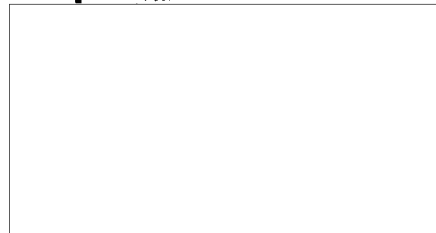




**Director of
Central
Intelligence**

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National Intelligence Daily

*Saturday
22 October 1983*

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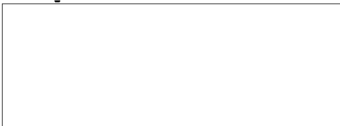
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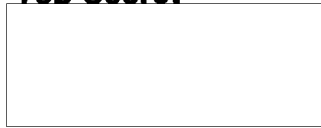


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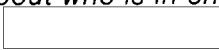
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GRENADA: Confused Situation

Conflicting accounts about who is in charge indicate that the power struggle is not over. 

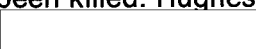
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Former Deputy Prime Minister Coard has been killed, according to unconfirmed reports; 


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The US Embassy in Barbados says a US citizen—reportedly a friend of slain Prime Minister Bishop—has been arrested, but there are no other indications that Americans on the island are in danger. An unconfirmed press report stated yesterday that independent journalist Alister Hughes had been killed. Hughes, a Grenadian, had been arrested the day before. 

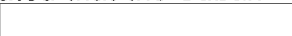
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Austin has expressed a desire to have “good relations” with the US, according to the US Embassy in Trinidad and Tobago. He reportedly told a US citizen there on Thursday that he wanted to meet with a US representative. 

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The Caribbean Community has called an emergency meeting for today to consider sanctions against Grenada. Jamaica and Trinidad and Tobago already have announced they will break diplomatic relations, and Barbados, St. Lucia, and Antigua plan to boycott Grenada at regional meetings. St. Vincent has called for an immediate end to martial law in Grenada, and St. Christopher-Nevis said it would support direct US involvement if necessary. 


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The Cuban official statement on Thursday described the Grenadian situation as an internal matter and stated that the Cuban Embassy there was to refrain from involvement. 

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Havana also claimed that differences within the Grenadian leadership were primarily caused by personality conflicts. Cuba called on the “international progressive movement” not to condemn the new regime prematurely, and stressed the need to avoid giving the West an opportunity to reverse the Grenadian revolution. Havana also expressed a willingness to continue its economic and technical assistance programs in Grenada. 

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new regime prematurely, and stressed the need to avoid giving the West an opportunity to reverse the Grenadian revolution. Havana also expressed a willingness to continue its economic and technical assistance programs in Grenada. [Redacted]

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Comment: Austin's reported demarche to the US probably was designed to forestall hostile action by Washington. The ruling military council's concern over US intentions also is reflected by repeated announcements on the state radio that no US citizens have been harmed. [Redacted]

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If Coard has been killed, Austin and Cornwall probably are the major contenders for power. Little information on their backgrounds is available, but neither man has a reputation as an ideologue or a strong intellectual. Even if Coard is out of the way, the 16-man military council probably will have difficulty consolidating its position in the short term. [Redacted]

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Cuba is now searching for ways to justify a continuing role in Grenada. Havana's official statement reflects its embarrassment over recent developments—especially Bishop's death—but clearly leaves room for maintaining relations with the new military regime. [Redacted]

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The statement, moreover, seems aimed at minimizing regional leftist—and possible private Cuban—criticism of Havana's failure to support Bishop. Cuba probably will support the new government, barring a major ideological reversal by the Grenadians. [Redacted]

