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WEDNESDAY, JANUARY 8, 1986 -- 6 a.m. EST EDITION

TODAY'S HEADLINES

NEWS CONFERENCE

President Severs Links To Libya's Economy -- President Reagan, accusing Qaddafi of "armed aggression" against the U.S., announced a near-total ban on contacts with Libya. (Washington Post, Washington Times, Montgomery Advertiser, Indianapolis Star, Atlanta Constitution, Reuter, Hartford Courant, Kansas City Times, Detroit News, AP, UPI)

INTERNATIONAL NEWS

Libyan Deployment Of Missiles Speeded -- Soviet-made SA5 anti-aircraft missiles being deployed in Libya are likely to be operational this month. (Washington Post)

NATIONAL NEWS

Block Resigns Agriculture Post -- Secretary Block, a lightning rod who presided over some of the toughest times for farmers, will leave the Administration next month. (Washington Post, Washington Times, AP, Reuter)

Reagan Says Tax Hike Would Hurt Economy -- But the President said the 1987 budget he will send to Congress will include a request for an increase in arms spending. (Reuter, AP, Washington Times)

NETWORK NEWS (Tuesday Evening)

U.S./LIBYA -- The President will order all Americans in Libya and all American companies three to get out.

VELIOTES -- The Administration has decided to remove outspoken Nicholas Veliotes as ambassador to Egypt.

BLOCK -- After months of rumors that he planned to quit, Secretary Block finally did it Tuesday.

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NEWS CONFERENCE

PRESIDENT SEVERES LINKS TO LIBYA'S ECONOMY Qaddafi's Isolation Urged

President Reagan, accusing the Libyan regime of Col. Muammar Qaddafi of waging "armed aggression" against the United States, announced last night the imposition of a near-total ban on economic and commercial contacts with Libya by American businesses and individuals.

Acknowledging that his request may be turned down, Reagan called on U.S. allies to take similar actions against Libya and vowed to impose additional U.S. measures "if these steps do not end Qaddafi's terrorism."

(Edward Walsh, Washington Post, A1)

Oil, Construction Targeted

Four U.S. oil firms that pump the bulk of Libya's oil and a big American construction firm that is helping to make the Libyan desert bloom with a mammoth irrigation project are targets of the sanctions announced by President Reagan last night, according to Administration officials.

The new sanctions, which supplement a series of U.S. measures dating to 1981, are intended to stop all American economic activity with Libya and bring all Americans home in a display of opposition to the regime of Col. Qaddafi and its support of international terrorism, officials said.

(Don Oberdorfer/David Ottaway, Washington Post, A1)

Reagan Sets Sanctions On Libya

"If these steps do not end Qaddafi's terrorism," the President said, "I promise you that further steps will be taken." But Mr. Reagan did not threaten Libya with armed attack and made it clear that the time for saber-rattling has passed.

(Jeremiah O'Leary, Washington Times, A1)

Reagan Orders Libyan Sanctions

President Reagan on Tuesday ordered all Americans and American companies to quit doing business with Libya and pledged that unspecified "further steps" would be taken if Moammar Qaddafi does not end his "long standing involvement in terrorism." Reagan said there was "irrefutable evidence" that the Libyan leader was involved in the December 27th airport massacres in Rome and Vienna, but offered none. "There are things that should not be revealed," Reagan said.

(Michael Putzel/AP, Montgomery Advertiser, Indianapolis Star, A1)

U.S. Severs All Business With Libya

Calling Moammar Qaddafi a "flaky" dictator who must pay for supporting terrorism," President Reagan on Tuesday ordered American firms to halt all business activities with Libya by the end of the month. At the same time, the President ordered the more than 1,000 U.S. citizens in Libya to "leave immediately" or face criminal prosecution. If convicted, they could face ten years in prison.

(Andrew Alexander, Atlanta Constitution, A1)

Reagan Bans U.S. Trade With Libya

President Reagan Tuesday ordered all Americans and American companies to quit doing business with Libya and pledged that unspecified "further steps" would be taken if Col. Moammar Qaddafi does not end his "long standing involvement in terrorism." The President, facing reporters in his first prime-time news conference since September, said he takes seriously Qaddafi's threats to dispatch suicide squads to this country. "I find that he's not only a barbarian, but he is flaky," he added.

(Wire Service Reports, Hartford Courant, Kansas City Times, A1)

Reagan Prohibits Trade

In an Executive Order that invoked national emergency authority, the President yesterday ordered all Americans and American companies to stop doing business with the North African nation. Mr. Reagan's Executive Order decrees that firms and individual Americans who remain in Libya or conduct business, import or export, with Libya, will be subject to criminal prosecution. Three American oil companies, Occidental Petroleum, Marathon Oil Company, and Conoco Inc. said after Mr. Reagan's news conference that they would comply with the President's order. All three said, however, that they did not have American employees in Libya.

(AP/UPI, Detroit News, A1)

Reagan Imposes Sanctions On Libya, Calls Gaddafi A Barbarian

Reagan said Libya was "a pariah nation" that had engaged in aggression against the United States and had threatened to take terrorism to American streets, and he described Gaddafi as a perpetrator of criminal acts, a barbarian and "flaky."

(Ralph Harris, Reuter)

Reagan Swires At A 'Flaky, Barbarian' Khadafy

President Reagan branded Khadafy "flaky" and said he would be "happy to welcome him" as the leader of a terrorist attack on Washington.

(Richard Grosse, UPI)

Reagan's 'Retribution' Easier Said Than Done

President Reagan has put the economic screws to Khadafy for his support of terrorism, branding him a "pariah" and a "barbarian," boycotting trade with Libya and ordering Americans out. The President, who five years ago promised "swift and effective retribution" against terrorism, has found that easier said than done.

This is not because the United States is unable to conduct a massive military strike against Libya; it is because Reagan realizes stronger action must be tempered with reason: he does not want innocent people victimized by such an attack.

(News Analysis by Helen Thomas, UPI)

INTERNATIONAL NEWS

LIBYAN DEPLOYMENT OF MISSILES SPEEDED

Soviet-made SA5 antiaircraft missiles being deployed in Libya are likely to be operational this month, far sooner than U.S. officials first believed, and another shipment of the long-range missiles may recently have reached the North African country, U.S. officials said yesterday.

