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European Review



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7 November 1986

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European Review

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<p>The recent US decision to seek new conventional arms control negotiations in Europe in a bloc-to-bloc forum outside the CSCE framework caught most NATO Allies by surprise and probably will evoke continued, vigorous objections, especially from France and West Germany. Paris's distaste for alliance-to-alliance talks is so strong that it virtually precludes French participation in a formal bloc-to-bloc forum, a prospect that the other Allies seek to prevent.</p>		
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[Redacted]

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[Redacted]

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West Germany: Modernizing Maritime Air Capabilities [Redacted] 19

[Redacted]

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Modernization goals of the West German Navy's air arm into the mid-1990s include reequipping and reorganizing tactical fighter units, fielding a force of attack helicopters armed with antiship missiles, and acquiring new maritime patrol aircraft. These programs, if fully implemented, will strengthen the Navy's maritime forces in the Baltic and further its aim of expanding operations into the northeastern Atlantic. [Redacted]

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Bulgaria-United States: Prospects for Improved Relations [Redacted] 25

[Redacted]

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Bulgaria is signaling increased interest in improving relations with the United States following several years of unusually severe strains. Nonetheless, we believe that Sofia's fealty to Moscow, its dismal human rights record, and international policies that regularly conflict with Washington's interests will continue to prevent any major breakthrough. [Redacted]

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Viewpoint Norway: The Labor Government in 1979-81— Lessons for 1986 [Redacted] 29

[Redacted]

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Economic News in Brief 31

Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views. [Redacted]

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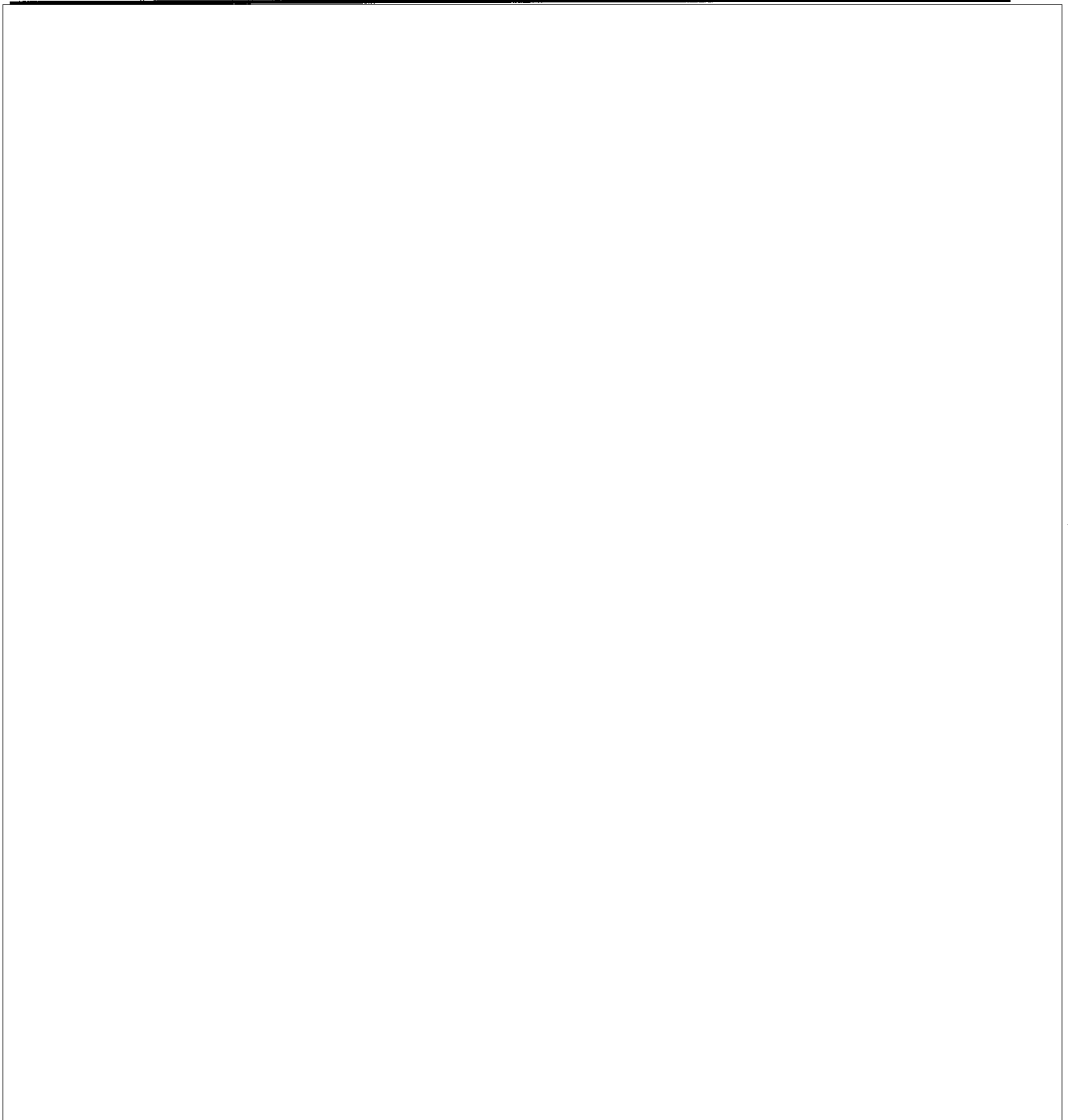
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Portugal

Continuity in Economic Policy

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Portugal's improving economy has prompted Prime Minister Cavaco Silva to back away from his plan to provoke a government crisis and an early national election. The Prime Minister believes he can bolster the reelection prospects of his minority Social Democratic government by staying in office and taking credit for the ongoing economic upturn. Real GDP is expected to grow 3.7 percent this year—up from 2.9 percent in 1985—and 3.5 percent in 1987. Inflation, moreover, probably will fall 6 percentage points in 1986—to 13 percent—and to about 11 percent next year. The current account is expected to measure surpluses of \$700 million in 1986 and \$500 million in 1987.

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Cavaco Silva's decision to hang on to office for at least a while longer suggests he will continue to pursue an economic policy aimed at lessening state support for public enterprises, increasing real incomes, and stimulating private investment. At the same time, Cavaco Silva lacks the strong parliamentary base he needs to implement his longer term plans for privatization of inefficient state firms and fundamental revision of labor and agrarian reform legislation. Portugal will thus continue to suffer from structural rigidities that will make it difficult for the country to meet the challenge of EC membership and to be on a par with its more industrialized West European partners.

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Iceland

Prime Minister Applauds Robust Economy

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Prime Minister Hermannsson is hailing a buoyant Icelandic economy to boost his coalition government's chances in the national election due by April 1987. In his annual policy statement to parliament last month, the Prime Minister gave his Progressive-Independence coalition credit for the single-digit inflation rate expected for 1986—a dramatic decline from more than 80 percent in 1983—and for accelerating economic growth, which is forecast at 5 percent for the year. Hermannsson also sought to reassure parliament that his government would be able to manage remaining problems such as the government budget deficit, high real interest rates, and the large foreign debt—about 55 percent of GDP.

