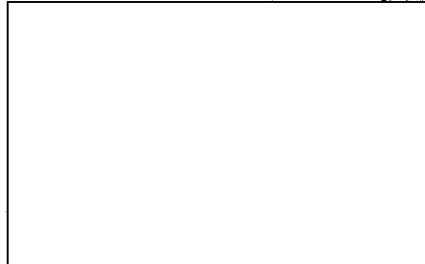


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Director of
Central
Intelligence

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National Intelligence Daily

Tuesday
8 April 1980

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CO NID 80-0831X

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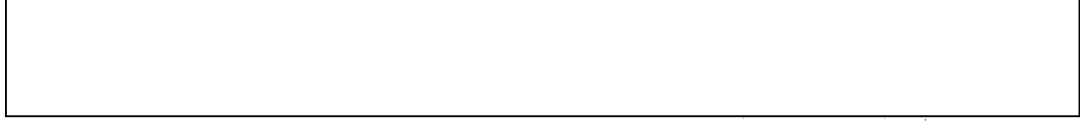
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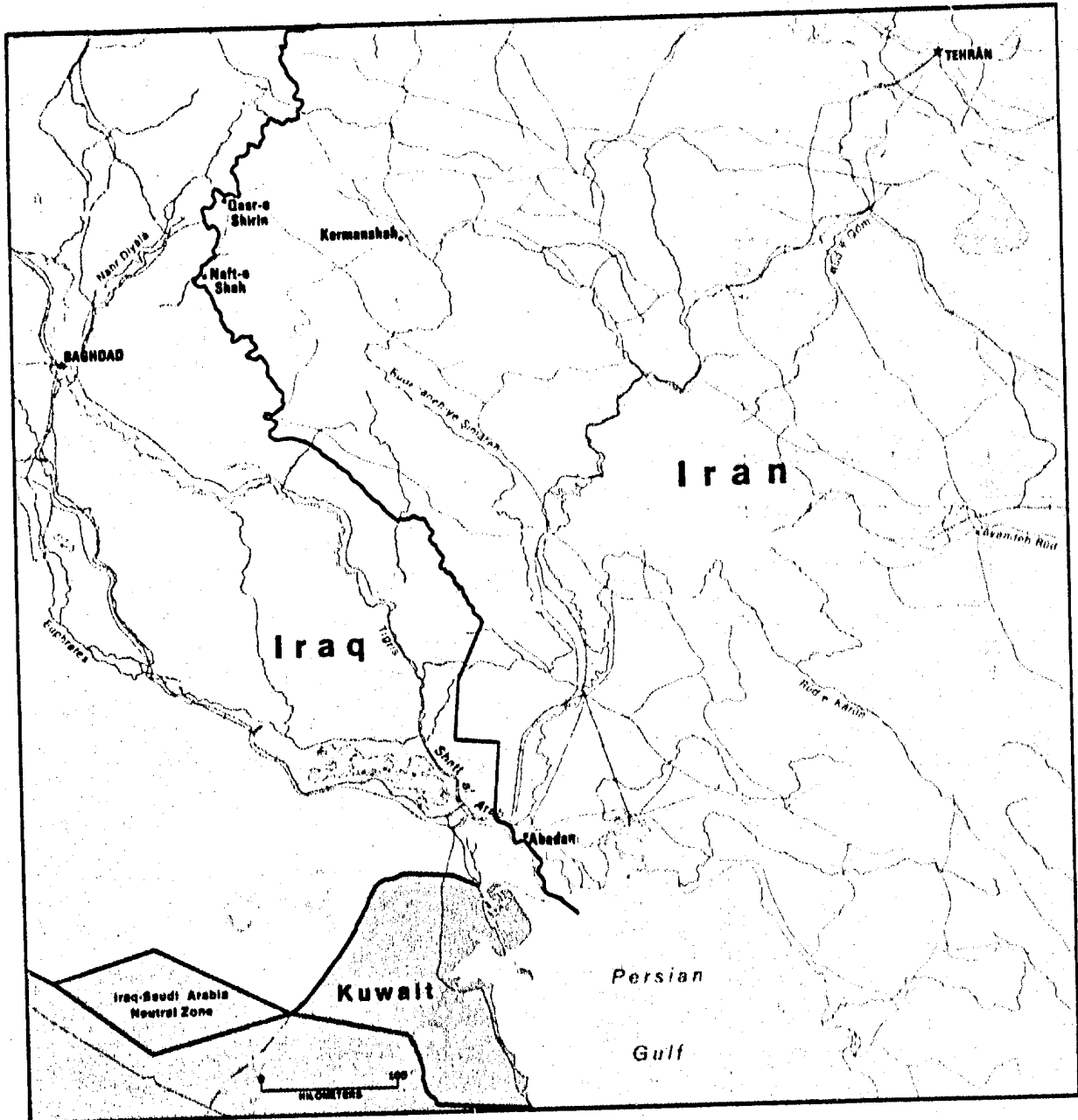


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SITUATION REPORT

IRAN

After several violent incidents, Iran appears on the verge of a complete diplomatic break with Iraq. [redacted]

Tehran announced yesterday that it was recalling all its diplomats from Baghdad. [redacted]