Twelve SA5 missile launchers are being erected at a fighter air base on the Gulf of Sidra, which Libya claims as territorial waters but the U.S. considers international territory. (Fred Hiatt, Washington Post, A18)

AMERICANS 'NOT HASSLED' IN LIBYA

TRIPOLI -- Americans living and working in Libya said Tuesday they have little to fear from the Libyans but in some cases they are deeply worried about reprisals against them by the U.S. government or against their families by Americans angry that they are working under the government of Muammar Qaddafi.

U.S. citizens working in Libya "are not hassled. On the contrary, they get special treatment," said one diplomat who knows several Americans working here. "Let's face it, the Libyans need them here: the oil industry, it's the Americans who still run it."

(Christopher Dickey, Washington Post, A1)

BRITISH DUBIOUS ABOUT SANCTIONS

LONDON -- British officials said today they have received no formal request from the Reagan Administration to impose economic sanctions against Libya, and repeated the government's belief that such measures are ineffective and often counterproductive.

Other Europeans matched British restraint. In Paris, West German Foreign Minister Hans-Dietrich Genscher noted the "very cautious" attitude of his government toward economic sanctions.

In Ottawa, Canadian government officials said Canada would not join the United States in imposing economic curbs because of the limited impact of such a move, Reuter reported. (Karen DeYoung, Washington Post, A18)

OIL COMPANIES SAY THEY WILL COMPLY WITH REAGAN ORDER

American oil companies said Tuesday night they would comply with President Reagan's directive to stop doing business with Libya, part of an economic embargo the President said was a response to support for terrorism. Occidental Petroleum Corp., Marathon Oil Co. and Conoco Inc. also said they had no American employees in Libya. (AP)

ARAB-AMERICAN SAYS REAGAN CRACKDOWN WILL MAKE GADDAFI POPULAR

President Reagan's order to Americans working in Libya the country and his ban on trade with Libya will make Col. Muammar Gaddafi more popular from Indonesia to Morocco, the President of the Arab-American Relations Committee said tonight.

"President Reagan's orders will not hurt Gaddafi economically, rather they will increase his popularity from Jakarta in Indonesia to Casablanca in Morocco," said Dr. Mohammed Mehdi. (Reuter)

REAGAN REAFFIRMS POLICY ON PLO

President Reagan Tuesday night reaffirmed U.S. policy of refusing to deal with the PLO and said it was impossible for the PLO to take part in peace talks until it recognized Israel. But he said "there has to be a solution" to the problem of those Palestinians who were refugees in such countries as Lebanon. (Reuter)

REAGAN SAYS U.S. FOILED 126 TERRORIST ATTACKS

President Reagan, acknowledging that terrorism appears to be going unchecked, said the United States foiled 126 potential terrorist assaults in this country and abroad in the last year. Reagan declined to say how many of the 126 potential assaults were planned against U.S. targets. (UPI)

U.S.-CANADA REPORT ASKS \$5 BILLION ACID-RAIN PLAN

President Reagan and Canadian Prime Minister Brian Mulroney will be presented with reports today from their hand-picked representatives that call for the U.S. government and industry to undertake a five-year, \$5 billion program to test technology for controlling acid rain, officials said Tuesday. Mulroney's government, which has urged the U.S. to take stronger action to fight acid rain, is expected to welcome the report.

But at a time when deep cuts are envisioned in U.S. government spending, the \$5 billion recommendation could put Reagan in an awkward position. Reagan is expected to give the report a low-key response likely to disappoint Canada. (David Hoffman, Washington Post, A1)

U.S., HANOI TO INTENSIFY MIA SEARCH Probe Of Reports Of Living POWs Set

BANGKOK -- The United States and Vietnam agreed today to intensify efforts to resolve within two years the issue of American servicemen missing in action and investigate reports that living Americans have remained in the country since the Vietnam war, U.S. officials said.

(William Branigin, Washington Post, A1)

Armitage Denies Cover-Up Of Prisoners In Indochina

BANGKOK -- U.S. Assistant Secretary of Defense Richard Armitage yesterday denied allegations the U.S. government has covered up reports that Americans are still being held prisoner in Indochina.

(Washington Times, A7)

6 CONGRESSMEN BEGIN TOUR OF SOUTH AFRICA

PRETORIA, South Africa -- Six U.S. Congressmen, led by Pennsylvania Democrat William H. Gray III and including nonvoting D.C. delegate Walter Fauntroy, began an intensive tour of South Africa Tuesday to assess the effects of limited American sanctions on the country's apartheid system of segregation. (Allistair Sparks, Washington Post, A10)

REAGAN SAYS NO DATE SET FOR SECOND U.S.-SOVIET SUMMIT

President Reagan said Tuesday night no date had been set for his second summit with Soviet leader Gorbachev but that he had proposed it to be held in June. But Reagan, in his first formal news conference since his Nov. 19 and 20 meeting with Gorbachev in Geneva, told reporters "someone on the other side" suggested it be delayed until September.

(Reuter)

U.S. F15s COLLIDE OVER WEST GERMANY

ZWEIBRUECKEN, West Germany -- Two U.S. Air Force F15 jet fighters collided, killing one of the pilots and a man on the ground, authorities said. Four civilians were reported injured from falling debris.

(Washington Post, A14)

BLUNT-SPOKEN U.S. ENVOY TO EGYPT IS RETIRING

Demanded Revenge For Hijack Slaying

Nicholas Veliotis, the U.S. ambassador in Cairo who gained international notice last fall by declaring "prosecute those sons of bitches" responsible for murdering an American tourist in the Achille Lauro hijacking, is retiring from the Foreign Service, the State Department said yesterday. Department officials said Veliotis, 57, will be president of the New York-based Association of American Publishers.

(John Goshko, Washington Post, A18)

Ambassador To Egypt Resigns

A diplomat with a non-Middle Eastern country here, who insisted on anonymity said Mr. Veliotis was being forced out to placate the Egyptian government and to demonstrate that the U.S. wants to smooth relations with Cairo. According to the diplomat, Veliotis had a "shouting match" with Secretary Shultz, who wanted him to return for consultations.