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Reykjavik's successes in controlling inflation and in boosting growth will probably endure through the runup to the election, although continued improvements rest on the fragile harmony achieved in February between the government and unions over a package of anti-inflation measures. Hermannsson must still be concerned about accusations that he buckled under US pressure in settling whaling and military cargo shipping disputes and about setbacks his Progressive Party suffered in the May municipal election. Nonetheless, the support the conservative Independence Party has from most white-collar workers and a large minority of blue-collar workers—bolstered by the strong real wage gains achieved under the current government's economic policies—will weaken opposition claims that they are the true "workers' parties." [redacted]

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Italy**Streamlining the Army** [redacted]

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The Italian Army is undergoing a reorganization intended to improve its cost effectiveness and optimize the use of new technologies—such as elements of the CATRIN automated command, control, and communications system and improved automation in logistics—that are entering the Army's inventory. The reorganization is expected to permit a 16,000-man reduction in the Army's active strength by 1989 and free 1,500 officers, 1,100 noncommissioned officers, and 900 civilians for reassignment to operational units. To implement this decrease, [redacted] will induct 16,000 fewer draftees over the next three years. [redacted]

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The program involves a reduction of only 5 to 6 percent in force strength but nevertheless represents, we believe, an important step in coping with a declining manpower pool and Rome's tightened fiscal policies. It will focus on streamlining the command and control levels in operational units and reorganizing portions of the territorial support system:

- The four divisional headquarters and four regimental headquarters will be eliminated, and the Army's 24 brigades will be placed under the direct control of the five corps commanders. Divisional assets, such as artillery battalions, battalion-sized headquarters units, and other support units will either be eliminated or become a corps asset. A few brigades will have their missions and structures altered, and a few others will be shifted from one corps to another to effect a balance in the corps' span of control. Some operational support units also will be reorganized and centralized.
- The military health services will be modernized and restructured, and three medical supply depots will be closed.
- Other Army supply depots will be centralized, resulting in the closure of several depots and elimination of two repair depots.

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- The Army's draft, recruitment, and mobilization functions will be substantially consolidated.
- Five major advanced training centers for noncommissioned officers and technicians will be merged into three training centers. [redacted]

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[redacted] these changes will not negatively affect its operational capabilities as long as equipment modernization programs continue to be funded and stay on schedule. These equipment programs, for the most part, focus on improved anti-air and antiarmor capabilities as well as increased mobility. Elimination of divisional and regimental levels of control, however, makes even more critical the Army's need to completely field its CATRIN system—a complex and expensive system that has stirred some controversy within the Italian parliament. [redacted]

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Articles

**NATO: Conventional
Arms Control—The View
From Europe**

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Initial Allied reactions to the US decision to seek conventional force reductions in Europe in an alliance-to-alliance forum unassociated with either the Conference on Security and Cooperation in Europe (CSCE) or with the Stockholm Conference on Confidence- and Security-Building Measures and Disarmament in Europe (CDE) have been almost uniformly negative. Most Allies—especially the West Germans and to a lesser extent the British—are concerned that the bloc-to-bloc construct, together with US insistence that Allied negotiators be instructed exclusively by the Alliance's North Atlantic Council, could well prevent French participation. They seek a compromise that will make it unnecessary to choose between US and French positions.

The French Approach

Initial French reaction to the US position has predictably been the most negative. Paris has made it clear in Alliance discussions, as well as in bilateral talks with Washington and Moscow, that it desires any future conventional force reduction negotiations in Europe to take place in a CSCE framework. It was France's idea for a multilateral security conference under CSCE auspices that resulted in the original 35-nation CDE, and Paris's early support of the CDE gives that forum—together with its potential successors—special appeal in French eyes. Paris has repeatedly stressed the advantage of CSCE meetings over alternative forums by arguing that the linkage of human rights and security issues under CSCE gives the West leverage to pressure the East on the former by holding out the prospect of progress in the latter.

French distaste for virtually any bloc-to-bloc forum—as opposed to CSCE, which includes the European neutral and nonaligned states and entails only nonbinding NATO consultations—can be traced principally to Paris's belief that leadership in formal talks between alliances naturally falls on the United States and the Soviet Union and thus diminishes French influence and freedom of action. The French have consistently refused to participate in the 13-year-old Mutual and Balanced Force Reduction (MBFR) talks, which focus on Central Europe, for a variety of reasons. But one of their most important concerns— anxiety about being too closely associated with NATO at the talks—would apply to a broader bloc-to-bloc forum as well. A senior French official has told US diplomats that a number of countries would like to use MBFR as a lever to bring France “back into NATO”—a goal he believes the Soviets share because it could strengthen arguments for eventually including French nuclear systems in Alliance totals during nuclear arms control negotiations. The official added that Paris “would not play that game.”

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Without the facade of a multilateral forum in which alliance-to-alliance negotiations could take place on a de facto basis, we believe Paris will find it very difficult to participate alongside other NATO Allies in talks with the East. Although the prospect of being the only NATO ally not taking part in the talks probably would cause the French considerable concern, Paris may well choose to be excluded rather than compromise its independence. Several French diplomats have said they see no alternative to the CSCE context, and a Belgian spokesman said that getting the French to put bloc-to-bloc talks “in writing” now would force them to admit that Gaullism was finished.

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Although Paris seeks to be included in any new conventional arms control talks, it probably does not view negotiated force reductions per se as necessary or even desirable any time soon. A senior NATO official who recently visited France told US diplomats that the French seemed to think that the concept of conventional disarmament was nonsense; what they really wanted, he said, was the negotiation of additional confidence- and security-building measures (CSBMs) beyond those already agreed upon in Stockholm in September. Moreover, French public opinion is not exerting any demands on the French Government for "bold new steps" in conventional arms control, the conservatives face no imminent domestic political challenge, and Paris could well choose to emphasize CSBMs in any future talks without fear of public or opposition criticism. Indeed, the prospect of participating in another multilateral CDE that concentrated simply on additional CSBMs in conjunction with the existence of an independent-bloc-to-bloc forum on conventional force reductions might meet minimal French demands for "progress" in conventional arms control and thereby strengthen French resolve to sit out the reduction talks, a development that would trouble Bonn and London.

[REDACTED]

Other Allied Reactions

We believe that most NATO Allies, including West Germany and the United Kingdom, desire French participation in future conventional force reduction talks to encourage closer French cooperation with NATO and to ensure that any eventual Allied force reductions are allocated among as many countries as possible. Largely because of concerns that Paris would not participate in a non-CSCE forum, neither London nor Bonn favor a new negotiation distinct from CSCE. The British position on continuing with MBFR is unclear; the West Germans, however, probably seek to replace that forum with discussions covering broader territory. In any event, the Allies hope to avoid prolonged discord within NATO over the future of conventional arms control. [REDACTED]

The West German Problem. West German officials have conceded in principle the advantages of alliance-to-alliance talks for conventional force reductions, and Bonn apparently prefers another CDE conference

with a bloc-to-bloc subgroup to discuss reductions while all 35 states negotiate additional CSBMs. Despite US rejection of this approach, it is designed to induce French participation and is unlikely to be easily abandoned by Bonn; West German diplomats recently told US officials that France "must be brought along." Indeed, if France decided not to join with the Alliance in new European-wide arms control talks, West Germany would face a dilemma: either agree to a new bloc-to-bloc forum hoping that the Soviets would consent to French nonparticipation in exchange for an acceptable quid pro quo or forego a new forum and remain with MBFR. The latter option, however, would be very unattractive, and we suspect that Bonn ultimately would reject it. West Germany has always been displeased with MBFR's focus on Central Europe, which emphasizes West German forces and territory, and apparently has concluded—based largely on Soviet statements—that the talks are going nowhere. Although Bonn favors a multilateral CSCE security conference in place of MBFR, the West Germans might eventually consent—with substantial reluctance—to new negotiations that offered some hope of ameliorating Germany's demographic problem¹ rather than depend indefinitely on the deadlocked MBFR talks. [REDACTED]

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Much of Bonn's desire for French participation may be based on simple numbers. If French forces are counted with those of other NATO members, West Germany—like other Allies—could take smaller cuts in any reductions agreement, which presumably would allocate such cuts among all participants. Bonn also may be concerned that the Soviet Union will either refuse to accept a forum that does not include the French or demand that NATO compensate for

¹ The West German Army faces a growing shortage of draft-eligible males that may worsen to 70,000 annually by the early 1990s, and unilateral cuts in the strength of West German forces—which now number 495,000—are likely, although Bonn remains committed to maintaining the present figure. Moreover, current plans indicate that there will be few additional funds available for defense through the end of the decade, and any increases in the early 1990s will be absorbed by solutions to the manpower problem as well as the requirement to fund several major procurement programs simultaneously. Bonn, therefore, would benefit from a conventional arms control agreement that codified a military balance at slightly lower levels. [REDACTED]

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French nonparticipation by taking disproportionate cuts in the armed forces of its other members. Moreover, the West Germans may believe that an "uninvolved" France would be less likely to cooperate bilaterally with various NATO members, including Bonn, on a wider range of military issues. [redacted]

