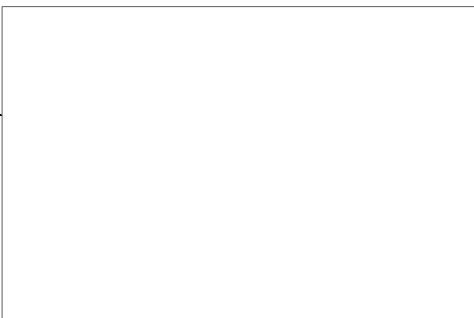




Director of
Central
Intelligence

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EC-US: Trade Negotiations


EC Foreign Ministers probably will decide today to withdraw from GATT-sponsored negotiations with the US over tariff adjustments made necessary by Greek membership in the Community. 

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The negotiations, begun more than two years ago, have become stalemated over questions of US-Greek trade. The Community maintains that Greece's adoption of overall lower EC tariffs in 1981 has led to a liberalization of trade with the US and that the EC is owed an annual credit of \$187 million. The US holds that it has lost trade with Greece—\$14.4 million annually—since Athens adopted the EC tariffs and that the Community should lower other tariffs in return.



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Comment: The EC believes the precedent of a trade credit and renegotiation of tariffs must be established before Spain and Portugal become members in two or three years. If tariffs on US farm goods that now enter the Community duty free—particularly oilseeds and oilseed products—cannot be readjusted upward by then, the EC could be faced with massive dislocations and overproduction in agricultural goods, especially olive oil. 

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The Community probably will move unilaterally to impose higher tariff ceilings on some US goods—including soybeans and nongrain feeds—to offset its claim for credit. EC Commission officials informally have assured Washington, however, that even if ceilings on some US exports are increased, the actual applied tariff rates are likely to remain unchanged. Such action, although separate from ongoing EC-US discussions on agricultural trade issues, probably would be in part an EC response to US-subsidized flour and dairy sales in markets claimed by the Community. 

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SPAIN: Antiterrorist Program

Madrid is formulating plans for an offensive against Basque terrorism, following the collapse of efforts to achieve a negotiated settlement with ETA, the Basque terrorist organization. [redacted]

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Efforts by the Basque regional government to mediate between Madrid and ETA's military branch failed last month. The central government demanded a cease-fire before starting talks, and the terrorists responded with a series of bombings and killings. [redacted]

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Madrid has since reaffirmed its intention to use vigorous police methods against ETA. The government's plan includes a reorganization of the police intelligence services; closer coordination among national, regional, and municipal police forces; and a campaign to encourage cooperation with the police. [redacted]

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Comment: The short-term prospects for curbing terrorist violence are poor. The failure of the negotiations has embittered relations between the regional government and Madrid and increased tensions in the Basque provinces. Recent demonstrations by pro-terrorist groups indicate that ETA retains a hard core of popular support and that its military branch still has formidable sources of supplies and funds. [redacted]

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The longer range outlook, however, is somewhat better. According to press reports, ETA's political-military wing is financially strapped and could dissolve soon. Dissension within and between the two branches of ETA has reduced the organization's effectiveness and caused a number of terrorists to abandon armed struggle. [redacted]

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Anger over the military wing's recent assault on a Basque regional police barracks may increase cooperation between Madrid and the Basque regional government. The arrest of a number of terrorists in past weeks suggests that, even without a substantial improvement in cooperation, the central government's tough stance against terrorism may over time have a telling impact. [redacted]

