



Director of  
Central  
Intelligence

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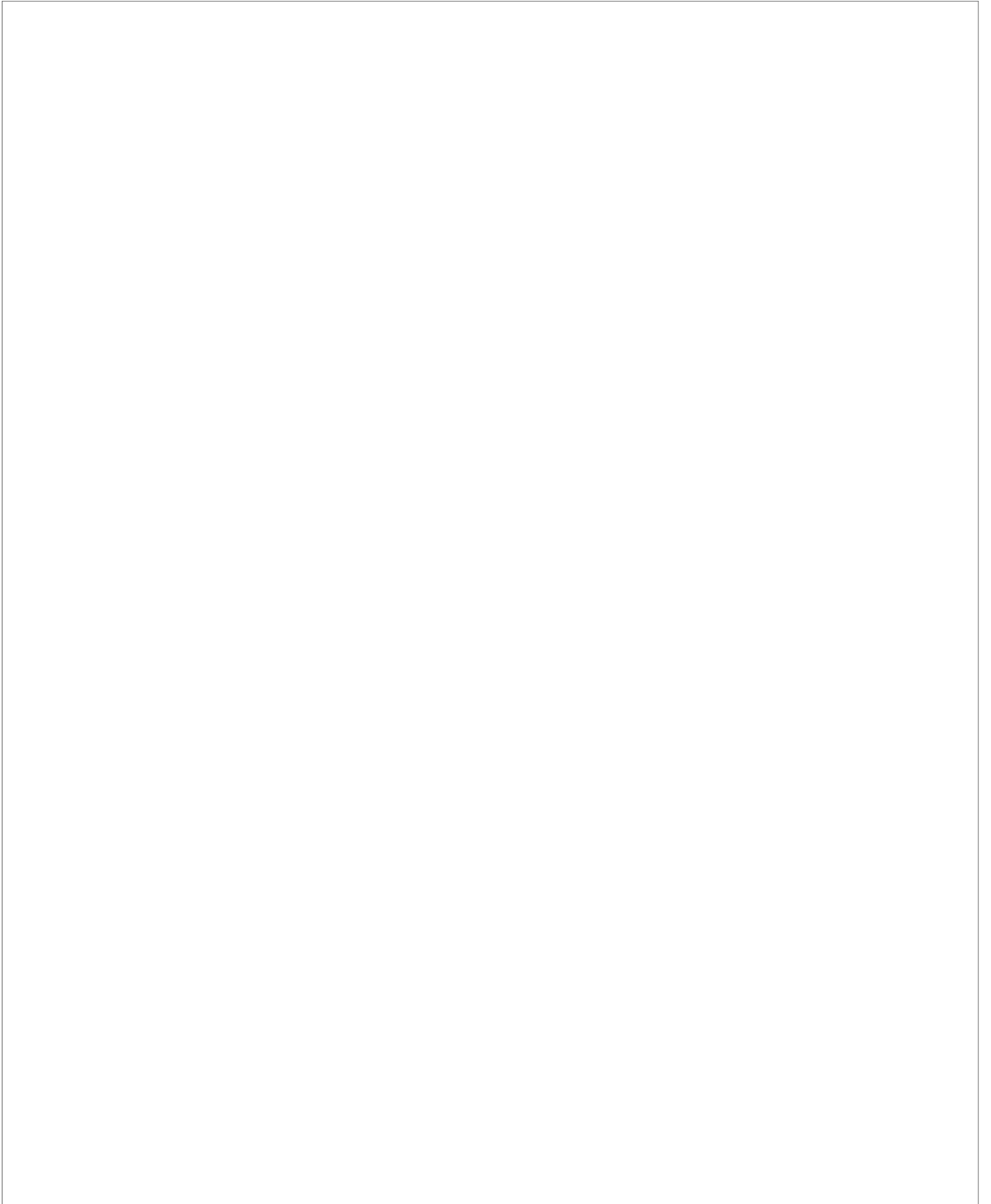
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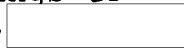
SITUATION REPORT

IRAN

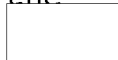
*The attack on the left is the latest indication that the anti-Communist Shia clergy remains the dominant force in the revolution.*



The offensive against the left's activities in the universities was started by hardline clerics led by the Islamic Republic Party and its allies. The clerics took advantage of Ayatollah Khomeini's repeated urgings to purge the universities of Communist influences.



