



**Director of  
Central  
Intelligence**

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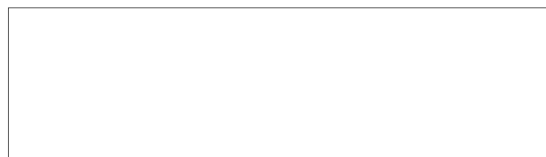
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# National Intelligence Daily

**Thursday  
2 April 1987**

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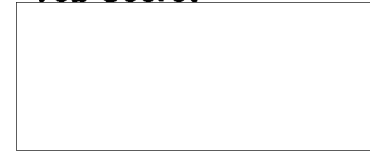
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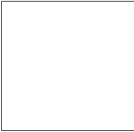


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**ITALY: President Calls for Confidence Vote**

President Cossiga's decision yesterday to rescind his acceptance of Prime Minister Craxi's resignation on 3 March is a last-ditch attempt to force the coalition partners to resolve their differences—as well as to put the onus on them for a premature dissolution of parliament. Cossiga referred the Craxi government back to parliament for a vote of confidence, which will probably take place next week after the Socialist Party congress ends. Cossiga's action follows the report on Tuesday by Chamber of Deputies President Jotti that it may still be possible to form a new five-party coalition government because most party leaders told her they want to avoid an early election. [Redacted]

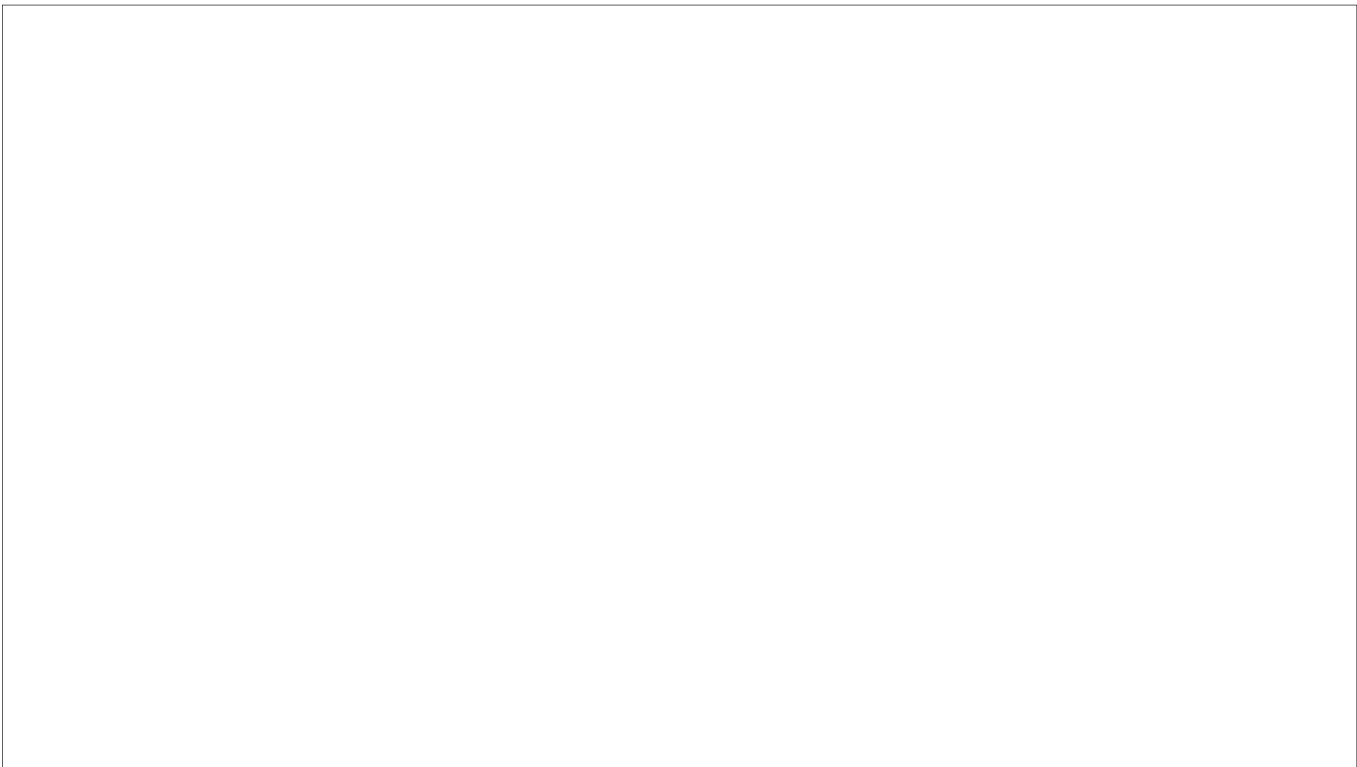
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**Comment:** Cossiga takes seriously his constitutional obligation to ensure that parliament completes its full term and thus probably wants party leaders to take direct responsibility for an early election. Cossiga may also hold a slim hope that the Socialist and Christian Democratic fears of being embarrassed by an open confidence vote will force them to resolve their differences. In the absence of an accord, Craxi will almost certainly become the first postwar Prime Minister to fall by an open vote of confidence, although the Christian Democrats will risk losing voter support by bringing down the popular coalition. [Redacted]

