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# News Summary

OFFICE OF THE PRESS SECRETARY

THURSDAY, SEPTEMBER 4, 1986 -- 6 a.m. EDT EDITION

## TODAY'S HEADLINES

### INTERNATIONAL NEWS

U.S. AWAITING SOVIET REPLY ON DANILOFF DEAL -- U.S. officials say they are waiting for Moscow's reply to their offer of a deal that would bring home a U.S. reporter accused of spying and release a Soviet man to his ambassador pending his U.S. spy trial.

(New York Times, Washington Post, Washington Times, AP, Reuter)

MIDEAST TALKS MAY HINGE ON U.S. ENVOY -- Shuttle diplomacy by U.S. Assistant Secretary of State Richard Murphy has assumed crucial importance in negotiations for a summit between Egypt and Israel.

(Washington Times)

### NATIONAL NEWS

FOES OF REHNQUIST OPEN NEW BARRAGE -- With the final showdown on the nomination of William Rehnquist to be chief justice one week away, liberal opponents yesterday renewed their attack on the President's nominee, calling him hostile to civil rights.

(Washington Times, AP)

### NETWORK NEWS (Wednesday Evening)

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NICARAGUAN FARM AID -- The Reagan Administration refused permission for a private relief agency to send farm supplies to Nicaragua.

BOLIVIAN DRUG WAR -- More than 150 U.S. Army troops are reported still on the move in the cocaine processing provinces of Bolivia.

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NATIONAL NEWS.....A-6

NETWORK NEWS.....B-1

INTERNATIONAL NEWS

U.S. WOULD GIVE SOVIETS CUSTODY OF ZAKHAROV  
FOR DANILOFF'S FREEDOM  
Russian Is Required To Appear For Trial

SANTA BARBARA -- The United States has proposed to the Soviet Union an indirect exchange designed to win the freedom of American reporter Nicholas Daniloff in Moscow, senior Administration officials said today.

The Soviets had not responded to the proposal as of late today, officials said. The United States proposed that Daniloff, Moscow correspondent for U.S. News & World Report, be released immediately to U.S. Ambassador Arthur Hartman in Moscow and be allowed to leave the country.

In return, the U.S. government would turn over Gennadi Zakharov, a Soviet scientist charged with espionage, to Soviet Ambassador Yuri Dubinin. The plan calls for Dubinin to guarantee that Zakharov will appear for trial.  
(David Hoffman, Washington Post, A1)

Soviets Offered Deal To Free U.S. Newsmen

The Reagan Administration has offered to release accused Soviet spy Gennady Zakharov pending his trial, if Moscow will free Nicholas Daniloff, an American journalist accused of spying.

A senior U.S. official said the proposal was made yesterday, but there was no indication that Moscow would accept the offer.

White House spokesman Larry Speakes ruled out a direct exchange of the two men and said Soviet United Nations employee Zakharov, who was arrested by the FBI Aug. 23 while allegedly buying classified documents, will be prosecuted.  
(Bill Gertz & Jeremiah O'Leary, Washington Times, A1)

U.S. Links Summit To Reporter Case And Offers Deal  
Freedom For Daniloff Is Tied To Release Of Spy Suspect Before New York Trial

SANTA BARBARA -- White House officials, warning that the detention of an American reporter in Moscow could affect a summit meeting, said today that the United States had made a proposal to gain freedom for the journalist.

In discussing the offer, Larry Speakes said the arrest of Mr. Daniloff "could have a negative effect on U.S.-Soviet relations."

(Bernard Weinraub, New York Times, A1)

U.S. Seeks OK On Plan To Give Jailed Soviet To Ambassador If Journalist Freed

The United States was awaiting a response today from Moscow on a plan that would free an American journalist accused of spying in exchange for an understanding that a Soviet physicist could be sent home after he stands trial on espionage charges.

There was no immediate response from Moscow to the proposal, the officials said.  
(Barry Schweid, AP)

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U.S. officials say they are waiting for Moscow's reply to their offer of a deal that would bring home a U.S. reporter accused of spying and release a Soviet man to his ambassador pending his U.S. spy trial.

There was a possible hitch, however. Justice Department official John Martin told Reuters through a spokesman that Gennadi Zakharov's custody would not even be discussed until Nicholas Daniloff was back in the United States.  
(Jim Adams, Reuter)

#### Envelope Reportedly Had Old Photos

MOSCOW -- U.S. News & World Report correspondent Nicholas Daniloff has identified the material the KGB secret police says implicates him in espionage as photographs identical to some he sent his magazine a year ago, according to Mortimer Zuckerman, the magazine's chairman, who met with Daniloff in prison yesterday.

Meanwhile, Soviet authorities threatened today to charge Daniloff with smuggling in connection with some undeclared jewelry found by customs officials among family goods he was shipping out of Moscow at the end of his five and one-half year tour here, his wife Ruth said.

(Gary Lee, Washington Post, A1)

#### Shcharansky Warns Against U.S. Trade For Daniloff Deal Would Encourage 'Hostage-Taking'

JERUSALEM -- Freed Soviet dissident Anatoly Shcharansky today expressed support for the Reagan Administration's tough line in seeking the release of Nicholas Daniloff, the American reporter arrested by the KGB last weekend in Moscow for alleged spying.

Shcharansky, a human rights activist who spent nine years in Soviet prisons after being convicted in a secret trial of spying, warned Washington against consenting to trade Daniloff, a correspondent for U.S. News & World Report, for a Soviet physicist recently arrested in New York on espionage charges. He said such a trade would amount to a tacit acceptance of "hostage-taking," and would jeopardize other Americans who live in or travel to the Soviet Union.