[redacted]

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Additionally, the Kohl government may feel itself under domestic political pressure to achieve movement in conventional arms control talks. A West German official close to the MBFR talks recently told a US diplomat he did not believe it would be possible to simply continue the negotiations under current circumstances; the West German public, he said, would not understand a further stalemate in the talks with no more moves on NATO's part. Bonn, in our view, also probably anticipates the day when a US-Soviet agreement limiting intermediate-range nuclear weapons in Europe would refocus attention on the conventional imbalance on the continent and wants to address that problem in an arms control forum. Moreover, the government wants to counter the opposition Social Democratic Party's appeal for a radical restructuring of NATO (and Pact) forces to downgrade their "offensive" capabilities. Finally, Bonn almost certainly views progress toward a conventional arms control agreement as valuable political capital against SPD criticism of its support for US arms control policies—particularly following the failure of the Reykjavik meeting to produce a nuclear arms control agreement. [redacted]

A senior British official recently told US diplomats that Washington's decision would make it virtually impossible to bring the French into the conventional arms control process and that new talks without the French would be "no achievement." Nonetheless, London's desire for a new forum with French participation, while strong, probably is less intense than that of Bonn. In contrast to West Germany, British security interests are less affected by MBFR. London would not, for example, face the prospect of either large troop reductions or Eastern inspections of British territory if MBFR continues as the only conventional force reduction negotiation. [redacted]

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[redacted]

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British Concerns. Although Washington has rejected use of a CSCE forum for conventional arms control talks, British statements indicate London believes US objectives could still be met, and French participation ensured as well, by loosely linking new bloc-to-bloc negotiations to CSCE and by formulating a relatively vague mandate for Alliance control of Western delegations in new talks. [redacted]

The prospect that disagreements over the forum question may make it difficult for NATO to develop any "bold new steps" soon in conventional arms control—as pledged by Alliance foreign ministers at a meeting in Halifax last spring—is of particular concern in London because approaching elections apparently have made the British especially conscious of the public relations impact of conventional arms control progress. The US Embassy reported last spring that the government, reeling from major setbacks in the May local council elections and Parliamentary byelections, was becoming increasingly worried about its vulnerability to opposition charges that it was excessively beholden to the United States on defense and arms control issues. In addition, London's NATO representative recently commented

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that public opinion will require that the CDE be "reactivated" with minimum delay to work on further CSBMs. [redacted]

In our view, despite the political vulnerability of the Labor Party over its own defense platform, London's anxiety about NATO conventional arms control policy is likely to become more pronounced as the election approaches. Indeed, according to Embassy reporting, the British concluded by September that the West must not arrive emptyhanded at the CSCE review meeting in Vienna this month. The Warsaw Pact foreign ministers meeting on 15 October proposed that the CSCE meeting mandate a second CDE to negotiate substantial reductions in conventional forces, and the Pact probably will use the CSCE conference to formally reissue its Budapest Appeal of last June—which calls for two-stage reductions, amounting to 500,000 troops in each alliance, by the 1990s. [redacted]

Implications for NATO and the United States

Allied dissatisfaction with the US proposal will evoke several high-level demarches from NATO members urging Washington to reconsider its decision—particularly if, as we expect, Paris remains adamant against participation in an MBFR-type arrangement. Even the Belgians—who have been particularly supportive of US positions in conventional arms control—have been taken aback by the US approach. A Belgian diplomat recently told US officials that conventional force reductions in Europe were essentially a European affair and that Washington could not insist that its position prevail in the face of united European opposition. Some NATO members may argue that eliminating any prospect of force reduction negotiations from the CSCE would effectively gut its security component and weaken Western leverage on human rights, that a bloc-to-bloc security conference under loose CSCE auspices could always be agreed upon by the Alliance without risking any substantive interventions by the neutral and nonaligned states, and that a relatively flexible mandate for Alliance management of Western delegations could be coupled with various French "assurances." [redacted]

Long and intensive debate within NATO over the forum question has made it impossible for the Alliance's task force on conventional arms control to reach a consensus before the CSCE review meeting in Vienna, which opened on 4 November. This development undoubtedly has exacerbated Allied concerns. Indeed, press reports of NATO "inactivity" in the face of appealing Eastern conventional arms control proposals at the CSCE meeting probably would increase anxiety in some NATO capitals—particularly London and Bonn—over the extent to which their political opposition may be able to exploit Allied disunity. [redacted]

Allied concern over a stalemate within the Alliance over conventional arms control would probably increase if the political fallout from the Reykjavik meeting eventually led to a perceived decline in the credibility of the US nuclear deterrent. Even the French, who presently oppose large negotiated reductions in NATO forces and are unlikely to agree to substantial cuts of their own, might rethink their position if they perceive real progress toward new nuclear arms control accords. According to the US Embassy in Paris, a presidential aide commented last month that conventional arms control would become all the more important if agreements on nuclear weapons materialized. [redacted]

Regardless of the fate of the US-Soviet nuclear arms talks, the desire for the uninterrupted continuation of the conventional arms control process is strong in several European capitals. This desire makes it possible that NATO ultimately might accept—with considerable reluctance—a regionally broadened MBFR-type approach to new discussions with the East even without French participation, provided the Soviets are amenable. Moscow, however, presumably would see little advantage in agreeing to a course of action that reduced US isolation within NATO—unless the Soviets could obtain Western approval of a negotiating framework which, like MBFR, offered the prospect of disproportionate constraints on West German armed forces. [redacted]

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Whatever choice of forum is ultimately agreed upon within NATO, the implementation of any conventional arms control cuts is unlikely to be pushed by the Allies for at least several years. Few Allies seek large conventional force cuts that are not offset by even greater Soviet withdrawals—an unlikely prospect. Moreover, most NATO members probably would support a relatively firm verification regime over which negotiations for a conventional force reduction agreement probably would be prolonged.

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EC: New Antidrug Measures [redacted]

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A new antinarcotics program, approved by the European Community's Interior Ministers last month, includes measures to combat drug trafficking and abuse as well as increased cooperation among the EC states. Although the program is a first step toward establishing a unified regional stance against illicit drugs, we believe its implementation will be some time in coming. [redacted]

antinarcotics efforts, and drugs have continued to enter the region at increasing rates [redacted]

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Elements of the Program

The new seven-point plan, proposed by UK Home Office Minister David Mellor at the October plenary session of the European Parliament, calls for more severe penalties for drug traffickers, seizure of traffickers' assets, and better antinarcotics cooperation between the EC states and their law enforcement agencies, particularly in tightening controls on travel into the EC region. Other measures include an agreement to exchange drug liaison officers and station them in drug producing regions, to establish antidrug abuse campaigns aimed particularly at youth, and to adopt measures to improve treatment and rehabilitation services for addicts. In addition, the Interior Ministers agreed to extend national and EC aid to producer countries to help finance enforcement efforts aimed at curbing drug output. The EC's previous involvement in combating illicit drugs has been confined to studies and debates in the European Parliament. [redacted]

In response to domestic and international pressure, many EC member states have recently increased funds and personnel devoted to their antinarcotics efforts and made more severe the punishment that drug traffickers may receive. In addition, several EC members, such as Italy and France, have recently signed bilateral agreements to improve antinarcotics cooperation. Some members, including Britain, have increased antinarcotics assistance—both through contributions to the United Nations Fund for Drug Abuse Control (UNFDAC) and direct offers of equipment, personnel, training, and resources—to the governments of drug producing countries. [redacted]

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Prospects and Implications

We believe that progress toward implementing a regional antinarcotics program will be slow and halting. The EC institutions have only limited authority in this realm, and opinions differ among member countries about the severity of the drug problem and the most effective approach to reducing it. The legislatures of the individual countries, not the EC Ministers, must approve most of the measures in the antinarcotics program, and this almost certainly will result in delays in implementation. Budget restrictions in most countries could also impede the realization of some measures that require large sums of money, such as improved treatment and rehabilitation programs and antidrug abuse campaigns. And while this new plan calls for laws with stiffer punishment for traffickers, actual sentences will be imposed by the judiciaries of the

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Earlier Efforts

To date, most West European countries have done little collectively to combat the increasingly severe drug problem facing the region. The regional groups that do exist, such as the Council of Ministers' Pompidou Group, have focused on drug abuse and treatment—the issues most directly affecting the populations of West European countries. In any event, they have had no authority to implement measures to combat illicit drugs. Without a uniform stance against drug trafficking, drug dealers have altered their routes to avoid countries that have improved their

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individual countries. Many judges have tended to take a relatively lenient approach and sentence most traffickers to less than the maximum term.

