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# The President's Daily Brief

*December 5, 1974*

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[Redacted]

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FOR THE PRESIDENT ONLY

December 5, 1974

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### ISRAEL - ARAB STATES

*Prime Minister Rabin's outline of Israel's negotiating strategy, laid out in a press interview on Tuesday, could lead the Arabs to take a more intransigent position.*

*In airing his strategy, Rabin may have wanted to demonstrate that Israel is prepared to conduct peace negotiations but is determined not to do so on terms dictated by the Arabs, their Soviet backers, or even the US. The Prime Minister probably also hopes this hard-line position will answer his domestic critics.*

Rabin offered Egypt a virtually immediate agreement on a second-stage withdrawal in the Sinai, tied to no explicit political commitments from Cairo other than a prolonged extension of the cease-fire. His offer, however, is woven into an overall strategy that would, in effect, enlist Egypt's cooperation in delaying for years the conclusion of a comprehensive peace settlement.

Rabin prefaced his offer of a Sinai disengagement with a clear statement that Israel intends to play for time. Israel is now powerless to change international realities, he said, and might need as long as seven years before the West is free from dependence on Arab oil. The implication is that wider negotiations at that later stage would find Israel better able to withstand pressures to make significant concessions.

Rabin spoke of a Sinai disengagement agreement in terms of how it would facilitate Israel's delaying strategy. Such an agreement, he said, would keep Egypt out of the Soviet orbit and also out of war.

Rabin is apparently greatly concerned that pressures on Israel are growing to negotiate with the PLO and to forgo bilateral negotiations with the Arabs in favor of multilateral talks at Geneva. He may believe that Israel must make a strong effort to counterbalance these pressures by setting forth a position which, while holding out the promise of peace talks, may be as unacceptable to the Arabs as

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Rabin insists the Arab and Soviet terms are for Israel. The Prime Minister may hope that the US will try to avoid a deadlock by convincing the Arabs and the Soviets to take Israeli views more into account.

The Egyptians have not reacted officially to the interview beyond dismissing it as intended primarily for internal Israeli consumption. Rabin's remarks, nevertheless, are potentially embarrassing to President Sadat and could frustrate his desire to proceed with a further agreement in the Sinai.

Egyptian agreement to disengage on Rabin's terms would signify, in Arab minds, Sadat's acquiescence in Israel's strategy. This would magnify Arab suspicions that Egypt is interested only in regaining its own territory.

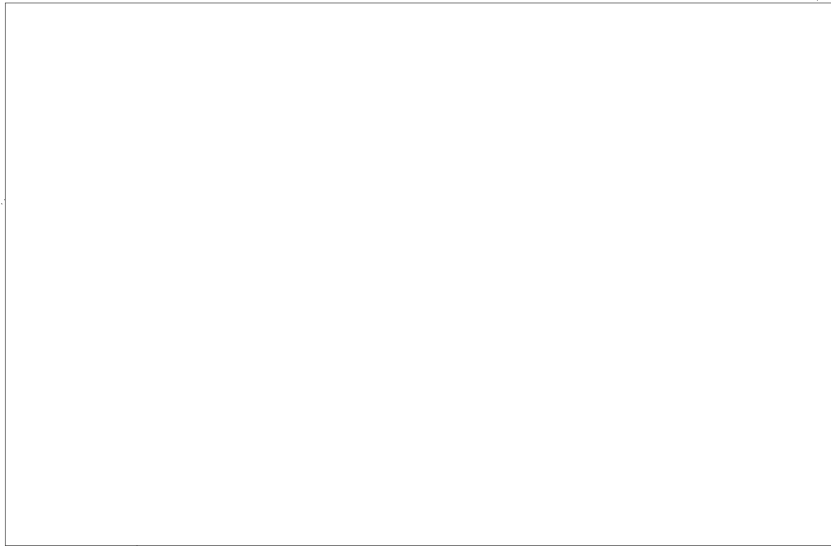
Syria's government-controlled press has interpreted Rabin's statement as further evidence of Israel's attempt to isolate Damascus from the negotiation process and to "paralyze" efforts to reconvene the Geneva conference. Two Syrian newspapers yesterday, citing Rabin's interview, accused the US of trying to divide the Arabs by putting forth schemes for partial agreements that exclude Syria and hinder achievement of a comprehensive peace.