(Glenn Frankel, Washington Post, A22)

#### Daniloff Case Hints Kremlin, Party Gave Way To KGB Interests

MOSCOW -- When the KGB took American reporter Nicholas Daniloff to prison Saturday, it undercut the campaign Soviet leader Mikhail Gorbachev and his aides had launched to shore up Moscow's ragged relations with the United States and the Western press. In so doing, it gave the first real indication of how much power the state security organ wields in Soviet-American relations under the new Soviet leadership.

In the three-way struggle for influence with the party and the government, the KGB was the only seeming winner in the Daniloff arrest. The consequences of an arrest widely viewed in the West as a set-up could bear heavily on relations between Washington and Moscow.

(Gary Lee, News Analysis, Washington Post, A21)

U.S. OFFICIALS OPTIMISTIC ON NUCLEAR-MONITOR PACT  
Talks With Soviets To Resume Today

Reagan Administration officials, who begin meeting with Soviet experts today to discuss nuclear testing issues, are optimistic that the Administration's demand for on-site monitoring of large tests will eventually be accepted by the Soviet Union.

According to informed sources, the United States, as before, will use the occasion to press its demand for on-site monitoring of all nuclear blasts with an expected yield greater than 75 kilotons, roughly five times the power of the bomb that destroyed Hiroshima. The goal is to ensure compliance with an existing, unratified treaty that limits the yield of nuclear tests to 150 kilotons. (Jeffrey Smith, Washington Post, A23)

U.S. SWEETENS WHEAT OFFER; SOVIETS STILL COOL  
Republican Senator Says Bigger Subsidy  
'Demeans The Process Further'

The Reagan Administration has sweetened its controversial offer to sell wheat to the Soviet Union at subsidized rates, but Moscow apparently is showing little interest in making a deal.

After U.S. wheat prices increased in August, making the grain less competitive on the world market, the Administration last week increased the bonus it is offering the Soviets from \$13 per metric ton to \$15.

Sen. Richard Lugar said he thought the Soviets' refusal to buy had become embarrassing to the Administration and that the increased subsidy "demeans the process further." (Ward Sinclair, Washington Post, A25)

MIDEAST TALKS MAY HINGE ON U.S. ENVOY

JERUSALEM -- Shuttle diplomacy by U.S. Assistant Secretary of State Richard Murphy has assumed crucial importance in negotiations for a summit between Egypt and Israel.

Israeli government sources told The Washington Times that Mr. Murphy's visit to Cairo today could be decisive in determining whether Israeli Prime Minister Shimon Peres will meet with Egyptian President Hosni Mubarak next week. (Andrew Meisels, Washington Times, A8)

LONELY GADDAFI SEEKS WORLD BATTLEFIELD AGAINST U.S.

HARARE, Zimbabwe -- Libyan leader Muammar Gaddafi, pursuing what appeared to be a lonely course, was expected today to present the Third World with a dramatic plea for support in a concerted onslaught against the United States.

Western diplomats predicted he would be given a polite and sympathetic hearing at the eighth Non-Aligned Movement summit but would attract little real backing. (Rodney Pinder, Reuter)

#### W. GERMANY REJECTS MORE LIBYA SANCTIONS

BONN -- West Germany today rebuffed a U.S. bid for new economic and diplomatic sanctions against Libya, saying that measures suggested by visiting special envoy Vernon Walters would have a negligible impact, government sources said.

In a separate development, West Berlin police said they had insufficient evidence to continue holding three Lebanese whom the U.S. government has identified as suspected Libyan-backed terrorists.

(Robert McCartney, Washington Post, A19)

#### ALLIES FAR APART ON SANCTIONS U.S. Resists Import Ban Planned By EC

LONDON -- As the timetable for adoption of new economic sanctions against South Africa has shortened to a matter of weeks, the United States and Western Europe have been unable to coordinate either the substance or timing of proposed measures beyond agreement not to undercut each other's efforts.

Officials on both sides of the Atlantic say that sanctions acceptable to one side have been strongly resisted by the other.

(Karen DeYoung, Washington Post, A27)

#### JACKSON SEES SANCTIONS' ILL CONSEQUENCES

The Rev. Jesse Jackson, returning from visiting eight nations surrounding South Africa, began to sound like President Reagan yesterday on the effects of economic warfare against the Pretoria government, saying sanctions against South Africa "could be quite sinister" and devastate the "front-line" states if they don't get U.S. aid.

"If all [Congress] did was impose sanctions, it could be quite sinister, because South African retaliation is predictable," Mr. Jackson told reporters at the National Press Club on his return from a 17-day tour of southern Africa's front-line states.

(Rita McWilliams, Washington Times, A4)

#### YEUTTER: DOLLAR MAY HAVE TO FALL MORE

U.S. Trade Representative Clayton Yeutter said yesterday that the dollar may have to decline further to ease the growing American trade deficit, which he said will approach \$200 billion this year.

As a result of Yeutter's remarks, the dollar yesterday fell to its lowest level since 1981 in European trading, but then rebounded and closed slightly higher.

(Stuart Auerbach, Washington Post, D3)



NATIONAL NEWS

JUSTICE TURNS DOWN REQUEST FOR NEW REHNQUIST PROBE

The Justice Department says it will not permit a renewed FBI investigation into allegations that Chief Justice-designate William Rehnquist mishandled a trust fund for his disabled brother-in-law.

Assistant Attorney General John Bolton wrote Wednesday that the FBI usually responds only to committee requests, and noted that Sens. Strom Thurmond and Robert Dole considered the matter closed.

(Larry Margasak, AP)

Foes Of Rehnquist Open New Barrage

With the final showdown on the nomination of William Rehnquist to be chief justice one week away, liberal opponents yesterday renewed their attack on the President's nominee, calling him hostile to civil rights.

"During three decades when the United States has moved toward equal justice for blacks and other minorities, Justice Rehnquist has consistently opposed civil rights," said the Leadership Conference on Civil Rights in a report issued yesterday entitled "The Case Against William Rehnquist."