The clergy is well aware that President Bani-Sadr and other moderates are too weak to challenge its power, and believes the left is the most serious long-term threat to its position. By moving against the left now-- while it is still organizing and gaining adherents--the clerics probably hope to prevent a future challenge.



While the clergy can mobilize its street supporters to intimidate the left from time to time, both the clerics and the regime lack the security forces necessary to consolidate their hold on power and prevent the left from reorganizing. As a result, chaos and confusion in Iran are certain to continue.



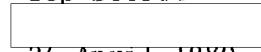
Despite their anti-Communist views, the clerics probably are willing to cooperate with the USSR to cope with US sanctions. They seem willing to tolerate for now the activities of the pro-Soviet Tudeh Party because it backs Khomeini's line; they probably also believe that the Tudeh is less of a threat than independent Marxists like the Fedayeen, who have no ties to Moscow.



Oil

The informal agreement this week by EC representatives not to buy Iranian oil at current prices and Iran's

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halt of crude oil sales to Japanese companies because of Tokyo's similar refusal affect sales of more than 1 million barrels of oil per day--nearly two-thirds of Iran's total oil exports. Contracts with Third World countries, East European nations, and non-EC West European countries account for the remaining 600,000 barrels per day. [redacted]

Iran claims that Romania has agreed to purchase an additional 40,000 barrels per day, but Tehran probably will not be able to sell a large share of the EC and Japanese oil to other purchasers without a major price concession. Iran now needs to produce only 1.4 million barrels per day or less--compared to an average of 2.4 million barrels per day for the first quarter of 1980--to fulfill its remaining export commitments and domestic refining requirements. [redacted]

#### Iran - South Yemen

The announcement by Tehran and Aden yesterday that they will establish full diplomatic relations is the latest evidence of Tehran's policy to improve ties with the radical Arab states. The Shah had broken ties with South Yemen when Iranian troops were sent to Oman in the early 1970s to fight the South Yemeni - supported Dhofar rebellion. (U)

#### Iran-Japan

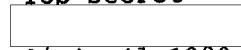
Japanese Prime Minister Ohira said today that during his visit to Washington next week he will ask the US not to take military action against Iran. Ohira also announced new measures against Iran that include a reduction of the Japanese Embassy staff in Tehran, restrictions on visas to Japan for Iranians, and steps to restrain contracts for new exports to Iran. (U)

[redacted]

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WEST GERMANY: Indian Ocean Deployment

*A West German naval task force is scheduled to get under way for the Indian Ocean next week, despite protests from Moscow and Tehran.* [redacted]

The task force, comprising two guided-missile destroyers and two support ships, is to enter the Indian Ocean on 26 May for two months. It plans to make port calls in Pakistan, India, Sri Lanka, and Kenya and to visit Western bases at Diego Garcia and Reunion. The German group is authorized to take part in exercises with US, British, and French forces--10 French and five British combatants are scheduled to be in the Indian Ocean by June. Bonn, however, has stated publicly that no joint exercises are to be conducted. [redacted]

Bonn has billed the cruise as a training mission planned before the Soviet invasion of Afghanistan, but it has drawn fire from the Soviet and Iranian press. Soviet complaints in February led Bonn to reconsider, but the deployment was reaffirmed. [redacted]