According to his account, after Vice President Bush reviewed the situation, Veliotis was dismissed. (AP story, Washington Post, A18)

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SOVIET-PLO TALKS SEEN INDICATION OF WARMING TIES

MOSCOW -- The PLO's chief foreign affairs official left the Soviet Union today after preparing the way for a visit here next month by PLO chairman Yasser Arafat, diplomats here said. Tass described the talks as having taken place in "a friendly and businesslike atmosphere."

(Celestine Bohlen, Washington Post, A19)

JAPANESE BALK AT LETTING IN UNITED AIRLINES

United Airlines' \$715.5 million purchase of Pan American World Airways' extensive Pacific route network could become a new item on the list of grievances involving U.S. access to Japanese markets.

United now has all its U.S. approvals lined up and is ready to take over the Pan Am operation Jan. 28. However, the Japanese must first grant landing rights to United, and they are balking. Talks on the subject between U.S. and Japanese officials are scheduled to begin in Tokyo on Monday.

(Washington Post, 5)

EX-IM BANK EXPECTS LOSS

The Export-Import Bank, which stimulates U.S. exports by lending to buyers, lost \$380 million in fiscal 1985, officials said Tuesday. Ex-Im President William Draper, who met with reporters to announce reduced interest rates on loans and a number of new steps to generate exports, said the losses were primarily the result of loans made during the 1970s.

(Washington Post, F3)

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NATIONAL NEWS

BLOCK RESIGNS AGRICULTURE POST Era A Harsh Time In Farming

Agriculture Secretary John Block, a controversial lightning rod who presided over some of the toughest times for American farmers since the Great Depression, announced yesterday that he will leave the Administration next month for a job in private business. Block, a West Point-educated hog farmer and member of President Reagan's original cabinet, said his chief aim of shepherding a new farm bill through Congress has been achieved and that "today, now, is the time to leave."

(Ward Sinclair, Washington Post, A1)

Block Quits After 5 Years Of Crisis In Agriculture

Secretary John Rusling Block, who became the American farmer's whipping boy during the worst farm crisis since the Depression, announced his resignation Tuesday.

Mr. Block, 50, who was attacked for trying to end many farm subsidies at a time when farmers felt they needed them most, ended his five-year tenure in a characteristically optimistic style, saying, "I think we have set the stage for real recovery."

(Rita McWilliams, Washington Times, A1)

Block Says He's Proud Of Farm Bill, Other Accomplishments

On Tuesday, Block announced his resignation as Agriculture Secretary to a crowded news conference, proud of his tenure and of sticking with his job long enough to herd the 1985 farm bill through Congress. Looking physically fit and relaxed, with his wife Sue at his side, the 50-year-old Block said he would consider "a number of options" in the job field but declined to be more specific.

(Don Kendall, AP)

Former Reagan Adviser Is Front-Runner To Replace Block

WASHINGTON -- A longtime California adviser to President Reagan on agriculture, Richard Lyng, is the front-runner to succeed Secretary Block, who resigned yesterday, government and congressional sources said. A native of California, Lyng was deputy Agriculture secretary under Block from 1981 through 1984, after heading Reagan's agriculture transition team after the presidential election of 1980. Lyng was Reagan's California state director of agriculture from 1967 to 1969.

(Greg McCune, Reuter)

REAGAN SAYS TAX HIKE WOULD HURT ECONOMY

President Reagan said again last night a tax increase could cause a slump in the U.S. economy and is the wrong way to reduce massive U.S. budget deficits. But Reagan said Tuesday night the 1987 budget he will send to Congress in early February will include a request for an after inflation increase of three per cent in arms spending.

(Reuter)

Reagan Says He Won't Be Burned Twice On Tax Increase

President Reagan says balancing the federal budget may eventually require a tax hike, but that he "got burned" supporting one in 1982 and remains determined not to advocate one now.

Reagan told a nationally broadcast news conference on Tuesday he will submit a budget to Congress next month that meets deficit-reduction targets without raising taxes or lowering Social Security benefits.

(Tom Raum, AP)

Reagan Says Tax Rise Would Be Last Resort

President Reagan said last night he would consider raising taxes only as a last resort to reach deficit targets under the new balanced budget law. "If we're convinced we have government down to the absolute level," below which basic government services can no longer be performed, "then it would be time to look at revenue," Mr. Reagan said in a nationally televised press conference. (Willis Witter, Washington Times, A3)

FED EXPECTED TO RESTRICT JUNK BONDS
Sources Say Volcker Will Win Vote Today

The Federal Reserve is ready to approve a measure today that will restrict the use in corporate takeovers of risky, high-yielding securities known as junk bonds. Today's vote will be a showdown between Chairman Paul Volcker and the Reagan Administration over whether the government should restrict financing for corporate maneuvers.

Despite the White House opposition, Volcker has the votes to win, supporters and opponents of the restrictions said yesterday.

(David Wise/John Berry, Washington Post, A1)

U.S. INTEREST RATES FALL TO LOWEST LEVELS

NEW YORK -- Interest rates on U.S. Treasury bonds fell to their lowest level in almost 6 1/2 years today, making it cheaper to borrow money than at any time since 1979. Economists, in explaining why interest rates should have fallen so far in the past few weeks, said investors are finally convinced that inflation is not going to be a problem for the foreseeable future. (Reuter)

REAGAN CONSIDERS LIE DETECTOR TESTS 'USEFUL'

President Reagan says lie detector tests are a useful investigative tool and should be allowed as part of the government's efforts to detect espionage activities. Reagan Tuesday defended his directive ordering lie detector tests of government workers with access to classified data and denied reports that he was unaware of the sweeping nature of the secret order that he signed November 1. (UPI)

SENIOR JUDGES STOP WORKING BECAUSE OF PENSION CHANGE

Some of the 273 senior federal judges, who are retired but continue voluntarily to hear cases, have stopped working because Congress failed last month to correct a legal provision that lowers their retirement benefits if they work. Under existing law, retired federal judges who continue to work are required to join the Social Security system beginning this month.