(Theo Stamos, Washington Times, A5)

NAVY ORDERS NEW MISSILES REBUILT

Advanced Version Of Phoenix Is Said To Be Plagued With Problems

The new version of the Phoenix missile, the Navy's most sophisticated and costly weapon for long-range aerial combat, has been so plagued by production flaws that the service has refused to send it to the fleet and has ordered overhauls of almost 300 missiles, according to Navy officials and documents.

Delivery of the Phoenix is about one and one-half years behind schedule because of faulty target detection and rocket ignition devices, as well as slowdowns in production of the missile on Hughes Aircraft Corp.'s assembly lines, Capt. Jesse Stewart, program manager for the Navy's air-to-air missile systems, said in an interview.

(Molly Moore, Washington Post, A1)

UP TO 1,800 MORE SPACE PROGRAM LAYOFFS EXPECTED

Work-Force Cuts At Kennedy Space Center And  
Louisiana Firm Blamed On Shuttle Disaster

CAPE CANAVERAL -- The space agency is expected to announce this week that 800 to 1,000 workers at Kennedy Space Center will be laid off because of the Challenger disaster and resultant delay in shuttle launches, sources said today.

In addition, another 700 to 800 workers at a Louisiana plant where shuttle fuel tanks are built will be laid off by Oct. 3, according to Martin Marietta, the firm in charge of fuel-tank construction.

(UPI story, Washington Post, A7)

THREE STATES COULD LOSE FEDERAL HIGHWAY FUNDS  
FOR PERMITTING SPEEDING

The Transportation Department is preparing to cite Arizona, Vermont and Maryland, and possibly withhold up to 10 percent of their federal highway funds, for failing to enforce adequately the national 55 mph speed limit.

Department records show that in the 12 months ending on Sept. 30, 1985, Arizona had 56.4 percent speeding and Vermont 53.2 percent. Maryland's average was omitted because it is in dispute.

(Ed Rogers, Washington Times, A4)



NETWORK NEWS SUMMARY

(Wednesday Evening, September 3, 1986)

U.S.-SOVIETS/DANILOFF

CBS's DAN RATHER: In public President Reagan's spokesman today said the jailing of a U.S. reporter by the KGB in Moscow is poisoning prospects for a Reagan-Gorbachev summit. In private the President is offering the Russians a deal.

CBS's BILL PLANTE: From his ranch President Reagan approved a U.S. offer which has now been made to the Soviets to win the release of American journalist Nicholas Daniloff according to Administration officials.

(TV COVERAGE: The President on horseback at his ranch.)

The deal calls for Soviet official Zakharov, arrested in New York last month on spy charges, to be released to the Soviet Ambassador to the U.S. on condition that Zakharov show up for trial. In return, Daniloff would be released without trial. No response yet from Moscow on that proposal. Meanwhile Soviet authorities stepped up their pressure today telling Daniloff's wife he may be charged with smuggling in addition to espionage for failing to declare family jewelry to customs. Daniloff's boss, "U.S. News" owner Mortimer Zuckerman, left Moscow after trying unsuccessfully for two days to get his reporter released.

(MORTIMER ZUCKERMAN: "This is not only a crime, it is a blunder. And believe me it is both.")

Administration officials also admitted their patience was growing thin and turned up their rhetoric.

(CHARLES REDMAN: "And this is not business as usual. This is an outrage. It certainly could affect our relationship.")

But officials tell CBS News the Administration continues to play both sides of the street hoping the incident won't damage prospects for another U.S. Soviet summit.

(TV COVERAGE: The President shaking hands with Mr. Gorbachev outside.)

(JONATHAN SANDERS, CBS News Analyst: "The statement that this will not interfere with an approach of the summit, I think, is false and overly hopeful.")

CBS News has been told that the decision to arrest Daniloff was approved at the highest levels in the Kremlin to demonstrate that Gorbachev won't be pushed around. White House officials are hoping for a quick solution, but, said one, if they put Daniloff on trial the temperature will really go up.

CBS's BOB SCHIEFFER: The Soviet-American relationship has always been tenuous at best. At New York's Lincoln Center last night, when someone set off a tear gas bomb during a performance by a Soviet dance troupe, it underscored again just how difficult it is for two countries that are so different to carry out even cultural exchanges.... One Soviet expert said the superpower relationship is composed of so many complex issues, the two sides have been apart so long and suspicions run so deeply, that any number of incidents could throw plans for a summit off track.... Just today a videotape smuggled out of the Soviet Union turned up in Washington. It was another message from Yelena Bonner...and it drew further attention to Soviet human rights abuses.... (CBS Lead)

ABC's PETER JENNINGS: We begin with the tension between the United States and the Soviet Union because an American reporter, Nick Daniloff, is still in a Soviet prison. The Reagan Administration has proposed a deal.

ABC's JOHN MCWETHY: As Nicholas Daniloff's wife said goodbye to their son...the United States had already secretly made a proposal to the Kremlin in an effort to win Daniloff's freedom. The proposal involved not only American journalist Daniloff, but also Soviet United Nations employee Zakharov.... As outlined by knowledgeable sources, the U.S. proposes the Soviet be released to the custody of the Russian Ambassador. Zakharov would still have to stand trial in the U.S. A federal grand jury is expected to issue a three-count indictment against Zakharov later this week. In exchange for letting Zakharov out of jail while he awaits trial, the U.S. is proposing that Daniloff be allowed to leave the Soviet Union for good without coming to trial. American officials say there has been no response yet from the Soviets. A further complication in the Daniloff case emerged today as the reporter's wife, Ruth, revealed that the Soviets were now threatening to charge Daniloff with smuggling in addition to espionage. Ruth Daniloff said Soviet customs officials found several pieces of what she called "junk jewelry" which the couple had failed to declare when they first arrived in Moscow 5½ years ago. Ruth speculated that the KGB probably framed her husband in the first place without the rest of the government even knowing about it.

