

July 3, 1991
**National Intelligence Daily for Wednesday, 3 July
1991**

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Summary:

The CIA's National Intelligence Daily for 3 July 1991 describes the latest developments in Yugoslavia, the Soviet Union, Iraq, Israel, Peru, China, and Cuba.

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Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

Wednesday, 3 July 1991

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Approved for Release
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Europeans Responding to Renewed Hostilities in Yugoslavia

The Netherlands, current president of the EC, issued a statement on behalf of the Community yesterday that urged all parties to respect the cease-fire and refrain from violence but did not call for Yugoslav unity. Most EC members have indicated they will resist even oblique criticism of Slovenia or Croatia at the CSCE meeting in Prague today.

EC actions in Yugoslavia have been an unprecedentedly direct Community engagement in a foreign dispute, and that involvement appears set to deepen. German Foreign Minister Genscher proposed on Monday that the EC send civilian observers to monitor the cease-fire and troop withdrawals. The other 11 members of the EC have agreed to send a mission of senior foreign ministry officials to Belgrade, Zagreb, and Ljubljana today to prepare the way for the observers. Dutch Foreign Minister van den Broek plans to request that CSCE sanction the observers. Some CSCE members support sending military observers in line with procedures spelled out in last year's agreement on confidence- and security-building measures.

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Slovenian and Croatian leaders have requested foreign military and civilian observers to monitor the crisis, and President Mesic and Prime Minister Markovic have hinted they would agree to such a presence. The beleaguered federal Army may also be willing to accept observers in order to discourage attacks by Slovenian and Croatian territorial forces as its troops attempt to return to their garrisons.

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YUGOSLAVIA: Situation Report

Yugoslav politicians appear to be shifting toward recognizing Slovenian independence, but military attitudes are less clear; commanders are infuriated by Slovenian actions and face a broadening conflict in Croatia. [redacted] b (3)

Slovenian Independence Gaining Ground

Senior Serbian officials yesterday urged the federal government to accept Slovenia's independence and called for the return from Slovenia of Serbian conscripts. Parents of Serbian conscripts stormed the republic assembly to demand their sons return within four days. The leadership of Serbia's ally Montenegro has concurred that disintegration is inevitable, condemned the use of force, and called for recognition of Slovenia as a "foreign state." The Macedonian government has told the Army no more recruits or reservists will be allowed to leave the republic, and Bosnian leaders have condemned Army mobilization efforts in their republic. [redacted] b (3)

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[redacted]

[redacted] The federal government is now the only opposition to rapid acceptance of Slovenian independence. The reported German and Austrian moves appear plausible in light of those countries' growing public support of Slovenia. [redacted] b (3)

Anger in the Military Increasing

Violence escalated in both Slovenia and Croatia yesterday, but both Slovenia and the Army [redacted] accepted a new cease-fire last night. Many federal units in Slovenia remain trapped and unable to return to their garrisons, and the federal Air Force launched numerous bombings raids in an effort to extricate them. One bombing run accidentally killed 17 federal troops, [redacted] b (3)

The Army also clashed with Slovenian forces in an effort to reinforce its units. [redacted] b (3)

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b (3) [redacted] Army leaders are increasingly angry and humiliated at their failure to achieve even limited objectives, inability to return their units safely to their garrisons, and what they see as Slovenian

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violations of the cease-fire. They could try to escalate the conflict in Slovenia despite the apparently sagging morale of their forces and the inclinations of most political leaders. b (3)

Army Problems in Croatia

Protesters in Zagreb yesterday threw molotov cocktails at federal tanks they believed were heading for Slovenia, and troops fired into the crowd, killing two and wounding others. b (3)
Citizens have erected barricades around the Zagreb garrison. Civilians in another large garrison town blocked a column of federal tanks without reported bloodshed. Croatian leaders said the republic does not want war with the Army but threatened to reconsider if attacks on Slovenia continue. Ethnic violence continues in Serb-populated areas.

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Conflict in Croatia, where popular hostility toward the Army may be beyond the control of the leadership, could be much more dangerous than in Slovenia. A confrontation in Croatia would face the Army with battle astride its supply lines to Slovenia. Resistance might be less well organized than in Slovenia, but it would be more vicious because Croats see the Army as the tool of their

where the Army has been unable to maintain order. almost certainly are made up largely of Serb troops after recent reserve callups and probably will prove more reliable than those in Slovenia.

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USSR:

Situation Report

The center has moved to contain black-beret actions in the Baltic republics, Russia has upped the ante on economic issues, and the Communist Party is talking about reforming.

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Black Beret Commanders in Vilnius Reprimanded

[Redacted] yesterday, General Kalachev, the chief of the Main Police Directorate of the Interior Ministry (MVD), said that the center did not sanction the recent black beret operation in Lithuania and that such actions would harm Soviet foreign policy interests and make things worse for Russians in the Baltic republics. He warned that officials responsible for further such actions would be dismissed. [Redacted] Vilnius military garrison commander and the Baltic MVD division commander have been transferred. Kalachev also said that Colonel Goncharenko, the MVD representative to the Baltic republics and [Redacted] an activist in the procenter Interfront movement in Latvia, would head a new group stationed in Riga to control black beret activities. [Redacted]

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[Redacted] The transfer of the two officers and the sharp criticism of local black beret leaders probably was meant to show Gorbachev's commitment to restraining violence and to reinforce the center's control over units in the Baltic region, but Goncharenko's appointment suggests the center will continue its low-level harassment of the Baltic republics. [Redacted]

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New Russia-Center Tension Over Economic Issues

At a recent session of the Russian Republic Supreme Soviet, Russian Premier Ivan Silayev announced that the republic would soon take jurisdiction of all enterprises on its territory to prevent the center from retaining a controlling interest in newly created joint stock companies. Ukraine, Belorussia, and Kazakhstan have taken similar steps in recent weeks. Silayev also said he had recently written to the central government protesting new union customs regulations, which he charges tax enterprise hard currency earnings stiffly and limit the republics' ability to conduct foreign trade independently. He also noted that the Russian Republic would challenge recent union legislation that appears to reduce Russia's rights to license export of its own products, including oil and gold. [Redacted]

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[Redacted] Silayev apparently believes that recent central government measures, particularly decrees of the Cabinet of Ministers, are an effort by traditionalists to reintroduce greater central control. Many democratic reformers will see measures such as the new customs

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codes as backsliding on concessions to the republics in the draft union treaty and the anticrisis program; they probably will increase pressure on Yel'tsin to pursue a policy more independent of the center.

