



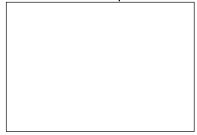
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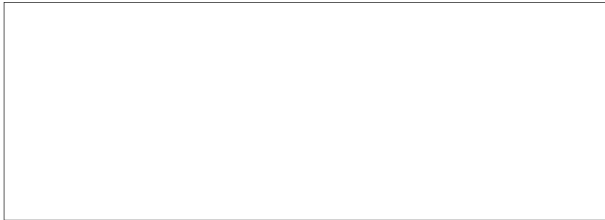


# National Intelligence Daily

**Tuesday  
14 April 1987**



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**EC-MIDDLE EAST: Promoting Peace Conference**

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**Belgian Foreign Minister Tindemans, acting in his capacity as EC President, begins a tour of three Arab capitals today to promote a Middle East peace conference, but regional divisions and the waning enthusiasm of some EC partners limit his prospects for success.** 

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Tindemans will visit Egypt, Jordan, and Saudi Arabia during his four-day swing. He does not plan to visit Syria, although Belgian officials have not ruled out future travel there, according to the US Embassy in Brussels. In addition to his current tour, Tindemans also plans to meet with Israeli Prime Minister Shamir and Soviet officials later this spring.




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Belgian officials acknowledge that Syria remains essentially hostile to a conference and that this, together with divisions within the Israeli Government, may scuttle any convening of a conference. According to diplomatic reports, however, Belgian officials on balance remain optimistic. They believe that Egypt, Jordan, and Israel are moving closer to agreement on a conference and that recent Soviet moves to normalize relations with Israel could improve prospects for a conference.



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Other West Europeans are more pessimistic, according to diplomatic reports  Netherlands and West German officials believe the EC should narrow differences among the key parties before moving to convene a conference. The UK, which has had no relations with Syria since November, opposes high-level EC contacts with Damascus. The Twelve nonetheless continue to stand by their call in February for a UN-sponsored Middle East peace conference.



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**Comment:** Tindemans probably underestimates the obstacles to progress toward holding an international conference, although the idea appears to have taken hold. He may not appreciate the extent of opposition within Israel's coalition government, the difficulty of resolving the question of Palestinian representation, and the extent of the divergent views among the various parties over the exact role of a conference. Moreover, many EC members will want solid assurances of success before committing the Community's prestige to a conference and are likely to be sensitive to US views.



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USSR-EGYPT:

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**Military Debt Agreement**

***Egypt and the USSR have reportedly determined how Cairo will repay its military debt, removing the key obstacle to improving economic relations.*** [Redacted]

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An official of the Egyptian Economics Ministry who was a member of Cairo's delegation to Moscow last month has told the US Embassy in Cairo that the Soviets made two major concessions: the exchange rate on the outstanding military debt was set at a level substantially lower than it would have been if the current Egyptian pound-ruble rate were used, and all past interest on the debt was forgiven. [Redacted]

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[Redacted] the Egyptians may have offered to reopen Soviet Consulates in Alexandria and/or Port Said, but there is no confirmation of such an agreement. [Redacted]

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**Comment:** Resolution of the military debt issue would open the door for increased bilateral trade, renewed USSR project assistance, and a resumption of Soviet military equipment sales to Egypt, all of which were discussed in Moscow last month. [Redacted]

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For the Soviets, political considerations evidently outweighed economic factors in reaching this accord. It offsets some of the embarrassment over the eviction of Soviet advisers from Egypt in the early 1970s, improves prospects for closer relations with the country the USSR regards as a strategic prize in the Middle East, and may complicate US-Egyptian relations. [Redacted]

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Moscow will finally collect on some of its loans after a frustrating, decadelong hiatus in payments. Forgiving the interest on Egypt's debt, however, is a sensitive issue to the Soviets, who have recently been seeking to collect on past military sales to such other regional clients as Syria and Libya. Unlike the Egyptian press, Soviet media have been silent on the cancellation of interest. [Redacted]

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In repairing economic relations with Moscow, the Egyptians are not seeking an alternative to Western assistance. President Mubarak nonetheless will be able to point to a more "nonaligned" stance to defuse domestic criticisms that he is too subservient to the US. He also enhances his prestige as a leader who can bargain hard with a superpower. Improved relations with the USSR may facilitate Egypt's reentry into the Arab fold. [Redacted]

