



The President's Daily Brief

January 10, 1977

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GREECE: US Ambassador Kubisch--assessing the situation in Greece--comments that two and a half years after the restoration of democracy, Greece is still in some ferment. Much depends on the continued leadership of Prime Minister Caramanlis, on the Greek-Turkish relationship, and on the US, whose interests and influence are substantial.

Caramanlis' popularity as demonstrated by his 54 percent of the vote in the 1974 elections--which gave him a large majority in parliament--has probably slipped only slightly. When his term expires in 1978, he can ask parliament to elect him president, replacing the present figurehead president of Greece, whose constitutional powers actually overshadow those of the prime minister.

The opposition has been unable either to match Caramanlis' political skills or to come up with a convincing alternative to his leadership. The Prime Minister, however, cannot afford to ignore the opposition. Should he mishandle dealings with either Turkey or the US, his strength would decline rapidly.

The military does not appear to pose an immediate threat.

Although there is increased unhappiness with Caramanlis' leadership among some officers, particularly with what is viewed as his leniency toward the Greek Communists, this dissidence lacks organization and focus.

The Greek economy appears to be ticking along as the country hopes and prepares for full membership in the European Community.

A real growth rate of 5 to 6 percent is projected for 1977; inflation is down to a manageable (by Greek standards) 10 to 12 percent; unemployment is at a low 3 percent, in part because Greece has exported labor to the EC. The balance of payments and investment are economic soft spots.

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The risk of conflict with Turkey remains, especially as most Greeks are convinced that Turkey is in an expansionist phase.

Greek leaders overwhelmingly prefer a negotiated settlement, however, and a broadening consensus seems to be developing on what might constitute an acceptable price.

On Cyprus, the Greeks would agree to two zones, a central government with limited powers, and a Turkish-Cypriot sector consisting of about 25 percent of the island. Caramanlis could defend such a settlement and has said he would break with Makarios if the Turks agreed to it and the Archbishop did not.

On the Aegean, Caramanlis has less room for negotiation, and consensus is more nebulous. He has publicly acknowledged that the Turks have "rights" in the Aegean, and the government is apparently prepared, in the course of the bargaining process, to give the Turks exploitative and other rights in the Aegean beyond the narrow strip of territorial waters they now possess.

Caramanlis recognizes the importance of Turkish elections next fall on the Greek-Turkish relationship. His awareness offers the US and the Turks additional, limited leverage in dealing with him and his government earlier in the year.

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There is growing agreement among all groups except the committed left that the US will--and should--continue to operate in and from Greece in a common defense.

The completion of negotiations updating our defense cooperation with Greece will continue to depend largely on Caramanlis' perceptions of his own domestic and foreign policy needs. The US has retained thus far all of the operational facilities it really requires and has continued to operate virtually unhampered during the negotiations.

Movement toward reintegration in the military structure of NATO has been slow, but Caramanlis appears sincere in his intention to return Greece to the alliance once the Cyprus problem is resolved.

In the meantime, Athens would prefer some sort of halfway house under the NATO umbrella. Greece recently informed NATO of its willingness to return at least some of its nuclear-trained forces to NATO command.

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NOTES

Chinese wall posters calling for the return of former vice premier Teng Hsiao-ping appeared in Peking between January 5 and 8--the period officially designated to observe the first anniversary of the death of Chou En-lai.

The same posters criticized Politburo member Wu Te, who may have had a hand in events leading to Teng's purge last spring. Many posters praised Chou En-lai or criticized the "gang of four."

Reportedly, no high-ranking leader has been associated with the memorial activities.

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Soviet Army General Viktor Kulikov has been appointed commander in chief of the Warsaw Pact armed forces, according to a Tass announcement.

Kulikov succeeds the late Marshal Ivan Yakubovsky, who died on November 30. Aged 55, Kulikov is the former chief of the Soviet General Staff.

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THE ARAB PEACE OFFENSIVE

The principal developments in the Middle East over the past several months have been:

--the reconciliation of Egypt and Syria;

--the willingness of Saudi Arabia to break with its OPEC partners on oil pricing and to use OPEC as a forum for underscoring the necessity for progress on the Arab-Israeli dispute;

--the imposition of a more durable cease-fire in Lebanon;

--the resignation of Prime Minister Rabin and the scheduling of early national elections in Israel.

These developments have set the stage for the launching of a major Arab peace offensive led by Egypt and Syria and backed by Saudi Arabia. The Arabs have overcome the divisions in their ranks brought on by Syria's military intervention in Lebanon in March 1975, and they are now in a position to adopt a coordinated approach to peace negotiations. They are prepared to press the US to reconvene the Geneva conference and to accept the participation of the Palestine Liberation Organization in future negotiations. The key Arab states are seeking the creation of a Palestinian mini-state composed of the West Bank and Gaza and are urging the PLO leadership to endorse this goal and to abandon its military strategy against Israel.

Rabin's resignation was a calculated gamble aimed at undercutting the challenge to his leadership from his principal rival, Defense Minister Peres, and at securing broader backing from the rank and file of the ruling Labor Alignment. Rabin will remain as the caretaker head of a minority government until the elections planned for May 17. In the interim, he will not be able to commit Israel on substantive negotiating issues. Nevertheless, he is likely to strike a relatively moderate posture on negotiations and will attempt to consult

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and coordinate negotiating strategy with the new US administration, partly with an eye to securing his own election victory. The Labor Party convention, planned for February to select a candidate for prime minister, and the ensuing national elections are likely to be the most significant political developments in the Middle East in the coming months.

Against this background, several conclusions emerge about the prospects for negotiations:

--The Arabs will expect the Geneva conference to reconvene, with the Palestinians present, soon after the Israeli elections in May. Without a US or Israeli initiative on the Palestinian representation question, however, there is no prospect for negotiations at Geneva or in any other forum.

--If the representation issue is resolved, Israel and the Arab states will agree to reconvene the Geneva conference. Egypt and Syria probably could win Palestinian agreement to participate in a joint Arab delegation if that were acceptable to the US or Israel.

--PLO Chairman Yasir Arafat appears willing to settle for a truncated Palestinian state made up of the West Bank and the Gaza Strip.

--Rabin might agree to a ceremonial reopening of the Geneva conference before the Israeli elections, but only if the Palestinians were not invited to attend at that stage.

--If Rabin remains as prime minister after the elections, he will have slightly more leeway in negotiations. If Rabin is unseated and a national unity government is formed, progress in negotiations will be more difficult.

--Neither the Arabs nor the Israelis are currently prepared to make significant concessions on fundamental issues in any new round of peace talks, but this does not preclude movement on some questions that previously appeared intractable. Significant substantive progress would require massive participation in the negotiating process by the US.

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--A continuing stalemate in negotiations would lead to an estrangement between the US and Egypt and Syria. Saudi Arabia is coordinating its actions with the Arab confrontation states, and is likely to increase the price of its oil in 1977 if no progress is made in peace negotiations. Saudi Arabia almost certainly will not take direct action, such as an embargo, against the US during the coming year.

--Even with a stalemate, the Arabs are not likely to initiate another round of military hostilities during 1977. Egypt's military supply problems and Syria's involvement in Lebanon have increased Israel's military advantage.

--The USSR will continue to press for a Geneva conference, where it believes it can best promote its own interests. The Soviets will follow the Arab lead on substantive and probably on procedural issues related to negotiations.

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