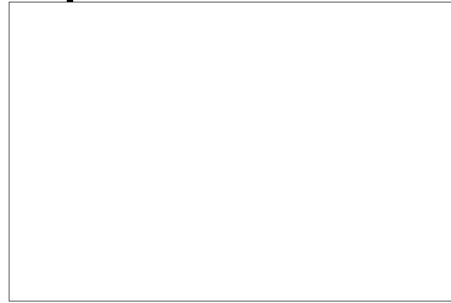




**Director of
Central
Intelligence**

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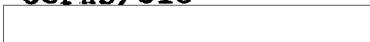


National Intelligence Daily

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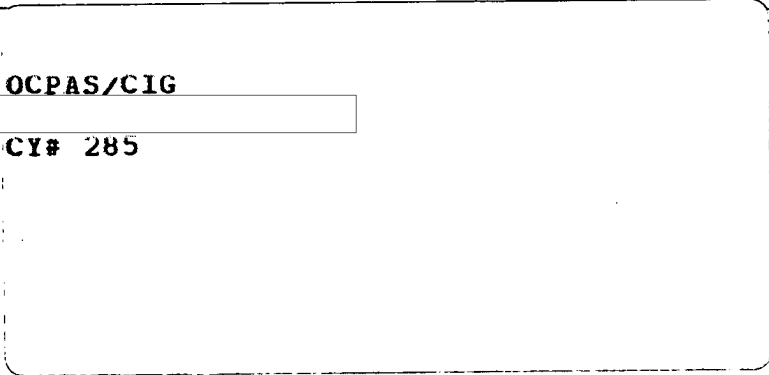
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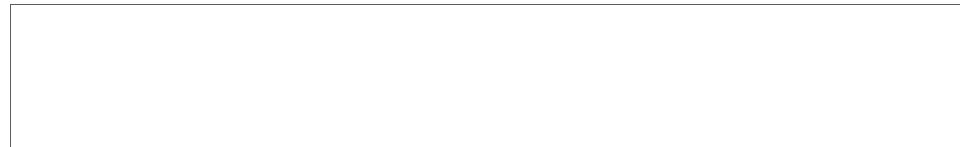
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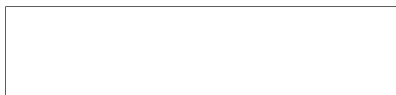
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LIBYA-TUNISIA: Border Tensions

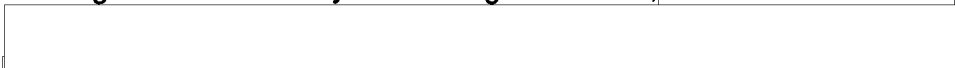
Libya is increasing pressure on Tunisia in retaliation for the dissidents' use of Tunisia as a starting point for the attack on Tripoli this week. 



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The Libyan Foreign Ministry has warned that Libyan exile operations involving Tunisia pose a grave danger to relations between the two countries. According to Tunisian officials, on Thursday Libya strengthened its military units along the border, 

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 Tunisian officials also say Tripoli has placed a police guard around the Tunisian Embassy and is questioning people as they enter. 

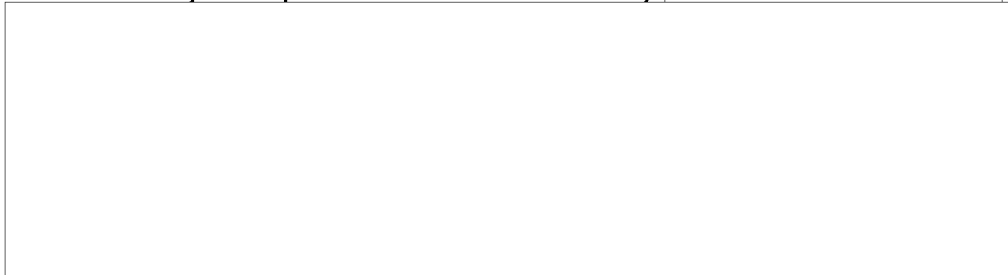
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Tunisian officials call the dissident attack against Libyan leader Qadhafi an internal Libyan matter and deny any involvement. Tunis has also demanded that the Libyans release the three border guards it claims they kidnaped inside Tunisian territory. 


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Comment: Qadhafi probably is hoping to cow Tunis into preventing dissidents from again operating against Libya from Tunisia. A major Libyan attack on Tunisia does not appear imminent, although minor border incidents are possible. Qadhafi probably will maintain pressure on Tunis for some time. 

