



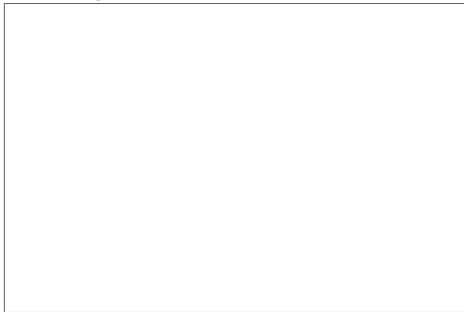
Director of
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National Intelligence Daily

Thursday
8 December 1983

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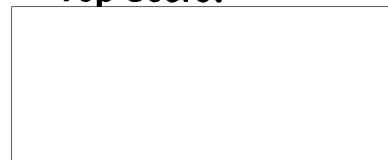
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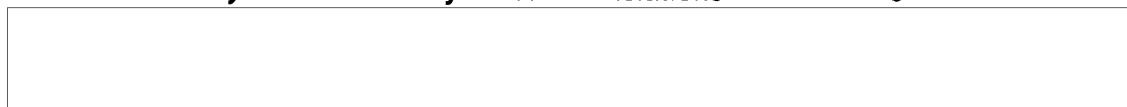
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EC: Summit Fails

The failure of EC leaders to resolve agricultural and budget problems at their recent summit in Athens deepens the Community's financial crisis. [Redacted]

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A deadlock developed on ways to limit runaway farm spending and relieve the UK's budget burden. Prime Minister Thatcher, with the support of West Germany, again threatened to block new revenue measures until British and West German payments to the Community are cut. French President Mitterrand, however, rejected new British budget proposals. [Redacted]

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The budget dispute was so intense that the Ten failed for the first time to issue a final communique. Aides prepared draft statements on the Middle East, Cyprus, and Central America, but the heads of government did not have time to address foreign policy issues. [Redacted]

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Comment: Although the negotiations were heated and unproductive, Thatcher apparently did not threaten again to withhold future EC budget payments until her demands are met. The next EC summit is scheduled for March, but France—which assumes the EC presidency in January—is likely to push for a special meeting before then. [Redacted]

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The Ten have to agree on how to raise new funds by the middle of next year if the EC is to avoid bankruptcy. The European Parliament could apply additional pressure next week by rejecting the EC budget for 1984. As a result, Community expenditures would continue to be based on allocations for 1983. [Redacted]

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Farm price supports held to the level of this year would irritate France, Italy, and Ireland. The British budget rebate for 1984 also might be withheld. [Redacted]

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The summit's failure to agree on the future course of its agricultural policy may complicate the US Cabinet-level meeting tomorrow with the EC Commission. Although the EC leaders seemed near consensus on limiting imports of US corn gluten feed, they apparently remain divided on whether to deal with the US bilaterally on the issue or to take emergency measures under the GATT. [Redacted]

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WEST GERMANY-US: Air Defense Agreement

Bonn views the new air defense agreement with the US, which was signed on Tuesday, as a positive step in bilateral relations and a sign of Washington's commitment to the two-way street in NATO armaments procurement. [Redacted]

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Under the agreement, the US will give the West Germans 14 Patriot surface-to-air missile fire units— 12 operational, one spare, and one for training—and the West Germans will buy an equal number. In return, the West Germans will man two US Patriot battalions and provide and operate 27 French-German Roland surface-to-air fire units at three US airbases in West Germany. [Redacted]

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Comment: Defense Minister Woerner regards the agreement as a first step in redressing the inadequacies of air defense in West Germany and in NATO's integrated air defense system. Bonn needed the agreement in order to meet its NATO commitment to field Patriot systems and procure Rolands for its own airbases and still keep within existing budget limits. [Redacted]

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West German officials have long been concerned that what they view as a protectionist US Congress is impeding US procurement of European-produced weapons and equipment. They view the Patriot-Roland agreement as an important test of the US commitment to defense procurement that benefits economies on both sides of the Atlantic, and this will influence West German attitudes toward future armaments cooperation programs. [Redacted]

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West Germany has urged Belgium and the Netherlands to improve their NATO air defense systems. Both have followed the US-West German negotiations closely and now may seek equally beneficial arrangements. [Redacted]

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EAST GERMANY-WEST GERMANY: Post-INF Relations

East Berlin is doing business as usual with Bonn despite its earlier threats to impose an "ice age" in relations after INF deployments.