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Although the Ministers approved EC aid to drug producing countries, this aid probably will prove to be small, given the modest budget of the Community. We believe the aid will serve largely as a signal to drug producing countries and other countries concerned with the drug problem that the West Europeans are interested and willing to take steps to eradicate it. This gesture also may lead to additional public support for US-sponsored antinarcotics initiatives, but it is still likely to fall short of US desires. Many West European officials have stated, for instance, that they support direct measures in drug producing countries such as crop substitution programs and police training. They, however, do not support eradication operations similar to those taken by the United States in Bolivia.

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In our judgment, a unified approach to the drug problem would provide the most effective antinarcotics strategy for the West European countries, but this is likely to be some time in coming. We believe that a regional program will be most beneficial if it is implemented before the EC's goal of creating a frontier-free internal market by 1993 is achieved because such a market will eliminate border controls between member states and could hamper drug control efforts. Some gradual progress toward a coordinated effort seems likely in the short run as those countries that have been less concerned become more aware of the severity of the problem and initiate efforts to cope with it. The posting of drug liaison officers in European countries and in drug producing regions should improve overall antinarcotics cooperation and could promote a uniform antinarcotics stance.

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EC: Counterterrorist Cooperation

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Persistent terrorism in Western Europe has prompted the members of the European Community to make new efforts to improve EC cooperation on counterterrorist measures. After years of lethargy and lack of initiative in this area, the EC's Trevi group has begun meeting more frequently in an attempt to strengthen joint efforts against terrorism. In addition, the EC Foreign Ministers established a permanent Working Group on Terrorism in January 1986, which is also charged with beefing up antiterrorist measures. In spite of this upsurge in activity, progress is likely to be slow because of the desire of members to retain the flexibility to act in accordance with their perceived national interests. EC members will continue to be wary of undue US influence in these forums as well.

Recent Developments

The newfound EC interest in counterterrorist cooperation has been primarily channeled through two vehicles: the so-called Trevi group and the EC Foreign Ministers Permanent Working Group on Terrorism.

The Trevi Group. Trevi is an acronym for Terrorism, Radicalism, Extremism, Violence International—a group that brings together the Interior and Justice Ministers of the EC countries, as well as other senior security officials, for regular consultations at various levels on internal security and terrorism questions within Europe. The Trevi group actually dates back to 1976 but has had little impact until recently.

EC leaders, prompted at least in part by signs of a coordination of terrorist activity across national borders, began to invigorate the Trevi group under the Italian presidency in 1985.¹ Recurrent and highly publicized terrorist acts and—at least equally important—the desire to convince their own publics and Washington of their determination to take

¹ The country that holds the rotating EC presidency also chairs the Trevi group.

The Trevi Group

At the founding meeting of the Trevi Group of Justice/Interior Ministers and other officials on 29 June 1976, EC ministers agreed to:

- *Exchange information about past terrorist events.*
- *Exchange information about police procedures, technology, training, and equipment.*
- *Promote exchanges of police personnel.*
- *Arrange for mutual aid and cooperation in combating future acts of terrorism.*
- *Establish greater cooperation in other areas, including the security of civil aviation, the protection of nuclear facilities, and the management of emergencies arising from natural or accidental catastrophes, particularly fires.*

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Trevi holds meetings at several organizational levels:

- *At the top of the hierarchy are the ministers, who have some decisionmaking powers.*
- *At the next level is the Committee of Senior (High) Officials. It is composed of directors of police and security services and senior ministry officials. The Committee is primarily a consultative body that prepares the way for ministerial conferences.*
- *There are also three working groups currently active. Working Group I handles exchanges of intelligence and information and threat analysis; Working Group II covers coordination of technical police activities; and Working Group III deals with organized crime on an international level.*

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effective action against terrorism have ensured a continuing focus on counterterrorist cooperation. In April 1986, largely in response to the US-Libyan crisis, the ministers decided in principle to meet semiannually and to hold extraordinary meetings at short notice when events require. [redacted]

There have been some followup actions. At the initiative of the Dutch, for example, a meeting of chief police officers from European airports was held in The Hague in late May 1986 to coordinate methods of dealing with high-risk flights—such as those from the Middle East. In London in late September at an emergency meeting convened at France's request, the ministers agreed to a wider exchange of intelligence information on terrorist activities and announced that a communications system dedicated to antiterrorist action would be set up to link their police forces. More recently, the Interior Ministers created a working group to examine ways to coordinate national policies on entry visas and to toughen identity checks at external community frontiers. The working group also will consider ways to prevent abuse of the right of asylum. [redacted]

Permanent Working Group on Terrorism. In January the EC Foreign Ministers decided to replace an ad hoc committee on terrorism with a permanent group that will function as one of the regular working groups in European Political Cooperation—the member states foreign policy coordination system. Organizational and procedural matters are still being resolved, and the working relationship with the Trevi group has yet to be clarified. Still, in preliminary discussions in March, the group agreed to reject all attempts at blackmail in connection with hostage-taking. Participants explored the possibility of greater uniformity in visa requirements, controls on the size of foreign missions, and measures to prevent abuses of diplomatic immunity, but no decisions were reached. [redacted]

Contacts With the United States

Washington has no formal relationship with the EC groups, [redacted]

[redacted] In 1982

The EPC Working Group

EC Foreign Ministers' 27 January 1986 Terrorism Statement setting up Permanent Working Group on Terrorism:

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The twelve have now decided to intensify these efforts and to promote common action, particularly in the following areas, both to improve their own defenses against terrorism and to discourage those who support it:

- Security at airports, ports, and railway stations.
- Control by member states of persons entering or leaving the community and circulating in it.
- Visa policies with respect to the problem of terrorism.
- Abuse of diplomatic immunity.

They have decided to establish a permanent working body with a precise mandate, within the European Political Cooperation, which will monitor and give impetus to the implementation of the above mentioned measures. [redacted]

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Trevi member states reluctantly agreed that the chairing country could brief the United States on proceedings, but in practice the thoroughness of the briefing has varied according to the disposition of the presidency country. The Netherlands was quite forthcoming earlier this year after the Trevi Troika—the past, current, and next chairman—met with US Attorney General Meese in an attempt to expand contacts with third countries. In May the Working Group on Terrorism also agreed to support a formal mechanism for EC third-country contacts. [redacted]

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Outlook

EC members recognize the utility of working-level contacts, but obstacles to more active cooperation remain high. In the past France has preferred bilateral cooperation, and Greece—because of its close ties to Arab states and fear of terrorist retaliation—has often taken obstructionist stances in ministerial debates. Coordination has also been

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hampered by rivalry and distrust among internal security, law enforcement, and foreign ministry officials within each country. Furthermore, member states do not share all available information.

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Effective action is likely to be slow in coming. Visa controls, for example, run counter to the EC's policy of easing border controls for EC citizens, and most states are unlikely to emulate France's recent move requiring entry visas for non-EC nationals. Italy, for example, has quietly dropped visa requirements for some North African states it had initiated earlier this year.

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Still, the apparent unanimity regarding the need for improved EC counterterrorist cooperation is a positive development. Moreover, continued terrorist violence in Europe may compel member states to agree to at least a few concrete measures. The French, for example, are displaying more interest in multilateral cooperation since the recent series of bombings in Paris.