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Increased trade with the USSR could provide much needed spare parts for Soviet-origin Egyptian military equipment, which still represents the bulk of Egyptian materiel. It could also offer Cairo a market for low-quality consumer goods otherwise unsalable. [Redacted]

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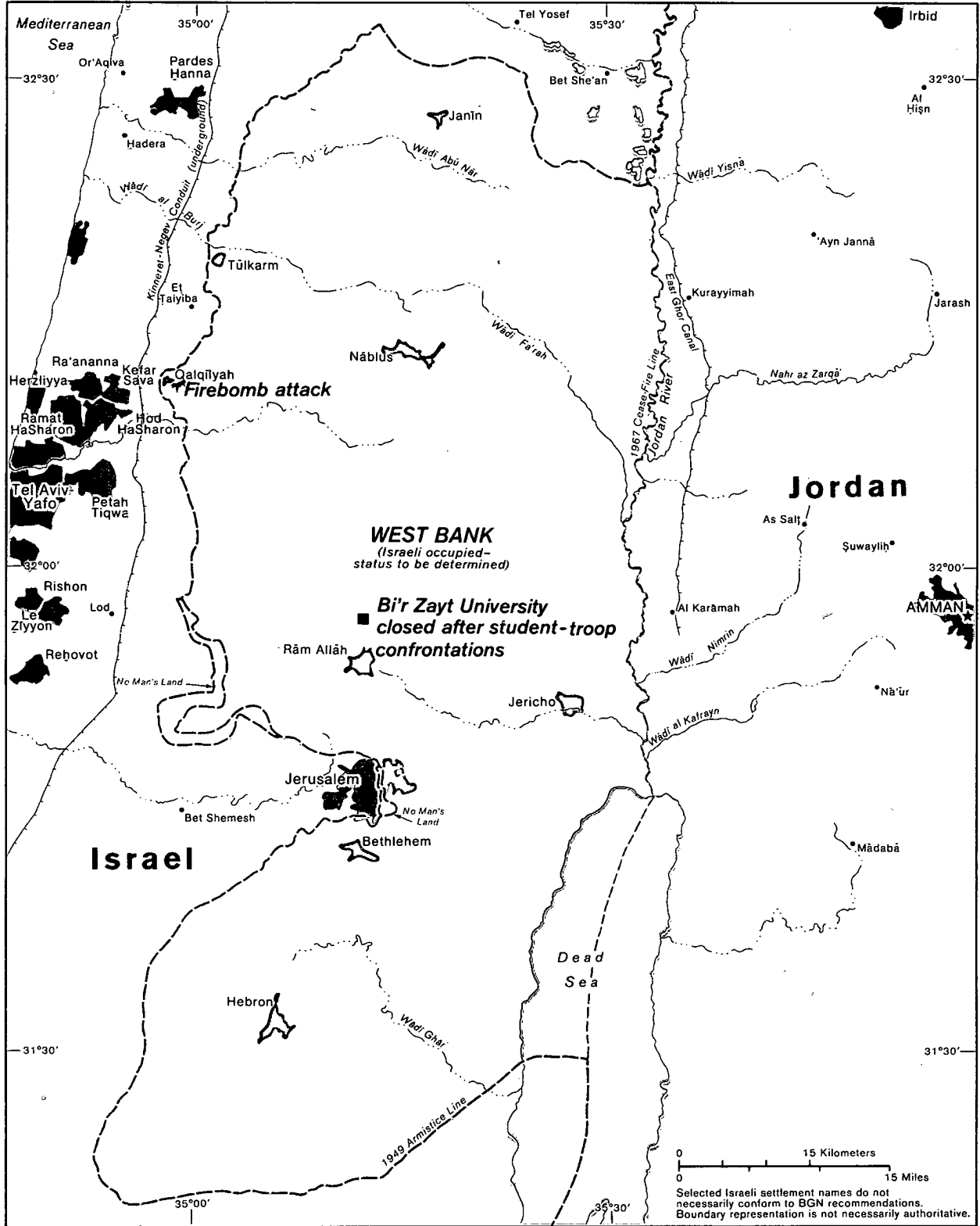
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### Escalating Violence on the West Bank



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ISRAEL-  
WEST BANK:

**Escalating Violence**

***Defense Minister Rabin will order tougher security measures on the occupied West Bank following increased violence against Jewish settlers; he will, however, reject demands by the settlers for a major expansion of settlement activity and an indiscriminate security crackdown.*** [Redacted]