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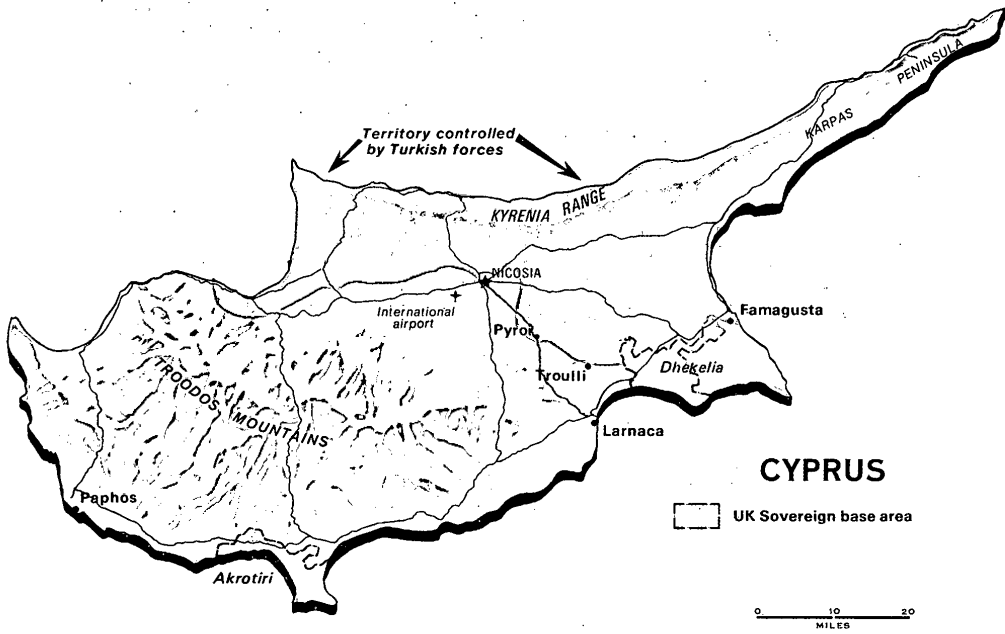
EGYPT- ISRAEL



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CYPRUS-GREECE-TURKEY

*Archbishop Makarios was apparently persuaded to be more flexible about terms for a Cyprus settlement at the Athens summit last weekend.*

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Acting Cypriot President Clerides told [redacted] in Nicosia Tuesday that Makarios agreed with Greek Prime Minister Karamanlis that within two weeks of his return to Cyprus--perhaps as early as tomorrow--he will grant Clerides written authority to pursue a negotiated settlement based on a geographic federation. The formula calls for the establishment of one major Turkish Cypriot zone in the north and possibly one or two additional zones elsewhere on the island.

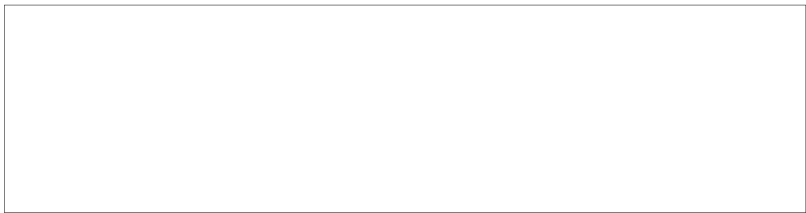
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The arrangement reached in Athens appears to be a compromise between Makarios' earlier proposal for smaller cantons with local autonomy and the position taken by the Turkish Cypriots. Makarios evidently gave grudging approval to the formula only after strong pressure from Karamanlis. Clerides is reportedly pleased with the agreement, but is not certain Makarios will honor it.

Clerides resumed his humanitarian talks with Turkish Cypriot Vice President Denktash yesterday and presumably gave him at least some hint of the Athens agreement. Denktash requested that no date be set for another meeting, pending Makarios' return and a clarification of the Greek Cypriot negotiating position.

The Turks are unlikely to agree to the Greek proposal initially, but they may be persuaded to accept it eventually, since the alternative Greek formula calls for a substantially reduced, single Turkish zone.