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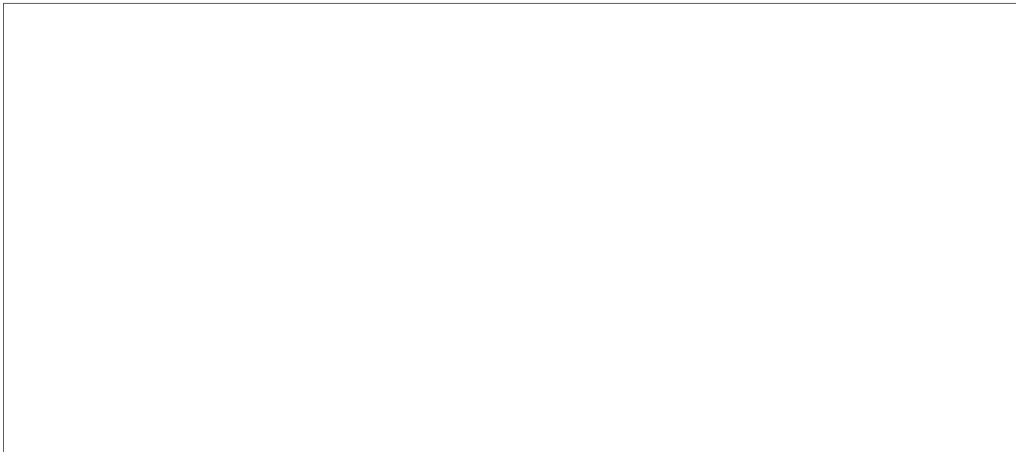
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WARSAW PACT: Polish War Stocks

New information has led the Intelligence Community to reduce by one-half its estimate of Poland's ammunition stocks and provides further evidence of the growing gap between Soviet and Polish military capabilities against NATO. [Redacted]

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Comment: Combat supplies for the Soviets are estimated as sufficient for two months. [Redacted]

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[Redacted] This level is about twice that of the Poles. [Redacted]

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In Warsaw Pact plans the Poles have important combat missions early in a conflict before Soviet reinforcements arrive. If fighting in Europe continued more than a month, ammunition would be required from either Soviet stocks or Warsaw Pact theater stocks to enable a continuation of Polish operations. [Redacted]

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FRANCE: Municipal Runoff Elections

Final returns in the second round of municipal voting indicate the Socialists and Communists will retain control over a majority of the 232 largest cities, despite the net loss of 14 cities—in addition to 16 in the first round—to the opposition center-right. Several prominent Socialists, including Prime Minister Mauroy and Interior Minister Defferre, won difficult runoffs. The Communists lost control of several cities, however, and Communist leader Marchais has criticized the Socialists for failing to support Communist candidates in runoffs against the center-right. [redacted]

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Comment: Gaullist leader Chirac's sweep of all voting districts in Paris will strengthen his efforts to establish his dominance of the center-right. The Socialists will be encouraged by their better showing in the second round and by the left's success in holding its losses well below those suffered by the center-right in the municipal elections in 1977. Pressures on President Mitterrand to carry out a major shakeup of the cabinet probably have been reduced, but some changes could take place soon. Marchais's criticism of the Socialists may presage a serious quarrel within the coalition, particularly if Mitterrand moves quickly to impose restrictive new economic policies. [redacted]

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25X1**INTERNATIONAL: Results of Nonaligned Summit**

The Nonaligned Summit concluded in New Delhi Saturday by issuing a communique markedly less critical of the US than previous declarations. The Movement, however, continued to avoid criticizing the USSR directly. India, which assumed the chairmanship from Cuba, succeeded in its prime objective of reducing the emphasis on Global Negotiations—the long-stalled plan for reform of international economic institutions such as the IMF and the World Bank—in favor of piecemeal proposals to bring immediate economic assistance to developing countries. [redacted]

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Comment: The passing of the chairmanship to India appears to have ended the ability of Nonaligned radicals to use the Movement as a political weapon against the US, though some criticism of US policies will remain. India probably will concentrate on breaking the impasse in the North-South dialogue. Developing countries are likely to adopt New Delhi's strategy of seeking less ambitious international economic reform at UNCTAD VI, the North-South conference scheduled for June in Belgrade. [redacted]