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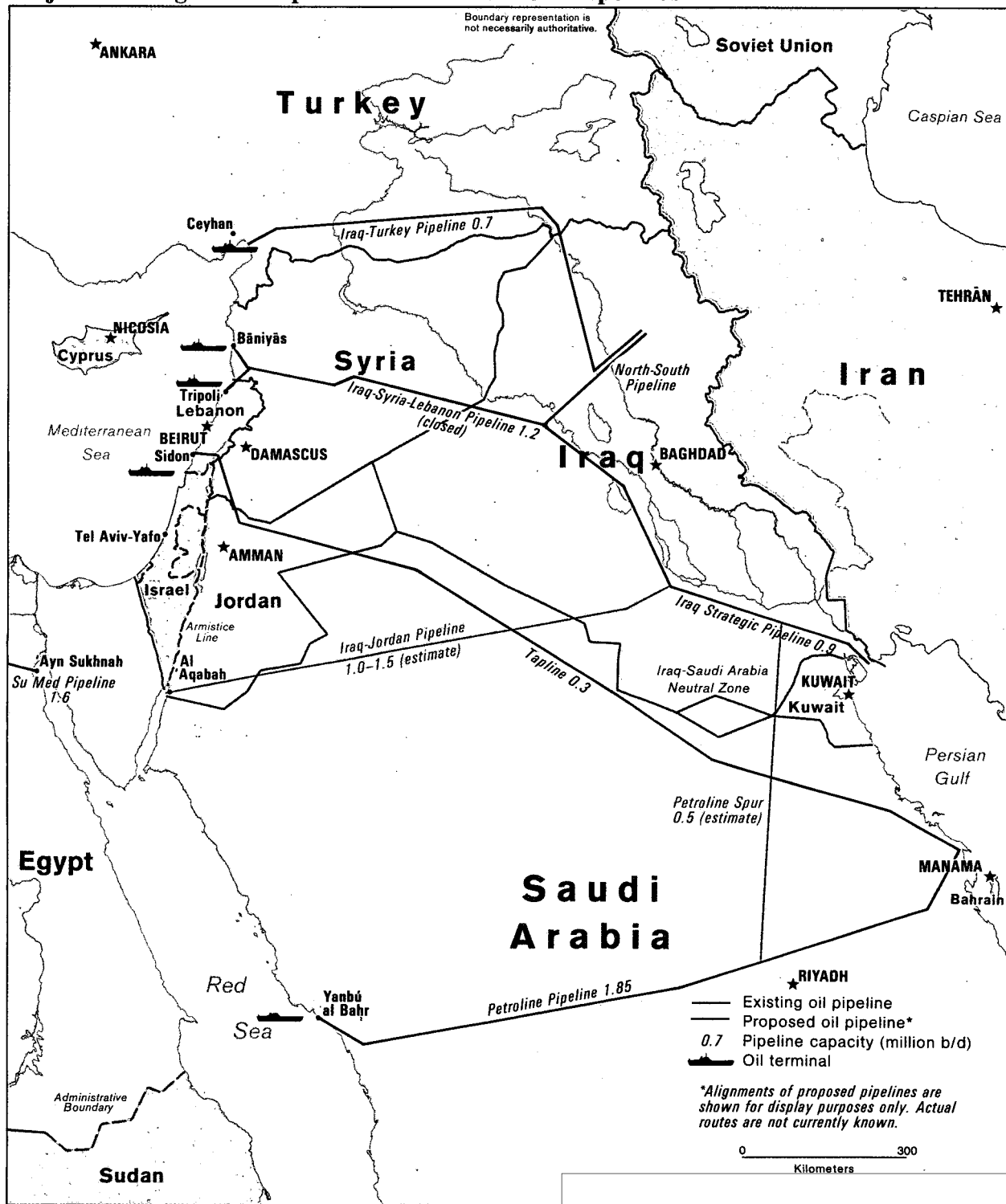
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Major Existing and Proposed Middle East Oil Pipelines



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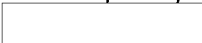
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SAUDI ARABIA-IRAQ: Renewed Interest in Pipeline

Riyadh may bow to Baghdad's pressure for access to an oil pipeline across Saudi Arabia because of Iraq's mounting financial difficulties and the poor prospects for reopening the pipeline across Syria soon. 