[Redacted]

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East German leader Honecker initially criticized the West German Bundestag's support for deployment as inconsistent with the Basic Treaty governing bilateral ties. He has reaffirmed East Berlin's support for the treaty, however, and has pledged to examine carefully any West German proposals for improving relations. [Redacted]

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Since the vote in the Bundestag, East German officials have continued negotiations to transfer operations of a local transit system in West Berlin to Western control. On Monday an East German Politburo member discussed bilateral issues for an hour with a West German politician. East German media, after an initial tough reaction, did not repeat the criticism of Bonn voiced in the press conference in Moscow on Monday and have not contradicted the view of West German leaders that bilateral relations will continue. [Redacted]

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Chancellor Kohl and other West German officials have remained optimistic, ignoring the ambiguity of Honecker's statement and the harsher criticism from other East German leaders. [Redacted]

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[Redacted]

Comment: East Berlin seems to be trying to insulate bilateral relations from any significant cooling of East-West ties. It also seems to be indicating to Bonn and to its own citizens that bilateral affairs could still suffer, particularly if Moscow demands more tangible political reactions to deployment. [Redacted]

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East Germany may try to use INF deployments as an excuse to resist granting major political concessions. East Berlin is likely to believe that it can continue getting hard currency payments from Bonn without making such concessions. It probably calculates that Bonn needs to show that its policy on INF will not prevent forward movement in intra-German relations. [Redacted]

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IRAQ: Oil Exports To Increase

Iraq's Oil Minister has announced that Baghdad plans to increase oil exports through the Iraqi-Turkish pipeline from just under 800,000 barrels per day to 900,000 barrels per day beginning on Saturday and to 1 million barrels by next April. The increase is being achieved by the addition of new pumps to the pipeline, now Iraq's sole means of exporting oil. [Redacted] the Iraqis are determined to export as much oil as possible, regardless of the outcome of the current OPEC meeting in Geneva. [Redacted]

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Comment: Iraq has to increase oil exports substantially if it is to ease its financial difficulties. Nevertheless, the \$1 billion in additional annual oil revenue that may be obtained by increasing the capacity of the pipeline through Turkey would fall short of covering Iraq's needs. Moreover, Iraq probably will have difficulty sustaining exports at the new target level because of the soft market for oil that is likely next year. Earlier this year Baghdad had to cut the pipeline transit fee to make its oil competitive. [Redacted]

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IRAN: Attacks on Afghan Refugees

Iranians in the Tehran area attacked Afghan refugees in three separate incidents last week, according to a statement by the Iranian Interior Minister on national television. The Minister blamed the incidents on "Afghan agents of the US and the USSR," whom he said want to fan communal tensions in Iran and discourage Iranian support for the Islamic Afghan resistance. [Redacted]

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Comment: These incidents reflect the frustration of many Iranians, especially the poor, who resent the regime's support for the 1.5 million Afghan refugees in Iran. Refugees fill jobs, occupy housing, and receive welfare benefits that might otherwise go to hard-pressed Iranians, including the nearly 2 million internal refugees from the war with Iraq. Few Iranians will believe that the incidents were provoked by foreign meddling. Although more violence is likely, Tehran almost certainly will continue to support the refugees. [Redacted]

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[Redacted]

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NORWAY: Challenge to Security Policy

The opposition Labor Party is asking the parliament to consider today a resolution requiring Oslo to support the nuclear freeze concept in international forums and to endorse a merger of INF and START negotiations. This latest challenge to government security policy is prompted by a press article written and signed by two members of the Christian People's Party in the governing coalition. They expressed qualified support for a nuclear freeze. Most US Embassy contacts expect the government to avoid defeat on the resolution, possibly by deferring it until spring. [Redacted]