That means that they are subject to the Social Security payroll tax on their judicial pensions, that many may lose Social Security pension benefits earned in earlier careers and that Medicare and other insurance benefits may be jeopardized. (Washington Post, A2)

SPACE SHUTTLE LIFTOFF POSTPONED 4th TIME

Bad weather at emergency landing sites in Spain and Senegal Tuesday scrubbed the launch of the space shuttle Columbia for the fourth time in 20 days, a record number of postponements for a shuttle flight and one that casts doubt on the space agency's ability to launch the 15 shuttle flights scheduled this year. (Washington Post, A3)

HILL SEEN RECEPTIVE TO FEDERAL CUTBACKS

White House proposals to cut civil service pay and benefits, tighten employee security programs and eliminate thousands of federal jobs "will be on much more fertile ground" in Congress this year, the government's top personnel official said yesterday.

"I think it is safe to say that a lot of proposals that fell on deaf ears in Congress in the past will be on much more fertile ground this year because of Gramm-Rudman," Constance Horner, director of OPM said.

(Mark Tapscott, Washington Times, A2)

FBI OFFICIAL TO BE TVA INSPECTOR GENERAL

Norman Zigrossi, the special agent in charge of the FBI's Washington field office, will become the first inspector general of the Tennessee Valley Authority. After more than 23 years with the FBI, Zigrossi said he will begin work at the TVA's Knoxville office on Jan. 27. The FBI has not announced a replacement. (Washington Post, A4)

DEBT DEADBEATS FLEECING ARMY, PROXMIRE SAYS

Poor debt-collection procedures have allowed former Army members to avoid paying nearly \$170 million owed to Uncle Sam, Sen. William Proxmire (D-Wi.) said Tuesday. Not only does the service improperly write off some debts as uncollectable, he said, but congressional investigators also found that a woman who left the Army owing money was turned down when she tried to repay it. (UPI story, Washington Post, A6)

USPS SEEKS TO GET BACK TO BUSINESS A Management Challenge For Casey

With the unceremonious ouster of Postmaster General Paul Carlin and his replacement by former American Airlines President Albert Casey, the U.S. Postal Service Board of Governors has once again turned to the business world in hope that a proven corporate manager can work private-sector magic on one of the government's largest, oldest and most sluggish agencies. (Keith Richburg, Washington Post, A21)

NRC PLANS TO CLOSE MORE MEETINGS

The Nuclear Regulatory Commission has drafted a final notice saying that it will keep more of its discussions from public and congressional scrutiny. The action immediately drew fire from Congress.

Rep. Edward Markey (D-Mass.) chairman of a House Energy and Commerce subcommittee, said the NRC rules draw a "lead curtain" around NRC deliberations. If the agency proceeds, Markey said, he will use congressional oversight powers to try to undo the action.

(Washington Post, A21)

HUD CLEARS ALEXANDRIA IN HOUSING BIAS COMPLAINT

The Department of Housing and Urban Development, after an extensive investigation, found that Alexandria officials did not purposefully reduce housing opportunities for blacks as was alleged in a complaint filed against them, according to a report filed yesterday.

But while absolving the city of the discrimination complaint, officials have charged the city with violating federal housing regulations by failing to keep required racial data. (Mary Jordan, Washington Post, D1)

-End of A-Section-

NETWORK NEWS SUMMARY

U.S./LIBYA

CBS's Bob Schieffer: President Reagan holds a news conference at 8 eastern time tonight and will announce that he is severing all U.S. business ties with Libya.

CBS's Bill Plante: CBS News has been told that President Reagan tonight will order all U.S. citizens and companies out of Libya and will ban all remaining trade between the two nations. Mr. Reagan made the final decision today at a meeting of his national security advisors. He will announce it tonight at the beginning of a nationally broadcast news conference at 8 p.m. eastern time. There are roughly 1,500 Americans still in Libya who have shown no desire to leave. They will be warned tonight that under the law, they could face fines and jail sentences. The order would affect all remaining trade between the U.S. and Libya, petroleum, farm equipment, aircraft spare parts, pharmaceuticals, even technology and parts for a major irrigation project. But all of this is expected to make little difference to Libya, so the President will also appeal to this nation's European allies to join in the sanctions.... But are the Europeans willing? The last time the U.S. asked it was for a boycott of commercial flights into Beirut following the TWA hijacking. The idea never got off the ground. Then, as now, Europeans were uninterested. Why? In a word, oil, even though there is currently a worldwide surplus. The President ruled out military action for fear of escalation, civilian casualties, and the possibility of military losses. Navy Lieutenant Robert Goodman was shot-down in a 1983 raid on a Syrian missile site in Lebanon and taken prisoner. U.S. officials realize the new boycott probably won't hurt Libya much, may even prove unenforceable, but there is a feeling here that some action had to be taken against Qaddafi, even if it wasn't nearly as tough as many wished. (CBS-Lead)

ABC's Peter Jennings: We begin this evening with what is now surely a state of crisis between the United States and Libya. In about an hour from now the President is going to hold a news conference in Washington and before he answers questions he is going to tell the nation, and thus the world, of the economic sanctions he intends to impose on Libya. ABC News has learned that the President will order all exports to Libya banned. He will also order all Americans in Libya and all American companies there to get out. The President has spent much of today putting the final touches on this plan.

ABC's Sam Donaldson: Once again, top Administration foreign policy officials gathered at the White House as the President put the final touches on his new economic sanctions against Libya. Even former media master and ace public relations expert Michael Deaver came calling. U.S. exports to Libya have dropped markedly because of previously imposed sanctions. Still, they amount to an estimated \$300 million for 1985. The President will now ban all exports. U.S. oil purchases from Libya have dropped to a trickle since the previously imposed U.S. purchase cut off.

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Donaldson continues: But four U.S. oil companies and some 1,500 U.S. citizens still perform operations which help Libya pump its oil to sell to other countries. By invoking appropriate laws and declaring a national emergency for Libya, the President will shut-down such help. U.S. companies and citizens will be ordered out. All of which could provide the basis for pressuring U.S. allies to take action of their own.

(G. Henry Schuler: "If there are 1,500 Americans there in violation of the specific request of the United States and if a request is not strong enough, then their presence should be made illegal and then I believe that most Americans would take a different perspective and would remove themselves. If there are still a half-a-dozen American companies investing in Libya then I think the Administration should make it clear that those investments are illegal. So I think that there are a number of things that we can do that aren't going to effect Libya as much as the last set of sanctions did, but it does strengthen our hand when we go to the allies and insist that they follow suit.")