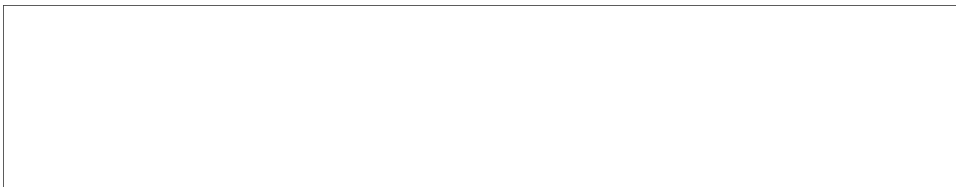
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The US Embassy in London reports that Foreign Minister Saud told Prime Minister Thatcher this week that negotiations between the Gulf Cooperation Council and Damascus to reopen the Iraqi-Syrian pipeline had "totally failed." Iraq is dependent on a pipeline through Turkey to export 800,000 barrels per day. 


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Saud says Iraq and Saudi Arabia are now working to link Iraq to the Saudi pipeline that extends to the Red Sea. He estimated construction would take about 12 months. 

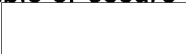
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Comment: The question of financing the new link—which would be considerably cheaper than constructing a separate line from Iraq to the Red Sea—still has to be addressed. The Saudis have never been enthusiastic supporters of an Iraqi pipeline crossing their territory. They withdrew financial assistance for such a line proposed in 1981, effectively killing that project. 

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Iraq has to increase oil exports substantially if it is to solve its economic dilemma. The pipeline, however, would not provide immediate relief. If other financial aid is not forthcoming, Baghdad may be compelled to step up the war with Iran in order to bring Tehran to the negotiating table or secure the support of Western powers to mediate a peace. 

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ARGENTINA: Moratorium on Debt Payments

Argentina is being forced into a de facto payments moratorium, which will cause severe economic problems for the new government.

[Redacted]

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President Bignone, under pressure from nationalist elements, this week told the international banks that debt negotiations were suspended until a civilian government can participate. A government is to be elected on 30 October, but it will not be installed until the end of the year.

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[Redacted]

According to the US Embassy, recent increases in public sector wages and the prices of state-supplied goods will put Argentina even more out of compliance with its IMF agreement.

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[Redacted]

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Comment: With Argentina unable to service its debts, a payments waiver is increasingly likely. The moratorium will result in the cessation of trade credits and any new foreign lending to the private sector. The reduction in imports and business investment will quickly be felt in higher prices—inflation already is at an annual rate of 925 percent—and a slowdown in economic activity.

[Redacted]

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Negotiations over the financial impasse probably will be even more difficult with the new civilian government. It will have difficulty imposing the austerity measures likely to be required by bankers for a resumption of financial assistance. The new economic team would have to live with election campaign pledges to obtain more favorable terms than those that were offered to the Bignone regime.

[Redacted]

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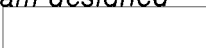
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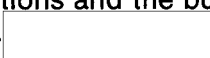
JAPAN: Economic Stimulus Package

The cabinet yesterday approved an economic program designed to dampen foreign criticism of its growing trade surplus. 


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Highlights of the plan include a 0.5-percentage-point cut in the discount rate, reduced tariffs on 44 industrial items, slightly lower personal income taxes, and introduction of low-interest-rate loans for import financing. Some measures that had been under consideration, including an investment tax credit for small businesses, were dropped from the package for budgetary reasons or because of public opposition. The cut in the discount rate will take effect today. 


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Comment: The package will do almost nothing to restrain the growth of the current account surplus in 1983, and it will have only a limited impact in 1984. The tariff reductions and the bulk of the tax cuts will not take effect until next April. 

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The cut in the discount rate may have an adverse effect on Japan's trading partners. As more capital flows out of Japan in search of higher interest rates overseas, the yen will decline, strengthening Japan's export competitiveness. 

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Tokyo probably views the package mainly as a means of demonstrating good will to Washington before the President's visit and of diverting public attention from the bribery verdict against former Prime Minister Tanaka. 

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USSR-EASTERN EUROPE: Problems in CEMA Persist

The meeting this week of Premiers from CEMA countries apparently failed to resolve any major issues, but it may have set the stage for the long-delayed CEMA summit. [redacted]

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Soviet Premier Tikhonov warned of the dangers of trading with the West and urged closer economic cooperation in CEMA. He made clear that Moscow expects its partners to accept a greater economic burden and warned that the USSR would not continue to subsidize the other CEMA members by allowing them to run large trade deficits.