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**SOUTH AFRICA: Rightwing Election Coalition Fails**

The failure of South Africa's rightwing parties to agree to an electoral coalition probably kills their hopes of gaining enough seats to become the official opposition in parliament. The Conservative Party and the ultraright Herstigte National Party nominated separate slates of candidates ~~Tuesday~~ for the 6 May election. The two parties will now compete against each other in more than 70 of 166 constituencies. The Conservatives currently hold 18 seats in parliament; the Herstigte Party has one.

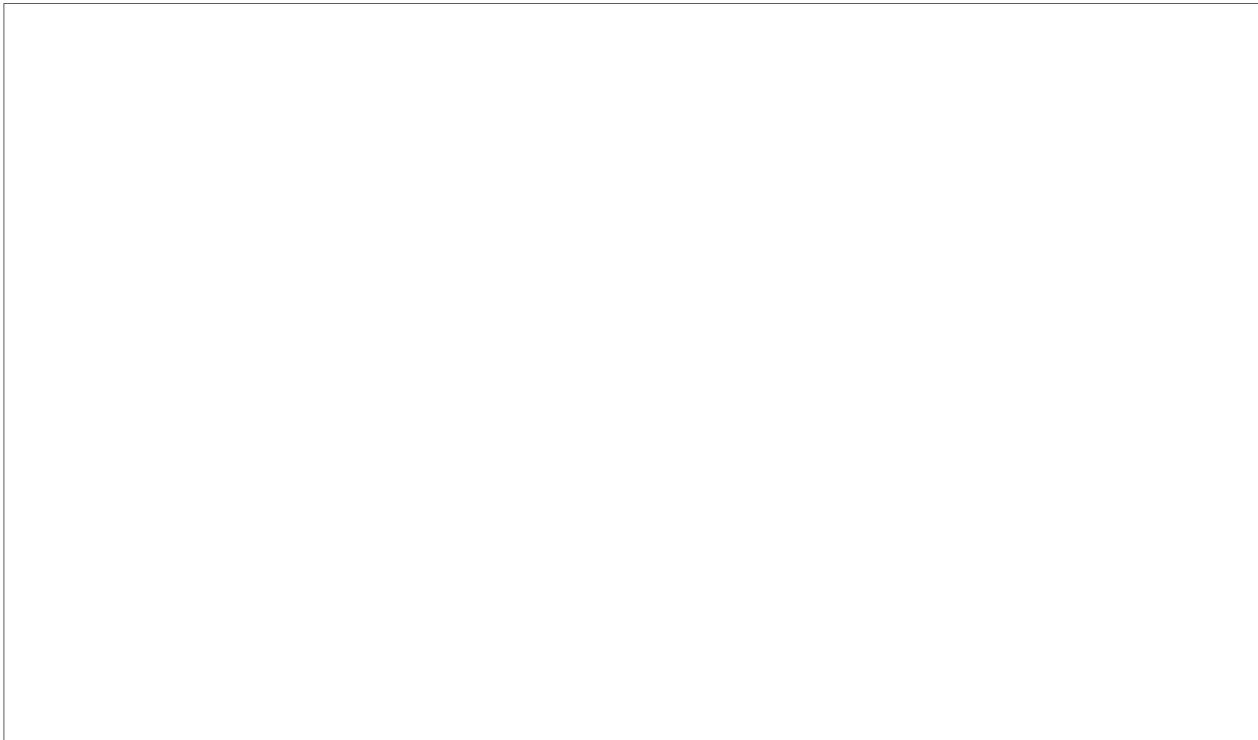
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**Comment:** The collapse of negotiations probably was due in part to deep personal animosities between the parties' leaders and to the Conservatives' insistence on dominating any coalition. The Conservatives apparently hope to overpower the Herstigte Party at the polls and emerge from the election as the only viable rightwing party. Limited cooperation at the local level is still possible, and the right wing is likely to make small gains in the voting. But the ruling National Party, which had expected a stronger challenge from the right, now appears more concerned about the new independent movement that seeks more rapid reform.