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[redacted] the UN force commander [redacted]

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[redacted] suggested preparations for a small-scale exercise. He pointed out that by positioning forces there the Turks could easily move to an actual attack toward Larnaca and the oil refinery complex west of the Dhekelia sovereign base area, but he doubted that the Turks would attack Greek positions unless provoked. [redacted]

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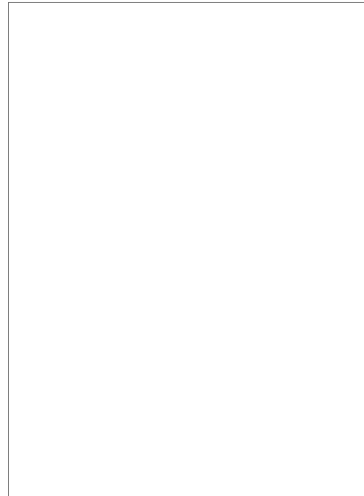
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The UN officer confirmed the alert postures of both Turkish and Greek Cypriot forces as a precaution against possible trouble when Makarios returns. The UN has increased its patrolling of access routes to the Turkish areas in the south in an effort to deter possible Greek actions against the Turkish enclaves. A British reconnaissance unit will reinforce UN forces in the area between the exercising Turkish forces and the sovereign base area. The Greeks and the Turks have been informed of these measures.

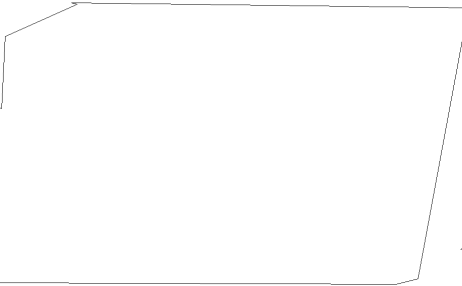
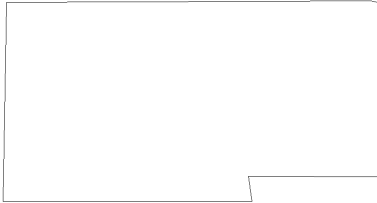
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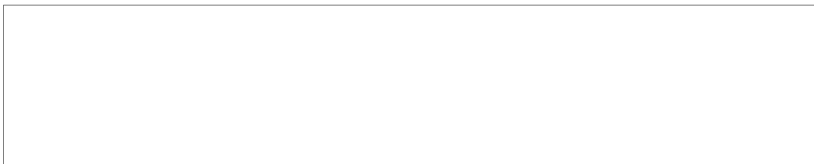


SAUDI ARABIA

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## CAMBODIA

*The rejection last week by both Sihanouk and the Khmer Communists of the UN's call for peace talks in Cambodia reinforces other signs that the insurgents are preparing for a long-term struggle.*

The Communists' outlook on military prospects has been less optimistic since the insurgent drive on Phnom Penh stalled last winter. The strongest indicators that they are looking to the long haul have come recently. On November 14, Khieu Samphan, the Khmer Communist "defense minister," issued an "open letter" in which he carefully hedged projections for the dry season, implying that no conclusive fighting would take place. Sihanouk too admitted, in his initial rejection of the UN action, that "in the face of (continued US support to Phnom Penh), our struggle will be long." Officials in both China and North Vietnam have been cautious in commenting on Khmer Communist military prospects.

Along with the changed tone on insurgent military prospects, the Communists have put more emphasis on economic development in the "liberated zone"-- a step that will indeed seem necessary if the insurgents are really digging in. After years of neglect, agricultural production in even the most fertile areas of the Communist zone has so fallen off that widespread shortages of rice and other foodstuffs prevail. Most processed or manufactured goods are smuggled in from the government zone or from South Vietnam or Thailand. The rudimentary civilian communications and transportation systems that existed before the war in the Communist zone have fallen into almost complete disrepair.

During the past six weeks, a Khmer Communist "economic and financial" delegation--the first of its kind--has been abroad trying to line up non-military aid. The delegation appears to have had some success in Hanoi. Initial information on the visit to Peking, however, indicates that the Chinese have not been overly generous in extending economic aid.

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CHINA

*Business transacted at the recently concluded Canton Fair was lower than it has been in years. The value of contracts signed--about \$700 million--dropped about 30 percent below the level of the spring fair and about 45 percent below the fair last fall.*

Chinese purchases at the fair declined sharply. Peking has been postponing or cutting back its imports of farm products and some industrial materials in the face of a rising trade deficit and a temporary shortage of foreign exchange. China also has been shifting much of its purchasing outside the Canton fairs.

Sales of China's traditional exports suffered from the depressed state of the world economy. Although Chinese prices were generally lower than at the spring fair, they often remained sufficiently above the level of world prices to preclude business.

The meager Chinese sales at the fall fair will retard export growth next year. Increased sales of petroleum will probably offset the decline in China's exports, but the sharp increase in export earnings achieved in 1973 and 1974 is not likely to be sustained. Peking will probably continue to restrict less essential imports and may widen the use of credits in the year ahead.