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Tikhonov was vague about maintaining deliveries of Soviet energy and other raw materials. He stressed that future exports of these commodities to the East European countries would depend on the quantity and quality of goods those states provided the USSR. [redacted]

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Most of the speakers echoed Tikhonov's call for closer cooperation, but some familiar problems were raised:

- Hungarian Premier Lazar called for expanded trade with the West and increased prices for agricultural products, a major category of Hungarian exports to the USSR.
- Bulgarian Premier Filipov also argued for higher food prices and for guaranteed deliveries of Soviet energy and other raw materials in exchange for help with Soviet energy projects.
- The Romanians repeated their request for more favorable treatment in obtaining energy supplies. [redacted]

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Comment: Although some speakers indicated that final preparations for a CEMA summit are under way, a firm date apparently has not been set. The East Europeans evidently remain unconvinced of the benefits of greater CEMA integration, and they probably will resist Moscow's pressure to reduce economic relations with the West. [redacted]

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SPAIN: Backlash Against Terrorists

The recent kidnaping and killing of Army Captain Alberto Martin by Basque terrorists has provoked a nationwide reaction that is likely to strengthen the government's hand in combating terrorism.



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Martin is the first military officer to have died while being held hostage and brings the number of victims of Basque terrorism to over 30 for this year. His murder was the most recent of four, one of which occurred in southern Spain, far from ETA's normal area of operation.



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The government has expressed indignation over the brutality of the killing and has stated its determination to remain firm in the struggle against terrorism. Virtually all of the political parties have expressed outrage, and many plan to continue public marches over the weekend to demonstrate national unity against terrorism.



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The tension in the armed forces has been tempered by the efforts that the government made to secure Martin's release.



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Comment: The murder has caused a new sense of alarm, and it may prompt demands that the government adopt a more stringent counterterrorist program. Its willingness and ability to do so, however, will depend in part on the attitude of the Basque regional government. So far, the regional government has been reluctant to cooperate with Madrid.



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The military, although angry and frustrated, is unlikely at this point to challenge the government. Repeated attacks by the ETA, however, could prompt the armed forces eventually to move against the government.



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PHILIPPINES: Austerity Prompts Protests

Opposition rallies in Manila yesterday had an anti-American tone as demonstrators accused the US, along with the IMF and multinational corporations, of responsibility for the country's current economic difficulties. A leftwing labor union alliance, the May 1st Organization, called for a 50-percent wage hike to compensate for the 21-percent devaluation of the peso earlier this month. Earlier this week the devaluation and wage disputes prompted another group of workers to stage a brief takeover of the Philippine Long Distance Telephone Company and disrupt international communications.



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Comment: Economic problems will increasingly become the focus of opposition rallies and will strengthen radical elements seeking to blame the US and the IMF for recently announced austerity measures. The "Justice for Aquino, Justice for All" group, which sponsored the rally yesterday, is heavily penetrated by front groups of the Communist Party. Domestic price increases related to the devaluation and reductions of government subsidies for a range of goods and services will hurt urban labor the most. They will facilitate recruitment efforts by Communist labor front groups.

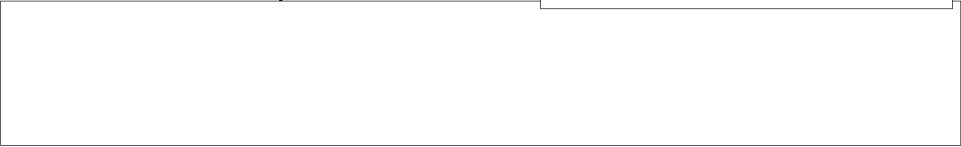


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CHILE: Possible Economic Policy Changes

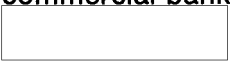
Political maneuvering over economic policy is likely to result in the replacement of Finance Minister Caceres and new policies aimed at stimulating the economy. US Embassy and press reporting indicate that Caceres only narrowly escaped being fired on 14 October and that his tenure is expected to be short.



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Comment: Most Chileans would welcome a rapid reactivation of the economy. Growth-oriented policies, however, probably would have to be financed by issuing currency. Over the longer term, they would accelerate inflation, reduce purchasing power, and endanger IMF agreements and the commercial bank credits necessary to avert a foreign financing crisis.