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Comment: The government has narrowly defeated four previous challenges to its security policy over the last year, but each time only by a single vote. With the possible loss of two swing votes, Prime Minister Willoch may find it difficult to defeat this resolution, because it supports international arms control efforts and does not directly oppose NATO policy. The government will not be endangered by such a vote unless it is made a vote of confidence. A defeat nevertheless would weaken the coalition and complicate discussions in NATO.

[Redacted]

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ROMANIA: Growing Unrest

Recent government austerity measures are causing widespread discontent, [Redacted] Workers have staged brief strikes in and near Bucharest to protest wage cuts imposed when their factories failed to meet unrealistic production targets. [Redacted]

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[Redacted] there is unhappiness with shortages of food and of fuel and electric power and that the government is considering an increase in food rationing after Christmas. [Redacted]

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criticism of President Ceausescu has increased and that dissatisfaction with his policies now extends to upper levels of the party and the government. [Redacted]

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Comment: Public unrest probably will intensify during the winter as living and working conditions deteriorate. An increase in food rationing could provoke demonstrations—as the introduction of rationing did two years ago—and sharpen existing divisions in the leadership. The continued strong backing of the security forces, however, puts Ceausescu in a good position to head off serious challenges to his authority. [Redacted]

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EASTERN EUROPE: Winter Grain Crops Threatened

Fall drought has damaged winter grain crops in Czechoslovakia, Romania, and Bulgaria, according to US Embassy reporting. In Czechoslovakia 25 to 30 percent of the winter grains failed to germinate, and in Romania dry soil prevented completion of sowing on time.

[Redacted]

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Comment: Romania and Bulgaria had poor harvests this year, and financial problems have constrained imports of grain in all three countries. Consequently, the harvest next year will be particularly important in determining whether adequate food supplies are available. Winter grains normally account for more than half of total grain production in Czechoslovakia and Bulgaria and for 40 percent in Romania. Low soil moisture is increasing vulnerability to winterkill in Czechoslovakia and is threatening to reduce yields next spring in all three countries.

[Redacted]

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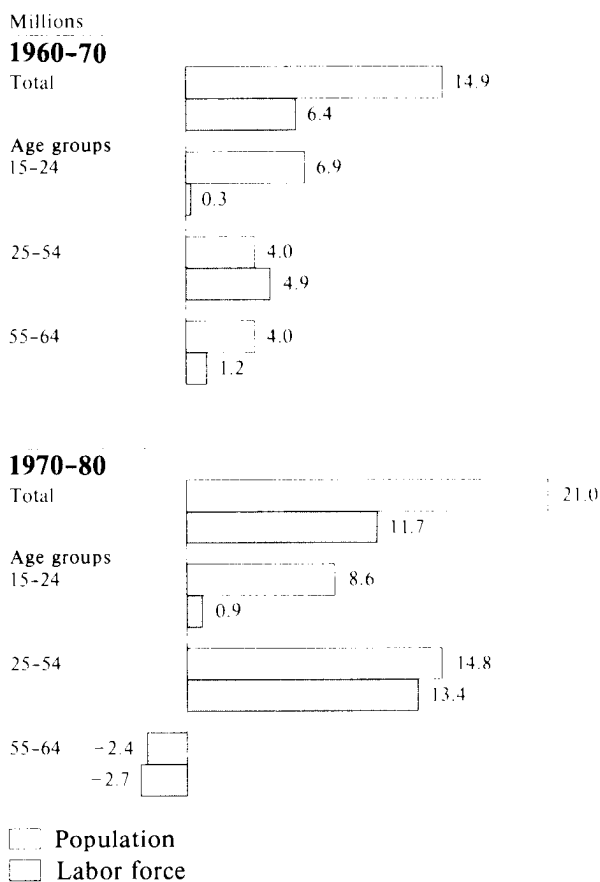
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Unemployment in Midyear

