



Director of
Central
Intelligence

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*Wednesday
14 March 1984*

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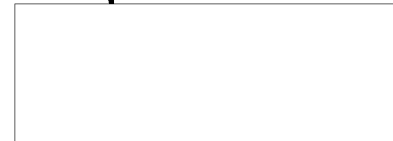
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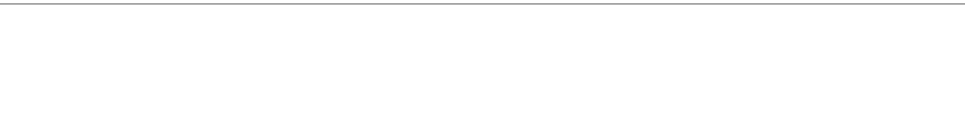
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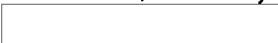
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IRAQ-IRAN: Iraqi Advance Stalls

Iraqi forces have made only minor gains in trying to retake the southern Majnoon island, and they face more problems in continuing their advance. 

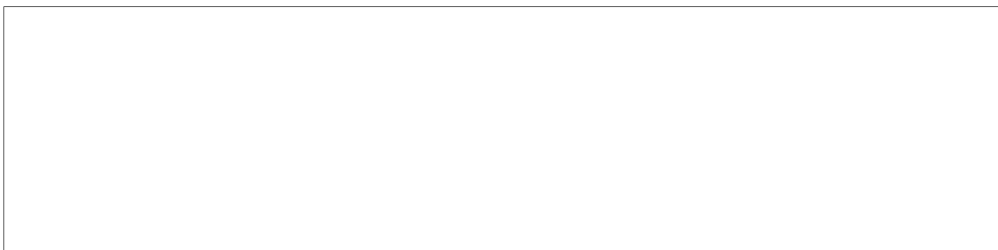
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Iraqi units have moved only a short distance on the southern Majnoon island since Saturday. The Iranians are ferrying armored vehicles to the northern island from their pontoon bridge, which is now 75 percent completed. Iran accused Iraq of using chemical weapons during fighting yesterday on the island. 

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 some Iraqi commanders have been replaced as a result of their poor performance during recent battles in the marsh. High casualties among Iraq's predominantly Shia irregular forces have prompted some antigovernment activity in several Shia towns in Iraq 


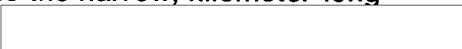
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Comment: Iraq's lack of aggressiveness in attacking Iranian forces on the islands 

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 suggest that its attempts to recapture the islands will fail. At a minimum, Iranian reinforcements will slow the Iraqi advance on the southern island and could stall it completely. Even if Iraq is able to occupy the southern island, its forces probably will not be able to advance across the narrow, kilometer-long causeway to the northern island. 

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USSR-SYRIA: Soviet Official's Visit Ends

Soviet and Syrian handling of Politburo member Aliyev's four-day visit to Damascus, which ended yesterday, suggests the two sides reached general agreement on major issues. [redacted]

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The joint communique says Aliyev met with President Assad and Vice Presidents Khaddam and Rifaat Assad in an atmosphere of "friendship and mutual understanding." Syrian media stress that the two sides share "identical" views on regional and international issues and that both welcome the US "defeat" in Lebanon. [redacted]

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In speeches on Saturday, Aliyev made no allusion to the divisions in the PLO or between Assad and PLO leader Arafat, while Khaddam praised the rebels and criticized Arafat only indirectly. The language in the communique calls on the PLO to avoid "separate deals," such as President Reagan's peace plan, and to cooperate with Syria. [redacted]

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The communique and Aliyev's speech omitted the usual Soviet call for an international conference on the Arab-Israeli dispute. [redacted]

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Comment: The visit of Aliyev, the highest ranking Soviet to travel to Damascus in four years, appears to have gone more smoothly than Khaddam's trip to Moscow last November. At that time, the USSR indicated its unhappiness with Syria's support for Arafat's PLO opponents. [redacted]

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Moscow's willingness to incorporate language in the communique implicitly critical of Arafat's policies suggests it wants to avoid further contention with Damascus over the issue. It also may indicate Soviet concern about Arafat's recent discussions with Jordan's King Hussein. [redacted]

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Aliyev presumably met with Rifaat to probe his views and determine whether his new prominence as Vice President will affect bilateral relations. [redacted]

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In addition, Aliyev probably tried to ascertain Syria's intentions in Lebanon. The omission of a call for an international conference evidently was in deference to Damascus, which has long been cool to the idea. It also may reflect a Soviet assessment that prospects for convening one soon are slim. [redacted]

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NATO: Interest in New Tactics for CDE

