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The President's Daily Brief

18 October 1973

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~~*Top Secret*~~

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THE PRESIDENT'S DAILY BRIEF

18 October 1973

PRINCIPAL DEVELOPMENTS

Military action in the Sinai was heavy yesterday, while fighting on the Syrian front was limited mainly to artillery duels and some air action. *(Page 1)*

The Persian Gulf members of OPEC have demanded a dramatic increase in crude oil posted prices, which the oil companies probably will be forced to accept. Arab oil producers also say they will reduce oil production by 5 percent a month until Arab political demands on Israel are met. *(Page 3)*

South Vietnam's rice supply problem has eased, but supplies of rice will remain tight. *(Page 4)*

[redacted] Soviet [redacted] *(Page 5)* 25X1

Chinese leaders have agreed on the fate of several former military and party leaders, but not on the more sensitive problem of who should replace them. *(Page 6)*

Pakistan [redacted] *(Page 7)* 25X1

Turkey seems headed for a period of unstable coalition rule following the victory of Bulent Ecevit's Republican Peoples Party in the elections last Sunday. *(Page 8)* 25X1

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Notes on Arab dollar holdings, [redacted] Soviet [redacted] Cuba [redacted], and Soviet [redacted] appear on *Page 9*. 25X1 25X1 25X1

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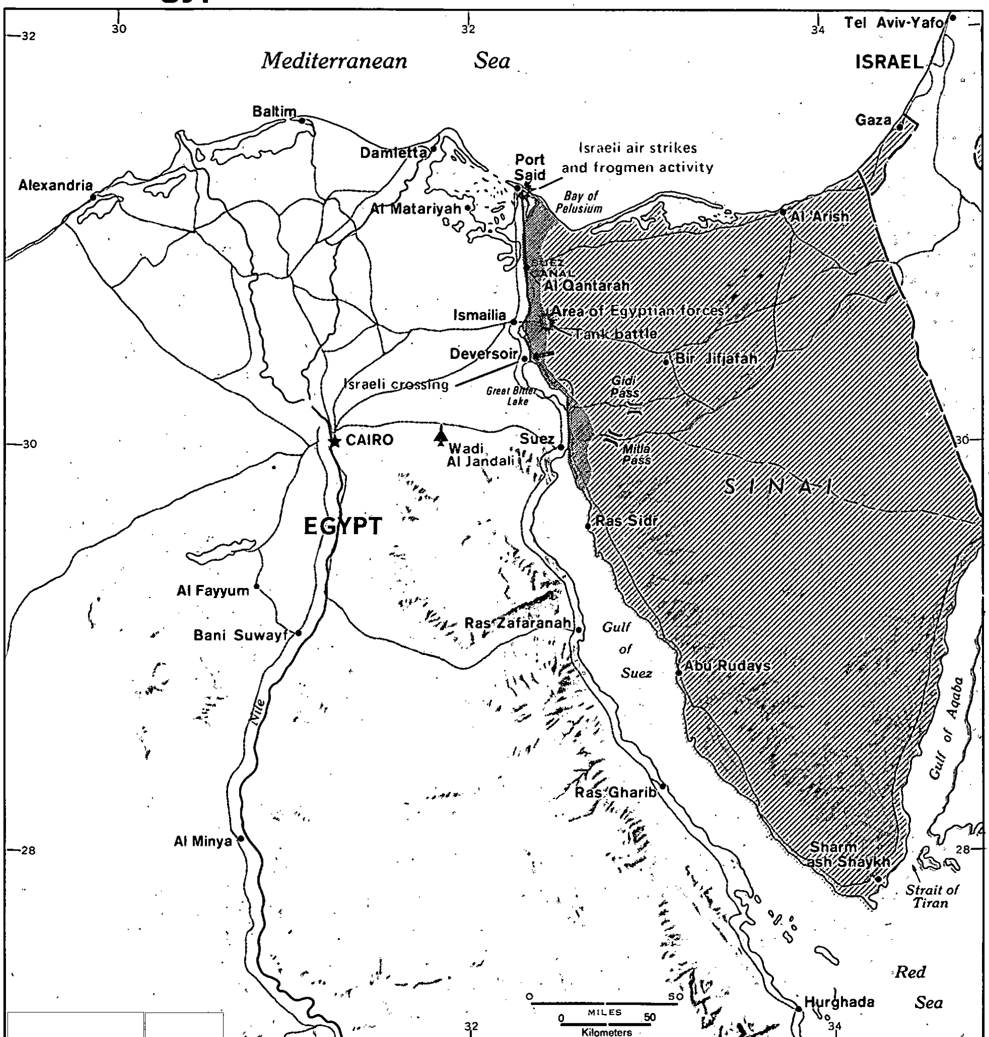
The Egyptian Front



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ARAB STATES - ISRAEL

Both Egypt and Israel reported that large-scale tank battles took place yesterday in the central sector of the Egyptian front. An Israeli military spokesman characterized the armored clashes as the biggest in Israeli history, and claimed that 90-100 Egyptian tanks were destroyed.