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In the short term, more progress is likely to be made in pooling information and in strengthening law enforcement capabilities than in controversial areas such as standardizing extradition legislation and visa controls. Most states, for example, lack the financial and personnel resources to implement far-reaching visa policies but may be willing to enforce stricter controls on specific countries and to explore other ways of curtailing the mobility of terrorists. In the long term, the real test of the effectiveness of these counterterrorist groups will depend on the willingness of members to agree on politically sensitive measures—such as sanctions against states sponsoring terrorism—and risk economic or political repercussions at home.

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West Germany: Modernizing Maritime Air Capabilities [redacted]

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Modernization goals for the West German Navy's air arm into the mid-1990s include reequipping and reorganizing tactical fighter units, fielding a force of attack helicopters armed with antiship missiles, and acquiring new maritime patrol aircraft. These programs, if fully implemented, will strengthen the Navy's Baltic capabilities and further its aim of expanding operations in the northeastern Atlantic. Completion of the Navy's overall program, however, will depend on its ability to compete for increasingly scarce funding as a number of major defense procurement programs peak in the early 1990s. Because of the high cost of the Navy's modernization plans—which call for new frigates and submarines as well as aircraft—the service will need an expanded share of the defense budget or will have to stretch out some programs. [redacted]

aircraft can be refueled in flight using another Tornado as a tanker, but training in this technique reportedly is minimal. The aircraft's capabilities will be improved in the late 1980s by the introduction of the longer range Kormoran II antiship missile and the US-built HARM antiradiation missile. [redacted]

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Tactical Fighter Modernization

The primary missions of the Navy's two tactical fighter wings are reconnaissance and strike operations against Warsaw Pact shipping in the Baltic. The wings' overall effectiveness in these roles is increasing as their aging F-104G Starfighters are replaced by PA-200 Tornado attack aircraft. [redacted]

The Navy contends that neither the West German nor other NATO air forces can provide adequate fighter protection for naval air units and surface ships operating in the Baltic. [redacted] considering forming an air superiority fighter squadron in each tactical fighter wing to fill the gap. A wing's two attack squadrons would be cut from 22 to 15 Tornados each, with the Navy perhaps offering the Air Force the excess Tornados in exchange for fighter aircraft. [redacted]

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[redacted] began converting in September. The second wing will receive its full complement of Tornados by the end of 1987, but delays in crew training will prevent the unit from completing its conversion until [redacted]. This will leave the Navy with only one fully operational tactical fighter wing through most of 1987. [redacted]

[redacted] for a naval fighter—if the Navy is willing to wait. The EFA program is currently in the design definition phase, and a firm development decision is not expected until 1987. The first of 250 aircraft for the West German Air Force will not enter service before 1996. Early cost projections place the German share of development costs at more than \$2.5 billion. [redacted]

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New Attack Helicopter Force

A Kiel-based naval search and rescue squadron with 22 Sea King Mk 41 helicopters is converting to the antishipping role. The West German Navy envisages employing attack helicopters in the Baltic in coordinated operations with fast missile attack craft against Warsaw Pact surface combatants. [redacted]

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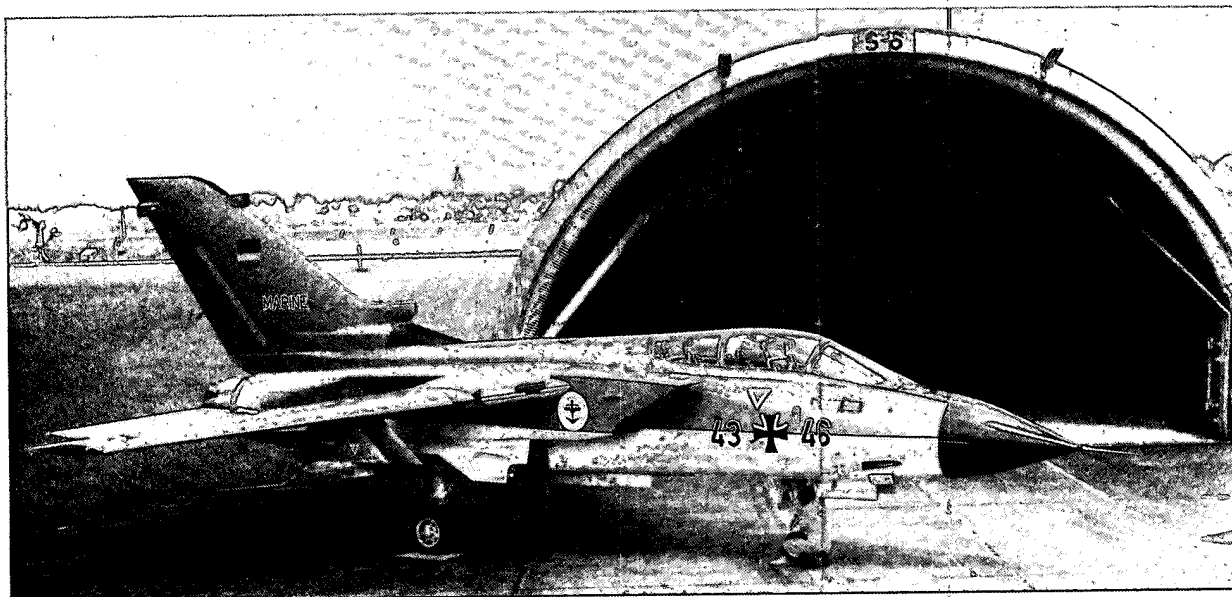
The twin-engine Tornado is more survivable due to improved electronic warfare systems and can more accurately deliver a broader array of weapons.² The [redacted]

[redacted] The Sea King modification program under way includes a new surveillance radar, improved communications equipment, and provision for the British Sea Skua antiship missile. [redacted]

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West German Navy's Tornado strike aircraft

Air International ©

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The Navy is also expanding its inventory of Sea Lynx Mk 88 antisubmarine warfare (ASW) helicopters from 12 to 19. The Lynx serves as the primary long-range ASW weapon on the fleet's six F-122 Bremen-class frigates. Each frigate can carry two Lynxs.

latest technologies, is expected to be in service by 1993.

—equipped for both antisubmarine and antiship missions—will replace the Lynx on Bremen-class and planned F-124 frigates.

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[Redacted]

The additional Sea Lynxs on order are needed to equip two new F-122 frigates and to provide spares. The attache reports that the Lynx force has been plagued by poor availability due to lack of spare aircraft and repair parts. The order for additional aircraft also includes provision for improved logistic support.

In wartime, elements of the helicopter wing not required aboard frigates would reinforce German forces operating in the Baltic.

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Maritime Patrol Aircraft—MPA-90

In the mid-1990s, the Navy plans to modernize and expand the combat helicopter force by acquiring 72 multirole NH-90s to replace its Sea King and Sea Lynx aircraft. The NH-90 program is a five-nation effort designed to meet NATO requirements for both a military transport and a naval combat helicopter suitable for operations from frigate-size ships. The West European firms participating in the program are completing a design and work-sharing study. The twin-engine helicopter, which will incorporate the

In the mid-1990s the Navy also plans to replace its aging fleet of twin-engined BR 1150 Atlantique I maritime patrol aircraft. Naval Air Wing Three includes two maritime patrol squadrons, based at Nordholz, with 14 ASW and five electronic surveillance versions of the Atlantique I. The units' principal wartime role is ASW operations in the North Sea. In the early 1980s, the Ministry of Defense concluded that continued updating of the French-built Atlantique I fleet was no longer cost

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West German Sea King Mk 41 helicopters

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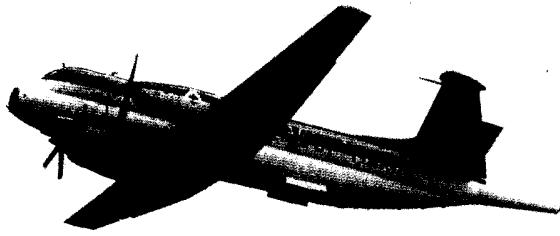
West German Sea Lynx Mk 88

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West German Atlantique I aircraft Air International ©

effective, and the Navy was directed to develop a replacement—designated MPA-90—to enter service in the mid-1990s. The Navy reportedly wants an aircraft with sufficient endurance to operate over the northeastern Atlantic and with modern ASW systems to counter new-generation Soviet submarines. By March 1986, preliminary studies were complete and,

The latter is the basic Atlantique airframe with improved ASW and communications systems. A final choice is not expected until late 1987 with up to 18 ASW and five electronic surveillance (ELINT) aircraft likely to be ordered.