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A firebomb attack against an Israeli civilian vehicle near Qalqilyah on Saturday evening resulted in the death of one family member and wounds to the other four. Following that attack, some 200 Israeli settlers retaliated by setting fire to Arab cars and damaging private homes before Israeli security forces succeeded, with difficulty, in enforcing an uneasy curfew. According to Israeli media, Bir Zayt University north of Jerusalem yesterday was ordered closed for four months after one Palestinian student was killed and seven were wounded during confrontations with Israeli troops. [Redacted]

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According to the US Embassy in Tel Aviv, Jewish settlers and rightwing political figures attribute the escalating violence to the activist pursuit of Arab-Israeli peace talks by Foreign Minister Peres and to Rabin's allegedly "soft" security policies. The hardliners have called for retaliatory measures—including establishment of a large number of new settlements and closure of Palestinian media—and abandonment of Peres in his advocacy of a Middle East conference. [Redacted]

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According to the US Embassy, the Israeli Cabinet devoted most of its meeting on Sunday to discussing the Qalqilyah incident and later issued a statement noting that authorized security forces—not vigilantes—would take the necessary steps to restore order. Israeli troops have arrested several Palestinian suspects, but the identities of those responsible for the firebombing remain unknown. The US Consulate in Jerusalem reports that Israeli authorities expect further terrorist attacks during Passover, the Palestine National Council meeting scheduled to convene in Algiers next Monday, and Israel's independence day on 14 May. [Redacted]

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**Comment:** The Qalqilyah attack—only a few miles from Tel Aviv and directed at a civilian family—has provoked predictably deep public outrage, which Israeli hardliners are attempting to exploit to discredit Peres and Rabin, the two senior Labor Party leaders. In these circumstances, Rabin probably sees no alternative but to order tougher security measures, including increased demolition of the homes of suspected terrorists, more frequent, prolonged curfews, and more aggressive patrolling of the West Bank by reinforced security units. By such actions, Rabin and Peres will aim to restore order while undercutting the hardliners' demands, thereby avoiding a further escalation of local tensions and a souring of prospects for early movement in the Arab-Israeli peace process. [Redacted]

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ISRAEL: *no*

**Supply-Side Budget Approved**

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***The Knesset, Israel's parliament, has responded to pressure from powerful interest groups by approving an overall budget that calls for a reduction in taxes but increases expenditures to \$25 billion.*** [Redacted]

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**Comment:** Spending is likely to climb even higher than \$25 billion because politically sensitive budgets for such sectors as health, education, and defense have not been resolved. Even under the government's optimistic assumption that a 4-percent economic growth rate will help to increase revenues, Tel Aviv would face a budget deficit of at least \$875 million for the fiscal year that began on 1 April. [Redacted]

25X1

A large deficit threatens to undermine the package of tax and capital market reforms included with the budget as well as the progress Israel has made toward stable growth. Without tax hikes, the coalition government most likely will have to increase public borrowing, a prospect that could increase an inflation rate now averaging 20 percent annually. Prices are already under considerable pressure from increased consumer credit and minimum wage legislation.

[Redacted]

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With the next election scheduled for November 1988, Labor and Likud leaders apparently are unwilling to risk voter displeasure by imposing controversial fiscal restraints. [Redacted]

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**SOUTH KOREA:**

**No Constitutional Revision**

***President Chun's early announcement that he has abandoned efforts to revise the constitution appears designed to capitalize on opposition disarray.*** [Redacted]

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[Redacted]

[Redacted]

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Chun's political opponents are blasting the announcement. According to the US Embassy, Kim Young Sam, coleader of the new party, believes Chun hopes to stymie the new political organization by keeping Kim Dae Jung—its other leader—under house arrest and preventing him from seeing other dissidents. Domestic media have criticized both the government and the opposition for failing to compromise on constitutional reform. [Redacted]

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**Comment:** The announcement seemed to surprise both Chun's supporters and his opponents, who had expected the constitutional revision process to drag into the summer. Chun may have calculated that damage to the opposition in the wake of its acrimonious split would more than offset public criticism of his government for abandoning constitutional revision. [Redacted]

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The President may also judge that uncompromising tactics, such as keeping the old Constitution, and other tough measures like Kim Dae Jung's "indefinite" detention will thwart opposition efforts to renew the challenge. Chun's remarks citing national security needs and the Olympics as paramount concerns in the period before he steps down suggest that the government is prepared to keep the lid on political protest. [Redacted]

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[Redacted]

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**Fiji**



**Dr. Timoci Bavadra**  
**New Fijian Prime Minister**

Age 52 . . . native Fijian, former physician and public health official . . . educated in Fiji and New Zealand . . . president of Fiji Public Service Association, one of the country's largest labor unions, from 1977-1985 . . . head of Fiji Labor Party since its formation in 1985 . . . lacks predecessor's imposing personality and social stature but is known for integrity, affability, and concern with average voter.