The Allies generally have supported the US on tactics during the first round of the Conference on Disarmament in Europe that ends on Friday, but most may want a new approach by the time the talks resume in May. [redacted]

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NATO members have rebuffed the East's attempts to focus the negotiations on declaratory measures, especially nonuse of force and no-first-use of force. They have countered Soviet charges that the West is not serious about arms control. [redacted]

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The Allies also have tried to discourage interest among the neutral and nonaligned countries in nonuse of force and in measures to limit military activities. They have tried to focus attention on the West's own measures on exchange of information on, and prior notification of, military activities. [redacted]

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Last Friday, however, the neutrals overcame their differences. They formally proposed several confidence- and security-building measures that include ceilings on certain maneuvers. [redacted]

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Meanwhile, media in Western Europe have emphasized the failure of the conferees to agree on what they should negotiate. Allied officials are voicing concern that, if the West does not change its strategy, the stalemate will continue when talks resume. [redacted]

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Comment: Most Allies want to show their publics that some progress is being made at Stockholm, especially while the INF talks and START remain suspended. West Germany and the Netherlands, in particular, believe the West should explore proposals advanced by the neutrals for limiting military activities and consider possible proposals that the West could advance along these lines. They view measures for constraints as one of the few areas on which most participants could agree to negotiate. [redacted]

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Moreover, many Allies are coming to believe that the West will have to consider some form of declaration on nonuse of force to gain the USSR's agreement to address the West's proposals on information exchange and prior notification. Until recently, the Allies were more concerned that any hint of Western willingness to discuss nonuse of force could result in an unwelcome declaration that the Soviets would pocket while refusing to negotiate on the West's measures. [redacted]

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USSR-SWEDEN: Alleged Presence of Minisubmarines



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Last week a spokesman for the Swedish Navy said that a foreign submersible tried to escape from the sealed-off Karlskrona archipelago on 26 February. He also announced that the Navy is giving priority to locating firm evidence, including tracks, of activity by foreign submarines.



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Prime Minister Palme, in his first public statement on the current activity, said that no conclusions can be made about the identity of the intruders. Despite the submarine search and harsh criticism by opposition parties, he has moved to resume high-level bilateral contacts with the USSR.



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A government poll conducted late last year showed that 80 percent of the Swedes agreed that the USSR is a hostile or unfriendly force. This is nearly double the number in 1981—just before a Soviet submarine ran aground in Swedish waters.



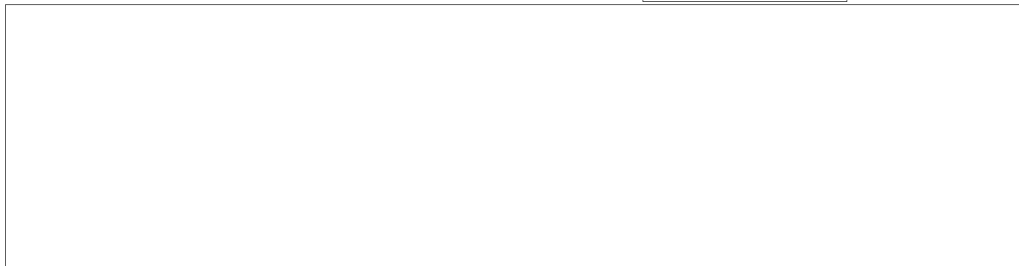
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The US Embassy reports that there is strong support for taking firm measures against the intruders and that publicity over the incidents has led to record numbers of volunteers for territorial defense organizations. Many Swedes, however, are uncertain about using force in peacetime. They worry about the consequences if there are Soviet casualties in any capture attempt.



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Palme's need to maintain public support is likely to force him to move cautiously in an effort to improve ties with Moscow.



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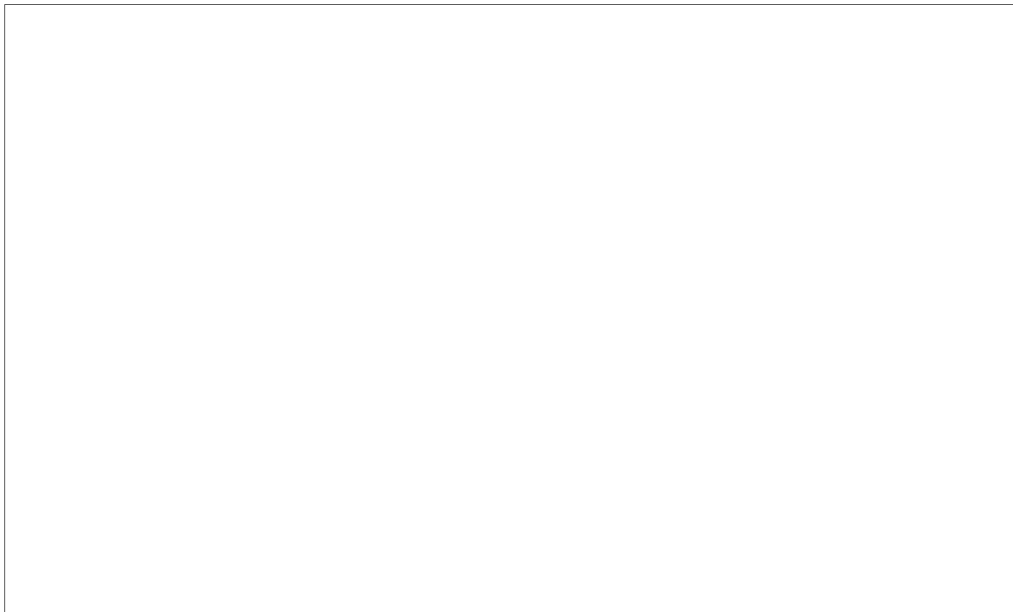
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EL SALVADOR: Military Activity