25X1

Tunis may be overreacting to the increased Libyan security measures resulting from the attack on Qadhafi. Moreover, Tunisian Prime Minister Mzali may find it useful to overstate the Libyan threat in order to divert attention from domestic problems and to demonstrate his leadership to President Bourguiba. In any event, he will continue to look to Washington for support against Libya. 

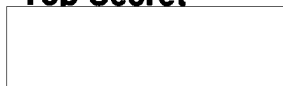
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IRAQ-IRAN:

Shipping Industry's Response to Attacks

Iraqi attacks on tankers trading at Khark Island are causing some confusion in the international shipping market, but oil shipments are likely to continue near normal unless the attacks intensify.



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Although charter market data are not sufficient to establish a trend, hull and cargo insurance rates have doubled following the most recent attacks.



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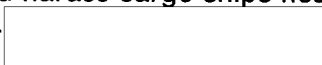
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Comment: More than enough tankers will be available to carry oil from Khark unless the pace of attacks increases significantly. The current depressed condition of the international tanker market makes some owners willing to accept greater risks because they can now demand premium rates. Tehran may, as in the past, offer incentives in the form of insurance rebates and price discounts on oil to offset the higher transport costs for purchasers of Iranian oil.



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If more Iraqi attacks lead to many refusals to call at Khark, the disruption of Iran's oil exports could lead to an Iranian military response. Iran, for example, could harass cargo ships headed for Iraq and attack targets in Kuwait.



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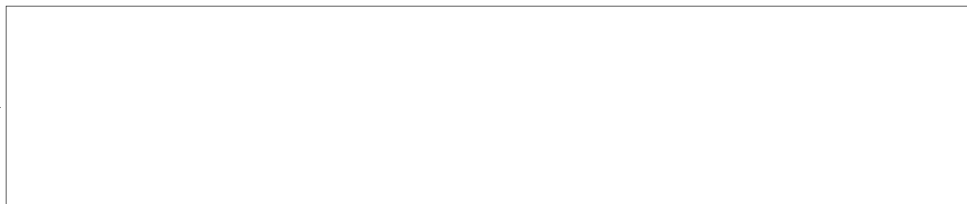
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PANAMA:

Election Results Challenged

The outcome of the election is being challenged by both major coalitions and apparently will go to the government-controlled Electoral Tribunal for a decision. 

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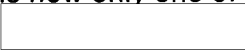


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 Press reports indicate that a member of the national counting board has resigned over alleged irregularities in tabulating the votes. 

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Meanwhile, sporadic violence continues as a result of the protracted vote count. Both the offices of the progovernment press and the residence of opposition candidate Arias have been the target of gunfire in recent days, according to the US Embassy. Opposition sources believe the government staged the attack on the press offices to provide a pretext for moving against the opposition newspaper, *La Prensa*, which is now only one of two mass media outlets still open to the opposition. 

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Comment: By raising enough challenges to throw the election into adjudication, the government—and by implication the military—believes that it can ensure Barletta's victory, while maintaining a facade of legitimacy for the balloting. The election apparently continues to be close, and only a few decisions in either candidate's favor in the review process could provide the winning margin. 

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The opposition is certain the balloting favors Arias, and continued delays in announcing his victory or the naming of Barletta as the winner could lead to more violence this weekend. The Defense Forces have been patient dealing with the outbursts so far, but they probably will feel less constrained once Barletta's victory is assured. The military in the past has openly assaulted *La Prensa's* offices, and it may again be considering such action as a means of muzzling opposition charges of fraud. 

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**South America: Annual Impact of an Increase of
1.5 Percentage Points in Interest Rates**

Key South American Debtors	Projected increase in export revenues (million US \$)	Estimated increase in interest payments (million US \$)	Interest increase as a share of exports (percent)
Argentina	300	600	200
Brazil	2,500	1,275	51
Chile	528	210	40
Peru	100	120	120
Venezuela	200	375	188

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[Redacted]

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**SOUTH AMERICA-
US:**

Reaction to Higher Interest Rate

The increase in the US interest rate is drawing fire from South American leaders and will place new strains on financial rescue programs. [Redacted]

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Argentine President Alfonsin's public denunciation of the development prompted government leaders in Mexico, Brazil, Venezuela, and Colombia to issue a joint statement decrying the increase. Argentine congressmen—already unhappy with rising inflation—are claiming that the higher rate will prevent economic recovery and threaten social peace. [Redacted]

