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SURJ: CONTINGENCY STUDY: IMPACT OF CLOSURE OF KAGNEW IN NEAR-TERM

REF: STATE 227020

THERE FOLLOWS TEXT OF KAGNEW CONTINGENCY STUDY PER YOUR REQUEST:

1. ASSUMPTIONS: WE ASSUME THAT A DECISION IS TAKEN BY THE USG, FOR WHATEVER REASON, TO PHASE-OUT MILITARY-ADMINISTERED PROGRAMS AT KAGNEW. SUCH A DECISION, HOWEVER, MIGHT WELL LEAVE ONE OR MORE US CIVILIAN-ADMINISTERED ACTIVITIES (E.G., STONEHOUSE) IN THE ASMARA AREA, WHICH WOULD REDUCE SOMEWHAT ANY LOCALIZED UNFAVORABLE ECONOMIC IMPACT. WE ASSUME FURTHER THAT SUCH A PHASE-OUT WOULD TAKE AT LEAST SIX TO TWELVE MONTHS (AND PROBABLY LONGER) TO COMPLETE, AFTER ANY FIRM DECISION IS MADE. THE POLITICAL IMPACT ON THE IG OF SUCH A DECISION WOULD ALSO BE AFFECTED BY THE TIMING OF ITS DISCLOSURE TO THE IEG; FOR THE PURPOSES OF THIS ESTIMATE, WE ASSUME THAT A RELATIVELY COMPLETE DISCLOSURE IS MADE TO THE EMPEROR SHORTLY AFTER A FIRM DECISION IS TAKEN.

2. IMPACT ON ETHIOPIAN ATTITUDES:
A) THE EMPEROR (AND MANY OF THE SENIOR CIVILIAN AND MILITARY OFFICIALS OF THE IEG) WOULD ALMOST CERTAINLY VIEW SUCH A DECISION AS SIGNIFYING AN EROSION OF THE "SPECIAL RELATIONSHIP"

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BETWEEN THE US AND ETHIOPIA, EVEN IF ALL OTHER US PROGRAMS IN ETHIOPIA REMAINED ESSENTIALLY UNAFFECTED. AT THE VERY MINIMUM, MILITARY PLANNERS IN THE IEG WOULD HAVE TO RE-ESTIMATE THEIR JUDGMENTS, EXPLICIT OR IMPLICIT, OF US WILLINGNESS TO BECOME INVOLVED IN AN ETHIOPIAN MILITARY EMERGENCY, WHETHER INTERNAL OR EXTERNAL (WE HAVE NO REASON TO BELIEVE THAT CURRENT IEG PLANNING ASSUMES ANY PARTICIPATION OF AMERICAN PERSONNEL).

B) WE COULD EXPECT THE SENIOR IEG OFFICIALS TO VIEW THE CLOSING OF KAGNEW AS REQUIRING THEIR RE-EVALUATION OF US INTENTIONS TOWARD ETHIOPIA, IN VIEW OF PROBABLE IEG FEARS OF MID-TERM REDUCTIONS IN US MILITARY AND PERHAPS ECONOMIC ASSISTANCE. THE RELATED REVIEW OF IEG RESOURCE ALLOCATIONS MIGHT RESULT EVENTUALLY IN AN INCREASE IN IEG MILITARY SPENDING AND A REDUCTION IN IEG DEVELOPMENTAL EXPENDITURES. IF THE REDUCTION PROVED SIGNIFICANT AND OF SUFFICIENT DURATION, POPULAR INTERNAL PRESSURES WOULD PROBABLY BUILD UP. THIS WOULD BE ESPECIALLY TRUE IF THE IEG IS UNABLE TO DELIVER ON ITS PUBLIC COMMITMENTS TO REFORM AND WELFARE PROGRAMS, SUCH AS AWAJA SELF-ADMINISTRATION, RURAL HEALTH, TENANT SECURITY AND OTHER AGRARIAN REFORMS.

C. THE NOBILITY AND OTHER TRADITIONAL POWER ELITES SHOULD NOT A PRIORI FEEL ADVERSELY AFFECTED IN THEIR PERSONAL POSITIONS BY A KAGNEW PHASE-DOWN. THEY MIGHT, ON THE CONTRARY, PICTURE THEIR OWN STARS AS RISING, SINCE THE EMPEROR AND THE IEG MAY REQUIRE THEIR BACKING AND INFLUENCE IN THE COUNTRYSIDE EVEN MORE, AT LEAST IN THE SHORT-RUN. SOME MIGHT HARBOR THE HOPE THAT ETHIOPIA MIGHT ONCE AGAIN RETREAT INTO ITSELF AFTER THIS LATEST EPISODE OF CLOSE FOREIGN TIES.