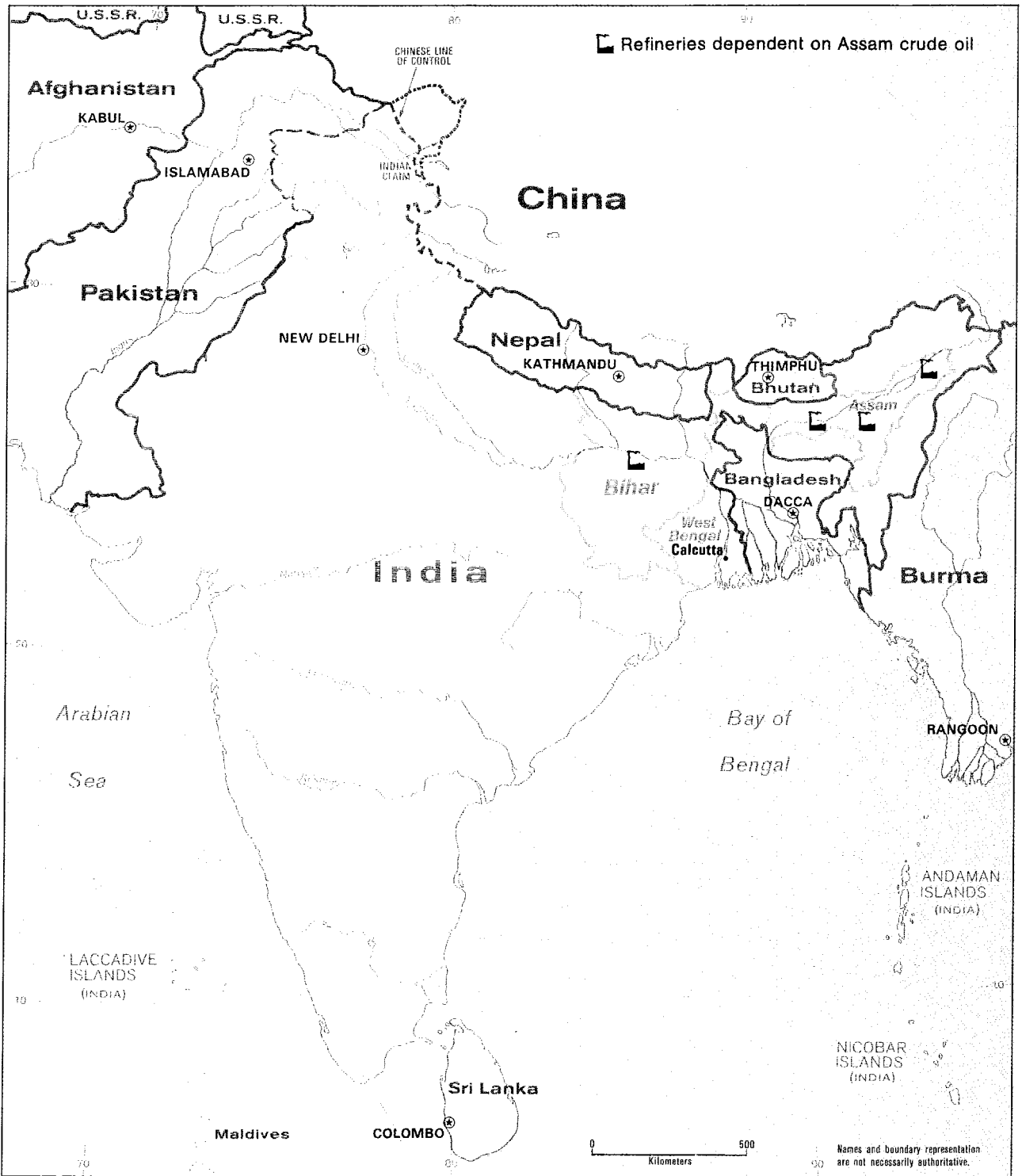
The cruise gives Chancellor Schmidt a risk-free way to respond to US calls for more attention to Western security interests outside the NATO area and to support US objectives in the Middle East. If Schmidt were to cancel or postpone the cruise, it could give the opposition another election issue in the defense area, where he already is under strong attack. [redacted]

Recent Iranian protests linking the cruise to a possible US blockade have caused further controversy in West Germany about contributing to military tension in a volatile area. In the face of the continuing criticism, Bonn has restated its disclaimer on joint exercises and has added that the task force will not go near the Persian Gulf. [redacted]

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INDIA: Trouble in Assam

*Continued political agitation in the province of Assam is causing acute shortages of petroleum in eastern India and is compounding Prime Minister Gandhi's already serious economic problems.*

The student-led unrest arises from fear among the indigenous Assamese that illegal immigrants from Bangladesh and Nepal will dominate the state economically and culturally. The students are demanding the deportation of some 3 to 5 million illegal residents who have settled in Assam since 1951 and have set 10 May as a deadline for New Delhi to meet their terms. In defiance of the ban on demonstrations, the students will picket government offices through Saturday.