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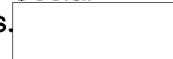
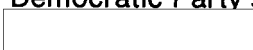
WEST GERMANY-USSR: Reaction to Soviet Threat on INF

The West German Government has expressed no concern about the Soviet-East German communique claiming that West German INF deployments would violate the treaties of Moscow and Berlin that normalized Bonn's relations with the East. The communique was issued on Tuesday, following Foreign Minister Gromyko's talks in East Berlin on Eastern countermeasures to Western INF deployments. It reiterates threats to curtail cooperation between East and West Germany, but it avoids any direct threat to the status of Berlin.



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Comment: The communique clearly tries to increase concern in the West German Government about the stability of relations with East Germany. The Soviets have always taken care, however, to counter suggestions that they would undermine the Quadripartite Agreement, which guarantees the status quo in Berlin. Moscow is aware that threats against the Agreement probably would rally public support to the West German Government and undercut the Social Democratic Party's opposition to NATO's deployment plans.



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WEST GERMANY: Timetable for Bundestag Debate on INF

The West German press reports the opposition Social Democrats are demanding that the debate in the Bundestag on INF be two and one-half days long, ending on 23 November. The government, which continues to insist the debate will begin and end on 21 November, has complete control over the timetable for the debate. It has stated that no Pershing missiles or component parts can arrive in West Germany until after the debate.



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Comment: Chancellor Kohl probably will weigh the disadvantages of irritating Washington with an additional delay in equipment deliveries against the domestic political need of avoiding the impression that the Bundestag has not thoroughly considered the issue. As a result, he could accept a compromise proposal extending the debate.



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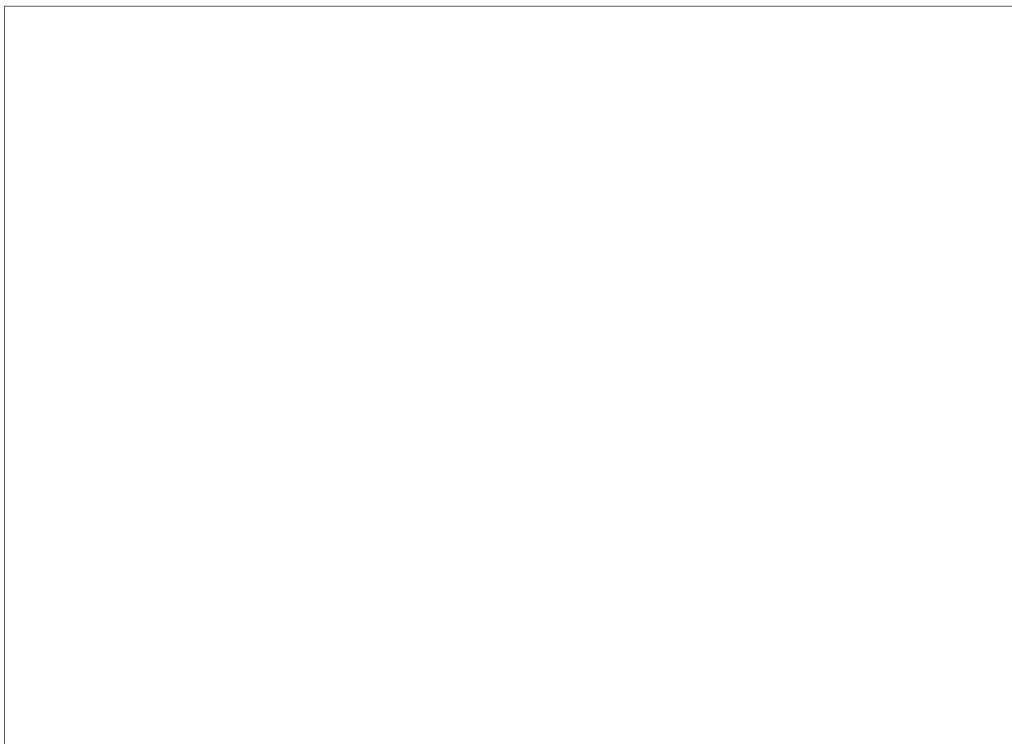