(RUTH DANILOFF: "And someone said, well you've got to do something, and the KGB thought up this idea. Clearly it was a very hurriedly, sloppy frame-up.")

At the State Department today there was some irritation at suggestions that the Reagan Administration was conducting business as usual by continuing to meet with the Soviets on other issues.

(CHARLES REDMAN: "This is not business as usual. This is an outrage. It certainly could affect our relationship.")

American officials are hoping the Soviets accept the face-saving U.S. proposal, thus allowing Kremlin leaders to put the Daniloff affair behind them before it does major damage to a relationship that is difficult even in the best of times.

JENNINGS: What has happened to Nick Daniloff has happened to other correspondents. The Soviet Union has always allowed foreign correspondents to be based there but they very often take exception to what we do.

DEAN REYNOLDS reports on what it is like to be a foreign journalist in Moscow. (ABC-Lead)

JENNINGS: Last night in New York City someone threw a tear gas cannister into an audience of people watching a very famous Soviet dance company perform. The Soviet news agency said today it was an attempt to prevent any improvement in U.S.-Soviet relations. (ABC-3)

NBC's TOM BROKAW: Nicholas Daniloff...remains in a Soviet jail tonight, but American officials are now working on a deal to get him released.

NBC's MARVIN KALB: The U.S. has made a specific proposal to the Russians, but neither side is admitting it and nothing has yet been agreed to. In California, White House spokesman Larry Speakes provided no details, only this warning: "If this matter is not appropriately and promptly resolved," he said, "it could have a negative effect on U.S.-Soviet relations."... The deal, according to U.S. sources, is that Danilooff will be released from prison and expelled from the Soviet Union. At the same time Zakharov...would be put in the custody of the Soviet Embassy in Washington. He could then stand trial and he would not be permitted to leave the country. So far the Russians are insisting that Zakharov, like Danilooff, be allowed to return home. There is a precedent for such a face-saving arrangement. In 1978 two Russians were arrested in New York for spying. Three weeks later in Moscow an American businessman was arrested on an illegal currency charge. Later, the Russians were given to their ambassador, the American to his, and eventually they all went home. The State Department, while expressing outrage and claiming there can be no business as usual, refused to rule out a similar deal.

(CHARLES REDMAN: "I am not going to speculate on possible means at our disposal to effect his release.")

Late today the owner of "U.S. News and World Report", Mortimer Zuckerman, arrived in London with Danilooff's 16-year old son -- Zuckerman describing his talks with Soviet officials in Moscow as productive, but not conclusive. U.S. officials say the next few days are crucial. If Danilooff is not released, to show their displeasure they say the first of a number of cultural exchanges between the two countries may be cancelled, with no one quite sure where this negative spiral could end. (NBC-Lead)

#### NICARAGUAN FARM AID

RATHER: The Reagan Administration tonight refused permission for a private relief agency to send farm supplies to Nicaragua. The Agency wanted to ship \$40,000 worth of seeds, rakes, shovels, and other tools to relieve what it says is hunger among Nicaraguan peasants. (CBS-7)

#### BOLIVIAN DRUG WAR

RATHER: More than 150 U.S. Army troops are reported still on the move today in the cocaine processing provinces of Bolivia. They've been there since mid-July trying to help cut Bolivia's huge cocaine exports to the streets of the U.S.A.

CBS's MIKE O'CONNOR: The U.S. fight against drugs has gone so well in Bolivia families...say they are going under. Thousands of families here live from growing coca plants, the raw material for cocaine, and their part of the country used to be bustling -- a place where a family that worked hard and stayed lucky might make \$7,500 a year -- a lot of money for one of the poorest countries in this hemisphere.... American officials say joint U.S.-Bolivian raids on cocaine processing labs have knocked out an estimated 90% of the market for the coca leaves grown here.... Bolivia has helped the United States reduce the flow of cocaine as much or more as any country, and in return is hoping for U.S. aid to replace the dollars that cocaine brings. But so far not much of that aid has come. U.S. officials say they never promised to make up the losses, and in the long run, Bolivia will have a stronger economy as it stops living on drug money. But in the short run people say their village is dying. (CBS-8)

SOVIET FREIGHTER/IRAN

RATHER: The almost seven-year old Persian Gulf war between Iran and Iraq is heating up again and today it was the turn of the Soviet Union to feel some of that heat. The Iranian navy intercepted and boarded a Soviet cargo ship in the Gulf. Iran said the ship was suspected of carrying goods for Iraq. There was no report of injuries. (CBS-2)

JENNINGS: The continuing war between Iran and next door Iraq has turned the shipping lanes in the region into dangerous territory. Today, for the first time as we know, it was the Soviets' turn to feel the heat.

ABC's MIKE LEE: ...There are unconfirmed reports that at least part of the unidentified cargo was being confiscated and loaded onto Iranian vessels.... It was the first such incident in the Gulf war involving a Soviet registered cargo ship. However, the Iranian navy...has recently increased its practice of stopping vessels suspected of supplying arms to Iraq.... The Soviet television program Bremr tonight ignored the Gulf incident, apparently in hopes it can be resolved through back-channel diplomacy. (ABC-2)

BROKAW: Two other Soviet ships had some other kinds of problems today -- both of them in the Persian Gulf. One of those ships was being held by force by Iran. The ship was seized yesterday as it headed for Kuwait. It was taken to an Iranian port. The second Soviet ship was stopped and searched today but it was allowed to continue its journey. This Iranian gunboat action was part of that country's long war with Iraq...