Assam produces a third of India's crude oil and since last December pickets have disrupted the flow of oil to four Indian refineries that produce most of the refined products for the northeast. As a result, India has been forced to increase imports of refined products to meet its needs at an extra cost of \$4 million a day.

The states of Bihar and West Bengal, which include the large industrial area around Calcutta, have been hit the hardest. Diesel oil to run irrigation pumps and kerosene for household use are also in short supply. Several fertilizer plants, which depend on the natural gas from the Assam oilfield or naphtha from the affected refineries, have been shut down.

Gandhi, who has exercised considerable restraint in recent days, still claims that a political solution to the Assamese demands is possible. Her firm steps to regain government control over the oil installations have been well received since there is not much sympathy in the rest of India for the Assamese movement. She also stands to benefit from the growing backlash against the hardships caused by oil disruptions.


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USSR-AFGHANISTAN: Vertical-Takeoff Aircraft




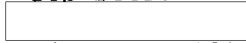
The YAK-38 has a maximum combat radius of less than 200 kilometers with 1,000 kilograms of bombs. It is in service with Soviet Naval Aviation on the two Kiev-class aircraft carriers. 

The appearance of the YAK-38 in Afghanistan suggests that the Soviets intend to evaluate it in a close air support role. They may fly the aircraft from unimproved strips near their ground forces--much as the Royal Air Force and US Marines plan to employ their VTOL Harriers. 

If the YAK-38 is successful in Afghanistan, the Soviets may deploy it with tactical aviation and possibly curtail production of the SU-25, a close air support fighter 

 Although the SU-25 has more than twice the combat radius of the YAK-38, it lacks a VTOL capability. Because it would generally stage farther from the battle area, the SU-25 would not be as flexible or able to support troops as quickly as the YAK-38. 

Both aircraft are subsonic and are limited to fair weather operations in daylight. 



NICARAGUA: Political Opposition

*The Sandinistas are facing the strongest opposition since they took power, and reaching a compromise with their critics will be difficult.* [redacted]

The National Democratic Movement led by Alfonso Robelo--who resigned from the junta this week in protest against Sandinista efforts to pack the quasi-legislative Council of State--and the leading business association are pressing the Sandinistas for broad political concessions. Robelo's party is seeking to unify independent political groups, encourage more resignations, and attract large turnouts at rallies scheduled for next week. In a related move, the influential Chamorro family yesterday closed the major independent newspaper, *La Prensa*, charging government intimidation. [redacted]

Although the business community has ruled out a general strike for the time being, leaders in the private sector are promoting a boycott of the Council and have appealed to Church authorities for support. Opponents of the regime are counting on strong international pressure from Western nations to persuade the Sandinistas to yield. [redacted]

The government is attempting to improve its international position by playing down Robelo's departure and by hinting at flexibility. Sandinista national directorate member Wheelock's overture to the US Ambassador--indicating Sandinista readiness to hold a dialogue with the private sector--appears to be part of this strategy. [redacted]

Both sides apparently prefer to avoid a showdown. The Sandinistas' flexibility, however, may be taxed by private sector demands, including restoration of the Council's original composition, Robelo's return to the junta, restitution of illegally confiscated lands, and the removal of the Justice Minister. The Sandinistas' efforts to increase their domination of the Council of State underscores the weakness of their commitment to pluralism. [redacted]

BRAZIL: Metalworkers' Strike

*The Brazilian metalworkers' strike, now in its fourth week, is raising doubts about the regime's new wage policy and is heightening military concern over political liberalization.* [redacted]

The strike generally has been confined to the industrial suburbs of Sao Paulo and has involved less than half of the area's metalworkers. Following unsuccessful mediation efforts and a regional labor court ruling that the strike is illegal, Brasilia removed key union leaders from their posts and arrested them. [redacted]

