



**Director of
Central
Intelligence**

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National Intelligence Daily (Cable)

21 August 1982

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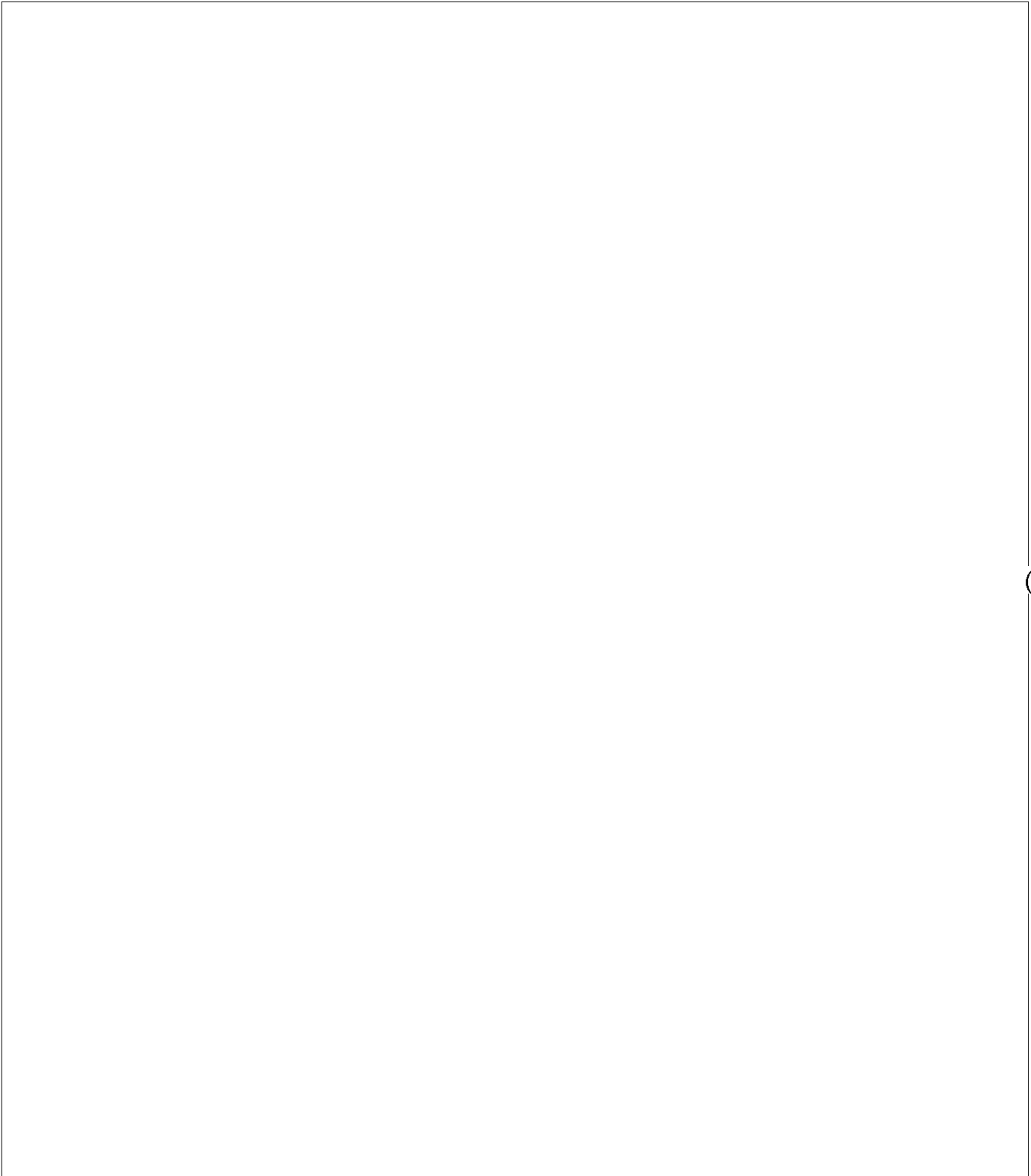
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ISRAEL-LEBANON: Political Maneuvering

(Information as of 2330 EDT)

//Phalange leader Jumayyil reaffirms his candidacy. Beirut remained generally quiet yesterday as preparations continued for the beginning today of the evacuation of PLO fighters. There have been two attacks by PLO groups on Israeli settlements in the Golan Heights in recent days.

