



The President's Daily Brief

June 11, 1975

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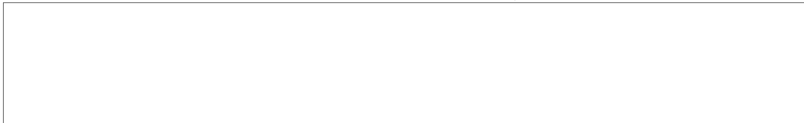
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FOR THE PRESIDENT ONLY

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LIBYA-EGYPT

President Qadhafi's newest diplomatic and propaganda offensive against President Sadat may further complicate Egypt's efforts to formulate a joint Arab negotiating policy.

Qadhafi is trying to orchestrate a general Arab condemnation of Sadat's recent statements concerning recognition of Israel and the possibility of Israeli cargoes transiting the Suez Canal. Qadhafi's aim is not only to embarrass and isolate the Egyptian President, but also to undercut Egypt's credibility as spokesman for the Arabs during the next round of negotiations with Israel. The Libyan strategy probably is calculated to harden Arab negotiating positions at the Arab summit expected later this summer.

Qadhafi has met with several fedayeen leaders in Tripoli to consider other ways of blocking Sadat's moves. Over the last several days, he has talked with George Habbash and Ahmad Jabril--two of the most radical terrorist leaders--and with two members of the more moderate Palestine Liberation Organization. All four have denounced Sadat's gestures toward Israel, declaring that the Palestinians will not accept Israeli use of the Suez Canal.

Qadhafi gave large sums of money to both Habbash and Jabril, presumably to ensure their support and to encourage a new wave of terrorist operations.

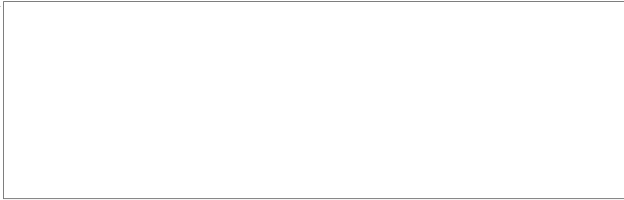
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Qadhafi's personal activity is being followed up by virulent new attacks on Sadat in the Libyan media, including scarcely veiled calls for the Egyptian leader's assassination. The Libyans over the weekend also staged the largest anti-Sadat demonstrations since the 1973 people's march on Cairo. Nearly 10,000 demonstrators--including many Egyptian workers--participated in a rally in Tripoli.

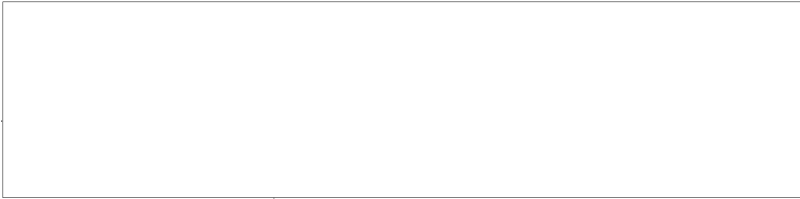
These activities are bound to draw a sharp reaction from Cairo and may once again bring Libyan-Egyptian relations to the breaking point. So far, Sadat has been the sole target of Libyan ire, but Qadhafi may use today's celebration of the US evacuation from Wheelus air base to lash out at Washington.

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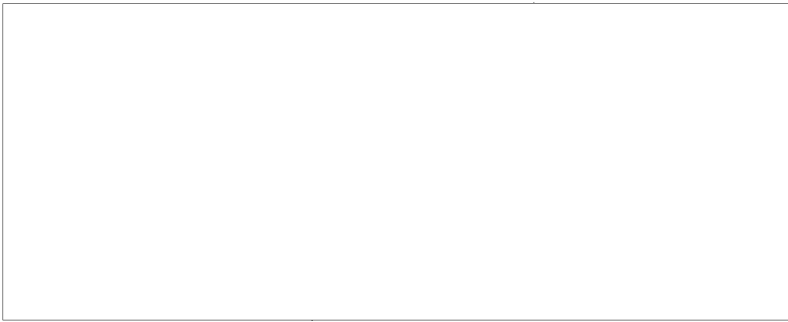
EGYPT-ISRAEL