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CPSU Platform Emerging Amid Party Turmoil

Communist Party leaders announced Monday that a party congress or conference will be held late this year or early next year to discuss a new platform. [redacted] a Central Committee plenum will be held this month to examine an early draft of the new program, which reportedly supports significant market reforms. The party also has decided not to change its name.

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[redacted] presidential spokesman Ignatenko has characterized as positive the creation of the national-level Movement for Democratic Reforms, citing its nonconfrontational nature and its consistency with Gorbachev's reformist goals.

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[redacted] A more reform-oriented platform, even if far reaching, probably will do little to keep many party members from defecting to emerging centrist and reformist parties. This month's plenum, at which hardliners [redacted] will again push for Gorbachev's resignation, may spark a wave of defections, and the six-month lag between the plenum and a congress will cost the party both membership and political momentum. Ignatenko's remarks suggest Gorbachev sees the new movement as a potential counterweight to hardline Communists.

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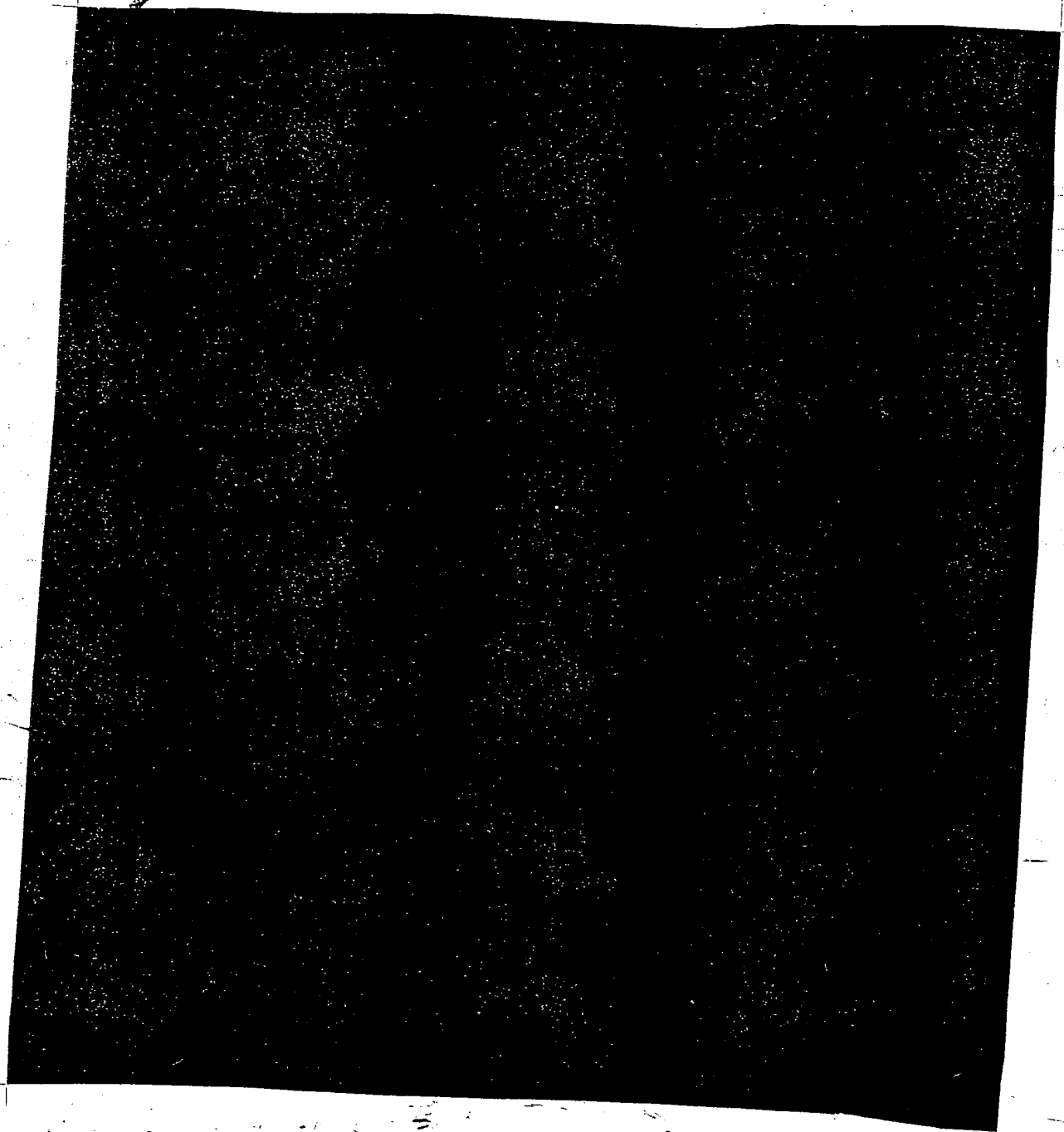
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IRAQ-KUWAIT:

Situation Report

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[Redacted]

Nuclear Inspection Update

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The UN inspection team composed of International Atomic Energy Commission chief Blix and nuclear inspection team leader Kay inspected equipment at Al Fallujah yesterday morning. [Redacted] The delegation plans to fly to Geneva today to brief the UN Secretary General, a change of travel plans that suggests the Iraqis have not responded to their demands. [Redacted] b (3)