Fighting between government and guerrilla forces in the central and eastern parts of the country has increased in recent days.

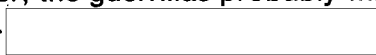


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Comment: The Army in recent weeks has continued offensive operations aimed at keeping the insurgents off balance. To regain the initiative, however, the guerrillas probably will launch surprise attacks soon in the east.



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PORTUGAL: Economic Problems

Prime Minister Soares, who arrives in Washington this week, is determined to implement austerity measures required by the IMF, despite political and social consequences. [Redacted]

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Attempts by the Communists to exploit workers' grievances have not raised labor unrest to serious proportions, but Lisbon is seeking a relaxation of the terms of its IMF loan in talks with the Fund that begin this week. IMF officials have said they will not change the current account target but may ease the budget deficit target and ceilings on domestic credit if the Portuguese fulfill other promises they agreed to in their letter of intent. [Redacted]

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Comment: Talks with the IMF almost certainly will focus on Lisbon's desultory efforts to reform public-sector enterprises and its failure to raise food prices this year. The government does not want to provoke labor unrest, and it has not raised domestic food prices enough to offset price increases of imports. Lisbon may agree, however, to additional layoffs at some of the major state-owned companies. [Redacted]

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Soares's Socialist-Social Democratic coalition has shown the capacity to withstand pressures that have toppled previous governments. Despite strains remaining from a vote last month that split the coalition on abortion reform, the two parties are committed to grappling with the country's economic problems. [Redacted]

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The two parties soon have to select a presidential candidate or candidates for the election in 1985, a task that could cause the coalition to collapse. Soares wants to run, but he needs Social Democratic support to win. [Redacted]

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The Social Democrats have held out for a candidate of their own, although they might ultimately back Soares if he offers them the prime ministry. It is uncertain, however, that the Socialist Party would be willing to agree. [Redacted]

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UK-LIBYA: Concern About Libyan Terrorism

The British Government is worried that the bombings in the UK over the weekend portend more Libyan-sponsored terrorism. According to the US Embassy, London, the Foreign Office has called on Tripoli to honor the commitment it made in 1980 to refrain from violence in the UK. The Libyans reportedly have responded by saying that, if London persists in accusing them of complicity in the bombings, they will review their policy of not providing aid to the Irish Republican Army. The Embassy also reports that the British have decided to expel some Libyan diplomats in response to the bombings. 

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Comment: The threat of Libyan retaliation against some of the 8,000 British nationals in Libya limits London's leverage over Tripoli. In addition, the UK probably is reluctant to jeopardize its substantial economic dealings with Libya, which last year imported British goods worth \$500 million. Unless there is a substantial increase in Libyan-sponsored terrorism in the UK, the government is unlikely to do much beyond expelling the Libyan officials. 

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BRAZIL: Inflation Endangers IMF Program

Increasing inflation is jeopardizing Brazil's IMF stabilization program. After subsiding substantially during the last two months of 1983, inflation surged again in January and February at an annual rate exceeding 200 percent. The IMF wants Brazil to hold inflation down to 100 percent this year.

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Comment: Because of Brazil's indexation system, steeply rising prices are reducing prospects for meeting the IMF's fiscal and monetary targets for the first quarter of the year. Failure to meet targets for the first quarter probably will require further renegotiation of the already revised IMF agreement and disrupt impending foreign bank support. The rising inflation also is likely to convince a growing number of Brazilians that the stabilization program is not working. Unless inflation is reduced substantially by April or May, Brasilia will face intense demands at home for a break with the IMF and for a moratorium on debt repayment.

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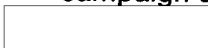
CANADA-US: Reaction to Cruise Missile Test

Less than 1,000 people participated in anti-cruise-missile protests last weekend in Canada. Three people were arrested when demonstrators scuffled in front of the US Embassy. Media reports state that cold weather prevented larger participation, but the Embassy suggests that public interest in testing may be eroding.