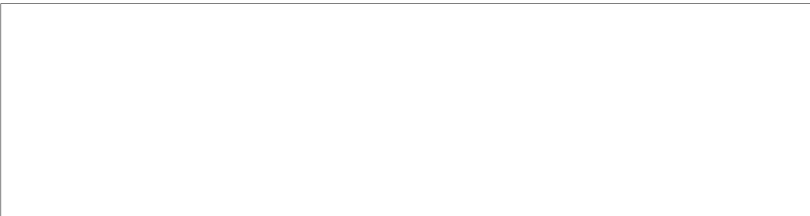
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US-USSR

The US share of Soviet orders for machinery has dropped since Moscow's renunciation of the US-Soviet trade agreement in January. US exports to the USSR nevertheless continue to grow, largely on the basis of contracts negotiated in 1973 and 1974.

As part of their effort to obtain most-favored-nation status and to end restrictions on Export-Import Bank credits, Kremlin spokesmen warn that low-interest, long-term credits available in Western Europe and Japan are eroding the US competitive position.

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Trade in 1975

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During the first quarter of this year, US exports to the Soviet Union were up by \$111 million--67 percent--from the first quarter of 1974. Grain accounted for half of the increase. US imports of Soviet goods slipped, especially purchases of oil and platinum-group metals. The US trade surplus of \$200 million in the first quarter was almost as large as the surplus in all of 1974.



US exports probably will be substantially higher this year than last because of an increase in shipments of machinery and equipment ordered earlier. Chances are slight that sales will approach the 1973 record of \$1.2 billion unless the Soviet grain crop is poor, which now seems unlikely.

Equipment Orders

Soviet orders from the US from January through April amounted to about \$160 million. This equals 14 percent of all known orders from the West for the period compared with a 20-percent annual average in 1973 and 1974.

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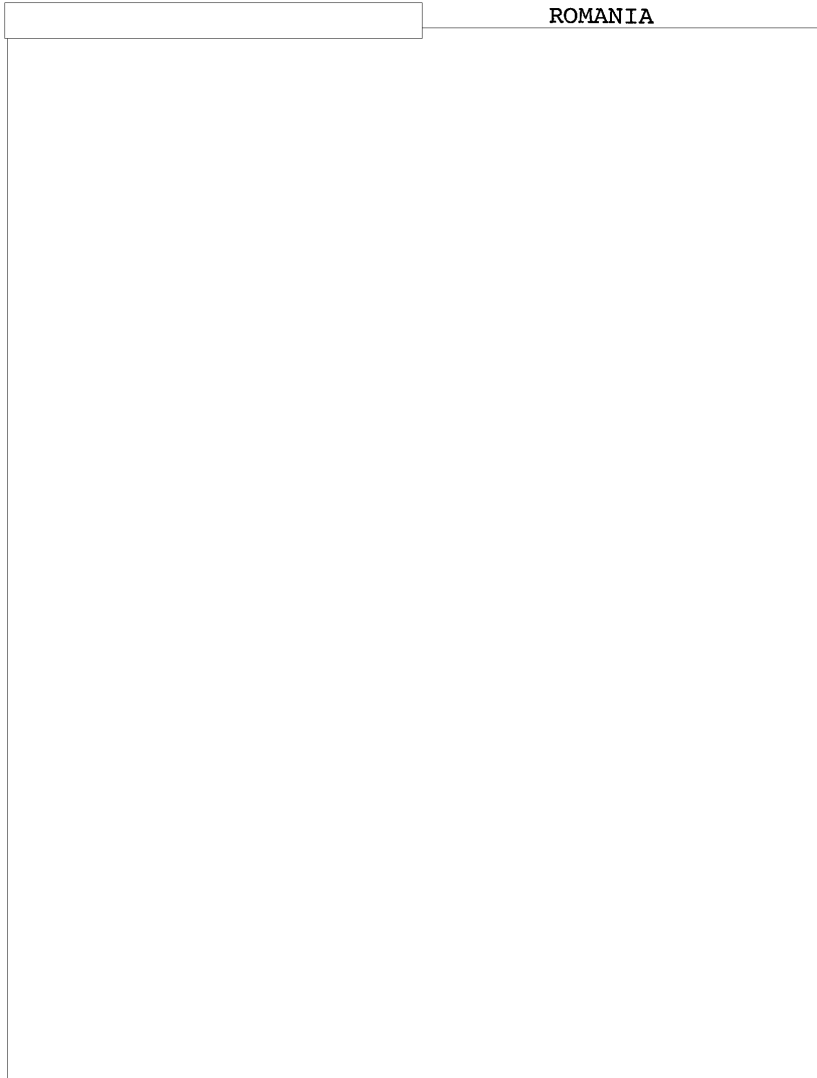
The decline probably reflects the fact that US financing has become less competitive. With Export-Import Bank credits no longer available, Moscow must pay cash for US goods or obtain credits from private sources at much higher interest rates than are required for government-backed credits.