The regime had hoped that the wage policy instituted last November would placate labor and reduce union incentives to strike. Fixed wage increases have been well received, but the unexpectedly large hikes won by some unions for productivity increases have adversely affected the government's anti-inflation program and increased the expectations of other workers. [redacted]

Military critics of liberalization believe the government should adopt a tougher stance toward labor unrest, take firmer measures to control inflation, and slow the liberalization process. Economic hardships--particularly among younger officers--are creating greater apprehension within the armed forces. [redacted]

[redacted]



USSR - EAST GERMANY: Reduction of Soviet Forces

Elements of a second Soviet division in East Germany have been withdrawn as part of the continuing unilateral reduction of forces announced by President Brezhnev in October. Most--if not all--of the 6th Guards Tank Division headquartered at Wittenberg has been withdrawn, and the initial elements of an additional division, the 27th Guards Motorized Rifle Division at Halle, were withdrawn recently. Complete withdrawal of both divisions could be accomplished by the end of May and would fulfill Brezhnev's pledge of a 20,000-man reduction. It also would go halfway toward meeting his promise to withdraw 1,000 tanks.

USSR: Energy Production

The energy situation in the USSR continued to deteriorate in the first quarter of this year, despite rapid growth in gas output. Oil production averaged about 11.9 million barrels per day, down from a high of nearly 12 million barrels per day in December. As a result, oil output would have to average about 12.2 million barrels per day the rest of the year to meet the announced goal of 12.1 million barrels per day. For 1980, it is highly unlikely that the goal will be met. Coal production is likely to lag 20 million tons below this year's target of 745 million tons because of deteriorating mining conditions and an inadequate labor supply. Gas production for the quarter posted an impressive 8-percent growth over last year's level to reach 109 billion cubic meters; output should reach this year's target of 435 billion cubic meters.





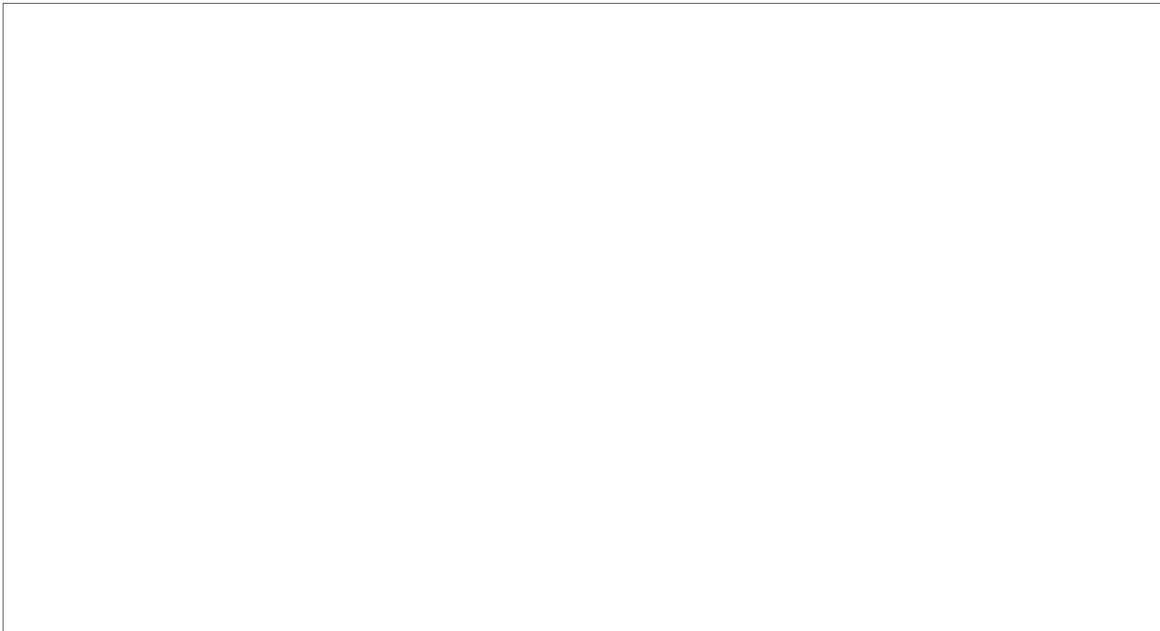
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ROMANIA: Boycott of Communist Meeting