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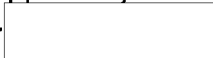


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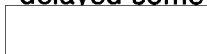
USSR: Levying Blame for Arctic Disaster

An article in *Pravda* yesterday criticized government bureaucracies for the disaster that has left some 35 ships icebound in the Arctic seas. It indicated that at least 30 of the ships have been damaged, eight of which are completely immobilized and may soon sink because of ice pressure on their hulls. The article blamed several ministries for inefficient operation and the poor condition of the port facilities and fleet. Soviet TV has uncharacteristically shown footage of the stranded ships and efforts to rescue them. 

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Comment: The disaster may affect Politburo member Aliyev, who has overseen the transport sector for nearly a year. He headed an earlier investigation of a major accident on the Volga River, which censured some officials for lax safety practices. Any investigation also might touch party secretary Dolgikh. He is closely linked with the major mining facility in Siberia, where shipment problems apparently delayed some of the vessels that are now caught in the ice. 

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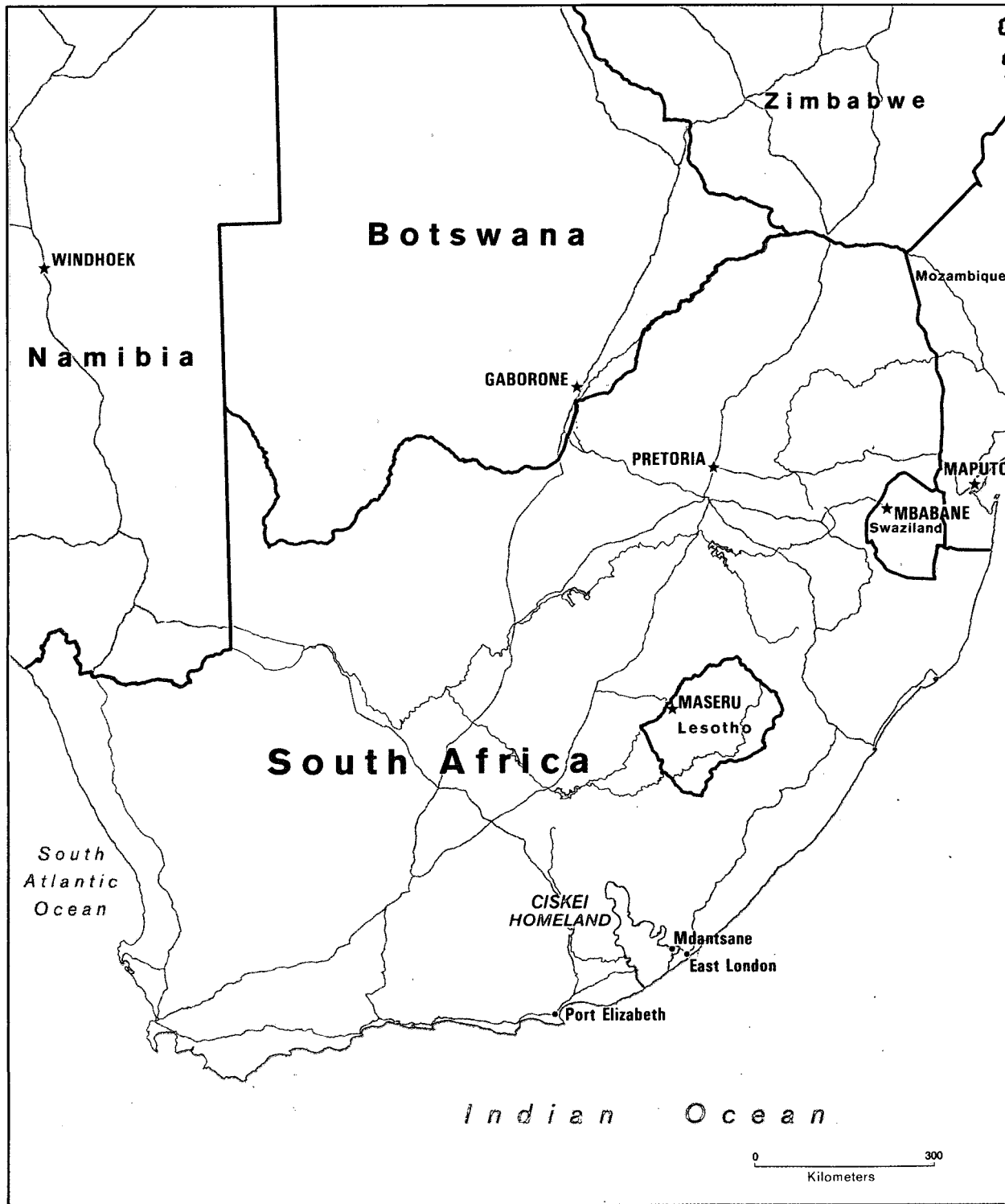