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Comment: The antitestng groups lost momentum when a federal court refused to issue an injunction, and Ottawa announced the test only 48 hours before it was conducted. Nevertheless, antitestng groups continue to challenge the constitutionality of the government's decision to permit the tests. They probably are encouraged by press reports of Washington's intention to ask permission to test additional weapon systems in Canada. A favorable court decision or further US requests could become an issue in the coming federal election campaign and could help revitalize the Canadian peace movement.



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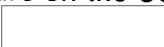
CHINA-WEST GERMANY: Satellite Technology Cooperation

A protocol for cooperation in space science and technology signed by the Chinese and the West Germans in Bonn last week may give West Germany an edge over other competitors in trying to sell direct broadcast satellites to China. The protocol provides for extensive cooperation in communications satellite systems research, development, and manufacture. Press reports state the two countries also will cooperate in the production and design of telephones, radios, and scientific satellites. The Chinese Minister of Aeronautics Industry visited West German firms before signing the agreement.



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Comment: China plans to announce its decision on a foreign supplier for a direct broadcast satellite in September. To develop the capability to manufacture its own satellites, Beijing wants the purchase to include provisions for technology transfer. Extensive contacts between China and West Germany suggest that Bonn may be willing to transfer technology in order to strengthen its competitive position. The Chinese also appear to be using cooperation with West Germany to put pressure on the US to relax its guidelines for transfer of satellite technology.



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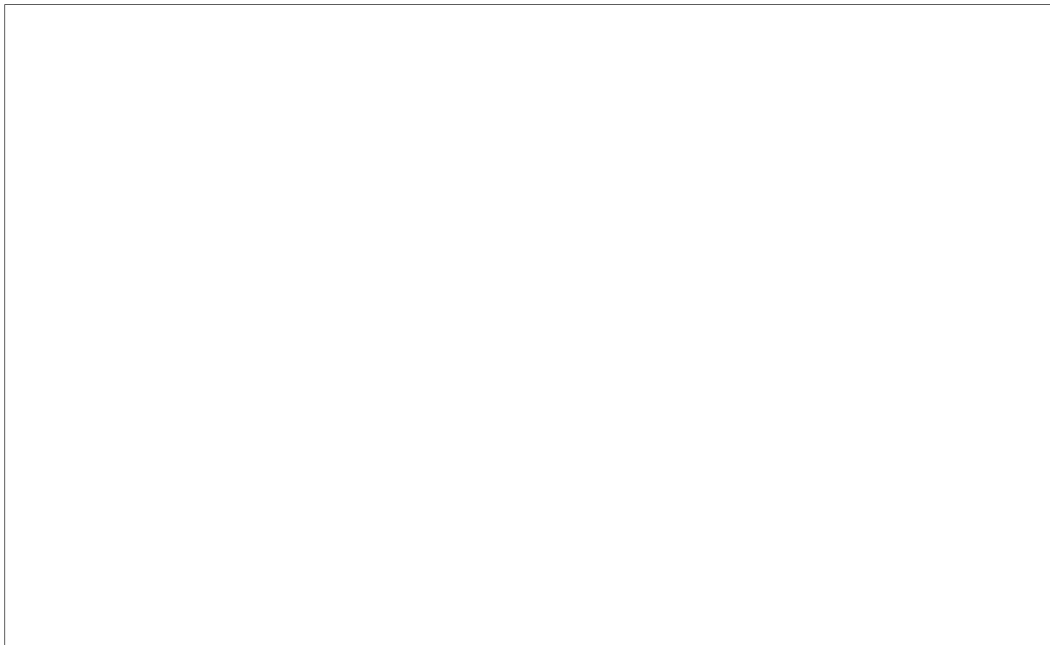
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SPAIN: Development of New Tank

The US defense attache reports that Spain has decided to develop a main battle tank rather than coproduce the West German Leopard II or the French AMX-32. The tank will be a successor to the French-licensed AMX-30, which will not be produced in Spain for domestic orders after this year. Madrid is seeking technology for the new project from France, West Germany, and the US. A major factor in the decision will be the right to use the licensed technology to produce an export variant. [Redacted]

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Comment: Spain hopes this project will help modernize its defense industry and maintain employment. Although the Army will order 400 tanks, Madrid is trying to guarantee long-term production by offering a competitive tank on the export market. Madrid has stated that French armored vehicle technology is inferior and that US transfer policies are too restrictive, suggesting that Spain probably will choose West German technology. Bonn is interested in cooperating with Madrid, because this would allow West Germany to gain from sales to countries to which it cannot sell directly. [Redacted]

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