At his news conference tonight, the President will make the case that Qaddafi aides terrorists. He will announce the new U.S. economic sanctions, then he will indeed urge America's allies to cut back their oil purchases from Libya, something that would hurt Qaddafi, and something that so far the allies show no inclination to do.

Jennings: The Americans in Libya haven't yet heard the details of the President's plan but as of now most are pretty happy to be there. And in Libya tonight Col. Qaddafi is taking all the precautions that any country would take if it thought it were going to be attacked, 40,000 reservists have been put on full alert.

ABC's Greg Dobbs reports despite the sanctions already in force, there are scattered through this capital and this country American firms and American subsidiaries doing business here. At this Libyan cigarette plant, for instance, with machinery from all over the West, the computers controlling production are made in the U.S.A., despite the ban on unique American technology here. And American citizens have found ways around the sanctions. This American executive with a Libyan firm says Libyan customs at the airport doesn't stamp anything inside American passports so there is no proof someone has been here, thus helping Americans avoid the chance of a five year jail term for coming. (ABC-Lead)

NBC's Tom Brokaw: President Reagan examined a number of military options, but he decided instead to strike at the Libyan economy. The President, who makes no secret of his dislike for Libyan dictator Moammar Qaddafi, hopes this economic squeeze will force Qaddafi to stop supporting terrorism.

NBC's Chris Wallace: Officials tell NBC News the President will say tonight that Libyan-backed terrorism has created a national emergency. Invoking the International Emergency Economic Powers Act, Mr. Reagan will seek to cut off all commerce between the U.S. and Libya. Under an executive order, the President will prohibit all trade, contracts, loans and travel between the two countries. The trade embargo won't have much effect because the U.S. has already banned most business with Libya, although there has been a slight increase the last two years.

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Wallace continues: But now the Administration will also try to stop U.S. companies, which play a big role in pumping Libyan oil, from doing business there. And it will tell the more than 1,000 Americans working in Libya they are breaking the law, although it can't force them to come home. An oil industry expert does not think the new sanctions will mean much.

(Oil expert John Lichtblau: "Well, the impact on Libya would be very minimal because the Libyan economy can continue to produce just as much oil if the Americans were not there. As far as the American companies are concerned, they could possibly be hurt by this.")

Sanctions would work if U.S. allies went along. But so far, Libya's top European trading partners have been opposed. Still, tomorrow the allies will be asked to follow the U.S. lead -- to cut off trade with Libya, expel Libyan diplomats and deny landing rights to its planes. American officials doubt the allies will go along, but hope the President can be persuasive.

(Bernard Kalb: "I think it doesn't take a particular act of genius for me to encourage you all to tune in at 8 tonight on your favorite station.")

But officials here acknowledge some Americans may be disappointed that once again the President won't be using force against terrorists. And so they say he will emphasize tonight that if these sanctions don't work, the military option is still there.

Brokaw: To be fully successful, the President's plan does require the support of European allies, but NBC's Henry Champ, who is in London tonight, has been taking soundings and Henry, I gather you don't find much support for the Administration's point of view.

NBC's Henry Champ reports from London: No, there's not and there are a number of reasons why the President has not been able to find support among his European allies: A mistrust of American foreign policy, a belief that sanctions don't work, and economic self-interest. For Italy, the rejection of trade sanctions is a matter of economics. Italy is Libya's biggest trading partner, closely followed by West Germany and Spain. But even in a country like Britain, without much Libyan trade, sanctions are not seen as the way to go. Many European countries are not convinced that Qaddafi is as deeply involved with terrorists or is the madman the U.S. or Israel say he is.

(Xan Smiley of The Economist: "They don't Qaddafi see as an out-and-out lunatic. They see him as a nasty piece of work and a real zealot. But, you know, he's been there 16 years. He isn't a complete fool.")

So in Frankfurt today there are worries about terrorism. Soldiers guard the airport while Europeans head to Libya to make money.

(TV Coverage of businessmen saying they have business in Libya.)

No one here is happy with Col. Qaddafi; they just don't believe Washington has provided either the evidence or the reason to do anything further with Libya.

Brokaw: Prime Minister Peres called Qaddafi a clown, a murderer and a liar. And Peres warned terrorists that Israel will make them taste the fear that they inflict on innocent victims. In Morocco, members of the Islamic Conference Organization passed a resolution declaring firm solidarity with Libya.

Brokaw continues: The Libyan foreign minister said at the meeting that he was pleased with this resolution, but his country, he said, may also require military assistance. The government of Greece also said it opposes economic or military retaliation against Libya, adding that it would not permit U.S. military bases on Greek soil to be used to launch an attack against Libya. And in Libya, the government claimed it was activating 40,000 reservists to defend against an American or Israeli attack. However, Western diplomats in that country say there are no further signs that Libya is preparing for such an attack. Tonight, by the way, Libya denied NBC News the opportunity to transmit a story on today's activities. Apparently the Libyans were unhappy when another network broadcast pictures of Libyan planes in flight. (NBC-Lead)

NBC's John Chancellor -- Commentary: The winner in all this seems to be Qaddafi. The possibility of an American or Israeli attack has brought him the support of the Arab League and much of the Moslem world. He has been able to threaten America and improve his position with the Libyan people. Qaddafi stock has gone up in parts of the world where taunting the U.S. is popular. None of this might have happened if official Washington hadn't talked so much or sent signals of possible military action. Talking tough can make a government feel good but if it isn't backed up with action it can lead to a headache the morning after. (NBC-11)

VELIOTES

Brokaw: The Reagan Administration has decided to remove the outspoken veteran diplomat Nicholas Veliotis from his post as ambassador to Egypt. His relations with Egyptian officials have been strained ever since the Achille Lauro crisis last October, when he used some strong language in demanding that Egypt prosecute the hijackers. (NBC-12)

Schieffer: The State Department confirmed today that career diplomat Nicholas Veliotis is retiring after more than two years as the U.S. Ambassador to Egypt. Officials say that Veliotis is leaving on his own for a job in publishing, but one Western diplomat claims he is being forced out to help smooth-over U.S. relations with Cairo. Veliotis is said to have antagonized Egyptian officials by his forceful demands that Egypt prosecute the Achille Lauro cruise ship hijackers. (CBS-3)

BLOCK

Schieffer: After months of rumors that he planned to quit, Secretary Block finally did it today. Block told a news conference he'll leave the Reagan Administration the middle of next month.