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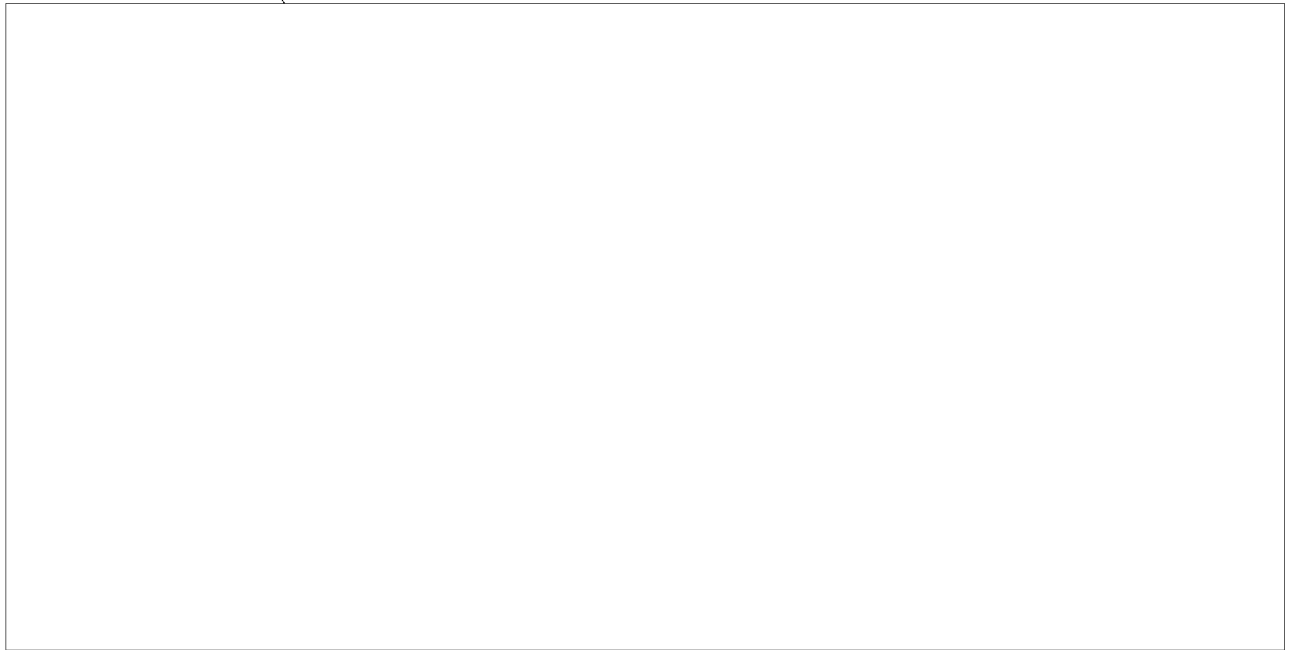
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**SOUTH KOREA-US: Problems With Technology Agreement**

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South Korea is expressing serious reservations about a US-proposed memorandum of understanding on technology security, according to the US Embassy in Seoul. The Foreign Ministry has raised objections to the proposal because it allows the US to determine which technologies are to be controlled and, in addition, allows the US to restrict unilaterally destinations of controlled technologies. The South Koreans want an informal agreement rather than a formal treaty and a US commitment to back South Korean membership in COCOM.