Romania's decision yesterday to join the Yugoslavs and several West European Communist parties in boycotting the Soviet-initiated conference of European Communist parties next week in Paris reflects concern that Moscow will use it to force an endorsement of its invasion of Afghanistan and compliance with the Soviet line on other divisive issues. The Romanians complained that preparations for the meeting on "problems of peace and disarmament" have been inadequate to assure a consensus on the meeting's objectives. Bucharest insisted that the meeting either be postponed or reconstituted as a forum for an exchange of views preparatory to a general conference, whose agenda would be determined by "common agreement." The decision will not sit well with the Soviets, who are already unhappy with Bucharest's refusal to endorse their move into Afghanistan.

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SOUTH KOREA: Constitutional Review Process

Prime Minister Shin Hyon Hwack's refusal on Tuesday to testify before the National Assembly's Constitutional Review Committee on the government's policy and timetable for transfer of power has hardened demands by both the conservative and the opposition parties that the government set a firm timetable for a constitutional referendum.



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GREECE: Presidential Balloting

Prime Minister Karamanlis yesterday received only 179 votes in the first round of the election in parliament for president--well short of the two-thirds majority of 200 votes required in the first two ballots. Karamanlis has no serious competition, but the opposition Socialists and most Communists--who together control over 100 seats--are not supporting any candidate. This is likely to continue through the second round of balloting on Tuesday. Karamanlis probably will win in the third round, where only 180 votes are needed, but his margin of victory may be razor thin. An inconclusive third ballot would lead to a parliamentary election that public opinion polls suggest Karamanlis' New Democracy Party would win.

UGANDA: Unrest Continues

Former Ugandan President Obote's planned return from exile in Tanzania, possibly as early as next week, is likely to increase tension in Kampala. Obote, who held office from 1962 until 1971, intends to run for President in elections tentatively scheduled for December. Recent politically motivated violence has added to the concern among many southern Ugandans that Obote's northern followers will use force to gain power.

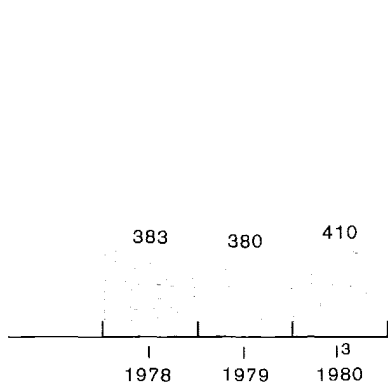
Ill-disciplined Ugandan troops--who have replaced departing Tanzanian security forces--and Tanzanian deserters are contributing to the general lack of security in Kampala. President Binaisa hopes that as a result of the recent East African summit, Kenya and Sudan will play a major role in improving Uganda's security situation;

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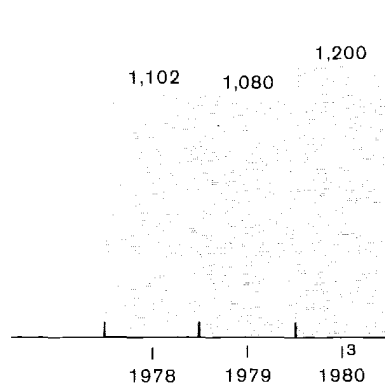
# Primary Oil Stocks<sup>1</sup>

Million Barrels

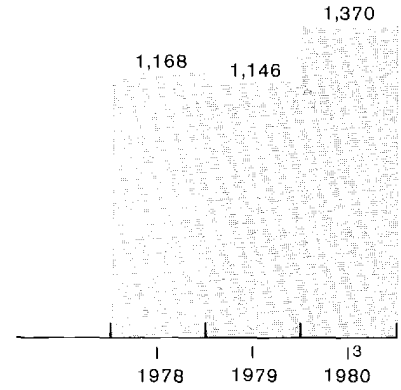
Japan<sup>2</sup>



Western Europe



United States<sup>4</sup>



<sup>1</sup>At end of period.