Concentrated Israeli air strikes on the Port Said area continued yesterday and the Israelis conducted a raid by frogmen against the port. Several ships reportedly were damaged. The Egyptian Air Force was more active and on several occasions pursued Israeli planes back across the canal.

The fate of the small Israeli force that crossed the canal north of the Great Bitter Lake two days ago remains uncertain. Cairo claims that the force has been destroyed, but the Israelis say it is still intact.

There was little movement along the Syrian front yesterday. Minor ground clashes and artillery exchanges took place along the same lines as the previous day. In the air, the Israelis reportedly struck Latakia and Tartus and claim to have downed eight Syrian aircraft. The Syrians claim five Israeli aircraft were destroyed. The Saudi Arabian force in Syria, which has yet to see combat, has been located just south of Al Harrah.

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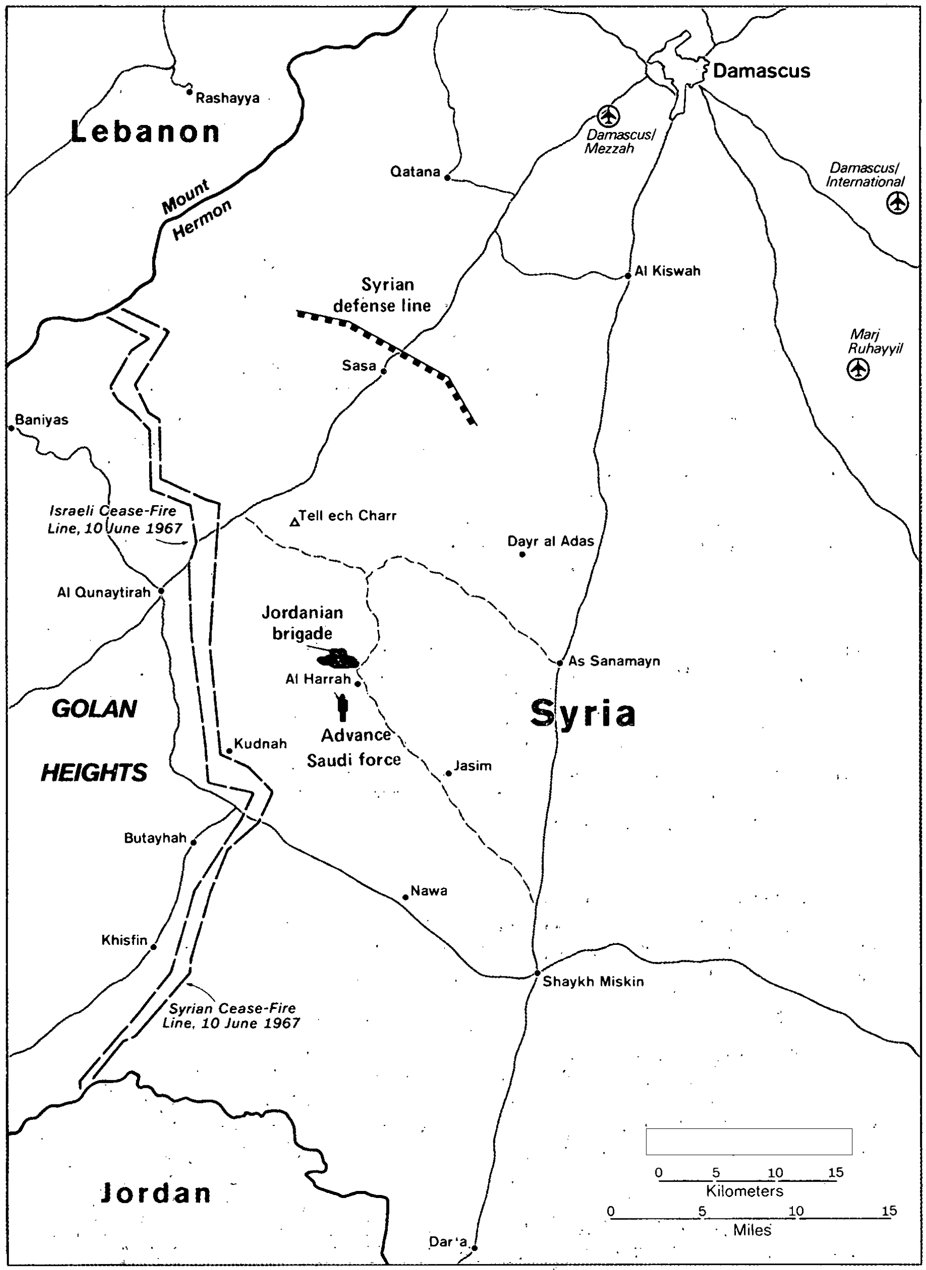
The Syrian Front



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Israel's Foreign Minister Eban said yesterday that Tel Aviv is ready to "examine" a cease-fire proposal, either for a cessation of hostilities "in place" or along the lines that existed prior to the current fighting. Eban said he thought Damascus was "psychologically" ready to accept a cease-fire, but that Cairo is still "living in a euphoria that goes beyond the realities of its military situation." He also took a dim view of the current prospects for Soviet participation in any peace moves. Eban said that the need for secure boundaries is now greater than ever, and that an Israeli withdrawal to pre-June 1967 lines remains out of the question.

