

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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November 7, 1988

INFORMATION

MEMORANDUM FOR PAUL SCHOTT STEVENS

FROM: WILLIAM J. BURNS ^{WJB}

SUBJECT: Transition Issues Paper

Attached at Tab I is our Directorate's transition issues paper.

Peter Rodman, Steve Farrar and Rick Saunders concur.

Attachment

Tab I Transition Paper

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TRANSITION ISSUES PAPER
DIRECTORATE OF NEAR EAST-SOUTH ASIA AFFAIRS

New Israeli Government

The November 1 elections exposed deepening rifts in Israel over both domestic social issues and the peace process. Likud is well-positioned to put together a new government with the religious and extreme right parties. If the theocratic agenda of the ultra-orthodox and the annexationist demands of the right fringe prove unmanageable, and likely to provoke an immediate confrontation between a Likud government and the United States, Shamir may look seriously at another coalition with Labor. His hope would be to keep Rabin at Defense and exclude Peres, who is in deep trouble within Labor after having lost his third consecutive election as party leader. In any event, negotiations over the shape of the new government are likely to take several weeks.

Should a Likud government emerge, the U.S. will be faced with a tougher Israeli crackdown in the West Bank and Gaza and revived settlements activity. Another Likud-Labor coalition would likely continue current IDF practices in the Occupied Territories, and remain paralyzed on the longer-term political issue of how to cope with Palestinian nationalism. In an effort to reassure the American Jewish community and pre-empt conflict with the new Administration, Shamir will seek to visit the U.S. shortly after he becomes Prime Minister, perhaps even before the Inauguration.

Palestine National Council Meeting

The PLO is scheduled to convene its "legislature," the Palestine National Council (PNC), in Algiers on November 12. The PNC is expected to declare an independent Palestinian state on November 15, based on U.N. resolution 181, which laid out a two-state solution to the Palestinian problem forty years ago. Arafat has hinted that this will be accompanied by a more moderate political program, but his track record suggests that whatever emerges will fall short of the unequivocal acceptance of Israel's right to exist and 242/338 that we have required since 1975 for a U.S.-PLO dialogue. The Israeli election results will only reinforce Arafat's predisposition to avoid bold steps.

U.S. and Egypt

The U.S.-Egyptian partnership remains our single most important gain in the Arab world in recent decades. Secretary Carlucci's late October visit to Cairo bolstered the bilateral security relationship, which had been strained by an Egyptian attempt last

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summer to illegally export U.S. materials for use in Egypt's missile program. Economic issues, however, remain a source of considerable friction. Concerned about internal stability (particularly in view of unrest in Algeria), Mubarak has indicated that economic reform will be suspended until at least next spring. That is a prescription for continued deadlock with the IMF. It also makes it extremely difficult for us to weigh in with the IMF, as Mubarak has asked, or to release the remaining \$115 million in FY 88 ESF cash that Congress has linked to progress on reform.

Lebanon

Lebanon's slide toward partition could accelerate violently in the next few months. Failure to elect a new President in September 1988 has left the country locked in a tense stand-off between rival Moslem and Christian governments, and between Syria and the Christian Lebanese Forces militia (backed by strange bedfellows Israel and Iraq). High-profile U.S. efforts in August and September to promote a compromise Presidential candidate acceptable to Syria faltered; we have since pursued a quieter approach more in keeping with limited U.S. interests and leverage. Our minimal goal remains to contain tensions in Lebanon and prevent a spillover conflict between Syria and Israel.

Algeria

Last month's rioting has severely shaken the Bendjedid regime. A November 3 popular referendum endorsing a wider distribution of political power and a shake-up at the FLN party congress in December will relieve some of the pressure on the government, but the economic outlook remains bleak. The potential for renewed domestic unrest over the next few months is high.

Libya

Libya's growing chemical weapons capability is a major concern, particularly in light of the Administration's broader effort to curb CW proliferation. We are currently exploring means of intensifying diplomatic pressure on Qadhafi, and on countries (notably the FRG) whose companies have helped develop the Rabta CW facility.

A second dilemma involves the future of U.S. economic sanctions against Libya, which have had more symbolic than practical effect. U.S. oil companies retain sizeable assets in Libya, with total investments of over \$1.5 billion and rights to an estimated one billion barrels of oil. Under the sanctions established in 1986, the companies can neither use nor dispose of those assets.

As an interim measure, they entered into three-year standstill agreements with Libya, which expire in June 1989. In the meantime, the Qadhafi regime has reaped an annual windfall of \$100 million by producing and selling the American companies' oil. If U.S. policy is not modified, Qadhafi will be in a strong legal position to seize U.S. company assets upon expiration of the standstill arrangements.

At issue is whether or not to act before June 1989 to allow U.S. companies to regain control of their assets through foreign subsidiaries -- denying Qadhafi a financial bonanza and preserving a U.S. stake in oil reserves that will remain important long after Qadhafi is gone. Secretary Shultz is currently considering whether to recommend modification of sanctions policy before the Inauguration, and whether such a decision could be made without signalling any diminution of our concern about Libya's support for terrorism and its CW efforts.

Iran-Iraq Peace Talks and U.S. Force Levels in Gulf

Negotiations over implementation of UNSC resolution 598 resumed in Geneva on October 31, with the historic dispute over control of the Shatt-al-Arab still looming as a major obstacle. Progress in the talks will continue to be slow and difficult. The good news, however, is that the ceasefire is taking root, making a large-scale resumption of hostilities unlikely over the next few months.