Since late 1974, the Soviet Union has received \$6.7 billion in low-interest, long-term lines of credit from France, the UK, Italy, and Canada. Earlier in 1974, it obtained \$1 billion in such credits from Japan.

Among the orders received by US firms are those for \$23 million worth of equipment for plants to produce artificial fur, a \$47-million plant to make bearings for passenger-car engines, \$18 million worth of crawler tractors and spare parts, and a \$20-million order for bulldozers to be used in ore mining.

Soviet orders for \$700 million worth of compressors and other equipment may be signed shortly, and discussions are under way on other plants and equipment valued at almost \$1 billion.

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ROMANIA

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The Romanians are trying to frustrate Moscow's efforts to tighten both economic integration in the Soviet-dominated Council for Economic Mutual Assistance (CEMA) and ideological conformity in Eastern Europe. Ceausescu has ordered a propaganda campaign to try to undermine Moscow's strategy at the CEMA summit meeting late this month in Budapest. The Romanians, along with the Yugoslavs, oppose Moscow's efforts to dominate preparations for an all-European conference of communist parties.

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Romanian representatives have vigorously challenged several Soviet formulations at the European security talks. Ceausescu believes Romanian views on national sovereignty, the inviolability of borders, and prior notification of military maneuvers must become part of the Geneva proceedings if his country is to maintain some leverage against the Soviets.

Bucharest refuses to join the Soviet-inspired anti-Chinese chorus from Eastern Europe. Romania and China frequently exchange party, economic, and military delegations. Romania is the only Pact member to have bought Chinese arms; it has obtained patrol boats and Chinese-made IL-28 bombers.

Ceausescu has observed and learned from the experiences of Yugoslav President Tito. The revelations of Soviet meddling in Yugoslav internal affairs last year led to even closer relations between the two Balkan states.

Bucharest also shares Belgrade's interest in the nonaligned world. Romania is the only member of the Warsaw Pact to seek observer status at a conference of nonaligned foreign ministers that will be held later this year in Lima. Ceausescu's stops in Brazil, Venezuela, and Mexico during the past week are part of his effort to cultivate the nonaligned.

Romania has the further distinction of being the only Pact state to maintain full diplomatic relations with Israel and the major Arab nations.

Romanian-US Relations

Bucharest has shown considerable sensitivity to US policies. Ceausescu gave a warm reception to former President Nixon in Bucharest in July 1969 and has visited the US twice before.

The Romanians have made a considerable effort to meet US interest in easing emigration to the West. From May 6 to June 4 this year, Bucharest gave permission to 317 Romanians--a record number--to emigrate to the US. During the same period, Bucharest also approved exit permits for 387 Jews to Israel, a sharp increase over the monthly rate during the first four months of the year. It approved another 200 applications for emigration to other parts of the world.

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Ceausescu signed a trade agreement this spring with the US that links most-favored-nation treatment to emigration. The Romanians are anxious for Congressional approval of the agreement because of difficulties in their export markets and a growing need for long-term, low-interest credits. The agreement would also restore Export-Import Bank financing, which was suspended under the 1974 Trade Act.