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The US Embassy in Brasilia reports that the government has reacted with uncharacteristic harshness and believes the higher rates could nullify gains made in its financial adjustment program. [Redacted]

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[Redacted]

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Comment: Despite predictions of a resurgence of financial problems, the immediate impact on South American debtors will be minimal. Interest rates are adjusted every six months, and the new increase will not take effect until later this year. The current growth in South American exports will blunt the initial increase in the debt service burden. Nonetheless, as the financial burden of the higher interest rate grows, it will strain financial rescue programs. [Redacted]

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An increase of 1 percentage point in world interest rates would add some \$2 billion to South America's annual debt servicing requirements, according to the estimates of a respected financial journal. Moreover, an increase in world interest rates could slow recovery of exports to the developed countries. [Redacted]

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Latin American governments probably will issue a collective statement against the interest rate and trade policies of industrial countries before the London Economic Summit. They probably will also intensify demands for repayment concessions from private bankers to offset the impact of higher rates in future debt negotiations. [Redacted]

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**AFGHANISTAN-
USSR:**

Insurgent Strategy

Insurgent leader Masood has sent most of his forces out of the Panjsher Valley in order to reduce Soviet pressure in the valley.

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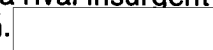
Masood, in a letter dated 7 May and delivered to the US Consulate in Peshawar, says that only a third of his forces are in the Panjsher Valley. He has established his headquarters to the north of the valley and has sent most of his men elsewhere in Kapisa Province and into Parvan and Baghlan Provinces in an effort to divert Soviet forces.



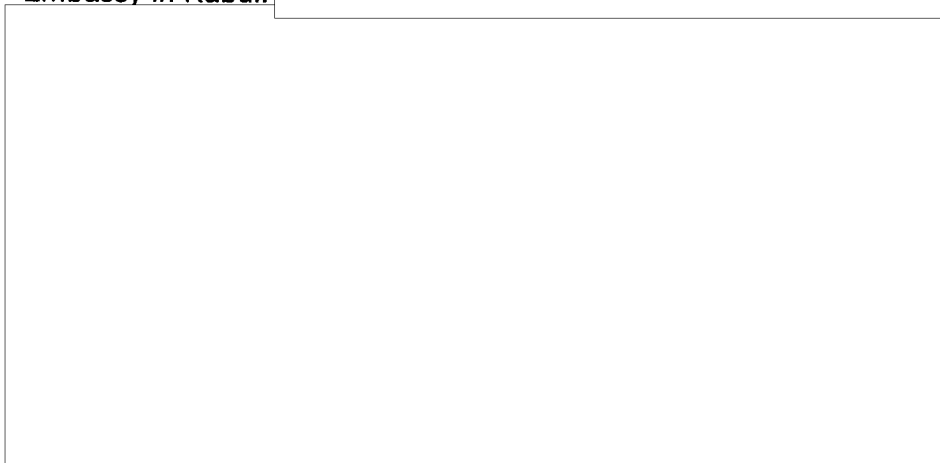
Masood says his forces need ammunition and supplies and hope to open a supply line into the valley through Laghman Province. He says, however, that a local commander belonging to a rival insurgent group has refused to allow the supplies to go through.

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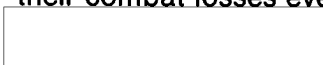
An East European military attache says the Soviets suffered substantial losses in the current offensive, according to the US Embassy in Kabul.



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Although rivalries between insurgent groups continue to hamper cooperation, all of the major resistance leaders have urged their guerrillas to help Masood. The Soviets probably are concerned about their combat losses even though the level of fighting has been low.



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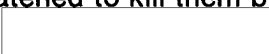
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SRI LANKA:

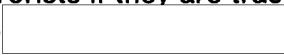
Americans Kidnaped by Terrorists

The kidnaping of an American AID contractor and his wife is the first such incident involving Americans in Sri Lanka's continuing communal violence. 

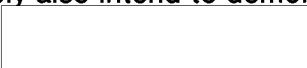
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A Sri Lankan security official says the couple was taken by boat to Tamil Nadu in southern India. In a note to President Jayewardene, Tamil terrorists are demanding the release of 20 other terrorists now in prison and a ransom of more than \$2 million. The terrorists have threatened to kill them by noon on Monday if their demands are not met. 

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Colombo has formed a special task force within the Ministry of National Security to discover where the terrorists are holding the couple and are coordinating their efforts with the US Embassy. Both the authorities in Tamil Nadu and the Indian Government have promised to help find the the terrorists if they are traced to southern India, according to the Embassy. 