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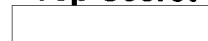
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**Comment:** Seoul has delayed concluding an agreement since 1984, in part because of its concerns that the agreement cuts exports. Even if Seoul overcomes its reservations and concludes the MOU this spring, as Foreign Minister Choi implied recently, implementation most likely will be subject to further negotiations.



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**SAUDI ARABIA: Tension Between Religion, Business**

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Islamic strictures against Western banking practices, especially the payment of interest, have created frictions between religious leaders, the government, and businessmen in Saudi Arabia. King Fahd yesterday, in an effort to appease bankers, ordered that disputes over banking debts will no longer be heard by religious courts but will be prosecuted by a special committee of the Saudi Monetary Authority, according to the US Embassy in Riyadh. [Redacted]

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[Redacted] Businessmen are pressing Riyadh to liberalize banking practices and to undertake decisive measures to spark Saudi Arabia's recession-bent economy.

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**Comment:** [Redacted]

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[Redacted] Unless officials persuade religious leaders that interest on "socially useful" loans is vital to the well-being of the Kingdom and consistent with Islam, lending activity and business prospects will probably remain moribund, placing a greater burden on the national budget as the primary engine of growth. [Redacted]

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[Redacted]

**DOMINICAN REPUBLIC-CUBA: Increasing Ties**

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Dominican President Balaguer probably is resisting Cuban pressure to renew full diplomatic relations despite the recent flurry of cultural and commercial contacts. According to the US Embassy in Santo Domingo, in February the Secretary for Sports made the first cabinet-level visit to Cuba since President Castro came to power; he signed a sports exchange pact and accepted a longstanding Cuban offer to build a technical school. Havana reportedly also requested landing rights for Cuba's state-run airline. Balaguer recently said publicly that the Dominican Republic's dependence on the US will prohibit a restoration of full diplomatic relations with Cuba. [Redacted]

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**Comment:** The recent exchanges probably reflect Balaguer's pique over large cuts in US economic aid and in the sugar quota, as well as the perceived lack of US support on Santo Domingo's external debt problem. He may grant a few new concessions to Castro in order to press Washington for increased assistance. [Redacted]

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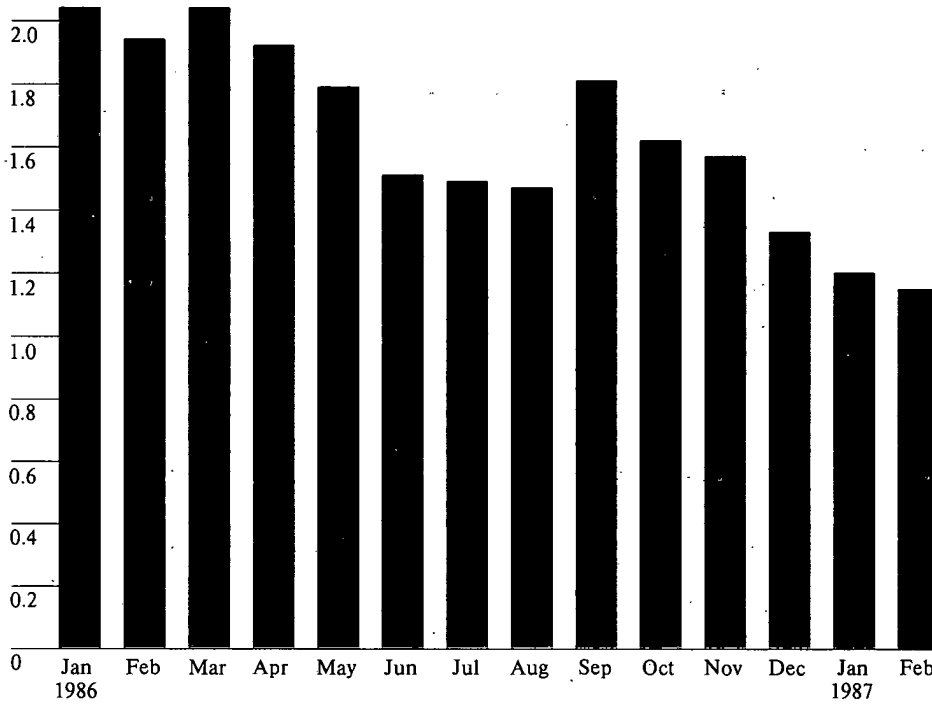
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### World Coffee Prices