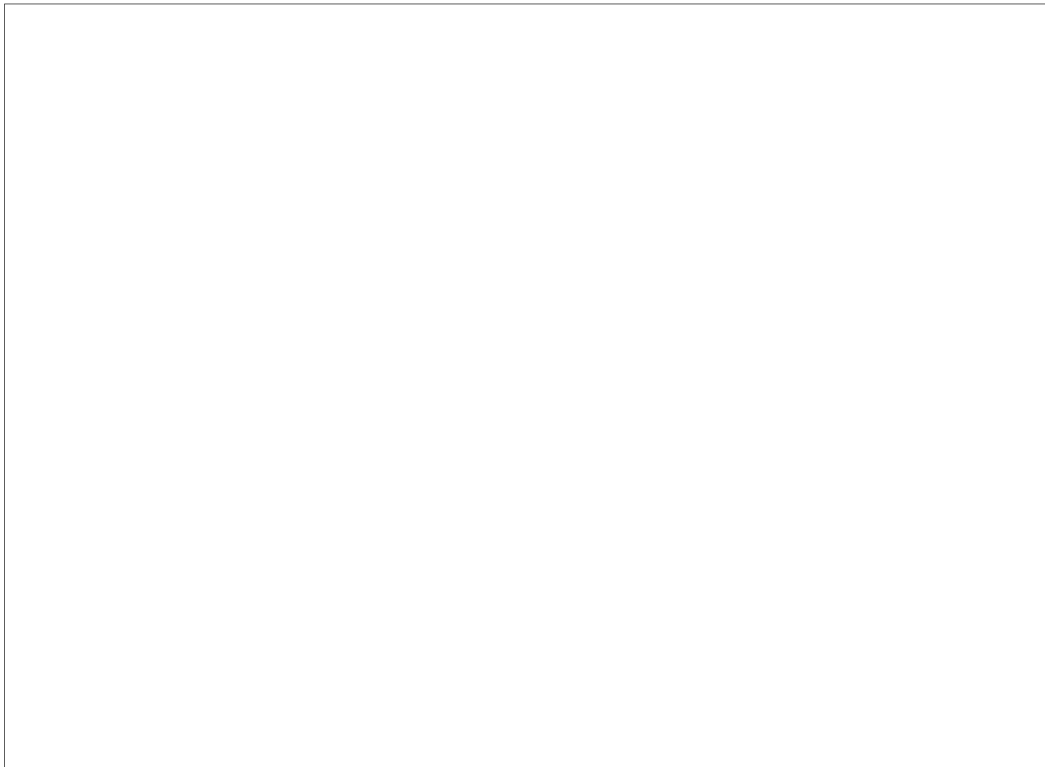
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EAST GERMANY: Peace Movement Conference

East German peace activists recently held their first major national coordinating conference in East Berlin. The US Embassy reports Lutheran Church officials were the hosts for representatives of 40 peace groups from throughout the country to exchange information and experiences. The participants agreed to convene again in the fall, but a militant minority said it would go ahead with plans to hold its own conclave in May, which a Church official said would be more "action oriented." [Redacted]

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Comment: Church leaders organized the conference to maintain influence over militant activists and to prevent them from holding their own session. The Church probably will argue against the meeting in May by pointing out it would provoke harsh retaliation from the regime. Although such a line is likely to be persuasive to most peace activists, it may not be enough to prevent the session. [Redacted]

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SAUDI ARABIA: Funding for Arms Purchases

Saudi General Madani, Chief of the Foreign Assistance and Cooperation Department in the Ministry of Defense and Aviation, recently told a US officer that Riyadh will continue to underwrite selected foreign military aid expenditures. He said the Saudis had just agreed to pay for a Moroccan order from the US for \$43 million worth of TOW missiles and munitions and a \$3 million Pakistani contract for US Redeye missiles. Madani also noted new aid initiatives are likely in the coming months because of substantial budgetary allotments on which Saudi assistance officers can draw. 