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[Redacted]

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**FIJI:**

**Election Upset**

[Redacted]

**The victory of Fiji's opposition coalition in the parliamentary election last week ends the 17-year rule of pro-Western Prime Minister Mara; the new government is likely to steer a neutral course as it seeks foreign investment.** [Redacted]

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[Redacted]

The opposition coalition—the Indian-backed National Federation Party and the multiracial Fiji Labor Party—won 28 of the 52 seats, according to press reports, defeating Mara's conservative Alliance Party. Dr. Timoci Bavadra, head of the Fiji Labor Party and coalition leader, will become prime minister and name his Cabinet in the next few days. The Alliance Party had been favored to win, but low voter turnout combined with heavy National Party voting in several key urban precincts to give the opposition coalition the edge, according to the US Embassy. [Redacted]

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[Redacted]

**Comment:** Bavadra will almost certainly be less supportive of ~~US~~ **WESTERN** interests in Fiji and the South Pacific than was Mara. Although coalition leaders have said they will ban port visits by ~~US~~ nuclear vessels and seek membership in the Nonaligned Movement, they have added that they will not permit the Soviets to open an embassy in Suva. The new government is also likely to take a more activist role in supporting a proindependence movement in French New Caledonia. [Redacted]

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The cohesion of the coalition—composed of disparate racial, social, and political elements—will be tested, and the Bavadra government faces the prospect of a formidable opposition headed by Mara. The coalition will probably stress its multiracial credentials to reassure native Fijians made uneasy by the victory of the ethnic Indian National Federation Party. [Redacted]

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Fiji's economy has recovered from its slump in 1985, but the new administration inherits a budget deficit equal to 5 percent of national output and a persistent trade deficit because of dependence on sugar and a few other low-priced agricultural commodities as exports. The new government has assured businessmen it will not nationalize any enterprise. It will continue to encourage desperately needed foreign investment. [Redacted]

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**EGYPT-ETHIOPIA: Bilateral Relations Improve**

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Discussions between Egyptian President Mubarak and Ethiopian Chairman Mengistu in Cairo last week improved the political climate between the two nations but left most substantive issues to a high-level joint committee. [Redacted] Ethiopian-Sudanese relations received high priority. The final communique affirmed the determination of Cairo and Addis Ababa to work together in exploiting waters of the Nile, strengthening trade, and increasing technical cooperation. Mubarak also agreed to visit the Ethiopian capital. [Redacted]

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**Comment:** Mubarak, who has been seeking to improve relations with Mengistu for several years, is probably satisfied that this first round of personal diplomacy ended harmoniously. The Nile waters issue is becoming more pressing as continuing drought threatens Egypt's water supply. [Redacted]

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[Redacted] Mengistu, who agreed to the visit somewhat reluctantly, may be exploring Egypt's ability to keep Sudan in line and trying to mitigate his country's political isolation in the Horn of Africa. [Redacted]

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**PHILIPPINES: Tensions Over Muslim Peace Talks**

Negotiations between Manila and Muslim rebels were suspended last week after the Muslims blamed the government for armed clashes in Zamboanga Province and charged that Manila had failed to keep its promise on full autonomy for all Muslim regions. Although a joint committee has been formed to investigate the fighting, press reports indicate tensions are rising as both sides increase their military readiness. Manila has deployed aircraft to bases around Mindanao

[Redacted]

25X1

**Comment:** Misuari probably is banking that the threat of new fighting before the legislative election on 11 May will force the government to reach a settlement. Although both sides are still talking about resolving autonomy issues peacefully and neither seems anxious to resume fighting, the military posturing increases the prospect that a new local incident could quickly escalate.

[Redacted]

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[Redacted]

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**LEBANON: Security Situation Again Deteriorating**

*12 April*

Two car bomb explosions in Christian East Beirut on ~~Sunday~~ and the sporadic recent attacks on Syrian forces in West Beirut, have led to heavy clashes along the Green Line between pro-Syrian Shia Amal fighters and Christian militiamen.