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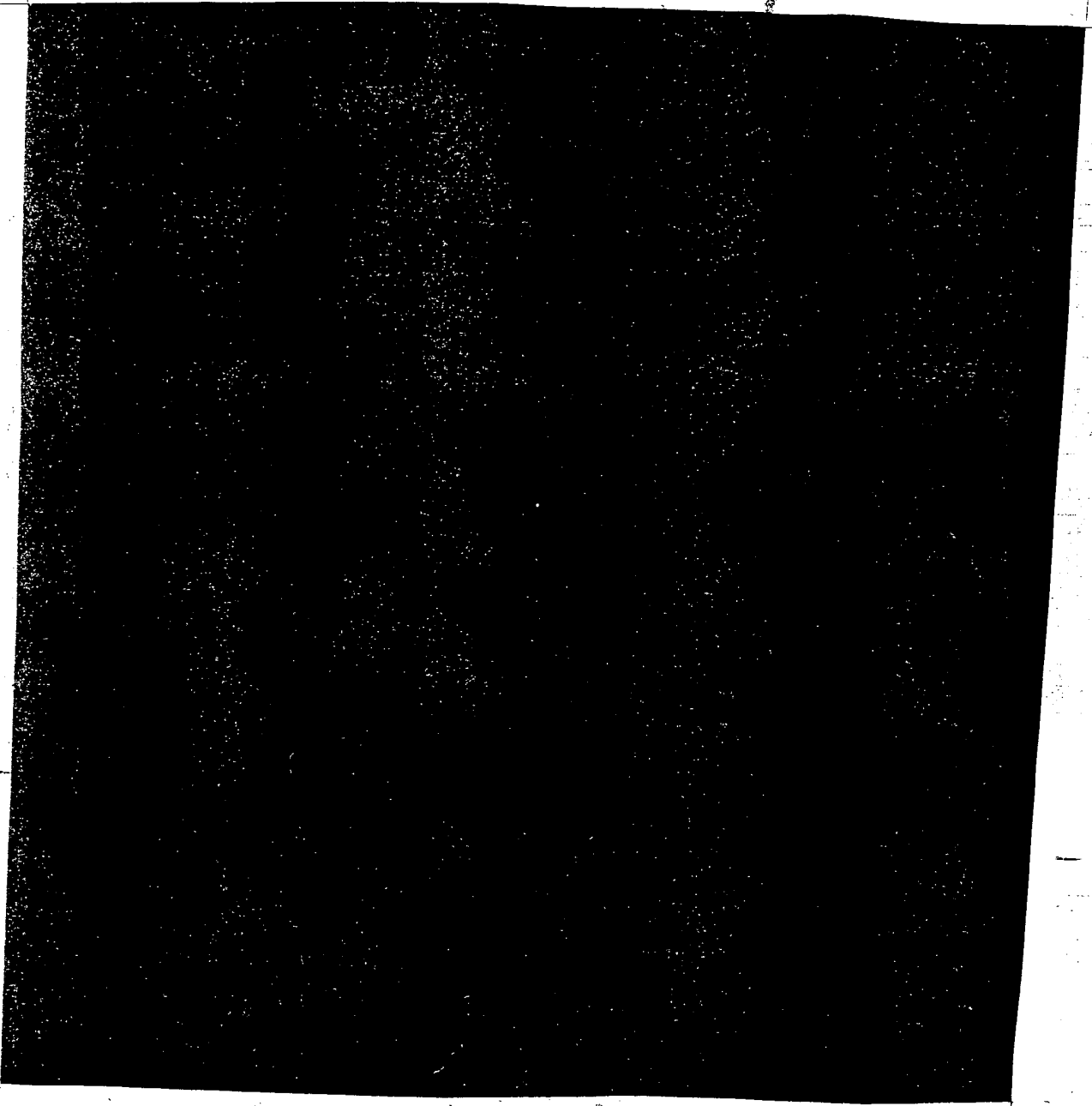
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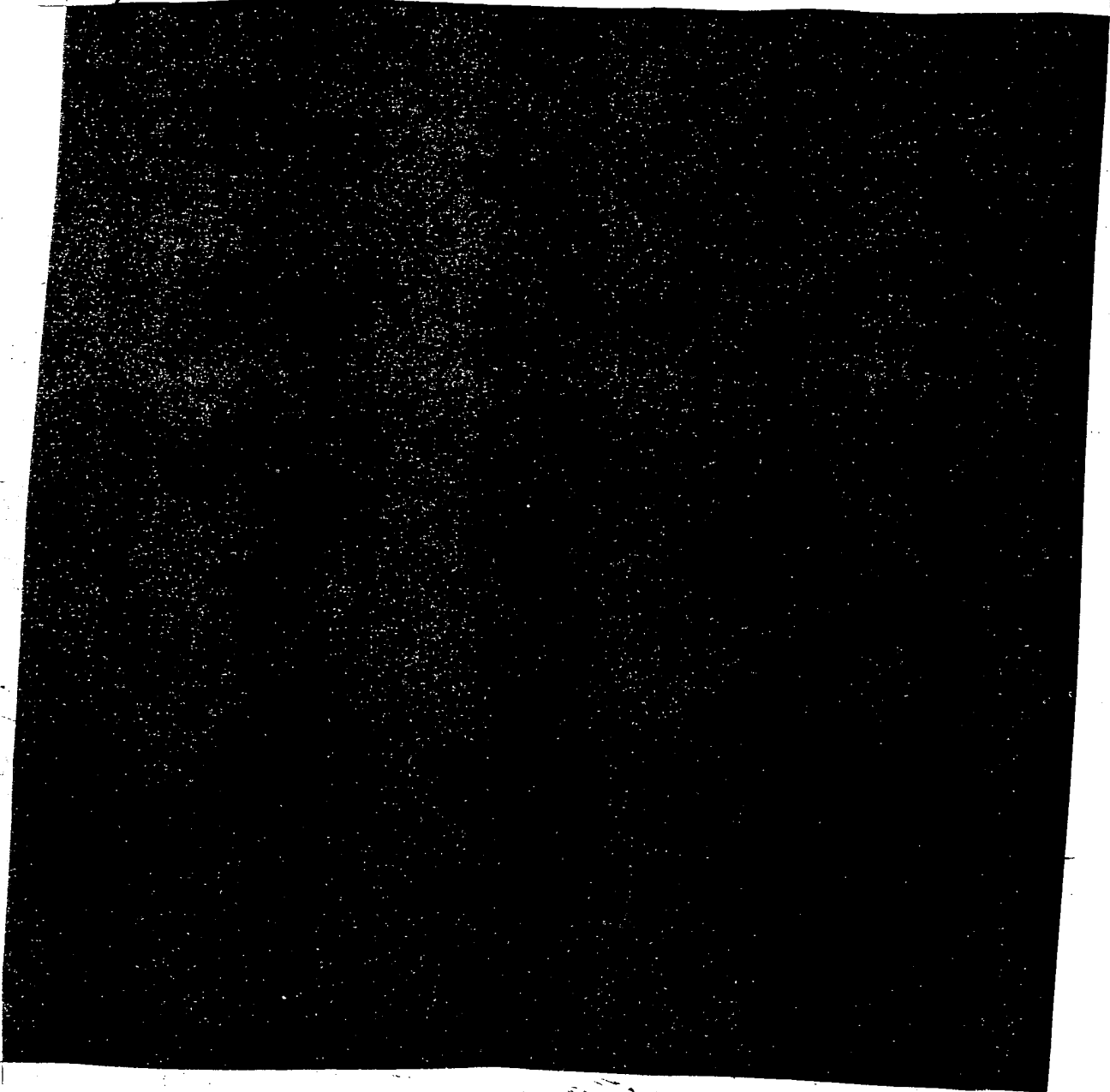