NBC's HENRY CHAMP: It is a very bloody, inconclusive war being fought over barren ground in harsh conditions. Until recently the superpowers seemed content to watch two repressive leaders, Hussein of Iraq and Khomeini of Iran, squandering oil fortunes, men, and arms. (NBC-3)

SAKHAROV:

JENNINGS: The Soviet dissident Andrei Sakharov has called for the release of all Soviet prisoners of conscience. Sakharov...wrote the letter to the Soviet leader Mikhail Gorbachev. We cannot, he said, do anything for prisoners of conscience throughout the world except by example. Sakharov also thanked the Soviet leader for allowing his wife, Yelena Bonner, to have medical treatment in the states and for releasing Anatoly Shcharansky. (ABC-5)

SOUTH AFRICA

RATHER: Black people are holding all-night vigils in the South African township of Soweto. They are preparing for what could be another violent confrontation with police tomorrow. Black leaders are planning to defy a government ban and go ahead with mass funerals for more than 20 blacks killed by police in Soweto last week. With tomorrow's trouble in mind, the white minority government today toughened its, what it calls, emergency press restrictions: censorship. The new rules forbid journalists from being within sight of any disorders. (CBS-3)

LEWIS-BOND PRIMARY RUNOFF

BROKAW: In Georgia, civil rights veteran John Lewis upset his old friend Julian Bond in the Democratic congressional primary run-off. With heavy support from white precincts Lewis won 52% of the total vote. And he is heavily favored to beat Republican Portia Scott in November.

(ABC-8, CBS-10, NBC-9)

ILLITERACY

JENNINGS: ...Virtually all of the studies and the surveys show that 20 million Americans can't read at all, and 20 million more read at or below the eighth grade level.

ABC's BILL BLAKEMORE: One of every five American adults cannot read or write even at the simplest level.

(ABC-10)

DRUGS/HIGH SCHOOLS

RATHER: In this country the new back to school war on drugs is putting a number of high schools on the cutting edge of a national controversy.

CBS's HARRY SMITH: The Letcher High School Bulldogs are growling and ready for the football season. But no Letcher athlete will play a down this fall unless he has first taken a drug test.

(DAVID RICHARDS, Coach: "I think with this program that's in existence for a year and a half now that we've eliminated drugs pretty much among the athletes. We've only had a few positive tests so far....)

At least 15 high schools nationwide now claim drug testing is an important part of their game plan. And while no one is claiming complete victory, it gives kids a reason to pass, if just for one season.

(CBS-9)



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In return, the U.S. government would turn over Gennadi Zakharov, a Soviet scientist charged with espionage, to Soviet Ambassador Yuri Dubinin. The plan calls for Dubinin to guarantee that Zakharov will appear for trial.  
(David Hoffman, Washington Post, A1)

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(Bill Gertz & Jeremiah O'Leary, Washington Times, A1)

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(Bernard Weinraub, New York Times, A1)

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(Gary Lee, Washington Post, A1)

#### Shcharansky Warns Against U.S. Trade For Daniloff Deal Would Encourage 'Hostage-Taking'

JERUSALEM -- Freed Soviet dissident Anatoly Shcharansky today expressed support for the Reagan Administration's tough line in seeking the release of Nicholas Daniloff, the American reporter arrested by the KGB last weekend in Moscow for alleged spying.

Shcharansky, a human rights activist who spent nine years in Soviet prisons after being convicted in a secret trial of spying, warned Washington against consenting to trade Daniloff, a correspondent for U.S. News & World Report, for a Soviet physicist recently arrested in New York on espionage charges. He said such a trade would amount to a tacit acceptance of "hostage-taking," and would jeopardize other Americans who live in or travel to the Soviet Union.

(Glenn Frankel, Washington Post, A22)

#### Daniloff Case Hints Kremlin, Party Gave Way To KGB Interests

MOSCOW -- When the KGB took American reporter Nicholas Daniloff to prison Saturday, it undercut the campaign Soviet leader Mikhail Gorbachev and his aides had launched to shore up Moscow's ragged relations with the United States and the Western press. In so doing, it gave the first real indication of how much power the state security organ wields in Soviet-American relations under the new Soviet leadership.

In the three-way struggle for influence with the party and the government, the KGB was the only seeming winner in the Daniloff arrest. The consequences of an arrest widely viewed in the West as a set-up could bear heavily on relations between Washington and Moscow.

(Gary Lee, News Analysis, Washington Post, A21)

U.S. OFFICIALS OPTIMISTIC ON NUCLEAR-MONITOR PACT  
Talks With Soviets To Resume Today

Reagan Administration officials, who begin meeting with Soviet experts today to discuss nuclear testing issues, are optimistic that the Administration's demand for on-site monitoring of large tests will eventually be accepted by the Soviet Union.

According to informed sources, the United States, as before, will use the occasion to press its demand for on-site monitoring of all nuclear blasts with an expected yield greater than 75 kilotons, roughly five times the power of the bomb that destroyed Hiroshima. The goal is to ensure compliance with an existing, unratified treaty that limits the yield of nuclear tests to 150 kilotons. (Jeffrey Smith, Washington Post, A23)

U.S. SWEETENS WHEAT OFFER; SOVIETS STILL COOL  
Republican Senator Says Bigger Subsidy  
'Demeans The Process Further'

The Reagan Administration has sweetened its controversial offer to sell wheat to the Soviet Union at subsidized rates, but Moscow apparently is showing little interest in making a deal.

After U.S. wheat prices increased in August, making the grain less competitive on the world market, the Administration last week increased the bonus it is offering the Soviets from \$13 per metric ton to \$15.

Sen. Richard Lugar said he thought the Soviets' refusal to buy had become embarrassing to the Administration and that the increased subsidy "demeans the process further." (Ward Sinclair, Washington Post, A25)

MIDEAST TALKS MAY HINGE ON U.S. ENVOY

JERUSALEM -- Shuttle diplomacy by U.S. Assistant Secretary of State Richard Murphy has assumed crucial importance in negotiations for a summit between Egypt and Israel.