D) YOUNGER IEG BUREAUCRATS AND OTHER EDUCATED PEOPLE, WHILE FORESEEING SOME SHORT-TERM PROBLEMS, MIGHT WELL HOPE THAT ETHIOPIA WOULD NOW PRESENT THE OUTSIDE WORLD A MORE NEUTRAL POSTURE. SOME COULD ALSO FEEL THAT A GOVT LESS SUPPORTED BY THE US MIGHT BE COMPELLED TO ACT MORE EFFECTIVELY ON THE PRESSING REFORMS REQUIRED TO MODERNIZE ETHIOPIA. BECAUSE OF THEIR EDUCATIONAL AND OTHER LINKS TO THE US, WE WOULD NOT EXPECT THIS GROUP TO FEEL BITTER TOWARD A CLOSURE OF KAGNEW.

E) IF THE CLOSING DOWN OF KAGNEW WERE PRESENTED TO THE ETHIOPIAN AND WORLD PUBLIC BY THE IEG AS SELF-INITIATED, THE MOVE WOULD PROBABLY BE WELCOMED IN ANTI-REGIME (WHICH USUALLY CONNOTES ANTI-US) CIRCLES. SOME IEG OPPONENTS WOULD VIEW THE CLOSING AS BOTH ANOTHER STEP TOWARD DISENGAGEMENT FROM THE EMBRACE OF "US IMPERIALISM" AND AS A WEAKENING OF THE REGIME'S DEFENSES AGAINST THE "FORCES OF PROGRESS".

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F) THE ELF MIGHT VIEW THE CESSATION OR GREATLY REDUCED OPERATIONS AT KAGNEW, WITH ITS IMPLIED CORRESPONDING REDUCTION OF US SUPPORT TO THE IEG, PARTICULARLY ITS MILITARY, AS A SHORT TERM BENEFIT. HOWEVER, ELF SUPPORTERS WOULD REALIZE THAT IEG MILITARY FORCES IN ERITREA WOULD BE MAINTAINED. THE ELF MIGHT ALSO CALCULATE THAT ETHIOPIA WOULD ESTABLISH CLOSER RELATIONS WITH ITS NEIGHBORS AND THEIR COMMUNIST SUPPORTERS TO TRY TO OBTAIN BOTH AID AND PROMISES OF WITHDRAWAL OF BACKING FOR THE ELF. TO THE EXTENT THAT KAGNEW'S ECONOMIC BENEFIT TO THE PEOPLE OF ERITREA HAS DISCOURAGED ATTACK AGAINST KAGNEW'S INSTALLATIONS OR US PERSONNEL, THE ANNOUNCEMENT OF KAGNEW'S PHASEDOWN COULD PRECIPITATE ACTIONS AGAINST BOTH KAGNEW AND US PERSONNEL. THE ELF MIGHT HOPE TO GAIN PUBLICITY AND PRESTIGE AS BEING ONE OF THE CAUSES OF THE PHASEDOWN.

G) THE SOMALI IRRIDENTIST MOVEMENT WOULD LIKELY BE LITTLE ALTERED IN THE SHORT RUN BY US WITHDRAWAL FROM KAGNEW. ITS PROSPECTS AND OUT LOOK COULD BE AFFECTED IN THE MID-TERM, HOWEVER, IF THE IEG AND THE GSDR, IN THE WAKE OF WHAT THEY PERCEIVED AS INCREASING UNLIKELIHOOD OF US SUPPRT OF ETHIOPIAN AIMS IN CASE OF AN ETHIO-SOMALI WAR, ATTEMPTED TO SOLVE THEIR DIFFERENCES.