25X1

Comment: The terrorists are members of the People's Liberation Army that is calling for the creation of a separate Tamil state. They may hope to discredit the reconciliation talks that began again on Thursday in Colombo and to embarrass Jayewardene before his visit to the US next month. They probably also intend to demonstrate his inability to maintain law and order. 

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ISRAEL-IAEA:

Position on Arab Nuclear Programs

Israel's continued refusal to rule out preemptive strikes against the nuclear facilities of its Arab neighbors could result in a confrontation in the IAEA over its participation.



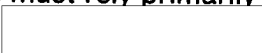
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A resolution adopted by the IAEA General Conference last fall requires a cutoff of all scientific and technical dealings with Israel, unless Tel Aviv publicly renounces its right to attack nuclear facilities in Iraq and other countries before the General Conference meeting this September.



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In a recent speech, Prime Minister Shamir cited Iraqi violations of treaties forbidding the use of chemical weapons. He believes that both Iran and Iraq would be willing to break similar agreements prohibiting development of nuclear weapons. Although Shamir says that international action can be effective in punishing treaty violators, he argues that all countries must rely primarily on their own actions to guarantee their security.



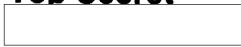
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Comment: The technical and financial impact of the cutoff would be small. Shamir's remarks suggest that Tel Aviv does not intend to change its longstanding position that it will take action to halt suspected development of a nuclear weapons capability by any of its Arab neighbors.



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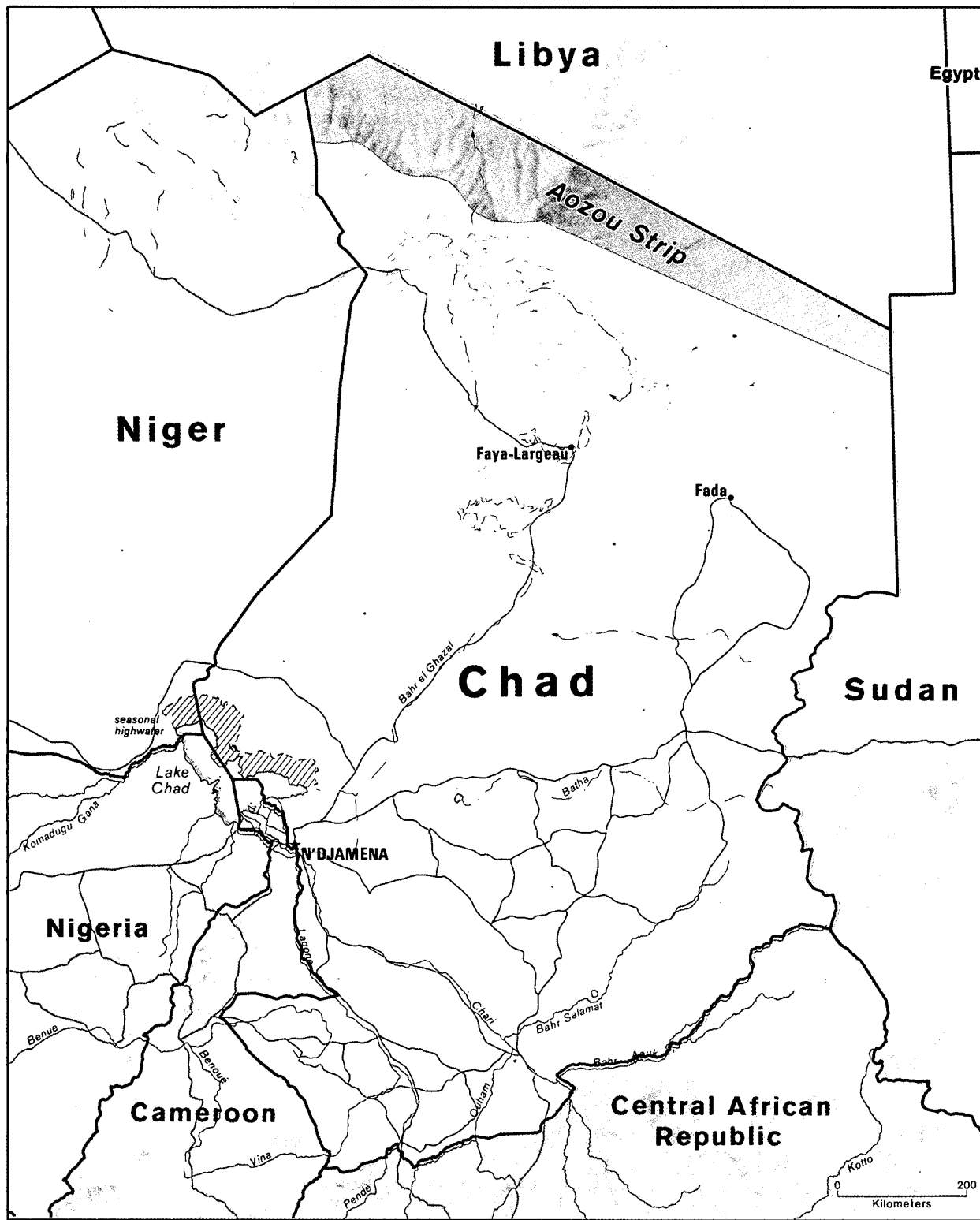