Israeli government sources told The Washington Times that Mr. Murphy's visit to Cairo today could be decisive in determining whether Israeli Prime Minister Shimon Peres will meet with Egyptian President Hosni Mubarak next week. (Andrew Meisels, Washington Times, A8)

LONELY GADDAFI SEEKS WORLD BATTLEFIELD AGAINST U.S.

HARARE, Zimbabwe -- Libyan leader Muammar Gaddafi, pursuing what appeared to be a lonely course, was expected today to present the Third World with a dramatic plea for support in a concerted onslaught against the United States.

Western diplomats predicted he would be given a polite and sympathetic hearing at the eighth Non-Aligned Movement summit but would attract little real backing. (Rodney Pinder, Reuter)

#### W. GERMANY REJECTS MORE LIBYA SANCTIONS

BONN -- West Germany today rebuffed a U.S. bid for new economic and diplomatic sanctions against Libya, saying that measures suggested by visiting special envoy Vernon Walters would have a negligible impact, government sources said.

In a separate development, West Berlin police said they had insufficient evidence to continue holding three Lebanese whom the U.S. government has identified as suspected Libyan-backed terrorists.

(Robert McCartney, Washington Post, A19)

#### ALLIES FAR APART ON SANCTIONS U.S. Resists Import Ban Planned By EC

LONDON -- As the timetable for adoption of new economic sanctions against South Africa has shortened to a matter of weeks, the United States and Western Europe have been unable to coordinate either the substance or timing of proposed measures beyond agreement not to undercut each other's efforts.

Officials on both sides of the Atlantic say that sanctions acceptable to one side have been strongly resisted by the other.

(Karen DeYoung, Washington Post, A27)

#### JACKSON SEES SANCTIONS' ILL CONSEQUENCES

The Rev. Jesse Jackson, returning from visiting eight nations surrounding South Africa, began to sound like President Reagan yesterday on the effects of economic warfare against the Pretoria government, saying sanctions against South Africa "could be quite sinister" and devastate the "front-line" states if they don't get U.S. aid.

"If all [Congress] did was impose sanctions, it could be quite sinister, because South African retaliation is predictable," Mr. Jackson told reporters at the National Press Club on his return from a 17-day tour of southern Africa's front-line states.

(Rita McWilliams, Washington Times, A4)

#### YEUTTER: DOLLAR MAY HAVE TO FALL MORE

U.S. Trade Representative Clayton Yeutter said yesterday that the dollar may have to decline further to ease the growing American trade deficit, which he said will approach \$200 billion this year.

As a result of Yeutter's remarks, the dollar yesterday fell to its lowest level since 1981 in European trading, but then rebounded and closed slightly higher.

(Stuart Auerbach, Washington Post, D3)

NATIONAL NEWS

JUSTICE TURNS DOWN REQUEST FOR NEW REHNQUIST PROBE

The Justice Department says it will not permit a renewed FBI investigation into allegations that Chief Justice-designate William Rehnquist mishandled a trust fund for his disabled brother-in-law.

Assistant Attorney General John Bolton wrote Wednesday that the FBI usually responds only to committee requests, and noted that Sens. Strom Thurmond and Robert Dole considered the matter closed.

(Larry Margasak, AP)

Foes Of Rehnquist Open New Barrage

With the final showdown on the nomination of William Rehnquist to be chief justice one week away, liberal opponents yesterday renewed their attack on the President's nominee, calling him hostile to civil rights.

"During three decades when the United States has moved toward equal justice for blacks and other minorities, Justice Rehnquist has consistently opposed civil rights," said the Leadership Conference on Civil Rights in a report issued yesterday entitled "The Case Against William Rehnquist."

(Theo Stamos, Washington Times, A5)

NAVY ORDERS NEW MISSILES REBUILT

Advanced Version Of Phoenix Is Said To Be Plagued With Problems

The new version of the Phoenix missile, the Navy's most sophisticated and costly weapon for long-range aerial combat, has been so plagued by production flaws that the service has refused to send it to the fleet and has ordered overhauls of almost 300 missiles, according to Navy officials and documents.

Delivery of the Phoenix is about one and one-half years behind schedule because of faulty target detection and rocket ignition devices, as well as slowdowns in production of the missile on Hughes Aircraft Corp.'s assembly lines, Capt. Jesse Stewart, program manager for the Navy's air-to-air missile systems, said in an interview.

(Molly Moore, Washington Post, A1)

UP TO 1,800 MORE SPACE PROGRAM LAYOFFS EXPECTED

Work-Force Cuts At Kennedy Space Center And  
Louisiana Firm Blamed On Shuttle Disaster

CAPE CANAVERAL -- The space agency is expected to announce this week that 800 to 1,000 workers at Kennedy Space Center will be laid off because of the Challenger disaster and resultant delay in shuttle launches, sources said today.

In addition, another 700 to 800 workers at a Louisiana plant where shuttle fuel tanks are built will be laid off by Oct. 3, according to Martin Marietta, the firm in charge of fuel-tank construction.

(UPI story, Washington Post, A7)

THREE STATES COULD LOSE FEDERAL HIGHWAY FUNDS  
FOR PERMITTING SPEEDING

The Transportation Department is preparing to cite Arizona, Vermont and Maryland, and possibly withhold up to 10 percent of their federal highway funds, for failing to enforce adequately the national 55 mph speed limit.

Department records show that in the 12 months ending on Sept. 30, 1985, Arizona had 56.4 percent speeding and Vermont 53.2 percent. Maryland's average was omitted because it is in dispute.

(Ed Rogers, Washington Times, A4)

NETWORK NEWS SUMMARY

(Wednesday Evening, September 3, 1986)

U.S.-SOVIETS/DANILOFF

CBS's DAN RATHER: In public President Reagan's spokesman today said the jailing of a U.S. reporter by the KGB in Moscow is poisoning prospects for a Reagan-Gorbachev summit. In private the President is offering the Russians a deal.