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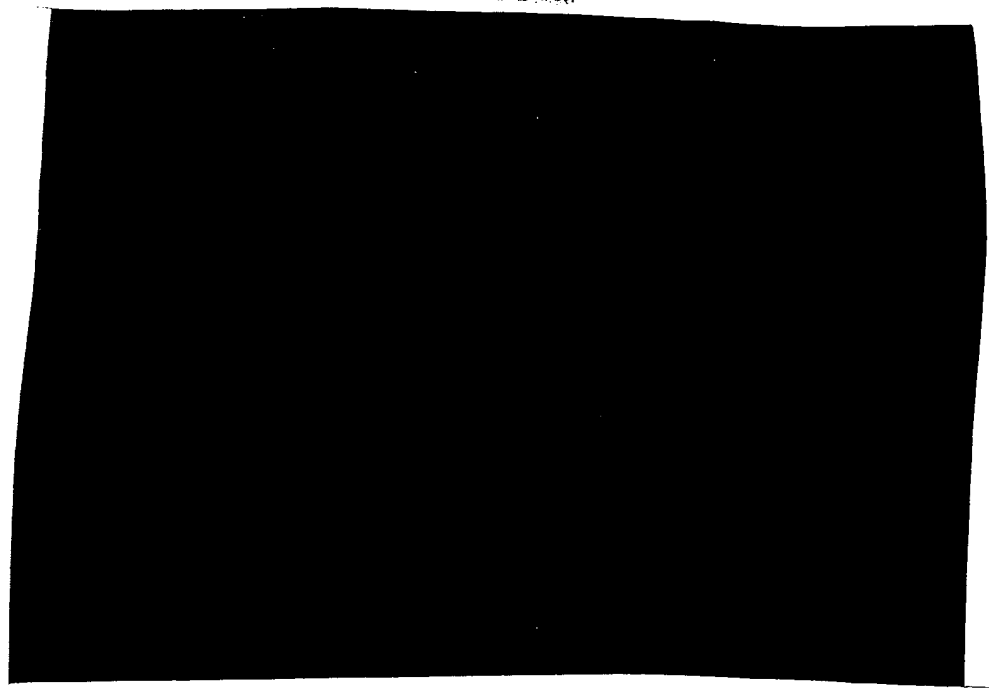
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ISRAEL:

Warily Watching Southern Lebanon

Tel Aviv, surprised by the Lebanese Army's success against Palestinian resistance in Sidon yesterday, is warning Beirut and Damascus against challenging its positions nearby.



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Comment: Tel Aviv probably does not expect the Lebanese Army to try to move into Israeli-held areas in South Lebanon before it establishes firm control over the Sidon area, which may take weeks. In any event, Israel probably believes sporadic Palestinian and Hizballah attacks against its forces will continue to justify an Israeli military presence in southern Lebanon.

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PERU:

Treading Carefully on Counternarcotics Policy

Peru has increased a few antidrug operations in an attempt [redacted] but the Fujimori administration is hedging on public commitments to joint drug control efforts. [redacted] b (1) b (3)

The Peruvian Air Force late last month expanded its air interdiction campaign, using US-supplied data in forcing down a suspected drug-trafficking aircraft; two others evaded capture. [redacted]

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The Defense Minister, however, has publicly emphasized that the military will not directly participate in antidrug operations. In the hope of avoiding the kind of public criticism sparked by the counternarcotics agreement signed with the US in May, President Fujimori is also trying to remove performance requirements—in such areas as antidrug, human rights, and economic reform—from pending military and economic aid accords with the US. [redacted]

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b (3) [redacted] Fujimori, anxious to quash charges that he is militarizing the antidrug effort under US pressure, appears determined to keep economic development at the center of his counternarcotics program. The government will only reluctantly involve the Army, which is eager to improve its lackluster counterinsurgency effort in coca-growing areas. Lima's claim last week to have discovered a formal pact between Sendero Luminoso insurgents and narcotics traffickers, however, would enable the government to cite a terrorist threat to justify more forceful antidrug operations. In any event, pervasive narcotics corruption and police-Army rivalry will continue to hamper antidrug programs. [redacted]

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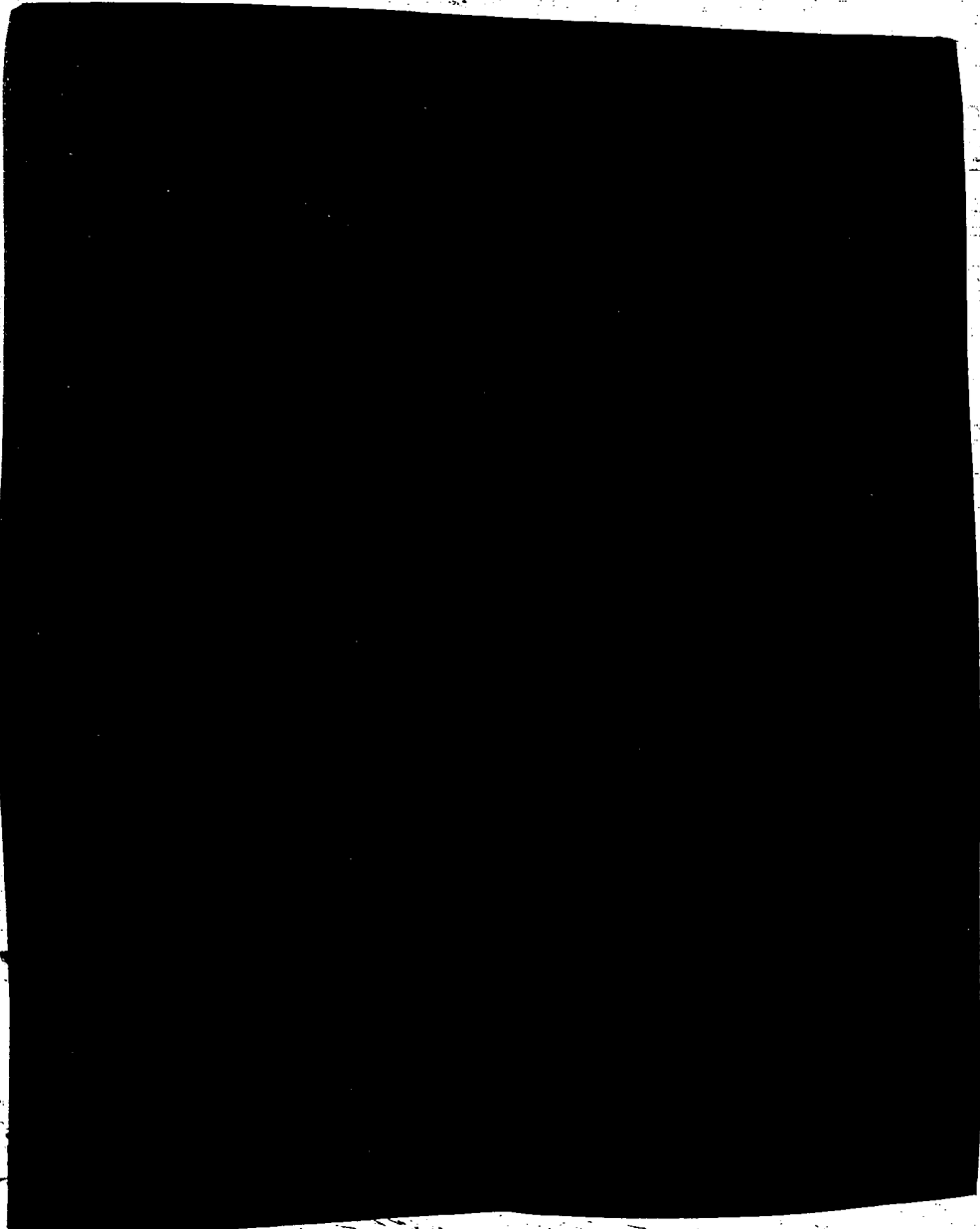
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CHINA: Trying To Spur UN-Sponsored Cambodia Settlement