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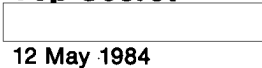


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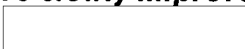
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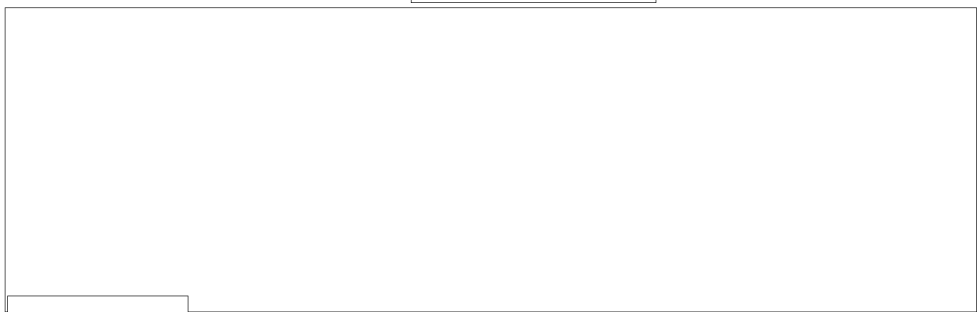
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CHAD-LIBYA:



Tenuous Progress by Habre

Chadian dissidents continue to chafe under Libyan control of the north, while President Habre slowly improves security in the south and central regions. 

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 Chadian officials claim that some 800 rebels from the central region agreed last month to go over to the government in exchange for food and salaries. The US Embassy in N'Djamena reports that for the past several months the government—with French budgetary support—has paid overdue salaries to civil servants, troops, and former dissidents. 

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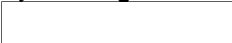
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Paris continues to try to arrange a new round of reconciliation talks in Brazzaville. The Embassy in N'Djamena reports, however, that representatives of the Libyan-backed rebel government in exile continue to demand that negotiations be held under OAU auspices and on a faction-to-faction basis. 

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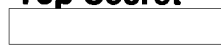
Comment: Libya's logistic problems in the north are not new, but they will increase discontent with Tripoli's domination of the area. The continued defections of former opponents from the north are likely to add momentum to N'Djamena's efforts to foster national reconciliation. 

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The Habre regime, however, will become increasingly dependent on French economic aid as it supports more former dissidents. The new loyalty of the refugees could erode rapidly if the government were to fall behind in providing salaries or food. 

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IRAQ:


Grumbling Against Saddam

Iraqis are said to be growing impatient over the war with Iran and disgusted with the cult of personality glorifying President Saddam Husayn. 

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 many middle-class Iraqis fear their Army is not capable of defeating Iran. These Iraqis are discouraged that the Iranians have withstood Iraqi attempts to oust them from the Majnoon Islands. 


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In addition, parents are worried that a recent government order moving up the close of the school year to the end of May precedes a massive callup of students. Iraqi security forces have been alerted for a rise in social tension 


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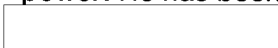
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US diplomats in Baghdad say anti-Saddam handbills have appeared there, attacking the weeklong celebration of Saddam's birthday late last month. The handbills criticized the lavish praise of Saddam, compared him to an emperor, and assailed the ruling Ba'th Party for permitting his excessive self-promotion. 


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The diplomats also report that Saddam has recently begun acting as an omniscient authority on most subjects. In television appearances, he enjoys showing off by lecturing lawyers, doctors, and other professionals on the performance of their duties. 


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Comment: The public grumbling is not a threat to Saddam's hold on power. He has been careful to keep Iraqi war casualties to a minimum. 