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NOTES

West Germany: An incident occurred last night at a US nuclear weapons storage facility in West Germany. It began when two armed men were sighted at the perimeter fence; two unarmed men were also involved. Two US soldiers were wounded slightly in an exchange of fire during a subsequent security sweep of the area. The four men escaped; none penetrated the facility.

South Korea: Political tensions in South Korea have eased considerably since your visit, and the Pak government seems willing to tolerate continuing opposition activity so long as it does not develop into large-scale street demonstrations. Antigovernment protests have largely stopped. The opposition New Democratic Party has ended its boycott of the National Assembly, even though it began a sit-in protest against the government in the building today. Most of the major universities have reopened without significant incident, and there have been no large-scale Christian protests. The easing of tensions results in part from general fatigue in opposition ranks after months of largely fruitless activity. The government's more restrained tactics have also helped.

USSR: The USSR will soon open the port of Vladivostok to foreign merchant ships, according to the Soviet naval attaché in Tokyo. Soviet merchant fleet officers mentioned the opening to US journalists during your recent visit. Such reports are not new, but the USSR may now be serious about making this change. The Soviet Union may want to relieve pressure on the neighboring open port of Nakhodka, which handles a large portion of Soviet trade with Japan and most imports of North American grain. Moscow may also expect that by opening Vladivostok it will gain greater access to US ports.

FOR THE PRESIDENT ONLY

WEST GERMAN CHANCELLOR  
HELMUT SCHMIDT



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*Chancellor Schmidt will be interested in discussing with you the new agreement on strategic arms limitations and whatever else you would care to tell him of your recent meeting with General Secretary Brezhnev. Schmidt may have some questions about the implications of the arms agreement for Western Europe.*

*In view of Bonn's keen interest in key East-West negotiations, he may also seek your views on the status of the conference on European security and the talks on troop reductions in central Europe, both of which remain pretty much on dead center.*

*It is likely that Schmidt will want to concentrate, however, on international economic problems.*

International Economic Issues

There are no major economic problems affecting the US and West Germany alone. The West German position on several broader issues of mutual interest is as follows:

*Energy* - Bonn has played down its misgivings regarding the French proposal for an international conference of oil consumers and producers, in an attempt to win French cooperation on energy matters. The West Germans nonetheless view such a meeting as useless if the US refuses to participate, and they insist that joint EC policy be formulated first.

Bonn accepts the argument that oil consumers must harmonize their policies before meeting directly with oil producers. Schmidt will want to discuss ways in which the need for adequate consultation among consumers can be reconciled with France's preference that a dialogue with the oil producers open soon.

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West Germany has reduced its oil consumption by 12 percent since last year and strongly supports international agreement on conservation. It also has been actively seeking to increase its exports to oil-producing countries. [REDACTED]

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*Recycling Oil Money* - Bonn approves the general concept of an international recycling fund but has serious reservations about the plan proposed by Secretary Kissinger. Finance Ministry officials believe that the plan ties aid to deficit countries too closely to oil conservation efforts and does not sufficiently stress the need for fiscal and monetary restraint.

Bonn would prefer that aid from the fund be based on the willingness of deficit countries to stabilize their economies through tough anti-inflation measures. The West Germans are also concerned that Bonn's share of the \$25-billion fund would be larger than domestic political considerations would allow.

Bonn has been attempting to dispel expectations that it will merely bankroll the deficit spending of its European neighbors. The West Germans insist that eliminating deficits in non-oil trade is a national responsibility, as opposed to financing the sharp rise in oil payments, which they see as an international problem. The West Germans have insisted on stringent conditions for bilateral loans to Italy and have been instrumental in limiting the size of European Community lending facilities.

*World Trade* - West Germany opposes proliferation of trade restrictions as dangerous to world economic stability. It views buoyant export sales as essential to West German prosperity and is concerned about the current slowdown in world trade.

Schmidt's agreement to grant Italy a \$2-billion loan last August was motivated partly by concern about the impact on West German sales if Rome further restricted imports. The Chancellor recently expressed concern about anti-inflationary measures that would reduce US import demand.

*The Economic Slump* - Schmidt has stated that the US and West Germany have a joint responsibility to lead the world out of recession. While in Washington, he will want to discuss coordinated actions to stimulate recovery.