CBS's Lem Tucker reports even as John Block announced his resignation, he was repeating words which helped make him the center of controversy during his five years in office.

(Block: "These have been stressful times for our farmers. I do believe we are starting to turn the corner. We'll see better times ahead.")

Tucker continues: During Block's tenure almost 150,000 farmers have gone out of business, at times taking their local banks with them. They were victims of recession, falling crop exports, and cut-backs in government support programs. John Block took the brunt of the criticisms. Block says he went of his own free will, but he certainly has to know that with so many farmers unhappy, and with Congressional elections this year, he was a symbol many Republicans could do without. (CBS-4)

Jennings: Secretary Block has resigned. The number of President Reagan's original cabinet members is now down to three. Mr. Block's resignation will be effective in the middle of next month. His five years in the cabinet were bad times for many American farmers.

ABC's Bettina Gregory reports John Block was the epitomy of the successful farmer, so it's ironic he presided over the worst farm crisis in 50 years.

(Block: "These have been stressful times for our farmers. I do believe we are starting to turn the corner.")

Block has always been controversial, a lightning rod for Reagan Administration policies. There is no word yet on Block's successor, and though his departure had been rumored for months, he never explained his timing, except to say today is the time to leave.

(ABC-4)

Brokaw: John Block has presided over the nation's farm policy through the toughest period for farmers in this country since the Great Depression. Today the Illinois hog farmer who served as agriculture secretary since 1981 said that he will resign that post next month.

NBC's Irving R. Levine: With his wife at his side, Block announced his resignation, saying he was happy to leave behind --

(Secretary Block: " -- great amount of travel, inattention at home, a private life that has become public.")

As for timing, Block said he waited only for the President to sign the controversial farm bill, reducing government support for farmers to whom Block offered encouragement.

(TV Coverage: Block at signing ceremony.)

(Block: "I do believe we're starting to turn the corner. We'll see better times ahead. These have been stressful times for our farmers.")

With widespread auctions of bankrupt farms and a slump in exports and land values and in farm income.

(Block: "Most of these problems have tended to be out of the reach of the secretary of agriculture.")

But Block was blamed for failing to stand up for farmers in Administration debates.

(Sen. Melcher: "Just not tough enough, not knowledgeable enough and not determined enough.")

But support for Block from some farmers.

(Farmer Harvey Lewis: "I'm sorry to see him go. He's a fellow farmer from Illinois and we've appreciated what he has done in the past for us.")

Levine continues: Block's own Illinois farm ran into financial problems. There were charges of favoritism over a \$400,000 farm loan to a business partner and ridicule for shopping with food stamps to prove the program was adequate. Mentioned as successors: Deputy Secretary John Norton, a wealthy Arizona farmer close to the Reagan inner circle; Clayton Yeutter, now U.S. trade representative; Richard Lyng, California director of agriculture under Governor Reagan. As for Block's future:

(Block: "I do not plan to return to full-time farming. My son is running the farm very effectively.")

Block's resignation was not opposed at the White House. A new man in the job before the 1986 congressional elections might help Republicans in states where Block is blamed for unpopular farm policies. (NBC-2)

POSTAL SERVICE

Schieffer reports modern postal service doesn't have much of a reputation lately for speed, but in a quick move today, the postal service board dumped the current postmaster after only 12 months on the job and brought in a new man. (CBS-5)

COLUMBIA

Schieffer: It was no-go again today for the space shuttle Columbia. Bad weather was the cause this time. Yesterday it was a mechanical problem. The Columbia was originally set for launching December 18th, but a series of delays has prevented it. The next launch date is Thursday. Once in space, Columbia's astronauts plan, among other things, to photograph Halley's comet.

(NBC-3, ABC-8, CBS-10)

F-15 CRASH

Schieffer reports two U.S. Air Force F-15 fighter planes on training flights collided in mid-air today over West Germany near the French border. Both pilots bailed-out. One escaped unhurt, but the other was killed. A West German civilian also was killed when one of the F-15s crashed into a row of houses. The body of the dead pilot was found hanging by his parachute in a tree.

(NBC-9, ABC-2, CBS-14)

MIAs

Schieffer reports the United States and Vietnam today wound up their highest level talks since the war ended more than ten years ago. Once again the subject -- American MIAs. And once again, apparently, neither side made major concessions.

(ABC-3, CBS-13)

AIDS

Brokaw: Federal health officials are about to begin a nationwide study of prostitutes to determine how they get AIDS and whether they are spreading it to their customers. Researchers will focus on eight cities. (NBC-6)

BOMB SCARE

Schieffer reports Moscow's Dynamo, one of the two Soviet teams touring National Hockey League cities, plays in Buffalo tomorrow after triggering a bomb scare last night in Boston. Warned by an anonymous phone call, authorities found a live hand-grenade with a timing device in a Boston Garden trash barrel. The discovery was made before an exhibition game between Dynamo and the Boston Bruins. No one claimed responsibility for the bomb which was removed safely. (CBS-16)

RED BASHING

Schieffer reports off the ice there is a chill along the U.S.-Soviet cultural front.

CBS's Bernard Goldberg reports it's becoming America's favorite sport. Boxing? No, bashing, Red bashing. "Rocky IV," Americans have joyfully paid over \$100 million to see the hero turn a Bolshevik into borscht and the real life Soviets are seeing red. The Russians think this is part of the campaign too -- "Red Dawn," a movie about communists invading America and high school kids in Colorado fighting back. And they simply despise "Rambo." Soviet leaders think the matter is so serious that at a recent news conference they accused Hollywood of spawning a pathology of hatred against the Soviet Union. It's not just Hollywood, it's also Madison Avenue. No bullets here, just barbs.

(Russian: "I must say that these kinds of things would be unthinkable in the Soviet Union. I mean depicting American society, American people in the way you depict our society.")