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No matter how much some of the people may dislike Saddam, they fear and hate the regime of Ayatollah Khomeini more. The government probably will call up students this summer for military training but release them for school in the fall. 

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Saddam's cult of personality could be a potential problem for the Ba'th Party. Ba'thist ideologues already resent Saddam's effort to promote himself at the expense of the party and could use it against him if they decide he is no longer indispensable. Saddam retains firm control over the security forces, however, and will move quickly against any opponents. 

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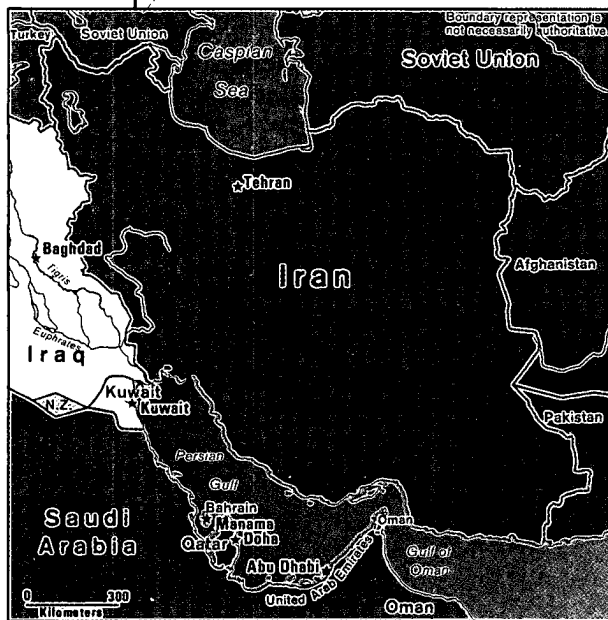
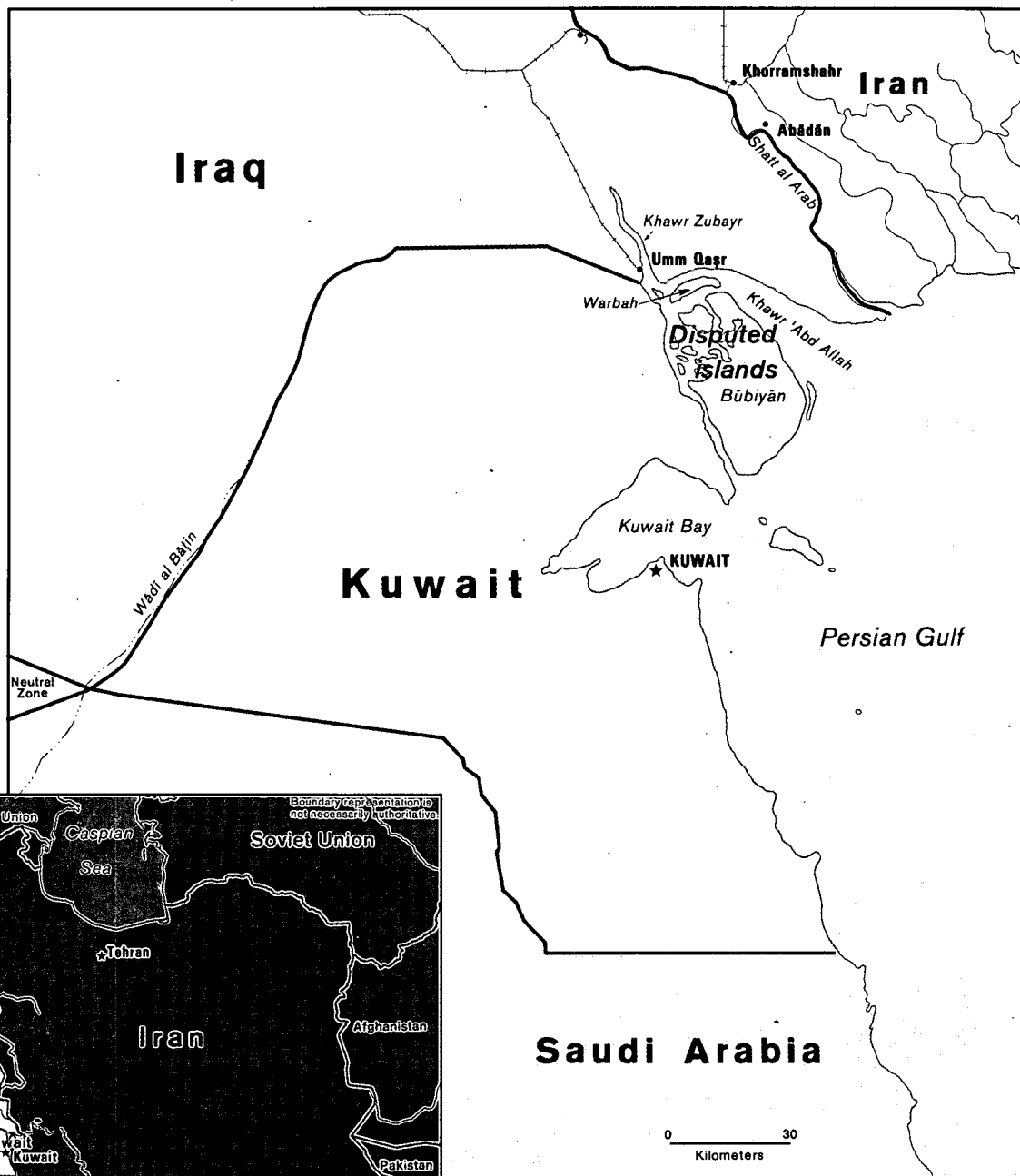
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KUWAIT-IRAQ: Tensions Over Disputed Islands