*US \$ per pound*

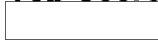
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**CENTRAL AMERICA: Impact of Lower Coffee Prices**

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Lower coffee prices in Costa Rica, Honduras, El Salvador, and Guatemala this year will further limit the region's modest economic growth and increase the political costs of stabilization measures. Prices are one-half what they were last year and may cost the four countries \$500 million in lost export earnings, according to US Embassy [Redacted] El Salvador, which receives 60 percent of its export revenues from coffee, expects to lose \$200 million, [Redacted] and Honduras could lose \$80-120 million. Lower tax revenues from coffee exports are already forcing major budgetary revisions, according to Embassy reports. San Salvador's revenue from coffee export taxes may be slashed by 50 percent, causing the 1987 budget deficit to double.

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[Redacted]

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**Comment:** The gloomy outlook for Central America's most valuable export will make US economic support even more crucial this year and generate requests for additional US economic aid or relief from the cuts in sugar quotas. In any case, growth prospects are dim and growing budget deficits will increase inflationary pressures. Lower hard currency earnings will also complicate debt servicing and may encourage a greater reliance on import and foreign exchange controls, which will also inhibit growth. The political risks of implementing needed stabilization policies such as planned exchange rate reform in Guatemala will also become greater. And lower revenues probably will result in reduced spending on already neglected infrastructure and social programs.

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In Brief

Middle East



— Soviet commercial delegation—postponed during US-Kuwaiti talks on tanker protection—now in Kuwait . . . may agree to lease three tankers to transport Kuwaiti oil . . . will not discuss protection agreement, according to US Embassy in Moscow.

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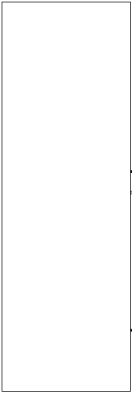
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— Egypt concerned Libya may hijack Egyptian aircraft to force Cairo to return C-130 and helicopter defectors flew to Egypt in March . . . security measures increased . . . President Mubarak not likely to return aircraft soon.

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Europe



— Turkey, Greece taking conciliatory measures in Aegean, although dispute unresolved . . . Turkish forces now in normal readiness . . . Greek forces in high readiness, but no longer activating reserves . . . demobilization expected soon.

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— Yugoslav parliament has amended wage law that provoked strikes, regional protest . . . law still links wages to productivity but relaxes wage constraints for some industries . . . gives regime breathing room without appearance of backing down.



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Americas



— Surinamese cabinet resigned Monday, as scheduled . . . ~~US Embassy reports~~ Head of Government Bouterse likely to enlarge cabinet, reappoint some ministers, add others from traditional parties . . . cabinet likely to remain moderate, powerless.

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East Asia

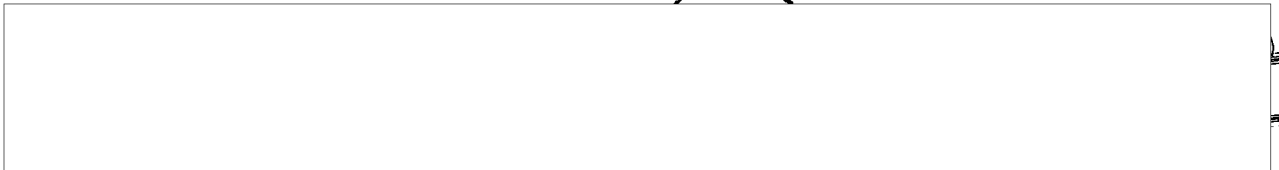


— Recent release of kidnaped Japanese businessman allows Japanese-Philippine relations to return to normal . . . Tokyo to lift travel warnings, may resume aid negotiations soon . . .

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Africa



— Libyan-backed dissident group reportedly planning terrorist actions against French, US personnel in Niger . . . Libyans active with similar groups in past . . . local security forces spread thin, but French aware of threat.