Beijing recently has shown some flexibility on a Cambodia settlement and a renewed willingness to press the Khmer Rouge to be accommodating. Chinese Vice Foreign Minister Xu Dunxin hinted that China would agree to host a meeting of the Cambodian factions in Beijing, which would entail the first visit to China by a Phnom Penh regime official, but he said the five permanent members of the UN Security Council must discuss the relationship between the Cambodian interim authority and the UN, under the arrangements the Cambodian factions proposed last month.

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Beijing probably has been concerned that the UN peace process was losing momentum and that countries such as Japan and France were exploring other options. China may also be trying to appeal to Hanoi's shuffled leadership and to win favor with the US Congress during debate over its most-favored-nation trading status. China nonetheless will resist any changes to the draft peace plan that undercut the Security Council settlement framework.

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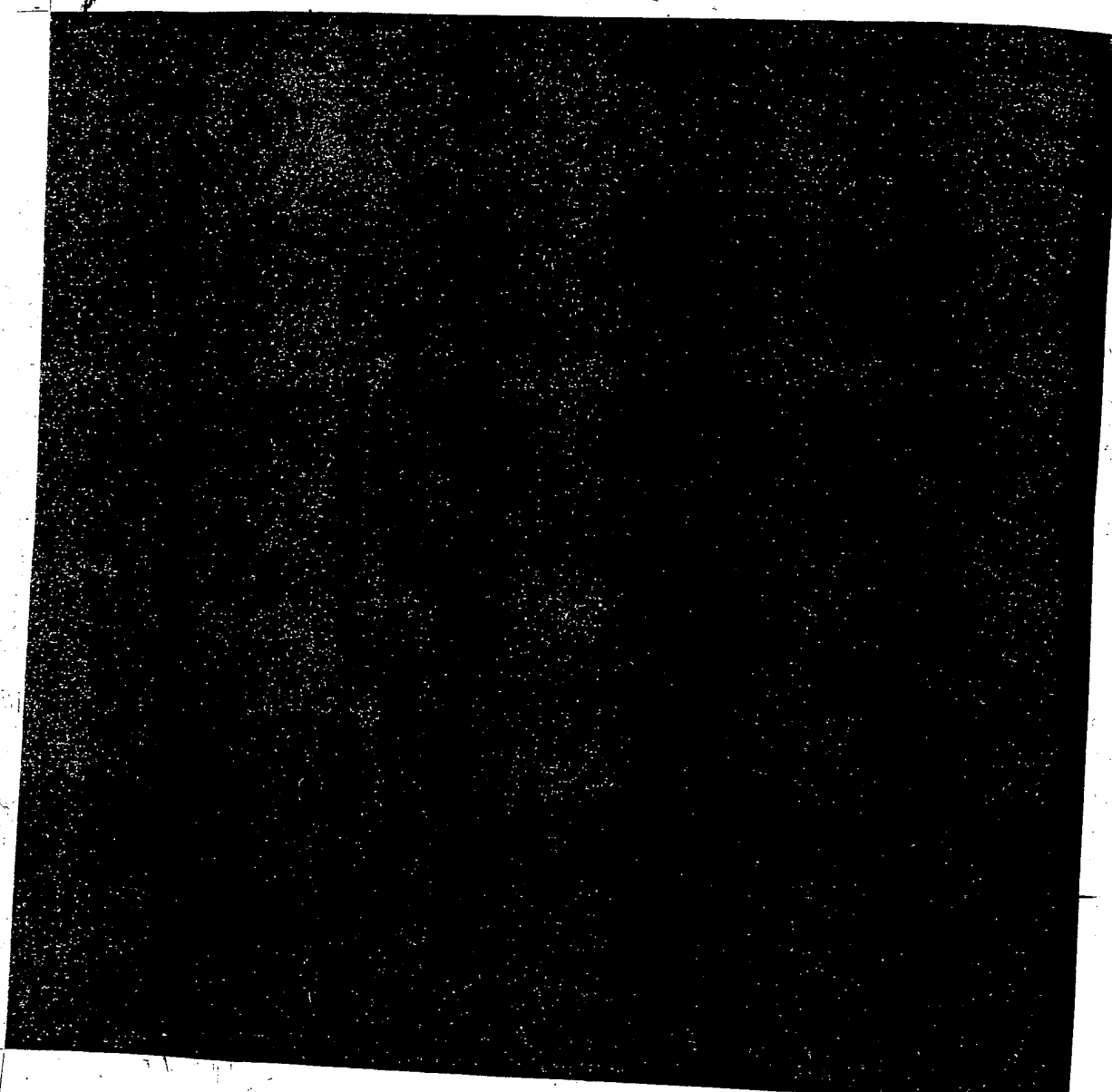
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In Brief

Middle East

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[Redacted]

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— Iranian Foreign Minister Velayati arrived in France yesterday to sign final settlement of longstanding financial dispute . . . probably presages warmer relations, possible Mitterrand visit to Tehran.

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— Sudanese rebel leader Garang's deputies voicing sentiment for secession, . . . frustrated by hardline Islamic government, loss of Ethiopian support . . . probably encouraged by Eritrean, Somaliland independence declarations.

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Asia

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[Redacted]

[Redacted]

— Fiji Government trying to appease unions by dropping proposed value-added tax; softening antilabor decrees . . . unions still plan nationwide strike 16 July . . . military chief Rabuka supports Suva but sympathetic to union demands.

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USSR

— Gorbachev aide Primakov arrives in Japan tomorrow . . . seeking support for aid request at G-7 summit this month . . . may discuss new ideas for resolving Northern Territories dispute, Soviet President's reported directive on improving relations.

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Europe

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— Walesa addressing NATO today seeking assurances Alliance understands Poland's post-Warsaw Pact security concerns . . .