The Atlantique II must be considered the front-runner in the MPA-90 competition. The Navy reportedly is pleased with the performance of the Atlantique I airframe and would like to avoid the costs involved in converting to a new airframe. Naval planners reportedly concluded that the most cost-effective solution was combining the Atlantique II airframe with the more capable ASW systems used on the P-3C/IV. this preferred option was eliminated, however, because of US opposition to a hybrid system. On the one hand, the Atlantique II is likely to be less costly and may have an edge because of continuing strong interest by both Bonn and Paris in Franco-German armaments cooperation. The domestic political gains and industrial benefits of buying European will also play a major role. On the other hand, while more costly, the larger four-engine P-3C/IV does offer the Navy the open-ocean endurance and the greater NATO interoperability it is seeking.

but are handicapped by interoperability problems in communications and data processing. The majority of maritime reconnaissance aircraft in NATO's Atlantic Command are versions of the P-3, and a West German decision in favor of the Atlantique II with European ASW systems is unlikely to significantly solve these difficulties.³

Outlook

West German naval air units are the only NATO tactical air forces earmarked solely for maritime operations in the Baltic area. Current equipment modernization programs will enable them to more effectively counter Warsaw Pact naval forces. However, growing Soviet air capabilities—including new air superiority fighters such as the MIG-29 Fulcrum—mean West German naval air units will still operate in a hostile environment. In addition to the issue of fighter protection, German naval aviators have reportedly expressed concern about inadequate airborne early warning and battle management capabilities as well as the lack of specialized electronic warfare aircraft. Solutions to these problems are unlikely in the near future.

Improved airborne ASW capabilities—both sea based and shore based—are essential to the Navy's efforts to expand its operations in the northeastern Atlantic. Pursuit of this objective, however, is handicapped by the Navy's modest potential for open-ocean ASW.

is a key element in making this more than just a paper mission for the Germans.

Long-term modernization and the addition of an air superiority role will depend on the Navy's ability to wrest a larger share of overall defense resources in a tight budget situation. has only about 9 percent of the armed forces manpower and usually receives a similar share of the

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budget.

[Redacted]

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Nevertheless,

we believe the other services will strongly resist.

Moreover, the Navy has had only partial success in implementing previous modernization plans in the face of the priority placed on forces for NATO's central region. [Redacted]

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The outlook for full implementation of the Navy's program is mixed, at best, with the air superiority fighter acquisition and helicopter force expansion probably the most vulnerable. In addition to budget constraints, the Air Force is likely to resist attempts to partially usurp its traditional air superiority role and decentralize control of the available fighter forces. Within the Navy, Baltic-related programs will also face competition from projects supporting a larger role in the North Atlantic. Finally, modernization may depend heavily on multinational programs such as EFA, NH-90, and F-124 remaining on schedule and within cost projections. [Redacted]

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**Bulgaria-United States:
Prospects for
Improved Relations**

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Bulgaria is signaling increased interest in improving relations with the United States following several years of unusually severe strains. It has worked to resolve several outstanding bilateral issues in recent months and taken other steps to show its desire for more active dialogue. We believe Sofia is now susceptible to making further concessions to upgrade political, economic, cultural, and scientific ties to at least the levels of the late 1970s. But, in the broader sense, we believe that Sofia's fealty to Moscow, its dismal human rights record, and international policies that regularly conflict with Washington's interests will continue to prevent any major breakthrough.

with singling out Bulgaria for harsher treatment than the other hardline Soviet Bloc countries.

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Signs of Thaw

Since late 1984, the Bulgarians have taken increasingly obvious steps to signal interest in improved relations. The steps so far have been limited and in some cases designed to address problems of Sofia's own making. The most notable have been:

- *Narcotics control.* On 3 October, after almost two years of US efforts, Bulgaria formally agreed to cooperate with a US Drug Enforcement Administration signature program under which it would notify the US Embassy of heroin seizures exceeding 1 kilogram and turn over to the USDEA samples of intercepted contraband. Eleven days later, Sofia turned over its first sample from a seizure. It also has indicated its willingness to take part in international conferences on narcotics control, such as the one in Vienna next year.

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Longstanding Strains

Bulgaria's relations with the United States have long been among the coolest of any of Moscow's East European allies. As one of the most loyal Soviet Bloc members, Bulgaria has based its policies toward Washington largely on the Soviet line, echoing Moscow's stances and rarely taking steps that the Kremlin might view with disapproval. Moreover, Bulgaria's repressive human rights policies—symbolized during the past two years by harsh treatment of its Turkish minority—its continued efforts to steal high technology from the West, and its close ties to radical Third World regimes have further exacerbated relations. Even the interest in closer ties expressed more recently by top Bulgarian officials frequently has not been matched by a willingness to cooperate at the working level.

- *Embassy access.* On 26 September, following repeated US complaints, the Bulgarian Government removed portable metal barriers that it had placed in front of the US Embassy in Sofia 10 months earlier on the pretext of protecting the Embassy from an unspecified terrorist threat. The removal has allowed several hundred Bulgarians a day access to a USIS window display.

- *Economic ties.* Sofia recently has shown greater willingness to turn to the United States for trade and credits. Bilateral trade during the first six months of 1986 was double that of the same period last year—up from \$50 million to \$99 million. Most of the increase came from a tripling of imports—primarily of US corn, fertilizer, and wheat—to compensate for poor domestic agricultural performance. Last year, after a six-year lull in

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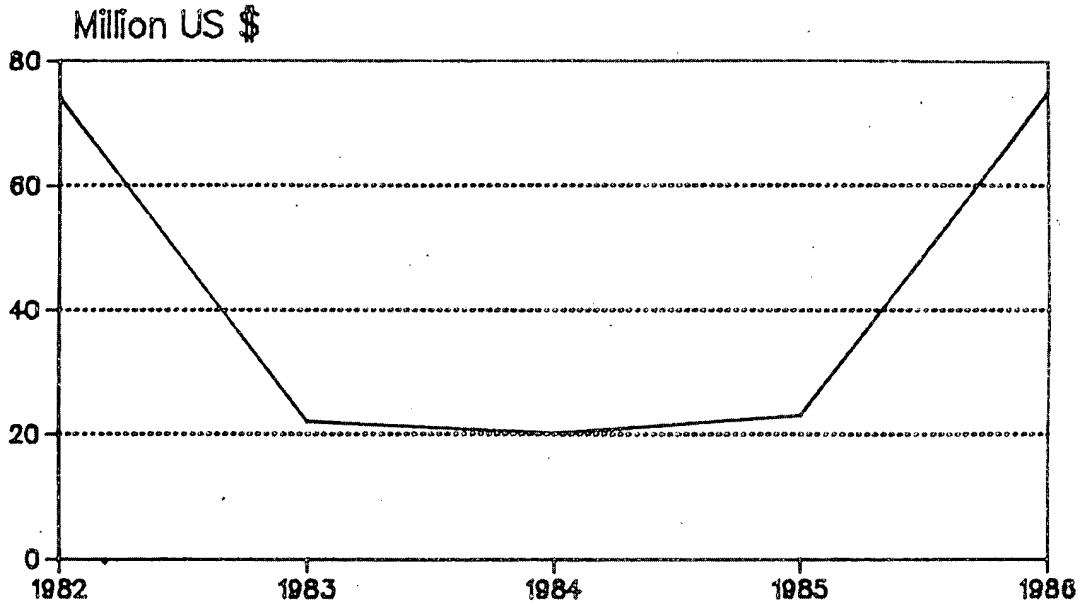
Bilateral ties have undergone some fluctuations in recent years in response to international and other developments. Following an easing of tensions in the 1970s, as Soviet-US atmospherics improved, they worsened again in the early 1980s as a result of increased strains between Washington and Moscow and allegations of Bulgarian involvement in drug trafficking and the assassination attempt on the Pope. Relations grew so strained between 1982 and 1984 that Bulgarian officials routinely charged Washington