	Rate (percent)	Number Unemployed (thousands)
Western Europe	10.6	18,306
West Germany	8.9	2,320
France	8.5	2,029
Italy	9.7	2,258
United Kingdom	12.4	2,970
Austria	3.2	145
Belgium	11.9	510
Denmark	10.6	285
Finland	6.8	150
Greece	10.0	370
Iceland	1.3	1
Ireland	14.2	146
Luxembourg	1.3	2
Netherlands	17.4	841
Norway	3.4	61
Portugal	9.0	390
Spain	17.5	2,141
Sweden	3.4	135
Switzerland	0.8	52
Turkey	20.0	3,500

Changes in Size of Population and Labor Force

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Special Analysis

WESTERN EUROPE: The Unemployment Crisis

Western Europe is struggling with the highest levels of unemployment since the reconstruction period after World War II, with little prospect for improvement before the end of the decade. As of mid-1983, 18 million workers—more than 10 percent of the labor force—were jobless, and the rate is expected to climb to 12 percent by 1990. This persistent trend will be a heavy burden on Western Europe's political and social institutions and could disrupt economic, political, and security relations with the US.



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Some three-fourths of unemployment in Western Europe is caused by rapid growth of the labor force, accelerating labor costs, and an inability to reorganize industry. The recent recession has aggravated the situation, accounting for the additional one-fourth of those out of work.



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During the 1970s, the total population increased only slightly, but the prime working-age population—ages 25 to 54—grew two times faster than in the previous decade. Simultaneously, wages and nonwage labor costs rocketed, encouraging employers to reduce jobs through attrition.



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Western Europe's inability to shift employees from declining traditional kinds of work into high growth industries further limited job creation in the 1970s. Although economic growth in the region during the 1970s was comparable with that in the US, Western Europe added only about 5 million new jobs, while US employment grew by more than 20 million workers.



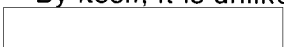
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Western Europe will not be able to solve its structural unemployment problems quickly, and the number of unemployed will continue to climb gradually throughout the decade. The baby boom of the 1960s and more workers in the older working-age brackets will mean even more people will be in the labor force than during the last decade. Economic growth is not likely to provide jobs for the additional members of the labor force.



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The one potential mitigating factor would be lower labor costs that could result from high unemployment and weaker unions. The additional demand for labor encouraged by more competitive wages, however, would promote only marginal improvement in employment. By itself, it is unlikely to reverse the dismal unemployment prospects.



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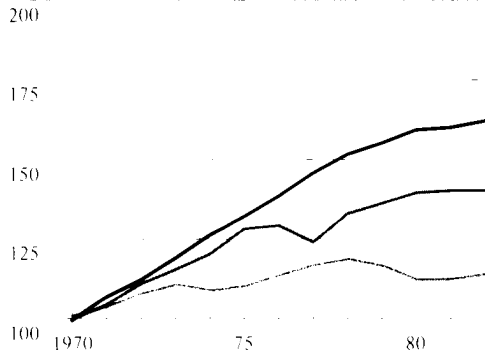


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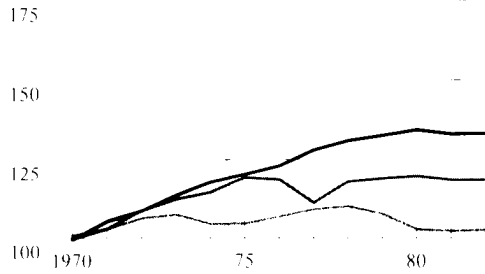
Rapid Rise of Labor Cost in Big Four