[Redacted]

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A Soviet official has warned against a "massacre" of PLO fighters during the withdrawal.//

[Redacted]

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Palestinians Shell Israeli Settlements

[Redacted]

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PLO forces shelled Israeli settlements in the Golan Heights on Tuesday and Wednesday. There were no casualties in either attack.

[Redacted]

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Israeli Detention Camp

[Redacted] the Israelis have enlarged a detention camp in Lebanon near Ansar to house additional prisoners captured since the invasion. The camp now can accommodate 6,000 to 10,000 prisoners, but the Israelis reportedly have set a ceiling of 7,000. Although early reports indicated severe restrictions were imposed on the prisoners, recent press reports claim limited exercising is now allowed, enough water is available, and an infirmary has been set up.//

[Redacted]

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Soviet Activity

The Soviet Charge in Washington on Thursday delivered to the Department of State an "urgent" aide memoire claiming the USSR has information indicating the Israelis plan to take advantage of the PLO withdrawal from Beirut to "massacre" the Palestinian fighters and leaders. The note warned the US would bear full responsibility if it failed to prevent the alleged Israeli move. Although Moscow has not made the note public, Soviet media are making similar claims. [Redacted]

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The Soviet Foreign Ministry's senior Middle East specialist is due to begin a trip to Jordan, South Yemen, and probably Syria within the next week. All three countries will receive PLO fighters. [Redacted]

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The Soviet naval presence in the Mediterranean remains only slightly higher than normal [Redacted]

[Redacted]

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Comment: The Soviets probably delivered the note to put themselves in a position to blame Washington if violence erupts during the PLO withdrawal or to claim credit for deterring the US and Israel if it is carried out peacefully. The note tacitly accepted the participation of US troops in the withdrawal, making official what Soviet media have implied for the past week. [Redacted]

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The Foreign Ministry official may use his visits to meet with PLO leaders and provide a public indication of Soviet concern for the future of the PLO. [Redacted]

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[Redacted]

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USSR: Alleged Use of Forced Labor on Pipeline

The Soviets are denying widespread West European accusations that political prisoners are being used to build the Siberian gas pipeline to Western Europe. [redacted]

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The allegation, which has been given considerable attention by West European media, evidently was first made early this month by a human rights organization based in West Germany. The French and West German Governments have instructed their Embassies in Moscow to determine the validity of the charge. The Soviets yesterday again denied the accusation in an article in *Sovetskaya Rossiya*, calling it a "dirty lie" intended to disrupt agreements with West European countries. [redacted]

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[redacted] political prisoners are not used on pipeline construction because they are not eligible for parole. Paroled prisoners convicted of bribery, robbery, or other crimes occasionally are employed on such projects as manual laborers or service personnel. [redacted]

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[redacted] parolees are used to help build compressor stations but not to lay pipe, because that requires mobile crews. The Ministry of Internal Affairs is under strong pressure to provide parolees for pipeline construction projects, which are particularly important in national economic plans. [redacted]

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Comment: The Soviets are plagued by serious labor shortages and may be using some of the 2 million people in forced labor camps, as well as parolees, to perform such unskilled tasks as clearing forests for important pipeline construction projects. There is no evidence, however, that any of the estimated 10,000 imprisoned political or religious dissidents are being used for any phase of construction on the Siberian export pipeline.