Oh really? What about this Soviet TV show. The American CIA agent also peddles dope. His wife is a mentally deranged daughter of a Nazi war criminal, and his mistress seduces upstanding Soviet citizens. It calls to mind that old Russian proverb: What's good for the goose is good for the propaganda. (CBS-17)

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EDITORIALS/COLUMNISTS

STATE OF THE UNION/GRAMM-RUDMAN

On The Road Again -- "These, as the president might go on to say, are fine times for America, despite the screechings of professional activists. Even so, 1986 promises to be a violent year on Capital Hill, a year filled with budget cuts and tax fiddlings. The president cannot afford to let things get too chilly. He should use the warm glow of the nation's prosperity to thaw the coming moments of frozen disagreement. By sharing the credit with Congress in his State of the Union address, Mr. Reagan could set a temperate climate for the coming feuds. By addressing budget cuts in reference to past successes, he could make them seem less like horrible obstacles and more like accomplishments waiting to happen."

(Washington Times, 1/6)

Social Security Surplus Offers a Taxing Lesson -- "While working Americans are taxed, the Social Security Trust Funds are piling up enormous surpluses -- \$240 billion by 1992 and perhaps a trillion dollars by the turn of the century.... But in an era of \$200-billion annual federal deficits and soaring Medicare costs, the surplus looks less sane. As we absorb yet another Social Security tax increase it might be useful to look to Washington, where Congress allegedly is set to agonize over the rigors of the Gramm-Rudman-Hollings mandatory deficit reduction measure. Social Security benefits (and most social welfare programs) are exempt from its mechanism. Is it an exemption the nation can afford? It may be time to reopen that debate and the debate over automatic cost-of-living increases of all kinds."

(Atlanta Journal, 1/2)

The Law Of Passing The Buck -- "There is nothing automatic about a law that can be tampered with as easily as it was passed in the first place. The Gramm-Rudman-Hollings law does not threaten a constitutional crisis. It just makes it a bit more politically difficult during the next round of budget negotiations for Congress and the President to do what comes naturally -- to blame the other guy for having the temerity to want to do the right thing. Whether or not the courts manage to stay out of the process, the politicians probably will find a way." (Chicago Tribune, 1/6)

Bullish White House -- "Since presidential budgets are more policy statements than economic documents, it comes as no surprise that CEA chairman Beryl Sprinkel has chosen to be 'realistically optimistic' about the performance of the economy in 1986. But this year, for the first time, the usual upbeat economic forecast has a more precise function. By projecting a revenue cushion, it enables the president to stay within G-R-H budget limits a little less painfully. Soon enough the Congressional Budget Office will come out with its own less bullish figures, and the battle of the numbers will begin. Gramm-Rudman-Hollings may prove so unworkable it will be junked by Congress and the White House if the Supreme Court doesn't do it for them. But so long as it is on the books, it may yet turn tax reform into the revenue-producing mechanism that is needed to hold down record deficits. It is the one prospect that could make this reckless experiment worthwhile."

(Baltimore Sun, 1/6)

ARMS CONTROL/STRATEGIC DEFENSE

Thin Gruel -- "President Reagan and Gorbachev started the new year on speaking terms.... The President can hardly be blamed for yearning for an easier way out of the nuclear dilemma than what he now has -- an uneasy assurance the Soviets will not launch missiles at the United States because they would be blown away in return. He must make do with what he has. And what he has is a chance to reduce missile forces on both sides by negotiating the terms under which both countries will conduct defense research." (Los Angeles Times, 1/6)

Europe's Answer to SDI -- "After nearly two years of heated public debate, doubts about the practicality and potential of President Reagan's Strategic Defense Initiative program have begun melting away.... Governments of NATO countries have been politically cautious in their approach to the Star Wars issue, but wise enough to open the door so their industries can climb aboard the technological train that Mr. Reagan set in motion in his March 1983 speech." (Detroit News, 1/3)

Brain-Free Zone -- "Moscow Mike has offered Britain his personal guarantee that he will not nuke her; all she has to do in return is scrap her entire nuclear force and expel American bases from her soil.... The Greater London Committee, which has declared London a 'nuclear-free zone' ... also has written to President Reagan. Thus far it has received no reply, perhaps because propagandizing the British is less a priority for Mr. Reagan than for Mr. Gorbachev. But that's probably not the way the GLC sees it. It more likely would agree with Barbara Walters that the main difference between Mr. Reagan and Mr. Gorbachev is that when you ask Mr. Gorbachev questions, you get answers." (Washington Times, 1/6)

U.S./CUBAN RELATIONS

The Castro-Reagan Paralysis -- "The time has come to try once again to restore between the United States and Cuba the normal diplomatic relations severed 25 years ago.... The toughness of the American President has played well in Miami among Cuban emigres, now strongly allied with the Republican right. It has pleased the right in American politics.... But it has done nothing to make the hemisphere a safer place. As the monumental differences with Moscow are negotiable at the summit, so also should be the differences with Havana." (Los Angeles Times, 1/6)

RAMBOISM

The Americans Are Coming -- "The Soviets detect a Reaganite campaign to portray them as cruel savages bent on world domination. And the Soviet Deputy Minister of Culture, Georgi Ivanov, said so at a press conference last week.... Awkwardly for Ivanov, Soviet behavior in the real world is often worse than the Hollywood fictional cruelties. Nothing in 'Red Dawn' for instance, is as ingeniously vicious as the real Soviet practice of dropping anti-personnel weapons disguised as children's toys in Afghanistan. And, significantly, cassettes of 'Rambo' enjoy a brisk sale on the black market behind the Iron Curtain. Maybe Americans aren't the only ones to cherish fantasies about people being liberated from communism." (New York Post, 1/7)

NEWS CONFERENCE

ABC COMMENTARY FOLLOWING TUESDAY'S NEWS CONFERENCE

Peter Jennings: The President's first news conference of the new year -- the first in four months. There were 28 questions and to give you some indication of where the White House press corps' mind was this evening: 18 of the questions were devoted to the Middle East -- most of them related to Col. Khadafy and the economic sanctions which the President has decided will be imposed against Libya and Col. Khadafy's regime there.

One of the things the President did say in his news conference this evening in regard to terrorist acts was that in the last year, the United States had aborted 126 terrorist missions. Our national security correspondent John McWethy, who's at the State Department now, heard that and has been thinking about it. John, what's your reaction?