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7 November 1986

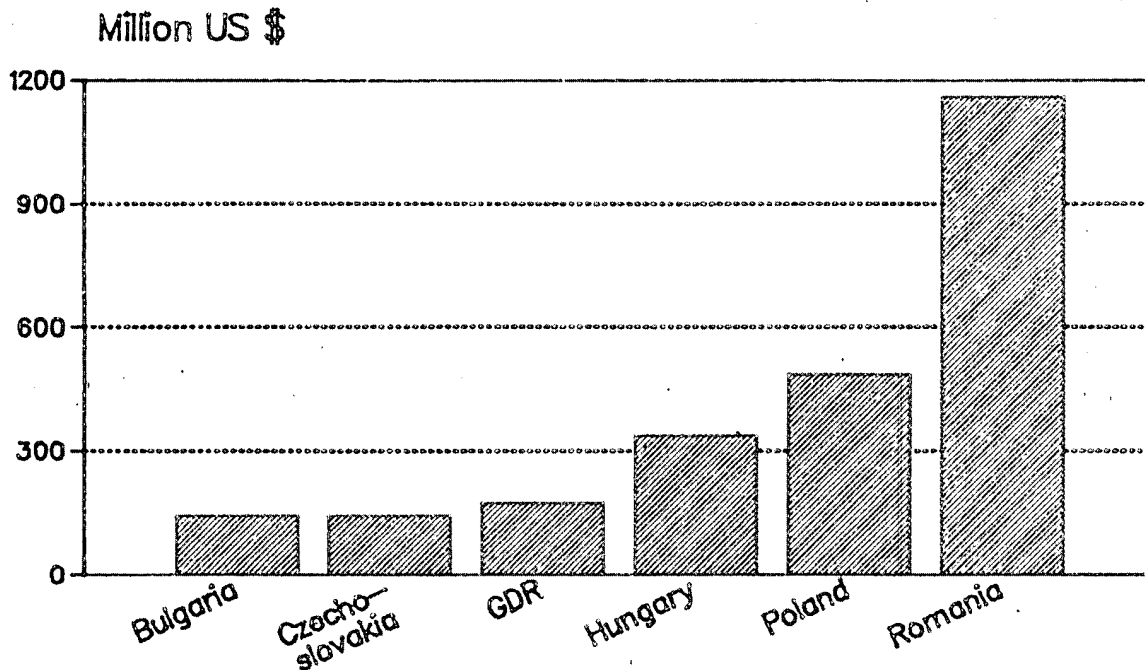
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Bulgaria: Imports from US: 1st 6 Months of the Year^a



^a According to US Statistics.

Bulgaria: Total US Trade with CEMA 6, 1985^a



^a According to US Statistics.

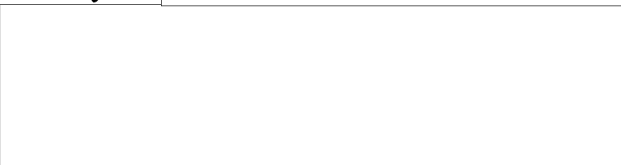


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borrowing from the West, Sofia negotiated \$570 million in new loans from a syndicate that included US and other banks. Bulgaria also stressed its desire for improved economic ties—particularly with individual US firms—during visits this year by a deputy trade minister and a parliamentary delegation.

- *Arms shipments.* Bulgaria this year appears to be adhering to a promise, made by Foreign Minister Mladenov in December 1984, to halt arms shipments to Nicaragua's Sandinista government. Before that pledge, Sofia regularly shipped arms to Managua, and its record last year is ambiguous.
- *Divided families.* The Bulgarian Foreign Ministry has resolved pending divided family cases in most instances, allowing Bulgarian citizens to join their relatives in the United States.

Bulgarian officials have accompanied these actions with increased rhetorical and symbolic support for improved relations. Most recently, Bulgarian leader Zhivkov urged expanded scientific ties at a meeting with US scientists in Sofia. Ambassador Zhulev in recent months has called repeatedly for establishing more normal relations. Official Bulgarian attendance at the Embassy's 4 July reception was the largest in recent years.



Bulgarian Motivations

Several factors seem to be prompting Sofia's increased show of interest in better US ties. Chief among them, in our view, is economic necessity. As this year's increased agricultural imports demonstrate, Sofia looks to the West to cover specific shortfalls in performance. But even more important, the United States and other Western countries are prime sources of the high technology Bulgaria needs to generate long-term growth. This technology is unavailable from Bulgaria's partners in the Soviet Bloc and is, we believe, essential to implementing Sofia's program of economic modernization. Bulgaria

would also like to enjoy the benefits of accession to GATT (General Agreement on Tariffs and Trade), both as a mouthpiece for Moscow and for its own economic interests.

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Political and national image factors also are important. Achieving better ties with Washington would appeal to Sofia's elevated sense of its own importance and at the same time ease its innate insecurity about its role on the world stage. Bulgarian leader Zhivkov, at 75 the senior party chief of a Warsaw Pact country, has long believed that small nations such as Bulgaria have an important role to play in international relations. Sofia may also believe that the Soviet-US climate is now more conducive to Bulgarian overtures to Washington as long as they do not produce results counter to Soviet interests. Indeed, Moscow may be encouraging such overtures.

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Outlook

We believe that Bulgaria will probably carry forward with diplomatic and other initiatives to improve US ties in the coming months, barring a major downturn in Soviet-US relations. We do not expect, however, any change in its close orientation to the Soviet Union and Soviet policies. Nor do we believe it will substantially improve its record on key domestic or foreign policy issues.

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Nonetheless, we believe that Sofia is probably more susceptible than it has been at any time during the past several years to making at least marginal improvements in some areas. These areas could include human rights—especially better treatment of Catholic and Protestant religious sects and ending jamming of Western radiobroadcasts—further movement on narcotics control, improved commercial climate for US firms, nuclear safety cooperation, and at least discussions on compliance with US technology controls.

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Sofia is probably most likely to respond positively in areas that can be discussed on an issue-by-issue basis. The Bulgarians probably would be most responsive to

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a judicious mixture of pressure and incentives. The following are some incentives that could induce movement:

- *Economic ties.* Sofia is interested in intensifying official forums for economic exchanges—such as the US-Bulgarian Economic Council, scientific and trade seminars, and business roundtables. The Bulgarian leadership seems to respect and listen to US business leaders and is eager to bring more US expertise, in the form of joint ventures and consultations, to Bulgarian soil.
- *Technology sharing.* Bulgaria is highly interested in increased access to US technology, even if slightly outmoded. Nuclear safety technology in particular is of increased interest in the wake of the Chernobyl accident. Sofia may be willing in return to improve controls on legal acquisition of advanced technology. In a conversation with the US Ambassador in early October, Deputy Prime Minister Markov expressed interest in a technology control verification system, possibly including end user checks and plant visits, to determine Bulgaria's compliance with US laws. Nonetheless, Sofia is continuing its illegal diversion of advanced technology from the West, much of which is destined for Moscow.
- *Official contacts.* The Bulgarians would welcome assurances of an increase in the number and level of official bilateral contacts. Sofia especially values exchanges—such as past briefings by US officials on arms control issues—that help it project the image of an important and autonomous player in European political affairs.
- *Other exchanges.* Sofia remains highly interested in stepping up exchanges in culture, science and technology, and other fields. Bulgarian officials recently expressed a willingness to discuss CSCE Basket III human rights issues including information, education, and tourism.

Regardless of any new agreements, Bulgaria will probably do little more than the minimum to meet US interests and will avoid actions that would interfere with its other policy objectives. Particularly in economic areas, numerous bureaucratic obstacles will continue to exist to hinder even those improvements approved by top Bulgarian officials.

