right parties are seriously divided and would also lack an effective majority.

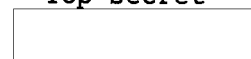


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SPECIAL ANALYSES

UK-ARGENTINA: Probable British Strategy



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//London is aiming at a rapid military victory in the Falklands, and its forces are likely to spend only a short time consolidating the beachhead. The British probably intend a direct assault against Argentine forces at Stanley even though their forces are substantially outnumbered. The government appears ready to accept relatively heavy losses in exchange for quick military success. Prime Minister Thatcher could call early elections in the event of success, but a serious military setback or stalemate would probably result in her replacement.//



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//The British apparently envision a campaign lasting less than two weeks. They probably expect to consolidate their position at San Carlos in short order and are likely to move against Darwin/Goose Green, less than 32 kilometers away, where there are 600 Argentine troops and an airfield. Afterward they would move on Stanley, about 80 kilometers to the east.//



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//Darwin/Goose Green is important because it is astride the only main route to Port Stanley, and because a British victory there would provide continuing psychological momentum. The Argentine units there probably will be unable to resist long the 5,000 to 6,000 troops of the British land force.//



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//While the main British force is moving toward Stanley, small units probably will raid Argentine positions on both East and West Falkland to destroy Argentine aircraft, ammunition, and supplies. British ships and aircraft will attack Stanley to pin down the Argentine troops and soften them up for an assault.//



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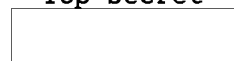
//Difficult terrain and poor weather may slow the British advance from Darwin/Goose Green to Stanley. British forces on the move will be at high risk from Argentine aircraft, and Harriers from the British aircraft carriers or possibly from the field at San Carlos will have to provide protection.//



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//The Argentines probably will place troops on the high ground about 25 kilometers from Stanley--at Mt. Challenger, for example--to obstruct the advance. Argentine forces also could launch a counterattack from Stanley in an attempt to deal with British units piecemeal.//

//Although the 3,000 troops aboard the Queen Elizabeth 2 have been described as a garrison force, they could become involved if the British troops become bogged down. The forces on board, the Scots Guards and the Welsh Guards, are among the best British units. These troops, which could arrive as early as Wednesday, might be landed in northern or north-central East Falkland to outflank Argentine defenses.//

//Once they arrive in the Stanley area, the British forces probably will initially establish defensive positions, but after a short period of artillery bombardment joined by naval and air attacks, they probably will attempt to storm the town spearheaded by Scorpion light tanks. The British are better trained and somewhat better equipped than the Argentines, and would be supported by air and sea. The Argentines, however, outnumber the British two to one and would be in prepared defensive positions.//

//The Argentines will attack British land and sea forces during the campaign, using aircraft from the mainland. The British aircraft carriers will continue to be the most attractive target.//

//The British are unlikely to attack mainland bases. They apparently can stage only a few Vulcan bombers from Ascension Island to Argentina, and British carriers would have to move dangerously close to Argentine defenses to attack with Harriers.//

The Political Will

//As long as the British see negotiations proposals as detrimental to their interests, a short campaign that is proceeding successfully will receive broadbased support in the UK. Backed by favorable public opinion, Thatcher's government and an overwhelming majority of her party probably are willing to continue to accept relatively heavy losses, but only if a clear-cut military victory is the result.//

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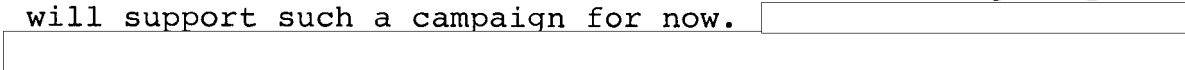
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//Within the Social Democratic - Liberal alliance and even within the Labor Party--which is becoming increasingly divided over how to resolve the crisis--a majority will support such a campaign for now.



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Thatcher and her "war cabinet" likely will give commanders on the scene considerable leeway for the immediate future.//

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//A short, successful campaign, especially with few new losses, would catapult the Tories into a stronger position than at any time since the early 1960s. Consequently, despite disclaimers by the Conservative Party chairman, chances would increase dramatically for an election as early as late spring, with a major Tory victory likely.//



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//Nonetheless, Thatcher is following a high-risk strategy. Loss of the Sheffield and casualties sustained during and since the invasion sent shockwaves through the UK, but they are "acceptable" because of the UK's general military successes. Any serious reverses, however, almost certainly would force Thatcher to reconsider an aggressive military course, and would increase pressure for a cease-fire.//



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//Heavy losses early in the campaign or a stalemate on the ground could spur the UK to redouble its efforts and even attempt a spectacular military reprisal. Within a relatively short time, however, British reverses probably would seriously erode Thatcher's position as Prime Minister and compel her to accept a cease-fire and UN mediation while British forces struggled to hold their ground.//