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**Nicaragua: Direct Costs of Sanctions***Million US \$*

	1985 <sup>a</sup>	1986	1987 <sup>b</sup>
<b>Total Losses</b>	<b>35</b>	<b>43</b>	<b>7</b>
Export Losses	21	27	4
Beef	5	8	N/A
Sugar	7	4	N/A
Bananas	3	8	N/A
Aeronica	3	3	N/A
Seafood	2	3	N/A
Tobacco	1	1	N/A
Import Losses	14	16	3
Machinery and chemicals	10	12	N/A
Other	4	4	N/A

<sup>a</sup> Embargo phased in beginning 7 May 1985; costs are estimated net foreign exchange losses.

<sup>b</sup> Estimated losses through February 1987.

N/A = Not Available.

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**Special Analysis**

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**NICARAGUA-US: Coping With Economic Sanctions**

[Redacted]

***Trade disruptions and the diversion of financial and managerial resources to circumvent US economic sanctions are putting additional pressure on the already staggering Nicaraguan economy.*** [Redacted]

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In the 23 months sanctions have been in effect, they have cost Managua directly about \$85 million in lower export earnings, more expensive imports, and new middleman fees. [Redacted]

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[Redacted] Nicaragua has not found new customers for much of what it previously sold to the US, and higher transportation costs have cut into foreign exchange earnings for those goods the Sandinistas have been able to sell elsewhere. [Redacted] Managua pays, on average, an extra 25 percent to buy sanctioned goods legally through US subsidiaries in third countries or illegally from the US market. [Redacted]

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Indirect costs have also been heavy, although harder to quantify. Evasion of US sanctions requires considerable bureaucratic attention, limiting Managua's ability to respond to other issues. [Redacted]

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[Redacted] shortages of US-produced spare parts, machinery, and agricultural chemicals have hurt production, adding to triple-digit inflation. [Redacted]

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Managua is using increased foreign support to finance these purchases. The USSR and the East Europeans have increased economic aid in the last two years and increased some hard currency assistance designed to help offset the embargo. Most aid, however, is in the form of trade credits for the purchase of Soviet and East European goods. As a result, the Sandinistas increasingly have had to turn to private sympathetic groups and individuals in the West for additional hard currency funding. [Redacted]

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**Special Analysis**

**MEXICO:**

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**Dissidents Plague Ruling Party**

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*The Movement for Democratic Renovation (MRD), a leftist faction within the ruling Institutional Revolutionary Party (PRI), continues to defy the party's efforts to stifle its demands for internal party reform. At the recent party congress, party leaders firmly rejected the MRD's proposals, but faction members have vowed to continue their efforts. If the movement gains momentum, the next Mexican president—in an attempt to co-opt the group—may adopt some of its less controversial proposals, possibly giving a more nationalistic tilt to future government policy.* [Redacted]

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Faction leaders used the party congress to present their demands even though the gathering is traditionally a forum for rallying around the PRI leadership and reaffirming party loyalty. One of the group's leaders, Cuauhtemoc Cardenas, published his criticisms of party decisionmaking in an open letter and accused the leadership of "antidemocratic and intransigent excesses." The leadership firmly rejected the arguments, and—stopping short of expelling Cardenas—served notice that he was in exile from the party. [Redacted]

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The faction has been a thorn in the party's side since it began publicly demanding party reform late last year and, more specifically, seeking a greater role in selecting the presidential candidate. The party leadership reacted by condemning the faction's leaders and threatening to detain their followers. According to a US Embassy source, President de la Madrid forced Cardenas and Porfirio Munoz Ledo, another leader of the movement, into temporary exile. Moreover, according to press reports, the party fired about 3,000 government employees in Michoacan State who were identified with Cardenas, presumably to show it was not making idle threats. [Redacted]

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**MRD on the Rebound**

Despite the party's initial success in silencing the MRD, the movement's actions at the party congress demonstrate its resiliency. Both Cardenas, a former governor of Michoacan State, and the faction's coleader, Munoz Ledo, a former UN Ambassador, are nationally known, and their membership and commitment lend the movement credibility. [Redacted]

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The faction also appears to be revitalizing its efforts to broaden its base of support. [Redacted]

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[Redacted] It is also stressing proposals likely to be less threatening to the President and party leaders. For example, it is calling for broader economic cooperation with the USSR and Eastern Europe [Redacted]