Spurred by Export-Import Bank credits since 1971, US-Romanian trade increased until the first quarter of this year, when it dropped. Romanian imports from the US during that quarter rose only 3 percent over the same period in 1974, while Romanian exports to the US dropped 37 percent.

Problems in trade with the West may force the Romanians to re-evaluate their long-range economic goals and curtail their economic growth, which has averaged 9 percent a year since 1970. Imports of Western technology and equipment have played an important part in this growth. Bucharest already plans a cut in imports from the West because of high prices for raw materials, a slump in Western demand for some Romanian exports, and high debt-servicing payments.

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PORTUGAL

The US embassy in Lisbon senses that the ruling Armed Forces Movement is becoming more isolated from the Portuguese people. The embassy concludes that this isolation may bring an early end to the uneasy equilibrium that exists between the overlapping power centers in Portugal.

The Movement inspired the people initially, because it brought an end to 50 years of fascism and 13 years of colonial wars and because it promised individual rights and free elections. The officers kept the people behind them by capitalizing on the threat of a return to fascism and playing on popular distrust of the old economic oligarchy.

The revolution is now more than a year old, and with the passage of time, the people are beginning to lose their fear of fascism and are worrying instead about the Movement's ability to meet the basic needs of the country. Factors contributing to the shift in popular attitudes include:

--The Movement is disorganized and unable to deal with the day-to-day problems of governing. Power is divided between the armed forces General Assembly and the Revolutionary Council while the cabinet remains on the periphery. Decision in these bodies are made by consensus; the military rulers tend to neglect everyday problems, are unable to rely on effective staff work, and seem able to handle only one major issue at a time.

--The nation's economic problems continue to grow; they are the direct result of declining production and increasing unemployment.

--The situation in Angola is deteriorating. It will add to unemployment difficulties as Portuguese citizens return to the metropole and may intensify the psychological weakening

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of the Movement since decolonization has been its most significant achievement to date. Angola is already causing dissension within the Movement, and some replacement troops have refused to board planes to Africa.

--The April 25 election for a constituent assembly clearly indicated the popular preference for a moderate political course. The Movement must eventually heed the expressed wishes of the people or drop the democratic facade it maintains. The majority of the people are unlikely to support the Movement if it decides to bypass political parties and tie itself directly to "popular organizations."