3. IMPACT ON US-ETHIOPIAN RELATIONS:

A) THE IMMEDIATE EFFECT OF THE CLOSURE OF KAGNEW WOULD, AS ALREADY MENTIONED, RAISE SERIOUS DOUBTS IN THE MINDS OF THE IEG AS TO THE CONTINUATION OF THEIR "SPECIAL RELATIONSHIP" WITH THE US, PARTICULARLY OUR MILITARY ASSISTANCE PROGRAM (MAP). WE JUDGE THAT THE IEG IS WELL AWARE OF BUDGETARY PRESSURES AND CURRENTS OF OPINION IN WASHINGTON WHICH CONSIDER THE MAP AS A DIRECT

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QUID PRO QUO FOR KAGNEW AND WHICH SURFACED LAST YEAR WHEN THE USG WAIVED THE LEGAL 10 PERCENT DOWNPAYMENT FOR MAP, BECAUSE OF KAGNEW. WE NOTE, HOWEVER, THAT ANY MAP REDUCTION COULD BE PARTIALLY CUSHIONED BY AID, FOR EXAMPLE BY RELAXING CONDITIONS FOR THE USE OF CURRENT AGRICULTURAL SECTOR LOAN TO PROVIDE FOR LOCAL COST FINANCING OF ADDITIONAL DEVELOPMENT ACTIVITIES, THUS FREEING IEG RESOURCES FOR MILITARY PROGRAMS.

B) SOME ETHIOPIANS WOULD HAVE SIMILAR FEARS OF A MAJOR REDUCTION OF US ECONOMIC ASSISTANCE (AID). OVER THE PAST FEW YEARS, HOWEVER, WE HAVE SUCCEEDED IN SECURING THE ACCEPTANCE OF SENIOR IEG OFFICIALS TO THE CONCEPT THAT AID WILL FLOW TO FINANCE SPECIFIC PROJECTS AND THAT THE RESULTANT AID LEVEL WILL ACCORDINGLY FLUCTUATE FROM YEAR TO YEAR. WE WOULD HOPE THAT THE IEG WOULD CONTINUE TO ACCEPT THIS CONCEPT AFTER ANY CLOSURE OF KAGNEW AND NOT VIEW ANY DOWN-TURNS IN AID AS KAGNEW-RELATED.

C) WE JUDGE THAT DIRECT BENEFITS OF KAGNEW ARE LESS IMPORTANT TO IEG THAN OTHER US PROGRAMS IN ETHIOPIA, PARTICULARLY MAP AND AID. NEGATIVE ASPECTS, PRIMARILY PSYCHOLOGICAL, OF ANY KAGNEW PHASE-OUT COULD PARTIALLY BE MITIGATED BY APPROPRIATE POLITICAL ACTION AND REASSURANCES ABOUT MILITARY AND DEVELOPMENT AID.

D) THE INITIAL IMPACT OF A DECISION TO PHASE-OUT KAGNEW WOULD

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RESULT IN SOME CONTRACTION OF OUR ALREADY LIMITED DIPLOMATIC INFLUENCE ON THE IEG. IF THIS DECISION WERE FOLLOWED BY A DOWN-TURN IN MAP AND PERHAPS AID AS WELL, OUR ACCESS TO IEG POLICY MAKERS WOULD BE FURTHER CONTRACTED, AND OUR PRESENT INFLUENCE ON IEG DEFENSE AND DEVELOPMENT PROGRAMS WOULD DECREASE. IF THIS DECISION, AS IT BECAME PUBLIC KNOWLEDGE, APPEARED TO LEAD TO AN INCREASE OF OPPOSITIONIST ACTIVITY OR EFFECTIVENESS (E G BY THE ELF), IEG GENERAL UNHAPPINESS WITH THE US COULD INCREASE EVEN FURTHER. IT SHOULD BE RECOGNIZED, HOWEVER, THAT ON ISSUES DIRECTLY RELATED TO US INTERESTS, SUCH AS POSSIBLE UN ACTION AGAINST "TERRORISM", OR ABILITY TO INFLUENCE THE IEG HAS ERODED OVER THE PAST FEW YEARS, AS ETHIOPIA HAS INCREASINGLY SOUGHT TO IDENTIFY ITSELF WITH A GENERAL AFRICAN AND THIRD WORLD CONSENSUS.

4. IMPACT ON ETHIOPIAN RELATIONS WITH THIRD COUNTRIES:

A) THE COMMUNIST POWERS: AS THEIR MILITARY PLANNERS REASSESS THE STRATEGIC OUTLOOK IN THE HORN RESULTING FROM THE US WITHDRAWAL FROM KAGNEW, THE IEG MIGHT WELL DECIDE, AS A FORM OF RE-INSURANCE, TO TRY TO STRENGTHEN FRIENDLY RELATIONS WITH THE COMMUNIST POWERS, PARTICULARLY THE USSR, "PATRON" OF SOMALIA. HOWEVER, WE WOULD NOT EXPECT ETHIOPIA, UNDER ITS PRESENT GOVERNMENT, TO TURN TO THE USSR OR PRC FOR MILITARY ASSISTANCE OF SUCH SCOPE THAT IT WOULD GIVE EITHER POWER POLITICAL LEVERAGE ON THE IEG, EVEN IF MAP WERE ALSO REDUCED.