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**Prospects**

The recruitment efforts may increase support for the faction but not enough to give it much say in choosing the next president, and candidates supporting the movement at this time would almost certainly destroy their chances to succeed de la Madrid. Nonetheless, many party members not now linked to the MRD sympathize with Cardenas, and some, including younger party members, may support his cause in the future. Even some conservative elements object to the leadership's hard line against the dissidents. [Redacted]

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PRI officials may find it difficult to take additional steps against the faction if it avoids another direct assault on the President and if it becomes identified with such potentially popular nationalistic views as debt repudiation or more independent foreign policy. After a successor to de la Madrid is named and the new administration is in place, some of the losers in the presidential process may see the faction as a way to regain some power or position. If the MRD begins to attract this support, the next Mexican administration may reflect the faction's more nationalistic and potentially anti-US sentiment.

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**Special Analysis**

**BRAZIL:**

[Redacted]

**Reprocessing and Nuclear Safeguards**

*Brazil's announcement in December that it had mastered laboratory techniques for producing plutonium raises questions about international safeguards on a US-supplied research reactor and adds to earlier concerns about Brazilian intentions to ignore safeguards.* [Redacted]

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[Redacted] the Brazilian Institute for Energy and Nuclear Research is conducting research on spent-fuel reprocessing. [Redacted]

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[Redacted]

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Brazilian officials recently told the US that the separated plutonium came from heart pacemakers and, in another discussion, claimed that the press had misquoted its source and also that these tests were simulated and did not involve irradiated material. The IAEA, however, told the US last month that Brazil declared irradiation of some nuclear material in 1985 and 1986 at the IPEN research reactor [Redacted]

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**Brazil's Reprocessing Capability**

Brazil's reprocessing facility consists of two parts, Celeste I and II. Celeste I is a small research laboratory and, because of its size, probably poses no proliferation threat. [Redacted]

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[Redacted]

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**Material Available for Reprocessing**

Brazil has three possible sources of irradiated nuclear material for reprocessing: IPEN-supported fuel-element fabrication projects for IEAR-1, the Navy, and the Army. Any fuel project materials irradiated in the IEAR-1 would be subject to both US and IAEA controls. Only the irradiation of replacement fuel for the IEAR-1 is sanctioned by and declared to the IAEA. [Redacted]

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[Redacted]

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**Outlook**

Brazil appears to have successfully reprocessed at least some irradiated material at IPEN from the IEAR-1, which is a violation of both IAEA and US safeguards agreements that require prior notification and mutual consent to reprocess US-furnished or indigenous material irradiated in a US-supplied facility. [Redacted]

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Aware of its legal obligations, Brasilia, at least in diplomatic channels, seems to be distancing itself from the reprocessing claim, probably to discourage increased scrutiny of IAEA-safeguarded facilities and nuclear materials. Increased surveillance of IAEA-safeguarded research facilities, notably the IEAR-1, probably would not deter Brazilian nuclear officials but would make covert irradiation and reprocessing more difficult. [Redacted]

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**INR Comment:** INR disagrees that there is enough information at this time to determine that Brazilian claims of reprocessing success indicate intentions to ignore IAEA safeguards. It is quite possible that the Brazilian reprocessing capability achieved early last year was accomplished using materials declared to the IAEA and subject to its provisions. [Redacted]

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[Redacted] At the same time, even if IAEA requirements are met, the reported irradiation could have implications for the US stemming from the "no military use" provision of the US-Brazil Bilateral Agreement under which the reactor was supplied. [Redacted]

