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The President's Daily Brief

December 27, 1974

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FOR THE PRESIDENT ONLY

December 27, 1974

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EGYPT-ISRAEL

President Sadat [redacted]

[redacted] last week that he still agrees with the step-by-step approach to negotiations. He stressed, however, that two important events are approaching and that significant progress should be made before they take place. He pointed to Brezhnev's visit to Egypt in mid-January, and the expiration of the UN mandate--presumably the UN emergency force mandate that expires in late April.

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[redacted] that Sadat needs another disengagement agreement with Israel before General Secretary Brezhnev arrives. Sadat himself has said publicly that he will make a key decision in the "very near future" on whether to continue negotiations via the bilateral approach or turn to multilateral talks as favored by the Soviets.

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Sadat's remarks [redacted] suggest that the Egyptians are backing off a bit. By mentioning the expiration of the UN mandate in April, as well as the Brezhnev visit, Sadat may have meant to acknowledge tacitly that, even though there is little prospect for real progress soon, this need not mean abandonment of step-by-step negotiations.

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[redacted] Cairo had rejected recent Israeli proposals for a second-stage withdrawal because the Israelis would not pull back far enough in the Sinai. The Egyptian President stressed that control of the key mountain passes, which Israel proposes to retain, is essential to protect the Suez Canal.

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Meanwhile, Israeli Prime Minister Rabin's speech Wednesday reinforces the impression that Israel regards further military disengagement with Egypt as the only negotiating avenue now open. Rabin publicly reaffirmed Israel's refusal to withdraw completely from the Golan Heights, even if this "is required to obtain postponement of war." Rabin thus moved closer to hard-line elements in his party.

The Syrians can be expected to use Rabin's statement to press Sadat even more strongly to avoid moving unilaterally to talks with Israel.

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EGYPT-USSR

Cairo is sending Foreign Minister Fahmi to Moscow tomorrow. The trip was not previously scheduled and comes only two weeks before Soviet party chief Brezhnev is to go to Cairo. The Fahmi

[Redacted]

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The Soviets may have requested a high-level delegation because of concern, [Redacted], that the Egyptians are not moving ahead with plans for the Brezhnev visit. These concerns evidently involve the mechanics of the trip, but may extend to substantive matters. A high-ranking Soviet economic delegation has been in Cairo in recent weeks, and a return visit should not be necessary unless some hitch has developed.

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The Soviets and the Egyptians are sniping at each other in public over the key question of Egyptian methods and tactics for negotiating a Middle East settlement. The Soviets seem sensitive to the possibility that the Egyptians will arrange a further pullback with Israel before the Brezhnev trip. Cairo, indeed, has been attempting to achieve this for some time, arguing that a deal would strengthen Sadat's hand in discussions with Brezhnev.

[Redacted]

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Fahmi will be accompanied by the new minister of war, General Gamasy, and by the ministers of planning and finance [Redacted]

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[Redacted]

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We have other evidence that Moscow is willing to conclude agreements for assistance to Egypt's steel and aluminum industries and for rescheduling Egypt's debts, but the possibility of a new military aid pact has been less certain. The Soviet military attaché in Cairo, for example, [REDACTED]

[REDACTED] would not sign any new agreement on military aid, and that future military deliveries would depend on Egyptian behavior.

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VIETNAM

Following is the precis of the latest National Intelligence Estimate on Vietnam, which the US Intelligence Board approved this week.

Communist military forces in South Vietnam are more powerful than ever before.

The South Vietnamese Armed Forces are still strong and resilient and have generally acquitted themselves well since the cease-fire, but the decline to the present level of US military aid threatens to place them in a significantly weaker logistic posture than the Communists.

Hanoi has a variety of military options, but the evidence points toward a marked increase in military action between now and mid-1975 designed to:

- defeat the government of South Vietnam's pacification program;
- inflict heavy casualties on the South Vietnamese Armed Forces;
- gain control of many more South Vietnamese; and
- force the government of South Vietnam into new negotiations at a disadvantage.

At a minimum the Communists will sharply increase the tempo of fighting by making greater use of their in-country forces and firepower. In this case, their gains would be limited, but South Vietnamese stockpiles of ammunition and other critical supplies would probably be depleted by April or May below the 30-day reserve required for intensive combat.