Kuwaiti officials are worried about new signs of Iraqi intransigence in settling claims to two disputed islands at the head of the Persian Gulf, [redacted] President Saddam Husayn, in a recent interview with Kuwaiti journalists, noted the presence of Iraqi troops on one of the islands and stressed that it was in Iraq's strategic interest to control both. The journalists were also told by other high-ranking Iraqi officials that Iraq has no territorial ambitions but will need control of the islands for the next 20 years. [redacted]

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Comment: Baghdad is building a major naval base at Umm Qasr harbor and has long insisted it needs the islands, which are at the entrance, to defend the base. [redacted]

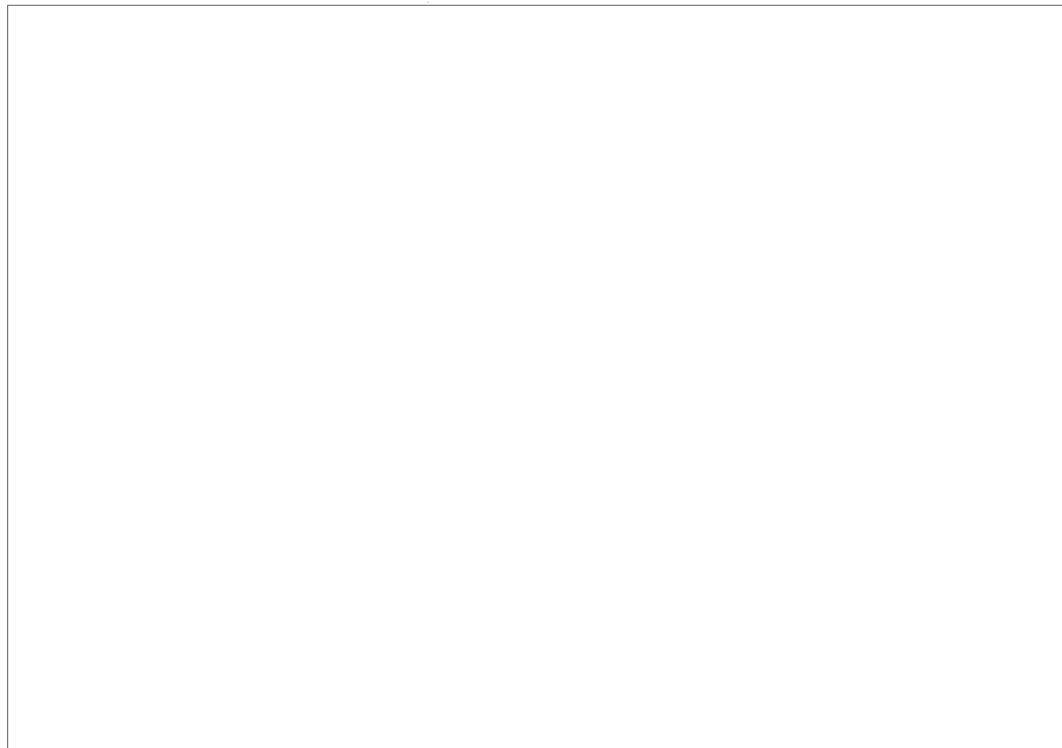
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[redacted] It will continue to support Iraq in the war with Iran by selling oil on Iraq's behalf and by urging Western Europe and Japan to help arrange a cease-fire and end arms sales to Iran. Kuwait nevertheless fears Iraqi territorial ambitions after the war with Iran ends. [redacted]

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DENMARK-NATO: INF Infrastructure Funds Withheld

The Danish parliament voted on Wednesday to withhold from NATO some \$4.8 million in payments for INF infrastructure development—approximately one-fifth of Denmark's scheduled contribution. The parties in the pro-NATO minority government abstained on the resolution, which was sponsored by the Social Democrats. Last week parliament passed a resolution directing the government to work toward banning nuclear weapons in Denmark under all circumstances.