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//If Thatcher fell, she would be replaced by a Tory less clearly locked into hardline military policies. There has already been speculation that Foreign Secretary Pym is uncomfortable with Thatcher's emphasis on a military victory. It is unlikely, however, that a general election would follow immediately.//



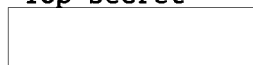
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//Less dramatic setbacks probably would encourage the military to request more time and the government to grant it. Thatcher's position would not be greatly affected at first, but the longer a military victory is denied, the more constricted her maneuvering room would become.//



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SOUTH AFRICA - NAMIBIA: Negotiating Options

//South Africa recently has moved to increase the pace of the negotiations for Namibia's independence by proposing an accelerated timetable for a settlement. Although the new sense of urgency in Pretoria may reflect growing political and economic pressure, South Africa's shift also may stem from a belief that the time is now ripe either to obtain an acceptable resolution of the Namibia question or at least to gain stronger Western support for its position if negotiations fail.//

//The pressures to dispose of Namibia are mounting but are not yet sufficient to force Pretoria to accept terms it finds unfavorable. Militarily, South Africa has the capacity to remain in Namibia indefinitely, and it is continuing to strengthen its forces in the territory.//

Debates in South Africa over Namibia remain low key, but it is only a matter of time before rightwing parties move to exploit the issue. The rightwingers are sure to criticize the current negotiating effort and will contest any settlement that appears to compromise the interests of whites in Namibia or South Africa's security. Prime Minister Botha's government, realizing that this opposition will attack its handling of Namibia regardless of what it does, may calculate that a quick settlement would enable it to minimize the political damage.

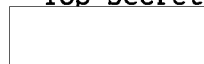
//South Africa believes that a major benefit of a settlement, especially if coupled with progress on racial reforms, would be closer association with the US. Prospects for improved bilateral relations have already been a major selling point for a settlement on Namibia.//

//Senior officials have complained about the increased financial burden of maintaining control in Namibia. Although South African businesses remain heavily involved in Namibia, Pretoria claims--probably correctly--that it spends over \$1 billion a year to subsidize the Namibian administration and to fight the insurgency waged by the South-West Africa People's Organization.//


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Pretoria's turnabout also may reflect the failure of the political parties in Namibia to use the time bought by stringing out the talks to develop a strong anti-SWAPO political structure. South Africa's chosen political vehicle, the Democratic Turnhalle Alliance, has been undercut by white opposition and spurned by blacks. 

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The territory, meanwhile, remains divided among over 40 tribally based political groups. Moreover, South African leaders probably realize that despite considerable efforts the military has neither destroyed SWAPO's insurgency capability nor diminished its political support in Namibia. 

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Tactical Considerations

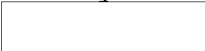
//Now that Pretoria has decided to speed up negotiations, it will adjust its tactics with an eye to Western attitudes. If the talks fail to produce an accord, for example, South Africa will want to be seen as a flexible negotiator blocked by Communist-inspired intransigence. In the event of a breakdown in talks, the South Africans will seek Western support or acquiescence for measures they take against SWAPO.// 

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//If negotiations succeed, but involve potential risk for South Africa's security, Pretoria probably will seek Western understanding for security guarantees it will demand in connection with a settlement. In particular, it will want assurances against a Soviet or Cuban military presence in an independent Namibia and will want to protect against use of Namibian territory by anti-South African insurgents. Pretoria also will insist on a large enough reduction in the number of Cuban troops in Angola to allow the National Party government to claim a major diplomatic victory to its constituents.// 

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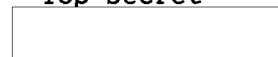
Settlement Options

//The decision on negotiations has not narrowed South Africa's range of options. Depending on the outcome of bargaining on specific arrangements, Pretoria may make a genuine effort to conclude a settlement.// 

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//South African leaders are apparently prepared to live with a black antiapartheid regime in Windhoek that has cool relations with Pretoria. They may believe that security guarantees coupled with direct economic and military leverage will constrain the policies of any Namibian government.// 


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//Pretoria also has the option of deferring hard political decisions by not allowing the talks to reach a conclusion, which has essentially been its policy since the late 1970s. By following this approach, however, South Africa risks being held responsible for the breakdown of negotiations and losing the chance for a rapprochement with the West.// 

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//In addition, South Africa retains the option of declaring a unilateral settlement in Namibia that effectively excludes SWAPO--something it threatened to do in 1978 and again hints it is contemplating. Pretoria may hope that, after demonstrating a sincere effort to negotiate, the West will look more sympathetically on such a move. An internal settlement, however, would not end the SWAPO insurgency or reduce the financial burden of Namibia.// 

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//Any option will be accompanied by a strong counter-insurgency effort. Even if negotiations appear to be succeeding, South Africa will keep military pressure on Angola to thwart SWAPO attacks into Namibia. If negotiations fail, major ground attacks and airstrikes deep into Angola are likely.// 

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