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Comment: Madani's statements indicate his department probably is in a good position to defend its programs against budgetary cutbacks. The Saudis almost certainly are reluctant to reduce foreign aid substantially because they view it as important for their security to support both radical and moderate Arab regimes. In addition to military funding commitments of \$2.5 billion annually in 1979-82, economic aid pledges have averaged \$2 billion a year since 1978. Disbursements to Iraq, which exceeded \$9 billion in the last 30 months, are likely to continue. 

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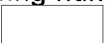
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Special Analysis

EL SALVADOR: Military and Political Trends

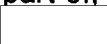
The tactical balance in the war remains unchanged, with the insurgents' increasingly aggressive small-scale attacks being met by large government sweeps. Nevertheless, the guerrillas appear to be preparing for widespread offensive actions in coming weeks. The government's decision to hold elections this year—an apparent attempt to regain the political and psychological initiative—may spur the insurgents' efforts. 

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Since the insurgents began intensifying their actions in October, the government's 30,000-man force has suffered an average of 275 killed or wounded per month. The US Embassy, meanwhile, reports the government is increasing forced conscription. The accelerated military activity also has resulted in a growing number of civilian casualties since the beginning of the year. 

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Insurgent Tactics

Fighting has slowed in the past few weeks, but the guerrillas continue to attack small towns and isolated government posts. The frequency and magnitude of these actions underscore the insurgents' increasing mobility. The attacks also suggest the guerrillas are making effective use of local militias as part of, or as a complement to, their 4,000 to 6,000 armed regulars. 

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The insurgents appear confident they have seized the tactical initiative, and they are trying to strengthen their popular and international support. They recently proclaimed northern Morazan Department a "free territory" and claim to have inflicted heavy casualties on government forces. These claims probably are inflated for propaganda purposes, but the insurgents apparently have captured increasing amounts of weapons and ammunition over the past several months. 

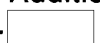
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A recently captured insurgent document states coordination is improving among the various guerrilla factions, 

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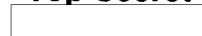


Nevertheless, there are indications that friction and rivalry among factions still exist. Additional problems include desertions and shortages of food. 

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The recent movement of large numbers of combatants into strategic areas around the country and increased resupply operations suggest the guerrillas are well along with their plans for a wide-scale offensive in the spring. They clearly intend to put pressure on government forces on all fronts in order to weaken the Army's ability to protect key economic targets. The guerrillas hope attacks on these targets will erode public confidence and increase calls for negotiations leading to power sharing. [redacted]

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The Government's Performance

Guerrilla successes in recent months have increased the nervousness in Central America over the status of the war and drawn international attention to the insurgent cause. The government's superiority in weapons and manpower, however, generally has kept the insurgents from advancing into new areas. During recent fighting, government forces have shown some improvement in field communications, greater willingness to conduct night operations, and a new ability to infiltrate guerrilla lines with long-range reconnaissance patrols. [redacted]

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Nevertheless, a recent large-scale government sweep north of San Salvador revealed continued weaknesses. According to US military sources, the operation was marred by fundamental errors in command and control, poor tactical discipline, and disregard for communications security. The same sources also noted that the failure of some units to establish blocking positions enabled large numbers of guerrillas to escape. [redacted]

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The insurgents are trying to add to the military's difficulties by continuing to release captured prisoners and by propaganda broadcasts from a former assistant defense minister who was captured last June. There are few indications, however, that this psychological strategy is paying major dividends. [redacted]

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[redacted] government morale continues to be high in most units, particularly in the US-trained battalions. [redacted]

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The ability of the high command to weather recent challenges to its authority and to maintain institutional unity suggests that morale may even improve. The prospect that Defense Minister Garcia will soon step down should enable the officer corps to concentrate on the war effort and lessen the concerns of neighboring governments. Moreover, there is some chance that Garcia's replacement—most likely National Guard leader General Vides Casanova—will heed Garcia's critics and support a more aggressive strategy. [redacted]