<sup>2</sup>Japanese stocks include government-owned strategic stockpiles estimated at about 33 million barrels since fourth-quarter 1977.

<sup>3</sup>Estimated.

<sup>4</sup>US stocks include Strategic Petroleum Reserves (SPR) of approximately 91.7 million barrels.

SPECIAL ANALYSIS

INTERNATIONAL: Impact of an Iranian Oil Cutoff

*Current production levels indicate that the world oil market now has sufficient slack to absorb a complete Iranian oil cutoff without setting off another major round of price hikes. The market, however, is not immune to the loss of Iranian oil. The psychological impact of a cutoff, the prospect that other exporters might take a tougher price stance, and the uneven impact on consuming countries could cause price pressures even in the short run. Substantial problems could emerge if other OPEC members should make production cuts, either to express solidarity with Iran or as a result of military action in the Persian Gulf.*

We estimate that Free World oil supplies have been outpacing consumption by at least 1.5 million barrels per day--roughly equal to the amount coming from Iran. As a result, primary stocks now approximate 4 billion barrels, which is well above normal.

This inventory provides the market with enough of a cushion to offset the loss of Iranian supplies for several months. The cushion may prove even more substantial because Free World consumption of oil probably will fall further as the US recession and delayed effects of last year's price hikes take hold. These factors, plus the anticipated economic slowdown in Western Europe and Japan, have led us to lower our projections of Free World oil consumption by 500,000 barrels per day.

Production Outlook

Getting through the year without Iranian supplies and without substantial price increases would require that Saudi Arabia and other countries in OPEC refrain from making any additional cuts in production. We judge that the Saudis probably would postpone their planned 1 million barrel-per-day cut if necessary to avoid serious market disruptions. If they reduced production to the 8.5 million level before an Iranian cutoff, it would take several months to bring output back to the present level.

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Depending on the cause of an Iranian cutoff, other producers in OPEC also might be willing to postpone production cuts to prevent market disruptions. Iraq might be willing to cooperate on oil matters by maintaining output at current levels or even by increasing production slightly. Venezuela also might be willing to restore part of its recent cuts, especially if prices are rising. [redacted]

Kuwait probably would maintain production levels but would resist reversing its recent cutback decision. Furthermore, Kuwait feels vulnerable to retaliation by a large Shia presence--over 20 percent of the population. [redacted]

In the face of a blockade or the mining of Iranian harbors, we believe Libya would at a minimum halt exports to the US and might even reduce production. There also would be a danger that Algeria might join in halting exports to the US. With Iranian exports completely halted, the market would have no room to absorb additional supply cuts without substantial price pressures developing. [redacted]

#### The Consumers

Individual importing countries generally are in a good position to offset Iranian oil supply reductions. Among the major industrial countries, Japan and West Germany are potentially the most vulnerable. [redacted]

Japan could meet its requirements for crude through the middle of the year on the strength of stock drawdowns. Japanese oil firms, however, will be reluctant to reduce inventories very quickly. As was the case last year when Iranian deliveries were cut back, they will be inclined to combine moderate stock drawdowns with increased spot market buying and to pass higher crude oil costs on to consumers. [redacted]

West German Government officials and oil company representatives believe a cutoff could be handled without too much trouble. Oil inventories are approximately

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10 million barrels higher than at the same time last year. West German confidence in doing without Iranian supplies also has been bolstered by a sharp decline in oil consumption early this year. [redacted]

Declining oil consumption and high inventories should ensure that France would weather the loss of Iranian supplies with few problems. Higher prices and an enhanced conservation effort helped reduce oil sales early this year by 16 percent below levels of a year earlier. [redacted]

Italy, with only minor Iranian imports and a solid inventory position, has little to lose from a supply cutoff. The UK also is a modest consumer of Iranian oil. [redacted]

Other European countries that rely heavily on Iranian supplies include Portugal, Norway, Ireland, Spain, Finland, Belgium, Luxembourg, and Sweden. Portugal and Norway should have little trouble meeting their own oil needs in the near term, but the others would suffer from a cutoff of Iranian supplies and the resultant increased competition for oil generally. [redacted]



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