The latest decline in relations follows the attempted assassination of Iraqi Deputy Prime Minister Tariq Aziz on 1 April and a second terrorist incident in Baghdad on Saturday at the funeral for those killed during the attack on Aziz. Baghdad has moved rapidly to retaliate. [redacted]

Since the incidents, Iranian oil installations at Naft-e Shah and Abadan near the border with Iraq have been attacked. [redacted]

The Iranians also have blamed Iraq for the weekend attack on Iranian communications facilities near Qasr-e Shirin. [redacted]

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[REDACTED]

Intense Iraqi media attacks on Iran have stressed the theme of Persian hatred of Arabs, especially Iraqis. The Baathist leadership probably hopes that Arab nationalism will have greater appeal to Iraq's majority Shia Muslim population than the Iranian clergy's call to topple the Baghdad government in the name of Islam. In order to reduce the possibilities for domestic unrest, Baghdad this weekend began expelling Shias of Iranian origin. [REDACTED]

The oil disruptions are not likely to have a substantial effect on the overall domestic supply of refined oil products, although production has declined. Production at Abadan reportedly has fallen to 395,000 barrels per day from its normal production level near 600,000 barrels per day, and production at the Kermanshah refinery apparently has fallen from 19,000 barrels per day to 15,000 barrels per day--probably as a result of reduced inflow from Naft-e Shah. [REDACTED]

Hostages

President Bani-Sadr's political position has been further weakened by Ayatollah Khomeini's refusal yesterday to authorize the hostages' transfer to government control. [REDACTED]

[REDACTED] Although we believe Bani-Sadr will continue to look for ways to resolve the crisis, there is little prospect he can do much until the National Assembly is convened. [REDACTED]

Bani-Sadr's preoccupation with the hostage issue in the last two weeks has almost certainly damaged his supporters' hopes of doing well in the second round of elections for the National Assembly later this month. The final results of the first round indicate that only 100 of the 270 seats in the Assembly have been filled and runoffs will be necessary in the remainder. In many

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of the campaigns still to be decided, the hardline Islamic Republic Party will be the favorite; it won about half of the seats decided in the first round.

Reaction to US Sanctions

Tehran radio has announced that the Revolutionary Council convened in "extraordinary" session early today to decide on steps to counter the new US actions. Tehran radio reported on the new US moves against Iran without comment, but noted US press reports that the US is not considering any military action. (U)

TASS has called the US moves punitive measures to punish Iran for holding the hostages. (U)

Japan has formally expressed its sympathy for the US moves. A Japanese television network today, however, quoted a Foreign Ministry source as saying that Japan's dependence on Iran for oil is such that it will first want to review Western reactions before deciding whether to side with the US on the sanctions issue. (U)


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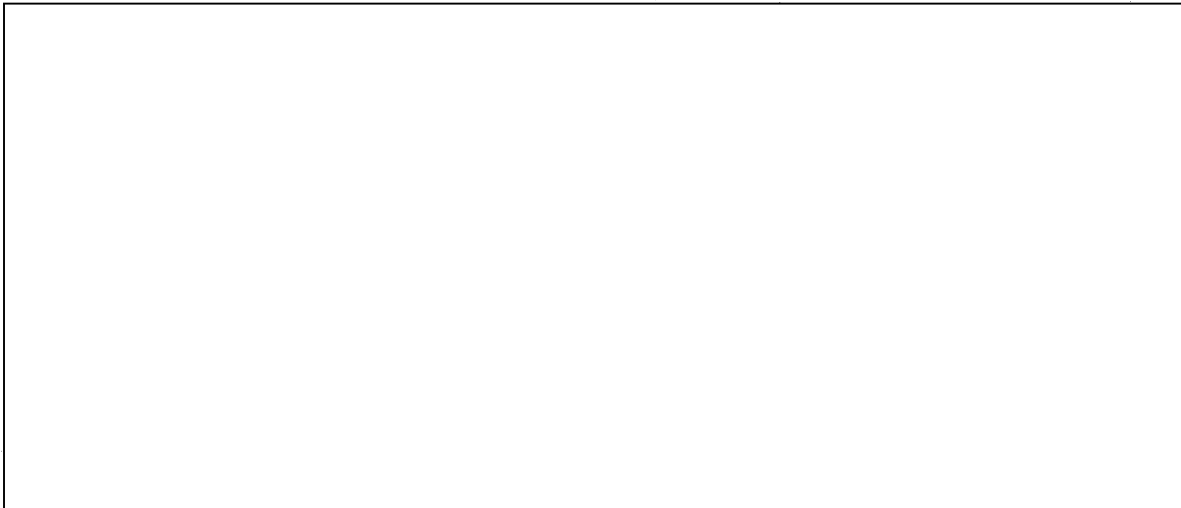
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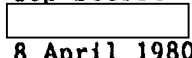


EGYPT - ARAB STATES: Financial Agreement

Egypt apparently has accepted an International Monetary Fund schedule for resuming interest payments on some \$2 billion of frozen Saudi, Kuwaiti, and Iraqi deposits in Egypt's Central Bank. We believe that this move reflects Cairo's understanding that the funds, with the possible exception of \$30 million held by Iraq, would remain in Egypt. Egypt froze the deposits last year to prevent possible withdrawal in retaliation for President Sadat's peace treaty with Israel. 



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