B) THE INDUSTRIALIZED WORLD (EUROPE AND JAPAN); US WITHDRAWAL FROM KAGNEW, BY ITSELF, WOULD HAVE LITTLE IMPACT ON ETHIOPIAN RELATIONS WITH THE OTHER WESTERN INDUSTRIALIZED POWERS, INCLUDING JAPAN, OTHER THAN PERHAPS marginally TO INCREASE THE ATTRACTION TO THE IEG OF SOME FORM OF ASSOCIATION WITH THE EUROPEAN COMMUNITIES (EC). IF ACCOMPANIED BY A SIGNIFICANT REDUCTION IN MAP AND/OR AID, HOWEVER, ETHIOPIA WOULD ALMOST CERTAINLY TURN FIRST TO EUROPE TO CLOSE THE "GAP", PARTICULARLY INSOFAR AS ITS MILITARY REQUIREMENTS ARE CONCERNED.

C) THE THIRD WORLD; US WITHDRAWAL FROM KAGNEW WOULD ACCELERATE CLOSER ETHIOPIAN IDENTIFICATION WITH THE NON-ALIGNED THIRD WORLD, PARTICULARLY IN AFRICA. WHILE THE THIRD WORLD, AS SUCH, COULD DO LITTLE TO PROVIDE HARDWARE, THERE ARE THIRD WORLD COUNTRIES (PARTICULARLY OIL EXPORTERS) IN A POSITION TO HELP COMPENSATE FOR REDUCTIONS IN MAP AND AID RESOURCES THROUGH CASH

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GRANTS. THIS POSSIBILITY, HOWEVER, WOULD DEPEND SIGNIFICANTLY ON CHANGES IN ETHIOPIAN RELATIONS WITH ISRAEL AND POSSIBLY ON SOME ACCOMMODATION TO ELF VIEWS.

5. **IMPACT ON ETHIOPIAN ECONOMY:**

A) THE DIRECT CONTRIBUTION OF KAGNEW STATION TO THE ETHIOPIAN ECONOMY CAN BE QUANTIFIED AT ABOUT **US \$4-6 MILLION** OF LOCAL EXPENDITURES. SINCE A LARGE PROPORTION OF THESE LOCAL EXPENDITURES PROBABLY DO NOT LEAD TO A COMPARABLE INCREASE IN IMPORT DEMAND, THEY RESULT IN THE SAME PROPORTIONAL ADDITION TO IEG HOLDINGS OF FREE FOREIGN EXCHANGE. OF THESE LOCAL EXPENDITURES, ABOUT **US\$1 MILLION ACCRUES TO ETHIOPIAN AIRLINES** FOR TRANSPORTATION EXPENDITURES. EXCEPT FOR THE ABOVE CONSIDERATIONS, THE DIRECT ECONOMIC IMPACT OF ANY KAGNEW CLOSURE WOULD BE LARGELY A LOCAL PHENOMENON IN THE ASMARA AREA.

B) THE SINGLE MOST SIGNIFICANT ELEMENT WOULD PROBABLY BE THE **LOSS OF SALARIES (ABOUT US\$1 MILLION) FOR LOCAL EMPLOYEES WHO TOTALLED 1,256 AS OF OCTOBER 31, 1972.** THIS FIGURE INCLUDES **437 PERSONS PAID BY APPROPRIATED FUNDS AND 819 EMPLOYEES,** MOSTLY DOMESTIC, PAID BY NON APPROPRIATED FUNDS.

C) FINALLY, THE PRESENT AND PROSPECTIVE WILLINGNESS OF US FIRMS TO INVEST IN ETHIOPIA IS PROBABLY CONDITIONED TO SOME DEGREE BY THE PSYCHOLOGICAL ASSURANCE FLOWING FROM A PERCEIVED US STATE IN ETHIOPIA. KAGNEW'S EXISTANCE AND THE RELATED, VISIBLE MAAG PRESENCE UNDOUBTEDLY CONTRIBUTE TO THIS PERCEPTION.

6. COMMENT: IN LIGHT REFTEL, FOREGOING IS INTENDED FOR BACK GROUND POSSIBLE FUTURE USE IF QUESTION BECOMES ACTUAL.

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