CBS's BILL PLANTE: From his ranch President Reagan approved a U.S. offer which has now been made to the Soviets to win the release of American journalist Nicholas Daniloff according to Administration officials.

(TV COVERAGE: The President on horseback at his ranch.)

The deal calls for Soviet official Zakharov, arrested in New York last month on spy charges, to be released to the Soviet Ambassador to the U.S. on condition that Zakharov show up for trial. In return, Daniloff would be released without trial. No response yet from Moscow on that proposal. Meanwhile Soviet authorities stepped up their pressure today telling Daniloff's wife he may be charged with smuggling in addition to espionage for failing to declare family jewelry to customs. Daniloff's boss, "U.S. News" owner Mortimer Zuckerman, left Moscow after trying unsuccessfully for two days to get his reporter released.

(MORTIMER ZUCKERMAN: "This is not only a crime, it is a blunder. And believe me it is both.")

Administration officials also admitted their patience was growing thin and turned up their rhetoric.

(CHARLES REDMAN: "And this is not business as usual. This is an outrage. It certainly could affect our relationship.")

But officials tell CBS News the Administration continues to play both sides of the street hoping the incident won't damage prospects for another U.S. Soviet summit.

(TV COVERAGE: The President shaking hands with Mr. Gorbachev outside.)

(JONATHAN SANDERS, CBS News Analyst: "The statement that this will not interfere with an approach of the summit, I think, is false and overly hopeful.")

CBS News has been told that the decision to arrest Daniloff was approved at the highest levels in the Kremlin to demonstrate that Gorbachev won't be pushed around. White House officials are hoping for a quick solution, but, said one, if they put Daniloff on trial the temperature will really go up.

CBS's BOB SCHIEFFER: The Soviet-American relationship has always been tenuous at best. At New York's Lincoln Center last night, when someone set off a tear gas bomb during a performance by a Soviet dance troupe, it underscored again just how difficult it is for two countries that are so different to carry out even cultural exchanges.... One Soviet expert said the superpower relationship is composed of so many complex issues, the two sides have been apart so long and suspicions run so deeply, that any number of incidents could throw plans for a summit off track.... Just today a videotape smuggled out of the Soviet Union turned up in Washington. It was another message from Yelena Bonner...and it drew further attention to Soviet human rights abuses.... (CBS Lead)

ABC's PETER JENNINGS: We begin with the tension between the United States and the Soviet Union because an American reporter, Nick Daniloff, is still in a Soviet prison. The Reagan Administration has proposed a deal.

ABC's JOHN MCWETHY: As Nicholas Daniloff's wife said goodbye to their son...the United States had already secretly made a proposal to the Kremlin in an effort to win Daniloff's freedom. The proposal involved not only American journalist Daniloff, but also Soviet United Nations employee Zakharov.... As outlined by knowledgeable sources, the U.S. proposes the Soviet be released to the custody of the Russian Ambassador. Zakharov would still have to stand trial in the U.S. A federal grand jury is expected to issue a three-count indictment against Zakharov later this week. In exchange for letting Zakharov out of jail while he awaits trial, the U.S. is proposing that Daniloff be allowed to leave the Soviet Union for good without coming to trial. American officials say there has been no response yet from the Soviets. A further complication in the Daniloff case emerged today as the reporter's wife, Ruth, revealed that the Soviets were now threatening to charge Daniloff with smuggling in addition to espionage. Ruth Daniloff said Soviet customs officials found several pieces of what she called "junk jewelry" which the couple had failed to declare when they first arrived in Moscow 5½ years ago. Ruth speculated that the KGB probably framed her husband in the first place without the rest of the government even knowing about it.

(RUTH DANILOFF: "And someone said, well you've got to do something, and the KGB thought up this idea. Clearly it was a very hurriedly, sloppy frame-up.")

At the State Department today there was some irritation at suggestions that the Reagan Administration was conducting business as usual by continuing to meet with the Soviets on other issues.

(CHARLES REDMAN: "This is not business as usual. This is an outrage. It certainly could affect our relationship.")

American officials are hoping the Soviets accept the face-saving U.S. proposal, thus allowing Kremlin leaders to put the Daniloff affair behind them before it does major damage to a relationship that is difficult even in the best of times.

JENNINGS: What has happened to Nick Daniloff has happened to other correspondents. The Soviet Union has always allowed foreign correspondents to be based there but they very often take exception to what we do.

DEAN REYNOLDS reports on what it is like to be a foreign journalist in Moscow. (ABC-Lead)

JENNINGS: Last night in New York City someone threw a tear gas cannister into an audience of people watching a very famous Soviet dance company perform. The Soviet news agency said today it was an attempt to prevent any improvement in U.S.-Soviet relations. (ABC-3)

NBC's TOM BROKAW: Nicholas Daniloff...remains in a Soviet jail tonight, but American officials are now working on a deal to get him released.



NBC's MARVIN KALB: The U.S. has made a specific proposal to the Russians, but neither side is admitting it and nothing has yet been agreed to. In California, White House spokesman Larry Speakes provided no details, only this warning: "If this matter is not appropriately and promptly resolved," he said, "it could have a negative effect on U.S.-Soviet relations."... The deal, according to U.S. sources, is that Danilooff will be released from prison and expelled from the Soviet Union. At the same time Zakharov...would be put in the custody of the Soviet Embassy in Washington. He could then stand trial and he would not be permitted to leave the country. So far the Russians are insisting that Zakharov, like Danilooff, be allowed to return home. There is a precedent for such a face-saving arrangement. In 1978 two Russians were arrested in New York for spying. Three weeks later in Moscow an American businessman was arrested on an illegal currency charge. Later, the Russians were given to their ambassador, the American to his, and eventually they all went home. The State Department, while expressing outrage and claiming there can be no business as usual, refused to rule out a similar deal.