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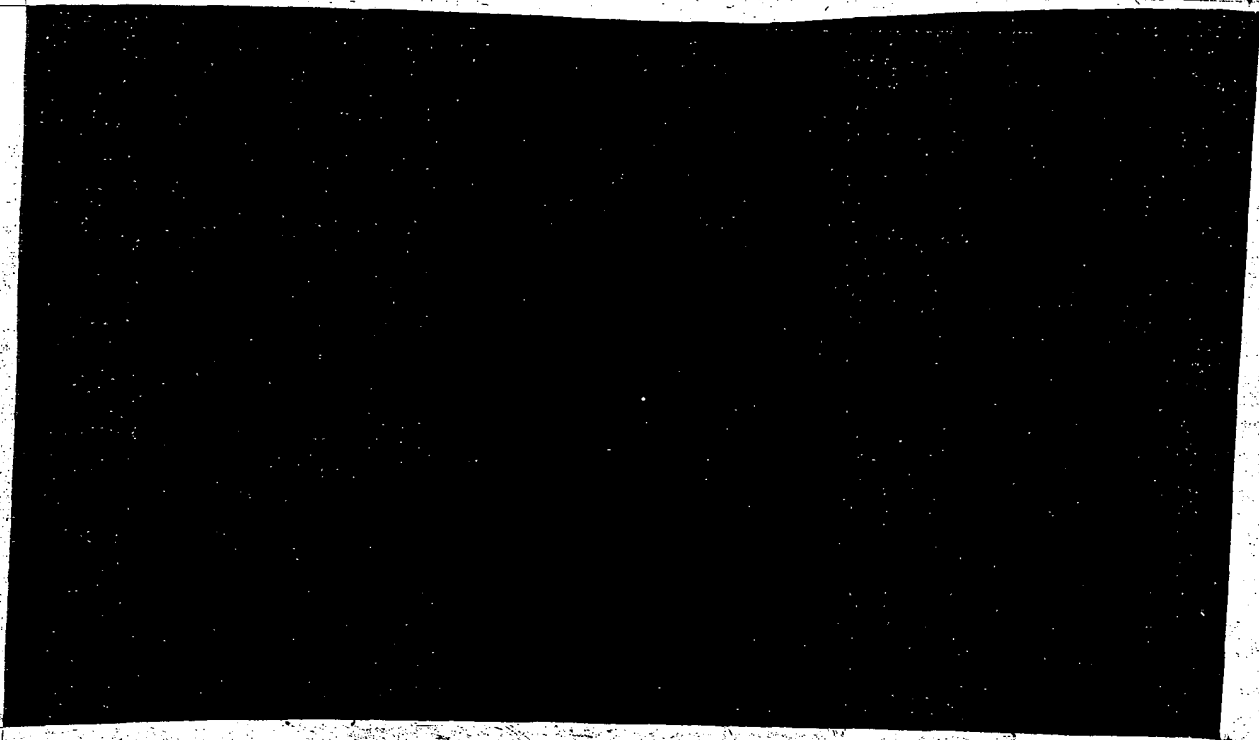
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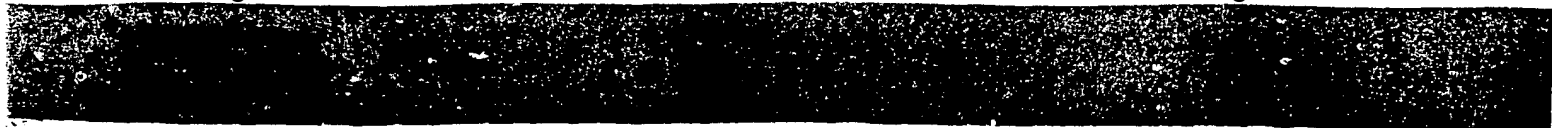
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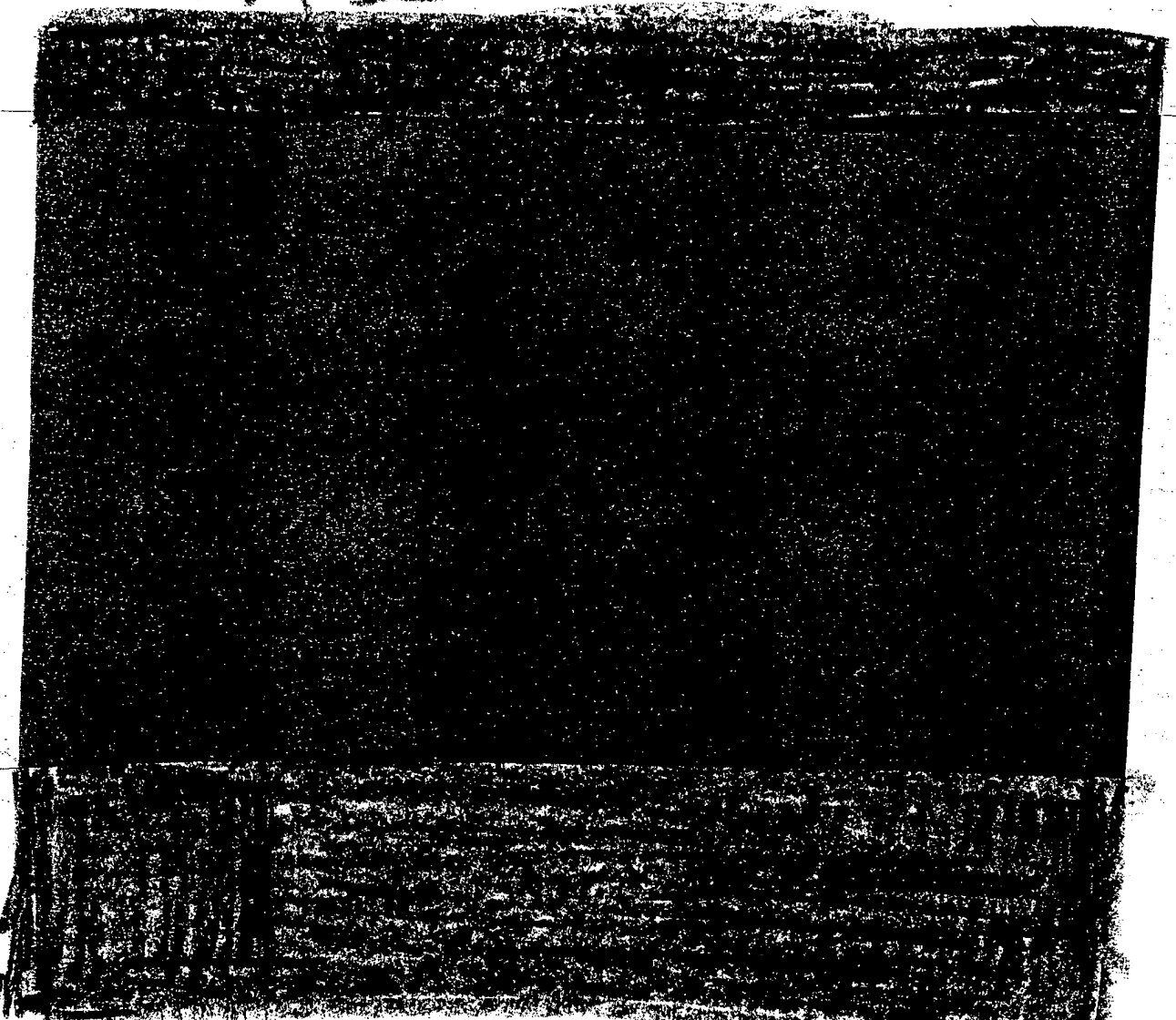