John McWethy: Well, Peter, it's a brand new number. The last time the government published a figure, it was 90 incidents that had been thwarted around the world -- about two dozen of those in the United States itself. So it's a brand new number and obviously the President wanted to bring it out tonight to present to the public, to let them know that the U.S. and other countries are, in fact, doing something to try and deal with the terrorist threat.

Jennings: Just to review before we leave you, the President's lead-off statement this evening: the President has imposed full economic sanctions against Libya. The new sanctions are intended, as the White House puts it, to eliminate any American contribution to the Libyan economy. And any Americans participating in the Libyan economy will face criminal action. The President has also urged America's allies to follow suit. Whether they will or not is very much an open question. There's been no indication so far; many allies knew this was coming.

The President did say he has irrefutable proof of Col. Khadafy's involvement in the two recent attacks on Rome and Vienna airports. And no other country has agreed that there is such conclusive proof as yet. Only today, the Austrian government said there were some indications, but there was no proof.

As to Americans in Libya, the U.S. does presently about \$300 million of business a year with the Libyans -- far less than other countries. And there are tonight, about 1,500 Americans living and working in Libya. How they will respond is uncertain; how Col. Khadafy will respond is uncertain. Americans there have been keeping a low profile, but for the most part, they have spoken to us of good treatment.

Whatever the case, this is certainly going to be a popular move with most Americans. We think how effective it will be is another matter. Sanctions have rarely been as effective anywhere in the world as the people imposing them would like them to be.

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NBC COMMENTARY FOLLOWING TUESDAY's NEWS CONFERENCE

Tom Brokaw: President leaving after the requisite 30 minutes of questions and answers. He had an opening statement, of course, about the situation in Libya. And he said tonight something new that we'd not heard before. The President said that the United States has aborted 126 terrorist missions, but he would not say where they occurred or under what circumstances they might have been aborted. He did say that not all of them took place in the United States. And that will give reporters something to pursue, of course, in the coming hours in Washington, D.C.

The President was a little bit on the defensive about his ability to speak out against terrorism, to promise action, but so far he has not taken any military action. But he did say tonight 126 terrorist missions have been aborted by the United States. And he had strong words tonight for Moammar Khadafy, the Libyan strongman. The President said he is not only a barbarian, he's also flaky -- although he would not go so far as to say that he was insane or mentally unstable in some fashion.

The President tonight outlined a series of economic sanctions against Libya that he hopes that our European allies will join in: No trade. In 1985, the United States imported about \$40 million from there and exported about \$300 million to that country. No credit or loans to Libya. No U.S. oil activity. That's, of course, the primary industry there for the United States. And all Americans are expected to leave Libya immediately. There are about 1,000 to 1,500. If they do not, they will be subject to what the President described as appropriate penalties.

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CBS COMMENTARY FOLLOWING TUESDAY's NEWS CONFERENCE

Bob Schieffer: So President Reagan concludes the first formal news conference in about four months. As he was leaving the reporter said how about another one next month, but he was non-committal. The expected announcement was delivered. The President said that he has signed an executive order severing all business ties with Libya. He called on the approximately 1,500 Americans still in Libya to leave immediately or face penalties. And he said every effort will be made to bring Abu Nidal and other terrorists to justice. He said there is irrefutable evidence that Libyan President Khadafi played a role in the recent terrorist attacks. He said he could not go into detail on what the evidence was.

He also said that the United States has aborted 126 terrorist acts in the efforts to combat terrorism. I believe that is the first time that a government official has put that statement on the record, although that number has been released in background briefing around Washington in the last week or so. Perhaps because he has not had a news conference in the last four months he got many questions on other subjects. Most of the time he seemed to restate previously stated Administration policy saying there would be no tax increase and saying he would like to have his summit meeting with Mr. Gorbachev of the Soviet Union in June, but he said no date has been set.

-more-

CBS COMMENTARY (continued)

Schieffer: Well let's check in with some of our CBS News correspondents in Washington for a bit of analysis. David Martin is at the Pentagon. It seems to me although the President did refer to Mr. Khadafi as flakey and a barbarian, the tone was not nearly so hot as it was last week in Washington when we had a lot of talk, speculation about some kind of military action. What happened?

David Martin: Well it was more than just talk last week. The Navy actually moved some additional planes to the Mediterranean, it put an aircraft carrier and a battleship in Norfolk on alert and those ships remain on alert. But I think what happened, one of the reasons you heard at the end of the press conference and that was the problem of the 1,500 Americans still in Libya. Those are 1,500 ready-made hostages waiting to be seized as retaliation in the event that the United States strikes. The problem is that Libya has a large Air Force. It has 500 combat aircraft so even the United States, which obviously has many more aircraft than that, can not mount a surgical strike against Libya without mounting a major military operation. Two aircraft carriers would probably be required plus long-range bombers from Great Britain. And when you start throwing all of that fire power into the equation the possibility a.) that American service men will be lost in the operation, and b.) that innocent Libyan civilians will be killed grows with increase in force. And I think all of those factors weighed in the decision against using military force.

Although I noted at the very end of the President's statement he said that I promise that if these economic sanctions that I am announcing tonight do not work, there will be further action. And if you can get the 1,500 Americans out of Libya, that will be one less restraint for military action in the future.

Schieffer: Bill (Plante), you raised the question in the news conference tonight will the United States be able to get Western allies to go along with these sanctions that the President is asking for. Are you picking up indication at the White House that, in fact, they will be able to get that cooperation?

Bill Plante: The early indications are that the European governments are no more interested now in helping the United States with sanctions than they were the last time we asked. There is no indication that they want to help. The President seemed tonight to exhibit his frustration. He is left really with a lot of talk when you come right down to it. He wants to hold Khadafi up to worldwide ridicule and contempt calling him a barbarian and flakey, all that sort of thing. But in the end it's very hard, even though he keeps holding the military threat way out there somewhere, it's very hard to back it up since he does not seem likely to get Europe to go along.

Schieffer: Well the President holds the news conference, makes the announcement that was expected saying he will sever all U.S. business ties with Libya -- saying he will ask the European allies to go along.