*reportedly*

[Redacted]

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Additional Syrian troop deployments inside the Shatila and Burj al Barajinah refugee camps have been postponed because of the security situation in West Beirut, and negotiations continue over a Palestinian withdrawal from positions outside Sidon to the refugee camps there.

[Redacted]

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**Comment:** The car bombs may have been planted by radical Shia militiamen to divert Syrian attention from the southern suburbs and the Palestinian camps, as well as to mark the 12th anniversary of the start of Lebanon's civil war. Attacks on Syrian forces in West Beirut by the Palestinians and their radical Hizballah allies are likely to intensify as the Syrians increase their harassment of Palestinian fighters inside the camps. The situation in Sidon may deteriorate further if Syria and Amal seek to increase pressure on the Palestinians to return to the camps.

[Redacted]

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In Brief

East Asia

[Redacted]

[Redacted]

Appointment of four reformist ministers demonstrates power of Premier Zhao, **China's** acting party chief, in face of increased conservative influence . . . new ministers are advocates of Zhao's economic reforms, support increased Sino-US cooperation.

*cu*

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Europe

*no*

**Turkey** formally applying for **EC** membership today, according to US diplomats in Brussels . . . application complicated by uncompetitive Turkish economy, skepticism of many EC members, likely resistance of **Greece** and others among Twelve.

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Two incidents at **French** nuclear installations over weekend . . . toxic uranium hexafluoride leak injured seven; liquid sodium leak at new fast breeder reactor may force shutdown . . . not expected to reduce support for nuclear program.

X

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**French** National Assembly elected former President Giscard to head prestigious Foreign Affairs Committee . . . allows him voice in foreign policy debates . . . raises profile as he eyes presidency of European Parliament.

X

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Americas

[Redacted]

Rightwing boycott of **Salvadoran** legislature ended **Friday** when one party defected from conservative ranks . . . still no agreement on renewal of crucial state-of-emergency legislation.

*on 12 April*

*cu*

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Africa

[Redacted]

[Redacted]

**Cameroon** *reportedly* has arrested 23 pro-**Libyan Chadian** rebels who were apparently preparing terrorist sabotage operations against Chad, . . . investigation likely to lead to further arrests, evidence of direct Libyan involvement.

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**Special Analysis**

OPEC:

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**Seeking To Regain Market Control**

X

***OPEC is likely to maintain an average oil price near \$18 per barrel this year because of increasing consumption, falling non-OPEC production, and a strong commitment by Saudi Arabia. The Saudis and the cartel overall still face significant challenges, however, including accommodating an increase in Iraq's production, maintaining producer discipline, and warding off measures by consuming countries—particularly the US—that work against OPEC interests. A failure by OPEC to handle producer-related problems would significantly increase the chance of a slide in oil prices this year.*** [Redacted]

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**This Year's Market Outlook**

Market prospects generally are working in OPEC's favor, as demand for OPEC oil is likely to be some 19 million barrels per day, some 1 million b/d above OPEC's average annual production ceiling. The cartel's strategy in setting its ceiling well below market demand has helped raise prices despite widespread cheating by members on quotas early this year. OPEC is facing a period of low seasonal demand, however, and must comply more strictly with quotas to avoid downward pressure on oil prices. [Redacted]

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**The Saudi Role**

Saudi Arabia's commitment to the accord has been the key element in maintaining prices. Despite Riyadh's denials that it has resumed the role of swing producer, Saudi production last month averaged 3 million b/d—30 percent below quota—while all other members except Iran and Ecuador produced at or above their quotas. Saudi willingness to play this role probably is due to the belief that market pressures will not be sustained much past next month. In addition, although Saudi revenues are below budget estimates, the kingdom believes it has more to gain from price stability, especially while other producers generally honor official prices. [Redacted]

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The Saudis fear that price volatility could add to domestic economic woes, increase the chances for unrest in Egypt, and perhaps provoke a confrontation with Iran. Saudi Arabia also is concerned that lower prices would add to pressure for a US oil import fee. Riyadh's opposition to such a fee was underscored this month when Oil Minister Nazir told several US Cabinet officers and members of Congress that Saudi Arabia would hope for an exemption if such a fee were imposed. [Redacted]

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[Redacted]

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If other producers begin to discount prices to maintain or increase market share over the next few months, Riyadh probably will reassess its production policy but might have a difficult time backing out of its de facto swing role. In this light, continuing Kuwaiti overproduction and recent reports of minor price discounting may signal a potentially serious challenge to the accord. [Redacted]

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**The Price Risk**

Iraq's increasing production is a delicate, difficult problem for OPEC. Baghdad is not a party to the quota agreement, and its export potential will increase by an additional 500,000 b/d this summer.