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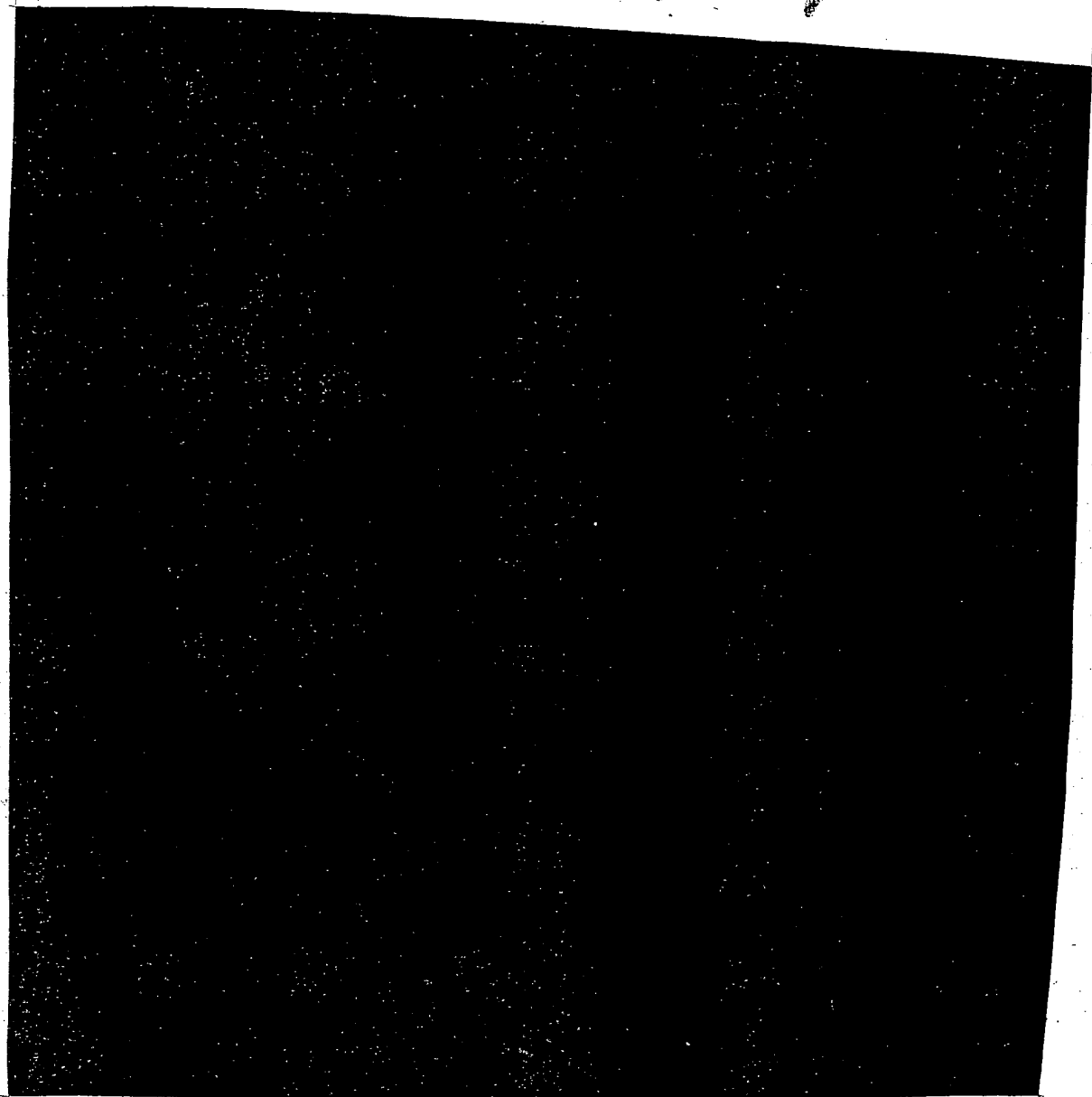
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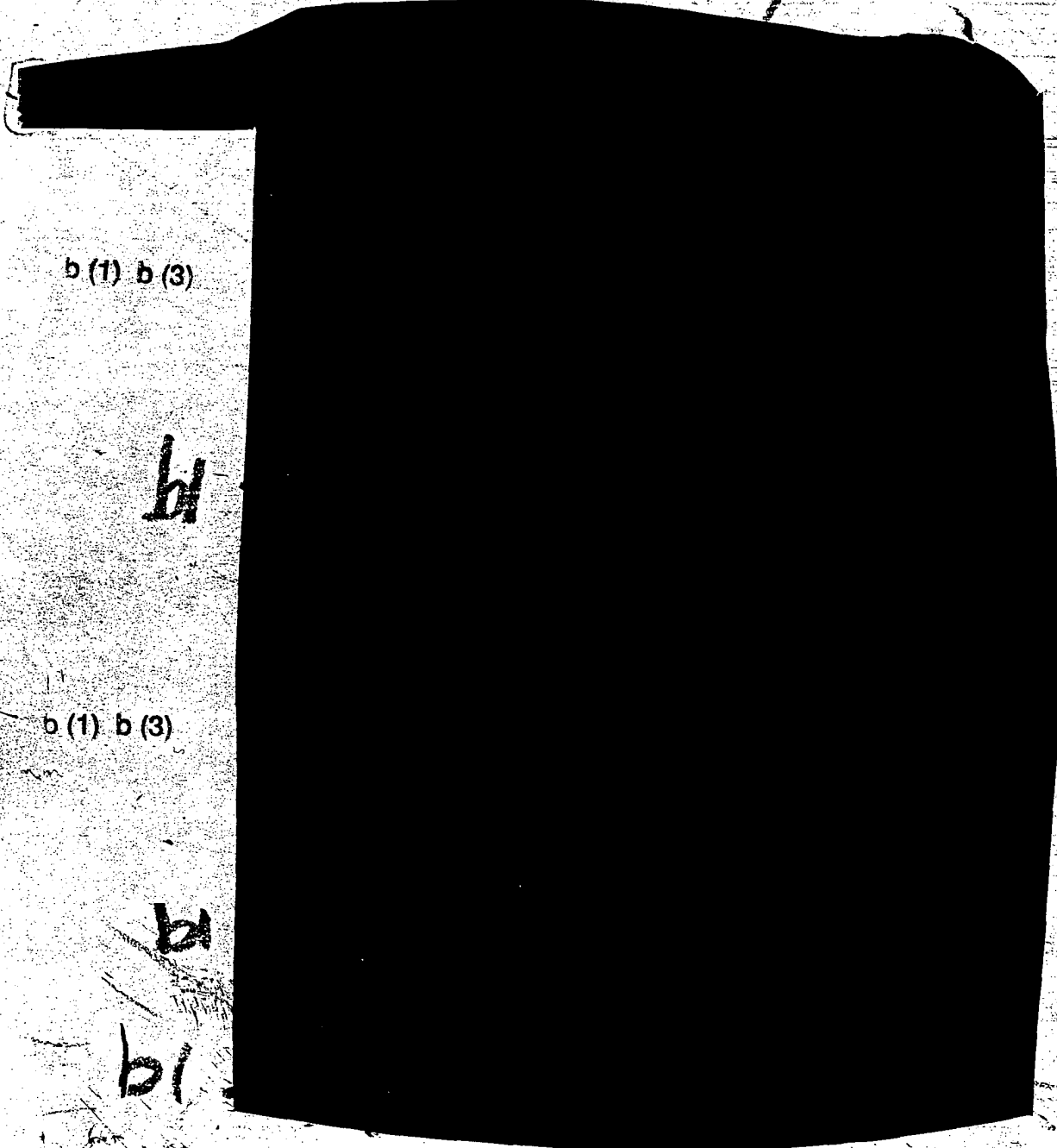
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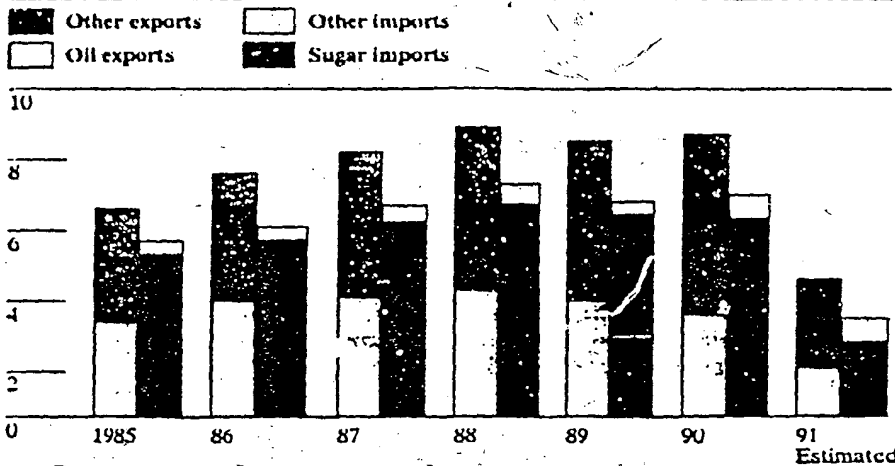
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Soviet Trade With Cuba, 1985-91