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EL SALVADOR: Military Initiatives

//The Salvadoran Army has begun a major offensive amid signs of increasing dissension in the military, and the guerrillas also are preparing new attacks.// [redacted]

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//The military operation in northern San Vicente Department is designed to weaken guerrilla forces that have often cut the Inter-American Highway. The offensive is led by one of the Army's best field commanders and includes all three US-trained battalions as well as one trained by a Venezuelan Army team.// [redacted]

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//Minister of Defense General Garcia reportedly is under heavy criticism from military hardliners for not making an all-out attempt to defeat the insurgents. [redacted] Garcia uncovered efforts to replace him early this month. His opponents have ties to rightwing political leader D'Aubuisson. [redacted]

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The insurgents are receiving large amounts of ammunition in preparation for an offensive. [redacted] some 200,000 rounds of M-16 ammunition are to be distributed to various guerrilla groups. Additional rifle rounds and rocket grenades are being delivered to insurgent strongholds in central and eastern El Salvador. [redacted]

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//The guerrillas continue to demonstrate the ability to avoid major losses, recover quickly, and hit isolated government units. Early this month, they overran a small town in San Miguel Department and ambushed relief units, killing or wounding about 50 soldiers and capturing another 16.// [redacted]

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Comment: //The Army has mounted a steady series of large and small offensives designed to keep the initiative. Since early July, none has succeeded in seizing large amounts of supplies or caused heavy casualties, although together they have helped keep the guerrillas off balance. Garcia probably hopes a major victory will silence his critics, but he will have to keep a close eye on them in the future.// [redacted]

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[Redacted]

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IRAQ-IRAN: Threats to Shipping

The Iraqis are using a variety of tactics to restrict commercial shipping near Iran. [Redacted]

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[Redacted]

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Last week Iraqi President Saddam Hussein expanded the restricted military zone at the head of the Persian Gulf and announced Iraq will attack all vessels appearing in the zone, including those near Khark Island. The Minister of Information reiterated Saddam's warning to merchant ships calling at Iranian ports after Iraqi warplanes conducted bombing attacks on Khark Island. On 9 August the Iraqis sank one Greek and one South Korean ship off Bandar-e Khomeini. [Redacted]

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The reaction in the maritime industry thus far has been limited. Insurance rates, which doubled in July following Iranian attacks on Al Basrah, are starting to rise again. [Redacted]

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Comment: Most ships are reluctant to call at Bandar-e Khomeini, which is deep in the exclusion zone, and some may be shifted to other ports. With three attacks on Khark Island in little over two months, however, oil exports may begin to suffer. [Redacted]

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[Redacted]

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AUSTRALIA: Early Election Probable

//Prime Minister Fraser on Tuesday presented the federal budget for the 1982-83 fiscal year that includes major cuts in personal income taxes and increased expenditures on social programs. The new budget, combined with previously announced investment incentives, is designed to stimulate the stagnant economy.//

[Redacted]

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Comment: //Fraser may be putting himself in position to call an early election, probably by November. The government forecasts further economic deterioration over the next year and fears the Labor Party plans to make government economic management the principal campaign issue. In his campaign, Fraser is likely to blame international economic developments for Australia's recent poor performance. According to the US Embassy, he also may blame US economic policies.//

[Redacted]

[Redacted]

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[Large Redacted Area]

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[Redacted]

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CHINA-USSR: Results of Chinese Official's Visit

Chinese officials have told the US Embassy in Moscow that they detect no changes in Soviet views on bilateral relations as a result of the recent 10-day visit to Moscow by the Chinese Foreign Ministry's Director for Soviet Affairs. This was the first visit of an official of this rank since 1979. The talks were informal and covered bilateral and multilateral issues. [redacted]

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Comment: The Chinese probably will continue such political contacts as well as their selective expansion of academic, cultural, and economic exchanges. The agreement this week with the US over Taiwan is unlikely to change this effort, which aims to reduce tensions with the USSR and to demonstrate to US and other audiences some flexibility in dealing with Moscow. [redacted]

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FRANCE-US: Policy on Extraditing Terrorists

//President Mitterrand's determination to root out international terrorism apparently has not led to a change in French policy on extraditing foreign terrorists. The French Appeals Court decided this week against extraditing Vicken Tcharkhutian to the US, where he is wanted for two bombing attempts in Los Angeles in May. The only charge that could be levied against him under the Franco-American extradition treaty of 1909 was arson, which the court ruled did not apply. Tcharkhutian, an Iraqi who admits membership in the leading Armenian terrorist group, was immediately released.// [redacted]