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Political Complications

The military situation probably will be complicated by increased political infighting in the government as the major parties prepare for the elections, now scheduled for December. The guerrillas are likely to try to capitalize on any divisions in the government as the election process gets under way, hoping to undercut its legitimacy by demonstrating their own political and military strength. [Redacted]

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The guerrillas also will be motivated by a desire to maintain their political and military momentum. Even at this early stage, they probably fear the government will repeat its electoral success of March 1982. [Redacted]

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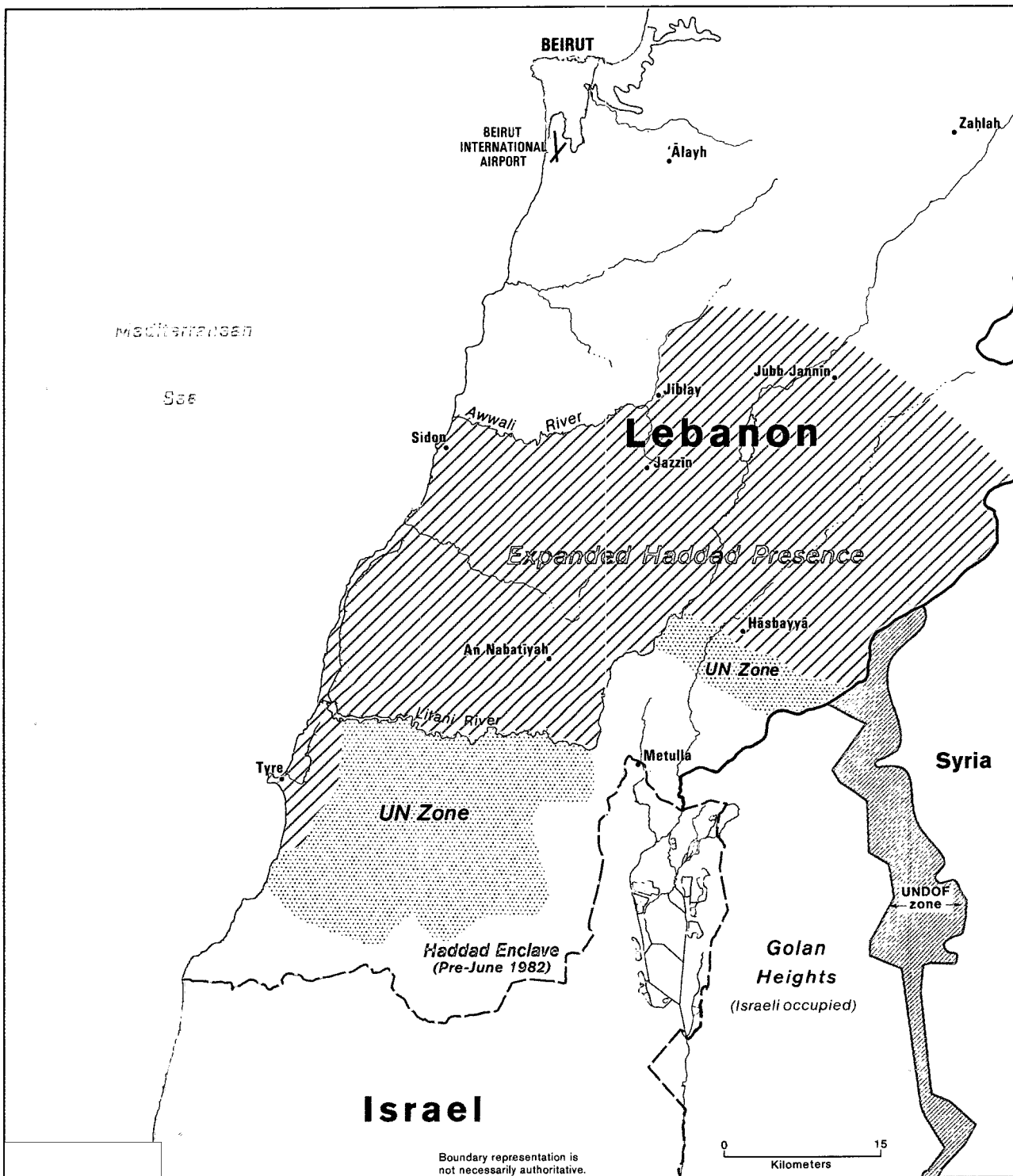
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Special Analysis