Billion US \$



For 1985-90, Soviet trade data have been converted at the official ruble/dollar exchange rate. The decline in trade in 1991 reflects the elimination of oil and nickel subsidies, lower prices for sugar and oil, and reduced Soviet exports of machinery and equipment.

USSR: Economic Aid to Cuba, 1985-91

Million US \$

	Total	Development/Trade Credits	Price Subsidies
1985	5,300	1,055	4,245
1986	4,335	1,590	2,745
1987	4,985	1,760	3,225
1988	4,500	2,015	2,485
1989	4,765	2,130	2,630
1990	5,190	1,890	3,300
1991*	2,560	1,240	1,320

* Data for 1991 are preliminary and reflect aid levels called for in agreements between the USSR and Cuba. All data are based on Soviet trade statistics, calculated in rubles, and converted to US dollars at the current official exchange rate. The subsidy is the difference between the world market price of sugar and oil and prices paid and charged by the USSR. The value of aid in 1990 rose because of higher oil prices and an increase in the ruble-dollar exchange rate; the volume, however, declined.

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Special Analysis

USSR-CUBA: Trade and Economic Aid Declining

Trade and economic aid flows between the USSR and Cuba have dropped sharply this year because of economic turmoil in the USSR and Moscow's efforts to reduce the costs of supporting Havana. The Soviets probably will have difficulty meeting already reduced 1991 commitments despite efforts to resolve current trade problems.

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Under agreements for 1991, Soviet economic aid to Cuba is to fall this year by more than half to \$2.5 billion as Moscow devotes more resources to domestic problems. The Soviets planned to cut credits and grants tied to development projects and equipment purchases and move toward hard currency trade at world prices that would slash subsidies. Soviet deliveries, however, have fallen far below the reductions planned for this year. Cuba has received only oil and grain since January and is pressing for scheduled shipments of consumer goods such as butter, canned meat, and milk.

Cuba's sugar exports to the USSR also are 600,000 tons behind schedule because of Soviet shipping problems and Cuban retaliation for Soviet delivery shortfalls. The larger drop in trade is mainly due to the turmoil in the Soviet economy, disputes over prices and exchange rates, and dislocations in the Cuban economy resulting from reduced Soviet deliveries.

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Castro announced the creation of a Soviet-Cuban "trade house" to facilitate transactions with Soviet republics and enterprises, although this trade house will not be operating soon.

These initiatives may revive bilateral trade somewhat, but relations will still be hampered by economic problems in each country and by Moscow's inability to sustain a high level of aid. Soviet leaders probably will want to continue extending some aid to Havana despite Western calls for further cuts and domestic opposition to foreign aid, and even some reformers see the strategic benefits of friendship with Havana.

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Moscow's preoccupation with Soviet economic problems makes it unlikely that increased Western aid to the USSR will prompt higher resource flows to Cuba. Hard currency loans to the USSR, for example, will be used to avoid defaults on Soviet debt and to finance Soviet imports. The Soviets historically have provided only about \$300 million a year worth of hard currency support to Cuba—usually to buy grain—out of \$4-5 billion in total Soviet aid.

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