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Comment: //Paris has refused to cooperate with its allies in extradition cases that might complicate its foreign policy, anger French leftists, or provoke terrorist reprisal. It argues its hands are often tied in such cases, because French law does not treat terrorist activities as special crimes. In the latest case, France probably felt particularly vulnerable to reprisals by Armenian terrorists, who threatened to attack French targets if Tcharkhutian were not released.// [redacted]

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SPECIAL ANALYSIS

MEXICO: Increasing Economic Problems

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//The Mexican Government will soon have to make severe cuts in domestic economic programs and to take other painful steps if it is to obtain IMF support and regain the confidence of the international financial community. The indecisiveness of a lameduck President and the difficulty of gaining a political consensus in support of a program that is bound to hurt many interest groups make it likely any policy adjustments will be reluctant, tentative, and slow. Eventually the economy will achieve a new stability because there is little choice.//

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//Mexico's failure to deal resolutely with mounting economic problems has led to more frequent private business failures, another substantial devaluation, inflation soaring to near a 70-percent annual rate, and a liquidity crisis. Mexico has virtually run out of foreign exchange and has a foreign debt of \$80 billion, including more than \$30 billion due to be repaid within a year.//

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//Service obligations on long-term debt alone total nearly \$1.75 billion per month, or nearly 90 percent of export earnings. If short-term debt cannot be refinanced--and banks have become reluctant to do so--debt service obligations will soon double to \$3.5 billion a month.//

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//Mexico has secured some \$2.5 billion in emergency aid from the US and major central banks and has obtained permission from commercial banks to suspend debt repayments to them temporarily. Those measures are designed to give Mexico time to negotiate with the IMF on economic stabilization and with the commercial banks on long-term debt rescheduling.//

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Necessary Measures

//Economic stabilization will carry potentially disruptive political ramifications. Mexico City began to

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//The Finance Minister--a close associate of President-elect de la Madrid--has announced the recent moves, but he lacks the stature among Mexicans to build a consensus for an austerity program that is widely seen as both necessary and equitable.// [redacted]

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//De la Madrid is involved in the program but probably will not accept a leading role, in order to avoid limiting his future policy options. He also wants to protect the mandate he won in the election.// [redacted]

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//Labor is the largest source of support for the ruling Institutional Revolutionary Party, but the unions also could mobilize popular protest. Mexico City cannot risk alienating them.// [redacted]

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//Major labor groups are demanding price controls, and others have called for wage hikes. Negotiations for the annual wage increases on 1 January are slated to begin next month. Meanwhile, labor is taking a wait-and-see attitude.// [redacted]

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//Business has already suffered the most from the halting austerity measures, and it is likely to welcome the greater policy predictability inherent in an IMF program. As business failures mount, however, policies on prices, credit, and trade that are part of the austerity package will come under fire.// [redacted]

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//Opposition parties have an unprecedented opportunity to increase their popular appeal. Because the ruling party is politically astute and it is willing to use force, however, it will put up a strong defense against any challenges.// [redacted]

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//The public has to be convinced the situation is serious enough to warrant the measures the government is proposing. Foreign creditors will be looking to see whether the government has the will to take the necessary steps.// [redacted]

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[redacted]

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Crucial Time Factor

//Developing and negotiating a comprehensive policy package will be time consuming and will be affected by several important events in the next few months. Most price controls will expire this month, Lopez Portillo will deliver his final state-of-the-nation address on 1 September, Mexico has to reach an agreement with the IMF by mid-October, and the new administration takes office on 1 December. Until the implications of these developments become clear, foreign creditors will remain nervous, and Mexico's financial situation will be precarious.// [redacted]

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//Civil unrest is a possibility at every stage. The longer the delay before the scope of the austerity program is apparent, the greater the likelihood of social and political turmoil.// [redacted]

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[redacted]

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