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INTERNATIONAL OIL

The Persian Gulf members of the Organization of Petroleum Exporting Countries have presented Western oil companies with a "take it or leave it" demand for a 70-percent increase in crude oil posted prices. The companies have little leverage in the current sellers' market and probably will be forced to accept.

OPEC's demands for a price increase, first voiced last June, probably have been strengthened by the crisis atmosphere of the current Arab-Israeli hostilities. Negotiations became deadlocked last week when the producers asked for a 100-percent increase and the companies offered 12 percent. Persian Gulf oil prices previously have been set either by the companies alone or through negotiations with the oil-producing governments. These countries supply about two thirds of the oil in world trade. The other members of OPEC are certain to raise their prices to reflect the Persian Gulf increases.

If the companies accept, Persian Gulf oil revenues will increase by about $10 billion in 1974; revenues of the other OPEC members will increase by about $5 billion. The 1974 oil revenues of Saudi Arabia, Abu Dhabi, Qatar, and Kuwait--all of which have limited abilities to absorb more capital--thus will approach levels that were only recently being estimated for 1980.

The increased cost in 1974 will probably be about $3 billion for the US, nearly $8 billion for Western Europe, and almost $3 billion for Japan. Some of the increased cost, however, will return to the industrialized countries through repatriation of company profits and through the sale of goods and services to the producers.

* * *

In Kuwait yesterday, Arab oil producers said that they will reduce production by 5 percent a month until Arab political demands on Israel are met. "Friendly" states are not to be affected by the cutback. Such a reduction would have little immediate effect, but depending on how it is implemented, could cause considerable economic dislocation in Western Europe and Japan by mid-winter. The US, which had hoped to import as much as 600,000 barrels per day of heating oil from Europe to offset projected shortages this winter, could also be affected indirectly.

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SOUTH VIETNAM

The South Vietnamese managed to move some 65,000 tons of rice out of the delta into government stocks in September, nearly twice the average for that month, easing fears of a severe shortage later this year. Saigon's success is primarily the result of heavy government pressure on delta merchants to reduce inventories and suppress speculation.

If delivery rates from the delta do not fall below normal levels over the next few months, the government will have enough rice to avert a crisis. The expected arrival of 25,000 tons of PL-480 rice in December will also help.

Nevertheless, the rice supply in South Vietnam will remain tight. There will still be local supply problems in deficit areas, the black market for rice will continue, and retail prices are likely to rise still further. Moreover, if Saigon increases its already strong controls over distribution and price levels--which now seems likely--some farmers may cut back production next year.

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USSR-CAMBODIA

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CHINA

Chinese leaders have agreed on the political fate of several former military and party leaders, but not on the more sensitive problem of who should replace them.

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PAKISTAN-AFGHANISTAN

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TURKEY

Republican Peoples Party leader Ecevit has led his left-of-center party to its first nationwide victory since 1961, winning a plurality of the votes cast in the elections last Sunday and gaining 184 of the 450 seats in parliament. The previously entrenched Justice Party suffered a severe setback, gaining only 149 seats. Two right-wing parties running for the first time cut deeply into Justice's strength and won 93 seats between them. Twelve seats are scattered among several minor parties, and the results are not yet in for a dozen others.

Former prime minister Demirel and other Justice leaders have already ruled out joining Ecevit in a coalition. If they persist, the social-democratic Republicans may attempt to form a coalition with one of the two rightist groups that now hold the balance of power in parliament. Such a coalition would be fragile. Other possibilities are a conservative coalition led by Justice, or a minority government led by Ecevit.

None of these solutions will produce a stable or effective government, and new elections may have to be held. The military, which forced Demirel to resign two and a half years ago and then gave directions to interim governments, has thus far kept in the background. A prolonged political crisis could lead the military to consider intervening once again.

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NOTES

International Monetary Developments: Arab oil producers apparently are not selling large amounts of dollars, despite recurrent rumors. In fact, it is questionable whether the Arabs would want to dump large dollar holdings because the transfers would be expensive. Moreover, the Arabs probably are not overly worried about a US freeze on their assets, since most of their dollar holdings are in Western Europe. In any case, the Arab oil producers have enough funds that are beyond the reach of oil-consuming countries to finance normal imports for many months.

USSR-Cuba: [redacted] 25X1
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USSR: [redacted] 25X1
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