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SOUTH AFRICA: Violence Increasing in Ciskei

The US Embassy reports that Pretoria is concerned that riots in the black homeland of Ciskei will interrupt major transportation routes and spread to the large industrial centers of Port Elizabeth and East London. Press reports state more than 90 people have died since early September in clashes with the Ciskei police in Mdantsane, the second-largest black township in South Africa.

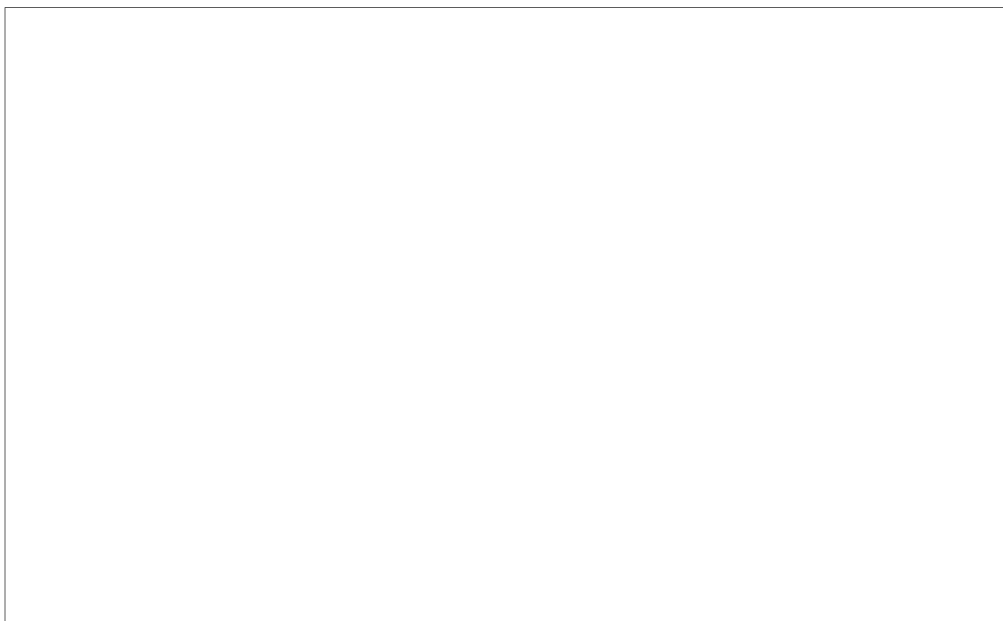


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Comment: Ciskei was granted "independence" by Pretoria in 1981, and civil disorders have been steadily increasing since a coup attempt there failed this summer. Although the South African Government has not previously intervened directly in the internal affairs of the "independent" homelands, Pretoria probably will reinforce the overburdened Ciskei security forces with paramilitary units. This assistance to the Ciskei authorities, however, may not be enough to control the violence.



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Special Analysis

ISRAEL: New Government's Economic Troubles

The government of Prime Minister Shamir, in its first two weeks in office, has weathered the furor created by the leak in the Israeli press of Finance Minister Aridor's plan to make the US dollar legal tender in Israel and by his subsequent resignation. Aridor's replacement, Finance Minister Cohen-Orgad, will have difficulty restoring public confidence and securing support for his publicly stated goal of reducing personal consumption. The Israelis are likely to ask the US for increased financial support.