Index: 1970=100

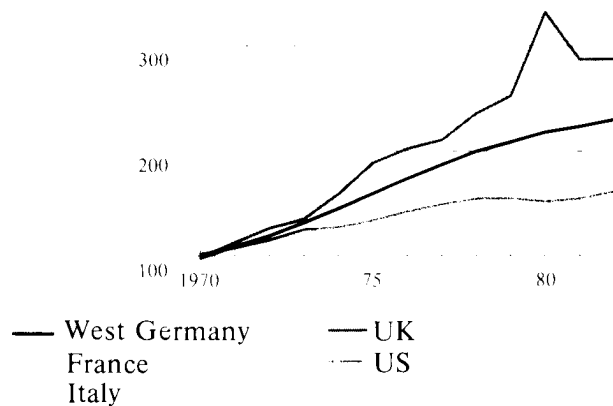
Real labor costs



Real wages



Real nonwage costs

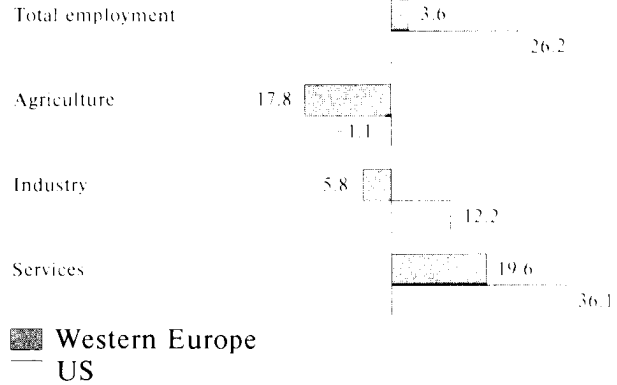


— West Germany — UK
 — France — US
 — Italy

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Western Europe and the US: Employment Changes, by Sector, 1970-80

Percent



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[Redacted]

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Current West European economic policies probably are helping to promote a climate more conducive to growth without rapid inflation, but the underlying causes of unemployment problems are not being adequately addressed. For the most part, governments are concentrating on reducing working hours and providing government subsidies for hiring the long-term unemployed. Such programs, however, do little more than redistribute the current unemployment.

[Redacted]

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Few countries are carrying out their plans to hold down nonwage labor costs for employers in order to encourage overall employment. Governments are doing little to reduce public intervention in the economy, a major factor slowing the restructuring process. Moreover, they are continuing to prop up outmoded and uncompetitive industries rather than promote investment in new and more dynamic industries.

[Redacted]

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Implications for the US and NATO

The continued high unemployment in Western Europe will lead to new strains in relations with the US. Trade disagreements are likely to become more numerous and more hotly contested as trade opportunities are increasingly equated with job opportunities.

[Redacted]

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Recent disagreements with the US over trade in steel and agricultural goods could become the rule, not the exception, and may affect political and military cooperation. Moreover, the increasing importance of exports will encourage West European countries to relax enforcement of trade restrictions on sales to Warsaw Pact countries.

[Redacted]

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As trade difficulties mount, protectionist pressures in Western Europe will grow. New barriers against US products probably will be limited, but restrictions against imports from Japan and the newly industrialized countries may increase. This would force those countries to offset lost sales in Western Europe by trying to sell more in the US.

[Redacted]

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Dim employment prospects also will make it more difficult for West European countries to meet their defense commitments to NATO. Unemployment already has caused a severe financial drain on West European governments, and, with budgets likely to remain tight, demands to curb defense spending will intensify. The Allies almost certainly will increase pressure on the US to buy West European military equipment to help maintain employment in their defense industries.

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[Redacted]

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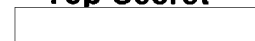
In addition, the unemployment problem will have other political and economic ramifications that could affect the US. In the next few years, the inability of incumbent West European leaders to solve the unemployment problem may usher in more frequent changes between governments of the left and right. Political extremism may spread among young people, when much of an entire generation of youth tries to cope with years of joblessness. 

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In Spain and Turkey, where unemployment will remain extraordinarily high and will be coupled with rapid inflation and foreign debt difficulties, serious political instability could result. Foreign workers increasingly will become targets of resentment by the unemployed, leading to social strains both within and among West European countries. 

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