[Redacted]

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The Iraqi increase can probably be absorbed without undermining prices if other OPEC members—including Iran—abide by the assigned quotas. All members want to increase production, however, and will be extremely reluctant to cede an increasing share of the market to Iraq. Moreover, if other members continue to overproduce during the current seasonally weak period, prices could turn down well before the cartel's meeting in June. [Redacted]

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Saudi Arabia will have the difficult task of forging a compromise acceptable to all members. Working in favor of compromise is the mutual interest of all producers in protecting revenue levels, but a failure to work out some accommodations would increase significantly the chance of another slide in oil prices. [Redacted]

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Special Analysis

JAPAN:

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Implications of Local Elections

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***The political fallout in Japan from the ruling Liberal Democratic Party's lackluster showing in the local elections held Sunday further weakens Prime Minister Nakasone.***

[Redacted]

[Redacted]

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Japanese media paint the election results as a major defeat for Nakasone. The ruling party's loss of seats in local assemblies throughout Japan and its failure to recapture important governorships in Hokkaido and Fukuoka are being blamed on the sales tax issue. [Redacted]

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Nakasone's immediate task is to pass a budget—held hostage by the sales tax uproar—for the fiscal year that began on 1 April; his goal is to do so by 20 April, when lack of action will require another provisional budget. That timing also would permit Nakasone to unveil a new economic stimulus package before he arrives in Washington on 29 April. His admission before the budget is passed that a stimulus is required would give opposition parties an opportunity to demand that the entire budget be made more expansionary. [Redacted]

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The Prime Minister must make concessions. One possible step, delaying implementation of tax reform until fiscal 1988, would effectively uncouple that issue from the current budget. It also would allow politicians within Nakasone's party who have criticized the sales tax to vote for the new spending program. [Redacted]

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Nakasone needs at least one opposition party to accept a compromise in order to satisfy the dictates of political decorum. Without opposition participation, a vote to pass the budget would provoke an outcry and leave Nakasone open to additional criticisms. [Redacted]

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The Prime Minister appears to have enough support within the ruling party to withstand calls for his early resignation. All three of his would-be successors—party secretary general Takeshita, Finance Minister Miyazawa, and party executive board chairman Abe—are personally responsible for elements of his policy agenda; this makes it difficult for them to attack him openly over the local election results. [Redacted]

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**Special Analysis**

**PERU:**

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**Civilian-Military Tensions**

X

***Tensions between Peruvian President Garcia and the military have eased somewhat following congressional approval of Garcia's plan for a new defense ministry. Garcia's tactics in steamrolling the plan through the Peruvian Congress and then cashiering the Air Force commander for opposing the plan have nevertheless embittered many officers. Tensions are likely to rise again if Garcia does not consult the military on the armed forces' reorganization, particularly the selection of a defense minister.***

[Redacted]

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The President has until late September to fashion the new ministry, merging autonomous Army, Navy, and Air Force ministries into one. Garcia's spokesmen have said that he will seek congressional and military advice on the restructuring, but the legislation passed by the Congress gives him a free hand in charting the organization.

[Redacted]

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Garcia wants to establish civilian control over the military, reportedly believing that his legacy will be the institutionalization of democratic rule. He has publicly defended the move as necessary to facilitate cooperation among the three services, to eliminate costly duplication of effort, and to rationalize procurement.

[Redacted]

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The reorganization effort probably also reflects Garcia's concern that he must take advantage of his popularity before increasing violence and economic problems erode his support and restrict his ability to deal with other issues.

[Redacted]

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**Military Fears**

*reportedly*

Few military officers dispute the organizational merits of a unified defense structure, but many fear Garcia is moving to weaken the military's power and make it an instrument—through a defense ministry—of his party's control.

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The naming of a defense minister will be crucial in the short term.

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[Redacted]

**Outlook**

Garcia apparently believes his forceful handling of the defense ministry issue and his suppression of the Air Force barracks revolt have shown that he is in control.

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[Redacted] heavyhanded treatment of the Air Force, however, has alienated many officers in every service down to the middle and junior grades.

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[Redacted]

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The President has shown little inclination to compromise so far. He has not allowed the Air Force to back down gracefully from its minirevolt early this month

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