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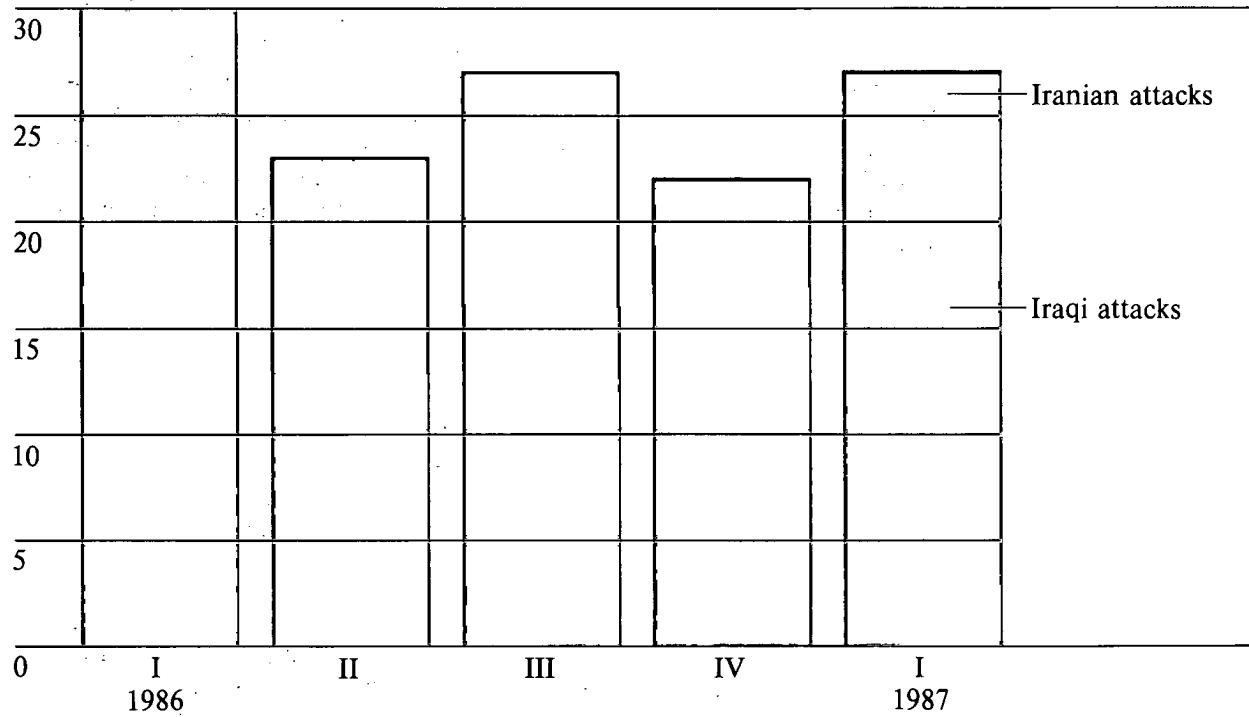
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### Ship Attacks in the Persian Gulf by Quarter

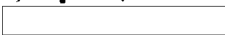
*Number of attacks*



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**Special Analysis**

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**INTERNATIONAL:**

**Status of Tanker War in Persian Gulf**



***Iranian and Iraqi attacks this year on shipping in the Persian Gulf have had little effect on oil exports, movements of arms, or other cargoes in the Gulf.***

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There have been at least 17 Iraqi airstrikes against merchant vessels since the beginning of the year, equal to the number in the peak final quarter of 1986. Most of the ships hit have been shuttle and customer tankers moving crude oil from Iran's Khark Island terminal. During the same period, Iran made 10 attacks on shipping—most often using naval surface vessels against tankers in Kuwaiti trade—as compared with 15 in the peak first quarter of 1986.

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The impact of the 27 attacks on Gulf tanker traffic during the past quarter is small, affecting less than 3 percent of the 1,000 tankers that have entered the Gulf during the period. Iraq's attacks lacked the intensity required to disrupt Iranian oil exports moving on shuttle tankers from Khark Island. Despite its losses, Iran maintained shuttle capacity above its needs by taking advantage of low charter rates and used-ship prices on the depressed tanker market and by judicious use of salvage and repair services available in the Gulf.

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As of 27 March, Iran's shuttle fleet included at least 10 operational tankers, well above the number required to move Iranian exports at their February level of 1.5 million barrels per day. Another 10 tankers, newly purchased or chartered, were being prepared for service. It is likely, in addition, that many of the 14 shuttle tankers currently out of service following Iraqi attacks can be made serviceable again.

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Iran's campaign against tankers in the Kuwaiti trade, under way since September 1986, has failed both to diminish Kuwait's oil exports and to discourage Kuwaiti participation in transferring Soviet arms to Iraq. The cost of transporting and insuring exports of Kuwaiti and other Arab oil from the Gulf has risen only slightly. The tanker attacks and Tehran's parallel program of stopping ships to inspect for goods destined for Iraq have led only to an increase in the activity of Soviet and NATO warships in the Gulf.

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