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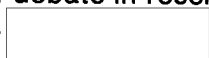
Comment: NATO could challenge the Danish decision, because legally the Alliance controls the funds that have been obligated for the infrastructure. If Copenhagen succeeds in denying the payment, it will not affect INF deployment schedules because Danish infrastructure payments are among the smallest in NATO. The Allies will regret the decision but will not want to create a crisis in the Alliance over the issue, as long as the Danes can find some means to compensate for these funds. The government, for example, could arrange compensation without the opposition's knowledge by rebating some funds it receives from NATO for other projects.



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WEST GERMANY: Political Controversy Erupts

The Kohl government has provoked a controversy by proposing legislation to grant amnesty to people accused of tax evasion resulting from campaign contribution improprieties. The proposal, which specifically excludes Economics Minister Lambsdorff, was put forward by the Bundestag caucuses of the governing parties without prior public discussion or consultation with the opposition Social Democrats. The Free Democrats in the coalition are divided on the issue, and the proposal was a major topic of debate in recent days at the Christian Democratic Union congress.



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Comment: There is virtually no chance the government will fall over this issue or that Chancellor Kohl will agree to withdraw the legislation. Nonetheless, the government's proposal—and the secrecy with which it was formulated—have caused more dissension within the governing parties than any other issue since the center-right coalition came to power in 1982. The government's handling of the issue could do long-term damage to the morale of the Christian Democratic and Free Democratic Parties as well as to the Kohl government's public standing.



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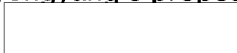
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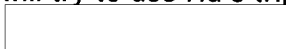
CHINA-NORTH KOREA: Hu Yaobang's Visit

The visit by Chinese party leader Hu Yaobang, which ended yesterday, clearly was meant to counter strains caused by Beijing's warming relations with the US and Japan and by Kim Il-song's planned summit in Moscow. Press reporting indicates that Kim displayed unusual hospitality and gave repeated pledges of friendship. Hu matched these with criticism of US troops in South Korea, contacts with Kim's son Kim Chong-il and the North Korean military, and strong support of P'yongyang's proposals for confederation and tripartite talks.



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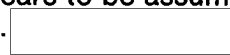
Comment: Hu probably helped assuage North Korean concerns about Chinese intentions following President Reagan's visit to Beijing. When Kim is in Moscow, he will try to use Hu's trip to extract greater assistance from the Soviets.



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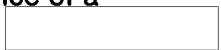
CAMEROON: Time Running Out for Biya

The US Embassy reports that President Biya is rapidly losing support as criticism of his indecisiveness increases, following the coup attempt last month. Biya's continued absence from public view is contributing to the general impression of weakness and is prompting talk about possible successors. Lack of information about the trials and executions of coup plotters now taking place adds to political uncertainty. The Embassy says the military appears to be assuming greater responsibility for governing the country.



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Comment: Loyal Army officers who rescued Biya last month may now be discussing how long they can allow the political drift to continue. The Army leadership may decide there is no choice but to force Biya's resignation or remove him from office, lest the appearance of a leadership vacuum tempt younger officers to move first.



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In Brief



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Americas

— **Honduras** yesterday declared **Nicaraguan** Ambassador persona non grata . . . in reaction to helicopter shootdown on Tuesday . . . Honduran armed forces on alert but unlikely to retaliate . . . Tegucigalpa probably will strengthen border forces. 

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— **Soviet** Navy task group that held exercises with Cubans departed Caribbean Thursday . . . probably bound for Mediterranean . . . included carrier **Leninrad**, largest, most capable Soviet ship ever sent to Caribbean. 

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Europe

— **Italian** Prime Minister Craxi has rejected resignation of three Social Democratic ministers . . . set off by allegations Social Democratic Budget Minister was member of outlawed P2 Lodge . . . parliament to debate allegations next week. 

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