ISRAEL-LEBANON: Tel Aviv's Policies

Tel Aviv's military, political, and economic policies in southern Lebanon are designed to advance goals that the Israelis have been pursuing since their first invasion of the area in 1978. Their most immediate goal is to assure that a PLO military structure does not reemerge once Israeli forces withdraw. The Israelis also are preparing the groundwork for a prolonged military occupation. [redacted]

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Israel has taken a number of steps to help Major Haddad, its principal surrogate in southern Lebanon, and his 1,500-man Christian-Shia militia consolidate control over the area south of the Awwali River. Haddad's move into Sidon last month with Israeli backing was designed to stake his claim as de facto military governor of the south. In addition, the Israeli military has regularly harassed contingents of the UN force in order to give Haddad freer rein and drive home Israel's opposition to a UN presence. [redacted]

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The Israelis also are trying to create local militias that they believe eventually will forge alliances with Haddad. The Israeli Army so far has armed over a half dozen local groups and has even begun providing weapons to anti-PLO Palestinians. [redacted]

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The most important of these militias is the Shiite National Guard. It numbers less than 100 men and is led by the scion of the most prominent Shiite family in Tyre. [redacted]

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Political Control

Israeli political actions have tended to undermine central government institutions in southern Lebanon. For example, a civil-action team appointed by the Israeli military has offered services for which Beirut theoretically is responsible. In addition, the work of Lebanese Government employees in the south reportedly has been obstructed by the Israeli military authorities, who have threatened to deport noncooperative officials. [redacted]

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In late January the Israelis called a meeting of village heads to discuss the formation of a council that would cooperate with Israeli authorities in the area. The local leaders were cool to Israeli suggestions, but even without a formal mechanism they still have to deal directly with the Israelis on most matters. [redacted]

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Economic Policies

As soon as Israeli forces secured the area beyond Haddad's enclave, Israeli businessmen traveled there to exploit economic opportunities. By late summer, Israeli foodstuffs and other goods began appearing in southern Lebanese towns and villages, as well as in Beirut. The Israelis also began extending bus routes and other basic services to southern Lebanon and opened Haifa to Lebanese merchants as a duty-free port. [Redacted]

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Estimates of the monthly value of Israeli exports to the area range from \$10 million to \$70 million. Even the lowest figure exceeds the current level of Israel's nonoil trade with Egypt. [Redacted]

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Israeli goods marketed under Lebanese trade names have begun appearing in other Arab states. This development has led in part to the imposition of Saudi and Jordanian restrictions on Lebanese goods. [Redacted]

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Israeli Intentions

To prevent the return of PLO fighters to southern Lebanon, the Israelis believe the area south of the Awwali River has to be a permanent military *cordon sanitaire* under Haddad's control, even if this comes at the expense of the central government's authority. In addition, Prime Minister Begin needs clear security gains with which to counter any further questions about the long-term value of Operation "Peace for Galilee." [Redacted]

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Israeli actions in southern Lebanon also are aimed at improving Tel Aviv's position in the negotiations. The strengthening of Haddad is intended to give the Lebanese Government no option but to retain him as military kingpin in the south. In addition, Israel believes a web of economic ties with Lebanon will make it more costly for Beirut to renege on any normalization agreement. [Redacted]

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All of these policies give Tel Aviv maneuvering room in the event negotiations drag on or break down. By strengthening Haddad and other Lebanese surrogates, the Israelis hope to ease the military burden of a prolonged stay. Israeli moves also pave the way for a permanent occupation of the area as a last resort. [Redacted]

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