(CHARLES REDMAN: "I am not going to speculate on possible means at our disposal to effect his release.")

Late today the owner of "U.S. News and World Report", Mortimer Zuckerman, arrived in London with Danilooff's 16-year old son -- Zuckerman describing his talks with Soviet officials in Moscow as productive, but not conclusive. U.S. officials say the next few days are crucial. If Danilooff is not released, to show their displeasure they say the first of a number of cultural exchanges between the two countries may be cancelled, with no one quite sure where this negative spiral could end. (NBC-Lead)

#### NICARAGUAN FARM AID

RATHER: The Reagan Administration tonight refused permission for a private relief agency to send farm supplies to Nicaragua. The Agency wanted to ship \$40,000 worth of seeds, rakes, shovels, and other tools to relieve what it says is hunger among Nicaraguan peasants. (CBS-7)

#### BOLIVIAN DRUG WAR

RATHER: More than 150 U.S. Army troops are reported still on the move today in the cocaine processing provinces of Bolivia. They've been there since mid-July trying to help cut Bolivia's huge cocaine exports to the streets of the U.S.A.

CBS's MIKE O'CONNOR: The U.S. fight against drugs has gone so well in Bolivia families...say they are going under. Thousands of families here live from growing coca plants, the raw material for cocaine, and their part of the country used to be bustling -- a place where a family that worked hard and stayed lucky might make \$7,500 a year -- a lot of money for one of the poorest countries in this hemisphere.... American officials say joint U.S.-Bolivian raids on cocaine processing labs have knocked out an estimated 90% of the market for the coca leaves grown here.... Bolivia has helped the United States reduce the flow of cocaine as much or more as any country, and in return is hoping for U.S. aid to replace the dollars that cocaine brings. But so far not much of that aid has come. U.S. officials say they never promised to make up the losses, and in the long run, Bolivia will have a stronger economy as it stops living on drug money. But in the short run people say their village is dying. (CBS-8)

SOVIET FREIGHTER/IRAN

RATHER: The almost seven-year old Persian Gulf war between Iran and Iraq is heating up again and today it was the turn of the Soviet Union to feel some of that heat. The Iranian navy intercepted and boarded a Soviet cargo ship in the Gulf. Iran said the ship was suspected of carrying goods for Iraq. There was no report of injuries. (CBS-2)

JENNINGS: The continuing war between Iran and next door Iraq has turned the shipping lanes in the region into dangerous territory. Today, for the first time as we know, it was the Soviets' turn to feel the heat.

ABC's MIKE LEE: ...There are unconfirmed reports that at least part of the unidentified cargo was being confiscated and loaded onto Iranian vessels.... It was the first such incident in the Gulf war involving a Soviet registered cargo ship. However, the Iranian navy...has recently increased its practice of stopping vessels suspected of supplying arms to Iraq.... The Soviet television program Bremr tonight ignored the Gulf incident, apparently in hopes it can be resolved through back-channel diplomacy. (ABC-2)

BROKAW: Two other Soviet ships had some other kinds of problems today -- both of them in the Persian Gulf. One of those ships was being held by force by Iran. The ship was seized yesterday as it headed for Kuwait. It was taken to an Iranian port. The second Soviet ship was stopped and searched today but it was allowed to continue its journey. This Iranian gunboat action was part of that country's long war with Iraq...

NBC's HENRY CHAMP: It is a very bloody, inconclusive war being fought over barren ground in harsh conditions. Until recently the superpowers seemed content to watch two repressive leaders, Hussein of Iraq and Khomeini of Iran, squandering oil fortunes, men, and arms. (NBC-3)

SAKHAROV:

JENNINGS: The Soviet dissident Andrei Sakharov has called for the release of all Soviet prisoners of conscience. Sakharov...wrote the letter to the Soviet leader Mikhail Gorbachev. We cannot, he said, do anything for prisoners of conscience throughout the world except by example. Sakharov also thanked the Soviet leader for allowing his wife, Yelena Bonner, to have medical treatment in the states and for releasing Anatoly Shcharansky. (ABC-5)

SOUTH AFRICA

RATHER: Black people are holding all-night vigils in the South African township of Soweto. They are preparing for what could be another violent confrontation with police tomorrow. Black leaders are planning to defy a government ban and go ahead with mass funerals for more than 20 blacks killed by police in Soweto last week. With tomorrow's trouble in mind, the white minority government today toughened its, what it calls, emergency press restrictions: censorship. The new rules forbid journalists from being within sight of any disorders. (CBS-3)

LEWIS-BOND PRIMARY RUNOFF

BROKAW: In Georgia, civil rights veteran John Lewis upset his old friend Julian Bond in the Democratic congressional primary run-off. With heavy support from white precincts Lewis won 52% of the total vote. And he is heavily favored to beat Republican Portia Scott in November.

(ABC-8, CBS-10, NBC-9)

ILLITERACY

JENNINGS: ...Virtually all of the studies and the surveys show that 20 million Americans can't read at all, and 20 million more read at or below the eighth grade level.

ABC's BILL BLAKEMORE: One of every five American adults cannot read or write even at the simplest level. (ABC-10)

DRUGS/HIGH SCHOOLS

RATHER: In this country the new back to school war on drugs is putting a number of high schools on the cutting edge of a national controversy.

CBS's HARRY SMITH: The Letcher High School Bulldogs are growling and ready for the football season. But no Letcher athlete will play a down this fall unless he has first taken a drug test.

(DAVID RICHARDS, Coach: "I think with this program that's in existence for a year and a half now that we've eliminated drugs pretty much among the athletes. We've only had a few positive tests so far....)

At least 15 high schools nationwide now claim drug testing is an important part of their game plan. And while no one is claiming complete victory, it gives kids a reason to pass, if just for one season.

(CBS-9)