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A spate of press reports appeared before Prime Minister Shamir even took office, claiming that Israel's credit rating in international financial markets had dropped and that foreign exchange reserves had declined. The reports prompted the public to buy US dollars in anticipation of a devaluation. Many Israelis sold stocks, particularly bank stocks, for shekels to purchase dollars, causing a stock market crash and forcing the stock market's closure.

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Shamir, in presenting his cabinet to the Knesset for approval on 10 October, said that the government would reduce public and private consumption and cut subsidies. The government's first act was announcement of an 18.6-percent devaluation of the shekel and a 50-percent increase in the price of most government-controlled commodities, including bread and milk. Although these moves will result in a new record for the inflation rate, Aridor announced his intention to reduce cost-of-living adjustments.

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Aridor, however, was forced to resign a few days later. Opposition in the cabinet to his "dollarization" plan centered on the greater economic dependence on the US it would entail. The press leak caused another flight from the shekel, and the government delayed collection of value-added taxes because many firms that had put their excess cash in stocks are unable to sell them.

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Immediate Problems

Banking sources of the US Embassy report that sale of dollars roughly balanced purchases on Tuesday, probably because Israelis are running out of shekels. Individuals and businesses have had to cash in dollars and other foreign currency to obtain shekels to meet their day-to-day expenditures. Nevertheless, the black-market exchange rate still exceeds the official rate by 5 percent.

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The Tel Aviv Stock Exchange opened on Thursday for bond trading only, and stock trading is scheduled to resume on Monday. Officials of the government, commercial banks, and the stock exchange are trying to work out a bank stock guarantee program to prevent another massive sale of bank stocks. [Redacted]

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Difficult Issues for Cohen-Orgad

Even if resumption of trade on the stock exchange goes smoothly, Cohen-Orgad will still face major problems. Inflation probably will reach 160 percent this year as a result of the devaluation and the rise in prices resulting from subsidy cuts. [Redacted]

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Unless the pervasive price-wage indexation system is modified, however, much of the impact on domestic demand will be mitigated in January. At that time, wages and pensions will be adjusted for inflation [Redacted]

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Despite Cohen-Orgad's show of determination to reduce the cost-of-living adjustment, he will face stiff opposition from Histadrut, the large trade union organization. The US Embassy reports that Histadrut is unwilling to negotiate reductions in real wages or changes in the cost-of-living adjustment formula. Officials of the organization believe that the two-hour strike last Sunday by 70 percent of the labor force gives them a mandate to defend real wages. [Redacted]

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Cohen-Orgad's austerity efforts also will be opposed from within the ruling coalition, particularly if the budgets for defense and Jewish settlements in the occupied territories escape cuts. Members of TAMI, a small coalition party with a low-income constituency, are likely to oppose reductions in social welfare spending and subsidies. Other members of the coalition probably would oppose reductions in traditional public services, such as health care and education. [Redacted]

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Even if the government does try to introduce new austerity measures, the effort is likely to be short lived. It does not have the political will to stick with such a program for the two to three years that would be required to make it work. Without an austerity program, inflation and balance-of-payments problems will continue to increase. [Redacted]

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Political Implications

The limited public acceptance of the need for belt-tightening that existed a few weeks ago appears to have been destroyed by the alarm about Aridor's plan to link the Israeli economy to the US dollar.

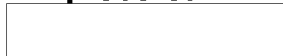
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Israelis are looking for a period of stability and a continuation of the rising standard of living that they have enjoyed in recent years. They probably will oppose any proposals that threaten these, including lower subsidies reduced public services, or lower cost-of-living adjustments. 


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Rising unemployment, which would result if the new Finance Minister is able to carry out the austerity policies he advocates, would be dangerous for the government. Cohen-Orgad probably would have to retreat if the unemployment rate rises above 5 percent. 

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The political fallout from higher inflation will be minimal as long as the cost-of-living formula is not altered. The devaluation presumably will increase exports, giving the government more time to deal with the balance-of-payments problem. 

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The government will look for the easiest way to deal with the economic situation. It may ask the US again for increased aid on better terms or for generous debt relief, or both. More US assistance would allow the Israelis to postpone dealing with the balance-of-payments problem and provide some of the additional foreign exchange that would be required for expansionary policies to deal with rising unemployment. 

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