We believe that the Communists will commit part of their strategic reserve to exploit major vulnerabilities in the South Vietnamese position or to maintain the momentum of their military effort.

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--Such a commitment would carry a greater risk of major defeats for top South Vietnamese units and a further compounding of manpower and logistic problems.

--Without an immediate increase in US military assistance, the government's military situation would be parlous, and Saigon might explore the possibility of new negotiations with the Communists.

It is even possible--in response to a major opportunity--that the Communists would move to an all-out offensive by committing all or most of their strategic reserve. But our best judgment now is that they will not do so.

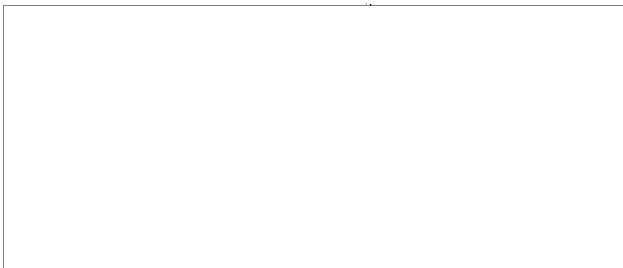
--Hanoi prefers to achieve its dry season goals through a military-political campaign that avoids the risks and losses of an all-out offensive.

--Hanoi probably hopes that, by setting limits on its military operations, there would be less likelihood of a strong reaction from Washington and that frictions with Moscow and Peking would be minimized.

At currently appropriated levels of US military assistance, however, the level of combat that we do anticipate in the next six months will place the Communists in a position of significant advantage over South Vietnamese Armed Forces in subsequent fighting.

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JAPAN



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Industrial production fell sharply in November, down 3 percent from the previous month and 13 percent from November 1973--the steepest decline of any industrial country. Unemployment also rose in November, and there was a record number of bankruptcies.

Most other economic indicators point to further production cuts in the months ahead.

--Inventories of finished goods continue to rise, increasing nearly 2 percent last month.

--Consumer spending remains weak.

--Investment, after recovering somewhat during the summer, declined in October and November.

Despite the mounting pressure for a policy change, Fukuda sees inflation as a more serious problem. Consumer prices in recent months have been increasing at an annual rate of about 25 percent; Fukuda wants to slow the pace to 15 percent before wage negotiations begin next spring. Even if tight policies are maintained, however, Japanese labor unions will be unwilling to accept much less than a 25-percent wage hike.

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FRANCE-IRAN

France has agreed to support Iran's bid for a preferential trade arrangement with the EC, according to the communiqué issued following French Prime Minister Chirac's visit to Iran last weekend. The decision, which marks a change in French policy, could provide the impetus necessary to conclude an EC-Iran agreement next year.

Denmark has pressed for favorable treatment for Iran, and Italy supports a new EC economic agreement with Iran but has not committed itself to a preferential agreement. West Germany may support France if Bonn's specific request for duty-free entry of refined Iranian petroleum products into the EC is met. Contingent upon Bonn's efforts to secure concessions in this area, Iran has agreed to award West Germany a contract to construct a large petroleum refinery.

The EC Commission, however, and most of Germany's partners oppose preferential treatment for Iranian oil. The Commission in fact has "pledged" that the community would not expand its Mediterranean preferential arrangements to include peripheral countries such as Iran. Preferential treatment would be difficult to explain in GATT, and an excess in refinery capacity within the community is anticipated by 1978.

Several EC members have expressed fear that Arab oil producers would resent preferential treatment to Iran and would seek similar concessions. They are also aware of US opposition to such an arrangement.

Bilateral French negotiations with Iran parallel similar approaches to Arab countries during recent months as Paris tries to ensure a steady oil supply and to redress the substantial balance of trade deficit with oil-producing countries. According to the press, Chirac returned from Iran with \$7.7 billion in industrial orders--\$4.4 billion more than he had expected.

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NOTE

Thailand: Former Thai premier Field Marshal Thanom Kittikachon flew into Bangkok unannounced early this morning, ostensibly to visit his ailing father. Thanom has been in exile in the US since student-led demonstrations in October 1973 brought down his military regime. The US embassy in Bangkok reports that the national student center may try to organize a protest against his return and that a few students have already gathered near his father's house. An emergency meeting of the Thai cabinet has been called. There is an unconfirmed report from Bangkok by the French press agency that Thai police and military units have been placed on full alert.

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