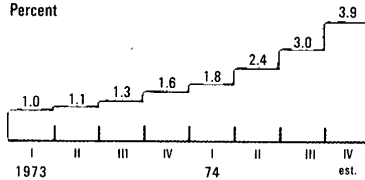
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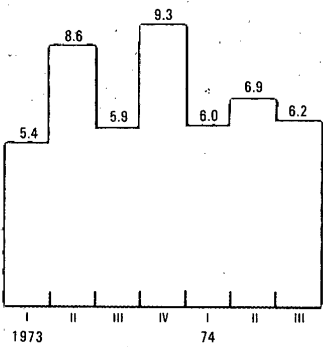
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**WEST GERMANY**  
**KEY ECONOMIC INDICATORS**

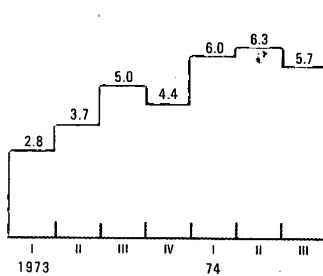
**UNEMPLOYMENT RATE<sup>1</sup>**  
Percent



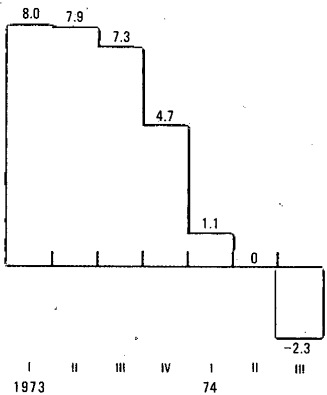
**CONSUMER PRICES<sup>1</sup>**  
Percent change over previous quarter  
at an annual rate



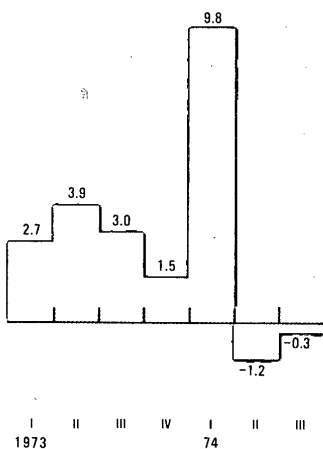
**TRADE SURPLUS<sup>1</sup>**  
Billion US \$



**INDUSTRIAL PRODUCTION**  
Percent change over same quarter  
of previous year



**EXPORT VOLUME<sup>1</sup>**  
Percent change over previous quarter



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<sup>1</sup> Seasonally adjusted.



*FOR THE PRESIDENT ONLY*The West German Domestic Economy

Rapidly mounting unemployment and the possibility of government losses in important regional elections next spring have provided the impetus for a shift later this month to moderately stimulative policies, including incentives for private investment. Unemployment recently jumped to 670,000--3 percent of the labor force.

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possibility of a 6.5 percent unemployment rate this winter--the worst in 20 years.

Schmidt, his Chancellery staff, and Finance Minister Apel believe that achieving even slow growth in 1975 would require stimulative measures in addition to previously scheduled tax relief. The need for a hard line against inflation nevertheless still dominates thinking in several influential quarters, including the Bundesbank, the Economics Ministry, and the independent Council of Economic Experts.

Economic growth has slowed progressively for six straight quarters. The 1-percent rise in real GNP expected for 1974 is attributable solely to foreign demand for West German steel, chemicals, and machinery.

Despite the recent weakening in foreign markets, growth in export volume will amount to about 12 percent this year and will help push foreign sales close to \$90 billion. Domestic demand has continued to slump throughout the year and now stands 4 percent below the early 1973 level.

At the same time, Bonn has maintained an enviable record on inflation. Consumer prices are only 7 percent above last year's level.

Schmidt the Man

The West German Chancellor is an economist by training. He is a no-nonsense pragmatist who likes to confront problems aggressively.

He first came into prominence while serving in the Hamburg city government. His political talents were soon recognized by the national leaders of the Social Democratic Party, and he entered the Bonn government in 1969. A four-year stint as defense minister and nearly two years as finance minister have given him broad experience unmatched by his European counterparts.

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During the past year, Schmidt has constantly admonished other West European leaders to "put their houses in order" by adopting anti-inflationary programs. Similarly, he has pulled no punches in warning young leftists in his own party that their preoccupation with narrow ideological concerns threatens to "preach the church empty."

A Coalition Under Strain

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Schmidt enjoys high popularity in the polls, largely for keeping West Germany's rate of inflation the lowest among industrial nations. [Redacted]

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[Redacted] a number of party moderates and leftists are disgruntled at the diminishing prospects for long-promised social and economic reforms, given Schmidt's desire to control government spending. [Redacted]

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Schmidt's reputation as a conservative on policy issues also creates problems for the Free Democrats, the junior partners in the national coalition, who are finding it difficult to maintain a distinct public image as the main force for moderation in the government.

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