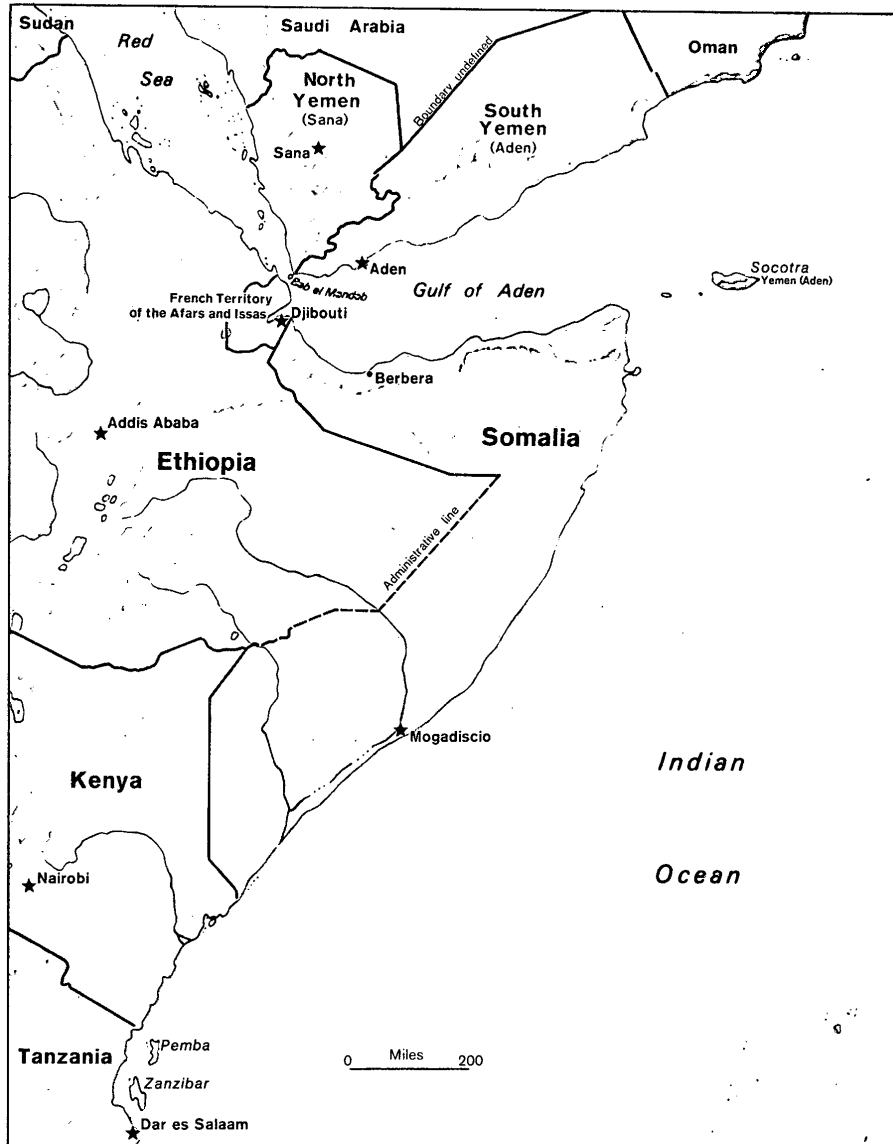
--Civilians have mounted a challenge to the Movement since the election. The Socialists in particular feel they have a mandate and must respond or lose their popular support. The church also appears headed for at least a behind-the-scenes confrontation with the military.

So far, when confronted with a difficult situation, the Movement has responded by a lurch to the left, further isolating itself from the popular will. The Movement cannot move much further left without raising threats of either total anarchy or increased Communist influence in the government.

The embassy believes the present balance of power, distributed among various groups vying for popular support, cannot be maintained much longer. After possibly one more attempt at rule by consensus, one of the contending groups will attempt to eclipse the others in an effort to attract popular support.

Although civil war is a possibility, a more likely prospect is consolidation of power under a military strongman. Candidates for this role include Admiral Rosa Coutinho, a leading member of the Revolutionary Council; General Otelo de Carvalho, head of the internal security forces; and Prime Minister Goncalves. The embassy holds scant hope for a democratic Portugal under the leadership of any of these men.

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THAILAND-CHINA

Thai Foreign Minister Chatchai plans to go to Peking late this month to establish diplomatic ties with the Chinese. The announcement could come as early as July

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Preceding Chatchai to Peking to work out details will be a foreign ministry delegation, probably led by the Thai ambassador to the US. He has been Bangkok's principal negotiator with the Chinese in New York.

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A communiqué of mutual recognition is expected to come out of the talks in Peking, but an exchange of diplomatic missions may not occur until the fall. Senior Thai officials believe that many laws affecting the status of Chinese aliens in Thailand should be changed before a Chinese embassy is allowed to open in Bangkok and that this will require some time. Prime Minister Khukrit appears sympathetic to this procedure.

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NOTES

Recent photography of the 500-foot version of the Soviet D-class submarine fitting out at Severodvinsk confirms that it will carry 16 missiles.

The standard 450-foot D-class submarine carries 12 SS-N-8 missiles. The lengthened submarine is expected initially to carry the 4,200-mile SS-N-8 missile but eventually will probably carry a follow-on missile.

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Separatists in the Azores apparently are planning another demonstration, this time on Terceira Island where the US air base is located.

A demonstration, particularly if it should become violent, could put the US in a difficult position. The separatists are short of arms and might attempt to seize weapons on the US base. Portugal, for its part, might want to use the base to land troops from the mainland. The timing of the demonstration is uncertain

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