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**Norway: The Labor Government
in 1979-81—Lessons
for 1986** []

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Viewpoint

This article does not represent a DI or CIA position; it is solely the view of the author. It has not been coordinated nor reviewed. []

Norwegian Labor Party leaders believe that taking strongly pro-NATO stands on security issues threatens the cohesion of the party's left-of-center political base—a lesson brought home by Labor's previous tenure in government in the late 1970s and early 1980s. Labor leaders seem to calculate, moreover, that concessions to the domestic left cost little since they meet with only mild US criticism and do not affect Norway's standing in NATO. []

TNF: A Blow to Labor Moderates

In 1979, the year of NATO's "dual-track" decision on theater nuclear force (TNF) modernization, Labor appeared the responsible and moderate actor within the Alliance that it had been in the past.¹ For example, Oslo was preparing to implement its mid-1970s' suggestion to pre-position military materiel on Norwegian soil to facilitate the wartime supply of Allied reinforcements. Norway also came forward with prompt, public support of the TNF decision. []

As with the West German SPD, the decision to support TNF alienated many leftwing Laborites, who felt that they had not been properly consulted. Labor moderates—including Foreign Minister Knut Frydenlund and his State Secretary Johan Jorgen Holst—undertook to minimize the damage done by the rift. Specifically, they played up the "negotiations" side of the dual-track decision and sent a special envoy to Moscow at the same time that high-level Norwegian officials were reviewing TNF policy in Washington. These maneuvers, however, did little to restore Labor unity on security issues. []

¹ The Labor Party governed Norway from 1973 to 1981 and returned to power this May in a shaky minority government. []

Leftward Slippage

The fear of losing leftwing support influenced Labor's subsequent handling of security policy—often at the expense of NATO. In 1980 Oslo tempered its pre-positioning proposal by allowing supplies to be placed only in central Norway, rather than in the north as originally planned. The decision came in response to leftist fears that pre-positioning in northern Norway would be seen by the Soviets as provocative. []

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The strife within the Labor Party over security issues—especially TNF and pre-positioning—paved the way for Gro Harlem Brundtland's 1981 assumption of party leadership and the post of prime minister. Brundtland, herself a moderate, set as her primary goal the restoration of unity to the badly fragmented party. She quickly seized on the Nordic Nuclear-Weapons-Free Zone (NNWFZ) as an issue that would win points with the left without exacting any immediate security costs. Brundtland also reiterated Labor's opposition to the deployment of enhanced radiation weapons (ERW) and responded to the August 1981 US decision to produce and stockpile ERW with a strongly worded public statement condemning the weapons. []

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Twisting the Lion's Tale

During Labor's slippage to the left from 1979 to 1981 party leaders apparently became convinced that the United States would accommodate Oslo's desire to use international security issues for domestic purposes. Specifically, Labor noted that Washington:

- Allowed Norwegian emissaries to claim to have "won" US guarantees to pursue TNF negotiations with the Soviets.
- Quietly accepted central, instead of northern, Norway as a pre-positioning locale.
- Protested only mildly Brundtland's public espousal of NNWFZ.

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7 November 1986

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- Stopped pressing NATO to accept deployment of ERW. [redacted]

Thus, Brundtland and other Labor leaders have come to believe that readily accommodating NATO hurts the party badly at home, but accommodating the domestic left wing does not harm Norway's standing in NATO. The point man between Oslo and Washington who seems to have taken this lesson most to heart is Johan Jorgen Holst, State Secretary in the Foreign Ministry under the 1977-81 government and currently Minister of Defense. [redacted]

[redacted]

Implications

The impact of this "domestic front first" track on current Labor policy was demonstrated in the recent controversy over ship visits. Holst changed the standard clearance language for visiting naval vessels to reemphasize Oslo's longstanding "no nuclear weapons" policy. He apparently believed that the United States and other NATO partners would make only weak objections and that the move would buy support from the domestic left. Following vigorous US protests, Holst retreated to the original language.

[redacted]

Norway's footnote to the NATO Defense Planning Commission communique last May also illustrates this troubling trend in Labor policy. As a gesture to domestic opponents of SDI, Holst sought to change the communique language on defense research and was both surprised and annoyed that the Alliance would not go along. Despite flat US refusals, Labor kept up its request that the language be changed in last month's Nuclear Planning Group (NPG) communique. The subsequent US-Norwegian compromise on wording to highlight US compliance with the ABM Treaty—which avoided another Norwegian footnote—will probably reinforce Holst's belief that when push comes to shove Washington will continue to accommodate Oslo's political needs. [redacted]

Despite NATO's willingness to compromise, domestic leftists were greatly angered by Holst's failure to footnote the October NPG communique. Some have called for Holst's resignation, others for an unequivocal parliamentary resolution that forces Norwegian opposition to SDI in all international forums. Thus, while confirming Holst's belief that the Alliance is flexible, the October meeting also made clear that the domestic left remains inflexible and that Labor's political base can be badly shaken if the leadership publicly takes pro-NATO stands. [redacted]

Outlook

Strong US protests and pressure from the nonsocialist opposition have already had some effect on Labor security policies. The political fallout from the failure to footnote the NPG communique, however, will weigh heavily on Labor's future security policy decisions. There can be little doubt that it will take more Allied protests and countervailing domestic pressure before Labor leaders become convinced NATO will no longer accommodate Oslo's domestic concerns and that too much attention to the left could even drive moderate voters to the nonsocialists. [redacted]

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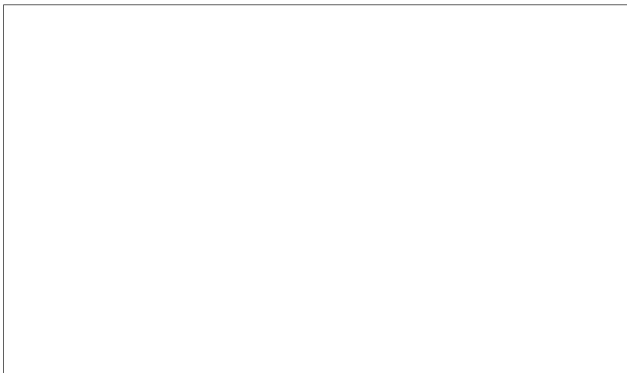
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Economic News in Brief

Western Europe and Canada

EC agreed on new position for stalled trade negotiations with non-EC Mediterranean states . . . will import more citrus, farm products . . . Spain got assurances exports will not suffer, dropped objection . . . US citrus exports to EC unlikely to decline.



Turkey began construction of gas pipeline from USSR last month . . . to supply 95 percent of gas needs by 1994, 5 percent of total energy . . . Turks to pay 30 percent cash, rest with exports.

Norway began two-month, 10-percent oil export cut this month . . . stockpiling rather than reducing production . . . Oslo announced plan in September, conditioned on OPEC restraints . . . psychological lift for OPEC, little effect on world price.

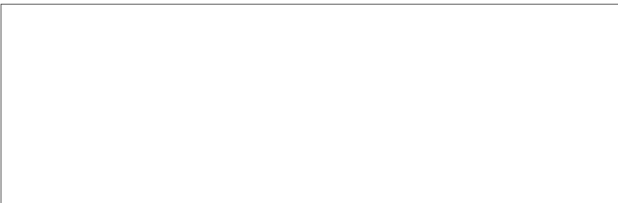
September's 1.4-percent rise in prices pushes Norway's annual inflation rate to 8.6 percent . . . minority Labor government's 7-percent target for 1986 probably out of reach . . . higher inflation anticipated in 1987 due to large wage hikes, probable surge in money growth . . . impact on cost competitiveness may hinder economic restructuring necessitated by declining oil sector.

Swedish Army facing \$85 million shortfall because of underestimated personnel costs . . . consequent cuts in reserve training; procurement will reduce readiness . . . parliament likely to accept further increase in 1987-92 defense budget.

Iceland threatening to suspend trade agreement if USSR reduces herring purchases, according to US Embassy . . . Moscow anxious to save hard currency, but Reykjavik expects gesture from Gorbachev . . . herring third of Icelandic exports to USSR.

Eastern Europe

EC rejected Bulgarian demands for scientific cooperation, loans in talks on establishing relations, according to US Mission to EC . . . EC wants trade pact only . . . part of effort to establish ties to East Europeans before EC-CEMA agreement concluded.



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