There are currently 26 USN ships in the Persian Gulf region (10 in the Gulf itself and 16 in the Gulf of Oman and North Arabian Sea). JCS has developed a three-phase plan for modifying operations and force levels as the threat to shipping diminishes. Initiation of each phase requires Presidential approval. Phase one -- involving a loosening of the protection regime from "close escorting" to "accompanying" and a force reduction of one frigate -- was completed last month. Phase two -- moving from "accompanying" to a still looser zone defense termed "monitoring" -- could begin as early as December. The conclusion of phase three next year would return force levels toward pre-July 1987 numbers -- five or six ships in the Gulf itself and periodic battle group deployments in the Gulf region. Close coordination over the next few months with the Gulf Arab states will continue to be essential to minimize anxieties about a precipitate reduction in U.S. force levels and preserve the political gains achieved in 1987-88.

Kuwait Reflagging

When the Kuwait Oil Transport Company (KOTC) put eleven of its tankers under U.S. flag last year, it was granted two one-year

waivers, one exempting the vessels from U.S. safety standards and the other from laws requiring 100% U.S. manning. KOTC plans to announce later this year that it will "deflag" two of the eleven tankers because of the prohibitive cost of bringing them up to U.S. safety and structural standards. Kuwait hopes to keep the other nine under U.S. flag. The manning waiver expires in February 1989. We have indicated to KOTC that we would recommend a renewal of the waiver to the incoming Administration only if substantial progress is made toward full U.S. manning. The Secretary of Transportation has authority to grant such a renewal on the basis of a "good faith effort" to hire additional U.S. crew, but criticism from Congress and the maritime unions might make that politically impossible unless KOTC has moved well beyond the two or three U.S. officers now on each ship.

Arab Arms Sales

Pending requests include the Multiple Launch Rocket System (MLRS) and helicopters for Bahrain; STINGERS for Oman and Tunisia; and a revision of the 1987 DeConcini legislation requiring that we buy back Bahrain's STINGERS in June 1989. Major requests likely in the first half of 1989 include M1A1 tanks for Saudi Arabia and (perhaps) Kuwait; F-18 aircraft for the UAE; and -- most controversially -- F-16s or F-18s for Saudi Arabia. The Javits Report, a required annual submission to Congress on possible future arms sales, is due in February. One of the first and most important challenges for the new Administration will be deciding what it will attempt to sell Arab governments in 1989 and how best to make a case for those sales in the context of its broader strategy in the region.

U.S. and Iraq

Congress' failure to pass legislation requiring sanctions against Iraq for its use of chemical weapons has provided an unexpected breathing space for U.S.-Iraqi relations after months of strain. Iraq may act wisely to help put the CW issue behind us by publicly announcing its intention to take part in the Paris CW conference and cooperate with the international community on the CW problem. But even if it does so, our relationship will continue to be complicated by Iraq's postwar assertiveness and its suspicion of U.S. interest in improved ties with Iran.

U.S. and Iran

Iran's acceptance of UNSC resolution 598 and the ascendancy of Rafsanjani and his policy of reopening contacts with the West have created the possibility of a gradual normalization of U.S.-Iranian relations. Given the depth of suspicion and popular resentment on both sides, however, no one should have any

illusions that the process will be quick or easy. The Iranian regime may move in the next few months to begin direct government-to-government talks with the U.S., in which we have said we're prepared to engage. It is possible that more hostage releases could occur in the same period. As this process unfolds, past experience teaches the importance of a steady, consistent U.S. approach that relies solely on official governmental channels of communication and focuses prospects for actual improvement in relations squarely on moderation of Iranian behavior. It is unclear what effect Khomeini's death -- which could occur at any time as a result of his deteriorating health -- will have on such prospects, or on internal stability in Iran, although Rafsanjani seems fairly well-positioned for the transition.

Afghanistan

In an effort to slow the deterioration of their position and that of their PDPA allies in Afghanistan, the Soviets have suspended troop withdrawal and stepped up offensive operations against the Resistance. There are still solid reasons to believe that the Soviets will ultimately comply with the February 15 deadline for final withdrawal -- not least of which are the costs which caused Gorbachev to decide to withdraw in the first place -- but their efforts to intimidate the Resistance and Pakistan in the meantime could provoke a major crisis in U.S.-Soviet relations. For its part, the Resistance plans to intensify pressure on Kabul throughout the winter.

Little progress has been made on formation of a broad-based government to replace the current Afghan regime. Despite their apparent willingness to jettison President Najibullah, the Soviets have not yet developed a non-PDPA option which the Resistance might take seriously. Nevertheless, the Soviets will try to couple their military stick with diplomatic carrots aimed at engaging or splitting the Resistance; to this end, Deputy Foreign Minister Vorontsov may meet in Europe with Resistance spokesman Rabbani after Rabbani's current talks in Washington. Close U.S. coordination with Pakistan and the Resistance will be especially important over the next few months.

U.S. and Pakistan

Given the tense endgame now underway in Afghanistan and the unsettled climate in post-Zia Pakistan, U.S.-Pakistani relations will be among the most important issues that the new Administration will have to address. The November 16 Pakistani elections are still on track, and the military continues to signal its intention to cooperate with the new civilian government -- which could be tested immediately by Soviet

pressure on Afghanistan. Meanwhile, the nuclear issue has become an increasingly difficult obstacle in U.S.-Pakistani relations. Annual certification that Pakistan does not possess a nuclear weapon -- a prerequisite for continuation of U.S. security assistance -- is becoming extremely problematic (the President is likely to make a decision on FY 89 certification before the end of November). Another required Presidential certification -- that the GOP is making progress toward stopping the production and export of narcotics -- is likely to be a major bone of contention with Congress and the Pakistanis next year.